中國銀河國際
CHINA GALAXY INTERNATIONAL

2016年1月22日

环球医疗 [2666.HK]

首予覆盖:于高速增长的医院市场中定位良好

中国护理行业

买入

收盘价：5.34港元（2016年1月21日）

目标价：6.9港元（+29.3%)

虽然市场普遍认为，环球医疗只不过是一家融资租赁商，但我们相信该公司能够受惠于快速增长的中国医院市场。公司主要向地区和县级医院提供综合服务，包括融资租赁、行业和装备的咨询服务，以及临床科室升级服务，该公司应能在未来几年继续实现强劲的增长。在另一方面，我们也看到公司的医院管理业务有巨大发展潜力，主要由于公司有着丰富的行业经验和专业知识。我们预计在2014至2017年，公司净利润的年均复合增长率为35.5%，而收入的年均复合增长率为32.6%。我们首次覆盖并予买入评级，从戈登增长模型所得的目标价为6.9港元，相当于2015/16年动态市盈率为14.4/12.1倍，而同期的市净率为1.7倍/1.5倍。

投资亮点

- **医疗设备租赁业务将继续强劲增长：**环球医疗作为国内最大的综合服务供应商、第二大医疗设备融资租赁商、同时重点发展地区和县级医院的公司，其有能力在中国推行“分级诊疗制度”的时间捕捉小型医院的发展机遇。我们预计2014-2017年融资租赁收入的年均复合增长率将为27.6%。

- **非利息服务收入有强劲增长潜力：**随着咨询和科室升级解决方案业务增长，加上医院管理业务有巨大发展潜力，我们预期公司的非利息服务收入在2014-2017年的年均复合增长率将达到42.0%。这将导致非利息收入占总收入比重在2017年升至39.7%（2014年为32.3%）。

- **净息差正在趋稳：**由于预期将会降息，该公司已采取措施以稳定净息差，例如减少美元债务和增加固定利率融资租赁合同的比重。公司指出，净息差在2015上半年已见底，预期将会温和复苏，而净息差将在未来趋稳。

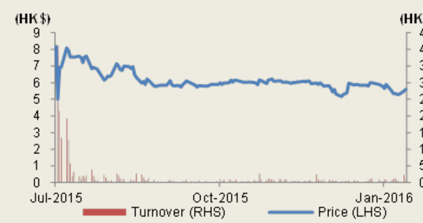
- **首予覆盖并予买入评级，目标价6.9港元：**根据我们的戈登增长模型（净资产收益率：13.3%，无风险利率：2.8%，风险溢价7.2%，Beta值：1），我们将目标价设于6.9港元，2015/16年市盈率为11.3倍/ 9.5倍，市净率为1.3倍/1.2倍，我们认为公司估值吸引，主要考虑到公司于快速增长的医院市场中有巨大增长潜力。我们的目标价意味着上行空间为29.3%，亦代表着2015/16年市净率为14.4/12.1倍，市净率1.7倍/1.5倍。

- **催化剂：**在医院管理业务方面，签订更多新合同并扩展业务；公布2015年年报。

截至12月31日	2013	2014	2015E	2016E	2017E
收入(百万元人民币)	981	1,553	2,126	2,772	3,621
净利润(百万元人民币)	313	457	605	829	1,136
净利润率(%)	29.9	31.9	29.4	28.5	29.9
每股盈利(人民币)	0.51	0.51	0.41	0.48	0.66
百分比变动	36.0	-0.6	-20.0	19.1	37.1
市盈率(倍)	8.9	8.9	11.2	9.4	6.8
市净率(倍)	2.4	1.7	1.3	1.1	1.0
平均净资产收益率（%）	30.9	25.4	14.4	12.9	15.4
平均资产收益率（%）	3.8	3.4	3.0	3.1	3.4

来源:公司,中国银河国际证券研究部

股价表现



市值	11.889亿美元
已发行股数	17. 163亿股
核数师	Ernst & Young
自由流通量	43.3%
52周交易区间	4.68-8.29港元
三个月日均成交量	90万美元
主要股东	中国通用技术（集团）控股有限责任公司 (37.7%)

来源：公司，彭博

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中國銀河國際
CHINA GALAXY INTERNATIONAL

January 22, 2016

Universal Medical Financial [2666.HK]

INITIATE COVERAGE: WELL POSITIONED IN THE FAST GROWING HOSPITAL MARKET

While the market generally view Universal as no more than a finance lessor, we believe this company is well positioned to surf on the fast growing Chinese hospital market. With focus on providing integrated services including finance lease, industry and equipment advisory service, as well as clinical upgrade solutions to regional and county level hospitals, Universal should continue to enjoy robust growth in the next few years. On the other hand, we also see significant potential for its hospital management business leveraging on its industry experience and expertise. We expect net profit CAGR of 35.5% in 2014-2017E, on the back of strong revenue CAGR of 32.6% within the same period. We initiate BUY on Universal with a TP of HK$6.9 based on Gordon growth model, implying 2015E/16E PER of 14.4x/12.1x and PBR of 1.7x/1.5x.

Investment Highlights

- **Robust growth to continue for medical equipment lease business:** As the largest integrated services provider and the second largest medical equipment finance lessor focusing on regional and county level hospitals, Universal is well positioned in capturing the growth of smaller hospitals on the back of the implementation of "tiered medical care system" in China. We forecast the finance lease income CAGR to be 27.6% in 2014-2017E.

- **Strong growth potential of non-interest service income:** With growth of existing advisory and clinical upgrade solutions, together with the high potential hospital management business, we expect non-interest service income to have a CAGR of 42.0% in 2014-2017E. As a result, non-interest income will account for 39.7% of total revenue in 2017E, up from 32.3% in 2014.

- **Stabilizing NIM:** With expected interest rate cut, the company has implemented measures to stabilize NIM performance such as reducing exposure in US$ debt and increasing portion of fixed rate finance lease contract. The company pointed out the NIM had already reached the trough in 1H15 and expected a gentle recovery and more stabilized NIM performance in the future.

- **Initiate BUY with TP of HK$6.9:** Based on our Gordon growth model (ROE: 13.3%, risk free rate: 2.8%, risk premium: 7.2%, beta: 1), we set our TP at HK$6.9. Universal is currently trading at 2015E/16E PER of 11.3x/9.5x and PBR of 1.3x/1.2x, which we believe is attractive given the company's exciting growth potential in the fast growing hospital market in China. Our TP represents 29.3% upside potential and implies 2015E/16E PER of 14.4x/12.1x and PBR of 1.7x/1.5x.

- **Catalyst:** expansion of hospital management business by signing more new contracts, announcement of 2015 financial results

Y/E Dec 31	2013	2014	2015E	2016E	2017E
Turnover (RMB m)	981	1,553	2,126	2,772	3,621
Net profit (RMB m)	313	457	605	829	1,136
Net margin (%)	29.9	31.9	29.4	28.5	29.9
EPS (RMB)	0.51	0.51	0.41	0.48	0.66
% Change	36.0	-0.6	-20.0	19.1	37.1
PER (x)	8.9	8.9	11.2	9.4	6.8
PBR (x)	2.4	1.7	1.3	1.1	1.0
ROAE(%)	30.9	25.4	14.4	12.9	15.4
ROAA (%)	3.8	3.4	3.0	3.1	3.4

Sources: Company, CGIS Research

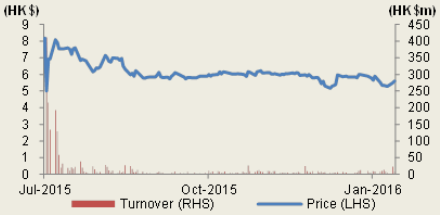
China Healthcare Sector

BUY

Close: HK$5.34 (January 21, 2016)

Target Price: HK$6.9 (+29.3%)

Price Performance



Market Cap	US1,188.9m
Shares Outstanding	1,716.3m
Auditor	Ernst & Young
Free Float	43.3%
52W range	HK$4.68-8.29
3M average daily T/O	US$0.9m
Major Shareholding	Genertec (37.7%)

Sources: Company, Bloomberg

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Key financials

Balance Sheet

As at Dec 31 (RMBm)	2013A	2014A	2015E	2016E	2017E
Cash & cash equivalents	319	454	2,773	2,995	3,423
Loans & Accounts receivable	2,584	4,168	5,461	6,978	8,969
Others	267	138	176	214	265
Current assets	3,170	4,760	8,410	10,188	12,657
Loans & Accounts receivable	6,981	11,471	15,070	19,355	25,006
PP&E	104	90	99	110	122
Others	197	64	64	64	64
Non-current assets	7,282	11,625	15,233	19,529	25,192
Total assets	10,452	16,385	23,643	29,717	37,849
Accounts payable	615	1,282	576	601	628
ST borrowings	3,358	4,118	5,461	6,978	8,969
Others	19	12	12	12	12
Current liabilities	3,992	5,412	6,049	7,591	9,610
Long-term debts	4,547	7,290	10,300	13,615	18,083
Others	744	1,255	1,298	1,686	2,195
Long-term liabilities	5,291	8,545	11,598	15,301	20,279
Total liabilities	9,284	13,958	17,648	22,893	29,888
Shareholders' equity	1,169	2,427	5,995	6,824	7,961
Minority interests	0	0	0	0	0
Total equity	1,169	2,427	5,995	6,824	7,961

Profit and Loss

Year ended Dec 31 (RMBm)	2013A	2014A	2015E	2016E	2017E
Finance lease	608	1,061	1,442	1,785	2,205
Advisory	385	507	705	961	1,293
Hospital management	0	0	0	53	158
Business tax	(12)	(15)	(21)	(27)	(35)
Revenue	981	1,553	2,126	2,772	3,621
Cost of borrowings	(325)	(597)	(837)	(1,014)	(1,234)
Cost of goods sold	(8)	(8)	(11)	(13)	(15)
Other costs	(15)	(14)	(16)	(34)	(69)
Gross profit	633	933	1,263	1,710	2,303
Other gains / (losses)	55	15	14	14	15
Marketing expenses	(107)	(126)	(173)	(227)	(295)
Admin & other expenses	(163)	(211)	(294)	(387)	(502)
Pretax income	418	611	810	1,109	1,521
Income taxes	(106)	(154)	(205)	(280)	(384)
Non-controlling interests	0	0	0	0	0
Net profit	**313**	**457**	**605**	**829**	**1,136**
EPS (RMB)	0.510	0.507	0.406	0.483	0.662

Cash Flow

Year ended Dec 31 (RMBm)	2013A	2014A	2015E	2016E	2017E
Profit before tax	418	611	810	1,109	1,521
Depr & amortization	16	15	17	20	23
Change in working cap.	(4,475)	(4,471)	(5,555)	(5,390)	(7,105)
Income tax paid	(109)	(167)	(205)	(280)	(384)
Others	30	(99)	(0)	(0)	(0)
Operating cash flow	(4,119)	(4,111)	(4,934)	(4,541)	(5,945)
Investment cash flow	(1)	(1)	(26)	(30)	(35)
Issuance of shares	0	805	2,963	0	0
Net change in debt	4,201	3,497	4,353	4,833	6,459
Others	(60)	(54)	(37)	(39)	(51)
Financing cash flow	4,141	4,248	7,279	4,794	6,408
Net change in cash	21	136	2,320	222	427
Cash at beginning of the year	308	319	454	2,773	2,995
Effect from foreign exchange	(10)	(2)	0	0	0
Cash at the end of the year	**319**	**454**	**2,773**	**2,995**	**3,423**

Key Ratios

Year ended Dec 31	2013A	2014A	2015E	2016E	2017E
Growth (% YoY)					
Sales	65.4	58.2	36.9	30.4	30.6
Operating profit	74.9	46.1	32.5	37.0	37.1
Net profit	76.0	46.0	32.5	37.0	37.1
EPS	36.0	(0.6)	(20.0)	19.1	37.1
Profitability (%)					
Gross margin	65.5	64.5	60.1	59.4	61.7
Operating margin	40.3	42.6	39.4	38.1	40.0
Net profit margin	29.9	31.9	29.4	28.5	29.9
ROAA	3.8	3.4	3.0	3.1	3.4
ROAE	30.9	25.4	14.4	12.9	15.4
Net interest margin(%)	3.8	3.7	3.4	3.3	3.2
Net interest spread(%)	2.8	2.9	2.5	2.5	2.5
Leverage (total asset to total equity) (x)	8.9	6.7	3.9	4.4	4.8

Source: Company data, CGIS Research estimates

Where are we different?

We do not only see Universal as a finance lessor:

If we only see Universal more as a finance lessor operating in a non-cyclical sector, we have under-estimated its strength and potential of expansion in the healthcare service sector, especially the high potential hospital management market. With its integrated service model focusing solely on healthcare industry, we believe the company is well positioned in surfing on the growth potential of the sector.

Currently around 32.3% of revenue comes from advisory and clinical upgrade services. With the expected launch of hospital management business and growth potential of clinical upgrade solutions, we expect the portion will grow to around 40% in 2017E. Aside from its faster growth potential and better asset quality, Universal should receive a valuation premium over other finance lessor such as the market leader in medical equipment financing, Far East Horizon (3360.HK).

Figure 1: Key financial ratios

	ROAA				ROAE				NIM				NIS				NPA			
	2012	2013	2014	1H15	2012	2013	2014	1H15	2012	2013	2014	1H15	2012	2013	2014	1H15	2012	2013	2014	1H15
Universal	3.4%	3.8%	3.8%	3.1%	30.2%	30.9%	25.4%	21.0%	3.7%	3.8%	3.7%	3.2%	2.6%	2.8%	2.9%	2.5%	1.0%	0.9%	0.8%	0.8%
Far East Horizon	2.8%	2.6%	2.4%	2.3%	13.7%	14.2%	15.2%	16.0%	4.3%	3.9%	3.3%	2.7%	3.0%	2.8%	2.0%	1.4%	0.7%	0.8%	0.9%	0.9%

Sources: Company, CGIS Research

On the other hand, some investors value the company based on other hospital operators like Phoenix (1515.HK) and Harmonicare (1509.HK). Although we highly valued the growth potential of the potential hospital management business of Universal, it is still at the beginning stage and we believe comparing Universal with other mature hospital operators at this point is not appropriate.

As a whole, we believe Universal should obviously be valued at a premium over other finance lessors, and close the valuation gap with other hospital operators with the expansion of its hospital management business.

Abilities in mitigating interest rate cut:

Due to the narrowing down of NIM in 1H15, the market generally has negative expectations on the company for the upcoming rate cut expectations. However, we expect the NIM performance has reached the trough in 1H15 and will rebound and stabilized in the future as the company has implemented measures like

(1) reducing exposure to foreign currency debts. US$ denominated debts accounted for 16.5% of total interest bearing liabilities as of the end of 2014. This portion has dropped to 11.2% by the end of June 2015. Management expects this ratio to drop further by the end of 2015. We believe the company can also reduce RMB depreciation risk with a reduction in US$ debt.

(2) increasing the portion of fixed-rate new contract with customers. Current most finance lease contracts are under floating rate. Unlike other commercial companies, hospitals are less sensitive on managing financing costs. So it is possible for the company in securing more fixed-rate leases in future. According to the company, 30% of new contracts are in fixed-rate.

With these measures, we expect relatively stable NIM performance for the company with the upcoming rate cut cycle. Besides, as mentioned, Universal is diversifying its business focus to more non-interest services. We believe this also helps in reducing the rate cut impact on the company. As a whole, we believe the company is better positioned with the expected rate cut.

Strong growth expected from smaller hospitals

Brief outlook on Chinese hospital system

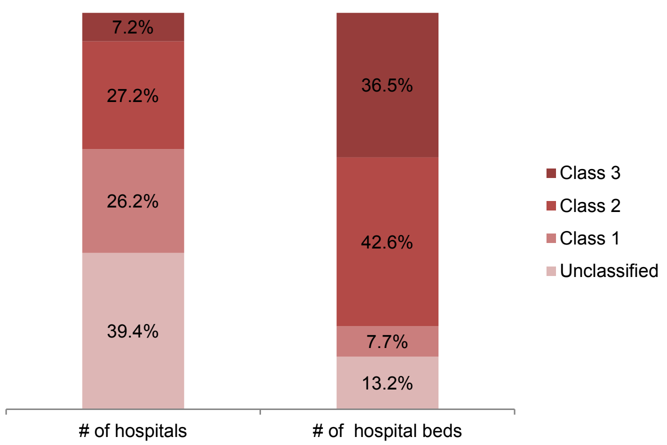
The current Chinese hospital system mainly consists of (1) hospitals and (2) primary healthcare institutions.

Hospitals are classified into Class 3, 2, 1 and non-rated hospitals. Class 3 hospitals are the highest-tier hospitals in China with the best equipment and most abundant resources allocated. Class 3 hospitals are mostly national or provincial hospitals, whereas regional or county level hospitals are mostly Class 2 or 1 hospitals focusing on serving patients in less affluent areas.

Primary healthcare institutions include rural township hospitals, community healthcare services centers, clinics and village clinics. The primary healthcare institutions focus on providing simple and basic medical services to local residents.

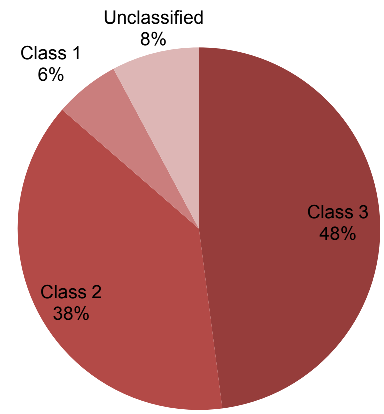
As of the end of 2013, there was over 24,000 hospitals in China, of which 7.2% were Class 3, 27.2% were Class 2, 26.2% were class 1, and the remaining unclassified other hospitals. Average size of a class 3, 2 and 1 hospitals were 935, 291 and 54 hospital beds. Due to the difference in the scale of hospitals, 36.5% of hospital beds were located in class 3 hospitals .

Figure 2: Number of beds by hospital class (2013)



Sources: NHFPC, CGIS Research

Figure 3: Patient flow by hospital class (9M2015)



Sources: NHFPC, CGIS Research

Current concentration of resources in large hospitals leads to wastage of resources and deterioration of services

Over-utilization of large hospitals and under-utilization of small hospitals

Due to the concentrated healthcare resources and medical practitioners, preference of patients and lack of referral system, most patients would go to larger hospitals even for minor illnesses like common cold and influenza. This has resulted in a high concentration of patient flow in large hospitals: class 3 hospitals accounted for 47.9% of patient flow in China. The utilization rate of class 3 hospitals has been over 100% since 2008, while that of class 1 hospitals was only around 60%.

The over-utilization of large hospitals has led to wastage of healthcare resources, deterioration of service quality, and difficulties in accessing healthcare services. To improve the overall situation and the underlying problem, we believe the government will support the growth of smaller hospitals to divert away patient flow from large hospitals.

Tiered medical care system to divert patients to smaller hospitals

With government support, 2014-2018E revenue CAGR of regional and county level hospitals is forecasted at 18.5%

In view of the imbalance in patient flow and resources allocation, the government launched a series of reform policies in 2015 such as directions in support of development of small hospitals: (1) promoting tiered medical care system, (2) development and reform of county level hospitals.

Diverting patient flow to smaller hospital by tiered medical care system

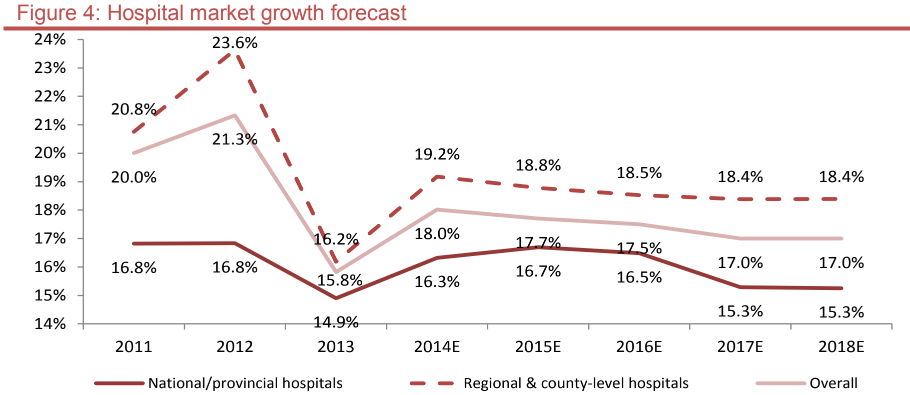
Currently patients with diseases of difference seriousness are all concentrated at large hospitals. Indeed, the facilities of large hospitals are designed for taking care of patients with more serious diseases. The lack of referral system for large hospitals to small hospitals is one of the reasons behind the imbalance patient flow. In view of this, the government is promoting the implementation of "tiered medical care system". Under this system, patients with different seriousness are diverted to different class of hospitals: Class III hospitals for most serious illnesses and Class 1 hospital for the common diseases. The government targets to formed a tiered medical care system in 2017 and fully implement and optimize the system in 2020. Under the system, we expect more patient flow to regional and county level hospitals.

Support the development of smaller hospitals to cope with the demand

Another reason behind the imbalance patient flow was the norm for patients to selectively choose for larger hospitals. As a matter of fact, the equipment and personnel in regional and county level hospitals significantly trailed that in class 3 hospitals. This has resulted in the lack of confidence for patients to choose these smaller hospitals. Indeed, the State Council released "Opinions on comprehensive reform of county hospitals" in May 2015. It stated clearly to support the development of non-profit county-level hospitals by social capital by means of supportive land, tax and financing policies. We believe the development of regional and county level hospitals will be one of the major directions in hospital reform.

As most class 3 hospitals are well developed, we believe the development and growth of class 2 and class 1 hospitals will be faster in future. According to Frost & Sullivan, regional & county-level hospital revenue will have a CAGR of 18.5% in 2014E-2018E, outpacing 17.3% of overall market growth and 15.9% of national/provincial hospitals.

Figure 4: Hospital market growth forecast

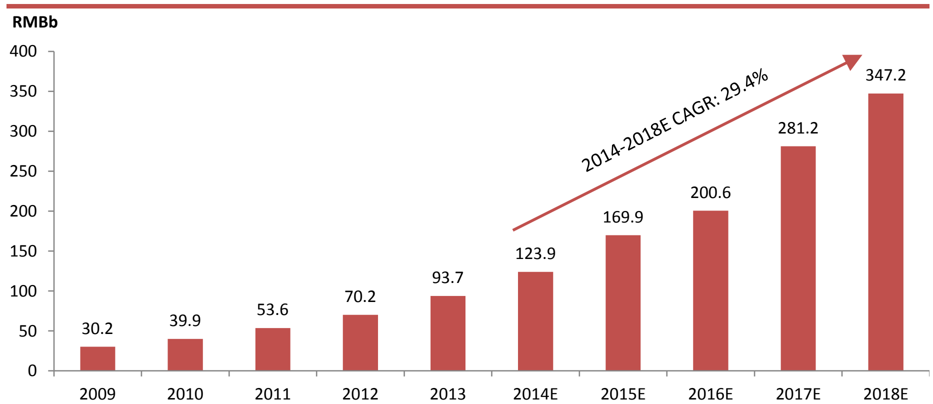


Sources: Frost & Sullivan, CGIS Research

Medical equipment finance lease asset 2014-2018E CAGR: 29.4%

We believe medical equipment finance lease will become more important in China for hospital development. Medical equipment is the essential part for hospital expansion and improvement of service quality. However, some advanced and sophisticated equipment can be too expensive for smaller hospitals at regional and county level. As we expect development of smaller hospitals will be in the center of hospital reform, we believe medical equipment finance lease will become more popular. According to Frost & Sullivan, medical equipment lease receivables will have CAGR of 29.4% in 2014—2018E.

Figure 5: Medical equipment lease asset forecast

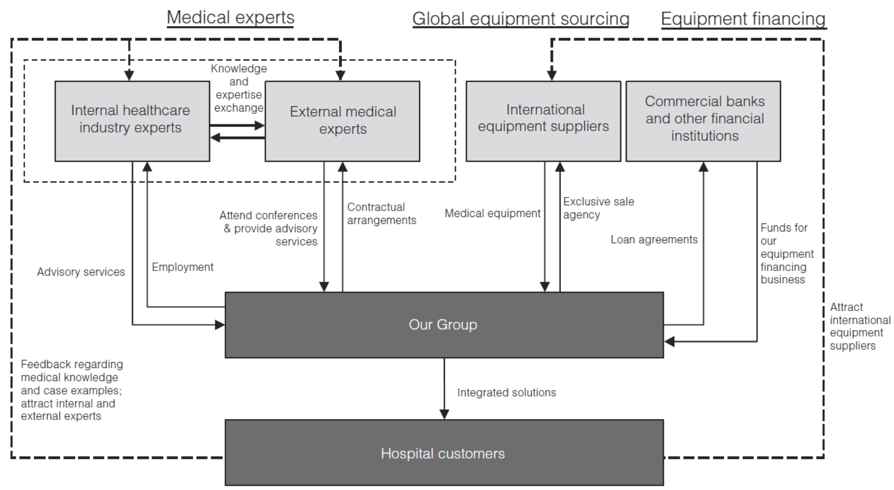


Sources: Frost & Sullivan, CGIS Research

An integrated medical services provider, more than just a lessor

Universal is the second largest medical equipment finance lessor with around 8% market share, with the largest lessor holding 18% share and the top five players with 42% share in total. As the largest integrated healthcare services provider in China, Universal differentiate from other lessors by a distinctive integrated service model by leveraging on its industry knowledge and experience. The integrated services of Universal comprises of (1) equipment financing, (2) advisory services, (3) clinical department upgrade services, and (4) hospital management business.

Figure 6: Business model of Universal

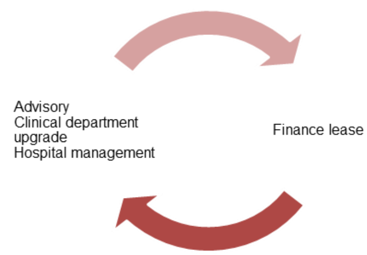


Source: Company, CGIS Research

Integrated healthcare service system ecosystem forms a cycle in generating revenue for the company and at the same time improving the standard of hospitals

Instead of focusing on finance lease business, Universal is vertically integrated to tackle the needs for hospitals. Through its advisory business and clinical department upgrade business, the company adds value to hospital clients by improving the overall services or addressing the unmet needs of patients. This in turn will bring new financing needs for hospitals in purchasing equipment. On the other hand, Universal could expand its advisory business to other clinical departments with existing finance lease clients. We therefore believe this business model is more efficient for Universal in business expansion over other finance lessors.

Figure 7: Integrated medical service ecosystem



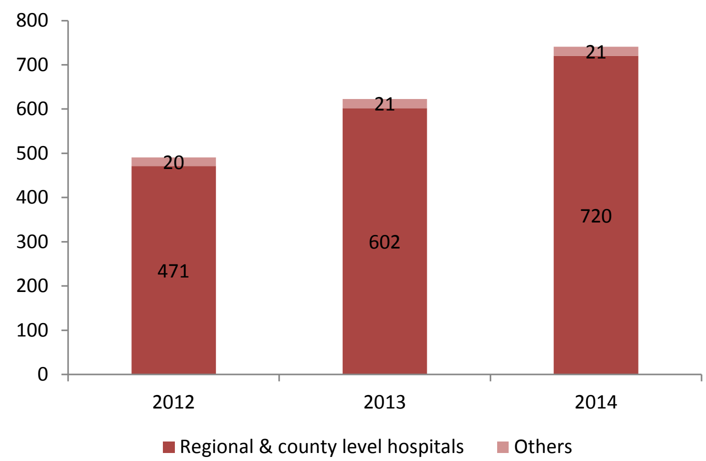
Source: Company, CGIS Research

Best positioned at regional and county level hospitals

97.2% of the customers are regional and county level hospitals

As mentioned previously, we believe that the growth of regional and county level hospitals will be faster than the overall growth of the hospital sector due to tiered medical care system and supportive policies initiated by the government. We believe Universal is best positioned to capture growth in the regional and county level market. In 2014, 97.2% of the customer base measured by number, were regional and county level hospitals. Universal is experienced in opening up the regional and county level hospital market.

Figure 8: Customer breakdown



Source: Company, CGIS Research

The signing of new medical equipment finance lease contracts does not need to go through any tender processes. Therefore, we believe providing comprehensive services for hospitals like industry expert consultation, advisory and clinical upgrade solutions are effective measures in taking market share in medical finance lease industry. The finance lease contracts are usually 3—5 years.

Complete service is essential for efficiently expanding business in smaller hospital

As a matter of fact, most regional and county level hospitals are class 2 and class 1 hospitals, with resources and personnel significantly trailing that of class 3 hospitals. These smaller hospitals lack experiences and expertise in upgrading their facilities and purchasing new equipment. We believe this is where Universal stands out from other financial lessors. As an integrated medical services provider, Universal not only focuses on medical finance lease business, but also on clinical upgrade solutions. Supported by its parent company, Universal also has outstanding ability in sourcing the right equipment for its clients. As a whole, apart from its exposure in regional and county level market, we believe the integrated medical solution capability also fit perfectly well into clients' needs.

Robust growth of non-interest income

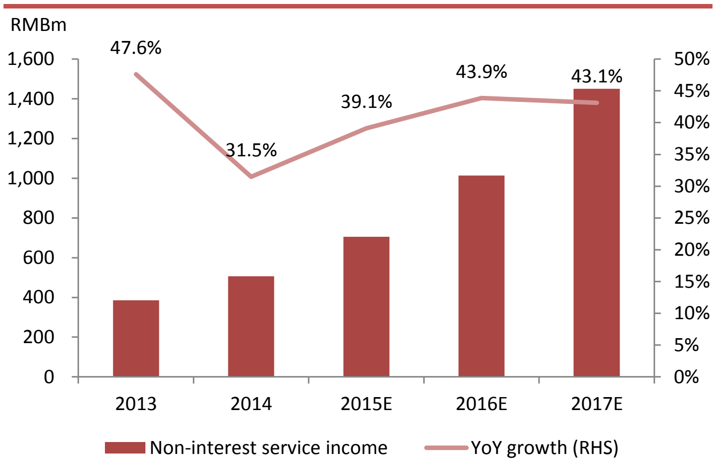
Industry, equipment and financing advisory services: Coupled with the medical equipment financing business, Universal also offers industry, equipment and financing advisory services as a part of the integrated services. Based on the company's industry know-how, equipment expertise and advanced financial analysis capabilities, Universal offers advisory services on industry analysis, equipment consultation and advice on financing options.

Clinical upgrade services: Apart from advisory services, Universal also offers clinical department upgrade services to its clients. Through strategic cooperation with Sino American Stroke Group, the company has started CVA (cerebrovascular accident, or stroke) project that integrates awareness promotion and marketing support to facilitate the upgrade of CVA capabilities, medical training and support for medical professionals, standard CVA hospital operational procedures and management systems, and medical equipment and related financing. The company has entered into agreement with over 55 hospitals.

Tapping into the fast growing hospital management industry in 2016

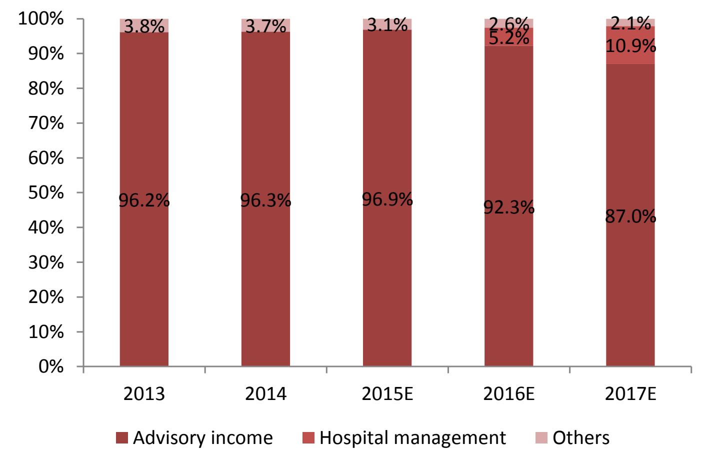
Stepping into the hospital management business: The company made an announcement in January 2016 that it had entered into a framework agreement with the First Affiliated Hospital of Xi'an Jiaotong University in connection with the establishment and operation of the International Land Port Hospital under First Affiliated Hospital (ILP). The construction, operation and management of ILP will be under public private partnership model. The hospital will be designed as a class III hospital with 1,000 beds. Estimated investment in the hospital will be RMB2bn. Although we do not expect this project to make solid contribution to Universal in the short term, the company is in talks with several hospitals in hospital management contract. We believe the hospital management business will start to have contributions to the company's P&L in 2016.

Figure 9: Growth of non-interest income



Source: Company, CGIS Research

Figure 10: Non-interest income breakdown



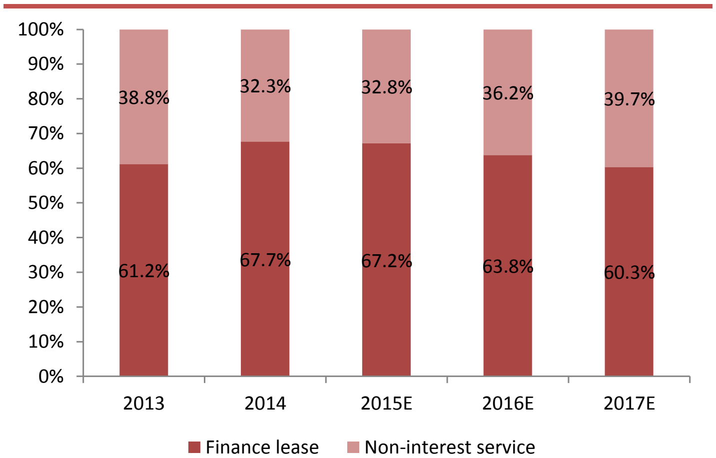
Source: Company, CGIS Research

Underestimated contribution from non-interest income

Market usually focuses solely on the leasing business of Universal but we would like to emphasize the increasing importance of non-interest income which include (1) advisory service and clinical upgrade solutions, and (2) hospital management business. Finance lease revenue accounted for 68.3% of total revenue in 2014 and non-interest income only accounted for the remaining 31.7%. However, finance lease only accounted for 48% of total gross profit in 2014. Non-interest income is indeed as important as finance lease in generating profit for the company.

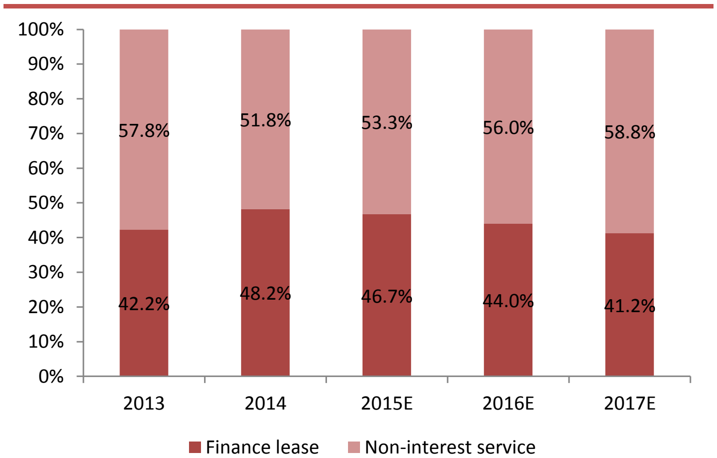
Going forward, with the development of clinical upgrade solutions and launching hospital management business, we believe the growth of non-interest income will outpace that of finance lease income. We forecast finance lease income will have CAGR of 27.6% in 2014-2017E, while that of non-interest income is 50.4%. As a result, we believe non-interest income will contribute 44.3% and 63.3% of total revenue and gross profit in 2017E.

Figure 11: Revenue breakdown



Source: Company, CGIS Research

Figure 12: Gross profit breakdown



Source: Company, CGIS Research

Focusing on healthcare related business

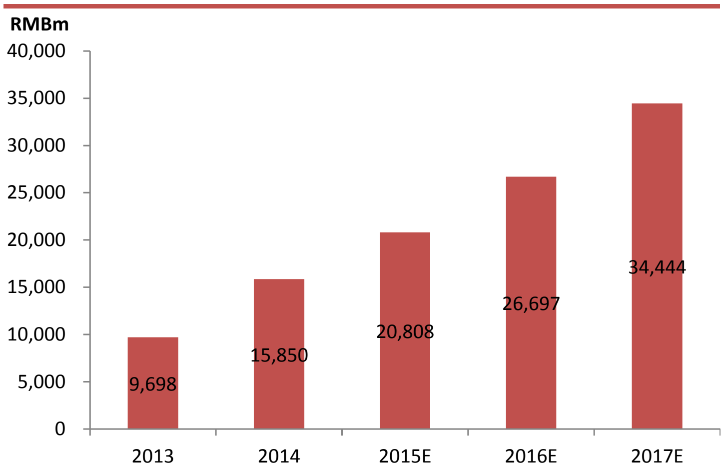
Universal was set up in 1984 with principal business included leasing in China. In 2006, the company has underwent a corporate structure and business operation reform. Since then, Universal has started to focus on the healthcare industry in China. As of the end of 2014, 66.8% of net lease receivables of the company was in healthcare industry, while the remaining 33.2% is in education and other industries.

Reducing finance lease exposure in other industries

We believe the company is on the way of reducing its lease asset exposure in other industries. In December 2015, the company reached an agreement in transferring RMB540.1m of its educational lease receivables to Everbright Xinglong Trust. As per our discussion with the management, the company did not add any new education lease contracts in 2015. Although the management did not give out solid target for reducing exposure in other industries, we believe this will be done progressively. Together with the strong growth of healthcare related lease receivables, we forecast that other industries net lease receivables will only account for 11% of total lease receivables in 2017E.

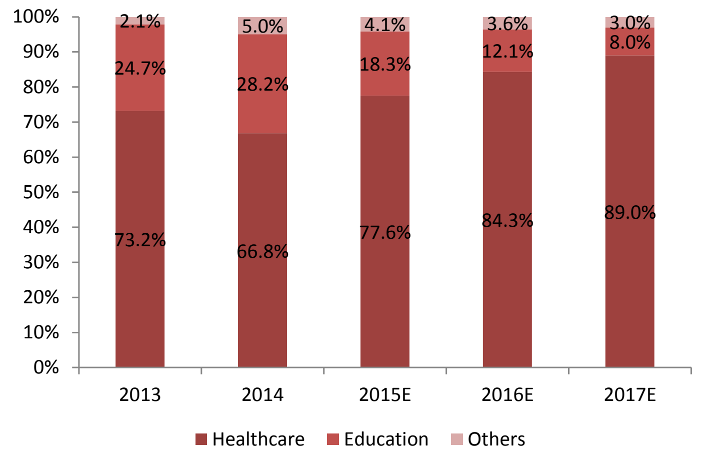
In our view, reducing exposures in other industries is beneficial to Universal as the company can better leverage its expertise and industry know-how on business expansion. Besides, we believe the focus on healthcare industry can indeed improve the company's asset quality.

Figure 13: Net lease receivables



Source: Company, CGIS Research

Figure 14: Net lease receivables breakdown



Source: Company, CGIS Research

Universal enjoys better asset quality due to focus on healthcare industry

Universal classifies lease receivables into five classes, Pass, Special mention, Sub-standard, Doubtful, and Loss. Substandard, Doubtful and Loss are classified as non-performing assets.

NPA ratio stays low at 1%/0.91%/0.83% in 2012/13/14. We believe this low ratio was mainly due to the company's focus on healthcare industry, which was non-cyclical, with strong demand and well-regulated by the government. Going onwards, we believe the company is able to maintain the low NPA ratio with increasing portion of lease receivables from healthcare industry. Besides, the company has not written off any lease assets so far.

Figure 15 : Net lease receivables by asset quality

	2012		2013		2014	
	RMBm	% of total	RMBm	% of total	RMBm	% of total
Pass	4,441	83.9%	8,412	86.7%	13,358	84.3%
Special Mention	798	15.1%	1,198	12.4%	2,360	14.9%
Substandard	53	1.0%	3	0.0%	91	0.6%
Doubtful	-	-	86	0.9%	41	0.3%
Loss	-	-	-	-	-	-
Total net lease receivables	5,291		9,698		15,850	
Non performing assets	**53**	**1.00%**	**88**	0.91%	**132**	0.83%

Source: Company, CGIS Research

Figure 16 : Net lease receivables by maturity

	2012		2013		2014	
	RMBm	% of total	RMBm	% of total	RMBm	% of total
Due within 1 year	1,539	29.1%	2,628	27.1%	4,244	26.8%
Due in 1 to 2 years	1,340	25.3%	2,426	25.0%	3,921	24.7%
Due in 2 to 3 years	1,110	21.0%	2,118	21.8%	3,495	22.1%
Due after 3 years and beyond	1,302	24.6%	2,527	26.1%	4,190	26.4%
Total	5,291	100.0%	9,698	100.0%	15,850	100.0%

Source: Company, CGIS Research

Strong support by parent company

The parent company is a centrally-owned SOE

Major shareholder of the company, Genertec, is a state-owned enterprise under the direct administration of State-owned Assets Supervision and Administration Commission (SASAC). Genertec, founded in 1998, is the largest service provider introducing advanced equipment and technology, the largest importer and exporter of light industrial products and medical and health products, the largest distributor and service provider of mobile communication terminal products, and also the important equipment manufacturer, international engineering contractor, pharmaceutical manufacturer and supplier, technical and consulting service provider and construction and land agent.

As the only healthcare finance lease and hospital management platform under Genertec, we believe Universal can leverage on the support and expertise of Genertec on rapid expansion of lease assets and hospital management business and (2) more efficient equipment sourcing.

For the latest agreement signing ceremony with First Affiliated Hospital of Xi'an Jiaotong University on hospital PPP project, major government officials and also the director of Genertec were present. We see strong support from both the government and the parent company on the business development of Universal. (http://www.sasac.gov.cn/n86114/n326638/c2182128/content.html)

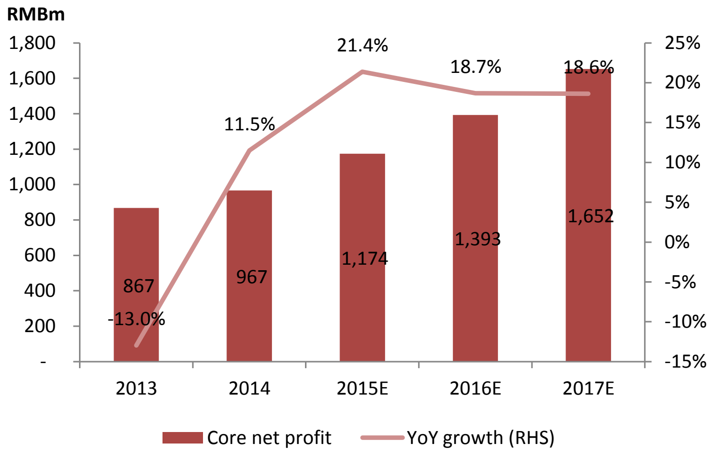
Earnings outlook

Net profit to grow 35.8%/38.2% in 2015E/16E

2014-2017E net profit CAGR: 36.6%

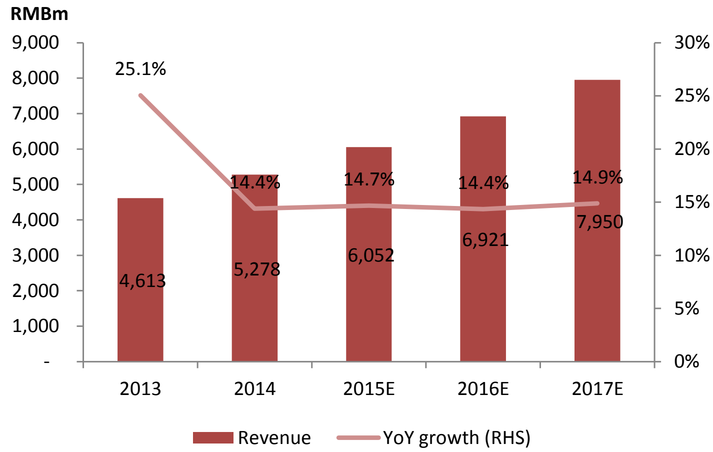
We expect the net profit to grow to RMB620m and RMB857m for 2015E and 2016E on the back on strong medical equipment lease growth and non-interest service income growth. Due to the dilution impact of IPO listing in 2015, EPS is forecasted to drop 18.0% in 2015E and grow by 19.1%/37.1% in 2016E/17E.

Figure 17: Core net profit performance



Source: Company, CGIS Research

Figure 18: Revenue performance



Source: Company, CGIS Research

Finance lease and non-interest service income: dual engine for revenue growth

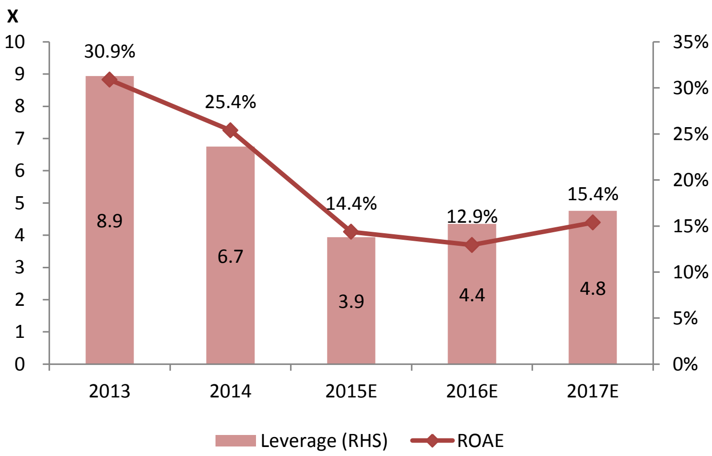
2014-2017E revenue CAGR: 32.6%

We believe the revenue growth of Universal will be driven by both the expansion of finance lease business brought about by strong industry growth and demand, and also non-interest service income coupled with finance lease and expanding hospital management business. We forecast the finance lease income to have a CAGR of 27.6% in 2014-2017E, based on market growth forecast and assuming company's market share to grow from 8.5% in 2014 to 10% in 2017. For non-interest service income, with the strong growth potential of clinical upgrade solutions and contribution of new business in hospital management, the CAGR is forecasted to be 43% within the same period. As a whole, we expect total revenue to grow 38.5% and 30.7% in 2015E and 2016E.

Ample room for leverage and ROAE improvement

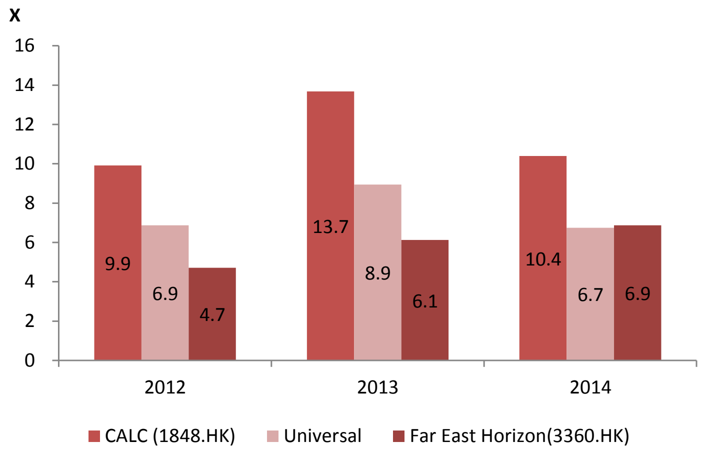
With the net proceed from IPO listing in mid-2015, we expect the leverage ratio (total asset to total equity) of Universal to go down to 3.9x in 2015E. We believe Universal has ample room for leverage up under this healthy balance sheet. Comparing with the over 7x leverage of other finance lessors, we expect Universal to gear up progressively in the next few years, and improving the ROAE performance. We expect the leverage and ROAE to reach 4.8x and 15.4% in 2017E.

Figure 19: Leverage and ROAE of Universal



Source: Company, CGIS Research

Figure 20: Leverage comparison with peers



Source: Company, CGIS Research

Valuation

Initiate coverage with a BUY rating and target price of HK$6.9

Universal is currently trading at 2015E/16E PER of 11.2x/9.4x and PBR of 1.3x/1.1x. We believe currently the market has viewed Universal as no more than a finance lessor in a fast growing industry. With the expected launch of hospital management business in 2016, we expect the market to re-rate the true value and growth potential of the company. We initiate coverage on Universal with BUY based on (1) operation of finance lease business in fast growing hospital market, (2) growing non-interest service income, and (3) expected ramp up of hospital management business.

Based on our Gordon growth model (ROE: 13.3%, risk free rate: 2.8%, risk premium: 7.2%, beta: 1), we reached a TP of HK$6.9 for the company. The TP has 29.3% upside potential and implies 2015E/16E PER of 14.4x/12.1x and PBR of 1.7x/1.5x.

Figure 21: Peers' valuation

					PER(x)			PBR(x)			ROE(%)			ROA (%)	
Company name	**Ticker**	**Price (HK$)**	**larket cap (HK$n**	**2014**	**2015F**	**2016F**	**2014**	**2015F**	**2016F**	**2014**	**2015F**	**2016F**	**2014**	**2015F**	**2016F**
Universal	**2666**	**5.34**	**9,165**	**N/A**	**11.2**	**9.4**	**N.A**	**1.3**	**1.1**	**N.A**	**14.4**	**12.9**	**N/A**	**3.0**	**3.1**
Finance Lease															
Far East	3360	5.80	22,912	6.8	7.0	6.1	0.9	0.9	0.8	15.1	13.4	13.4	4.9	2.2	2.2
CALC	1848	6.07	3,678	11.2	9.0	6.3	2.2	1.8	1.4	23.6	22.0	26.2	**2.1**	**2.0**	**2.5**
Simple average				**9.0**	**8.0**	**6.2**	**1.6**	**1.3**	**1.1**	**19.3**	**17.7**	**19.8**	**3.5**	**2.1**	**2.3**
Hospital operators															
Fosun Pharm	2196	16.38	49,060	14.5	14.4	12.2	1.9	1.7	1.5	13.5	12.9	14.1	7.3	5.9	6.33
Townhealth	3886	1.42	11,021	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Phoenix	1515	5.81	4,844	20.4	16.4	12.5	2.3	2.2	2.0	11.4	13.7	16.2	8.8	9.1	9.72
Harmonicare	1509	6.06	4,668	**N/A**	31.3	22.5	**N/A**	3.5	3.1	**N/A**	22.9	14.7	**N/A**	**14.5**	13.30
Kangnin	2120	41.00	2,995	33.8	42.9	29.4	6.6	2.6	2.4	21.8	9.2	8.3	14.9	7.1	6.39
Simple average				**22.9**	**26.2**	**19.2**	**3.6**	**2.5**	**2.2**	**15.6**	**14.7**	**13.3**	**10.3**	**9.1**	**8.9**

Source: Bloomberg, CGIS Research

Investment risks

Slower than expected progress in ramping up hospital management: Universal is expected to launch its hospital management business in 2016. As we believe the new business would not only drive profit growth, it would also be essential to the development of finance lease business and advisory business. Any delay in acquiring new hospitals would have negative impact to the company development.

Regulatory risk on medical equipment finance lease: While the government encourage the development of hospitals, if finance lease would strictly be treated as a kind of debt financing by the government, we believe the growth of the company's medical equipment finance lease business would be severely be affected.

Exit of pre-IPO investors: Several pre-IPO investors still hold in total over 30% stakes in the company. Their point of exit may exert negative pressure on the share price performance.

Company background

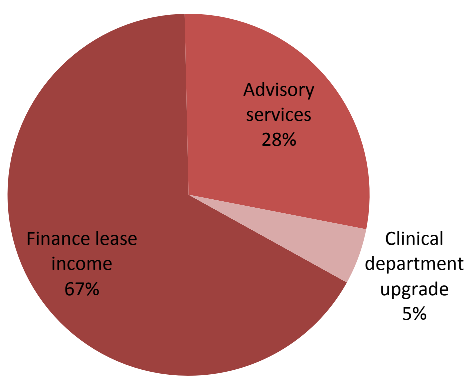
Universal Medical Financial & Technical Advisory Services Company (Universal) is the largest integrated healthcare solutions provider in China. The company offers hospital customers a variety of integrated healthcare services, such as (1) equipment financing, (2) healthcare industry, equipment and financing advisory services, and (3) clinical department upgrade services. In the near future, we expect the company to launch hospital management business. Equipment financing, advisory, and clinical department upgrade and others respectively accounted for 66.6%, 28.4% and 5% of total revenue in 2014.

Equipment financing: the company provides industry focus and customized equipment financing to clients in China. The company focuses mainly on healthcare financial leasing services, with 67.4% of leasing revenue contributing from healthcare industry.

Industry, equipment and financing advisory services: Universal offers advisory services as a part of the integrated services. With the experience and expertise, the company provides advisory services to hospitals in areas like industry research, equipment sourcing and selection, and financing options advice. This advisory services help hospital clients in efficient business expansion and meeting patients unmet needs.

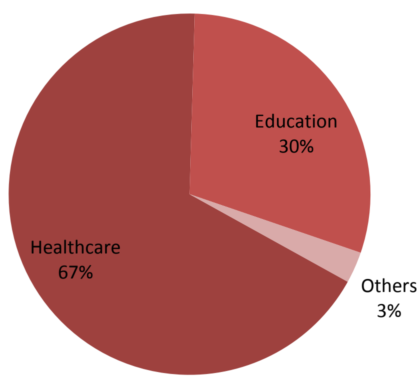
Clinical department upgrade services: Through cooperation with strategic partners, Universal offers hospital with specific clinical department upgrade solutions. These upgrade not only provides additional revenue source to hospitals, but also improves overall standard of services offer to the general public.

Figure 22: Revenue breakdown in 2014



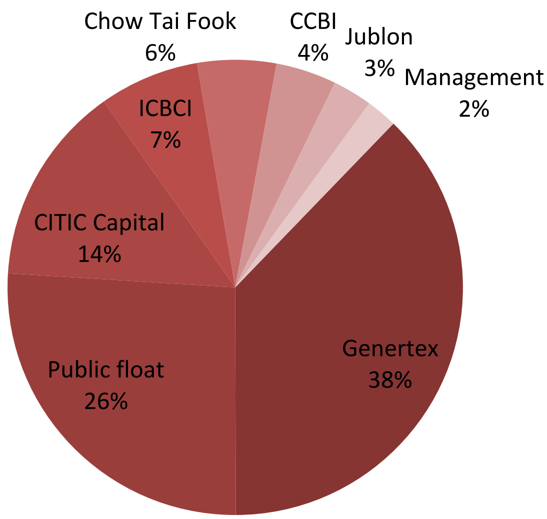
Source: Company, CGIS Research

Figure 23: Finance lease income breakdown in 2014



Source: Company, CGIS Research

Figure 24: Shareholding structure



Source: Company, CGIS Research

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