

Jinxin Fertility (1951 HK)

Business expansion in Laos

Jinxin announced the acquisition of an ARS provider in Laos in order to meet the medical tourism demand of Chinese patients. We expect revenue from Laos to start from 2Q20E and contribute RMB17mn/49mn revenue in FY20/21E. We slightly revised up our FY20E/21E earnings forecast by 1%/2% to reflect revenue contribution from clinics in Laos and lift our DCF-based TP to HK\$15.4. Maintain BUY.

■ **ARS institutions in Laos enjoy favorable regulatory environment.** Jinxin announced the acquisition of IVF licenses from Rhea International Medical Centre (Rhea) in Laos. Jinxin plans to set up a new 5,000 sq m IVF-licensed clinic in Laos by 3Q20E. Jinxin will provide a full range of services in Laos, including IVF-ET, ICSI, PGS/PGD, third party IVF, egg and sperm cryopreservation, etc. The clinic in Laos will have a capacity of over 3,000 IVF treatment cycles per year. We estimate it will contribute 1,000 IVF treatment cycles in FY22E with an ASP of RMB80,000-100,000 per cycle. The clinic is about four hours from Kunming city via the high-speed railway and is well positioned to meet medical tourism demand of Chinese patients.

■ **Lifted FY20E/21E earnings forecast by 1%/2%.** We forecast clinics in Laos will complete 200/550 IVF treatment cycles in FY20E/21E, while the average treatment cost per cycle will be RMB85,000/RMB89,250 in FY20/21E (vs. around RMB50,000 in China), thanks to more value-added services provided in Laos. We expect total revenue contribution from Laos will be RMB17mn/RMB49mn in FY20E/21E. Therefore, we revised up FY20E/21E revenue forecasts by 1%/2% and lift attributable net profit forecasts by 1%/2%.

■ **Maintain BUY with new TP of HK\$15.4.** We expect Jinxin to deliver 36.9% CAGR in revenue FY18-21E, mainly thanks to solid organic growth and consolidation of HRC. Jinxin had around RMB3bn cash on hand which provides sufficient capital for acquisition. We derive TP of HK\$15.4 based on 8-year DCF model (WACC:9.5%, terminal growth rate: 4%).

■ **Catalysts:** Acquisitions of quality assets; **Risks:** weak organic growth.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	663	922	1,659	1,983	2,366
YoY growth (%)	91	39	80	20	19
Net profit (RMB mn)	99	167	420	600	741
EPS (RMB)	N/A	N/A	0.17	0.25	0.30
YoY growth (%)	N/A	N/A	N/A	43	24
Consensus EPS (RMB)	N/A	N/A	0.20	0.26	0.32
P/E (x)	N/A	N/A	51.4	36.0	29.1
P/B (x)	N/A	N/A	2.8	2.6	2.4
Yield (%)	N/A	N/A	0.00	0.56	0.69
ROE (%)	7.3	3.7	7.0	7.6	8.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$15.4**
 (Previous TP) **HK\$15.0**
Up/Downside **+53.7%**
Current Price **HK\$10.02**

China Healthcare Sector

Amy Ge
 (852) 3761 8778
 amyge@cmbi.com.hk

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

Sam HU, PhD
 Tel: (852) 3900 0882
 samhu@cmbi.com.hk

Mkt. Cap. (HK\$ mn)	24,393
Avg. 3mths t/o (HK\$ mn)	125.37
52W High/Low (HK\$)	15.30/ 8.18
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%

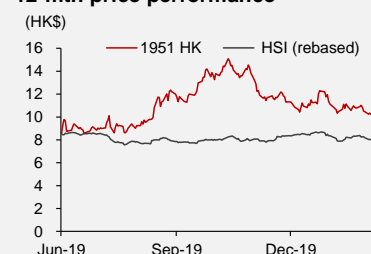
Source: HKEx, Bloomberg

Share performance

	Absolute	Relative
1-mth	-6.4%	-6.1%
3-mth	-15.0%	-14.6%
6-mth	2.2%	-0.7%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Deloitte

Web-site: www.jxr-fertility.com

Figure 1: Earnings revision

RMB mn	FY19E	New FY20E	FY21E	FY19E	Old FY20E	FY21E	FY19E	Diff (%) FY20E	FY21E
Revenue	1,659	1,983	2,366	1,659	1,966	2,316	0%	1%	2%
Gross Profit	804	992	1,218	804	983	1,193	0%	1%	2%
Operating Profit	594	848	1,047	594	843	1,030	0%	1%	2%
Net profit	420	600	741	420	596	729	0%	1%	2%
EPS (RMB cents)	17	25	30	17	24	30	0%	1%	2%
Gross Margin	48.50%	50.00%	51.50%	48.50%	50.00%	51.50%	0.0 ppt	0.0 ppt	0.0 ppt
Operating Margin	35.82%	42.76%	44.27%	35.82%	42.86%	44.46%	0.0 ppt	-0.10 ppt	-0.19 ppt
Net Margin	25.35%	30.25%	31.33%	25.35%	30.32%	31.46%	0.0 ppt	-0.07 ppt	-0.13 ppt

Source: Company data, CMBIS estimates

Figure 2: CMBI estimates vs consensus

RMB mn	FY19E	CMBI FY20E	FY21E	FY19E	Consensus FY20E	FY21E	FY19E	Diff (%) FY20E	FY21E
Revenue	1,659	1,983	2,366	1,723	2,035	2,470	-4%	-3%	-4%
Gross Profit	804	992	1,218	836	1,022	1,274	-4%	-3%	-4%
Operating Profit	594	848	1,047	571	764	980	4%	11%	7%
Net profit	420	600	741	467	616	774	-10%	-3%	-4%
EPS (RMB cents)	17	25	30	20	26	32	-13%	-4%	-4%
Gross Margin	48.50%	50.00%	51.50%	48.52%	50.20%	51.57%	-0.02 ppt	-0.2 ppt	-0.07 ppt
Operating Margin	35.82%	42.76%	44.27%	33.12%	37.56%	39.68%	2.7 ppt	5.2 ppt	4.6 ppt
Net Margin	25.35%	30.25%	31.33%	27.08%	30.29%	31.35%	-1.7 ppt	-0.04 ppt	-0.02 ppt

Source: Company data, CMBIS estimates

Figure 3: Peers' valuation

Company	Ticker	Rating	Mkt cap US\$ mn	PER(x)		PBR(x)		EV/EBITDA (x)		ROE(%)	
				FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20
H share											
JINXIN FERTILITY	1951 HK	BUY	3,140	51	36	2.9	2.7	27.55	19.86	7.0	7.6
CR Medical	1515 HK	N/A	619	51	38	N/A	N/A	N/A	N/A	10.0	13.0
C-MER EYE	3309 HK	N/A	681	11.3	10.3	0.8	0.7	6.7	5.1	6.5	6.6
UMH	2138 HK	BUY	628	13.8	12.3	N/A	4.8	N/A	8.9	33.6	34.1
Average				30.2	23.8	1.9	2.8	17.2	11.7	14.4	15.6
A share											
AIER EYE HOSPITAL	300015 CH	N/A	18,679	98.4	74.4	19.8	16.1	55.9	43.5	20.6	22.7
TOPCHOICE MEDICAL	600763 CH	N/A	4,756	74.7	57.8	19.7	14.9	47.2	37.3	27.4	26.7
INTERNATIONAL MEDICAL	000516 CH	N/A	1,433	N/A	159.7	N/A	N/A	N/A	N/A	N/A	N/A
Average				86.6	97.3	19.7	15.5	51.6	40.4	24.0	24.7

Source: Bloomberg, CMBIS estimates (As at 4 Mar 2020)

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	663	922	1,659	1,983	2,366
ARS	529	801	874	1,096	1,364
Management service fee	101	90	726	826	938
Ancillary medical services	33	31	59	61	63
Cost of sales	(361)	(509)	(854)	(992)	(1,147)
Gross profit	302	413	804	992	1,218
Other income	12	22	56	86	100
Other expenses	(1)	(4)	8	0	0
Other losses	(1)	(1)	(8)	0	0
R&D expenses	(10)	(12)	(12)	(12)	(14)
Administrative expenses	(61)	(103)	(182)	(210)	(248)
Listing expenses	0	(38)	(65)	0	0
Finance cost	0	0	(8)	(8)	(8)
Profit before tax	242	277	594	848	1,047
Income tax expense	(43)	(64)	(154)	(220)	(272)
Total net profit	199	212	440	628	775
Minority Interests	(100)	(46)	(19)	(27)	(34)
Attributable net profit	99	167	420	600	741

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Profit before tax	242	277	594	848	1,047
Depreciation	23	29	70	75	80
Change in working capital	(208)	82	(1)	53	60
Others	12	4	(9)	(39)	(53)
Tax paid	(22)	(35)	(154)	(220)	(272)
Operating cash flow	48	356	500	717	862
Capex	(32)	(21)	(800)	(240)	(80)
Acquisition of subsidiaries	0	0	0	0	0
Other investing activities	(220)	(367)	(48)	82	96
Investing cash flow	(252)	(388)	(848)	(158)	16
Net proceeds from shares issued	0	1,129	2,951	0	0
Bank borrowing	0	0	0	0	0
Advance from related parties	0	104	0	0	0
Other financing activities	463	(466)	(144)	0	(120)
Financing cash flow	463	767	2,807	0	(120)
Net change in cash	259	736	2,459	559	758
Cash at the beginning	191	449	1,184	3,643	4,202
Cash at the end	449	1,184	3,643	4,202	4,960

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	1,203	5,123	5,860	5,982	5,939
Plant and equipment	119	138	868	1,033	1,033
Goodwill	197	802	802	802	802
License	414	401	388	375	362
Contractual right to provide management services	0	1,939	1,939	1,939	1,939
Trademarks	247	1,292	1,292	1,292	1,292
Others	226	550	570	540	510
Current assets	535	1,436	3,898	4,476	5,255
Inventories	19	17	30	34	40
Accounts and other receivables	67	77	68	82	97
Amounts due from related parties	0	71	21	21	21
Bank balances and cash	449	1,184	3,643	4,202	4,960
Others	0	87	137	137	137
Current liabilities	204	1,377	1,330	1,402	1,483
Accounts and other payables	164	391	445	516	597
Capital contribution deposits	0	0	0	0	0
Amounts due to related parties	4	917	817	817	817
Tax payables	36	69	69	69	69
Non-current liabilities	172	682	842	842	842
Deferred rent	0	5	5	5	5
Deferred tax liabilities	172	677	677	677	677
Total net assets	1,362	4,500	7,586	8,214	8,869
Minority interest	434	137	156	183	217
Shareholders' equity	928	4,363	7,430	8,030	8,651

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
ARS	79.7	86.9	52.7	55.3	57.6
Management service fee	15.2	9.7	43.8	41.7	39.7
Ancillary medical services	5.1	3.4	3.5	3.1	2.7
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	46	45	49	50	52
EBITDA margin	42	34	40	45	46
Pre-tax margin	36	30	36	43	44
Net margin	15	18	25	30	31
Effective tax rate	18	23	26	26	26
Balance sheet ratios					
Current ratio (x)	3	1	3	3	4
Trade receivables days	19	28	15	15	15
Trade payables days	115	199	190	190	190
Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	7.3	3.7	7.0	7.6	8.7
ROA	5.7	2.5	5.2	5.9	6.8
Per share value					
EPS (RMB)	N/A	N/A	0.17	0.25	0.30
DPS (RMB)	N/A	N/A	0.00	0.05	0.06
BVP (RMB)	N/A	N/A	3.12	3.37	3.64

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

Disclosure

CMBIS or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

CMBIS Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIS

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS and/or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

CMBIS or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the US to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the US. Each major US, institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.