

Kindly Medical (1501 HK)

Rich portfolios guarantee recovery in 2023E

Kindly Medical announced FY22 earnings with revenue of RMB585.9mn (+26.1% YoY) which were 4.6% below the consensus est., mainly due to severe production constraints in 2Q22 and significantly declined number of surgeries in 4Q22 caused by COVID-19 interruptions in China. GPM was down 2.5 ppts to 56.8% (vs. 59.3% in 2021) because of the increasing proportion of revenue from the agent business, while the GPM of interventional medical devices improved by 2.9 ppts to 65.4% in 2022 (vs. 62.5% in 2021). Additionally, Kindly Medical expanded its team size to 1,632 employees in 2022 (vs. 1,189 in 2021), leading to a 42% YoY increase in the total cost of employees. As a result, Kindly Medical's attributable net profit in 2022 dropped by 4.7% YoY, missing consensus est. by 24%.

- **Expect significant recovery of domestic business in 2023E.** Kindly Medical's product portfolio of cardiovascular device has covered most of PCI supporting devices. By the end of 2022, the Company has already covered 2,317 (vs. 2,100 in 2021) domestic hospitals including 908 Tier III hospitals (vs. 817 in 2021). With the extensive distribution network, we expect Kindly Medical to rapidly recover in 2023E as pent-up surgery demands in 4Q22 gradually unleash in 2023E and the negative impact of COVID-19 subsides. Driven by demand recovery after the COVID pandemic, we expect the total number of PCI surgeries in China to increase by 25% YoY in 2023E to 1.5mn, which will lead to rapid growth of Kindly's PCI supporting devices.
- **Overseas market to continue strong growth in 2023E.** By the end of 2022, Kindly Medical has 207 (vs. 184 in 2021) overseas customers covering over 58 countries and regions. In 2022, the overseas revenue increased by 44.3% YoY to RMB148.5mn. With significant cost advantages and improving brand awareness, we expect Kindly Medical's overseas revenue growth to reach 50% YoY in 2023E.
- **Enriching pipelines of interventional devices.** Kindly Medical is growing as a comprehensive platform of interventional devices and is expected to show robust revenue growth in its neurological, peripheral and orthopaedic interventional devices. We expect the Company to enter the harvest season for its R&D with approximately 14 products which would be approved as Class III medical device in 2023E.
- **Maintain BUY.** We expect Kindly Medical to recover solid growth and forecast 45% YoY revenue growth in 2023E. We slightly revised our TP to HK\$31.41 based on a 9-year DCF model (Terminal growth rate: 2.5%, WACC: 8.57%).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	465	586	850	1,186	1,588
YoY growth (%)	29.6	26.1	45.0	39.5	34.0
Net profit (RMB mn)	140	134	154	213	294
EPS (Reported) (RMB)	0.86	0.79	0.95	1.30	1.78
YoY growth (%)	17.8	(8.6)	20.5	37.0	37.2
P/E (x)	26.6	28.9	24.0	17.5	12.7
P/B (x)	2.6	2.4	2.3	2.1	1.9
Yield (%)	1.0	0.9	1.1	1.5	2.0
ROE (%)	10.2	8.9	9.6	12.3	15.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$31.41
(Previous TP)	HK\$31.39
Up/Downside	16.5%
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)	27.3
52w High/Low (HK\$)	30.70/13.46
Total Issued Shares (mn)	167.3
Source: FactSet	

Shareholding Structure

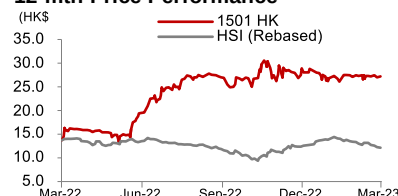
Kindly Holding	25.5%
Huaige Health Investment	9.1%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-1.6%	4.8%
3-mth	-5.8%	-6.3%
6-mth	0.6%	-3.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

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Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	850	1,186	1,588	774	964	1,198	9.8%	23.0%	32.6%
Gross profit	467	652	881	441	554	695	6.0%	17.6%	26.8%
Operating profit	167	231	318	237	300	380	-29.3%	-23.0%	-16.3%
Net profit	159	217	298	215	271	343	-26.1%	-19.8%	-12.9%
EPS (RMB)	0.95	1.30	1.78	1.28	1.61	2.04	-25.8%	-19.4%	-12.5%
Gross margin	55.00%	55.00%	55.50%	56.93%	57.00%	57.50%	-1.93 ppt	-2.00 ppt	-2.00 ppt
Operating margin	19.67%	19.46%	20.04%	30.67%	30.57%	31.09%	-11.00 ppt	-11.11 ppt	-11.05 ppt
Net Margin	18.68%	18.35%	18.79%	28.05%	27.78%	28.12%	-9.37 ppt	-9.43 ppt	-9.33 ppt

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		167	231	318	382	454	536	627	728	837
Tax rate		10%	10%	10%	10%	10%	10%	10%	10%	10%
EBIT*(1-tax rate)		151	208	287	344	410	484	566	656	755
+ D&A		26	26	26	31	36	43	50	58	67
- Change in working capital		(3)	(43)	(52)	(62)	(74)	(87)	(102)	(119)	(137)
- Capex		(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)
FCFF		-77	-60	11	63	122	189	264	346	435
Terminal value										7,351
Terminal growth rate	2.5%									
WACC	8.57%									
Cost of Equity	10.9%									
Cost of Debt	5.0%									
Equity Beta	0.8									
Risk Free Rate	2.9%									
Market Risk Premium	10.0%									
Target Debt to Asset ratio	35.0%									
Effective Corporate Tax Rate	15.0%									
PV of enterprise value (RMB mn)	4,171									
Net debt (RMB mn)	(332)									
Minority interests (RMB mn)	37									
Equity value (RMB mn)	4,466									
Equity value (HK\$ mn)	5,254									
# of shares outstanding (mn)	167									
Price per share (HK\$)	31.41									

Source: CMBIGM estimates

Figure 3: Sensitivity analysis

		WACC				
		7.57%	8.07%	8.57%	9.07%	9.57%
Terminal growth rate	3.5%	47.47	41.40	36.56	32.61	29.34
	3.0%	42.89	37.85	33.75	30.35	27.49
	2.5%	39.20	34.94	31.41	28.44	25.90
	2.0%	36.18	32.51	29.42	26.79	24.53
	1.5%	33.66	30.45	27.72	25.36	23.32

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	850	1,186	1,588	774	964	NA	9.8%	23.0%	NA
Gross Profit	467	652	881	389	517	NA	20.2%	26.2%	NA
Operating Profit	167	231	318	237	300	NA	-29.5%	-23.1%	NA
Net profit	159	217	298	215	271	NA	-26.2%	-19.7%	NA
EPS (RMB)	0.95	1.30	1.78	1.30	1.60	NA	-27.0%	-18.7%	NA
Gross Margin	55.00%	55.00%	55.50%	57.00%	57.50%	NA	-2.00 ppt	-2.50 ppt	NA
Operating Margin	19.67%	19.46%	20.04%	30.62%	31.12%	NA	-10.95 ppt	-11.66 ppt	NA
Net Margin	18.68%	18.35%	18.79%	27.78%	28.11%	NA	-9.10 ppt	-9.77 ppt	NA

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	1,186	1,588
Cost of goods sold	(124)	(189)	(253)	(382)	(533)	(707)
Gross profit	234	276	332	467	652	881
Operating expenses	(97)	(119)	(187)	(300)	(421)	(563)
Selling expense	(21)	(30)	(56)	(85)	(116)	(152)
Admin expense	(36)	(49)	(64)	(85)	(116)	(152)
R&D expense	(65)	(90)	(100)	(155)	(213)	(283)
Others	25	50	33	24	24	24
Operating profit	137	156	145	167	231	318
Net Interest income/(expense)	(0)	(1)	(1)	(1)	(1)	(1)
Pre-tax profit	137	156	144	166	230	317
Income tax	(21)	(15)	(11)	(12)	(17)	(24)
Minority interest	(5)	(3)	2	(5)	(5)	(5)
Attributable Net profit	121	143	132	159	217	298

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	1,048	858	792	680	620	627
Cash & equivalents	870	641	518	338	159	27
Account receivables	31	83	80	115	161	216
Inventories	55	92	154	186	260	344
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	1,307	1,590	1,872
PP&E	199	458	634	864	1,094	1,324
Deferred income tax	2	9	15	15	15	15
Intangibles	8	28	70	114	159	203
Financial assets at FVTPL	49	130	162	162	162	162
Other non-current assets	116	137	144	152	160	167
Total assets	1,423	1,622	1,817	1,987	2,209	2,498
Current liabilities	88	153	240	305	380	468
Account payables	65	105	127	192	268	355
Tax payable	8	12	13	13	13	13
Other current liabilities	15	36	100	100	100	100
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	338	414	501
Share capital	166	166	168	168	168	168
Other reserves	1,140	1,229	1,344	1,454	1,605	1,812
Total shareholders equity	1,306	1,395	1,512	1,622	1,773	1,980
Minority interest	22	42	42	37	32	27
Total equity and liabilities	1,423	1,622	1,827	1,997	2,219	2,508

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	137	156	144	166	230	317
Depreciation & amortization	22	30	26	26	26	26
Tax paid	19	(15)	(11)	(12)	(17)	(24)
Change in working capital	(31)	(59)	(5)	(3)	(43)	(52)
Others	(37)	(39)	(22)	(13)	(13)	(13)
Net cash from operations	96	73	133	163	181	254
Investing						
Capital expenditure	(76)	(274)	(243)	(250)	(250)	(250)
Others	(146)	5	4	(44)	(44)	(44)
Net cash from investing	(222)	(268)	(240)	(294)	(294)	(294)
Financing						
Dividend paid	(31)	(56)	(40)	(49)	(67)	(91)
Proceeds from share issues	6	64	0	0	0	0
Others	(3)	(39)	0	0	0	0
Net cash from financing	(28)	(31)	(40)	(49)	(67)	(91)
Net change in cash						
Cash at the beginning of the year	1,037	870	641	518	338	159
Exchange difference	(13)	(3)	0	0	0	0
Cash at the end of the year	870	641	493	338	159	27
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	25.1%	29.6%	26.1%	45.0%	39.5%	34.0%
Gross profit	34.4%	17.6%	20.6%	40.6%	39.5%	35.2%
Operating profit	20.6%	14.0%	(7.1%)	15.1%	38.0%	37.9%
Net profit	20.7%	20.5%	(4.7%)	14.9%	38.2%	38.1%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	65.4%	59.3%	56.7%	55.0%	55.0%	55.5%
Operating margin	38.3%	33.6%	24.8%	19.7%	19.5%	20.0%
Return on equity (ROE)	9.2%	10.4%	9.2%	9.8%	12.5%	15.6%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.7)	(0.4)	(0.3)	(0.2)	(0.1)	(0.0)
Current ratio (x)	11.9	5.6	3.3	2.2	1.6	1.3
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	31.3	26.6	28.9	24.0	17.5	12.7
P/B	2.9	2.6	2.4	2.3	2.1	1.9
Div yield (%)	0.9	0.8	0.8	0.9	1.3	1.7
EV/Sales	8.2	6.8	5.6	4.1	3.1	2.4

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

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