

# Joynn Laboratories (6127 HK)

## Wait longer for recovery

Joynn reported 3Q23 revenue of RMB575mn, up 15.1% YoY, and attributable net income of RMB237mn, down 9.2% YoY. 3Q23 revenue accounted for 20.7% of our full-year estimate, in-line with its historical average, while attributable net income represented 57.5% of our full-year estimate, substantially higher than the historical average which was primarily due to RMB82mn fair value gain from biological assets in 3Q23 compared with RMB183mn fair value loss in 1H23. Specifically, Joynn's laboratory services (core business) recorded a net profit of RMB114mn in 3Q23, slightly down 2.9% YoY, while the net profit of lab services in 9M23 maintained YoY growth of 16.0%. Joynn's new orders signed were ~RMB570mn/ RMB730mn/ RMB500m in 1Q/ 2Q/ 3Q, respectively, which were attributable to the continuously weakening demand in early-stage drug R&D in both domestic and international markets. As a result, total backlogs dropped to RMB3.7bn as of Sep 2023 from RMB4.4bn as of end-2022. Management aims to increase Joynn's market share in the highly competitive environment by offering competitive pricing and quality services to customers.

- **Globalization to be a business focus for Joynn.** Joynn's US subsidiary, Biomere, continuously delivered solid business performance. According to management, Biomere's revenue increased by ~30% YoY in 9M23, higher than domestic revenue growth, indicating a more resilient R&D demand in the US market. Management guided c.20% 2023 full-year revenue growth from its overseas operations despite the relatively slower-than expected ramp-up of its lab facilities in California. Joynn has taken a proactive strategy to hire experienced talents and to enhance customer trust and market reputation in the US. In addition, Joynn has put more resources on marketing its off-shore drug safety services in the US market. Leveraging its successful domestic operation experiences and rich resources of high-quality non-human primates, we believe that Joynn will gradually unlock its offshore business potential.
- **Aiming to gain more share in the challenging market.** According the management, Joynn has offered price discounts to customers to secure orders. With abundant cash on hand and rich supply of high-quality non-human primates, we expect Joynn, as a leading safety assessment CRO in China, will further gain market share in the challenging market.
- **Gross profit margin (GPM) to be under pressure.** GPM in 3Q23 dropped by 8.1ppts YoY while increased by 2.7ppts QoQ. The QoQ GPM improvement was due to the revenue mix change, i.e. more high-margin small animal projects completed in 3Q. Management has a conservative view on its next-year GPM trend given the price discounts of contracts signed this year.
- **Maintain BUY.** We revised our TP to HK\$21.18 from HK\$24.51, based on a 10-year DCF valuation with WACC of 10.7% and terminal growth of 2.0%, reflecting the lower earnings projection. We forecast Joynn's revenue to grow 19.6%/ 22.9%/ 26.6% YoY and adjusted net income to grow 2.1%/ 12.8%/ 28.1% YoY in 2023E/ 24E/ 25E, respectively.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	1,517	2,268	2,713	3,333	4,220
YoY growth (%)	41.0	49.5	19.6	22.9	26.6
Adjusted net profit (RMB mn)	415	577	589	664	851
YoY growth (%)	46.0	39.1	2.1	12.8	28.1
EPS (Adjusted) (RMB)	1.12	1.08	0.79	0.89	1.13
Consensus EPS (RMB)	na	na	1.02	1.39	1.77
P/E (Adjusted) (x)	23.4	17.3	16.9	15.0	11.7

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

Target Price	HK\$21.18
(Previous TP)	HK\$24.51
Up/Downside	43.3%
Current Price	HK\$14.78

### 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)	11,083.4
Avg 3 mths t/o (HK\$ mn)	10.1
52w High/Low (HK\$)	47.20/12.44
Total Issued Shares (mn)	749.9

Source: FactSet

### Shareholding Structure

Yuxia Feng & Zhiwen Zhou	32.3%
HK investors	17.9%

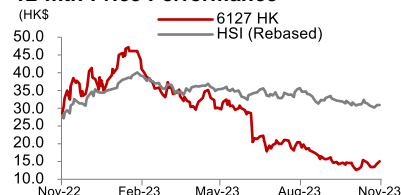
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	6.3%	10.7%
3-mth	-24.7%	-11.9%
6-mth	-51.0%	-43.0%

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	2,713	3,333	4,220	2,775	3,359	4,285	-2.24%	-0.76%	-1.53%
Gross Profit	1,160	1,375	1,753	1,187	1,417	1,840	-2.32%	-3.01%	-4.76%
Operating Profit	642	771	997	654	811	1,088	-1.78%	-4.90%	-8.35%
Attributable net profit	589	664	851	611	721	960	-3.69%	-7.95%	-11.38%
EPS (RMB)	0.79	0.89	1.13	0.82	0.96	1.28	-3.69%	-7.95%	-11.38%
Gross Margin	42.75%	41.24%	41.53%	42.78%	42.20%	42.94%	-0.03ppt	-0.95ppt	-1.41ppt
Operating Margin	23.67%	23.14%	23.63%	23.55%	24.15%	25.39%	+0.11ppt	-1.01ppt	-1.76ppt
Net Margin	21.70%	19.92%	20.16%	14.86%	23.70%	25.21%	+6.84ppt	-3.78ppt	-5.06ppt

Source: CMBIGM estimates

**Figure 2: CMBIGM estimates vs consensus**

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	2,713	3,333	4,220	2,896	3,670	4,497	-6.33%	-9.18%	-6.16%
Gross Profit	1,160	1,375	1,753	1,345	1,700	2,086	-13.79%	-19.17%	-15.98%
Operating Profit	642	771	997	863	1,099	1,381	-25.58%	-29.82%	-27.79%
Attributable net profit	589	664	851	725	983	1,237	-18.75%	-32.43%	-31.24%
EPS (RMB)	0.79	0.89	1.13	1.02	1.39	1.77	-23.10%	-36.39%	-35.92%
Gross Margin	42.75%	41.24%	41.53%	46.44%	46.34%	46.38%	-3.70ppt	-5.09ppt	-4.85ppt
Operating Margin	23.67%	23.14%	23.63%	29.79%	29.95%	30.71%	-6.12ppt	-6.81ppt	-7.08ppt
Net Margin	21.70%	19.92%	20.16%	25.02%	26.77%	27.51%	-3.32ppt	-6.85ppt	-7.35ppt

Source: Bloomberg, CMBIGM estimates

**Figure 3: DCF valuation for Joinn**

DCF Valuation (in RMB mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	472	791	1,077	1,239	1,412	1,596	1,787	1,984	2,182	2,379
Tax rate	15.7%	15.7%	15.7%	15.7%	15.7%	15.7%	15.7%	15.7%	15.7%	15.7%
EBIT*(1-tax rate)	398	667	908	1,045	1,191	1,346	1,507	1,673	1,840	2,006
+ D&A	153	159	167	191	215	241	268	295	321	347
- Change in working capital	(133)	(156)	(225)	(257)	(290)	(325)	(360)	(397)	(432)	(467)
- Capx	(400)	(400)	(450)	(450)	(450)	(450)	(450)	(450)	(450)	(450)
<b>FCFF</b>	<b>18</b>	<b>270</b>	<b>401</b>	<b>529</b>	<b>666</b>	<b>812</b>	<b>965</b>	<b>1,121</b>	<b>1,279</b>	<b>1,436</b>
<b>Terminal value</b>										<b>16,789</b>
<b>Terminal growth rate</b>	<b>2.0%</b>									
<b>WACC</b>	<b>10.7%</b>									
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	30.0%									
Effective Corporate Tax Rate	15.0%									
PV of terminal value (RMB mn)	6,061									
Total PV (RMB mn)	9,785									
Net debt (RMB mn)	(4,513)									
Minority interest (RMB mn)	4									
Equity value (RMB mn)	14,294									
# of shares (mn)	750									
Price per share (in RMB)	19.06									
<b>Price per share (in HK\$)</b>	<b>21.18</b>									

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

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	1,076	1,517	2,268	2,713	3,333	4,220
Cost of goods sold	(525)	(781)	(1,187)	(1,553)	(1,958)	(2,467)
Gross profit	551	736	1,081	1,160	1,375	1,753
Operating expenses	(275)	(328)	(396)	(518)	(603)	(755)
Selling expense	(13)	(16)	(18)	(29)	(33)	(42)
Admin expense	(211)	(264)	(300)	(381)	(450)	(565)
R&D expense	(51)	(48)	(78)	(108)	(120)	(148)
Operating profit	276	408	686	642	771	997
Gain/loss on financial assets at FVTPL	55	125	333	(199)	0	60
Share of (losses)/profits of associates/JV	0	(0)	(3)	(2)	0	0
Net interest income/(expense)	(4)	(4)	(4)	(3)	(3)	(3)
Other income/expense	32	113	228	136	100	88
Pre-tax profit	359	642	1,240	574	869	1,143
Income tax	(47)	(86)	(167)	(90)	(136)	(179)
After tax profit	312	556	1,073	484	733	964
Minority interest	(1)	(1)	(1)	(3)	(1)	(2)
Net profit	313	557	1,074	487	734	966
Adjusted net profit	284	415	577	589	664	851
Gross dividends	95	137	214	97	147	193

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	1,183	5,814	5,928	6,046	6,577	7,313
Cash & equivalents	309	4,154	2,917	3,122	3,311	3,514
Account receivables	91	116	212	245	301	382
Inventories	91	106	350	383	483	608
Financial assets at FVTPL	306	841	1,480	1,281	1,281	1,341
Other current assets	386	597	970	1,014	1,201	1,469
Non-current assets	990	2,723	4,436	4,683	4,924	5,207
PP&E	646	815	1,235	1,294	1,347	1,442
Intangibles	63	57	50	38	26	14
Goodwill	125	122	134	134	134	134
Financial assets at FVTPL	84	180	946	946	946	946
Other non-current assets	72	1,549	2,071	2,271	2,471	2,671
Total assets	2,173	8,537	10,364	10,729	11,501	12,520
Current liabilities	774	1,214	1,844	1,822	2,009	2,257
Short-term borrowings	3	5	4	4	4	4
Account payables	60	54	127	118	149	188
Other current liabilities	696	1,134	1,689	1,676	1,832	2,041
Lease liabilities	15	22	24	24	24	24
Non-current liabilities	177	178	329	329	329	329
Long-term borrowings	21	5	3	3	3	3
Obligations under finance leases	53	64	57	57	57	57
Deferred income	67	61	81	81	81	81
Other non-current liabilities	35	48	188	188	188	188
Total liabilities	951	1,393	2,173	2,151	2,338	2,586
Share capital	227	381	536	536	536	536
Capital surplus	995	6,755	7,648	8,038	8,625	9,398
Total shareholders equity	1,223	7,136	8,184	8,573	9,161	9,933
Minority interest	(1)	8	7	4	2	1
Total equity and liabilities	2,173	8,537	10,364	10,729	11,501	12,520

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	359	642	1,240	574	869	1,143
Depreciation & amortization	83	101	130	153	159	167
Tax paid	(33)	(42)	(124)	(90)	(136)	(179)
Change in working capital	52	98	142	(133)	(156)	(225)
Others	(23)	(115)	(443)	202	3	(57)
<b>Net cash from operations</b>	<b>438</b>	<b>685</b>	<b>945</b>	<b>706</b>	<b>739</b>	<b>849</b>
<b>Investing</b>						
Capital expenditure	(141)	(220)	(269)	(200)	(200)	(250)
Acquisition of subsidiaries/ investments	0	(26)	(1,689)	(200)	(200)	(200)
Others	(110)	(1,823)	(177)	0	0	0
<b>Net cash from investing</b>	<b>(251)</b>	<b>(2,069)</b>	<b>(2,134)</b>	<b>(400)</b>	<b>(400)</b>	<b>(450)</b>
<b>Financing</b>						
Dividend paid	(55)	(95)	(137)	(97)	(147)	(193)
Net borrowings	4	(4)	(59)	0	0	0
Proceeds from share issues	33	5,421	(2)	0	0	0
Others	(32)	(32)	99	(3)	(3)	(3)
<b>Net cash from financing</b>	<b>(50)</b>	<b>5,290</b>	<b>(99)</b>	<b>(101)</b>	<b>(150)</b>	<b>(196)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	177	305	4,150	2,917	3,122	3,311
Exchange difference	(9)	(61)	37	0	0	0
<b>Cash at the end of the year</b>	<b>305</b>	<b>4,150</b>	<b>2,899</b>	<b>3,122</b>	<b>3,311</b>	<b>3,514</b>
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Revenue	68.3%	41.0%	49.5%	19.6%	22.9%	26.6%
Gross profit	67.5%	33.6%	47.0%	7.2%	18.5%	27.5%
Operating profit	58.3%	47.9%	68.2%	(6.4%)	20.1%	29.3%
Net profit	66.6%	78.1%	92.7%	(54.6%)	50.6%	31.6%
Adj. net profit	63.2%	46.0%	39.1%	2.1%	12.8%	28.1%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Gross profit margin	51.2%	48.5%	47.7%	42.7%	41.2%	41.5%
Operating margin	25.6%	26.9%	30.2%	23.7%	23.1%	23.6%
Adj. net profit margin	26.4%	27.3%	25.4%	21.7%	19.9%	20.2%
Return on equity (ROE)	30.2%	13.3%	14.0%	5.8%	8.3%	10.1%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.2)	(0.8)	(0.5)	(0.5)	(0.5)	(0.5)
Current ratio (x)	1.5	4.8	3.2	3.3	3.3	3.2
Receivable turnover days	32.0	24.9	26.3	33.0	33.0	33.0
Inventory turnover days	48.8	46.1	70.2	90.0	90.0	90.0
Payable turnover days	32.8	26.6	27.8	27.8	27.8	27.8
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
P/E (adjusted)	na	23.4	17.3	16.9	15.0	11.7
P/B	na	3.1	2.3	1.2	1.1	1.0
P/CFPS	na	32.6	20.2	14.7	14.0	12.2
Div yield (%)	na	0.6	1.1	0.9	1.4	1.9

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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