

# Shandong Weigao

“We go”

**HOLD (Unchanged)**

## Financial summary

Year to Dec	07A	08A	09F	10F	11F
Turnover (RMBm)	1,095.11	514.41	938.62	677.73	507.8
Net Profit (RMBm)	308.1	482.4	676.9	972.71	280.0
EPS (RMB)	0.312	0.485	0.629	0.904	1.189
EPS Δ%	76.5	55.1	29.8	43.7	31.6
P/E (x)	76.2	49.1	37.9	26.3	20.0
P/B (x)	18.4	10.7	8.6	6.9	5.5
EV/EBITDA (x)	72.1	43.6	38.0	26.3	19.7
Yield (%)	0.4	0.6	0.8	1.1	1.5
ROE (%)	30.4	25.4	24.3	28.1	29.6
ROCE (%)	20.2	22.4	20.4	24.0	25.3
N. Gear. (%)	Cash	Cash	Cash	Cash	Cash

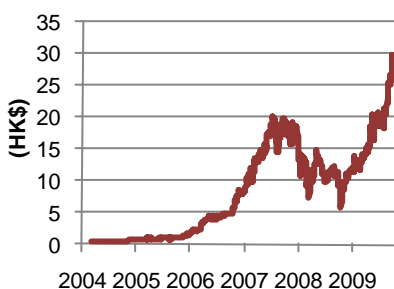
Source: SBI E2Capital

## Price Performance

	1 mth	3 mth	12 mth
Relative to HSI (%)	-5.4	+11.3	+56.2
Actual price changes (%)	-3.2	+26.7	+176.9

	09F	10F	11F
Consensus EPS (RMB)	0.590	0.760	0.920
Previous forecasts (RMBm)	674.7	952.4	1,224.2
Previous EPS (RMB)	0.627	0.885	1.137

## Price Chart



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foreign competitors.

**Optimistic outlook of orthopaedic product although work with Medtronic seems not easy.** The contribution from Medtronic JV has a good improvement from RMB3.0m to RMB14.9m. However, according to management, Weigao still need time to form a unified management philosophy and mode of operation between Weigao and Medtronic. From our view, the orthopaedic product would be the long term growth driver for Weigao. The current collaboration work with Medtronic would not affect the long term development of Weigao in this area.

**Consumable product growth showed slow.** The sales of medical consumable product growth has slowed down to 14.6% YoY to RMB406.5m. The infusion sets increased 27.2% YoY to 140.5m comparing to 42.9% growth in 1H FY12/09A. The medical needles increased 4.7% YoY to RMB88.5m comparing to 55.3% growth in 1H FY12/09A.

Ticker:	8199.HK	12 mth range:	HK\$9.10-30.5
Price:	HK\$27.05	Market cap:	US\$3,734.9m
Target:	HK\$19.96	Daily t/o, 3 mth:	US\$4.2m
		Free float %:	39.8%

## Key points:

- ★ 3Q FY12/09 revenue increased 13.1% YoY to RMB504.2m and net profit up 36.2% YoY to RMB186.6m
- ★ The sale of blood purification kit increased 157.3% YoY to RMB21.2m.
- ★ The DES contribution is strong with 114.4% YoY growth. But we still have a conservative outlook for long term contribution of DES for Weigao.
- ★ We are optimistic for the long term outlook of orthopaedic product although work with Medtronic seems not easy.
- ★ Consumable product growth slowed down due to the temporary credit control of Weigao.
- ★ Got “WEGO” as the English brand name.
- ★ Maintain HOLD call in considering market sentiment although our fair value evaluation for the counter is HK\$19.96.

**Update.** 3Q FY12/09A top line is slightly below our expectation while the bottom line. Revenue increased 13.1% YoY to RMB504.2m while the net profit increased 36.2% YoY to RMB186.6m. The gross margin widened 4.1 pcp YoY to 51.6% with net margin up 6.3 pcp YoY to 37.0%. The margin expansion was mainly benefited from the slower growth of raw materials.

**Growth was mainly driven by Blood purification kit.** For 3Q FY12/09A, the sales of blood purification kit increased 157.3% YoY to RMB\$21.2m. The company is very active in this business. Its cooperation with Xin Qiao Hospital showed to be a good mode for promoting blood purification kits and other consumable product. Weigao also formed a JV with a European company for produce the dialysis machines, which would be helpful for Weigao to apply the mode of cooperation with Xin Qiao Hospital to other hospitals and blood centers. Weigao is starting its phase II plant for producing blood purification kit, which would expand its annual capacity to 5m sets from 1.7m sets now.

**DES contribution is strong.** The contribution of DES increased 114.4% YoY to RMB37.8m. However, we are still not optimistic about the long term outlook of the JV contribution to Weigao, given: 1) cloud outlook of ownership of the JV; 2) threaten of other domestic and

The management said that the slower growth was mainly affected by the tight credit control of the company. They would expect this segment would be still the key contributor for Weigao.

**Maintain HOLD call with target price of HK\$19.96.** The share price rallied 42.5% since our previous report on August 2009. We think the price rallied beyond our fair value evaluation was mainly driven by the favorable market sentiment for Weigao, based on: 1) leading domestic medical device manufacturer; 2) strong hospital network, particularly in top tier hospitals; 3) favorable government policy to medical industry; 4) continues new growth driver. Although the current market price has been over our evaluation of the fair price for the counter of HK\$19.96, we maintain the HOLD call in considering the market sentiment.

**Table 1: 1Q FY12/09A results**

3 months to Apr	Turnover (RMBm)	Gross profit (RMBm)	Gross margin (%)	Pre-tax profit (RMBm)	Tax rate (%)	Net profit (RMBm)	EPS (RMB)
3Q FY09	504.2	260.3	51.6	206.4	9.6	186.4	0.173
2Q FY09	479.9	240.3	50.1	166.3	9.1	152.0	0.141
QoQ (%)	5.1	8.4	-	24.1	-	22.6	22.7
3QFY08	445.9	211.8	47.5	145.8	6.3	136.9	0.138
YoY (%)	13.1	22.9	-	41.6	-	36.2	25.4

Source: Company data

**Table 2: revenue breakdown**

	3Q FY12/09 (RMBm)	% of total	2Q FY12/09 (RMBm)	QoQ (%)	3Q FY12/08 (RMBm)	YoY (%)	
Self-produced products							
Consumables							
Infusion sets		140.5	27.9	132.0	6.4	110.5	27.2
Syringes		87.9	17.4	80.4	9.3	77.6	13.2
Needles		88.5	17.6	87.1	1.6	84.5	4.7
Blood bags		34.3	6.8	33.4	2.6	29.8	14.9
Blood sampling products		12.9	2.6	11.6	11.1	12.7	2.0
Pre-filled syringes		15.9	3.2	23.6	(32.4)	15.1	5.8
Dental & anaesthetic		6.1	1.2	5.1	21.4	5.7	6.9
Other consumables		20.4	4.0	24.5	(16.8)	18.8	8.2
<b>Subtotal for consumables</b>		<b>406.5</b>	<b>80.6</b>	<b>397.7</b>	<b>2.2</b>	<b>354.7</b>	<b>14.6</b>
Orthopaedic products		37.7	7.5	26.8	40.9	55.1	(31.5)
Dialysis products		21.2	4.2	16.2	30.6	8.2	157.3
PVC granules		21.6	4.3	13.0	65.5	16.8	28.3
Trading							
Medical instruments		15.1	3.0	13.9	8.9	9.3	61.7
Other products		2.1	0.4	12.3	(83.2)	1.7	21.9
<b>Total</b>		<b>504.2</b>	<b>100.0</b>	<b>479.9</b>	<b>5.1</b>	<b>445.9</b>	<b>13.1</b>

Source: Company data

**Table 3: DCF valuation reference table**

WACC	Terminal Growth				
	2.0%	3.0%	4.0%	5.0%	6.0%
11.8%	22.97	24.68	26.84	29.63	33.38
12.8%	18.76	19.96	21.44	23.30	25.70
13.8%	16.71	17.65	18.77	20.15	21.88
14.8%	15.01	15.75	16.62	17.67	18.95

Source: SBI E2-Capital

**Table 4: P&L**

Year to Dec (RMBm)	07A	08A	09F	10F	11F
<b>Turnover</b>	<b>1,095.1</b>	<b>1,514.4</b>	<b>1,938.6</b>	<b>2,677.7</b>	<b>3,507.8</b>
Cost of sales	(594.8)	(756.1)	(953.5)	(1,289.7)	(1,675.5)
<b>Gross profit</b>	<b>500.3</b>	<b>758.2</b>	<b>985.0</b>	<b>1,388.0</b>	<b>1,832.3</b>
Other net (loss)/income	31.5	78.1	98.6	131.4	127.8
Selling and distribution costs	(152.7)	(208.7)	(309.1)	(404.2)	(512.0)
Administrative expenses	(88.0)	(137.7)	(176.9)	(204.2)	(249.9)
<b>Operating profit</b>	<b>291.1</b>	<b>489.9</b>	<b>597.6</b>	<b>910.9</b>	<b>1,198.1</b>
Financial costs	(17.9)	(30.2)	(5.0)	(4.2)	-
Share of loss of a jointly controlled entity	59.0	56.0	104.6	115.0	120.8
Share of loss of an associate	-	8.4	47.1	72.6	116.2
<b>Pre-tax profit</b>	<b>332.1</b>	<b>524.1</b>	<b>744.2</b>	<b>1,094.4</b>	<b>1,435.1</b>
Tax	(2.7)	(39.0)	(71.3)	(131.3)	(167.7)
Minority interests	(21.2)	(2.7)	3.9	9.6	12.7
<b>Net profit</b>	<b>308.1</b>	<b>482.4</b>	<b>676.9</b>	<b>972.7</b>	<b>1,280.0</b>

Source: Company data, SBI E2-Capital

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