Equity Research
Healthcare/ China

UMP (722 HK)

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Company Update

BUY

UNCHANGED

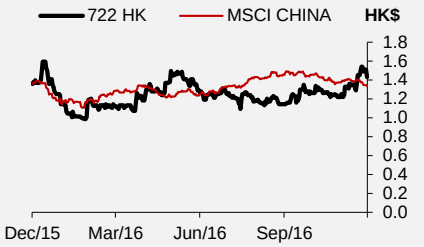
Close price: HK$1.37
Target Price: HK$2.00 (+46.0%)
Prior TP: HK$2.00

Key Data

HKEx code		722
12 Months High	(HK$)	1.64
12 Month Low	(HK$)	0.98
3M Avg Dail Vol.	(mn)	1.06
Issue Share	(mn)	736.00
Market Cap	(HK$mn)	1,008.32
Fiscal Year		06/2016
Major shareholder (s)		Sun Yiu Kwong 33.12%

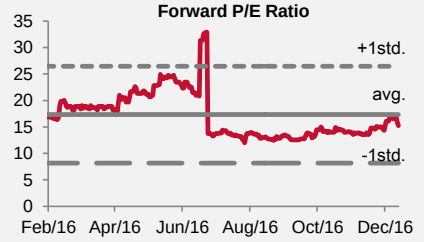
Source: Company data, Bloomberg, OP Research
Closing price are as of 20/12/2016

Price Chart



	1mth	3mth	6mth
Absolute %	12.3	20.0	9.6
Rel. MSCI CHINA %	15.2	29.7	4.8

PE



Company Profile

UMP is one of the leading corporate healthcare solutions providers in Hong Kong, with 13.1% market share. It has over 20 years' history in Hong Kong and is expanding its services in Beijing and Shanghai.

Going asset light, stabilizing profitability in China

- **UMP announced its asset light plan for China business, disposing of 4 clinics in PRC to HAML, a JV set up by CTFE and NWS, with UMP to be the exclusive manager of the clinics, charging 5% of revenue as management fee**
- **Fine-tuned FY17/18E net profit by 3.2%/-15.1% to HK$65mn/HK$74mn**
- **Maintain BUY with TP of HK$2.00 based on 25x FY17E PE**

Switch to asset light model of PRC business UMP announced its second largest shareholder Chow Tai Fook Enterprise (CTFE) and NWS (659 HK) will form a 50/50 JV, Health Asset Management Limited (HAML), to invest in clinics and medical centers in PRC. Total capital commitment of the JV will be HK$140mn, and the first investment of the JV is UMP's 4 clinics in PRC, at a consideration of HK$121mn. HAML will appoint UMP as the exclusive manager of all the clinics in PRC, and UMP can charge 5% of clinics' revenue as management fee. In addition NWS will buy 20% of UMP China shares at a cost of HK$123mn, annulling the previously announced 20% acquisition of UMP BJ. UMP China will increase its equity stake in UMP BJ from 50% to 70% at a consideration of RMB32mn.

Fine-tuned our FY17/18E EPS by 3.2%/-15.1% to HK$0.083/HK$0.095 We believe the move is positive to UMP, as it enables UMP to switch to an asset light model of PRC business and improves its short-term profitability. Setting up new clinics and M&A in future will be conducted by HAML, while UMP will be the exclusive manager of all the clinics. Previous plans for new clinics in BJ and SH remain unchanged, while HAML may also consider opening clinics in GZ and SZ. UMP will focus more on corporate health solutions in PRC, while HAML will help expand the self-owned clinics network in PRC to facilitate the development of corporate health solutions. UMP has recently signed contracts with several accounting firms in PRC, but no significant revenue have yet been generated. The deal is expected to be completed and approved by end of Feb17E. We revise down FY17/18E revenue by 0%/8.4% to reflect revenue model change of SH clinics, from clinic services revenue to management fee, and revise net profit of FY17/18E by 3.2%/-15.1% to reflect improved profitability of FY17E, as less China clinics loss will be incurred, and less profits share from China clinics in FY18E.

Maintain BUY We maintain our BUY rating on UMP with TP of HK$2.0 based on 25x FY17E PE, at par to peers given (1) asset light model of China business helps maintain steady profitability; 2) accelerate development of China business with strategic cooperation with CTFE and NWS.

Risks: PRC business ramp up may be slower than we expect.

Exhibit 1.: Forecast and Valuation

Year to Jun (HK$ mn)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	401.0	456.0	531.1	589.9	675.7
Growth (%)	13.6	13.7	16.5	11.1	14.6
Net Profit	42.8	23.1	64.9	74.2	113.6
Growth (%)	3.1	(46.2)	181.4	14.5	53.1
Diluted EPS (HK$)	n.a.	0.035	0.083	0.095	0.145
EPS growth (%)	n.a.	n.a.	137.0	14.5	53.1
Change to previous EPS (%)			3.2	(15.1)	
Consensus EPS (HK$)			0.090	0.130	
ROE (%)	39.6	9.6	14.8	15.1	20.1
P/E (x)	n.a.	39.3	16.6	14.5	9.5
P/B (x)	0.0	2.4	2.2	1.9	1.7
Yield (%)	n.a.	1.5	1.8	2.1	3.2
DPS (HK$)	n.a.	0.020	0.025	0.028	0.043
Revenue	401.0	456.0	531.1	589.9	675.7

Exhibit 2.: Earnings Revision

	FY17E			FY18E			OP Comments
(HK$ mn)	New	Old	% Chg	New	Old	% Chg	
Number of visits (mn)	1.5	1.5	0.0	1.5	1.6	(3.1)	
ASP(HK$)	358	358	0.0	381	408	(6.7)	
Revenue	531	531	0.0	590	644	(8.4)	Change of revenue model of SH clinic, from clinical services revenue to management fee
Opex	(455)	(455)	0.0	(512)	(558)	(8.2)	
EBITDA	91	91	0.0	93	101	(8.3)	
EBIT	76	76	0.0	78	86	(9.7)	
Net Profit	65	63	3.2	74	87	(15.1)	Less share of loss/profits of China clinics in FY17/18E
Diluted EPS (HK$)	0.083	0.080	3.2	0.095	0.111	(15.1)	

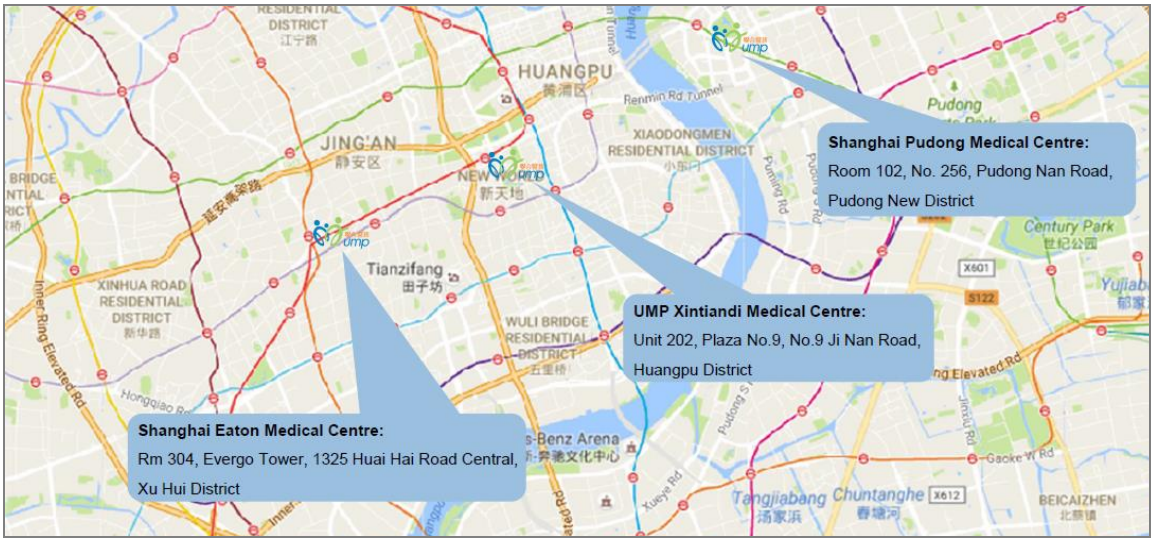
Source: Company, OP Research

Exhibit 3.: Pipeline of clinics in Shanghai and Beijing

Shanghai				
Medical centre	**District**	**Commence operation**	**Remark**	**Status**
UMP Xintiandi Medical Centre	Huangpu	Jul 16	Self-built	Dispose to HAML, UMP charge mgt fee
Shanghai Eaton Medical Centre	Xuhui	Dec 16E	Revamp from health check centre	Keep self-own
Shanghai Pudong Medical Centre	Pudong	FY17E	From M&A, SPA signed	HAML will invest it, UMP charge mgt fee
Beijing				
Medical centre/clinic	**District**	**Commence operation**	**Remark**	**Status**
Fortune Plaza Clinic	Chaoyang	Oct 16	Self-built	Dispose to HAML, UMP charge mgt fee
Wangjing SOHO Clinic	Chaoyang	1Q17E	Self-built, final stage of license application	Dispose to HAML, UMP charge mgt fee
Shunyi Wenyu Medical Centre	Shunyi	1Q17E	Self-built, final stage of license application	Dispose to HAML, UMP charge mgt fee
Beijing Eaton Medical Central	Dongcheng	1Q17E	Revamp from health check centre	Keep self-own

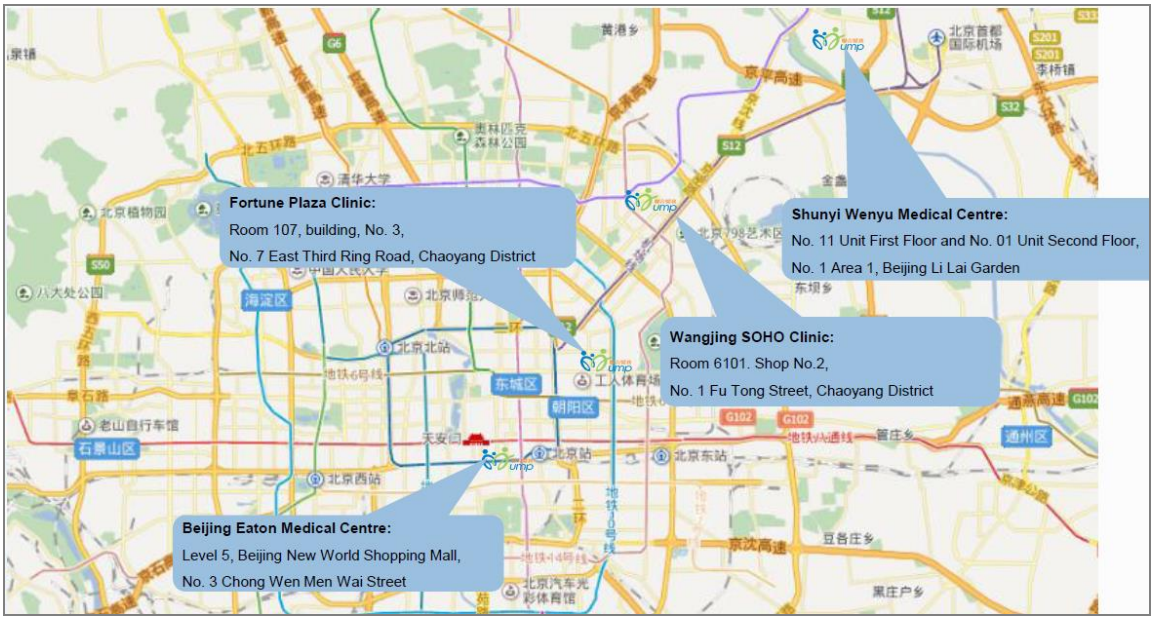
Source: Company, OP Research

Exhibit 4.: UMP medical centres in Shanghai



Source: Company, OP Research

Exhibit 5.: UMP medical centres/clinics in Beijing



Source: Company, OP Research

Exhibit 6.: UMP Xintiandi Medical Centre (Shanghai)



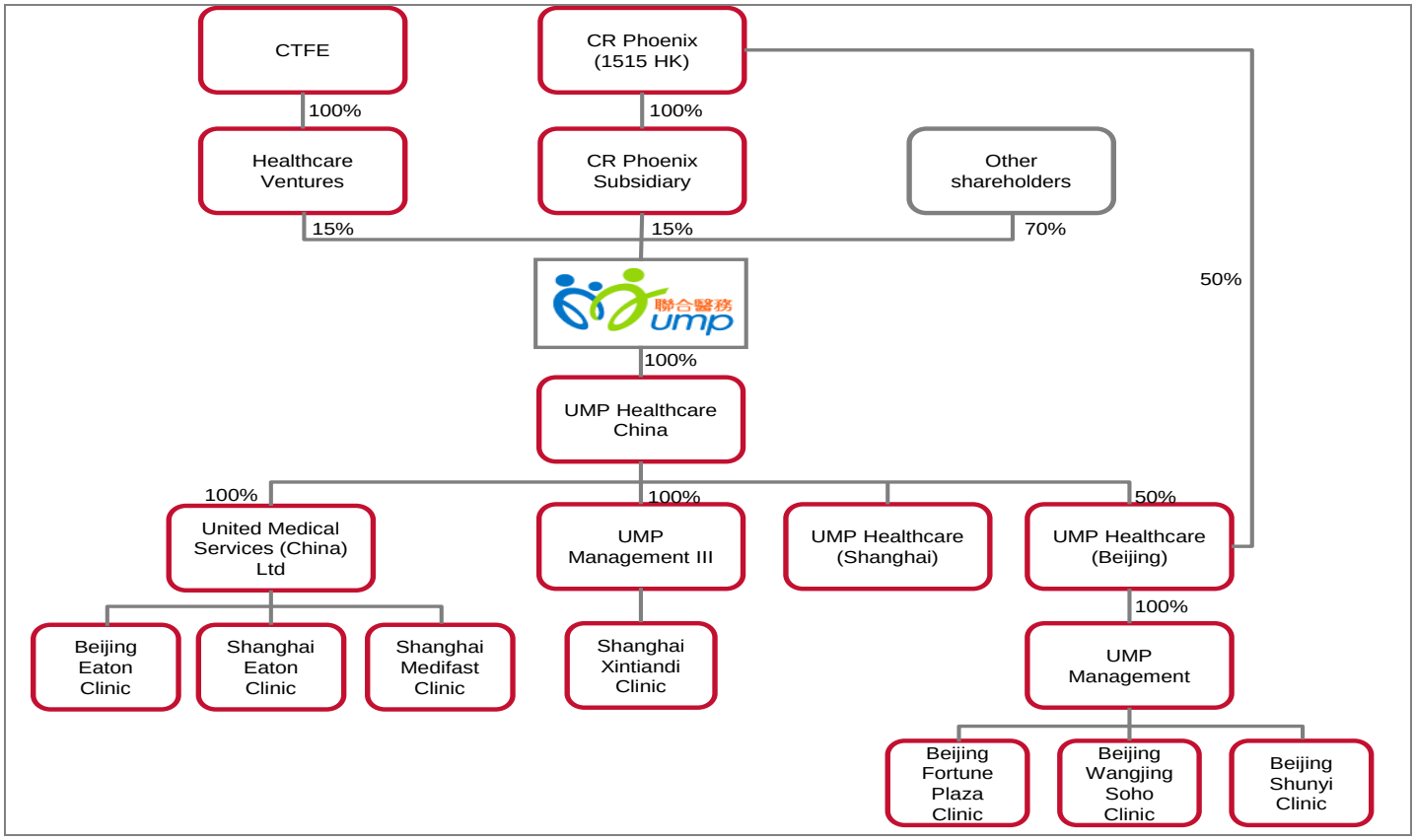
Source: Company, OP Research

Exhibit 7.: Fortune Plaza Clinic (Beijing)



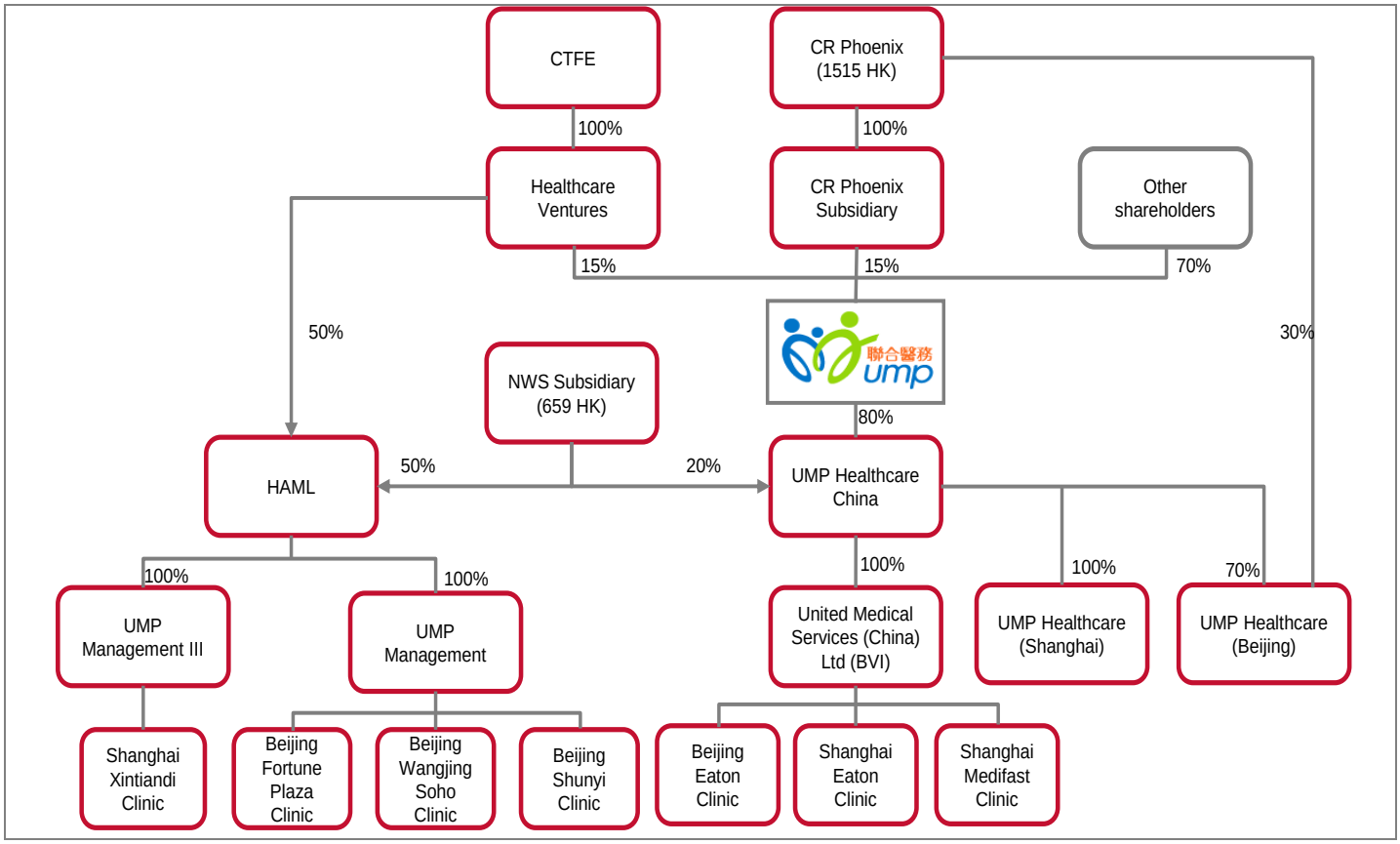
Source: Company, OP Research

Exhibit 8.: Corporate structure before transaction



Source: Company, OP Research

Exhibit 9.: Corporate structure before transaction



Source: Company, OP Research

Financial Summary

Year to Jun	FY15A	FY16A	FY17E	FY18E	FY19E
Income Statement (HK$mn)					
Corporate healthcare solution services to contract customers	272	292	317	343	371
Clinical healthcare services	129	164	214	240	290
Clinical management fee	0	0	0	7	15
Turnover	**401**	**456**	**531**	**590**	**676**
YoY%	14	14	16	11	15
Cost of inventories consumed	(16)	(18)	(20)	(23)	(26)
Professional services expenses	(234)	(258)	(273)	(309)	(327)
Other income	8	8	0	0	0
Employee benefit expense	(66)	(79)	(83)	(94)	(99)
Property rental and related expenses	(23)	(35)	(48)	(41)	(47)
Depreciation	(6)	(10)	(14)	(15)	(19)
Other opex	(16)	(26)	(16)	(29)	(34)
Listing expenses	(1)	(16)	0	0	0
Total opex	**(363)**	**(442)**	**(455)**	**(512)**	**(552)**
Operating profit (EBIT)	**46**	**22**	**76**	**78**	**123**
Operating margin	0	0	0	0	0
Disposal gain or other items	0	0	70	0	0
Interest Income	0	1	9	10	12
Finance costs	0	0	(0)	(0)	(0)
Profit after financing costs	46	22	155	88	136
Associated companies & JVs	2	(8)	(4)	2	2
Pre-tax profit	48	14	151	90	138
Tax	(7)	(7)	(14)	(15)	(22)
Minority interests	1	(0)	(2)	(1)	(2)
Adj. net profit	**43**	**23**	**65**	**74**	**114**
YoY%	3	(46)	181	14	53
Net margin(%)	11	5	12	13	17
Reported net profit	**41**	**7**	**135**	**74**	**114**
EBITDA	**52**	**31**	**91**	**93**	**142**
EBITDA margin	0	0	0	0	0
EPS (HK$mn)	n.a.	**0.035**	**0.083**	**0.095**	**0.145**
YoY%	n.a.	n.a.	137	14	53
DPS (HK$)	n.a.	0.020	0.025	0.028	0.043

Year to Jun	FY15	FY16	FY17E	FY18E	FY19E
Cash Flow (HK$mn)					
EBITDA	52	31	91	93	142
Chg in working cap	3	(31)	4	3	5
Others	(4)	0	0	0	0
Operating cash	**50**	**(0)**	**95**	**96**	**147**
Tax	(6)	(8)	(8)	(14)	(15)
Net cash from operations	**44**	**(8)**	**87**	**82**	**133**
Capex	(22)	(27)	(24)	(27)	(30)
Investments	12	0	0	0	0
Dividends received	2	0	0	0	0
Sales of assets	1	0	0	0	0
Interests received	0	1	9	10	12
Others	5	(36)	0	0	0
Investing cash	**(2)**	**(61)**	**(15)**	**(16)**	**(18)**
FCF	**43**	**(70)**	**72**	**66**	**115**
Issue of shares	0	379	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	0	(30)	(15)	(18)	(21)
Net change in bank loans	0	(86)	0	0	0
Interest paid	0	0	(0)	(0)	(0)
Others	(11)	0	0	0	0
Financing cash	**(11)**	**264**	**(15)**	**(18)**	**(21)**
Net change in cash	**32**	**194**	**57**	**48**	**94**
Exchange rate or other Adj	(2)	(16)	0	0	0
Opening cash	53	83	261	318	366
Closing cash	**83**	**261**	**318**	**366**	**460**
CFPS (HK$)	**n.a.**	**(0.013)**	**0.111**	**0.105**	**0.169**

Year to Jun	FY15A	FY16A	FY17E	FY18E	FY19E
Ratios					
Gross margin (%)	12.9	6.8	17.1	15.7	21.1
Operating margin (%)	11.4	4.7	14.4	13.2	18.3
Net margin (%)	10.7	5.1	12.2	12.6	16.8
Emloyee benefit exp/Sales (%)	16.4	17.3	15.7	16.0	14.7
Rental exp/Sales (%)	5.8	7.8	9.0	7.0	7.0
Payout ratio (%)	n.a.	57.4	30.0	30.0	30.0
Effective tax (%)	15.1	32.9	16.5	16.5	16.5
Total debt/equity (%)	127.1	0.1	0.1	0.1	0.0
Net debt/equity (%)	3.9	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.0	3.7	3.6	3.7	3.8
Quick ratio (x)	1.0	3.6	3.6	3.7	3.7
Inventory T/O (days)	120	143	143	143	143
AR T/O (days)	41	38	38	38	38
AP T/O (days)	943	982	982	982	982
Cash conversion cycle (days)	(782)	(800)	(800)	(800)	(800)
Asset turnover (x)	1.7	1.2	1.0	1.0	1.0
Financial leverage (x)	2.2	1.6	1.2	1.3	1.3
EBIT margin (%)	11.4	4.7	14.4	13.2	18.3
Interest burden (x)	1.0	0.7	2.0	1.2	1.1
Tax burden (x)	0.9	1.6	0.4	0.8	0.8
Return on equity (%)	**39.6**	**9.6**	**14.8**	**15.1**	**20.1**
ROIC (%)	**52.2**	**19.7**	**42.4**	**42.3**	**65.4**

Year to Jun	FY15	FY16	FY17E	FY18E	FY19E
Balance Sheet (HK$mn)					
Fixed assets	27	38	48	59	71
Intangible assets & goodwill					
Associated companies & JVs	28	33	33	33	33
Long-term investments	2	26	22	24	25
Other non-current assets	4	36	36	36	36
Non-current assets	6	17	17	17	17
	67	**151**	**156**	**169**	**183**
Inventories					
AR	5	7	8	9	10
Prepayments & deposits	45	47	55	61	70
Other current assets	10	9	11	12	14
Cash	39	34	34	34	34
Current assets	83	261	318	366	460
	183	**359**	**427**	**482**	**588**
AP					
Tax	41	47	55	61	70
Accruals & other payables	8	8	14	15	22
Bank loans & leases	46	42	48	54	62
CB & other debts	0	0	0	0	0
Other current liabilities	86	0	0	0	0
Current liabilities	0	0	0	0	0
	182	**97**	**118**	**130**	**154**
Bank loans & leases					
CB & other debts	0	0	0	0	0
Deferred tax & others	0	0	0	0	0
MI	2	2	2	2	2
Non-current liabilities	(2)	(2)	1	2	3
	0	**1**	**3**	**4**	**5**
Total net assets					
	68	**412**	**462**	**518**	**611**
Shareholder's equity					
Share capital	**68**	**412**	**462**	**518**	**611**
Reserves	0	1	1	1	1
	68	411	462	517	610
BVPS (HK$)					
	0.00	**0.56**	**0.63**	**0.70**	**0.83**
Total debts					
Net cash/(debts)	86	0	0	0	0

Source:Company, OP Research

Exhibit 10.: Peer Group Comparison

Company	Ticker	Price	Mkt cap (US$m)	3-mth avg t/o (US$m)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	EPS FY1 YoY%	EPS FY2 YoY%	3-Yr EPS Cagr (%)	PEG (x)	DivyldHist (%)	Divyld FY1 (%)	P/B Hist (x)	P/B FY1 (x)	EV/EbitdaHist	EV/ Ebitda Cur Yr	Net gearing Hist (%)	Gross margin Hist (%)	Net margin Hist (%)	ROE Hist (%)	ROE FY1 (%)	Shpx 1-mth %	Shpx 3-mth %
Ump Healthcare H	**722 HK**	**1.37**	**130**	**0.2**	**39.3**	**16.6**	**14.5**	**137.0**	**14.5**	**60.7**	**0.27**	**1.5**	**1.8**	**2.45**	**2.18**	**24.0**	**7.6**	**Net cash**	**#REF!**	**5.1**	**9.6**	**14.8**	**12.3**	**18.1**
HSI		21,729.06			12.1	12.0	10.9	1.1	9.7	7.0	1.71	3.7	3.6	1.12	1.11						9.3	9.3	(2.8)	(7.7)
HSCEI		9,283.41			7.7	8.2	7.6	(5.4)	7.1	3.2	2.52	3.9	3.6	0.93	0.93						12.1	11.3	(0.7)	(4.8)
CSI300		3,309.06			14.9	14.2	12.5	4.9	13.4	10.4	1.4	2.1	2.0	1.8	1.7						12.0	12.0	(3.2)	1.6
Adjusted sector avg*						**28.2**	**24.5**	**22.4**	**18.4**	**23.6**	**23.7**	**1.1**	**1.1**	**0.9**	**2.9**	**3.0**	**24.5**	**20.2**	**0.0**	**45.1**	**14.7**	**11.5**	**13.9**	**(9.1)**
China Resources	1515 HK	10.42	1,740	4.6	46.6	29.4	24.7	58.5	19.2	33.5	0.88	1.2	0.8	4.11	4.29	40.8	28.1	0.0	24.0	12.2	10.9	15.2	(12.4)	(23.2)
Wenzhou Kangni-H	2120 HK	33.70	317	0.1	29.3	32.2	24.2	(8.9)	33.0	17.9	1.79	0.9	1.1	2.30	2.18	22.2	19.0	0.0	37.9	16.2	9.1	6.8	(9.8)	(17.8)
Harmonicare Medi	1509 HK	5.05	493	0.9	28.5	31.0	26.0	(7.8)	19.2	10.9	2.84	1.3	1.0	2.47	2.25	15.2	13.0	0.0	50.7	11.7	N/A	7.8	(12.9)	6.3
Human Health Hol	1419 HK	1.70	79	0.1	18.1	11.3	10.0	59.6	13.3	28.6	0.40	1.8	N/A	2.46	N/A	6.9	N/A	0.0	47.5	5.8	15.3	18.3	(11.0)	(18.3)
Town Health	3886 HK	1.25	1,249	1.3	32.8	N/A	N/A	N/A	N/A	N/A	N/A	0.8	N/A	2.16	N/A	36.4	N/A	0.0	42.7	22.7	0.6	N/A	(1.6)	0.0
Union Medical He	2138 HK	2.77	350	0.1	13.9	18.5	10.3	(25.0)	80.0	18.2	1.02	3.4	2.2	3.71	3.30	6.5	7.9	0.0	N/A	21.1	40.4	N/A	17.1	7.3
Aier Eye Hsptl-A	300015 CH	31.02	4,495	13.6	70.5	52.7	39.6	33.9	33.1	32.8	1.60	0.9	0.7	11.63	10.73	43.7	33.1	0.0	46.5	13.5	21.6	21.2	(6.8)	(10.5)

** Outliners and "N/A" entries are in red and excl. from the calculation of averages*

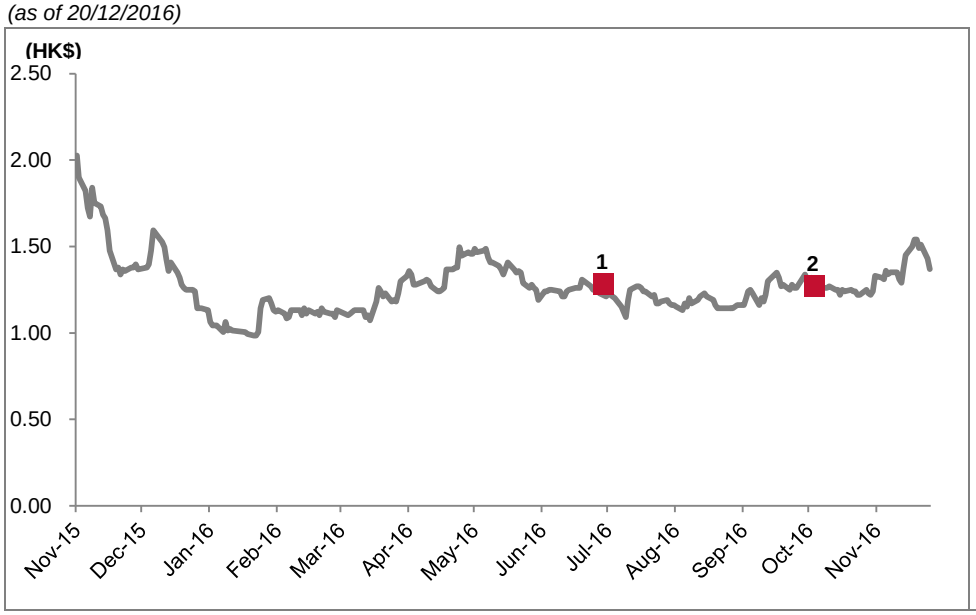
Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
12/12/2016	Sunny Optical	2382	November hanset camera module shipments better than expected	SELL	Yuji Fung
08/12/2016	TCL Multimedia	1070	Nov overseas shipments exceed target	BUY	Chloe Liu/Yuji Fung
08/12/2016	TCL Display	334	Nov shipments ahead expectation	BUY	Chloe Liu/Yuji Fung
21/11/2016	Sinosoft Tech	1297	Jiangsu player surging ahead with export tax solution	BUY	Chloe Liu/Yuji Fung
17/11/2016	Harmonicare	1509	Introduce new strategic shareholder - Taikang insurance	HOLD	Chloe Liu/Yuji Fung
17/11/2016	Truly Intl	732	3Q16 earnings miss on GPM	BUY	Chloe Liu/Daisy Wang/Yuji Fung
11/11/2016	C Cheng	1486	The Living Blueprint	BUY	Bruce Yeung
10/11/2016	EGL	6882	The first station is Osaka	HOLD	Bruce Yeung
08/11/2016	TCL Display	334	Oct shipments on track	BUY	Chloe Liu/Yuji Fung
08/11/2016	Tongda	698	Riding on the ramp of smartphone metal casing with 3D Glass and waterproof components	BUY	Chloe Liu/Yuji Fung
27/10/2016	Sinotrans	598	9M16 figures as we expected	BUY	Bruce Yeung
25/10/2016	TCL Display	334	Name change for China Display Optoelectronics Technology (CDOT) (華顯光電) for better showcase	BUY	Chloe Liu/Yuji Fung
25/10/2016	TCL Multimedia	1070	3Q16 results as expected	BUY	Chloe Liu/Yuji Fung
14/10/2016	TCL Display	334	Upgrade on higher sales, better ASP	BUY	Chloe Liu/Yuji Fung
12/10/2016	Sunny Optical	2382	Sept shipments in-line	SELL	Yuji Fung
11/10/2016	Q Tech	1478	Upgrade on higher than expected 3Q16 shipments	BUY	Chloe Liu/Yuji Fung
04/10/2016	Canvest	1381	New project in Lufeng City	BUY	Bruce Yeung
28/09/2016	UMP	722	Fine-tuned and ready for takeoff	BUY	Chloe Liu/Yuji Fung
27/09/2016	Youyuan International	2268	A butterfly emerging from a cocoon	BUY	Bruce Yeung
20/09/2016	Q Tech	1478	Riding the dual camera ramp	BUY	Chloe Liu/Yuji Fung
12/09/2016	TCL Display	334	August shipments rising on track	BUY	Chloe Liu/Yuji Fung
12/09/2016	Sunny Optical	2382	Aug shipments as expected	SELL	Yuji Fung
12/09/2016	Chunli Medical	1858	1H16 results overwhelm GPM and opex	BUY	Chloe Liu/Yuji Fung
02/09/2016	Anta Sports	2020	Keep the momentum going in 2H16	BUY	Walter Woo
02/09/2016	Peak Sport	1968	Lack of other upside catalysts	HOLD	Walter Woo
01/09/2016	EGL	6882	Looking forward FY17E	HOLD	Bruce Yeung
31/08/2016	Wasion Group	3393	Another cut in State Grid tenders	HOLD	Bruce Yeung

Historical recommendations and target price: UMP (722 HK)

(as of 20/12/2016)



1	24 Jun 2016	BUY, Target price HK$2.02

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