

BUY

TP: SGD 0.65

▲ 39.8%

Cordlife Group

CLGL SP

A Giant Leap into China

CLGL made an indicative non-binding proposal for the proposed combination with Global Cord Blood Corporation (GCB) (CO US) via a share swap arrangement. CLGL intends to fund the transaction by raising S\$1.25bn via issuing 2,497.9m new shares at S\$0.50/shr. We expect ~30.8% accretion to FY20E EPS should the deal complete by end-2019. Maintain BUY with TP \$0.65/shr, pending shareholder approval and more details on the deal.

- ➔ **In congruence with CLGL's M&A driven growth DNA; albeit at a larger scale:** While still at a very preliminary stage, we see the deal strongly positive to CLGL. Upon successful completion, we expect CLGL to officially be largest cord blood bank in the world, noting that GCB is currently the no.1 player in Mainland China. More importantly, we expect the deal to be highly accretive to CLGL EPS given that 1) the offer price implies 21.4x P/E for GCB (vs. CLGL swapping at 33.7x FY19E P/E); and 2) GCB is more profitable than CLGL (GCB NPM: 29.1% vs. CLGL NPM: 5.1%), with LTM net income of S\$58.0m, which is ~15x that of CLGL FY19E net income of S\$3.8m.
- ➔ **GCB is the market leader in China and a quality target:** GCB has a very similar, cash-generative business model as CLGL, but at a ~4x scale (in terms of revenues) as compared to CLGL given that it is the market leader in the largest market in the world. As such, the target maintains a substantial net cash position of S\$852m (~76% of market cap). Based on simple extrapolation, we expect the net cash position of the enlarged entity to be ~S\$895.7m (~65.0% of the implied market cap post-merger).
- ➔ **Maintain BUY:** Given that the deal is still at the preliminary stage and subject to approval by CLGL (simple majority excluding Sanpower Group) and GCB (two-thirds of shareholders' approval), we will review our investment thesis as more public information surface. We maintain BUY TP \$0.65/shr, noting that the current target price does not account for the impact of the deal.

Financial highlights

Y/E 31 Dec (SGD'm)	FY18A	FY19E	FY20E	FY21E	FY22E
Revenue	72.0	74.3	79.7	85.5	91.4
Revenue Growth	20.1%	3.1%	7.3%	7.3%	6.9%
Core Net profit	3.8*	3.8	4.9	6.1	7.4
Outstanding shares (m)	255	255	255	255	255
EPS (S\$)	1.51	1.48	1.91	2.40	2.91
EPS growth (%)		-1.5%	28.8%	25.3%	21.5%
NPM (%)	5.3%	5.1%	6.1%	7.2%	8.1%
ROE (%)	3.2%	3.0%	3.8%	4.5%	5.2%
P/E (x)	30.9	31.3	24.3	19.4	16.0

Source: Company, SCCM Research; as of 04 Jun 2019, *Strips out S\$0.316m fair value gain on investment property

6 June 2019



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PRICE CLOSE (04 Jun 2019)

SGD 0.465

MARKET CAP

SGD 118 m

USD 86 m

SHARES O/S

252.7 mn

FREE FLOAT

37.1%

3M AVG DAILY VOLUME/VALUE

50K

52 WK HIGH

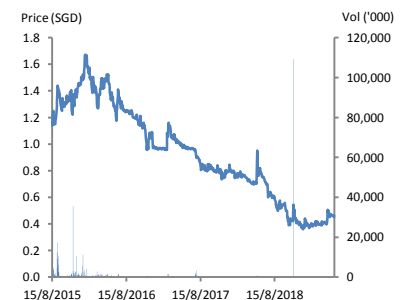
0.950

52 WK LOW

0.360

Target Price

SGD 0.65



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Company Update

Singapore

Medical Services

Potential Game-Changing Acquisition

- **Great leap into PRC:** Global Cord Blood (GCB) is the largest cord blood/lining bank in Mainland China (PRC). GCB's business model is similar/identical to CLGL, which would make a valuable horizontal acquisition for CLGL and mark the entry into the PRC market, if the acquisition is successful.
- **Massive S\$1.25bn deal to be funded by equity issuance:** CLGL intends to issue 2,497.9m shares at S\$0.50/share to raise S\$1.25bn to fund the proposed combination with GCB via a share swap. The proposed deal implies an offer price of US\$7.50/share of the target, a 11.1% premium over closing price on 05Jun19.

Fig 1 - Simple Extrapolation of Target (GCB)

In S\$m	LTM	FY19E*	FY20E*
Revenues (S\$m)	199.2	209.2	219.6
EBITDA (S\$m)	79.5	83.4	87.6
EBIT (S\$m)	68.4	71.8	75.4
Net Income (S\$m)	58.0	60.8	63.9
EPS (S\$)	0.48	0.50	0.53
EBITDA Margins (%)			
	39.9%		
EBIT Margins (%)			
	34.3%		
Net Margins (%)			
	29.1%		

Source: SCCM Research, Bloomberg

- **The proposed combination would be highly accretive:** Given that GCB is arguably more profitable than CLGL with a net income that is ~15x the size of CLGL's net income, we expect the deal to be strongly EPS accretive despite the substantial share base expansion of CLGL. We expect a ~30.8% accretion to our projected FY20E EPS assuming the completion of the deal by end-2019.

Fig 2 - Simple Extrapolation of Acquirer (CLGL)

In S\$m	FY18A	FY19E	FY20E
Before Acquisition			
Revenues (S\$m)	72.0	74.3	79.7
EBITDA (S\$m)	7.2	7.6	9.0
EBIT (S\$m)	4.6	4.0	5.0
Net Income (S\$m)	3.8	3.8	4.9
EPS (S\$c)	1.51	1.48	1.91
EBITDA Margins (%)			
		10.0%	10.3%
EBIT Margins (%)			
		6.3%	5.3%
Net Margins (%)			
		5.8%	5.1%
		10.0%	10.3%
Post-Acquisition – Estimate			
Proposed Share Issuance ('m)	2,498		
New total shares outstanding ('m)	2,753		
Revenues (S\$m)			
			299.3
EBITDA (S\$m)			
			96.6
EBIT (S\$m)			
			80.4
Net Income (S\$m)			
			68.8
EPS (S\$c)			
			2.50
Estimated Accretion (%)			
			30.8%*

Source: SCCM Research, * Accretion estimates are based on conservative growth assumption of GCB

GCB has a market cap of S\$1,124m and net cash position of S\$852.2m

GCB currently trades at 19.4x P/E vs. CLGL which trades at 30.3x FY19E P/E

Forward projections are assumed at a simple 5% growth p.a. which is conservative given that EPS grew at 21.0% CAGR from FY16 to LTM

Forward projections of the combined entity assume no cannibalization of business and completion of deal by end-2019

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Company Update

Singapore

Medical Services

Shareholder Approval Required

- **Simple majority (excluding Sanpower Group) needed at CLGL:** CLGL would 50% of minority shareholder approval for the deal to pass through, i.e. 34.73% of CLGL's total shareholder approval.

Fig 3 - Substantial Deemed Interest of CLGL

Substantial Shareholder	% of Issued Shares
Sanpower Group	30.55
Hon Kwok Lung & Lam Suk Ying	21.55
China Minsheng	6.28
Fidelity Funds	6.40

Source: SCCM Research, CLGL SP Equity FY18 Annual Report

- **Two-third majority needed at GCB:** GCB would require 66.67% of total shareholder approval before the deal passes through, noting that Sanpower already represents 65.3% of GCB total shareholdings.

Fig 4 - Substantial Deemed Interest of GCB

Substantial Shareholder	% of Issued Shares
Sanpower Group	65.3
Kent C McCarthy	13.3
Magnus Optus International	5.9

Source: SCCM Research, CO US Equity FY18 Annual Report

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