

# Jinxin Fertility (1951 HK)

## Long-term growth outlook intact

Jinxin reported RMB612mn revenue in 1H20, down 23% YoY, accounting for 38% of our full-year forecast. Attributable net loss was RMB116mn in 1H20, down 32% YoY. It was primarily due to the COVID-19 outbreak and travel restrictions between China and US. The total number of IVF treatment cycles in 1H20 was 9,643, down 28% YoY. Considering the impact from COVID-19 pandemic in 1H20, Jinxin's results fell largely in line with our estimates. We remain positive on the Company's long-term growth prospects driven by both strong organic growth and acquisition opportunities.

- Patients visits and IVF cycles gradually went back to normal.** In China, patient visits have recovered to a higher level than the previous year from April, and IVF treatment cycles also recovered to the same level as the previous year in June. In 2Q20, revenue from Chengdu and Shenzhen hospitals grew by 79% QoQ and 78% QoQ, respectively. Notably, VIP cycles delivered a strong 68% YoY growth in 1H20 amid the COVID-19 pandemic. VIP service penetration rose significantly from 5.2% in 1H19 to 11.6% in 1H20. As for the US business, IVF treatment cycles of local patients has recovered to a normal level from July. The Company agreed to establish a JV with Mengmei Partners in order to consolidate the agency channels and to provide one-stop-shop services for patients seeking overseas ARS services.
- Expanding hospital network through acquisitions.** Jinxin announced the acquisition of an ARS provider in Laos and Wuhan Huangpu Hospital (武汉黄浦中西医结合妇产医院, Wuhan Hospital) in March and July, respectively. Through acquisitions, Jinxin has expanded its footprint from Chengdu city to Shenzhen city, the US, Laos and Wuhan. Benefiting from the Company's excellent operation experiences, strong technical know-how, good brand awareness and sufficient cash on hand, the Company will continue to expand its geographic network through acquisitions, in our view.
- Promising growth outlook with rich acquisition opportunities and healthy cash flows.** Jinxin had RMB3.2bn cash on hand as at 30 Jun 2020, providing sufficient funding for acquisitions. We think Jinxin continue to acquire ARS hospitals in tier 1/2 cities in China.
- Maintain BUY with TP of HK\$13.8.** To factor in temporary impact from COVID-19 pandemic, we revised down our FY20E/21E revenue by 8%/7%, and trimmed our DCF-based TP to HK\$13.8 from HK\$14.4 (WACC: 10.2%, terminal growth rate: 3%). Maintain BUY.
- Catalyst:** Acquisitions of quality assets; **Risk:** Impact from COVID-19 pandemic.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	922	1,648	1,481	2,096	2,600
YoY growth (%)	39	79	-10	42	24
Net profit (RMB mn)	167	410	345	554	714
EPS (RMB)	N/A	0.19	0.14	0.23	0.29
YoY growth (%)	N/A	N/A	-24	61	29
Consensus EPS (RMB)	N/A	N/A	0.21	0.26	0.32
P/E (x)	N/A	52.0	68.0	42.3	32.8
P/B (x)	N/A	2.8	3.0	2.8	2.6
Yield (%)	N/A	0.71	0.29	0.47	0.61
ROE (%)	3.7	6.7	4.5	6.8	8.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

## BUY (Maintain)

<b>Target Price</b>	<b>HK\$13.8</b>
(Previous TP)	HK\$14.4)
<b>Up/Downside</b>	<b>+28.7%</b>
<b>Current Price</b>	<b>HK\$10.76</b>

### China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	26,141
Avg. 3mths t/o (HK\$ mn)	242.24
52W High/Low (HK\$)	15.30/ 7.12
Total Issued Shares (mn)	2,430

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%

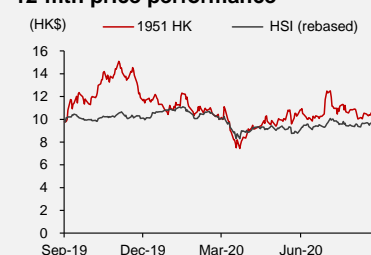
Source: HKEx, Bloomberg

### Share performance

	Absolute	Relative
1-mth	1.1%	-1.2%
3-mth	5.4%	-3.9%
6-mth	9.5%	13.7%

Source: Bloomberg

### 12-mth price performance



Source: Bloomberg

**Auditor: Deloitte**

**Web-site: www.jxr-fertility.com**

### Related reports:

1. First domestic acquisition deal since IPO; Big step in domestic expansion -2 Jul 2020
2. Business expansion in Laos – 5 Mar 2020
3. Business intact from the new Coronavirus outbreak – 30 Jan 2020

**Figure 1: Earnings revision**

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	1,481	2,096	2,600	1,615	2,244	2,739	-8%	-7%	-5%
Gross Profit	643	985	1,248	814	1,156	1,438	-21%	-15%	-13%
Operating Profit	444	711	917	601	885	1,116	-26%	-20%	-18%
Net profit	345	554	714	459	676	853	-25%	-18%	-16%
EPS (RMB cents)	14	23	29	19	28	35	-25%	-18%	-16%
Gross Margin	43.46%	47.00%	48.00%	50.00%	51.50%	51.50%	+6.54 ppt	-4.50 ppt	-3.50 ppt
Operating Margin	30.01%	33.93%	35.26%	42.95%	44.54%	44.54%	-12.94 ppt	-10.61ppt	-9.28ppt
Net Margin	23.30%	26.43%	27.47%	30.95%	32.09%	32.09%	-7.65 ppt	-5.66 ppt	-4.63 ppt

Source: Company, CMBIS estimates

**Figure 2: CMBIS estimates vs consensus**

RMB mn	New			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	1,481	2,096	2,600	1,704	2,166	2,570	-13%	-3%	1%
Gross Profit	643	985	1,248	848	1,100	1,342	-24%	-10%	-7%
Operating Profit	444	711	917	594	775	974	-25%	-8%	-6%
Net profit	345	554	714	504	645	759	-32%	-14%	-6%
EPS (RMB cents)	14	23	29	21	26	32	-31%	-12%	-7%
Gross Margin	43.46%	47.00%	48.00%	49.75%	50.79%	52.22%	-6.29 ppt	-3.79 ppt	-4.22 ppt
Operating Margin	30.01%	33.93%	35.26%	34.87%	35.79%	37.91%	-4.86 ppt	-1.85ppt	-2.65ppt
Net Margin	23.30%	26.43%	27.47%	29.58%	29.77%	29.52%	-6.28 ppt	-3.34 ppt	-2.06 ppt

Source: Company, CMBIS estimates

## Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>922</b>	<b>1,648</b>	<b>1,481</b>	<b>2,096</b>	<b>2,600</b>	<b>Profit before tax</b>	<b>277</b>	<b>548</b>	<b>444</b>	<b>711</b>	<b>917</b>
ARS	801	932	1,068	1,456	1,881	Depreciation for plant and equipment	29	66	75	80	85
Management service fee	90	648	346	571	647	Change in working capital	82	(74)	(170)	24	22
Ancillary medical services	31	68	66	69	72	Others	4	38	(2)	(10)	(20)
Cost of sales	(509)	(832)	(838)	(1,111)	(1,352)	Tax paid	(35)	(126)	(90)	(142)	(183)
<b>Gross profit</b>	<b>413</b>	<b>817</b>	<b>643</b>	<b>985</b>	<b>1,248</b>	<b>Net cash from operating activities</b>	<b>356</b>	<b>453</b>	<b>257</b>	<b>663</b>	<b>820</b>
Other income	22	63	62	70	80	Capex	(21)	(277)	(240)	(120)	(100)
Other expenses	(4)	(2)	0	0	0	Acquisition of subsidiaries	0	0	0	0	0
Other losses	(1)	28	0	0	0	Other investing activities	(367)	(2,429)	(275)	53	63
R&D expenses	(12)	(13)	(10)	(14)	(17)	<b>Net cash from investing activities</b>	<b>(388)</b>	<b>(2,706)</b>	<b>(515)</b>	<b>(67)</b>	<b>(37)</b>
Administrative expenses	(103)	(211)	(201)	(262)	(312)	Net proceeds from shares issued	1,129	2,934	0	0	0
Listing expenses	(38)	(63)	0	0	0	Bank borrowing	0	0	0	0	0
Finance cost	0	(9)	(9)	(9)	(9)	Advance from related parties	104	30	0	0	0
<b>Profit before tax</b>	<b>277</b>	<b>548</b>	<b>444</b>	<b>711</b>	<b>917</b>	Other financing activities	(466)	(1,317)	(152)	(69)	(111)
Income tax expense	(64)	(127)	(90)	(142)	(183)	<b>Net cash from financing activities</b>	<b>767</b>	<b>1,647</b>	<b>(152)</b>	<b>(69)</b>	<b>(111)</b>
<b>Total net profit</b>	<b>212</b>	<b>421</b>	<b>354</b>	<b>569</b>	<b>733</b>	Net change in cash	736	(606)	(410)	527	672
Minority Interests	(46)	(11)	(9)	(15)	(19)	Cash at the beginning of the year	449	1,184	580	170	697
<b>Profit attributable to shareholders</b>	<b>167</b>	<b>410</b>	<b>345</b>	<b>554</b>	<b>714</b>	<b>Cash at the end of the year</b>	<b>1,184</b>	<b>580</b>	<b>170</b>	<b>697</b>	<b>1,369</b>

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>5,123</b>	<b>5,515</b>	<b>5,957</b>	<b>5,954</b>	<b>5,926</b>	<b>Sales mix (%)</b>					
Plant and equipment	138	857	1,022	1,062	1,077	ARS	86.9	56.5	72.2	69.5	72.3
Goodwill	802	809	1,129	1,129	1,129	Management service fee	9.7	39.3	23.4	27.3	24.9
License	401	388	375	362	349	Ancillary medical services	3.4	4.1	4.5	3.3	2.8
Contractual right to provide management services	1,939	1,963	1,963	1,963	1,963	Total	100	100	100	100	100
Trademarks	1,292	1,305	1,305	1,305	1,305	<b>Profit &amp; loss ratios (%)</b>					
Others	550	193	163	133	103	Gross margin	45	50	43	47	48
<b>Current assets</b>	<b>1,436</b>	<b>3,426</b>	<b>2,982</b>	<b>3,522</b>	<b>4,206</b>	EBITDA margin	34	38	36	38	38
Inventories	17	26	25	33	41	Pre-tax margin	30	33	30	34	35
Accounts and other receivables	77	46	12	17	21	Net margin	18	25	23	26	27
Amounts due from related parties	71	50	50	50	50	Effective tax rate	23	23	20	20	20
Bank balances and cash	1,184	580	170	697	1,369	<b>Balance sheet ratios</b>					
Others	87	2,725	2,725	2,725	2,725	Current ratio (x)	1	8	13	13	14
<b>Current liabilities</b>	<b>1,377</b>	<b>436</b>	<b>231</b>	<b>269</b>	<b>302</b>	Trade receivables turnover days	4	3	3	3	3
Accounts and other payables	391	320	115	152	185	Trade payables turnover days	103	50	50	50	50
Capital contribution deposits	0	0	0	0	0	Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Amounts due to related parties	917	41	41	41	41	<b>Returns (%)</b>					
Tax payables	69	46	46	46	46	ROE	3.7	6.7	4.5	6.8	8.2
<b>Non-current liabilities</b>	<b>682</b>	<b>863</b>	<b>863</b>	<b>863</b>	<b>863</b>	ROA	2.5	5.3	3.9	6.0	7.3
Deferred rent	5	0	0	0	0	<b>Per share value</b>					
Deferred tax liabilities	677	709	709	709	709	EPS (RMB)	N/A	0.19	0.14	0.23	0.29
<b>Total net assets</b>	<b>4,500</b>	<b>7,642</b>	<b>7,845</b>	<b>8,345</b>	<b>8,968</b>	DPS (RMB)	N/A	0.07	0.03	0.05	0.06
Minority interest	137	116	125	140	159	BVP (RMB)	N/A	3.46	3.23	3.43	3.69
<b>Shareholders' equity</b>	<b>4,363</b>	<b>7,527</b>	<b>7,720</b>	<b>8,205</b>	<b>8,809</b>						

Source: Company data, CMBIS estimates

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