

# EC Healthcare (2138 HK)

## Strong post-COVID business rebound

**Experiencing strong business rebound.** EC Healthcare (ECH) reported FY1H23 revenue of HK\$1,893mn, up by 31% YoY, and attributable net profit of HK\$80mn, down by 50% YoY, accounting for 50%/ 19% of our full-year estimates, respectively. Sales volume (generated from contracted sales) showed continuous recovery by quarter, up by 21%/11% QoQ in FY1Q23/FY2Q23, following a 19% QoQ decline in FY4Q22 due to COVID lock down in HK. Medical service segment delivered a strong rebound, with revenue up by 48% YoY to HK\$1,175mn in FY1H23, while revenue from aesthetic medical and beauty and wellness segment underwent a 2% YoY decline to HK\$607mn, caused by store closures in April and a gradual recovery thereafter in HK as well as regulatory headwinds and COVID disruptions in the Mainland. Aside from the above-mentioned operation difficulties in HK and the Mainland, the YoY decline in attributable net profit was also mainly triggered by rising costs due to inflation, temporarily low operation leverage of the Company's newly established service sites, and the increasing D&A expenses from newly acquired business.

- Relaxation of COVID control measures in HK set to boost growth of medical services, especially for consumer medical services in FY2H23.** The strong growth of medical services in FY1H23 was mostly driven by the organic growth with surging demand and rising healthcare awareness due to COVID in HK. For the aesthetic medical and beauty and wellness segment, it experienced store closures for 20 days in HK, an average of 26 days in Shenzhen and 122 days in Shanghai, due to COVID control measures in each city in FY1H23. With the relaxation of COVID control measures in HK where ECH generated 92% of total revenue in FY1H23, we expect the Company will continue its revenue growth trend in medical services and is likely to see effective recovery on its consumer medical services in FY2H23, which we expect will significantly improve net profit margin as well.
- Continuing M&A strategy amid uncertain macro environment.** In FY1H23, the value of executed M&A deals by ECH reached HK\$219mn. The Company entered into a share subscription of 30% issued shares of a hospital grade medical building in Tsim Sha Tsui of HK with initial capital contribution of HK\$254mn. ECH plans to transfer the building to become a one-stop centre for premium medical and medical aesthetic services in the core area of HK. Additionally, ECH acquired 60% of equity interest of Pioneer Evolution at a consideration of HK\$36.4mn, further enhancing its capabilities in multi-disciplinary healthcare services with 9 clinics and 23 full-time registered medical practitioners. Facing with uncertain macro environment in HK and the Mainland, ECH can leverage its abundant financial resources and strong business integration capabilities to enhance its leading position in the healthcare market in the Greater Bay area.
- Maintain BUY.** We revised our TP to HK\$10.34, based on a 10-year DCF model (WACC: 11.8%, terminal growth: 2.0%), to reflect higher cost in business expansion and uncertain recovery of consumer medical services.

### Earnings Summary

(YE 31 Mar)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (HK\$ mn)	2,080	2,920	3,845	4,874	6,048
YoY growth (%)	6.8	40.3	31.7	26.8	24.1
Net profit (HK\$ mn)	193	198	259	537	798
YoY growth (%)	(32.7)	2.4	30.9	107.5	48.8
EPS (Reported) (HK\$)	0.19	0.17	0.22	0.45	0.68
Consensus EPS (HK\$)	na	na	0.24	0.39	0.54
P/E (x)	26.8	63.4	23.8	11.5	7.7
Yield (%)	3.3	1.4	3.4	6.5	9.7

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

<b>Target Price</b>	<b>HK\$10.34</b>
(Previous TP)	HK\$13.90
<b>Up/Downside</b>	<b>98.5%</b>
<b>Current Price</b>	<b>HK\$5.21</b>

### China Healthcare

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### Stock Data

Mkt Cap (HK\$ mn)	6,154.2
Avg 3 mths t/o (HK\$ mn)	5.0
52w High/Low (HK\$)	13.02/3.98
Total Issued Shares (mn)	1181.2

Source: FactSet

### Shareholding Structure

Tang Chi Fai	61.3%
Goldman Sachs	5.5%

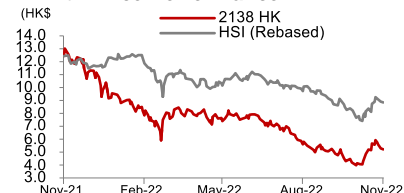
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	30.9%	13.4%
3-mth	-7.0%	2.3%
6-mth	-29.6%	-19.2%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

**Figure 1: Earnings revision**

HK\$ mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	3,845	4,874	6,048	3,806	4,860	6,038	1.0%	0.3%	0.2%
Gross Profit	3,343	4,314	5,382	3,368	4,325	5,404	-0.8%	-0.3%	-0.4%
Operating Profit	422	791	1,167	642	886	1,195	-34.3%	-10.7%	-2.4%
Net profit	259	537	798	418	588	804	-38.2%	-8.8%	-0.6%
EPS (HK\$)	0.22	0.45	0.68	0.35	0.50	0.68	-38.3%	-9.0%	-0.9%
Gross Margin	86.94%	88.50%	89.00%	88.50%	89.00%	89.50%	-1.56ppt	-0.50ppt	-0.50ppt
Operating Margin	10.98%	16.23%	19.29%	16.88%	18.23%	19.79%	-5.90ppt	-2.00ppt	-0.50ppt
Net Margin	6.72%	11.01%	13.20%	10.99%	12.10%	13.31%	-4.27ppt	-1.09ppt	-0.11ppt

Source: Company data, CMBIGM estimates

**Figure 2: CMBIGM estimates vs consensus**

HK\$ mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	3,845	4,874	6,048	3,665	4,627	5,784	4.9%	5.3%	4.6%
Gross Profit	3,343	4,314	5,382	3,233	4,078	2,982	3.4%	5.8%	80.5%
Operating Profit	422	791	1,167	479	700	977	-11.9%	13.1%	19.4%
Net profit	259	537	798	348	500	693	-25.6%	7.3%	15.3%
EPS (HK\$)	0.22	0.45	0.68	0.24	0.39	0.54	-9.2%	15.9%	26.1%
Gross Margin	86.94%	88.50%	89.00%	88.21%	88.13%	51.56%	-1.27ppt	+0.37ppt	+37.44ppt
Operating Margin	10.98%	16.23%	19.29%	13.08%	15.12%	16.89%	-2.10ppt	+1.11ppt	+2.40ppt
Net Margin	6.72%	11.01%	13.20%	9.49%	10.81%	11.97%	-2.76ppt	+0.20ppt	+1.23ppt

Source: Company data, CMBIGM estimates

**Figure 3: Valuation on risk-adjusted DCF valuation**

DCF Valuation (in HK\$ mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	430	791	1,167	1,295	1,425	1,553	1,677	1,794	1,902	1,997
Tax rate	15.1%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)	365	672	992	1,101	1,211	1,320	1,425	1,525	1,617	1,698
+ D&A	466	531	623	685	747	807	863	915	961	999
- Change in working capital	(130)	12	(77)	(84)	(92)	(99)	(106)	(112)	(118)	(123)
- Capex	(850)	(850)	(950)	(500)	(500)	(500)	(500)	(500)	(500)	(500)
<b>FCFF</b>	<b>(149)</b>	<b>366</b>	<b>588</b>	<b>1,202</b>	<b>1,366</b>	<b>1,527</b>	<b>1,683</b>	<b>1,828</b>	<b>1,959</b>	<b>2,074</b>
<b>Terminal value</b>										<b>21,641</b>
<b>Terminal growth rate</b>		<b>2.0%</b>								
<b>WACC</b>		<b>11.8%</b>								
Cost of Equity		15.0%								
Cost of Debt		5.0%								
Equity Beta		1.2								
Risk Free Rate		3.0%								
Market Risk Premium		10.0%								
Target Debt to Asset ratio		30.0%								
Effective Corporate Tax Rate		15.0%								
Terminal value (HK\$ mn)		7,109								
Total PV (HK\$ mn)		12,949								
Net debt (HK\$ mn)		191								
Minority interest (HK\$ mn)		539								
Equity value (HK\$ mn)		12,219								
# of shares (mn)		1,181								
<b>Price per share (HK\$ per share)</b>		<b>10.34</b>								

Source: CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar (HK\$ mn)						
Revenue	1,949	2,080	2,920	3,845	4,874	6,048
Cost of goods sold	(216)	(235)	(350)	(502)	(561)	(665)
<b>Gross profit</b>	<b>1,733</b>	<b>1,845</b>	<b>2,570</b>	<b>3,343</b>	<b>4,314</b>	<b>5,382</b>
<b>Operating expenses</b>	<b>(1,354)</b>	<b>(1,561)</b>	<b>(2,199)</b>	<b>(2,921)</b>	<b>(3,522)</b>	<b>(4,216)</b>
Selling expense	(124)	(109)	(139)	(185)	(210)	(242)
Staff costs	(837)	(1,029)	(1,384)	(1,934)	(2,291)	(2,721)
Other rental related expenses	(43)	(48)	(61)	(79)	(97)	(121)
Others	(350)	(375)	(614)	(723)	(925)	(1,131)
<b>Operating profit</b>	<b>378</b>	<b>285</b>	<b>371</b>	<b>422</b>	<b>791</b>	<b>1,167</b>
Share of (losses)/profits of associates/JV	0	5	(1)	8	0	0
<b>Net interest income/(expense)</b>	<b>(18)</b>	<b>(24)</b>	<b>(49)</b>	<b>(43)</b>	<b>(21)</b>	<b>(21)</b>
<b>Pre-tax profit</b>	<b>361</b>	<b>266</b>	<b>321</b>	<b>387</b>	<b>770</b>	<b>1,146</b>
Income tax	(50)	(40)	(51)	(59)	(115)	(172)
<b>After tax profit</b>	<b>310</b>	<b>226</b>	<b>271</b>	<b>328</b>	<b>654</b>	<b>974</b>
Minority interest	24	33	73	70	118	175
<b>Net profit</b>	<b>287</b>	<b>193</b>	<b>198</b>	<b>259</b>	<b>537</b>	<b>798</b>
Gross dividends	227	172	170	207	402	599

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Mar (HK\$ mn)						
<b>Current assets</b>	<b>1,052</b>	<b>1,415</b>	<b>1,516</b>	<b>1,950</b>	<b>2,067</b>	<b>2,256</b>
Cash & equivalents	520	931	870	1,213	1,220	1,286
Account receivables	79	179	155	199	226	247
Inventories	60	40	101	101	113	134
Prepayment	189	191	215	263	334	414
Financial assets at FVTPL	111	3	2	2	2	2
Other current assets	93	71	172	172	172	172
<b>Non-current assets</b>	<b>1,503</b>	<b>2,376</b>	<b>3,345</b>	<b>3,694</b>	<b>3,950</b>	<b>4,182</b>
PP&E	725	792	1,193	1,315	1,423	1,504
Intangibles	115	512	692	649	587	492
Goodwill	155	477	709	709	709	709
Other non-current assets	507	595	751	1,021	1,231	1,477
<b>Total assets</b>	<b>2,555</b>	<b>3,790</b>	<b>4,861</b>	<b>5,644</b>	<b>6,017</b>	<b>6,438</b>
<b>Current liabilities</b>	<b>1,069</b>	<b>1,317</b>	<b>1,363</b>	<b>1,325</b>	<b>1,446</b>	<b>1,492</b>
Short-term borrowings	262	287	0	0	0	0
Account payables	159	215	315	277	398	444
Other current liabilities	488	607	730	730	730	730
Lease liabilities	161	207	319	319	319	319
<b>Non-current liabilities</b>	<b>316</b>	<b>842</b>	<b>1,147</b>	<b>1,847</b>	<b>1,847</b>	<b>1,847</b>
Convertible bonds	0	240	236	236	236	236
Obligations under finance leases	297	295	387	387	387	387
Other non-current liabilities	20	308	524	1,224	1,224	1,224
<b>Total liabilities</b>	<b>1,386</b>	<b>2,160</b>	<b>2,510</b>	<b>3,172</b>	<b>3,293</b>	<b>3,339</b>
Share capital	0	0	0	0	0	0
Capital surplus	1,003	1,269	1,881	1,933	2,067	2,267
<b>Total shareholders equity</b>	<b>1,003</b>	<b>1,269</b>	<b>1,881</b>	<b>1,933</b>	<b>2,067</b>	<b>2,267</b>
Minority interest	167	362	469	539	657	832
<b>Total equity and liabilities</b>	<b>2,555</b>	<b>3,790</b>	<b>4,861</b>	<b>5,644</b>	<b>6,017</b>	<b>6,438</b>

<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Mar (HK\$ mn)</b>						
<b>Operating</b>						
Profit before taxation	361	266	321	387	770	1,146
Depreciation & amortization	246	310	432	559	643	768
Tax paid	(65)	(54)	(67)	(59)	(115)	(172)
Change in working capital	14	80	(135)	(130)	12	(77)
Others	21	19	57	35	21	21
<b>Net cash from operations</b>	<b>576</b>	<b>621</b>	<b>608</b>	<b>793</b>	<b>1,331</b>	<b>1,686</b>
<b>Investing</b>						
Capital expenditure	(70)	(136)	(260)	(550)	(650)	(750)
Acquisition of subsidiaries/ investments	(112)	(353)	(347)	(300)	(200)	(200)
Net proceeds from disposal of short-term investments	499	108	0	0	0	0
Others	(0)	12	36	(50)	(50)	(50)
<b>Net cash from investing</b>	<b>316</b>	<b>(369)</b>	<b>(571)</b>	<b>(900)</b>	<b>(900)</b>	<b>(1,000)</b>
<b>Financing</b>						
Dividend paid	(352)	(130)	(322)	(207)	(402)	(599)
Net borrowings	145	609	0	700	0	0
Proceeds from share issues	3	107	530	0	0	0
Others	(536)	(429)	(308)	(43)	(21)	(21)
<b>Net cash from financing</b>	<b>(739)</b>	<b>157</b>	<b>(100)</b>	<b>450</b>	<b>(424)</b>	<b>(620)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	367	520	931	870	1,213	1,220
Exchange difference	0	2	2	0	0	0
<b>Cash at the end of the year</b>	<b>520</b>	<b>931</b>	<b>870</b>	<b>1,213</b>	<b>1,220</b>	<b>1,286</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Mar</b>						
Revenue	5.2%	6.8%	40.3%	31.7%	26.8%	24.1%
Gross profit	6.6%	6.5%	39.3%	30.1%	29.0%	24.8%
Operating profit	(15.8%)	(24.8%)	30.4%	13.8%	87.4%	47.5%
Net profit	(20.6%)	(32.7%)	2.4%	30.9%	107.5%	48.8%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Mar</b>						
Gross profit margin	88.9%	88.7%	88.0%	86.9%	88.5%	89.0%
Operating margin	19.4%	13.7%	12.7%	11.0%	16.2%	19.3%
Return on equity (ROE)	28.0%	17.0%	12.5%	13.6%	26.8%	36.8%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Mar</b>						
Net debt to equity (x)	0.2	(0.1)	(0.1)	0.1	0.1	0.1
Current ratio (x)	1.0	1.1	1.1	1.5	1.4	1.5
Receivable turnover days	17.2	22.6	20.9	18.9	16.9	14.9
Inventory turnover days	94.5	76.9	73.4	73.4	73.4	73.4
Payable turnover days	48.7	63.9	63.6	64.0	64.0	64.0
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Mar</b>						
P/E	18.9	26.8	63.4	23.8	11.5	7.7
P/E (diluted)	18.9	26.9	64.6	23.8	11.5	7.7
P/B	5.4	4.1	6.7	3.2	3.0	2.7
P/CFPS	9.4	8.3	20.6	7.8	4.6	3.6
Div yield (%)	4.2	3.3	1.4	3.4	6.5	9.7

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

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