

# Kindly Medical Instruments (1501 HK)

## Solid earnings amid COVID pandemic

Kindly Medical reported FY20 revenue/ attributable net profit growth of 25.1% / 20.7% YoY to RMB358mn/ RMB117mn, respectively, which miss consensus estimates due to COVID-19 pandemic. Blended GPM improved by 4.56ppt to 65.4% driven by high-margin mask business which generated 80.8% GPM in FY20. In addition, GPM of interventional devices improved by 0.3ppt to 65.5% in FY20 thanks to higher revenue contribution of high-margin products such as Micro-catheter, PTCA balloon catheter, Guide wire and Guide catheter. Dividend payout ratio increased from 29% in FY19 to 39% in FY20. Maintain BUY and raised our DCF-based TP to HK\$44.91.

- Solid earnings growth amid COVID pandemic.** Revenue growth was mainly driven by RMB70mn sales of masks which was a new business started in FY20 and contributed 19.6% of FY20 revenue. Meanwhile, sales of interventional medical devices increased slightly by 3.4% YoY to RMB266mn. Due to COVID pandemic, outpatient visits and elective surgeries except COVID-19 treatment were postponed or cancelled, which affected the sales of interventional devices. We think the solid performance in FY20 was due to the Company's expanding product portfolio and extensive distribution network. By the end of 2020, the Company had 434 China distributors covering 1,436 domestic hospitals, including 664 Tier III hospitals. The Company also had 143 overseas customers covering over 51 countries and regions.
- Rich innovative medical device pipelines.** In 2020, the Company received NMPA approvals for seven medical devices, including neural micro-guidewire (神经微导丝), neural micro-catheter (神经微导管), fallopian tube catheter (输卵管导管), etc. The Company also obtained six CE approvals and two US FDA approvals. The Company's key pipelines, such as TAVR, drug eluting balloon, embolectomy catheter, are progressed smoothly. As at end 2020, the Company had 127 granted patents, 135 patent applications and five software copyrights. R&D expense rose sharply by 109.9% YoY to RMB65mn, indicating 18.0% R&D expense ratio in FY20, vs 10.7% in FY19.
- Maintain BUY.** We trimmed our FY21/22E revenue forecasts by 13.9%/ 14.9% and trimmed net profit forecasts by 19.0%/ 18.4%. We maintain positive on the Company given its rich innovative medical device pipelines. We rolled over our DCF based TP to FY21E and raised TP to HK\$44.91 (WACC: 10.38%, terminal growth rate: 3.0%).
- Catalyst:** new product approvals; **Risk:** negative impact from COVID outbreak.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	286	358	465	591	751
YoY growth (%)	41	25	30	27	27
Net profit (RMB mn)	100	121	150	197	255
EPS (RMB)	0.79	0.73	0.90	1.18	1.54
YoY growth (%)	N/A	-7	23	32	30
P/E (x)	45	49	40	30	23
P/B (x)	4	4	4	4	3
Yield (%)	1	1	1	1	2
ROE (%)	12	9	11	13	15
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

### BUY (Maintain)

Target Price **HK\$44.91**  
 (Previous TP **HK\$39.30**)  
 Up/Downside **+25.97%**  
 Current Price **HK\$35.65**

### China Healthcare Sector

#### Jill Wu, CFA

(852) 3900 0842  
 jillwu@cmbi.com.hk

#### Sam Hu, PhD

Tel: (852) 3900 0882  
 samhu@cmbi.com.hk

#### Jonathan Zhao

(852) 6359 1614  
 jonathanzhao@cmbi.com.hk

Mkt. Cap. (HK\$ mn) 5,918  
 Avg. 3mths t/o (HK\$ mn) 8.16  
 52W High/Low (HK\$) 73.70/31.00  
 Total Issued Shares (mn) 46  
 Source: Bloomberg

### Shareholding Structure

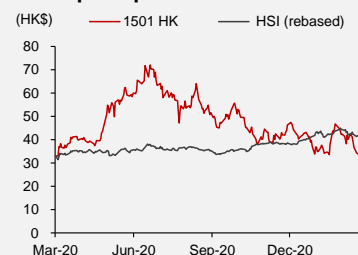
KDL (603987 CH) 25.82%  
 Ningbo Huaige Taiyi 15.18%  
 Independent shareholders 31.29%  
 H-share free float 27.71%  
 Source: HKEx, Bloomberg

### Share performance

	Absolute	Relative
1-mth	-15.9%	-11.1%
3-mth	23.4%	-30.0%
6-mth	30.9%	-41.7%

Source: Bloomberg

### 12-mth price performance



Source: Bloomberg

### Auditor: KPMG

### Related Report:

"Earnings slight beat and long-term outlook remains positive" – 23 Mar 2020

**Figure 1: CMBIS earnings revisions**

(RMB mn)	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	465	591	751	540	695	N/A	-13.9%	-14.9%	N/A
Gross profit	299	385	498	351	459	N/A	-14.8%	-16.0%	N/A
Operating profit	170	226	295	211	278	N/A	-19.5%	-18.8%	N/A
Net profit	150	197	255	185	241	N/A	-19.0%	-18.4%	N/A
EPS (RMB)	0.90	1.18	1.54	1.11	1.45	N/A	-19.0%	-18.4%	N/A
Gross margin	64.30%	65.22%	66.27%	64.94%	66.02%	N/A	-0.64ppt	-0.81 ppt	N/A
Operating margin	36.60%	38.19%	39.20%	39.15%	39.98%	N/A	-2.55 ppt	-1.79 ppt	N/A
Net Margin	32.17%	33.29%	33.98%	34.19%	34.70%	N/A	-2.02 ppt	-1.40 ppt	N/A

Source: Company data, CMBIS estimates

**Figure 2: CMBIS estimates vs consensus**

(RMB mn)	New			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	465	591	751	497	623	674	-6.5%	-5.1%	11.5%
Gross profit	299	385	498	283	376	404	5.8%	2.5%	23.3%
Operating profit	170	226	295	143	209	212	19.0%	8.2%	38.9%
Net profit	150	197	255	141	197	199	6.4%	0.1%	28.3%
EPS (RMB)	0.90	1.18	1.54	0.85	1.18	1	6.6%	0.4%	28.2%
Gross margin	64.30%	65.22%	66.27%	56.85%	60.40%	59.90%	+7.45 ppt	+4.82 ppt	+6.37 ppt
Operating margin	36.60%	38.19%	39.20%	28.77%	33.49%	31.45%	+7.83 ppt	+4.69 ppt	+7.75 ppt
Net Margin	32.17%	33.29%	33.98%	28.27%	31.57%	29.53%	+3.90 ppt	+1.73 ppt	+4.46 ppt

Source: Company data, CMBIS estimates

**Figure 3: Peers' valuation**

Company	Ticker	Rating	Mkt cap HK\$m	PER(x)		PBR(x)		EV/EBITDA (x)		ROE(%)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Kindly Medical	1501 HK	BUY	5,918	32.9	25.0	3.5	3.2	22.6	17.8	10.5	12.9
AK Medical	1789 HK	BUY	12,516	22.8	18.2	5.2	4.1	16.8	13.1	25.4	24.8
Chunli Medical	1858 HK	N/A	6,502	17.5	13.9	4.0	3.2	12.5	9.3	25.8	25.3
Weigao Group	1066 HK	N/A	63,222	20.4	17.3	2.6	2.3	13.4	11.2	13.6	14.6
Microport	853 HK	N/A	78,125	504.5	205.6	15.1	14.2	109.7	78.1	4.6	6.7
Lifetech	1302 HK	N/A	16,012	49.2	36.3	8.1	6.7	N/A	N/A	15.0	16.0
Venus Medtech	2500 HK	BUY	27,387	119.4	42.1	6.2	5.3	81.3	31.6	4.3	10.3
Average :				109.9	51.2	6.9	6.0	46.7	28.6	13.9	15.3

Source: Bloomberg (As at 19 Mar 2021)

## Financial Statements

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	Cash flow summary	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>286</b>	<b>358</b>	<b>465</b>	<b>591</b>	<b>751</b>	<b>Profit before tax</b>	<b>112</b>	<b>137</b>	<b>170</b>	<b>226</b>	<b>294</b>	
Interventional medical devices	258	266	382	516	683	D&A	(3)	7	(3)	(3)	(3)	
Medical accessories	20	12	12	12	12	Change in working capital	(5)	(1)	2	(6)	(8)	
Others	9	9	10	11	12	Payment for interest element of lease liabilities	(2)	(0)	(0)	(0)	(0)	
Cost of sales	(112)	(124)	(166)	(205)	(253)	Tax paid	(10)	(21)	(26)	(34)	(44)	
<b>Gross profit</b>	<b>174</b>	<b>234</b>	<b>299</b>	<b>385</b>	<b>498</b>	<b>Net cash from operating activities</b>	<b>92</b>	<b>96</b>	<b>144</b>	<b>183</b>	<b>240</b>	
Other income (without finance cost)	28	25	34	34	34	Capex	(74)	(200)	(400)	(200)	(150)	
Selling expenses	(24)	(21)	(33)	(41)	(53)	Acquisition of subsidiaries	(0)	(50)	0	0	0	
Administrative expenses	(34)	(36)	(47)	(58)	(72)	Other investing activities	166	346	544	383	390	
R&D expenses	(31)	(65)	(84)	(95)	(113)	<b>Net cash from investing activities</b>	<b>92</b>	<b>96</b>	<b>144</b>	<b>183</b>	<b>240</b>	
<b>Operating profit</b>	<b>114</b>	<b>137</b>	<b>170</b>	<b>226</b>	<b>295</b>	Net proceeds from shares issued	809	0	0	0	0	
(Recognition)/ reversal of impairment losses	0	0	0	0	0	Bank borrowing	0	0	0	0	0	
Finance costs, net	(2)	(0)	(0)	(0)	(0)	Capital element of lease liabilities	(2)	0	0	0	0	
Pre-tax profit	<b>112</b>	<b>137</b>	<b>170</b>	<b>226</b>	<b>294</b>	Dividends paid to equity shareholders	(53)	(47)	(58)	(77)	(100)	
Income tax	(15)	(21)	(26)	(34)	(44)	<b>Net cash from financing activities</b>	<b>754</b>	<b>(47)</b>	<b>(58)</b>	<b>(77)</b>	<b>(100)</b>	
Profit for the year	<b>97</b>	<b>117</b>	<b>145</b>	<b>192</b>	<b>250</b>	FX changes	6	0	0	0	0	
<b>Minority interests</b>	<b>(3)</b>	<b>(5)</b>	<b>(5)</b>	<b>(5)</b>	<b>(5)</b>	Net change in cash	732	(178)	(290)	(69)	14	
Attributable net profit	<b>100</b>	<b>121</b>	<b>150</b>	<b>197</b>	<b>255</b>	Cash at the beginning of the year	298	1037	870	580	510	
						<b>Cash at the end of the year</b>	<b>1037</b>	<b>870</b>	<b>580</b>	<b>510</b>	<b>525</b>	

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	Key ratios	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>175</b>	<b>375</b>	<b>753</b>	<b>932</b>	<b>1,060</b>	<b>Sales mix (%)</b>						
PP&E	115	199	583	767	901	Interventional medical devices	90	74	82	87	91	
Right-of-use assets	45	101	96	91	86	Medical accessories	7	3	3	2	2	
Prepayment of lease	0	0	0	0	0	Others	3	3	2	2	2	
Intangible assets	6	8	7	7	6	Total	100	80	87	91	94	
Other non-current assets	10	18	18	18	18							
<b>Current assets</b>	<b>1,124</b>	<b>1,048</b>	<b>778</b>	<b>735</b>	<b>782</b>	<b>Profit &amp; loss ratios (%)</b>						
Inventories	43	55	66	82	101	Gross margin	61	65	64	65	66	
Trade and other receivables	15	31	40	51	65	EBITDA margin	46	44	41	42	42	
Other current assets	7	20	20	20	20	Pre-tax margin	39	38	37	38	39	
Cash and cash equivalents	1,037	870	580	510	525	Net margin	35	34	32	33	34	
						Effective tax rate	14	15	15	15	15	
<b>Current liabilities</b>	<b>59</b>	<b>88</b>	<b>110</b>	<b>131</b>	<b>156</b>	<b>Balance sheet ratios</b>						
Trade and other payables	43	65	87	108	133	Current ratio (x)	19	12	7	6	5	
Contract liabilities	10	14	14	14	14	Trade receivables turnover days	19	31	31	31	31	
Lease liabilities	0	0	0	0	0	Trade payables turnover days	137	189	189	189	189	
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	6	8	8	8	8							
<b>Non-current liabilities</b>	<b>5</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>Returns (%)</b>						
Lease liabilities	2	1	1	1	1	ROE	12	9	11	13	15	
Deferred income	3	5	5	5	5	ROA	11	9	10	12	14	
<b>Total net assets</b>	<b>1,234</b>	<b>1,328</b>	<b>1,424</b>	<b>1,549</b>	<b>1,710</b>	<b>Per share data</b>						
Minority interest	18	22	27	32	37	EPS (RMB)	0.79	0.73	0.90	1.18	1.54	
<b>Shareholders' equity</b>	<b>1,216</b>	<b>1,306</b>	<b>1,397</b>	<b>1,517</b>	<b>1,673</b>	DPS (RMB)	0.23	0.29	0.35	0.46	0.60	
						BVPS (RMB)	9.74	8.00	8.58	9.33	10.30	

Source: Company data, CMBIS estimates

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIS Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIS

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Securities Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.