

Joynn Laboratories (6127 HK)

Accelerating growth momentum driven by sustainable research model supply

3Q22 earnings beat. Joynn reported 3Q22 revenue of RMB500mn, up 55% YoY (35%/52% YoY for 1Q/2Q22), and attributable net income of RMB261mn, up 177% YoY (34%/307% YoY for 1Q/2Q22). Attributable net income in 3Q22 accounted for 32% of our full-year estimate, compared with 17%/17% in 3Q21/3Q20. Gross profit margin in 3Q22 reached 50.9%, improved by 2.9ppts YoY and 3.3ppts QoQ, indicating efficient cost management despite the continuous price hikes of experimental animal models, indicating Joynn's strong pricing power to its customers. Due to the increasing price of non-human primates, fair gains from biological assets accounted for a significant 37% of Joynn's pre-tax profit in 3Q22 (30%/19% in 1H22/2021). Excluding unrealized fair value gains from biological asset, interest income, foreign exchange changes and other non-recurring items, adjusted attributable net income would increase by 71% YoY in 9M22. In 3Q22, new order signed by Joynn increased by c.40% YoY and the Company aims to reach 40% YoY growth in new orders for full-year 2022, indicating solid earnings growth for Joynn in the coming year and healthy demand in DSA services in China. In Aug 2022, Joynn announced to roll out a new round of share-based compensation scheme, with revenue CAGR target set at no lower than 35% during 2021-24E.

■ **Enhanced order fulfilment capabilities with acquisitions of research animal suppliers.** Driven by the explosive pharmaceutical R&D innovations in China, the lack of high-quality research animal models has become a big bottleneck for CXO companies to provide drug safety assessment (DSA) services since 2019. Joynn completed its RMB1.8bn acquisition of two China-based leading suppliers of high-quality experiment models in 1H22, adding a total livestock of over 20,000 non-human primates. As a result, we have observed a continuous acceleration in Joynn's revenue growth from 2Q22. Meanwhile, Joynn can better control its operating costs with its abundant livestock of research animals, which has led to margin improvement given the growth in adjusted attributable net income has outpaced that of revenue in 9M22 (71% YoY vs 49% YoY). We expect Joynn will continue to enhance its leading position in China DSA market.

■ **Expanding capacities to accommodate the rapidly-growing demand.** Joynn's 8,000sq.m facilities in Suzhou have commenced operation in Jan 2022 and another 20,000sq.m. animal rooms in Suzhou will be ready for operation in 2H22. Besides, 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 going forward.

■ **Maintain BUY.** We revise our TP from HK\$78.98 to HK\$53.61 based on a 10-year DCF valuation (WACC: 10.9%, terminal growth rate: 3.0%).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	1,076	1,517	2,279	3,099	4,182
YoY growth (%)	68.3	41.0	50.3	35.9	35.0
Attributable net profit (RMB mn)	313.0	557.9	902.1	1,066.6	1,359.7
YoY growth (%)	66.0	78.7	61.7	18.2	27.5
EPS (Reported) (RMB)	0.99	1.51	1.69	1.99	2.54
Consensus EPS (RMB)	na	na	1.55	1.95	2.48
P/E (x)	na	40.0	15.2	12.9	10.1
ROE (%)	30.1	13.3	12.0	13.0	14.9
Net gearing (%)	(18.9)	(57.2)	(26.3)	(24.9)	(27.2)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$53.61**

(Previous TP) **HK\$78.98**

Up/Downside **92.8%**

Current Price **HK\$27.80**

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Stock Data

Mkt Cap (HK\$ mn)	14,876.4
Avg 3 mths t/o (HK\$ mn)	37.8
52w High/Low (HK\$)	71.93/24.80
Total Issued Shares (mn)	535.1

Source: FactSet

Shareholding Structure

Yuxia Feng & Zhiwen Zhou	34.3%
HK investors	18.5%

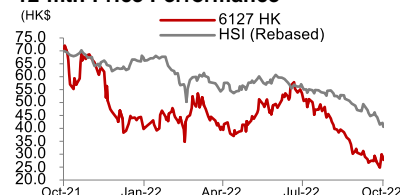
Source: Company

Share Performance

	Absolute	Relative
1-mth	-9.2%	5.4%
3-mth	-47.5%	-27.2%
6-mth	-29.4%	-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	2,279	3,099	4,182	2,203	3,080	4,218	3.48%	0.60%	-0.83%
Gross Profit	1,123	1,525	2,058	1,058	1,450	1,960	6.18%	5.18%	5.01%
Operating Profit	653	921	1,284	623	911	1,285	4.78%	1.09%	-0.06%
Attributable net profit	902	1,067	1,360	817	1,132	1,523	10.42%	-5.81%	-10.71%
EPS (RMB)	1.69	1.99	2.54	1.53	2.12	2.85	10.23%	-5.97%	-10.86%
Gross Margin	49.29%	49.23%	49.20%	48.04%	47.08%	46.46%	+1.25ppt	+2.14ppt	+2.74ppt
Operating Margin	28.65%	29.73%	30.70%	28.30%	29.58%	30.46%	+0.36ppt	+0.14ppt	+0.24ppt
Net Margin	39.56%	34.42%	32.51%	37.08%	36.77%	36.11%	+2.48ppt	-2.34ppt	-3.59ppt

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	2,279	3,099	4,182	2,187	3,004	3,987	4.22%	3.15%	4.90%
Gross Profit	1,123	1,525	2,058	1,085	1,490	1,977	3.51%	2.36%	4.09%
Operating Profit	653	921	1,284	910	1,111	1,441	-28.22%	-17.09%	-10.90%
Attributable net profit	902	1,067	1,360	780	1,000	1,290	15.54%	6.68%	5.41%
EPS (RMB)	1.69	1.99	2.54	1.55	1.95	2.48	8.78%	2.11%	2.62%
Gross Margin	49.29%	49.23%	49.20%	49.63%	49.61%	49.58%	-0.34ppt	-0.38ppt	-0.38ppt
Operating Margin	28.65%	29.73%	30.70%	41.61%	36.98%	36.14%	-12.95ppt	-7.26ppt	-5.44ppt
Net Margin	39.56%	34.42%	32.51%	35.69%	33.28%	32.36%	+3.88ppt	+1.14ppt	+0.16ppt

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	944	1,181	1,181	1,417	1,687	1,990	2,329	2,701	3,106	3,541
Tax rate	14.3%	14.3%	14.3%	14.3%	14.3%	14.3%	14.3%	14.3%	14.3%	14.3%
EBIT*(1-tax rate)	809	1,012	1,012	1,215	1,445	1,706	1,996	2,315	2,662	3,035
+ D&A	147	213	265	312	365	424	487	556	628	703
- Change in working capital	(70)	21	3	3	4	5	5	6	7	8
- Capx	(700)	(700)	(600)	(600)	(600)	(600)	(600)	(600)	(600)	(600)
FCFF	185	546	680	930	1,215	1,534	1,888	2,276	2,697	3,145
Terminal value										40,830
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)	14,464									
Total PV (RMBmn)	21,812									
Net debt (RMBmn)	(3,439)									
Minority interest (RMBmn)	6									
Equity value (RMBmn)	25,245									
# of shares (mn)	535									
Price per share (in RMB)	47.18									
Price per share (in HK\$)	53.61									

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	639	1,076	1,517	2,279	3,099	4,182
Cost of goods sold	(311)	(525)	(781)	(1,156)	(1,573)	(2,125)
Gross profit	329	551	736	1,123	1,525	2,058
Operating expenses	(155)	(275)	(328)	(470)	(604)	(774)
Selling expense	(12)	(13)	(16)	(23)	(31)	(42)
Admin expense	(103)	(211)	(264)	(369)	(465)	(586)
R&D expense	(40)	(51)	(48)	(78)	(108)	(146)
Operating profit	174	276	408	653	921	1,284
Gain/loss on financial assets at FVTPL	13	55	125	271	240	210
Net Interest income/(expense)	(0)	(4)	(4)	(3)	(4)	(4)
Other income/expense	30	32	113	129	85	94
Pre-tax profit	217	359	642	1,050	1,242	1,583
Income tax	(29)	(47)	(86)	(150)	(178)	(226)
Minority interest	(0)	(1)	(1)	(2)	(2)	(3)
Attributable net profit	188	313	558	902	1,067	188
Gross dividends	34	95	137	225	267	340
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	716	1,183	5,814	4,298	4,974	6,115
Cash & equivalents	177	309	4,154	2,129	2,220	2,694
Account receivables	97	91	116	155	211	285
Inventories	50	91	106	146	199	268
Financial assets at FVTPL	150	306	841	1,113	1,353	1,563
Other current assets	242	386	597	755	992	1,304
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	9,378	10,542	12,018
Current liabilities	554	774	1,214	1,381	1,747	2,206
Short-term borrowings	13	3	5	5	5	5
Account payables	34	60	54	84	115	155
Other current liabilities	507	711	1,156	1,292	1,628	2,047
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	1,559	1,925	2,385
Share capital	162	227	381	381	381	381
Capital surplus	687	995	6,755	7,431	8,231	9,251
Total shareholders equity	849	1,223	7,136	7,812	8,612	9,632
Minority interest	1	(1)	8	6	4	1
Total equity and liabilities	1,570	2,173	8,537	9,378	10,542	12,018

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	217	359	642	1,050	1,242	1,583
Depreciation & amortization	45	83	101	147	213	265
Tax paid	(22)	(33)	(42)	(150)	(178)	(226)
Change in working capital	(77)	52	98	(70)	21	3
Others	(14)	(23)	(115)	(268)	(236)	(206)
Net cash from operations	149	438	685	709	1,062	1,419
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)	(225)	(267)	(340)
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	(229)	(271)	(344)
Net change in cash						
Cash at the beginning of the year	149	177	305	4,154	2,129	2,220
Exchange difference	1	(9)	(61)	0	0	0
Cash at the end of the year	177	305	4,150	2,129	2,220	2,694
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	56.4%	68.3%	41.0%	50.3%	35.9%	35.0%
Gross profit	57.6%	67.5%	33.6%	52.7%	35.8%	34.9%
Operating profit	77.4%	58.3%	47.9%	60.2%	41.0%	39.4%
Net profit	78.2%	66.0%	78.7%	61.7%	18.2%	27.5%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	51.4%	51.2%	48.5%	49.3%	49.2%	49.2%
Operating margin	27.2%	25.6%	26.9%	28.7%	29.7%	30.7%
Return on equity (ROE)	24.8%	30.1%	13.3%	12.0%	13.0%	14.9%
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	2.8
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	15.2	12.9	10.1
P/E (diluted)	na	na	40.3	15.2	12.9	10.1
P/B	na	na	3.1	1.8	1.6	1.4
P/CFPS	na	na	32.6	19.4	12.9	9.7
Div yield (%)	na	na	0.6	1.6	1.9	2.5

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

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