

Jinxin Fertility (1951 HK)

Fast recovery from COVID-19 impact

Jinxin reported 2020 revenue of RMB1.43bn (-13.5% YoY) and adjusted net profit of RMB372mn (-29.8% YoY), which were slightly below our estimates. Normal operations were interrupted by the COVID pandemic and the travel restrictions between the US and China. By region, revenue from the US decreased 34.5% YoY to RMB380mn and revenue from China slightly retreated 2.1% YoY to RMB1,046mn.

■ **Fast recovery in 2H20.** Thanks to efficient operation, Jinxin's business rebounded significantly in 2H20 given that its revenue from Chengdu, Shenzhen and the US rebounded by 21.5%, 49.1% and 36.1% HoH, respectively. In the US, local cycles conducted by HRC grew by 5.1% YoY from 2,283 in 2019 to 2,400 in 2020, indicating the Company's superior operation capability amid the COVID pandemic. As the pandemic will gradually ease, we expect Jinxin's both China and overseas business to continue to rebound in 2021E and beyond.

■ **VIP services delivered strong growth.** VIP IVF treatment cycles accounted for 10.8% of total cycles conducted in Chengdu (vs 5.8% in 2019), representing 50.3% YoY growth. In Shenzhen, Jinxin upgraded its VIP services from only offering mini-VIP services to offering integrated-VIP services from Jan 2021. We expect the fast penetration of VIP services to help lift margins.

■ **M&As being long-term growth drivers.** Historically, through M&A, Jinxin has expanded its footprint from Chengdu city to Shenzhen city, the US, Laos and Wuhan city. In China, 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 explore M&A opportunities in tier 1/2 cities that have great coverage to local province and its surrounding areas. We expect Jinxin to complete at least one acquisition deal every year in China. In the US, we also expect, Jinxin to hire more new physicians and acquire fertility clinics to further expand market share. In southeast Asia, Jinxin prioritizes to acquire leading and reputable IVF provider in Southeast Asia to explore growth potential of the local markets.

■ **Lift TP to HK\$19.55.** To factor in the impact from COVID-19, we trimmed our 21E/22E forecast of revenue and net profit by 16%/16% and 19%/20%, respectively. we roll over our TP to 21E and derive new DCF-based TP of HK\$19.55 (WACC: 9.5%, terminal growth rate: 3.0%). **Catalyst:** Acquisitions of quality assets; **Risk:** Worse impact from COVID-19 pandemic.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	1,648	1,426	1,781	2,285	2,840
YoY growth (%)	79	-13	25	28	24
Net profit (RMB mn)	410	252	381	531	697
EPS (RMB)	0.19	0.10	0.15	0.21	0.28
YoY growth (%)	N/A	-44	45	39	31
Consensus EPS (RMB)	N/A	N/A	0.23	0.29	0.38
P/E (x)	70.5	124.8	86.1	61.7	47.1
P/B (x)	3.8	4.2	3.7	3.5	3.2
Yield (%)	0.52	0.00	0.00	0.00	0.00
ROE (%)	6.7	3.3	4.6	5.8	7.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$19.55**
 (Previous TP) **HK\$15.51**
Up/Downside **+24.04%**
Current Price **HK\$15.76**

China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	39,520
Avg. 3mths t/o (HK\$ mn)	381.72
52W High/Low (HK\$)	24.55/ 8.18
Total Issued Shares (mn)	2,508

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%

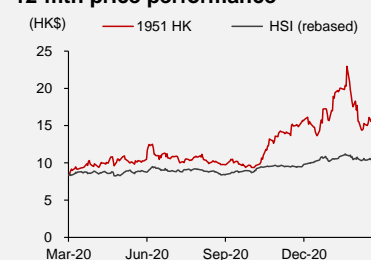
Source: HKEx, Bloomberg

Share performance

	Absolute	Relative
1-mth	-8.8%	-6.7%
3-mth	3.1%	-4.3%
6-mth	63.4%	35.4%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Deloitte

Web-site: www.jxr-fertility.com

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Figure 1: FY20A results change

YE Dec 31 (RMB mn)	2019A	2020A	YoY Change	CMBIS 2020E	Diff (%)
Revenue	1648	1426	-13.5%	1481	-3.7%
Cost of services	(832)	(860)	3.4%	(838)	2.7%
Gross profit	817	566	-30.7%	643	-12.1%
Other income	63	74	16.9%	62	19.5%
Other expenses	(2)	(6)	248.9%	0	N/A
Other gains and losses	28	57	101.6%	0	N/A
R&D expenses	(13)	(11)	-13.6%	(10)	20.2%
Admin expenses	(211)	(275)	30.3%	(201)	37.2%
Selling and distribution expenses	(62)	(41)	-33.5%	(42)	-0.7%
Listing expenses	(63)	0	-100.0%	0	N/A
Finance cost	(9)	(13)	43.6%	(9)	43.6%
Profit before tax	548	349	-36.3%	444	-21.4%
Income tax expense	(127)	(89)	-30.3%	(90)	-1.6%
Total net profit	421	260	-38.1%	354	-26.5%
Minority Interests	(11)	(9)	-19.7%	(9)	-4.7%
Profit attributable net profit	410	252	-38.6%	345	-27.1%
Adj. attributable net profit	530	372	-29.8%	402	-7.5%

Source: Company data, CMBIS estimates

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	1,781	2,285	2,840	2,112	2,727	N/A	-16%	-16%	N/A
Gross Profit	801	1,074	1,363	992	1,336	N/A	-19%	-20%	N/A
Operating Profit	526	733	962	716	986	N/A	-27%	-26%	N/A
Net profit	381	531	697	558	768	N/A	-32%	-31%	N/A
EPS (RMB cents)	15	21	28	23	32	N/A	-34%	-33%	N/A
Gross Margin	45.00%	47.00%	48.00%	47.00%	49.00%	N/A	-2.00 ppt	-2.00 ppt	+1.00 ppt
Operating Margin	29.52%	32.09%	33.87%	33.92%	36.17%	N/A	-4.40 ppt	-4.08 ppt	+0.91 ppt
Net Margin	21.39%	23.25%	24.54%	26.42%	28.17%	N/A	-5.03 ppt	-4.93 ppt	+0.71 ppt

Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	1,781	2,285	2,840	1,932	2,425	2,868	-8%	-6%	-1%
Gross Profit	801	1,074	1,363	929	1,201	1,577	-14%	-11%	-14%
Operating Profit	526	733	962	677	886	1,161	-22%	-17%	-17%
Net profit	381	531	697	525	675	N/A	-27%	-21%	N/A
EPS (RMB cents)	15	21	28	23	29	38	-33%	-26%	-27%
Gross Margin	45.00%	47.00%	48.00%	48.08%	49.52%	55.00%	-3.08 ppt	-2.52 ppt	-7.00 ppt
Operating Margin	29.52%	32.09%	33.87%	35.03%	36.53%	40.48%	-5.51 ppt	-4.44 ppt	-6.61 ppt
Net Margin	21.39%	23.25%	24.54%	27.19%	27.82%	N/A	-5.80 ppt	-4.58 ppt	N/A

Source: Company data, CMBIS estimates

Figure 4: Risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	463	658	872	1,129	1,456	1,871	2,395	3,054	3,878	4,906
Tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
EBIT*(1-tax rate)	347	494	654	847	1,092	1,403	1,796	2,290	2,909	3,680
+ D&A	134	139	139	180	232	298	381	486	618	781
- Change in working capital	(226)	9	11	14	18	23	30	38	48	61
- Capx	(120)	(100)	(100)	(80)	(80)	(80)	(80)	(80)	(80)	(80)
FCFF	135	542	703	960	1,262	1,645	2,127	2,734	3,494	4,442
Terminal value										70,273
Terminal growth rate	3.0%									
WACC	9.5%									
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	30.0%									
Effective Corporate Tax Rate	26.0%									
Terminal value	28,330									
Total PV	37,645									
Net debt	(3,234)									
Minority interest	193									
Equity value	40,686									
# of shares (mn)	2,508									
Price per share (in Rmb)	16.23									
Price per share (in HK\$)	19.55									

Source: CMBIS estimates

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	1,648	1,426	1,781	2,285	2,840	Profit before tax	548	349	526	733	962
ARS	932	979	1,311	1,650	2,103	Depreciation for plant and equipment	66	76	80	85	85
Management service fee	648	375	398	561	661	Change in working capital	(74)	20	(226)	9	11
Ancillary medical services	68	72	71	73	76	Others	38	(49)	(19)	(31)	(47)
Cost of sales	(832)	(860)	(980)	(1,211)	(1,477)	Tax paid	(126)	(89)	(131)	(183)	(241)
Gross profit	817	566	801	1,074	1,363	Net cash from operating activities	453	308	229	613	771
Other income	63	74	92	104	119	Capex	(277)	(240)	(120)	(100)	(100)
Other expenses	(2)	(6)	(5)	(5)	(5)	Acquisition of subsidiaries	0	0	0	0	0
Other losses	28	57	0	0	0	Other investing activities	(2,429)	109	73	85	100
R&D expenses	(13)	(11)	(14)	(18)	(23)	Net cash from investing activities	(2,706)	(131)	(47)	(15)	0
Administrative expenses	(211)	(275)	(285)	(343)	(398)	Net proceeds from shares issued	2,934	0	1,065	0	0
Listing expenses	(63)	0	0	0	0	Bank borrowing	0	0	0	0	0
Finance cost	(9)	(13)	(10)	(10)	(10)	Advance from related parties	30	0	0	0	0
Profit before tax	548	349	526	733	962	Other financing activities	(1,317)	(56)	0	0	0
Income tax expense	(127)	(89)	(131)	(183)	(241)	Net cash from financing activities	1,647	(56)	1,065	0	0
Total net profit	421	260	394	550	722	Net change in cash	(606)	121	1,247	598	771
Minority Interests	(11)	(9)	(13)	(19)	(25)	Cash at the beginning of the year	1,184	580	682	1,929	2,527
Profit attributable to shareholders	410	252	381	531	697	Cash at the end of the year	580	682	1,929	2,527	3,298

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	5,515	6,511	6,497	6,459	6,420	Sales mix (%)					
Plant and equipment	857	1,056	1,096	1,111	1,126	ARS	56.5	68.6	73.6	72.2	74.0
Goodwill	809	890	890	890	890	Management service fee	39.3	26.3	22.4	24.6	23.3
License	388	786	768	750	733	Ancillary medical services	4.1	5.1	4.0	3.2	2.7
Contractual right to provide management services	1,963	1,839	1,839	1,839	1,839	Total	100	100	100	100	100
Trademarks	1,305	1,256	1,256	1,256	1,256	Profit & loss ratios (%)					
Others	193	684	648	612	576	Gross margin	50	40	45	47	48
Current assets	3,426	2,652	3,828	4,432	5,210	EBITDA margin	38	31	33	35	36
Inventories	26	25	13	17	20	Pre-tax margin	33	24	30	32	34
Accounts and other receivables	46	69	10	13	16	Net margin	25	18	21	23	25
Amounts due from related parties	50	81	81	81	81	Effective tax rate	23	25	25	25	25
Bank balances and cash	580	682	1,929	2,527	3,298	Balance sheet ratios					
Others	2,725	1,795	1,795	1,795	1,795	Current ratio (x)	8	5	15	16	18
Current liabilities	436	555	258	273	291	Trade receivables turnover days	3	2	2	2	2
Accounts and other payables	320	362	64	80	97	Trade payables turnover days	50	24	24	24	24
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	41	68	68	68	68	Returns (%)					
Tax payables	46	61	61	61	61	ROE	6.7	3.3	4.6	5.8	7.1
Non-current liabilities	863	1,146	1,146	1,146	1,146	ROA	5.3	2.8	3.9	5.0	6.2
Deferred rent	0	0	0	0	0	Per share value					
Deferred tax liabilities	709	791	791	791	791	EPS (RMB)	0.19	0.10	0.15	0.21	0.28
Total net assets	7,642	7,462	8,922	9,472	10,193	DPS (RMB)	0.07	0.00	0.00	0.00	0.00
Minority interest	116	179	193	212	236	BVP (RMB)	3.46	3.11	3.56	3.78	4.07
Shareholders' equity	7,527	7,283	8,729	9,260	9,957						

Source: Company data, CMBIS estimates

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