

# Kindly Medical Instruments (1501 HK)

**BUY (Maintain)**

## Earnings slight beat and long-term outlook remains positive

We trimmed our FY20/21E revenue forecasts by 2.9%/2.3% to reflect COVID-19 impact on overseas business. We believe Kindly Medical will continue its import substitution in PCI supporting device market with comprehensive product portfolio. We think its 36x/28x FY20/21E P/E is not demanding given 33% CAGR in attributable net profit in FY19-22E. Maintain BUY and lowered our DCF-based TP to HK\$39.3.

- FY19 earnings slightly beat.** FY19 revenue/ attributable net profit grew 41.1% YoY/ 71.1% YoY to RMB286mn/ RMB100mn, which was 0.9% below / 6.3% above our forecasts, respectively. Revenue growth is consistent with our estimate, driven by rapid growth of interventional medical devices. GPM improved by 2.6ppt to 60.9% thanks to better product mix. Other income increased from RMB6mn in FY18 to RMB18m in FY19, mainly contributed by FX gains and FV change in FX contracts. Attributable NPM rose by 6.1ppt to 34.8% in FY19.
- Improvement in product mix leading to margin expansion.** Revenue from interventional devices grew 45.7% YoY and accounted for 89.9% of total revenue in FY19 vs 87.1% in FY18. In addition, GPM of interventional devices improved by 2.1ppt to 65.2% in FY19 thanks to the launch of high-margin products such as Micro-catheter, PTCA balloon catheter, Guide wire and Guide catheter in FY19. Furthermore, we expect the Company to further upgrade its product mix with more high-value products getting approved. We expect Kindly Medical to have three neurovascular devices obtaining NMPA's approvals in 2020E.
- Impact from COVID-19.** Number of PCI surgeries in China shrank sharply in 1Q20 due to the virus outbreak. However, as the outbreak was curbed in China and many hospitals resumed normal operations, PCI surgery volume has gradually recovered. In addition, the virus outbreak in overseas has been worsening since early Mar, which brings uncertainties to overseas demand in coming months.
- Maintain BUY; Cut TP to HK\$39.3.** We trimmed our FY20/21E revenue forecasts by 2.9%/ 2.3% and trimmed net profits forecasts by 6.4%/ 8%. We expect revenue to deliver 37% CAGR in FY19-22E, driven by market share gain from foreign brands and launch of new products. We cut our DCF based TP to HK\$39.3 (WACC: 10.38%, terminal growth rate: 3%).
- Catalysts:** 1) new product approvals; 2) earlier than expect end of the COVID-19 outbreak; **Risk:** larger impact from COVID-19 outbreak.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	203	286	406	560	737
YoY growth (%)	48	41	42	38	32
Net profit (RMB mn)	58	100	137	179	236
EPS (RMB)	N/A	0.79	0.82	1.08	1.42
YoY growth (%)	N/A	N/A	4	31	32
P/E (x)	N/A	38	36	28	21
P/B (x)	N/A	3	4	3	3
Yield (%)	N/A	1	1	1	1
ROE (%)	20	12	10	13	16
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

Target Price	HK\$39.3
(Previous TP)	HK\$39.5)
Up/Downside	+19.0%
Current Price	HK\$33.00

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Mkt. Cap. (HK\$ mn)	5,478
Avg. 3mths t/o (HK\$ mn)	N/A
52W High/Low (HK\$)	43.00/25.25
Total Issued Shares (mn)	46
Source: Bloomberg	

### Shareholding Structure

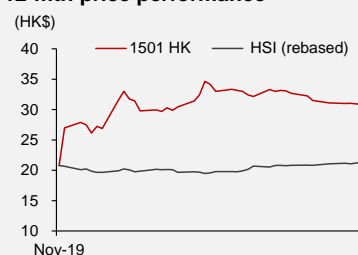
KDL (603987 CH)	25.82%
Ningbo Huaige Taiyi	15.18%
Independent shareholders	31.29%
H-share free float	27.71%
Source: HKEx, Bloomberg	

### Share performance

	Absolute	Relative
1-mth	-1.8%	-9%
3-mth	50%	9%
6-mth	N/A	N/A

Source: Bloomberg

### 12-mth price performance



Source: Bloomberg

**Auditor: KPMG**  
 Web-site: [www.kdl-int.com](http://www.kdl-int.com)

**Figure 1: FY19A results review**

RMB mn	FY18A	FY19A	YoY	CMBI	
				FY19E	Diff (%)
Revenue	203	286	41.1%	289	-0.7%
Gross profit	118	174	47.3%	177	-1.4%
Operating profit	64	104	62.1%	106	-1.8%
Net profit	58	100	71.1%	94	6.3%
EPS (HKD)	N/A	0.79	N/A	0.56	40%
Gross margin	58.3%	60.9%	+2.6ppt	61.3%	-0.4ppt
Operating margin	31.5%	36.2%	+4.7ppt	36.6%	-0.4ppt
Net margin	28.7%	34.8%	+6.1ppt	32.5%	+2.3ppt

Source: Company data, CMBIS estimates

**Figure 2: CMBI earnings revisions**

(RMB mn)	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	406	560	418	573	-2.9%	-2.3%
Gross profit	249	353	261	366	-4.5%	-3.6%
Operating profit	133	192	141	205	-6.1%	-6.3%
Net profit	137	179	146	194	-6.4%	-8.0%
EPS (RMB)	0.82	1.08	0.88	1.17	-6.4%	-8.0%
Gross margin	61.35%	62.95%	62.43%	63.79%	-1.08ppt	-0.84 ppt
Operating margin	32.70%	34.28%	33.83%	35.74%	-1.13 ppt	-1.46 ppt
Net Margin	33.68%	31.94%	34.96%	33.91%	-1.28 ppt	-1.97 ppt

Source: Company data, CMBIS estimates

**Figure 3: CMBI estimates vs consensus**

(RMB mn)	CMBI		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	406	560	418	573	-3%	-2%
Gross profit	249	353	259	367	-4%	-4%
Operating profit	133	192	141	205	-6%	-6%
Net profit	137	179	146	194	-6%	-8%
EPS (RMB)	0.82	1.08	0.88	1.17	-7%	-8%
Gross margin	61.35%	62.95%	62.00%	64.00%	-0.6 ppt	-1.1 ppt
Operating margin	32.70%	34.28%	33.73%	35.78%	-1.0 ppt	-1.5 ppt
Net Margin	33.68%	31.94%	34.93%	33.86%	-1.2 ppt	-1.9 ppt

Source: Company data, CMBIS estimates

**Figure 4: Peers' valuation**

Company	Ticker	Rating	Mkt cap HK\$m	PER(x)		PBR(x)		EV/EBITDA (x)		ROE(%)	
				FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Kindly Medical	1501 HK	BUY	5,478	36.1	27.6	3.7	3.4	10.0	7.3	10.1	12.8
AK Medical	1789 HK	BUY	4,516	47.6	35.8	12.0	8.6	37.0	27.6	28.6	30.5
Chunli Medical	1858 HK	N/A	11,206	29.2	NA	8.0	NA	29.7	23.6	35.1	28.3
Weigao Group	1066 HK	N/A	41,741	16.9	14.4	2.1	1.9	11.9	10.4	12.9	13.3
Microport	853 HK	N/A	26,614	71.0	53.7	5.9	5.5	38.0	31.7	9.6	11.6
Lifetech	1302 HK	N/A	7,345	33.1	28.8	5.2	3.9	27.3	22.5	14.8	15.3
Venus Medtech	2500 HK	BUY	17,372	N/A	46.8	5.7	5.0	243.5	42.0	2.8	9.3
<b>Average</b>				<b>39.0</b>	<b>34.5</b>	<b>6.1</b>	<b>4.7</b>	<b>56.7</b>	<b>23.6</b>	<b>16.3</b>	<b>17.3</b>

Source: Bloomberg (As at 20 Mar 2020)

## Financial Statements

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>203</b>	<b>286</b>	<b>406</b>	<b>560</b>	<b>737</b>	<b>Profit before tax</b>	<b>66</b>	<b>112</b>	<b>151</b>	<b>208</b>	<b>284</b>
Interventional medical devices	177	258	375	528	703	D&A	9	6	6	30	50
Medical accessories	21	20	20	21	22	Change in working capital	2	4	(32)	(17)	(18)
Others	6	9	10	11	12	Payment for interest element of lease liabilities	(2)	(2)	(0)	(0)	(0)
Cost of sales	(85)	(112)	(157)	(208)	(260)	Tax paid	(9)	(15)	(22)	(31)	(42)
<b>Gross profit</b>	<b>118</b>	<b>174</b>	<b>249</b>	<b>353</b>	<b>477</b>	<b>Net cash from operating activities</b>	<b>66</b>	<b>92</b>	<b>103</b>	<b>190</b>	<b>274</b>
Other income (without finance cost)	6	18	5	5	5	Capex	(33)	(67)	(200)	(200)	(150)
Selling expenses	(18)	(24)	(36)	(50)	(66)	Acquisition of subsidiaries	(1)	(5)	(100)	0	0
Administrative expenses	(21)	(34)	(43)	(56)	(72)	Other investing activities	100	164	403	390	424
R&D expenses	(22)	(31)	(43)	(59)	(75)	<b>Net cash from investing activities</b>	<b>66</b>	<b>92</b>	<b>103</b>	<b>190</b>	<b>274</b>
<b>Operating profit</b>	<b>64</b>	<b>104</b>	<b>133</b>	<b>192</b>	<b>268</b>	Net proceeds from shares issued	190	787	0	0	0
(Recognition)/ reversal of impairment losses	0	0	0	0	0	Bank borrowing	0	0	0	0	1
Finance costs, net	2	8	18	16	16	Capital element of lease liabilities	(1)	0	0	0	0
Pre-tax profit	<b>66</b>	<b>112</b>	<b>151</b>	<b>208</b>	<b>284</b>	Dividends paid to equity shareholders	(67)	(29)	(41)	(54)	(71)
Income tax	(8)	(15)	(22)	(31)	(42)	<b>Net cash from financing activities</b>	<b>122</b>	<b>758</b>	<b>(41)</b>	<b>(54)</b>	<b>(71)</b>
Profit for the year	<b>58</b>	<b>97</b>	<b>129</b>	<b>177</b>	<b>242</b>	FX changes	3	0	0	0	0
<b>Minority interests</b>	<b>0</b>	<b>3</b>	<b>8</b>	<b>2</b>	<b>(6)</b>	Net change in cash	149	805	(220)	(48)	69
Attributable net profit	<b>58</b>	<b>100</b>	<b>137</b>	<b>179</b>	<b>236</b>	Cash at the beginning of the year	147	298	1037	817	769
						<b>Cash at the end of the year</b>	<b>298</b>	<b>1037</b>	<b>817</b>	<b>769</b>	<b>838</b>

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>43</b>	<b>134</b>	<b>175</b>	<b>451</b>	<b>605</b>	<b>Sales mix (%)</b>					
PP&E	38	60	115	297	458	Interventional medical devices	80	87	90	93	94
Right-of-use assets	0	58	45	38	31	Medical accessories	17	10	7	5	4
Prepayment of lease	0	10	0	0	0	Others	3	3	3	2	2
Intangible assets	0	1	6	106	106	Total	100	100	100	100	100
Other non-current assets	5	6	8	10	10						
<b>Current assets</b>	<b>190</b>	<b>348</b>	<b>1,124</b>	<b>924</b>	<b>902</b>	<b>Profit &amp; loss ratios (%)</b>					
Inventories	29	39	43	57	75	Gross margin	57	58	61	61	63
Trade and other receivables	11	7	15	21	30	EBITDA margin	38	37	43	39	42
Other current assets	2	3	7	7	7	Pre-tax margin	35	33	39	37	37
Cash and cash equivalents	147	298	1,037	817	769	Net margin	30	29	35	34	32
						Effective tax rate	15	12	14	15	15
<b>Current liabilities</b>	<b>27</b>	<b>43</b>	<b>59</b>	<b>47</b>	<b>57</b>	<b>Balance sheet ratios</b>					
Trade and other payables	18	24	43	30	40	Current ratio (x)	7	8	19	20	16
Contract liabilities	7	12	10	10	10	Trade receivables turnover days	91	50	19	19	19
Lease liabilities	0	5	0	0	0	Trade payables turnover days	43	43	98	70	70
Deferred income	0	0	0	0	0	Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current taxation	1	1	6	6	6						
<b>Non-current liabilities</b>	<b>5</b>	<b>58</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>Returns (%)</b>					
Lease liabilities	0	55	2	2	2	ROE	23	20	12	10	13
Deferred income	5	3	3	3	3	ROA	20	16	11	10	12
						<b>Per share data</b>					
<b>Total net assets</b>	<b>200</b>	<b>381</b>	<b>1,234</b>	<b>1,322</b>	<b>1,445</b>	EPS (RMB)	0.00	0.00	0.79	0.82	1.08
Minority interest	<b>0</b>	<b>9</b>	<b>18</b>	<b>10</b>	<b>8</b>	DPS (RMB)	N/A	N/A	0.23	0.25	0.32
<b>Shareholders' equity</b>	<b>200</b>	<b>372</b>	<b>1,216</b>	<b>1,312</b>	<b>1,437</b>	BVPS (RMB)	N/A	N/A	9.74	7.96	8.71

Source: Company data, CMBIS estimates

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