

Hygeia Healthcare Holdings

海吉亞醫療控股有限公司

(6078.HK)

Business Overview

Hygeia (“the Company”) is the largest oncology healthcare group in China in terms of (i) revenue generated from radiotherapy-related services in 2019; and (ii) number of radiotherapy equipment installed in in-network hospitals and radiotherapy centers as of December 31, 2019, according to Frost & Sullivan. As an oncology-focused healthcare group, The Company endeavors to make healthcare services more accessible and affordable, addressing unmet demand of oncology patients in China.

The Company generates revenue primarily from (i) operating private for-profit hospitals it owns and providing a wide range of oncology healthcare services and other healthcare services; (ii) provision of radiotherapy center consulting services, licensing of the proprietary SRT equipment and provision of maintenance and technical support services in relation to the proprietary SRT equipment; and (iii) managing and operating, and receiving management fees from, private not-for-profit hospitals in which it holds organizer’s interest .

One of the core competitive strengths that underpins the market leadership is the high-caliber and multi-disciplinary team of medical professionals, enabling the Company to treat cancer and other complex diseases with multiple approaches. With the proprietary SRT equipment, the Company operates a vertically integrated radiotherapy service model in delivering radiotherapy treatment to oncology patients, which has enabled the Company to capture synergies across the entire value chain, thus providing the Company with unique advantages in operating efficiency and profitability.

The Company experienced significant growth during the Track Record Period. For the years ended December 31, 2017, 2018 and 2019, total patient visits of in-network hospitals were 691,400, 760,776 and 946,637, respectively, while total patient visits of in-network radiotherapy centers for radiotherapy treatment using the proprietary SRT equipment were BUSINESS – 184 – 57,613, 58,056 and 59,207, respectively, for the same periods. The Company’s revenue increased from RMB596.5 million in 2017 to RMB1,085.8 million in 2019, representing a CAGR of 34.9%. The Company’s adjusted net profit, a non-IFRS measure, increased from RMB48.5 million in 2017 to RMB171.5 million in 2019, representing a CAGR of 88.0%. Please see “Financial Information – Description of Key Consolidated Statement of Comprehensive Income Items” in the prospectus for a reconciliation of (loss)/profit

Basic Information

Offer Price

HK\$17-HK\$18.5

Offer Size

120,000,000 Shares, comprise of Public Offer 12,000,000 Shares and International Offer 108,000,000 Shares (subject to reallocation and Over-allotment Option)

Market Capitalization

\$10,200 million to \$11,100 million

Application Period

16 June 2020 – 19 June 2020, Noon

Listing Date

29 June 2020

Board Lot

200 shares

Major Shareholders

Mr. Zhu	46.46%
Fountain Grass	13.79%
Harmony Healthcare	6.20%

Join Sponsors

Morgan Stanley, Haitong International

Joint Bookrunners

Huatai International

and total comprehensive (loss)/income to adjusted net profit. With a strategic focus on oncology, revenue generated from the oncology-related services accounted for 43.7%, 43.8% and 46.1%, respectively, of the total revenue for the years ended December 31, 2017, 2018 and 2019. Revenue generated from the oncology-related services with a CAGR of 38.6% from RMB260.7 million in 2017 to RMB500.9 million in 2019, showing a much faster growth than the overall oncology hospital market and the private oncology hospital market in China. Please see “Industry Overview – Overview of Oncology Healthcare Service Market in China – Market Size” in the prospectus for oncology healthcare service revenue generated by public and private oncology hospitals in China.

Financial Highlights

Summary of Consolidated Statements of Comprehensive Income						
For the year ended Dec 31						
	2017		2018		2019	
	in RMB thousands					
Revenue	596,480	100.0%	766,142	100.0%	1,085,826	100.0%
COGS	(427,172)	71.6%	(527,407)	68.8%	(755,706)	69.6%
Gross Profit	169,308	28.4%	238,735	31.2%	330,120	30.4%
Selling expenses	(34,713)	5.8%	(32,781)	4.3%	(15,419)	1.4%
Administrative expenses	(97,504)	16.3%	(101,574)	13.3%	(136,272)	12.6%
Other income	3,772	0.6%	4,150	0.5%	4,895	0.5%
Other gain/losses	7,524	1.3%	(2,988)	0.4%	(9,117)	0.8%
Operating profit	48,387	8.1%	105,542	13.8%	174,207	16.0%
Finance income	411	0.1%	175	0.0%	629	0.1%
Finance costs	(73,537)	12.3%	(78,454)	10.2%	(95,516)	8.8%
Finance costs - net	(73,126)	12.3%	(78,279)	10.2%	(94,887)	8.7%
Profit/loss before income tax	(24,739)	4.1%	27,263	3.6%	79,320	7.3%
Income tax expense	(21,771)	3.6%	(24,845)	3.2%	(39,553)	3.6%
Profit/loss for the year	(46,510)	7.8%	2,418	0.3%	39,767	3.7%

Use of Proceed

The Company estimates that they will receive net proceeds of approximately HK\$1985.8 million after deducting the underwriting fees and expenses payable by them in the Global Offering, assuming no Over-allotment Option is exercised and assuming an Offer Price of HK\$17.75 per Offer Share.

- approximately 60.0%, or HK\$1191.5 million, for upgrading :
 - (i) to upgrade Shanxian Hygeia Hospital, Chongqing Hygeia Hospital and Chengwu Hygeia Hospital
 - (ii) to establish new hospitals in Liaocheng, Dezhou, Suzhou and Longyan
- approximately 30.0%, or HK\$595.7 million, for acquiring hospitals:
- approximately 5.0%, or HK\$99.3 million, for upgrading information technology system:
- approximately 5.0% or HK\$99.3 million, for working capital and other general corporate purposes:

Cornerstone Investors

The following tables set forth details of the cornerstone placing and approximate percentage of total number of offer shares and percentage of total issued share capital of the company upon listing, based on different offer price scenarios.

Based on offer price of HK\$18.50				
Cornerstone Investor	Investment Amount (US million)	No. of share to be subscribed	Approx. % of the total offer shares	Approx. % of the total issued share after IPO
Hillhouse Capital	50	20,945,600	17.44%	3.48%
OrbiMed Funds	20	8,378,200	6.98%	1.39%
Tiger Pacific Master Fund LP	16	6,702,600	5.59%	1.12%
China Southern Asset Management Co., Ltd	15	6,283,600	5.24%	1.05%
Lake Bleu Prime Healthcare Master Fund Limited	12	5,026,800	4.19%	0.84%
Sage Partners Masters Fund	10	4,189,000	3.49%	0.70%
Hudson Bay Master Fund Ltd	10	4,189,000	3.49%	0.70%
Golden Vallyey Global Limited	5	2,094,400	1.75%	0.35%
Foresight Orient Global Superior Choice SPC	5	2,094,400	1.75%	0.35%
Total	143	59,903,600	49.92%	9.98%
Based on offer price of HK\$17.75				
Cornerstone Investor	Investment Amount (US million)	No. of share to be subscribed	Approx. % of the total offer shares	Approx. % of the total issued share after IPO
Hillhouse Capital	50	21,830,600	18.18%	3.63%
OrbiMed Funds	20	8,732,200	7.28%	1.46%
Tiger Pacific Master Fund LP	16	6,985,800	5.82%	1.16%
China Southern Asset Management Co., Ltd	15	6,549,200	5.46%	1.09%
Lake Bleu Prime Healthcare Master Fund Limited	12	5,239,200	4.37%	0.87%
Sage Partners Masters Fund	10	4,366,000	3.64%	0.73%
Hudson Bay Master Fund Ltd	10	4,366,000	3.64%	0.73%
Golden Vallyey Global Limited	5	2,183,000	1.82%	0.36%
Foresight Orient Global Superior Choice SPC	5	2,183,000	1.82%	0.36%
Total	143	62,435,000	52.03%	10.39%
Based on offer price of HK\$17.00				
Cornerstone Investor	Investment Amount (US million)	No. of share to be subscribed	Approx. % of the total offer shares	Approx. % of the total issued share after IPO
Hillhouse Capital	50	22,793,800	18.98%	3.79%
OrbiMed Funds	20	9,117,400	7.60%	1.52%
Tiger Pacific Master Fund LP	16	7,294,000	6.08%	1.22%
China Southern Asset Management Co., Ltd	15	6,838,000	5.70%	1.14%
Lake Bleu Prime Healthcare Master Fund Limited	12	5,470,400	4.56%	0.91%
Sage Partners Masters Fund	10	4,558,600	3.80%	0.76%
Hudson Bay Master Fund Ltd	10	4,558,600	3.80%	0.76%
Golden Vallyey Global Limited	5	2,279,200	1.90%	0.38%
Foresight Orient Global Superior Choice SPC	5	2,279,200	1.90%	0.38%
Total	143	65,189,200	54.32%	10.86%



Risks Factors

Risks Relating to Business and Industry

- Ongoing regulatory reforms in China are unpredictable. Changes in China's regulatory regime for the healthcare service industry, particularly changes in healthcare reform policies, could have a material adverse effect on the business operations and future expansion.
- The in-network hospitals derive a significant portion of revenue by providing healthcare services to patients with public medical insurance coverage; any delayed payment under China's public medical insurance programs could affect the results of operations.
- Regulatory pricing controls may affect the pricing of the in-network hospitals.
- If the Managed Hospitals and hospital partners decide to terminate or not to renew the cooperation arrangements, the revenue and profitability may suffer.

Risks Relating to the PRC

- China's economic, political and social conditions and government policies, as well as the global economy, may continue to affect the business.
- The M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for the company to pursue growth through acquisitions in China.
- The company may be deemed to be a PRC tax resident enterprise under the EIT Law, which may materially and adversely affect the profitability and the value of investments.

Risks Relating to the Global Offering

- There has been no prior public market for the Shares.
- The trading price of the Shares may be volatile, which could result in substantial losses to you.
- Investors will incur immediate and substantial dilution and may experience further dilution in the future.
- The actual or perceived sale or availability for sale of substantial amounts of the Shares, especially by their Directors, executive officers and Controlling Shareholders, could adversely affect the market price of the Shares.
- There is no assurance if and when it will pay dividends in the future.

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