15 Sep 2022

CMB International Global Markets | Equity Research | Company Update

Airdoc Technology (2251 HK)

Expect recovery from 2H22

Airdoc's 1H22 revenue declined 24.4% YoY to RMB37.4mn primarily due to decreasing number of users of the SaMDs and high risk assessment solutions amid COVID lockdowns which has led to the shrinking revenue of AI-based software solutions (-26.0% YoY). Given the declined revenue size, gross profit was down 30.4% YoY to RMB22.1mn and gross profit margin decreased from 64.1% in 1H21 to 59.0% in 1H22.

- **Number of detection cases was negatively impacted by COVID restrictions but has rebounded since June.** Airdoc's AI-based software can only provide detection service in offline scenarios since face-to-face funduscopy is required. The strict restriction measures during COVID outbreaks negatively impacted daily operation of optometry service sites, which led to a sharp decline in offline ophthalmic examination activities. The number of Airdoc's detection cases in 1H22 dropped by 34.8% YoY to 1.63mn. Since the COVID restrictions eased in June, we expect the detection volume to rebound from June and the trend to continue during the remaining period of the year.
- **Strengthening sales capability.** Airdoc scaled its sales and marketing team to 161 employees to enhance the Company's multi-channel commercialization capabilities. In 1H22, Airdoc has provided AIFUNDUS 1.0 to 41 hospitals and 50 primary healthcare institutions. Over 160 physical examination centers, 40 insurance companies, 700 pharmacies and 1,000 optometry centers have implemented Airdoc's AI-based solutions. The monthly average number of service sites in medical institutions, pharmacies as well as optometry centers grew over 230% YoY, 470% YoY and 17% YoY in 1H22, respectively. Besides, an overseas sales team was established in 1H22, covering eight countries. The expanding sales channel coverage network will drive the recovery of Airdoc's detection volume.
- **Encouraging progress of AIFUNDUS 2.0 and myopia control & prevention solution.** The clinical trial of AIFUNDUS 2.0 has been completed with an expanded indication coverage of hypertensive retinopathy, retinal vein occlusion and age-related macular degeneration. The Company will apply to the NMPA for Class III Medical Device Certificate in 3Q22. AIFUNDUS 2.0 targets the medical departments of cardiovascular, neurology and ophthalmology. In addition, myopia control & prevention solution is planned to be launched in Sep 2022, which may help Airdoc to expand business cooperation with various eye health management service providers and to provide new growth drivers.
- **Maintain BUY**. We cut Airdoc's FY22E-23E revenue by 22% and 26% considering the negative impact of COVID restrictions and expect a sharp recovery of offline ophthalmic examination demand from 2H22E. We maintain BUY rating and lower target price from HK$74.54 to HK$36.34 based on a 9-year DCF model (WACC: 12.6%, terminal growth rate: 2.0%).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	48	115	167	300	511
YoY growth (%)	56.7	141.6	45.3	79.2	70.2
Net profit (RMB mn)	(80)	(143)	(139)	(177)	(121)
EPS (Reported) (RMB cents)	(217.64)	(176.24)	(134.20)	(171.14)	(116.32)
P/S (x)	23.8	9.9	6.8	3.8	2.2
P/B (x)	N/A	0.5	0.7	0.8	0.8
ROE (%)	(63.9)	(12.8)	(7.9)	(11.1)	(8.3)
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**HK$36.34**
(Previous TP	HK$74.54)
Up/Downside	**181.71%**
Current Price	**HK$12.90**

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Stock Data

Mkt Cap (HK$ mn)	1,346.4
Avg 3 mths t/o (HK$ mn)	16.2
52w High/Low (HK$)	NA/NA
Total Issued Shares (mn)	103.6

Source: FactSet

Shareholding Structure

Dalei Zhang	16.7%
Fosun International	9.9%

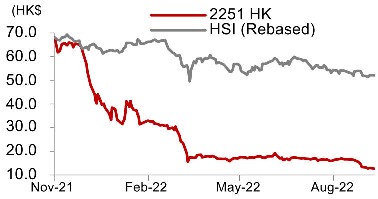
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-23.4%	-20.1%
3-mth	-23.5%	-16.6%
6-mth	-43.0%	-39.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New FY22E	New FY23E	New FY24E	Old FY22E	Old FY23E	Old FY24E	Diff (%) FY22E	Diff (%) FY23E	Diff (%) FY24E
Revenue	167	300	511	214	404	698	-21.6%	-25.8%	-26.8%
Gross profit	113	207	355	140	288	513	-19.2%	-28.0%	-30.9%
Operating profit	-139	-177	-120	-158	-191	-138	N/A	N/A	N/A
Net profit	-139	-177	-120	-159	-192	-138	N/A	N/A	N/A
EPS (RMB)	-1.34	-1.71	-1.16	-1.53	-1.85	-1.33	N/A	N/A	N/A
Gross margin	67.54%	69.00%	69.50%	65.51%	71.15%	73.58%	2.03 ppt	-2.15 ppt	-4.08 ppt
Operating margin	-82.86%	-58.93%	-23.51%	-74.17%	-47.32%	-19.73%	-8.69 ppt	-11.61 ppt	-3.77 ppt
Net Margin	-83.02%	-59.07%	-23.59%	-74.38%	-47.43%	-19.79%	-8.65 ppt	-11.65 ppt	-3.80 ppt

Source: Company data, CMBIGM estimates

Figure 2: Risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)		2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT		-154	-189	-130	-0	130	252	412	588	762
Tax rate		0.0%	0.0%	0.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)		-154	-189	-130	-0	110	215	350	500	648
+ D&A		11	16	19	22	24	26	27	27	28
- Change in working capital		-42	-33	-51	-77	-105	-131	-136	-128	-94
- Capex		-30	-30	-30	-30	-30	-30	-30	-30	-30
FCFF		**-215**	**-236**	**-192**	**-85**	**-1**	**79**	**211**	**369**	**552**
Terminal value										**5,307**
Terminal growth rate	**2.0%**									
WACC	**12.6%**									
Cost of Equity	15.4%									
Cost of Debt	5.0%									
Equity Beta	1.2									
Risk Free Rate	2.8%									
Market Risk Premium	10.5%									
Target Debt to Asset ratio	25.0%									
Effective Corporate Tax Rate	15.0%									
Terminal value (RMB mn)	1,822									
Total PV (RMB mn)	**1,720**									
Net debt (RMB mn)	-1,479									
Minority interest (RMB mn)	0									
Equity value (RMB mn)	**3,199**									
Equity value (HK$ mn)	**3,764**									
# of shares (mn)	104									
Price per share (HK$ per share)	**36.34**									

Source: CMBIGM estimates

Figure 3: Sensitivity analysis

		WACC 11.6	12.1%	12.6%	13.1%	13.6%
	3.0%	43.82	41.11	38.72	36.59	34.70
	2.5%	42.16	39.68	37.47	35.50	33.74
Terminal growth rate	**2.0%**	40.67	38.38	**36.34**	34.51	32.87
	1.5%	39.33	37.21	35.31	33.60	32.06
	1.0%	38.12	36.15	34.37	32.77	31.32

Figure 4: CMBIGM estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
RMB mn	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	167	300	511	211	399	676	-20.6%	-24.8%	-24.5%
Gross Profit	113	207	355	132	259	451	-14.6%	-20.0%	-21.3%
Operating Profit	-139	-177	-120	-172	-166	-90	N/A	N/A	N/A
Net profit	-139	-177	-120	-167	-159	-87	N/A	N/A	N/A
EPS (RMB)	-1.34	-1.71	-1.16	-1.80	-1.62	-0.73	N/A	N/A	N/A
Gross Margin	67.54%	69.00%	69.50%	62.81%	64.88%	66.72%	4.73 ppt	4.12 ppt	2.78 ppt
Operating Margin	-82.86%	-58.93%	-23.51%	-81.55%	-41.52%	-13.33%	-1.31 ppt	-17.41 ppt	-10.18 ppt
Net Margin	-83.02%	-59.07%	-23.59%	-79.45%	-39.96%	-12.82%	-3.57 ppt	-19.11 ppt	-10.77 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	**30**	**48**	**115**	**167**	**300**	**511**
Cost of goods sold	(14)	(19)	(45)	(54)	(93)	(156)
Gross profit	**16**	**29**	**70**	**113**	**207**	**355**
Operating expenses	**(62)**	**(81)**	**(212)**	**(252)**	**(384)**	**(475)**
Selling expense	(13)	(26)	(73)	(89)	(150)	(204)
Admin expense	(14)	(18)	(77)	(62)	(66)	(77)
R&D expense	(41)	(42)	(64)	(125)	(180)	(204)
Others	6	5	1	23	12	10
Operating profit	**(46)**	**(52)**	**(142)**	**(139)**	**(177)**	**(120)**
Net Interest income/(expense)	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**
Others	(41)	(27)	0	0	0	0
Pre-tax profit	**(87)**	**(79)**	**(143)**	**(139)**	**(177)**	**(120)**
Income tax	(0)	(0)	0	0	0	0
After tax profit	**(87)**	**(80)**	**(143)**	**(139)**	**(177)**	**(120)**
Minority interest	(0)	0	0	0	0	0
Net profit attributable to shareholders	**(87)**	**(80)**	**(143)**	**(139)**	**(177)**	**(120)**

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	**233**	**409**	**1,846**	**1,671**	**1,514**	**1,439**
Cash & equivalents	85	375	1,785	1,334	1,110	927
Account receivables	17	20	34	49	89	151
Inventories	0	4	8	9	15	26
ST bank deposits	0	0	0	150	150	150
Other current assets	131	11	19	129	150	185
Non-current assets	**6**	**27**	**49**	**67**	**81**	**92**
PP&E	6	23	45	64	78	88
Other non-current assets	0	4	4	4	4	4
Total assets	**239**	**436**	**1,894**	**1,738**	**1,595**	**1,531**
Current liabilities	**396**	**25**	**71**	**54**	**88**	**144**
Short-term borrowings	0	0	0	0	0	0
Account payables	22	17	49	40	69	115
Tax payable	0	0	0	0	0	0
Other current liabilities	375	8	22	13	19	28
Non-current liabilities	**2**	**2**	**3**	**3**	**3**	**3**
Long-term borrowings	0	0	3	3	3	3
Deferred income	2	2	0	0	0	0
Other non-current liabilities	0	0	0	0	0	0
Total liabilities	**399**	**27**	**74**	**57**	**91**	**147**
Share capital	12	75	101	101	101	101
Other reserves	(171)	333	1,719	1,580	1,403	1,282
Total shareholders equity	**(159)**	**408**	**1,820**	**1,681**	**1,504**	**1,383**
Minority interest	0	0	0	0	0	0
Total equity and liabilities	**239**	**436**	**1,894**	**1,738**	**1,595**	**1,531**

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**(87)**	**(79)**	**(143)**	**(139)**	**(177)**	**(120)**
Depreciation & amortization	3	5	15	11	16	19
Tax paid	0	0	0	0	0	0
Change in working capital	(14)	(4)	4	(42)	(33)	(51)
Others	39	35	10	0	0	0
Net cash from operations	**(59)**	**(43)**	**(112)**	**(170)**	**(194)**	**(152)**
Investing						
Capital expenditure	(2)	(22)	(28)	(30)	(30)	(30)
Acquisition of subsidiaries/ investments	0	(2)	0	0	0	0
Net proceeds from disposal of short-term investments	(5)	93	6	(101)	0	0
Others	(20)	22	0	(150)	0	0
Net cash from investing	**(27)**	**92**	**(22)**	**(281)**	**(30)**	**(30)**
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	60	180	0	0	0	0
Others	1	61	1,553	(0)	(0)	(0)
Net cash from financing	**61**	**241**	**1,553**	**(0)**	**(0)**	**(0)**
Net change in cash						
Cash at the beginning of the year	109	85	375	1,785	1,334	1,110
Exchange difference	0	(0)	(9)	0	0	0
Cash at the end of the year	**85**	**375**	**1,794**	**1,334**	**1,110**	**927**

GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	N/A	56.7%	141.6%	45.3%	79.2%	70.2%
Gross profit	N/A	80.6%	141.5%	61.0%	83.1%	71.4%

PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	53.0%	61.0%	61.0%	67.5%	69.0%	69.5%
Operating margin	(151.7%)	(108.9%)	(123.5%)	(82.9%)	(58.9%)	(23.5%)
Return on equity (ROE)	N/A	(63.9%)	(12.8%)	(7.9%)	(11.1%)	(8.3%)

GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Current ratio (x)	0.6	16.4	26.1	31.2	17.2	10.0
Receivable turnover days	198.2	149.6	107.9	107.9	107.9	107.9
Inventory turnover days	N/A	69.9	62.4	60.0	60.0	60.0
Payable turnover days	555.4	377.4	264.8	270.0	270.0	270.0

VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/B	N/A	N/A	0.5	0.7	0.8	0.8
Div yield (%)	N/A	N/A	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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