

# Cordlife Group Limited

8 April 2022

## Non-Rated

<b>BBG</b>	CLGL SP										
<b>Market cap</b>	S\$99.5 million										
<b>Price (7 April 2022)</b>	S\$0.390										
<b>52-week range</b>	S\$0.340 – S\$0.540										
<b>Target Price</b>	Non-rated										
<b>Shares Outstanding</b>	255.3 million										
<b>Free Float</b>	30.5%										
<b>Major Shareholder</b>	<table border="0"> <tr> <td>TransGlobal Real Estate</td> <td>28.0%</td> </tr> <tr> <td>Nanjing Xinjiekou Dep</td> <td>20.3%</td> </tr> <tr> <td>China Stem Cells East Co</td> <td>10.0%</td> </tr> <tr> <td>Robust Plan</td> <td>6.2%</td> </tr> <tr> <td>Ally Honour Trading HK</td> <td>5.0%</td> </tr> </table>	TransGlobal Real Estate	28.0%	Nanjing Xinjiekou Dep	20.3%	China Stem Cells East Co	10.0%	Robust Plan	6.2%	Ally Honour Trading HK	5.0%
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<b>P/BV (12/21)</b>	0.7x
<b>Net debt to EBITDA (12/21)</b>	Net cash

Source: Company data, Bloomberg, SAC Capital

## Signs of recovery

**Signs of recovery.** 2H21 revenue (+7.4% hoh, +3.3% yoy) and EBITDA (+52.3% hoh, +51.6% yoy) point to a recovery. EBITDA margin, at 15.6%, was above FY19's 14.3%, as it signed up more full-payment plans, improved processes and incurred lower marketing costs. FY21 net profit was 31.2% higher yoy, if the non-recurring S\$2.1m government grant received in FY20 were excluded. Full year's revenue was -3.9% yoy, led by -5.7% in core cord blood banking services. Diagnostics services grew 33% to S\$3.6m, though this was only 6.3% of total revenue.

The growth in sample collections in 2H21 (+19.3% hoh, +5.0% yoy) suggested an uptick in the core cord blood banking operations, as these would translate into revenue in future periods. Contract liabilities, representing advanced receipts, rose 7.8% yoy to S\$76.1m as at end 2021, indicating higher revenue recognition going forward. These supported OCF/share of S\$0.037 and a strong net cash of S\$74.6m, or 29.2 cents/share.

**Lifting of COVID curbs would help lift earnings** in the following ways: 1) Higher marketing activities through greater engagements with doctors, and roadshows and seminars to raise awareness; 2) Easing of movement restrictions in key markets. As banking services are conducted in the major cities, the resumption of domestic travel will help in collection of samples nationally; and 3) Increase in offshore banking, with the resumption of flights and travel. Samples are collected in the country where the customer resides and transported to Cordlife's banking facilities for processing and storage.

Cordlife has drummed up efforts to sign up more full-payment plans. Unlike instalment plans, full-payment plans 1) generate higher processing income; 2) lower credit risk and control cost; and 3) collects cash up-front. Cord blood banking could gain wider acceptance if more studies demonstrate the benefits of using stem cells in regenerative therapy.

**Low live-births in core markets** Singapore (45% of revenue) and HK (13.6%) remain a concern. Singapore's total number of babies grew 0.16% in 2021 to 38,651. Still, this was 1.6% lower than 2019. An impetus to sign up cord blood banking is the charges can be deducted from the partially Government-funded Child Development Accounts. HK births fell by a sharper 8% to 38,684 in 2021, the seventh year of decline. What's more worrying is the decline in number of marriages, from about 44,000 in 2019, to 28,000 in 2020 and 27,000 in 2021.

Besides other private cord blood banking providers, Cordlife also have to contend with the public cord blood bank, Singapore Cord Blood Bank, who also offers private banking services. In other developed markets such as the US, there are private operators that also offers public services, such as listed Cryo-Cell International (FY21 PE 30x).

**Trades at 30% discount to book.** The share price is at a 30% discount to book value of S\$0.534/share, 3x FY21 EV/EBITDA and 16.3x FY21 PER.

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## Key Financials

Year ended 31 Dec (in S\$ million)	FY2018*	FY2019	FY2020	FY2021
Revenue	102.5	69.8	59.0	56.7
EBIT	5.8	8.4	7.9	7.2
Net profit	2.7	6.5	6.5	6.1
Basic EPS (S cents)	1.05	2.55	2.57	2.40
Dividend per share (S cents)	1.20	1.00	0.90	0.90
Net cash / (debt)	38.7	49.7	71.2	74.6
<b>Valuation</b>				
EBIT margin (%)	5.7	12.1	13.4	12.7
ROIC (%)	2.0	4.9	5.2	4.8
EV/EBITDA (x)	3.1	2.5	2.7	3.2
P/E (x)	37.1	15.3	15.2	16.3
Dividend yield (%)	3.1	2.6	2.3	2.3

\* FY2018 figures reported 01/07/17 - 31/12/18 financials

Revenue figure restated to include finance income on contract assets (previously classified under finance income) following the adoption of new accounting standard

## Income Statement

FYE 31 Dec (S\$m)	2018	2019	2020	2021
<b>Revenue</b>	<b>102.5</b>	<b>69.8</b>	<b>59.0</b>	<b>56.7</b>
Cost of sales	-34.1	-21.9	-18.9	-17.2
<b>Gross profit</b>	<b>68.4</b>	<b>47.9</b>	<b>40.1</b>	<b>39.5</b>
Other operating income	1.4	0.9	2.9	0.8
Selling and marketing expenses	-32.2	-21.9	-18.4	-17.5
Administrative expenses	-34.2	-21.2	-19.5	-18.5
Finance income	2.1	2.1	2.2	2.3
Finance costs	-0.3	-0.3	-0.3	-0.2
<b>Profit before income tax from operations</b>	<b>5.2</b>	<b>7.5</b>	<b>7.0</b>	<b>6.4</b>
Fair value gain/(loss) on investment properties	0.3	-0.3	-0.2	0.2
Reversal of impairment loss on investment in associate	-	-	0.4	-
Share of profit of associate	-	-	0.4	0.4
Gain/(loss) on financial asset at fair value through profit or loss	-	0.9	-0.0	-0.0
<b>Profit before income tax</b>	<b>5.5</b>	<b>8.1</b>	<b>7.6</b>	<b>7.0</b>
Income tax expense	-2.8	-1.7	-1.0	-0.9
<b>Profit for the period</b>	<b>2.7</b>	<b>6.5</b>	<b>6.6</b>	<b>6.1</b>
Profit attributable to:				
<b>Owners of the Company</b>	<b>2.7</b>	<b>6.5</b>	<b>6.5</b>	<b>6.1</b>
Non-controlling interests	0.0	-0.0	0.0	-

## Ratios

FYE 31 Dec (S\$m)	2018	2019	2020	2021
<b>Profitability (%)</b>				
Gross profit margin	66.7	68.7	68.0	69.7
EBIT margin	5.7	12.1	13.4	12.7
Profit before tax margin	5.4	11.6	12.8	12.4
<b>Liquidity (x)</b>				
Current ratio	4.2	3.3	3.9	3.8
Quick ratio	4.1	3.2	3.9	3.7
Net Debt to Equity (%)	Net Cash	Net Cash	Net Cash	Net Cash
<b>Valuation (x)</b>				
P/E	37.1	15.3	15.2	16.3
P/B	0.8	0.8	0.7	0.7
EV/EBITDA	3.1	2.5	2.7	3.2
<b>Returns (%)</b>				
Return on equity	2.2	5.0	4.9	4.5
Return on assets	1.3	2.9	2.8	2.6
Return on invested capital	2.0	4.9	5.2	4.8

## Balance Sheet

FYE 31 Dec (S\$m)	2018	2019	2020	2021
<b>PPE</b>	<b>12.7</b>	<b>16.1</b>	<b>16.4</b>	<b>16.4</b>
Investment properties	8.7	7.7	7.5	3.5
Intangible assets	34.3	33.4	32.0	31.5
Deferred tax assets	0.1	0.1	1.1	0.7
Investment in associate	-	-	0.8	1.1
LT investments	6.2	9.5	-	4.4
Contract assets	67.0	69.7	68.2	66.6
Other receivables	0.1	0.1	0.0	-
Fixed deposits	-	5.5	3.2	17.9
<b>Total non-current assets</b>	<b>129.1</b>	<b>142.1</b>	<b>129.3</b>	<b>142.0</b>
Inventories	1.4	1.3	1.7	1.4
Prepayments	2.7	2.1	2.6	2.2
Trade receivables	27.7	24.0	23.4	24.0
Other receivables	6.5	3.8	3.1	5.5
Tax recoverable	2.0	2.3	1.2	1.9
ST investments	29.0	13.9	19.8	15.4
Fixed deposits	3.3	9.9	16.1	15.9
Pledged fixed deposits	0.0	9.8	10.1	10.0
Cash and cash equivalents	10.9	14.8	25.9	15.5
<b>Total current assets</b>	<b>83.6</b>	<b>82.1</b>	<b>103.9</b>	<b>91.7</b>
<b>Total assets</b>	<b>212.7</b>	<b>224.3</b>	<b>233.2</b>	<b>233.7</b>
Trade and other payables	14.0	15.9	14.3	11.4
Interest-bearing borrowings	0.3	0.3	0.3	-
Lease liabilities	-	1.1	1.6	2.1
Contract liabilities	3.8	5.9	7.8	9.0
Tax payable	2.1	1.8	2.5	1.7
<b>Total current liabilities</b>	<b>20.1</b>	<b>25.1</b>	<b>26.4</b>	<b>24.2</b>
Other payables	0.3	0.4	0.5	0.7
Interest-bearing borrowings	4.3	4.0	3.7	-
Lease liabilities	-	1.4	2.1	0.8
Contract liabilities	58.3	58.9	62.7	67.1
Deferred tax liabilities	5.9	5.2	4.6	4.2
<b>Total non-current liabilities</b>	<b>68.8</b>	<b>69.9</b>	<b>73.6</b>	<b>72.8</b>
<b>Total liabilities</b>	<b>88.9</b>	<b>95.0</b>	<b>100.0</b>	<b>97.0</b>
Share capital	96.4	96.0	95.6	95.2
Treasury shares	-15.5	-14.7	-14.1	-13.3
Accumulated profits	56.2	61.6	65.6	69.4
Other reserves	-13.5	-13.7	-14.0	-14.9
<b>Equity attributable to Owners</b>	<b>123.6</b>	<b>129.1</b>	<b>133.1</b>	<b>136.4</b>
Non-controlling interests	0.1	0.1	0.1	0.3
<b>Total equity</b>	<b>123.8</b>	<b>129.3</b>	<b>133.2</b>	<b>136.7</b>
<b>Total equity and liabilities</b>	<b>212.7</b>	<b>224.3</b>	<b>233.2</b>	<b>233.7</b>

## Cash Flows Statement

FYE 31 Dec (S\$m)	2018	2019	2020	2021
<b>Profit before income tax</b>	<b>5.5</b>	<b>8.1</b>	<b>7.6</b>	<b>7.0</b>
Depreciation	2.7	3.1	2.9	2.6
Amortisation	1.8	1.2	1.2	0.9
Impairment loss written off	1.7	0.9	1.8	1.6
Interest income	-2.0	-2.1	-2.2	-2.3
Investment loss/(income)	-0.4	-0.4	-0.1	0.3
Share-based compensation expense	0.8	0.6	0.1	0.3
FV (gain)/loss on investment properties	-0.3	0.3	0.2	-0.2
Unrealised exchange (gain)/loss	1.2	-0.2	0.4	-0.4
Change in working capital	-0.5	3.4	3.4	-0.7
Others	-0.2	-3.4	0.7	0.3
<b>Cash flow from operating activities</b>	<b>10.2</b>	<b>11.6</b>	<b>15.9</b>	<b>9.5</b>
Purchase of PPE	-2.1	-1.5	-1.1	-1.2
Purchase of intangible assets	-0.7	-0.6	-0.2	-0.4
Proceeds from sale of investment properties	-	-	-	1.3
Redemption/(placement) of ST investments	-6.2	15.8	-0.4	0.3
Proceeds from sale of LT investments	-	2.0	5.1	-
Acquisition of subsidiary	-8.8	-	-	-
Transfer to term deposits	8.5	-10.9	-4.8	-14.3
Others	0.0	0.0	0.1	0.1
<b>Cash flow from investing activities</b>	<b>-9.3</b>	<b>4.9</b>	<b>-1.3</b>	<b>-14.2</b>
Transfer to pledged fixed deposits	0.2	-10.8	-	-
Purchase of treasury shares	-6.7	-	-	-
Acquisition of NCI in subsidiary	-	-	-	-0.1
Repayment of interest-bearing borrowings	-6.9	-0.3	-0.3	-4.0
Dividends paid	-3.3	-1.0	-2.5	-2.3
<b>Cash flows from financing activities</b>	<b>-16.6</b>	<b>-12.1</b>	<b>-2.9</b>	<b>-6.3</b>

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