

China Renji

Positioning for steady growth

BUY (from HOLD)

Financial summary

Year to Dec	07A	08A	09F	10F	11F
Turnover (HK\$m)	58.5	207.6	266.9	298.4	342.9
Net Profit (HK\$m)	12.8	53.9	120.8	147.1	179.7
EPS (HK\$)	0.002	0.005	0.010	0.013	0.016
EPS Δ%	-	154.8	114.6	21.8	22.2
P/E (x)	32.6	12.8	6.0	4.9	4.0
P/B (x)	0.6	0.5	0.5	0.4	0.4
EV/EBITDA (x)	22.2	4.6	3.2	2.3	1.4
Yield (%)	-	-	-	-	-
ROE (%)	1.7	4.0	8.1	9.0	10.0
ROCE (%)	-	7.7	10.0	10.8	11.7
N. Gear. (%)	2.8	1.9	Cash	Cash	Cash

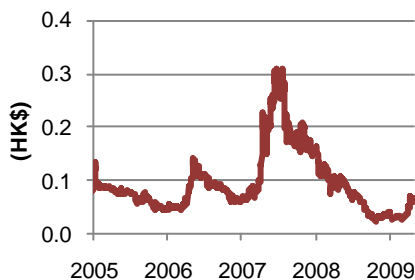
Source: SBI E2-Capital

Price Performance

	1 mth	3 mth	12 mth
Relative to HSI (%)	+59.6	+67.4	-0.7
Actual price changes (%)	+78.9	+106.1	-36.4

	09F	10F	11F
Consensus EPS (HK\$)	0.009	0.012	-
Previous forecasts (HK\$m)	105.1	132.2	-
Previous EPS (HK\$)	0.009	0.012	-

Price Chart



Kennedy Tsang

(852) 2533 3713

kennedytsang@sbie2capital.com

Ticker:	648.HK	12 mth range:	HK\$0.022-0.109
Price:	HK\$0.062	Market cap:	US\$92.2m
Target:	HK\$0.10 (+61%)	Daily t/o, 3 mth:	US\$1.1m
		Free float %:	70.5%

Key points:

- * Turnover was up 255.2% YoY to HK\$207.6m, net profit of HK\$52.1m reverses a HK\$76.9m loss HK\$76.9m a year ago
- * Adjusted net profit of HK\$92.5m beat our expectations
- * Management keen to put resources to improve operating efficiency and revenue generating ability outside of its core markets of Shanghai and Beijing
- * Two pronged expansion plan: 1) further expansion of CD&T network and 2) technology diversification
- * Recently issued "opinion on the healthcare reform" in Apr 2009 aims to encourage private investment to enter into Chinese hospital service market. This would benefit specialist healthcare services provider such as China Renji
- * Upgrade to BUY, target price HK\$0.10

Review of recent FY12/08A results. China Renji (648 HK) announced FY12/08A results recently. Turnover was up 255.2% YoY to HK\$207.6m, gross profit increased 562.6% YoY to HK\$163.0m. In terms of continuing operations, Renji swung to a profit of HK\$52.1m from a loss HK\$76.9m a year ago. The company also booked a impairment charge of HK\$40.4m for the year, the result of the annual impairment test of its intangible assets, from the original acquisition of Anping Renji in Jul 2007.

Adjusted net profit of HK\$92.5m beats expectations. Excluding the impairment charge, turnover and gross profit was in line with expectations while the adjusted net profit of HK\$92.5m beat our expectations of HK\$68.7m. The main reason for the outperformance was due to:

- Larger than expected other gains and income of HK\$14.3m (vs SBI E2: HK\$5.6m), which was boosted by a one-off HK\$5.2m booking from the asset swap acquisition of its Tianjin Anjie CD&T centre;
- Lesser finance expenses of HK\$17.0m (vs SBI E2: HK\$24.2m) as the company has repaid the outstanding promissory note ahead of schedule
- lesser tax expense of HK\$5.9m (vs SBI E2: HK\$25.9m) as the company received "2+3" tax concessions for their subsidiaries

Administrative expenses of HK\$61.9m (vs SBI E2: HK\$46.6m) was larger than expected, but that was mainly due to a forex loss of HK\$11.8m, from a legacy JPY denominated loan from a former fellow subsidiary. The maturity of the loan was originally due in Aug 2008, but has been extended to Aug 2011. Stock option expenses came in at HK\$17.6m compared to HK\$17.4m in 2007.

Consolidating and improving operations at acquired centres. Renji has established a good operating base and growth in its core markets of Shanghai and Beijing. Therefore, management is keen to put resources to improve operating efficiency and revenue generating ability in its other CD&T centres, such as Shenyang, Shijiazhuang and Hefei. In terms of gamma knife treatment, growth at 411 and 455 CD&T centres may moderate slightly due to: 1) higher revenue base and 2) more mature market. Growth in Shanghai should instead come from

Pet-CT operations at Pudong Renji Hospital. Er Pao CD&T centre in Beijing should continue to see solid growth, being only in its second full year of operation. Management is currently considering adding another set of gamma knife or a set of IGRT (image guided radiation therapy).

Expansion plans. We are expecting a two-pronged expansion strategy from Renji.

- Further expansion of CD&T network – selected M&As of CD&T centres (around 2-3). Size would be similar to those acquired during 2008
- Technology diversification – Renji is currently exploring other forms of radiotherapy tumour treatment to diversify their technology base. Our understanding is that management is currently in negotiations with two hospitals to establish and operate IGRT centres. This would allow both technology and revenue stream diversification for the company

Renji aims to fund this through internal resources. The company had an extremely strong operating cash flow of HK\$173.5m in FY12/08A (FY12/07A: HK\$47.9m).

Revising up estimates on lower taxes. We slight lower our revenue estimates for FY12/09F and FY12/10F on lower growth rates in its Shanghai operations. However, overall net profit for FY12/09F and FY12/10F to HK\$120.8m and HK\$147.1m (previously HK\$105.1m and HK\$132.0m) on lower effective tax rates.

Reforms to favour Renji. Chinese government issued "opinion on the healthcare reform" in Apr 2009 amongst which the government aims to encourage private investment to enter into Chinese hospital service market to provide differentiated service and will decrease the percentage rate of public hospitals in total healthcare services. We think the reform document as implies that the government may relax/lower regulations going forward, which would benefit specialist healthcare services provider such as China Renji.

Upgrade to BUY. Though we were not positive on the company's previous asset swap acquisition, we think that the company's overall development roadmap and improving investment climate to the medical services industry should act as catalyst for the stock. We upgrade our call to BUY, with a revised target price of HK\$0.10, representing an undemanding 5.0x FY12/09F EV/EBITDA and 9.6x FY12/09F P/E.

Table 1: P&L

Year to Dec (HK\$m)	07A	08A	09F	10F	11F
Revenues	58.5	207.6	266.9	298.4	342.9
Cost of sales	(33.8)	(44.6)	(56.8)	(59.8)	(64.2)
Gross profit	24.6	163.0	210.1	238.6	278.7
Other revenues	5.0	14.3	5.8	6.2	6.5
Distribution expenses	-	-	-	-	-
Administrative expenses	(64.1)	(61.9)	(55.4)	(55.2)	(57.7)
Exceptionals	(13.6)	(40.4)	-	-	-
Finance costs	(26.6)	(17.0)	(8.5)	(7.2)	(7.0)
Share of results from associates	(0.7)	-	-	-	-
Profit before tax	(75.4)	58.0	152.1	182.4	220.5
Tax	(1.5)	(5.9)	(8.9)	(10.1)	(11.6)
Profit from continuing operations	(76.9)	52.1	143.2	172.3	208.9
Profit from discontinued operations	93.7	1.8	-	-	-
Profit for the year	16.794	53.922	143.2	172.3	208.9
Minority interest	(4.0)	-	(22.4)	(25.2)	(29.2)
Net profit	12.8	53.9	120.8	147.1	179.7

Source: Company data, SBI E2-Capital

P & L (HK\$m)	07A	08A	09F	10F	11F	Cash Flow (HK\$m)	07A	08A	09F	10F	11F		
Year to Dec						Year to Dec							
Turnover	58.5	207.6	266.9	298.4	342.9	EBIT	(34.5)	115.4	160.6	189.6	227.5		
% chg	541.8	255.2	28.6	11.8	14.9	Depre./amort.	49.7	41.1	60.6	60.7	62.7		
Gross profit	24.6	163.0	210.1	238.6	278.7	Net int. paid	(2.7)	(4.6)	(8.5)	(7.2)	(7.0)		
						Tax paid	(0.9)	(2.9)	(8.0)	(9.0)	(10.3)		
EBITDA	15.2	156.5	221.2	250.2	290.2	Dividends received	34.5	40.0	-	-	1.0		
Depre./amort.	(49.7)	(41.1)	(60.6)	(60.7)	(62.7)	Gross cashflow	46.0	189.0	204.7	234.1	273.9		
EBIT	(34.5)	115.4	160.6	189.6	227.5								
Net int. income/(exp.)	(26.6)	(17.0)	(8.5)	(7.2)	(7.0)	Chgs. in working cap.	1.9	(15.5)	(30.1)	(16.0)	(22.6)		
Exceptionals	(13.6)	(40.4)	-	-	-	Operating cashflow	47.9	173.5	174.6	218.1	251.4		
Associates	(0.7)	-	-	-	-								
Jointly-controlled entit.	0.0	-	-	-	-	Capex	(136.2)	(199.1)	(100.0)	(120.0)	(100.0)		
Pre-tax profit	(75.4)	58.0	152.1	182.4	220.5	Free cashflow	(88.3)	(25.6)	74.6	98.1	151.4		
Tax	(1.5)	(5.9)	(8.9)	(10.1)	(11.6)								
Discontinued	93.7	1.8	-	-	-	Dividends paid	-	-	-	-	-		
Minority interests	(4.0)	-	(22.4)	(25.2)	(29.2)	Net distribution to MI	0.4	(4.0)	-	(22.4)	(25.2)		
Net profit	12.8	53.9	120.8	147.1	179.7	Investments	(52.1)	(69.2)	(10.0)	(10.0)	(10.0)		
% chg	n/a	320.9	124.0	21.8	22.2	Disposals	22.6	(100.5)	-	-	-		
						New shares	250.0	-	-	-	-		
Dividends	-	-	-	-	-	Others	41.3	6.7	10.9	56.8	39.3		
Retained earnings	12.8	53.9	120.8	147.1	179.7	Net cashflow	173.9	(192.6)	75.6	122.5	155.4		
EPS (HK\$) - Basic	0.002	0.005	0.010	0.013	0.016	Net (debt)/cash - Beg.	120.3	(21.0)	(25.6)	50.0	172.5		
EPS (HK\$) - F.D.	0.002	0.005	0.010	0.013	0.016	Net (debt)/cash - End.	(21.0)	(25.6)	50.0	172.5	327.8		
DPS (HK\$)	-	-	-	-	-								
No. sh.s o/s (m) - W.A.	8,053.8	11,582.7	11,595.1	11,595.1	11,595.1	Interim Results (HK\$m)						07A	08A
No. sh.s o/s (m) - Y.E.	11,402.3	11,595.1	11,595.1	11,595.1	11,595.1	Six months to Jun							
No. sh.s o/s (m) - F.D.	8,480.4	11,622.6	11,595.1	11,595.1	11,595.1	Turnover	1.2	87.2					
						% chg	27.6	6,980.3					
Margins (%)						Profit from operations	(51.1)	47.6					
Gross	42.1	78.5	78.7	80.0	81.3	Interest expenses	(4.3)	(12.3)					
EBITDA	26.0	75.4	82.9	83.9	84.6	Associates	(0.1)	-					
EBIT	-	55.6	60.2	63.5	66.4	Jointly-controlled entit.	-	-					
Pre-tax	-	28.0	57.0	61.1	64.3	Pre-tax profit	(55.5)	26.5					
						Tax	0.0	(8.8)					
						Discontinued operations	17.5	1.8					
						Minority interests	(1.9)	-					
						Net profit	(39.8)	28.3					
						% chg	(194.8)						
						EPS (HK\$) - Basic	(0.765)	0.245					
Balance Sheet (HK\$m)						Shareholding Structure							
Year to Dec										Shares o/s (m)	%		
Fixed assets	242.3	475.9	615.2	674.6	731.9	Li Jue Wen		2,709.0		23.4			
Intangible assets	911.4	911.0	894.5	877.9	861.4	Martin Currie		715.4		6.2			
Other LT assets	0.0	81.0	3.3	2.8	2.4	Public		8,170.2		70.5			
Cash	170.3	78.2	149.3	266.6	417.1	Total		11,595.5		100.0			
Accounts receivable	11.3	71.7	92.2	103.1	118.4								
Other receivables	153.6	54.1	69.5	77.7	89.3								
Inventories	0.0	0.0	0.0	0.0	0.0								
Due from related co.s	0.0	0.0	0.0	0.0	0.0								
Other current assets	175.9	0.1	0.1	0.1	0.1								
Total assets	1,664.8	1,671.8	1,824.0	2,002.8	2,220.6								
Accounts payable	-	-	-	-	-	Background							
Other payable	(23.1)	(20.4)	(26.2)	(29.3)	(33.7)	China Renji is a specialist medical services provider in China, focusing on the provision of the diagnosis and treatment of cancer tumours. .							
Tax payable	(18.8)	(36.8)	(37.0)	(37.2)	(37.5)								
Due to related co.s	-	-	-	-	-								
ST debts	(78.3)	(3.0)	(3.6)	(3.2)	(2.9)								
Other current liab.	(73.7)	-	-	-	-								
LT debts	(113.0)	(100.8)	(95.7)	(91.0)	(86.4)								
Other LT liabilities	(83.1)	(75.3)	(82.9)	(91.1)	(100.3)								
Total liabilities	(389.9)	(236.3)	(245.4)	(251.8)	(260.7)	Key Ratios	07A	08A	09F	10F	11F		
						Net gearing (%)	2.8	1.9	Cash	Cash	Cash		
Share capital	1,140.2	1,159.5	1,159.5	1,159.5	1,159.5	Net ROE (%)	1.7	4.0	8.1	9.0	10.0		
Reserves	111.3	276.0	396.8	543.8	723.6	EBIT ROCE (%)	-	7.7	10.0	10.8	11.7		
Shareholders' funds	1,251.5	1,435.5	1,556.3	1,703.3	1,883.1	Dividend payout (%)	-	-	-	-	-		
Minority interest	23.4	0.0	22.4	47.6	76.8	Effective tax rate (%)	-	10.2	5.9	5.5	5.3		
Total	1,274.9	1,435.5	1,578.7	1,751.0	1,959.9	Net interest coverage (x)	-	6.8	19.0	26.3	32.6		
						A/R turnover (days)	201.8	72.9	112.1	119.4	117.9		
Capital employed	1,466.1	1,539.3	1,678.0	1,845.1	2,049.2	A/P turnover (days)	140.8	-	-	-	-		
Net (debt)/cash	(21.0)	(25.6)	50.0	172.5	327.8	Stock turnover (days)	57.4	-	-	-	-		

SBI E2-Capital is a dedicated small/mid cap investment banking/ stockbrokerage house. Find our research on: sbi2capital.com, thomsononeanalytics.com, factset.com and multex.com

SBI E2-Capital stock ratings:

STRONG BUY : absolute upside of >50% over the next three months

BUY : absolute upside of >10% over the next six months

HOLD : absolute return of -10% to +10% over the next six months

SELL : absolute downside of >10% over the next six months

Investors should assume that SBI E2-Capital is seeking or will seek investment banking or other related businesses with the companies in this report.

Analyst certification: The views expressed in this report accurately reflect the analyst's personal views of the subject securities and that the analyst has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

Disclaimer: This research report is not an offer to sell or the solicitation of an offer to buy or subscribe for any securities. The securities referred to in this report may not be eligible for sale in some jurisdictions. The information contained in this report has been compiled by the Research Department of SBI E2-Capital Securities Limited ('SBI E2-Capital') from sources that it believes to be reliable but no representation, warranty or guarantee is made or given by SBI E2-Capital or any other person as to its accuracy or completeness. All opinions and estimates expressed in this report are (unless otherwise indicated) entirely those of SBI E2-Capital as of the date of this report only and are subject to change without notice. Neither SBI E2-Capital nor any other person, accepts any liability whatsoever for any loss howsoever arising from any use of this report or its contents or otherwise arising in connection therewith. Each recipient of this report shall be solely responsible for making its own independent investigation of the business, financial condition and prospects of the companies referred to in this report. SBI E2-Capital and their respective officers, directors and employees, including persons involved in the preparation or issuance of this report, may from time to time (1) have positions in, and buy or sell, the securities of companies referred to in this report (or related investments); (2) have a consulting, investment banking or broking relationship with any company referred to in this report; and (3) to the extent permitted under applicable law, have acted upon or used the information contained or referred to in this report including effecting transactions for their own account in an investment (or related investment) in respect of any company referred to in this report, prior to or immediately following its publication. This report may not have been distributed to all recipients at the same time. This report is issued only for the information of and may only be distributed to professional investors and dealers in securities and must not be copied, published, reproduced or redistributed (in whole or in part) by any recipient for any purpose. This report is distributed in Hong Kong by SBI E2-Capital. Any recipient of this report who requires further information regarding any securities referred to in this report should contact the relevant office of SBI E2-Capital located in such recipient's home jurisdiction.

Copyright © SBI E2-Capital Securities Limited 2008. All rights reserved.