

# Cordlife Group Ltd

2 Sep 2022

## Non-Rated

<b>BBG</b>	CLGL SP
<b>Market cap</b>	S\$89.4m
<b>Price (2 Sep 2022)</b>	S\$0.35
<b>52-week range</b>	S\$0.34 – S\$0.535
<b>Target Price</b>	Non-rated
<b>Shares Outstanding</b>	255m
<b>Free Float</b>	30%
<b>Major Shareholders</b>	TransGlobal Real Estate 28% Nanjing Xinjiekou Dept 20.3% China Stem Cells East 10.0% Robust Plan 6.2%
<b>P/BV (06/22)</b>	0.7x
<b>Net Debt to EBITDA (06/22)</b>	Net Cash

Source: Company data, Bloomberg, SAC Capital

## Lower births and cut back in discretionary spending

Cord blood banking operations has been slow to pick up. 1H22 revenue was 4.0% lower yoy to S\$26.2m, and net profit -24.1% to S\$1.9m. Total number of samples collected fell 4.5% to 8,400, with growth in India offset by decline in Singapore and Hong Kong. However, revenue per sample is lower in India. Malaysia's revenue continued to fall, by 10.9% yoy, as the weak economy dampened consumer spending. Philippines' revenue grew 6.9%, but this could be fuelled by election, and one-off, in our view.

Though elective healthcare spending has resumed post COVID reopening, core banking operation faces macro-economic headwinds and post-pandemic shifts in consumer behavior; chiefly:

1) Decline in new births. In Singapore, the number of newborns fell 4.7% to 17,546 in Singapore in 1H22. The number of babies fell 5.1% to 35,100 from Jul 21-Jun 22. Crude birth rates in 2021 (number of babies born to 1,000 residents) was 8.5% in Singapore and 5.0% in Hong Kong.

2) Singapore's population shrunk 4.1% in 2021, a second consecutive year of decline, while Hong Kong's was 1.6% lower (Jan-Jun 22). Besides death, the decline was also due to expatriates that departed during COVID and emigrations to other countries. A lower population would lead to lower new births.

3) Inflationary pressure and recessionary concerns could cause a cut back in discretionary spending such as for cord blood banking services. And in Singapore, Cordlife competes with the public cord blood bank, Singapore Cord Blood Bank, which also offers private banking services.

Total contract liabilities of S\$77m, which are contracts entered into for work to be performed in the future, would underpin forward revenue and earnings. However, we do not think organic revenue can return to pre-COVID level in the next two years.

Balance sheet has net cash of S\$74m, or S\$0.29/share. We believe the bulk of these are advanced receipts. The share is trading at 0.7x P/B and 0.9x P/NTA.

## Analyst

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YE 31 Dec (S\$m)	FY18A (18 months)	FY19A	FY20A	FY21A
Revenue	104.5	69.8	59.0	56.7
EBIT	5.5	6.7	5.7	4.9
Net profit	2.3	6.9	6.5	6.1
EPS (S cents)	0.9	2.7	2.6	2.4
DPS (S cents)	1.2	1.0	0.9	0.9
Net cash / (debt)	38.7	49.7	71.2	74.6
<b>Valuation</b>				
EBIT margin (%)	5.3	9.5	9.6	8.7
ROIC (%)	1.0	3.9	3.1	4.0
EV/EBITDA (x)	5.0	3.9	2.5	1.9
P/E (x)	37.7	12.9	13.6	14.6
Dividend yield (%)	3.4	2.9	2.6	2.6

## Income Statement

FYE 31 Dec (\$m)	FY18A *	FY19A	FY20A	FY21A
<b>Revenue</b>	<b>104.5</b>	<b>69.8</b>	<b>59.0</b>	<b>56.7</b>
Cost of sales	(29.6)	(17.6)	(14.7)	(13.6)
<b>Gross profit</b>	<b>74.9</b>	<b>52.2</b>	<b>44.2</b>	<b>43.1</b>
Other income	1.4	0.9	0.8	0.5
Operating expenses	(66.4)	(43.1)	(37.9)	(36.0)
<b>EBITDA</b>	<b>9.9</b>	<b>10.0</b>	<b>7.2</b>	<b>7.6</b>
Associates & JV	-	-	0.4	0.4
Depreciation	(4.5)	(4.3)	(4.1)	(3.6)
Exceptional	-	-	2.3	0.5
<b>EBIT</b>	<b>5.5</b>	<b>6.7</b>	<b>5.7</b>	<b>4.9</b>
Finance costs	(0.3)	1.8	1.9	2.1
Pretax profit	5.2	8.5	7.6	7.0
Tax expense	(2.8)	(1.7)	(1.0)	(0.9)
Minority interests	-	0.1	-	-
<b>Net profit</b>	<b>2.3</b>	<b>6.9</b>	<b>6.5</b>	<b>6.1</b>

## Balance Sheet

FYE 31 Dec (\$m)	FY18A *	FY19A	FY20A	FY21A
<b>Assets</b>				
PPE	12.7	16.1	16.4	16.4
Investment property	8.7	7.7	7.5	3.5
Contract assets	67.0	69.7	66.6	66.6
Intangible assets	34.3	33.4	32.0	31.5
Long term investments	6.2	9.5	-	-
Deferred tax	0.1	0.1	1.1	0.7
Other receivables	0.1	0.1	-	4.4
Fixed deposits	-	5.5	8.5	17.9
<b>Non-current assets</b>	<b>129.1</b>	<b>142.1</b>	<b>133.0</b>	<b>142.0</b>
Cash	14.3	24.7	36.8	31.4
Pledged fixed deposits	-	9.8	10.9	15.9
Trade receivables	27.7	24.0	25.2	24.0
Other receivables	6.5	3.8	3.1	5.5
Inventories	1.4	1.3	1.7	1.4
Tax recoverable	2.0	2.3	1.2	1.9
ST investments	29.0	13.9	19.8	15.4
Prepayments	2.7	2.1	2.6	2.2
<b>Current assets</b>	<b>83.6</b>	<b>82.1</b>	<b>100.4</b>	<b>91.7</b>
<b>Total assets</b>	<b>212.7</b>	<b>224.3</b>	<b>233.4</b>	<b>233.7</b>
<b>Liabilities</b>				
Bank loans	0.3	0.3	0.3	-
Trade payables	14.0	15.9	14.4	11.4
Contract liabilities	3.8	5.9	7.7	9.0
Lease liabilities	-	1.1	1.6	2.1
Tax payable	2.1	1.8	2.5	1.7
<b>Current liabilities</b>	<b>20.1</b>	<b>25.1</b>	<b>26.4</b>	<b>24.2</b>
Bank loans	4.3	4.0	3.7	-
Deferred tax	5.9	5.2	4.6	4.2
Lease liabilities	-	1.4	2.1	0.8
Contract liabilities	58.3	58.9	63.0	67.1
Other payables	0.3	0.4	0.4	0.7
<b>Non-current liabilities</b>	<b>68.8</b>	<b>69.9</b>	<b>73.8</b>	<b>72.8</b>
<b>Net assets</b>	<b>123.8</b>	<b>129.3</b>	<b>133.2</b>	<b>136.7</b>
<b>Equity</b>				
Share capital	96.4	96.0	95.6	95.2
Other reserves	(28.7)	(28.4)	(28.2)	(28.2)
Retained earnings	56.2	61.6	65.6	69.4
	<b>123.6</b>	<b>129.1</b>	<b>133.1</b>	<b>136.4</b>
Minority 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>

## Cash Flow

FYE 31 Dec (\$m)	FY18A *	FY19A	FY20A	FY21A
Pretax profit	5.2	8.5	7.6	7.0
Depreciation & amortisation	4.5	4.3	4.1	3.6
Associates & JV	-	-	(0.4)	(0.4)
Net finance expense	(13.7)	(10.1)	(1.9)	(2.1)
Non-fund items	3.0	0.4	2.0	1.5
Working capital changes	(0.5)	3.4	3.4	(0.7)
Interest (paid) / received	13.3	9.0	1.9	1.5
Dividend from associates	-	-	-	-
Tax paid	(1.8)	(3.5)	(0.8)	(0.9)
<b>Operating cash flow</b>	<b>9.9</b>	<b>11.9</b>	<b>15.9</b>	<b>9.5</b>
Capex	(2.1)	(1.5)	(1.1)	(1.2)
Net investments	(8.8)	-	-	-
Fixed assets disposal	-	-	-	1.4
Others	1.7	6.3	(0.2)	(14.4)
<b>Investing cash flow</b>	<b>(9.2)</b>	<b>4.8</b>	<b>(1.3)</b>	<b>(14.2)</b>
<b>Free cash flow</b>	<b>0.6</b>	<b>16.8</b>	<b>14.6</b>	<b>(4.7)</b>
Dividend paid	(3.3)	(1.0)	(2.5)	(2.3)
Borrowings	(6.7)	(11.1)	(0.3)	(4.0)
Equity	(6.7)	-	-	(0.1)
<b>Financing cash flow</b>	<b>(16.7)</b>	<b>(12.1)</b>	<b>(2.8)</b>	<b>(6.4)</b>
<b>Net change</b>	<b>(16.0)</b>	<b>4.6</b>	<b>11.7</b>	<b>(11.0)</b>

## Ratios

FYE 31 Dec (\$m)	FY18A *	FY19A	FY20A	FY21A
<b>Profitability (%)</b>				
Gross margin	67.4	68.7	68.0	69.7
EBIT margin	5.3	9.5	9.6	8.7
<b>Liquidity (x)</b>				
Current ratio	4.2	3.3	3.8	3.8
Net Debt/EBITDA	Net cash	Net cash	Net cash	Net cash
Interest coverage ratio	30.7	32.1	21.0	38.0
Net Debt to Equity (%)	Net cash	Net cash	Net cash	Net cash
<b>Valuation (x)</b>				
P/E	37.7	12.9	13.6	14.6
P/B	0.7	0.7	0.7	0.7
EV/EBITDA	5.0	3.9	2.5	1.9
<b>Cash Conversion Cycle</b>				
Trade receivable days	112	125	156	154
Inventory days	17	28	41	38
Trade payable days	172	330	356	306

\* For 18 months

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