

EC Healthcare (2138 HK)

Strong recovery continued

- 1HFY22 earnings beat.** EC Healthcare (ECH) reported 1HFY22 revenue / attributable net profit of HK\$1,444mn / HK\$160mn, up 81% YoY / 265% YoY, which accounted for 55% / 47% of our full-year estimates. Medical service segment experienced a strong rebound, with revenue up by 110% YoY in 1HFY22. Acquired business contributed 20% of its total revenue, acting as the major growth driver for ECH. Management indicated that regulatory tightening in aesthetic industry in mainland China will benefit companies with high compliance standards such as ECH.
- All-around recovery continued.** ECH's business operation was seriously hit by the pandemic, which caused a plunge in mainland tourist traffic as well as temporary closures (ranging from 30 to 130 days) of clinics and service centers. With the effective control of the pandemic in HK and mainland China, ECH has managed to regain its growth momentum starting from late 2020. Medical service segment saw 110% YoY growth in 1HFY22, contributing 53% of the total revenue. Revenue from Macau jumped by 202% YoY thanks to the border reopening with mainland. Thus, potential border reopening between HK and mainland in near term?, if allowed by the government, will substantially boost ECH's overall growth given that mainland customers contributed 30-40% of total sales before the pandemic.
- Fruitful acquisitions.** ECH continued to broaden its medical services spectrum through M&As. During 1HFY22, ECH acquired two veterinary chains to enter the pet service market. ECH aims to take 10-20% market share from the total HK\$3-4bn veterinary services market of HK. In addition, on 8 Nov, ECH announced to acquire 70% of equity of Hong Kong specialty medical services centers for a total consideration of HK\$100mn, which will further strengthen ECH's specialty medical service capabilities multiple medical disciplines. Furthermore, on 30 Nov, ECH announced to acquire 55% equity stake of Bayley & Jackson Dental Surgeons Limited, a premium dental clinic brand in HK operating 7 dental clinics, for a total consideration of HK\$129mn, representing a 16x P/E against the guaranteed net profit of HK\$15mn in the first year post acquisition. Given that the target company has well recognized brand and extensive corporate client base, we believe this acquisition will help ECH to expand its existing dental business and further strengthen its leadership in HK discretionary medical market.
- Maintain BUY.** Our target price of HK\$22.40 is based on DCF model, assuming WACC of 11.0% and terminal growth rate of 3.0%. Our TP implies 70.5x FY22 P/E and 48.6x FY23 P/E.

Earnings Summary

(YE 31 Mar)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (HK\$ mn)	1,949	2,080	3,035	3,844	4,876
YoY growth (%)	5	7	46	27	27
Net income (HK\$ mn)	287	193	374	543	770
EPS (HK\$)	0.29	0.19	0.32	0.46	0.65
Consensus EPS (HK\$)	NA	NA	0.33	0.46	0.61
P/S (x)	8.3	7.8	4.8	3.8	3.0
P/E (x)	50.0	77.5	39.0	26.9	19.0
ROE	26.6	16.1	26.1	33.1	40.1
Net gearing (%)	17.0	Net cash	0.17	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$22.40
(Previous TP)	HK\$22.29)
Up/Downside	+80.68%
Current Price	HK\$12.40

China Healthcare Sector

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Stock Data

Mkt Cap (HK\$ mn)	14,600
Avg 3 mths t/o (HK\$ mn)	24.03
52w High/Low (HK\$)	16.26/5.00
Total Issued Shares (mn)	1,177

Source: Bloomberg

Shareholding Structure

Management	63.87%
OrbiMed	5.81%
The Goldman Sachs Group	5.50%
Others	24.82%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	11.7%	18.9%
3-mth	17.1%	24.8%
6-mth	-2.6%	18.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports

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Figure 1: FY2021/22 interim results

	FY1H18	FY1H19	FY1H20	FY1H21	FY1H22	YoY	HoH
Revenue	617	873	1,118	797	1,444	81%	13%
Cost of inventories	(82)	(99)	(129)	(93)	(157)	69%	10%
Gross profit	536	774	989	704	1,287	83%	13%
Registered practitioner expenses	(33)	(66)	(142)	(149)	(299)	101%	0%
Employee benefit expenses	(178)	(208)	(287)	(229)	(343)	50%	-2%
Selling & marketing expenses	(62)	(83)	(102)	(50)	(73)	45%	24%
Rental and related expenses	(59)	(79)	(23)	(28)	(30)	11%	52%
Depreciation and amortization	(12)	(20)	(115)	(126)	(188)	50%	2%
Others	(42)	(74)	(63)	(54)	(104)	93%	860%
Operating profit	149	244	257	69	249	258%	16%
Finance costs	(0)	(5)	(9)	(9)	(18)	101%	26%
Share of profits less losses of JV and associate	1	2	1	0	1	182%	-69%
Profit before tax	151	241	249	61	232	281%	13%
Income tax expense	(24)	(38)	(38)	(8)	(36)	371%	9%
Total net profit	126	203	211	53	196	268%	14%
Minority Interests	1	9	14	9	36	282%	54%
Profit attributable to shareholders	126	194	198	44	160	265%	8%

Source: Company data, CMBIS

Figure 2: Risk-adjusted DCF valuation (terminal growth rate: 3.0%)

DCF Valuation (in Rmb mn)	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
EBIT	558	775	1,089	1,437	1,754	2,104	2,483	2,880	3,284	3,678	4,045
Tax rate	15.2%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)	473	659	926	1,222	1,491	1,789	2,111	2,448	2,791	3,126	3,439
+ D&A	333	384	488	612	704	810	931	1,071	1,231	1,416	1,628
- Change in working capital	(152)	(70)	(118)	(138)	(158)	(182)	(209)	(241)	(277)	(318)	(366)
- Capex	(550)	(500)	(500)	(550)	(500)	(500)	(500)	(500)	(500)	(500)	(500)
FCFF	104	473	795	1,146	1,536	1,916	2,332	2,778	3,245	3,724	4,201
Terminal value											53,583

Terminal growth rate 3.0%

WACC 11.0%

Cost of Equity	14.0%
Cost of Debt	5.0%
Equity Beta	1.1
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	16,875
Total PV	26,818
Net debt	3
Minority interest	436
Equity value (HK\$ mn)	26,379
No. of shares outstanding (mn)	1,177
DCF per share (HK\$)	22.40

Source: CMBIS estimates

Figure 3: Sensitivity analysis

		WACC				
		10.0%	10.5%	11.0%	11.5%	12.0%
Terminal growth rate	2.0%	24.64	22.67	20.70	19.41	18.04
	2.5%	25.79	23.64	21.50	20.11	18.64
	3.0%	27.10	24.74	22.40	20.90	19.32
	3.5%	28.61	25.99	23.42	21.78	20.07
	4.0%	30.37	27.43	24.59	22.78	20.91

Source: CMBIS estimates

Figure 4: CMBIS earnings revisions

(RMB mn)	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	3,035	3,844	4,876	2,648	3,394	4,454	14.6%	13.3%	9.5%
Gross profit	2,711	3,444	4,379	2,351	3,014	3,957	15.3%	14.3%	10.7%
Operating profit	557	775	1,089	489	699	1,019	13.9%	10.9%	6.9%
Net profit	374	543	770	395	574	846	-5.4%	-5.4%	-9.0%
EPS (RMB)	0.32	0.46	0.65	0.30	0.44	0.65	0.04	0.04	0.00
Gross margin	89.33%	89.60%	89.80%	88.80%	88.82%	88.83%	+0.53ppt	+0.78ppt	+0.97ppt
Operating margin	18.34%	20.16%	22.33%	18.47%	20.59%	22.88%	-0.12ppt	-0.43ppt	-0.55ppt
Net Margin	12.33%	14.12%	15.78%	14.94%	16.91%	18.99%	-2.61ppt	-2.79ppt	-3.21ppt

Source: Company data, CMBIS estimates

Figure 5: CMBIS estimates vs consensus

(RMB mn)	New			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	3,035	3,844	4,876	2,877	3,650	4,558	5.5%	5.3%	7.0%
Gross profit	2,711	3,444	4,379	2,234	2,836	3,567	21.4%	21.4%	22.8%
Operating profit	557	775	1,089	525	824	1,073	6.1%	-6.0%	1.5%
Net profit	374	543	770	361	535	704	3.8%	1.5%	9.3%
EPS (RMB)	0.32	0.46	0.65	0.33	0.46	0.61	-4.3%	-0.2%	6.8%
Gross margin	89.33%	89.60%	89.80%	77.65%	77.70%	78.25%	+11.68ppt	+11.9ppt	+11.55ppt
Operating margin	18.34%	20.16%	22.33%	18.24%	22.58%	23.54%	+0.10ppt	-2.42ppt	-1.21ppt
Net Margin	12.33%	14.12%	15.78%	12.53%	14.65%	15.45%	-0.20ppt	-0.53ppt	+0.34ppt

Source: Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE 31 Mar (HK\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,949	2,080	3,035	3,844	4,876
Medical services	623	960	1,536	1,997	2,557
Aesthetic medical services	781	642	872	1,134	1,508
Beauty & wellness services	418	361	478	550	632
Skincare, healthcare & beauty products	62	53	79	87	96
Performance marketing & related	63	64	69	76	84
Cost of sales	(216)	(235)	(324)	(400)	(497)
Gross profit	1,733	1,845	2,711	3,444	4,379
Registered practitioner	(297)	(449)	(617)	(730)	(902)
Employee benefit expenses	(540)	(580)	(725)	(961)	(1,122)
Selling & marketing expenses	(124)	(109)	(153)	(211)	(278)
Rental and related expenses	(43)	(48)	(62)	(77)	(98)
Depreciation and amortization	(233)	(310)	(387)	(446)	(566)
Other expenses	(859)	(1,211)	(1,388)	(1,651)	(1,876)
Operating profit	378	285	557	775	1,089
Finance costs	(18)	(24)	(30)	(24)	(24)
Share of profits less losses of	0	5	1	0	0
Profit before tax	361	266	528	751	1,065
Income tax expense	(50)	(40)	(80)	(113)	(160)
Total net profit	310	226	448	639	905
Minority Interests	24	33	74	96	136
Profit attributable to shareholders	287	193	374	543	770

Cash flow summary

YE 31 Mar (HK\$ mn)	FY20A	FY21A	FY22	FY23	FY24E
Profit before tax	361	266	528	751	1,065
Depreciation	233	278	333	384	488
Amortization of intangible	13	32	54	62	78
Change in working capital	14	110	(152)	(70)	(118)
Others	(44)	(22)	(51)	(89)	(136)
Net cash from operating	576	664	711	1,038	1,376
Capex	(70)	(100)	(250)	(300)	(300)
Other investing activities	386	0	(300)	(200)	(200)
Net cash from investing	316	(100)	(550)	(500)	(500)
Dividend paid	(345)	(172)	(281)	(380)	(500)
Proceeds from new borrowings	145	0	0	0	0
Other financing activities	(540)	18	(30)	(24)	(24)
Net cash from financing	(739)	(154)	(311)	(404)	(524)
Net change in cash	153	411	(149)	135	352
Cash at the beginning of the	367	520	931	782	916
Effects of exchange rate	0	0	0	0	0
Cash at the end of the year	520	931	782	916	1,269

Balance sheet

YE 31 Mar (HK\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	1,503	2,376	2,540	2,594	2,528
Property, plant and equipment	725	792	792	739	595
Investment properties	189	186	103	72	29
Goodwill	155	477	477	477	477
Intangible assets	115	512	457	396	318
Prepayments	103	169	169	169	169
Others	215	239	541	741	941
Current assets	1,052	1,415	1,389	1,664	2,195
Inventories	60	40	68	84	105
Trade receivables	79	179	188	238	302
Deferred cost	73	63	63	63	63
Cash and cash equivalents	520	931	782	916	1,269
Others	320	202	288	362	456
Current liabilities	1,069	1,317	1,289	1,359	1,420
Trade payables	36	47	41	57	70
Bank borrowings	262	287	287	287	287
Lease liabilities	161	207	207	207	207
Others	610	776	753	808	855
Non-current liabilities	316	842	842	842	842
Lease liabilities	297	295	295	295	295
Others	20	548	548	548	548
Total net assets	1,170	1,631	1,798	2,057	2,462
Minority interest	167	362	436	531	667
Shareholders' equity	1,170	1,631	1,798	2,057	2,462

Key ratios

YE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Medical services	32.0	46.1	50.6	52.0	52.4
Aesthetic medical services	40.1	30.9	28.7	29.5	30.9
Beauty and wellness services	21.5	17.4	15.8	14.3	13.0
Skincare, healthcare & beauty products	3.2	2.5	2.6	2.3	2.0
Performance marketing & related services	3.2	3.1	2.3	2.0	1.7
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	89	89	89	90	90
EBITDA margin	32	29	31	32	34
Net margin	16	11	15	17	19
Effective tax rate	14	15	15	15	15
Balance sheet ratios					
Current ratio (x)	1	1	1	1	2
Trade receivables turnover days	17	23	23	23	23
Trade payables turnover days	49	64	64	64	64
Net debt to total equity ratio (%)	17	Net cash	0	Net cash	Net cash
Returns (%)					
ROE	26.6	16.1	26.1	33.1	40.1
ROA	12.7	7.1	11.6	15.6	20.2
Per share value					
EPS (HK\$)	0.29	0.19	0.32	0.46	0.65
DPS (HK\$)	0.23	0.17	0.24	0.32	0.42
BVP (HK\$)	1.19	1.59	1.53	1.75	2.09

Source: Company data, CMBIS estimates

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