

Jinxin Fertility (1951 HK)

Enhancing leading position by strong organic growth and efficient M&As

We have positive takeaways from Jinxin Fertility's investor open day. Company's existing network hospitals delivered solid performance amid the very challenging environment during COVID-19 pandemic. Maintain BUY and lift TP to HK\$15.51.

■ HRC achieved phenomenal local cycle growth amid COVID-19 pandemic.

HRC Management has a total of 14 physicians and each physician has a capacity of 700 cycles per year. HRC recovered much faster than its local competitors as of Jun 2020. Despite the COVID-19 pandemic, HRC's local cycles continued to increase MoM from June and reached a historical high in Oct. With the increasing supply of COVID-19 vaccines over the course of 2021E, we believe the pandemic will be controlled. HRC's international cycles (majority of international patients are from mainland China) should have a significant recovery in 2021E. Moreover, HRC is expanding its footprint through acquisition. HRC is working on several acquisitions with combined cycles ranging from 500 to 600 per year.

■ Efficient ramp-up of new hospitals in Wuhan and Laos. The Company recently hired Dr. Yang Jing (楊菁) who is a very renowned IVF expert to join Wuhan Jinxin Hospital. Thanks to Dr. Yang's reputation, we expect Wuhan Jinxin Hospital to deliver 1,000 IVF cycles in 2021E and 2,000 cycles in 2022E. The Company assigned Dr. Geng (耿麗紅), the current head of quality control of Jinxin Fertility, to lead its Laos hospital, which will have a capacity of 3,000 cycles per year. It will ramp up fast after the opening of travel between mainland China and Laos given successful promotion activities.

■ M&A will become a sustainable growth driver. Historically, through M&A, Jinxin has expanded its footprint from Chengdu city to Shenzhen city, the US, Laos and Wuhan city. Benefiting from the Company's excellent operation experiences, strong technical know-how, good brand awareness and sufficient cash on hand, we believe the Company will continue to expand its geographic network through M&A. Management targets to complete one to two acquisition deals per year, in order to provide sustainable growth driver for Jinxin. In addition, we also expect the Company to expand its operating capacity in Shenzhen to further enhance its leading position in Guangdong market.

■ Lift TP to HK\$15.51. To factor in fast ramp-up of Wuhan hospital and potential faster-than-expected recovery of HRC, we lifted our DCF-based TP from HK\$13.80 to HK\$15.51 (WACC: 10.2%, terminal growth rate: 3%). **Catalyst:** Acquisitions of quality assets; **Risk:** Impact from COVID-19 pandemic.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	922	1,648	1,481	2,112	2,727
YoY growth (%)	39	79	-10	43	29
Net profit (RMB mn)	167	410	345	558	768
EPS (RMB)	N/A	0.19	0.14	0.23	0.32
YoY growth (%)	N/A	N/A	-24	62	38
Consensus EPS (RMB)	N/A	N/A	0.18	0.25	0.31
P/E (x)	N/A	59.4	77.7	48.0	34.9
P/B (x)	N/A	3.2	3.4	3.2	3.0
Yield (%)	N/A	0.62	0.26	0.42	0.57
ROE (%)	3.7	6.7	4.5	6.9	8.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$15.51
(Previous TP)	HK\$13.80
Up/Downside	+26.08%
Current Price	HK\$12.30

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Mkt. Cap. (HK\$ mn)	32,069
Avg. 3mths t/o (HK\$ mn)	122.26
52W High/Low (HK\$)	14.68/ 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%

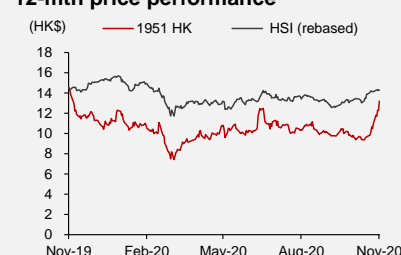
Source: HKEx, Bloomberg

Share performance

	Absolute	Relative
1-mth	27.5%	18.7%
3-mth	19.4%	14.1%
6-mth	14.5%	6.0%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Deloitte

Web-site: www.jxr-fertility.com

Related reports:

1. Long-term growth outlook intact – 2 Sep 2020
2. First domestic acquisition deal since IPO; Big step in domestic expansion – 2 Jul 2020
3. Business expansion in Laos – 5 Mar 2020
4. Business intact from the new Coronavirus outbreak – 30 Jan 2020

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	1,481	2,112	2,727	1,481	2,096	2,600	0%	1%	5%
Gross Profit	643	992	1,336	643	985	1,248	0%	1%	7%
Operating Profit	444	716	986	444	711	917	0%	1%	8%
Net profit	345	558	768	345	554	714	0%	1%	8%
EPS (RMB cents)	14	23	32	14	23	29	0%	1%	8%
Gross Margin	43.46%	47.00%	49.00%	43.46%	47.00%	48.00%	0.00 ppt	0.00 ppt	+1.00 ppt
Operating Margin	30.01%	33.92%	36.17%	30.01%	33.93%	35.26%	0.00 ppt	-0.02 ppt	+0.91 ppt
Net Margin	23.30%	26.42%	28.17%	23.30%	26.43%	27.47%	0.00 ppt	-0.01 ppt	+0.71 ppt

Source: Company, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	1,481	2,112	2,727	1,643	2,063	2,464	-10%	2%	11%
Gross Profit	643	992	1,336	802	1,034	1,266	-20%	-4%	6%
Operating Profit	444	716	986	538	716	917	-17%	0%	8%
Net profit	345	558	768	448	588	733	-23%	-5%	5%
EPS (RMB cents)	14	23	32	18	25	31	-22%	-8%	2%
Gross Margin	43.46%	47.00%	49.00%	48.80%	50.14%	51.39%	-5.34 ppt	-3.14 ppt	-2.39 ppt
Operating Margin	30.01%	33.92%	36.17%	32.77%	34.72%	37.20%	-2.76 ppt	-0.80 ppt	-1.04 ppt
Net Margin	23.30%	26.42%	28.17%	27.28%	28.52%	29.76%	-3.98 ppt	-2.11 ppt	-1.59 ppt

Source: Company, CMBIS estimates

Figure 3: Risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)		2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT		673	932	1,137	1,381	1,672	2,014	2,417	2,888	3,437	4,073
Tax rate		20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
EBIT*(1-tax rate)		538	746	910	1,105	1,337	1,611	1,934	2,311	2,750	3,259
+ D&A		123	128	156	190	230	277	332	397	472	559
- Change in working capital		25	24	29	36	43	52	62	74	88	105
- Capex		(120)	(100)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)
FCFF		566	798	1,015	1,250	1,530	1,860	2,248	2,702	3,230	3,843
Terminal value		54,897									
Terminal value		20,765									
Total PV		30,700									
Net debt		(3,236)									
Minority interest		140									
Equity value		33,796									
# of shares (mn)		2,430									
Price per share (in Rmb)		13.91									
Price per share (in HK\$)		15.51									
Terminal growth rate		3.0%									
WACC		10.2%									
Cost of Equity		13.0%									
Cost of Debt		5.0%									
Equity Beta		1.0									
Risk Free Rate		3.0%									
Market Risk Premium		10.0%									
Target Debt to Asset ratio		30.0%									
Effective Corporate Tax Rate		26.0%									

Source: CMBIS estimates

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	1,481	2,112	2,727	Profit before tax	277	548	444	716	986
ARS	801	932	1,068	1,487	1,972	Depreciation for plant and equipment	29	66	75	80	85
Management service fee	90	648	346	555	684	Change in working capital	82	(74)	(170)	25	24
Ancillary medical services	31	68	66	69	72	Others	4	38	(2)	(10)	(21)
Cost of sales	(509)	(832)	(838)	(1,119)	(1,391)	Tax paid	(35)	(126)	(90)	(143)	(197)
Gross profit	413	817	643	992	1,336	Net cash from operating activities	356	453	257	668	877
Other income	22	63	62	70	81	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)	(275)	53	64
R&D expenses	(12)	(13)	(10)	(14)	(18)	Net cash from investing activities	(388)	(2,706)	(515)	(67)	(36)
Administrative expenses	(103)	(211)	(201)	(264)	(327)	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	444	716	986	Other financing activities	(466)	(1,317)	(152)	(69)	(112)
Income tax expense	(64)	(127)	(90)	(143)	(197)	Net cash from financing activities	767	1,647	(152)	(69)	(112)
Total net profit	212	421	354	573	789	Net change in cash	736	(606)	(410)	532	730
Minority Interests	(46)	(11)	(9)	(15)	(21)	Cash at the beginning of the year	449	1,184	580	170	702
Profit attributable to shareholders	167	410	345	558	768	Cash at the end of the year	1,184	580	170	702	1,431

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	72.2	70.4	72.3
Goodwill	802	809	1,129	1,129	1,129	Management service fee	9.7	39.3	23.4	26.3	25.1
License	401	388	375	362	349	Ancillary medical services	3.4	4.1	4.5	3.3	2.6
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	43	47	49
Current assets	1,436	3,426	2,982	3,527	4,270	EBITDA margin	34	38	36	38	39
Inventories	17	26	25	34	42	Pre-tax margin	30	33	30	34	36
Accounts and other receivables	77	46	12	17	22	Net margin	18	25	23	26	28
Amounts due from related parties	71	50	50	50	50	Effective tax rate	23	23	20	20	20
Bank balances and cash	1,184	580	170	702	1,431	Balance sheet ratios					
Others	87	2,725	2,725	2,725	2,725	Current ratio (x)	1	8	13	13	14
Current liabilities	1,377	436	231	270	307	Trade receivables turnover days	4	3	3	3	3
Accounts and other payables	391	320	115	153	191	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	4.5	6.9	8.8
Non-current liabilities	682	863	863	863	863	ROA	2.5	5.3	3.9	6.1	7.8
Deferred rent	5	0	0	0	0	Per share value					
Deferred tax liabilities	677	709	709	709	709	EPS (RMB)	N/A	0.19	0.14	0.23	0.32
Total net assets	4,500	7,642	7,845	8,349	9,027	DPS (RMB)	N/A	0.07	0.03	0.05	0.06
Minority interest	137	116	125	140	161	BVP (RMB)	N/A	3.46	3.23	3.44	3.72
Shareholders' equity	4,363	7,527	7,720	8,209	8,866						

Source: Company data, CMBIS estimates

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