

PA Good Doctor (1833 HK)

Early achievements of Strategy 2.0

1H22 earnings in line. PA Good Doctor (PAGD) reported 1H22 revenue of RMB2,828mn, down by 26% YoY and adjusted non-IFRS net loss of RMB390mn. The net loss significantly narrowed from RMB791mn in 1H21, which was mainly attributable to the Company's Strategy 2.0 to switch customer acquisition channel from individual customers to corporate clients as well as various cost saving measures during the period. Gross profit margin (GPM) increased 4.0ppts to 27.3% in 1H22 from 23.3% in 2021, due to the Company's proactive reduction in the low-margin online mall business. The number of registered users increased by 4.2% from 423mn as of Dec 2021 to 441mn as of Jun 2022 and the cumulative number of paying users in the last twelve months reached 40mn, representing a conversion rate of monthly paying users of 32.0% (vs 24.8% as of Dec 2021).

■ **Strategy 2.0 delivered initial positive results, despite the business interruption caused by COVID-19 lockdown in major cities in China.** Different from individual customer acquisition, off-line visits are necessary and critical to win corporate customers under Strategy 2.0. PAGD's main targeted corporate customers are mid- to large-sized SOEs and private companies which are typically headquartered in major cities in China. Given major cities took strict travel restrictions due to COVID outbreak in 1H22, PAGD's off-line corporate customers acquisitions were forced to a pause. However, the cumulative number of corporate clients served by PAGD reached 749 as of Jun 2022 (compared with 520 as of Dec 2021) and covered more than 2mn paid employee and corporate clients (compared with more than 1mn as of Dec 2021), indicating increasing penetration of PAGD's services among corporate clients and their employees. PAGD's service coverage still has significant room for growth. According to the Company, its total accessible market includes ~70mn corporate employees which refers to mid- to large-sized companies with business connections with Ping An Group.

■ **Net loss continues to narrow.** Besides the significant improvement in GPM in 1H22, selling and marketing expense ratio further dropped to 18.5% in 1H22 from 24.0% in 2021, driven by the inherent cost saving and economies of scale from health management services for corporate clients. We expect PAGD to generate positive net profit from 2025E.

■ **Maintain BUY.** Due to the negative impact from pandemic in 1H22, we forecast PAGD's revenue to change by -12%/ +23%/ +21% YoY with adjusted net losses of RMB990mn/ RMB665mn/ RMB116mn in FY22E/ 23E/ 24E. Our TP remained largely unchanged at HK\$28.40, based on a 10-year DCF model (WACC: 11.1%, terminal growth rate: 3.0%) to reflect PAGD's long-term growth prospect.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	6,866.0	7,334.2	6,440.2	7,947.5	9,634.5
YoY growth (%)	35.5%	6.8%	(12.2%)	23.4%	21.2%
Net profit (RMB mn)	(948.5)	(1,538.2)	(1,070.5)	(770.0)	(254.0)
Adjusted net profit (RMB mn)	(515.8)	(1,417.2)	(990.5)	(664.9)	(115.9)
EPS (Adjusted)(RMB)	(0.5)	(1.3)	(0.9)	(0.6)	(0.1)
Consensus EPS (RMB)	na	na	(1.0)	(0.7)	(0.3)
ROE (%)	(7.4%)	(10.3%)	(7.9%)	(6.1%)	(2.1%)
Net gearing (%)	(49.8%)	(20.9%)	(17.6%)	(12.7%)	(11.2%)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$28.40**
(Previous TP **HK\$28.30**)
Up/Downside **43.7%**
Current Price **HK\$19.76**

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Stock Data

Mkt Cap (HK\$ mn)	22,107.7
Avg 3 mths t/o (HK\$ mn)	21.3
52w High/Low (HK\$)	61.75/15.74
Total Issued Shares (mn)	1118.8

Source: FactSet

Shareholding Structure

Ping An Insurance	39.4%
Sounda Properties	9.4%

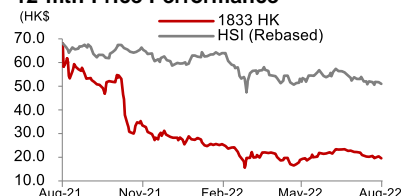
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-11.4%	-7.4%
3-mth	4.8%	6.6%
6-mth	-22.5%	-2.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	6,440	7,947	9,635	6,463	7,973	9,662	-0.35%	-0.32%	-0.29%
Gross Profit	1,759	2,420	3,096	1,727	2,314	3,074	1.87%	4.59%	0.73%
Operating Profit	-1,114	-807	-291	-1,093	-904	-299	n/m	n/m	n/m
Net profit	-1,070	-770	-254	-1,105	-898	-293	n/m	n/m	n/m
EPS (RMB)	-0.96	-0.69	-0.23	-0.99	-0.80	-0.26	n/m	n/m	n/m
Gross Margin	27.31%	30.46%	32.14%	26.72%	29.03%	31.81%	+0.60ppt	+1.43ppt	+0.32ppt
Operating Margin	-17.29%	-10.16%	-3.02%	-16.91%	-11.34%	-3.10%	-0.38ppt	+1.18ppt	+0.07ppt
Net Margin	-16.62%	-9.69%	-2.64%	-17.10%	-11.26%	-3.04%	+0.48ppt	+1.57ppt	+0.40ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	6,440	7,947	9,635	7,303	8,429	9,860	-11.81%	-5.71%	-2.29%
Gross Profit	1,759	2,420	3,096	1,825	2,267	2,860	-3.64%	6.76%	8.25%
Operating Profit	-1,114	-807	-291	-1,294	-931	-434	n/m	n/m	n/m
Net profit	-1,070	-770	-254	-1,150	-767	-324	n/m	n/m	n/m
EPS (RMB)	-0.96	-0.69	-0.23	-1.02	-0.69	-0.30	n/m	n/m	n/m
Gross Margin	27.31%	30.46%	32.14%	25.00%	26.90%	29.01%	+2.32ppt	+3.56ppt	+3.13ppt
Operating Margin	-17.29%	-10.16%	-3.02%	-17.72%	-11.04%	-4.41%	+0.42ppt	+0.88ppt	+1.38ppt
Net Margin	-16.62%	-9.69%	-2.64%	-15.75%	-9.10%	-3.28%	-0.87ppt	-0.59ppt	+0.65ppt

Source: Company data, CMBIGM estimates

Figure 3: Valuation on risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
EBIT	(1,184)	(847)	(331)	410	710	1,192	1,943	3,070	4,698	6,905
Tax rate	-0.3%	0.0%	0.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)	(1,188)	(847)	(331)	349	603	1,013	1,652	2,610	3,993	5,870
+ D&A	42	53	61	67	116	195	317	501	767	1,127
- Change in working capital	(192)	(93)	(130)	(121)	(209)	(351)	(571)	(903)	(1,381)	(2,030)
- Capex	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)
FCFF	(1,418)	(967)	(480)	215	430	777	1,318	2,128	3,299	4,887
Terminal value										62,332

Terminal growth rate	3.0%
WACC	11.1%
Cost of Equity	14.0%
Cost of Debt	5.0%
Equity Beta	1.0
Risk Free Rate	3.0%
Market Risk Premium	11.0%
Target Debt to Asset ratio	30.0%
Effective Corporate Tax Rate	15.0%

Terminal value (RMB mn)	21,804
Total PV (RMB mn)	24,745
Net debt (RMB mn)	(2,265)
Minority interest (RMB mn)	0
Equity value (RMB mn)	27,009
# of shares (mn)	1,119
Price per share (RMB per share)	24.14
Price per share (HK\$ per share)	28.40

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	5,065	6,866	7,334	6,440	7,947	9,635
Cost of goods sold	(3,894)	(5,002)	(5,627)	(4,681)	(5,527)	(6,538)
Gross profit	1,171	1,864	1,707	1,759	2,420	3,096
Operating expenses	(2,282)	(2,604)	(3,603)	(3,204)	(3,478)	(3,638)
Selling expense	(1,207)	(1,587)	(1,757)	(1,192)	(1,232)	(1,205)
Admin expense	(1,075)	(1,017)	(1,846)	(2,013)	(2,245)	(2,433)
Operating profit	(1,111)	(739)	(1,896)	(1,445)	(1,057)	(541)
Share of (losses)/profits of associates	(27)	(122)	(39)	(70)	(40)	(40)
Net Interest income/(Expense)	253	100	159	115	76	77
Other Income/ Expense	151	(180)	253	332	250	250
Pre-tax profit	(734)	(941)	(1,524)	(1,069)	(771)	(254)
Income tax	(13)	(7)	(16)	(4)	0	0
Net profit	(747)	(949)	(1,539)	(1,072)	(771)	(254)
Minority interest	(13)	(0)	(1)	(2)	(1)	(0)
Net profit to shareholders	(734)	(948)	(1,538)	(1,070)	(770)	(254)
Adjusted net profit	(695)	(516)	(1,417)	(990)	(665)	(116)
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	8,478	15,256	12,757	12,078	11,510	12,335
Cash & equivalents	4,965	7,920	3,065	2,891	2,671	2,972
Account receivables	649	1,058	1,554	1,607	1,412	1,742
Inventories	75	160	398	463	385	454
Financial assets at FVTPL	1,849	3,566	4,937	4,937	4,937	4,937
Other current assets	939	2,551	2,803	2,180	2,106	2,230
Non-current assets	3,901	3,307	5,124	5,066	5,028	4,981
PP&E	186	166	140	178	205	223
Investment in JVs & assos	510	451	546	475	435	355
Intangibles	106	102	106	81	56	31
Goodwill	967	970	970	970	970	970
Other non-current assets	2,132	1,617	3,362	3,362	3,362	3,402
Total assets	12,379	18,563	17,881	17,144	16,538	17,316
Current liabilities	2,665	2,668	3,674	4,154	4,213	5,107
Short-term borrowings	0	0	0	500	1,000	1,500
Account payables	1,777	1,863	2,641	2,621	2,180	2,574
Other current liabilities	889	805	1,033	1,033	1,033	1,033
Non-current liabilities	44	39	121	121	121	121
Obligations under finance leases	44	39	121	121	121	121
Other non-current liabilities	0	0	0	0	0	0
Total liabilities	2,710	2,707	3,795	4,275	4,334	5,228
Share capital	0	0	0	0	0	0
Capital surplus	13,519	20,652	20,440	20,214	20,214	20,214
Retained earnings	(3,870)	(4,819)	(6,357)	(7,345)	(8,009)	(8,124)
Total shareholders equity	9,649	15,833	14,083	12,869	12,205	12,090
Minority interest	21	23	2	0	(1)	(1)
Total equity and liabilities	12,379	18,563	17,881	17,144	16,538	17,316
CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(747)	(949)	(1,539)	(1,069)	(771)	(254)
Depreciation & amortization	146	170	207	42	53	61

Change in working capital	340	(716)	145	(192)	(93)	(130)
Others	(243)	393	(216)	59	96	127
Net cash from operations	(504)	(1,102)	(1,403)	(1,160)	(716)	(196)

Investing

Capital expenditure	(133)	(73)	(89)	(80)	(80)	(80)
Acquisition of subsidiaries/ investments	0	0	(2)	0	0	0
Net proceeds from disposal of short-term investments	(3,356)	(2,152)	(1,237)	0	0	0
Others	7,966	(272)	(1,773)	803	86	87
Net cash from investing	4,477	(2,497)	(3,100)	723	6	7

Financing

Net borrowings	0	0	0	500	500	500
Proceeds from share issues	76	6,869	0	0	0	0
Share repurchases	0	0	(368)	(226)	0	0
Others	(67)	53	48	(11)	(10)	(10)
Net cash from financing	9	6,922	(320)	263	490	490

Net change in cash

Cash at the beginning of the year	926	4,965	7,920	3,065	2,891	2,671
Exchange difference	58	(368)	(32)	0	0	0
Cash at the end of the year	4,965	7,920	3,065	2,891	2,671	2,972

GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
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YE 31 Dec

Revenue	51.8%	35.5%	6.8%	(12.2%)	23.4%	21.2%
Gross profit	28.5%	59.2%	(8.5%)	3.1%	37.6%	27.9%
Operating profit	n/m	n/m	n/m	n/m	n/m	n/m
Net profit	n/m	n/m	n/m	n/m	n/m	n/m
Adj. net profit	n/m	n/m	n/m	n/m	n/m	n/m

PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
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YE 31 Dec

Gross profit margin	23.1%	27.2%	23.3%	27.3%	30.5%	32.1%
Operating margin	(19.9%)	(13.4%)	(22.4%)	(17.3%)	(10.2%)	(3.0%)
Net profit margin	(14.5%)	(13.8%)	(21.0%)	(16.6%)	(9.7%)	(2.6%)
Adj. net profit margin	(13.7%)	(7.5%)	(19.3%)	(15.4%)	(8.4%)	(1.2%)
Return on assets (ROA)	(5.9%)	(6.1%)	(8.4%)	(6.1%)	(4.6%)	(1.5%)
Return on equity (ROE)	(7.4%)	(7.4%)	(10.3%)	(7.9%)	(6.1%)	(2.1%)

GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
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YE 31 Dec

Net debt to equity (x)	(0.5)	(0.5)	(0.2)	(0.2)	(0.1)	(0.1)
Current ratio (x)	3.2	5.7	3.5	2.9	2.7	2.4
Receivable turnover days	38.9	45.4	65.0	80.0	80.0	80.0
Inventory turnover days	5.3	8.6	18.1	30.0	30.0	30.0
Payable turnover days	153.0	132.8	146.1	170.0	170.0	170.0

VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
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YE 31 Dec

P/E	n/m	n/m	n/m	n/m	n/m	n/m
P/E (diluted)	n/m	n/m	n/m	n/m	n/m	n/m
P/B	3.9	5.6	4.8	1.5	1.6	1.6
P/CFPS	n/m	n/m	n/m	n/m	n/m	n/m
Div yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

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

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