

Dingdang Health (9886 HK)

Long-term growth outlook remains intact

Better-than-expected margin improvement in 2022. Dingdang reported 2022 revenue of RMB4,329mn, up 17.7% YoY, despite the negative impacts from COVID on new store openings and sales restrictions of “four-type medicines”. Adjusted non-IFRS net loss was RMB129mn, substantially narrowed by 60.9% YoY, indicating continuously enhanced economies of scale. Revenue missed our forecast by 5.3% while adjusted non-IFRS net loss significantly beat our forecast by 32.8%. Looking forward, we see Dingdang’s revenue growth to accelerate to 23.3%/ 21.4%/ 20.5% YoY in 2023E/ 24E/ 25E, considering the post-pandemic business resumption and growing penetration of online medicine purchasing in China retail pharmacy. With continuous cost savings, we forecast Dingdang to book adjusted net loss of RMB99mn in 2023E and adjusted net profits of RMB33mn/ RMB86mn in 2024E/ 25E.

- Solid business development amid unfavourable macro environment.** Dingdang continued to enjoy the big growth potential of China digital retail pharmacy market in 2022 by further executing its O2O strategy. The Company’s smart pharmacy network had been extended to cover 19 major cities in China as of the end of 2022. Additional 70 of its pharmacies were connected with national medical security, on top of the 169 of its pharmacies with such access by Dec 2021. Moreover, Dingdang provided over 8mn online health consultations in 2022 (vs 6.8mn in 2021), serving as a critical traffic conversion source for its online direct sales. Based on its enhanced service capabilities, the number of registered users in its self-owned platform increased from 33.0mn in 2021 to 37.5mn in 2022.
- Expect recovery of business in 2023E.** Strict COVID control measures in 2022 had negatively affected Dingdang’s pace of opening new stores and harmed the sale of “four-type medicines”. For instance, such products were not allowed to be sold at pharmacies or patients needed to go through strict registration process before purchase. With the restrictive measures lifted after the COVID pandemic, we expect the resumption of sales of “four-type medicines” will largely contribute to Dingdang’s business rebound in 2023.
- Consistent margin improvements.** Dingdang managed to deliver continuous gross profit margin (GPM) improvement and operational cost savings in 2022. GPM improved by 1.9ppt in 2022, mainly driven by cost-efficient centralized procurement, product mix optimization and pilot charging of delivery fee in certain areas. Fulfilment expense ratio decreased by 0.9ppt to 10.3% in FY22. We estimate that Dingdang has realized positive net margin in Beijing and reached breakeven in Shenzhen, Shanghai and Guangzhou. Dingdang also enjoyed efficient online traffic costs with selling & marketing expense ratio shrank by 1.7ppt to 21.0% in FY22. There is still plenty room for profitability improvement driven by the economies of scale, in our view.
- Maintain BUY.** We cut our TP from HK\$14.57 to HK\$7.65, based on a 10-year DCF model (WACC: 10.0%, terminal growth: 3.0%), reflecting lower revenue projections for 2023E/ 24E. However, we maintain BUY rating for Dingdang to factor in the sustainable business recovery and margin improvement in the long run.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	3,679	4,329	5,336	6,477	7,804
YoY growth (%)	65.1	17.7	23.3	21.4	20.5
Adjusted net profit (RMB mn)	(329)	(129)	(99)	33	86
EPS (Adjusted) (RMB)	na	(0.15)	(0.07)	0.02	0.06
P/S (x)	na	1.0	0.8	0.7	0.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$7.65
(Previous TP)	HK\$14.57
Up/Downside	102.0%
Current Price	HK\$3.79

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Stock Data

Mkt Cap (HK\$ mn)	5,084.2
Avg 3 mths t/o (HK\$ mn)	9.2
52w High/Low (HK\$)	NA/NA
Total Issued Shares (mn)	1341.5

Source: FactSet

Shareholding Structure

Wenlong Yang	49.2%
China Merchants Bank	7.1%

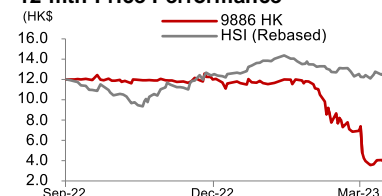
Source: Company

Share Performance

	Absolute	Relative
1-mth	-50.8%	-51.8%
3-mth	-67.4%	-68.2%
6-mth	-68.4%	-73.2%

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	5,336	6,477	7,804	5,874	7,488	na	-9.17%	-13.51%	na
Gross Profit	1,734	2,118	2,575	1,909	2,494	na	-9.17%	-15.07%	na
Operating Profit	-256	-123	-70	-211	-37	na	nm	nm	na
Adjusted net profit	-99	33	86	-94	29	na	nm	15.00%	na
Adjusted EPS (RMB)	-0.07	0.02	0.06	-0.07	0.02	na	nm	15.00%	na
Gross Margin	32.50%	32.70%	33.00%	32.50%	33.30%	na	0.00ppt	-0.60ppt	na
Operating Margin	-4.80%	-1.90%	-0.90%	-3.60%	-0.50%	na	-1.20ppt	-1.40ppt	na
Adjusted net Margin	-1.86%	0.51%	1.10%	-1.60%	0.38%	na	-0.26ppt	+0.13ppt	na

Source: Company data, CMBIGM estimates

Figure 2: Valuation on risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	(244)	(111)	(59)	181	280	429	648	966	1,419	2,058
Tax rate	0%	0%	0%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(244)	(111)	(59)	154	238	365	551	821	1,206	1,749
+ D&A	70	60	50	50	50	50	50	50	50	50
- Change in working capital	(2)	(61)	(70)	(84)	(120)	(168)	(231)	(315)	(422)	(557)
- Capex	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)
FCFF	(226)	(162)	(128)	69	119	197	319	506	785	1,193
Terminal value										17,589

Terminal growth rate	3.0%
WACC	10.0%
Cost of Equity	13.3%
Cost of Debt	4.5%
Equity Beta	1.0
Risk Free Rate	2.8%
Market Risk Premium	10.5%
Target Debt to Asset ratio	35.0%
Effective Corporate Tax Rate	15.0%

PV of terminal value (RMB mn)	6,791
Total PV (RMB mn)	7,781
Net debt (RMB mn)	(957)
Minority interest (RMB mn)	10
Equity value (RMB mn)	8,729
Equity value (HK\$ mn)	10,269
# of shares (mn)	1,341
Price per share (HK\$ per share)	7.65

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	2,229	3,679	4,329	5,336	6,477	7,804
Cost of goods sold	(1,462)	(2,516)	(2,879)	(3,602)	(4,359)	(5,229)
Gross profit	766	1,162	1,450	1,734	2,118	2,575
Operating expenses	(928)	(1,824)	(1,776)	(1,990)	(2,241)	(2,646)
Selling expense	(724)	(1,247)	(1,352)	(1,537)	(1,762)	(2,084)
Admin expense	(121)	(481)	(335)	(347)	(356)	(414)
R&D expense	(82)	(96)	(89)	(107)	(123)	(148)
Operating profit	(161)	(662)	(326)	(256)	(123)	(70)
Gain/loss on financial assets at FVTPL	(755)	(912)	(2,505)	0	0	0
Share of (losses)/profits of associates/JV	(0)	0	0	0	0	0
Net Interest income/(expense)	(6)	(18)	(8)	(8)	(8)	(8)
Others	21	11	7	28	27	27
Pre-tax profit	(901)	(1,581)	(2,832)	(236)	(104)	(51)
Income tax	(19)	(17)	(10)	0	0	0
After tax profit	(920)	(1,598)	(2,842)	(236)	(104)	(51)
Minority interest	5	(21)	(9)	(4)	(4)	(4)
Net profit	(924)	(1,577)	(2,833)	(232)	(100)	(47)
Adjusted net profit	(149)	(329)	(129)	(99)	33	86
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	1,093	2,268	2,528	2,066	2,183	2,356
Cash & equivalents	261	1,553	1,211	1,120	1,092	1,098
Account receivables	188	280	449	89	108	130
Inventories	323	434	608	598	724	868
Financial assets at FVTPL	321	0	137	137	137	137
Other current assets	0	1	123	123	123	123
Non-current assets	693	678	770	760	760	770
PP&E	46	45	42	72	102	132
Right-of-use assets	151	169	175	140	115	100
Intangibles	230	199	170	165	160	155
Goodwill	256	256	256	256	256	256
Other non-current assets	8	10	127	127	127	127
Total assets	1,786	2,946	3,297	2,826	2,943	3,126
Current liabilities	602	739	969	597	681	778
Account payables	441	587	773	401	485	582
Other current liabilities	96	48	75	34	34	34
Lease liabilities	54	61	72	72	72	72
Contract liabilities	51	60	90	90	90	90
Non-current liabilities	2,490	4,797	129	129	129	129
Obligations under finance leases	87	96	91	91	91	91
Other non-current liabilities	2,402	4,701	38	38	38	38
Total liabilities	3,091	5,536	1,098	726	810	907
Share capital	50	0	1	1	1	1
Capital surplus	48	422	8,053	8,053	8,053	8,053
Retained earnings	(1,457)	(3,035)	(5,869)	(5,964)	(5,927)	(5,837)
Total shareholders equity	(1,358)	(2,612)	2,186	2,090	2,128	2,217
Minority interest	53	22	14	10	6	2
Total equity and liabilities	1,786	2,946	3,297	2,826	2,943	3,126

CASH FLOW	2020A	2021A	2022E	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(901)	(1,582)	(2,832)	(236)	(104)	(51)
Depreciation & amortization	75	135	135	70	60	50
Tax paid	(16)	(26)	(10)	0	0	0
Change in working capital	(116)	(50)	(148)	(2)	(61)	(70)
Others	764	1,227	2,656	128	129	na
Net cash from operations	(193)	(295)	(199)	(40)	25	58
Investing						
Capital expenditure	(20)	(20)	(20)	(20)	(50)	(50)
Acquisition of subsidiaries/ investments	(204)	0	0	0	0	0
Others	(262)	326	(356)	(23)	6	6
Net cash from investing	(486)	307	(377)	(43)	(44)	(44)
Financing						
Net borrowings	0	2	0	0	0	0
Proceeds from share issues	825	1,395	326	0	0	0
Others	(30)	(126)	(92)	(8)	(8)	(8)
Net cash from financing	795	1,272	234	(8)	(8)	(8)
Net change in cash						
Cash at the beginning of the year	145	261	1,553	1,211	1,120	1,092
Exchange difference	0	10	0	0	0	0
Cash at the end of the year	261	1,553	1,211	1,120	1,092	1,098
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	74.7%	65.1%	17.7%	23.3%	21.4%	20.5%
Gross profit	63.0%	51.7%	24.7%	19.6%	22.1%	21.6%
Adj. net profit	na	na	na	na	na	159.4%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	34.4%	31.6%	33.5%	32.5%	32.7%	33.0%
Operating margin	(7.2%)	(18.0%)	(7.5%)	(4.8%)	(1.9%)	(0.9%)
Adj. net profit margin	(6.7%)	(8.9%)	(3.0%)	(1.9%)	0.5%	1.1%
Return on equity (ROE)	na	na	na	(10.8%)	(4.7%)	(2.2%)
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	na	na	(0.5)	(0.5)	(0.4)	(0.4)
Current ratio (x)	1.8	3.1	2.6	3.5	3.2	3.0
Receivable turnover days	6.1	6.1	6.1	6.1	6.1	6.1
Inventory turnover days	60.6	60.6	60.6	60.6	60.6	60.6
Payable turnover days	40.6	40.6	40.6	40.6	40.6	40.6
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/S	na	na	1.0	0.8	0.7	0.6

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

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