

Cordlife Group Limited

31 August 2021

Non-Rated

Price: S\$0.385 (as at 30 August 2021)

BBG	CLGL SP
Market cap	S\$98.3 million
Price (30 August 2021)	S\$0.385
52-week range	S\$0.335 – S\$0.445
Target Price	Non-rated
Shares Outstanding	255.3 million
Free Float	34.4%
Major Shareholder	Nanjing Xinjiekou Dep 20.3% Full Day Limited 16.2% Sincere View Intl 11.8% China Stem Cells East Co Ltd 10.0%
P/BV (06/21)	0.7x
Net debt to EBITDA (12/20)	Net cash

Source: Company data, Bloomberg, SAC Capital

Analyst

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Cash position underpins share price

Revenue declined by 11.7% yoy to S\$23.2m in 1HFY21, with fewer new cord blood samples processed due to movement restrictions, and tightening of household spending budgets in general, slightly mitigated by the conversion of more clients to higher value price plans and increased revenue contribution from diagnostic services.

Gross margin edged up 0.5ppt to 63.2%. Net profit fell by a smaller 5.2% yoy to S\$2.5m in 1HFY21, from S\$2.6m a year ago, lifted by i) government grants aggregating S\$0.25m; ii) share of profit of associate Thai Stemlife Co. Ltd. of S\$0.29m; iii) a 6.7% or S\$1.2m decrease in SG&A expenses translating to cost savings.

Flushed with cash. The Group has net cash and short-term investments of S\$73.4m, with zero debt. Net cash per share is S\$0.286, making up 74.3% of its current share price. We see this as the support for its share price.

Key markets seeing uneven recovery from Covid-19. Out of the six countries Cordlife operates in, Singapore and Hong Kong are the only two which saw significant improvements from the brunt of Covid-19. The rest continue to suffer from the wrath of the pandemic. Covid-19 has prompted higher household savings and lowered the level of discretionary spending. India was finally seeing a rise in its middle class, until Covid hit and reversed the trend. Covid has continued to hammer their economy with the series of lockdowns.

We are cautious of the uneven recovery trajectory of Cordlife's key markets, with lower levels of discretionary spending impacting demand for its services.

Key risks: Declining birth rate, uneven Covid-19 recovery trajectory and competition in key markets

Key Financials

Year ended 31 Dec*	FY2016	FY2017	FY2018	FY2019	FY2020
Revenue (S\$'000)	59.6	60.0	90.5	61.6	50.6
EBIT (S\$'000)	13.6	-1.7	5.8	8.4	7.9
Net profit (S\$'000)	12.3	-2.6	2.7	6.5	6.5
Basic EPS (S cents)	4.75	-0.99	1.05	2.55	2.57
Dividend per share (S cents)	13.00	0.50	1.20	1.00	0.90
Net cash / (debt)	112.6	29.8	9.7	30.3	48.1
Valuation					
EBIT margin (%)	22.8	-2.8	6.4	13.7	15.6
ROIC (%)	13.2	-2.3	2.0	4.9	5.2
EV/EBITDA (x)	NA	32.8	5.8	4.3	2.6
P/E (x)	7.9	NA	36.6	15.1	14.9
Dividend yield (%)	33.8	1.3	3.1	2.6	2.3

* Due to a change in year end, figures are not fully comparable.

* FY2016 and FY2017 ended 30/06, FY2018 figures reported 01/07/17 - 31/12/18 financials, and FY2019 and FY2020 years ended 31/12.

Investment Highlights

Segment Revenue (S\$m)	1H21	1H20
Cord banking	21.4	25.0
Other services	1.8	1.2
Total	23.2	26.2

Source: Company Data, SAC Capital

Continued to be affected by restrictions and lower spending budgets

Revenue dropped 11.7% yoy to S\$23.2m in 1HFY21 from S\$26.2m, with lower new cord blood samples processed due to movement restrictions, and the tightening of household spending budgets in general. Outside its six key markets, samples from other markets (i.e. Myanmar, Vietnam and Bangladesh) need to be transported to one of their labs (in Singapore, Hong Kong, Indonesia, India, Malaysia and the Philippines), which is restricted with movement controls.

The decline was slightly mitigated by the conversion of more clients to higher value price plans in the Philippines and Hongkong, and the increased revenue contribution from diagnostics services (in particular, pre-natal testing services), which grew 44.1% or S\$0.5m.

Gross margin edged up 0.5ppt from 62.7% to 63.2%. Net profit dropped a smaller 5.2% yoy to S\$2.5m in 1HFY21, from S\$2.6m a year ago, lifted by i) government grants aggregating S\$0.25m across their 3 markets, Singapore, Hong Kong and Malaysia; ii) share of profit of associate Thai Stemlife Co. Ltd. of S\$0.29m from a reversal of impairment due to its profitability; iii) a 6.7% or S\$1.2m decrease in SG&A expenses translating to cost savings.

HKSC became indirect wholly-owned subsidiary

Cordlife, through its wholly-owned subsidiary Cordlife Stem Cell Technology, acquired the remaining 33% of shares in Hong Kong Screening Centre ("HKSC") at HK\$0.3m (approx. S\$57.1K), making HKSC now an indirectly wholly-owned subsidiary. The acquisition is not expected to have any material impact on the net tangible assets and net earnings per share for FY21.

Flushed with cash

The Group is a cash cow, with a net cash position of S\$73.4m, including fixed deposits and short-term deposits (comprises of money market funds, and Class A redeemable convertible note from CRC). The Group has zero debt after paying off the outstanding S\$3.9m borrowings.

Net cash per share is S\$0.286, making up 74.3% of current share price.

Investment Highlights

Key markets seeing uneven recovery from Covid-19

Out of the six countries Cordlife operates in, Singapore and Hong Kong are the only two which saw significant improvements from the brunt of Covid-19. Though some other markets have escaped from their respective all-time high daily cases, most continue to suffer from the wrath of the pandemic.

Covid-19 has prompted higher household savings and lowered the level of discretionary spending. India was finally seeing a rise in its middle class, until Covid hit and reversed the trend. Covid has continued to hammer their economy with the series of lockdowns.

We are cautious of the uneven recovery trajectory of Cordlife's key markets, with lower levels of discretionary spending impacting demand for its services, especially with the Delta variant and possible emergence of other variants in the future, which will prolong any economic lags or declines.

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