

BUY (Maintain)

PA Good Doctor (1833 HK)

Emphasis on its core online medical service capabilities

- **Topline beat thanks to strong growth in online medical services.** In 2020, PA Good Doctor's topline increased 35.5% YoY, higher than our estimate of 28.1% YoY. Core online medical service revenue rallied 82.4% YoY to RMB1.57bn, contributing 23% of the total revenue. Net loss was RMB948mn in 2020, better than our forecast of RMB1,020mn. Adjusted net loss (excluding foreign exchange losses and gains and option expenses) was RMB516mn in 2020, vs RMB695mn in 2019. The Company has invested a lot in upgrading its channels, services, physician team, etc. Excluding the impact of these additional spending due to the strategic upgrades, net loss from the traditional business shrank by 65.6% YoY to RMB239mn.
- **Significant margin improvement thanks to successful monetization efforts.** Blended gross margin rallied by 4.1ppts to 27.2% driven by accelerating monetization and higher proportion of revenue from high-margin online medical service business. Online medical service recorded a high GPM of 56.2% (vs 44.2% in 2019) and contributed 47% of the Company's total gross profit. Average conversion rate of paying users increased by 0.9ppts to 4.9% in 2020. Specifically, paying healthcare users accounted for 35.1% of the total paying users. Average daily prescriptions sold rose 88% YoY. As of end-2020, the Company had 372.8mn registered users, rising 18.3% YoY. MAU and MPU reached 72.6mn and 4mn respectively, representing a YoY increase of 8.5% and 34.1%, respectively.
- **Emphasis on its core online medical service capabilities.** PA Good Doctor further strengthened its leading position in online medical service industry. Average daily consultations reached 903,000 in 2020, up 23.9% YoY. As of end-2020, the Company's in-house medical team reached 2,247 people, vs 1,409 in end-2019. In addition, contracted external doctors grew rapidly from 5,381 in end-2019 to 21,116 in end-2020. The Company aims to attract more renowned doctors to join its platform. Furthermore, the Company operates the largest number of internet hospitals in China. As of end-2020, PA Good Doctor has reached agreements with over 100 offline hospitals on jointly building Internet hospitals while 50 co-constructed/self-built internet hospitals have commenced operation. Meanwhile, the Company has enabled Social Health Insurance (SHI) payment (i.e. NRDL reimbursement) in one province and four cities in China. We believe PA Good Doctor will continue to be the No.1 online medical service provider in China given its consistent efforts in capability upgrades.
- **Maintain BUY.** We expect total revenue to grow 36%/ 38%/ 39% YoY in FY21E/22E/23E. We forecast net losses to be RMB1,261mn/ RMB1,016mn/ RMB730mn in FY21E/22E/23E. We maintain positive on the Company's growth outlook, and derive TP of HK\$142.77 based on a 10-year DCF model (WACC:9.3%, terminal growth rate: 4.0%). **Catalysts:** Faster-than-expected user growth; Regulatory loosening.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	5,065	6,866	9,348	12,929	18,029
YoY growth (%)	52	36	36	38	39
Net income (RMB mn)	(734)	(948)	(1,261)	(1,016)	(730)
EPS (RMB)	(0.73)	(0.92)	(1.10)	(0.89)	(0.64)
Consensus EPS (RMB)	(0.80)	(0.76)	(0.82)	(0.60)	0.11
P/S (x)	22.1	16.3	12.0	8.7	6.2
ROE	(7.4)	(7.4)	(8.3)	(7.1)	(5.4)
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates, Bloomberg

Target Price	HK\$142.77
(Previous TP)	HK\$142.10)
Up/Downside	+28.16%
Current Price	HK\$111.40

China Healthcare Sector

Jill Wu, CFA

(852) 3900 0842
jillwu@cmbi.com.hk

Sam Hu, PhD

(852) 3900 0882
samhu@cmbi.com.hk

Jonathan Zhao

(852) 6359 1614
jonathanzhao@cmbi.com.hk

Mkt. Cap. (HK\$ mn)	127,809
Avg. 3mths t/o (HK\$ mn)	720.6
52W High/Low (HK\$)	135.0/56.0
Total Issued Shares (mn)	1,147

Source: Bloomberg

Shareholding Structure

Ping An Insurance	41.31%
Employee	19.26%
Soft Bank	4.42%
Other shareholders	35.01%

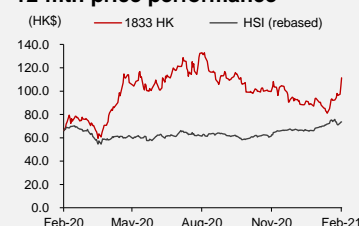
Source: HKEx, Bloomberg

Share performance

	Absolute	Relative
1-mth	11.4%	3.7%
3-mth	5.1%	-12.1%
6-mth	-20.9%	-33.5%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: PWC

Related reports:

1. Endeavor to upgrade channels and services – 26 Jan 2021
2. Guidelines released for the reimbursement of online medical services - 4 Nov 2020
3. Strong growth in core business – 24 Aug 2020
4. Building comprehensive healthcare ecosystem – 17 Jun 2020

Figure 1: Valuation on risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(1,575)	(1,300)	(993)	(186)	912	1,642	2,873	4,885	8,060	13,057
Tax rate	0.0%	0.0%	0.0%	23.2%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)	(1,575)	(1,300)	(993)	(143)	775	1,396	2,442	4,152	6,851	11,099
+ D&A	50	65	75	83	88	158	277	471	777	1,259
- Change in working capital	312	144	122	145	205	368	644	1,095	1,807	2,928
- Capx	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
FCFF	(1,313)	(1,191)	(895)	(15)	968	1,822	3,264	5,618	9,335	15,185
Terminal value										298,683
Terminal growth rate	4.0%									
WACC	9.3%									
Cost of Equity	12.0%									
Cost of Debt	5.0%									
Equity Beta	0.9									
Risk Free Rate	3.0%									
Market Risk Premium	10.0%									
Target Debt to Asset ratio	35.0%									
Effective Corporate Tax Rate	15.0%									
Terminal value (RMB mn)	122,887									
Total PV (RMB mn)	136,641									
Net debt (RMB mn)	(7,099)									
Minority interest (RMB mn)	23									
Equity value (RMB mn)	143,717									
# of shares (mn)	1,147									
Price per share (RMB per share)	125.3									
Price per share (HK\$ per share)	142.77									

Source: CMBIS estimates; Notes: Exchange rate for HK\$/RMB = 0.90

Figure 2: Sensitivity analysis (HK\$)

WACC	Terminal growth rate				
	3.0%	3.5%	4.0%	4.5%	5.0%
8.3%	154.56	169.11	187.06	209.75	239.33
8.8%	136.98	148.53	162.49	179.71	201.47
9.3%	122.37	131.69	142.77	156.17	172.69
9.8%	110.06	117.68	126.63	137.27	150.12
10.3%	99.57	105.89	113.21	121.80	132.01

Source: Company data, CMBIS estimates

Figure 3: Peers' valuation

Company	Ticker	Price LC	TP LC	Upside	Mkt cap US\$ mn	P/S (x)		P/E (x)		P/B (x)	
						FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
PA GOOD DOCTOR	1833 HK	111.4	142.8	28.16%	127,809	12.0	8.7	N/A	N/A	7.6	8.1
JD HEALTH INTERN	6618 HK	158.5	N/A	N/A	504,722	15.6	10.5	N/A	289.8	18.4	17.2
ALIBABA HEALTH	241 HK	26.5	N/A	N/A	356,573	17.6	10.9	N/A	350.7	30.3	27.7
TELADOC HEALTH	TDOC US	269.03	N/A	N/A	38,999	20.4	15.4	N/A	N/A	6.8	5.6
HEALTH CATALYST	HCAT US	49.14	N/A	N/A	2,088	9.2	7.6	N/A	N/A	6.7	7.6
Average						15.0	10.6	N/A	320.2	14.0	13.3

Source: CMBIS estimates, Bloomberg, NR=Not rated

Figure 4: CMBIS earnings revisions

(RMB mn)	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	9,348	12,929	18,029	8,923	12,467	17,547	4.8%	3.7%	2.7%
Gross profit	2,665	4,070	6,159	2,666	4,136	6,372	-0.1%	-1.6%	-3.4%
Operating profit	(1,475)	(1,200)	(893)	(1,516)	(1,125)	(722)	N/A	N/A	N/A
Net profit	(1,261)	(1,016)	(730)	(1,331)	(964)	(572)	N/A	N/A	N/A
EPS (RMB)	(1.10)	(0.89)	(0.64)	(1.16)	(0.84)	(0.50)	N/A	N/A	N/A
Gross margin	28.51%	31.48%	34.16%	29.88%	33.17%	36.32%	-1.38ppt	-1.70ppt	-2.16ppt
Operating margin	-15.78%	-9.28%	-4.95%	-17.00%	-9.02%	-4.12%	+1.21ppt	-0.26ppt	-0.84ppt
Net Margin	-13.49%	-7.86%	-4.05%	-14.92%	-7.73%	-3.26%	+1.43ppt	-0.13ppt	-0.79ppt

Source: Company data, CMBIS estimates

Figure 5: CMBIS estimates vs consensus

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	9,348	12,929	18,029	8,843	12,067	15,955	5.7%	7.1%	13.0%
Gross profit	2,665	4,070	6,159	2,568	3,797	5,253	3.8%	7.2%	17.2%
Operating profit	(1,475)	(1,200)	(893)	(935)	(662)	(279)	N/A	N/A	N/A
Net profit	(1,261)	(1,016)	(730)	(900)	(749)	(236)	N/A	N/A	N/A
EPS (RMB)	(1.10)	(0.89)	(0.64)	(0.82)	(0.60)	0.11	N/A	N/A	N/A
Gross margin	28.51%	31.48%	34.16%	29.04%	31.46%	32.93%	-0.53ppt	+0.02ppt	+1.23ppt
Operating margin	-15.78%	-9.28%	-4.95%	-10.58%	-5.49%	-1.75%	-5.20ppt	-3.8ppt	-3.20ppt
Net Margin	-13.49%	-7.86%	-4.05%	-10.17%	-6.21%	-1.48%	-3.31ppt	-1.65ppt	-2.57ppt

Source: Company data, CMBIS estimates

Financial Statements

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	5,065	6,866	9,348	12,929	18,029
Online medical services	858	1,565	2,974	5,354	9,102
Consumer healthcare	1,112	1,383	1,798	2,301	2,899
Health mall	2,902	3,714	4,321	4,958	5,640
Health management & wellness interaction	193	204	255	316	388
Cost of sales	(3,894)	(5,002)	(6,683)	(8,859)	(11,870)
Gross profit	1,171	1,864	2,665	4,070	6,159
Selling & marketing expenses	(1,207)	(1,587)	(2,617)	(3,361)	(4,507)
Administrative expenses	(1,075)	(1,017)	(1,683)	(2,069)	(2,704)
Other income	42	205	160	160	160
Other (losses)/gains	109	(385)	0	0	0
Operating profit	(959)	(919)	(1,475)	(1,200)	(893)
Finance costs - net	253	100	314	284	263
Gain/(loss) from associates and JV	(27)	(122)	(100)	(100)	(100)
Profit before tax	(734)	(941)	(1,261)	(1,016)	(730)
Income tax expense	(13)	(7)	0	0	0
Total net profit	(747)	(949)	(1,261)	(1,016)	(730)
Minority Interests	(13)	(0)	0	0	0
Attributable profit	(734)	(948)	(1,261)	(1,016)	(730)

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	(747)	(949)	(1,261)	(1,016)	(730)
Depreciation of PP&E	146	170	50	65	75
Impairment of intangible asset	23	0	25	25	25
Change in working capital	376	(631)	269	183	174
Others	(50)	481	234	188	214
Finance costs - net	(253)	(174)	(314)	(284)	(263)
Operating cash flow	(504)	(1,102)	(997)	(839)	(504)
Capex	(133)	(73)	(100)	(100)	(100)
Acquisition of subsidiaries	0	0	0	0	0
Other investing activities	4,610	(2,424)	320	290	269
Investing cash flow	4,477	(2,497)	220	190	169
Net proceeds from shares issued	76	7,004	0	0	0
Bank borrowing	0	0	(6)	(6)	(6)
Listing expenses	0	0	0	0	0
Other financing activities	(67)	(82)	0	0	0
Financing cash flow	9	6,922	(6)	(6)	(6)
Net change in cash	3,981	3,323	(783)	(655)	(342)
Cash at the beginning	926	4,965	7,920	7,138	6,483
Cash flow at the end	4,965	7,920	7,138	6,483	6,141

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	3,901	3,307	3,232	3,142	3,042
Goodwill	967	970	970	970	970
PP&E	186	166	216	251	276
Right-of-use assets	94	115	115	115	115
Other intangible assets	106	102	77	52	27
Prepayments and other receivables	7	77	77	77	77
Financial assets at FV	1,532	587	587	587	587
Others	1,196	1,456	1,406	1,341	1,265
Current assets	8,478	15,256	14,118	13,931	14,258
Inventories	75	160	118	157	208
Accounts and other receivables	649	1,058	854	1,162	1,608
Contract assets	141	102	102	102	102
Bank balances and cash	0	0	0	0	0
Others	7,613	13,935	13,044	12,509	12,340
Current liabilities	2,665	2,668	2,624	3,236	4,028
Short-term borrowings	0	0	0	0	0
Trade and other payables	1,777	1,863	1,820	2,431	3,223
Contract liabilities	837	730	730	730	730
Others	51	75	75	75	75
Non-current liabilities	44	39	39	39	39
Lease liabilities	44	39	39	39	39
Trade and other payables	0	0	0	0	0
Total net assets	9,669	15,856	14,686	13,797	13,233
Minority interest	21	23	23	23	23
Shareholders' equity	9,669	15,856	14,686	13,797	13,233

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Online medical services	16.9	22.8	31.8	41.4	50.5
Consumer healthcare	22.0	20.1	19.2	17.8	16.1
Health mall	57.3	54.1	46.2	38.3	31.3
Health mgmt & wellness interaction	3.8	3.0	2.7	2.4	2.2
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	23	27	29	31	34
EBITDA margin	(17)	(13)	(16)	(10)	(5)
Pre-tax margin	(14)	(14)	(13)	(8)	(4)
Net margin	(14)	(14)	(13)	(8)	(4)
Effective tax rate	(2)	(1)	0	0	0
Balance sheet ratios					
Current ratio (x)	3	6	5	4	4
Trade receivables	39	45	45	45	45
Trade payables turnover	153	133	133	133	133
Net debt to total equity	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	(7.4)	(7.4)	(8.3)	(7.1)	(5.4)
ROA	(5.9)	(6.1)	(7.0)	(5.9)	(4.2)
Per share value					
EPS (RMB)	(0.73)	(0.92)	(1.10)	(0.89)	(0.64)
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVP (RMB)	9.66	15.40	12.80	12.03	11.53

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIS
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report. Additional information on recommended securities is available upon request.