

# Kindly Medical (1501 HK)

## Solid growth demonstrates a rapid recovery from COVID

Kindly Medical reported 1H22 revenue of RMB225.2mn, up 24.7% YoY from RMB180.6mn in 1H21, mainly driven by the 12.1% YoY growth in interventional medical devices sales and the additional RMB22mn revenue from the new agent business on cardiovascular imaging medical devices. Attributable net profit was RMB50.84mn, slightly increased by 0.47% YoY.

- Steady growth in 1H22 despite COVID lockdown in Shanghai.** Kindly's major production base is in Jiading District, Shanghai which was seriously affected by the COVID lockdown during 2Q22. Meanwhile, the nationwide PCI surgery volume was negatively impacted due to COVID restrictive measures. Nevertheless, sales of interventional medical devices in 1H22 still maintained resilient 12.1% YoY growth and contributed 89.2% of the total revenue. We believe the solid performance of interventional medical devices sales was attributed to the Company's comprehensive product portfolio, extensive distribution network as well as competitive cost advantages. By the end of 30 June 2022, Kindly Medical's distributors have covered over 2,300 (vs. 2,100 as of Dec 2021) domestic hospitals while over 850 (vs. 817 as of Dec 2021) are Tier III hospitals.
- The agent business is a new pillar of growth.** The agent business mainly focuses on trading of cardiovascular imaging medical devices, which targets the same clinical department as interventional medical devices. Thus, the agent business is a good supplementary to the Company's product portfolio which mainly consists of high-value medical consumables and also helps the Company to strengthen ties with its distributors.
- Efficient R&D progress.** In 1H22, Kindly Medical has obtained approvals of four Class III medical devices and two Class II medical devices. As at 30 June 2022, the Company has 223 registered patents, 172 patents under application and 5 registered software copyrights.
- Maintain BUY.** We expect PCI surgery volume to recover from 2H22 and forecast 32% YoY revenue growth in FY22E. We maintained TP largely unchanged at HK\$31.39 based on a 9-year DCF model.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	358.4	464.7	614.4	773.6	963.9
YoY growth (%)	25.1%	29.6%	32.2%	25.9%	24.6%
Net profit (RMB mn)	116.5	140.4	167.4	209.9	266.1
EPS (Reported)(RMB)	0.7	0.9	1.0	1.3	1.6
YoY growth (%)	(7.5%)	17.8%	19.1%	24.7%	26.1%
P/E (x)	57.3	30.7	22.8	18.3	14.5
P/B (x)	5.2	3.1	2.5	2.3	2.1
Yield (%)	0.7%	1.0%	1.3%	1.6%	2.1%
ROE (%)	9.3%	10.2%	11.4%	12.9%	14.6%
Net gearing (%)	(66.5%)	(44.9%)	(37.8%)	(34.6%)	(33.1%)

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** **HK\$31.39**

(Previous TP) **HK\$31.46**

**Up/Downside** **16.3%**

**Current Price** **HK\$27.00**

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### Stock Data

Mkt Cap (HK\$ mn)	4,536.0
Avg 3 mths t/o (HK\$ mn)	21.6
52w High/Low (HK\$)	29.45/11.20
Total Issued Shares (mn)	168.0

Source: FactSet

### Shareholding Structure

Kindly Holding	25.8%
Huaige Health Investment	9.3%

Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	9.8%	14.7%
3-mth	90.7%	94.0%
6-mth	70.0%	113.2%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Related report:

- Strong growth in interventional medical devices— 31 Mar 2022

**Figure 1: Earnings revision**

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	614	774	964	630	817	1,044	-2.5%	-5.4%	-7.7%
Gross profit	350	441	554	384	506	655	-9.0%	-12.9%	-15.4%
Operating profit	188	237	300	193	256	335	-2.4%	-7.6%	-10.7%
Net profit	172	215	271	178	232	300	-3.4%	-7.5%	-9.5%
EPS (RMB)	1.03	1.28	1.61	1.07	1.40	1.80	-4.5%	-8.6%	-10.6%
Gross margin	56.93%	57.00%	57.50%	60.99%	61.91%	62.73%	-4.07 ppt	-4.91 ppt	-5.23 ppt
Operating margin	30.67%	30.57%	31.09%	30.64%	31.32%	32.13%	0.02 ppt	-0.75 ppt	-1.05 ppt
Net Margin	28.05%	27.78%	28.12%	28.32%	28.42%	28.70%	-0.27 ppt	-0.64 ppt	-0.57 ppt

Source: Company data, CMBIGM estimates

**Figure 2: Risk-adjusted DCF valuation**

DCF Valuation (in Rmb mn)		2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT		137	156	188	237	300	380	452	534	624
Tax rate		15%	10%	10%	10%	10%	10%	10%	10%	10%
EBIT*(1-tax rate)		117	141	170	213	270	343	408	481	563
+ D&A		22	30	26	26	26	26	30	36	42
- Change in working capital		(31)	(59)	4	(17)	(21)	(26)	(31)	(37)	(43)
- Capex		(76)	(274)	(200)	(150)	(150)	(150)	(150)	(150)	(150)
<b>FCFF</b>		<b>32</b>	<b>(162)</b>	<b>-0</b>	<b>72</b>	<b>124</b>	<b>192</b>	<b>257</b>	<b>330</b>	<b>412</b>
<b>Terminal value</b>										<b>6,841</b>
<b>Terminal growth rate</b>	<b>2.0%</b>									
<b>WACC</b>	<b>10.94%</b>									
Cost of Equity	13.8%									
Cost of Debt	5.0%									
Equity Beta	1.1									
Risk Free Rate	2.8%									
Market Risk Premium	10.0%									
Target Debt to Asset ratio	30.0%									
Effective Corporate Tax Rate	15.0%									
PV of enterprise value (RMB mn)	3,948									
Net debt (RMB mn)	(573)									
Minority interests (RMB mn)	37									
Equity value (RMB mn)	4,483									
Equity value (HK\$ mn)	5,274									
# of shares outstanding (mn)	168									
<b>Price per share (HK\$)</b>	<b>31.39</b>									

Source: CMBIGM estimates

**Figure 3: Sensitivity analysis**

		WACC				
		9.94%	10.44%	10.94%	11.44%	11.94%
Terminal growth rate	3.0%	39.66	36.62	33.97	31.66	29.62
	2.5%	37.75	35.01	32.61	30.49	28.61
	2.0%	36.09	33.59	31.39	29.44	27.70
	1.5%	34.62	32.33	30.31	28.50	26.88
	1.0%	33.31	31.21	29.33	27.65	26.13

**Figure 4: CMBIGM estimates vs consensus**

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	614	774	964	638	837	1,084	-3.6%	-7.6%	-11.1%
Gross Profit	350	441	554	389	517	676	-10.1%	-14.7%	-18.1%
Operating Profit	188	237	300	185	251	332	2.1%	-5.8%	-9.6%
Net profit	172	215	271	177	234	304	-2.6%	-8.2%	-10.8%
EPS (RMB)	1.03	1.28	1.61	1.10	1.44	1.86	-6.3%	-11.2%	-13.0%
Gross Margin	56.93%	57.00%	57.50%	61.00%	61.75%	62.40%	-4.07ppt	-4.75 ppt	-4.90 ppt
Operating Margin	30.67%	30.57%	31.09%	28.94%	29.99%	30.58%	1.73 ppt	0.59 ppt	0.51 ppt
Net Margin	28.05%	27.78%	28.12%	27.76%	27.96%	28.04%	0.29 ppt	-0.18 ppt	0.08 ppt

Source: Company data, Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	286	358	465	614	774	964
Cost of goods sold	(112)	(124)	(189)	(265)	(333)	(410)
Gross profit	174	234	276	350	441	554
Operating expenses	(61)	(97)	(119)	(161)	(204)	(255)
Selling expense	(24)	(21)	(30)	(46)	(56)	(68)
Admin expense	(34)	(36)	(49)	(58)	(72)	(88)
R&D expense	(31)	(65)	(90)	(80)	(99)	(121)
Others	28	25	50	23	23	23
Operating profit	114	137	156	188	237	300
Net Interest income/(Expense)	(2)	(0)	(1)	(0)	(1)	(1)
Pre-tax profit	112	137	156	188	236	299
Income tax	(15)	(21)	(15)	(21)	(26)	(33)
Net profit	97	117	140	167	210	266
Minority interest	(3)	(5)	(3)	(5)	(5)	(5)
Net profit to shareholders	100	121	143	172	215	271
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	1,124	1,048	858	842	900	1,003
Cash & equivalents	1,037	870	641	586	590	629
Account receivables	15	31	83	109	138	172
Inventories	43	55	92	103	130	160
Financial assets at FVTPL	21	71	0	0	0	0
Other current assets	7	20	42	42	42	42
Non-current assets	175	375	763	938	1,062	1,187
PP&E	115	199	458	638	768	898
Deferred income tax	2	2	9	9	9	9
Intangibles	6	8	28	27	27	26
Financial assets at FVTPL	0	49	130	130	130	130
Other non-current assets	53	116	137	132	127	122
Total assets	1,299	1,423	1,622	1,779	1,962	2,190
Current liabilities	59	88	153	195	233	276
Account payables	43	65	105	147	184	227
Tax payable	6	8	12	12	12	12
Other current liabilities	10	15	36	36	36	36
Non-current liabilities	5	7	30	30	30	30
Deferred income	3	5	14	14	14	14
Other non-current liabilities	2	1	17	17	17	17
Total liabilities	64	95	184	226	263	306
Share capital	166	166	166	166	166	166
Other reserves	1,050	1,140	1,229	1,350	1,501	1,690
Total shareholders equity	1,216	1,306	1,395	1,516	1,667	1,856
Minority interest	18	22	42	37	32	27
Total equity and liabilities	1,299	1,423	1,622	1,779	1,962	2,190
CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	112	137	156	188	236	299
Depreciation & amortization	19	22	30	26	26	26
Tax paid	(10)	19	(15)	(21)	(26)	(33)
Change in working capital	(5)	(31)	(59)	4	(17)	(21)

Others	(24)	(37)	(39)	(15)	(15)	(15)
<b>Net cash from operations</b>	<b>92</b>	<b>96</b>	<b>73</b>	<b>182</b>	<b>203</b>	<b>255</b>
<b>Investing</b>						
Capital expenditure	(74)	(76)	(274)	(200)	(150)	(150)
Others	(40)	(146)	5	15	15	15
<b>Net cash from investing</b>	<b>(114)</b>	<b>(222)</b>	<b>(268)</b>	<b>(185)</b>	<b>(135)</b>	<b>(135)</b>
<b>Financing</b>						
Dividend paid	(53)	(31)	(56)	(52)	(64)	(81)
Proceeds from share issues	809	6	64	0	0	0
Others	(2)	(3)	(39)	0	0	0
<b>Net cash from financing</b>	<b>754</b>	<b>(28)</b>	<b>(31)</b>	<b>(52)</b>	<b>(64)</b>	<b>(81)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	298	1,037	870	641	586	590
Exchange difference	6	(13)	(3)	0	0	0
<b>Cash at the end of the year</b>	<b>1,036</b>	<b>870</b>	<b>641</b>	<b>586</b>	<b>590</b>	<b>629</b>
<b>GROWTH</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Revenue	41.1%	25.1%	29.6%	32.2%	25.9%	24.6%
Gross profit	47.3%	34.4%	17.6%	26.8%	26.1%	25.7%
Operating profit	67.3%	20.6%	14.0%	20.5%	25.5%	26.7%
Net profit	65.8%	20.7%	20.5%	19.2%	25.4%	26.8%
<b>PROFITABILITY</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Gross profit margin	60.9%	65.4%	59.3%	56.9%	57.0%	57.5%
Operating margin	39.7%	38.3%	33.6%	30.7%	30.6%	31.1%
Net profit margin	34.8%	33.9%	30.8%	28.1%	27.8%	28.1%
Return on assets (ROA)	7.7%	8.5%	8.8%	9.7%	11.0%	12.4%
Return on equity (ROE)	8.2%	9.3%	10.2%	11.4%	12.9%	14.6%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.9)	(0.7)	(0.4)	(0.4)	(0.3)	(0.3)
Current ratio (x)	19.0	11.9	5.6	4.3	3.9	3.6
Receivable turnover days	18.8	31.3	64.1	64.1	64.1	64.1
Inventory turnover days	132.5	143.2	140.7	140.7	140.7	140.7
Payable turnover days	136.9	188.7	199.5	199.5	199.5	199.5
<b>VALUATION</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
P/E	35.3	57.3	30.7	22.8	18.3	14.5
P/E (diluted)	35.3	57.3	30.7	22.8	18.3	14.5
P/B	2.9	5.2	3.1	2.5	2.3	2.1
Div yield (%)	0.8%	0.7%	1.0%	1.3%	1.6%	2.1%
EV	2,774.7	2,941.3	3,182.6	3,237.1	3,233.4	3,194.4
EV/Sales	9.7	8.2	6.8	5.3	4.2	3.3

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

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