

BUY (Maintain)

PA Good Doctor (1833 HK)

Guidelines released for the reimbursement of online medical services

■ On 2 Nov, National Healthcare Security Administration (NHSA) released detailed policies on allowing reimbursement for online medical services.

This is the first detailed guideline with a specific timeline about implementing the reimbursement policies for online services. The NHSA requires all regional governments to finalize detailed regulatory rules for online medical reimbursement before year-end. Before this document, the Chinese authorities have already released multiple regulatory files about encouraging the development of online medical services and related reimbursement supports. The COVID-19 pandemic has further accelerated the process of regulatory loosening for online medical services. The purpose is to prioritize medical resource allocation and stimulate healthcare consumption.

■ Gradually expanding reimbursement coverage for online medical services.

According to the regulatory file, online medical services for revisiting patients with chronic or severe diseases will be first allowed for reimbursement. The file also pointed out that the reimbursement coverage will gradually expand to include more common diseases. We even expect the reimbursement will include online initial diagnosis for common diseases in the future. At the moment, the authorities only allow online medical services for revisiting patients. Meanwhile, online and offline medical services will share same reimbursement standards. Online medical consultation fees and related drug costs will all be reimbursed, except for drug shipping costs. Initially, reimbursement will be only available for local patients who receive services from local online hospitals. However, the policy stated clearly that that cross-region reimbursement (异地就医直接结算) for online medical services will become feasible in the future.

■ PA Good Doctor being a first-mover benefiting from regulatory loosening.

As of Oct 2020, the Company operates eight self-built online hospitals and 23 co-constructed online hospitals. Meanwhile, PA Good Doctor has successfully received medical reimbursement qualifications in seven cities/ provinces, including Qingdao city, Nanning city, Fuzhou city, Hefei city, Yinchuan city and Hubei Province. The Company has a dominant leading position in online medical service industry, with 67.3mn MAU as of June 2020. In 1H20, the Company's online medical service business grew 107% YoY to RMB695mn, contributing 25% of total revenue and 46% of the gross profit.

■ Maintain BUY. We maintain 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	(0.56)	(0.19)	0.30
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\$150.0**)
 Up/Downside **+47.8%**
 Current Price **HK\$101.5**
China Healthcare Sector

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Mkt. Cap. (HK\$ mn) 116,450
 Avg. 3mths t/o (HK\$ mn) 638.10
 52W High/Low (HK\$) 135.0/55.5
 Total Issued Shares (mn) 1,147
 Source: Bloomberg

Shareholding Structure

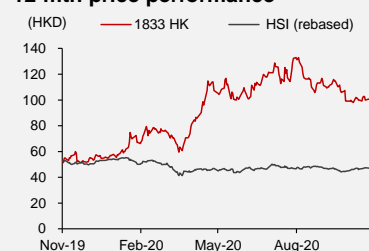
Ping An Insurance 41.31%
 Employee 19.26%
 Soft Bank 4.42%
 Other shareholders 35.01%
 Source: HKEx, Bloomberg

Share performance

	Absolute	Relative
1-mth	2.3%	-3.8%
3-mth	-23.7%	-25.2%
6-mth	-5.5%	-6.6%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: PWC

Related report:

Strong growth in core business – 24 Aug 2020
 Building comprehensive healthcare ecosystem – 17 Jun 2020

Figure 1: Key policies on online healthcare services

Date	Key policies		Key points
Apr-2018	Opinions about promoting the development of "internet +" healthcare	关于促进“互联网+医疗健康”发展的意见	Allowing building internet hospitals by cooperating with physical hospitals; Allowing third-party institutions providing online medical consultation services; Exploring opportunities of online medical insurance payment
Sep-2018	Regulatory policies on internet hospitals, online medical consultation services and remote medical services	《互联网诊疗管理办法（试行）》，《互联网医院管理办法（试行）》，《远程医疗服务管理规范（试行）》	Detailed regulatory policies on internet hospitals and online medical services; Online initial diagnosis was not allowed
Aug-2019	Guidelines on Improving "Internet +" Medical Services Price and SHI Payment Policies	关于完善“互联网+”医疗服务价格和医保支付政策的指导意见	Allowing medical insurance reimbursement for online medical services
Aug-2019	Drug administration law	《药品管理法》	Online sales of prescription drugs were not banned by the law
Feb-2020	Providing online medical services during the period of COVID-19 outbreak	关于在疫情防控中做好互联网诊疗咨询服务工作的通知	Promoting various types of online medical services including health assessment, consultation for revisiting patients, psychological counseling, etc.
Mar-2020	Opinions about medical reforms	关于深化医疗保障制度改革的意见	Supporting the development of online medical services and allowing reimbursement of qualified institutions
Mar-2020	Opinions about medical insurance reimbursement for online medical services during the period of COVID-19 outbreak	关于推进新冠肺炎疫情防控工作开展“互联网+”医保服务的指导意见	Reimbursement will be available for online medical services provided by qualified institutions
Jul-2020	Supporting the development of new business models for the purpose of stimulating consumption	关于支持新业态新模式健康发展激活消费市场带动扩大就业的意见	Support the development of online medical services; Allow reimbursement for online medical services
Oct-2020	Plans about boosting consumption	近期扩内需促消费的工作方案	Allow reimbursement of online medical services for revisiting chronic disease patients
Nov-2020	Opinions about implementing reimbursement policies for online medical services	国家医疗保障局关于积极推进“互联网+”医疗服务医保支付工作的指导意见	Detailed guidelines for reimbursement of online medical services

Source: State Council, National Health Commission, National Healthcare Security Administration, CMBIS

Figure 2: 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 3: 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 4: Peers' valuation

Company	Ticker	Price	TP	Upside	Mkt cap	P/S (x)		P/E (x)		P/B (x)	
		LC	LC			FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
PA GOOD DOCTOR	1833 HK	110.00	150.00	47.8%	116,450	16.1	11.2	N/A	N/A	11.6	11.8
ALIBABA HEALTH	241 HK	18.88	NR	N/A	278,469	26.5	14.4	N/A	849.3	66.1	27.4
TELADOC HEALTH	TDOC US	223.41	NR	N/A	27,554	27.1	19.0	N/A	N/A	7.6	8.7
LIVONGO HEALTH	LVGO US	140.35	NR	N/A	14,199	39.1	25.2	599.9	376.7	28.2	N/A
HEALTH CATALYST	HCAT US	31.92	NR	N/A	1,421	7.9	6.6	N/A	N/A	5.3	N/A
Average						23.4	15.3	599.9	613.0	23.7	16.0

Source: CMBIS estimates, Bloomberg, NR=Not rated

Figure 5: CMBIS earnings revisions

(RMB mn)	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	6,528	9,382	13,521	6,528	9,382	13,521	0.0%	0.0%	0.0%
Gross profit	1,864	3,074	4,893	1,864	3,074	4,893	0.0%	0.0%	0.0%
Operating profit	(667)	(297)	396	(667)	(297)	396	N/A	N/A	N/A
Net profit	(646)	(271)	368	(646)	(271)	368	N/A	N/A	N/A
EPS (RMB)	(0.60)	(0.25)	0.00	(0.60)	(0.25)	0.00	N/A	N/A	N/A
Gross margin	28.56%	32.77%	36.19%	28.56%	32.77%	36.19%	+0.00ppt	+0.00ppt	+0.00ppt
Operating margin	-10.22%	-3.16%	2.93%	-10.22%	-3.16%	2.93%	+0.00ppt	+0.00ppt	+0.00ppt
Net Margin	-9.89%	-2.88%	2.72%	-9.89%	-2.88%	2.72%	+0.00ppt	+0.00ppt	+0.00ppt

Source: Company data, CMBIS estimates

Figure 6: CMBIS estimates vs consensus

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	6,528	9,382	13,521	6,705	9,257	12,863	-2.6%	1.3%	5.1%
Gross profit	1,864	3,074	4,893	1,769	2,637	3,953	5.4%	16.6%	23.8%
Operating profit	(667)	(297)	396	(824)	(419)	119	N/A	N/A	N/A
Net profit	(646)	(271)	368	(600)	(192)	310	N/A	N/A	N/A
EPS (RMB)	(0.60)	(0.25)	0.00	(0.56)	(0.19)	0.30	N/A	N/A	N/A
Gross margin	28.56%	32.77%	36.19%	26.39%	28.49%	30.73%	+2.17ppt	+4.28ppt	+5.46ppt
Operating margin	-10.22%	-3.16%	2.93%	-12.29%	-4.53%	0.92%	+2.07ppt	+1.37ppt	+2.01ppt
Net Margin	-9.89%	-2.88%	2.72%	-8.96%	-2.08%	2.41%	-0.94ppt	-0.81ppt	+0.32ppt

Source: Bloomberg, CMBIS estimates

Financial Statements

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	3,338	5,065	6,528	9,382	13,521
Online medical services	411	858	1,739	3,478	6,260
Consumer healthcare	905	1,112	1,341	1,743	2,231
Health mall	1,864	2,902	231	289	362
Health management & wellness interaction	157	193	231	289	362
Cost of sales	(2,426)	(3,894)	(4,663)	(6,307)	(8,628)
Gross profit	912	1,171	1,864	3,074	4,893
Selling & marketing expenses	(1,238)	(1,207)	(1,549)	(2,064)	(2,704)
Administrative expenses	(995)	(1,075)	(1,145)	(1,407)	(1,893)
Other income	28	42	133	100	100
Other (losses)/gains	183	109	30	0	0
Operating profit	(1,109)	(959)	(667)	(297)	396
Finance costs - net	202	253	111	106	117
Gain/(loss) from associates and JV	(4)	(27)	(85)	(80)	(80)
Profit before tax	(912)	(734)	(642)	(271)	433
Income tax expense	(1)	(13)	(4)	0	(65)
Total net profit	(913)	(747)	(646)	(271)	368
Minority Interests	(1)	(13)	(7)	(3)	4
Attributable profit	(912)	(734)	(639)	(268)	364

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	(913)	(747)	(646)	(271)	368
Depreciation of PP&E	45	146	56	69	78
Impairment of intangible asset	2	23	25	25	25
Change in working capital	46	340	6	107	272
Others	(62)	(14)	183	173	191
Finance costs - net	(202)	(253)	(111)	(106)	(117)
Operating cash flow	(1,085)	(504)	(487)	(3)	818
Capex	(198)	(133)	(100)	(100)	(100)
Acquisition of subsidiaries	(951)	0	0	0	0
Other investing activities	(8,409)	4,610	116	112	123
Investing cash flow	(9,557)	4,477	16	12	23
Net proceeds from shares issued	6,964	76	0	0	0
Bank borrowing	0	0	(6)	(6)	(6)
Listing expenses	0	0	0	0	0
Other financing activities	51	(67)	0	0	0
Financing cash flow	7,016	9	(6)	(6)	(6)
Net change in cash	(3,627)	3,981	(476)	4	834
Cash at the beginning	4,595	926	4,965	4,489	4,493
Cash flow at the end	926	4,965	4,489	4,493	5,327

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	4,280	3,901	3,835	3,761	3,678
Goodwill	967	967	967	967	967
PP&E	172	186	231	261	283
Right-of-use assets	0	94	94	94	94
Other intangible assets	86	106	81	56	31
Prepayments and other receivables	0	7	7	7	7
Financial assets at FV	0	1,532	1,532	1,532	1,532
Others	3,227	1,196	1,155	1,106	1,047
Current assets	8,094	8,478	7,908	8,153	9,460
Inventories	39	75	57	68	92
Accounts and other receivables	431	649	500	644	925
Contract assets	61	141	141	141	141
Bank balances and cash	5,745	0	0	0	0
Others	1,819	7,613	7,211	7,300	8,302
Current liabilities	2,106	2,665	2,596	2,933	3,654
Short-term borrowings	0	0	0	0	0
Trade and other payables	1,488	1,777	1,707	2,044	2,765
Contract liabilities	619	837	837	837	837
Others	0	51	51	51	51
Non-current liabilities	0	44	44	44	44
Lease liabilities	0	44	44	44	44
Trade and other payables	0	0	0	0	0
Total net assets	10,267	9,669	9,104	8,937	9,440
Minority interest	68	21	14	11	15
Shareholders' equity	10,267	9,669	9,104	8,937	9,440

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Online medical services	12.3	16.9	26.6	37.1	46.3
Consumer healthcare	27.1	22.0	20.5	18.6	16.5
Health mall	55.9	57.3	3.5	3.1	2.7
Health mgmt & wellness interaction	4.7	3.8	3.5	3.1	2.7
Total	100	100	54	62	68
Profit & loss ratios (%)					
Gross margin	27	23	29	33	36
EBITDA margin	(32)	(16)	(11)	(3)	3
Pre-tax margin	(27)	(14)	(10)	(3)	3
Net margin	(27)	(14)	(10)	(3)	3
Effective tax rate	(0)	(2)	(1)	0	15
Balance sheet ratios					
Current ratio (x)	4	3	3	3	3
Trade receivables	48	39	36	36	36
Trade payables turnover	210	153	160	160	160
Net debt to total equity	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	-12.7	-7.4	-6.8	-3.0	4.0
ROA	-9.9	-5.9	-5.3	-2.3	2.9
Per share value					
EPS (RMB)	N/A	(0.73)	(0.60)	(0.25)	0.34
DPS (RMB)	N/A	0.00	0.00	0.00	0.00
BVP (RMB)	N/A	9.66	8.53	8.37	8.85

Source: Company data, CMBIS estimates

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