

# PA Good Doctor (1833 HK)

## Temporary pains in strategic transition

**Better-than-expected narrowing of net loss in 2022.** PA Good Doctor (PAGD) reported 2022 revenue of RMB6,160mn, down by 16% YoY, and adjusted non-IFRS net loss of RMB848mn, narrowed by 40% YoY. PAGD's revenue slightly missed our forecast/ consensus by 2.8%/ 4.5%, respectively, while adjusted non-IFRS net loss beat our forecast/ consensus by 12.4%/ 20.3%, respectively, thanks to the continuous margin improvements and cost savings under its Strategy 2.0 Continuum. In 2022, gross profit margin (GPM) increased by 4.1 ppts, mainly supported by the GPM improvement of 4.2 ppts from its health service segment. Selling and marketing expense ratio dropped by 6.0 ppts in 2022, due to the inherent cost savings and economies of scale from providing health management services to corporate clients.

■ **Encouraging business developments in 2022.** PAGD's Strategy 2.0 Continuum had delivered positive results in 2022, despite business interruption caused by COVID lockdowns. The cumulative number of corporate clients served by PAGD reached 978 as of Dec 2022 (vs 520 as of Dec 2021) and covered ~3mn paid employees within those corporate clients (vs more than 1mn as of Dec 2021), indicating an increasing acceptance of PAGD's health management services among corporate clients and their employees. Noted that the number of corporate clients and their paid employees for PAGD's services represented only ~3% and ~20% of the total number of corporates and their employees within PA Group's business ecosystem, leaving ample room for further business expansion for PAGD. With the lift of COVID-related travel restrictions in China, we expect PAGD's off-line corporate customer acquisitions to fully resume to its normal pace in 2023 and beyond.

■ **Margin improvements to continue under Strategy 2.0 Continuum.** GPM increased to 27.4% in 2022 from 23.3% in 2021, due to PAGD's proactive reduction in the low-margin online mall business. Besides, selling & marketing expense ratio declined to 17.9% in 2022 from 24.0% in 2021, driven by the inherent cost savings and economies of scale from providing health management services for corporate clients. We anticipate similar trends in GPM and selling & marketing expense ratio in 2023 and thereafter, contributing to the narrowing of adjusted non-IFRS net loss.

■ **Maintain BUY.** We cut our TP from HK\$28.15 to HK\$24.24, based on a 10-year DCF model (WACC: 11.1%, terminal growth rate: 3.0%) to reflect our lowered earnings forecasts. Going forward, we expect PAGD to regain positive revenue growth of +12.4%/ +13.5%/ +14.4% YoY in 2023E/ 24E/ 25E, considering the post-pandemic business resumption and the growing penetration rate of PAGD's medical services in China healthcare industry. Accordingly, we forecast PAGD's adjusted net loss to be sequentially narrowed to RMB702mn/ RMB288mn/ RMB40mn in 2023E/ 24E/ 25E.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	7,334	6,160	6,922	7,859	8,989
YoY growth (%)	6.8	(16.0)	12.4	13.5	14.4
Net profit (RMB mn)	(1,538)	(608)	(782)	(379)	(142)
Adjusted net profit (RMB mn)	(1,417)	(848)	(702)	(288)	(40)
EPS (Adjusted) (RMB)	(1.29)	(0.78)	(0.63)	(0.26)	(0.04)
Consensus EPS (RMB)	na	na	(0.62)	(0.31)	0.14
P/S (x)	2.4	2.8	2.5	2.2	1.9
Net gearing (%)	(20.9)	(26.7)	(22.8)	(21.2)	(21.0)

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

Target Price	HK\$24.24
(Previous TP	HK\$28.15)
Up/Downside	32.7%
Current Price	HK\$18.26

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### Stock Data

Mkt Cap (HK\$ mn)	19,736.6
Avg 3 mths t/o (HK\$ mn)	20.9
52w High/Low (HK\$)	31.65/13.70
Total Issued Shares (mn)	1080.9

Source: FactSet

### Shareholding Structure

Ping An Insurance	39.4%
Sounda Properties	9.4%

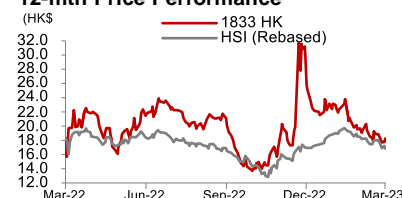
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-8.3%	0.6%
3-mth	-29.1%	-27.5%
6-mth	-9.2%	-11.0%

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	6,922	7,859	8,989	7,818	9,372	n/a	-11.46%	-16.15%	n/a
Gross Profit	1,997	2,385	2,827	2,383	2,976	n/a	-16.20%	-19.87%	n/a
Operating Profit	-872	-467	-239	-789	-313	n/a	n/m	n/m	n/a
Adjusted net profit	-702	-288	-40	-645	-137	n/a	n/m	n/m	n/a
Adjusted EPS (RMB)	-0.63	-0.26	-0.04	-0.58	-0.12	n/a	n/m	n/m	n/a
Gross Margin	28.84%	30.34%	31.45%	30.48%	31.75%	n/a	-1.63ppt	-1.41ppt	n/a
Operating Margin	-12.59%	-5.94%	-2.66%	-10.09%	-3.34%	n/a	-2.51ppt	-2.60ppt	n/a
Adjusted net Margin	-10.14%	-3.66%	-0.44%	-8.26%	-1.46%	n/a	-1.88ppt	-2.20ppt	n/a

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	6,922	7,859	8,989	7,303	8,549	9,209	-5.22%	-8.07%	-2.39%
Gross Profit	1,997	2,385	2,827	2,096	2,567	2,892	-4.73%	-7.10%	-2.24%
Operating Profit	-872	-467	-239	-871	-490	-146	n/m	n/m	n/m
Adjusted net profit	-702	-288	-40	-715	-332	95	n/m	n/m	n/m
Adjusted EPS (RMB)	-0.63	-0.26	-0.04	-0.62	-0.31	0.14	n/m	n/m	n/m
Gross Margin	28.84%	30.34%	31.45%	28.70%	30.02%	31.40%	+0.15ppt	+0.32ppt	+0.05ppt
Operating Margin	-12.59%	-5.94%	-2.66%	-11.93%	-5.73%	-1.59%	-0.66ppt	-0.21ppt	-1.07ppt
Adjusted net Margin	-10.14%	-3.66%	-0.44%	-9.80%	-3.89%	1.04%	-0.34ppt	+0.23ppt	-1.48ppt

Source: Company data, CMBIGM estimates

Figure 3: Valuation on risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	(912)	(507)	(279)	134	270	516	934	1,598	2,572	3,884
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBIT*(1-tax rate)	(912)	(507)	(279)	134	270	516	934	1,598	2,572	3,884
+ D&A	33	34	34	34	61	104	166	249	349	454
- Change in working capital	(38)	(28)	(37)	(37)	(67)	(113)	(181)	(272)	(380)	(495)
- Capex	(34)	(34)	(34)	(34)	(34)	(34)	(34)	(34)	(34)	(34)
FCFF	(950)	(536)	(316)	97	230	472	885	1,541	2,506	3,809
Terminal value										48,584

Terminal growth rate	3.0%
WACC	11.1%
Cost of Equity	14.0%
Cost of Debt	5.0%
Equity Beta	1.0
Risk Free Rate	3.0%
Market Risk Premium	11.0%
Target Debt to Asset ratio	30.0%
Effective Corporate Tax Rate	15.0%

Terminal value (RMB mn)	16,995
Total PV (RMB mn)	19,322
Net debt (RMB mn)	(3,725)
Minority interest (RMB mn)	(6)
Equity value (RMB mn)	23,052
# of shares (mn)	1,119
Price per share (RMB per share)	20.60
Price per share (HK\$ per share)	24.24

Source: CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	6,866	7,334	6,160	6,922	7,859	8,989
Cost of goods sold	(5,002)	(5,627)	(4,475)	(4,926)	(5,474)	(6,162)
Gross profit	1,864	1,707	1,685	1,997	2,385	2,827
Operating expenses	(2,784)	(3,350)	(2,383)	(2,868)	(2,851)	(3,065)
Selling expense	(1,587)	(1,757)	(1,105)	(1,173)	(1,096)	(1,164)
Admin expense	(1,017)	(1,846)	(1,748)	(1,895)	(1,956)	(2,102)
Others	(180)	253	471	200	200	200
Operating profit	(919)	(1,643)	(698)	(872)	(467)	(239)
Share of (losses)/profits of associates/JV	(122)	(39)	(66)	(40)	(40)	(40)
Net Interest income/(expense)	100	159	156	125	126	136
Pre-tax profit	(941)	(1,524)	(608)	(787)	(381)	(143)
Income tax	(7)	(16)	(3)	0	0	0
After tax profit	(949)	(1,539)	(611)	(787)	(381)	(143)
Minority interest	(0)	(1)	(4)	(5)	(2)	(1)
Net profit	(948)	(1,538)	(608)	(782)	(379)	(142)
Adjusted net profit	(516)	(1,417)	(848)	(702)	(288)	(40)

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	15,256	12,757	12,464	12,457	12,970	13,786
Cash & equivalents	7,920	3,065	3,701	3,510	3,744	4,217
Account receivables	1,058	1,554	1,510	1,532	1,722	1,955
Inventories	160	398	246	322	354	394
Financial assets at FVTPL	3,566	4,937	5,090	5,090	5,090	5,090
Other current assets	2,551	2,803	1,917	2,003	2,060	2,131
Non-current assets	3,307	5,124	4,678	4,629	4,580	4,531
PP&E	166	140	111	112	113	114
Investment in JVs & assos	451	546	357	317	277	237
Intangibles	102	106	75	65	55	45
Goodwill	970	970	1,678	1,678	1,678	1,678
Other non-current assets	1,617	3,362	2,458	2,458	2,458	2,458
Total assets	18,563	17,881	17,142	17,086	17,550	18,316
Current liabilities	2,668	3,674	3,483	4,129	4,880	5,686
Short-term borrowings	0	0	0	500	1,000	1,500
Account payables	1,863	2,641	2,349	2,495	2,746	3,052
Other current liabilities	805	1,033	1,133	1,133	1,133	1,133
Non-current liabilities	39	121	201	201	201	201
Obligations under finance leases	39	121	103	103	103	103
Other non-current liabilities	0	0	97	97	97	97
Total liabilities	2,707	3,795	3,684	4,329	5,081	5,886
Share capital	0	0	0	0	0	0
Capital surplus	20,652	20,440	20,424	20,424	20,424	20,424
Retained earnings	(4,819)	(6,357)	(6,964)	(7,662)	(7,947)	(7,986)
Total shareholders equity	15,833	14,083	13,460	12,762	12,477	12,438
Minority interest	23	2	(1)	(6)	(8)	(9)
Total equity and liabilities	18,563	17,881	17,142	17,086	17,550	18,316

<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	(949)	(1,539)	(611)	(787)	(381)	(143)
Depreciation & amortization	170	207	190	33	34	34
Change in working capital	(716)	145	50	(38)	(28)	(37)
Others	393	(216)	(439)	10	18	17
<b>Net cash from operations</b>	<b>(1,102)</b>	<b>(1,403)</b>	<b>(811)</b>	<b>(781)</b>	<b>(358)</b>	<b>(129)</b>
<b>Investing</b>						
Capital expenditure	(73)	(89)	(34)	(34)	(34)	(34)
Acquisition of subsidiaries/ investments	0	(2)	(626)	0	0	0
Net proceeds from disposal of short-term investments	(2,152)	(1,237)	87	0	0	0
Others	(272)	(1,773)	2,284	135	136	146
<b>Net cash from investing</b>	<b>(2,497)</b>	<b>(3,100)</b>	<b>1,710</b>	<b>100</b>	<b>101</b>	<b>112</b>
<b>Financing</b>						
Net borrowings	0	0	0	500	500	500
Proceeds from share issues	6,869	0	0	0	0	0
Share repurchases	0	(368)	(226)	0	0	0
Others	53	48	(92)	(10)	(10)	(10)
<b>Net cash from financing</b>	<b>6,922</b>	<b>(320)</b>	<b>(318)</b>	<b>490</b>	<b>490</b>	<b>490</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	4,965	7,920	3,065	3,701	3,510	3,744
Exchange difference	(368)	(32)	54	0	0	0
<b>Cash at the end of the year</b>	<b>7,920</b>	<b>3,065</b>	<b>3,701</b>	<b>3,510</b>	<b>3,744</b>	<b>4,217</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Revenue	35.5%	6.8%	(16.0%)	12.4%	13.5%	14.4%
Gross profit	59.2%	(8.5%)	(1.3%)	18.5%	19.4%	18.5%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Gross profit margin	27.2%	23.3%	27.3%	28.8%	30.3%	31.4%
Operating margin	(13.4%)	(22.4%)	(11.3%)	(12.6%)	(5.9%)	(2.7%)
Adj. net profit margin	(7.5%)	(19.3%)	(13.8%)	(10.1%)	(3.7%)	(0.4%)
Return on equity (ROE)	(7.4%)	(10.3%)	(4.4%)	(6.0%)	(3.0%)	(1.1%)
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.5)	(0.2)	(0.3)	(0.2)	(0.2)	(0.2)
Current ratio (x)	5.7	3.5	3.6	3.0	2.7	2.4
Receivable turnover days	45.4	65.0	90.8	90.8	90.8	90.8
Inventory turnover days	8.6	18.1	26.3	26.3	26.3	26.3
Payable turnover days	132.8	146.1	203.5	203.5	203.5	203.5
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
P/B	5.6	4.8	1.4	1.4	1.4	1.4

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

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