

BUY (Maintain)

Target Price **HK\$142.1**
 (Previous TP **HK\$150.0**)
 Up/Downside **+53.8%**
 Current Price **HK\$92.4**

China Healthcare Sector**Jill Wu, CFA**

(852) 3900 0842

jillwu@cmbi.com.hk

Sam HU, PhD

(852) 3900 0882

samhu@cmbi.com.hk

Mkt. Cap. (HK\$ mn) 106,010
 Avg. 3mths t/o (HK\$ mn) 638.5
 52W High/Low (HK\$) 135.0/56.0
 Total Issued Shares (mn) 1,147
 Source: Bloomberg

Shareholding Structure

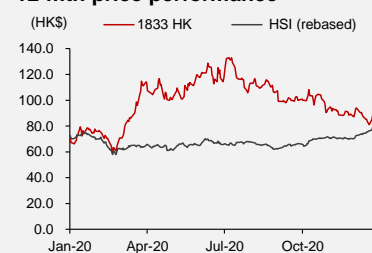
Ping An Insurance 41.31%
 Employee 19.26%
 Soft Bank 4.42%
 Other shareholders 35.01%

Source: HKEx, Bloomberg

Share performance

	Absolute	Relative
1-mth	3.1%	-7.6%
3-mth	-7.8%	-22.0%
6-mth	-21.4%	-34.0%

Source: Bloomberg

12-mth price performance

Source: Bloomberg

Auditor: PWC**Related report:**

Guidelines released for the reimbursement of online medical services - 04 Nov 2020
 Strong growth in core business – 24 Aug 2020
 Building comprehensive healthcare ecosystem – 17 Jun 2020

PA Good Doctor (1833 HK)

Endeavor to upgrade channels and services

- **More policies issued to allow reimbursement for online medical consultation and related drug expenses.** In Jan 2021, the National Healthcare Security Administration (NHSA) released regulatory guidelines about NDRL reimbursement for qualified medical institutions (incl. online hospitals) and pharmacies. The NHSA clearly stated that online medical services provided by qualified online hospitals can be reimbursed. Furthermore, the policy also allows pharmacies to provide "O2O" services for patients who receive prescriptions from online hospitals and then purchase related drugs from offline pharmacies. Recall that in Nov 2020, the NHSA also announced detailed guidelines about reimbursement for online medical services. We believe the COVID-19 pandemic will further accelerate the process of regulatory loosening for online medical services.
- **Consistent regulatory loosening for online medical services.** According to recent regulatory files, online medical services for revisiting patients with chronic or severe diseases will be allowed for reimbursement. At the moment, the authorities only allow online medical services for revisiting patients. We expect the reimbursement coverage will gradually expand to more common diseases and will even allow initial online diagnosis for common diseases. Meanwhile, online and offline medical services will share same reimbursement standards. Online medical consultation fees and related drug costs will all be reimbursed, except for drug shipping costs. Initially, reimbursement will be only available for local patients who receive services from local online hospitals. However, the government stated that cross-region reimbursement (异地就医直接结算) for online medical services will become feasible in the future.
- **PA Good Doctor is upgrading its channels and services to strengthen its leading position.** We expect the Company to expand its inhouse physician team from 1,409 people as of end-2019 to more than 2,000 people as of end-2020E and over 3,000 people as of end-2021E. Meanwhile, we expect the Company to aggressively expand its external physician team in order to provide more comprehensive services. The Company currently operates the largest number of self-built and co-constructed online hospitals. We expect the Company's online hospital network to cover China's major cities in coming years. Leveraging Ping An Group's rich corporate client pool, the Company is penetrating into more corporate clients, providing membership services to corporate's staff and customers.
- **Maintain BUY.** Considering the investments in channel penetration and service upgrade, and potential one-off foreign exchange losses, we lowered our FY21E/22E attributable net loss forecasts to RMB1,020mn/ 1,331mn/ 964mn. We lowered TP from HK\$150.0 to HK\$142.07 based on a 10-year DCF model (WACC:9.3%, terminal growth rate: 4.0%). **Catalysts:** Faster-than-expected user growth; Regulatory loosening.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	3,338	5,065	6,489	8,923	12,467
YoY growth (%)	79	52	28	38	40
Net income (RMB mn)	(912)	(734)	(1,020)	(1,331)	(964)
EPS (RMB)	N/A	(0.73)	(0.89)	(1.16)	(0.84)
Consensus EPS (RMB)	N/A	N/A	(0.68)	(0.50)	(0.17)
P/E (x)	N/A	NA	NA	NA	NA
P/B (x)	N/A	8.6	6.2	6.8	7.2
Yield (%)	N/A	0.00	0.00	0.00	0.00
ROE	(12.7)	(7.4)	(8.2)	(9.1)	(7.1)
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates, Bloomberg

Figure 1: Valuation on risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(1,596)	(1,205)	(802)	133	1,472	2,208	3,267	4,771	6,870	9,755
Tax rate	0.0%	0.0%	0.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)	(1,596)	(1,205)	(802)	113	1,251	1,877	2,777	4,055	5,839	8,292
+ D&A	69	78	85	89	93	139	206	300	432	614
- Change in working capital	135	260	322	406	570	855	1,265	1,847	2,660	3,777
- Capx	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
FCFF	(1,493)	(967)	(495)	508	1,814	2,770	4,148	6,102	8,831	12,582
Terminal value										247,485
Terminal growth rate	4.0%									
WACC	9.3%									
Cost of Equity	12.0%									
Cost of Debt	5.0%									
Equity Beta	0.9									
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)	121,614									
Total PV (RMB mn)	136,579									
Net debt (RMB mn)	(9,621)									
Minority interest (RMB mn)	(11)									
Equity value (RMB mn)	146,211									
# of shares (mn)	1,147									
Price per share (Rmb per share)	127.4									
Price per share (HK\$ per share)	142.1									

Source: CMBIS estimates; Notes: Exchange rate for HK\$/RMB = 0.90

Figure 2: Sensitivity analysis (HK\$)

WACC	Terminal growth rate				
	3.0%	3.5%	4.0%	4.5%	5.0%
8.3%	151.2	165.0	182.1	203.6	231.7
8.8%	135.5	146.5	159.9	176.4	197.3
9.3%	122.3	131.3	142.1	155.0	171.0
9.8%	111.2	118.6	127.4	137.8	150.3
10.3%	101.7	107.9	115.1	123.6	133.6

Source: Company data, CMBIS estimates

Figure 3: Peers' valuation

Company	Ticker	Price	TP	Upside	Mkt cap US\$ mn	P/S (x)		P/E (x)		P/B (x)	
		LC	LC			FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
PA GOOD DOCTOR	1833 HK	92.4	142.1	53.8%	106,010	14.7	10.7	N/A	N/A	6.2	6.8
JD HEALTH INTERN	6618 HK	170.2	N/A	N/A	541,979	24.5	17.4	N/A	600.2	19.5	19.4
ALIBABA HEALTH	241 HK	27.05	N/A	N/A	363,974	33.6	18.0	N/A	685.1	83.7	31.0
TELADOC HEALTH	TDOC US	263	N/A	N/A	38,125	35.2	19.8	N/A	N/A	5.2	7.3
HEALTH CATALYST	HCAT US	51.33	N/A	N/A	2,181	11.6	9.6	N/A	N/A	6.4	N/A
Average						23.9	15.1	N/A	642.6	24.2	16.1

Source: CMBIS estimates, Bloomberg, NR=Not rated

Figure 4: CMBIS earnings revisions

(RMB mn)	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	6,489	8,923	12,467	6,528	9,382	13,521	-0.6%	-4.9%	-7.8%
Gross profit	1,749	2,666	4,136	1,864	3,074	4,893	-6.2%	-13.3%	-15.5%
Operating profit	(767)	(1,516)	(1,125)	(667)	(297)	396	N/A	N/A	N/A
Net profit	(1,020)	(1,331)	(964)	(646)	(271)	368	N/A	N/A	N/A
EPS (RMB)	(0.89)	(1.16)	(0.84)	(0.60)	(0.25)	0.00	N/A	N/A	N/A
Gross margin	26.96%	29.88%	33.17%	28.56%	32.77%	36.19%	-1.60ppt	-2.89ppt	-3.02ppt
Operating margin	-11.81%	-17.00%	-9.02%	-10.22%	-3.16%	2.93%	-1.59ppt	-13.83ppt	-11.95ppt
Net Margin	-15.72%	-14.92%	-7.73%	-9.89%	-2.88%	2.72%	-5.82ppt	-12.03ppt	-10.45ppt

Source: Company data, CMBIS estimates

Figure 5: CMBIS estimates vs consensus

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	6,489	8,923	12,467	6,467	8,833	12,094	0.3%	1.0%	3.1%
Gross profit	1,749	2,666	4,136	1,772	2,583	3,807	-1.3%	3.2%	8.7%
Operating profit	(767)	(1,516)	(1,125)	(933)	(781)	(391)	N/A	N/A	N/A
Net profit	(1,020)	(1,331)	(964)	(742)	(398)	(152)	N/A	N/A	N/A
EPS (RMB)	(0.89)	(1.16)	(0.84)	(0.68)	(0.50)	(0.17)	N/A	N/A	N/A
Gross margin	26.96%	29.88%	33.17%	27.40%	29.24%	31.48%	-0.45ppt	+0.64ppt	+1.70ppt
Operating margin	-11.81%	-17.00%	-9.02%	-14.42%	-8.85%	-3.23%	+2.61ppt	-8.15ppt	-5.79ppt
Net Margin	-15.72%	-14.92%	-7.73%	-11.47%	-4.50%	-1.26%	-4.25ppt	-10.42ppt	-6.47ppt

Source: Company data, CMBIS estimates

Financial Statements

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	3,338	5,065	6,489	8,923	12,467
Online medical services	411	858	1,582	3,006	5,411
Consumer healthcare	905	1,112	1,341	1,743	2,231
Health mall	1,864	2,902	3,335	3,884	4,467
Health management & wellness interaction	157	193	231	289	359
Cost of sales	(2,426)	(3,894)	(4,740)	(6,256)	(8,331)
Gross profit	912	1,171	1,749	2,666	4,136
Selling & marketing expenses	(1,238)	(1,207)	(1,540)	(2,498)	(3,366)
Administrative expenses	(995)	(1,075)	(1,139)	(1,785)	(1,995)
Other income	28	42	133	100	100
Other (losses)/gains	183	109	30	0	0
Operating profit	(1,109)	(959)	(767)	(1,516)	(1,125)
Finance costs - net	202	253	(178)	247	229
Gain/(loss) from associates and JV	(4)	(27)	(85)	(80)	(80)
Profit before tax	(912)	(734)	(1,030)	(1,349)	(977)
Income tax expense	(1)	(13)	(4)	0	0
Total net profit	(913)	(747)	(1,034)	(1,349)	(977)
Minority Interests	(1)	(13)	(14)	(18)	(13)
Attributable profit	(912)	(734)	(1,020)	(1,331)	(964)

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	(913)	(747)	(1,034)	(1,349)	(977)
Depreciation of PP&E	45	146	56	69	78
Impairment of intangible asset	2	23	25	25	25
Change in working capital	46	340	6	147	282
Others	(62)	(14)	193	185	210
Finance costs - net	(202)	(253)	178	(247)	(229)
Operating cash flow	(1,085)	(504)	(576)	(1,171)	(610)
Capex	(198)	(133)	(100)	(100)	(100)
Acquisition of subsidiaries	(951)	0	0	0	0
Other investing activities	(8,409)	4,610	155	253	235
Investing cash flow	(9,557)	4,477	55	153	135
Net proceeds from shares issued	6,964	76	6,533	0	0
Bank borrowing	0	0	(333)	(6)	(6)
Listing expenses	0	0	0	0	0
Other financing activities	51	(67)	(0)	0	0
Financing cash flow	7,016	9	6,200	(6)	(6)
Net change in cash	(3,627)	3,981	5,679	(1,023)	(481)
Cash at the beginning	4,595	926	4,965	10,645	9,621
Cash flow at the end	926	4,965	10,645	9,621	9,140

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	4,280	3,901	3,835	3,761	3,678
Goodwill	967	967	967	967	967
PP&E	172	186	231	261	283
Right-of-use assets	0	94	94	94	94
Other intangible assets	86	106	81	56	31
Prepayments and other receivables	0	7	7	7	7
Financial assets at FV	0	1,532	1,532	1,532	1,532
Others	3,227	1,196	1,155	1,106	1,047
Current assets	8,094	8,478	14,063	13,276	13,200
Inventories	39	75	57	69	91
Accounts and other receivables	431	649	500	640	880
Contract assets	61	141	141	141	141
Bank balances and cash	5,745	0	0	0	0
Others	1,819	7,613	13,366	12,426	12,088
Current liabilities	2,106	2,665	2,596	2,966	3,631
Short-term borrowings	0	0	0	0	0
Trade and other payables	1,488	1,777	1,707	2,078	2,742
Contract liabilities	619	837	837	837	837
Others	0	51	51	51	51
Non-current liabilities	0	44	44	44	44
Lease liabilities	0	44	44	44	44
Trade and other payables	0	0	0	0	0
Total net assets	10,267	9,669	15,259	14,027	13,202
Minority interest	68	21	7	(11)	(24)
Shareholders' equity	10,267	9,669	15,259	14,027	13,202

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Online medical services	12.3	16.9	24.4	33.7	43.4
Consumer healthcare	27.1	22.0	20.7	19.5	17.9
Health mall	55.9	57.3	3.6	3.2	2.9
Health mgmt & wellness interaction	4.7	3.8	3.6	3.2	2.9
Total	100	100	52	60	67
Profit & loss ratios (%)					
Gross margin	27	23	27	30	33
EBITDA margin	(32)	(17)	(12)	(17)	(9)
Pre-tax margin	(27)	(14)	(16)	(15)	(8)
Net margin	(27)	(14)	(16)	(15)	(8)
Effective tax rate	(0)	(2)	(0)	0	0
Balance sheet ratios					
Current ratio (x)	4	3	5	4	4
Trade receivables	48	39	36	36	36
Trade payables turnover	210	153	160	160	160
Net debt to total equity	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	(12.7)	(7.4)	(8.2)	(9.1)	(7.1)
ROA	(9.9)	(5.9)	(6.7)	(7.6)	(5.7)
Per share value					
EPS (RMB)	N/A	(0.73)	(0.89)	(1.16)	(0.84)
DPS (RMB)	N/A	0.00	0.00	0.00	0.00
BVP (RMB)	N/A	9.66	13.30	12.23	11.51

Source: Company data, CMBIS estimates

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CMB International Securities Limited

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

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