

Joinn Laboratories (6127 HK)

Waiting longer for recovery to materialize

Joinn reported 1Q24 revenue of RMB325mn, down 12.1% YoY, and booked attributable net loss of RMB272mn, a significant downturn from an attributable net profit of RMB188mn in 1Q23. The 1Q24 revenue accounted for 13.4% of our full-year estimate, in line with its historical average. First quarter is typically a low season for Joinn. The revenue decline was due to persistently soft R&D activities in China's pharmaceutical industry, which has led to increased competition and price erosion. The bottom line was further impacted by the RMB284mn fair value losses from biological assets, a non-operational, non-cash charge. The laboratory services, which represent the core business of Joinn, incurred a net loss of RMB210mn.

■ **Margin under pressure, while demand showed early signs of stabilization.** Gross profit margin in 1Q24 shrank by 18.9ppt YoY and 7.5ppt QoQ to 32.8%, mainly due to price erosion. Considering the uncertainties of the recovery of R&D in the domestic pharmaceutical market and the price erosion of newly signed orders, the mgt. forecasts the 2024E revenue to remain largely flattish, with continued pressure on profitability. Joinn's new orders signed in 1Q24 totaled ~RMB400mn, representing a decline of ~30% YoY. However, mgt. indicated a notable increase in RFPs (request-for-proposals) in the quarter while the number of new project signed grew by ~20% YoY. As of 1Q24, the Company's backlog stood at RMB3.38bn, up 2.4% compared with end-2023. Given Joinn has removed projects with low execution certainty from its backlog, the current backlog provides better predictability of future performance, in our view. Notably, the overseas market has exhibited a stronger recovery momentum than the domestic market, with the number of new projects signed in 1Q24 increasing by 30% both YoY and QoQ. Joinn plans to expand its laboratory capacity in the US. The mgt. plans to double the capacity of Biomere, significantly enhancing its service capabilities in US local market.

■ **Invest in an industrial fund to consolidate resources.** In Feb 2024, Joinn announced its plan to invest RMB300mn in an industrial investment fund with specialized investment institutes, marking Joinn's first attempt of this kind. Joinn aims to leverage the investment fund to engage with early-stage healthcare startups, which may bring potential orders in the future. Meanwhile, mgt. indicated that such investment will allow Joinn to build a broad network with early-stage companies with keeping risks reasonably controlled.

■ **Maintain BUY.** We revised our TP to HK\$10.36 from HK\$14.41, based on a 10-year DCF valuation with WACC of 12.9% and terminal growth of 2.0%, reflecting the lower earnings projection. We forecast Joinn's revenue to grow -2.0%/ +13.2%/ +18.2% YoY and adjusted net income to grow -28.4%/ +24.3%/ +47.4% YoY in 2024E/ 25E/ 26E, respectively.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	2,268	2,376	2,330	2,638	3,119
YoY growth (%)	49.5	4.8	(2.0)	13.2	18.2
Adjusted net profit (RMB mn)	560	482	345	428	631
YoY growth (%)	46.4	(14.1)	(28.4)	24.3	47.4
EPS (Adjusted) (RMB)	1.05	0.64	0.46	0.57	0.84
Consensus EPS (RMB)	na	na	0.62	0.97	0.92
P/E (x) (adjusted)	7.2	11.6	16.3	13.1	8.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$10.36
(Previous TP)	HK\$14.41
Up/Downside	24.6%
Current Price	HK\$8.31

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Stock Data

Mkt Cap (HK\$ mn)	6,231.6
Avg 3 mths t/o (HK\$ mn)	14.5
52w High/Low (HK\$)	32.45/8.24
Total Issued Shares (mn)	749.9

Source: FactSet

Shareholding Structure

Yuxia Feng & Zhiwen Zhou	32.3%
HK investors	17.0%

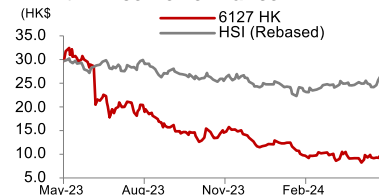
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-9.4%	-15.6%
3-mth	-13.8%	-24.9%
6-mth	-42.9%	-45.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	2,330	2,638	3,119	2,425	2,793	3,356	-3.92%	-5.53%	-7.04%
Gross Profit	686	882	1,171	924	1,144	1,429	-25.73%	-22.92%	-18.04%
Operating Profit	302	477	713	523	688	885	-42.23%	-30.59%	-19.48%
Adjusted net profit	345	428	631	436	548	703	-20.90%	-21.84%	-10.14%
Adjusted EPS (RMB)	0.46	0.57	0.84	0.58	0.73	0.94	-20.90%	-21.84%	-10.14%
Gross Margin	29.44%	33.43%	37.54%	38.08%	40.98%	42.57%	-8.64ppt	-7.54ppt	-5.03ppt
Operating Margin	12.98%	18.09%	22.84%	21.58%	24.63%	26.37%	-8.61ppt	-6.53ppt	-3.53ppt
Net Margin	14.79%	16.24%	20.24%	17.97%	19.63%	20.94%	-3.17ppt	-3.39ppt	-0.70ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	2,330	2,638	3,119	2,420	2,719	3,123	-3.72%	-2.98%	-0.12%
Gross Profit	686	882	1,171	983	1,133	1,316	-30.19%	-22.16%	-11.04%
Operating Profit	302	477	713	567	719	861	-46.67%	-33.59%	-17.28%
Adjusted net profit	345	428	631	455	600	697	-24.24%	-28.54%	-9.35%
Adjusted EPS (RMB)	0.46	0.57	0.84	0.62	0.97	0.92	-25.26%	-41.28%	-8.17%
Gross Margin	29.44%	33.43%	37.54%	40.60%	41.67%	42.14%	-11.16ppt	-8.24ppt	-4.61ppt
Operating Margin	12.98%	18.09%	22.84%	23.43%	26.44%	27.58%	-10.45ppt	-8.34ppt	-4.74ppt
Net Margin	14.79%	16.24%	20.24%	18.80%	22.05%	22.30%	-4.01ppt	-5.81ppt	-2.06ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: Valuation on risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
EBIT	(168)	507	743	757	771	783	794	804	812	818
Tax rate	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)	(142)	431	631	644	655	666	675	683	690	696
+ D&A	149	152	160	163	166	169	171	173	175	177
- Change in working capital	(102)	(105)	(145)	(147)	(150)	(153)	(155)	(157)	(158)	(159)
- Capex	(135)	(200)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)
FCFF	(231)	278	397	410	422	432	442	450	457	463
Terminal value										4,319
Terminal growth rate		2.0%								
WACC		12.9%								
Cost of Equity		16.7%								
Cost of Debt		5.0%								
Equity Beta		1.3								
Risk Free Rate		3.0%								
Market Risk Premium		10.5%								
Target Debt to Asset ratio		30.0%								
Effective Corporate Tax Rate		15.0%								
PV of terminal value (RMB mn)		1,280								
Total PV (RMB mn)		2,908								
Net debt (RMB mn)		(4,084)								
Minority interest (RMB mn)		2								
Equity value (RMB mn)		6,990								
# of shares (mn)		750								
Price per share (in Rmb)		9.32								
Price per share (in HK\$)		10.36								

Source: CMBIGM estimates. HK\$/RMB=0.9

Figure 4: Sensitivity analysis of DCF model

Price per share (in HK\$)		Terminal growth rate				
		3.0%	2.5%	2.0%	1.5%	1.0%
WACC	11.9%	11.16	11.01	10.88	10.76	10.65
	12.4%	10.85	10.72	10.60	10.50	10.40
	12.9%	10.57	10.46	10.36	10.27	10.18
	13.4%	10.32	10.22	10.13	10.05	9.98
	13.9%	10.09	10.00	9.93	9.85	9.79

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	1,517	2,268	2,376	2,330	2,638	3,119
Cost of goods sold	(781)	(1,187)	(1,397)	(1,644)	(1,756)	(1,948)
Gross profit	736	1,081	979	686	882	1,171
Operating expenses	(328)	(396)	(418)	(384)	(405)	(458)
Selling expense	(16)	(18)	(25)	(24)	(25)	(28)
Admin expense	(264)	(300)	(296)	(279)	(295)	(337)
R&D expense	(48)	(78)	(97)	(81)	(84)	(93)
Operating profit	408	686	561	302	477	713
Gain/loss on financial assets at FVTPL	125	333	(289)	(500)	0	0
Share of (losses)/profits of associates/JV	(0)	(3)	(3)	0	0	0
Net interest income/(expense)	(4)	(4)	(3)	(2)	(2)	(2)
Other income/expense	113	228	241	138	115	118
Pre-tax profit	642	1,240	507	(62)	590	829
Income tax	(86)	(167)	(115)	9	(89)	(124)
After tax profit	556	1,073	392	(53)	502	704
Minority interest	(1)	(1)	(5)	1	(5)	(7)
Net profit	557	1,074	397	(54)	507	711
Adjusted net profit	383	560	482	345	428	631
Gross dividends	137	214	120	0	152	213
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	5,814	5,928	7,122	6,489	6,757	7,170
Cash & equivalents	4,154	2,917	2,863	2,620	2,738	2,915
Account receivables	116	212	213	208	236	279
Inventories	106	350	185	315	336	373
Financial assets at FVTPL	841	1,480	1,279	779	779	779
Other current assets	597	970	2,582	2,568	2,668	2,824
Non-current assets	2,723	4,436	2,905	3,192	3,240	3,330
PP&E	815	1,235	1,303	1,302	1,362	1,464
Intangibles	57	50	48	36	24	12
Goodwill	122	134	136	136	136	136
Financial assets at FVTPL	180	946	719	719	719	719
Other non-current assets	1,549	2,071	699	999	999	999
Total assets	8,537	10,364	10,027	9,681	9,997	10,500
Current liabilities	1,214	1,844	1,467	1,476	1,520	1,612
Short-term borrowings	5	4	0	0	0	0
Account payables	54	127	43	100	107	119
Other current liabilities	1,134	1,689	1,397	1,348	1,386	1,466
Lease liabilities	22	24	28	28	28	28
Non-current liabilities	178	329	279	279	279	279
Long-term borrowings	5	3	0	0	0	0
Obligations under finance leases	64	57	42	42	42	42
Deferred income	61	81	74	74	74	74
Other non-current liabilities	48	188	162	162	162	162
Total liabilities	1,393	2,173	1,746	1,755	1,799	1,891
Share capital	381	536	750	750	750	750
Capital surplus	6,755	7,648	7,529	7,174	7,451	7,869
Total shareholders equity	7,136	8,184	8,279	7,924	8,200	8,618
Minority interest	8	7	2	2	(3)	(10)
Total equity and liabilities	8,537	10,364	10,027	9,681	9,997	10,500

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	642	1,240	507	(62)	590	829
Depreciation & amortization	101	130	142	149	152	160
Tax paid	(42)	(124)	(153)	9	(89)	(124)
Change in working capital	98	142	(94)	(102)	(105)	(145)
Others	(115)	(443)	219	401	(76)	(78)
Net cash from operations	685	945	622	395	472	642
Investing						
Capital expenditure	(220)	(269)	(187)	(135)	(200)	(250)
Acquisition of subsidiaries/ investments	(26)	(1,689)	(90)	0	0	0
Others	(1,823)	(177)	(38)	(300)	0	0
Net cash from investing	(2,069)	(2,134)	(315)	(435)	(200)	(250)
Financing						
Dividend paid	(95)	(137)	(214)	0	(152)	(213)
Net borrowings	(4)	(59)	(7)	0	0	0
Proceeds from share issues	5,421	(2)	(9)	0	0	0
Others	(32)	99	(132)	(202)	(2)	(2)
Net cash from financing	5,290	(99)	(362)	(202)	(154)	(215)
Net change in cash						
Cash at the beginning of the year	305	4,150	2,899	2,863	2,620	2,738
Exchange difference	(61)	37	8	0	0	0
Cash at the end of the year	4,150	2,899	2,854	2,620	2,738	2,915
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	41.0%	49.5%	4.8%	(2.0%)	13.2%	18.2%
Gross profit	33.6%	47.0%	(9.4%)	(30.0%)	28.6%	32.8%
Operating profit	47.9%	68.2%	(18.1%)	(46.1%)	57.9%	49.3%
Net profit	78.1%	92.7%	(63.0%)	na	na	40.4%
Adj. net profit	34.8%	46.4%	(14.1%)	(28.4%)	24.3%	47.4%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	48.5%	47.7%	41.2%	29.4%	33.4%	37.5%
Operating margin	26.9%	30.2%	23.6%	13.0%	18.1%	22.8%
Adj. net profit margin	25.2%	24.7%	20.3%	14.8%	16.2%	20.2%
Return on equity (ROE)	13.3%	14.0%	4.8%	(0.7%)	6.3%	8.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.6)	(0.3)	(0.5)	(0.5)	(0.5)	(0.5)
Current ratio (x)	4.8	3.2	4.9	4.4	4.4	4.4
Receivable turnover days	24.9	26.3	32.6	32.6	32.6	32.6
Inventory turnover days	46.1	70.2	69.9	69.9	69.9	69.9
Payable turnover days	26.6	27.8	22.3	22.3	22.3	22.3
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E (adjusted)	7.3	7.2	11.6	16.3	13.1	8.9
P/B	0.4	0.5	0.7	0.7	0.7	0.7
P/CFPS	4.1	4.3	9.3	14.6	12.2	9.0
Div yield (%)	4.8	5.2	2.1	0.0	2.6	3.7

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

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