

Phoenix Healthcare Group (1515.HK)

Continued Shareholding of Central Enterprises may Create More External Expansion

Hong Kong | Healthcare | Company report

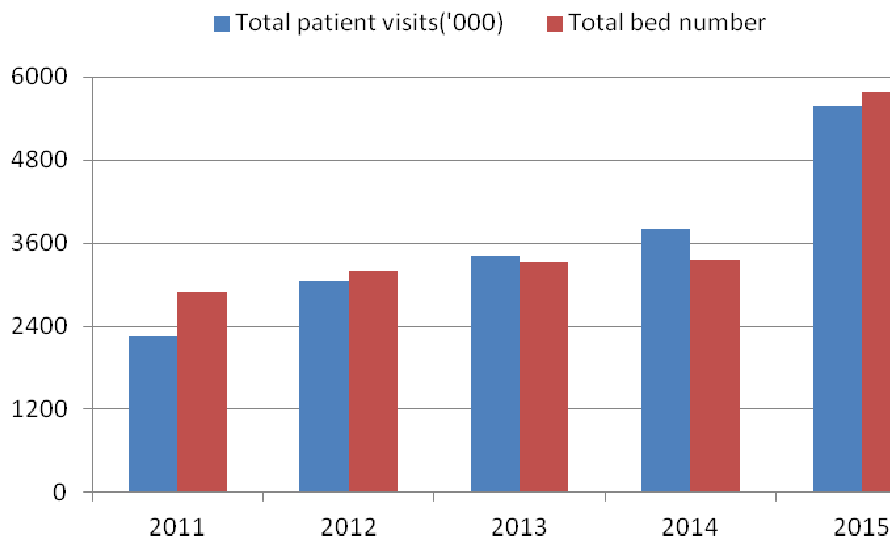
6 JULY 2016

Unique Model Contributes to Leading Position

Phoenix Healthcare (PHG) has a wealth of mature hospital management experience and has developed a set of mature IOT public hospital trusteeship model. In other words, in addition to increasing investment in improving hardware, the company breaks away from covering hospital expenses with medicine revenue through reform of transparent doctors' income and centralized procurement via supply chain. Such model does not need additional government investment and hence is quite appealing to public hospitals.

In this way, PHG has grown into the leading private hospital manager. Furthermore, business indexes of the trusted hospitals have improved year by year. For instance, the outpatient visits and inpatient visits of Jian Gong Hospital, Yan Hua Hospital and Mentougou Hospital significantly increased. Also, their bed turnover rate constantly rose and the operating efficiency was substantially enhanced. In the past five years, the compound annual growth of the company's revenue and net income reached 28.4% and 41%, respectively, far higher than the average growth rate of the healthcare industry.

Total patient visits and total bed number of PHG



Source: Company report, Phillip Securities (HK) Research

Buy (Initially)

CMP: HKD 11.40

(Closing price as at 4 July 2016)

TARGET: HKD 15.10 (+32%)

COMPANY DATA

O/S SHARES (MN) :	834
MARKET CAP (HKDMN) :	9,505
52 - WK HI/LO (HKD):	14.68/ 5.75

SHARE HOLDING PATTERN, %

China Resources National Corporation :	35.7
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PRICE PERFORMANCE, %

	1M	3M	1Y
PHG	-1.47	17.80	-26.78
HSI	-1.63	16.36	-5.99

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY14	FY15	FY16E	FY17E
Net Sales	1206	1372	1725	2051
Net Profit	230	238	300	353
EPS, CNY	0.28	0.29	0.36	0.42
PER, x	33.93	32.65	26.42	22.45
BVPS, CNY	1.95	2.10	2.46	2.83
P/BV, x	4.87	4.53	3.87	3.36
ROE, %	14.2	9.9	14.9	15.2
Debt/Equity (%)	15.94	21.08	21.95	21.95

Source: Company reports, Phillip Securities Est.

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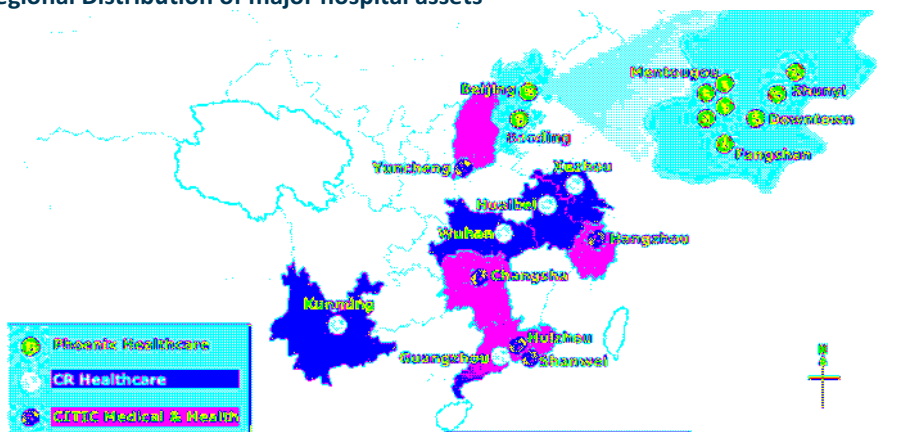
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Continued Shareholding of Central Enterprises may Create More External Expansion

The company announced successively in April and May that CR Healthcare and CITIC Medical & Health became shareholders of PHG through assets injection. CR Healthcare will inject funds in 47 medical institutions (including 4 Grade III hospitals, 6 Grade II hospitals, 25 Grade I hospitals and 12 community service centers) and 3 old-age care institutions. Specifically, the actual available beds in medical institutions totaled nearly 6,000 and those in senior care institutions totaled 300. The combined income from medical business in 2015 of the underlying hospitals amounted to RMB2.41 billion. The assets are evaluated at HK\$3.72 billion, which was exchanged for 463 million additional issued shares of PHG at HK\$8.04. Finally, CR Healthcare will hold 35.7% of equity in PHG, thus becoming the controlling shareholder. Additionally, CITIC Medical & Health will inject funds in 2 Grade III hospitals and assets of 700-bed hospitals in exchange for 131 million additional issued shares of PHG at HK\$9.50, equivalent to HK\$1.24 billion. Finally, CR Healthcare will hold 9.15% of equity in PHG, thus becoming the second major controlling shareholder.

Therefore, PHG will develop into the largest hospital management group in Asia, covering 109 hospitals (12 of which are Grade III hospitals) and operating 12,480 beds. Its scale doubled as compared with its previous scale. Meanwhile, the company substantially blankets the whole country. Previously, PHG primarily concentrated in Beijing, Tianjin and Hebei, while CR Healthcare and CITIC Medical & Health in South China and Central China, including Guangdong, Yunnan, Hubei, Hunan, Anhui, Jiangsu, Zhejiang, etc. It is particularly important that CR Healthcare and CITIC Medical & Health are the first-grade subsidiaries of large central enterprises. Therefore, the company will have the endorsement of large central enterprises' brand and goodwill, encouraging greater willingness of local governments to cooperate with the company. Also, the expansion capacity of PHG outside Beijing is expected to significantly improve. In the meantime, the background of central enterprises may lower the company's debt financing costs, hence gaining financial advantage.

Regional Distribution of major hospital assets



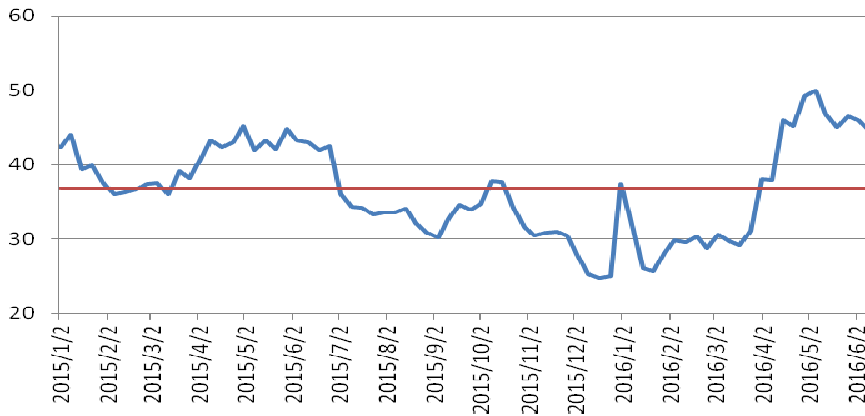
Source: Company report, Phillip Securities (HK) Research

Valuation

Apart from rapid expansion, PHG also commits itself to exploring cooperative healthcare system, and constructs an integrated grading system of diagnosis and treatment. Besides, medical supply resources are allocated from large

hospitals to small hospitals through multi-site practices and driving discipline development of doctor teams within the system. These efforts will constantly boost the company's competitive edge in the domain of hospital management. In respect of valuation, aside from shareholding of central enterprises, the company's management also acquired shares at the price of HK\$9.96-10.97 / share, thereby offering adequate margin of safety. We give the company the target price of HK\$15.1, equivalent to 35x 2016 EPS, with the "Buy" rating initially.

Historical P/E Ratio



Source: Bloomberg, Phillip Securities (HK) Research

Risks

- Trans-municipal and trans-provincial hospital management and integration risks;
- Insufficient talent pool;
- Restructuring of public hospitals falls short of expectations.

Financials

FYE	2013	2014	2015	2016F	2017F
Valuation Ratios					
Price Earnings	59.38	33.93	32.65	26.42	22.45
Price to Book	4.90	4.87	4.53	3.87	3.36
Dividend Yield	0.6%	0.4%	0.0%	0.5%	0.6%
Per share data(RMB)					
EPS Adjusted	0.16	0.28	0.29	0.36	0.42
Book Value Per Share	1.94	1.95	2.10	2.46	2.83
Dividends Per Share	0.05	0.04	0.00	0.05	0.06
Growth & Margin					
Revenue growth	-	35.9%	13.8%	25.7%	18.9%
Gross Profit growth	-	40.0%	10.7%	25.6%	21.3%
Net Profit growth	-	155.6%	3.5%	25.8%	17.7%
Profitability Ratios					
Gross Margin	24.0%	24.7%	24.0%	24.0%	24.5%
Net Profit Margin	10.1%	19.1%	17.4%	17.4%	17.2%
Dividend Payout Ratio %	33.6%	14.3%	0.0%	13.9%	14.2%
Key Ratios					
Return on Assets	5.7%	11.1%	7.8%	12.3%	12.5%
Return on Equity	8.6%	14.2%	9.9%	14.9%	15.2%
Effective Tax Rate	32.8%	24.4%	30.5%	27.0%	27.0%
Liability ratio	19.2%	13.8%	17.4%	18.0%	18.0%
Income Statement(RMB: mn)					
Revenue	887	1,206	1,372	1,725	2,051
- Cost of Goods Sold	675	909	1,043	1,311	1,548
Gross Income	213	298	330	414	502
- Selling, General & Admin Expenses	74	86	150	186	221
Operating Income	199	272	235	308	374
- Net Non-Operating Losses (Gains)	14	-49	-16	-20	-23
Pretax Income	143	317	248	326	397
- Income Tax Expense	47	77	76	88	107
Net Profit	90	230	238	300	353

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 4 July 2016)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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