

Company Report

Ali Health (241 HK)

Undervalued potential "New Healthcare" champion

■ Ali Health has evolved into a healthcare informatics propelled, integrated healthcare e-commerce and service platform in China to ride the "Internet + Healthcare" policy tailwind

■ We expect Co. to have 62% CAGR in revenue over FY19-22E (Mar YE), and to continue to have positive adj. NP, reflecting its leading and growing market share in ecommerce, rising contribution from innovative revenue, synergy with online healthcare, protected by continuously strong investment in HCIT

■ Company currently trades at FY21 EV/Sales 3.9x vs listed peer's 5.2x; initiate with BUY and SOTP-based TP of HK\$6.8

China's healthcare e-commerce champion

From a data tracking service company, Ali Health evolved into a healthcare e-commerce champion. Though China's health product ecommerce GMV reached c.RMB100bn in 2017, its penetration rate (3%) remains low vs the overall e-commerce (20%). Co.'s own B2C unit (65% of FY18 GP) has solid No.1 position in online pharmacies. Its parent's Tmall Medicine Hall (from which Co. derives 19% of its GP) was also the leader in online marketplace. As such, Co. should benefit significantly from the rising e-commerce penetration and upcoming RX pharma deregulation.

Riding the wave of "Internet + Healthcare"

We estimate a new RMB13bn "Internet healthcare" market is in the making by 2020E, thanks to China's "Internet+" initiatives and advancing technologies. Different from peers who primarily focus on online consultation, Co. is exploring various online/offline scenarios to help hospitals in areas from early diagnosis to clinical supports, leveraging its strength in healthcare informatics (Big Data/Cloud/AI). Given time, we think it can replicate its success with pharmacies and build out a "Tmall for hospitals".

We arrived at SOTP valuation of HK\$6.8

Our SOTP TP applies FY22 EV/EBITDA for e-commerce and FY22 EV/Sale for advertising & marketing and discounted them back to end FY19. We refrained from directly valuing its internet healthcare business as the monetisation remains remote and peers' metrics are not comparable. Instead we capitalised 2/3 of the R&D spend (i.e. that of HCIT) over FY19-22E and applied a P/B valuation for such assets, as we view them as necessary investment for Ali Health's future as a "New Healthcare" champion.

RMB mn (YE Mar)	FY18A	FY19E	FY20E	FY21E	FY22E
Consolidated revenue	2,443	4,550	7,379	11,406	16,821
% YoY change	414%	86%	62%	55%	47%
Adjusted net profit	10	44	209	455	785
% YoY change	n.a.	337%	380%	117%	72%
EPS Fully diluted	0.00	0.01	0.03	0.06	0.09
PER adj (x)	4315.2	1059.1	221.1	101.7	59.0
PBR (x)	17.5	17.2	15.9	13.7	11.1

Sources: Company data, CMS (HK)

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WHAT'S NEW

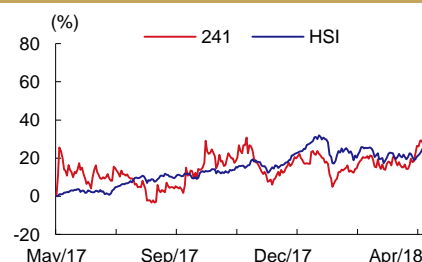
Initiation

BUY

Price HK\$5.6

12-month Target Price (Potential upside) HK\$6.8 (+21%)

Price Performance



Source: Bigdata

%	1m	6m	12m
241 HK	8.0	2.8	35.4
HSI	2.6	7.2	22.8

Sector: Pharmaceutical & Healthcare	
Hang Seng Index	30942
HSCEI	12278

Key Data	
52-week range (HK\$)	3.26-5.65
Market cap (HK\$ mn)	55119
Avg. daily volume (mn)	14.68
BVPS (HK\$)	0.17

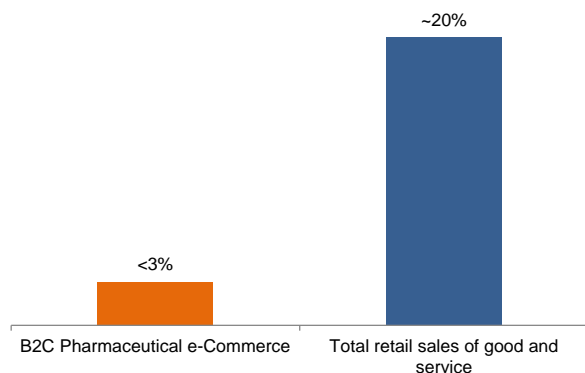
Shareholding Structure	
Alibaba Group	73.51%
Directors and management	8.22%

Free float 18.27%

Sources: CMS (HK) Bigdata

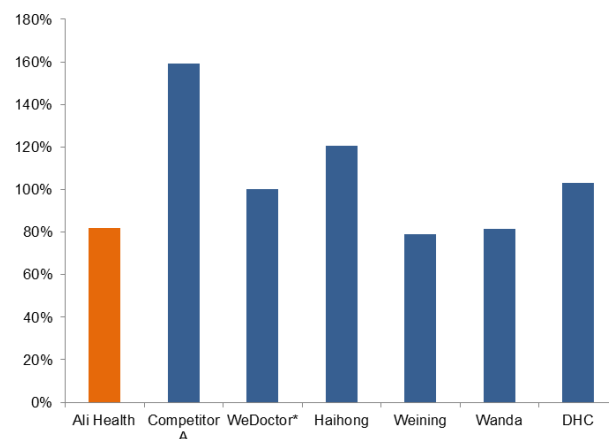
Focus charts

Figure 1: E-commerce penetration in healthcare vs other industries



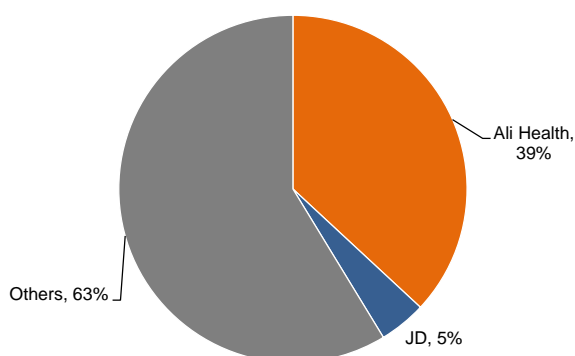
Sources: Company data, CMS (HK)

Figure 2: Peer comparison: current market cap over 2016E addressable markets' size



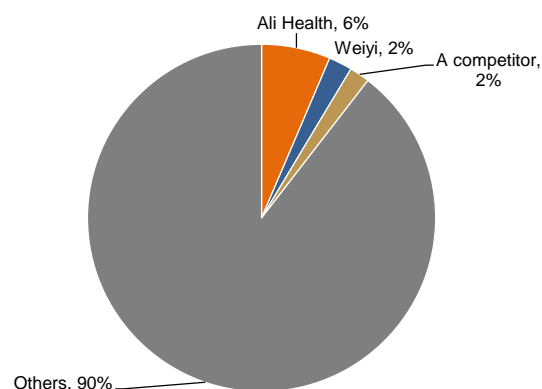
Sources: Bloomberg, CMS (HK)

Figure 3: Online B2B sales market share (2017E)



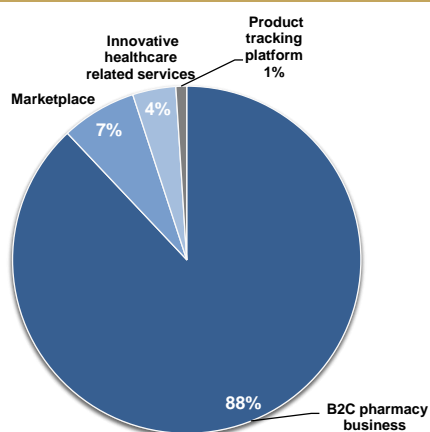
Sources: Company data, CMS (HK) estimates

Figure 4: Online B2C sales market share (2017E)



Sources: Dongmai, CMS (HK) estimates

Figure 5: FY18 revenue breakdown



Sources: Company data, CMS (HK)

Figure 6: EV/Sales band



Sources: Bloomberg, CMS (HK)

Investment thesis

Evolving from a data tracking company, Ali Health has become the health product e-commerce champion, and is on track to be a full-range integrated healthcare platform powered by healthcare informatics. We believe the market has underestimated its growth and monetization potential. We issue a BUY recommendation on Ali Health with a Mar-19 TP of HK\$6.8, 21% above the current price.

Multiple growth drivers

We identify the following drivers that should drive significant growth in the company:

- 1) Low penetration of e-commerce and online healthcare in China
- 2) Government' "Internet + Healthcare" initiatives to use technologies address the inefficiencies in healthcare
- 3) Significant progress in healthcare informatics, from HIS to CIS to Big Data/cloud/AI technologies
- 4) Strong support from Alibaba's ecosystem from Tmall Medicine Hall to Taobao Mobile to Alipay
- 5) Solid fundamentals in China's healthcare industry - aging demographics, low GDP spend in healthcare, rising chronic diseases prevalence, etc.

Strong leadership in various market segments

China's health product ecommerce GMV reached c.RMB100bn in 2017, in our estimate. We predict that this market can grow into c.RMB265bn GMV in 2020E with 38% CAGR. We expect Ali Health to utilize its parent group's strong user base and traffic, solid IT capabilities, comprehensive logistics, and its own marketing and technology prowess, to maintain the leadership position in both the B2C (No.1 with c.9% market share) and the B2B segments (No.1 with c.39% market share), and achieve 62% revenue CAGR over FY19-22E.

Meanwhile, China's online healthcare market was still at infancy with c.RMB3-5bn revenue in 2016. We forecast that the market will grow into RMB13bn in 2020E on the back of Government's "Internet + Healthcare" initiatives. Ali Health has one of the most comprehensive ranges of services across the different "New Healthcare" platforms. Given time, we think Ali Health can potentially replicate its success in healthcare e-commerce and build out a "Tmall for hospitals". We cautiously did not integrate any sales contribution from online healthcare in our model.

Different from peers who primarily focus on online consultation, Co. is exploring various online/offline scenarios, from smart screening, AI-assisted diagnosis to immersive training simulations, for a deeper integration with hospitals. Indeed, as Chinese hospitals' IT systems are migrating from Healthcare Information System (HIS) toward Clinical Information System (CIS) and Healthcare Information Exchange (HIE), this trend calls for greater demand in healthcare informatics, in particular in Big Data and Cloud storage. This is where Ali Health has unique value proposition and could potentially integrate its platform with the current hospital services, in our view.

Financials and valuation

We expect Ali Health to register 62% CAGR in revenue over FY19-22E, and to maintain positive adj. NP from FY18, reflecting its leading and growing market share in e-commerce, rising contribution from innovative healthcare, synergy with online healthcare, protected by continuously strong investment in HCIT. Indeed, Company reported adj. NP (excluding SBC) of RMB8mn in FY18, achieving break-even for the first time. Management also confirmed they targeted 100% growth in B2C pharmacy revenue in FY19, and aimed to balance profitability and investment.

Company currently trades at FY21 EV/Sales 3.9x versus listed peer's 5.2x. Our TP of HK\$6.8 applied 30x FY22 EV/EBITDA for e-commerce and 6x EV/Sale for advertising & marketing and discounted them back to end FY19 valuation (Mar YE). Meanwhile, we refrained from valuing its online healthcare business as the monetisation remains remote and peers' operating metrics are not comparable. Instead we capitalised 2/3 of the R&D spend over FY19-22E (i.e. that of HCIT), added them onto the JV/associate investment (mostly in Cloud and EMR), and applied a P/B valuation of 7x for such assets. The justification is that such expenses should be viewed as necessary investment for the future.

Investment Risks

- Regulatory risks: healthcare and pharma sales regulations can be subject to changes
- Market risks: Company may face strong resistance by retail pharmacies on selling products on its platform; penetration of e-commerce and online services may never catch up with other segments in China
- Competition risks: Company may face competition from other “New Healthcare” players
- Corporate governance risks: Alibaba Group controls 74% of the company and the majority of its user traffic are directed from Alibaba Group (BABA US) via Tmall, Taobao and Ali Pay

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Health e-commerce to grow strongly on low penetration, RX pharma outflow, and supportive government policies

Our main scenario of healthcare ecommerce suggests significant growth headroom

We estimate that China's B2B health products e-commerce market was c.RMB85bn in and the B2C market was RMB20bn in 2016, based on the following industry's estimates:

- Per Frost & Sullivan, China's pharma, medical device and health products B2C e-Commerce market was RMB20bn in 2016. As in other product categories, the size of B2B market should be 5-6x of that of B2C.
- Per MOFCOM, China's pharma B2B e-commerce GMV reached RMB58bn in 2016 and the B2C market reached US\$5bn. But such statistics doesn't include nutrition and birth control products.
- Per Ali Health's own estimate of online penetration by categories, the total GMV of pharma, health products, medical devices and birth control products is c.RMB110bn in 2017.

We believe that the B2B health products e-commerce GMV should grow 33% CAGR over 2017-20E to c.RMB265bn, led by pharma (47% CAGR) and medical devices (40% CAGR). Meanwhile, we adopt Frost & Sullivan's estimates on B2C e-commerce, which forecasts that the market should grow 32% CAGR to RMB60bn over 2017-20E.

Figure 7: B2B e-commerce GMV in China's pharma market

RMB bn	2016	2020E	CAGR
Pharma			
<u>Hospitals</u>			
Inpatient RX	538	679	6%
Outpatient RX	430	350	-5%
Outpatient OTC	108	103	-1%
Subtotal	1,076	1,133	1%
<u>Retail & community</u>			
RX	153	372	25%
OTC	229	400	15%
Subtotal	381	752	19%
<u>Online</u>			
RX	5	50	NA
OTC	15	43	30%
Subtotal	20	93	47%
<i>Online penetration - retail</i>	5.0%	10.7%	
<i>Online penetration - total</i>	1.4%	4.6%	
Total RX outflow		147	
Total pharma market	1,477	1,998	8%

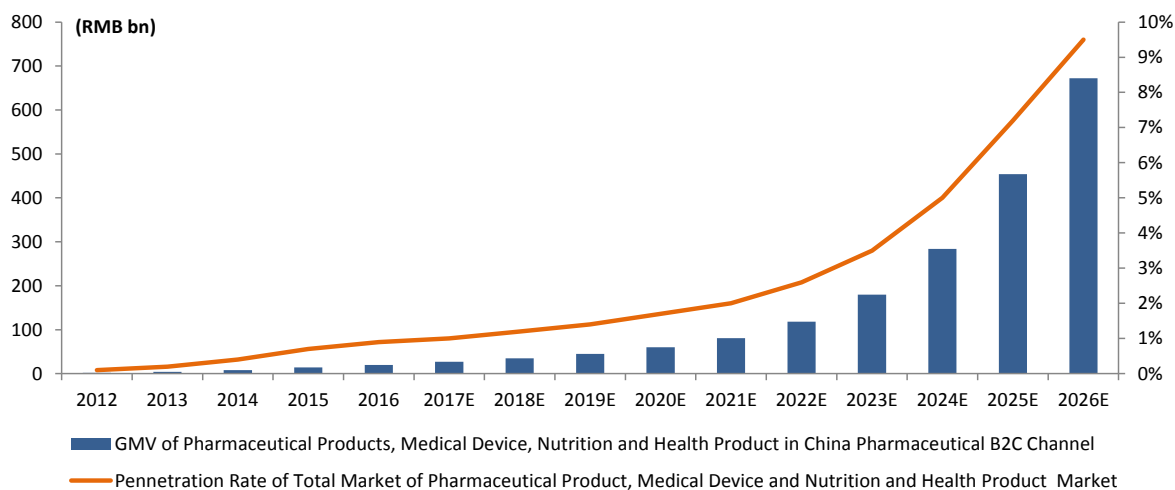
Sources: 2016 data from Zhongkang Research, rest are CMS estimates

Figure 8: B2B e-commerce GMV in non-pharma categories

RMBbn	2016	2020E	CAGR
Medical devices			
Total device market	406	817	15%
Online sales	30	115	40%
Online penetration	7%	14%	
Nutrition products			
Total nutrition related products market	1,183	2,085	12%
Online sales	20	57	30%
Online penetration	2%	3%	
Birth control & contact lense			
Total birth control & contact lense market	100	161	10%
Online sales	10	17	15%
Online penetration	10%	11%	
Total health-related products e-commerce GMV	85	265	33%
Online penetration	2.7%	5.2%	

Sources: 2016 data from Zhongshang Industry Research Institute, rest are CMS estimates

Figure 9: China's healthcare B2C e-commerce estimates



Sources: Frost & Sullivan

Numerous growth drivers in ecommerce

We flag the following drivers can potentially drive significant growth in the e-commerce segment:

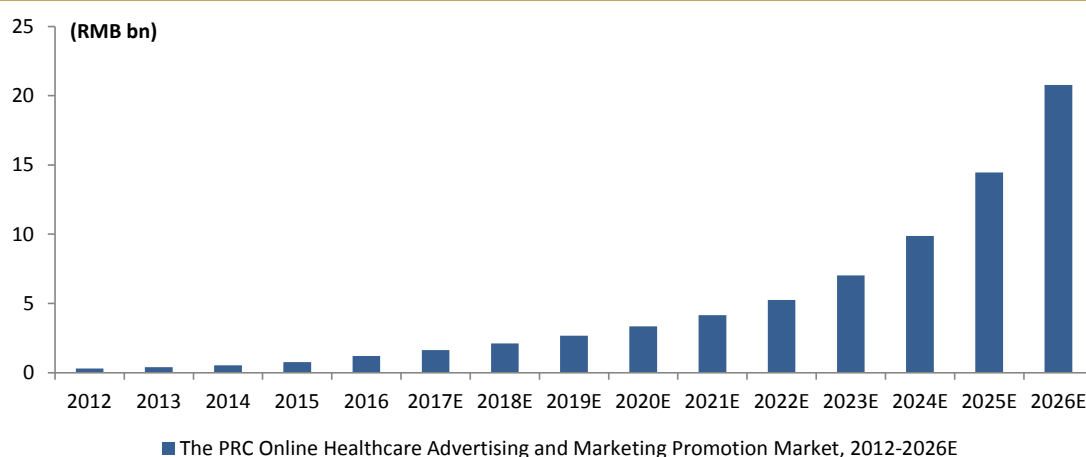
- 1) Significant RX pharma outflow from hospitals. China's hospitals channels sold RMB1tn worth of drugs in 2016. Due to the stringent controls on hospitals' pharma sales, we estimate that between 2017 and 2020, a total of RMB147bn worth of RX pharma market will be shifting into online/offline pharmacies, where we estimate online pharmacies can take 1/3 of the prescriptions (c.RMB50bn).
- 2) Rising cross-border trading to drive online sales of nutritional products. For instance, herbal products suppliers in the US and infant formula companies in Australia are now selling prodigious volumes of products online, fueled by the growing middle class demand and improving logistic network.
- 3) Rising online sales for medical devices as government is piling pressure on distributors to contain the profitability in medical device. For instance, Chinese government intended to start negotiation on four categories of high-value-added devices and consumables in 2018.
- 4) Strong support from the government's "internet + healthcare" initiative. In the circular on Apr 17, 2018 (《关于促进“互联网+医疗健康”发展的意见》政策解读), government stated that they would explore a mechanism to share hospitals' prescription with pharmacies, and promote "smart review" and "one-stop" settlement of reimbursement. These initiatives should facilitate the sales via online channels.

That said, caveat is China's "Internet + Healthcare" initiative should not be viewed as a complete deregulation for online RX pharm sales. Online sales of prescription are still limited to repeated visits and certain chronic diseases, and require doctors' discretion. China's reimbursement system is also fragmented with strong regional discrepancy. All these factors would argue that the e-commerce penetration in health products may never catch up with other categories like 3C and apparels (20%).

Healthcare advertising and marketing to grow hand-in-hand with ecommerce

We believe that a strong ecommerce platform can facilitate the generation of strong advertising and targeted marketing revenue, from the likes of HPV vaccines now, to potentially aesthetical medicals and innovative drugs. Frost & Sullivan estimated that this market reached RMB1.2bn in 2016 and should grow 33% CAGR to RMB3.3bn in 2020E.

Figure 10: Online healthcare advertising and marketing promotion market (RMBbn)



Sources: Frost & Sullivan

Online healthcare service holds promises but requires deeper integration with hospitals

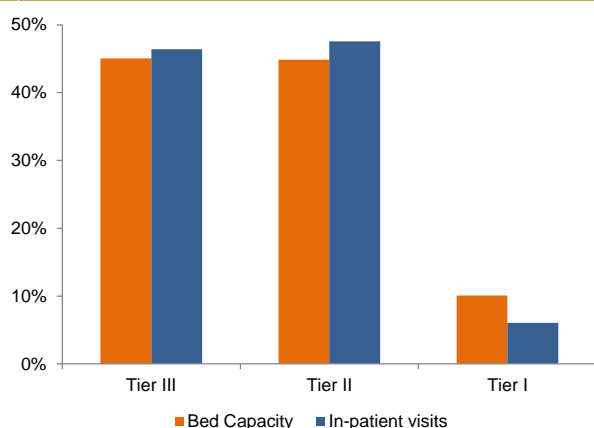
Government has an agenda to leverage on internet healthcare to address inefficiencies

Online healthcare has been flagged as the solution to address the various inefficiencies in China's healthcare system, from mismatch of supply and demand, to over-dependence on drug sales. Indeed, on 12 April 2018, Chinese government issued the following initiatives on "Internet hospitals", which well spelled out the opportunities and boundary of internet healthcare. The initiatives aim to:

- Facilitate online doctor booking and online inquiries of diagnosis results
- Allow online diagnosis and treatment of return patients and for common diseases and chronic diseases
- Facilitate remote medical consultation in all healthcare consortiums and county-level hospitals
- Promote "smart review" and "one-stop" settlement of reimbursement
- Meanwhile, the "internet hospitals" need to anchor their services to certain brick-and-mortar hospitals for accountability.

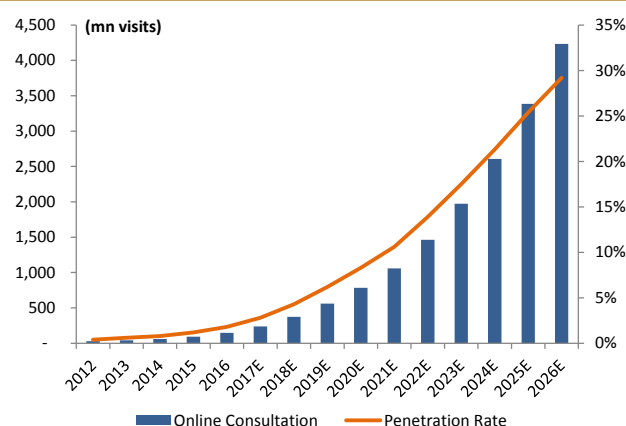
That said, given the uniqueness of healthcare, internet healthcare players would also need a value proposition based on efficacy, rather than merely on efficiency, in our view. This is why we think the solution is not only to move services online or to mobile apps, but to promote a deeper integration between online services and off-line hospitals to address various medical needs.

Figure 11: Mismatch supply/demand in different tiers of hospitals



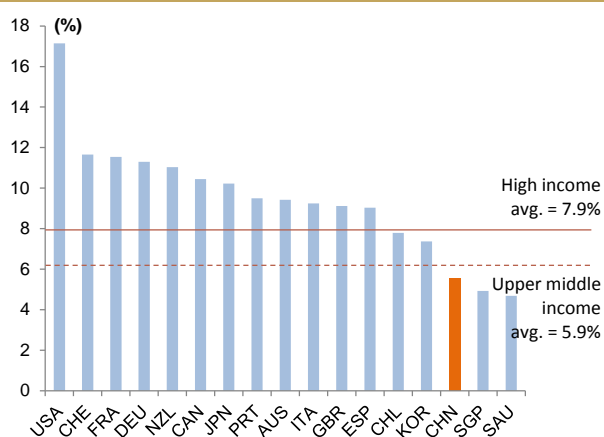
Sources: NHFPC, CMS (HK)

Figure 12: Volume of Online Consultations in China, 2012-2026E



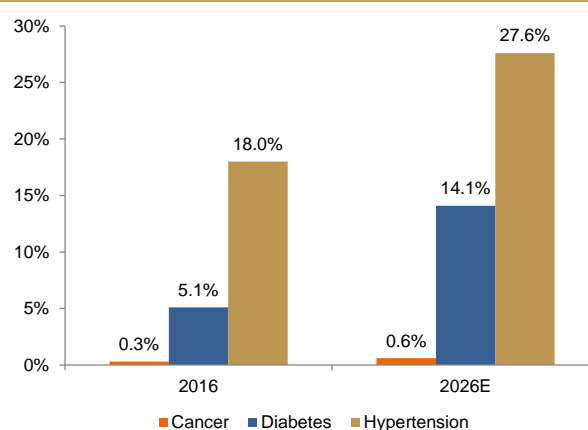
Sources: Frost & Sullivan

Figure 13: Health spending as % of GDP



Sources: World Bank

Figure 14: Prevalence rate of Chronic Disease in China, 2016 and 2026E

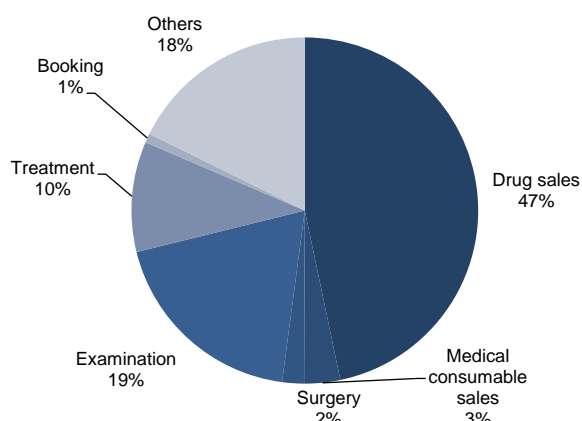


Sources: Frost & Sullivan

We estimate that internet healthcare to be a relatively small market with RMB13bn by 2020E

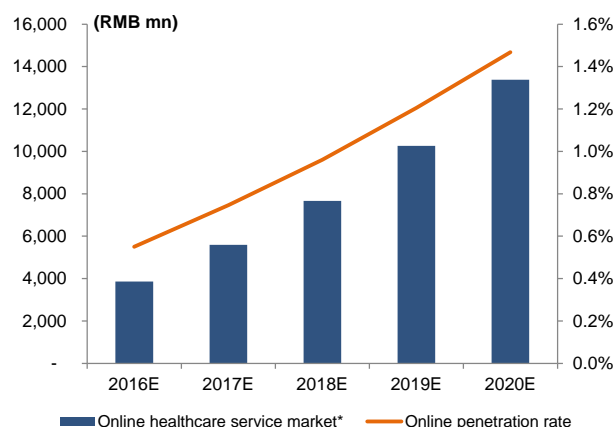
We estimate that internet healthcare (excluding drugs) can potentially address c.30% of China's outpatient services market, i.e. the booking, treatment and examination segments, which together had the revenue of RMB211bn in 2016. Assuming an online penetration of 1.4% (including 50% for booking, 3% for examination, 2% for treatment), we estimate that this market should reach RMB13bn by 2020, showing 36% CAGR over 2017-2020E.

Figure 15: Total public hospital outpatient market breakdown in 2016



Sources: NHFPC

Figure 16: China's online healthcare service market



Sources: CMS (HK) estimates, NB our estimate excludes surgery, medical consumable and drug sales

Figure 17: China's healthcare B2C e-commerce estimates

Total public hospital outpatient revenue (RMB mn)					
	2016E	2017E	2018E	2019E	2020E
Total	701,645	749,453	797,540	851,861	911,564
Booking	6,003	6,904	7,939	9,130	10,500
Examination	133,600	146,960	160,186	174,603	190,317
Treatment	72,348	81,030	91,564	105,298	121,093
Surgery	14,295	16,439	18,905	21,741	25,002
Medical consumable	23,521	26,579	30,035	33,939	38,351
Drugs	327,738	347,402	364,772	383,011	402,161
Others	124,139	124,139	124,139	124,139	124,139
YoY growth					
	2016E	2017E	2018E	2019E	2020E
Total	10%	7%	6%	7%	7%
Booking	13%	15%	15%	15%	15%
Examination	11%	10%	9%	9%	9%
Treatment	11%	12%	13%	15%	15%
Surgery	14%	15%	15%	15%	15%
Medical consumable	10%	13%	13%	13%	13%
Drugs	6%	6%	5%	5%	5%
Online healthcare service market (RMB mn)					
	2016E	2017E	2018E	2019E	2020E
Total	3,860	5,593	7,661	10,264	13,381
Booking	1,801	2,416	3,176	4,109	5,250
Examination	1,336	2,204	3,204	4,365	5,710
Treatment	723	972	1,282	1,790	2,422
Surgery	0	0	0	0	0
Medical consumable	0	0	0	0	0
Drugs	0	0	0	0	0
Online penetration rate					
	2016E	2017E	2018E	2019E	2020E
Total	0.6%	0.7%	1.0%	1.2%	1.5%
Booking	30.0%	35.0%	40.0%	45.0%	50.0%
Examination	1.0%	1.5%	2.0%	2.5%	3.0%
Treatment	1.0%	1.2%	1.4%	1.7%	2.0%
Surgery	0.0%	0.0%	0.0%	0.0%	0.0%
Medical consumable	0.0%	0.0%	0.0%	0.0%	0.0%
Drugs	0.0%	0.0%	0.0%	0.0%	0.0%

Sources: NHFPC, CMS (HK) estimates, NB our estimate excludes surgery, medical consumable and drug sales

We concur that the prospect of monetisation besides the drug sales and marketing is far from certain in internet healthcare. It may involve some scenarios in collecting membership fees and selling insurance and Big Data. But in China's single payer healthcare market, we don't think such scenarios could allow players to scale up soon. That said, much would depend on whether the next generation informatics can address tangible demands for medical practitioners, of which we are hopeful.

Healthcare informatics will form the main competitive edge for players

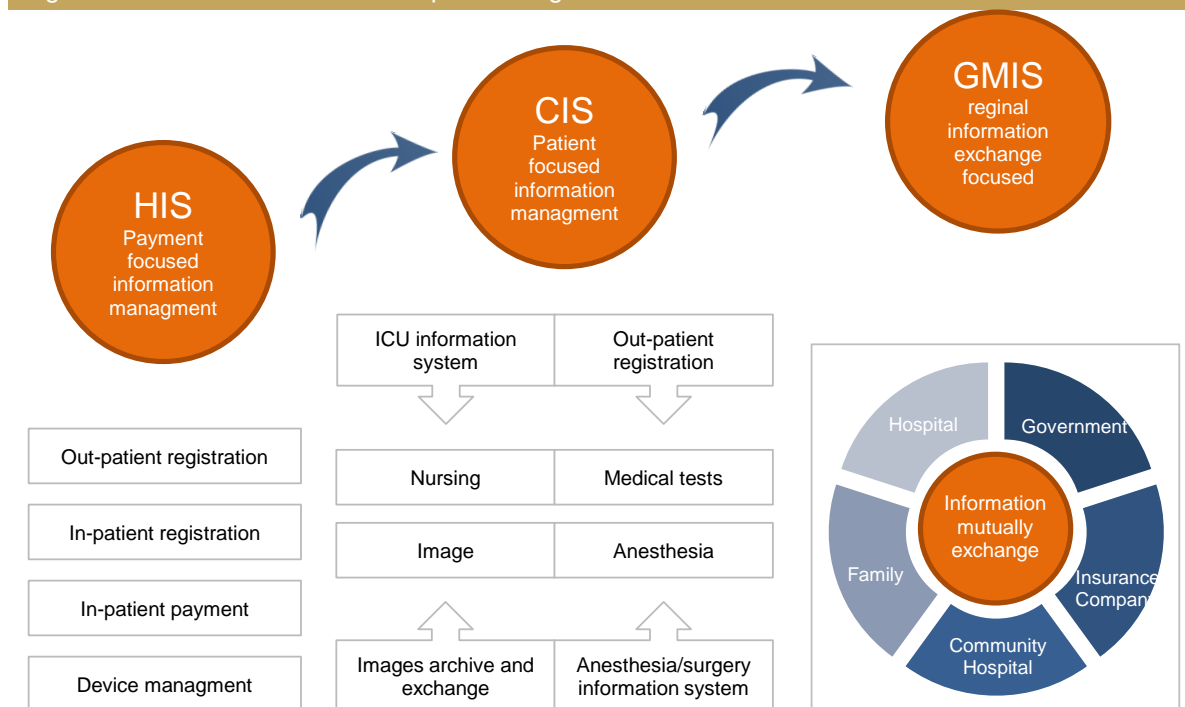
We believe that the key for greater integration with hospitals lies in healthcare informatics. This is where we believe Ali Health can potentially build an edge thanks to the eco-system by Alibaba.

Evolving from HIS to CIS, to Big Data/Cloud/AI

Currently China's health informatics are evolving from Hospital Information System (HIS) that supports the medical and nursing professional's daily work, towards Clinical Information System (CIS) that helps to process the vast clinical data collected in daily operation. According to China Hospital Information Management Association (CHIMA), thanks to the government initiatives since 2003, near 80% hospitals in China have established HIS, including most Tier-3 hospitals. But the penetration of different CIS modules still varies from 20%-70%.

The next step is to consolidate all systems and database in some regional information exchange system (GMIS) to facilitate information sharing. At present, China hospitals, particularly large Tier-3A hospitals, have accumulated vast amounts of clinical and management data over the past decade, including clinical and medical data, prescriptions databases, electronic medical record (EMR), imaging data, etc. This calls for the application of Big Data, Cloud and AI to assist in clinical analysis, disease diagnosis and precision medicine prescription.

Figure 18: HCIT at different development stages



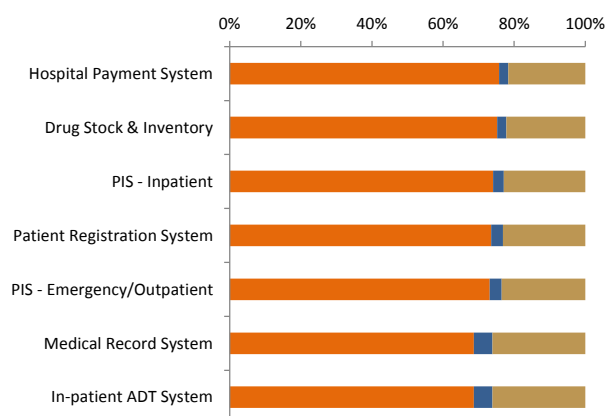
Sources: CMS (HK)

Figure 19: How Big Data/AI can support the numerous scenarios in hospitals



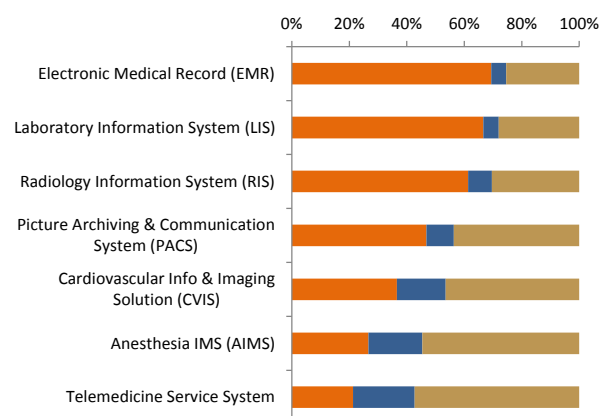
Sources: Company data

Figure 21: HIS penetration rate in 2016



Sources: CHIMA, CMS (HK)

Figure 22: CIS penetration rate in 2016



Sources: CHIMA, CMS (HK)

Electronic Medical Record (EMR) “standardization” an opportunity for further HCIT investment

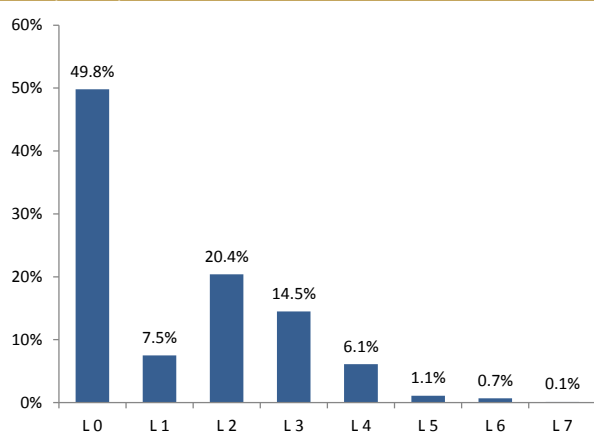
CFDA has currently set an 8-step modernization plan for hospital EMR system. Only those hospitals with L5 and above EMR system are capable of conducting system data integration between departments, which is the basic requirement for regional healthcare information exchange. According to National Institute of Hospital Administration (NIHA), L5 and above hospitals only accounted for c.2% of total in China, versus c.50% of hospitals ranked in L0 EMR group, implying no EMR systems.

Figure 23: EMR each level's standard summary

Level	Description
L 7	Comprehensive EMR system, Establishment of regional health information network (RHIN)
L 6	Complete closed-loop data management, system data integration between departments
L 5	Unified data management platform (UDMP), system data integration between departments
L 4	Information exchange within hospital; Intermediate medical decision assistant
L 3	Information exchange between departments; Basic medical decision assistant
L 2	Information exchange within department
L 1	Basic data collection within department
L 0	Undeveloped EMR system

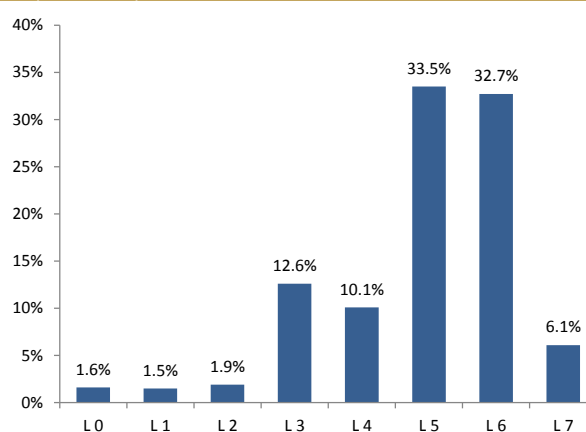
Sources: CHIMA, CMS (HK)

Figure 24: Proportion of each hospital EMR score in PRC (2016)



Sources: NIHA, CMS (HK)

Figure 25: Proportion of each hospital EMR score in US (2017Q3)



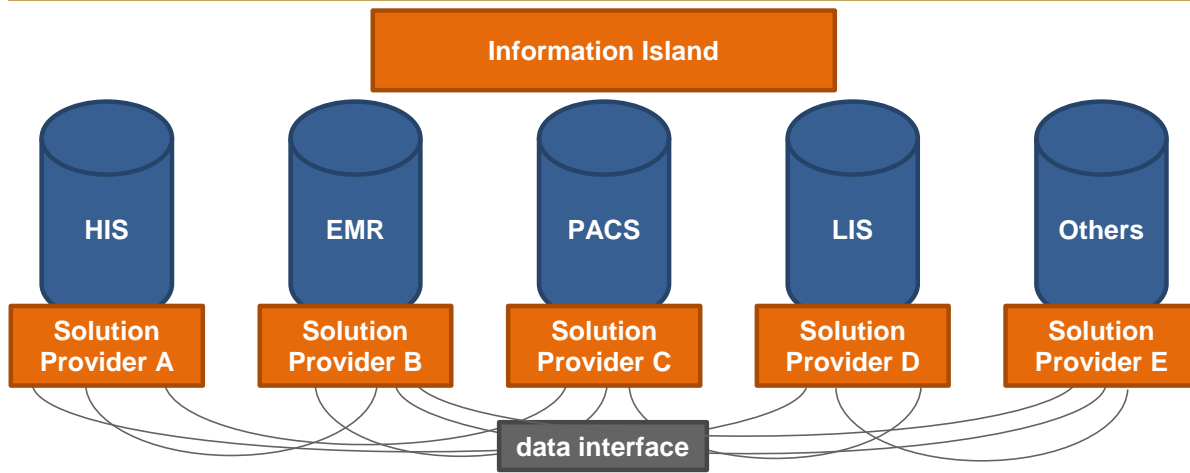
Sources: HIMSS Analytics, CMS (HK)

Challenges still abound

We believe the data integration between the various HIS will continue to pose challenges. This is largely due to the “information island” issue, resulting from building separate HIS, EMR, PACS on a variety of platforms with low compatibility. This made interfacing between these platforms quite complicated and created entry barrier for new entrants.

That said, we think Ali Health can potentially leverage its strength in Cloud computing and AI to offer unparalleled value proposition to hospitals. We will explain this point in the section under “Building out strong healthcare informatics capabilities”.

Figure 26: “Information Island” problem



Sources: CMS (HK)

Competitive landscape

We summarized the competitive landscape in “New Healthcare” as below. We believe Ali Healthcare is one of the candidates that stand out in terms of the range of offerings, the strength in ecommerce and HCIT. Caveats are that we are unable to really rank the players in terms of their healthcare services and HCIT, as the operating metrics are not comparable. For instance, Ali Health’s competitors invested more in driving traffic via mobile apps and family doctors coverage, while Ali Health focused more on integrating hospital’s service platform (i.e., making itself “Tmall for hospitals”). It is also difficult to compare Ali Health’s Cloud capabilities to competitors’ PBM capabilities.

Figure 27: Competitor landscape

Company	Pharma and health products ecommerce				Diagnosis and treatment										Healthcare informatics					Payment			
					Pre-diagnosis		Diagnosis and treatment				Health management												
	B2C	B2B platform	Marketing	Supply chain	Doctor booking	Online consultation	Off-line hospital	Internet hospital	Independent labs	Rehabilitation	follow-up visits	Family doctor	Body exam	Wearable device	Health Mgmt.	HIS/CIS	Big Data	Cloud	AI	PBM/reimbursement review	Online Payment	Govt medical Insurance	Commercial Insurance
Ali Health	x	x	x	x	x	x		X				x	x	x	x	x	x	x	x		x		
WeDoctor					x	x		X				x	x		x		x				x		x
A competitor	x		x		x	x						x	x		x				x		x		x
Baidu	x			x		x								x				x			x		
JD (Medicine Mall)	x	x	x	x																			
Goud Health	x			x													x		x				
Haoyaochi	x			x																			
Huakang Quanjing					x																		
Daoyitong					x																		
Dingxiangyuan					x	x		x															
Chunyu Doctor					x	x																	
Quyi yuan					x	x																	
Haodaifu					x	x																	
Penguin					x	x		x															
Di'an Diagnostics																							
Haihong									x														
Weining																x	x			x			X
Wanders Info																x							
DHC Software																x							

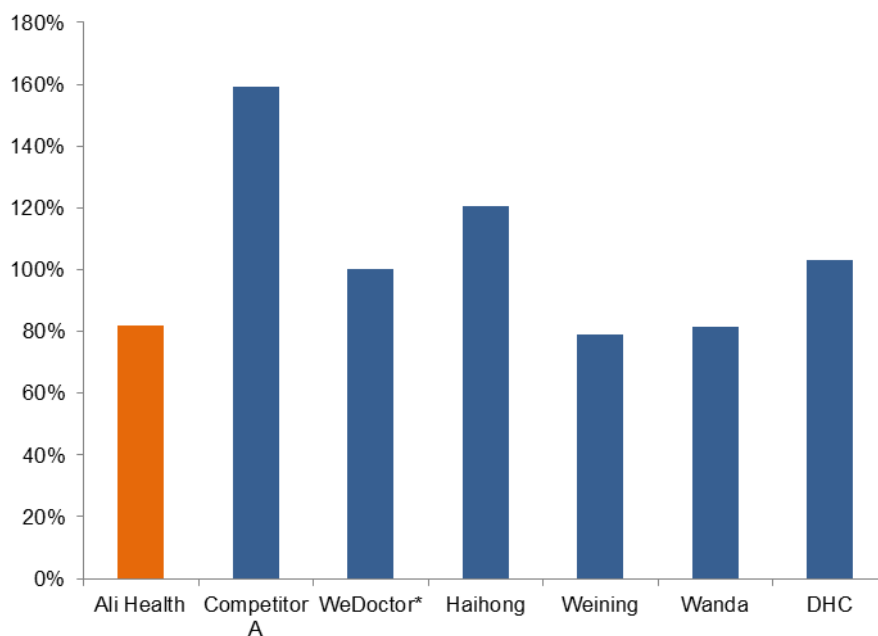
Sources: Company, CMS (HK)

We suggest a simpler way for comparison, i.e. using the players’ respective market caps over their addressable market size. We made the following assumptions to arrive at the addressable market size:

- Healthcare e-commerce is calculated as RMB20bn in 2016 (we compare B2C market only as even Ali Health derives chunk of its e-commerce profit from B2C pharmacy)
- Online marketing market is estimated to be RMB1bn in 2016 (see above)
- Online healthcare services is calculated as RMB4bn in 2016 (see above)
- Healthcare IT (RMB27bn) is calculated as 2% of government’s reimbursement plans’ healthcare spend in 2016; in reality we think the main internet players are likely to monetize this investment via other channels such as e-commerce or insurance
- Healthcare insurance market (RMB4bn) is calculated as 1% of commercial healthcare insurance premium in 2016.

We conclude that only two markets are really sizeable enough for “New Healthcare” champions at this stage – ecommerce and HCIT. Compared to peers in online healthcare and HCIT, Ali Health’s valuation (in terms of market cap) appeared to be undervalued by 23%.

Figure 28: Valuation/Mkt size comparison among “New Healthcare” players



Sources: Bloomberg, CMS (HK)

Ali Health: from a drug tracking service platform to a leading healthcare E-commerce platform

Background

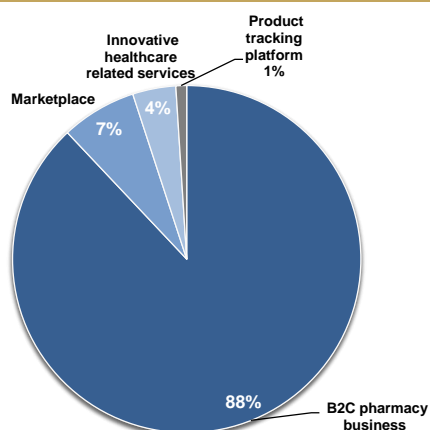
Ali Health was launched in 2014 after Alibaba (BABA US) and Yunfeng Capital bought 54% stake in Citic 21CN and converted it into the flagship healthcare platform for Ali Baba Group. During FY14-16, Ali Health's revenue came mainly from the services under CFDA's Drug PIATS (Products Identification, Authentication and Tracking System). However, CFDA ended the mandatory PIATS requirements on pharma companies in January 2016. Ali Health has since then pivoted its operation away from product tracking into pharma & health products ecommerce, internet healthcare, consumer health and health management.

Figure 29: Ali Health's integrated healthcare platform



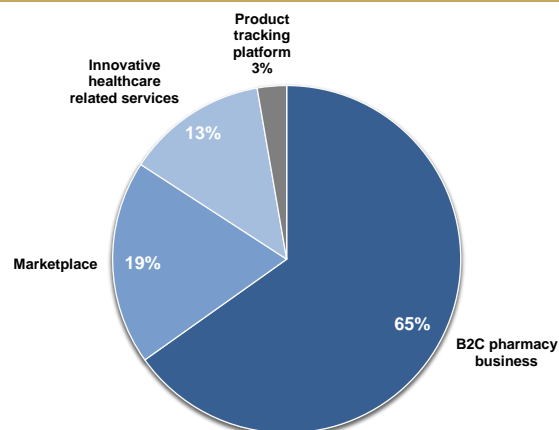
Sources: Company

Figure 30: Revenue breakdown in FY18



Sources: Company data, CMS (HK)

Figure 31: Gross profit breakdown in FY18



Sources: Company data, CMS (HK)

E-commerce powerhouse

Ali Health's online healthcare product sales model mainly consists of the following parts:

- 1) Self-operated sales division under Ali Health Pharmacy (阿里大健康药房). In FY18, this B2C pharmacy business accounted for 88% of Group revenue and 64% of GP. Today it is the largest online B2C pharmacy and occupies c.6% market share.
- 2) Service fees from the Tmall Medicine Hall (天猫医药馆) as it facilitates transactions between marketplace vendors (pharmacy chain players) and consumers by providing logistics and marketing. This segment account for 7% of revenue but 19% of GP. There Ali Health derived income from a large proportion of the GMV in Tmall Medicine Hall. Tmall Medicine Hall is the largest online B2B platform in China, with c.39% market share.

The service fee mechanism goes like this: if those merchants stay with Tmall, Ali Health works mainly as an outsourcing service provider and charges 21.5% of the commission collected by Tmall (c.3% of GMV). For those merchants that were "injected" into Ali Health's platform – for instance, the nutritious food category's e-commerce platform services business has been injected to the listed company for US\$488mn for new shares in 2017 - the service revenue was based 50% of the fee from the merchants. Such structure aims to provide incentives for Ali Health to provide more value added services to merchants.

We believe that Ali Health can fully leverage on the strength of its user base and logistics from Alibaba's ecosystem - Taobao, Tmall, Alipay and Cainiao. Management stated that they target the growth in the self-operating e-commerce segment to be 100%. We view such growth as achievable, as Company is diverting strong resources in this segment in terms of verifying drug quality, screening brands and standardizing specifications. Company has also set the target that the GMV growth in Tmall Medicine Hall should be no less than 1.5x Tmall's overall GMV growth, which in our view suggests c.40%-50% floor to its growth.

Figure 32: Online healthcare product e-commerce platform

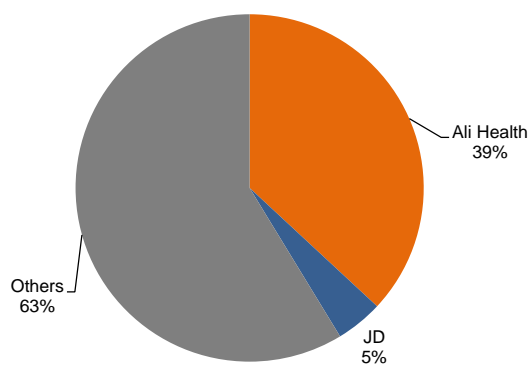
医药电商 业务整体布局



- 多业务端触达 —— 平台、自营、跨境、线下连锁、O2O联盟、新零售探索
- 供应链整合效应逐步显现
- 为处方药外流做好承接准备

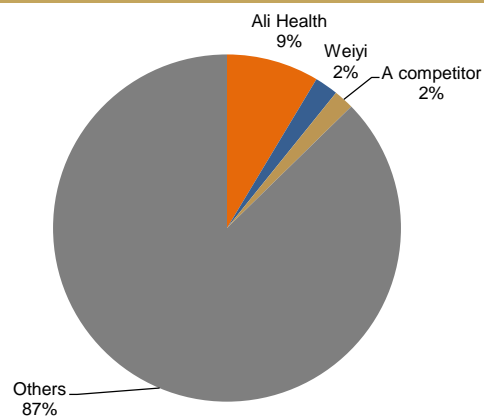
Sources: Company

Figure 33: Online B2B sales market share (2017E)



Sources: Company data, CMS (HK)

Figure 34: Online B2C sales market share (2017E)



Sources: Dongmai, CMS (HK)

Entering internet healthcare

Instead of focusing on mobile apps, doctor bookings and online consultation, Ali Health now seeks more in-depth collaboration with hospitals in areas such as clinical support, AI-assisted diagnosis, expenses settlement and payment, etc.

Figure 35: Internet healthcare service platform needs to integrate with multiple access points and offline hospitals



Sources: Company

In July 2017, Ali Health obtained the license for Internet Hospital, and has signed agreements with First Affiliated Hospital of Zhejiang University, Second Affiliated Hospital of Zhejiang University, and Shanghai Xinhua Hospital in AI supported laboratories, block chain-based information sharing, healthcare Big Data, clinical imaging diagnosis, doctor training and mobile payment.

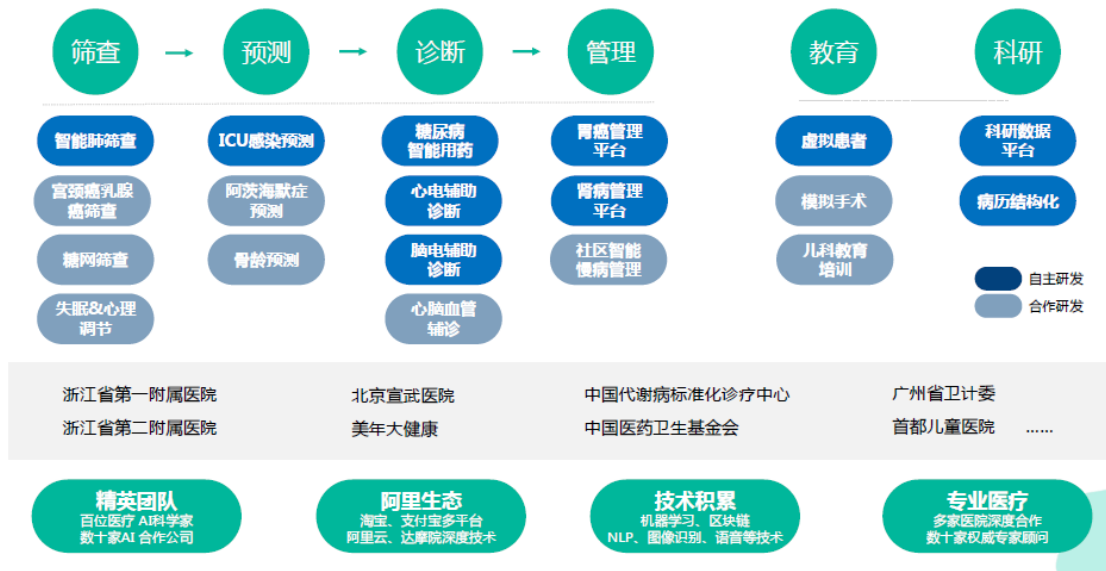
In Apr 2018, Ali Health has inked an agreement with International Medicine (000516 CH), involving establishment of 1) Ali Health Xi'an Gaoxin Internet Hospital, 2) AI medical laboratory; 3) Cloud service; and 4) mutually exploring more opportunities in "Internet + Healthcare".

Per mgmt., this Internet Hospital is partnering with an offline tier-3 comprehensive hospital in Xi'an, namely Xi'an Gaoxin Hospital. Company aims to expand the hospital service radius via internet technology and design a one-stop shop for patient, including online booking, online payment and drug delivery, etc.

Building out strong healthcare informatics capabilities

Ali Health is increasingly investing in an integrated healthcare information platform that includes patients screening, diseases diagnosis, data management, physician training, and R&D, with Big data And AI as core capabilities. Below is an illustration of the numerous applications of its information system.

Figure 36: Ali Health's healthcare informatics applications in hospitals



Sources: Company data

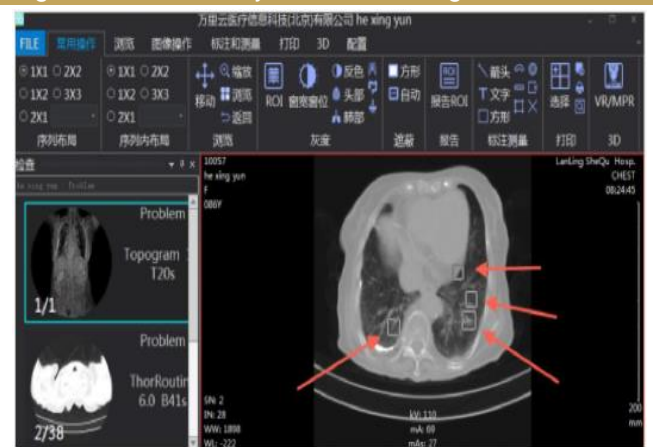
For instance, its AI brand "Doctor You" was launched in July 2017 as a diagnosis and training system for medical professionals.

Figure 37: Pulmonary nodule CT samples data



Sources: Company data

Figure 38: Pulmonary nodule CT image



Sources: Company data

The AI system for guiding diabetes treatment was launched with the support of MMC (National Metabolic Management Centre) to enforce compliance with clinical pathways at hospitals.

Figure 39: Diabetes patient checkup data input portal

阿里健康

DocerYou

首页

医疗机构解决方案

技术合作

糖尿病智能用药引擎

填写病人信息及指标



身高

178

CM

体重

59

性别

男

▼

体重

85

KG

BMI

26.827

病程

12年

收缩压

舒张压

心率

症状

自觉血糖偏高，否认明显口渴、多饮、多尿、肢体麻木感

病程史

Sources: Company data

Figure 40: AI-assisted diabetes treatment plans

AI治疗方案

No.	药物名称	剂量
1	双氯芬酸	二甲双胍≤1g/d
2	SGLT-2抑制剂	--
3	贝特类	--
4	阿司匹林	--

1. 餐后血糖要求收缩压大于等于160mmHg时必须启动降压治疗。2. 对他汀类药物禁忌症：对他汀类药物过敏史、活动性肝损害、无法耐受的血浆脂蛋白酯酶升高、准备怀孕、怀孕和哺乳期妇女、慢性肾功能衰竭用他汀类的药物治疗。3. 阿司匹林禁忌症：对阿司匹林或水杨酸盐敏感、活动性消化性溃疡、出血体质、严重肝肾心功能衰竭。正在服用华法林等药时，服药后前三个月每周测国际比。4. 对已有糖尿病的患者应使用SGLT-2抑制剂联合胰岛素治疗，可避免低血糖风险并减少心血管死亡。5. 血脂达标且无其他危险因素者可选择非 statin 降脂药（Oxazols）。6. 糖尿病患者严密监测用药可能诱发胆结石发生。7. 口服糖皮质激素的患者在手术前至少术前2周及手术后至少术后2周内停用口服糖皮质激素。接受大手术患者在术前3天停用口服糖皮质激素，均改为静脉泵给药。7. 近期服用期间口服糖皮质激素，他汀类药物、ACEI、ARB、β-blocker、利尿剂。8. 近期服用饮食治疗血糖不能控制时，使用胰岛素治疗。

Sources: Company data

We acknowledge that the integration of Ali Health's Big Data and Cloud capabilities with the existing HIS/CIS at hospitals may pose challenges. That said, we think Ali Health can rely on its numerous internal and external resources to address the challenges. We particularly highlight the following R&D collaboration projects:

- In 2016 Company invested RMB225m in Wanlicloud for 25% stake. The main shareholder of Wanlicloud is CR Wandong, China's leading digital radiography (DR) manufacturer. The company mainly provides cloud services for medical imaging data
- In 2017, it invested RMB291mn in EMR companies (Jiahe Meikang and Jiamei Online)
- Since 2015 it also has a strategic collaboration with DHC, a leader in HIS in China

Product tracking

Ali Health has a third-party product tracking platform called Mashang Fangxin (码上放心), which is compatible with CFDA's PIATS and provide value-added service. Management also indicates that the platform will track a wide variety of products, including, but not limited to, pharmaceuticals. The revenue from the new tracking platform was c.1% of the revenue.

Figure 41: Ali Health's new data tracking services - Ma Shang Fang Xin

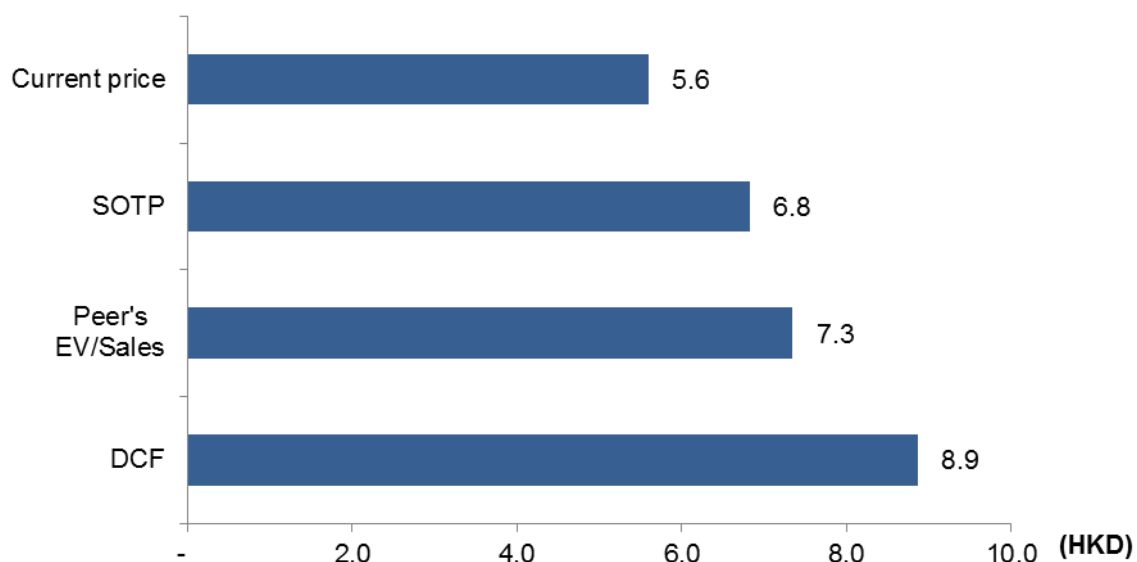


Sources: Company data

Valuation

We presented below how various valuation approaches would compare. These valuation approaches include applying peers' 2020 EV/Sales, SOTP and DCF:

Figure 42: Valuation summary



Sources: CMS (HK)

SOTP valuation

We derived the TP from SOTP valuation.

- We applied 30x FY22 EV/EBITDA for e-commerce and discount back the valuation using 9.8% WACC. CMS TMT research uses 20x FY19 EV/EBITDA to value Alibaba Group's ecommerce and we believe that the higher multiples are justified on the higher GMV growth in Tmall Medicine Hall – the growth was 70% vs 29% in Tmall in FY18.
- We applied 6x FY22 EV/sales for marketing and advertising revenue, broadly in line with other internet companies (5-6x EV/Sales), and discount back the valuation using 9.8% WACC
- We applied 7x P/B for FY22 BV of HCIT investment and discounted back to FY19 (Mar 19 YE) using 9.8% WACC. This is in line with other HCIT listed companies in China with weighted average of 7.5x 19 PB.
- We didn't assign any valuation to online healthcare, as we believe the prospect of monetization is still remote and Ali Health's operating metrics are not directly comparable to peers.

Figure 43: Ali Health's SOTP valuation

RMBmn	Business	Valuation basis	Multiples	Valuation metrics	Dec 18 valuation	As % of total
E-commerce	B2B and B2C healthcare products e-commerce	FY22 EV/EBITDA discounted back to Mar19	30	FY22 EBITDA plus 2/3 of R&D expenses	34,998	62%
Marketing						
Innovative healthcare related services	Targeted marketing, healthcare management	FY22 EV/Sales discounted back to Mar19	6	FY22 Sales	2,881	5%
Product tracking	"Ma Shang Fang Xin"	FY22 EV/Sales discounted back to Mar19	5	FY22 Sales	121	0%
Informatics						
Clinical support & CIS & Cloud	Investment in Hong Yun Jiu Kang, Jia Mei, Wanli Cloud, etc.	FY18 P/B	7	FY18 JV&A investment	7,095	13%
Future R&D investment	Further investment in informatics R&D	FY22 P/B discounted back to Mar 19	7	2/3 of FY19-22E accumulative R&D spending	9,917	18%
Others						
Healthcare insurance					-	-
Net cash		Mar 19	1		1,420	3%
Total equity value					56,432	100%
Valuation per share (HKD)					6.8	

Sources: CMS (HK)

Figure 44: HCIT peers' comp table

Ticker	Name	中文名	Last Price	Mkt Cap (USD mn)	P/E Ratio			P/B Ratio			Div Yield	ROE			PEG	
					17A	18E	19E	17A	18E	19E		17E	17A	18E		19E
HCIT																
000503 CH	SEARAINBOW HLD-A	海虹控股	41.7	5,881	2271.6	439.3	181.4	32.6	28.5	16.7	N.A.	2.0	5.0	3.5	N.A.	
002065 CH	DHC SOFTWARE-A	东华软件	8.9	4,362	38.8	24.6	21.1	2.9	2.8	2.6	0.6	7.5	9.2	9.7	0.7	
300168 CH	WONDERS INFORM-A	万达信息	21.3	3,442	42.6	59.1	43.0	5.0	7.4	6.5	0.2	13.0	13.2	14.2	1.5	
300253 CH	WINNING HEALTH-A	卫宁健康	12.7	3,192	46.6	63.9	47.7	6.9	7.0	6.2	0.3	30.9	11.1	13.2	0.7	
600718 CH	NEUSOFT CORP-A	东软集团	14.8	2,878	17.0	31.4	27.5	2.0	2.0	1.9	0.5	12.7	5.9	7.0	0.7	
300078 CH	HANGZHOU CENTU-A	思创医惠	11.6	1,464	67.4	41.1	31.6	5.7	4.1	3.7	0.4	11.3	10.1	11.9	1.2	
300451 CH	B-SOFT CO LTD-A	创业软件	34.6	1,316	30.9	37.9	29.6	2.5	3.6	3.3	0.6	11.8	9.8	11.4	1.0	
HCIT services average					3,219	621.8	146.4	72.1	11.6	10.8	7.4	0.4	11.4	8.7	9.2	0.7

Sources: Bloomberg, as of 16/05/2018

Peer valuation

A Hong Kong listed competitor trades at 5.2x 2020 EV/Sales on sell-side consensus. Applying the same multiple on Ali Health's FY21 Sales (YE Mar) suggests HK\$7.3 per share valuation.

DCF valuation

Figure 45: DCF valuation (RMBmn)

High Growth Phase										
Year	1	2	3	4	5	6	7	8	9	10
FY	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
EBIT Adjusted	13	170	460	840	-	-	-	-	-	-
% YoY		1217%	171%	83%	-	-	-	-	-	-
NOPAT (EBIT*(1-t))	11	144	391	714	-	-	-	-	-	-
Add: Depreciation and amortization	3	9	17	27	-	-	-	-	-	-
Less: Capital Expenditures	(15)	(24)	(38)	(55)	-	-	-	-	-	-
Less: Net Working Capital	4	37	(185)	(151)	-	-	-	-	-	-
FCFF	3	166	185	535	722	975	1,316	1,776	2,398	3,237
% YoY		6282%	12%	189%	35%	35%	35%	35%	35%	35%
PV	3	151	153	404	496	610	749	921	1,132	1,391
Transitional Growth Phase										
Year	11	12	13	14	15	16	17	18	19	20
FY	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
% YoY Growth	32%	29%	26%	23%	20%	16%	13%	10%	7%	4%
EBIT*(1-t)										
Add: Depreciation and amortization										
Less: Capital Expenditures										
Less: Net Working Capital										
FCFE	4,270	5,499	6,913	8,475	10,128	11,788	13,356	14,719	15,764	16,394
PV	1,670	1,959	2,241	2,502	2,722	2,884	2,975	2,985	2,911	2,756
End-of-Life Index	-	-	-	-	-	-	-	-	-	1
Stable Growth Phase										
Year	21									
FY	2038									
FCFE in terminal year =	16,394									
Price at the end of growth phase =	291,952									
PV of FCFE in high growth phase =	6,006									
PV of FCFE in transition phase =	25,605									
PV of Terminal Price =	40,676									
Intrinsic Value =	72,287									

DCF summary results

Enterprise value (Rmb mn)	72,287
Net cash (Rmb mn) in FY19E	1,420
Minority Interest (RMB) in FY19E	400
Equity value (Rmb mn)	73,306
FX	1.20
Equity value (HKD mn)	87,968
Shares outstanding (mn)	9,921
Value per (HKD)	8.9

Sources: CMS (HK)

Key DCF assumptions: we applied 4% terminal growth rate, 10 years in high growth stage, and 10 years in the transitional stage, and the 9.8% WACC.

Figure 46: WACC assumptions

Cost of equity (%)	
Risk free rate (%)	3.2
Beta	0.8
Equity risk premium (%)	8.3
CAPM unleveraged discount rate	9.8
Cost of debt (%)	
Average spread over risk-free rate (%)	5.0
Pre-tax cost of debt (%)	8.2
Average corporate tax rate for company (%)	15.0
Post-tax cost of debt (%)	7.0
Estimated target gearing (net debt/EV) (%)	-
WACC (%)	9.8

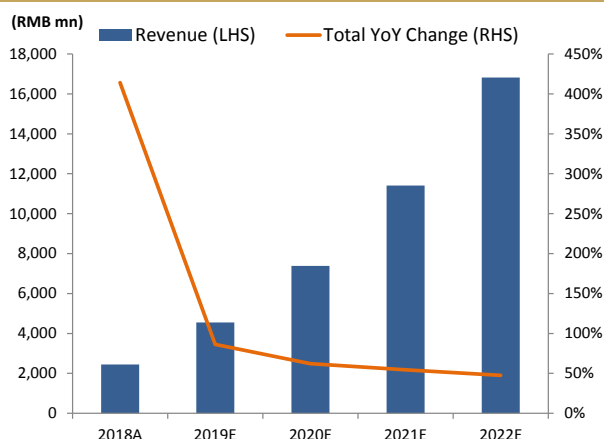
Sources: CMS (HK)

Financial analysis and forecast

Revenue

Ali Health's revenue grew 414% to RMB2,320mn in FY18 (YE Mar), powered by pharmaceutical e-commerce. The significant growth in e-commerce division was attributable to 1) rapid growth in B2C e-commerce on the back of Tmall's user resources and Ali Health's marketing and promotion; 2) FY17 only covered 6m operation in B2C e-commerce; 3) the new addition of provision of service revenue in nutrition & health food in 2H FY18. We forecast Company to deliver a growth CAGR of 62% to RMB16,821mn by FY22E, supported by rising e-commerce penetration and growing market share.

Figure 47: Total revenue and growth in 2018-2022E



Sources: Company data, CMS (HK)

Figure 48: Revenue breakdown in 2018-2022E



Sources: Company data, CMS (HK)

B2C (1P) e-commerce: We expect B2C sales to grow at 67% CAGR in FY19-22E, largely driven by the increasing online healthcare penetration and fast growing pharmaceutical GMV. Management stated that they target the growth in the self-operating e-commerce segment to be 100%, as Company is diverting strong resources in this segment in terms of verifying drug quality, screening brands and standardizing specifications.

B2B (marketplace) e-commerce: We expect the B2B GMV to grow at a slower pace of 41% than in B2C, Company has a target that the GMV growth in Tmall Medicine Hall should be no less than 1.5x Tmall's overall GMV growth, which in our view suggests c.40%-50% floor to its growth.

Innovative healthcare related products: Company provided various forms of innovative value-added service, such as comprehensive marketing services, healthcare content broadcasting, vaccination service platform, etc. We expect the revenue from innovative service division to grow at 80%/60%/50% in FY19E/20E/21E, as Company continues to partner with multinational pharma groups like GSK (GSK US), Merck (MRK US) and AstraZeneca (AZN LN) and body-examination centers like IKang (KANG US) to drive growth.

Figure 49: Revenue forecast breakdown

RMBmn	2017	2018	2019E	2020E	2021E	2022E
Healthcare e-commerce business	354	2,320	4,345	7,064	10,945	16,143
B2C pharmacy business	291	1,750	3,325	5,653	9,044	13,566
Wholesale business	23	399	599	778	973	1,216
Provision of services to Tmall - Pharma	40	115	161	225	316	442
Provision of services to Tmall - Health food		56	84	126	189	284
Innovative healthcare related services	25	98	177	283	424	636
Product tracking platform	96	24	28	32	37	43
Total	475	2,443	4,550	7,379	11,406	16,821

% YoY by segment						
Healthcare e-commerce business	-	555%	87%	63%	55%	47%
B2C pharmacy business	-	501%	90%	70%	60%	50%
Wholesale business	-	1,663%	50%	30%	25%	25%
Provision of services to Tmall - Pharma	-	185%	40%	40%	40%	40%
Provision of services to Tmall - Health food	-	-	50%	50%	50%	50%
Innovative healthcare related services	-	296%	80%	60%	50%	50%
Product tracking platform	90%	70%	(75)%	15%	15%	15%
Total	90%	739%	414%	86%	62%	55%

% of sales by segment						
Healthcare e-commerce business	75%	95%	96%	96%	96%	96%
B2C pharmacy business	61%	72%	73%	77%	79%	81%
Wholesale business	5%	16%	13%	11%	9%	7%
Provision of services to Tmall - Pharma	8%	5%	4%	3%	3%	3%
Provision of services to Tmall - Health food	0%	2%	2%	2%	2%	2%
Innovative healthcare related services	5%	4%	4%	4%	4%	4%
Product tracking platform	20%	1%	1%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%

Sources: Company data, CMS (HK)

Gross profit analysis

Ali Health's gross margin fell to 27% in FY18 from 67% in FY16, mainly due to the pivoting in its business away from product tracking into e-commerce. In general, we project gradual GPM to maintain at c.27% in FY19/20E and expand to 29% afterwards, reflecting the contribution from innovative healthcare revenue which has higher margins and the economies of scale in e-commerce, partly offset.

Figure 50: Gross profit forecast breakdown

Revenue breakdown	2017	2018	2019E	2020E	2021E	2022E
Pharmaceutical e-commerce business	83	548	1,025	1,749	2,840	4,231
B2C pharmacy business	60	417	831	1,470	2,442	3,663
Wholesale business	-	8	12	16	19	24
Provision of services to Tmall - Pharma	24	83	119	169	237	331
Provision of services to Tmall - Health food	-	41	62	95	142	213
Innovative healthcare related services	17	85	154	249	377	572
Product tracking platform	86	18	21	24	28	32
Total	170	651	1,199	2,022	3,245	4,835

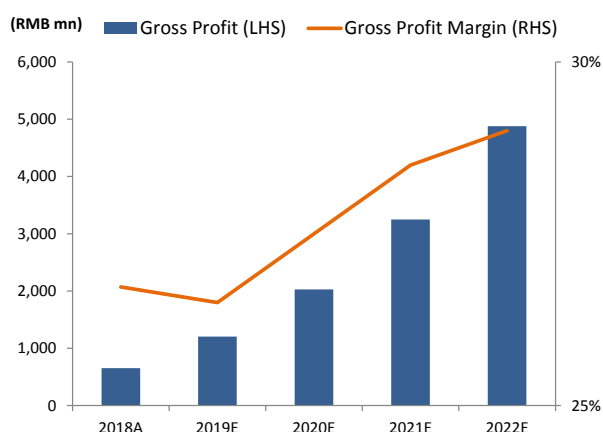
GPM (%)

Pharmaceutical e-commerce business

B2C pharmacy business	21%	24%	25%	26%	27%	27%
Wholesale business	n.a.	2%	2%	2%	2%	2%
Provision of services to Tmall - Pharma	59%	73%	74%	75%	75%	75%
Provision of services to Tmall - Health food	n.a.	73%	74%	75%	75%	75%
Innovative healthcare related services	69%	87%	87%	88%	89%	90%
Product tracking platform	90%	73%	75%	75%	75%	75%
Total simulated	36%	27%	26%	27%	28%	29%

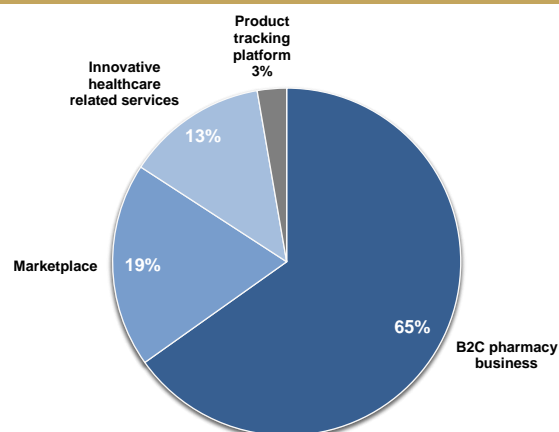
Sources: Company data, CMS (HK)

Figure 51: Gross profit and margin in FY18-22E



Sources: Company data, CMS (HK)

Figure 52: Gross profit breakdown in FY18

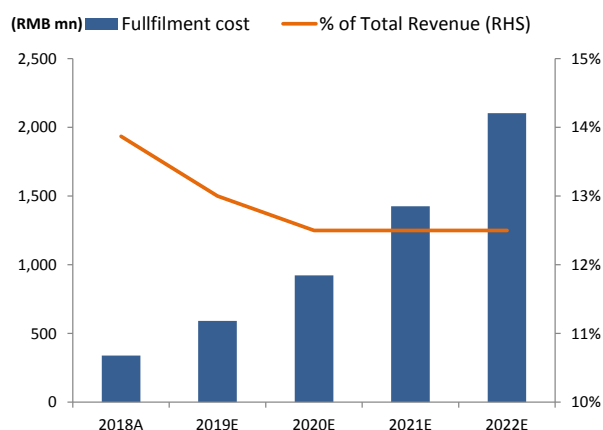


Sources: Company data, CMS (HK)

Expenses analysis

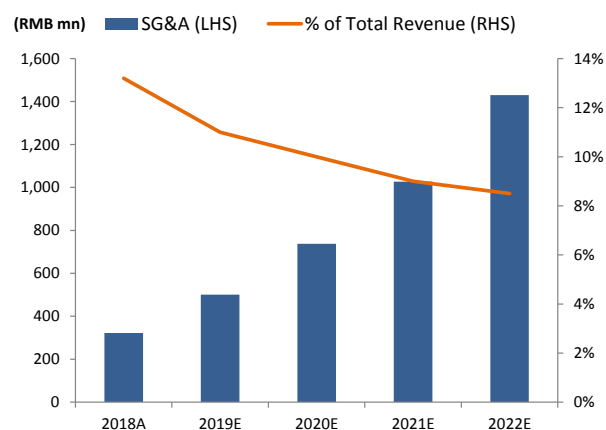
We forecast a lower fulfillment cost ratio from 14% in FY18 towards 13% in FY22E, mainly reflecting better economy of scale via growing self-operating e-commerce sales. We expect gradually downward SG&A ratio from 13% in FY18 to 9% in FY22E, mainly reflecting improving operating leverage. We expect the R&D expense ratio to gradually rise from 5% in FY18 towards 8% in FY22E, reflecting more investment in HCIT.

Figure 53: Fulfillment cost trend



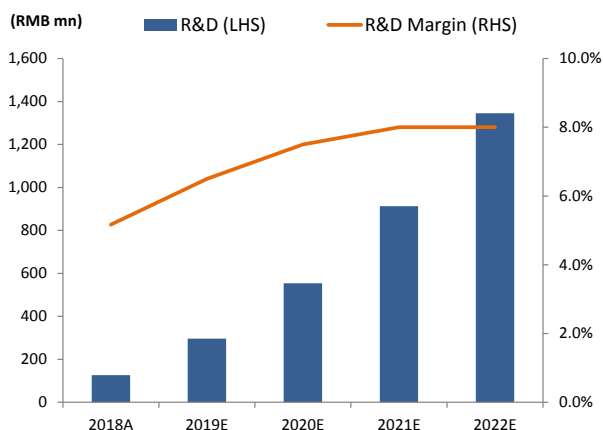
Sources: Company data, CMS (HK)

Figure 54: SG&A expense trend



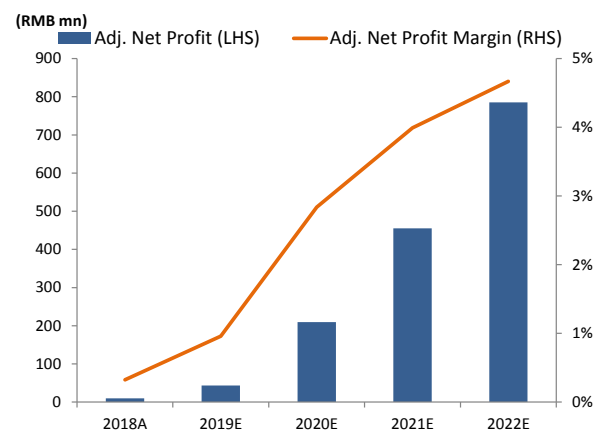
Sources: Company data, CMS (HK)

Figure 55: R&D expense ratio



Sources: Company data, CMS (HK)

Figure 56: Net profit margin trend

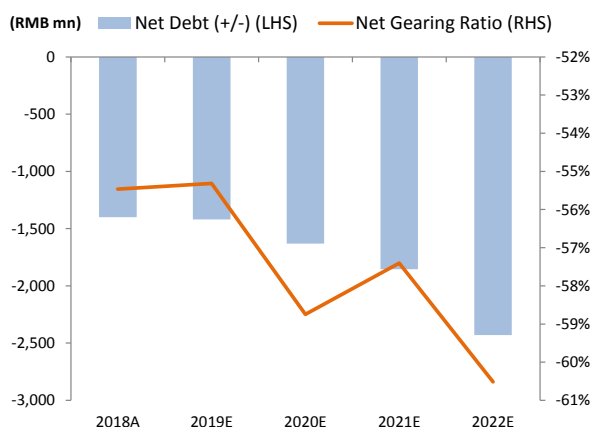


Sources: Company data, CMS (HK)

Balance sheet and Cash flow

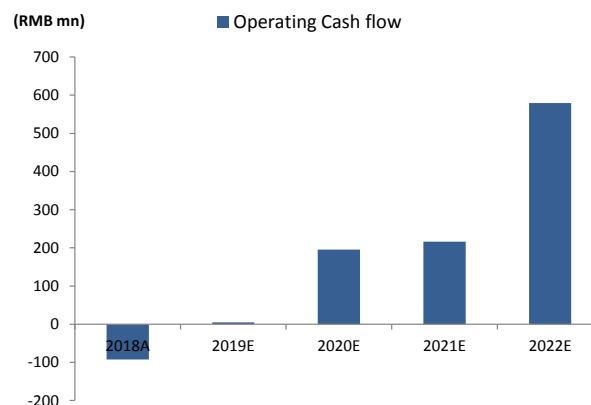
Company has turned around its operating cash flow to RMB37mn in 2H FY18, from RMB-129mn in 1HFY18. We expect Company to deliver positive operating cash flow on full year basis over FY19-22E. As such, we expect Company to report net cash at RMB1,420mn/RMB1,631mn/1,855mn/2,431mn in FY19-22E, before any M&A.

Figure 57: net debt and net gearing ratio



Sources: Company data, CMS (HK)

Figure 58: operating cash flow



Sources: Company data, CMS (HK)

Income statement

Figure 59: Income statement

Income statement	FY17	FY18A	FY19E	FY20E	FY21E	FY22E
Consolidated revenue	475	2,443	4,550	7,379	11,406	16,821
% yoy change	739.4%	414.1%	86.3%	62.2%	54.6%	47.5%
COGS	(288)	(1,790)	(3,344)	(5,350)	(8,155)	(11,943)
% change	1447.3%	521.8%	86.8%	60.0%	52.4%	46.4%
Gross profit	187	653	1,206	2,029	3,251	4,878
Gross margin (%)	39.4%	26.7%	26.5%	27.5%	28.5%	29.0%
% yoy change	392.8%	248.6%	84.7%	68.3%	60.2%	50.1%
(-) Total SG&A expense	(209)	(322)	(500)	(738)	(1,027)	(1,430)
% margin	44.0%	13.2%	11.0%	10.0%	9.0%	8.5%
Administrative expenses	(96)	(121)	(205)	(295)	(399)	(589)
% yoy change	4.3%	26.7%	68.8%	44.2%	35.2%	47.5%
% margin	20.2%	5.0%	4.5%	4.0%	3.5%	3.5%
Selling and distribution costs	(113)	(201)	(296)	(443)	(627)	(841)
change %	40.0%	77.8%	47.1%	49.7%	41.7%	34.1%
margin %	23.8%	8.2%	6.5%	6.0%	5.5%	5.0%
(-) Fulfilment	(68)	(339)	(591)	(922)	(1,426)	(2,103)
% yoy change	#DIV/0!	399.9%	74.6%	56.0%	54.6%	47.5%
% margin	14.3%	13.9%	13.0%	12.5%	12.5%	12.5%
(-) Research & Development cost	(109)	(126)	(296)	(553)	(912)	(1,346)
% yoy change	42.6%	16.2%	134.3%	87.1%	64.9%	47.5%
% margin	22.9%	5.2%	6.5%	7.5%	8.0%	8.0%
(+/-) Other income/expense, gains/losses	-	5	10	16	25	36
Government grant	-	5	10	16	25	36
EBITDA adjusted	(78)	1	16	179	477	867
% yoy change	-46.1%	-101.4%	1345.9%	1015.7%	166.8%	81.8%
margin %	-16.4%	0.0%	0.4%	2.4%	4.2%	5.2%
				(10)	(10)	(10)
Total Depreciation and Amortisation	(5)	(5)	(3)	(9)	(17)	(27)
% sales	1.0%	0.2%	0.1%	0.1%	0.1%	0.2%
Depreciation	(5)	(5)	(3)	(9)	(17)	(27)
Stock-Based Compensation	(110)	(117)	(170)	(318)	(525)	(774)
EBIT adjusted	(83)	(3)	13	170	460	840
% yoy change	-44.3%	-95.9%	-478.9%	1217.0%	171.2%	82.5%
margin %	-17.4%	-0.1%	0.3%	2.3%	4.0%	5.0%
(+/-) Profit from JV&Asso.	5	9	15	20	25	30
(+/-) Finance (expense)/income - net	5	5	31	40	46	52
Finance income	12	15	31	40	46	52
Finance expenses	(7)	(10)	-	-	-	-
(+/-) Non-Other income/expense, gains/losses	(19)	21	-	-	-	-
% margin	-4.1%	0.8%	0.0%	0.0%	0.0%	0.0%
Others	(19)	21				
Profit before tax	(207)	(95)	(126)	(109)	(19)	118
% change	5.1%	-54.0%	32.7%	-13.9%	-82.8%	-735.2%
% margin	-43.6%	-3.9%	-2.8%	-1.5%	-0.2%	0.7%
(-) Tax	(2)	(14)	-	-	(51)	(107)
% effective tax rate	-1.6%	63.8%	0.0%	0.0%	10.0%	12.0%
Net Profit	(209)	(109)	(126)	(109)	(69)	11
% change	5%	-48%	15.8%	-13.9%	-36.3%	-116.5%
% net margin	-43.9%	-5.3%	-2.8%	-1.5%	-0.6%	0.1%
(+/-) Minority interest	(1)	(2)	-	-	-	-
% margin	0%	0%	0.0%	0.0%	0.0%	0.0%
Net profit attributable to shareholders (reported)	(208)	(107)	(126)	(109)	(69)	11
% change	8.4%	(48.5)%	18.1%	-13.9%	-36.3%	-116.5%
% margin	(43.7)%	(4.4)%	-2.8%	-1.5%	-0.6%	0.1%
Adjusted net profit	(97)	10	44	209	455	785
% yoy change	-36.9%	-110.3%	336.7%	379.6%	117.4%	72.4%
Adj. net profit margin(%)	-20.7%	0.3%	1.0%	2.8%	4.0%	4.7%

Sources: Company data, CMS (HK)

Cash flow statement

Figure 60: Cash flow statement

Cash flow statement	FY17	FY18A	FY19E	FY20E	FY21E	FY22E
Cash flow from operating activities						
Pretax profit	(207)	(95)	(126)	(109)	(19)	118
(-) Depreciation for PPE	5	5	3	9	17	27
(-) Amortisation of intangible assets	-	-	-	-	-	-
(-) Amortisation of land use right	-	-	-	-	-	-
(+) Finance charges	7	10	-	-	-	-
(-) Interest income	(12)	(15)	(31)	(40)	(46)	(52)
(+/-) Net forex gain (loss)	17	(32)	-	-	-	-
(+/-) Share-based payment expense	110	117	170	318	525	774
(+/-) Share of profit/loss from JV & Asso.	(5)	(9)	(15)	(20)	(25)	(30)
(+) Amortization of deferred revenue	-	-	-	-	-	-
(+/-) Unrealized exchange loss/gain	-	-	-	-	-	-
(+/-) Impairment loss on inventories	-	-	-	-	-	-
(+/-) Others	3	26	-	-	-	-
Operating profit before working capital changes	(82)	7	1	159	452	837
yoy chg	-54%	-109%	-86%	15459%	185%	85%
Working capital change						
(+/-) Inventories	(152)	(308)	(291)	(366)	(465)	(726)
(+/-) Trade receivables	(41)	(54)	(33)	(37)	(88)	(119)
(+/-) Prepayments, deposits and other receivable	(17)	(37)	(68)	(91)	(130)	(175)
(+/-) Trade and other payable	148	251	300	403	315	623
(+/-) Advance receipts from customers	(2)	73	96	129	183	246
(+/-) Deferred revenue	(87)	1	-	-	-	-
(+/-) Other WC items not transferred to the group	(3)	(11)	-	-	-	-
Net working capital change	(153)	(84)	4	37	(185)	(151)
Cash generated/consumed by operations	(235)	(77)	5	196	267	686
(-) Income tax paid	(0)	(5)	-	-	(51)	(107)
(-) Interest paid	(7)	(10)	-	-	-	-
Net cash from operations	(242)	(92)	5	196	216	579
Free cash flow to equity	(244)	(98)	(10)	171	178	524
Cash flow from investing activities						
Purchase of PPE	(2)	(6)	(15)	(24)	(38)	(55)
Purchase of intangible assets	-	-	-	-	-	-
Purchase of land use rights	-	-	-	-	-	-
Purchase/disposal of subsidiaries	(20)	-	-	-	-	-
Purchase/disposal of JV&Asso.	(320)	(539)	-	-	-	-
Interest received	9	9	31	40	46	52
Changes in available-for-sale financial assets	(10)	-	-	-	-	-
Net change in pledged bank deposit	194	221	-	-	-	-
Others	-	-	-	-	-	-
Net cash from investing	(150)	(310)	16	15	8	(4)
Net operating cash flow (FCF)	(392)	(403)	20	211	224	576
Cash flow from financing activities						
Proceeds from IPO net of fees and related items	-	-	-	-	-	-
Issuance of equity shares / Proceeds from exercise of share options	0	-	-	-	-	-
Capital Injection	-	1,469	-	-	-	-
Acquisition of non-controlling interests	-	-	-	-	-	-
Dividends	-	-	-	-	-	-
Cash Flow before debt financing	(391)	1,053	20	211	224	576
Proceeds/repayment of bank borrowings	199	(200)	-	-	-	-
Paid/repaid from/to related parties	-	-	-	-	-	-
Bonds	-	-	-	-	-	-
Others	-	-	-	-	-	-
Net cash from financing	199	1,259	0	0	0	0
Net change in borrowing (for presentation only)	199	(200)	-	-	-	-
Other fundraising	0	-	-	-	-	-
Others	-	-	-	-	-	-
Beginning cash	714	570	1,397	1,417	1,629	1,853
Net change in cash	(192)	856	20	211	224	576
Add back overdraft	-	-	-	-	-	-
Forex	48	(28)	-	-	-	-
Ending cash	570	1,397	1,417	1,629	1,853	2,428

Sources: Company data, CMS (HK)

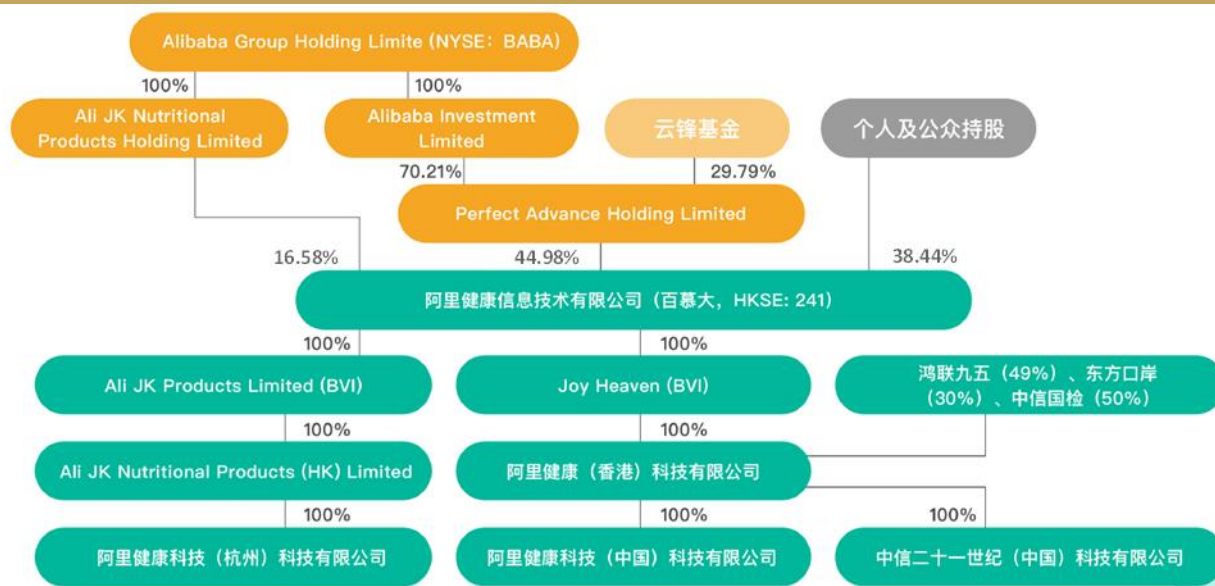
Balance Sheet

Figure 61: CAPEX

Balance sheet	FY17	FY18A	FY19E	FY20E	FY21E	FY22E
Non-current assets						
PP&E	5	6	18	33	54	83
Intangible assets	-	-	-	-	-	-
Land use rights	-	-	-	-	-	-
Goodwill	19	19	19	19	19	19
Interests in associates	567	1,014	1,029	1,049	1,074	1,104
Deferred tax assets	-	-	-	-	-	-
Others	277	56	56	56	56	56
Total non-current assets	869	1,095	1,122	1,157	1,203	1,261
Current assets						
Inventories	152	442	733	1,099	1,564	2,290
Trade and Other receivables	78	170	272	400	619	912
Trade receivables	39	91	125	162	250	369
Prepayments, deposits and other receivables	40	79	147	238	369	544
Other receivables	-	-	-	-	-	-
Service work in progress	-	-	-	-	-	-
Total trading receivables (ex-inventory)	89	174	276	404	623	916
Short-term investments	-	-	-	-	-	-
Pledged bank deposits	1	2	2	2	2	2
Bank balances and cash	570	1,397	1,418	1,629	1,853	2,428
Total cash and cash equivalents	571	1,399	1,420	1,631	1,855	2,431
Total current assets	811	2,016	2,428	3,134	4,042	5,637
Total assets	1,680	3,111	3,550	4,291	5,245	6,899
Current liabilities						
Trade and Other payables	353	572	968	1,499	1,997	2,866
Trade payables	126	323	623	1,026	1,341	1,963
Advance from customers	38	111	207	336	519	766
Other payables	189	138	138	138	138	138
Income tax payable	-	7	7	7	7	7
Total payables	353	580	975	1,507	2,005	2,874
ST bank debt	-	-	-	-	-	-
Due to a related party	-	-	-	-	-	-
Others	-	1	1	1	1	1
Total current liabilities	353	580	976	1,508	2,005	2,874
Non-current liabilities						
Deferred revenue	-	-	-	-	-	-
Deferred tax liabilities	7	8	8	8	8	8
Non-bank LT liabilities	7	8	8	8	8	8
LT bank loans	200	-	-	-	-	-
Obligation under a finance lease	-	-	-	-	-	-
Total non-current liabilities	207	8	8	8	8	8
Equity						
Minorities	(58)	(57)	(57)	(57)	(57)	(57)
Shareholders' funds						
Reserves	1,105	2,499	2,543	2,752	3,207	3,992
Total equity attributable to equity shareholders	1,178	2,580	2,624	2,833	3,289	4,074
Total shareholders' equity	1,120	2,523	2,567	2,776	3,231	4,016
Total liabilities + equity	1,680	3,111	3,550	4,291	5,245	6,899

Sources: Company data, CMS (HK)

Figure 62: Ali Health Shareholding Structure



Sources: Company data

Financial Summary

Balance Sheet

RMB mn	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	869	1,095	1,122	1,157	1,203
PP&E	5	6	18	33	54
Intangible assets	-	-	-	-	-
Land use rights	-	-	-	-	-
Goodwill	19	19	19	19	19
Interests in associates	567	1,014	1,029	1,049	1,074
Deferred tax assets	-	-	-	-	-
Others	277	56	56	56	56
Current assets	811	2,016	2,428	3,134	4,042
Inventories	152	442	733	1,099	1,564
Loan and account receivables	78	170	272	400	619
Total cash and cash equivalents	571	1,399	1,420	1,631	1,855
Total assets	1,680	3,111	3,550	4,291	5,245
Current liabilities	353	580	976	1,508	2,005
Trade and bills payables	126	323	623	1,026	1,341
Other payables	38	111	207	336	519
Due to a related party	189	138	138	138	138
Income tax payable	-	7	7	7	7
ST bank debt	-	-	-	-	-
Non-current liabilities	207	8	8	8	8
Deferred government grants	-	-	-	-	-
Deferred tax liabilities	7	8	8	8	8
LT bank loans	200	-	-	-	-
Shareholders' funds	1,178	2,580	2,624	2,833	3,289
Minorities	(58)	(57)	(57)	(57)	(57)
Total liability & equity	1,680	3,111	3,550	4,291	5,245

Cashflow Statement

RMB mn	FY17A	FY18A	FY19E	FY20E	FY21E
Cash flow from operating activities	(242)	(92)	5	196	216
Pretax profit	(207)	(95)	(126)	(109)	(19)
OP before WC changes	(82)	7	1	159	452
Net working capital change	(153)	(84)	4	37	(185)
Income tax paid	(0)	(5)	-	-	(51)
Interest paid	(7)	(10)	-	-	-
Cash flow from investing activities	(150)	(310)	16	15	8
Purchase of PPE	(2)	(6)	(15)	(24)	(38)
Purchase/disposal of subsidiaries	(20)	-	-	-	-
Purchase/disposal of JV&Asso.	(320)	(539)	-	-	-
Interest received	9	9	31	40	46
Others	183	226	-	-	-
Cash flow from financing	199	1,259	-	-	-
Capital Injection	0	1,469	-	-	-
Acquisition of non-controlling stake	-	-	-	-	-
Repurchase of shares	-	(13)	-	-	-
Dividends	-	-	-	-	-
Proceeds/repayment of bank loan	199	(200)	-	-	-
Beginning cash	714	570	1,397	1,417	1,629
Forex	48	(28)	-	-	-
End cash	570	1,397	1,417	1,629	1,853

Profit & Loss Statement

RMB mn	FY17A	FY18A	FY19E	FY20E	FY21E
Consolidated revenue	475	2,443	4,550	7,379	11,406
Cost of goods sold	(288)	(1,790)	(3,344)	(5,350)	(8,155)
Gross profit	187	653	1,206	2,029	3,251
(-) Total SG&A expense	(209)	(322)	(500)	(738)	(1,027)
Administrative expenses	(96)	(121)	(205)	(295)	(399)
Selling costs	(113)	(201)	(296)	(443)	(627)
(-) Fulfilment	(68)	(339)	(591)	(922)	(1,426)
(-) R&D cost	(109)	(126)	(296)	(553)	(912)
(+/-) Profit from JV&A.	5	9	15	20	25
Adj. EBITDA	(78)	1	16	179	477
Stock-Based Compensation	(110)	(117)	(170)	(318)	(525)
Depreciation amortisation	(5)	(5)	(3)	(9)	(17)
Adj. EBIT	(83)	(3)	13	170	460
(+/-) Finance	5	5	31	40	46
(+/-) Other income, net	(19)	21	-	-	-
Profit before tax	(207)	(95)	(126)	(109)	(19)
(-) Tax	(2)	(14)	-	-	(51)
Net Profit	(209)	(109)	(126)	(109)	(69)
(+/-) Minority interest	1	2	-	-	-
Attributable Net Profit	(208)	(107)	(126)	(109)	(69)
Adjusted net profit	(97)	10	44	209	455
EPS Fully diluted (RMB)	(0.01)	0.00	0.01	0.03	0.06
DPS (HK\$)	-	-	-	-	-

Financial Ratios

	FY17A	FY18A	FY19E	FY20E	FY21E
Growth (%)					
Consolidated revenue	739%	414%	86%	62%	55%
Gross profit	393%	249%	85%	68%	60%
Adjusted net profit	-37%	-110%	337%	380%	117%
Profitability (%)					
Gross margin (%)	39%	27%	26.5%	27.5%	28.5%
Adj. net profit margin(%)	-21%	0%	1.0%	2.8%	4.0%
ROE	-17%	-6%	-4.9%	-4.0%	-2.3%
ROA	-14%	-4%	-3.8%	-2.8%	-1.5%
Efficiency					
Inventory days	96	61	64	63	60
Accounts receivable days	15	10	9	7	7
Accounts payable days	82	46	52	56	53
Cash cycle days	29	24	21	13	13
Liquidity					
FCF (RMB mn)	(244)	(98)	(10)	171	178
Net gearing (%)	-33.1	-55.5	-55.3	-58.7	-57.4

Sources: Company data

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
NEUTRAL	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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