

BUY (Maintain)

PA Good Doctor (1833 HK)

Strong growth in core business

- Strong growth in core online medical service business while non-core health mall business remained largely flattish.** PA Good Doctor recorded RMB2.74bn total revenue in 1H20, up 21% YoY, and MAU rose 7.3% YoY. The core online medical service business delivered 107% YoY growth to RMB695mn, contributing 25% of the total revenue and 46% of the total gross profit. The non-core health mall business recorded 4% YoY growth, accounting for 55% of the total revenue and 17% of the total gross profit. The Company has strategically directed online traffic towards online medical services instead of health mall. In 1H20, gross margin improved significantly by 8.3ppts YoY to 29.9% due to accelerating monetization and higher proportion of revenue from high-margin online medical service business. Total net loss shrank from RMB273mn in 1H19 to RMB214mn in 1H20, accounting for 30% of our full-year net loss forecast.
- Accelerating monetization driven by membership service income.** In 1H20, average conversion rate of paying users increased by 1.4ppts to 5.1% thanks to successful monetization of membership services. In 1H20, the Company's existing membership products generated over RMB420mn revenue, surging over 200% YoY. In early 2020, the Company upgraded Health 360 membership product to Health Guard 360, providing additional health allowances for customers with critical illnesses at an unchanged price. As of mid-2020, the Company has provided over 500 corporate customers with one-stop Private Doctor Membership services. The Company's fast-growing membership service revenue relied on high-quality services provided by a sizable 1,836 inhouse medical staff team and 5,978 external doctors.
- Being a first-mover benefiting from regulatory loosening.** In Apr 2020, PA Good Doctor became the first and so far the only internet healthcare service provider that connected to the online SHI payment system of Hubei Province. As of mid-2020, 14 municipal SHI systems in Hubei were connected with this platform. The Company also obtained the SHI qualification license for building its own internet hospital in Yinchuan city.
- Maintain strong growth momentum.** We expect total revenue to grow 29%/44%/44% YoY to RMB6.53bn/ RMB9.38bn/ RMB13.52bn in FY20E/21E/22E. The Company may continue to invest in the expansion of medical staff team and promotion activities. We forecast net losses to be RMB639mn/RMB268mn in FY20E/21E and expect RMB364mn net profit in FY22E.
- Maintain BUY.** We derive TP of HK\$150.0 based on a 10-year DCF model (WACC:9.3%, terminal growth rate: 4.0%). **Catalysts:** Faster-than-expected user growth; Regulatory loosening.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	3,338	5,065	6,528	9,382	13,521
YoY growth (%)	79	52	29	44	44
Net income (RMB mn)	(912)	(734)	(639)	(268)	364
EPS (RMB)	N/A	(0.73)	(0.60)	(0.25)	0.00
Consensus EPS (RMB)	N/A	N/A	(0.58)	0.07	0.64
P/E (x)	N/A	NA	NA	NA	289.3
P/B (x)	N/A	10.2	11.6	11.8	11.2
Yield (%)	N/A	0.00	0.00	0.00	0.00
ROE	(12.7)	(7.4)	(6.8)	(3.0)	0.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	0.00

Source: Company data, CMBIS estimates, Bloomberg

Target Price HK\$150.0
 (Previous TP HK\$149.5)
Up/Downside +36.3%
Current Price HK\$110.0

China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	117,402
Avg. 3mths t/o (HK\$ mn)	689.6
52W High/Low (HK\$)	135.0/44.1
Total Issued Shares (mn)	1,067

Source: Bloomberg

Shareholding Structure

Ping An Insurance	41.31%
Employee	19.26%
Soft Bank	4.42%
Other shareholders	35.01%

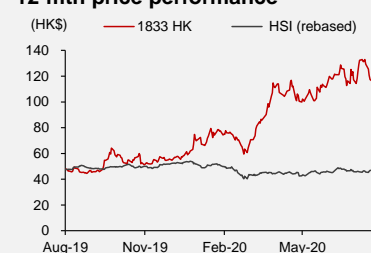
Source: HKEx, Bloomberg

Share performance

	Absolute	Relative
1-mth	-10.9%	-10.4%
3-mth	9.5%	-0.1%
6-mth	41.9%	54.3%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: PWC

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Figure 1: Base case valuation on risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(374)	312	468	698	1,033	1,518	2,216	3,214	4,628	6,618
Tax rate	0.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)	(374)	265	398	593	878	1,290	1,884	2,732	3,934	5,625
+ D&A	69	78	118	175	259	381	557	807	1,162	1,662
- Change in working capital	96	248	372	554	820	1,205	1,759	2,551	3,673	5,252
- Capx	(100)	(100)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)
FCFF	(309)	492	807	1,242	1,877	2,796	4,120	6,009	8,689	12,459
Terminal value										245,064
Terminal growth rate	4.0%									
WACC	9.3%									
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	35.0%									
Effective Corporate Tax Rate	15.0%									
Terminal value (RMB mn)	120,425									
Total PV (RMB mn)	139,087									
Net debt (RMB mn)	(4,493)									
Minority interest (RMB mn)	11									
Equity value (RMB mn)	143,569									
# of shares (mn)	1,067									
Price per share (Rmb per share)	134.5									
Price per share (HK\$ per share)	150.0									

Source: CMBIS estimates; Notes: Exchange rate for HK\$/RMB = 0.90

Figure 2: Sensitivity analysis (HK\$)

WACC	Terminal growth rate				
	3.0%	3.5%	4.0%	4.5%	5.0%
8.3%	159.7	174.5	192.6	215.6	245.5
8.8%	143.0	154.8	169.0	186.6	208.8
9.3%	128.9	138.5	150.0	163.8	180.8
9.8%	117.1	125.0	134.3	145.3	158.7
10.3%	106.9	113.5	121.2	130.2	140.9

Source: Company data, CMBIS estimates

Figure 3: Peers' valuation

Company	Ticker	Price LC	TP LC	Upside	Mkt cap US\$ mn	P/S (x)		P/E (x)		P/B (x)	
						FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
PA GOOD DOCTOR	1833 HK	110.00	150.00	36.3%	117,402	16.1	11.2	N/A	N/A	11.6	11.8
ALIBABA HEALTH	241 HK	18.88	NR	N/A	253,942	25.0	13.6	N/A	624.3	62.4	38.8
TELADOC HEALTH	TDOC US	223.41	NR	N/A	18,147	18.5	13.7	N/A	N/A	12.4	13.2
LIVONGO HEALTH	LVGO US	140.35	NR	N/A	14,078	39.9	25.6	923.4	387.7	29.4	30.2
HEALTH CATALYST	HCAT US	31.92	NR	N/A	1,268	7.0	5.9	N/A	N/A	5.8	N/A
Average						21.3	14.0	923.4	506.0	24.3	23.5

Source: CMBIS estimates, Bloomberg, NR=Not rated

Figure 4: CMBIS earnings revisions

(RMB mn)	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	6,528	9382	6,925	9,953	-5.7%	-5.7%
Gross profit	1,864	3074	1,739	2,784	7.2%	10.4%
Operating profit	(667)	(297)	(922)	(560)	N/A	N/A
Net profit	(646)	(271)	(721)	(375)	N/A	N/A
EPS (RMB)	(0.60)	(0.25)	(0.66)	(0.35)	N/A	N/A
Gross margin	28.56%	32.77%	25.11%	27.97%	+3.45ppt	+4.80ppt
Operating margin	-10.22%	-3.16%	-13.31%	-5.63%	+3.09ppt	+2.46ppt
Net Margin	-9.89%	-2.88%	-10.41%	-3.77%	+0.52ppt	+0.88ppt

Source: Company data, CMBIS estimates

Figure 5: CMBIS estimates vs consensus

(RMB mn)	CMBIS		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	6,528	9,382	6,932	9,546	-5.8%	-1.7%
Gross profit	1,864	3,074	1,743	2,631	6.9%	16.9%
Operating profit	(667)	(297)	(886)	(393)	N/A	N/A
Net profit	(646)	(271)	(629)	(85)	N/A	N/A
EPS (RMB)	(0.60)	(0.25)	(0.58)	0.07	N/A	N/A
Gross margin	28.56%	32.77%	25.15%	27.56%	+3.41ppt	+5.21ppt
Operating margin	-10.22%	-3.16%	-12.79%	-4.11%	+2.57ppt	+0.95ppt
Net Margin	-9.89%	-2.88%	-9.08%	-0.89%	-0.82ppt	-1.99ppt

Source: Company data, CMBIS estimates

Financial Statements

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	3,338	5,065	6,528	9,382	13,521	Profit before tax	(913)	(747)	(646)	(271)	368
Online medical services	411	858	1,739	3,478	6,260	Depreciation of PP&E	45	146	56	69	78
Consumer healthcare	905	1,112	1,341	1,743	2,231	Impairment of intangible asset	2	23	25	25	25
Health mall	1,864	2,902	231	289	362	Change in working capital	46	340	6	107	272
Health management & wellness interaction	157	193	231	289	362	Others	(62)	(14)	183	173	191
Cost of sales	(2,426)	(3,894)	(4,663)	(6,307)	(8,628)	Finance costs - net	(202)	(253)	(111)	(106)	(117)
Gross profit	912	1,171	1,864	3,074	4,893	Operating cash flow	(1,085)	(504)	(487)	(3)	818
Selling & marketing expenses	(1,238)	(1,207)	(1,549)	(2,064)	(2,704)	Capex	(198)	(133)	(100)	(100)	(100)
Administrative expenses	(995)	(1,075)	(1,145)	(1,407)	(1,893)	Acquisition of subsidiaries	(951)	0	0	0	0
Other income	28	42	133	100	100	Other investing activities	(8,409)	4,610	116	112	123
Other (losses)/gains	183	109	30	0	0	Investing cash flow	(9,557)	4,477	16	12	23
Operating profit	(1,109)	(959)	(667)	(297)	396	Net proceeds from shares issued	6,964	76	0	0	0
Finance costs - net	202	253	111	106	117	Bank borrowing	0	0	(6)	(6)	(6)
Gain/(loss) from associates and JV	(4)	(27)	(85)	(80)	(80)	Listing expenses	0	0	0	0	0
Profit before tax	(912)	(734)	(642)	(271)	433	Other financing activities	51	(67)	0	0	0
Income tax expense	(1)	(13)	(4)	0	(65)	Financing cash flow	7,016	9	(6)	(6)	(6)
Total net profit	(913)	(747)	(646)	(271)	368	Net change in cash	(3,627)	3,981	(476)	4	834
Minority Interests	(1)	(13)	(7)	(3)	4	Cash at the beginning	4,595	926	4,965	4,489	4,493
Attributable profit	(912)	(734)	(639)	(268)	364	Cash flow at the end	926	4,965	4,489	4,493	5,327

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	4,280	3,901	3,835	3,761	3,678	Sales mix (%)					
Goodwill	967	967	967	967	967	Online medical services	12.3	16.9	26.6	37.1	46.3
PP&E	172	186	231	261	283	Consumer healthcare	27.1	22.0	20.5	18.6	16.5
Right-of-use assets	0	94	94	94	94	Health mall	55.9	57.3	3.5	3.1	2.7
Other intangible assets	86	106	81	56	31	Health mgmt & wellness interaction	4.7	3.8	3.5	3.1	2.7
Prepayments and other receivables	0	7	7	7	7	Total	100	100	54	62	68
Financial assets at FV	0	1,532	1,532	1,532	1,532	Profit & loss ratios (%)					
Others	3,227	1,196	1,155	1,106	1,047	Gross margin	27	23	29	33	36
Current assets	8,094	8,478	7,908	8,153	9,460	EBITDA margin	(32)	(16)	(11)	(3)	3
Inventories	39	75	57	68	92	Pre-tax margin	(27)	(14)	(10)	(3)	3
Accounts and other receivables	431	649	500	644	925	Net margin	(27)	(14)	(10)	(3)	3
Contract assets	61	141	141	141	141	Effective tax rate	(0)	(2)	(1)	0	15
Bank balances and cash	5,745	0	0	0	0	Balance sheet ratios					
Others	1,819	7,613	7,211	7,300	8,302	Current ratio (x)	4	3	3	3	3
Current liabilities	2,106	2,665	2,596	2,933	3,654	Trade receivables	48	39	36	36	36
Short-term borrowings	0	0	0	0	0	Trade payables turnover	210	153	160	160	160
Trade and other payables	1,488	1,777	1,707	2,044	2,765	Net debt to total equity	Net cash	Net cash	Net cash	Net cash	Net cash
Contract liabilities	619	837	837	837	837						
Others	0	51	51	51	51	Returns (%)					
Non-current liabilities	0	44	44	44	44	ROE	-12.7	-7.4	-6.8	-3.0	4.0
Lease liabilities	0	44	44	44	44	ROA	-9.9	-5.9	-5.3	-2.3	2.9
Trade and other payables	0	0	0	0	0	Per share value					
Total net assets	10,267	9,669	9,104	8,937	9,440	EPS (RMB)	N/A	(0.73)	(0.60)	(0.25)	0.34
Minority interest	68	21	14	11	15	DPS (RMB)	N/A	0.00	0.00	0.00	0.00
Shareholders' equity	10,267	9,669	9,104	8,937	9,440	BVP (RMB)	N/A	9.66	8.53	8.37	8.85

Source: Company data, CMBIS estimates

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