

# Joynn Laboratories (6127 HK)

## Recovery could be not earlier than 1H24

Joynn reported 2023 revenue of RMB2,376mn, up 4.8% YoY, and attributable net income of RMB338mn, down 66.9% YoY. The decelerated revenue growth was due to subdued R&D activities in Chinese pharmaceutical industry, leading to heightened competition and lower pricing. The decline of attributable net income was primarily due to the RMB267mn fair value losses from biological assets, a non-operational, non-cash charge. Joynn's laboratory services (its core business) recorded a net profit of RMB473mn in 2023, down 17.9% YoY, which can better reflect the profitability of its core business. In 2023, new orders signed by Joynn decreased by ~40% YoY to RMB2.3bn due to weak client demand. The backlog as of end-2023 was RMB3.3bn, compared with RMB4.4bn as of end-2022. The decrease in backlog resulted from Joynn's proactive reviews and adjustments of contracts in hand. Considering the uncertainties of R&D recovery of domestic pharmaceutical market and the price erosion of new orders signed in 2023, mgmt. forecast its 2024E revenue to remain on par with 2023, with continued pressure on profitability.

- Early signs of stabilizing client demand.** Despite a decline in the value of new orders in 2023, mgmt. has highlighted encouraging early signs, with contract booking volume in Jan-Feb 2024 reporting promising 20% YoY growth and pricing remaining consistent with the levels of 4Q23. Mgmt. acknowledges the sustained pressure on the full-year growth projections, but remains proactive. Mgmt. is optimistic about its growth potential in emerging service areas, such as clinical services, and is preparing to hire an additional 100-200 staff in 2024 to support this expanding demand.
- Recalibrating capacity expansion plan in response to market dynamics.** Joynn has completed the topping out of its Phase II 20,000 sq. m. facilities in Suzhou, and the construction of Joynn's drug safety assessment center in Guangzhou progressed steadily. Mgmt. is carefully planning the operational launch of both sites to be in strategic concordance with the evolving market conditions. For 2024, mgmt. expects Capex to be RMB130-140mn, lower than RMB193mn in 2023.
- Overseas business remaining a strategic imperative.** Though domestic business growth has been moderate, Joynn's revenue from overseas clients surged by 51% YoY in 2023, which was mainly driven by the strong performance of Biomere. The robust performance of Biomere in 2023 was underpinned by inflation-driven price rises and the increasing complexity of experiments it can conduct. Biomere signed RMB340mn worth of contracts in 2023, largely flattish with 2022. To cater to the surging demand from US clients, Biomere is actively seeking additional space to expand its capacity.
- Maintain BUY.** We revise our TP to HK\$14.41 from HK\$21.18, based on a 10-year DCF valuation with WACC of 12.2% and terminal growth of 2.0%, to reflect the lower earnings projections. We forecast Joynn's revenue to grow +2.0%/ +15.2%/ +20.2% YoY and adjusted net income to change by -9.5%/ +25.8%/ +28.2% YoY in 2024E/ 25E/ 26E, respectively.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	2,268	2,376	2,425	2,793	3,356
YoY growth (%)	49.5	4.8	2.0	15.2	20.2
Adjusted net profit (RMB mn)	560.3	481.6	435.7	548.1	702.7
YoY growth (%)	46.4	(14.1)	(9.5)	25.8	28.2
EPS (Adjusted) (RMB)	1.05	0.64	0.58	0.73	0.94
Consensus EPS (RMB)	na	na	1.06	1.33	1.12
P/E (x)	6.1	18.3	15.5	10.5	8.3

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

<b>Target Price</b>	<b>HK\$14.41</b>
(Previous TP)	HK\$21.18)
<b>Up/Downside</b>	<b>57.1%</b>
<b>Current Price</b>	<b>HK\$9.17</b>

### 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)	6,876.5
Avg 3 mths t/o (HK\$ mn)	13.7
52w High/Low (HK\$)	35.20/8.62
Total Issued Shares (mn)	749.9

Source: FactSet

### Shareholding Structure

Yuxia Feng & Zhiwen Zhou	32.3%
HK investors	17.3%

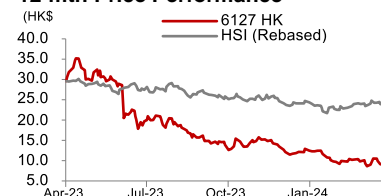
Source: HKEX

### Share Performance

	Absolute	Relative
1-mth	-6.9%	-6.6%
3-mth	-28.7%	-26.5%
6-mth	-34.0%	-29.0%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

**Figure 1: Earnings revision**

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	2,425	2,793	3,356	3,333	4,220	na	-27.24%	-33.83%	na
Gross profit	924	1,144	1,429	1,375	1,753	na	-32.83%	-34.73%	na
Operating profit	523	688	885	771	997	na	-32.11%	-31.03%	na
Adjusted net profit	436	548	703	664	851	na	-34.38%	-35.59%	na
Adjusted EPS (RMB)	0.58	0.73	0.94	0.89	1.13	na	-34.71%	-35.32%	na
Gross margin	38.08%	40.98%	42.57%	41.24%	41.53%	na	-3.16ppt	-0.55ppt	na
Operating margin	21.58%	24.63%	26.37%	23.14%	23.63%	na	-1.56ppt	+1.00ppt	na
Net margin	17.97%	19.63%	20.94%	19.92%	20.16%	na	-1.95ppt	-0.53ppt	na

Source: CMBIGM estimates

**Figure 2: CMBIGM estimates vs consensus**

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	2,425	2,793	3,356	2,883	3,533	3,714	-15.88%	-20.96%	-9.65%
Gross profit	924	1,144	1,429	1,247	1,528	1,576	-25.93%	-25.13%	-9.34%
Operating profit	523	688	885	771	953	1,043	-32.07%	-27.87%	-15.16%
Adjusted net profit	436	548	703	646	809	873	-32.52%	-32.27%	-19.46%
Adjusted EPS (RMB)	0.58	0.73	0.94	1.06	1.33	1.12	-45.29%	-44.92%	-16.04%
Gross margin	38.08%	40.98%	42.57%	43.25%	43.26%	42.42%	-5.16ppt	-2.29ppt	+0.15ppt
Operating margin	21.58%	24.63%	26.37%	26.73%	26.98%	28.08%	-5.14ppt	-2.36ppt	-1.71ppt
Net margin	17.97%	19.63%	20.94%	22.40%	22.91%	23.49%	-4.43ppt	-3.28ppt	-2.55ppt

Source: Bloomberg, CMBIGM estimates

**Figure 3: Valuation on risk-adjusted DCF valuation**

DCF Valuation (RMB mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
EBIT	453	718	915	988	1,057	1,121	1,177	1,224	1,261	1,286
Tax rate	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%
EBIT*(1-tax rate)	350	554	707	763	817	866	909	945	974	993
+ D&A	149	152	158	170	182	193	203	211	217	222
- Change in working capital	(77)	(112)	(164)	(177)	(190)	(201)	(211)	(220)	(226)	(231)
- Capex	(135)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)
<b>FCFF</b>	<b>286</b>	<b>394</b>	<b>500</b>	<b>556</b>	<b>609</b>	<b>658</b>	<b>701</b>	<b>737</b>	<b>765</b>	<b>784</b>
<b>Terminal value</b>										<b>7,844</b>
<b>Terminal growth rate</b>										<b>2.0%</b>
<b>WACC</b>										<b>12.2%</b>
Cost of Equity										15.6%
Cost of Debt										5.0%
Equity Beta										1.2
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)										2,482
Total PV (RMB mn)										5,554
Net debt (RMB mn)										(4,164)
Minority interest (RMB mn)										(4)
Equity value (RMB mn)										9,722
# of shares (mn)										750
Price per share (in Rmb)										12.96
<b>Price per share (in HK\$)</b>										<b>14.41</b>

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

**Figure 4: Sensitivity analysis of DCF model**

Price per share (in HK\$)		Terminal growth rate				
		3.0%	2.5%	2.0%	1.5%	1.0%
WACC	11.2%	16.01	15.69	15.41	15.16	14.94
	11.7%	15.39	15.12	14.88	14.67	14.47
	12.2%	14.85	14.61	<b>14.41</b>	14.22	14.04
	12.7%	14.36	14.16	13.97	13.81	13.66
	13.2%	13.92	13.74	13.58	13.44	13.30

Source: CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Revenue</b>	<b>1,517</b>	<b>2,268</b>	<b>2,376</b>	<b>2,425</b>	<b>2,793</b>	<b>3,356</b>
Cost of goods sold	(781)	(1,187)	(1,397)	(1,502)	(1,648)	(1,927)
<b>Gross profit</b>	<b>736</b>	<b>1,081</b>	<b>979</b>	<b>924</b>	<b>1,144</b>	<b>1,429</b>
<b>Operating expenses</b>	<b>(328)</b>	<b>(396)</b>	<b>(418)</b>	<b>(400)</b>	<b>(457)</b>	<b>(544)</b>
Selling expense	(16)	(18)	(25)	(24)	(28)	(34)
Admin expense	(264)	(300)	(296)	(291)	(330)	(389)
R&D expense	(48)	(78)	(97)	(85)	(99)	(121)
<b>Operating profit</b>	<b>408</b>	<b>686</b>	<b>561</b>	<b>523</b>	<b>688</b>	<b>885</b>
Gain/loss on financial assets at FVTPL	125	333	(289)	(100)	0	0
Share of (losses)/profits of associates/JV	(0)	(3)	(3)	0	0	0
<b>Net Interest income/(expense)</b>	<b>(4)</b>	<b>(4)</b>	<b>(3)</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>
Other income/expense	113	228	241	139	118	124
<b>Pre-tax profit</b>	<b>642</b>	<b>1,240</b>	<b>507</b>	<b>560</b>	<b>803</b>	<b>1,007</b>
Income tax	(86)	(167)	(115)	(127)	(183)	(229)
<b>After tax profit</b>	<b>556</b>	<b>1,073</b>	<b>392</b>	<b>432</b>	<b>620</b>	<b>777</b>
Minority interest	(1)	(1)	(5)	(6)	(9)	(11)
<b>Net profit</b>	<b>557</b>	<b>1,074</b>	<b>397</b>	<b>438</b>	<b>629</b>	<b>788</b>
<b>Adjusted net profit</b>	<b>383</b>	<b>560</b>	<b>482</b>	<b>436</b>	<b>548</b>	<b>703</b>
Gross dividends	137	214	120	131	189	236
<b>BALANCE SHEET</b>						
	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>5,814</b>	<b>5,928</b>	<b>7,122</b>	<b>6,981</b>	<b>7,433</b>	<b>8,054</b>
Cash & equivalents	4,154	2,917	2,863	2,700	2,971	3,306
Account receivables	116	212	213	217	249	300
Inventories	106	350	185	287	315	369
Financial assets at FVTPL	841	1,480	1,279	1,179	1,179	1,179
Other current assets	597	970	2,582	2,599	2,718	2,901
<b>Non-current assets</b>	<b>2,723</b>	<b>4,436</b>	<b>2,905</b>	<b>3,192</b>	<b>3,240</b>	<b>3,282</b>
PP&E	815	1,235	1,303	1,302	1,362	1,417
Intangibles	57	50	48	36	24	12
Goodwill	122	134	136	136	136	136
Financial assets at FVTPL	180	946	719	719	719	719
Other non-current assets	1,549	2,071	699	999	999	999
<b>Total assets</b>	<b>8,537</b>	<b>10,364</b>	<b>10,027</b>	<b>10,173</b>	<b>10,673</b>	<b>11,337</b>
<b>Current liabilities</b>	<b>1,214</b>	<b>1,844</b>	<b>1,467</b>	<b>1,512</b>	<b>1,581</b>	<b>1,703</b>
Short-term borrowings	5	4	0	0	0	0
Account payables	54	127	43	92	101	118
Other current liabilities	1,134	1,689	1,397	1,393	1,453	1,558
Lease liabilities	22	24	28	28	28	28
<b>Non-current liabilities</b>	<b>178</b>	<b>329</b>	<b>279</b>	<b>279</b>	<b>279</b>	<b>279</b>
Long-term borrowings	5	3	0	0	0	0
Obligations under finance leases	64	57	42	42	42	42
Deferred income	61	81	74	74	74	74
Other non-current liabilities	48	188	162	162	162	162
<b>Total liabilities</b>	<b>1,393</b>	<b>2,173</b>	<b>1,746</b>	<b>1,791</b>	<b>1,859</b>	<b>1,982</b>
Share capital	381	536	750	750	750	750
Capital surplus	6,755	7,648	7,529	7,636	8,076	8,628
<b>Total shareholders equity</b>	<b>7,136</b>	<b>8,184</b>	<b>8,279</b>	<b>8,386</b>	<b>8,826</b>	<b>9,378</b>
Minority interest	8	7	2	(4)	(13)	(24)
<b>Total equity and liabilities</b>	<b>8,537</b>	<b>10,364</b>	<b>10,027</b>	<b>10,173</b>	<b>10,673</b>	<b>11,337</b>

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	642	1,240	507	560	803	1,007
Depreciation & amortization	101	130	142	149	152	158
Tax paid	(42)	(124)	(115)	(127)	(183)	(229)
Change in working capital	98	142	(275)	(77)	(112)	(164)
Others	(115)	(443)	364	102	2	2
<b>Net cash from operations</b>	<b>685</b>	<b>945</b>	<b>623</b>	<b>606</b>	<b>662</b>	<b>773</b>
<b>Investing</b>						
Capital expenditure	(220)	(269)	(187)	(135)	(200)	(200)
Acquisition of subsidiaries/ investments	(26)	(1,689)	(200)	0	0	0
Others	(1,823)	(177)	71	(300)	0	0
<b>Net cash from investing</b>	<b>(2,069)</b>	<b>(2,134)</b>	<b>(315)</b>	<b>(435)</b>	<b>(200)</b>	<b>(200)</b>
<b>Financing</b>						
Dividend paid	(95)	(137)	(120)	(131)	(189)	(236)
Net borrowings	(4)	(59)	0	0	0	0
Proceeds from share issues	5,421	(2)	0	0	0	0
Others	(32)	99	(242)	(202)	(2)	(2)
<b>Net cash from financing</b>	<b>5,290</b>	<b>(99)</b>	<b>(362)</b>	<b>(334)</b>	<b>(191)</b>	<b>(239)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	305	4,150	2,917	2,863	2,700	2,971
Exchange difference	(61)	37	0	0	0	0
<b>Cash at the end of the year</b>	<b>4,150</b>	<b>2,899</b>	<b>2,863</b>	<b>2,700</b>	<b>2,971</b>	<b>3,306</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	41.0%	49.5%	4.8%	2.0%	15.2%	20.2%
Gross profit	33.6%	47.0%	(9.4%)	(5.7%)	23.9%	24.8%
Operating profit	47.9%	68.2%	(18.1%)	(6.8%)	31.4%	28.7%
Net profit	78.1%	92.7%	(63.0%)	10.4%	43.5%	25.3%
Adj. net profit	34.8%	46.4%	(14.1%)	(9.5%)	25.8%	28.2%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	48.5%	47.7%	41.2%	38.1%	41.0%	42.6%
Operating margin	26.9%	30.2%	23.6%	21.6%	24.6%	26.4%
Adj. net profit margin	25.2%	24.7%	20.3%	18.0%	19.6%	20.9%
Return on equity (ROE)	13.3%	14.0%	4.8%	5.3%	7.3%	8.7%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.6)	(0.3)	(0.5)	(0.5)	(0.5)	(0.5)
Current ratio (x)	4.8	3.2	4.9	4.6	4.7	4.7
Receivable turnover days	24.9	26.3	32.6	32.6	32.6	32.6
Inventory turnover days	46.1	70.2	69.9	69.9	69.9	69.9
Payable turnover days	26.6	27.8	22.3	22.3	22.3	22.3
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E (adjusted)	11.3	6.1	18.3	15.5	10.5	8.3
P/B	0.4	0.6	0.8	0.8	0.7	0.7
P/CFPS	4.6	4.8	10.2	10.5	9.6	8.2
Div yield (%)	4.4	4.7	1.9	2.1	3.0	3.7

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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