

Xunfei Healthcare (2506 HK)

Leading the healthcare AI revolution; Initiate with BUY

Xunfei Healthcare leads China's healthcare AI market, with a 5.9% market share in 2023, according to F&S. Leveraging its Spark Medical Model, Xunfei Healthcare has developed various products and solutions to improve the operational efficiency and capabilities of primary healthcare (PHC) providers, hospitals (B), patients (C), and regional administrators (G). Driven by favorable policies and growing demand for smart transformation in healthcare institutions, the Company's revenue increased rapidly, with a 2021-2023 CAGR of 22.2%. We expect Xunfei Healthcare's revenue to increase at a CAGR of 36.9% from 2023 to 2026. We initiate coverage at BUY and derive a TP of HK\$170.56, based on a 13x 2026E P/S.

- **Supportive policies accelerate healthcare AI application.** Healthcare institutions in China are undergoing an intelligent transformation, with AI increasingly integrated into consultation, medical record management, and insurance risk control. Multiple national policies continued to promote AI applications to enhance medical services. According to F&S, China's healthcare AI market is expected to expand from RMB8.8bn in 2023 to RMB315.7bn in 2033E, representing a CAGR of 43.1%.
- **Technological backing from iFlytek and deepening B2B partnerships help strengthen Xunfei Healthcare's leadership.** Leveraging the leading foundational model capabilities of iFlytek and extensive clinical experience and data accumulated from daily operation of its AI solutions, Xunfei Healthcare continuously upgrades the Spark Medical Model. In Mar 2025, the Company launched the Spark Medical Model X1, which outperformed GPT-4o and DeepSeek R1 in key medical reasoning tasks, demonstrating superior clinical support. The Company also continuously strengthens its B2B partnerships to build a robust ecosystem and solidify its commercial channel barriers.
- **Expanding customer base drove revenue growth: robust B2B and B2C growth and steady G-end.** As of Dec 9, 2024, the Company had provided products and services to approximately 60,000 PHCs across over 610 counties in more than 30 provinces, and had entered over 500 graded hospitals. Accelerating intelligent transformation in hospitals drove strong growth in the Company's hospital services, post-discharge management, and cloud medical imaging businesses. The aging population drove strong growth of hearing aids. Therefore, Xunfei Healthcare's B2B and B2C revenue contribution grew rapidly and we believe this trend is likely to continue. In 1H24, the hospital and patient service revenue surged 146% YoY in 1H24, representing 66.9% (+29 ppts YoY) of total revenue.
- **Initiate at BUY with TP of HK\$170.65.** We are bullish on healthcare AI's prospects. We expect the Company to increase its revenue at a CAGR of 36.9% from 2023 to 2026 and rapidly narrow its net losses. We derive our TP of HK\$170.56, based on a 13x 2026E P/S, to reflect the Company's high-growth potential.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	472	556	725	1,020	1,427
YoY growth (%)	26.7	17.9	30.4	40.7	39.9
Attributable net profit (RMB mn)	(189)	(145)	(185)	(106)	(43)
Adjusted net profit (RMB mn)	(111)	(57)	(24)	(13)	50
EPS (Adjusted) (RMB cents)	(99.56)	(51.29)	(19.44)	(10.39)	41.47
P/S (x)	31.3	26.6	20.4	14.5	10.3
Net gearing (%)	(41.7)	(10.6)	(44.5)	(26.5)	(6.5)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Initiate)

Target Price HK\$170.56
Up/Downside 30.0%
Current Price HK\$131.20

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Stock Data

Mkt Cap (HK\$ mn)	15,859.2
Avg 3 mths t/o (HK\$ mn)	21.3
52w High/Low (HK\$)	NA/NA
Total Issued Shares (mn)	120.9

Source: FactSet

Shareholding Structure

iFlytek Co., Ltd.	49.4%
Hefei Zhengsheng Information Technology	16.1%

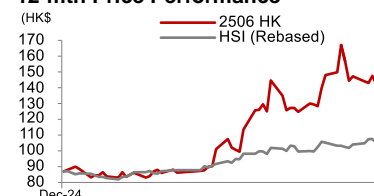
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-9.3%	-10.1%
3-mth	NM	NM
6-mth	NM	NM

Source: FactSet

12-mth Price Performance



Source: FactSet

We expect B2B (hospital services) and B2C (patient services) segments to continue driving Xunfei Healthcare's revenue growth. We expect Xunfei Healthcare's revenue to increase at a CAGR of 36.9% from 2023 to 2026E.

Xunfei Healthcare's PHC services and regional healthcare solutions businesses (G-end) were under pressure in 2024, due to macroeconomic factors and local government fiscal constraints. However, we expect a recovery and steady growth in these two business segments from 2025 onward, driven by national policies aimed at alleviating local government debt and continued strong support for primary healthcare institutions. We expect revenue of PHC services to change by -3.8%/ 15.0%/ 10.0% YoY to RMB231mn/ 265mn/ 292mn in 2024E/ 2025E/ 2026E, respectively. We forecast revenue of regional healthcare solutions to change by -5.6%/ 15.0%/ 10.0% YoY to RMB110mn/ 127mn/ 139mn in 2024E/ 2025E/ 2026E.

We expect Xunfei Healthcare to benefit significantly from the ongoing wave of hospital intelligent transformation. Hospital services (B-end) are expected to experience rapid growth, with revenue increasing by 104.7%/ 70.0%/ 65.0% YoY to RMB133mn/ 226mn/ 373mn in 2024E/ 2025E/ 2026E, respectively.

We expect the Company's patient services segment to grow rapidly, driven by increased sales of medical equipment such as hearing aids, as well as strong growth in imaging cloud and post-discharge management services. We expect revenue for patient services to increase by 86.5%/ 60.0%/ 55.0% YoY to RMB251mn/ 402mn/ 623mn in 2024E/ 2025E/ 2026E, respectively.

Fig 1: Revenue forecasts (2021-2026E) - by segment

RMB mn		2021	2022	2023	2024E	2025E	2026E
PHC Services	YoY	216	298	240	231	265	292
			38.27%	-19.56%	-3.79%	15.00%	10.00%
Hospital Services	YoY	82	43	65	133	226	373
			-47.19%	49.27%	104.68%	70.00%	65.00%
Patient Services	YoY	32	37	135	251	402	623
			14.28%	265.43%	86.47%	60.00%	55.00%
Regional Healthcare Solutions	YoY	42	93	117	110	127	139
			121.09%	24.85%	-5.55%	15.00%	10.00%
Total revenue		372	472	556	725	1,020	1,427
YoY			26.69%	17.86%	30.38%	40.68%	39.92%

Source: Xunfei Healthcare, CMBIGM estimates

Figure 2: Peer comparison

Company	Ticker	Rating	Price	Market Cap	Revenue (US\$m)		YoY (%)		PS (x)	
			(LC)	(US\$m)	2025E	2026E	2025E	2026E	2025E	2026E
Overseas market										
Tempus AI	TEM US	NA	49.9	8,588	1,237	1,556	78%	26%	6.9	5.5
Doximity Inc	DOCS US	NA	62.4	11,714	566	636	19%	12%	20.7	18.4
Veeva Systems Inc	VEEV US	NA	237.0	38,471	2,725	3,050	16%	12%	14.1	12.6
Salesforce	CRM US	NA	280.8	269,801	37,954	40,845	9%	8%	7.1	6.6
Recursion Pharmaceuticals	RXR US	NA	6.8	2,750	87	131	28%	51%	31.7	21.0
Average							30%	22%	16.1	12.8
H & A share market										
Medlive	2192 HK	NA	1,392	14.8	97	122	28%	26%	14.3	11.3
XtalPi	2228 HK	BUY	3,497	6.8	61	106	73%	72%	56.5	32.8
Yidu Tech	2158 HK	NA	946	6.9	109	123	-5%	13%	8.6	7.7
China Reform Health Manage	000503 CH	NA	1,736	12.8	69	85	23%	23%	25.4	20.6
Winning Health	300253 CH	NA	3,597	11.9	546	643	16%	18%	6.7	5.7
B-Soft	300451 CH	NA	1,529	7.1	273	308	13%	13%	5.6	5.0
Average							24%	27%	19.5	13.8
Overall average									18.0	13.4

Source: Bloomberg, CMBIGM estimates, as of Mar 18, 2025

Fig 3: CMBIGM estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	725	1,020	1,427	756	1,083	1,525	-4.1%	-5.8%	-6.4%
Gross profit	414	593	843	435	632	906	-4.8%	-6.2%	-6.9%
Net profit	-185	-106	-43	-104	-64	14	NA	NA	NA
EPS (RMB)	-1.53	-0.88	-0.36	-0.86	-0.53	0.11	NA	NA	NA
Gross margin	57.14%	58.14%	59.08%	57.57%	58.40%	59.40%	-0.43 ppt	-0.26 ppt	-0.32 ppt
Net Margin	-25.47%	-10.38%	-3.03%	-13.78%	-5.95%	0.92%	-11.69 ppt	-4.43 ppt	-3.94 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Investment Risks

- 1) Underperformance in regional expansion and market development;
- 2) Negative impact of macroeconomic or industry headwinds on hospital procurement demand;
- 3) Weaker-than-anticipated demand for healthcare AI solutions;
- 4) Risk of intensified competition in the healthcare AI market.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	372	472	556	725	1,020	1,427
Cost of goods sold	(185)	(241)	(241)	(311)	(427)	(584)
Gross profit	188	231	315	414	593	843
Selling expense	(91)	(160)	(163)	(196)	(255)	(328)
Admin expense	(69)	(109)	(113)	(131)	(168)	(214)
R&D expense	(160)	(242)	(264)	(290)	(357)	(428)
Other income	31	44	49	56	66	81
Other gains/(losses)	(0)	3	1	0	0	0
Interest expense	(3)	(1)	(1)	(3)	(3)	(5)
Others	(7)	(10)	(10)	(68)	0	0
Pre-tax profit	(111)	(244)	(187)	(217)	(125)	(51)
Income tax	22	36	33	33	19	8
After tax profit	(89)	(209)	(154)	(185)	(106)	(43)
Minority interest	(6)	(19)	(9)	0	0	0
Attributable net profit	(84)	(189)	(145)	(185)	(106)	(43)
Adjusted net profit	(48)	(111)	(57)	(24)	(13)	50

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	727	652	853	1,280	1,341	1,515
Cash & equivalents	434	163	143	540	372	243
Restricted cash	4	4	6	7	8	9
Account receivables	177	305	533	546	741	997
Inventories	32	47	74	77	103	138
Financial assets at FVTPL	0	85	25	25	25	25
Other current assets	59	31	65	65	65	65
Contract assets	20	16	8	20	28	39
Non-current assets	287	378	384	429	477	544
PP&E	8	10	14	17	20	23
Right-of-use assets	3	1	2	1	1	1
Deferred income tax	43	75	106	106	106	106
Intangibles	205	166	158	151	143	135
Goodwill	24	24	24	24	24	24
Other non-current assets	3	102	81	131	184	256
Total assets	1,014	1,030	1,238	1,709	1,818	2,060
Current liabilities	488	603	671	777	898	1,089
Short-term borrowings	77	0	88	138	138	188
Account payables	187	311	380	426	526	640
Other current liabilities	172	265	163	163	163	163
Lease liabilities	2	1	1	1	1	1
Contract liabilities	50	27	40	50	70	98
Non-current liabilities	29	26	17	17	17	17
Long-term borrowings	8	8	0	0	0	0
Other non-current liabilities	21	18	17	17	17	17
Total liabilities	517	630	688	794	915	1,106
Share capital	37	111	114	121	121	121
Other reserves	390	230	385	743	731	781
Total shareholders equity	497	400	550	915	903	953
Minority interest	70	59	51	51	51	51
Total equity and liabilities	1,014	1,030	1,238	1,709	1,818	2,060

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(111)	(244)	(187)	(217)	(125)	(51)
Depreciation & amortization	37	54	42	41	41	41
Tax paid	4	(0)	0	33	19	8
Change in working capital	(45)	(59)	(292)	(22)	(160)	(233)
Others	63	135	123	116	118	120
Net cash from operations	(53)	(114)	(314)	(50)	(108)	(116)
Investing						
Capital expenditure	(6)	(6)	(11)	(10)	(10)	(10)
Others	(52)	(88)	11	(45)	(47)	(48)
Net cash from investing	(58)	(93)	0	(55)	(57)	(58)
Financing						
Net borrowings	77	(77)	88	50	0	50
Proceeds from share issues	390	10	210	524	0	0
Others	(22)	3	(5)	(71)	(3)	(5)
Net cash from financing	445	(64)	293	503	(3)	45
Net change in cash						
Cash at the beginning of the year	100	434	163	143	540	372
Exchange difference	0	0	0	0	0	0
Cash at the end of the year	434	163	143	540	372	243
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	na	26.7%	17.9%	30.4%	40.7%	39.9%
Gross profit	na	22.9%	36.4%	31.7%	43.1%	42.2%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	50.4%	48.9%	56.6%	57.1%	58.1%	59.1%
Adj. net profit margin	(13.0%)	(23.4%)	(10.2%)	(3.2%)	(1.2%)	3.5%
Return on equity (ROE)	na	(42.2%)	(30.5%)	(25.2%)	(11.6%)	(4.7%)
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.7)	(0.4)	(0.1)	(0.4)	(0.3)	(0.1)
Current ratio (x)	1.5	1.1	1.3	1.6	1.5	1.4
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	ns	ns	ns	ns
P/B	23.0	33.9	24.7	16.1	16.4	15.5
Div yield (%)	0.0	0.0	0.7	0.0	0.0	0.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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