



Kanghua Healthcare (3689 HK)

Regional healthcare service provider with Grade A Class III portfolio hospital

- The Group's lethargic share price and trading volume indicate market is skeptical of its prospects. We believe that the Group's future growth will be supported by its top-rated hospital (Grade A Class III) and business expansion
- The Group is in a strong cash position post-IPO and is capable of generating sufficient cash flow from operating activities
- The Group's current average spending per visit (ASVP) is lower than its HK-listed peers; however, it has a substantially larger patient base
- Initiate **BUY** with a TP at HK\$ 13.85, representing 2016E P/E and P/B of 27.58x and 3.49x, or 2017E P/E and P/B of 22.31x and 3.1x

Trading at below IPO price and low trading volume indicate a skeptic market. The stock is 5% below its IPO price of HK\$ 11.60. ADT of the stock is thin. We believe the stock is under-researched by the market. All these indicate the market has reservations over the Group's earnings and growth. However, we believe the stock is undervalued, as we expect the Group to post 25% YoY growth in net profit attributable to owners of the company for FY16. Market may re-rate the stock after it posts FY16 results.

Healthy balance sheet & high earnings quality. The Group raised net proceeds of HK\$ 889 mn in the IPO last Nov. We predict the Group is loan free with approx. RMB 920mn cash balance at end-FY16. The Group plans to use the proceeds to conduct M&A of new hospitals and diversify into hospital consultancy & management business. Earnings quality is impressive with annual net operating cash flow almost twice of its net profit.

Earnings growth drivers. The continued expansion of the VIP medical & healthcare services from its Grade A Class III Kanghua Hospital will raise ASPV and gross profit margin. Its hospital consultancy segment will commence operation in 2017. However, our earnings forecasts do not factor in contributions from upcoming M&A. Hence, ROAE is diluted by increase in equity and unleveraged balance sheet. Our profit forecasts lean on the conservative side.

Initiate with BUY; TP at HK\$ 13.85. Based on our projections, from 2015 to 2018E, revenue would grow by 16.02% CAGR; more specifically, revenues from Kanghua Hospital and Renkang Hospital revenue would increase by 15.6% and 17.0% CAGRs. Average NPM (net profit attributable to owners of the company) for 2016E-18E would be 12.54%, and net profit attributable to owners of the company would increase by 21.45% CAGR from 2016-2018E. We initiate coverage on Kanghua Healthcare with **BUY** and a TP of HK\$ 13.85, which represents 2016E P/E and P/B of 27.58x and 3.49x .

Risk factors: 1) Policy & regulatory risk; 2) Geographical concentration risk; 3) Litigation/operation risk; 4) Receivable risk, 5) Execution risk; 6) Credit risk; 7) Assets concentration risk; 8) M&A risk

Results and Valuation

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E
Revenue (RMB mn)	985.11	1,063.70	1,238.63	1,435.65	1,661.18
Chg (% YoY)	14.70	7.98	16.45	15.91	15.71
Net Profit (RMB mn)	102.24	118.85	148.56	183.70	212.93
Chg (% YoY)	(4.73)	16.25	25.00	23.65	15.91
Basic EPS (RMB cent)	40.90	47.50	44.43	54.94	63.68
Chg (% YoY)	(4.66)	16.14	(6.47)	23.65	15.91
P/E (x)	30.45	26.22	28.03	22.67	19.56
BVPS (RMB cent)	55.35	98.70	351.18	395.71	435.18
P/B (x)	22.50	12.62	3.55	3.15	2.86
DPS (RMB cent)	0.00	0.00	15.55	16.48	19.10
Yield (%)	0.00	0.00	1.41	1.50	1.73
ROAA (%)	5.52	7.95	10.74	10.36	10.71
ROAE (%)	92.18	61.72	20.91	14.71	15.33

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Initiation

Feb 20, 2017

Rating: **BUY**

TP: HK\$ 13.85

Co-head of Research: Philip Chan

Tel: (852) 2147 8805

Email: philipchan@abci.com.hk

Analyst: Paul Pan

Tel: (852) 2147 8829

Email: paulpan@abci.com.hk

Share price (HK\$)	11.02
Est. share price return	25.68%
Est. dividend yield	1.41%
Est. total return	27.09%

Source(s): ABCI Securities

Key Data

Issued shares (mn)	334.394
H-shares (mn)	84.394
H-share mkt cap (HK\$m)	930
30 days ADT (HK\$m)	0.1
Shareholding (%)	
Unlisted shares:	74.8
Kanghua Group	59.1
Xingye Group	7.5
Xingda Property	8.2
Total H shares:	25.2
Huzhou Feipeng Capital	6.0
Others	19.2

% to total revenue	FY16E
Inpatient	59.58
Outpatient	34.63
Physical exam	5.80

Source(s): ABCI Securities estimates

Sector Performance (%)

	Absolute	Relative*
1-mth	2.80	(2.66)
3-mth	0.00	(8.10)
6-mth	N/A	N/A

Source(s): Bloomberg, ABCI Securities

1-Year sector performance (HK\$)



Source(s): Bloomberg, ABCI Securities

* All pricing and market data as of mid-day closing of Feb 15, 2017



Kanghua Healthcare introduction

Guangdong Kanghua Healthcare is a regional hospital operator headquartered in Dongguan, China. According to Frost & Sullivan report cited by the Group's Prospectus, its current hospitals in portfolio include Kanghua Hospital, which is the largest private for-profit general hospital in PRC by registered beds by end-2015, and the first private for-profit general hospital in the PRC to attain a Grade A Class III rating under the NHFPC classification. Apart from the portfolio hospitals, the Group is also expanding its business by entering into management arrangements with third-party hospitals. On June 24, 2016, the Group entered into a management agreement with Zhonglian Cardiovascular Hospital.

Investment highlights

1. Below-IPO pricing and low trading volume indicate skepticism in the market

The Group's share price has been trading below its IPO price of HK\$ 11.6 for most of the time since listing and is currently 5% below the IPO price. In addition, the daily trading turnover of its shares has been thin. Tepid price performance and the shallow market for its shares indicate market skepticism over the Group's growth and earnings prospects.

However, we believe the quality of the Group's portfolio hospitals and future expansion plan have not been accounted for in its current share price. The Group is the only healthcare service provider listed in HK that has a Grade A Class III hospital in the portfolio. In addition, the Group has the largest customer base among its HK-listed peers. We believe the Group would be able to build on its top-rating portfolio hospital and large customer base to expand its business and increase its ASPV. Moreover, potential M&As and expansion of its consultancy business would accelerate topline growth.

2. A cash company with sufficient liquidity

While its shares were undersubscribed, the Group was able to raise HK\$ 884.7mn. According to the original plan announced by the Group, 35% of the IPO proceeds would be used to conduct merger and acquisition of other hospitals, while 10% would be used for expansion of the consultancy and management operation with third-party hospitals. These actions would take time to materialize. With its cash position being boosted by the IPO proceeds, we believe the Group was in a net cash position of ~RMB 920mn by end-2016 with no outstanding debt.

In addition, the Group has been able to maintain a strong cash flow. Its cash flow from operation was ~RMB 200mn from 2013-15, which was on average 1.85x of net profit for 2013-2015. The Group's cash flow from operation also exceeded the cash investment in PP&E during the same period.



Exhibit 1: Plan for IPO proceeds

Use of IPO proceeds	% of total proceeds
Expand and ramp up existing healthcare services at Kanghua Hospital and Renkang Hospital, in particular the offerings of high-end special services	9.00%
- increase operating capacity in O&G, cardiovascular and oncology disciplines	5.04%
- increase operating capacity in high-end special services	3.96%
- increase operating capacity in VIP inpatient healthcare services by furnishing the 3rd phase of Huaxin Building	
Expand operating capacity capability in multi-disciplinary specialised treatment and diagnosis and upgrade the medical facilities of Kanghua Hospital and Renkang Hospital	35.99%
- develop capability in proton therapy	20.16%
- purchase of advanced medical technology equipment in radiology and nuclear medicine, such as gamma knife and linear accelerator for the treatment of tumors and PET/CT scanner for advanced diagnosis of diseases	15.12%
- improve our hospital environment, install advanced laboratories, deploy additional examination rooms and beds for specialized treatments and diagnosis and improve our mobile and online intelligent medical platforms	0.72%
Expand hospital consultancy and management operations with third party hospitals in the PRC	10.00%
- management agreement with respect to Zhonglian Cardiovascular Hospital	4.90%
- purchase of medical equipment that will be leased to Zhonglian Cardiovascular Hospital	2.45%
- further capital support	1.23%
- hire additional management staff in view of the anticipated expansion of the hospital to 500 beds by its third year of operation and other related costs	1.23%
- new consultancy and management operations to be identified	5.10%
Expand healthcare operations in the PRC, including through selective mergers with and acquisitions of other hospitals	35.00%
Providing funding for working capital and other general corporate purposes	10.00%

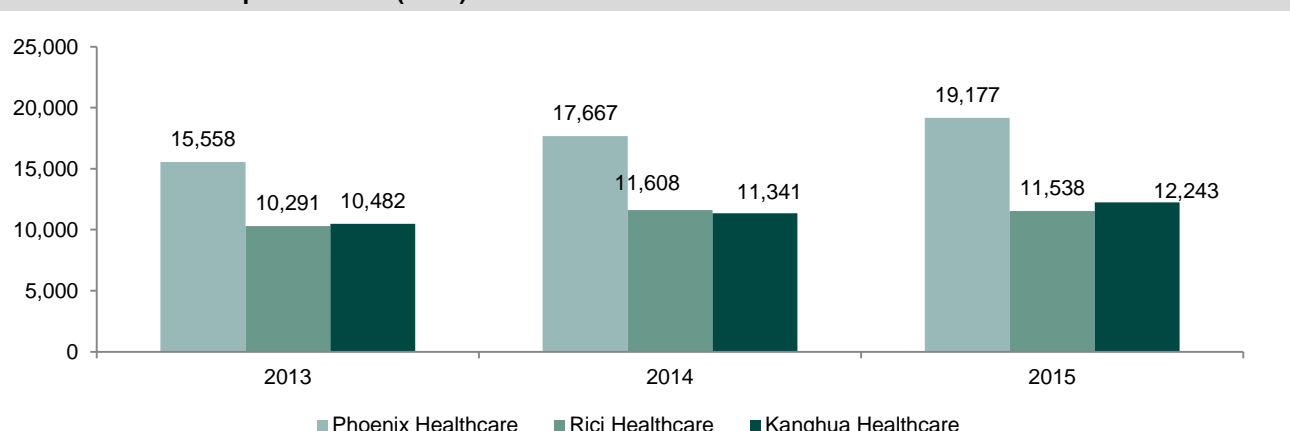
Source(s): Company, ABCI Securities

3 Potential to increase price premium enabled by its top-tier hospital in portfolio

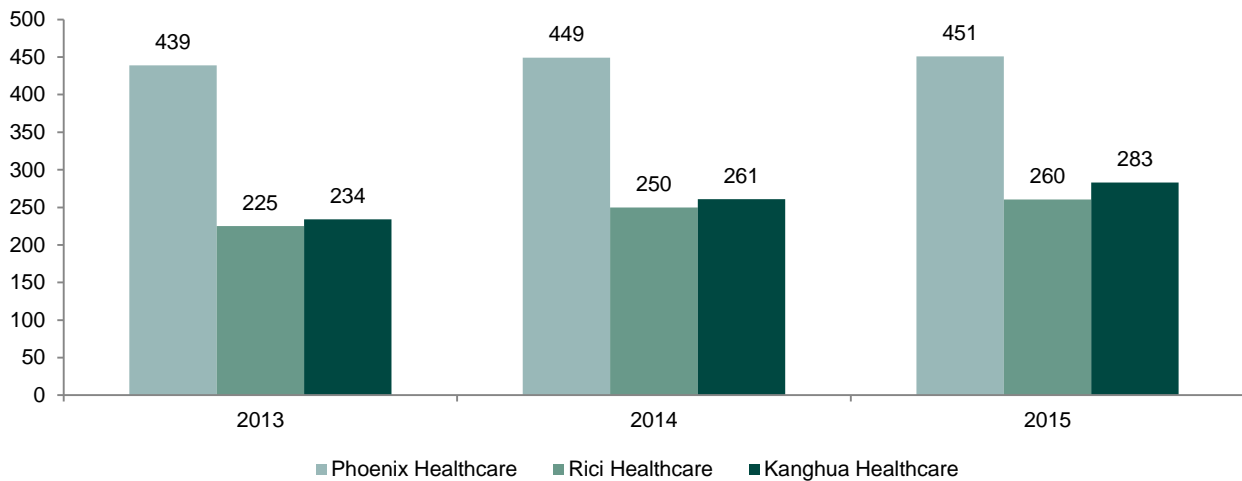
Currently, the Group is the only HK-listed player in the healthcare industry with a portfolio hospital (Kanghua Hospital) that attains a Grade A Class III rating, the highest rating attainable under the NHFPC classification. We believe the ability to operate such a high-standard hospital reflects strong management skills and medical expertise.

Compared with its HK-listed peers, the Group's ASPV is still relatively low. As the Group continues to expand its VIP services and build its reputation with its top-rated hospitals under management, ASPV will have room to increase further.

Exhibit 2: ASPV of inpatient visits (RMB)



* Data only for operating hospitals
Source(s): Company, ABCI Securities

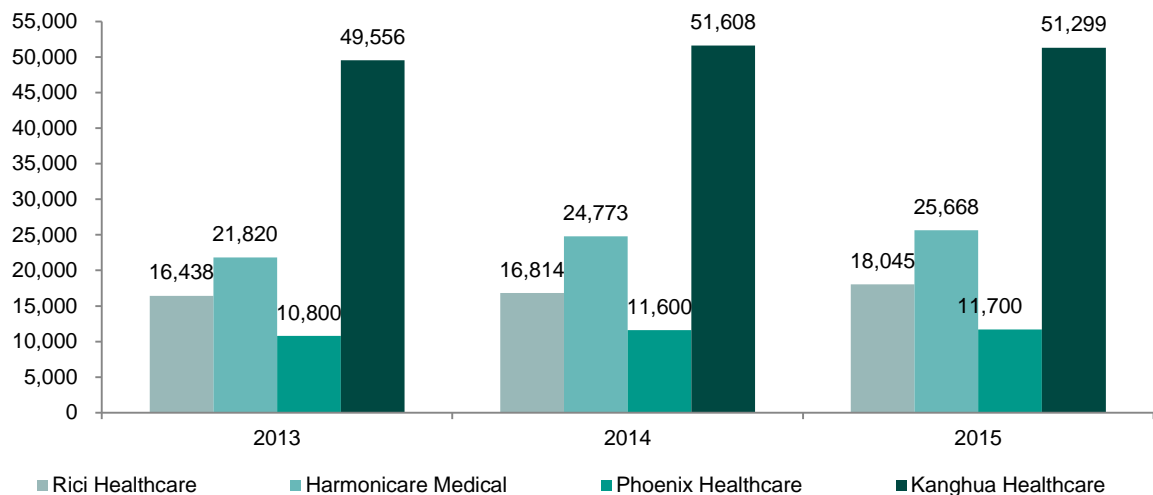
Exhibit 3: ASPV of outpatient visits (RMB)


* Data only for operating hospitals
 Source(s): Company, ABCI Securities

4 Large customer base benefited by solid economic foundation of the Pearl River Delta region

The Group's two operating hospitals are located in Dongguan, the manufacturing hub of the Pearl River Delta. The Group's hospitals are also within driving distance from major cities in Guangdong such as Shenzhen and Guangzhou. The hospitals' convenient locations would allow further expansion of customer base.

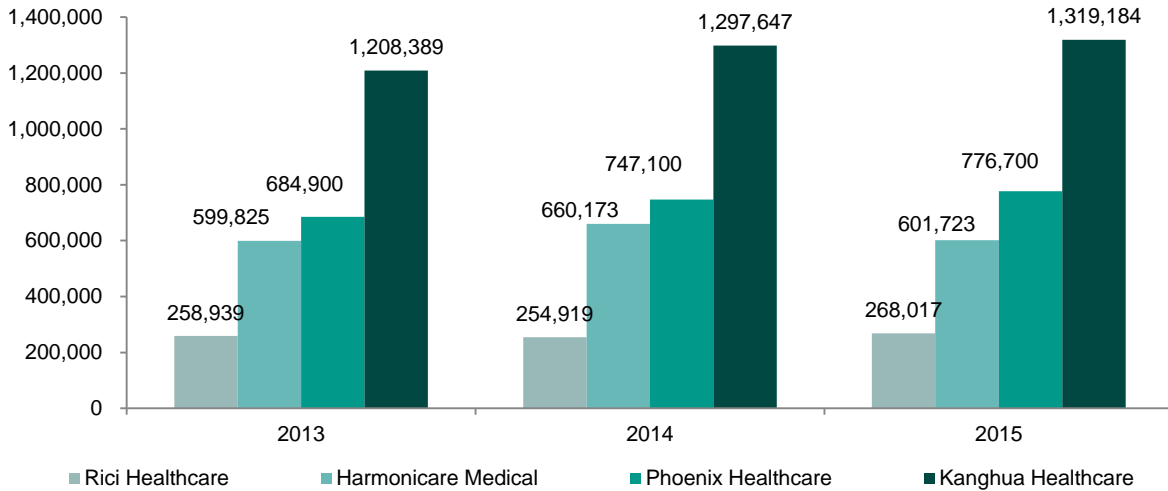
The Group's customer base is also larger than that of its HK-listed peers. From 2013-15, inpatient and outpatient visits increased to 51,299 and 1,319,184, much higher than those of its peers.

Exhibit 4: No. of inpatient visits


* Data only for operating hospitals
 Source(s): Company, ABCI Securities



Exhibit 5: No. of outpatient visits



* Data only for operating hospitals
Source(s): Company, ABCI Securities

Growth outlook

Although the Group's hospitals have been in operation for more than 10 years, we believe a decent growth momentum would be achieved over the next few years by the Group based on its top-rated portfolio hospital, further expansion of VIP business, its plans to expand consultancy business, potential M&As, as well as the rising demand for quality healthcare service in China.

We project the ASPV of the inpatient, outpatient, and physical examination services segments would grow at a 2015-18E CAGR of 9.13%, 7.85%, and 1.20%; the no. of patient visits of the inpatient, outpatient, and physical examination services segments would grow at a 2015-18E CAGR of 6.93%, 6.2%, and 13.68%.

In terms of hospitals, from 2015-18E, the ASPV of Kanghua Hospital and Renkang Hospital would register a CAGR of 7.80% and 6.74%; the no. of patient visits would increase at 7.23% and 9.61% CAGRs.

Based on the forecast on ASPV and the no. of visits, we expect the Group's revenue to grow at 16.02% CAGR in 2015-18E, which only factors in the current management hospital in Chongqing. From 2015 to 2018E, we expect the revenue CAGRs of Kanghua Hospital revenue and Renkang Hospital would be 15.60% and 17.0%; the revenue CAGRs of inpatient/outpatient/physical examination services would be 16.69% /14.54% /15.06%, respectively.



Exhibit 6: Assumptions for revenue projection

	2013	2014	2015	2016E	2017E	2018E	CAGR (2015-2018E) (%)
By segment							
Inpatient healthcare services							
number of patient visits	49,556	51,608	51,299	54,817	58,627	62,720	6.93
- Growth (%)		4.14	(0.60)	6.86	6.95	6.98	
ASPV	10,482	11,341	12,243	13,462	14,615	15,910	9.13
- Growth (%)		8.20	7.95	9.95	8.57	8.86	
Outpatient healthcare services							
number of patient visits	1,208,389	1,297,647	1,319,184	1,403,624	1,487,656	1,579,915	6.20
- Growth (%)		7.39	1.66	6.40	5.99	6.20	
ASPV	234	261	283	306	329	355	7.85
- Growth (%)		11.54	8.43	7.97	7.53	8.05	
Physical examination services							
number of patient visits	352,386	400,375	455,575	518,109	588,685	669,306	13.68
- Growth (%)		13.62	13.79	13.73	13.62	13.69	
ASPV	161	154	137	139	140	142	1.2
- Growth (%)		(4.35)	(11.04)	1.16	1.24	1.21	
By hospital							
Kanghua Hospital							
Inpatient healthcare services							
number of patient visits	34,988	36,538	37,393	40,494	43,874	47,525	8.32
- Growth		4.43	2.34	8.29	8.35	8.32	
ASPV	12,315	13,088	13,857	15,035	16,116	17,318	7.72
- Growth		6.28	5.87	8.51	7.19	7.46	
Outpatient healthcare services							
number of patient visits	832,639	900,102	952,125	1,018,212	1,082,974	1,154,999	6.65
- Growth (%)		8.10	5.78	6.94	6.36	6.65	
ASPV	266	297	314	336	357	382	6.73
- Growth (%)		11.57	5.72	6.92	6.32	6.95	
Physical examination services							
number of patient visits	91,652	101,191	113,951	127,065	141,623	157,884	11.48
- Growth (%)		10.41	12.61	11.51	11.46	11.48	
ASPV	573	564	506	521	536	552	3.00
- Growth (%)		(1.50)	(10.39)	3.00	3.00	3.00	
Renkang Hospital							
Inpatient healthcare services							
number of patient visits	14,568	15,070	13,906	14,323	14,753	15,195	3.00
- Growth (%)		3.45	(7.72)	3.00	3.00	3.00	
ASPV	6,081	7,105	7,903	9,013	10,152	11,506	13.34
- Growth (%)		16.85	11.23	14.04	12.64	13.34	
Outpatient healthcare services							
number of patient visits	375,750	397,545	367,059	385,412	404,683	424,917	5.00
- Growth (%)		5.80	(7.67)	5.00	5.00	5.00	
ASPV	162	178	202	226	252	282	11.75
- Growth (%)		9.92	13.34	11.63	11.86	11.75	
Physical examination services							
number of patient visits	260,734	299,184	341,624	391,043	447,063	511,421	14.40
- Growth (%)		14.75	14.19	14.47	14.33	14.40	
ASPV	16	15	14	14	15	15	3.00
- Growth (%)		(8.02)	(6.04)	3.00	3.00	3.00	

Source(s): Company, ABCI Securities estimates



Profitability outlook

By expanding the premium healthcare services and providing healthcare management services to third-party hospitals, the Group's profitability would be improved. We expect average GPM and average OPM (excluding the impact of non-operating related items) would be 23.0% and 14.91% for 2016E-18E.

Average NPM (attributable to owners) for 2016E-18E would be 12.54%. Our projection also indicates the Group's net profit attributable to owners of the company would increase by 21.45% CAGR for 2016E-18E. With such earnings, we estimate the Group to have a dividend payout of 35-40%.

Valuation

Currently, companies in the healthcare service sector generally have a high valuation. According to the latest data available on Bloomberg, the 2016E P/E of China Resources Phoenix Healthcare (1515 HK), Harmonicare Medical, and Wenzhou Kangning Hospital (2120 HK) were 32.37x, 26.49x, and 34.91x, while the 2016E P/E of Hang Seng Index was only 11.87x. We believe the high valuation of the healthcare sector is based upon the fast growth expected for the healthcare industry amid a slowing economy in China.

For our DCF valuation, we have made the following assumptions: (1) a cost of equity at 11.74%; (2) an after-tax cost of debt at 7.23%, (3) a debt-to-equity ratio at 11.11%. Our target price (TP) arrives at HK\$ 13.85, which represents 2016E P/E and P/B of 27.58x and 3.49x, or 2017E P/E and P/B of 22.31x and 3.10x.

Exhibit 7: Bloomberg consensus valuation of the healthcare sector

	English name	Chinese name	FY end	P/E (x)		P/B (x)		Yield (%)		ROAE (%)	
				2016	2017	2016	2017	2016	2017	2016	2017
1515 HK	CR Phoenix Health	华润凤凰医疗	31-Dec	32.37	26.73	5.33	5.18	0.72	0.92	14.11	19.65
1509 HK	Harmonicare	和美医疗	31-Dec	26.49	22.36	1.92	1.80	1.11	1.45	7.66	8.33
1526 HK	Rici Healthcare	瑞慈医疗	31-Dec	12.69	20.44	3.26	2.85	3.68	1.23	39.82	14.88
2120 HK	Kangning Hospital	温州康宁医院股份有限公司	31-Dec	34.91	26.24	2.37	2.23	0.97	1.25	6.96	8.76
1858 HK	Chunli Medical	春立医疗	31-Dec	12.57	10.13	1.47	1.29	1.37	1.74	12.82	13.57
3689 HK*	Kanghua Healthcare	广东康华医疗	31-Dec	28.03	22.64	3.55	3.07	1.41	1.50	10.74	10.27
1419 HK	Human Health	盈健医疗	30-Jun	11.53	10.18	N/A	N/A	N/A	N/A	N/A	N/A
2138 HK	UM Healthcare	香港医思医疗集团	31-Mar	17.60	9.78	3.14	2.64	N/A	N/A	18.91	29.35
722 HK	UMP Healthcare	联合医务	30-Jun	24.56	15.05	2.07	1.87	N/A	N/A	9.23	13.05
1612 HK	Vincent Medical	永胜医疗控股有限公司	31-Dec	10.40	11.06	1.82	1.68	N/A	N/A	N/A	15.80

* ABCI Securities estimates

Source(s): Bloomberg, ABCI Securities estimates



Risk factors

Policy and regulatory risk. The healthcare service industry is tightly regulated. If future policies are unfavorable to the private healthcare service providers, the Group may suffer from reduced competitiveness, higher operating cost, or loss of necessary medical professionals.

Geographical risk. The Group currently operates two hospitals in Dongguan, Guangdong. Major economic slowdown and negative demographic changes in the Pearl River Delta or the Guangdong province may affect the Group's revenue.

Litigation/operation risk. Hospitals have a high operation risk as safety incidents could lead to lawsuits by patients, which could create irreparable damage to the Group's reputation and result in serious financial damage.

Receivable risk. The Group recorded receivable provision in its income statement in the past. We believe such provision, which lower the reported profit, would increase if the Group fails to collect payment on time or defaults by patients increase. By end of Apr 2016, 10% of the Group's accounts and other receivables have been outstanding for more than 181 days.

Execution risk. Even though the Group has been operating and managing hospitals for more than a decade, future expansion plans, which includes providing management services to third-party hospitals, may not be realized or be less profitable than expected due to the lack of experience in these new areas.

Credit risk. The Group's income statement includes a non-cash item called imputed interest income, which is the hypothetical interest income generated from the amount due from a shareholder. If the Group continues such practice and fail to manage its credit extended to shareholders, major losses could incur in times of default.

Asset concentration risk. The Group's net profit is mainly derived from the Kanghua Hospital; profit contribution from the Renkang Hospital's has been low and at times, negative. If the operation of Kanghua Hospital is disrupted due to unforeseen factors, the Group's net profit would suffer.

M&A risk. The Group's expansion through M&A activities can be risky because the business performance of the acquired targets may fall below expectations or that the synergies may take longer to realize.

Consolidated income statement (2014A-2018E)

FY ends at Dec 31 (RMB mn, except per share data)	2014A	2015A	2016E	2017E	2018E
Revenue	985	1,064	1,239	1,436	1,661
By hospital					
- Kanghua Hospital	803	875	1,017	1,170	1,351
- Renkang Hospital	182	189	222	259	303
- Third-party hospitals	0	0	0	7	7
By segment					
- Inpatient healthcare services	585	628	738	857	998
- Outpatient healthcare services	338	373	429	489	561
- Physical examination services	62	62	72	83	95
- Management of third-party hospital	0	0	0	7	7
COGS	(761)	(824)	(955)	(1,105)	(1,278)
Gross profit	224	239	284	331	383
By hospital					
- Kanghua Hospital	169	199	241	285	340
- Renkang Hospital	55	40	43	41	39
- Third-party hospitals	0	0	0	4	4
By segment					
- Inpatient healthcare services	93	93	117	137	162
- Outpatient healthcare services	97	111	126	143	165
- Physical examination services	34	36	40	46	52
- Management of third-party hospital	0	0	0	4	4
Admin expenses	(80)	(84)	(110)	(122)	(137)
Others	68	60	21	23	22
Operating profit (excluding non-operating related items)	149	159	180	215	253
Finance cost	(77)	(67)	(8)	0	0
Pretax profit	135	149	187	232	268
Tax	(27)	(30)	(38)	(48)	(55)
Net profit	108	119	149	184	213
- Owners of the company	102	119	149	184	213
- Minority interest	6	0	0	0	0
Dividend	0	0	52	55	64
EPS (RMB cent)	40.90	47.50	44.43	54.94	63.68
DPS (RMB cent)	0.00	0.00	15.55	16.48	19.10

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2014A-2018E)

FY ends at Dec 31 (RMB mn, except per share data)	2014A	2015A	2016E	2017E	2018E
Cash and cash equivalent	37	96	920	1,061	1,040
Restricted bank balances	12	9	0	0	0
Pledged bank deposits	0	50	50	50	50
Accounts and other receivables	59	88	112	136	142
Inventories	34	38	47	50	63
Amounts due to various parties	522	494	79	1	0
Current assets	665	775	1,208	1,299	1,294
PP&E	266	322	433	565	771
Due from shareholders	938	0	0	0	0
Deferred tax	8	4	10	7	13
Deposits paid for PP&E	8	5	10	13	16
Non-current assets	1,220	331	453	585	799
Total assets	1,885	1,106	1,662	1,884	2,094
Accounts and other payables	348	393	466	531	619
Tax payables.	7	20	14	29	20
ST Bank borrowings	919	342	0	0	0
Amounts due to various parties	473	105	7	0	0
Current liabilities	1,747	859	487	560	639
Total liabilities	1,747	859	487	560	639
Shareholders' equity	123	232	1,159	1,308	1,439
Minority interest	15	15	15	16	16
Total equity	138	247	1,174	1,323	1,455
Total liabilities and equity	1,885	1,106	1,662	1,884	2,094

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2014A-2018E)

FY ends at Dec 31 (RMB mn, except per share data)	2014A	2015A	2016E	2017E	2018E
Profit before tax	135	149	187	232	268
Depreciation of PP&E	38	39	46	50	57
Finance costs	77	67	8	0	0
Change in working capital	14	9	41	37	69
Tax paid	0	(14)	(13)	(17)	(19)
Others	(58)	(52)	(8)	(8)	(4)
Cash flow from operating activities	206	199	260	294	371
PP&E	(18)	(86)	(111)	(132)	(206)
Due from related party	(15)	11	4	0	0
Due from shareholder	(72)	997	461	29	1
Restricted bank balances	(5)	3	9	0	0
Pledged bank deposits	0	(50)	0	0	0
Others	(9)	(3)	(6)	1	(4)
Cash flow from investing activities	(119)	873	356	(103)	(209)
Bank borrowing	171	(577)	(342)	0	0
Interest paid	(77)	(68)	(9)	0	0
Due to shareholders	(117)	(363)	(97)	(7)	(0)
Due to related parties	(72)	(5)	0	0	0
Amount raised through IPO	0	0	779	0	0
Dividend	0	0	0	(52)	(55)
Cash flow from financing activities	(96)	(1,013)	331	(59)	(55)
Net change in cash	(9)	58	947	132	106
Cash at the beginning	46	37	96	1,043	1,175
ForEx effect	0	0	0	0	0
Cash at the end of FY	37	96	1,043	1,175	1,282

Source(s): Company, ABCI Securities estimates

Key operating and financial ratios (2014A-2018E)

FY ends at Dec 31 (RMB mn, except per share data)	2014A	2015A	2016E	2017E	2018E
Growth (YoY %)					
Revenue	14.70	7.98	16.45	15.91	15.71
By hospital					
- Kanghua Hospital	13.84	8.99	16.25	15.02	15.52
- Renkang Hospital	18.64	3.54	17.37	16.62	17.00
By segment					
- Inpatient healthcare services	12.67	7.31	17.50	16.12	16.46
- Outpatient healthcare services	19.66	10.34	14.90	13.97	14.75
- Physical examination services	8.50	1.38	15.09	15.03	15.07
Gross profit	12.67	7.31	17.50	16.12	16.46
By hospital					
- Kanghua Hospital	15.30	17.94	20.86	18.49	19.30
- Renkang Hospital	28.57	(26.57)	6.74	(4.55)	(5.91)
By segment					
- Inpatient healthcare services	17.58	0.04	25.89	16.94	18.42
- Outpatient healthcare services	23.90	14.55	13.86	13.68	14.81
- Physical examination services	6.35	4.75	13.54	13.47	13.43
EBIT	21.72	6.99	13.36	19.13	17.99
EBITDA	14.92	6.28	14.23	17.04	17.18
Pretax Profit	8.39	10.06	25.51	24.10	15.83
Net profit (to owners of the company)	(4.73)	16.25	25.00	23.65	15.91
Profitability ratios (%)					
GPM	22.71	22.51	22.90	23.03	23.07
By hospital					
- Kanghua Hospital	21.04	22.77	23.67	24.38	25.18
- Renkang Hospital	30.05	21.31	19.38	15.86	12.76
By segment					
- Inpatient healthcare services	15.90	14.82	15.88	15.99	16.26
- Outpatient healthcare services	28.59	29.68	29.41	29.34	29.35
- Physical examination services	55.12	56.95	56.19	55.43	54.64
OPM	15.08	14.94	14.54	14.95	15.24
EBITDA margin	18.90	18.60	18.25	18.42	18.66
Pretax	13.73	13.99	15.08	16.15	16.16
NPM (to owners of the company)	10.38	11.17	11.99	12.80	12.82
Revenue contribution (%)					
By hospital					
- Kanghua Hospital	81.48	82.24	82.10	81.47	81.34
- Renkang Hospital	18.52	17.76	17.90	18.01	18.21
By segment					
- Inpatient healthcare services	59.41	59.04	59.58	59.68	60.07
- Outpatient healthcare services	34.34	35.09	34.63	34.05	33.76
- Physical examination services	6.25	5.87	5.80	5.75	5.72
Return ratios (%)					
ROAA	5.52	7.95	10.74	10.36	10.71
ROAE	92.18	61.72	20.91	14.71	15.33
ROIC	5.71	7.50	11.35	14.86	14.55
Liquidity ratio (x)					
Current ratio	0.38	0.90	2.48	2.32	2.03
Quick ratio	0.36	0.86	2.38	2.23	1.93
Cash ratio	0.03	0.18	1.99	1.98	1.71
Cash conversion cycle (days)					
Days of outstanding receivable	21.27	21.37	21.32	21.34	21.33
Days of inventory on hand	16.63	15.91	16.26	16.09	16.17
Days of outstanding payable	161.98	164.06	164.24	164.74	164.18
CCC	(124.08)	(126.78)	(126.66)	(127.31)	(126.68)
Leverage ratios (%)					
Total debt/Equity	663.81	138.52	0.00	0.00	0.00
Total debt/Total assets	48.73	30.91	0.00	0.00	0.00

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index. Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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**Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.
Tel: 852) 2868 2183**