

Jinxin Fertility (1951 HK)

First domestic acquisition deal since IPO; Big step in domestic expansion

Jinxin announced the acquisition of 75% stake in Wuhan Huangpu Hospital (武汉黄浦中西医结合妇产医院, Wuhan Hospital) at a cash consideration of approximately RMB320mn. We expect the deal to be closed by July 2020E. Leveraging its successful operating experiences, the Company will continue to expand its geographic network through acquisitions, in our view. To factor in temporary impact from COVID-19 pandemic, we revised down our FY20E/21E net profit forecasts by 21%/5%. Meanwhile, considering better long-term growth prospects driven by both domestic and overseas acquisitions, we lifted our DCF-based TP to HK\$14.4. Maintain BUY.

■ **A big step in domestic expansion.** Wuhan Hospital is a for-profit Class III specialized maternity hospital located in Wuhan, Hubei Province. Wuhan Hospital is one of the only two non-public and for-profit hospitals with IVF licenses in Hubei Province. Hubei Province has a large population of approximately 59mn while the ARS market in Hubei Province is fragmented. After the acquisition, Jinxin will significantly lift the operating efficiency of Wuhan Hospital by leveraging its successful experiences in Chengdu and Shenzhen. Jinxin will attract top doctors to enhance the brand awareness and service quality of Wuhan Hospital. The Company plans to offer competitive share incentives to key employees and has reserved 5% stake in Wuhan Hospital for employee incentive purpose.

■ **Expect fast ramp-up of Wuhan Hospital.** Wuhan Hospital currently has a capacity of 4,000 IVF cycles per annum. With further renovation and upgrade, the capacity can reach 6,000+ cycles per annum. With official IVF license obtained in Oct 2019, Wuhan hospital completed 343 IVF cycles in 2019. Driven by improving operating efficiencies after the acquisition, we expect Wuhan Hospital to reach 1,000/2,000/3,000 IVF cycles in 2021E/22E/23E. We also forecast ASP of Wuhan Hospital to increase 5-10% every year in FY21-22E thanks to improving service quality and better brand awareness.

■ **Jinxin to grow into a global leading ARS provider via geographic expansion.** Through acquisitions, Jinxin has expanded its footprint from Chengdu city to Shenzhen city, the US and Laos. We see the acquisition of Wuhan Hospital as another strong proof of the Company's geographic expansion capability. Benefiting from the Company's excellent operation experiences, strong technical know-how, good brand awareness and sufficient cash on hand, Jinxin will accelerate its speed of expansion.

■ **Maintain BUY with new TP of HK\$14.4.** To factor in temporary impact from COVID-19 pandemic, we revised down our FY20E/21E net profit by 21%/5%. Meanwhile, considering better long-term growth prospects driven by both domestic and overseas acquisitions, we lifted our DCF-based TP to HK\$14.4 model (WACC: 9.5%, terminal growth rate: 4%). Maintain BUY.

■ **Catalysts:** Acquisitions of quality assets; **Risks:** Impact from COVID-19 pandemic.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	922	1,648	1,615	2,244	2,739
YoY growth (%)	39	79	-2	39	22
Net profit (RMB mn)	167	410	459	676	853
EPS (RMB)	N/A	0.19	0.19	0.28	0.35
YoY growth (%)	N/A	N/A	2	47	26
Consensus EPS (RMB)	N/A	N/A	0.22	0.27	0.33
P/E (x)	N/A	56.7	55.7	37.8	30.0
P/B (x)	N/A	3.0	3.2	3.0	2.7
Yield (%)	N/A	0.65	0.36	0.53	0.67
ROE (%)	3.7	6.7	5.9	8.2	9.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Bloomberg, Bloomberg, CMBIS estimate

BUY (Maintain)

Target Price HK\$14.4
 (Previous TP) HK\$13.3
Up/Downside +22.7%
Current Price HK\$11.74

China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	28,522
Avg. 3mths t/o (HK\$ mn)	113.41
52W High/Low (HK\$)	15.30/ 7.12
Total Issued Shares (mn)	2,430
Source: Bloomberg	

Shareholding Structure

Management	26.02%
Warburg Pincus	18.36%
HRC Physician	14.82%
Other institutional investors	22.58%
Employee holdings	1.35%
Public shareholders	16.87%

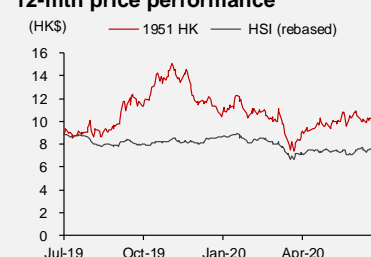
Source: HKEx, Bloomberg

Share performance

	Absolute	Relative
1-mth	8.5%	5.4%
3-mth	31.9%	24.7%
6-mth	12.7%	30.0%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Deloitte

Web-site: www.jxr-fertility.com

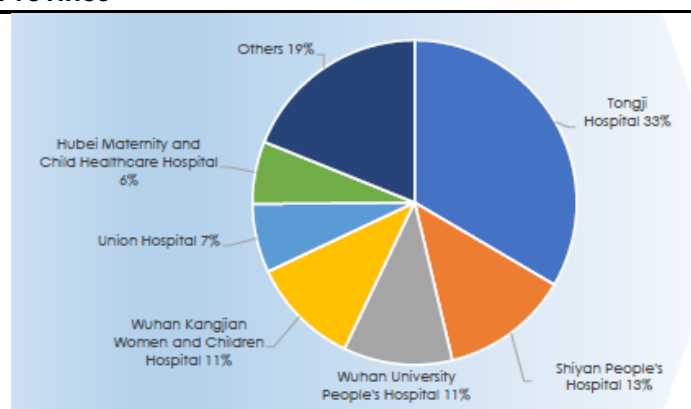
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Figure 1: Number of IVF hospitals in Hubei Province
Figure 2: 2019 ARS market share by hospital in Hubei Province

City	Number of IVF hospitals
Wuhan	10
Shiyan	2
Jingzhou	2
Yichang	2
Jingmen	1
Xiangyang	1
Huangshi	1
Tianmen	1
Total	20

Source: Company data, CMBIS



Source: Company data, CMBIS

Figure 3: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	1,615	2,244	2,739	1,888	2,215	2,658	-14%	1%	3%
Gross Profit	814	1,156	1,438	944	1,140	1,395	-14%	1%	3%
Operating Profit	601	885	1,116	811	986	1,119	-26%	-10%	0%
Net profit	459	676	853	584	711	859	-21%	-5%	-1%
EPS (RMB cents)	19	28	35	24	29	34	-21%	-5%	3%
Gross Margin	50.42%	51.50%	52.50%	50.00%	51.50%	52.48%	+0.42 ppt	+0.00 ppt	+0.02 ppt
Operating Margin	37.22%	39.45%	40.76%	42.95%	44.54%	44.54%	-5.73 ppt	-5.10ppt	-3.78ppt
Net Margin	28.43%	30.14%	31.14%	30.95%	32.09%	32.09%	-2.52 ppt	-1.96 ppt	-0.95 ppt

Source: Company, CMBIS estimates

Figure 4: CMBIS estimates vs consensus

RMB mn	CMBIS		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	1,615	2,244	1,757	2,205	-8%	2%
Gross Profit	814	1,156	873	1,121	-7%	3%
Operating Profit	601	885	624	807	-4%	10%
Net profit	459	676	514	660	-11%	3%
EPS (RMB cents)	19	28	22	27	-12%	2%
Gross Margin	50.42%	51.50%	49.71%	50.83%	+0.71 ppt	+0.67 ppt
Operating Margin	37.22%	39.45%	35.51%	36.61%	+1.71 ppt	+2.83 ppt
Net Margin	28.43%	30.14%	29.28%	29.91%	-0.84 ppt	+0.22 ppt

Source: Company, CMBIS estimates

Figure 5: Peers' valuation

Figure 6.1.										
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Source: Bloomberg, CMBIS estimates (As at 30 Jun 2020)

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	922	1,648	1,615	2,244	2,739	Profit before tax	277	548	601	885	1,116
ARS	801	932	1,089	1,444	1,831	Depreciation for plant and equipment	29	66	75	80	85
Management service fee	90	648	456	727	832	Change in working capital	82	(74)	(175)	26	19
Ancillary medical services	31	68	70	73	76	Others	4	38	(4)	(13)	(25)
Cost of sales	(509)	(832)	(801)	(1,088)	(1,301)	Tax paid	(35)	(126)	(129)	(191)	(240)
Gross profit	413	817	814	1,156	1,438	Net cash from operating activities	356	453	368	787	955
Other income	22	63	64	73	85	Capex	(21)	(277)	(240)	(120)	(100)
Other expenses	(4)	(2)	0	0	0	Acquisition of subsidiaries	0	0	0	0	0
Other losses	(1)	28	0	0	0	Other investing activities	(367)	(2,429)	(273)	56	68
R&D expenses	(12)	(13)	(10)	(13)	(16)	Net cash from investing activities	(388)	(2,706)	(513)	(64)	(32)
Administrative expenses	(103)	(211)	(201)	(242)	(285)	Net proceeds from shares issued	1,129	2,934	0	0	0
Listing expenses	(38)	(63)	0	0	0	Bank borrowing	0	0	0	0	0
Finance cost	0	(9)	(9)	(9)	(9)	Advance from related parties	104	30	0	0	0
Profit before tax	277	548	601	885	1,116	Other financing activities	(466)	(1,317)	(152)	(92)	(135)
Income tax expense	(64)	(127)	(129)	(191)	(240)	Net cash from financing activities	767	1,647	(152)	(92)	(135)
Total net profit	212	421	472	695	876	Net change in cash	736	(606)	(297)	631	787
Minority Interests	(46)	(11)	(12)	(18)	(23)	Cash at the beginning of the year	449	1,184	580	282	914
Profit attributable to shareholders	167	410	459	676	853	Cash at the end of the year	1,184	580	282	914	1,701

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	5,123	5,515	5,957	5,954	5,926	Sales mix (%)					
Plant and equipment	138	857	1,022	1,062	1,077	ARS	86.9	56.5	67.4	64.3	66.9
Goodwill	802	809	1,129	1,129	1,129	Management service fee	9.7	39.3	28.2	32.4	30.4
License	401	388	375	362	349	Ancillary medical services	3.4	4.1	4.3	3.2	2.8
Contractual right to provide management services	1,939	1,963	1,963	1,963	1,963	Total	100	100	100	100	100
Trademarks	1,292	1,305	1,305	1,305	1,305	Profit & loss ratios (%)					
Others	550	193	163	133	103	Gross margin	45	50	50	52	53
Current assets	1,436	3,426	3,094	3,739	4,537	EBITDA margin	34	38	42	43	43
Inventories	17	26	24	33	39	Pre-tax margin	30	33	37	39	41
Accounts and other receivables	77	46	13	18	23	Net margin	18	25	28	30	31
Amounts due from related parties	71	50	50	50	50	Effective tax rate	23	23	22	22	22
Bank balances and cash	1,184	580	282	914	1,701	Balance sheet ratios					
Others	87	2,725	2,725	2,725	2,725	Current ratio (x)	1	8	14	14	15
Current liabilities	1,377	436	226	266	295	Trade receivables turnover days	4	3	3	3	3
Accounts and other payables	391	320	110	149	178	Trade payables turnover days	103	50	50	50	50
Capital contribution deposits	0	0	0	0	0	Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Amounts due to related parties	917	41	41	41	41	Returns (%)					
Tax payables	69	46	46	46	46	ROE	3.7	6.7	5.9	8.2	9.5
Non-current liabilities	682	863	863	863	863	ROA	2.5	5.3	5.1	7.2	8.5
Deferred rent	5	0	0	0	0	Per share value					
Deferred tax liabilities	677	709	709	709	709	EPS (RMB)	N/A	0.19	0.19	0.28	0.35
Total net assets	4,500	7,642	7,963	8,565	9,306	DPS (RMB)	N/A	0.07	0.04	0.06	0.07
Minority interest	137	116	128	146	169	BVP (RMB)	N/A	3.46	3.28	3.53	3.83
Shareholders' equity	4,363	7,527	7,835	8,419	9,137						

Source: Company data, CMBIS estimates

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