

Jinxin Fertility (1951 HK)

Resilient business amid COVID pandemic

1H22 earnings impacted by COVID restrictions. Jinxin reported 1H22 revenue of RMB1,138mn, up 33% YoY, attributable net income of RMB190mn, up 22% YoY, and adjusted Non-IFRS attributable net income of RMB261mn, up 18% YoY. Earnings slightly missed our forecasts, mainly due to the negative impact from COVID-19 outbreaks in Shenzhen and Chengdu. Revenue from Chengdu increased by 71% YoY thanks to business consolidation of Jinxin Women and Children Hospital (WCH). Excluding WCH, revenue from Chengdu realized single-digit growth, per management. Revenue from Shenzhen declined by 20% YoY in 1H22 due to COVID-19 impacts. Revenue from the US grew by 9% YoY, thanks to the increase of IVF treatment cycles, indicating the Company's enhancing competency in the US market. Total number of IVF treatment cycles slightly decreased by 1.8% YoY to 12,930 in 1H22, indicating the Company's strong business resilience.

- **Significant synergies between IVF business and WCH in Chengdu.** Despite the COVID-19 disruptions, IVF treatment cycles in Chengdu grew by 12% YoY while revenue of WCH increased by 14% YoY in 1H22. In 1H22, the number of IVF patients directed to WCH increased by 125% YoY and the number of WCH patients converted to IVF business rallied by 108% YoY. We expect more synergies to be released as business integration is progressing and expect the successful business model in Chengdu to be copied in other regions.
- **Resumption of IVF business in Wuhan.** As the IVF business in Wuhan hospital will resume from Sep 2022, the Wuhan hospital may reach operating cash flow breakeven in the next 12 months. Wuhan hospital incurred ~RMB30mn net loss in 1H22, according to management.
- **Continued market consolidation via acquisitions.** Jinxin increased its stake in Jiuzhou Hospital (云南九州医院) and Hewanjia Hospital (昆明和万家妇产医院) from 5.1% to 96.5% while increased its stake in Shenzhen Zhongshang Hospital from 79.4% to 99.9%. Jinxin also acquired new property in Shenzhen which will substantially expand its service capacity and capabilities in Shenzhen. The new property, which is only 10-minute driving from the existing Shenzhen hospital, will be five-fold as large as the existing hospital in terms of floor areas and may commence operation by early 2024. Jinxin targets to grow its revenue and operating cash flows in the Greater Bay area by more than 300% in five years.
- **Maintain BUY.** We adjusted our earnings projections and cut DCF-based TP from HK\$19.28 to HK\$11.73 (WACC: 10.2%, terminal growth: 4.0%). We forecast revenue to grow 38%/29%/20% YoY and adjusted non-IFRS attributable net income to grow -1%/36%/26% YoY in FY22E/23E/24E.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	1,426	1,839	2,536	3,283	3,936
YoY growth (%)	(13.5)	28.9	37.9	29.5	19.9
Net profit (RMB mn)	260.5	353.7	378.7	530.7	677.5
Adjusted net profit (RMB mn)	372.3	455.3	449.7	609.7	766.1
EPS (Adjusted) (RMB)	0.15	0.18	0.18	0.24	0.30
Consensus EPS (RMB)	na	na	0.21	0.26	0.32
P/E (x)	90.8	91.8	29.6	21.1	16.5
ROE (%)	3.5	4.5	4.3	5.7	6.8
Net gearing (%)	(4.2)	13.6	46.8	39.8	31.7

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$11.73**
 (Previous TP) **HK\$19.28**
Up/Downside **141.0%**
Current Price **HK\$4.87**

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Stock Data

Mkt Cap (HK\$ mn) 12,911.5
 Avg 3 mths t/o (HK\$ mn) 6.1
 52w High/Low (HK\$) 13.72/4.51
 Total Issued Shares (mn) 2516.9

Source: FactSet

Shareholding Structure

Jinxin Fertility BV 12.7%
 HRC Investment 11.9%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-15.9%	-15.0%
3-mth	-16.7%	-10.6%
6-mth	-43.6%	-35.2%

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	2,536	3,283	3,936	2,809	3,527	4,180	-9.74%	-6.92%	-5.84%
Gross Profit	1,065	1,395	1,692	1,253	1,580	1,881	-15.00%	-11.70%	-10.03%
Operating Profit	528	712	887	622	825	1,022	-15.18%	-13.65%	-13.17%
Net profit	385	539	687	474	629	779	-18.87%	-14.30%	-11.73%
EPS (RMB)	0.15	0.21	0.27	0.19	0.25	0.31	-19.36%	-14.81%	-12.25%
Gross Margin	42.00%	42.50%	43.00%	44.60%	44.80%	45.00%	-2.60ppt	-2.30ppt	-2.00ppt
Operating Margin	20.82%	21.70%	22.55%	22.15%	23.39%	24.45%	-1.34ppt	-1.69ppt	-1.90ppt
Net Margin	15.17%	16.41%	17.46%	16.88%	17.82%	18.63%	-1.71ppt	-1.41ppt	-1.16ppt

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	2,536	3,283	3,936	2,576	3,145	3,721	-1.56%	4.38%	5.78%
Gross Profit	1,065	1,395	1,692	1,123	1,396	1,703	-5.14%	-0.04%	-0.63%
Operating Profit	528	712	887	634	819	1,022	-16.69%	-13.07%	-13.17%
Net profit	385	539	687	503	642	775	-23.48%	-16.12%	-11.30%
EPS (RMB)	0.15	0.21	0.27	0.21	0.26	0.32	-25.80%	-18.62%	-14.12%
Gross Margin	42.00%	42.50%	43.00%	43.59%	44.38%	45.77%	-1.59ppt	-1.88ppt	-2.77ppt
Operating Margin	20.82%	21.70%	22.55%	24.60%	26.06%	27.47%	-3.78ppt	-4.36ppt	-4.92ppt
Net Margin	15.17%	16.41%	17.46%	19.52%	20.42%	20.83%	-4.34ppt	-4.01ppt	-3.36ppt

Source: Company data, CMBIGM estimates

Figure 3: Valuation on risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)		2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
EBIT		551	735	910	1,133	1,405	1,735	2,134	2,615	3,190	3,876
Tax rate		22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%
EBIT*(1-tax rate)		425	568	703	875	1,085	1,340	1,649	2,019	2,464	2,993
+ D&A		156	156	156	186	221	262	309	364	425	496
- Change in working capital		(161)	27	23	27	32	38	45	53	62	72
- Capex		(1,800)	(300)	(300)	(200)	(200)	(200)	(200)	(200)	(200)	(200)
FCFF		(1,380)	450	581	888	1,139	1,441	1,803	2,236	2,751	3,361
Terminal value											56,159
Terminal growth rate		4.0%									
WACC		10.2%									
Cost of Equity		13.0%									
Cost of Debt		5.0%									
Equity Beta		1.0									
Risk Free Rate		3.0%									
Market Risk Premium		10.0%									
Target Debt to Asset ratio		30.0%									
Effective Corporate Tax Rate		25.0%									
Terminal value (RMB mn)		21,214									
Total PV (RMB mn)		25,693									
Net debt (RMB mn)		380									
Minority interest (RMB mn)		207									
Equity value (RMB mn)		25,105									
# of shares (mn)		2,517									
Price per share (RMB per share)		9.97									
Price per share (HK\$ per share)		11.73									

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	1,648	1,426	1,839	2,536	3,283	3,936
Cost of goods sold	(832)	(860)	(1,067)	(1,471)	(1,887)	(2,243)
Gross profit	817	566	771	1,065	1,395	1,692
Operating expenses	(287)	(328)	(400)	(528)	(674)	(796)
Selling expense	(62)	(41)	(62)	(89)	(112)	(130)
Admin expense	(211)	(275)	(328)	(427)	(546)	(646)
SG&A expense	(13)	(11)	(11)	(13)	(16)	(20)
Operating profit	530	238	371	537	721	896
Share of (losses)/profits of associates/JV	0	0	(10)	(10)	(10)	(10)
Net Interest income/(expense)	(9)	(13)	(21)	(96)	(94)	(92)
Other income/expense	27	125	118	49	55	63
Pre-tax profit	548	349	458	480	672	858
Income tax	(127)	(89)	(104)	(101)	(141)	(180)
Minority interest	(11)	(9)	(14)	5	7	9
Net profit	421	261	354	379	531	677
Adjusted net profit	530	372	455	450	610	766
Gross dividends	152	0	0	0	0	0

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	3,426	2,652	2,543	2,080	2,417	2,894
Cash & equivalents	580	682	862	511	825	1,282
Account receivables	46	69	143	14	18	22
Inventories	26	25	47	64	83	98
Financial assets at FVTPL	53	63	219	219	219	219
Other current assets	2,722	1,813	1,273	1,273	1,273	1,273
Non-current assets	5,515	6,511	10,282	13,632	13,776	13,920
PP&E	857	1,056	1,092	2,807	3,022	3,237
Intangibles	3,656	3,881	5,207	5,183	5,159	5,134
Goodwill	809	890	2,720	4,426	4,426	4,426
Financial assets at FVTPL	0	0	178	178	178	178
Other non-current assets	193	684	1,086	1,039	992	945
Total assets	8,941	9,163	12,825	15,713	16,194	16,814
Current liabilities	436	555	1,072	3,499	3,448	3,390
Short-term borrowings	0	18	38	2,738	2,638	2,538
Account payables	320	362	446	173	222	264
Tax payable	46	61	107	107	107	107
Other current liabilities	70	114	481	481	481	481
Non-current liabilities	863	1,146	3,001	3,001	3,001	3,001
Long-term borrowings	0	145	126	126	126	126
Bond payables	0	0	1,493	1,493	1,493	1,493
Obligations under finance leases	153	210	371	371	371	371
Other non-current liabilities	709	791	1,011	1,011	1,011	1,011
Total liabilities	1,299	1,701	4,073	6,500	6,450	6,391
Share capital	0	0	0	0	0	0
Capital surplus	7,527	7,283	8,545	9,010	9,548	10,236
Total shareholders equity	7,527	7,283	8,545	9,010	9,549	10,236
Minority interest	116	179	207	202	195	186
Total equity and liabilities	8,941	9,163	12,825	15,713	16,194	16,814

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	548	349	458	481	673	859
Depreciation & amortization	66	76	99	85	85	85
Tax paid	(126)	(51)	(47)	(101)	(141)	(180)
Change in working capital	(74)	(108)	(246)	(161)	27	23
Others	38	41	80	141	133	122
Net cash from operations	453	308	343	445	777	909
Investing						
Capital expenditure	(270)	(210)	(72)	(1,800)	(300)	(300)
Acquisition of subsidiaries/ investments	0	(287)	(1,227)	(1,706)	0	0
Net proceeds from disposal of short-term investments	14	(8)	(280)	0	0	0
Others	(2,450)	1,657	12	26	32	40
Net cash from investing	(2,706)	1,152	(1,566)	(3,480)	(268)	(260)
Financing						
Dividend paid	(328)	(150)	0	0	0	0
Net borrowings	0	163	1	2,700	(100)	(100)
Proceeds from share issues	2,934	0	1,043	80	0	0
Share repurchases	0	(60)	(41)	0	0	0
Others	(959)	(8)	(48)	(96)	(94)	(92)
Net cash from financing	1,647	(56)	955	2,684	(194)	(192)
Net change in cash						
Cash at the beginning of the year	1,184	580	1,965	862	511	825
Exchange difference	2	(19)	(8)	0	0	0
Cash at the end of the year	580	1,965	1,689	511	825	1,282
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	78.8%	(13.5%)	28.9%	37.9%	29.5%	19.9%
Gross profit	97.7%	(30.7%)	36.4%	38.0%	31.0%	21.3%
Operating profit	78.0%	(55.2%)	56.3%	44.6%	34.3%	24.3%
Net profit	98.3%	(38.1%)	35.8%	7.1%	40.1%	27.7%
Adj. net profit	100.7%	(29.8%)	22.3%	(1.2%)	35.6%	25.6%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	49.5%	39.7%	42.0%	42.0%	42.5%	43.0%
Operating margin	32.1%	16.7%	19.6%	20.8%	21.7%	22.5%
Adj. net profit margin	32.2%	26.1%	24.8%	17.7%	18.6%	19.5%
Return on equity (ROE)	7.1%	3.5%	4.5%	4.3%	5.7%	6.8%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Net debt to equity (x)	(0.1)	(0.0)	0.1	0.5	0.4	0.3
Current ratio (x)	7.9	4.8	2.4	0.6	0.7	0.9
Receivable turnover days	3.0	3.0	2.0	2.0	2.0	2.0
Inventory turnover days	11.0	11.0	16.0	16.0	16.0	16.0
Payable turnover days	50.0	53.0	43.0	43.0	43.0	43.0
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	54.3	90.8	91.8	29.6	21.1	16.5
P/E (diluted)	54.5	91.4	92.7	29.6	21.1	16.5
P/B	2.9	3.1	3.6	1.2	1.2	1.1
P/CFPS	49.1	74.2	90.8	25.5	14.6	12.5
Div yield (%)	0.7	0.0	0.0	0.0	0.0	0.0

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

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