

Joinn Laboratories (6127 HK)

Taping global markets for sustainable long-term growth

2022 results beat. Joinn reported revenue of RMB2,268mn and attributable net income of RMB1,074mn in 2022, up 50% and 93% YoY respectively. Revenue was largely in line with our forecast while attributable net income beat our forecast by 19%. Excluding fair value gains from biological asset, interest income, foreign exchange gain/loss and other non-recurring items, adjusted attributable net income would increase by 64% YoY to RMB577mn in 2022, representing an improved net margin of 25.4% (vs 23.2% in 2021). Gross profit margin in 2022 was only slightly down by 0.8ppt YoY, indicating Joinn's efficient cost management in spite of the continuous price hike of research models. In 2022, new orders signed by Joinn grew strongly by 35% YoY to RMB3.8bn despite the high base in 2021 and negative impacts of COVID outbreaks in China in 2022. We think the solid new orders growth indicates a sustainable growth prospect for Joinn in the coming year and healthy demand in drug safety assessment (DSA) services in China. In Aug 2022, Joinn announced a new round of share-based compensation scheme, with revenue CAGR target set at no lower than 35% during 2021-24E.

- **Enhanced order fulfilment capability.** The lack of high-quality research models has become a major bottleneck for DSA work since 2019. To enhance order fulfilment, Joinn acquired two China-based leading suppliers of high-quality research models in 2022, adding a total livestock of more than 20,000 research models. As a leader in the China DSA market, Joinn actively participates in DSA services for new modalities, such as CGT, ADC, bispecific antibody and PROTAC. Joinn saw CGT-related orders up by over 50% in 2022. We expect Joinn will continue to enhance its leading position in China DSA market with its strong order fulfilment capability.
- **Expanding capacities to accommodate the rapidly-growing demand.** Joinn's 8,000 sq m facilities in Suzhou have commenced operation in Jan 2022 and another 20,000 sq m animal rooms in Suzhou will be ready for operation in 2023E. In addition, the infrastructure construction of Guangzhou facilities (18,000 sq m) has been completed. Laboratories of Joinn Yichuang, a subsidiary focusing on drug screening, is expected to be operational in 2H23, which may bring synergies to its DSA services thereafter.
- **Promising global market opportunities.** Overseas orders won by Joinn's domestic teams grew remarkably by 60% YoY in 2022. The Company plans to adjust and optimize Biome's management structure to better utilize its US network for attracting off-shore DSA orders. Moreover, large foreign DSA service providers have faced supply constraints of research models since late 2022. Joinn, as a leading player based mainly in China, is likely to benefit and may win more off-shore orders.
- **Maintain BUY.** We trim our TP from HK\$53.61 to HK\$50.42 based on a 10-year DCF valuation (WACC: 10.7%, terminal growth: 3.0%). We forecast Joinn's revenue to grow 32.9%/ 35.0%/ 33.0% YoY and attributable net income to grow -0.4%/ 26.1%/ 28.3% YoY in FY23E/ 24E/ 25E, respectively.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	1,517	2,268	3,014	4,067	5,410
YoY growth (%)	41.0	49.5	32.9	35.0	33.0
Net profit (RMB mn)	558	1,077	1,070	1,349	1,730
EPS (Reported) (RMB)	1.51	2.02	2.00	2.52	3.23
Consensus EPS (RMB)	na	na	1.94	2.46	2.87
P/E (x)	17.2	12.9	13.0	10.3	8.0
Net gearing (%)	(76.6)	(52.6)	(52.1)	(51.7)	(52.8)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$50.42

(Previous TP) HK\$53.61

Up/Downside 65.0%

Current Price HK\$30.55

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Stock Data

Mkt Cap (HK\$ mn)	16,365.0
Avg 3 mths t/o (HK\$ mn)	37.9
52w High/Low (HK\$)	57.89/24.80
Total Issued Shares (mn)	535.7

Source: FactSet

Shareholding Structure

Yuxia Feng & Zhiwen Zhou	34.3%
HK investors	19.0%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-10.1%	-12.9%
3-mth	-23.5%	-25.8%
6-mth	2.0%	-13.9%

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	3,014	4,067	5,410	3,099	4,182	na	-2.74%	-2.75%	na
Gross Profit	1,422	1,899	2,508	1,525	2,058	na	-6.77%	-7.69%	na
Operating Profit	931	1,277	1,734	921	1,284	na	1.05%	-0.53%	na
Attributable net profit	1,070	1,349	1,730	1,067	1,360	na	0.32%	-0.80%	na
EPS (RMB)	2.00	2.52	3.23	1.99	2.54	na	0.22%	-0.90%	na
Gross Margin	47.18%	46.70%	46.35%	49.23%	49.20%	na	-2.04ppt	-2.50ppt	na
Operating Margin	30.88%	31.40%	32.05%	29.73%	30.70%	na	+1.16ppt	+0.70ppt	na
Net Margin	35.51%	33.16%	31.98%	34.42%	32.51%	na	+1.08ppt	+0.65ppt	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	3,014	4,067	5,410	2,996	3,903	4,927	0.59%	4.21%	9.80%
Gross Profit	1,422	1,899	2,508	1,489	1,963	2,311	-4.48%	-3.26%	8.51%
Operating Profit	931	1,277	1,734	1,121	1,439	1,585	-16.97%	-11.25%	9.40%
Attributable net profit	1,070	1,349	1,730	1,028	1,293	1,537	4.09%	4.32%	12.56%
EPS (RMB)	2.00	2.52	3.23	1.94	2.46	2.87	3.02%	2.45%	12.53%
Gross Margin	47.18%	46.70%	46.35%	49.69%	50.31%	46.90%	-2.51ppt	-3.61ppt	-0.55ppt
Operating Margin	30.88%	31.40%	32.05%	37.42%	36.87%	32.17%	-6.53ppt	-5.47ppt	-0.12ppt
Net Margin	35.51%	33.16%	31.98%	34.31%	33.13%	31.20%	+1.19ppt	+0.04ppt	+0.78ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 3: DCF valuation for Joinn

DCF Valuation (in RMB mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	1,161	1,161	1,323	1,495	1,675	1,859	2,045	2,229	2,407	2,576
Tax rate	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%
EBIT*(1-tax rate)	1,005	1,005	1,145	1,294	1,449	1,609	1,770	1,929	2,083	2,229
+ D&A	161	182	204	226	249	271	293	313	332	349
- Change in working capital	137	(29)	(33)	(36)	(40)	(43)	(47)	(50)	(53)	(56)
- Capx	(350)	(350)	(350)	(350)	(350)	(350)	(350)	(350)	(350)	(350)
FCFF	952	807	966	1,134	1,308	1,487	1,666	1,842	2,012	2,172
Terminal value										28,962
Terminal growth rate	3.0%									
WACC	10.7%									
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	30.0%									
Effective Corporate Tax Rate	15.0%									
PV of terminal value (RMB mn)	10,456									
Total PV (RMB mn)	18,254									
Net debt (RMB mn)	(4,710)									
Minority interest (RMB mn)	6									
Equity value (RMB mn)	22,958									
# of shares (mn)	536									
Price per share (in RMB)	42.86									
Price per share (in HK\$)	50.42									

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	1,076	1,517	2,268	3,014	4,067	5,410
Cost of goods sold	(525)	(781)	(1,187)	(1,592)	(2,168)	(2,902)
Gross profit	551	736	1,081	1,422	1,899	2,508
Operating expenses	(275)	(328)	(396)	(491)	(622)	(774)
Selling expense	(13)	(16)	(18)	(24)	(33)	(43)
Admin expense	(211)	(264)	(300)	(362)	(447)	(541)
R&D expense	(51)	(48)	(78)	(105)	(142)	(189)
Operating profit	276	408	686	931	1,277	1,734
Gain/loss on financial assets at FVTPL	55	125	333	200	160	120
Net Interest income/(expense)	(4)	(4)	(4)	(4)	(4)	(4)
Other income/expense	32	113	228	108	123	146
Pre-tax profit	359	642	1,243	1,235	1,557	1,997
Income tax	(47)	(86)	(167)	(166)	(209)	(269)
After tax profit	312	557	1,076	1,069	1,348	1,728
Minority interest	(1)	(1)	(1)	(1)	(1)	(2)
Net profit	313	558	1,077	1,070	1,349	1,730
Gross dividends	95	137	214	214	270	346

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	1,183	5,814	5,928	6,549	7,740	9,351
Cash & equivalents	309	4,154	2,917	3,319	3,840	4,680
Account receivables	91	116	212	217	293	390
Inventories	91	106	350	306	417	558
Financial assets at FVTPL	306	841	1,480	1,680	1,840	1,960
Other current assets	386	597	970	1,026	1,350	1,763
Non-current assets	990	2,723	4,436	4,825	5,193	5,542
PP&E	646	815	1,235	1,436	1,616	1,777
Intangibles	63	57	50	38	26	14
Goodwill	125	122	134	134	134	134
Financial assets at FVTPL	84	180	946	946	946	946
Other non-current assets	72	1,549	2,071	2,271	2,471	2,671
Total assets	2,173	8,537	10,364	11,374	12,933	14,893
Current liabilities	774	1,214	1,844	1,999	2,480	3,058
Short-term borrowings	3	5	4	4	4	4
Account payables	60	54	127	121	165	221
Other current liabilities	696	1,134	1,689	1,850	2,287	2,809
Lease liabilities	15	22	24	24	24	24
Non-current liabilities	177	178	329	329	329	329
Long-term borrowings	21	5	3	3	3	3
Obligations under finance leases	53	64	57	57	57	57
Deferred income	67	61	81	81	81	81
Other non-current liabilities	35	48	188	188	188	188
Total liabilities	951	1,393	2,173	2,328	2,809	3,387
Share capital	227	381	536	536	536	536
Capital surplus	995	6,755	7,648	8,504	9,583	10,967
Total shareholders equity	1,223	7,136	8,184	9,040	10,119	11,503
Minority interest	(1)	8	7	6	5	3
Total equity and liabilities	2,173	8,537	10,364	11,374	12,933	14,893

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	359	642	1,240	1,235	1,557	1,997
Depreciation & amortization	83	101	130	161	182	201
Tax paid	(33)	(42)	(167)	(166)	(209)	(269)
Change in working capital	52	98	(61)	137	(29)	(73)
Others	(23)	(115)	(320)	(196)	(156)	(116)
Net cash from operations	438	685	822	1,170	1,344	1,740
Investing						
Capital expenditure	(141)	(220)	(275)	(350)	(350)	(350)
Acquisition of subsidiaries/ investments	0	(26)	(1,689)	(200)	(200)	(200)
Others	(110)	(1,823)	0	0	0	0
Net cash from investing	(251)	(2,069)	(1,964)	(550)	(550)	(550)
Financing						
Dividend paid	(55)	(95)	(214)	(214)	(270)	(346)
Net borrowings	4	(4)	85	0	0	0
Proceeds from share issues	33	5,421	0	0	0	0
Others	(32)	(32)	(4)	(4)	(4)	(4)
Net cash from financing	(50)	5,290	(132)	(218)	(273)	(350)
Net change in cash						
Cash at the beginning of the year	177	305	4,154	2,917	3,319	3,840
Exchange difference	(9)	(61)	37	0	0	0
Cash at the end of the year	305	4,150	2,917	3,319	3,840	4,680
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	68.3%	41.0%	49.5%	32.9%	35.0%	33.0%
Gross profit	67.5%	33.6%	47.0%	31.5%	33.6%	32.0%
Operating profit	58.3%	47.9%	68.2%	35.8%	37.2%	35.8%
Net profit	66.6%	78.3%	93.0%	(0.6%)	26.1%	28.3%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	51.2%	48.5%	47.7%	47.2%	46.7%	46.4%
Operating margin	25.6%	26.9%	30.2%	30.9%	31.4%	32.1%
Return on equity (ROE)	30.2%	13.3%	14.1%	12.4%	14.1%	16.0%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.8)	(0.5)	(0.5)	(0.5)	(0.5)
Current ratio (x)	1.5	4.8	3.2	3.3	3.1	3.1
Receivable turnover days	32.0	24.9	26.3	26.3	26.3	26.3
Inventory turnover days	48.8	46.1	70.2	70.2	70.2	70.2
Payable turnover days	32.8	26.6	27.8	27.8	27.8	27.8
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	na	17.2	12.9	13.0	10.3	8.0
P/B	na	1.3	1.7	1.5	1.4	1.2
Div yield (%)	na	1.4	1.5	1.5	1.9	2.5

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

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