China Healthcare Services

Demand Recovery Still Uneven; Essential Healthcare Continues to Outperform Discretionary Spending

China
Healthcare
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We turn more cautious on China's consumer healthcare services sector heading into 2Q26 results. We have spoken with management teams and channel experts across ophthalmology, dental and TCM recently and the tone on 2Q26 was relatively conservative, with several noting that June, normally the opening of the summer peak, was a relatively soft month for services, while demand recovery remained uneven through the quarter. In particular, discretionary healthcare services, especially refractive surgery and adult orthodontics, continued to underperform, reflecting persistent pressure on household discretionary spending. By contrast, demand for more essential healthcare services, such as pediatric optometry, myopia management and TCM consultation/treatment, remained resilient with stable, positive growth. Therefore, we moderately lower our 2Q26 earnings expectations for companies under coverage. We believe this demand divergence has been partly reflected in relative share price performance, with Gushengtang (+12%) outperforming Aier Eye Hospital (+9%) and Topchoice Medical (+8%) since July 1 (vs. CSI 300 Healthcare index +10%).

- **Discretionary healthcare consumption remains under pressure.** Our channel checks indicate that discretionary medical spending such as refractive surgery and adult orthodontics remained weaker than we expected in 2Q26 as households continue to prioritize essential consumption. Industry participants generally indicated that refractive surgery volume remained flat to slightly down YoY during 2Q26, with June proving softer than expected despite summer being the traditional peak season following college entrance examinations. Adult orthodontic demand also remained subdued, with case growth generally staying in the low-single-digit range. We also noticed that in orthodontics, patients are trading down the price ladder rather than walking away, so case counts hold up better than revenue. While in refractive, the opposite distortion applies as migration into upgraded procedures is holding ASP up, so reported revenue reads better than underlying case volume. We do not foresee a quick turnaround for discretionary healthcare spend in 2H26 or 1H27, given the current consumption weakness is seemingly taking longer to recover.

- **Demand for essential healthcare services remained resilient during 2Q26.** Pediatric optometry continued to benefit from structural growth in myopia management, supported by increasing penetration of OK lenses, and defocus spectacles. Patient traffic remained healthy, with stable average spending. Similarly, pediatric orthodontics continued to outperform adult orthodontics, as parents are willing to invest in treatment during the optimal intervention window for their children. TCM consultation also maintained solid momentum. While

Equity Ratings and Price Targets

Company	Ticker	Mkt Cap ($ mn)	Price CCY	Price	Rating Cur	Rating Prev	Price Target Cur	Price Target End Date	Price Target Prev	Price Target End Date
Aier Eye - A	300015 CH	12,345	CNY	8.94	N	n/c	9.70	Dec-26	n/c	n/c
Topchoice - A	600763 CH	2,417	CNY	36.50	N	n/c	38.00	Dec-26	42.00	n/c
Gushengtang - H	2273 HK	840	HKD	28.68	OW	n/c	40.00	Dec-26	41.00	n/c

Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates. n/c = no change. All prices as of 04 Aug 26.

See page 16 for analyst certification and important disclosures, including non-US analyst disclosures.

we observed some moderation in discretionary wellness and conditioning services, demand for chronic disease management, rehabilitation, and sleep quality improvement has seen growth. As a result, leading TCM operators such as Gushengtang are expected to continue to deliver double-digit revenue growth. Overall, 2Q26 reinforces our view that medical necessity remains the key determinant of demand resilience across China's consumer healthcare sector in the short term.

- **Healthcare anti-corruption provides more opportunity than risk for leading private providers.** An observation is that the anti-corruption campaign and DRG/DIP payment reform are compressing public hospital compensation and encouraging more experienced physicians to pursue multi-site practice or join high-quality private platforms offering transparent, competitive and compliant income. Meanwhile, as part of private hospitals' revenue is still reimbursed via basic medical insurance, private hospitals are also facing closer scrutiny from the NHSA, particularly around medical insurance billing and treatment appropriateness. While this reduces unnecessary reimbursement-driven treatments, we believe the impact on our coverage is long-term positive as less compliant private players will gradually be forced out of the market. Overall, we believe the campaign favors well-managed industry leaders and supports further industry consolidation.

- **Aier Eye Hospital.** We lower our FY26E refractive surgery value forecast by ~5%, as weak discretionary spending remained the primary headwind during 2Q26. In addition, management highlighted a new factor that further weighed on June demand. Historically, students applying for military and police academies often underwent refractive surgery immediately after the Gaokao based on estimated examination scores. This year, changes to the application process meant many students waited until official exam results were released before deciding whether surgery was necessary. As a result, part of the usual post-Gaokao demand simply disappeared rather than being delayed, creating additional pressure on June procedure volume. We now model refractive revenue growth of 2.5% in FY26E, and we also cut FY26E topline by 2.3%. We maintain our PT of Rmb9.7 and N rating unchanged.

- **Topchoice.** We lower our FY26E case volume forecasts for implants and orthodontics, and now expect these two segments to deliver high single-digit to low double-digit growth in the second quarter, below our prior growth assumption of low-to-mid teens. An important message from our recent discussions with management is that management has acknowledged that the lower-tier market push, combining geographic down-market expansion, entry-level pricing and community grid promoters, has not produced a meaningful volume uplift in either implants or orthodontics. That is consistent with the view we have held since the strategy was first set out. The low-price segment is where competitive intensity is highest, the incremental customer segment is more price-sensitive and less brand-loyal, and the economics of acquiring that customer segment through a promoter network might not work against the ticket size. Separately, we think the ramp of the in-house aligner brand Yinxiu is tracking slower than we had assumed, and we no longer expect it to become a key revenue engine within our forecast horizon. We are consequently cutting FY26E revenue/attributable net profit by 6.2%/6.9%. The ongoing buyback provides some technical support and signals where management sees value, but it does not address the underlying demand and pricing issues. We cut our PT to Rmb38 (from Rmb42), and stay N.

- **Gushengtang.** We remain constructive on Gushengtang's 2Q results and expect revenue growth close to 15%, but we make a modest downward revision to our domestic forecast. Our channel checks identified softness in the elastic parts of the TCM service, principally health preservation and conditioning treatments, which face the same consumer demand pressure described above. We expect core consultation demand to be largely unaffected. As for the ASP, we expect it to be broadly flat YoY excluding the dilution from newly introduced low-ticket nursing services. However, there is an offsetting upgrade in overseas business. Singapore has now validated the replicability of the business model outside the mainland, and the company is executing continued acquisitive build-out from that platform. We expect the second-half acquisitions in Malaysia and Hong Kong to consolidate several hundred million RMB of revenue. Netting the domestic trim against the overseas upgrade, we lower our FY26E revenue growth forecast to 14.5% from 15.6%, and model net profit growing broadly in line with revenue. We do not assume margin expansion this year given the mix effect of newly consolidated assets and the lower initial margin profile of the overseas business. Shareholder return is another bright spot underpinned by the 2026 to 2028 commitment to distribute no less than HK$450mn a year or 60% of audited net profit, whichever is higher, alongside an active buyback program. We maintain our OW rating and slightly lower our PT to HK$40.00 from HK$41.

Aier Eye - A

Lowering refractive surgery volume assumptions; Tax-related payment is a drag on 1H26/FY26 net profit

We lower our FY26E refractive surgery value forecast by ~5%, as weak discretionary spending remained the primary headwind during 2Q26. In addition, management highlighted a new factor that further weighed on June demand. Historically, students applying for military and police academies often underwent refractive surgery immediately after the Gaokao based on estimated examination scores. This year, changes to the application process meant many students waited until official exam results were released before deciding whether surgery was necessary. As a result, part of the usual post-Gaokao demand simply disappeared rather than being delayed, creating additional pressure on June procedure volume. We now model refractive revenue growth of 2.5% in FY26E

- **Model update.** We cut FY26E/FY27E topline by 2.3%/2.3% as we lower our estimate for refractive surgery sales. We also factor in one-off tax supplement payment and late fees totaling Rmb756 mn in 1H26. Therefore we cut our adj. NP estimates by 7.7%/2.8%. We maintain our PT of Rmb9.7 and N rating unchanged.

Neutral

300015.SZ,300015 CH

Price (04 Aug 26): Rmb8.94

Price Target (Dec-26): Rmb9.70

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Key Changes (FYE Dec)

	Prev	Cur	Δ
Adj. EPS - 26E (Rmb)	0.33	0.31	-7.7%

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top) 6M	1Y	3Y	5Y
Value	88	83	83	89	92
Growth	68	68	18	42	18
Momentum	79	90	52	79	31
Quality	39	36	8	46	13
Low Vol	26	60	67	59	56
ESGQ	5	8	17	25	10

Sources for: Style Exposure – J.P. Morgan Global Markets Strategy; all other tables are company data and J.P. Morgan estimates.

Price Performance

	YTD	1m	3m	12m
Abs	-18.6%	4.6%	-17.1%	-30.6%
Rel	-14.9%	10.0%	-10.0%	-37.3%

Company Data

Shares O/S (mn)	9,327
52-week range (Rmb)	13.95-7.82
Market cap ($ mn)	12,345
Exchange rate	6.75
Free float (%)	46.3%
3M ADV (mn)	98.43
3M ADV ($ mn)	130.7
Volatility (90 Day)	37
Index	SSE
BBG ANR (Buy | Hold | Sell)	23|2|1

Key Metrics (FYE Dec)

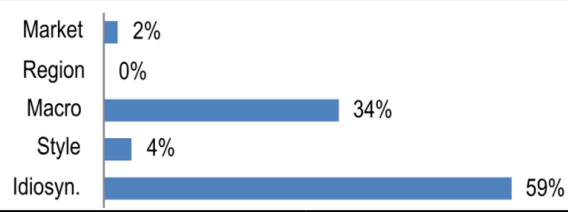
Rmb in millions	FY25A	FY26E	FY27E	FY28E
Financial Estimates				
Revenue	22,353	23,545	26,279	29,432
Adj. EBITDA	6,380	6,270	8,214	9,364
Adj. EBIT	4,601	4,342	6,134	7,134
Adj. net income	3,240	2,880	4,125	4,827
Adj. EPS	0.35	0.31	0.44	0.51
BBG EPS	0.39	0.39	0.46	0.52
Cashflow from operations	5,973	4,708	6,160	7,064
FCFF	2,600	2,080	3,440	4,237
Margins and Growth				
Revenue Growth Y/Y (%)	6.5%	5.3%	11.6%	12.0%
EBITDA margin	28.5%	26.6%	31.3%	31.8%
EBITDA Growth Y/Y (%)	(0.4%)	(1.7%)	31.0%	14.0%
EBIT margin	20.6%	18.4%	23.3%	24.2%
Net margin	14.5%	12.2%	15.7%	16.4%
Adj. EPS growth	(9.0%)	(12.0%)	42.5%	16.5%
Ratios				
Adj. tax rate	21.5%	25.0%	25.0%	25.0%
Interest cover	32.3	27.7	34.4	39.9
Net debt/Equity	NM	NM	NM	NM
Net debt/EBITDA	NM	NM	NM	NM
ROCE	15.2%	12.8%	16.4%	17.1%
ROE	15.2%	12.5%	16.1%	16.7%
Valuation				
FCFF yield	3.1%	2.5%	4.1%	5.0%
Dividend yield	1.1%	1.0%	1.4%	1.6%
EV/Revenue	3.7	3.5	3.1	2.7
EV/EBITDA	12.9	13.1	9.9	8.5
Adj. P/E	25.5	29.0	20.4	17.5

Summary Investment Thesis and Valuation

Aier Eye is the leader in the structurally expanding ophthalmology market which is underpinned by an ageing population and escalating 'quality of life' requirements. Resilient cataract and eye disease therapy demand ensure steady industry growth, even if the lukewarm consumer economy in China is delaying discretionary ophthalmic demand. Aier's first-mover advantage in establishing a reputable brand anchors its competitive edge, along with a dominant nationwide network of 900+ hospitals and clinics that deliver economies of scale, and effective strategies to retain leading doctors. However, we think the stock is reasonably priced, and we would wait for evidence of a turning point in discretionary procedures. Maintain Neutral.

Our Dec-26 price target of Rmb9.7 is based on a DCF valuation, which assumes a market premium of 6.2% and a risk free rate of 3.8%. We assume a beta of 1.28 (from Bloomberg) and WACC of 10.9%. We estimate free cash flow until 2033 and assume a terminal growth rate of 3%.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI Asia Pac ex JP	0.15	0.16
Region: China	-0.03	0.06
Macro:		
JPM China A-shares Sentiment	0.36	0.38
JPM Global Equity Sentiment	0.35	0.26
JPM EM Currency(EMCI) Fixing	-0.23	-0.19
Quant Styles:		
Size	-0.13	-0.24
Growth	-0.08	-0.10
LowVol	0.16	0.08

Source: J.P. Morgan Global Markets Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

Investment Thesis, Valuation and Risks

AIER EYE HOSPITAL GROUP CO - A *(Neutral; Price Target: Rmb9.70)*

Investment Thesis

Aier Eye is the leader in the structurally expanding ophthalmology market which is underpinned by an ageing population and escalating 'quality of life' requirements. Resilient cataract and eye disease therapy demand ensure steady industry growth, even if the lukewarm consumer economy in China is delaying discretionary ophthalmic demand. Aier's first-mover advantage in establishing a reputable brand anchors its competitive edge, along with a dominant nationwide network of 900+ hospitals and clinics that deliver economies of scale and effective strategies to retain leading doctors. However, we think the stock is reasonably priced and we would wait for evidence of a turning point in discretionary procedures before turning more positive. We have a Neutral rating on the stock.

Valuation

Our Dec-26 price target of Rmb9.7 is based on a DCF valuation, which assumes a market premium of 6.2% and a risk free rate of 3.8%. We assume a beta of 1.28 (from Bloomberg) and WACC of 10.9%. We estimate free cash flow until 2033 and assume a terminal growth rate of 3%.

WACC Assumptions	
Risk-free rate	*3.8%*
Market risk	*6.2%*
Beta	1.28
Cost of equity	**11.7%**
Cost of debt	*4.0%*
Liabilities as a % of EV	*10.0%*
WACC	**10.9%**

WACC	10.9%
Terminal growth rate	3.00%
Terminal Present Value	61,799
PV Cash Flow	30,476
Enterprise Value	**92,274**
YE26 Net Cash and Equivalents	5,242
LT Debt + ST Debt	(2,502)
Equity value	**90,299**
PT as of Dec-2026	
Target Price Per Share (RMB)	**9.7**
Shares Outstanding (mn)	9,325

Source: Bloomberg Finance L.P. (10 June 2026), J.P. Morgan estimates.

Risks to Rating and Price Target

Key downside risks to our rating and PT include 1) goodwill impairments; 2) intense regulatory scrutiny on ophthalmology service pricing; 3) potential medical disputes and customer complaints; 4) execution risks on network expansion; and 5) intensifying competition from local competitors.

Key upside risks include: 1) better M&A integration and faster-than-expected new hospital ramp up; 2) better margin performance; and 3) a faster recovery in refractive surgery and breakthrough in overseas expansion.

Aier Eye - A: Summary of Financials

Income Statement	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue	**20,983**	**22,353**	**23,545**	**26,279**	**29,432**
COGS	(10,887)	(11,822)	(12,343)	(13,709)	(15,340)
Gross profit	**10,096**	**10,531**	**11,201**	**12,569**	**14,092**
SG&A	(5,141)	(5,358)	(5,620)	(6,063)	(6,555)
Adj. EBITDA	**6,403**	**6,380**	**6,270**	**8,214**	**9,364**
D&A	(1,594)	(1,779)	(1,928)	(2,081)	(2,230)
Adj. EBIT	**4,809**	**4,601**	**4,342**	**6,134**	**7,134**
Net Interest	(160)	(198)	(226)	(239)	(235)
Adj. PBT	**4,594**	**4,425**	**4,116**	**5,895**	**6,899**
Tax	(858)	(952)	(1,029)	(1,474)	(1,725)
Minority Interest	(180)	(233)	(207)	(297)	(347)
Adj. Net Income	**3,556**	**3,240**	**2,880**	**4,125**	**4,827**
Reported EPS	0.38	0.35	0.31	0.44	0.51
Adj. EPS	**0.38**	**0.35**	**0.31**	**0.44**	**0.51**
DPS	**0.16**	**0.10**	**0.09**	**0.13**	**0.15**
Payout ratio	41.8%	28.6%	28.6%	28.6%	28.6%
Shares outstanding	9,244	9,258	9,350	9,397	9,444

Balance Sheet	FY24A	FY25A	FY26E	FY27E	FY28E
Cash and cash equivalents	5,364	5,295	5,105	6,632	8,581
Accounts receivable	1,993	1,849	1,938	2,150	2,393
Inventories	985	981	1,014	1,115	1,235
Other current assets	4,302	4,787	4,968	5,321	5,726
Current assets	**9,666**	**10,083**	**10,073**	**11,954**	**14,307**
PP&E	5,212	6,537	7,468	8,329	9,130
LT investments	-	-	-	-	-
Other non current assets	4,341	4,654	4,672	4,684	4,695
Total assets	**33,255**	**36,676**	**39,233**	**43,188**	**47,704**
Short term borrowings	2,215	2,362	2,362	2,362	2,362
Payables	2,040	2,094	2,193	2,443	2,743
Other short term liabilities	2,409	3,686	3,797	3,909	4,024
Current liabilities	**6,665**	**8,142**	**8,352**	**8,714**	**9,128**
Long-term debt	44	140	140	140	140
Other long term liabilities	4,779	5,135	5,271	5,444	5,652
Total liabilities	**11,443**	**13,278**	**13,623**	**14,158**	**14,781**
Shareholders' equity	20,715	21,974	23,978	27,101	30,648
Minority interests	1,097	1,425	1,632	1,928	2,275
Total liabilities & equity	**33,255**	**36,676**	**39,233**	**43,188**	**47,704**
BVPS	**2.24**	**2.37**	**2.56**	**2.88**	**3.25**
y/y Growth	*9.9%*	*5.9%*	*8.0%*	*12.5%*	*12.5%*
Net debt/(cash)	(3,105)	(2,794)	(2,603)	(4,131)	(6,080)

Cash Flow Statement	FY24A	FY25A	FY26E	FY27E	FY28E
Cash flow from operating activities	**4,882**	**5,973**	**4,708**	**6,160**	**7,064**
o/w Depreciation & amortization	1,594	1,779	1,928	2,081	2,230
o/w Changes in working capital	(11)	202	(23)	(63)	(65)
Cash flow from investing activities	**(2,848)**	**(3,096)**	**(3,448)**	**(3,055)**	**(3,239)**
o/w Capital expenditure	(1,757)	(1,876)	(1,932)	(1,990)	(2,050)
as % of sales	*8.4%*	*8.4%*	*8.2%*	*7.6%*	*7.0%*
Cash flow from financing activities	**(2,734)**	**(2,952)**	**(1,450)**	**(1,577)**	**(1,877)**
o/w Dividends paid	(1,443)	(1,564)	(875)	(1,002)	(1,280)
o/w Shares issued/(repurchased)	0	0	0	0	0
o/w Net debt issued/(repaid)	535	53	0	0	0
Net change in cash	**(700)**	**(75)**	**(191)**	**1,528**	**1,949**
Adj. Free cash flow to firm	**2,764**	**2,600**	**2,080**	**3,440**	**4,237**
y/y Growth	*0.6%*	*(5.9%)*	*(20.0%)*	*65.4%*	*23.2%*

Ratio Analysis	FY24A	FY25A	FY26E	FY27E	FY28E
Gross margin	48.1%	47.1%	47.6%	47.8%	47.9%
EBITDA margin	30.5%	28.5%	26.6%	31.3%	31.8%
EBIT margin	22.9%	20.6%	18.4%	23.3%	24.2%
Net profit margin	16.9%	14.5%	12.2%	15.7%	16.4%
ROE	18.0%	15.2%	12.5%	16.1%	16.7%
ROA	11.2%	9.3%	7.6%	10.0%	10.6%
ROCE	18.0%	15.2%	12.8%	16.4%	17.1%
SG&A/Sales	24.5%	24.0%	23.9%	23.1%	22.3%
Net debt/Equity	NM	NM	NM	NM	NM
Net debt/EBITDA	NM	NM	NM	NM	NM
Sales/Assets (x)	0.7	0.6	0.6	0.6	0.6
Assets/Equity (x)	1.6	1.6	1.7	1.6	1.6
Interest cover (x)	40.1	32.3	27.7	34.4	39.9
Operating leverage	131.5%	(66.1%)	(105.6%)	355.4%	135.9%
Tax rate	18.7%	21.5%	25.0%	25.0%	25.0%
Revenue y/y Growth	3.0%	6.5%	5.3%	11.6%	12.0%
EBITDA y/y Growth	7.2%	(0.4%)	(1.7%)	31.0%	14.0%
EPS y/y Growth	5.9%	(9.0%)	(12.0%)	42.5%	16.5%

Valuation	FY24A	FY25A	FY26E	FY27E	FY28E
P/E (x)	23.2	25.5	29.0	20.4	17.5
P/BV (x)	4.0	3.8	3.5	3.1	2.8
EV/EBITDA (x)	12.7	12.9	13.1	9.9	8.5
Dividend Yield	1.8%	1.1%	1.0%	1.4%	1.6%

Source: Company reports and J.P. Morgan estimates.

Note: Rmb in millions (except per-share data).Fiscal year ends Dec. o/w - out of which

Topchoice - A

Neutral

600763.SS,600763 CH
Price (04 Aug 26): Rmb36.50

▼ **Price Target (Dec-26): Rmb38.00**
Prior (Dec-26): Rmb42.00

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Key Changes (FYE Dec)

	Prev	Cur	Δ
Adj. EPS - 26E (Rmb)	1.27	1.18	-6.9%
Adj. EPS - 27E (Rmb)	1.50	1.38	-7.9%

Style Exposure

Quant	Current	Hist %Rank (1=Top)			
Factors	%Rank	6M	1Y	3Y	5Y
Value	82	83	80	80	83
Growth	50	30	37	32	8
Momentum	63	59	81	91	19
Quality	31	10	14	26	5
Low Vol	32	41	55	69	66

Sources for: Style Exposure – J.P. Morgan Global Markets Strategy; all other tables are company data and J.P. Morgan estimates.

Cutting implant and orthodontic forecasts as we revise downwards effectiveness of the new strategy

We lower our FY26E case volume forecasts for implants and orthodontics, and now expect these two segments to deliver high single-digit to low double-digit growth in the second quarter, below our prior growth assumption of low-to-mid teens. An important message from our recent discussions with management is that management has acknowledged that the lower-tier market push, combining geographic down-market expansion, entry-level pricing and community grid promoters, has not produced a meaningful volume uplift in either implants or orthodontics. That is consistent with the view we have held since the strategy was first set out. The low-price segment is where competitive intensity is highest, the incremental customer segment is more price-sensitive and less brand-loyal, and the economics of acquiring that customer segment through a promoter network might not work against the ticket size. Separately, we think the ramp of the in-house aligner brand Yinxiu is tracking slower than we had assumed, and we no longer expect it to become a key revenue engine within our forecast horizon.

- **Model update.** We cut FY26E/27E revenue by 6.2%/7.2% as we lower our case volume forecasts for implants and orthodontics as we expect lower effectiveness of the company's promotion strategy. We also lower adj. net profit accordingly by 6.9%/7.9%. The ongoing buyback provides some technical support and signals where management sees value, but it does not address the underlying demand and pricing issues. We cut PT to Rmb38 from Rmb42, and stay Neutral.

Investment Thesis, Valuation and Risks

TOPCHOICE MEDICAL INVESTMENT CO. - A *(Neutral; Price Target: Rmb38.00)*

Investment Thesis

We have a Neutral rating on Topchoice. Founded in 1995, Topchoice is one of the top dental chains in China: As of 3Q25, the company operated 90+ medical institutions and was equipped with ~3,100 dental chairs. We see dental services facing short- and long-term challenges, leading to profitability pressure. However its recent strategic change to focus more on low price products and lower-tier city penetration could be a game changer and bring big near-term business growth.

Valuation

Our Dec-26 PT of Rmb38 is based on a DCF valuation that assumes a market premium of 6.2% and a risk-free rate of 3.8%. We assume a beta of 1.4 (from Bloomberg) and a WACC of 11.5%. We estimate free cash flow until 2033 and assume a terminal growth rate of 2.5%.

Key DCF assumptions and valuation

WACC Assumptions	
Risk-free rate	3.8%
Market risk	6.2%
Beta	1.40
Cost of equity	**12.4%**
Cost of debt	*4.0%*
Liabilities as a % of EV	*10.0%*
WACC	**11.5%**

WACC	11.5%
Terminal growth rate	2.50%
Terminal Present Value	10,715
PV Cash Flow	5,564
Enterprise Value	**16,279**
YE26 Net Cash and Equivalents	1,006
LT Debt + ST Debt	(373)
Equity value	**16,912**
PT as of Dec-2026	
Target Price Per Share (RMB)	**38**
Shares Outstanding (mn)	447

Source: Bloomberg Finance L.P. (as of 20 April 2026), J.P. Morgan estimates.

Risks to Rating and Price Target

Key upside risks include a stabilization of implant prices, accelerated penetration rates, a stronger-than-expected recovery in orthodontic demand, breakthroughs in ex-Zhejiang hospital development, improved physician retention through enhanced incentives, and operational improvements via digitization.

Downside risks include slower than expect grid agent recruitment, l not working and the company failing to ramp-up implant and orthod lower-tier cities, and a higher than expected profit impact on its higl lines.

Topchoice - A: Summary of Financials

Income Statement	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue	**2,874**	**2,913**	**3,074**	**3,595**	**4,244**
COGS	(1,767)	(1,788)	(1,932)	(2,270)	(2,669)
Gross profit	**1,106**	**1,125**	**1,142**	**1,325**	**1,575**
SG&A	(349)	(354)	(386)	(433)	(491)
Adj. EBITDA	**945**	**940**	**910**	**1,035**	**1,214**
D&A	(203)	(194)	(168)	(169)	(171)
Adj. EBIT	**742**	**746**	**741**	**865**	**1,043**
Net Interest	0	0	3	3	4
Adj. PBT	**694**	**705**	**744**	**869**	**1,047**
Tax	(122)	(117)	(124)	(144)	(174)
Minority Interest	(71)	(86)	(91)	(106)	(128)
Adj. Net Income	**501**	**502**	**530**	**618**	**745**
Reported EPS	1.12	1.12	1.18	1.38	1.66
Adj. EPS	**1.12**	**1.12**	**1.18**	**1.38**	**1.66**
DPS	**0.45**	**0.45**	**0.47**	**0.55**	**0.67**
Payout ratio	40.2%	40.2%	40.2%	40.2%	40.2%
Shares outstanding	447	448	448	448	448

Cash Flow Statement	FY24A	FY25A	FY26E	FY27E	FY28E
Cash flow from operating activities	**763**	**811**	**793**	**894**	**1,042**
o/w Depreciation & amortization	203	194	168	169	171
o/w Changes in working capital	(65)	5	5	(1)	(2)
Cash flow from investing activities	**(325)**	**(279)**	**(278)**	**(254)**	**(260)**
o/w Capital expenditure	(265)	(148)	(133)	(126)	(128)
as % of sales	*9.2%*	*5.1%*	*4.3%*	*3.5%*	*3.0%*
Cash flow from financing activities	**(413)**	**(455)**	**(205)**	**(320)**	**(356)**
o/w Dividends paid	(169)	(254)	(106)	(231)	(274)
o/w Shares issued/(repurchased)	0	0	0	0	0
o/w Net debt issued/(repaid)	(39)	(50)	0	0	0
Net change in cash	**26**	**76**	**310**	**319**	**426**
Adj. Free cash flow to firm	**1,387**	**0**	**462**	**573**	**724**
y/y Growth	*722.4%*	*(100.0%)*	*462406434601567400.0%*	*23.9%*	*26.3%*

Balance Sheet	FY24A	FY25A	FY26E	FY27E	FY28E
Cash and cash equivalents	621	696	1,006	1,325	1,752
Accounts receivable	151	169	178	207	243
Inventories	30	20	21	25	29
Other current assets	297	329	343	379	422
Current assets	**918**	**1,025**	**1,349**	**1,704**	**2,173**
PP&E	796	881	925	958	990
LT investments	-	-	-	-	-
Other non current assets	3,251	3,169	3,221	3,254	3,288
Total assets	**6,182**	**6,042**	**6,496**	**6,956**	**7,537**
Short term borrowings	210	373	373	373	373
Payables	137	149	164	196	234
Other short term liabilities	201	168	173	178	183
Current liabilities	**547**	**690**	**710**	**747**	**790**
Long-term debt	169	0	0	0	0
Other long term liabilities	1,276	783	702	632	570
Total liabilities	**1,823**	**1,473**	**1,412**	**1,379**	**1,360**
Shareholders' equity	4,028	4,234	4,657	5,045	5,516
Minority interests	331	335	426	533	661
Total liabilities & equity	**6,182**	**6,042**	**6,496**	**6,956**	**7,537**
BVPS	**9.00**	**9.45**	**10.39**	**11.26**	**12.31**
y/y Growth	*(24.1%)*	*4.9%*	*10.0%*	*8.3%*	*9.3%*
Net debt/(cash)	(242)	(323)	(633)	(952)	(1,379)

Ratio Analysis	FY24A	FY25A	FY26E	FY27E	FY28E
Gross margin	38.5%	38.6%	37.1%	36.9%	37.1%
EBITDA margin	32.9%	32.3%	29.6%	28.8%	28.6%
EBIT margin	25.8%	25.6%	24.1%	24.1%	24.6%
Net profit margin	17.4%	17.2%	17.2%	17.2%	17.6%
ROE	12.8%	12.2%	11.9%	12.7%	14.1%
ROA	8.2%	8.2%	8.4%	9.2%	10.3%
ROCE	14.2%	13.8%	12.8%	13.8%	15.4%
SG&A/Sales	12.1%	12.2%	12.6%	12.1%	11.6%
Net debt/Equity	NM	NM	NM	NM	NM
Net debt/EBITDA	NM	NM	NM	NM	NM
Sales/Assets (x)	0.5	0.5	0.5	0.5	0.6
Assets/Equity (x)	1.6	1.5	1.4	1.4	1.4
Interest cover (x)	-	-	NM	NM	NM
Operating leverage	(227.1%)	42.7%	(11.7%)	98.6%	114.0%
Tax rate	17.6%	16.6%	16.6%	16.6%	16.6%
Revenue y/y Growth	1.0%	1.4%	5.5%	16.9%	18.1%
EBITDA y/y Growth	(0.3%)	(0.5%)	(3.3%)	13.7%	17.3%
EPS y/y Growth	(28.2%)	0.0%	5.5%	16.7%	20.5%

Valuation	FY24A	FY25A	FY26E	FY27E	FY28E
P/E (x)	32.6	32.6	30.9	26.5	22.0
P/BV (x)	4.1	3.9	3.5	3.2	3.0
EV/EBITDA (x)	17.4	17.4	17.7	15.4	12.9
Dividend Yield	1.2%	1.2%	1.3%	1.5%	1.8%

Source: Company reports and J.P. Morgan estimates.
Note: Rmb in millions (except per-share data).Fiscal year ends Dec. o/w - out of which

Gushengtang - H

Overweight

2273.HK,2273 HK
Price (04 Aug 26): HK$28.68

▼ **Price Target (Dec-26): HK$40.00**
Prior (Dec-26): HK$41.00

China
Healthcare

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SAC Registration Number: S1730524050001
J.P. Morgan Securities (China) Company Limited

Key Changes (FYE Dec)

	Prev	Cur	Δ
Adj. EPS - 26E (Rmb)	2.02	1.89	-6.1%
Adj. EPS - 27E (Rmb)	2.40	2.27	-5.3%

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top) 6M	1Y	3Y	5Y
Value	55	41	53	76	100
Growth	44	37	27	23	90
Momentum	62	52	32	29	
Quality	36	55	51	20	
Low Vol	63	70	75	93	

Sources for: Style Exposure – J.P. Morgan Global Markets Strategy; all other tables are company data and J.P. Morgan estimates.

Domestic demand remains resilient; overseas becoming the next growth engine

We remain constructive on Gushengtang's 2Q results and expect revenue growth close to 15%, but we make a modest downward revision to our domestic forecast. Our channel checks identified softness in the elastic parts of the TCM service, principally health preservation and conditioning treatments, which face the same consumer demand pressure described above. We expect core consultation demand to be largely unaffected. As for the ASP, we expect it to be broadly flat YoY excluding the dilution from newly introduced low-ticket nursing services. However, there is an offsetting upgrade in overseas business. Singapore has now validated the replicability of the business model outside the mainland, and the company is executing continued acquisitive build-out from that platform. We expect the second-half acquisitions in Malaysia and Hong Kong to consolidate several hundred million RMB of revenue. Netting the domestic trim against the overseas upgrade, we lower our FY26E revenue growth forecast to 14.5% from 15.6%, and model net profit growing broadly in line with revenue. We do not assume margin expansion this year given the mix effect of newly consolidated assets and the lower initial margin profile of the overseas business. Shareholder return is another bright spot underpinned by the 2026 to 2028 commitment to distribute no less than HK$450mn a year or 60% of audited net profit, whichever is higher, alongside an active buyback program.

- **Model update.** We cut FY26E/27E topline by 1%/2% respectively as we adjust downwards the discretionary part of TCM service revenue. We also fine tune our estimates for opex and lower FY26E/27E adj. NP by 6.1%/5.3%. We maintain our OW rating and lower our PT to HK$40.00 from HK$41.

Price Performance

	YTD	1m	3m	12m
Abs	1.7%	-5.8%	-3.4%	-19.1%
Rel	0.8%	-16.6%	-2.4%	-23.6%

Company Data

Shares O/S (mn)	230
52-week range (HK$)	37.10-24.32
Market cap ($ mn)	840
Exchange rate	7.84
Free float (%)	54.3%
3M ADV (mn)	1.08
3M ADV ($ mn)	3.9
Volatility (90 Day)	37
Index	HSI
BBG ANR (Buy | Hold | Sell)	26|0|1

Key Metrics (FYE Dec)

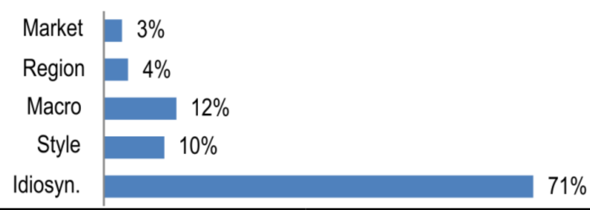
Rmb in millions	FY25A	FY26E	FY27E	FY28E
Financial Estimates				
Revenue	3,249	3,719	4,358	5,008
Adj. EBITDA	624	716	861	997
Adj. EBIT	436	530	645	769
Adj. net income	403	429	514	615
Adj. EPS	1.72	1.89	2.27	2.72
BBG EPS	1.72	1.80	2.11	2.44
Cashflow from operations	620	604	735	854
FCFF	(0)	(0)	(0)	0
Margins and Growth				
Revenue Growth Y/Y (%)	7.5%	14.5%	17.2%	14.9%
EBITDA margin	19.2%	19.3%	19.8%	19.9%
EBITDA Growth Y/Y (%)	21.5%	14.8%	20.2%	15.7%
EBIT margin	13.4%	14.2%	14.8%	15.4%
Net margin	12.4%	11.5%	11.8%	12.3%
Adj. EPS growth	7.7%	10.3%	19.9%	19.7%
Ratios				
Adj. tax rate	16.9%	16.9%	16.9%	16.9%
Interest cover	23.9	21.5	19.4	21.9
Net debt/Equity	NM	0.0	0.0	NM
Net debt/EBITDA	NM	0.1	0.1	NM
ROCE	14.6%	16.5%	18.4%	20.9%
ROE	17.7%	21.7%	27.9%	30.7%
Valuation				
FCFF yield	0.0%	0.0%	0.0%	0.0%
Dividend yield	3.7%	6.9%	6.9%	6.9%
EV/Revenue	1.6	1.6	1.3	1.1
EV/EBITDA	8.3	8.1	6.8	5.8
Adj. P/E	14.4	13.0	10.9	9.1

Summary Investment Thesis and Valuation

GST is the leading private TCM clinic chain in China, managing 100+ domestic and overseas clinics and completing 5.6mn patient visits in FY25. We like its ability to replicate its successful business model in key cities and rapidly expand its clinic network nationwide. We believe GST's operational excellence and first-mover advantage to retain first-class doctors put it in a leading position to benefit more from the growing demand for TCM. We believe GST's capability to expand beyond the current territory, to monetize the AI TCM master development, and to achieve NPM improvement due to economies of scale is not fully reflected in the price. OW.

Our Dec-26 price target of HK$40.0 is based on a DCF valuation, which assumes a market premium of 6.6% and a risk free rate of 3.8%. We assume a beta of 1.24 (from Bloomberg) and WACC of 11.5%. We estimate free cash flow until 2033 and assume a terminal growth rate of 3%.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI Asia Pac ex JP	0.12	0.17
Region: China	0.16	0.21
Macro:		
JPM Global Equity Sentiment	0.32	0.28
JPM China A-shares Sentiment	0.44	0.19
Emerging Central Bank Rate	-0.05	-0.17
Quant Styles:		
Size	-0.33	-0.37
Quality	-0.15	-0.19
Momentum	-0.27	-0.16

Source: J.P. Morgan Global Markets Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

Investment Thesis, Valuation and Risks

Gushengtang Holdings Ltd - H *(Overweight; Price Target: HK$40.00)*

Investment Thesis

GST is the leading private TCM clinic chain in China, managing 100+ domestic and overseas clinics and completing 5.6mn patient visits in FY25. We like its ability to replicate its successful business model in key cities and rapidly expand its clinic network nationwide. We believe GST's operational excellence and first-mover advantage to retain first-class doctors put it in a leading position to benefit more from the growing demand for TCM. We believe GST's capability to expand beyond the current territory, to monetize the AI TCM master development, and to achieve NPM improvement due to economies of scale is not fully reflected in the price. OW.

Valuation

Our Dec-26 price target of HK$40.0 is based on a DCF valuation, which assumes a market premium of 6.6% and a risk free rate of 3.8%. We assume a beta of 1.24 (from Bloomberg) and WACC of 11.5%. We estimate free cash flow until 2033 and assume a terminal growth rate of 3%.

WACC Assumptions	
Risk-free rate	*3.8%*
Market risk	*6.6%*
Beta	1.24
Cost of equity	**11.9%**
Cost of debt	*4.0%*
Liabilities as a % of EV	*5.0%*
WACC	**11.5%**

WACC	11.5%
Terminal growth rate	3.0%
Terminal Present Value	5,040,703
PV Cash Flow	3,534,161
Enterprise Value (Rmb thousand)	**8,574,864**
YE26 Net Cash and Equivalents	1,016,933
LT Debt + ST Debt	(1,070,798)
Lease liabilities	(467,232)
Equity value (Rmb thousand)	**8,053,767**
PT as of Dec-2026	
Target Price Per Share (HKD)	**40**
Shares Outstanding (thousand)	226,344

Source: Bloomberg Finance L.P. (data as of 26 January 2026), J.P. Morgan estimates.

Risks to Rating and Price Target

With the continuous development of the TCM service market, more enterprises are entering the industry, and GST is facing intense market competition. Policy changes may also have an impact on GST's development, such as the reform of the medical and health system, and the adjustment of TCM GPO policies. In addition, GST faces operational risks such as talent loss and expansion difficulties. We also highlight short-term risks, which include prolonged consumer weakness, integration risk on completed M&A and overseas projects, and TCM reimbursement policy changes.

Gushengtang - H: Summary of Financials

Income Statement	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue	**3,022**	**3,249**	**3,719**	**4,358**	**5,008**
COGS	(2,113)	(2,237)	(2,558)	(2,995)	(3,439)
Gross profit	**909**	**1,012**	**1,161**	**1,363**	**1,569**
SG&A	(553)	(564)	(635)	(722)	(805)
Adj. EBITDA	**514**	**624**	**716**	**861**	**997**
D&A	(151)	(188)	(186)	(216)	(227)
Adj. EBIT	**363**	**436**	**530**	**645**	**769**
Net Interest	(18)	(26)	(33)	(44)	(45)
Adj. PBT	**363**	**424**	**497**	**601**	**724**
Tax	(56)	(72)	(84)	(102)	(122)
Minority Interest	(0)	(0)	(0)	(0)	(0)
Adj. Net Income	**400**	**403**	**429**	**514**	**615**
Reported EPS	1.22	1.51	1.83	2.21	2.66
Adj. EPS	**1.59**	**1.72**	**1.89**	**2.27**	**2.72**
DPS	**0.47**	**0.91**	**1.71**	**1.71**	**1.71**
Payout ratio	38.5%	60.4%	93.8%	77.5%	64.4%
Shares outstanding	251	234	226	226	226

Balance Sheet	FY24A	FY25A	FY26E	FY27E	FY28E
Cash and cash equivalents	1,116	882	1,017	973	1,063
Accounts receivable	269	257	301	356	413
Inventories	179	195	212	236	257
Other current assets	684	907	986	1,079	1,172
Current assets	**1,813**	**1,856**	**2,070**	**2,119**	**2,302**
PP&E	142	177	216	248	240
LT investments	-	-	-	-	-
Other non current assets	158	140	140	140	140
Total assets	**3,656**	**3,992**	**4,533**	**4,792**	**5,079**
Short term borrowings	8	118	112	107	101
Payables	308	302	353	421	493
Other short term liabilities	448	732	754	769	784
Current liabilities	**763**	**1,152**	**1,219**	**1,297**	**1,378**
Long-term debt	92	188	958	958	958
Other long term liabilities	517	656	1,518	1,588	1,579
Total liabilities	**1,280**	**1,808**	**2,736**	**2,884**	**2,958**
Shareholders' equity	2,376	2,170	1,783	1,895	2,110
Minority interests	0	14	14	13	11
Total liabilities & equity	**3,656**	**3,992**	**4,533**	**4,792**	**5,079**
BVPS	**9.47**	**9.26**	**7.88**	**8.37**	**9.32**
y/y Growth	*0.3%*	*(2.2%)*	*(14.9%)*	*6.3%*	*11.3%*
Net debt/(cash)	(1,016)	(576)	54	93	(3)

Cash Flow Statement	FY24A	FY25A	FY26E	FY27E	FY28E
Cash flow from operating activities	**452**	**620**	**604**	**735**	**854**
o/w Depreciation & amortization	151	188	186	216	227
o/w Changes in working capital	(95)	(8)	(10)	(11)	(6)
Cash flow from investing activities	**(218)**	**(218)**	**(309)**	**(226)**	**(204)**
o/w Capital expenditure	(82)	(82)	(104)	(107)	(71)
as % of sales	*2.7%*	*2.5%*	*2.8%*	*2.4%*	*1.4%*
Cash flow from financing activities	**(420)**	**(636)**	**(160)**	**(553)**	**(559)**
o/w Dividends paid	0	0	(301)	(388)	(388)
o/w Shares issued/(repurchased)	0	0	(500)	0	0
o/w Net debt issued/(repaid)	0	0	770	0	0
Net change in cash	**(185)**	**(234)**	**135**	**(44)**	**91**
Adj. Free cash flow to firm	**0**	**(0)**	**(0)**	**(0)**	**0**
y/y Growth	*(102.2%)*	*(5660.1%)*	*(53.8%)*	*(47.5%)*	*(265.8%)*

Ratio Analysis	FY24A	FY25A	FY26E	FY27E	FY28E
Gross margin	30.1%	31.2%	31.2%	31.3%	31.3%
EBITDA margin	17.0%	19.2%	19.3%	19.8%	19.9%
EBIT margin	12.0%	13.4%	14.2%	14.8%	15.4%
Net profit margin	13.2%	12.4%	11.5%	11.8%	12.3%
ROE	17.1%	17.7%	21.7%	27.9%	30.7%
ROA	11.4%	10.5%	10.1%	11.0%	12.5%
ROCE	12.8%	14.6%	16.5%	18.4%	20.9%
SG&A/Sales	18.3%	17.4%	17.1%	16.6%	16.1%
Net debt/Equity	NM	NM	0.0	0.0	NM
Net debt/EBITDA	NM	NM	0.1	0.1	NM
Sales/Assets (x)	0.9	0.8	0.9	0.9	1.0
Assets/Equity (x)	1.5	1.7	2.2	2.5	2.5
Interest cover (x)	29.2	23.9	21.5	19.4	21.9
Operating leverage	136.7%	270.1%	148.9%	126.7%	129.1%
Tax rate	15.4%	16.9%	16.9%	16.9%	16.9%
Revenue y/y Growth	30.1%	7.5%	14.5%	17.2%	14.9%
EBITDA y/y Growth	36.2%	21.5%	14.8%	20.2%	15.7%
EPS y/y Growth	27.8%	7.7%	10.3%	19.9%	19.7%

Valuation	FY24A	FY25A	FY26E	FY27E	FY28E
P/E (x)	15.5	14.4	13.0	10.9	9.1
P/BV (x)	2.6	2.7	3.1	2.9	2.6
EV/EBITDA (x)	9.2	8.3	8.1	6.8	5.8
Dividend Yield	1.9%	3.7%	6.9%	6.9%	6.9%

Source: Company reports and J.P. Morgan estimates.

Note: Rmb in millions (except per-share data).Fiscal year ends Dec. o/w - out of which

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Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Sep 07, 2016. All share prices are as of market close on the previous business day.
Break in coverage Dec 08, 2016 - Apr 21, 2025.

Date	Rating	Price (Rmb)	Price Target (Rmb)
21-Apr-25	N	12.87	13
27-Apr-26	N	10.99	12
11-Jun-26	N	8.25	9.7

Topchoice - A (600763.SS, 600763 CH) Price Chart

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Apr 21, 2025. All share prices are as of market close on the previous business day.

Date	Rating	Price (Rmb)	Price Target (Rmb)
21-Apr-25	UW	42.68	34
21-Jan-26	N	44.30	42

Gushengtang - H (2273.HK, 2273 HK) Price Chart

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Apr 21, 2025. All share prices are as of market close on the previous business day.

Date	Rating	Price (HK$)	Price Target (HK$)
21-Apr-25	OW	30.45	50
18-Aug-25	OW	33.70	48
03-Nov-25	OW	28.56	46
01-Apr-26	OW	27.30	41

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.
J.P. Morgan ratings or designations: OW = Overweight, N= Neutral, UW = Underweight, NR = Not Rated

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Coverage Universe: Zhao, Eric : Aier Eye - A (300015.SZ), Gushengtang - H (2273.HK), Topchoice - A (600763.SS)

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