

Jinxin Fertility (1951 HK)

Expect accelerating geographic expansion

Jinxin reported FY19 revenue of RMB1.65bn (+79% YoY) and adjusted net profit of RMB530mn (+101% YoY), in line with our estimates. Growth was mainly driven by solid organic growth and the consolidation of HRC Management. Excluding impact from acquisition, the organic growth in adjusted net profit was 27% YoY. Considering that COVID-19 outbreak could interrupt Jinxin's business operations, we lowered FY20/21 revenue forecasts by 5%/5% and attributable net profit forecast by 7%/7%, accordingly. We lowered our DCF-based TP to HK\$13.3. We remain positive on Jinxin based on its solid and sustainable organic growth as well as promising geographic expansion through acquisitions. Maintain BUY.

- Solid earnings.** Revenue from Chengdu network hospitals increased 16% YoY and revenue from Shenzhen Zhongshan Hospital grew 15% YoY while the organic income from HRC management remained largely stable. Thanks to significant operating leverage and higher GPM from US business, blended GPM improved by 4.74ppt to 49.5%. In FY19, Jinxin recorded marketing expenses of RMB62.2mn, which was associated with US business. Adjusted NPM lifted by 3.5ppt to 32.2%.
- Impact from COVID-19.** In FY19, network hospitals in China contributed 64.8% of the total revenue, while the remaining 35.2% revenue came from US clinics. Given that COVID-19 spread was largely contained in China, Jinxin's Chengdu hospital has fully resumed patient visits to a normal level from late March while the patient visits in Shenzhen hospital has recovered to c. 60% of the normal level. However, the serious outbreak of COVID-19 in US has brought uncertainties to Jinxin's US business operations.
- Accelerating geographic expansion.** As of end-2019, Jinxin had RMB3.3bn cash on hand which provides sufficient funding for future acquisitions. In 1Q20, Jinxin announced the acquisition of IVF licenses from Rhea International Medical Centre (Rhea) in Laos which will provide a capacity of over 3,000 IVF treatment cycles per year. Jinxin will actively look for acquisition opportunities in China, US, Russia and other regions. Given the COVID-19 outbreak, many IVF institutions are facing financial pressures and are more willing to sell at a discounted valuation. Thus, we expect Jinxin to accelerate geographic expansion through acquisitions.
- Maintain BUY.** We expect Jinxin's adjusted net profit to grow 16%/23%/20% YoY in FY20E/21E/22E, respectively. We lowered TP to HK\$13.3 based on 8-year DCF model (WACC:9.5%, terminal growth rate: 4%).
- Catalysts:** Quality acquisitions; **Risks:** Larger impact of COVID-19 outbreak.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	922	1,648	1,879	2,253	2,658
YoY growth (%)	39	79	14	20	18
Net profit (RMB mn)	167	410	556	691	837
EPS (RMB)	N/A	0.19	0.23	0.28	0.34
YoY growth (%)	N/A	N/A	23	24	21
Consensus EPS (RMB)	N/A	0.20	0.26	0.32	0.40
P/E (x)	N/A	41.6	33.8	27.2	22.4
P/B (x)	N/A	2.2	2.3	2.2	2.0
Yield (%)	N/A	0.89	0.59	0.74	0.89
ROE (%)	3.7	6.7	7.1	8.3	9.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Bloomberg, Bloomberg, CMBIS estimate

BUY (Maintain)

Target Price	HK\$13.3
(Previous TP)	HK\$15.4
Up/Downside	+54.7%
Current Price	HK\$8.60

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Mkt. Cap. (HK\$ mn)	20,936
Avg. 3mths t/o (HK\$ mn)	149.49
52W High/Low (HK\$)	15.30/ 7.12
Total Issued Shares (mn)	2,434

Source: Bloomberg

Shareholding Structure

Management	26.02%
Warburg Pincus	18.36%
HRC Physician	14.82%
Other institutional investors	22.58%
Employee holdings	1.35%
Public shareholders	16.87%

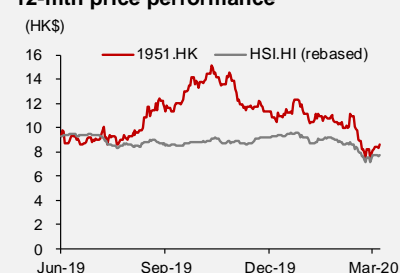
Source: HKEx, Bloomberg

Share performance

	Absolute	Relative
1-mth	-13.9%	-4.7%
3-mth	-17.5%	-1.4%
6-mth	-24.3%	-16.3%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Deloitte
Web-site: www.jxr-fertility.com

- "Business expansion in Laos" – 5 Mar 2020
- "Business intact from the new Coronavirus outbreak" – 30 Jan 2020
- "To become a global leading ARS provider" – 13 Jan 2020

Figure 1: FY19A results review

(RMB mn)	FY18A	FY19A	YoY	CMBI FY19E	Diff (%)
Revenue	922	1648	78.8%	1659	-0.6%
Cost of services	(509)	(832)	63.4%	(854)	-2.6%
Gross profit	413	817	97.7%	804	1.5%
Other income	22	63	190.8%	56	12.6%
Other expenses	(4)	(2)	-56.3%	8	N/A
Other losses	(1)	28	N/A	(8)	N/A
R&D expenses	(12)	(13)	11.0%	(12)	14.5%
Admin expenses	(103)	(211)	104.3%	(182)	15.8%
Listing expenses	(38)	(63)	64.2%	(65)	-3.6%
Finance cost	0	(9)	N/A	(8)	16.5%
Profit before tax	277	548	98.1%	594	-7.8%
Income tax expense	(64)	(127)	97.4%	(154)	-17.6%
Total net profit	212	421	98.3%	440	-4.3%
Minority Interests	(46)	(11)	-75.7%	(19)	-42.6%
Profit attributable net profit	167	410	145.9%	420	-2.6%
Adj. attributable net profit	264	530	100.7%	518	2.4%
Gross Margin	44.81%	49.55%	+4.74 ppt	48.5%	+1.05 ppt
Operating Margin	30.00%	33.24%	+3.24 ppt	35.8%	-2.59 ppt
Net Margin	18.07%	24.85%	+6.78 ppt	25.3%	-0.50 ppt

Source: Company data, CMBIS estimates

Figure 2: Earnings revision

RMB mn	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	1,879	2,253	1,983	2,366	-5%	-5%
Gross Profit	940	1,160	992	1,218	-5%	-5%
Operating Profit	743	925	848	1,047	-12%	-12%
Net profit	556	691	600	741	-7%	-7%
EPS (RMB cents)	23	28	25	30	-7%	-7%
Gross Margin	50.00%	51.50%	50.00%	51.50%	+0.0 ppt	+0.0 ppt
Operating Margin	39.54%	41.04%	42.76%	44.27%	-3.22 ppt	-3.24 ppt
Net Margin	29.56%	30.68%	30.25%	31.33%	-0.69 ppt	-0.65 ppt

Source: Company data, CMBIS estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIS		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	1,879	2,253	2,010	2,452	-6%	-8%
Gross Profit	940	1,160	1,009	1,264	-7%	-8%
Operating Profit	743	925	759.6	980.2	-2%	-6%
Net profit	556	691	609	769	-9%	-10%
EPS (RMB cents)	23	28	25.5	31.5	-11%	-10%
Gross Margin	50.00%	51.50%	50.20%	51.57%	-0.20 ppt	-0.07 ppt
Operating Margin	39.54%	41.04%	37.79%	39.98%	+1.75 ppt	+1.06 ppt
Net Margin	29.56%	30.68%	30.30%	31.36%	-0.74 ppt	-0.68 ppt

Source: Company data, CMBIS estimates

Figure 4: Peers' valuation

Figure 11: EV/EBITDA valuation											
Company	Ticker	Rating	Mkt cap US\$ mn	PER(x)		PBR(x)		EV/EBITDA (x)		ROE(%)	
				FY20	FY21	FY20	FY21	FY20	FY21	FY20	FY21
H share											
Jinxin Fertility	1951 HK	BUY	2,700	34	27	2.3	2.2	22	18	7.1	8.3
C-MER EYE	3309 HK	N/A	599	37	28	N/A	N/A	21	17	13.0	16.0
CR Medical	1515 HK	N/A	696	10.6	9.8	0.8	0.7	5.1	4.0	6.7	7.0
UMH	2138 HK	BUY	432	8.5	6.9	3.3	2.3	6.8	5.4	34.1	34.7
Average				21.6	17.3	2.2	1.8	13.9	10.9	15.6	16.9
A share											
AIER EYE HOSPITAL	300015 CH	N/A	17,218	67.2	51.2	14.5	12.2	39.2	29.9	22.7	24.0
TOPCHOICE MEDICAL	600763 CH	N/A	4,878	57.3	44.3	14.8	11.2	38.6	29.3	26.5	25.9
INTERNATIONAL MEDICAL	000516 CH	N/A	1,166	139.7	38.1	N/A	N/A	N/A	N/A	N/A	N/A
Average				88.0	44.5	14.7	11.7	38.9	29.6	24.6	25.0

Source: Bloomberg, CMBIS estimates (As at 31 Mar 2020)

Financial Summary

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	922	1,648	1,879	2,253	2,658	Profit before tax	277	548	743	925	1,119
ARS	801	932	1,120	1,378	1,682	Depreciation	29	66	75	80	85
Management service fee	90	648	690	802	900	Change in working capital	82	(100)	(163)	13	15
Ancillary medical services	31	68	70	73	76	Others	4	66	(10)	(20)	(32)
Cost of sales	(509)	(832)	(940)	(1,093)	(1,263)	Tax paid	(35)	(127)	(173)	(215)	(260)
Gross profit	413	817	940	1,160	1,395	Operating cash flow	356	453	473	783	927
Other income	22	63	70	80	92	Capex	(21)	(800)	(240)	(80)	(80)
Other expenses	(4)	(2)	0	0	0	Acquisition of subsidiaries	0	0	0	0	0
Other losses	(1)	28	0	0	0	Other investing activities	(367)	(1,906)	53	63	75
R&D expenses	(12)	(13)	(11)	(14)	(16)	Investing cash flow	(388)	(2,706)	(187)	(17)	(5)
Administrative expenses	(103)	(211)	(199)	(237)	(276)	Net proceeds from shares issued	1,129	2,951	0	0	0
Listing expenses	(38)	(63)	0	0	0	Bank borrowing	0	0	0	0	0
Finance cost	0	(9)	(9)	(9)	(9)	Advance from related parties	104	0	0	0	0
Profit before tax	277	548	743	925	1,119	Other financing activities	(466)	(1,303)	(152)	(111)	(138)
Income tax expense	(64)	(127)	(173)	(215)	(260)	Financing cash flow	767	1,647	(152)	(111)	(138)
Total net profit	212	421	571	710	859	Net change in cash	736	(606)	134	655	784
Minority Interests	(46)	(11)	(15)	(19)	(23)	Cash at the beginning	449	1,184	580	714	1,369
Attributable net profit	167	410	556	691	837	Cash at the end	1,184	580	714	1,369	2,153

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	5,123	5,515	5,637	5,594	5,546	Sales mix (%)					
Plant and equipment	138	857	1,022	1,022	1,017	ARS	86.9	56.5	59.6	61.2	63.3
Goodwill	802	809	809	809	809	Management service fee	9.7	39.3	36.7	35.6	33.9
License	401	388	375	362	349	Ancillary medical services	3.4	4.1	3.7	3.2	2.9
Contractual right to provide management services	1,939	1,963	1,963	1,963	1,963	Total	100	100	100	100	100
Trademarks	1,292	1,305	1,305	1,305	1,305						
Others	550	193	163	133	103	Profit & loss ratios (%)					
Current assets	1,436	3,426	3,532	4,195	4,987	Gross margin	45	50	50	52	53
Inventories	17	26	28	33	38	EBITDA margin	34	38	43	44	44
Accounts and other receivables	77	46	15	19	22	Pre-tax margin	30	33	40	41	42
Amounts due from related parties	71	50	50	50	50	Net margin	18	25	30	31	31
Bank balances and cash	1,184	580	714	1,369	2,153	Effective tax rate	23	23	23	23	23
Others	87	2,725	2,725	2,725	2,725	Balance sheet ratios					
Current liabilities	1,377	436	245	266	289	Current ratio (x)	1	8	14	16	17
Accounts and other payables	391	320	129	150	173	Trade receivables days	4	3	3	3	3
Capital contribution	0	0	0	0	0	Trade payables days	103	50	50	50	50
Amounts due to related parties	917	41	41	41	41	Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Tax payables	69	46	46	46	46						
Non-current liabilities	682	863	863	863	863	Returns (%)					
Deferred rent	5	0	0	0	0	ROE	3.7	6.7	7.1	8.3	9.3
Deferred tax liabilities	677	709	709	709	709	ROA	2.5	5.3	6.1	7.3	8.2
Total net assets	4,500	7,642	8,061	8,660	9,381	Per share value					
Minority interest	137	116	131	149	172	EPS (RMB)	N/A	0.19	0.23	0.28	0.34
Shareholders' equity	4,363	7,527	7,931	8,511	9,210	DPS (RMB)	N/A	0.07	0.05	0.06	0.07
						BVP (RMB)	N/A	3.46	3.31	3.56	3.85

Source: Company data, CMBIS estimates

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