

# Xunfei Healthcare (2506 HK)

## Accelerated growth in 2H24 solidifies leadership in medical AI

Xunfei Healthcare reported strong 2024 results, with revenue increasing 32.0% YoY to RMB734.0mn. Notably, revenue growth accelerated significantly from 17.8% YoY in 1H24 to 39.6% YoY in 2H24, highlighting robust demand for medical AI services. The Company also saw meaningful improvement in cost structure, with the SG&A expense ratio declining by 10.3 ppts and the R&D expense ratio falling by 10.4 ppts. As a result, the net loss margin narrowed substantially. Excluding listing expenses and share-based payments, the adjusted net loss narrowed by 21.4% YoY to RMB 44.8mn. Total R&D spending reached RMB 296.8mn, representing 40.4% of revenue. Although days of account receivables extended from 275 days in 2023 to 330 days in 2024, operating cash outflows improved significantly, narrowing from RMB314mn in 2023 to RMB134mn in 2024, driven by improved profitability.

- Improving revenue mix with higher contribution from To B & To C segments.** In 2024, Xunfei Healthcare's hospital service revenue increased by 103% YoY to RMB132.0mn, while patient service revenue increased by 57% YoY to RMB211.2mn. The combined revenue from To B & To C businesses increased sharply from 36% in 2023 to 47% in 2024. As of the end of 2024, the Company served over 500 secondary and tertiary hospitals, including 40 of China's Top 100 hospitals and 7 of the Top 10. We believe that favorable policy trends and growing awareness of AI applications among hospitals and patients will continue to drive demand for healthcare AI services. As an early mover with a broad customer base, Xunfei Healthcare is well-positioned to lead the industry's growth.
- Significant recovery in To G business in 2H24.** Xunfei Healthcare's revenue from primary healthcare (PHC) services and regional healthcare solutions increased by 40% YoY in 2H24, improved from 43% decline in 1H24. The Company maintains a leading position in the To G healthcare AI market. As of 2024, its PHC services covered over 670 districts and counties across 31 provinces nationwide. Its regional healthcare administrator services also extended to major cities including Shanghai and Shenzhen. With continued policy support, we expect the To G segment to deliver solid and sustainable growth.
- Data flywheel continues to enhance technological leadership.** Xunfei Healthcare has made continuous advancements in large language model (LLM) technologies and has accumulated a substantial base of medical domain knowledge and data for reinforcement learning. By the end of 2024, the Company was serving more than 70,000 primary healthcare institutions, generating millions of AI-assisted diagnosis suggestions daily. These outputs serve as high-frequency feedback loops to further train and optimize its LLMs. In parallel, expanded cooperation with leading hospitals enables the Company to continuously improve its models using high-quality, and anonymized clinical data.
- Maintain BUY.** Driven by the accelerating adoption of AI in the medical industry, we expect the Company to achieve a revenue at a CAGR of 37.9% from 2024 to 2026E, while rapidly narrowing its net losses. We derive our TP of HK\$166.69 based on a 13x 2026E P/S, to reflect the Company's high-growth potential.

### Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	556	734	1,019	1,395	1,855
YoY growth (%)	17.9	32.0	38.8	36.9	33.0
Adjusted net profit (RMB mn)	(57)	(45)	(33)	22	120
YoY growth (%)	na	na	na	na	456.7
EPS (Adjusted) (RMB cents)	(51.29)	(39.33)	(27.24)	17.83	99.25
P/S (x)	25.4	19.2	13.8	10.1	7.6
Net gearing (%)	(10.6)	(44.0)	(33.1)	(9.3)	3.6

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** HK\$166.69

(Previous TP) HK\$170.56)

**Up/Downside** 33.3%

**Current Price** HK\$125.00

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### Stock Data

Mkt Cap (HK\$ mn)	15,109.8
Avg 3 mths t/o (HK\$ mn)	27.8
52w High/Low (HK\$)	NA/NA
Total Issued Shares (mn)	120.9

Source: FactSet

### Shareholding Structure

iFlytek Co., Ltd.	49.4%
Hefei Zhengsheng Information Technology	16.1%

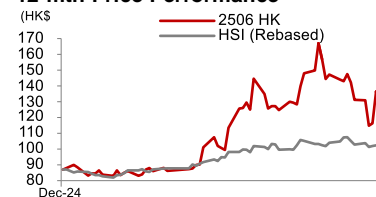
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	0.2%	-1.8%
3-mth	NM	NM
6-mth	NM	NM

Source: FactSet

### 12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	1,019	1,395	1,855	1,020	1,427	-	-0.1%	-2.3%	NA
Gross profit	555	749	981	593	843	-	-6.4%	-11.2%	NA
Net profit	-82	-28	70	-106	-43	-	NA	NA	NA
EPS (RMB)	-0.68	-0.23	0.58	-0.88	-0.36	-	NA	NA	NA
Gross margin	54.46%	53.66%	52.90%	58.14%	59.08%	-	-3.68 ppt	-5.42 ppt	NA
Net margin	-8.10%	-2.01%	3.80%	-10.38%	-3.03%	-	NA	NA	NA

Source: Company data, CMBIGM estimates

Figure 2: Peer comparison

			Price	Market Cap	Revenue (US\$m)		YoY (%)		PS (x)	
Company	Ticker	Rating	(LC)	(US\$m)	2025E	2026E	2025E	2026E	2025E	2026E
Overseas market										
Tempus AI	TEM US	NA	47.8	8,237	1,237	1,556	78%	26%	6.7	5.3
Doximity Inc	DOCS US	NA	58.5	10,979	566	636	19%	12%	19.4	17.3
Veeva Systems Inc	VEEV US	NA	234.2	38,105	2,725	3,050	16%	12%	14.0	12.5
Salesforce	CRM US	NA	270.0	259,441	37,954	40,841	9%	8%	6.8	6.4
Recursion Pharmaceuticals	RXR US	NA	5.8	2,336	87	130	28%	50%	26.9	17.9
Average							30%	22%	14.8	11.9
H & A share market										
Medlive	2192 HK	NA	13.0	1,223	100	128	32%	28%	12.2	9.6
XtalPi	2228 HK	BUY	6.3	3,250	57	104	68%	81%	56.8	31.3
Yidu Tech	2158 HK	NA	6.2	851	109	123	-5%	13%	7.8	6.9
China Reform Health Manage	000503 CH	NA	11.0	1,484	69	85	23%	23%	21.8	17.7
Winning Health	300253 CH	NA	10.8	3,267	546	643	16%	18%	6.1	5.2
B-Soft	300451 CH	NA	6.2	1,323	273	308	13%	13%	4.9	4.3
Average							24%	29%	18.3	12.5
Overall average									16.7	12.2

Source: Bloomberg, CMBIGM estimates, as of 29 Mar 2025

Fig 3: CMBIGM estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	1,019	1,395	1,855	1,014	1,424	1,898	0.5%	-2.0%	-2.3%
Gross profit	555	749	981	591	844	1,138	-6.1%	-11.3%	-13.7%
Net profit	-82	-28	70	-83	-15	88	NA	NA	-19.8%
EPS (RMB)	-0.68	-0.23	0.58	-0.30	0.26	1.50	NA	NA	-61.2%
Gross margin	54.46%	53.66%	52.90%	58.27%	59.24%	59.94%	-3.81 ppt	-5.58 ppt	-7.04 ppt
Net Margin	-8.10%	-2.01%	3.80%	-8.19%	-1.05%	4.63%	NA	NA	-0.83 ppt

Source: Company data, Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
<b>Revenue</b>	<b>472</b>	<b>556</b>	<b>734</b>	<b>1,019</b>	<b>1,395</b>	<b>1,855</b>
Cost of goods sold	(241)	(241)	(330)	(464)	(646)	(874)
<b>Gross profit</b>	<b>231</b>	<b>315</b>	<b>404</b>	<b>555</b>	<b>749</b>	<b>981</b>
Selling expense	(160)	(163)	(192)	(246)	(309)	(374)
Admin expense	(109)	(113)	(96)	(117)	(146)	(186)
R&D expense	(242)	(264)	(272)	(326)	(377)	(408)
Other income	44	49	42	41	56	74
Other gains/(losses)	3	1	(0)	0	0	0
Interest expense	(1)	(1)	(6)	(9)	(11)	(11)
Others	(10)	(10)	(52)	0	0	0
<b>Pre-tax profit</b>	<b>(244)</b>	<b>(187)</b>	<b>(172)</b>	<b>(103)</b>	<b>(39)</b>	<b>77</b>
Income tax	36	33	34	15	6	(12)
<b>After tax profit</b>	<b>(209)</b>	<b>(154)</b>	<b>(138)</b>	<b>(88)</b>	<b>(33)</b>	<b>65</b>
Minority interest	(19)	(9)	(5)	(5)	(5)	(5)
<b>Attributable net profit</b>	<b>(189)</b>	<b>(145)</b>	<b>(133)</b>	<b>(82)</b>	<b>(28)</b>	<b>70</b>
<b>Adjusted net profit</b>	<b>(111)</b>	<b>(57)</b>	<b>(45)</b>	<b>(33)</b>	<b>22</b>	<b>120</b>

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>652</b>	<b>853</b>	<b>1,681</b>	<b>1,672</b>	<b>1,844</b>	<b>2,123</b>
Cash & equivalents	163	143	677	550	377	253
Restricted cash	4	6	11	12	13	14
Account receivables	305	533	796	894	1,186	1,527
Inventories	47	74	103	122	166	219
Financial assets at FVTPL	85	25	0	0	0	0
Other current assets	31	65	74	74	74	74
Contract assets	16	8	20	20	27	36
<b>Non-current assets</b>	<b>378</b>	<b>384</b>	<b>409</b>	<b>430</b>	<b>460</b>	<b>499</b>
PP&E	10	14	13	16	19	22
Right-of-use assets	1	2	8	8	8	7
Deferred income tax	75	106	140	140	140	140
Intangibles	166	158	146	133	120	107
Goodwill	24	24	24	24	24	24
Other non-current assets	102	81	78	110	150	198
<b>Total assets</b>	<b>1,030</b>	<b>1,238</b>	<b>2,090</b>	<b>2,102</b>	<b>2,304</b>	<b>2,622</b>
<b>Current liabilities</b>	<b>603</b>	<b>671</b>	<b>1,000</b>	<b>1,070</b>	<b>1,274</b>	<b>1,497</b>
Short-term borrowings	0	88	180	180	230	230
Account payables	311	380	521	572	708	910
Other current liabilities	265	163	266	266	266	266
Lease liabilities	1	1	5	5	5	5
Contract liabilities	27	40	29	48	65	87
<b>Non-current liabilities</b>	<b>26</b>	<b>17</b>	<b>103</b>	<b>103</b>	<b>103</b>	<b>103</b>
Long-term borrowings	8	0	0	0	0	0
Other non-current liabilities	18	17	103	103	103	103
<b>Total liabilities</b>	<b>630</b>	<b>688</b>	<b>1,103</b>	<b>1,173</b>	<b>1,377</b>	<b>1,599</b>
Share capital	111	114	121	121	121	121
Other reserves	230	385	819	767	769	870
Minority interest	59	51	47	42	37	32
<b>Total equity</b>	<b>400</b>	<b>550</b>	<b>987</b>	<b>930</b>	<b>927</b>	<b>1,023</b>
<b>Total equity and liabilities</b>	<b>1,030</b>	<b>1,238</b>	<b>2,090</b>	<b>2,102</b>	<b>2,304</b>	<b>2,622</b>

<b>CASH FLOW</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	(244)	(187)	(172)	(103)	(39)	77
Depreciation & amortization	54	42	45	45	45	45
Tax paid	(0)	0	(17)	15	6	(12)
Change in working capital	(59)	(292)	(64)	(79)	(229)	(229)
Others	135	123	74	64	65	65
<b>Net cash from operations</b>	<b>(114)</b>	<b>(314)</b>	<b>(134)</b>	<b>(58)</b>	<b>(152)</b>	<b>(53)</b>
<b>Investing</b>						
Capital expenditure	(6)	(11)	(10)	(10)	(10)	(10)
Others	(88)	11	6	(50)	(50)	(50)
<b>Net cash from investing</b>	<b>(93)</b>	<b>0</b>	<b>(4)</b>	<b>(60)</b>	<b>(60)</b>	<b>(60)</b>
<b>Financing</b>						
Net borrowings	(77)	88	157	0	50	0
Proceeds from share issues	10	210	539	0	0	0
Others	3	(5)	(24)	(9)	(11)	(11)
<b>Net cash from financing</b>	<b>(64)</b>	<b>293</b>	<b>673</b>	<b>(9)</b>	<b>39</b>	<b>(11)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	434	163	142	677	550	377
Exchange difference	0	0	0	0	0	0
<b>Cash at the end of the year</b>	<b>163</b>	<b>143</b>	<b>676</b>	<b>550</b>	<b>377</b>	<b>253</b>
<b>GROWTH</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>YE 31 Dec</b>						
Revenue	26.7%	17.9%	32.0%	38.8%	36.9%	33.0%
Gross profit	22.9%	36.4%	28.4%	37.3%	34.9%	31.1%
Adj. net profit	na	na	na	na	na	456.7%
<b>PROFITABILITY</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>YE 31 Dec</b>						
Gross profit margin	48.9%	56.6%	55.1%	54.5%	53.7%	52.9%
Adj. net profit margin	(23.4%)	(10.2%)	(6.1%)	(3.2%)	1.5%	6.5%
Return on equity (ROE)	(42.2%)	(30.5%)	(17.3%)	(8.6%)	(3.0%)	7.2%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.4)	(0.1)	(0.4)	(0.3)	(0.1)	0.0
Current ratio (x)	1.1	1.3	1.7	1.6	1.4	1.4
<b>VALUATION</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>YE 31 Dec</b>						
P/E	ns	ns	ns	ns	ns	200.4
P/B	32.4	23.6	13.5	15.2	15.2	13.8
P/S	29.9	25.4	19.2	13.8	10.1	7.6
Div yield (%)	0.0	0.8	0.0	0.0	0.0	0.0

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

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