CMB International Global Markets | Equity Research | Company Update

# Kindly Medical (1501 HK)

# Rapid sales recovery in 1H23

Kindly Medical reported 1H23 revenue growth of 50.9% YoY to RMB340mn thanks to the rapid recovery of interventional surgery demand post the COVID-19 pandemic. Blended GPM improved by 3.9 ppts to 59.0%, driven by the increasing proportion of sales from the higher-margin interventional medical devices while the GPM of the interventional medical devices improved by around 2 ppts to 65% in 1H23 (vs. 63% in 1H22). As a result, Kindly Medical's attributable net profit increased by 58.3% YoY to RMB81mn in 1H23.

- Expanding sales network drives the rapid recovery of interventional medical device sales. As of 30 June 2023, the Company has covered 2,650 (vs. 2,317 in 2022) domestic hospitals, including 920 tier III hospitals (vs. 908 in 2022). With the extensive distribution network and comprehensive product portfolios, Kindly Medical's sales rapidly recovered. As the pent-up surgery demand was satisfied in 1H23, the sales of interventional medical devices surged to RMB302mn, up 57.1% YoY in 1H23. Moreover, we think the improving GPM indicates provincial VBPs so far have limited impact on the Company's profitability. We maintained our expectation that the total number of PCI surgeries in China will increase by 25% YoY in 2023E to 1.5mn which will drive the strong growth of Kindly Medical's PCI supporting devices throughout the year.
- Enriched medical device pipelines. Kindly Medical continuously progresses on the research development of medical devices for cardiovascular/ neurological/ peripheral intervention or implantation and urinary intervention. The Company's R&D expense rate slightly increased to 19% in 1H23. In 1H23, Kindly Medical obtained four NMPA registration certificates for Class III medical devices, including sinus implant (鼻窦支架),

reperfusion catheters (颅内抽吸导管), guide extension catheter (指引延长导

管) and hydrophilic angiographic catheter (亲水造影导管). We expect the expanding product portfolio to drive the growth of Kindly Medical in the long term.

- Strong growth momentum in the overseas market continued. Kindly Medical has covered 226 (vs. 207 in 2022) overseas customers in over 66 (vs. 58 in 2022) countries and regions, with 36 CE-certified products and 18 FDA-approved products. The overall overseas revenue increased by 65.2% YoY to RMB72mn in 1H23, contributing 21% of the Company's total sales.
- Valuation/Key risks. We maintained our forecast of Kindly Medical's 45% YoY revenue growth in 2023E. We revised our TP to HK\$33.30 based on a 9-year DCF model (Terminal growth rate: 2.0%, WACC: 10.66%).

Corning	C.	
Earning	s Sun	iiiiai y

FY21A	FY22A	FY23E	FY24E	FY25E
465	586	850	1,174	1,579
29.6	26.1	45.0	38.2	34.5
143	132	167	228	310
17.8	-7.9	26.8	36.7	35.9
0.86	0.79	1.00	1.36	1.86
28.2	30.6	24.1	17.6	13.0
2.8	2.6	2.4	2.2	2.0
0.9	0.8	1.0	1.4	1.9
10.2	9.0	10.5	13.5	16.1
Net cash	Net cash	Net cash	Net cash	Net cash
	465 29.6 143 17.8 0.86 28.2 2.8 0.9 10.2	465         586           29.6         26.1           143         132           17.8         -7.9           0.86         0.79           28.2         30.6           2.8         2.6           0.9         0.8           10.2         9.0	465         586         850           29.6         26.1         45.0           143         132         167           17.8         -7.9         26.8           0.86         0.79         1.00           28.2         30.6         24.1           2.8         2.6         2.4           0.9         0.8         1.0           10.2         9.0         10.5	4655868501,17429.626.145.038.214313216722817.8-7.926.836.70.860.791.001.3628.230.624.117.62.82.62.42.20.90.81.01.410.29.010.513.5

Source: Company data, Bloomberg, CMBIGM estimates



# **BUY (Maintain)**

# Target PriceH(Previous TPHUp/Downside

HK\$33.30 HK\$31.41) 23.6% HK\$26.95

# China Healthcare

**Current Price** 

Jill WU, CFA (852) 3900 0842 jillwu@cmbi.com.hk

# Cathy WANG

(852) 3916 1729 cathywang@cmbi.com.hk

## Stock Data

Mkt Cap (HK\$ mn)	4,508.0
Avg 3 mths t/o (HK\$ mn)	0.5
52w High/Low (HK\$)	30.70/24.00
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	6.9%	13.3%
3-mth	-4.8%	4.7%
6-mth	-1.6%	14.4%
Source: FactSet		





# Figure 1: Earnings revision

		New			Old			Diff (%)	
RMB mn	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	850	1,174	1,579	850	1,186	1,588	0.0%	-1.0%	-0.6%
Gross profit	501	693	931	467	652	881	7.3%	6.2%	5.7%
Operating profit	185	251	340	167	231	318	10.4%	9.0%	6.9%
Net profit	167	228	310	159	217	298	5.2%	5.0%	4.0%
EPS (RMB)	1.00	1.36	1.86	0.95	1.30	1.78	5.2%	5.0%	4.0%
Gross margin	59.00%	59.00%	59.00%	55.00%	55.00%	55.50%	+4ppt	+4ppt	+3.5ppt
Operating margin	21.71%	21.41%	21.54%	19.67%	19.46%	20.04%	+2.04ppt	+1.95ppt	+1.5ppt
Net Margin	19.66%	19.45%	19.66%	18.68%	18.35%	18.79%	+0.98ppt	+1.1ppt	+0.87ppt

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		185	251	340	408	486	573	670	778	894
Tax rate		10%	10%	10%	10%	10%	10%	10%	10%	10%
EBIT*(1-tax rate)		166	227	307	368	438	517	605	701	807
+ D&A		37	37	37	44	53	62	73	85	98
<ul> <li>Change in working capital</li> </ul>		(3)	(42)	(52)	(63)	(75)	(88)	(103)	(120)	(138)
- Capex		(250)	(150)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
FCFF		-50	72	192	250	316	391	475	567	667
Terminal value										7,857
Terminal growth rate	2.0%									
WACC	10.66%									
Cost of Equity	13.4%									
Cost of Debt	5.0%									
Equity Beta	1.0									
Risk Free Rate	2.9%									
Market Risk Premium	10.5%									
Target Debt to Asset ratio	30.0%									
Effective Corporate Tax Rate	15.0%									
PV of enterprise value (RMB mn)	4,638									
Net debt (RMB mn)	(420)									
Minority interests (RMB mn)	44									
Equity value (RMB mn)	5,013									
Equity value (HK\$ mn)	5,570									
# of shares outstanding (mn)	167									
Price per share (HK\$)	33.30									
Source: CMPICM estimates										

Source: CMBIGM estimates

# Figure 3: Sensitivity analysis

				WACC		
		9.66%	10.16%	10.66%	11.16%	11.66%
	3.0%	42.81	39.30	36.27	33.63	31.31
	2.5%	40.58	37.44	34.70	32.29	30.15
Terminal growth rate	2.0%	38.65	35.80	33.30	31.09	29.12
-	1.5%	36.95	34.36	32.06	30.01	28.18
	1.0%	35.45	33.07	30.94	29.04	27.33



# Figure 4: CMBIGM estimates vs consensus

		CMBIGM		(	Consensus			Diff (%)	
RMB mn	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	850	1,174	1,579	850	1,186	1,588	0.0%	-1.0%	-0.6%
Gross Profit	501	693	931	468	652	881	7.2%	6.2%	5.7%
Operating Profit	185	251	340	167	231	318	10.5%	8.8%	6.9%
Net profit	167	228	310	159	217	298	5.1%	5.2%	4.1%
EPS (RMB)	1.00	1.36	1.86	0.95	1.30	1.78	5.1%	5.0%	4.2%
Gross Margin	59.00%	59.00%	59.00%	55.00%	55.00%	55.50%	+4ppt	+4ppt	+3.5ppt
Operating Margin	21.71%	21.41%	21.54%	19.65%	19.48%	20.03%	+2.07ppt	+1.93ppt	+1.52ppt
Net Margin	19.66%	19.45%	19.66%	18.71%	18.30%	18.77%	+0.95ppt	+1.15ppt	+0.89ppt

Source: Company data, Bloomberg, CMBIGM estimates

Minority interest

Total equity and liabilities



# **Financial Summary**

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	358	465	586	850	1,174	1,579
Cost of goods sold	(124)	(189)	(253)	(348)	(481)	(647)
Gross profit	234	276	332	501	693	931
Selling expense	(21)	(30)	(56)	(85)	(115)	(152)
Admin expense	(36)	(49)	(64)	(93)	(127)	(167)
R&D expense	(65)	(90)	(100)	(161)	(221)	(294)
Others	25	50	33	23	21	21
Operating profit	137	156	145	185	251	340
Finance cost	(0)	(1)	(1)	(2)	(2)	(2)
Pre-tax profit	137	156	144	183	249	338
Income tax	(21)	(15)	(11)	(14)	(19)	(25)
Net profit	117	140	134	169	230	312
Minority interest	(5)	(3)	2	2	2	2
Attributable net profit	121	143	132	167	228	310
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	1,048	858	802	761	817	998
Cash & equivalents	870	641	518	426	374	418
Frade and other receivables	31	83	80	115	159	214
nventories	55	92	154	170	234	315
Time deposits	0	0	10	10	10	10
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	1,296	1,466	1,587
PP&E	199	458	634	853	973	1,043
Deferred tax assets	2	9	15	15	15	15
ntangibles	8	28	70	114	158	202
Financial assets at FVTPL	49	130	162	162	162	162
Other non-current assets	116	137	144	151	158	165
Total assets	1,423	1,622	1,827	2,057	2,284	2,585
Current liabilities	88	153	240	351	418	501
oans and borrowings	0	0	33	96	96	96
Frade and other payables	65	105	127	175	242	325
Other current liabilities	23	49	80	80	80	80
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	384	451	535
Share capital	166	166	168	168	168	168
Other reserves	1,140	1,229	1,344	1,460	1,618	1,834
Total shareholders equity	1,306	1,395	1,512	1,628	1,786	2,002
Minority interest	22	40	10	11	46	40

42

1,622

42

1,827

46

2,284

44

2,057

48

2,585

22

1,423



VE 31 Dec (RMB ma) Operating         U           Profit before taxation         137         156         144         183         249         338           Profit before taxation         122         30         37         39         4         40         147         47         37         37         444         40         0         0         0         0         0         0         0         0         0         0         0         0 </th <th>CASH FLOW</th> <th>2020A</th> <th>2021A</th> <th>2022A</th> <th>2023E</th> <th>2024E</th> <th>2025E</th>	CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
Profit brier baration         137         156         144         183         249         338           Deprecision & amoritzation         22         30         37         37         37           Tar paid         19         (15)         (13)         (14)         (19)         (25)           Others         162         (33)         (15)         (13)         (14)         (15)         (15)           Net cash from operations         95         73         180         192         218         2289           Investing         (16)         (27)         (243)         (250)         (150)         (100)           Others         (146)         5         (73)         (46)         (47)         (47)           Net cash from investing         (222)         (288)         (31)         (50)         (50)         (19)         (147)           Proceeds from share issues         6         64         4         0         0         0           Others         (23)         (31)         10         11         (72)         (77)         (78)           Net cash from inscrip         (23)         (41         518         426         374         418	YE 31 Dec (RMB mn)						
Depreciation & amoritzation         22         30         37         37         37         37         37           Tax paid         19         (15)         (13)         (14)         (19)         (25)           Change in working capital         (31)         (59)         29         (13)         (14)         (62)           Net cash from operations         96         73         190         192         218         298           Investing         Capital expendure         (76)         (274)         (243)         (250)         (160)         (177)         (440)         (47)         (477)           Net cash from investing         (146)         5         (73)         (46)         (177)         (177)         (170)         (65)           Proceeds from share issues         6         64         4         0         0         0           Proceeds from share issues         6         64         4         0         0         0         0           Proceeds from share issues         6         64         4         0         0         0         0           Proceeds from share issues         6         64         4         0         0         0         0	. ,						
Tarpaid         19         (15)         (13)         (14)         (10)         (25)           Change inworking capital         (3)         (52)         (39)         (18)         (10)         (8)         (8)           Net cash from operations         96         73         180         192         218         289           Investing         Investing         Investing         Intervesting         Intervesting	Profit before taxation	137	156	144	183	249	338
Tax paid         19         (15)         (13)         (14)         (19)         (25)           Change in working capital         (31)         (69)         29         (3)         (40)         (52)           Change in working         (52)         (33)         (16)         (10)         (9)         (8)           Net cash from operations         96         73         160         192         218         289           Investing         (76)         (274)         (243)         (250)         (150)         (167)           Net cash from investing         (222)         (268)         (31)         (29)         (177)         (147)           Financing           (31)         (30)         56         62         (2)         (2)           Net cash from financing         (29)         (31)         100         11         (72)         (87)           Net cash from financing         (29)         (31)         100         11         (72)         (27)           Net change in cash            0         0         0         0           Cash at the beginning of the year         1,037         870         641         518         4	Depreciation & amortization	22	30	37	37	37	37
Others         (52)         (33)         (16)         (10)         (16)         <	Tax paid	19	(15)	(13)	(14)	(19)	
Net cash from operations         96         73         180         192         218         289           Investing Capital expenditure (146)         5         (73)         (260)         (100)         (100)           Others         (146)         5         (73)         (46)         (47)         (47)           Net cash from investing         (222)         (263)         (316)         (250)         (151)         (70)         (95)           Financing         (31)         (56)         (50)         (51)         (70)         (95)           Proceeds from share issues         6         64         4         0         0         0           Others         (3)         (39)         65         62         (22)         (20)         (22)           Net change in cash         (33)         (31)         4         0         0         0         0           Cash at the beging of the year         1,037         870         641         518         426         374         418           GROWTH         2020A         2021A         2022A         2023E         2024E         2024E         2024E         2024E         2024E         2024E         2024E         2024E         2024E<	Change in working capital	(31)	(59)	29	(3)	(42)	(52)
Investing         Investing         Investing         Investing         Investing           Capital expenditure         (76)         (274)         (243)         (250)         (160)         (100)           Others         (146)         5         (73)         (46)         (47)         (47)           Net cash from investing         (222)         (286)         (316)         (266)         (17)         (17)           Financing           6         64         4         0         0         0           Others         (3)         (39)         56         62         (2)         (2)         (2)           Net cash from financing         (28)         (31)         10         11         (72)         (97)           Net cash from financing         (28)         (31)         10         11         (72)         (97)           Net cash from financing         (28)         (31)         10         11         (72)         (97)           Net cash at the beginning of the year         10.37         870         641         518         426         374         418           GROWTH         2020A         2021A         2022A         2024E         2025E	Others	(52)	(39)	(18)	(10)	(8)	(8)
Capital open diture         (76)         (274)         (243)         (250)         (150)         (100)           Others         (146)         5         (73)         (46)         (47)         (47)           Net cash from investing         (222)         (288)         (316)         (298)         (197)         (147)           Financing          5         64         4         0         0         0           Others         (3)         (30)         56         62         (22)         (22)           Net cash from financing         (28)         (31)         10         11         (72)         (97)           Net change in cash          (33)         33         4         0         0         0           Cash at the beginning of the year         1.037         870         641         518         426         374         418           CROWTH         2020A         2021A         2022A         2023E         2024E         2025E         2025E         2025E         2025E         2024E         2025E	Net cash from operations	96	73	180	192	218	289
Others         (146)         5         (73)         (46)         (47)         (47)         (47)           Net cash from investing         (22)         (268)         (316)         (290)         (197)         (147)           Financing	Investing						
Net cash from investing(222)(268)(316)(298)(197)(147)FinancingDividend paid(31)(56)(50)(51)(70)(95)Proceeds from share issues(6(64)4000Others(3)(39)5662(2)(2)Net cash from financing(28)(31)1011(72)(97)Net change in cash10.037870641518426374Exchange difference(113)(3)4000Cash at the beginning of the year1.037870641518426374Cash at the nod the year1.037870641518426374Cash at the off the year1.0372021A2022A2023E2024E2025EYE 31 DeExemange filterence20.7%20.6%14.0%7.1%36.2%36.2%35.3%Persting profit20.7%20.2%20.24E20.24E20.24E20.24E20.25EYE 31 DeExemange in tagin65.4%59.3%56.7%59.0%59.0%59.0%Cash profit margin65.4%59.3%56.7%9.05.9%13.2%16.1%Peter ing margin85.7%20.24E20.24E20.24E20.24E20.24EYE 31 DeExemange11.2%19.511.011.011.011.0VEIDTON20.20A20.21A20.22A20.24E20.2	Capital expenditure	(76)	(274)	(243)	(250)	(150)	(100)
Financing         Instance         Financing           Dividend paid         (31)         (56)         (50)         (51)         (70)         (95)           Proceeds from share issues         6         64         4         0         0         0           Others         (3)         (39)         56         62         (2)         (2)           Net cash from financing         (28)         (31)         10         11         (72)         (97)           Net change in cash          Zash at the beginning of the year         1.037         870         641         518         426         374         418           CROWTH         2020A         2021A         2022A         2024E         2024E         2025E         YE 31 De         74         20.6%         50.8%         38.2%         34.5%         Growth         20.6%         14.0%         0.71%         36.2%         33.3%         35.5%         S6.5%         50.8%         38.2%         34.5%         Growth         36.2%         33.3%         36.5%         35.6%         36.2%         33.3%         36.5%         35.6%         S6.8%         36.2%         33.3%         36.5%         36.5%         36.5%         36.5%         36.5%	Others	(146)	5	(73)	(46)	(47)	(47)
Dividend paid         (31)         (56)         (50)         (51)         (70)         (95)           Proceeds from share issues         6         64         4         0         0         0           Others         (3)         (39)         56         62         (2)         (2)           Net cash from financing         (28)         (31)         10         11         (72)         (97)           Net cash at the beginning of the year         1.037         870         641         518         426         374         448           CROWTH         2020A         2021A         2022B         2023E         2024E         2025E           YE 31 De         7870         641         758         445.%         38.2%         34.5%           Gross profit         20.5%         29.6%         26.1%         45.0%         38.2%         34.5%           Gross profit         20.6%         14.0%         (7.1%)         26.6%         38.2%         35.3%           PROFITABILITY         20.0%         20.0%         24.7%         26.4%         36.2%         35.3%           PROFITABILITY         2020A         2021A         2023E         2024E         2025E           <	Net cash from investing	(222)	(268)	(316)	(296)	(197)	(147)
Proceeds from share issues         6         64         4         0         0         0           Others         (3)         (39)         56         62         (2)         (2)           Net cash from financing         (28)         (31)         10         11         (72)         (97)           Net change in cash          (3)         641         518         426         374           Cash at the beginning of the year         1,037         870         641         518         426         374           Cash at the of of the year         870         641         518         426         374         418           GROWTH         2020A         2021A         2022A         2023E         2024E         2025E           YE 31 De           7.6%         38.2%         34.5%         36.6%           PROFITABILITY         2020A         2021A         2022A         2023E         2024E         2025E           YE 31 De           7.6%         36.2%         36.5%         56.7%         59.0%         59.0%         59.0%         59.0%         59.0%         59.0%         59.0%         59.0%         59.0%         59.0% <td< td=""><td>5</td><td></td><td></td><td></td><td></td><td></td><td></td></td<>	5						
Chers         (3)         (3)         (3)         56         62         (2)         (2)           Net cash from financing         (28)         (31)         (31)         10         11         (72)         (97)           Net change incash               (72)         (97)           Cash at the beginning of the year         1.037         870         641         518         426         374         418           Cash at the beginning of the year         870         641         518         426         374         418           GROWTH         2020A         2021A         2022A         2023E         2024E         2024E         2025E           YE 31 De          34.4%         17.6%         20.6%         50.8%         38.2%         34.5%           Operating profit         20.6%         14.0%         (7.1%)         27.0%         36.2%         35.8%           VE 31 De          20.6%         59.3%         56.7%         59.0%         59.0%         59.0%           Gross profit margin         38.3%         33.6%         24.8%         21.7%         21.4%         21.5%           YE 31 De	•		. ,				
Net cash from financing         (28)         (31)         10         11         (72)         (97)           Net change in cash         1,037         870         641         518         426         374           Cash at the beginning of the year         1,037         870         641         518         426         374         418           CROWTH         2020A         2021A         2022A         2023E         2024E         2025E           YE 31 De         Revenue         25.1%         29.6%         26.1%         45.0%         38.2%         34.5%           Operating profit         34.4%         17.6%         20.6%         50.8%         38.2%         34.5%           Operating profit         20.6%         14.0%         27.0%         26.2%         362.%         35.6%           Net profit         20.6%         14.0%         27.0%         26.2%         36.2%         35.6%           Operating profit         20.7%         20.5%         (4.7%)         26.4%         36.2%         35.6%           Operating margin         65.4%         59.3%         56.7%         59.0%         59.0%         59.0%         59.0%         59.0%         59.0%         59.0%         59.0% <t< td=""><td></td><td></td><td></td><td></td><td></td><td></td><td></td></t<>							
Net change in cash         Net of hange in cash         Net of hange in cash           Cash at the beginning of the year         1,037         870         641         518         426         374           Exchange difference         (13)         (3)         4         0         0         0           Cash at the end of the year         870         641         518         426         374         418           GROWTH         2020A         2021A         2022A         2023E         202E         2025E           YE 31 Dec           34.4%         17.6%         20.6%         50.8%         38.2%         34.5%           Operating profit         20.6%         14.0%         (7.1%)         27.0%         36.2%         35.3%           Net profit         20.7%         20.5%         (4.7%)         26.4%         36.2%         35.6%           PROFITABILITY         2020A         2021A         2022A         2023E         2024E         2025E           YE 31 Dec           56.7%         59.0%         59.0%         59.0%         59.0%         59.0%         59.0%         59.0%         59.0%         59.0%         16.1%         21.5%         16.1%         2			. ,			( )	. ,
Cash at the beginning of the year         1,037         870         641         518         426         374           Exchange difference         (13)         (3)         4         0         0         0           Cash at the end of the year         870         641         518         426         374         418           Cash at the end of the year         2020A         2021A         2022A         2023E         2024E         2025E           YE 31 Dec          7         641         518         45.0%         38.2%         34.5%           Operating profit         20.6%         14.0%         (7.1%)         27.0%         36.2%         35.3%           Operating profit         20.7%         20.5%         (4.7%)         20.4%         36.2%         35.3%           PROFITABILITY         20.20         2021A         2022A         2023E         2024E         2025E           YE 31 Dec           10.2%         9.0%         10.5%         59.0%         59.0%         59.0%           Cass at the end of the year         38.3%         33.6%         24.8%         21.7%         21.4%         21.5%           PROFITABILITY         2020A         2021A	Net cash from financing	(28)	(31)	10	11	(72)	(97)
Exchange difference         (13)         (3)         4         0         0         0           Cash at the end of the year         870         641         518         426         374         418           CROWTH         2020A         2021A         2022A         2023E         2024E         2025E           YE 31 Dec         7         7         20.6%         26.1%         45.0%         38.2%         34.5%           Gross profit         34.4%         17.6%         20.6%         50.8%         38.2%         34.5%           Operating profit         20.6%         14.0%         (7.1%)         27.0%         36.2%         35.6%           PROFITABILITY         2020A         2021A         2022A         2023E         2024E         2025E           YE 31 Dec         7         7         20.5%         64.7%         59.0%         59.0%         59.0%           Operating margin         65.4%         59.3%         36.7%         29.0%         10.2%         9.0%         10.5%         13.2%         16.1%           GEARING/LIQUIDITY/ACTIVITIES         2020A         2021A         2022A         2023E         2024E         2025E           YE 31 Dec         7         19.5	Net change in cash						
Cash at the end of the year         870         641         518         426         374         418           GROWTH         2020A         2021A         2022A         2023E         2024E         2025E           YE 31 Dec             38.2%         34.5%           Gross profit         34.4%         17.6%         20.6%         61.%         45.0%         38.2%         34.5%           Operating profit         20.6%         14.0%         (7.1%)         27.0%         36.2%         35.3%           Net profit         20.6%         14.0%         (7.1%)         27.0%         36.2%         35.3%           PROFITABILITY         20.06%         20.5%         (4.7%)         26.4%         36.2%         35.6%           PROFITABILITY         20.07%         20.5%         (4.7%)         26.4%         36.2%         35.6%           Profit         20.7%         20.7%         20.5%         (4.7%)         26.4%         36.2%         35.6%           PROFITABILITY         20.04         20.21A         2022A         20.22E         20.24E         20.25E           YE 31 Dec         9.1%         10.2% <th9.0%< th="">         10.5%         13.2%<td>Cash at the beginning of the year</td><td>1,037</td><td>870</td><td>641</td><td></td><td></td><td></td></th9.0%<>	Cash at the beginning of the year	1,037	870	641			
GROWTH         2020A         2021A         2022A         2023E         2024E         2025E           YE 31 Dec         Revenue         25.1%         29.6%         26.1%         45.0%         38.2%         34.5%           Gross profit         34.4%         17.6%         20.6%         50.8%         38.2%         34.5%           Operating profit         20.6%         14.0%         (7.1%)         27.0%         36.2%         35.3%           Net profit         20.7%         20.5%         (4.7%)         26.4%         36.2%         35.6%           PROFITABILITY         2020A         2021A         2022A         2023E         2024E         2025E           YE 31 Dec	Exchange difference						
YE 31 Dec         Revenue       25.1%       29.6%       26.1%       45.0%       38.2%       34.5%         Gross profit       34.4%       17.6%       20.6%       50.8%       38.2%       34.5%         Operating profit       20.6%       14.0%       (7.1%)       27.0%       36.2%       35.3%         Net profit       20.7%       20.5%       (4.7%)       26.4%       36.2%       35.6%         PROFITABILITY       2020A       2021A       2022A       2023E       2024E       2025E         YE 31 Dec		870	641	518	426	374	418
Revenue         25.1%         29.6%         26.1%         45.0%         38.2%         34.5%           Gross profit         34.4%         17.6%         20.6%         50.8%         38.2%         34.5%           Operating profit         20.6%         14.0%         (7.1%)         27.0%         36.2%         35.3%           Net profit         20.0%         20.5%         (4.7%)         26.4%         36.2%         35.6%           PROFITABILITY         2020A         2021A         2022A         2023E         2024E         2025E           YE 31 De         T         38.3%         33.6%         24.8%         21.7%         21.4%         21.5%           Return on equity (ROE)         9.1%         10.2%         9.0%         10.5%         13.2%         16.1%           GEARING/LIQUIDITY/ACTIVITIES         2020A         2021A         2022A         2023E         2024E         2024E           YE 31 De         T         10.2%         9.0%         10.5%         13.2%         175.3           Pable turnover days         31.3         64.1         48.9         48.9         48.9           Inventory turnover days         188.7         199.5         181.0         181.0         181.0		2020A	2021A	2022A	2023E	2024E	2025E
Gross profit         34.4%         17.6%         20.6%         50.8%         38.2%         34.5%           Operating profit         20.6%         14.0%         (7.1%)         27.0%         36.2%         35.3%           Net profit         20.7%         20.5%         (4.7%)         26.4%         36.2%         35.6%           PROFITABILITY         2020A         2021A         2022A         2023E         2024E         2025E           YE 31 Dec           59.3%         56.7%         59.0%         71.5%         71.5%         71.5%         71.5%         71.5%         71.6%         71.5%							
Operating profit20.6%14.0%(7.1%)27.0%36.2%35.3%Net profit20.7%20.5%(4.7%)26.4%36.2%35.6%PROFITABILITY2020A2021A2022A2023E2024E2025EYE 31 Dec59.0%59.0%59.0%59.0%59.0%59.0%Operating margin65.4%59.3%56.7%59.0%59.0%59.0%Operating margin38.3%33.6%24.8%21.7%21.4%21.5%Return on equity (ROE)9.1%10.2%9.0%10.5%13.2%16.1%GEARING/LIQUIDITY/ACTIVITIES2020A2021A2022A2023E2024E2025EYE 31 Dec848.948.948.948.948.9Inventory turnover days31.364.148.948.948.948.9Inventory turnover days143.2140.7175.3175.3175.3175.3Payable turnover days188.7199.5181.0181.0181.0181.0VALUATION2020A2021A2022A2023E2024E2025EYE 31 Dec9181.0181.0181.0181.0181.0P/E33.228.230.624.117.613.0P/E33.228.230.624.117.613.0P/E33.02.82.62.42.22.0Op yield (%)1.00.90.81.01.41.9EV/							
Net profit20.7%20.5%(4.7%)26.4%36.2%35.6%PROFITABILITY2020A2021A2022A2023E2024E2025EYE 31 DecGross profit margin65.4%59.3%56.7%59.0%59.0%59.0%Operating margin38.3%33.6%24.8%21.7%21.4%21.5%Return on equity (ROE)9.1%10.2%9.0%10.5%13.2%16.1%GEARING/LIQUIDITY/ACTIVITIES2020A2021A2022A2023E2024E2025EYE 31 Dec84.948.948.948.948.948.9Receivable turnover days31.364.148.948.948.948.9Inventory turnover days143.2140.7175.3175.3175.3Payable turnover days188.7199.5181.0181.0181.0181.0VALUATION2020A2021A2022A2023E2024E2025EYE 31 Dec9.0%33.228.230.624.117.613.0VALUATION2020A2021A2022A2023E2024E2025EYE 31 Dec9.0%1.00.90.81.01.41.9P/E33.228.230.624.117.613.0P/B3.02.82.62.42.22.0Div yield (%)1.00.90.81.01.41.9EV/EBITDA19.818.219.416.312.7 <td>-</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>	-						
PROFITABILITY2020A2021A2022A2023E2024E2025EYE 31 DecGross profit margin65.4%59.3%56.7%59.0%59.0%59.0%Operating margin38.3%33.6%24.8%21.7%21.4%21.5%Return on equity (ROE)9.1%10.2%9.0%10.5%13.2%16.1%GEARING/LIQUIDITY/ACTIVITIES2020A2021A2022A2023E2024E2025EYE 31 DecReceivable turnover days31.364.148.948.948.948.9Inventory turnover days143.2140.7175.3175.3175.3175.3Payable turnover days188.7199.5181.0181.0181.0181.0VALUATION2020A2021A2022A2023E2024E2025EYE 31 DecP/E33.228.230.624.117.613.0P/B0.02.82.62.42.22.0Div yield (%)1.00.90.81.01.41.9EV/EBIT23.021.724.419.514.610.6				. ,			
YE 31 Dec           Gross profit margin         65.4%         59.3%         56.7%         59.0%         59.0%           Operating margin         38.3%         33.6%         24.8%         21.7%         21.4%         21.5%           Return on equity (ROE)         9.1%         10.2%         9.0%         10.5%         13.2%         16.1%           GEARING/LIQUIDITY/ACTIVITIES         2020A         2021A         2022A         2023E         2024E         2025E           YE 31 Dec          715.3         175.3 <td< td=""><td></td><td></td><td></td><td></td><td></td><td></td><td></td></td<>							
Gross profit margin65.4%59.3%56.7%59.0%59.0%59.0%Operating margin38.3%33.6%24.8%21.7%21.4%21.5%Return on equity (ROE)9.1%10.2%9.0%10.5%13.2%16.1%GEARING/LIQUIDITY/ACTIVITIES2020A2021A2022A2023E2024E2025EYE 31 Dec7175.3175.3175.3175.3175.3175.3Receivable turnover days143.2140.7175.3175.3175.3175.3Payable turnover days188.7199.5181.0181.0181.0181.0VALUATION2020A2021A2022A2023E2024E2025EYE 31 Dec7175.3175.3175.3175.3175.3Payable turnover days188.7199.5181.0181.0181.0181.0VALUATION2020A2021A2022A2023E2024E2025EYE 31 Dec73.02.82.62.42.22.0Div yield (%)1.00.90.81.01.41.9EV/EBITDA19.818.219.416.312.79.6EV/EBIT23.021.724.419.514.610.6		2020A	2021A	2022A	2023E	2024E	2025E
Operating margin Return on equity (ROE)38.3% 9.1%33.6% 10.2%24.8% 9.0%21.7% 10.5%21.4% 21.4%21.5% 21.6%GEARING/LIQUIDITY/ACTIVITIES2020A 2020A2021A2022A2023E2024E2025EYE 31 DecReceivable turnover days31.364.148.948.948.948.948.9Inventory turnover days143.2140.7175.3175.3175.3175.3175.3Payable turnover days188.7199.5181.0181.0181.0181.0VALUATION2020A2021A2022A2023E2024E2025EYE 31 DecP/E33.228.230.624.117.613.0P/B33.228.230.624.117.613.0P/B30.02.82.62.42.22.0Div yield (%)1.00.90.81.01.41.9EV/EBITDA19.818.219.416.312.79.6EV/EBIT23.021.724.419.514.610.6		05.49/	50.00/	50 70/	50.00/	50.00/	50.00/
Return on equity (ROE)9.1%10.2%9.0%10.5%13.2%16.1%GEARING/LIQUIDITY/ACTIVITIES2020A2021A2022A2023E2024E2025EYE 31 DecReceivable turnover days31.364.148.948.948.948.9Inventory turnover days143.2140.7175.3175.3175.3175.3Payable turnover days188.7199.5181.0181.0181.0181.0VALUATION2020A2021A2022A2023E2024E2025EYE 31 DecP/E33.228.230.624.117.613.0P/E33.228.230.624.117.613.0P/B3.02.82.62.42.22.0Div yield (%)1.00.90.81.01.41.9EV/EBITDA19.818.219.416.312.79.6EV/EBIT23.021.724.419.514.610.6							
GEARING/LIQUIDITY/ACTIVITIES2020A2021A2022A2023E2024E2025EYE 31 DecReceivable turnover days31.364.148.948.948.948.9Inventory turnover days143.2140.7175.3175.3175.3175.3Payable turnover days188.7199.5181.0181.0181.0181.0VALUATION2020A2021A2022A2023E2024E2025EYE 31 DecP/E33.228.230.624.117.613.0P/B3.02.82.62.42.22.0Div yield (%)1.00.90.81.01.41.9EV/EBITDA19.818.219.416.312.79.6EV/EBIT23.021.724.419.514.610.6							
YE 31 DecReceivable turnover days31.364.148.948.948.9Inventory turnover days143.2140.7175.3175.3175.3Payable turnover days188.7199.5181.0181.0181.0181.0VALUATION2020A2021A2022A2023E2024E2025EYE 31 DecP/E33.228.230.624.117.613.0P/B3.02.82.62.42.22.0Div yield (%)1.00.90.81.01.41.9EV/EBITDA19.818.219.416.312.79.6EV/EBIT23.021.724.419.514.610.6							
Receivable turnover days31.364.148.948.948.948.9Inventory turnover days143.2140.7175.3175.3175.3175.3Payable turnover days188.7199.5181.0181.0181.0181.0VALUATION2020A2021A2022A2023E2024E2025EVE 31 Dec7/E33.228.230.624.117.613.0P/E33.228.230.624.117.613.0P/B3.02.82.62.42.22.0Div yield (%)1.00.90.81.01.41.9EV/EBITDA19.818.219.416.312.79.6EV/EBIT23.021.724.419.514.610.6		2020A	2021A	2022A	20236	2024	ZUZJE
Inventory turnover days143.2140.7175.3175.3175.3175.3Payable turnover days188.7199.5181.0181.0181.0181.0VALUATION2020A2021A2022A2023E2024E2025EYE 31 DecP/E33.228.230.624.117.613.0P/B3.02.82.62.42.22.0Div yield (%)1.00.90.81.01.41.9EV/EBITDA19.818.219.416.312.79.6EV/EBIT23.021.724.419.514.610.6		21.2	64.1	49.0	49.0	49.0	49.0
Payable turnover days188.7199.5181.0181.0181.0181.0VALUATION2020A2021A2022A2023E2024E2025EYE 31 DecP/E33.228.230.624.117.613.0P/B3.02.82.62.42.22.0Div yield (%)1.00.90.81.01.41.9EV/EBITDA19.818.219.416.312.79.6EV/EBIT23.021.724.419.514.610.6							
VALUATION2020A2021A2022A2023E2024E2025EYE 31 DecP/E33.228.230.624.117.613.0P/B3.02.82.62.42.22.0Div yield (%)1.00.90.81.01.41.9EV/EBITDA19.818.219.416.312.79.6EV/EBIT23.021.724.419.514.610.6							
YE 31 DecP/E33.228.230.624.117.613.0P/B3.02.82.62.42.22.0Div yield (%)1.00.90.81.01.41.9EV/EBITDA19.818.219.416.312.79.6EV/EBIT23.021.724.419.514.610.6							
P/E33.228.230.624.117.613.0P/B3.02.82.62.42.22.0Div yield (%)1.00.90.81.01.41.9EV/EBITDA19.818.219.416.312.79.6EV/EBIT23.021.724.419.514.610.6		2020A	2021A	2022A	2023E	2024E	2025E
P/B3.02.82.62.42.22.0Div yield (%)1.00.90.81.01.41.9EV/EBITDA19.818.219.416.312.79.6EV/EBIT23.021.724.419.514.610.6		33.2	28.2	30.6	24.1	17.6	13.0
Div yield (%)1.00.90.81.01.41.9EV/EBITDA19.818.219.416.312.79.6EV/EBIT23.021.724.419.514.610.6							
EV/EBITDA19.818.219.416.312.79.6EV/EBIT23.021.724.419.514.610.6							
EV/EBIT 23.0 21.7 24.4 19.5 14.6 10.6							
				6.1			

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



# **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.

CMBIGM Ratings BUY HOLD SELL NOT RATED	: Stock with potential return of over 15% over next 12 months : Stock with potential return of +15% to -10% over next 12 months : Stock with potential loss of over 10% over next 12 months : Stock is not rated by CMBIGM
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 Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800 CMB International Global Markets Limited ("CMBIGM") 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. CMBIGM 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. CMBIGM 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 CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM 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 CMBIGM 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. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM 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. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM 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 CMBIGM 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 CMBIGM 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 CMBIGM. Additional information on recommended securities is available upon request.

### 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 CMBIGM.

#### For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM 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 investors that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide 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.