

Company Report

Mega Genomics (6667 HK)

Eyes on cancer screening growth

- 1H22 rev. growth was flat at RMB98mn primarily due to COVID testing ASP reduction and Omicron wave disruptions
- Cancer screening grew 30% yoy in 1H22; we project it to remain on a positive trajectory to FY23E, w/ 105% CAGR over 2021-23E
- We cut TP to HKD19.5 as we revised FY22E/23E earnings. Maintain BUY on Co.'s fast growing cancer screening services

1H22 rev. growth softness reflected Omicron disruption

Total revenue during 1H22 was flat at RMB98mn due to mixed segment results. Cancer screening services grew 30% yoy to RMB52mn, thanks to continued market penetration driven by strong demand. Consumer genetic testing services down 20% yoy to RMB46mn mainly due to COVID testing ASP reduction and Omicron wave disruptions (Meinian OneHealth 1H22 rev. -13% yoy). 1H22 overall GPM largely remained stable at 66% (vs. 66.5% in 1H22). But we noted 1H22 showed divergent GPM performance: 1) GPM of consumer genetic testing down from 60.2% to 51.8% owing to COVID impacts and continued price reduction for COVID-19 diagnostic tests (ASP in Beijing has dropped ~60% YTD to RMB~3.4/ppl (link) from RMB~8/ppl for group test); 2) GPM from cancer screening services up 3ppts to 78.5% thanks to improved operating leverage. 1H22 SG&A ratio (excl. one-time listing expense) increased to ~31% from ~18%, as Co. is expanding its sales force (marketing staff +114% yoy) and increased R&D expense (+110% yoy). As a result, adjusted net profit down by 24% yoy.

Eyes on revenue growth of cancer screening

Given robust 1H22 growth of cancer screening service, we project this segment to remain on a positive trajectory in 2H22E. Co. now covered >1,570 healthcare institutions (incl. incl. ~600 Meinian checkup centers) in over 340 cities in China. We model Co. to cover ~1,800 healthcare institutions by YE22E (+20% yoy), supported by its expanding sales force. We forecast Co.'s revenue from cancer screening services to grow 105% CAGR over 2021-23E and to reach RMB422mn.

Maintain BUY and PER-based TP revised to HKD19.5

We revised down FY22E/23E earnings by 8%/6% to reflect lower than expected 1H22 revenue growth and GPM. We cut our PER-based TP to HKD19.5 from HKD23.1 using 17x 2023 PER (in line w/ its peers avg. 23E PER). **Investment risk:** contract renewal & regulation risks, etc.

RMB mn	2019	2020	2021A	2022E	2023E
Consolidated revenue	124	203	237	342	567
% yoy change	-37%	64%	17%	44%	66%
Adjusted EBITDA	72	125	137	182	313
% yoy change	64%	74%	9%	33%	72%
Adjusted net profit	46	94	105	148	237
% yoy change	23%	103%	12%	40%	60%

Sources: Company, CMS (HK) estimates; Note*: adj. net profit excluded one-off items

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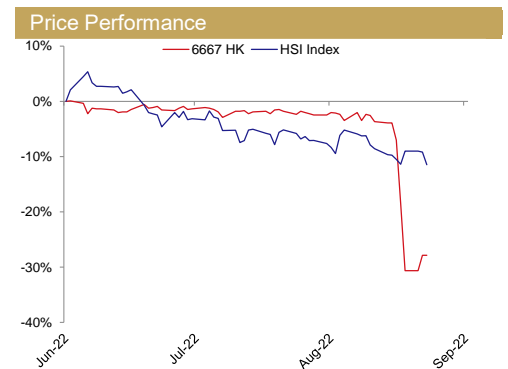
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WHAT'S NEW

1H22 earnings update, TP revision

BUY

Previous	BUY
Price (September 13, 2022)	HKD13.0
12-month Target Price (Potential up/downside)	HKD19.5 (+50%)
Previous	HKD23.1



Source: Bloomberg

%	1m	6m	12m
6667 HK	(0.1)	n.a.	n.a.
HSI	(11.3)	(20.8)	(30.1)

Pharmaceutical & Healthcare	
Hang Seng Index (Sep 13, 2022)	19,327
HSCEI (Sep 13, 2022)	6,633
Key Data	
52-week range (HKD)	12.4-21.0
Market cap (HKDmn)	3,110
Daily traded (HKDmn)	n.a.
BVPS (HKD)	5.8
Shareholding Structure	
Management	16.7%
Meinian Onehealth	15.6%
Other pre-IPO investors	62.7%
Free float	5.0%

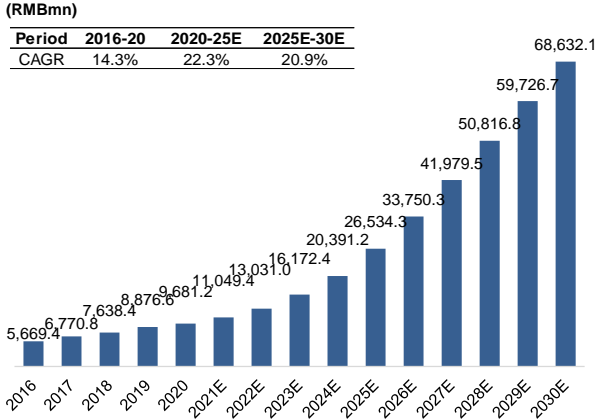
Sources: Company data, Bloomberg

Related Research

1. Meg Genomics (6667 HK) – Embracing fast growing genetic-based preventive care (BUY) (Aug 3, 2022)

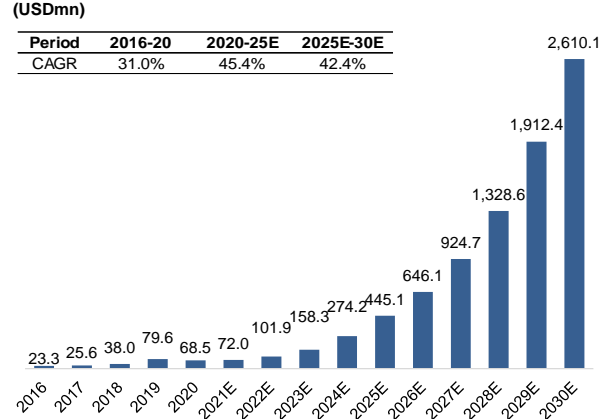
Focus charts

Figure 1: China's major cancer screening* markets, 2016-2030E



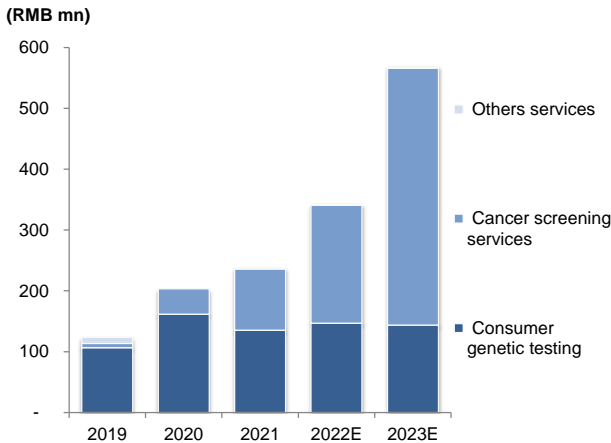
Source: Literature research, expert review and Frost & Sullivan Analysis; Note*: combination of CRC, gastric cancer, lung cancer, breast cancer, and cervical cancer screening mkts include only the revenue of IVD products for cancer screening at ex-factory level.

Figure 2: China's consumer genetic testing market, 2016-2030E



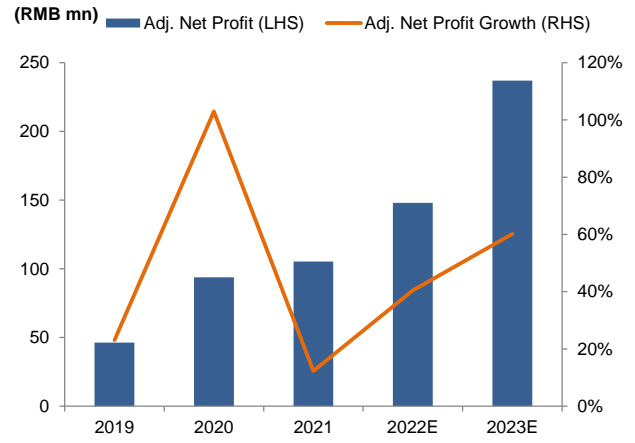
Sources: China's National Bureau of Statistics, expert interview and Frost & Sullivan Analysis

Figure 3: The Group's rev. breakdown by segments



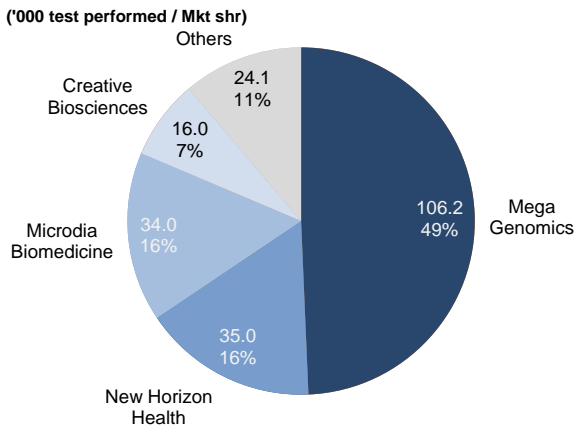
Sources: Company, CMS (HK) estimates

Figure 4: The Group's adjusted net profit and growth



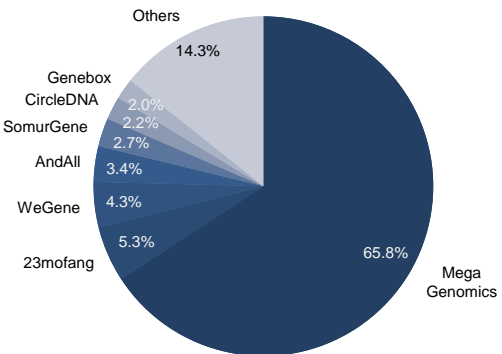
Sources: Company, CMS (HK) estimates

Figure 5: Group's genetic-based CRC screening mkt share by No. of test performed in China, 2020



Sources: Companies' website, expert interview and Frost & Sullivan Analysis

Figure 6: Group's mkt share of consumer genetic testing by No. of testing performed in China, 2020



Sources: Company data, CMS (HK) estimates

Our earnings revision

Figure 7: Earnings revision

Income statement	2022E			2023E		
	Before	After	% Chg	Before	After	% Chg
Consolidated revenue	368	342	-7.1%	595	567	-4.6%
COGS	(106)	(101)	-5.0%	(170)	(154)	-9.7%
Gross profit	262	241	-7.9%	424	413	-2.6%
(-) Total SG&A expense	(74)	(74)	-0.1%	(128)	(133)	4.3%
Administrative expenses (excl. assets impairment loss and IPO expense)	(13)	(12)	-7.1%	(21)	(23)	9.0%
Selling and distribution costs	(44)	(46)	4.6%	(77)	(82)	6.4%
(+/-) Other income/expense	1	1	0.0%	1	1	0.0%
EBITDA adjusted (excl. SBC/Listing exp. & incl. profit from JV/Asso.)	199	182	-8.8%	330	313	-5.2%
Total depreciation and amortisation	(10)	(13)	30.0%	(33)	(32)	-2.4%
EBIT adjusted (excl. SBC/Listing exp. & incl. profit from JV/Asso.)	189	168	-10.9%	297	281	-5.5%
(+/-) Profit from JV&Asso.	-	-	n.a.	-	-	n.a.
(+/-) Finance (expense)/income - net	1	1	0.0%	2	2	-0.4%
(+/-) Other gains/losses	(7)	(15)	114.3%	-	-	n.a.
Profit before tax	183	155	-15.6%	300	283	-5.5%
(-) Tax	(29)	(22)	-26.2%	(49)	(46)	-5.5%
(+/-) Minority interest	-	-	n.a.	-	-	n.a.
Net profit attributable to shareholders	154	133	-13.6%	251	237	-5.5%
Adjusted net profit	161	148	-8.0%	251	237	-5.5%
EPS Fully diluted (RMB) (adjusted)	0.67	0.62	-8.0%	1.05	0.99	-5.5%
EPS Fully diluted (HKD)	0.74	0.68	-8.0%	1.15	1.09	-5.5%
Margins (%)						
Gross Margin	71%	71%	-1	71%	73%	2
Adjusted EBITDA Margin	54%	53%	-1	56%	55%	0
Adjusted Net Profit Margin	44%	43%	0	42%	42%	0
YoY Growth (%)						
Consolidated revenue	55%	44%	-11	62%	66%	4
Gross profit	57%	45%	-12	62%	71%	9
Adjusted EBITDA	46%	33%	-13	66%	72%	6
Adjusted net profit	53%	40%	-12	56%	60%	4

Sources: Company data, CMS (HK) estimates

Valuation summary

Below is a comparison table of the major cancer screening and genetic testing providers listed in Mainland China, Hong Kong SAR and the U.S. markets. Among the major testing providers in China, we think the following Chinese companies are comparable ones in terms of business types. These comparable companies are trading at c.17x 23E PER.

Figure 8: Comp table of listed major genetic testing and cancer screening providers

Ticker	Name	中文名	List curr	Last Price	Mkt Cap (USD mn)	P/E Ratio			P/B Ratio			P/S Ratio		
						21A	22E	23E	21A	22E	23E	21A	22E	23E
China testing service providers														
603882 CH	GUANGZHOU KING-A	金城医学	CNY	65.7	4,321	23.2	11.6	12.6	8.2	3.5	2.8	4.3	2.1	2.2
300676 CH	BGI GENOMICS CO	华大基因	CNY	59.2	3,426	24.6	23.1	21.2	3.9	2.3	2.1	5.3	4.1	3.8
300685 CH	AMOY DIAGNOSTI-A	艾德生物	CNY	24.1	1,359	69.3	31.0	25.0	12.2	5.6	4.7	18.1	8.6	6.7
6606 HK	NEW HORIZON HEAL	诺辉健康	HKD	17.6	925	N.A.	N.A.	N.A.	3.6	3.0	3.4	32.0	11.4	6.1
BNR US	BURNING ROCK-ADR	燃石医学	USD	3.4	352	N.A.	N.A.	N.A.	3.4	2.0	3.3	12.4	4.0	3.0
9960 HK	KINDSTAR GLOBALG	康圣环球	HKD	2.2	267	N.A.	18.5	19.9	1.5	0.6	0.6	2.5	1.6	1.7
China genetic testing and cancer screening providers average					1,525	31.0	16.4	17.2	6.1	3.1	2.8	7.5	3.7	3.1
US testing service providers average														
ILMN US	ILLUMINA INC	illumina公司	USD	199.1	31,322	N.A.	70.9	49.8	5.6	2.8	2.6	12.6	6.6	5.8
EXAS US	EXACT SCIENCES	Exact科学公司	USD	39.9	7,068	N.A.	N.A.	N.A.	4.0	2.4	2.6	7.5	3.5	3.1
NTRA US	NATERA INC	Natera股份有限公司	USD	50.6	4,901	N.A.	N.A.	N.A.	13.6	17.8	N.A.	13.5	6.0	4.8
Genetic testing and cancer screening providers average					24,371	N.A.	70.9	49.8	6.2	4.4	2.6	11.9	6.0	5.2

Sources: Bloomberg, all data were updated to the closing prices on September 13, 2022; Note: we excluded Di'an Diagnostics in our Comp table given ~50% of its revenue came from lower margin distribution business

Below is the financial and operation metrics (historical and forecasted) of major genetic testing and cancer screening providers in China.

Figure 9: Financial and operation metrics of major genetic testing and cancer screening providers

Company	Revenue (RMB mn)				Adj. attributable net profit* (RMB mn)				Gross profit margin (%)				Operating profit margin (%)			
	20A	21A	22E	23E	20A	21A	22E	23E	20A	21A	22E	23E	20A	21A	22E	23E
Mega Geno. (6667 HK)	203	237	342	567	94	105	148	237	72	70	71	73	52	51	49	50
Kingmed (603882 CH)	8,244	11,943	14,348	13,706	1,457	2,189	2,571	2,308	47	47	46	47	23	23	22	22
BGI (300676 CH)	8,397	6,766	5,834	6,225	2,049	1,358	1,250	1,395	60	58	61	62	31	26	21	22
Di'an** (300244 CH)	5,082	6,620	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	49	49	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Adicon	2,742	3,380	n.a.	n.a.	289	384	n.a.	n.a.	41	43	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Labway (301060 CH)	1,238	1,778	n.a.	n.a.	106	224	n.a.	n.a.	32	38	n.a.	n.a.	14	18	n.a.	n.a.
Yunkang (2325 HK)	1,200	1,697	2,646	3,272	267	414	575	729	55	53	49	49	28	27	26	27
Berry (000710 CH)	1,540	1,422	n.a.	n.a.	115	-130	n.a.	n.a.	53	45	n.a.	n.a.	14	-3.2	n.a.	n.a.
Amoy (300685 CH)	728	917	1,094	1,400	147	216	303	372	87	84	84	84	29	28	30	29
Kindstar (9960 HK)	891	931	1,210	1,136	92	81	100	107	52	52	50	54	10	7	6	4
Gentron (GTH US)	424	532	581	725	-216	-442	-537	-481	61	64	58	61	n.a.	n.a.	n.a.	n.a.
Burning Rock (BNR US)	430	508	613	829	-234	-514	-781	-613	73	72	66	70	n.a.	n.a.	n.a.	n.a.
NH Health (6606 HK)	71	213	568	1,063	-168	-286	-332	-292	53	73	82	84	n.a.	n.a.	n.a.	n.a.

Sources: Company data, Bloomberg, CMS (HK) estimates, Note*: adj. NP excluded one-off items, ** We only recorded Di'an testing service revenue, which accounted for ~50% of its total revenue over FY20-21

Financial summary

Balance Sheet

RMB mn	2019	2020	2021	2022E	2023E
Non-current assets	79	95	87	173	241
PP&E	55	47	41	128	196
Intangible assets	1	1	1	1	1
Right-of-use assets	21	15	10	10	10
Financial assets - FVTPL	-	30	30	30	30
Others	3	2	3	3	3
Current assets	184	358	685	944	1,135
Inventories	2	3	3	6	9
Trade receivables	108	130	204	237	315
Prepay./other receiva.	21	16	239	239	239
Amt. due from rela. parties	-	-	-	-	-
Assets held for sale	-	-	-	-	-
Total cash & cash equival.	53	208	239	462	573
Total assets	264	454	772	1,118	1,377
Current liabilities	53	262	70	83	105
Trade and bills payables	12	27	29	42	64
Other payables	30	28	33	33	33
Due to a related party	-	-	-	-	-
Income tax payable	-	0	7	7	7
ST bank debt	10	3	-	-	-
Non-current liabilities	213	15	8	8	8
Deferred tax liabilities	-	-	-	-	-
Others	21	15	8	8	8
LT bank loans	3	-	-	-	-
Shareholders' funds	(3)	176	694	1,027	1,264
Minorities	-	-	-	-	-
Total liability and equity	264	454	772	1,118	1,377

Cashflow

RMB mn	2019	2020	2021	2022E	2023E
Operating cash flow	34	101	30	122	208
Pretax profit	38	95	96	155	283
OP before WC changes	78	124	120	167	313
NWC change	(38)	(9)	(79)	(23)	(58)
Income tax paid	(3)	(13)	(11)	(22)	(46)
Interest paid	(3)	(2)	(1)	-	-
Investing cash flow	18	(31)	(2)	(99)	(98)
Purchase of PPE	8	(1)	(4)	(100)	(100)
Purchase of intan. assets	(0)	-	(0)	-	-
Pur./dis. of JV & Asso.	-	-	-	-	-
Amt. due to/from third party	-	-	-	-	-
Purchases of ST inve., net	-	(30)	3	-	-
Interest received	-	-	-	1	2
Others	20	-	-	-	-
Financing cash flow	(17)	86	3	200	-
Finance activities	-	-	-	200	-
Issuance of equity shares	-	100	15	-	-
Dividends	-	-	-	-	-
Bank borrowings, net	(10)	(10)	(3)	-	-
Others	-	-	-	-	-
Beginning cash	18	53	208	239	462
<i>Net change in cash</i>	<i>35</i>	<i>156</i>	<i>32</i>	<i>223</i>	<i>110</i>
End cash	53	208	239	462	573

Profit & Loss Statement

RMB mn	2019	2020	2021	2022E	2023E
Consolidated revenue	124	203	237	342	567
COGS	(45)	(57)	(71)	(101)	(154)
Gross profit	78	146	167	241	413
(-) Total SG&A exp.	(21)	(38)	(46)	(74)	(133)
Admin expenses	(11)	(14)	(12)	(12)	(23)
Selling & distribution	(5)	(19)	(23)	(46)	(82)
(-) R&D cost	(4)	(4)	(11)	(15)	(28)
(+/-) Other income, net	(0)	3	2	1	1
(+/-) Profit of JV&Asso.	-	-	-	-	-
Adj. EBITDA	72	125	137	182	313
Total Depre. & amort.	(14)	(14)	(14)	(13)	(32)
Stock-based comp	-	-	-	-	-
Adj. EBIT	58	111	123	168	281
(+/-) Finance exp. - net	(3)	(2)	(1)	1	2
(+/-) Other gains/losses	(17)	(15)	(26)	(15)	-
Profit before tax	38	95	96	155	283
(-) Tax	(9)	(16)	(17)	(22)	(46)
Net Profit	30	79	79	133	237
(+/-) Minority interest	-	-	-	-	-
Net profit attri. to shrhld	30	79	79	133	237
Adjusted net profit	46	94	105	148	237
Adj. EPS diluted (RMB)	0.19	0.39	0.44	0.62	0.99
Adj. EPS diluted (HKD)	0.22	0.43	0.48	0.68	1.09

Financial Ratios

	2019	2020	2021	2022E	2023E
Growth (%)					
Consolidated revenue	-37%	64%	17%	44%	66%
Gross profit	-59%	26%	24%	45%	71%
Adjusted net profit	23%	103%	12%	40%	60%
Profitability (%)					
Gross margin (%)	63%	72%	70%	71%	73%
Adj. net profit margin (%)	37%	46%	44%	43%	42%
ROE	n.a.	91%	18%	15%	21%
ROA	n.a.	22%	13%	14%	19%
Efficiency					
Inventory days	19	19	17	20	20
Accounts receivable days	315	231	309	250	200
Accounts payable days	96	170	149	150	150
Cash cycle days	239	80	177	120	70
Liquidity					
FCF (RMB mn)	42	100	26	22	108
Net gearing (%)	584	(105)	(33)	(44)	(44)

Sources: Company data, CMS (HK) estimates

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
HOLD	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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