

Yunkang Group (2325 HK)

Continued solid revenue growth in 9M22

9M22 earnings beat. Yunkang reported unaudited 9M22 revenue of RMB2,328mn, up 90.9% YoY, accounting for 85.6% of our previous full-year estimates since the revenue in 3Q22 reached RMB950mn.

■ **Core business of diagnostic testing services for medical institution alliances maintained rapid growth.** The unaudited revenue from diagnostic testing services for medical institution alliances increased 143.6% YoY to RMB1,043.4mn primarily driven by the increased number of on-site diagnostic centers and the rise of average revenue of unit on-site diagnostic centers thanks to the expanded service capacities and coverage. In 9M22, Yunkang has established 110 new on-site diagnostic centers and now operated 385 centers in total. The unaudited average revenue from each center was RMB2.7mn, compared to a full-year average revenue of RMB2.2mn in FY21, indicating the strong growth of core business.

■ **Thriving business in key products of diagnostic outsourcing services.** Growth of Yunkang's key products particularly focused on disease areas including tumor, infectious diseases and blood diseases remained robust and contribute to solid revenue growth in the diagnostic outsourcing services, whose unaudited revenue increased 61.8% YoY to RMB1,214.3mn.

■ **The co-development business model meets the demand of hierarchical diagnosis construction.** The 2022 Government Work Report (《2022 年政府工作報告》) reiterated to continue to promote hierarchical diagnosis. Yunkang's diagnostic testing services for medical institution alliance enables lead hospitals within the alliance to expand their service scope, bringing them revenue growth. For other member hospitals or medical institutions within the alliances, the service can enhance their testing capabilities, increasing the willingness of residents to seek medical service from the member hospitals. The quickly increased number of on-site diagnostic centers Yunkang collaboratively built demonstrated the success of the Company's business model. Through co-developed diagnostic centers with hospitals, Yunkang is able to rapidly build a broad testing service network with medical institutions around China at a lower cost.

■ **Maintain BUY.** We expect the Company to deliver 78.3%/0.0% YoY revenue growth and 45.3%/8.1% YoY attributable net profit growth in FY22E/23E. We revised our DCF-based target price from HK\$23.21 to HK\$21.39 (WACC: 13.2%, terminal growth rate: 2.0%).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	1,200	1,697	3,025	3,025	3,091
YoY growth (%)	77.1	41.4	78.3	(0.0)	2.2
Net profit (RMB mn)	260.2	381.9	553.5	598.4	696.5
YoY growth (%)	(924.8%)	46.8	44.9	8.1	16.4
EPS (Reported) (RMB cents)	na	na	89.09	96.32	112.11
YoY growth (%)	na	na	na	8.1	16.4
P/E (x)	na	na	15.0	13.9	11.9
Net gearing (%)	11.4	(32.4)	(34.2)	(34.3)	(35.6)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$21.39

(Previous TP HK\$23.21)

Up/Downside 48.6%

Current Price HK\$14.40

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Stock Data

Mkt Cap (HK\$ mn)	8,946.0
Avg 3 mths t/o (HK\$ mn)	15.7
52w High/Low (HK\$)	NA/NA
Total Issued Shares (mn)	621.3

Source: FactSet

Shareholding Structure

YK Development	40.3%
Daan International	33.8%

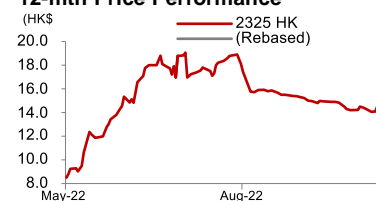
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-3.6%	NM
3-mth	-19.6%	NM
6-mth	NM	NM

Source: FactSet

12-mth Price Performance



Source: FactSet

Related report:

1. Strong growth driven by continued expansion of medical institution alliance network – 15 Aug 2022

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	678	732	850	1,048	1,422	1,838	2,316	2,793	3,271
Tax rate	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%
EBIT*(1-tax rate)	563	607	706	870	1,180	1,525	1,922	2,318	2,715
+ D&A	80	102	121	139	160	178	195	211	225
- Change in working capital	(360)	15	(21)	(95)	(235)	(266)	(297)	(313)	(312)
- Capex	(300)	(300)	(300)	(300)	(350)	(350)	(350)	(350)	(350)
FCFF	-17	424	506	614	755	1,088	1,471	1,866	2,277
Terminal value									20,761
Terminal growth rate	2.0%								
WACC	13.2%								
Cost of Equity	18.0%								
Cost of Debt	5.0%								
Equity Beta	1.5								
Risk Free Rate	3.0%								
Market Risk Premium	10.0%								
Target Debt to Asset ratio	35.0%								
Effective Corporate Tax Rate	15.0%								
Terminal value (RMB mn)	6,809								
Total PV (RMB mn)	10,828								
Net debt (RMB mn)	-868								
Minority interest (RMB mn)	-0								
Equity value (RMB mn)	11,696								
# of shares (mn)	621								
Price per share (RMB per share)	18.83								
Price per share (HK\$ per share)	21.39								

Source: CMBIGM estimates

Figure 2: Sensitivity analysis (HK\$)

		WACC				
		12.2%	12.7%	13.2%	13.7%	14.2%
Terminal growth rate	3.0%	25.94	24.26	22.75	21.39	20.17
	2.5%	25.01	23.45	22.04	20.77	19.62
	2.0%	24.17	22.71	21.39	20.20	19.11
	1.5%	23.41	22.04	20.80	19.68	18.65
	1.0%	12.2%	12.7%	13.2%	13.7%	14.2%

Source: CMBIGM estimates

Figure 3: CMBIGM estimates revision

RMB mn	FY22E	New FY23E	FY24E	FY22E	Old FY23E	FY24E	FY22E	Diff(%) FY23E	FY24E
Revenue	3,025	3,025	3,091	2,719	2,687	2,750	11.3%	12.6%	12.4%
Gross profit	1,364	1,381	1,502	1,355	1,317	1,383	0.7%	4.9%	8.5%
Operating profit	667	721	839	725	730	794	-8.0%	-1.2%	5.7%
Net profit	553	598	696	602	606	659	-8.0%	-1.2%	5.7%
EPS (RMB)	0.89	0.96	1.12	0.97	0.98	1.06	-8.0%	-1.2%	5.7%
Gross margin	45.10%	45.67%	48.58%	49.39%	48.95%	50.21%	-4.29 ppt	-3.28 ppt	-1.63 ppt

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	FY22E	CMBIGM FY23E	FY24E	FY22E	Consensus FY23E	FY24E	FY22E	Diff(%) FY23E	FY24E
Revenue	3,025	3,025	3,091	2,629	2,889	2,903	15.1%	4.7%	6.5%
Gross profit	1,364	1,381	1,502	1,296	1,433	1,483	5.3%	-3.6%	1.2%
Operating profit	667	721	839	1,015	1,177	887	-34.3%	-38.8%	-5.3%
Net profit	553	598	696	569	658	719	-2.7%	-9.1%	-3.1%
EPS (RMB)	0.89	0.96	1.12	0.90	1.05	1.16	-1.0%	-8.3%	-3.4%
Gross margin	45.10%	45.67%	48.58%	49.30%	49.60%	51.10%	-4.20 ppt	-3.93 ppt	-2.52 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	678	1,200	1,697	3,025	3,025	3,091
Cost of goods sold	(379)	(544)	(798)	(1,661)	(1,643)	(1,589)
Gross profit	299	656	899	1,364	1,381	1,502
Operating expenses	(310)	(333)	(448)	(698)	(660)	(662)
Selling expense	(193)	(219)	(273)	(448)	(448)	(451)
Admin expense	(113)	(105)	(152)	(227)	(212)	(210)
Others	(4)	(9)	(23)	(23)	(1)	(1)
Pre-tax profit	(11)	323	451	667	721	839
Income tax	(1)	(53)	(79)	(113)	(123)	(143)
Others	(20)	(10)	9	0	0	0
Net profit	(32)	260	382	553	598	696
Minority interest	(1)	5	1	0	0	0
Net profit to shareholders	(31)	255	381	553	598	696

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	419	1,435	1,743	2,499	2,584	2,760
Cash & equivalents	64	336	801	1,199	1,304	1,477
Account receivables	260	485	825	1,160	1,144	1,152
Inventories	15	25	42	65	61	56
Prepayment	49	351	44	44	44	44
Financial assets at FVTPL	0	150	0	0	0	0
Other current assets	30	89	31	31	31	31
Non-current assets	851	522	712	1,040	1,249	1,438
PP&E	103	277	485	709	911	1,094
Deferred income tax	26	40	36	36	36	36
Investment in JVs & assos	22	20	0	0	0	0
Intangibles	55	7	6	12	18	24
Financial assets at FVTPL	57	59	58	178	178	178
Other non-current assets	588	119	127	105	105	105
Total assets	1,269	1,957	2,455	3,540	3,833	4,198
Current liabilities	412	819	871	869	863	845
Short-term borrowings	137	421	208	208	208	208
Account payables	258	329	557	555	549	531
Tax payable	1	33	72	72	72	72
Other current liabilities	16	36	34	34	34	34
Non-current liabilities	67	71	133	133	133	133
Long-term borrowings	50	51	82	82	82	82
Obligations under finance leases	6	9	44	44	44	44
Deferred income	6	0	0	0	0	0
Other non-current liabilities	5	11	6	6	6	6
Total liabilities	479	890	1,004	1,002	996	978
Share capital	0	1	21	21	21	21
Capital surplus	939	955	955	1,654	1,654	1,654
Retained earnings	(164)	92	475	863	1,162	1,545
Total shareholders equity	776	1,048	1,452	2,537	2,837	3,220
Minority interest	15	18	(0)	(0)	(0)	(0)
Total equity and liabilities	1,269	1,957	2,455	3,540	3,833	4,198

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(11)	323	451	667	721	839
Depreciation & amortization	26	33	52	76	98	117
Change in working capital	(13)	(152)	(133)	(360)	15	(21)
Others	2	(0)	(1)	(77)	(108)	(128)
Net cash from operations	5	203	369	307	726	807
Investing						
Capital expenditure	(27)	(45)	(223)	(300)	(300)	(300)
Acquisition of subsidiaries/ investments	(20)	0	0	0	0	0
Net proceeds from disposal of short-term investments	(118)	(50)	174	(120)	0	0
Others	(157)	(96)	359	(8)	(8)	(8)
Net cash from investing	(323)	(191)	311	(428)	(308)	(308)
Financing						
Dividend paid	0	0	0	(166)	(299)	(313)
Net borrowings	(1)	286	(181)	0	0	0
Proceeds from share issues	0	(1)	(6)	698	0	0
Others	(18)	(24)	(28)	(13)	(13)	(13)
Net cash from financing	(18)	261	(215)	519	(312)	(327)
Net change in cash						
Cash at the beginning of the year	400	64	336	801	1,199	1,304
Exchange difference	0	(1)	0	0	0	0
Cash at the end of the year	64	336	801	1,199	1,304	1,477
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	13.7%	77.1%	41.4%	78.3%	(0.0%)	2.2%
Gross profit	24.5%	119.2%	37.1%	51.8%	1.2%	8.7%
Net profit	na	na	46.8%	44.9%	8.1%	16.4%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	44.1%	54.6%	53.0%	45.1%	45.7%	48.6%
Return on equity (ROE)	(4.0%)	28.5%	30.6%	27.7%	22.3%	23.0%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Net debt to equity (x)	0.1	0.1	(0.3)	(0.3)	(0.3)	(0.4)
Current ratio (x)	1.0	1.8	2.0	2.9	3.0	3.3
Receivable turnover days	132.2	113.3	138.0	135.0	135.0	135.0
Inventory turnover days	15.0	13.0	13.5	11.6	11.0	10.5
Payable turnover days	120.0	106.0	122.0	122.0	122.0	122.0
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	na	na	na	15.0	13.9	11.9

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

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