

Jinxin Fertility (1951 HK)

Recovery to expedite in 2H23E

1H23 results inline. Jinxin reported 1H23 revenue of RMB1,334mn, up 17.2% YoY, and non-IFRS adjusted net profit of RMB255mn, slightly down 1.2% YoY. In 1H23, revenue accounted for 46.2% of our full-year forecast, lower than its historical average, while non-IFRS adjusted net profit represented 50.3% of our full-year forecast, higher than its historical average. Excluding the two hospitals in Yunnan consolidated from July 2022, the organic revenue growth of 6.4% YoY was mainly driven by the strong recovery in Shenzhen (revenue +13.8% YoY) and the US (revenue +21.0% YoY). We are confident in the business recovery momentum through 2H23E. Management maintained its full-year guidance of ~20% YoY growth for revenue and RMB500mn for non-IFRS adjusted net profit.

■ **Encouraging IVF business recovery in 1H23.** Thanks to the gradual resumption of flights between China and the US, Jinxin's US network hospitals experienced a meaningful pick-up of demands from international customers. 342 international IVF cycles had been performed in its US branch in 1H23, representing ~40% of pre-pandemic level. Shenzhen revenue increased by 13.8% YoY (vs -19.9% YoY in 1H22) with 32.7% YoY growth in first visits, indicating strong demand recovery after pandemic. HK operation saw the number of egg freezing cycles jumping by 76% YoY. Chengdu revenue declined by 2.0% YoY in 1H23, temporarily affected by a high base in 1H22 when the city was relatively less hit by pandemic. Note that Xi'an hospital in Chengdu has obtained approval to perform 3-gen IVF services in Jul 2023. We believe that IVF demand was delayed, not vanished, during the pandemic. Thanks to demand recovery, the number of IVF cycles performed by Jinxin increased by 14% YoY to 14,731 in 1H23 with success rate further improving from 55.0% in 1H22 to 57.1% in 1H23. We expect the business recovery to accelerate in 2H23E as the pandemic fades in China and the frequency of US-China flights keep increasing.

■ **Favourable policies to stimulate IVF demand.** The Chinese government is proactively seeking measures to boost birth rate. In June 2023, Beijing [added 16 IVF services into its local medical reimbursement list](#) with pricing largely unchanged. In Mar 2023, National Health Commission (NHS) indicated that it was seeking opinions from medical experts regarding allowing egg-freezing for unmarried women. In Aug 2022, NHS and other departments issued [Guiding Opinions to Further Improve and Implement Active Measures to Support Birth Rate](#). We think the government will continue to explore new measures to stimulate birth rate while IVF will be a critical and necessary tool to reach that goal. As the largest private hospital group providing comprehensive IVF services in China, Jinxin will benefit from the favourable policies in China.

■ **Maintain BUY.** We revised our DCF-based TP from HK\$9.15 to HK\$7.35 (WACC: 10.1%, terminal growth: 3.0%). We forecast Jinxin's revenue to grow 18.8%/ 17.1%/ 17.1% YoY and non-IFRS adjusted net profit to grow 82.5%/ 17.0%/ 18.3% YoY in 2023E/ 24E/ 25E, respectively.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	1,839	2,364	2,808	3,287	3,848
YoY growth (%)	28.9	28.6	18.8	17.1	17.1
Adjusted net profit (RMB mn)	455	274	500	585	692
EPS (Adjusted) (RMB)	0.18	0.10	0.18	0.21	0.25
Consensus EPS (RMB)	na	na	0.16	0.21	0.26
P/E (x) (Adjusted)	19.3	33.5	19.0	16.3	13.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$7.35
(Previous TP)	HK\$9.15)
Up/Downside	88.9%
Current Price	HK\$3.89

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)	10,584.4
Avg 3 mths t/o (HK\$ mn)	47.3
52w High/Low (HK\$)	7.88/3.59
Total Issued Shares (mn)	2720.9

Source: FactSet

Shareholding Structure

Jinxin Fertility BV	11.9%
HRC Investment	10.7%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-14.7%	-8.1%
3-mth	-4.9%	-4.3%
6-mth	-37.7%	-33.3%

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	2,808	3,287	3,848	2,887	3,481	4,181	-2.72%	-5.56%	-7.97%
Gross Profit	1,194	1,404	1,651	1,184	1,445	1,756	0.83%	-2.83%	-6.00%
Operating Profit	547	660	801	536	681	861	2.15%	-3.05%	-6.99%
Adjusted net profit	500	585	692	507	606	737	-1.32%	-3.43%	-6.12%
Adjusted EPS (RMB)	0.18	0.21	0.25	0.19	0.22	0.27	-1.32%	-3.43%	-6.12%
Gross Margin	42.50%	42.70%	42.90%	41.00%	41.50%	42.00%	+1.50ppt	+1.20ppt	+0.90ppt
Operating Margin	19.48%	20.09%	20.81%	18.55%	19.57%	20.59%	+0.93ppt	+0.52ppt	+0.22ppt
Net Margin	17.81%	17.79%	17.99%	17.56%	17.40%	17.63%	+0.25ppt	+0.39ppt	+0.35ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	2,808	3,287	3,848	2,901	3,502	4,164	-3.20%	-6.13%	-7.58%
Gross Profit	1,194	1,404	1,651	1,189	1,465	1,772	0.41%	-4.18%	-6.84%
Operating Profit	547	660	801	555	721	866	-1.36%	-8.43%	-7.56%
Adjusted net profit	500	585	692	446	579	709	12.07%	1.02%	-2.34%
Adjusted EPS (RMB)	0.18	0.21	0.25	0.16	0.21	0.26	12.09%	1.89%	-3.28%
Gross Margin	42.50%	42.70%	42.90%	40.97%	41.83%	42.56%	+1.53ppt	+0.87ppt	+0.34ppt
Operating Margin	19.48%	20.09%	20.81%	19.12%	20.60%	20.81%	+0.36ppt	-0.51ppt	+0.00ppt
Net Margin	17.81%	17.79%	17.99%	15.39%	16.54%	17.02%	+2.43ppt	+1.26ppt	+0.97ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: Valuation on risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	548	662	802	947	1,112	1,301	1,516	1,759	2,031	2,336
Tax rate	21.0%	22.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
EBIT*(1-tax rate)	433	516	618	729	856	1,002	1,167	1,354	1,564	1,799
+ D&A	260	260	260	294	331	370	413	458	506	557
- Change in working capital	(192)	78	91	103	116	130	144	160	177	195
- Capex	(300)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)
FCFF	202	654	769	926	1,103	1,302	1,525	1,773	2,048	2,351
Terminal value										34,160
Terminal growth rate		3.0%								
WACC		10.1%								
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		35.0%								
Effective Corporate Tax Rate		25.0%								
PV of terminal value (RMB mn)		13,066								
Total PV (RMB mn)		19,769								
Net debt (RMB mn)		1,693								
Minority interest (RMB mn)		86								
Equity value (RMB mn)		17,991								
# of shares (mn)		2,721								
Price per share (HK\$ per share)		7.35								

Source: CMBIGM estimates. HK\$/RMB=0.9

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	1,426	1,839	2,364	2,808	3,287	3,848
Cost of goods sold	(860)	(1,067)	(1,490)	(1,615)	(1,884)	(2,197)
Gross profit	566	771	874	1,194	1,404	1,651
Operating expenses	(328)	(400)	(628)	(646)	(743)	(850)
Selling expense	(41)	(62)	(151)	(174)	(201)	(231)
Admin expense	(275)	(328)	(459)	(452)	(520)	(593)
SG&A expense	(11)	(11)	(17)	(20)	(23)	(26)
Operating profit	238	371	247	547	660	801
Share of (losses)/profits of associates/JV	0	(10)	(4)	0	0	0
Net Interest income/(expense)	(13)	(21)	(72)	(114)	(87)	(57)
Other income/expense	125	118	(16)	24	30	33
Pre-tax profit	349	458	154	457	603	777
Income tax	(89)	(104)	(36)	(96)	(133)	(179)
After tax profit	261	354	118	361	470	598
Minority interest	(9)	(14)	3	10	13	16
Net profit	252	340	121	371	483	614
Adjusted net profit	372	455	274	500	585	692
Gross dividends	0	0	0	0	0	0
BALANCE SHEET						
	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	2,652	2,543	1,904	1,659	1,962	2,178
Cash & equivalents	682	862	1,317	1,067	1,326	1,492
Account receivables	69	143	189	197	230	270
Inventories	25	47	63	59	69	81
Financial assets at FVTPL	63	219	71	71	71	71
Other current assets	1,813	1,273	265	265	1,891	2,107
Non-current assets	6,511	10,282	13,328	13,367	13,305	13,244
PP&E	1,056	1,092	2,530	2,679	2,729	2,778
Intangibles	3,881	5,207	6,205	6,164	6,124	6,083
Goodwill	890	2,720	3,485	3,485	3,485	3,485
Financial assets at FVTPL	0	178	0	0	0	0
Other non-current assets	684	1,086	1,109	1,038	968	897
Total assets	9,163	12,825	15,232	15,026	15,267	15,422
Current liabilities	555	1,072	2,764	1,391	1,512	1,654
Short-term borrowings	18	38	19	469	469	469
Account payables	362	446	917	730	852	993
Tax payable	61	107	82	82	82	82
Other current liabilities	114	481	1,747	111	111	111
Non-current liabilities	1,146	3,001	3,733	3,527	3,177	2,592
Long-term borrowings	145	126	2,071	1,865	1,515	930
Bond payables	0	1,493	0	0	0	0
Convertible bonds	210	371	376	376	376	376
Other non-current liabilities	791	1,011	1,286	1,286	1,286	1,286
Total liabilities	1,701	4,073	6,497	4,918	4,689	4,246
Share capital	0	0	0	0	0	0
Capital surplus	7,283	8,545	8,640	10,022	10,505	11,119
Total shareholders equity	7,283	8,545	8,640	10,022	10,505	11,119
Minority interest	179	207	95	86	73	57
Total equity and liabilities	9,163	12,825	15,232	15,026	15,267	15,422

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	349	458	154	457	603	777
Depreciation & amortization	76	99	150	150	150	150
Tax paid	(51)	(47)	(122)	(96)	(133)	(179)
Change in working capital	(108)	(246)	111	(192)	78	91
Others	41	80	248	202	170	136
Net cash from operations	308	343	542	522	869	976
Investing						
Capital expenditure	(210)	(72)	(959)	(300)	(200)	(200)
Acquisition of subsidiaries/ investments	(287)	(1,227)	(874)	0	0	0
Net proceeds from disposal of short-term investments	(8)	(280)	173	0	0	0
Others	1,657	12	283	23	28	32
Net cash from investing	1,152	(1,566)	(1,378)	(277)	(172)	(168)
Financing						
Dividend paid	(150)	0	(159)	0	0	0
Net borrowings	163	1	1,546	244	(350)	(585)
Proceeds from share issues	0	1,043	83	1,011	0	0
Share repurchases	(60)	(41)	0	0	0	0
Others	(8)	(48)	(1,010)	(1,750)	(87)	(57)
Net cash from financing	(56)	955	460	(495)	(437)	(642)
Net change in cash						
Cash at the beginning of the year	580	1,965	1,689	1,317	1,067	1,326
Exchange difference	(19)	(8)	17	0	0	0
Cash at the end of the year	1,965	1,689	1,330	1,067	1,326	1,492
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(13.5%)	28.9%	28.6%	18.8%	17.1%	17.1%
Gross profit	(30.7%)	36.4%	13.3%	36.5%	17.6%	17.6%
Operating profit	(55.2%)	56.3%	(33.6%)	121.9%	20.7%	21.3%
Net profit	(38.6%)	35.1%	(64.4%)	206.3%	30.1%	27.2%
Adj. net profit	(29.8%)	22.3%	(39.8%)	82.5%	17.0%	18.3%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	39.7%	42.0%	37.0%	42.5%	42.7%	42.9%
Operating margin	16.7%	20.2%	10.4%	19.5%	20.1%	20.8%
Adj. net profit margin	26.1%	24.8%	11.6%	17.8%	17.8%	18.0%
Return on equity (ROE)	3.4%	4.3%	1.4%	4.0%	4.7%	5.7%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.0)	0.1	0.1	0.2	0.1	0.0
Current ratio (x)	4.8	2.4	0.7	1.2	1.3	1.3
Receivable turnover days	14.7	21.0	25.6	25.6	25.6	25.6
Inventory turnover days	10.9	12.4	13.4	13.4	13.4	13.4
Payable turnover days	144.5	138.0	166.9	165.0	165.0	165.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E (adjusted)	22.7	19.3	33.5	19.0	16.3	13.8
P/B	1.1	1.0	1.0	0.9	0.9	0.9
P/CFPS	74.2	90.8	24.0	18.8	11.3	10.1
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

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

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CMB International Global Markets Limited

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

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