

Xunfei Healthcare (2506 HK)

Government remains the primary driving force of medical AI applications

Xunfei Healthcare reported mixed 1H25 results. G-end business revenue increased 87% YoY to RMB141mn, and accounted for 30.4% of our full-year forecast, exceeding the historical average of ~28%. B-end revenue came under pressure, declining 10% YoY to RMB53mn. Total revenue increased 30% YoY to RMB299mn. The operating efficiency continued to improve, with the SG&A expense ratio down 7.5ppts and the R&D expense ratio falling by 20.7ppts, substantially narrowing the net loss margin to 22% (-15.5ppts YoY). We think medical AI industry remains in an early stage, and demand volatility across segments may weigh on the Company's growth. However, we believe its broad AI solutions covering G-, B-, and C-end demand provide diversification that can partially offset single-segment swings, supporting resilient and rapid growth.

■ **G-end business delivered strong performance on policy tailwinds.** Regional solutions revenue surged 178% YoY to RMB58mn, driven by the nationwide promotion of infectious-disease surveillance platforms led by the China CDC. Primary solutions revenue increased 52% YoY to RMB84mn thanks to the heightened requirements for chronic disease screening and risk assessment in primary care. However, the GPM dropped 5ppts mainly due to: 1) lower pricing for primary solutions amid county/community coverage expansion; and 2) high costs for customized regional solutions. We expect margin improvement as To-G solutions become more standardized.

■ **B-end business underperformed as hospitals slowed procurement of AI applications.** The dramatic debut of DeepSeek earlier this year briefly lifted hospitals' expectations for medical application. However, general-purpose LLMs struggle to address clinical problems directly. A lack of healthcare-specific knowledge integration and AI agent tools hindered real-world deployment. Disappointment with near-term outcomes led to more cautious AI spending in hospitals. Compared to general-purpose LLMs, Xunfei Spark Medical Model is trained on medical data and a dedicated knowledge base, enabling hospital-specific models and medical AI agents with high accuracy. The data flywheel also continues to strengthen its technological edge. Therefore, we believe the Company's hospital solutions will stand out in the hospital AI upgrade trend. Based on the current order intake, management expects a gradual recovery in 2H25E as implementation advances.

■ **Solid growth on C-end.** Patient management services revenue increased by 10% YoY to RMB104mn in 1H25. Post-discharge patient management and intelligent medical devices delivered strong performance, with revenue up ~50% and 30% YoY, respectively. Cloud Medical Imaging Platform, however, faced pricing pressure due to the medical service price reform.

■ **Maintain BUY.** Considering the challenging B-end business in 1H25, we lowered our forecast of 2024–2026E revenue CAGR to 27.9% (previously 37.9%). We adjust our TP to HK\$143.59 based on a 13x 2026E P/S, supported by comparable valuations for AI-enabled medical companies (as shown in Fig 2).

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	556	734	954	1,202	1,466
YoY growth (%)	17.9	32.0	30.0	25.9	22.0
Adjusted net profit (RMB mn)	(57)	(45)	(27)	25	105
YoY growth (%)	na	na	na	na	317.8
EPS (Adjusted) (RMB cents)	(51.29)	(39.33)	(22.08)	20.86	87.16
P/S (x)	21.0	15.9	12.2	9.7	7.9
Net gearing (%)	(10.6)	(44.0)	(47.2)	(46.6)	(50.4)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$143.59
 (Previous TP) HK\$166.69
Up/Downside 36.9%
Current Price HK\$104.90

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Stock Data

Mkt Cap (HK\$ mn)	12,680.1
Avg 3 mths t/o (HK\$ mn)	26.4
52w High/Low (HK\$)	NA/NA
Total Issued Shares (mn)	120.9

Source: FactSet

Shareholding Structure

iFlytek	49.4%
Hefei Zhengsheng	16.1%

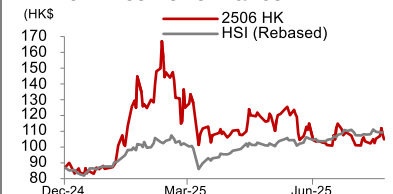
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-5.7%	-6.1%
3-mth	-13.5%	-17.9%
6-mth	-27.5%	-32.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	FY25E	New		FY25E	Old		Diff (%)		
		FY26E	FY27E		FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	954	1,202	1,466	1,019	1,395	1,855	-6.3%	-13.9%	-21.0%
Gross profit	509	636	780	555	749	981	-8.2%	-15.1%	-20.5%
Net profit	-76	-24	56	-82	-28	70	-7.5%	-13.0%	-20.8%
EPS (RMB)	-0.63	-0.20	0.46	-0.68	-0.23	0.58	-7.5%	-13.0%	-20.8%
Gross margin	53.35%	52.90%	53.19%	54.46%	53.66%	52.90%	-1.10 ppt	-0.76 ppt	+0.29 ppt
Net margin	-7.99%	-2.03%	3.80%	-8.10%	-2.01%	3.80%	+0.10 ppt	-0.02 ppt	+0.01 ppt

Source: Company data, CMBIGM estimates

Figure 2: Peer comparison

Company	Ticker	Rating	Price	Market Cap	Revenue (US\$m)		YoY (%)		PS (x)	
			(LC)	(US\$m)	2025E	2026E	2025E	2026E	2025E	2026E
Overseas market										
Tempus AI	TEM US	NA	73.3	12,731	1,230	1,521	77%	24%	10.4	8.4
Doximity Inc	DOCS US	NA	64.4	12,055	566	634	19%	12%	21.3	19.0
Veeva Systems Inc	VEEV US	NA	284.0	46,412	2,725	3,099	15%	14%	17.0	15.0
Salesforce	CRM US	NA	246.5	235,606	37,954	41,198	9%	9%	6.2	5.7
Recursion Pharmaceuticals	RXR US	NA	4.8	2,071	72	87	22%	21%	28.9	23.9
Average							28%	16%	16.8	14.4
H & A share market										
Medlive	2192 HK	NA	14.2	1,331	101	130	30%	29%	13.2	10.2
XtalPi	2228 HK	BUY	8.8	4,522	66	106	78%	61%	68.4	42.5
Yidu Tech	2158 HK	NA	6.5	889	107	120	-5%	12%	8.3	7.4
Winning Health	300253 CH	NA	10.6	3,260	434	490	12%	13%	7.5	6.7
B-Soft	300451 CH	NA	5.6	1,198	227	257	15%	14%	5.3	4.7
Average							26%	26%	20.5	14.3
Overall average									18.7	14.3

Source: Bloomberg, CMBIGM estimates, as of 12:00pm Aug 21, 2025

Fig 3: CMBIGM estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	954	1,202	1,466	976	1,326	1,735	-2.3%	-9.4%	-15.5%
Gross profit	509	636	780	NA	NA	NA	NA	NA	NA
Net profit	-76	-24	56	-85	-22	58	-10.7%	11.4%	-3.9%
EPS (RMB)	-0.63	-0.20	0.46	-0.71	-0.18	0.48	-11.1%	12.0%	-3.9%
Gross margin	53.35%	52.90%	53.19%	NA	NA	NA	NA	NA	NA
Net Margin	-7.99%	-2.03%	3.80%	-8.75%	-1.65%	3.34%	+0.76 ppt	-0.38 ppt	+0.46 ppt

Source: Company data, Wind, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	472	556	734	954	1,202	1,466
Cost of goods sold	(241)	(241)	(330)	(445)	(566)	(686)
Gross profit	231	315	404	509	636	780
Selling expense	(160)	(163)	(192)	(239)	(282)	(330)
Admin expense	(109)	(113)	(96)	(110)	(126)	(147)
R&D expense	(242)	(264)	(272)	(286)	(300)	(293)
Other income	44	49	42	38	48	59
Other gains/(losses)	3	1	(0)	0	0	0
Interest expense	(1)	(1)	(6)	(8)	(9)	(9)
Others	(10)	(10)	(52)	0	0	0
Pre-tax profit	(244)	(187)	(172)	(96)	(35)	60
Income tax	36	33	34	14	5	(9)
After tax profit	(209)	(154)	(138)	(81)	(29)	51
Minority interest	(19)	(9)	(5)	(5)	(5)	(5)
Attributable net profit	(189)	(145)	(133)	(76)	(24)	56
Adjusted net profit	(111)	(57)	(45)	(27)	25	105

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	652	853	1,681	1,786	2,045	2,327
Cash & equivalents	163	143	677	708	777	883
Restricted cash	4	6	11	12	13	14
Account receivables	305	533	796	863	1,021	1,165
Inventories	47	74	103	110	136	162
Financial assets at FVTPL	85	25	0	0	0	0
Other current assets	31	65	74	74	74	74
Contract assets	16	8	20	18	23	28
Non-current assets	378	384	409	411	418	426
PP&E	10	14	13	15	16	18
Right-of-use assets	1	2	8	7	5	3
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	93	114	134
Total assets	1,030	1,238	2,090	2,197	2,463	2,753
Current liabilities	603	671	1,000	1,105	1,316	1,471
Short-term borrowings	0	88	180	180	230	230
Account payables	311	380	521	610	760	903
Other current liabilities	265	163	266	266	266	266
Lease liabilities	1	1	5	5	5	5
Contract liabilities	27	40	29	45	56	69
Non-current liabilities	26	17	103	103	103	103
Long-term borrowings	8	0	0	0	0	0
Other non-current liabilities	18	17	103	103	103	103
Total liabilities	630	688	1,103	1,207	1,419	1,574
Share capital	111	114	121	121	121	121
Other reserves	230	385	819	827	886	1,026
Minority interest	59	51	47	42	37	32
Total equity	400	550	987	990	1,044	1,179
Total equity and liabilities	1,030	1,238	2,090	2,197	2,463	2,753

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(244)	(187)	(172)	(96)	(35)	60
Depreciation & amortization	54	42	48	48	48	48
Tax paid	(0)	0	(0)	14	5	(9)
Change in working capital	(59)	(292)	(115)	17	(48)	(40)
Others	135	123	105	100	102	101
Net cash from operations	(114)	(314)	(134)	84	72	160
Investing						
Capital expenditure	(6)	(11)	(8)	(10)	(10)	(10)
Others	(88)	11	4	(34)	(34)	(34)
Net cash from investing	(93)	0	(4)	(44)	(44)	(44)
Financing						
Net borrowings	(77)	88	157	0	50	0
Proceeds from share issues	10	210	539	0	0	0
Others	3	(5)	(24)	(8)	(9)	(9)
Net cash from financing	(64)	293	673	(8)	41	(9)
Net change in cash						
Cash at the beginning of the year	434	163	143	677	708	777
Exchange difference	0	0	0	0	0	0
Cash at the end of the year	163	143	677	708	777	883
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	26.7%	17.9%	32.0%	30.0%	25.9%	22.0%
Gross profit	22.9%	36.4%	28.4%	26.0%	24.9%	22.7%
Adj. net profit	na	na	na	na	na	317.8%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	48.9%	56.6%	55.1%	53.4%	52.9%	53.2%
Adj. net profit margin	(23.4%)	(10.2%)	(6.1%)	(2.8%)	2.1%	7.2%
Return on equity (ROE)	(42.2%)	(30.5%)	(17.3%)	(7.7%)	(2.4%)	5.0%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.1)	(0.4)	(0.5)	(0.5)	(0.5)
Current ratio (x)	1.1	1.3	1.7	1.6	1.6	1.6
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	ns	ns	ns	ns	ns	209.0
P/B	26.8	19.5	11.1	11.8	11.2	9.9
P/S	24.7	21.0	15.9	12.2	9.7	7.9
Div yield (%)	0.0	0.0	na	0.0	0.0	0.0

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

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