

# Dingdang Health (9886 HK)

## 2022 preview: Continuing to enhance long-term growth logic

We expect Dingdang to experience robust revenue growth of +24% YoY in 2022E, despite the negative impacts from COVID on new store openings and sales of “four-type medicines”. Going forward, we see Dingdang’s business growth to accelerate to +29%/ +27% YoY in 2023E/ 24E with continuous cost saving from fulfilment and admin expenses, considering the post-pandemic business resumption and the growing penetration rate of online medicine purchasing in China retail pharmacy. Accordingly, we forecast Dingdang to book adjusted net losses of RMB192mn/ RMB94mn in 2022E/ 23E and adjusted net profits of RMB29mn in 2024E.

■ **COVID-related negativity to phase out in 2023E.** COVID control measures in 2022 had affected normal business traveling, which is critical to due diligence before opening new offline stores or acquiring third-party stores. As a result, we see a slowdown in Dingdang’s pace of adding new stores to its network in 1H22, during which the Company grew its total store number by 8, compared with a net addition of 100 during 2021. We expect the Company to largely resume its store opening pace in 2H22E. Additionally, the sale restrictions of “four-type medicines” (namely colds, fevers, cough relieving and anti-inflammatory) were further tightened (such as forbidden of sales and registration requirement before purchasing) in 2022, which posed negative impacts on the sales of related products. With the changes of COVID control policies in China by the end of 2022, we expect that the restriction lift on traveling and the sales of “four-type medicines” will largely contribute to Dingdang’s business recovery and growth in 2023 and beyond. Moreover, Dingdang has recently launched online stores in Douyin, an innovative way to increase public attention and diversify traffic acquisition channels.

■ **Eyes on margin improvements.** Despite the business fluctuations caused by COVID outbreaks in 1H22, Dingdang managed to deliver continuous GPM improvement and operational cost savings. GPM increased by 1.8ppts in 1H22 compared with 2021 while fulfilment, marketing and admin expense ratios decreased by 0.6/1.6/2.7ppts, respectively, during the same period. With the growing economies of scales, further optimization of product mix, the rising ASP, and higher reliance on online medicine purchasing, there is still room for profitability improvement, especially on fulfilment and admin expenses, in our view. The sale recovery of “four-type medicines” is also likely to benefit GPM since OTC-type of products generally possess higher GPM than prescription medicines. Dingdang has charged no delivery fees on online orders, which, otherwise, would directly transfer into net profits. We hold a positive view on Dingdang’s near-term profitability.

■ **Maintain BUY.** Our TP of HK\$14.57 is based on a 10-year DCF model (WACC: 9.7%, terminal growth rate: 3.0%) to reflect Dingdang’s strong competency on O2O medicine sales and its long-term growth prospect.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	2,229	3,679	4,571	5,874	7,488
YoY growth (%)	74.7	65.1	24.3	28.5	27.5
Net profit (RMB mn)	(924)	(1,578)	(824)	(184)	(11)
Adjusted net profit (RMB mn)	(149)	(329)	(192)	(94)	29
EPS (Adjusted) (RMB)	na	na	(0.14)	(0.07)	0.02
P/S (x)	4.5	2.7	2.2	1.7	1.3

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** **HK\$14.57**  
 (Previous TP) **HK\$15.73**  
**Up/Downside** **58.8%**  
**Current Price** **HK\$9.18**

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### Stock Data

Mkt Cap (HK\$ mn) 11,509.8  
 Avg 3 mths t/o (HK\$ mn) 11.7  
 52w High/Low (HK\$) NA/NA  
 Total Issued Shares (mn) 1341.5

Source: FactSet

### Shareholding Structure

Wenlong Yang 49.2%  
 China Merchants Bank 7.1%

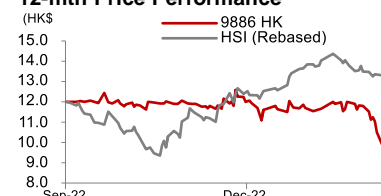
Source: Company

### Share Performance

	Absolute	Relative
1-mth	-26.4%	-21.0%
3-mth	-27.0%	-37.3%
6-mth	NM	NM

Source: FactSet

### 12-mth Price Performance



Source: FactSet

**Figure 1: Earnings revision**

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	4,571	5,874	7,488	4,571	6,057	7,872	0.00%	-3.02%	-4.87%
Gross Profit	1,517	1,909	2,494	1,480	2,011	2,653	2.44%	-5.06%	-6.00%
Operating Profit	-425	-211	-37	-411	-254	-49	nm	nm	nm
Adjusted net profit	-192	-94	29	-178	-137	17	nm	nm	68.30%
Adjusted EPS (RMB)	-0.14	-0.07	0.02	-0.13	-0.10	0.01	nm	nm	68.30%
Gross Margin	33.18%	32.50%	33.30%	32.39%	33.20%	33.70%	+0.79ppt	-0.70ppt	-0.40ppt
Operating Margin	-9.30%	-3.60%	-0.50%	-8.99%	-4.19%	-0.62%	-0.31ppt	+0.59ppt	+0.12ppt
Adjusted net Margin	-4.20%	-1.60%	0.38%	-3.89%	-2.26%	0.22%	-0.31ppt	+0.65ppt	+0.17ppt

Source: Company data, CMBIGM estimates

**Figure 2: Valuation on risk-adjusted DCF valuation**

DCF Valuation (in RMB mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
EBIT	(841)	(200)	(26)	249	572	829	1,186	1,672	2,324	3,184
Tax rate	0%	0%	0%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(841)	(200)	(26)	212	486	705	1,008	1,421	1,975	2,706
+ D&A	80	70	60	50	50	50	50	50	50	50
- Change in working capital	(95)	(65)	(77)	(95)	(109)	(155)	(218)	(300)	(408)	(547)
- Capex	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)
<b>FCFF</b>	<b>(906)</b>	<b>(245)</b>	<b>(92)</b>	<b>117</b>	<b>377</b>	<b>549</b>	<b>790</b>	<b>1,121</b>	<b>1,567</b>	<b>2,159</b>
<b>Terminal value</b>										<b>33,310</b>

<b>Terminal growth rate</b>	<b>3.0%</b>
<b>WACC</b>	<b>9.7%</b>
Cost of Equity	12.0%
Cost of Debt	5.0%
Equity Beta	0.8
Risk Free Rate	3.0%
Market Risk Premium	10.0%
Target Debt to Asset ratio	30.0%
Effective Corporate Tax Rate	15.0%

Terminal value (RMB mn)	13,228
Total PV (RMB mn)	15,251
Net debt (RMB mn)	(1,379)
Minority interest (RMB mn)	12
Equity value (RMB mn)	<b>16,617</b>
Equity value (HK\$ mn)	<b>19,550</b>
# of shares (mn)	1,341
<b>Price per share (HK\$ per share)</b>	<b>14.57</b>

Source: CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	1,276	2,229	3,679	4,571	5,874	7,488
Cost of goods sold	(806)	(1,462)	(2,516)	(3,055)	(3,965)	(4,995)
Gross profit	470	766	1,162	1,517	1,909	2,494
Operating expenses	(588)	(928)	(1,824)	(1,942)	(2,121)	(2,531)
Selling expense	(478)	(724)	(1,247)	(1,421)	(1,704)	(2,082)
Admin expense	(58)	(121)	(481)	(413)	(294)	(300)
R&D expense	(52)	(82)	(96)	(108)	(123)	(150)
Operating profit	(118)	(161)	(662)	(425)	(211)	(37)
Gain/loss on financial assets at FVTPL	(151)	(755)	(912)	(412)	0	0
Share of (losses)/profits of associates/JV	(0)	(0)	0	0	0	0
Net Interest income/(expense)	(6)	(6)	(18)	(9)	(9)	(9)
Others	9	21	11	13	27	26
Pre-tax profit	(266)	(901)	(1,581)	(834)	(194)	(21)
Income tax	(8)	(19)	(17)	0	0	0
After tax profit	(274)	(920)	(1,598)	(834)	(194)	(21)
Minority interest	3	5	(21)	(10)	(10)	(10)
Net profit	(277)	(924)	(1,577)	(824)	(184)	(11)
Adjusted net profit	(123)	(149)	(329)	(192)	(94)	29

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	445	1,093	2,268	2,136	2,154	2,300
Cash & equivalents	145	261	1,553	1,536	1,377	1,319
Account receivables	88	188	280	100	129	164
Inventories	169	323	434	499	647	816
Financial assets at FVTPL	43	321	0	0	0	0
Other current assets	1	0	1	1	1	1
Non-current assets	309	693	678	668	668	678
PP&E	45	46	45	75	105	135
Right-of-use assets	127	151	169	129	99	79
Intangibles	45	230	199	199	199	199
Goodwill	86	256	256	256	256	256
Other non-current assets	6	8	10	10	10	10
Total assets	754	1,786	2,946	2,804	2,823	2,978
Current liabilities	332	602	739	529	641	768
Account payables	247	441	587	377	489	616
Other current liabilities	40	96	48	31	31	31
Lease liabilities	39	54	61	61	61	61
Contract liabilities	26	51	60	60	60	60
Non-current liabilities	859	2,490	4,797	5,210	5,210	5,210
Obligations under finance leases	80	87	96	96	96	96
Other non-current liabilities	779	2,402	4,701	5,114	5,114	5,114
Total liabilities	1,192	3,091	5,536	5,738	5,851	5,978
Share capital	50	50	0	0	0	0
Capital surplus	34	48	422	422	422	422
Retained earnings	(531)	(1,457)	(3,035)	(3,369)	(3,453)	(3,415)
Total shareholders equity	(447)	(1,358)	(2,612)	(2,946)	(3,031)	(2,992)
Minority interest	10	53	22	12	2	(8)
Total equity and liabilities	754	1,786	2,946	2,804	2,823	2,978

<b>CASH FLOW</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	(266)	(901)	(1,582)	(834)	(194)	(21)
Depreciation & amortization	57	75	135	80	70	60
Tax paid	(7)	(16)	(26)	0	0	0
Change in working capital	(202)	(116)	(50)	(95)	(65)	(77)
Others	151	764	1,227	606	94	46
<b>Net cash from operations</b>	<b>(266)</b>	<b>(193)</b>	<b>(295)</b>	<b>(244)</b>	<b>(95)</b>	<b>8</b>
<b>Investing</b>						
Capital expenditure	(20)	(20)	(20)	(20)	(50)	(50)
Acquisition of subsidiaries/ investments	(13)	(204)	0	0	0	0
Others	44	(262)	326	(34)	(5)	(6)
<b>Net cash from investing</b>	<b>11</b>	<b>(486)</b>	<b>307</b>	<b>(54)</b>	<b>(55)</b>	<b>(56)</b>
<b>Financing</b>						
Net borrowings	0	0	2	0	0	0
Proceeds from share issues	400	825	1,395	290	0	0
Others	(46)	(30)	(126)	(9)	(9)	(9)
<b>Net cash from financing</b>	<b>354</b>	<b>795</b>	<b>1,272</b>	<b>281</b>	<b>(9)</b>	<b>(9)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	46	145	261	1,553	1,536	1,377
Exchange difference	0	0	10	0	0	0
<b>Cash at the end of the year</b>	<b>145</b>	<b>261</b>	<b>1,553</b>	<b>1,536</b>	<b>1,377</b>	<b>1,319</b>
<b>GROWTH</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Revenue	118.2%	74.7%	65.1%	24.3%	28.5%	27.5%
Gross profit	95.6%	63.0%	51.7%	30.5%	25.9%	30.6%
<b>PROFITABILITY</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Gross profit margin	36.8%	34.4%	31.6%	33.2%	32.5%	33.3%
Operating margin	(9.3%)	(7.2%)	(18.0%)	(9.3%)	(3.6%)	(0.5%)
Adj. net profit margin	(9.7%)	(6.7%)	(8.9%)	(4.2%)	(1.6%)	0.4%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Current ratio (x)	1.3	1.8	3.1	4.0	3.4	3.0
Receivable turnover days	5.0	6.1	6.1	8.0	8.0	8.0
Inventory turnover days	51.7	60.6	60.6	59.6	59.6	59.6
Payable turnover days	32.6	40.6	40.6	45.0	45.0	45.0
<b>VALUATION</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						

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

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