

# Yunkang Group (2325 HK)

## Back to normal growth

Yunkang Group reported 2023 revenue of RMB891.5mn, down by 76.3% YoY, primarily due to the sharp decline of diagnostic testing demand for COVID-19 in China. The blended gross margin improved to 36.5% in 2023 (+1.7 pts), mainly due to enhanced operation efficiency and effective cost control. The selling expense rate increased to 16.9% (+8.6 pts) since the proportion of non-COVID business increased substantially which required more marketing activities than COVID business. The administrative expense rate climbed to 21.5% (+11.2 pts). Moreover, Yunkang Group recorded impairment losses on financial assets of RMB104.6mn, which were mainly provisions for trade receivables. As a result, Yunkang Group recorded a net loss of RMB101.9mn in 2023.

- **Solid growth of non-COVID business.** In 2023, Yunkang Group's revenue decreased by 76.3% YoY to RMB891.5mn; while the Company's non-COVID business increased by 26.9% YoY. We estimated that the proportion of revenue generated from COVID business has declined from approximately 80% in 2022 to approximately 1% in 2023. Therefore, we think the revenue will resume normal growth in 2024E driven by the solid performance of its core business such as pathology diagnosis, infectious diseases testing, genetic diseases diagnosis and routine testing, etc.
- **Diagnostic testing services for medical institution alliances became the largest business segment.** As of 31 Dec 2023, Yunkang Group has established 416 jointly constructed on-site diagnostic centers (vs. 398 at the end-2022), serving over 1,500 medical institutions. Thanks to the continuous expansion of medical institution alliance network, diagnostic testing services for medical institution alliances became the largest business segment of Yunkang Group in 2023, accounting for 48.3% of the Company's total revenue (vs. 44.7% in 2022).
- **Remaining RMB1.2bn trade receivables with an aging period of 1 to 2 years.** In 2023, Yunkang Group recognized an impairment loss on trade receivables of RMB337.6mn. As of 31 Dec 2023, Yunkang Group's trade receivables with an aging of one to two years/ over two years amounted to RMB1,194.5mn/ RMB123.1mn, respectively, which accounted for 64.5%/ 6.7% of the total trade receivables. Yunkang Group established a specialized credit control team to mitigate the risks of trade receivables.
- **Maintain BUY.** Considering the decreased COVID business, we lowered our estimates on the Company's revenue to RMB981mn/1,098mn in 2024E/25E. We estimated that revenue from diagnostic testing services for medical institution alliances will increase by 13%/ 15% YoY in 2024E/25E while revenue from diagnostic outsourcing services will grow by 8%/ 10% YoY in 2024E/25E. We revised our DCF-based target price to HK\$13.78 (WACC: 10.0%, terminal growth rate: 3.0%).

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	3,756	892	981	1,098	1,252
YoY growth (%)	121.4	(76.3)	10.0	12.0	14.0
Net profit (RMB mn)	377	(102)	(45)	23	69
YoY growth (%)	(1.0)	na	na	na	203.0
EPS (Reported) (RMB cents)	65.64	(16.73)	(7.26)	3.68	11.15
YoY growth (%)	(14.1)	na	na	na	203.0
P/E (x)	15.6	na	na	278.2	91.8
Net gearing (%)	(5.8)	(11.3)	(9.5)	(26.0)	(36.5)

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

<b>Target Price</b>	<b>HK\$13.78</b>
(Previous TP)	HK\$16.01
<b>Up/Downside</b>	<b>24.3%</b>
<b>Current Price</b>	<b>HK\$11.08</b>

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### Stock Data

Mkt Cap (HK\$ mn)	6,771.4
Avg 3 mths t/o (HK\$ mn)	1.8
52w High/Low (HK\$)	14.88/11.00
Total Issued Shares (mn)	611.1

Source: FactSet

### Shareholding Structure

YK Development	40.3%
Daan International	33.8%

Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-2.8%	NM
3-mth	-1.9%	NM
6-mth	-7.7%	NM

Source: FactSet

### 12-mth Price Performance



Source: Bloomberg

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	981	1,098	1,252	1,311	1,702	2,197	-25.2%	-35.5%	-43.0%
Gross profit	373	428	501	538	681	868	-30.7%	-37.1%	-42.3%
Operating profit	-53	27	82	160	204	268	NA	-86.8%	-69.5%
Net profit	-45	23	69	136	174	227	NA	-86.8%	-69.5%
EPS (RMB)	-0.07	0.04	0.11	0.22	0.28	0.37	NA	-86.8%	-69.5%
Gross margin	38.00%	39.00%	40.00%	41.00%	40.00%	39.50%	-3.00 ppt	-1.00 ppt	+0.50 ppt
Operating margin	NA	2.45%	6.51%	12.22%	12.01%	12.18%	NA	-9.56 ppt	-5.67 ppt
Net Margin	NA	2.08%	5.53%	10.39%	10.21%	10.35%	NA	-8.12 ppt	-4.82 ppt

Source: Company data, CMBIGM estimates

Figure 2: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	3	80	132	178	240	321	427	564	739
Tax rate	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)	2	68	112	151	204	273	363	479	628
+ D&A	149	137	127	121	151	187	230	281	340
- Change in working capital	(35)	331	188	54	67	83	102	125	151
- Capex	(150)	(100)	(100)	(100)	-125	-155	-191	-233	-281
FCFF	-34	435	328	226	297	389	505	653	838
Terminal value									12,391

Terminal growth rate	3.0%
WACC	10.0%
Cost of Equity	13.5%
Cost of Debt	4.0%
Equity Beta	1.0
Risk Free Rate	3.0%
Market Risk Premium	10.5%
Target Debt to Asset ratio	35.0%
Effective Corporate Tax Rate	15.0%

Terminal value (RMB mn)	5,270
Total PV (RMB mn)	7,326
Net debt (RMB mn)	-260
Minority interest (RMB mn)	8
Equity value (RMB mn)	7,578
# of shares (mn)	611
Price per share (HK\$)	13.78

Source: CMBIGM estimates

Figure 3: Sensitivity analysis

		WACC				
		9.0%	9.5%	10.0%	10.5%	11.0%
Terminal growth rate	4.0%	19.13	17.14	15.49	14.11	12.93
	3.5%	17.72	16.01	14.57	13.34	12.29
	3.0%	16.54	15.05	13.78	12.68	11.73
	2.5%	15.55	14.23	13.09	12.10	11.24
	2.0%	14.70	13.52	12.49	11.60	10.80

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	1,697	3,756	892	981	1,098	1,252
Cost of goods sold	(798)	(2,448)	(566)	(608)	(670)	(751)
Gross profit	899	1,308	326	373	428	501
Operating expenses	(448)	(864)	(413)	(426)	(401)	(419)
Selling expense	(273)	(312)	(151)	(186)	(187)	(188)
Admin expense	(152)	(387)	(192)	(157)	(165)	(184)
Others	(23)	(166)	(70)	(82)	(50)	(47)
Pre-tax profit	451	443	(87)	(53)	27	82
Income tax	(79)	(69)	(15)	8	(4)	(12)
Others	9	0	0	0	0	0
Minority interest	1	(3)	0	0	0	0
Attributable net profit	381	377	(102)	(45)	23	69

  

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	1,743	4,168	3,838	3,601	3,563	3,533
Cash & equivalents	801	788	1,244	1,100	1,478	1,636
Account receivables	825	2,432	1,516	1,343	903	686
Inventories	42	41	18	30	32	34
Prepayment	44	119	29	81	91	103
Financial assets at FVTPL	0	643	627	641	655	668
Other current assets	31	146	405	405	405	405
Non-current assets	712	739	694	657	612	577
PP&E	485	421	397	401	367	342
Deferred income tax	36	54	52	52	52	52
Investment in JVs & assos	0	0	0	0	0	0
Intangibles	6	4	3	3	2	1
Financial assets at FVTPL	58	160	162	162	162	162
Other non-current assets	127	100	79	39	29	19
Total assets	2,455	4,907	4,532	4,258	4,175	4,110
Current liabilities	871	1,979	2,189	1,946	1,847	1,734
Short-term borrowings	208	364	1,154	1,054	1,054	954
Account payables	557	1,492	975	833	734	721
Tax payable	72	85	43	43	43	43
Other current liabilities	34	38	16	16	16	16
Non-current liabilities	133	388	224	224	224	224
Long-term borrowings	82	328	194	194	194	194
Obligations under finance leases	44	58	26	26	26	26
Deferred income	0	0	0	0	0	0
Other non-current liabilities	6	2	4	4	4	4
Total liabilities	1,004	2,367	2,412	2,170	2,071	1,957
Share capital	21	743	621	621	621	621
Other reserves	955	937	930	930	930	930
Retained earnings	475	853	750	718	734	783
Total shareholders equity	1,452	2,532	2,301	2,269	2,285	2,334
Minority interest	(0)	7	8	8	8	8
Total equity and liabilities	2,455	4,907	4,721	4,446	4,364	4,299

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	451	443	(87)	(53)	27	82
Depreciation & amortization	52	153	145	146	134	125
Change in working capital	(133)	(893)	252	(35)	331	188
Others	(1)	433	123	112	67	56
<b>Net cash from operations</b>	<b>369</b>	<b>137</b>	<b>434</b>	<b>169</b>	<b>559</b>	<b>451</b>
<b>Investing</b>						
Capital expenditure	(223)	(317)	(200)	(150)	(100)	(100)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Net proceeds from disposal of short-term investments	174	(733)	(10)	(10)	(10)	(10)
Others	359	(203)	48	(2)	(2)	(2)
<b>Net cash from investing</b>	<b>311</b>	<b>(1,254)</b>	<b>(162)</b>	<b>(162)</b>	<b>(112)</b>	<b>(112)</b>
<b>Financing</b>						
Dividend paid	0	(48)	(11)	14	(7)	(21)
Net borrowings	(181)	401	300	(100)	0	(100)
Proceeds from share issues	(6)	0	0	0	0	0
Others	(28)	749	(96)	(65)	(62)	(60)
<b>Net cash from financing</b>	<b>(215)</b>	<b>1,102</b>	<b>193</b>	<b>(151)</b>	<b>(69)</b>	<b>(181)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	336	801	788	1,244	1,100	1,478
Exchange difference	0	1	0	0	0	0
<b>Cash at the end of the year</b>	<b>801</b>	<b>788</b>	<b>1,252</b>	<b>1,100</b>	<b>1,478</b>	<b>1,636</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	41.4%	121.4%	(76.3%)	10.0%	12.0%	14.0%
Gross profit	37.1%	45.4%	(75.1%)	14.4%	15.0%	17.0%
Net profit	46.8%	(2.1%)	na	na	na	203.0%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	53.0%	34.8%	36.5%	38.0%	39.0%	40.0%
Return on equity (ROE)	30.6%	18.8%	(4.2%)	(2.0%)	1.0%	3.0%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.3)	(0.1)	(0.1)	(0.1)	(0.3)	(0.4)
Current ratio (x)	2.0	2.1	1.8	1.9	1.9	2.0
Receivable turnover days	141	158	808	500	300	200
Inventory turnover days	15	6	19	18	17	16
Payable turnover days	203	153	796	500	400	350
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	13.4	15.6	na	na	278.2	91.8

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

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