

Joynn Laboratories (6127 HK)

Core business maintains a healthy growth momentum

Joynn released estimated preliminary results for 1H23E, expecting revenue of RMB973-1,051mn, up 25.3-35.3% YoY, and attributable net income of RMB73-110mn, down 70.4-80.4% YoY. Specifically, the Company expected its laboratory services (core business) to contribute net profit of RMB189-204mn in 1H23E, up 26.3-36.3% YoY, while incurring net loss from the change of fair value of biological assets of RMB177-189mn, compared with net fair value gain of biological assets of RMB121mn in 1H22. We think the core business of Joynn has maintained a healthy growth momentum, which was a solid performance amid the challenging macro environment in both domestic and international markets, including the China-US tension and the declining healthcare funding leading to the adjustment of R&D activities. In 1Q22, new orders signed by Joynn declined by 43% YoY to RMB570mn, due to negative impacts of COVID outbreaks in China in end 2022 and Jan 2023. However, we expect new orders growth to sequentially improve in 2Q23. Joynn's rich backlogs of RMB4.6bn (as of Mar 2023) will provide cushion for any potential earnings erosion, in our view.

■ **Fair value changes in biological assets are non-operational.** Joynn acquired two China-based leading suppliers of high-quality research models in 2022, adding a total livestock of more than 20,000 research models. Joynn has ranked among the top Chinese CXOs in terms of the number of in-house high-quality research models. The Company benefits from the enhanced order fulfilment under the context of a tight supply of research models in China drug safety assessment (DSA) market. According to China National Institutes for Food and Drug Control (中国食品药品检定研究院), the average bidding price of non-human primates slightly declined from RMB184,000 in Nov 2022 to RMB170,000 in Apr 2023. We think the price erosion was mainly caused by weak demand. Although the price fluctuations of non-human primates affect the net profit of Joynn, we view the fair value changes in biological assets as non-operational.

■ **Targeting the broad global market.** Joynn's US subsidiary, Biomere, continuously delivered solid growth since the acquisition in 2019, forming a China-US pre-clinical R&D platform. Additionally, large foreign DSA service providers in the US have been facing supply constraints of research models in 2023. As such, Joynn, with the stable supply of high-quality research models, is likely to benefit and win more off-shore orders, in our view. In 1Q23, request for proposals (RFPs) from off-shore outsourcing demand increased by 30-50% YoY, per management, which was the early signal of demand inflow from international market. We believe that Joynn, by tapping the global market, will further diversify its revenue source and enhance the sustainability and profitability of earnings in the long run.

■ **Maintain BUY.** We revised our TP to HK\$32.55 from HK\$36.01, based on a 10-year DCF valuation with WACC of 10.7% and terminal growth of 3.0%, to reflect the lower earnings projection. We forecast Joynn's revenue to grow 29.8%/ 26.8%/ 24.9% YoY and attributable net income to grow -61.2%/ 114.9%/ 30.7% YoY in 2023E/ 24E/ 25E, respectively.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	1,517	2,268	2,945	3,735	4,665
YoY growth (%)	41.0	49.5	29.8	26.8	24.9
Net profit (RMB mn)	558	1,077	418	899	1,175
YoY growth (%)	78.3	93.0	(61.2)	114.9	30.7
EPS (Reported) (RMB)	1.51	2.02	0.73	1.58	2.06
Consensus EPS (RMB)	na	na	1.34	1.60	1.93
P/E (x)	12.7	9.5	26.1	12.1	9.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$32.55
(Previous TP)	HK\$36.01)
Up/Downside	52.8%
Current Price	HK\$21.30

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Stock Data

Mkt Cap (HK\$ mn)	12,133.4
Avg 3 mths t/o (HK\$ mn)	15.5
52w High/Low (HK\$)	57.89/17.84
Total Issued Shares (mn)	569.6

Source: FactSet

Shareholding Structure

Yuxia Feng & Zhiwen Zhou	33.5%
HK investors	17.8%

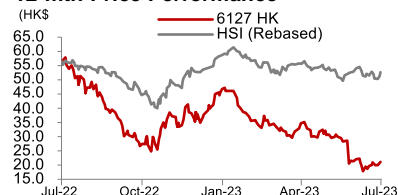
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	1.4%	1.4%
3-mth	-39.5%	-36.3%
6-mth	-54.4%	-49.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	2,945	3,735	4,665	3,014	4,067	5,410	-2.29%	-8.18%	-13.76%
Gross Profit	1,344	1,721	2,169	1,422	1,899	2,508	-5.48%	-9.41%	-13.49%
Operating Profit	783	1,034	1,358	931	1,277	1,734	-15.87%	-19.07%	-21.71%
Attributable net profit	418	899	1,175	1,070	1,349	1,730	-60.92%	-33.36%	-32.09%
EPS (RMB)	0.73	1.58	2.06	2.00	2.52	3.23	-63.25%	-37.33%	-36.14%
Gross Margin	45.64%	46.07%	46.50%	47.18%	46.70%	46.35%	-1.54ppt	-0.63ppt	+0.15ppt
Operating Margin	26.59%	27.67%	29.10%	30.88%	31.40%	32.05%	-4.29ppt	-3.73ppt	-2.95ppt
Net Margin	14.20%	24.07%	25.18%	35.51%	33.16%	31.98%	-21.3ppt	-9.09ppt	-6.80ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	2,945	3,735	4,665	3,033	3,911	4,945	-2.90%	-4.50%	-5.65%
Gross Profit	1,344	1,721	2,169	1,459	1,871	2,330	-7.89%	-8.01%	-6.88%
Operating Profit	783	1,034	1,358	1,070	1,300	1,566	-26.82%	-20.50%	-13.31%
Attributable net profit	418	899	1,175	989	1,182	1,332	-57.73%	-23.95%	-11.79%
EPS (RMB)	0.73	1.58	2.06	1.34	1.60	1.93	-45.17%	-1.37%	6.87%
Gross Margin	45.64%	46.07%	46.50%	48.11%	47.83%	47.11%	-2.47ppt	-1.76ppt	-0.61ppt
Operating Margin	26.59%	27.67%	29.10%	35.28%	33.24%	31.67%	-8.69ppt	-5.57ppt	-2.57ppt
Net Margin	14.20%	24.07%	25.18%	32.62%	30.22%	26.94%	-18.42ppt	-6.15ppt	-1.75ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: DCF valuation for Joinn

DCF Valuation (in RMB mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	372	372	465	577	710	866	1,048	1,257	1,496	1,765
Tax rate	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
EBIT*(1-tax rate)	324	324	405	502	617	753	911	1,094	1,301	1,536
+ D&A	161	182	222	269	322	384	453	529	614	706
- Change in working capital	146	(43)	(53)	(64)	(77)	(91)	(108)	(126)	(146)	(168)
- Capx	(350)	(350)	(350)	(350)	(350)	(350)	(350)	(350)	(350)	(350)
FCFF	281	113	224	357	513	696	906	1,147	1,420	1,724
Terminal value										22,990
Terminal growth rate	3.0%									
WACC	10.7%									
Cost of Equity	13.5%									
Cost of Debt	5.0%									
Equity Beta	1.0									
Risk Free Rate	3.0%									
Market Risk Premium	10.5%									
Target Debt to Asset ratio	30.0%									
Effective Corporate Tax Rate	15.0%									
PV of terminal value (RMB mn)	8,300									
Total PV (RMB mn)	11,876									
Net debt (RMB mn)	(4,819)									
Minority interest (RMB mn)	6									
Equity value (RMB mn)	16,689									
# of shares (mn)	570									
Price per share (in RMB)	29.30									
Price per share (in HK\$)	32.55									

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	1,076	1,517	2,268	2,945	3,735	4,665
Cost of goods sold	(525)	(781)	(1,187)	(1,601)	(2,014)	(2,496)
Gross profit	551	736	1,081	1,344	1,721	2,169
Operating expenses	(275)	(328)	(396)	(561)	(687)	(812)
Selling expense	(13)	(16)	(18)	(26)	(34)	(42)
Admin expense	(211)	(264)	(300)	(432)	(523)	(607)
R&D expense	(51)	(48)	(78)	(103)	(131)	(163)
Operating profit	276	408	686	783	1,034	1,358
Gain/loss on financial assets at FVTPL	55	125	333	(421)	(100)	(100)
Net Interest income/(expense)	(4)	(4)	(4)	(4)	(3)	(3)
Other income/expense	32	113	228	121	101	93
Pre-tax profit	359	642	1,243	480	1,031	1,348
Income tax	(47)	(86)	(167)	(62)	(134)	(175)
After tax profit	312	557	1,076	417	897	1,173
Minority interest	(1)	(1)	(1)	(1)	(2)	(2)
Net profit	313	558	1,077	418	899	1,175
Gross dividends	95	137	214	84	180	235

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	1,183	5,814	5,928	6,036	6,712	7,656
Cash & equivalents	309	4,154	2,917	3,428	3,834	4,446
Account receivables	91	116	212	212	269	336
Inventories	91	106	350	308	387	480
Financial assets at FVTPL	306	841	1,480	1,059	959	859
Other current assets	386	597	970	1,029	1,262	1,535
Non-current assets	990	2,723	4,436	4,825	5,193	5,542
PP&E	646	815	1,235	1,436	1,616	1,777
Intangibles	63	57	50	38	26	14
Goodwill	125	122	134	134	134	134
Financial assets at FVTPL	84	180	946	946	946	946
Other non-current assets	72	1,549	2,071	2,271	2,471	2,671
Total assets	2,173	8,537	10,364	10,861	11,905	13,198
Current liabilities	774	1,214	1,844	2,008	2,334	2,689
Short-term borrowings	3	5	4	4	4	4
Account payables	60	54	127	122	154	190
Other current liabilities	696	1,134	1,689	1,858	2,153	2,471
Lease liabilities	15	22	24	24	24	24
Non-current liabilities	177	178	329	329	329	329
Long-term borrowings	21	5	3	3	3	3
Obligations under finance leases	53	64	57	57	57	57
Deferred income	67	61	81	81	81	81
Other non-current liabilities	35	48	188	188	188	188
Total liabilities	951	1,393	2,173	2,337	2,663	3,018
Share capital	227	381	536	536	536	536
Capital surplus	995	6,755	7,648	7,983	8,702	9,642
Total shareholders equity	1,223	7,136	8,184	8,518	9,237	10,177
Minority interest	(1)	8	7	6	5	2
Total equity and liabilities	2,173	8,537	10,364	10,861	11,905	13,198

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	359	642	1,240	480	1,031	1,348
Depreciation & amortization	83	101	130	161	182	201
Tax paid	(33)	(42)	(124)	(62)	(134)	(175)
Change in working capital	52	98	142	146	(43)	(77)
Others	(23)	(115)	(443)	424	103	103
Net cash from operations	438	685	945	1,149	1,139	1,399
Investing						
Capital expenditure	(141)	(220)	(269)	(350)	(350)	(350)
Acquisition of subsidiaries/ investments	0	(26)	(1,689)	(200)	(200)	(200)
Others	(110)	(1,823)	(177)	0	0	0
Net cash from investing	(251)	(2,069)	(2,134)	(550)	(550)	(550)
Financing						
Dividend paid	(55)	(95)	(137)	(84)	(180)	(235)
Net borrowings	4	(4)	(59)	0	0	0
Proceeds from share issues	33	5,421	(2)	0	0	0
Others	(32)	(32)	99	(4)	(3)	(3)
Net cash from financing	(50)	5,290	(99)	(87)	(183)	(238)
Net change in cash						
Cash at the beginning of the year	177	305	4,150	2,917	3,428	3,834
Exchange difference	(9)	(61)	37	0	0	0
Cash at the end of the year	305	4,150	2,899	3,428	3,834	4,446
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	68.3%	41.0%	49.5%	29.8%	26.8%	24.9%
Gross profit	67.5%	33.6%	47.0%	24.3%	28.0%	26.1%
Operating profit	58.3%	47.9%	68.2%	14.2%	32.0%	31.4%
Net profit	66.6%	78.3%	93.0%	(61.2%)	114.9%	30.7%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	51.2%	48.5%	47.7%	45.6%	46.1%	46.5%
Operating margin	25.6%	26.9%	30.2%	26.6%	27.7%	29.1%
Return on equity (ROE)	30.2%	13.3%	14.1%	5.0%	10.1%	12.1%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.8)	(0.5)	(0.6)	(0.6)	(0.6)
Current ratio (x)	1.5	4.8	3.2	3.0	2.9	2.8
Receivable turnover days	32.0	24.9	26.3	26.3	26.3	26.3
Inventory turnover days	48.8	46.1	70.2	70.2	70.2	70.2
Payable turnover days	32.8	26.6	27.8	27.8	27.8	27.8
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	na	12.7	9.5	26.1	12.1	9.3
P/B	na	1.0	1.2	1.3	1.2	1.1

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

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