

Joynn Laboratories (6127 HK)

New orders slightly recovered in 2Q23

1H23 bottom-line miss. Joynn reported 1H23 revenue of RMB1,012mn, up 30% YoY, and attributable net income of RMB91mn, down 76% YoY. In 1H23, revenue accounted for 34% of our full-year estimate, in-line with the historical average, while attributable net income represented 22% of our full-year estimate, lower than the historical average which was primarily due to the RMB199mn fair values loss from biological assets. However, the Company's laboratory services (core business) recorded a net profit of RMB195mn in 1H23, up 31% YoY, indicating a healthy business momentum amid the challenging macro environment in both domestic and international markets. In 1H23, Joynn's new orders signed declined by ~35% YoY to ~RMB1.3bn, reflecting the temporarily weak preclinical R&D demand in China. Nevertheless, new orders grew 31% QoQ in 2Q23 and reached ~RMB750mn, indicating potentially marginal demand pickup in China. As of June 2023, Joynn's total backlogs reached RMB3.9bn, down from RMB4.4bn as of end-2022. Despite the temporary weak demand, management aims to increase Joynn's market share in the harsh competition environment.

- Globalization to be a business focus for Joynn.** While the R&D demand in China has been moderate, Joynn's US subsidiary, Biomere, continuously delivered solid business performance with new orders up by 16% YoY in 1H23, indicating currently more resilient R&D demand in the US. Joynn has put more resources on marketing its off-shore drug safety services in the US market. As its China-based facilities passed the FDA GLP inspection in 2009, we expect Joynn is able to provide high quality services to foreign customers as well as to Chinese drug companies seeking going overseas. Management also indicated that the Company will consider M&A opportunities in the US or Europe. We believe that Joynn, by tapping global market, will further diversify its revenue sources and achieved sustainable earnings growth in long term.
- Fair value changes in biological assets are non-operational.** Joynn acquired two China-based leading suppliers of high-quality non-human primates (NHPs) in 2022, adding a total livestock of more than 20,000. Due to the price deterioration of NHPs in 1H23, Joynn incurred RMB199mn fair values loss of biological assets, which we view as non-operational. We would like to highlight the continuous healthy growth of Joynn's lab service net income driven by a secured supply of high-quality NHPs.
- Gross profit margin (GPM) to be under pressure.** GPM in 1H23 dropped by 4.6ppts YoY to 44.0%, which is mainly attributable to relatively more NHP-related revenue recognized during the period, lower pricing of clinical CRO services, as well as the low utilization rate of Joynn's US facilities which commenced operation recently. Management has a conservative view on its GPM trend as Joynn will mainly focus on market share gain.
- Maintain BUY.** We revised our TP to HK\$24.51 from HK\$32.55, based on a 10-year DCF valuation with WACC of 10.7% and terminal growth of 3.0%, reflecting the lower earnings projection. We forecast Joynn's revenue to grow 22.4%/ 21.0%/ 27.6% YoY and attributable net income to grow -61.6%/ 93.0%/ 35.8% YoY in 2023E/ 24E/ 25E, respectively.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	1,517	2,268	2,775	3,359	4,285
YoY growth (%)	41.0	49.5	22.4	21.0	27.6
Net profit (RMB mn)	557	1,074	412	796	1,080
YoY growth (%)	78.1	92.7	(61.6)	93.0	35.8
EPS (Reported) (RMB)	1.51	2.01	0.55	1.06	1.44
Consensus EPS (RMB)	na	na	1.07	1.36	1.64
P/E (x)	9.3	7.0	25.7	13.3	9.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$24.51
(Previous TP)	HK\$32.55)
Up/Downside	56.1%
Current Price	HK\$15.70

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Stock Data

Mkt Cap (HK\$ mn)	11,773.3
Avg 3 mths t/o (HK\$ mn)	13.6
52w High/Low (HK\$)	47.20/15.70
Total Issued Shares (mn)	749.9

Source: FactSet

Shareholding Structure

Yuxia Feng & Zhiwen Zhou	32.3%
HK investors	18.0%

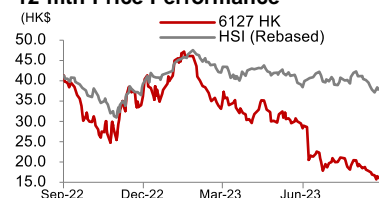
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-20.1%	-13.0%
3-mth	-45.8%	-46.3%
6-mth	-55.6%	-50.3%

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	2,775	3,359	4,285	2,945	3,735	4,665	-5.77%	-10.07%	-8.14%
Gross Profit	1,187	1,417	1,840	1,344	1,721	2,169	-11.68%	-17.64%	-15.18%
Operating Profit	654	811	1,088	783	1,034	1,358	-16.52%	-21.53%	-19.85%
Attributable net profit	412	796	1,080	418	899	1,175	-1.38%	-11.47%	-8.04%
EPS (RMB)	0.55	1.06	1.44	0.52	1.13	1.47	4.88%	-5.85%	-2.20%
Gross Margin	42.78%	42.20%	42.94%	45.64%	46.07%	46.50%	-2.86ppt	-3.88ppt	-3.56ppt
Operating Margin	23.55%	24.15%	25.39%	26.59%	27.67%	29.10%	-3.03ppt	-3.53ppt	-3.71ppt
Net Margin	14.86%	23.70%	25.21%	14.20%	24.07%	25.18%	+0.66ppt	-0.37ppt	+0.03ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	2,775	3,359	4,285	2,923	3,537	4,247	-5.07%	-5.04%	0.91%
Gross Profit	1,187	1,417	1,840	1,366	1,643	1,967	-13.12%	-13.72%	-6.46%
Operating Profit	654	811	1,088	911	1,121	1,341	-28.27%	-27.66%	-18.86%
Attributable net profit	412	796	1,080	797	1,011	1,080	-48.25%	-21.28%	0.04%
EPS (RMB)	0.55	1.06	1.44	1.07	1.36	1.64	-48.74%	-21.85%	-12.15%
Gross Margin	42.78%	42.20%	42.94%	46.75%	46.44%	46.32%	-3.97ppt	-4.24ppt	-3.38ppt
Operating Margin	23.55%	24.15%	25.39%	31.17%	31.69%	31.58%	-7.62ppt	-7.55ppt	-6.19ppt
Net Margin	14.86%	23.70%	25.21%	27.27%	28.58%	25.43%	-12.4ppt	-4.89ppt	-0.22ppt

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	383	383	487	613	767	951	1,169	1,427	1,726	2,071
Tax rate	16.1%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
EBIT*(1-tax rate)	321	333	423	534	667	827	1,017	1,241	1,502	1,802
+ D&A	155	167	200	238	281	329	381	438	500	565
- Change in working capital	35	(115)	(138)	(164)	(193)	(226)	(262)	(302)	(344)	(388)
- Capx	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)
FCFF	262	135	236	358	505	680	886	1,128	1,408	1,728
Terminal value										23,043
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)	8,319									
Total PV (RMB mn)	11,870									
Net debt (RMB mn)	(4,674)									
Minority interest (RMB mn)	4									
Equity value (RMB mn)	16,540									
# of shares (mn)	750									
Price per share (in RMB)	22.06									
Price per share (in HK\$)	24.51									

Source: CMBIGM estimates. HK\$/RMB=0.9

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	1,076	1,517	2,268	2,775	3,359	4,285
Cost of goods sold	(525)	(781)	(1,187)	(1,588)	(1,941)	(2,445)
Gross profit	551	736	1,081	1,187	1,417	1,840
Operating expenses	(275)	(328)	(396)	(533)	(606)	(752)
Selling expense	(13)	(16)	(18)	(29)	(30)	(39)
Admin expense	(211)	(264)	(300)	(406)	(458)	(564)
R&D expense	(51)	(48)	(78)	(97)	(118)	(150)
Operating profit	276	408	686	654	811	1,088
Gain/loss on financial assets at FVTPL	55	125	333	(299)	0	60
Share of (losses)/profits of associates/JV	0	(0)	(3)	(2)	0	0
Net Interest income/(expense)	(4)	(4)	(4)	(3)	(3)	(3)
Other income/expense	32	113	228	139	105	94
Pre-tax profit	359	642	1,240	488	913	1,239
Income tax	(47)	(86)	(167)	(79)	(119)	(161)
After tax profit	312	556	1,073	410	794	1,078
Minority interest	(1)	(1)	(1)	(3)	(2)	(2)
Net profit	313	557	1,074	412	796	1,080
Adjusted net profit	284	415	577	611	721	960
Gross dividends	95	137	214	82	159	216
BALANCE SHEET						
	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	1,183	5,814	5,928	5,933	6,441	7,279
Cash & equivalents	309	4,154	2,917	3,283	3,520	3,879
Account receivables	91	116	212	228	276	352
Inventories	91	106	350	305	373	470
Financial assets at FVTPL	306	841	1,480	1,181	1,181	1,241
Other current assets	386	597	970	935	1,091	1,337
Non-current assets	990	2,723	4,436	4,730	5,014	5,287
PP&E	646	815	1,235	1,341	1,437	1,522
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	10,663	11,455	12,566
Current liabilities	774	1,214	1,844	1,816	1,973	2,222
Short-term borrowings	3	5	4	4	4	4
Account payables	60	54	127	121	148	186
Other current liabilities	696	1,134	1,689	1,667	1,797	2,008
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	2,145	2,302	2,551
Share capital	227	381	536	536	536	536
Capital surplus	995	6,755	7,648	7,978	8,615	9,479
Total shareholders equity	1,223	7,136	8,184	8,514	9,150	10,015
Minority interest	(1)	8	7	4	3	1
Total equity and liabilities	2,173	8,537	10,364	10,663	11,455	12,566

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	359	642	1,240	488	913	1,239
Depreciation & amortization	83	101	130	155	167	177
Tax paid	(33)	(42)	(124)	(79)	(119)	(161)
Change in working capital	52	98	142	35	(115)	(170)
Others	(23)	(115)	(443)	302	3	(57)
Net cash from operations	438	685	945	902	849	1,027
Investing						
Capital expenditure	(141)	(220)	(269)	(250)	(250)	(250)
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)	(450)	(450)	(450)
Financing						
Dividend paid	(55)	(95)	(137)	(82)	(159)	(216)
Net borrowings	4	(4)	(59)	0	0	0
Proceeds from share issues	33	5,421	(2)	0	0	0
Others	(32)	(32)	99	(3)	(3)	(3)
Net cash from financing	(50)	5,290	(99)	(86)	(162)	(219)
Net change in cash						
Cash at the beginning of the year	177	305	4,150	2,917	3,283	3,520
Exchange difference	(9)	(61)	37	0	0	0
Cash at the end of the year	305	4,150	2,899	3,283	3,520	3,879
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	68.3%	41.0%	49.5%	22.4%	21.0%	27.6%
Gross profit	67.5%	33.6%	47.0%	9.8%	19.4%	29.8%
Operating profit	58.3%	47.9%	68.2%	(4.7%)	24.1%	34.2%
Net profit	66.6%	78.1%	92.7%	(61.6%)	93.0%	35.8%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	51.2%	48.5%	47.7%	42.8%	42.2%	42.9%
Operating margin	25.6%	26.9%	30.2%	23.6%	24.1%	25.4%
Return on equity (ROE)	30.2%	13.3%	14.0%	4.9%	9.0%	11.3%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.8)	(0.5)	(0.5)	(0.5)	(0.5)
Current ratio (x)	1.5	4.8	3.2	3.3	3.3	3.3
Receivable turnover days	32.0	24.9	26.3	30.0	30.0	30.0
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	9.3	7.0	25.7	13.3	9.8
P/B	na	0.7	0.9	1.2	1.2	1.1

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

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