

EC Healthcare (2138 HK)

Recovering cross-border medical consumption in FY24

Strong FY23 top-line growth despite harsh macro environment. EC Healthcare (ECH) reported FY23 revenue of HK\$3,875mn, up 33% YoY, in line with our forecast, mainly driven by sustainable demand for medical services amid COVID-19 pandemic. ECH booked total net profit of HK\$107mn, down 60% YoY, with attributable net profit of HK\$70mn, down 65% YoY, due to changes in business mix, increase in operating costs caused by inflation as well as the slow ramp-up of newly-opened stores under COVID disruptions. With the fully-resumed HK-Mainland border reopening since Feb 2023, we expect ECH, as the largest private healthcare provider in HK, will significantly benefit from the returning of Mainland medical tourists in FY24. We expect ECH to deliver profit margin improvement in FY24 driven by ramping up of new stores, effective cost controls and improving operation productivity.

■ **HK-Mainland border reopening to support business growth in FY24.** Mainland customers was a critical component of ECH customer pool before COVID, contributing 34.6% of HK sales volume (contracted revenue) in FY19. The number of daily Mainland visitors substantially increased from 9,027 on average in Jan 2023 to 72,645 on average in Jun 2023. Note that the current daily number is still largely below the pre-pandemic level of ~120,000 on average in 2019, indicating a big room for further improvement on inbound traffic. Nevertheless, ECH has already saw recovery of consumption from Mainland travellers soon after the border reopening. In Jan-Mar 2023, 14.6% of sales volume of its HK stores was from Mainland customers, compared with only 4.5% in Sep-Dec 2022. Due to the time lag between sales volume and revenue (typically 6-12 months), we expect ECH to see significant revenue recovery starting from FY24, especially for its aesthetic medical and wellness services.

■ **Expanding service coverage to provide one-stop healthcare solutions.** Despite the harsh macro environment, ECH has been persistently carrying out its M&A strategy to diversify service portfolio in the past three years. Acquired assets have showed good post-deal sales growth mainly driven by solid domestic demand in HK. ECH's medical and veterinary M&As done in FY19 delivered a 3-year CAGR of 11% and M&As done in FY20 reached a 2-year CAGR of 26%. Driven by successful M&As, medical services accounted for 66% of total revenue in FY23, compared with only 28% in FY19. The enhanced services capabilities enabled ECH to meet the diversified demand of both the local and cross-border customers. However, due to the relatively lower margin of medical services than aesthetic medical and wellness services, the blended margin of ECH in post-pandemic era will be lower than before, due to changing revenue mix.

■ **Maintain BUY.** We revised our TP from HK\$8.48 to HK\$7.26, based on a 10-year DCF model (WACC: 11.8%, terminal growth: 2.0%), to reflect lower revenue and net profit projections. We forecast ECH's revenue to grow 23%/26%/23% YoY and attributable net income to grow 256%/54%/47% YoY in FY24E/25E/26E, respectively.

Earnings Summary

(YE 31 Mar)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (HK\$ mn)	2,920	3,875	4,772	6,031	7,386
YoY growth (%)	40.3	32.7	23.1	26.4	22.5
Attributable net profit (HK\$ mn)	198	70	248	380	558
YoY growth (%)	2.4	(64.7)	255.5	53.5	46.7
EPS (Reported) (HK\$)	0.17	0.06	0.21	0.32	0.47
Consensus EPS (HK\$)	na	na	0.30	0.41	na
P/E (x)	25.2	72.9	20.6	13.4	9.2

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$7.26

(Previous TP) HK\$8.48

Up/Downside 68.3%

Current Price HK\$4.31

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Stock Data

Mkt Cap (HK\$ mn)	5,644.4
Avg 3 mths t/o (HK\$ mn)	9.0
52w High/Low (HK\$)	9.74/3.98
Total Issued Shares (mn)	1185.2

Source: FactSet

Shareholding Structure

Tang Chi Fai	61.3%
Goldman Sachs	5.5%

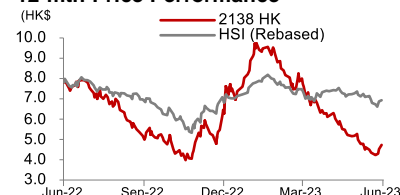
Source: HKEx

Share Performance

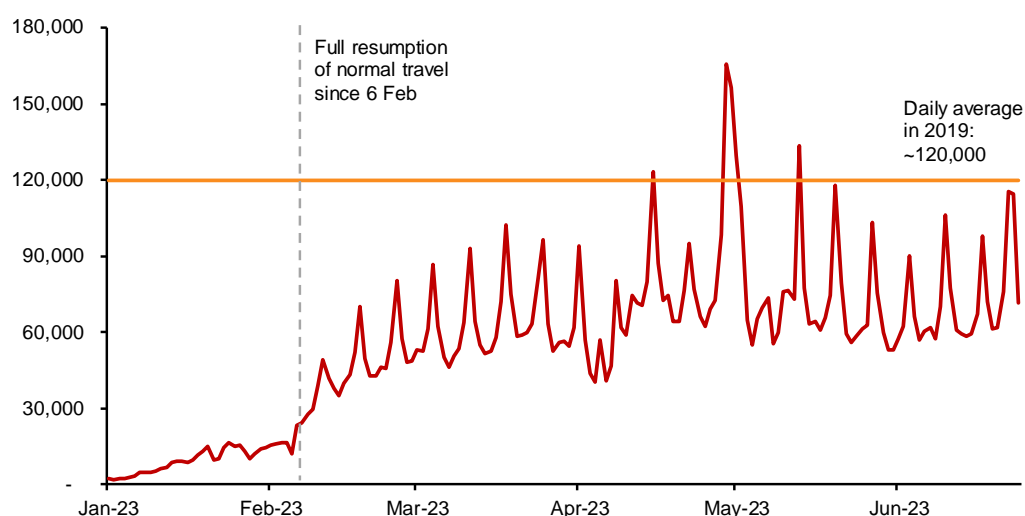
	Absolute	Relative
1-mth	-7.5%	-3.7%
3-mth	-38.0%	-33.9%
6-mth	-23.7%	-25.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Number of daily Mainland visitors arriving HK

Source: Immigration Department of HKSAR, CMBIGM. Data as of 24 Jun 2023.

Figure 2: Earnings revision

HK\$ mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	4,772	6,031	7,386	4,899	5,963	na	-2.6%	1.1%	na
Gross Profit	4,152	5,259	6,463	4,286	5,248	na	-3.1%	0.2%	na
Operating Profit	1,129	1,471	1,870	1,201	1,551	na	-6.0%	-5.1%	na
Net profit	248	380	558	341	519	na	-27.3%	-26.7%	na
EPS (HK\$)	0.21	0.32	0.47	0.29	0.44	na	-27.3%	-26.7%	na
Gross Margin	87.00%	87.20%	87.50%	87.50%	88.00%	na	-0.50ppt	-0.80ppt	na
Operating Margin	23.66%	24.39%	25.31%	24.52%	26.01%	na	-0.87ppt	-1.61ppt	na
Net Margin	5.19%	6.30%	7.55%	6.95%	8.70%	na	-1.76ppt	-2.40ppt	na

Source: CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

HK\$ mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	4,772	6,031	7,386	4,819	5,872	na	-1.0%	2.7%	na
Gross Profit	4,152	5,259	6,463	4,023	4,104	na	3.2%	28.2%	na
Operating Profit	1,129	1,471	1,870	699	925	na	61.5%	59.0%	na
Net profit	248	380	558	398	493	na	-37.7%	-22.8%	na
EPS (HK\$)	0.21	0.32	0.47	0.30	0.41	na	-29.4%	-21.8%	na
Gross Margin	87.00%	87.20%	87.50%	83.49%	69.89%	na	+3.51ppt	+17.32ppt	na
Operating Margin	23.66%	24.39%	25.31%	14.51%	15.76%	na	+9.15ppt	+8.64ppt	na
Net Margin	5.19%	6.30%	7.55%	8.25%	8.39%	na	-3.06ppt	-2.08ppt	na

Source: Bloomberg, CMBIGM estimates

Figure 4: Valuation on risk-adjusted DCF valuation

DCF Valuation (in HK\$ mn)	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E
EBIT	466	651	887	985	1,083	1,181	1,275	1,365	1,446	1,519
Tax rate	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)	396	553	754	837	921	1,004	1,084	1,160	1,229	1,291
+ D&A	558	694	835	885	929	966	995	1,015	1,025	1,025
- Change in working capital	(211)	(83)	(14)	(15)	(16)	(16)	(17)	(17)	(17)	(17)
- Capex	(500)	(750)	(650)	(650)	(650)	(650)	(650)	(650)	(650)	(650)
FCFF	243	414	925	1,057	1,184	1,304	1,412	1,508	1,587	1,649
Terminal value										17,205
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%									
PV of terminal value (HK\$ mn)	5,652									
Total PV (HK\$ mn)	10,348									
Net debt (HK\$ mn)	1,178									
Minority interest (HK\$ mn)	571									
Equity value (HK\$ mn)	8,599									
# of shares (mn)	1,185									
Price per share (HK\$ per share)	7.26									

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (HK\$ mn)						
Revenue	2,080	2,920	3,875	4,772	6,031	7,386
Cost of goods sold	(235)	(350)	(553)	(620)	(772)	(923)
Gross profit	1,845	2,570	3,322	4,152	5,259	6,463
Operating expenses	(1,251)	(1,767)	(2,548)	(3,023)	(3,788)	(4,593)
Selling expense	(109)	(139)	(173)	(205)	(253)	(303)
Admin expense	(117)	(163)	(233)	(262)	(320)	(377)
Staff costs	(1,029)	(1,384)	(2,061)	(2,434)	(3,046)	(3,693)
Other rental related expenses	(48)	(61)	(78)	(91)	(115)	(140)
Others	52	(19)	(4)	(31)	(55)	(80)
Operating profit	594	803	774	1,129	1,471	1,870
Share of (losses)/profits of associates/JV	5	(1)	12	0	0	0
Depreciation	(78)	(96)	(137)	(153)	(187)	(222)
Depreciation of ROU assets	(200)	(265)	(352)	(406)	(507)	(613)
Goodwill amortisation	(32)	(71)	(98)	(105)	(127)	(148)
Net Interest income/(expense)	(24)	(49)	(64)	(110)	(106)	(87)
Pre-tax profit	266	321	136	355	545	800
Income tax	(40)	(51)	(29)	(53)	(82)	(120)
After tax profit	226	271	107	302	464	680
Minority interest	33	73	37	54	83	122
Net profit	193	198	70	248	380	558
Gross dividends	172	170	118	186	285	418

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (HK\$ mn)						
Current assets	1,415	1,516	1,425	1,801	1,982	2,311
Cash & equivalents	931	870	710	1,027	1,069	1,255
Account receivables	179	155	212	213	253	289
Inventories	40	101	87	105	131	157
Prepayment	191	215	242	281	355	435
Financial assets at FVTPL	3	2	16	16	16	16
Other current assets	71	172	158	158	158	158
Non-current assets	2,376	3,345	4,089	4,381	4,867	5,198
PP&E	792	1,193	1,587	1,584	1,797	1,875
Intangibles	512	692	662	607	531	433
Goodwill	477	709	744	744	744	744
Other non-current assets	595	751	1,096	1,446	1,796	2,146
Total assets	3,790	4,861	5,513	6,182	6,850	7,509
Current liabilities	1,317	1,363	1,676	1,523	1,580	1,708
Short-term borrowings	287	0	101	101	101	101
Account payables	215	315	619	467	524	652
Other current liabilities	607	730	656	656	656	656
Lease liabilities	207	319	299	299	299	299
Non-current liabilities	842	1,147	1,467	2,371	2,803	3,073
Convertible bonds	240	236	230	230	230	230
Obligations under finance leases	295	387	514	920	1,426	2,039
Other non-current liabilities	308	524	723	1,221	1,147	803
Total liabilities	2,160	2,510	3,142	3,895	4,384	4,781
Share capital	0	0	0	0	0	0
Capital surplus	1,269	1,881	1,854	1,716	1,811	1,951
Total shareholders equity	1,269	1,881	1,854	1,716	1,811	1,951
Minority interest	362	469	516	571	654	777
Total equity and liabilities	3,790	4,861	5,513	6,182	6,850	7,509

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (HK\$ mn)						
Operating						
Profit before taxation	266	321	136	355	545	800
Depreciation & amortization	310	432	587	663	820	982
Tax paid	(54)	(67)	(29)	(53)	(82)	(120)
Change in working capital	80	(135)	193	(211)	(83)	(14)
Others	19	57	51	110	106	87
Net cash from operations	621	608	938	865	1,307	1,736
Investing						
Capital expenditure	(136)	(260)	(500)	(150)	(400)	(300)
Acquisition of subsidiaries/ investments	(353)	(347)	(175)	(350)	(350)	(350)
Net proceeds from disposal of short-term investments	108	0	0	0	0	0
Others	12	36	(50)	(50)	(50)	(50)
Net cash from investing	(369)	(571)	(725)	(550)	(800)	(700)
Financing						
Dividend paid	(130)	(322)	(118)	(386)	(285)	(418)
Net borrowings	609	0	500	600	0	0
Proceeds from share issues	107	530	0	0	0	0
Others	(429)	(308)	(755)	(212)	(180)	(431)
Net cash from financing	157	(100)	(373)	3	(465)	(849)
Net change in cash						
Cash at the beginning of the year	520	931	870	710	1,027	1,069
Exchange difference	2	2	0	0	0	0
Cash at the end of the year	931	870	710	1,027	1,069	1,255
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
Revenue	6.8%	40.3%	32.7%	23.1%	26.4%	22.5%
Gross profit	6.5%	39.3%	29.3%	25.0%	26.7%	22.9%
Operating profit	(2.8%)	35.1%	(3.6%)	45.8%	30.3%	27.1%
Net profit	(32.7%)	2.4%	(64.7%)	255.5%	53.5%	46.7%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
Gross profit margin	88.7%	88.0%	85.7%	87.0%	87.2%	87.5%
Operating margin	28.6%	27.5%	20.0%	23.7%	24.4%	25.3%
Return on equity (ROE)	17.0%	12.5%	3.7%	13.9%	21.6%	29.6%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
Net debt to equity (x)	(0.1)	(0.1)	0.3	0.7	0.9	0.8
Current ratio (x)	1.1	1.1	0.9	1.2	1.3	1.4
Receivable turnover days	22.6	20.9	17.3	16.3	15.3	14.3
Inventory turnover days	76.9	73.4	62.0	62.0	62.0	62.0
Payable turnover days	63.9	63.6	48.0	48.0	48.0	48.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar						
P/E	22.9	25.2	72.9	20.6	13.4	9.2
P/B	4.1	6.7	4.4	3.3	3.1	2.9
P/CFPS	8.3	20.6	8.7	6.6	4.3	3.3
Div yield (%)	3.3	1.4	1.5	3.3	5.0	7.4

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

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