

Shandong Weigao

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to summarize...

- Revenue increased 34.9% YoY while the net profit was up 22.6% YoY for 4Q FY12/09A.
- The sales of consumable medical device increased 32.5% YoY for 4Q FY12/09A with expectation to have 30% YoY growth for FY12/10F.
- JWMS growth faces potential slowdown because of the price pressure.
- Blood purification kits are expected to have 100% YoY growth in FY12/10F.
- Medtronic JV is under internal restructuring for better position Weigao's brand product and Medtronic's brand product
- Maintain HOLD call with revised target price of HK\$32.58.

4Q FY12/09A results. Weigao's results is lower our expectation for 4Q FY12/09A.

The revenue increased 34.9% YoY to RMB500.2m while its net profit increased 22.6% YoY to RMB189.8m. The growth is missing our expectation is mainly because: 1) the internal maintenance of manufacturing facility of blood purification affected the sales of blood purification product; 2) the development of JV with Medtronic is slower than our expectation.

Table 1. 4Q FY12/09A results

3 months to Dec	Turnover (RMBm)	Gross Profit (RMBm)	Gross margin (%)	Pre-tax profit (RMBm)	Tax rate (%)	Net profit (RMBm)
4Q FY09	500.2	311.1	62.2	215.9	11.6	189.8
3Q FY09	504.2	260.3	51.6	206.4	9.6	186.4
QoQ(%)	(0.8)	19.5		4.6		1.8
4Q FY08	370.7	219.3	59.2	173.7	8.6	154.8
YoY (%)	34.9	41.9		24.3		22.6

Source: Company data

The sales of consumable medical device is still strong. For 4Q FY12/09A, the sales of consumable medical device increased 32.5% YoY to RMB396.9m. The growth was mainly driven by 50.4% increase in sales of infusion sets to RMB145.8m. Thanks for the market capability for more higher ended infusion sets, the management said that they will launch more higher ended infusion set in FY12/10F and expects that the sales to further increase 40% YoY for FY12/10F. Meanwhile, some small based product developed well in FY12/09A. The sales of pre-filled syringes jumped 238.4% YoY to RMB14.8m; dental devices increased 49.4% YoY to RMB6.1m; and other consumables increasing 91.5% to RMB23.9m. These products have potential to keep high growth in FY12/10F with pre-filled syringes up 50% YoY and dental product and other consumables up 40%YoY. However, the growth of medical needles increased only 2.0% YoY to RMB83.3m with volume up 51.5% and ASP down 32.7%. In FY12/10F, the ASP of medical needles has potential to further drop, but the management said that this product could still achieve around 25.0% YoY growth mainly driven by the volume growth. In overall, the sales of consumable medical device product are expected to reach 30% YoY growth.

JWMS JV growth faces potential slowdown. For 4Q FY12/09A, the contribution of JWMS JV increased 345.2% YoY to RMB25.1m because of the low contribution from the same period in 2008 and Weigao's market effort. However, the DES market in China would face intensive competition and potential price pressure if the government requires the hospital to use centralized bidding process for purchasing DES. We estimate that the contribution from JWMS would increase 14.3% YoY for FY12/10F.

Ticker	8199 HK
Rating	HOLD(Unchanged)
Price (HK\$)	28.70
Target Price (HK\$)	32.58(+14%)
12m Price Range (HK\$)	13.10-31.40
Market cap. (US\$m)	3,960.2
Daily t/o (US\$m)	3.5
Free float (%)	30.4

Financial summary

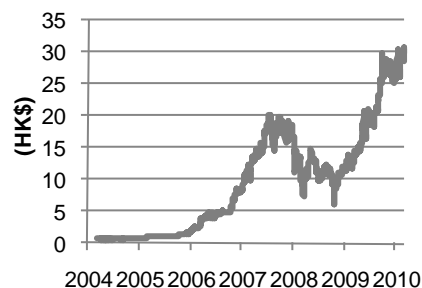
Year to Dec	08A	09A	10F	11F	12F
Turnover (RMBm)	1,514.4	1,878.5	2,490.0	3,237.0	4,208.1
Net Profit (RMBm)	482.4	633.9	853.8	1,092.1	1,374.4
EPS (RMB)	0.485	0.589	0.793	1.015	1.277
P/E (x)	52.1	42.9	31.8	24.9	19.8
P/B (x)	11.3	9.6	8.1	6.5	5.2
EV/EBITDA (x)	44.9	35.0	26.0	20.2	15.3
Yield (%)	0.6	0.6	0.9	1.2	1.5
ROE (%)	25.4	23.4	26.7	28.1	28.3
ROCE (%)	25.3	24.6	28.2	29.9	31.1
N. Gear. (%)	Cash	Cash	Cash	Cash	Cash

Source: SBI/Bloomberg

	10F	11F	12F
Consensus EPS (RMB)	0.809	1.039	1.268
Previous earnings (RMBm)	927.7	1,280.8	-
Previous EPS (RMB)	0.904	1.189	-

Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	-4.7	+12.6	+34.4
Actual price changes (%)	-1.2	+9.5	+117.8



Source: Bloomberg

Helena Qiu

(852) 2533 3709

helenaqiu@sbie2capital.com

Table 2. 4Q FY12/09A revenue breakdown and 2010 growth guidance

3months to Dec	4Q FY09 (RMBm)	4Q FY08 (RMBm)	YoY (%)	% of total (%)	2010 growth Guidance (%)
Self-produced products					
Consumables					
Infusion sets	145.8	97.0	50.4	29.2	40
Syringes	76.5	59.3	29.1	15.3	20
Needles	83.3	81.7	2.0	16.7	25
Blood bags	40.0	34.6	15.6	8.0	15
Blood sampling products	6.4	6.0	6.1	1.3	40
Pre-filled syringes	14.8	4.4	238.4	3.0	50
Dental & anaesthetic	6.1	4.1	49.4	1.2	40
Other consumables	23.9	12.5	91.5	4.8	40
Subtotal for consumables	396.9	299.6	32.5	79.4	
Orthopaedic products	32.1	34.7	-7.6	6.4	30
Blood Purification consumable	21.5	4.2	416.9	4.3	100
PVC granules	17.1	13.5	26.8	3.4	35
Subtotal for self-produced product	467.6	351.9	32.9	93.5	
Trading					
Medical instruments	26.8	14.5	85.1	5.4	35
Other products	5.8	4.3	33.7	1.2	35
Subtotal for trading product	32.6	18.8	73.3	6.5	
Total	500.2	370.7	34.9	100.0	

Source: Company data

Blood purification kit would keep high growth. The sale of blood purification kit in 4Q FY12/09A is lower than our expectation, which was effected by the unexpected internal maintenance. For FY12/09, the sales of blood purification kit were RMB68.9m with sale volume of 365K sets. However, It would be a key growth driver in FY12/10F. The management is confidence to achieve 100% YoY growth for FY12/10F with double sales and stable ASP. Weigao will finish its capacity expansion to 5m sets from current 1.7m sets by the beginning of 2011.

Medtronic JV getting better but still need time. Weigao is restructuring the JV internally to clarify the market position of Weigao brand product and Medtronic brand product as they are targeted in different group of consumers and need different marketing strategy. For FY12/09A, the JV with Medtronic contributed profit of RMB31.6m. We expect that this JV would still need time to build up and has potential to be the key growth driver in the future.

Maintain HOLD with revised target price of HK\$32.58. We revised our sales estimate to HK\$2,490.0m in FY12/10F and HK\$3,237.0m in FY12/11F (from HK\$2,677.7m in FY12.10F and HK\$3507.8m in FY12/11F) and net profit estimate to HK\$853.8m in FY12/10F and 1,092.1m in FY12/11F (from HK\$927.7m in FY12/10F and HK\$1,280.0m). We introduced our net profit estimate for FY12/12F to be HK\$1,374.4m. Although the results is slightly below market expectation, we think Weigao would still maintain to be a favorite choice for investors because: 1) few choice of listed Chinese medical device companies; 2) solid track record growth; 3) potential to keep high growth in the mid-term and long term with its on-going new product pipeline and favorite industry environment. The share price of the counter dropped 2.4% today. We think the counter may be subject to slight pressure in share price, but it would be the good holding company for long-term investors. Based on 11.8% WACC and 3% terminal growth, we revised up our target price to HK\$32.58, representing 36.1x FY12/10F and 28.3x FY12/11F P/E. Maintain HOLD.

Table 3: P & L

Year to Dec (RMBm)	08A	09A	10F	11F	12F
Turnover	1,514.4	1,878.5	2,490.0	3,237.0	4,208.1
Cost of sales	(756.1)	(877.2)	(1,152.8)	(1,485.8)	(1,914.6)
Gross profit	758.2	1,001.3	1,337.2	1,751.3	2,293.5
Other net (loss)/income	78.1	69.0	80.4	51.8	56.3
Selling and distribution costs	(208.7)	(321.3)	(407.6)	(513.7)	(659.4)
Administrative expenses	(137.7)	(180.9)	(227.3)	(279.3)	(361.0)
Operating profit	489.9	568.0	782.6	1,010.0	1,329.4
Financial costs	(30.2)	(4.0)	(4.2)	0.0	0.0
Share of loss of a jointly controlled entity	56.0	109.4	125.0	131.2	137.8
Share of loss of an associate	8.4	31.6	39.3	51.1	66.5
Pre-tax profit	524.1	705.0	942.8	1,192.4	1,533.6
Tax	(39.0)	(71.8)	(97.3)	(111.1)	(172.8)
Minority interests	(2.7)	0.7	8.3	10.8	13.6
Net profit	482.4	633.9	853.8	1,092.1	1,374.4

Source: Company data and SBI E2-Capital

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