

Joynn Laboratories (6127 HK)

Accelerating growth momentum

1H22 earnings beat. Joynn reported 1H22 revenue/ attributable net income of RMB777mn/ RMB371mn, up 45%/ 141% YoY, accounting for 35%/ 50% of our full-year estimates. Revenue growth accelerated to 52% YoY in 2Q22 from 35% YoY in 1Q22. Gross profit margin in 1H22 was 1.6ppts lower than 1H21 but was 1.1ppts higher than 2H21, indicating efficient cost management despite the continuous price hikes of experiment animal models and strong economies of scale. In 1H22, Joynn signed more than RMB2bn new contracts, up c.50% YoY, leading to RMB4.1bn total orders at hand. Joynn aims to reach 40% YoY growth in new orders in 2022. Overseas business provided upside surprise. Biomere, Joynn's overseas subsidiary, won c. RMB200mn new contracts in 1H22, up c.30% YoY, while Joynn's domestic BD team won c.RMB150mn new contracts from foreign clients, up c.100% YoY. Thanks to the continuous price hikes of non-human primates and the acquisition of two suppliers of experiment models, Joynn booked RMB131mn fair gains from biological assets in 1H22, accounting for 30% of the pre-tax profit (vs 22% in 1H21). Joynn plans to roll out a new round of share-based compensation scheme, with revenue CAGR target set at no lower than 35% during 2021-24E.

■ **Continue to enhance leading position in China's drug safety assessment (DSA) market.** To enhance the contract fulfilment capability, Joynn completed the acquisition of two China-based leading suppliers of high-quality experiment models in 1H22, adding a total livestock of more than 20,000 non-human primates. With years of experiences in DSA sector, Joynn has now established itself as a domestic leader in new modalities, such as ADC and CGT areas. According to the Company, Joynn participated in more than 50% of CGT projects and 30% of ADC projects that submitted IND applications to CDE in 1H22 and the size of CGT-related new orders had doubled to ~RMB250mn in 1H22. To meet the rising market demand, Joynn expanded its total number of employee by 500 in 7M22, versus the c.600 increase in staff number during full-year 2021.

■ **Actively expanding facilities to meet the rapidly-growing demand.** Joynn's 8,000sq.m facilities in Suzhou has commenced operation in Jan 2022. The 20,000sq.m. animal rooms in Suzhou will be ready for operation in 2H22. The Ph 1 of Guangzhou facilities (18,000sq.m.) may complete construction by end-2022. Joynn Yichuang, a subsidiary focusing on drug screening, has started the construction of laboratories, which may bring synergies to DSA services.

■ **Maintain BUY.** We slightly lifted our TP from HK\$76.70 to HK\$78.98 based on a 10-year DCF valuation (WACC: 10.9%, terminal growth rate: 3.0%). We forecast revenue to grow 45%/40%/37% YoY and attributable net income to grow 47%/39%/35% YoY in FY22E/23E/24E.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	1,076	1,517	2,203	3,080	4,218
YoY growth (%)	68.3	41.0	45.2	39.8	36.9
Net profit (RMB mn)	311.6	556.8	815.3	1,130.1	1,519.6
YoY growth (%)	66.0	78.7	46.4	38.6	34.5
EPS (Reported) (RMB)	0.99	1.51	1.53	2.12	2.85
Consensus EPS (RMB)	na	na	1.46	1.87	2.41
P/E (x)	na	40.0	24.1	17.4	13.0
ROE (%)	30.1	13.3	11.0	13.8	16.6
Net gearing (%)	(18.9)	(57.2)	(26.3)	(24.4)	(25.9)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$78.98
(Previous TP)	HK\$76.70
Up/Downside	88.0%
Current Price	HK\$42.00

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Stock Data

Mkt Cap (HK\$ mn)	22,436.0
Avg 3 mths t/o (HK\$ mn)	49.5
52w High/Low (HK\$)	81.43/34.89
Total Issued Shares (mn)	534.2

Source: FactSet

Shareholding Structure

Yuxia Feng & Zhiwen Zhou	34.4%
HK investors	18.0%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-17.0%	-16.2%
3-mth	-6.1%	0.8%
6-mth	-9.7%	3.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	2,203	3,080	4,218	2,193	3,066	4,196	0.42%	0.46%	0.51%
Gross Profit	1,058	1,450	1,960	1,013	1,432	1,961	4.46%	1.26%	-0.09%
Operating Profit	963	1,334	1,792	860	1,139	1,479	11.97%	17.14%	21.16%
Net profit	817	1,132	1,523	749	992	1,288	9.07%	14.19%	18.20%
EPS (RMB)	1.53	2.12	2.85	1.40	1.86	2.41	9.08%	14.20%	18.21%
Gross Margin	48.04%	47.08%	46.46%	46.18%	46.71%	46.74%	+1.86ppt	+0.37ppt	-0.28ppt
Operating Margin	43.71%	43.31%	42.50%	39.20%	37.14%	35.25%	+4.51ppt	+6.17ppt	+7.24ppt
Net Margin	37.08%	36.77%	36.11%	34.14%	32.35%	30.70%	+2.94ppt	+4.42ppt	+5.40ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	2,203	3,080	4,218	2,150	2,951	3,907	2.44%	4.38%	7.95%
Gross Profit	1,058	1,450	1,960	1,078	1,480	1,963	-1.81%	-1.99%	-0.18%
Operating Profit	963	1,334	1,792	875	1,130	1,472	10.05%	18.05%	21.76%
Net profit	817	1,132	1,523	754	979	1,269	8.33%	15.68%	20.00%
EPS (RMB)	1.53	2.12	2.85	1.46	1.87	2.41	5.07%	13.67%	18.09%
Gross Margin	2,203	3,080	4,218	2,150	2,951	3,907	2.44%	4.38%	7.95%
Operating Margin	1,058	1,450	1,960	1,078	1,480	1,963	-1.81%	-1.99%	-0.18%
Net Margin	963	1,334	1,792	875	1,130	1,472	10.05%	18.05%	21.76%

Source: Company data, CMBIGM estimates

Figure 3: DCF valuation for Joinn

DCF Valuation (in RMB mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
EBIT	874	1,291	1,291	1,614	2,001	2,462	3,003	3,634	4,361	5,189
Tax rate	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)	743	1,097	1,097	1,372	1,701	2,092	2,552	3,088	3,706	4,410
+ D&A	147	213	265	328	404	492	596	715	851	1,004
- Change in working capital	(67)	41	21	26	32	39	47	56	67	79
- Capx	(700)	(700)	(600)	(600)	(600)	(600)	(600)	(600)	(600)	(600)
FCFF	123	651	783	1,126	1,536	2,023	2,595	3,260	4,024	4,893
Terminal value										63,515
Terminal growth rate	3.0%									
WACC	10.9%									
Cost of Equity	13.8%									
Cost of Debt	5.0%									
Equity Beta	0.9									
Risk Free Rate	3.0%									
Market Risk Premium	12.0%									
Target Debt to Asset ratio	30.0%									
Effective Corporate Tax Rate	15.0%									
Terminal value (RMBmn)	22,500									
Total PV (RMBmn)	32,447									
Net debt (RMBmn)	(3,419)									
Minority interest (RMBmn)	7									
Equity value (RMBmn)	35,860									
# of shares (mn)	534									
Price per share (in RMB)	67.13									
Price per share (in HK\$)	78.98									

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	639	1,076	1,517	2,203	3,080	4,218
Cost of goods sold	(311)	(525)	(781)	(1,144)	(1,630)	(2,258)
Gross profit	329	551	736	1,058	1,450	1,960
Operating expenses	(155)	(275)	(328)	(435)	(539)	(675)
Selling expense	(12)	(13)	(16)	(22)	(31)	(42)
Admin expense	(103)	(211)	(264)	(344)	(416)	(506)
R&D expense	(40)	(51)	(48)	(68)	(92)	(127)
Operating profit	174	276	408	623	911	1,285
Gain/loss on financial assets at FVTPL	13	55	125	231	340	400
Net Interest income/(expense)	(0)	(4)	(4)	(3)	(4)	(4)
Other income/expense	30	32	113	108	83	108
Pre-tax profit	217	359	642	959	1,330	1,788
Income tax	(29)	(47)	(86)	(144)	(200)	(268)
Minority interest	(0)	(1)	(1)	(2)	(2)	(3)
Net profit	188	312	557	815	1,130	1,520
Gross dividends	34	95	137	204	283	381

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	716	1,183	5,814	4,222	5,016	6,349
Cash & equivalents	177	309	4,154	2,109	2,169	2,594
Account receivables	97	91	116	150	210	287
Inventories	50	91	106	145	206	285
Financial assets at FVTPL	150	306	841	1,073	1,413	1,813
Other current assets	242	386	597	746	1,018	1,370
Non-current assets	854	990	2,723	5,081	5,568	5,903
PP&E	576	646	815	1,380	1,879	2,227
Intangibles	69	63	57	45	33	21
Goodwill	134	125	122	122	122	122
Financial assets at FVTPL	24	84	180	180	180	180
Other non-current assets	51	72	1,549	3,354	3,354	3,354
Total assets	1,570	2,173	8,537	9,303	10,584	12,252
Current liabilities	554	774	1,214	1,369	1,803	2,333
Short-term borrowings	13	3	5	5	5	5
Account payables	34	60	54	83	119	165
Other current liabilities	507	711	1,156	1,281	1,680	2,163
Non-current liabilities	166	177	178	178	178	178
Long-term borrowings	9	21	5	5	5	5
Obligations under finance leases	55	53	64	64	64	64
Deferred income	78	67	61	61	61	61
Other non-current liabilities	24	35	48	48	48	48
Total liabilities	720	951	1,393	1,548	1,982	2,511
Share capital	162	227	381	381	381	381
Capital surplus	687	995	6,755	7,367	8,217	9,359
Total shareholders equity	849	1,223	7,136	7,749	8,598	9,740
Minority interest	1	(1)	8	7	4	1
Total equity and liabilities	1,570	2,173	8,537	9,303	10,584	12,252

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	217	359	642	959	1,330	1,788
Depreciation & amortization	45	83	101	147	213	265
Tax paid	(22)	(33)	(42)	(144)	(200)	(268)
Change in working capital	(77)	52	98	(67)	41	21
Others	(14)	(23)	(115)	(228)	(336)	(396)
Net cash from operations	149	438	685	668	1,048	1,409
Investing						
Capital expenditure	(121)	(141)	(220)	(700)	(700)	(600)
Acquisition of subsidiaries/ investments	(197)	0	(26)	(1,805)	0	0
Others	214	(110)	(1,823)	0	0	0
Net cash from investing	(104)	(251)	(2,069)	(2,505)	(700)	(600)
Financing						
Dividend paid	(34)	(55)	(95)	(204)	(283)	(381)
Net borrowings	0	4	(4)	0	0	0
Proceeds from share issues	19	33	5,421	0	0	0
Others	(2)	(32)	(32)	(3)	(4)	(4)
Net cash from financing	(17)	(50)	5,290	(208)	(287)	(385)
Net change in cash						
Cash at the beginning of the year	149	177	305	4,154	2,109	2,169
Exchange difference	1	(9)	(61)	0	0	0
Cash at the end of the year	177	305	4,150	2,109	2,169	2,594
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	56.4%	68.3%	41.0%	45.2%	39.8%	36.9%
Gross profit	57.6%	67.5%	33.6%	43.8%	37.1%	35.1%
Operating profit	77.4%	58.3%	47.9%	52.9%	46.2%	41.0%
Net profit	78.2%	66.0%	78.7%	46.4%	38.6%	34.5%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	51.4%	51.2%	48.5%	48.0%	47.1%	46.5%
Operating margin	34.0%	33.6%	42.6%	43.7%	43.3%	42.5%
Return on equity (ROE)	24.8%	30.1%	13.3%	11.0%	13.8%	16.6%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Net debt to equity (x)	(0.1)	(0.2)	(0.6)	(0.3)	(0.2)	(0.3)
Current ratio (x)	1.3	1.5	4.8	3.1	2.8	2.7
Receivable turnover days	43.9	32.0	24.9	24.9	24.9	24.9
Inventory turnover days	36.7	48.8	46.1	46.1	46.1	46.1
Payable turnover days	28.6	32.8	26.6	26.6	26.6	26.6
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	na	na	40.0	24.1	17.4	13.0
P/E (diluted)	na	na	40.3	24.1	17.4	13.0
P/B	na	na	3.1	2.5	2.3	2.0
P/CFPS	na	na	32.6	29.5	18.8	14.0
Div yield (%)	na	na	0.6	1.0	1.4	1.9

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

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