

Jinxin Fertility (1951 HK)

Business intact from the new Coronavirus outbreak

We believe the outbreak of the new strain of coronavirus (nCoV) in China will have mild and temporary impact to Jinxin Fertility (Jinxin)'s business. The Company's network hospitals are located outside of Hubei Province and are less vulnerable to the disease. We believe the assisted reproductive services (ARS) demand will pick up after CNY given the high flexibility in treatment arrangement. Jinxin leverages online consultation services to serve existing customers and attract more new customers. Maintain BUY at HK\$15.0.

- **Network hospitals are located outside of Hubei Province and are less vulnerable to the disease.** As of 28 Jan, China had 5,974 nCoV patients while 3,554 patients, or 59% of the total nCoV patients, were from Hubei Province. In China, Jinxin's network hospitals are located in Chengdu city and Shenzhen city where are less impacted by the outbreak of nCoV. Dr. Nanshan Zhong, the most famous authority in China, predicted on 28 Jan that the spread of nCoV will peak within the next 7-10 days. Hence, we expect the impact from the nCoV outbreak will be mild and temporary.
- **First quarter is usually the low season while patients will come back after CNY.** For instance, Jinxin's revenue in 1H18 accounted for 45% of its full-year revenue in 2018. Chinese people usually dislike going to hospitals during CNY. Given that ARS has high flexibility in treatment arrangement, we believe demand in ARS will pick up after CNY, probably from Feb 2020.
- **Effective measures have been taken to minimize the interruption of operations.** Jinxin's network hospitals in Chengdu and Shenzhen have strictly monitored the health conditions of patients and employees. So far, there were no (suspected) nCoV patients found in the Company's network hospitals. Meanwhile, Jinxin has provided in-time on-line consultation services via various online channels such as WeChat and official websites. Online services are now extended to 11pm every night.
- **Promising growth outlook with rich acquisition opportunities.** Jinxin had RMB3.1bn cash on hand as at 30 Jun 2019, providing sufficient funding for acquisitions. We think Jinxin may acquire private ARS hospitals in tier 1/2 cities in China while the Company will prudently screen the acquisition targets based on valuation, management team, location of the targets and synergies with existing business. As for the US business, we think Jinxin will further acquire surrogacy and egg donor agencies, or embryology laboratories in the US to extend services along the ARS value chain. Southeast Asia region is also the top destination for fertility tourism due to the relatively low service cost and loose regulatory environment. We believe Jinxin will acquire ARS institutions in Southeast Asia to meet the sophisticated demand for Chinese patients.
- **Maintain BUY.** We expect Jinxin to deliver 36% CAGR in revenue and 54% CAGR in adjusted attributable net profit in FY18-21E. We derive TP of HK\$15.0 based on 8-year DCF model (WACC:9.5%, terminal growth rate: 4%).

- **Catalysts:** Acquisitions of quality assets; **Risks:** weak organic growth.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	663	922	1,659	1,966	2,316
YoY growth (%)	91	39	80	19	18
Net profit (RMB mn)	99	167	420	596	729
EPS (RMB)	N/A	N/A	0.17	0.24	0.30
YoY growth (%)	N/A	N/A	N/A	42	22
P/E (x)	N/A	N/A	55.4	39.0	31.9
P/B (x)	N/A	N/A	3.1	2.8	2.6
Yield (%)	N/A	N/A	0.00	0.51	0.63
ROE (%)	7.3	3.7	7.0	7.6	8.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price HK\$15.0
 (Previous TP) HK\$15.0
Up/Downside +40.8%
Current Price HK\$10.66

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Mkt. Cap. (HK\$ mn)	25,951
Avg. 3mths t/o (HK\$ mn)	120.66
52W High/Low (HK\$)	15.30/ 8.18
Total Issued Shares (mn)	2,434

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%

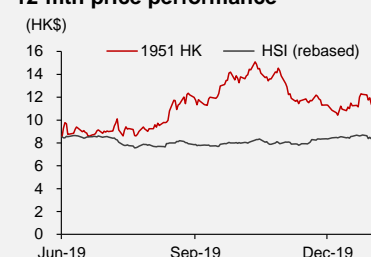
Source: HKEx, Bloomberg

Share performance

	Absolute	Relative
1-mth	2.6%	3.6%
3-mth	-18.2%	-21.3%
6-mth	23.8%	25.8%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Deloitte

Web-site: www.jxr-fertility.com

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	663	922	1,659	1,966	2,316
ARS	529	801	874	1,079	1,315
Management service fee	101	90	726	826	938
Ancillary medical services	33	31	59	61	63
Cost of sales	(361)	(509)	(854)	(983)	(1,123)
Gross profit	302	413	804	983	1,193
Other income	12	22	56	88	102
Other expenses	(1)	(4)	8	0	0
Other losses	(1)	(1)	(8)	0	0
R&D expenses	(10)	(12)	(12)	(12)	(14)
Administrative expenses	(61)	(103)	(182)	(208)	(243)
Listing expenses	0	(38)	(65)	0	0
Finance cost	0	0	(8)	(8)	(8)
Profit before tax	242	277	594	843	1,030
Income tax expense	(43)	(64)	(154)	(219)	(268)
Total net profit	199	212	440	624	762
Minority Interests	(100)	(46)	(19)	(27)	(33)
Attributable net profit	99	167	420	596	729

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Profit before tax	242	277	594	843	1,030
Depreciation	23	29	70	75	80
Change in working capital	(208)	82	(1)	50	54
Others	12	4	(9)	(41)	(55)
Tax paid	(22)	(35)	(154)	(219)	(268)
Operating cash flow	48	356	500	708	841
Capex	(32)	(21)	(800)	(100)	(80)
Acquisition of subsidiaries	0	0	0	0	0
Other investing activities	(220)	(367)	(48)	84	98
Investing cash flow	(252)	(388)	(848)	(16)	18
Net proceeds from shares issued	0	1,129	2,951	0	0
Bank borrowing	0	0	0	0	0
Advance from related parties	0	104	0	0	0
Other financing activities	463	(466)	(144)	0	(119)
Financing cash flow	463	767	2,807	0	(119)
Net change in cash	259	736	2,459	692	740
Cash at the beginning	191	449	1,184	3,643	4,335
Cash at the end	449	1,184	3,643	4,335	5,074

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	1,203	5,123	5,860	5,842	5,799
Plant and equipment	119	138	868	893	893
Goodwill	197	802	802	802	802
License	414	401	388	375	362
Contractual right to provide management services	0	1,939	1,939	1,939	1,939
Trademarks	247	1,292	1,292	1,292	1,292
Others	226	550	570	540	510
Current assets	535	1,436	3,898	4,607	5,366
Inventories	19	17	30	34	39
Accounts and other receivables	67	77	68	81	95
Amounts due from related parties	0	71	21	21	21
Bank balances and cash	449	1,184	3,643	4,335	5,074
Others	0	87	137	137	137
Current liabilities	204	1,377	1,330	1,398	1,471
Accounts and other payables	164	391	445	512	585
Capital contribution deposits	0	0	0	0	0
Amounts due to related parties	4	917	817	817	817
Tax payables	36	69	69	69	69
Non-current liabilities	172	682	842	842	842
Deferred rent	0	5	5	5	5
Deferred tax liabilities	172	677	677	677	677
Total net assets	1,362	4,500	7,586	8,210	8,853
Minority interest	434	137	156	183	217
Shareholders' equity	928	4,363	7,430	8,027	8,636

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
ARS	79.7	86.9	52.7	54.9	56.8
Management service fee	15.2	9.7	43.8	42.0	40.5
Ancillary medical services	5.1	3.4	3.5	3.1	2.7
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	46	45	49	50	52
EBITDA margin	42	34	40	45	46
Pre-tax margin	36	30	36	43	44
Net margin	15	18	25	30	31
Effective tax rate	18	23	26	26	26
Balance sheet ratios					
Current ratio (x)	3	1	3	3	4
Trade receivables days	19	28	15	15	15
Trade payables days	115	199	190	190	190
Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	7.3	3.7	7.0	7.6	8.5
ROA	5.7	2.5	5.2	5.9	6.7
Per share value					
EPS (RMB)	N/A	N/A	0.17	0.24	0.30
DPS (RMB)	N/A	N/A	0.00	0.05	0.06
BVP (RMB)	N/A	N/A	3.12	3.37	3.64

Source: Company data, CMBIS estimates

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