

PA Good Doctor (1833 HK)

Business restructuring closes to the end

PA Good Doctor (PAGD) reported 1H23 revenue of RMB2,222mn, down by 21.5% YoY and adjusted non-IFRS net loss of RMB249mn, narrowed by 41.7% YoY. The significantly narrowed adjusted net loss was mainly driven by the execution of its Strategy 2.0 Continuum to focus on corporate (B-end) clients as well as various cost saving measures during the period. In 1H23, PAGD had largely completed its business adjustment, through which the Company proactively reduced low-synergy businesses with its Strategy 2.0 Continuum. PAGD had achieved accelerated progress with B-end clients and we expect the trend to continue, considering the post-pandemic business normalization and the growing penetration of online medical services in China healthcare industry.

■ **Accelerating progress of Strategy 2.0 Continuum after pandemic.** Different from individual customer acquisition, off-line visits are necessary and critical to win B-end customers. With the lift of COVID-related travel restrictions in China, PAGD's off-line B-end customer acquisitions has resumed normal pace in 2023. The cumulative number of corporate clients served by PAGD reached 1,198 as of Jun 2023, compared with 978 as of 2022 and 520 as of Dec 2021, indicating an increasing acceptance of PAGD's health management services among B-end clients which typically have strong purchasing power. Revenue from B-end strategic business substantially increased by 88.9% YoY to RMB449mn in 1H23, accounting for 20.2% of total revenue (vs 8.4% in 1H22). PAGD penetrated less than ~2.5% of corporates clients within PA Group's business ecosystem, leaving ample room for further business expansion of PAGD.

■ **Continuous margin improvement under Strategy 2.0 Continuum.** In 1H23, PAGD had largely completed its business adjustment, through which the Company proactively reduced low-synergy businesses with its Strategy 2.0 Continuum. The business adjustment materially affected the Company's revenue performance in 1H23. However, PAGD has achieved impressive improvement on bottom-line. Gross profit margin (GPM) has consistently improved from 19.4% in 2H21 to 32.2% in 1H23, mainly attributable to the GPM increase of medical services (from 23.6% in 2H21 to 42.9% in 1H23) and the decrease of sales from low-synergy businesses. Additionally, PAGD continues to optimize its operating margins thanks to effective cost savings and economies of scale from health management service business. In 1H23, admin expenses excluding R&D expenses dropped by 27.1% YoY, which contributed to the net loss reduction.

■ **Maintain BUY.** Our TP of HK\$23.80 is based on a 10-year DCF model with WACC of 11.1% and terminal growth of 3.0%. We forecast PAGD's revenue to decline by 18.0% YoY in 2023E and to grow by 14.0%/ 16.1% YoY in 2024E/ 2025E, respectively. To factor in margin improvements and operating cost savings under Strategy 2.0 Continuum, we model PAGD to narrow its adjusted net losses to RMB583mn/ RMB267mn in 2023E/ 24E, respectively, and to turn positive to RMB73mn in 2025E.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	7,334	6,160	5,050	5,756	6,685
YoY growth (%)	6.8	(16.0)	(18.0)	14.0	16.1
Adjusted net profit (RMB mn)	(1,417)	(848)	(583)	(267)	73
EPS (Adjusted) (RMB)	(1.29)	(0.78)	(0.52)	(0.24)	0.07
Consensus EPS (RMB)	na	na	(0.48)	(0.23)	0.05
P/S (x)	2.5	3.0	3.7	3.2	2.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$23.80
(Previous TP	HK\$23.89)
Up/Downside	29.1%
Current Price	HK\$18.44

China Healthcare

Jill WU, CFA
 (852) 3900 0842
 jillwu@cmbi.com.hk

Benchun HUANG, CFA
 huangbenchen@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	20,630.9
Avg 3 mths t/o (HK\$ mn)	77.8
52w High/Low (HK\$)	31.65/13.70
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	-3.7%	4.3%
3-mth	3.2%	7.8%
6-mth	-0.9%	10.5%

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	5,050	5,756	6,685	6,078	6,846	7,869	-16.92%	-15.92%	-15.05%
Gross Profit	1,663	1,961	2,349	1,886	2,195	2,591	-11.81%	-10.66%	-9.34%
Operating Profit	-796	-415	-59	-893	-517	-275	n/m	n/m	n/m
Adjusted net profit	-583	-267	73	-727	-345	-85	n/m	n/m	n/m
Adjusted EPS (RMB)	-0.52	-0.24	0.07	-0.65	-0.31	-0.08	n/m	n/m	n/m
Gross Margin	32.93%	34.07%	35.14%	31.02%	32.07%	32.93%	+1.91ppt	+2.01ppt	+2.21ppt
Operating Margin	-15.77%	-7.22%	-0.88%	-14.69%	-7.55%	-3.49%	-1.08ppt	+0.33ppt	+2.61ppt
Adjusted net Margin	-11.55%	-4.65%	1.09%	-11.96%	-5.04%	-1.09%	+0.41ppt	+0.39ppt	+2.18ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	5,050	5,756	6,685	6,197	7,162	8,208	-18.51%	-19.62%	-18.55%
Gross Profit	1,663	1,961	2,349	1,842	2,237	2,685	-9.73%	-12.32%	-12.49%
Operating Profit	-796	-415	-59	-649	-435	-130	n/m	n/m	n/m
Adjusted net profit	-583	-267	73	-508	-220	42	n/m	n/m	+72.42
Adjusted EPS (RMB)	-0.52	-0.24	0.07	-0.48	-0.23	0.05	n/m	n/m	+33.20
Gross Margin	32.93%	34.07%	35.14%	29.73%	31.23%	32.71%	+3.20ppt	+2.84ppt	+2.43ppt
Operating Margin	-15.77%	-7.22%	-0.88%	-10.47%	-6.08%	-1.58%	-5.30ppt	-1.14ppt	+0.71ppt
Adjusted net Margin	-11.55%	-4.65%	1.09%	-8.19%	-3.07%	0.52%	-3.35ppt	-1.58ppt	+0.58ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: Valuation on risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	(801)	(415)	(59)	268	496	869	1,433	2,221	3,221	4,348
Tax rate	-0.1%	0.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)	(802)	(415)	(50)	228	422	738	1,218	1,888	2,738	3,696
+ D&A	104	83	68	68	92	115	133	139	132	113
- Change in working capital	(38)	(169)	(31)	(31)	(41)	(52)	(60)	(63)	(59)	(50)
- Capex	(34)	(34)	(34)	(34)	(34)	(34)	(34)	(34)	(34)	(34)
FCFF	(770)	(536)	(46)	231	438	768	1,257	1,931	2,777	3,724
Terminal value										47,499

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)	16,616
Total PV (RMB mn)	20,092
Net debt (RMB mn)	(3,869)
Minority interest (RMB mn)	(4)
Equity value (RMB mn)	23,964
# of shares (mn)	1,119
Price per share (RMB per share)	21.42
Price per share (HK\$ per share)	23.80

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

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	6,866	7,334	6,160	5,050	5,756	6,685
Cost of goods sold	(5,002)	(5,627)	(4,475)	(3,387)	(3,795)	(4,336)
Gross profit	1,864	1,707	1,685	1,663	1,961	2,349
Operating expenses	(2,784)	(3,350)	(2,383)	(2,459)	(2,377)	(2,408)
Selling expense	(1,587)	(1,757)	(1,105)	(988)	(1,065)	(1,136)
Admin expense	(1,017)	(1,846)	(1,748)	(1,662)	(1,612)	(1,671)
Others	(180)	253	471	190	300	400
Operating profit	(919)	(1,643)	(698)	(796)	(415)	(59)
Share of (losses)/profits of associates/JV	(122)	(39)	(66)	(5)	0	0
Net Interest income/(expense)	100	159	156	180	105	89
Pre-tax profit	(941)	(1,524)	(608)	(621)	(310)	30
Income tax	(7)	(16)	(3)	(1)	0	(5)
After tax profit	(949)	(1,539)	(611)	(622)	(310)	26
Minority interest	(0)	(1)	(4)	(2)	(1)	0
Net profit	(948)	(1,538)	(608)	(620)	(309)	26
Adjusted net profit	(516)	(1,417)	(848)	(583)	(267)	73

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	15,256	12,757	12,464	12,601	12,275	13,110
Cash & equivalents	7,920	3,065	3,701	3,654	3,767	4,343
Account receivables	1,058	1,554	1,510	1,532	1,256	1,432
Inventories	160	398	246	322	244	273
Financial assets at FVTPL	3,566	4,937	5,090	5,090	5,090	5,090
Other current assets	2,551	2,803	1,917	2,003	1,919	1,972
Non-current assets	3,307	5,124	4,678	4,604	4,556	4,522
PP&E	166	140	111	104	106	113
Investment in JVs & assos	451	546	357	352	352	352
Intangibles	102	106	75	54	37	24
Goodwill	970	970	1,678	1,678	1,678	1,678
Other non-current assets	1,617	3,362	2,458	2,416	2,383	2,356
Total assets	18,563	17,881	17,142	17,205	16,831	17,631
Current liabilities	2,668	3,674	3,483	4,129	4,022	4,750
Short-term borrowings	0	0	0	500	1,000	1,500
Account payables	1,863	2,641	2,349	2,495	1,889	2,116
Other current liabilities	805	1,033	1,133	1,133	1,133	1,133
Non-current liabilities	39	121	201	201	201	201
Obligations under finance leases	39	121	103	103	103	103
Other non-current liabilities	0	0	97	97	97	97
Total liabilities	2,707	3,795	3,684	4,329	4,223	4,950
Share capital	0	0	0	0	0	0
Capital surplus	20,652	20,440	20,424	20,424	20,424	20,424
Retained earnings	(4,819)	(6,357)	(6,964)	(7,545)	(7,811)	(7,738)
Total shareholders equity	15,833	14,083	13,460	12,879	12,613	12,686
Minority interest	23	2	(1)	(4)	(5)	(5)
Total equity and liabilities	18,563	17,881	17,142	17,205	16,831	17,631

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(949)	(1,539)	(611)	(621)	(310)	30
Depreciation & amortization	170	207	190	104	83	68
Change in working capital	(716)	145	50	(38)	(169)	(31)
Others	393	(216)	(439)	(136)	(62)	(46)
Net cash from operations	(1,102)	(1,403)	(811)	(692)	(458)	22
Investing						
Capital expenditure	(73)	(89)	(34)	(34)	(34)	(34)
Acquisition of subsidiaries/ investments	0	(2)	(626)	0	0	0
Net proceeds from disposal of short-term investments	(2,152)	(1,237)	87	0	0	0
Others	(272)	(1,773)	2,284	188	115	99
Net cash from investing	(2,497)	(3,100)	1,710	153	81	64
Financing						
Net borrowings	0	0	0	500	500	500
Proceeds from share issues	6,869	0	0	0	0	0
Share repurchases	0	(368)	(226)	0	0	0
Others	53	48	(92)	(8)	(10)	(10)
Net cash from financing	6,922	(320)	(318)	492	490	490
Net change in cash						
Cash at the beginning of the year	4,965	7,920	3,065	3,701	3,654	3,767
Exchange difference	(368)	(32)	54	0	0	0
Cash at the end of the year	7,920	3,065	3,701	3,654	3,767	4,343
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	35.5%	6.8%	(16.0%)	(18.0%)	14.0%	16.1%
Gross profit	59.2%	(8.5%)	(1.3%)	(1.3%)	17.9%	19.8%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	27.2%	23.3%	27.3%	32.9%	34.1%	35.1%
Operating margin	(13.4%)	(22.4%)	(11.3%)	(15.8%)	(7.2%)	(0.9%)
Adj. net profit margin	(7.5%)	(19.3%)	(13.8%)	(11.5%)	(4.6%)	1.1%
Return on equity (ROE)	(7.4%)	(10.3%)	(4.4%)	(4.7%)	(2.4%)	0.2%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.5)	(0.2)	(0.3)	(0.2)	(0.2)	(0.2)
Current ratio (x)	5.7	3.5	3.6	3.1	3.1	2.8
Receivable turnover days	45.4	65.0	90.8	90.8	90.8	90.8
Inventory turnover days	8.6	18.1	26.3	26.3	26.3	26.3
Payable turnover days	132.8	146.1	203.5	203.5	203.5	203.5
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/S	2.7	2.5	3.0	3.7	3.2	2.8
P/CFPS	1.1	1.3	1.3	1.4	1.5	1.5

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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