

Kindly Medical (1501 HK)

Strong growth in interventional medical devices

- 2021 earnings in line.** Kindly Medical reported 2021 revenue of RMB465mn, representing a 30% YoY increase from RMB358mn in 2020. The revenue growth was mainly driven by surge in sales of interventional medical devices (+64% YoY), which was driven by expanding product portfolio and effective expansion of distribution network. By the end of 2021, Kindly's distribution network covers 2,100 domestic hospitals in China (+46% YoY). The Company also has 184 overseas customers (+29% YoY) covering over 51 countries and regions. In 2021, the Company's gross profit/ attribute net profit grew 17.6%/ 17.8% YoY to RMB276mn/ RMB143mn, respectively. Blended GPM decreased from 65.4% in 2020 to 59.3% in 2021, which was mainly because revenue from masks shrank to almost zero in 2021. Recall that in 2020, masks contributed 20% of total revenue and 24% of total gross profit.
- Encouraging progress in HanchorValve.** In 2021, Kindly obtained 8 NMPA registration certificates for Class III medical devices, 3 SMPA registration certificates for Class II medical devices and 5 FDA approvals. In Nov 2021, the Company successfully completed the first patient implantation of HanchorValve, which is the first balloon-expandable TAVR product in the world that can treat both severe aortic regurgitation and severe aortic stenosis by transfemoral approach. With unique designed anchoring structure, HanchorValve is able to achieve precise and autonomous localization. Kindly has initiated a multi-center clinical trial to evaluate HanchorValve with Zhongshan Hospital as the major research center.
- Comprehensive medical device platform.** Kindly Medical has established a comprehensive platform of innovative medical devices, with 12 subsidiaries engaging in the development of medical devices of peripheral intervention, neurological intervention, cardiovascular intervention or implantation and the development of equipment and moulds for production of medical devices. Furthermore, leveraging its rich product portfolio covering almost all PCI supporting devices, the Company has accumulated significant cost advantages which will continue to drive the market share gain for the Company.
- Maintain BUY.** We expect the Company to deliver 36%/ 30% YoY revenue growth in FY22E/ 23E and 25%/ 30% YoY attributable net profit growth in FY22E/ 23E. We revised our TP to HK\$31.46, based on a 9- year DCF model (WACC:12.62%, terminal growth rate: 2.0%).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	358	465	630	817	1,044
YoY growth (%)	25	30	36	30	28
Net profit (RMB mn)	112	138	168	222	290
EPS (RMB)	0.73	0.86	1.07	1.40	1.80
EPS YoY growth (%)	-7	18	25	30	29
P/E (x)	16	14	11	8	7
P/B (x)	1	1	1	1	1
Yield (%)	2	2	3	4	5
ROE (%)	9	10	12	14	16
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimate

BUY (Maintain)

Target Price	HK\$31.46
(Previous TP)	HK\$44.91
Up/Downside	+167.97%
Current Price	HK\$11.74

China Healthcare Sector

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Stock Data

Mkt Cap (HK\$ mn)	1,949
Avg 3 mths t/o (HK\$ mn)	1.19
52w High/Low (HK\$)	44.80/10.80
Total Issued Shares (mn)	104

Source: Bloomberg

Shareholding Structure

Kindly Holding	25.82%
Huaige Health Investment	15.18%
Dongke Liang	5.75%
Others	53.25%

Source: Wind

Share Performance

	Absolute	Relative
1-mth	-26.1%	-16.0%
3-mth	-48.8%	-44.6%
6-mth	-51.7%	-43.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Report

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Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	630	817	1,044	638	834	1,087	-1.3%	-2.0%	-4.0%
Gross profit	384	506	655	409	548	729	-6.1%	-7.6%	-10.1%
Operating profit	193	256	335	222	307	422	-13.2%	-16.5%	-20.5%
Net profit	178	232	300	194	265	363	-8.0%	-12.4%	-17.5%
EPS (RMB)	1.07	1.40	2	1.17	1.60	2	-8.0%	-12.4%	-17.5%
Gross margin	60.99%	61.91%	62.73%	64.14%	65.65%	67.03%	-3.15ppt	-3.74 ppt	-4.30 ppt
Operating margin	30.64%	31.32%	32.13%	34.87%	36.75%	38.79%	-4.22 ppt	-5.42 ppt	-6.66 ppt
Net Margin	28.32%	28.42%	28.70%	30.38%	31.78%	33.39%	-2.06 ppt	-3.36 ppt	-4.69 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	193	256	335	438	526	626	739	864	1,003
Tax rate	10%	10%	10%	10%	10%	10%	10%	10%	10%
EBIT*(1-tax rate)	174	231	303	395	475	565	666	780	904
+ D&A	22	22	22	22	26	31	36	42	49
- Change in working capital	(2)	(23)	(28)	(35)	(42)	(50)	(59)	(69)	(80)
- Capex	(200)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)
FCFF	-6	80	146	232	308	396	494	603	724
Terminal value									6,955
Terminal growth rate	2.0%								
WACC	12.62%								
Cost of Equity	16.2%								
Cost of Debt	5.0%								
Equity Beta	1.1								
Risk Free Rate	3.0%								
Market Risk Premium	12.0%								
Target Debt to Asset ratio	30.0%								
Effective Corporate Tax Rate	15.0%								
PV of enterprise value (RMB mn)	3,753								
Net debt (RMB mn)	(567)								
Minority interests (RMB mn)	37								
Equity value (RMB mn)	4,282								
Equity value (HK\$ mn)	5,222								
# of shares outstanding (mn)	166								
Price per share (HK\$)	31.46								

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	358	465	630	817	1,044
Interventional medical devices	266	436	600	785	1,009
Medical accessories	12	12	13	15	16
Others	80	16	17	18	19
Cost of sales	(124)	(189)	(246)	(311)	(389)
Gross profit	234	276	384	506	655
Other income	25	50	23	23	23
Distribution costs	(21)	(30)	(50)	(64)	(79)
Administrative expenses	(36)	(49)	(63)	(80)	(100)
R&D expenses	(65)	(90)	(101)	(129)	(163)
Operating profit	137	157	193	256	335
(Recognition)/ reversal of	0	(1)	0	0	0
Finance costs, net	(0)	(1)	(0)	(1)	(1)
Pre-tax profit	137	156	193	255	335
Income tax	(21)	(15)	(19)	(28)	(40)
Profit for the year	117	140	173	227	295
Minority interests	(5)	(3)	(5)	(5)	(5)
Net profit attributable to shareholders	112	138	168	222	290

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before tax	137	156	193	255	335
Depreciation and amortization, etc.	(15)	(15)	7	7	7
Change in working capital	(31)	(28)	(2)	(23)	(28)
Payment for interest element of lease liabilities	(0)	(1)	(0)	(1)	(1)
Tax paid	19	(15)	(19)	(28)	(40)
Net cash from operating activities	96	97	178	211	273
Capex	(76)	(297)	(200)	(150)	(150)
Acquisition of subsidiaries	(2)	0	0	0	0
Other investing activities	174	394	378	361	423
Net cash from investing activities	96	97	178	211	273
Net proceeds from shares issued	6	0	0	0	0
Bank borrowing	0	0	0	0	0
Payment for capital element of lease liabilities	(0)	0	0	0	0
Dividends paid to equity shareholders of the Company	(29)	(43)	(54)	(70)	(90)
Net cash from financing activities	(28)	(43)	(54)	(70)	(90)
FX changes	(13)	0	0	0	0
Net change in cash	(154)	(229)	(60)	6	48
Cash at the beginning of the year	1,037	870	641	580	586
Cash at the end of the year	870	641	580	586	634

Balance sheet

YE 31 Dec (RMBmn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	375	763	942	1,070	1,199
PP&E	199	458	642	776	910
Right-of-use assets	101	107	102	97	92
Prepayment of lease	0	0	0	0	0
Intangible assets	8	28	27	27	26
Other non-current assets	18	40	40	40	40
Current assets	1,048	858	831	896	1,015
Inventories	55	92	96	122	152
Trade and other receivables	31	83	112	146	186
Other current assets	20	42	42	42	42
Cash and cash equivalents	870	641	580	586	634
Current liabilities	88	153	185	221	264
Trade and other payables	65	105	136	173	216
Contract liabilities	14	36	36	36	36
Lease liabilities	0	0	0	0	0
Deferred income	0	0	0	0	0
Current taxation	8	12	12	12	12
Non-current liabilities	7	30	30	30	30
Lease liabilities	1	13	13	13	13
Deferred income	5	14	14	14	14
Total net assets	1,328	1,438	1,557	1,715	1,919
Minority interest	22	42	37	32	27
Shareholders' equity	1,306	1,395	1,520	1,682	1,891

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Interventional medical devices	74	94	95	96	97
Medical accessories	3	3	2	2	2
Others	22	4	3	2	2
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	65	59	61	62	63
EBITDA margin	44	40	34	34	34
Pre-tax margin	38	34	31	31	32
Net margin	34	31	28	28	29
Effective tax rate	15	10	10	11	12
Balance sheet ratios					
Current ratio (x)	12	6	4	4	4
Trade receivables turnover days	31	64	64	64	64
Trade payables turnover days	189	200	200	200	200
Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	9	10	12	14	16
ROA	9	9	10	12	14
Per share data					
EPS (RMB)	1	1	1	1	2
DPS (RMB)	0	0	0	0	1
BVPS (RMB)	8	9	9	10	12

Source: Company data, CMBIGM estimates

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