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UPDATE

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Guangzhou Kingmed Diagnostics | Asia Pacific

Worst is Behind, But Recovery Pace Depends on Policy and AI

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Reaction to earnings

Unchanged	Modest shortfall	Modest revision lower
Impact to our thesis	Financial results versus consensus	Direction of next 12-month consensus EPS

Key Takeaways

- Kingmed expects profit to be back to positive territory from 2026 following a healthy 1Q margin, but the pace of recovery hinges on policy evolvement.
- Given data-rich nature of the ICL business, Kingmed has developed 80+ AI agents to improve efficiencies. Smooth AI integration could drive margin upside.
- All COVID A/R had been written off by the end of 2025, removing a major overhang on the industry. In 1Q26, Kingmed booked a Rmb10mn impairment reversal.
- 2025 revenue (-16% YoY) was 5% below MSe under continual policy headwinds. Recurring NP was -Rmb161mn, while OCF was healthy at Rmb1.2bn (pre-announced).
- 1Q26 revenue still fell 12% YoY, while recurring profit turned positive to Rmb52mn, both below MSe. OCF fell 20% but remained positive at Rmb43mn.

2026 outlook: 1Q26 delivered modest GPM recovery on a still-tough base, especially in March, and seasonality. Testing volume was largely flat, while ICL take rate continued to decline slightly, suggesting ongoing competition and industry-wide pressures, we think. Kingmed expects NP to turn positive in FY26, supported by a favorable mix shift and efficiency gains from supply-chain optimization and digitalization.

Assessing policy impact from clinical testing fee unifications: Investor questions focus on the upcoming clinical testing fee unifications which consolidates tests by biomarker or clinical use, irrespective of methodology (note). Initial pricing and margin impact will likely be negative, we think. Longer term, it should drive rising ICL penetration and share gains for leaders like Kingmed. Implementation may be delayed until late 2026 or 2027, based on the current discussion process, per Kingmed.

AI monetization could drive upside: As of 2025, Kingmed developed 80+ in-house AI agents, used over 25mn times, saving 21k+ personnel days. AI-assisted testing penetration rose from 17-18% in 2025 to ~25% in 1Q26. The near-term target is 30-40%, supported by continued investment in AI and digitalization.

Guangzhou Kingmed Diagnostics (603882.SS, 603882 CG)

China Healthcare | China

Stock Rating	**Underweight**
Industry View	**Attractive**
Price target	Rmb25.00
Up/downside to price target (%)	(12)
Shr price, close (Apr 24, 2026)	Rmb28.28
52-Week Range	Rmb40.68-24.85
Sh out, dil, curr (mn)	463
Mkt cap, curr (mn)	Rmb13,100.9
EV, curr (mn)	Rmb9,947.0
Avg daily trading value (mn)	Rmb233

Fiscal Year Ending	12/24	12/25e	12/26e	12/27e
EPS (Rmb)**	(0.82)	0.26	0.64	0.86
Prior EPS (Rmb)**	-	-	-	-
EPS (Rmb)§	0.17	(0.14)	0.77	1.01
Revenue, net (Rmb mn)	7,190	6,332	6,924	7,504
EBITDA (Rmb mn)	315	642	771	888
ModelWare net inc (Rmb mn)	(381)	120	296	400
P/E	NM	109.8	44.4	32.9
P/BV	1.7	1.8	1.7	1.6
RNOA (%)	(3.7)	3.5	7.8	10.9
ROE (%)	(4.6)	1.6	4.0	5.2
EV/EBITDA	30.6	15.1	11.9	9.7
Div yld (%)	3.3	0.2	0.5	0.6
FCF yld ratio (%)**	4.0	4.5	6.2	7.1
Leverage (EOP) (%)	(29.4)	(33.0)	(38.3)	(44.0)

framework
§ = Consensus data is provided by Refinitiv Estimates
** = Based on consensus methodology

Valuation Methodology and Risks

Guangzhou Kingmed Diagnostics (603882.SS)

We use a discounted cash flow methodology assuming a WACC of 10.5%. We assume a perpetual growth rate of 3%. Our DCF model starts from 2025.

Risks to Upside

- Robust regular clinical testing demand and market share gain by Kingmed
- Faster than expected margin recovery
- Lower impairment risk or reversal of past impairment
- Accretive M&As

Risks to Downside

- Worse-than-expected VBP impact
- Rising competition from smaller players
- Substantial credit and asset impairment