

# Jinxin Fertility (1951 HK)

## Expect post-pandemic business recovery

**2022 earnings impacted by COVID outbreaks.** Jinxin reported 2022 revenue of RMB2,364mn, up 29% YoY, and non-IFRS adjusted net profit of RMB274mn, down 40% YoY. Revenue was in line with our forecasts while non-IFRS adjusted net profit missed our forecast by 21%, mainly due to the negative impact from COVID-19 outbreaks in cities where Jinxin operates, mainly Shenzhen and Chengdu. By segment, revenue from Chengdu accounted for 59% of total revenue in 2022, increased by 57% YoY, thanks to business consolidation of Jinxin Women and Children Hospital (WCH). Excluding WCH, revenue from Chengdu slightly declined by 2.6% YoY. Revenue from Shenzhen, accounted for 15% of total revenue in 2022, declined by 18% YoY. Revenue from Jinxin's US operations in 2022 was flattish, while HRC's network further expanded in California. As China changed its COVID related policies in end-2022, we expect a strong business recovery in 2023 for Jinxin.

■ **IVF business to recover in 2023.** Jinxin's operations in Chengdu and Shenzhen play a vital role for the Company's business, combined accounting for 71%/ 73% of the total revenue in 2021/ 2022, respectively. Chengdu and Shenzhen underwent multiple rounds of city lock-downs in 2022, which inevitably disrupted hospital operations. As a result, the number of IVF cycles performed by Jinxin decreased by 4.5% YoY in 2022. However, IVF demand will be delayed, not vanished, in our view. With the changes of COVID control policies in China since end-2022, we believe that Jinxin will see strong IVF demand recovery in 2023. Moreover, border reopening of China will boost the recovery of high-margin international IVF services. The IVF business resumption in Wuhan and operation reorganization in Yunnan will also contribute to Jinxin's recovery in 2023 and beyond.

■ **Favourable policies to stimulate IVF demand growth.** According to data from National Bureau of Statistics, total population of China declined by 850 k by the end-2022, the first decline since 1962. To deal with the serious problem of population growth, the government is proactively seeking countermeasures. In Aug 2022, National Health Commission (NHS) and other departments issued [Guiding Opinions to Further Improve and Implement Active Measures to Support Birth Rate](#). Additionally, in Mar 2023, NHS indicated that it was seeking opinions from medical experts regarding allowing egg-freezing for unmarried women. We think the government will continue to explore new measures to stimulate birth rate while IVF will be a critical and necessary tool to reach that goal. As the largest private hospital group providing comprehensive IVF services in China, Jinxin is well positioned to benefit from the favourable policies in China.

■ **Maintain BUY.** We revised our DCF-based TP from HK\$11.25 to HK\$9.71 (WACC: 10.1%, terminal growth: 3.0%) to reflect slower-than-expected revenue and net profit growth in 2023/ 24E. We forecast Jinxin's revenue to grow 22.1%/ 20.6%/ 20.1% YoY and non-IFRS adjusted net profit to grow 84.9%/ 19.5%/ 21.7% YoY in 2023E/ 24E/ 25E, respectively.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	1,839	2,364	2,887	3,481	4,181
YoY growth (%)	28.9	28.6	22.1	20.6	20.1
Adjusted net profit (RMB mn)	455	274	507	606	737
EPS (Adjusted) (RMB)	0.18	0.10	0.19	0.22	0.27
Consensus EPS (RMB)	na	na	0.22	0.28	0.31
Adjusted P/E (x)	24.6	42.8	24.0	20.1	16.5

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** **HK\$9.71**  
 (Previous TP) **HK\$11.25**  
**Up/Downside** **84.7%**  
**Current Price** **HK\$5.26**

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### Stock Data

Mkt Cap (HK\$ mn)	14,312.0
Avg 3 mths t/o (HK\$ mn)	6.5
52w High/Low (HK\$)	7.88/3.59
Total Issued Shares (mn)	2720.9

Source: FactSet

### Shareholding Structure

Jinxin Fertility BV	11.9%
HRC Investment	10.7%

Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-15.7%	-18.2%
3-mth	-27.0%	-29.3%
6-mth	36.6%	15.3%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	2,887	3,481	4,181	3,097	3,771	na	-6.77%	-7.68%	na
Gross Profit	1,184	1,445	1,756	1,301	1,602	na	-8.99%	-9.85%	na
Operating Profit	536	681	861	672	860	na	-20.30%	-20.76%	na
Adjusted net profit	507	606	737	550	724	na	-7.78%	-16.32%	na
Adjusted EPS (RMB)	0.19	0.22	0.27	0.22	0.29	na	-14.69%	-22.60%	na
Gross Margin	41.00%	41.50%	42.00%	42.00%	42.50%	na	-1.00ppt	-1.00ppt	na
Operating Margin	18.55%	19.57%	20.59%	21.70%	22.80%	na	-3.15ppt	-3.23ppt	na
Net Margin	17.56%	17.40%	17.63%	17.75%	19.20%	na	-0.19ppt	-1.80ppt	na

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	2,887	3,481	4,181	3,038	3,649	4,274	-4.97%	-4.60%	-2.17%
Gross Profit	1,184	1,445	1,756	1,251	1,541	1,742	-5.38%	-6.28%	0.79%
Operating Profit	536	681	861	671	863	947	-20.15%	-21.09%	-9.04%
Adjusted net profit	507	606	737	578	718	801	-12.36%	-15.57%	-7.97%
Adjusted EPS (RMB)	0.19	0.22	0.27	0.22	0.28	0.31	-15.70%	-19.91%	-11.15%
Gross Margin	41.00%	41.50%	42.00%	41.18%	42.24%	40.77%	-0.18ppt	-0.74ppt	+1.23ppt
Operating Margin	18.55%	19.57%	20.59%	22.08%	23.66%	22.15%	-3.53ppt	-4.09ppt	-1.56ppt
Net Margin	17.56%	17.40%	17.63%	19.04%	19.66%	18.75%	-1.48ppt	-2.26ppt	-1.11ppt

Source: Company data, CMBIGM estimates

Figure 3: Valuation on risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	533	678	858	1,047	1,272	1,539	1,854	2,225	2,659	3,165
Tax rate	23.6%	23.6%	23.6%	23.6%	23.6%	23.6%	23.6%	23.6%	23.6%	23.6%
EBIT*(1-tax rate)	407	518	656	800	972	1,176	1,417	1,701	2,032	2,419
+ D&A	262	262	262	315	376	447	530	626	735	860
- Change in working capital	(556)	21	25	30	36	43	50	59	70	82
- Capex	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)
FCFF	(186)	502	643	845	1,084	1,366	1,698	2,086	2,537	3,060
Terminal value										44,475
Terminal growth rate	3.0%									
WACC	10.1%									
Cost of Equity	13.5%									
Cost of Debt	5.0%									
Equity Beta	1.0									
Risk Free Rate	3.0%									
Market Risk Premium	10.5%									
Target Debt to Asset ratio	35.0%									
Effective Corporate Tax Rate	25.0%									
PV of terminal value (RMB mn)	17,011									
Total PV (RMB mn)	23,823									
Net debt (RMB mn)	1,271									
Minority interest (RMB mn)	85									
Equity value (RMB mn)	22,467									
# of shares (mn)	2,721									
Price per share (RMB per share)	8.26									
Price per share (HK\$ per share)	9.71									

Source: CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	1,426	1,839	2,364	2,887	3,481	4,181
Cost of goods sold	(860)	(1,067)	(1,490)	(1,703)	(2,036)	(2,425)
Gross profit	566	771	874	1,184	1,445	1,756
Operating expenses	(328)	(400)	(628)	(648)	(763)	(895)
Selling expense	(41)	(62)	(151)	(142)	(164)	(188)
Admin expense	(275)	(328)	(459)	(488)	(578)	(682)
SG&A expense	(11)	(11)	(17)	(18)	(22)	(25)
Operating profit	238	371	247	536	681	861
Share of (losses)/profits of associates/JV	0	(10)	(4)	(4)	(4)	(4)
Net Interest income/(expense)	(13)	(21)	(72)	(76)	(72)	(69)
Other income/expense	125	118	(16)	26	34	45
Pre-tax profit	349	458	154	482	638	832
Income tax	(89)	(104)	(36)	(114)	(150)	(196)
After tax profit	261	354	118	368	488	636
Minority interest	(9)	(14)	3	10	13	17
Net profit	252	340	121	378	501	653
Adjusted net profit	372	455	274	507	606	737
Gross dividends	0	0	0	0	0	0
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	2,652	2,543	1,904	1,571	1,962	2,507
Cash & equivalents	682	862	1,317	1,144	1,517	2,042
Account receivables	69	143	189	16	19	23
Inventories	25	47	63	75	89	106
Financial assets at FVTPL	63	219	71	71	71	71
Other current assets	1,813	1,273	265	265	1,890	2,436
Non-current assets	6,511	10,282	13,328	13,365	13,401	13,437
PP&E	1,056	1,092	2,530	2,679	2,829	2,978
Intangibles	3,881	5,207	6,205	6,164	6,124	6,083
Goodwill	890	2,720	3,485	3,485	3,485	3,485
Financial assets at FVTPL	0	178	0	0	0	0
Other non-current assets	684	1,086	1,109	1,036	964	891
Total assets	9,163	12,825	15,232	14,935	15,363	15,944
Current liabilities	555	1,072	2,764	1,188	1,227	1,273
Short-term borrowings	18	38	19	19	19	19
Account payables	362	446	917	201	240	286
Tax payable	61	107	82	82	82	82
Other current liabilities	114	481	1,747	887	887	887
Non-current liabilities	1,146	3,001	3,733	3,633	3,533	3,433
Long-term borrowings	145	126	2,071	1,971	1,871	1,771
Bond payables	0	1,493	0	0	0	0
Convertible bonds	210	371	376	376	376	376
Other non-current liabilities	791	1,011	1,286	1,286	1,286	1,286
Total liabilities	1,701	4,073	6,497	4,821	4,760	4,706
Share capital	0	0	0	0	0	0
Capital surplus	7,283	8,545	8,640	10,029	10,530	11,183
Total shareholders equity	7,283	8,545	8,640	10,029	10,530	11,183
Minority interest	179	207	95	85	72	55
Total equity and liabilities	9,163	12,825	15,232	14,935	15,363	15,944

CASH FLOW	2020A	2021A	2022E	2023E	2024E	2025E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	349	458	154	482	638	832
Depreciation & amortization	76	99	150	150	150	150
Tax paid	(51)	(47)	(36)	(114)	(150)	(196)
Change in working capital	(108)	(246)	314	(556)	21	25
Others	41	80	113	164	153	139
<b>Net cash from operations</b>	<b>308</b>	<b>343</b>	<b>695</b>	<b>127</b>	<b>813</b>	<b>950</b>
<b>Investing</b>						
Capital expenditure	(210)	(72)	(1,800)	(300)	(300)	(300)
Acquisition of subsidiaries/ investments	(287)	(1,227)	(1,706)	0	0	0
Net proceeds from disposal of short-term investments	(8)	(280)	0	0	0	0
Others	1,657	12	2,741	25	32	43
<b>Net cash from investing</b>	<b>1,152</b>	<b>(1,566)</b>	<b>(766)</b>	<b>(275)</b>	<b>(268)</b>	<b>(257)</b>
<b>Financing</b>						
Dividend paid	(150)	0	0	0	0	0
Net borrowings	163	1	1,500	(100)	(100)	(100)
Proceeds from share issues	0	1,043	80	1,011	0	0
Share repurchases	(60)	(41)	0	0	0	0
Others	(8)	(48)	(1,072)	(935)	(72)	(69)
<b>Net cash from financing</b>	<b>(56)</b>	<b>955</b>	<b>508</b>	<b>(24)</b>	<b>(172)</b>	<b>(169)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	580	1,965	862	1,317	1,144	1,517
Exchange difference	(19)	(8)	17	0	0	0
<b>Cash at the end of the year</b>	<b>1,965</b>	<b>1,689</b>	<b>1,317</b>	<b>1,144</b>	<b>1,517</b>	<b>2,042</b>
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Revenue	(13.5%)	28.9%	28.6%	22.1%	20.6%	20.1%
Gross profit	(30.7%)	36.4%	13.3%	35.4%	22.1%	21.6%
Operating profit	(55.2%)	56.3%	(33.6%)	117.2%	27.2%	26.4%
Net profit	(38.6%)	35.1%	(64.4%)	212.0%	32.5%	30.4%
Adj. net profit	(29.8%)	22.3%	(39.8%)	84.9%	19.5%	21.7%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Gross profit margin	39.7%	42.0%	37.0%	41.0%	41.5%	42.0%
Operating margin	16.7%	20.2%	10.4%	18.6%	19.6%	20.6%
Adj. net profit margin	26.1%	24.8%	11.6%	17.6%	17.4%	17.6%
Return on equity (ROE)	3.4%	4.3%	1.4%	4.0%	4.9%	6.0%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.0)	0.1	0.1	0.1	0.1	0.0
Current ratio (x)	4.8	2.4	0.7	1.3	1.6	2.0
Receivable turnover days	3.0	2.0	2.0	2.0	2.0	2.0
Inventory turnover days	11.0	16.0	16.0	16.0	16.0	16.0
Payable turnover days	53.0	43.0	43.0	43.0	43.0	43.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
P/E (adjusted)	29.0	24.6	42.8	24.0	20.0	16.5
P/B	1.4	1.3	1.3	1.2	1.2	1.1
P/CFPS	74.2	90.8	18.7	98.5	15.4	13.2
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

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

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