

EC Healthcare (2138 HK)

HK-Mainland border reopening to revive cross-border medical consumption

EC Healthcare (ECH) reported FY1H23 revenue of HK\$1,893mn, up by 31% YoY, in which revenue from aesthetic medical and beauty and wellness (collectively, consumer medical) segment declined by 2% YoY, caused by store closures in April and a gradual recovery thereafter in HK as well as regulatory headwinds and COVID disruptions in Mainland. However, sales volume (generated from contracted sales) showed continuous recovery by quarter, up by 21%/11% QoQ in FY1Q23/FY2Q23, following a 19% QoQ decline in FY4Q22 due to COVID lockdowns in HK. As HK-Mainland border reopening will be officially resumed on 8 Jan 2023, we expect ECH will directly benefit.

■ **The HK-Mainland border reopening is expected to support FY24 business growth, especially for consumer medical services.** Since the Chinese government actively adjusted pandemic control measures in end-2022, the quarantine-free travel between HK and Mainland has been widely anticipated by the market. On 5 Jan 2023, the State Council and HK government announced new policies to officially allow border reopening for travellers starting from 8 Jan 2023 ([link 1](#) & [link 2](#)). We believe ECH will substantially benefit from HK-Mainland border reopening, given that 30-40% of ECH's total revenue were contributed from cross-border travellers before the pandemic, according to ECH's management. As HK-Mainland travelling will be resumed on a gradual basis, revenue from cross-border travellers will also be largely generated in FY24 (ended Mar 2024). Previously, ECH's consumer medical services were disrupted by the strict pandemic control measures adopted in HK and Mainland, and we think border reopening will have more positive impacts on this part of business for ECH. We forecast revenue of ECH's consumer medical services to grow by 17%/40%/25% YoY in FY23/FY24 /FY25, respectively.

■ **Enhancing service capabilities during the pandemic to better capture consumption recovery opportunities from cross-border tourists.** Despite the harsh macro environment after pandemic outbreak, ECH has been persistently implementing its M&A strategy to diversify its service portfolio in the past three years. Total M&A execution value amounted to HK\$641/HK\$219mn in FY22/FY1H23. Notable M&A deals include Bayley & Jackson, a premium HK-based dental chain, multiple HK-based veterinary clinics, and a share subscription of a hospital grade medical building in Tsim Sha Tsui of HK. Compared with its pre-pandemic service structure centering on consumer medical categories (accounting for 71% of total revenue in FY19), ECH has now offered customers with more options in specialized medical services, such as dental, medical imaging and veterinary services. The enhanced services capabilities put ECH in a good position to meet diversified medical demand for both local and cross-border customers.

■ **Maintain BUY.** We raised our TP to HK\$11.02, based on a 10-year DCF model (WACC: 11.8%, terminal growth: 2.0%), to reflect customer traffic resumption from HK-mainland border reopening.

Earnings Summary

(YE 31 Mar)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (HK\$ mn)	2,080	2,920	3,884	5,036	6,133
YoY growth (%)	6.8	40.3	33.0	29.7	21.8
Net profit (HK\$ mn)	192.9	197.5	260.5	543.2	811.1
YoY growth (%)	(32.7)	2.4	31.9	108.5	49.3
EPS (Reported) (HK\$)	0.19	0.17	0.22	0.46	0.69
Consensus EPS (HK\$)	na	na	0.19	0.32	0.44
P/E (x)	26.8	63.4	38.1	18.3	12.2
Yield (%)	3.3	1.4	2.1	4.1	6.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$11.02

(Previous TP) HK\$10.34

Up/Downside 31.2%

Current Price HK\$8.40

China Healthcare

Jill WU, CFA

(852) 3900 0842

jillwu@cmbi.com.hk

Benchen HUANG, CFA

huangbenchen@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	9,922.4
Avg 3 mths t/o (HK\$ mn)	5.7
52w High/Low (HK\$)	10.36/3.98
Total Issued Shares (mn)	1181.2

Source: FactSet

Shareholding Structure

Tang Chi Fai	61.2%
Goldman Sachs	5.5%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	36.4%	26.4%
3-mth	67.7%	44.1%
6-mth	8.9%	13.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

HK\$ mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	3,884	5,036	6,133	3,845	4,874	6,048	1.0%	3.3%	1.4%
Gross Profit	3,387	4,472	5,489	3,343	4,314	5,382	1.3%	3.7%	2.0%
Operating Profit	436	836	1,213	422	791	1,167	3.4%	5.6%	4.0%
Net profit	260	543	811	259	537	798	0.7%	1.2%	1.6%
EPS (HK\$)	0.22	0.46	0.69	0.22	0.45	0.68	0.7%	1.2%	1.6%
Gross Margin	87.20%	88.80%	89.50%	86.94%	88.50%	89.00%	+0.26ppt	+0.30ppt	+0.50ppt
Operating Margin	11.24%	16.59%	19.78%	10.98%	16.23%	19.29%	+0.26ppt	+0.36ppt	+0.49ppt
Net Margin	6.71%	10.79%	13.23%	6.72%	11.01%	13.20%	-0.02ppt	-0.22ppt	+0.02ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

HK\$ mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	3,884	5,036	6,133	3,782	4,642	5,516	2.7%	8.5%	11.2%
Gross Profit	3,387	4,472	5,489	3,315	3,787	4,476	2.2%	18.1%	22.6%
Operating Profit	436	836	1,213	462	685	919	-5.5%	22.0%	32.0%
Net profit	260	543	811	217	359	526	19.9%	51.3%	54.1%
EPS (HK\$)	0.22	0.46	0.69	0.19	0.32	0.44	16.7%	43.3%	54.7%
Gross Margin	87.20%	88.80%	89.50%	87.64%	81.58%	81.14%	-0.44ppt	+7.22ppt	+8.36ppt
Operating Margin	11.24%	16.59%	19.78%	12.21%	14.76%	16.65%	-0.98ppt	+1.83ppt	+3.13ppt
Net Margin	6.71%	10.79%	13.23%	5.75%	7.73%	9.54%	+0.96ppt	+3.05ppt	+3.69ppt

Source: Company data, CMBIGM estimates

Figure 3: Valuation on risk-adjusted DCF valuation

DCF Valuation (in HK\$ mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	444	836	1,213	1,346	1,481	1,614	1,743	1,865	1,977	2,076
Tax rate	15.1%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)	377	710	1,031	1,144	1,259	1,372	1,482	1,586	1,681	1,765
+ D&A	471	549	632	695	757	818	875	928	974	1,013
- Change in working capital	(134)	(8)	(55)	(61)	(66)	(72)	(77)	(81)	(85)	(89)
- Capex	(850)	(850)	(950)	(500)	(500)	(500)	(500)	(500)	(500)	(500)
FCFF	(136)	401	657	1,278	1,450	1,618	1,780	1,932	2,070	2,189
Terminal value										22,843
Terminal growth rate	2.0%									
WACC	11.8%									
Cost of Equity	15.0%									
Cost of Debt	5.0%									
Equity Beta	1.2									
Risk Free Rate	3.0%									
Market Risk Premium	10.0%									
Target Debt to Asset ratio	30.0%									
Effective Corporate Tax Rate	15.0%									
Terminal value (HK\$ mn)	7,504									
Total PV (HK\$ mn)	13,743									
Net debt (HK\$ mn)	196									
Minority interest (HK\$ mn)	531									
Equity value (HK\$ mn)	13,016									
# of shares (mn)	1,181									
Price per share (HK\$ per share)	11.02									

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar (HK\$ mn)						
Revenue	1,949	2,080	2,920	3,884	5,036	6,133
Cost of goods sold	(216)	(235)	(350)	(497)	(564)	(644)
Gross profit	1,733	1,845	2,570	3,387	4,472	5,489
Operating expenses	(1,354)	(1,561)	(2,199)	(2,951)	(3,636)	(4,276)
Selling expense	(124)	(109)	(139)	(186)	(212)	(245)
Staff costs	(837)	(1,029)	(1,384)	(1,953)	(2,367)	(2,760)
Other rental related expenses	(43)	(48)	(61)	(80)	(101)	(123)
Others	(350)	(375)	(614)	(732)	(957)	(1,148)
Operating profit	378	285	371	436	836	1,213
Share of (losses)/profits of associates/JV	0	5	(1)	8	0	0
Net interest income/(expense)	(18)	(24)	(49)	(64)	(56)	(49)
Pre-tax profit	361	266	321	380	779	1,164
Income tax	(50)	(40)	(51)	(58)	(117)	(175)
After tax profit	310	226	271	323	662	989
Minority interest	24	33	73	62	119	178
Net profit	287	193	198	260	543	811
Gross dividends	227	172	170	208	407	608

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar (HK\$ mn)						
Current assets	1,052	1,415	1,516	1,949	2,085	2,298
Cash & equivalents	520	931	870	1,207	1,219	1,324
Account receivables	79	179	155	201	233	250
Inventories	60	40	101	100	113	130
Prepayment	189	191	215	266	345	420
Financial assets at FVTPL	111	3	2	2	2	2
Other current assets	93	71	172	172	172	172
Non-current assets	1,503	2,376	3,345	3,688	3,923	4,145
PP&E	725	792	1,193	1,314	1,418	1,496
Intangibles	115	512	692	648	582	485
Goodwill	155	477	709	709	709	709
Other non-current assets	507	595	751	1,017	1,215	1,455
Total assets	2,555	3,790	4,861	5,637	6,009	6,442
Current liabilities	1,069	1,317	1,363	1,325	1,442	1,495
Short-term borrowings	262	287	0	0	0	0
Account payables	159	215	315	277	394	447
Other current liabilities	488	607	730	730	730	730
Lease liabilities	161	207	319	319	319	319
Non-current liabilities	316	842	1,147	1,847	1,847	1,847
Convertible bonds	0	240	236	236	236	236
Obligations under finance leases	297	295	387	387	387	387
Other non-current liabilities	20	308	524	1,224	1,224	1,224
Total liabilities	1,386	2,160	2,510	3,172	3,289	3,342
Share capital	0	0	0	0	0	0
Capital surplus	1,003	1,269	1,881	1,933	2,069	2,272
Total shareholders equity	1,003	1,269	1,881	1,933	2,069	2,272
Minority interest	167	362	469	531	651	829
Total equity and liabilities	2,555	3,790	4,861	5,637	6,009	6,442

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar (HK\$ mn)						
Operating						
Profit before taxation	361	266	321	380	779	1,164
Depreciation & amortization	246	310	432	565	665	779
Tax paid	(65)	(54)	(67)	(58)	(117)	(175)
Change in working capital	14	80	(135)	(134)	(8)	(55)
Others	21	19	57	56	56	49
Net cash from operations	576	621	608	810	1,376	1,762
Investing						
Capital expenditure	(70)	(136)	(260)	(550)	(650)	(750)
Acquisition of subsidiaries/ investments	(112)	(353)	(347)	(300)	(200)	(200)
Net proceeds from disposal of short-term investments	499	108	0	0	0	0
Others	(0)	12	36	(50)	(50)	(50)
Net cash from investing	316	(369)	(571)	(900)	(900)	(1,000)
Financing						
Dividend paid	(352)	(130)	(322)	(208)	(407)	(608)
Net borrowings	145	609	0	700	0	0
Proceeds from share issues	3	107	530	0	0	0
Others	(536)	(429)	(308)	(64)	(56)	(49)
Net cash from financing	(739)	157	(100)	427	(464)	(658)
Net change in cash						
Cash at the beginning of the year	367	520	931	870	1,207	1,219
Exchange difference	0	2	2	0	0	0
Cash at the end of the year	520	931	870	1,207	1,219	1,324
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar						
Revenue	5.2%	6.8%	40.3%	33.0%	29.7%	21.8%
Gross profit	6.6%	6.5%	39.3%	31.8%	32.0%	22.7%
Operating profit	(15.8%)	(24.8%)	30.4%	17.6%	91.5%	45.2%
Net profit	(20.6%)	(32.7%)	2.4%	31.9%	108.5%	49.3%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar						
Gross profit margin	88.9%	88.7%	88.0%	87.2%	88.8%	89.5%
Operating margin	19.4%	13.7%	12.7%	11.2%	16.6%	19.8%
Return on equity (ROE)	28.0%	17.0%	12.5%	13.7%	27.1%	37.4%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar						
Net debt to equity (x)	0.2	(0.1)	(0.1)	0.1	0.1	0.0
Current ratio (x)	1.0	1.1	1.1	1.5	1.4	1.5
Receivable turnover days	17.2	22.6	20.9	18.9	16.9	14.9
Inventory turnover days	94.5	76.9	73.4	73.4	73.4	73.4
Payable turnover days	48.7	63.9	63.6	64.0	64.0	64.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar						
P/E	18.9	26.8	63.4	38.1	18.3	12.2
P/E (diluted)	18.9	26.9	64.6	38.1	18.3	12.2
P/B	5.4	4.1	6.7	5.1	4.8	4.4
P/CFPS	9.4	8.3	20.6	12.3	7.2	5.6
Div yield (%)	4.2	3.3	1.4	2.1	4.1	6.1

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

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.

CMBIGM 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 CMBIGM
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 Global Markets Limited

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

CMB International Global Markets Limited ("CMBIGM") 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. CMBIGM 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. CMBIGM 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 CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM 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 CMBIGM 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. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM 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. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM 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 CMBIGM 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 CMBIGM 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 CMBIGM.

Additional information on recommended securities is available upon request.

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 CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM 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.