

Kindly Medical (1501 HK)

Rapid sales recovery in 1H23

Kindly Medical reported 1H23 revenue growth of 50.9% YoY to RMB340mn thanks to the rapid recovery of interventional surgery demand post the COVID-19 pandemic. Blended GPM improved by 3.9 pts to 59.0%, driven by the increasing proportion of sales from the higher-margin interventional medical devices while the GPM of the interventional medical devices improved by around 2 pts to 65% in 1H23 (vs. 63% in 1H22). As a result, Kindly Medical's attributable net profit increased by 58.3% YoY to RMB81mn in 1H23.

■ **Expanding sales network drives the rapid recovery of interventional medical device sales.** As of 30 June 2023, the Company has covered 2,650 (vs. 2,317 in 2022) domestic hospitals, including 920 tier III hospitals (vs. 908 in 2022). With the extensive distribution network and comprehensive product portfolios, Kindly Medical's sales rapidly recovered. As the pent-up surgery demand was satisfied in 1H23, the sales of interventional medical devices surged to RMB302mn, up 57.1% YoY in 1H23. Moreover, we think the improving GPM indicates provincial VBPs so far have limited impact on the Company's profitability. We maintained our expectation that the total number of PCI surgeries in China will increase by 25% YoY in 2023E to 1.5mn which will drive the strong growth of Kindly Medical's PCI supporting devices throughout the year.

■ **Enriched medical device pipelines.** Kindly Medical continuously progresses on the research development of medical devices for cardiovascular/ neurological/ peripheral intervention or implantation and urinary intervention. The Company's R&D expense rate slightly increased to 19% in 1H23. In 1H23, Kindly Medical obtained four NMPA registration certificates for Class III medical devices, including sinus implant (鼻窦支架), reperfusion catheters (颅内抽吸导管), guide extension catheter (指引延长导管) and hydrophilic angiographic catheter (亲水造影导管). We expect the expanding product portfolio to drive the growth of Kindly Medical in the long term.

■ **Strong growth momentum in the overseas market continued.** Kindly Medical has covered 226 (vs. 207 in 2022) overseas customers in over 66 (vs. 58 in 2022) countries and regions, with 36 CE-certified products and 18 FDA-approved products. The overall overseas revenue increased by 65.2% YoY to RMB72mn in 1H23, contributing 21% of the Company's total sales.

■ **Valuation/Key risks.** We maintained our forecast of Kindly Medical's 45% YoY revenue growth in 2023E. We revised our TP to HK\$33.30 based on a 9-year DCF model (Terminal growth rate: 2.0%, WACC: 10.66%).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	465	586	850	1,174	1,579
YoY growth (%)	29.6	26.1	45.0	38.2	34.5
Attributable net profit (RMB mn)	143	132	167	228	310
YoY growth (%)	17.8	-7.9	26.8	36.7	35.9
EPS (RMB)	0.86	0.79	1.00	1.36	1.86
P/E (x)	28.2	30.6	24.1	17.6	13.0
P/B (x)	2.8	2.6	2.4	2.2	2.0
Yield (%)	0.9	0.8	1.0	1.4	1.9
ROE (%)	10.2	9.0	10.5	13.5	16.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$33.30
 (Previous TP HK\$31.41)
Up/Downside 23.6%
Current Price HK\$26.95

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Stock Data

Mkt Cap (HK\$ mn) 4,508.0
 Avg 3 mths t/o (HK\$ mn) 0.5
 52w High/Low (HK\$) 30.70/24.00
 Total Issued Shares (mn) 167.3
 Source: FactSet

Shareholding Structure

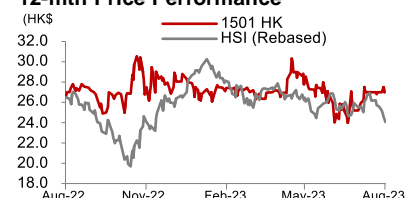
Kindly Holding 25.5%
 Huaige Health Investment 9.1%
 Source: HKEx

Share Performance

	Absolute	Relative
1-mth	6.9%	13.3%
3-mth	-4.8%	4.7%
6-mth	-1.6%	14.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	850	1,174	1,579	850	1,186	1,588	0.0%	-1.0%	-0.6%
Gross profit	501	693	931	467	652	881	7.3%	6.2%	5.7%
Operating profit	185	251	340	167	231	318	10.4%	9.0%	6.9%
Net profit	167	228	310	159	217	298	5.2%	5.0%	4.0%
EPS (RMB)	1.00	1.36	1.86	0.95	1.30	1.78	5.2%	5.0%	4.0%
Gross margin	59.00%	59.00%	59.00%	55.00%	55.00%	55.50%	+4ppt	+4ppt	+3.5ppt
Operating margin	21.71%	21.41%	21.54%	19.67%	19.46%	20.04%	+2.04ppt	+1.95ppt	+1.5ppt
Net Margin	19.66%	19.45%	19.66%	18.68%	18.35%	18.79%	+0.98ppt	+1.1ppt	+0.87ppt

Source: Company data, CMBIGM estimates

Figure 2: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)		2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
EBIT		185	251	340	408	486	573	670	778	894
Tax rate		10%	10%	10%	10%	10%	10%	10%	10%	10%
EBIT*(1-tax rate)		166	227	307	368	438	517	605	701	807
+ D&A		37	37	37	44	53	62	73	85	98
- Change in working capital		(3)	(42)	(52)	(63)	(75)	(88)	(103)	(120)	(138)
- Capex		(250)	(150)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
FCFF		-50	72	192	250	316	391	475	567	667
Terminal value										7,857
Terminal growth rate	2.0%									
WACC	10.66%									
Cost of Equity	13.4%									
Cost of Debt	5.0%									
Equity Beta	1.0									
Risk Free Rate	2.9%									
Market Risk Premium	10.5%									
Target Debt to Asset ratio	30.0%									
Effective Corporate Tax Rate	15.0%									
PV of enterprise value (RMB mn)	4,638									
Net debt (RMB mn)	(420)									
Minority interests (RMB mn)	44									
Equity value (RMB mn)	5,013									
Equity value (HK\$ mn)	5,570									
# of shares outstanding (mn)	167									
Price per share (HK\$)	33.30									

Source: CMBIGM estimates

Figure 3: Sensitivity analysis

		WACC				
		9.66%	10.16%	10.66%	11.16%	11.66%
Terminal growth rate	3.0%	42.81	39.30	36.27	33.63	31.31
	2.5%	40.58	37.44	34.70	32.29	30.15
	2.0%	38.65	35.80	33.30	31.09	29.12
	1.5%	36.95	34.36	32.06	30.01	28.18
	1.0%	35.45	33.07	30.94	29.04	27.33

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	850	1,174	1,579	850	1,186	1,588	0.0%	-1.0%	-0.6%
Gross Profit	501	693	931	468	652	881	7.2%	6.2%	5.7%
Operating Profit	185	251	340	167	231	318	10.5%	8.8%	6.9%
Net profit	167	228	310	159	217	298	5.1%	5.2%	4.1%
EPS (RMB)	1.00	1.36	1.86	0.95	1.30	1.78	5.1%	5.0%	4.2%
Gross Margin	59.00%	59.00%	59.00%	55.00%	55.00%	55.50%	+4ppt	+4ppt	+3.5ppt
Operating Margin	21.71%	21.41%	21.54%	19.65%	19.48%	20.03%	+2.07ppt	+1.93ppt	+1.52ppt
Net Margin	19.66%	19.45%	19.66%	18.71%	18.30%	18.77%	+0.95ppt	+1.15ppt	+0.89ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	358	465	586	850	1,174	1,579
Cost of goods sold	(124)	(189)	(253)	(348)	(481)	(647)
Gross profit	234	276	332	501	693	931
Selling expense	(21)	(30)	(56)	(85)	(115)	(152)
Admin expense	(36)	(49)	(64)	(93)	(127)	(167)
R&D expense	(65)	(90)	(100)	(161)	(221)	(294)
Others	25	50	33	23	21	21
Operating profit	137	156	145	185	251	340
Finance cost	(0)	(1)	(1)	(2)	(2)	(2)
Pre-tax profit	137	156	144	183	249	338
Income tax	(21)	(15)	(11)	(14)	(19)	(25)
Net profit	117	140	134	169	230	312
Minority interest	(5)	(3)	2	2	2	2
Attributable net profit	121	143	132	167	228	310

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	1,048	858	802	761	817	998
Cash & equivalents	870	641	518	426	374	418
Trade and other receivables	31	83	80	115	159	214
Inventories	55	92	154	170	234	315
Time deposits	0	0	10	10	10	10
Financial assets at FVTPL	71	0	0	0	0	0
Other current assets	20	42	40	40	40	40
Non-current assets	375	763	1,025	1,296	1,466	1,587
PP&E	199	458	634	853	973	1,043
Deferred tax assets	2	9	15	15	15	15
Intangibles	8	28	70	114	158	202
Financial assets at FVTPL	49	130	162	162	162	162
Other non-current assets	116	137	144	151	158	165
Total assets	1,423	1,622	1,827	2,057	2,284	2,585
Current liabilities	88	153	240	351	418	501
Loans and borrowings	0	0	33	96	96	96
Trade and other payables	65	105	127	175	242	325
Other current liabilities	23	49	80	80	80	80
Non-current liabilities	7	30	34	34	34	34
Deferred income	5	14	11	11	11	11
Other non-current liabilities	1	17	23	23	23	23
Total liabilities	95	184	273	384	451	535
Share capital	166	166	168	168	168	168
Other reserves	1,140	1,229	1,344	1,460	1,618	1,834
Total shareholders equity	1,306	1,395	1,512	1,628	1,786	2,002
Minority interest	22	42	42	44	46	48
Total equity and liabilities	1,423	1,622	1,827	2,057	2,284	2,585

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	137	156	144	183	249	338
Depreciation & amortization	22	30	37	37	37	37
Tax paid	19	(15)	(13)	(14)	(19)	(25)
Change in working capital	(31)	(59)	29	(3)	(42)	(52)
Others	(52)	(39)	(18)	(10)	(8)	(8)
Net cash from operations	96	73	180	192	218	289
Investing						
Capital expenditure	(76)	(274)	(243)	(250)	(150)	(100)
Others	(146)	5	(73)	(46)	(47)	(47)
Net cash from investing	(222)	(268)	(316)	(296)	(197)	(147)
Financing						
Dividend paid	(31)	(56)	(50)	(51)	(70)	(95)
Proceeds from share issues	6	64	4	0	0	0
Others	(3)	(39)	56	62	(2)	(2)
Net cash from financing	(28)	(31)	10	11	(72)	(97)
Net change in cash						
Cash at the beginning of the year	1,037	870	641	518	426	374
Exchange difference	(13)	(3)	4	0	0	0
Cash at the end of the year	870	641	518	426	374	418
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	25.1%	29.6%	26.1%	45.0%	38.2%	34.5%
Gross profit	34.4%	17.6%	20.6%	50.8%	38.2%	34.5%
Operating profit	20.6%	14.0%	(7.1%)	27.0%	36.2%	35.3%
Net profit	20.7%	20.5%	(4.7%)	26.4%	36.2%	35.6%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	65.4%	59.3%	56.7%	59.0%	59.0%	59.0%
Operating margin	38.3%	33.6%	24.8%	21.7%	21.4%	21.5%
Return on equity (ROE)	9.1%	10.2%	9.0%	10.5%	13.2%	16.1%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Receivable turnover days	31.3	64.1	48.9	48.9	48.9	48.9
Inventory turnover days	143.2	140.7	175.3	175.3	175.3	175.3
Payable turnover days	188.7	199.5	181.0	181.0	181.0	181.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	33.2	28.2	30.6	24.1	17.6	13.0
P/B	3.0	2.8	2.6	2.4	2.2	2.0
Div yield (%)	1.0	0.9	0.8	1.0	1.4	1.9
EV/EBITDA	19.8	18.2	19.4	16.3	12.7	9.6
EV/EBIT	23.0	21.7	24.4	19.5	14.6	10.6
EV/Sales	8.8	7.3	6.1	4.2	3.1	2.3

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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