

Dingdang Health (9886 HK)

Expect steady growth with policy tailwinds

Dingdang Health (Dingdang) reported healthy post-pandemic earnings growth for 2023. Revenue reached RMB4,857mn, up 12.2% YoY, while the adjusted non-IFRS net loss was further narrowed by 17.2% YoY to RMB107mn, indicating continuous economies of scale. Looking forward, we expect Dingdang to deliver steady revenue growth of 11.1%/ 12.2%/ 13.2% YoY in 2024E/ 25E/ 26E, considering its enhanced network scale and service capabilities as well as the growing penetration of online medicine purchasing supported by the promotion of online medical insurance payment by government. With continued cost savings, we forecast Dingdang to book adjusted net loss of RMB53mn in 2024E and adjusted net profits of RMB14mn/ RMB95mn in 2025E/ 26E.

- Steady business development in the post-pandemic era.** China online pharmaceutical retail industry generally experienced growth pressure in 2023 due to a high base of 2022, with several online platforms reporting decelerated revenue growth. We deem Dingdang's performance in 2023 healthy and steady. The Company is continuously investing to enhance its network scale and service capabilities (such as warehousing and cold-chain logistics). In addition, it improved operational efficiency in 2023. Net operating cash outflow substantially decreased to RMB5mn in 2023 from RMB238mn in 2022 while fulfilment expenses as % of revenue consistently went down to 10.1% in 2023 from 12.7% in 2020. We still see room for operational efficiency gains in the future.
- Local governments are expanding online medical insurance access to offline pharmacies.** With the continued promotion of "Internet + medical insurance", we have observed accelerated adoption of online payment of individual medical insurance accounts by local governments, including Beijing, Shanghai, Shanxi, Bengbu in Anhui, and Shaoguan in Guangdong. Notably, all of those local governments restrict the eligibility for online medical insurance access only to offline pharmacy stores with medical insurance designations, underscoring the cautious approach by regulators on managing medical insurance funds. Leveraging its nationwide network of physical pharmacy stores, Dingdang is well positioned to collaborate with the medical insurance for online medicine payment. For instance, Dingdang's stores have been granted the access to online medical insurance in Shanghai, which launched a pilot online medical insurance payment program in August 2023. Moreover, Beijing recently announced its plan to connect over 200 offline pharmacies with its medical insurance by 1 Jul 2024. As Beijing and Shanghai constitute the largest revenue sources for Dingdang, we believe the implementation of online medical insurance payment in these areas will bring positive impacts to Dingdang's O2O medicine sale business in the long run.
- Maintain BUY.** We cut our TP to HK\$1.65, based on a 10-year DCF model (WACC: 10.0%, terminal growth: 3.0%), reflecting lower earnings projections for Dingdang amid the slow-down of China's online retail pharmacy industry in the post-pandemic era. We forecast Dingdang's revenue to grow by 11.1%/ 12.2%/ 13.2% YoY and non-IFRS net profit (loss) of -RMB53mn/ +RMB14mn/ +RMB95 YoY in 2024E/ 25E/ 26E, respectively.
- Risks:** Growth slowdown of online retail pharmacy industry in China; uncertainties in breakeven timing; policy tailwinds taking time to materialize.

BUY (Maintain)

Target Price	HK\$1.65
(Previous TP)	HK\$7.65)
Up/Downside	24.8%
Current Price	HK\$1.32

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Stock Data

Mkt Cap (HK\$ mn)	1,767.1
Avg 3 mths t/o (HK\$ mn)	26.6
52w High/Low (HK\$)	3.02/1.01
Total Issued Shares (mn)	1338.7

Source: FactSet

Shareholding Structure

Wenlong Yang	49.2%
China Merchants Bank	7.1%

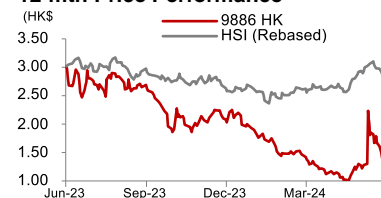
Source: Company

Share Performance

	Absolute	Relative
1-mth	1.5%	1.9%
3-mth	-9.6%	-18.5%
6-mth	-37.1%	-42.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	4,329	4,857	5,395	6,054	6,850
YoY growth (%)	17.7	12.2	11.1	12.2	13.2
Adjusted net profit (RMB mn)	(129)	(107)	(53)	14	95
EPS (Adjusted) (RMB cents)	(15.3)	(8.0)	(3.9)	1.0	7.1
P/S (x)	0.37	0.33	0.29	0.26	0.23

Source: Company data, CMBIGM estimates

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	5,395	6,054	6,850	6,477	7,804	na	-16.70%	-22.43%	na
Gross profit	1,673	1,937	2,260	2,118	2,575	na	-21.03%	-24.77%	na
Operating profit	(183)	(97)	7	(123)	(70)	na	na	na	na
Adjusted net profit	(53)	14	95	33	86	na	na	-83.89%	na
Adjusted EPS (RMB)	(0.04)	0.01	0.07	0.02	0.06	na	na	-82.78%	na
Gross margin	31.00%	32.00%	33.00%	32.70%	33.00%	na	-1.70ppt	-1.00ppt	na
Operating margin	(3.40%)	(1.60%)	0.10%	1.90%	(0.90%)	na	-5.30ppt	-0.70ppt	na
Adjusted net margin	(0.98%)	0.23%	1.39%	0.51%	1.10%	na	-1.49ppt	-0.87ppt	na

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	2033E
EBIT	(171)	(67)	20	25	31	37	45	53	61	70
Tax rate	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(171)	(67)	17	21	26	32	38	45	52	59
+ D&A	140	140	140	140	140	140	140	140	140	140
- Change in working capital	(67)	(36)	(44)	(50)	(57)	(63)	(69)	(73)	(77)	(79)
- Capex	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)
FCFF	(113)	22	98	96	94	94	94	96	100	105
Terminal value										1,548
Terminal growth rate	3.0%									
WACC	10.0%									
Cost of equity	13.3%									
Cost of debt	4.5%									
Equity beta	1.0									
Risk-free rate	2.8%									
Market risk premium	10.5%									
Target debt to asset ratio	35.0%									
Effective corporate tax rate	15.0%									
PV of terminal value (RMB mn)	598									
Total PV (RMB mn)	941									
Net debt (RMB mn)	(1,044)									
Minority interest (RMB mn)	-4									
Equity value (RMB mn)	1,988									
Equity value (HK\$ mn)	2,209									
# of shares (mn)	1,341									
Price per share (HK\$ per share)	1.65									

Source: CMBIGM estimates

Figure 3: Sensitivity analysis of DCF model

		WACC				
		9.0%	9.5%	10.0%	10.5%	11.0%
Terminal growth rate	4.0%	1.94	1.83	1.74	1.66	1.59
	3.5%	1.87	1.77	1.69	1.62	1.56
	3.0%	1.80	1.72	1.65	1.58	1.53
	2.5%	1.75	1.68	1.61	1.55	1.50
	2.0%	1.71	1.64	1.58	1.53	1.48

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	3,679	4,329	4,857	5,395	6,054	6,850
Cost of goods sold	(2,516)	(2,879)	(3,346)	(3,723)	(4,116)	(4,589)
Gross profit	1,162	1,450	1,511	1,673	1,937	2,260
Operating expenses	(1,824)	(1,776)	(1,788)	(1,856)	(2,034)	(2,254)
Selling expense	(1,247)	(1,352)	(1,465)	(1,559)	(1,719)	(1,918)
Admin expense	(481)	(335)	(259)	(232)	(242)	(253)
R&D expense	(96)	(89)	(65)	(65)	(73)	(82)
Operating profit	(662)	(326)	(278)	(183)	(97)	7
Gain/loss on financial assets at FVTPL	(912)	(2,505)	(2)	0	0	0
Share of (losses)/profits of associates/JV	0	0	(2)	0	0	0
Net interest income/(expense)	(18)	(8)	(8)	(6)	(4)	(4)
Others	11	7	67	37	35	34
Pre-tax profit	(1,581)	(2,832)	(224)	(152)	(66)	37
Income tax	(17)	(10)	(10)	0	0	(6)
After tax profit	(1,598)	(2,842)	(233)	(152)	(66)	31
Minority interest	(21)	(9)	(5)	(3)	(1)	1
Net profit	(1,577)	(2,833)	(228)	(149)	(64)	31
Adjusted net profit	(329)	(129)	(107)	(53)	14	95

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	2,268	2,528	2,372	2,524	2,747	3,070
Cash & equivalents	1,553	1,211	1,186	1,184	1,280	1,450
Account receivables	280	449	365	452	508	574
Inventories	434	608	612	679	751	837
Financial assets at FVTPL	0	137	143	143	143	143
Other current assets	1	123	65	65	65	65
Non-current assets	678	770	693	574	456	338
PP&E	45	42	39	34	29	24
Right-of-use assets	169	175	155	80	4	(71)
Intangibles	199	170	134	96	58	20
Goodwill	256	256	256	256	256	256
Other non-current assets	10	127	109	109	109	109
Total assets	2,946	3,297	3,065	3,098	3,203	3,408
Current liabilities	739	969	913	999	1,090	1,199
Account payables	587	773	774	861	952	1,061
Other current liabilities	31	34	50	50	50	50
Lease liabilities	61	72	56	56	56	56
Contract liabilities	60	90	32	32	32	32
Non-current liabilities	4,797	129	115	115	115	115
Obligations under finance leases	96	91	84	84	84	84
Other non-current liabilities	4,701	38	31	31	31	31
Total liabilities	5,536	1,098	1,028	1,114	1,205	1,315
Share capital	0	1	1	1	1	1
Capital surplus	422	8,053	8,132	8,132	8,132	8,132
Retained earnings	(3,035)	(5,869)	(6,096)	(6,145)	(6,130)	(6,036)
Total shareholders equity	(2,612)	2,186	2,037	1,988	2,003	2,097
Minority interest	22	14	(1)	(4)	(5)	(4)
Total equity and liabilities	2,946	3,297	3,065	3,098	3,203	3,408

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(1,582)	(2,832)	(221)	(152)	(66)	37
Depreciation & amortization	135	135	140	140	140	140
Tax paid	(26)	(21)	(16)	0	0	(6)
Change in working capital	(50)	(152)	5	(67)	(36)	(44)
Others	1,227	2,632	87	81	na	na
Net cash from operations	(295)	(238)	(5)	1	99	174
Investing						
Capital expenditure	(20)	(20)	(18)	(14)	(15)	(15)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	326	(333)	122	16	16	14
Net cash from investing	307	(353)	104	2	1	(1)
Financing						
Net borrowings	2	0	0	0	0	0
Proceeds from share issues	1,395	326	0	0	0	0
Others	(126)	(93)	(131)	(6)	(4)	(4)
Net cash from financing	1,272	233	(131)	(6)	(4)	(4)
Net change in cash						
Cash at the beginning of the year	261	1,553	1,211	1,186	1,184	1,280
Exchange difference	10	16	6	0	0	0
Cash at the end of the year	1,553	1,211	1,186	1,184	1,280	1,450
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	65.1%	17.7%	12.2%	11.1%	12.2%	13.2%
Gross profit	51.7%	24.7%	4.2%	10.7%	15.8%	16.7%
Adj. net profit	na	na	na	na	na	586.3%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	31.6%	33.5%	31.1%	31.0%	32.0%	33.0%
Operating margin	(18.0%)	(7.5%)	(5.7%)	(3.4%)	(1.6%)	0.1%
Adj. net profit margin	(8.9%)	(3.0%)	(2.2%)	(1.0%)	0.2%	1.4%
Return on equity (ROE)	na	na	(10.8%)	(7.4%)	(3.2%)	1.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	na	(0.5)	(0.5)	(0.5)	(0.6)	(0.6)
Current ratio (x)	3.1	2.6	2.6	2.5	2.5	2.6
Receivable turnover days	23.2	30.7	30.6	30.6	30.6	30.6
Inventory turnover days	54.9	66.0	66.6	66.6	66.6	66.6
Payable turnover days	74.5	86.2	84.4	84.4	84.4	84.4
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/S	na	0.37	0.33	0.29	0.26	0.23
P/E (adjusted)	na	ns	ns	ns	115.0	16.8
P/B	na	0.45	0.78	0.80	0.80	0.76

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

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