

Shandong Weigao



Resilient in a slowing economy

BUY (Int. Coverage)

Key points

- Defensive sector with resilient demand amid China's slowing economy. Growth of sales in china's medical devices industry in first eight months was 32.0 % to RMB44.3b
- Hard-to-replicate strategy of leveraging a comprehensive product portfolio and extensive distribution, which brings defensibility to the company's business model
- Direct distribution network covering 80.3% Class 1 hospitals, 23.9% Class 2 hospitals and 6.2% Class 3 hospitals
- 5,000+ direct and indirect distribution channels
- Winning foreign supplier-dominated markets is the company's key growth strategy
- Medtronic to provide technology transfer and business opportunities
- FY12/07A to FY12/10F net profit CAGR of 54.3%
- Initiating coverage with a BUY call and a target price of HK\$15.00. Our DCF-derived target price represents 18.4x FY12/09F P/E

Company background. Shandong Weigao (Weigao) is China's leading medical device manufacturer, producing: 1) consumable medical products (syringes, blood bags, infusion sets, dental products, anesthetic products and blood sampling products); 2) orthopaedic products; 3) blood purification consumables, drug-eluted stents (DES) and PVC granules. Weigao was listed on Hong Kong's GEM in Feb 2004.

Resilient demand for medical devices. China's medical devices industry is one of the most defensive sectors in our view. Growth of sales for the first eight months of 2008 was 32.0% YoY (to RMB44.3b), accelerating from 20.2% in the year-earlier period, and compared with a 28.5% increase for the whole pharmaceutical industry in the first eight months of the year. We believe that the sector will benefit from government efforts to relax related regulations and to reform rural and urban healthcare services.

Medtronic to become strategic shareholder. In Dec 2007, Weigao announced that it will introduce global medical devices giant Medtronic Inc. (MDT US) as a strategic shareholder. The US-based company will acquire a combination of old and new shares in the company for a cash consideration of HK\$1.7b (with RMB899.1m injected into the listco level). On the deal's completion, Medtronic will own 15.0% of Weigao. In an announcement in October, Weigao indicated that the deal is in the final stages of government approval and should be completed by end-2008. In a sign of mutual confidence, both companies have set up a JV for distribution of orthopaedic products, which commenced operations in Sep 2008.

China Medical Devices

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Stock data

Price	HK\$9.70
Target price	HK\$15.0(+55%)
12 mth range	HK\$5.76-19.36
Market cap.	US\$1,238.9m
Daily t/o, 3 mth	US\$1.5m
Free float %	31.0%
Ticker	8199.HK/8199 HK

Financial summary

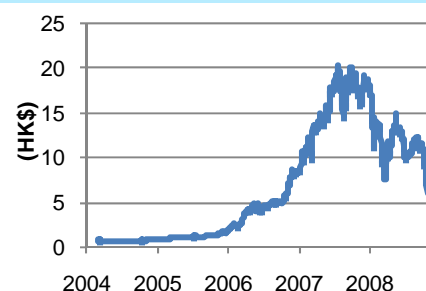
Year to Dec	06A	07A	08F	09F	10F
T/O (RMBm)	786.91	1,095.11	1,615.42	2,297.63	2,169.9
NP (RMBm)	170.9	308.1	498.1	771.71	1,131.1
EPS (RMB)	0.177	0.312	0.500	0.717	1.051
EPS Δ%	57.2	76.5	60.2	43.3	46.6
P/E (x)	48.2	27.3	17.1	11.9	8.1
P/B (x)	12.19	6.61	3.52	2.80	2.16
EV/EBITDA (x)	38.1	25.2	15.4	11.3	7.0
Yield (%)	0.6	1.1	1.7	2.4	3.6
ROE (%)	27.0	30.4	24.7	25.3	29.1
ROCE (%)	16.8	20.2	19.8	20.4	24.3
N. Gear. (%)	33.2	Cash	Cash	Cash	Cash

Price Performance

	1 mth	3 mth	12 mth
Relative to HSI (%)	19.7	40.4	33.4
Actual price changes (%)	-4.0	-17.5	-40.9

	08F	09F	10F
Consensus EPS (RMB)	0.451	0.596	0.823
Previous forecast(RMBm)	-	-	-
Previous EPS (RMB)	-	-	-

Price Chart



Long-term benefits. We expect long-term benefits from Weigao's cooperation with Medtronic through: 1) technology transfer of Medtronic's medical device technology by undertaking OEM for Medtronic orthopaedic products; 2) exclusive China distribution deals for the JV for several of Medtronic's orthopaedic products and 3) foray into the international scene by distributing its products through Medtronic's distribution network.

What makes Weigao so special? We think Weigao is special because its product and distribution network mix allows it to:

- ❑ Utilising its extensive distribution network to build up market share and sales of its consumable products
- ❑ This market share in "consumable staple" medical devices allows the company to generate core operating scale and solid cash flow;
- ❑ Generate superior margins to absorb raw material price increases. The government's increasing focus on quality has forced many smaller players out of the market, allowing Weigao to benefit from this industry consolidation;
- ❑ Diversify into new, higher-end medical device markets through small acquisitions, JVs and/or R&D collaborations;
- ❑ Importantly, when selecting a new market, Weigao almost always chooses product areas which are dominated by foreign medical device company;
- ❑ Once they have established a good foothold in the new market, then they once again put their extensive distribution network to work to build out market share and sales of the new products.

In our view, this competitive advantage is difficult to replicate. Domestic players, lacking first mover advantage, find it difficult (in terms of time, financial investment) to copy the comprehensive product profile of Weigao. International players, while armed with better technologies, are mostly confined to a relatively small area of Class 1 hospitals in 1st tier cities. They generally lack the know-how, manpower and ability to build the nationwide distribution network similar to that of Weigao.

Superb distribution network. Weigao has one of most extensive and renowned medical devices distribution networks in China's pharmaceutical/healthcare industry. At end-3Q FY12/08A, its direct network covered 952 Class 1 hospitals, 1,582 Class 2 hospitals and 290 Class 3 hospitals, representing penetration rates of 80.3%, 23.9% and 6.2%, respectively. The company also distributes directly to 413 blood centres (77.2% penetration), 667 miscellaneous medical centres and works with 1,444 medical products/pharmaceutical distributors. This network totals some 5,363 distribution channels.

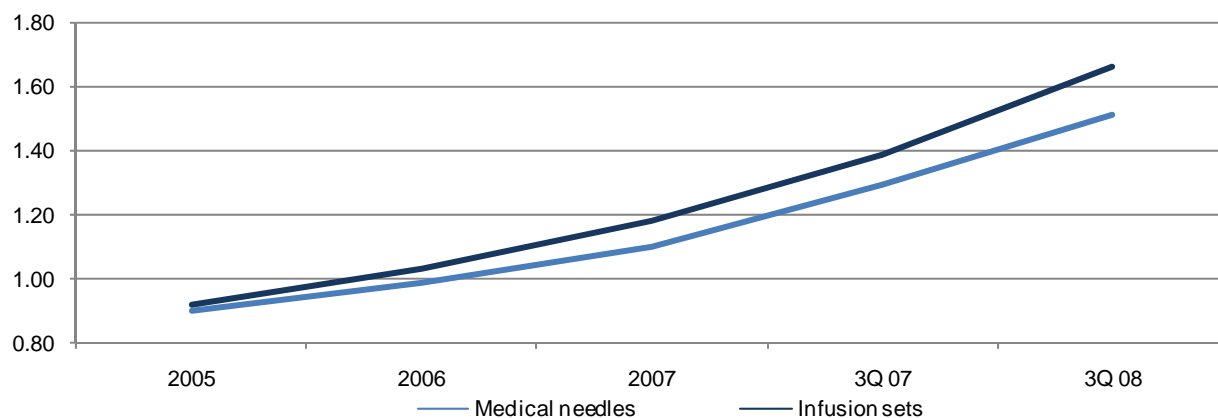
Medical device consumable is cash cow. Weigao's consumable medical product division is the main revenue and cash flow generator for the company. The company is looking to capitalize on the market consolidation prompted by the government's increasingly stringent inspections and high raw material costs, which in 1H 2008 forced low quality and small-scale medical equipment makers out of the market. In 3Q FY12/08A, its sales of consumable medical products rose 42.3% YoY to RMB354.7m, representing 79.6% of Weigao's total self produced products revenue, compared with 81.3% a year ago. The strong growth in consumables is broad based, due to a combination of industry consolidation, as well as volume and ASP increases. Sales of medical needles increased 106.5% YoY to RMB84.5m, infusion sets up 40.4% YoY to RMB110.5m, syringes 16.4% YoY to RMB77.6m and blood sampling products 72.2% YoY to RMB12.7m. The company was able to increase ASPs because of the move up to the higher ended medical consumable products.

Table 1: Segement sales of consumables

Year-end Dec	05A (RMBm)	YoY (%)	06A (RMBm)	YoY (%)	07A (RMBm)	YoY (%)	3Q07A (RMBm)	3Q08A (RMBm)	YoY (%)
Consumables									
Infusion sets	187.7	24.9	216.4	15.3	265.6	22.7	78.7	110.5	40.4
Syringes	156.8	15.8	175.4	11.8	215.5	22.8	66.7	77.6	16.4
Medical needles	18.0	<i>n.a</i>	54.9	205.7	148.3	170.2	40.9	84.5	106.5
Blood bags	73.6	71.1	83.5	13.5	104.0	24.6	26.5	29.8	12.8
Pre-filled syringes	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>	22.1	<i>n.a</i>	<i>n.a</i>	15.1	<i>n.a</i>
Blood sampling products	10.2		20.1	96.2	24.3	21.2	7.4	12.7	72.2
Dental and anesthetic products	9.9	330.3	11.1	11.8	14.2	28.3	4.2	5.7	36.7
Other consumables	29.4	(26.6)	58.1	97.7	55.7	(4.1)	24.9	18.8	(24.5)
Sub total	485.7	30.9	619.5	27.6	849.7	37.2	249.3	354.7	42.3
Non-consumables									
Orthopaedic products	1.0	<i>n.a</i>	67.5	6185.1	111.0	64.4	27.4	55.1	100.9
Blood purification	2.9	<i>n.a</i>	8.6	200.7	15.4	79.5	4.0	8.2	104.6
PVC granules	49.6	35.1	56.2	13.4	73.5	30.8	16.5	16.8	2.2
Sub total	53.5	45.8	132.3	147.3	199.9	51.1	47.9	80.1	67.2
Self produced products	539.1	32.2	751.8	39.4	1,049.7	39.6	297.2	434.9	46.3
Trading									
Medical instruments	29.6	<i>n.a</i>	33.2	12.4	38.1	14.6	8.4	9.3	11.2
Others	1.2	<i>n.a</i>	1.9	53.9	7.3	286.9	1.1	1.7	56.4
Sub total	30.8	<i>n.a</i>	35.2	14.0	45.4	29.2	9.5	11.0	16.3
Total revenue	570.0	39.8	786.9	38.1	1095.1	39.2	306.7	445.9	45.4
% of consumables to self produced revenue	90.1		82.4		81.0		83.9	81.6	
% of consumables to overall revenue	85.2		78.7		77.6		81.3	79.6	

Source: Company data

Chart 1: Medical needles and infusion sets - ASP trend



Source: company data & SBI E2-Capital

Orthopaedic segment – a long term growth driver. Sales of Weigao's orthopaedic products surged 64.4% YoY to RMB111.0m in FY12/07A and 100.9% YoY to RMB55.1m in 3Q FY12/08A. Though the division is currently a small contributor, accounting for only 12.7% of self produced product revenues, its growth prospects are vast. Overseas suppliers dominate China's orthopaedic product market and Weigao is a main domestic player in a position to compete. We estimate that Orthopaedic JV contribution will grow at 66.8% from FY12/09F to FY12/10F.

Orthopaedic segment is Weigao's growth strategy in motion. Weigao's orthopaedic segment is a good illustration of company's growth strategy in motion, in our view. The orthopaedic segment, due to its relatively high technical requirements, was traditionally dominated by foreign medical device suppliers. According to management, China's market for these products is around RMB10b, with around 80% from foreign makers. Weigao's horizontally diversified into orthopaedic production by:

- Launch of Shandong Weigao Orthopaedic Device Co. (Weigao Ortho) to manufacture and distribute orthopaedic tools, such as medulla nails, steel plates, bone connecting screws and spine fixing series in 2005 through a JV with Weihai Fumaite (22% stake), a trading company, and Howell (Hongkong) Co. (25% stake);

- ❑ Foray into the production of spinal and trauma products in 2006 including the acquisition of Weihai Weifeng Medical Material Co. in Dec 2006 to expand this segment of the business;
- ❑ Acquisition of Changzhou Jianli Bangde Medical Device Co in 2007, which owns 10 licences for trauma products, and Beijing Yahua Artificial Joints Development Co, which owns 3 licences for spinal plants and 3 licences for artificial joints; and
- ❑ Acquisition of Fumaite's and Howells' stakes in Weigao Ortho in 2007.
- ❑ Set up Orthopaedic JV with Medtronic for distribution orthopaedic product from both Weigao and Medtronic in China in September 2008.

The company has a two-tiered strategy to drive its orthopaedic JV growth: 1) expanding orthopaedic product mix; 2) combining both weigao's sales force and Medtronic's Chinese orthopaedic sales force to expanding market share. Besides profit contribution from JV, Weigao could also benefit as a manufacturer of JV's product and being a OEM service provider for Medtronic.

Blood purification consumables – the mid-term growth engine. Weigao is already taking steps to make blood purification segment make new contributions in mid-term. The company has teamed up with the Chinese Academy of Sciences to develop a blood purification kit used in transplants and in the treatment of lupus, osteoarthritis, and other auto-immune diseases. Most importantly, the key part of the kit, the membrane technology, was developed in-house. To cut reliance on imports, Weigao will begin to manufacture its own membranes in 2009. At present, Weigao is China's only approved domestic maker of these blood purification kits using its own membranes and our channel checks suggest that around 90%+ of this market is currently served by foreign suppliers. The company has invested around RMB200.0m to set up an annual capacity of 1.7m sets, which is currently undergoing testing. It plans to produce 60m sets by 2009, which we estimate, can generate RMB120m in revenue, and take on overseas players, such as Gambro and Fresenius, which currently dominate the domestic market. This segment will form a solid mid-term growth engine for Weigao in our view. The segment has good prospects, but given that it is essentially a single product category, the overall long term fundamentals is arguably not as strong as the orthopaedic segment.

JWMS may be the only blip. JW Medical Systems Corp (JWMS) is Weigao's 50/50 JV with Singapore-based Biosensors (BIG SP) to manufacture and distribute drug eluting stents (DES). Its flagship "Excel" DES was one of the first domestically produced DES to gain product registration with the SFDA. The product, which uses biodegradable polymers, has 18-20% of the market in China. With China's high incidence of heart disease and rapidly aging population, JWMS experienced strong growth in net profit of 81.6% from FY12/06A to FY12/07A. However, margin has been contracted due to keen competition from other domestic competitors. JWMS' net profit growth has slowed down to 31.5% YoY to RMB64.8m in 1H FY12/08A. We expect competition in China's DES market to intensify further as Johnson & Johnson (JNJ US), Abbott (ABT US) and Medtronic plan to launch new products.

Lapsing of Biosensors deal removes uncertainty. Weigao had originally intended to sell the remaining 50.0% of JWMS to Biosensors, in return for 13.2% of Biosensors shares. However, Biosensors allowed the transaction to lapse and was abandoned as Biosensors, a foreign company, failed to obtain approval from Chinese authorities to own a majority stake in JWMS. In our view, the fail in this deal would not affect overall fundamentals of Weigao because we had expected Biosensors to continue to absorb short term losses of Biosensors into their P&L. We had expected Biosensors to continue to burn cash as it: 1) ramps up its BioMatrix sales and distribution in Europe; 2) obtain health regulatory approvals to sell BioMatrix in Asian countries and 3) continue to carry out clinical trials for BioMatrix. Meanwhile, Weigao is not be reliant on access to Biosensors' Asia distribution network to build out its export strategy given that it had already set up plans to work with 15%-shareholder Medtronic to distribute Weigao's medical devices outside of China.

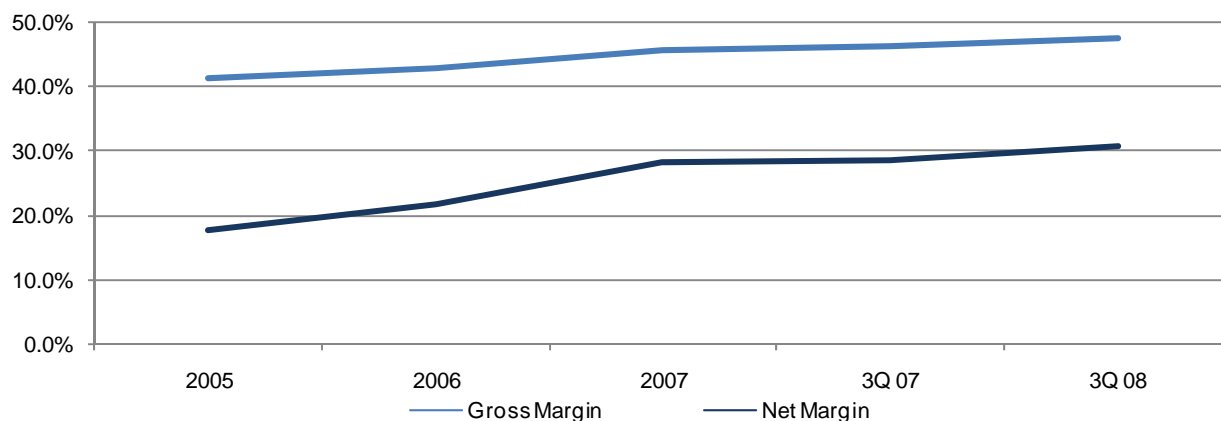
Distribution network - further expansion. Weigao currently mainly distributes its products to Class 1 hospitals in 1st and 2nd tier cities, in line with its strategy of focusing on high-end products. In the future, with the improvement of China's national healthcare coverage and living standards in rural areas, Weigao's growth may come from: 1) increasing penetration rates in Class 2 and small hospitals because of the company's product affordability; 2) incentives from medical insurance coverage for patients to undertake higher quality treatment, such as blood purification, DES and orthopaedic products, which will increase the market size for Weigao's products. To build its distribution network in these areas, we expect Weigao to undertake a number of small strategic acquisitions of distributors.

Efficient R&D. Weigao's R&D annual expenses are around 3.0% of its total revenue. Its 339 R&D staff cooperates with China's Academy of Sciences in product development. By 3Q FY12/08A, Weigao owned 170

product registration certificates and over 130 patents (include 11 invention patents). In Jan-Sep 2008, the company obtained 12 new patents and filed 11 patent applications. It completed R&D procedures for 22 products and is preparing patent application documents for them.

Financials. Weigao has an impressive track record with a three-year CAGR (2004 to 2007) of 39.0% in top line and 67.2% in bottom line. In 3Q FY12/08A, its revenue increased 45.4% YoY to RMB445.9m and net profit 56.1% YoY to RMB136.5m. The gross margin widened 1.3pcp to 47.5% and net margin 2.1pcp to 30.7%. With its increasing focus on high-end products, gross and net margins should expand further. JWMS's contribution declined 3.5% YoY to RMB35.2m due to travel restrictions during the Beijing Olympics, affecting the number of patients treated in Beijing, which is a key market for JWMS' DES.

Chart 2: 2005- 3Q 2008 Gross and net margin trend



Source: company data

Table 2: 3Q FY12/08A results summary

3 months to Sep.	Turnover (RMBm)	Gross profit (RMBm)	Gross margin (%)	Pre-tax profit (RMBm)	Tax rate (%)	Net profit (RMBm)
3Q FY12/08A	445.9	211.8	47.5	145.8	6.3	136.9
3Q FY12/07A	306.7	141.8	46.2	101.1	7.4	87.7
YoY (%)	45.4	49.4		44.2		56.1

Source: Company data

Our estimate. We expect the sales of Weigao's medical consumable products to increase 49.5% YoY in FY12/08F, 43.6% YoY in FY12/09F and 40.5% YoY in FY12/10F, factoring in capacity expansion for medical needles and new product launches. We project that the company will start selling its new blood purification kits at the beginning of 2009 generating RMB120m in revenue in FY12/09F and RMB180 in FY12/10F. We have conservatively projected contribution from the JWMS JV will contract to 29.1% YoY in FY12/08F, followed by 10.0% YoY in FY12/09F and 8.0% YoY in FY12/10F. The new Medtronic JV would contribute RMB93.3m in FY12/09F and RMB155.7m in FY12/10F. The gross margin would improve to 47.2% in FY12/08F, 48.7% in FY12/09F and 49.7% in FY12/10F. The SG&A cost rate is estimated at 20-22%. We estimate that Weigao's net profit will increase 61.6% YoY to RMB498.1m in FY12/08F, 54.9% to RMB771.7m in FY12/09F and 46.6% to RMB 1,131.1m in FY12/10F.

Table 3: Segement sales of consumables (FY12/08F-FY12/10F)

Year-end Dec	08F (RMBm)	YoY (%)	09F (RMBm)	YoY (%)	10F (RMBm)	YoY (%)
Consumables						
Infusion sets	376.7	41.8	577.9	53.4	879.1	52.1
Syringes	266.2	23.5	341.1	28.1	450.3	32.0
Medical needles	315.1	112.4	518.8	64.7	778.3	50.0
Blood bags	123.5	18.8	144.7	17.1	161.6	11.7
Pre-filled syringes	50.9	130.9	65.6	28.8	78.7	20.0
Blood sampling products	44.0	80.7	61.1	38.8	73.6	20.6
Dental and anesthetic products	20.2	42.3	26.3	29.8	34.6	31.8
Other consumables	73.6	32.1	88.3	20.0	106.0	20.0
Sub total	1,270.2	49.5	1,823.8	43.6	2,562.2	40.5
Non-consumables						
Orthopaedic products	178.4	60.7	191.9	7.6	285.7	48.8
Blood purification	30.8	99.7	120.0	289.4	180.0	50.0
PVC granules	77.7	5.7	87.3	12.4	98.1	12.4
Sub total	286.9	43.5	399.3	39.2	563.8	41.2
Self produced products	1,557.1	48.3	2,223.1	42.8	3,126.0	40.6
Trading						
Medical instruments	40.8	7.0	44.9	10.0	49.4	10.0
Others	17.5	139.6	29.7	70.0	41.6	40.0
Sub total	58.3	28.3	74.6	28.0	91.0	21.9
Total revenue	1,615.4	47.5	2,297.6	42.2	3,216.9	40.0
% of consumables to self produced revenue	81.6		82.0		82.0	
% of consumables to overall revenue	78.6		79.3		79.6	

Note: the company will only take manufacture revenue from Orthopaedic products from Sep. 2008 & JV will do distribution

Source: SBI E2-Capital

Initiating coverage with BUY call, target price HK\$15.00. We like Weigao for its: 1) leadership position in a sustainable high-growth industry with resilient demand in a slowing economy; 2) extensive domestic distribution network and brand name; 3) hard-to-replicate growth strategy combining broad product portfolio and extensive distribution network; 4) close relationship with Medtronic. The sustainable high growth and business model warrants a valuation premium over its listed peers, in our view. We initiate coverage on the counter with a DCF-derived target price of HK\$15.00, considering a cost of equity of 16.0%, cost of debt of 1.3% and terminal growth of 3.0%. The target price represents 18.4x FY12/09F P/E.

Table 4: DCF valuation reference table

Cost of Equity	Terminal Growth				
	2.0%	3.0%	4.0%	5.0%	6.0%
12.0%	21.7	23.3	25.3	27.9	31.3
14.0%	17.4	18.4	19.5	21.0	22.7
16.0%	14.4	15.0	15.8	16.6	17.6
18.0%	11.8	11.9	12.0	12.2	12.3

Source: SBI E2-Capital

China's aging population. According to China's National Bureau of Statistics, the country had 153.4m people aged 60 and over in 2007, accounting for 11.6% of the total population. According to People's University of China, the over-60 cohort is projected to grow to more than 200m by 2014, 300m by 2026 and 400m by 2041. The aging population will greatly increase demand for medical services, particularly for the treatment of cardiovascular diseases and osteoporosis. Weigao should benefit from this trend.

Insurance scheme. The government aims to make basic medical insurance available to all residents by 2010. The rural medical cooperative system covered over 80% of the rural population by end-2007. Basic medical insurance coverage for urban residents without regular employment started trials in 2007. Under the system, residents could get a percentage of their in-patient treatment costs refunded. The availability of insurance will encourage more people to see doctors when they get sick.

Rural reform. The third plenary session of the 17th CPC Central Committee approved plans related to China's rural reform and development: 1) the government will improve the basic rural economy system, which is based on the household contract responsibility system, by setting up a strict and normative land management system in rural areas; 2) the government will spend more on rural public services, including education, health

care, employment, housing and pensions. The Chinese government also plans to allow farmers to “lease their contracted farmland or transfer their land-use rights” in a bid to spur rural economic development and narrow the income gap between urban and rural areas. We believe this will raise the general standard of living and disposable income levels of farmers and rural population and increase the affordability of healthcare services.

Stimulus effect. On 9 Nov 2008, in a bid to ward off the effects of the deepening global financial crisis and slowing of the global economy, the Chinese government announced a RMB4,000b fiscal stimulus package aimed at boosting domestic demand. The package will be spent between now and end-2010 and is expected to include the grass roots medical system. At the same time, average incomes in rural and urban areas are rising thanks to increases in: 1) next year’s minimum grain purchases; 2) farm subsidies; 3) subsidies for low-income urban residents and 4) pension funds for enterprise employees.

Risks. One of the Weigao’s short-term risks the alleged redemption pressure on its shareholders, which may form a short-term overhang on the stock price. However, this is independent from the company’s fundamentals, which in our view, are second to none. There is also some potential risk from the Chinese government’s implementing a centralized tender program. But we believe that Weigao, with its quality, pricing and 80.3% direct penetration of 1st tier hospitals, should be in a strong position to secure government contracts. Other risks include: 1) execution risks related to its M&A projects and new JV with Medtronic and 2) market competition from domestic and overseas players.

Table 5: P&L

Year to Dec (RMBm)	06A	07A	08F	09F	10F
Turnover	786.9	1,095.1	1,615.4	2,297.6	3,216.9
Cost of sales	(451.6)	(594.8)	(852.5)	(1,178.0)	(1,616.9)
Gross profit	335.3	500.3	762.9	1,119.6	1,599.9
Other net (loss)/income	18.2	31.5	35.8	55.1	77.2
Selling and distribution costs	(115.4)	(152.7)	(228.3)	(334.3)	(473.6)
Administrative expenses	(59.8)	(88.0)	(115.6)	(155.3)	(169.7)
Operating profit	178.3	291.1	454.8	685.2	1,033.8
Financial costs	(21.5)	(17.9)	(20.6)	(4.2)	(4.2)
Share of loss of a jointly controlled entity	32.5	59.0	96.5	177.0	246.1
Share of loss of an associate	-	-	-	-	-
Pre-tax profit	189.3	332.1	530.7	858.0	1,275.8
Tax	(6.7)	(2.7)	(34.7)	(79.2)	(133.9)
Minority interests	(11.7)	(21.2)	2.1	(7.2)	(10.8)
Net profit	170.9	308.1	498.1	771.7	1,131.1

Source: Company data, SBI E2-Capital

Table 6: Valuation table

Company name	Ticker	Mkt Cap (US\$m)	Price (local)	Cur Yr P/E (x)	Nxt Yr P/E (x)	P/B (x)	ROE (%)	Yield (%)
HK-listed Medical Device Companies								
Mingyuan Medica	233 HK	186.0	HK\$0.50	8.1	5.4	1.5	18.0	-
Golden Meditech	8180 HK	215.0	HK\$1.09	-	-	0.5	23.6	-
Shandong Weigao	8199 HK	1,238.9	HK\$9.70	19.0	14.4	-	30.4	1.1
Average				13.5	9.9			
US-listed Medical Device Companies								
Mindray Medical	MR US	1,771.7	US\$16.42	13.9	10.5	3.8	24.1	0.1
China Medical Tech	CMED US	545.7	US\$19.91	8.0	6.2	2.5	24.2	-
Medtronic Inc.	MDT US	35,202.1	US\$31.20	10.6	9.6	2.8	19.8	1.7
Johnson & Johnson	JNJ US	161,257.9	US\$58.12	12.8	12.5	3.5	25.6	2.5
Stryker Corp	SYK US	15,677.0	US\$38.83	13.5	11.6	2.7	21.3	0.5
Zimmer Holdings	ZMH US	8,414.7	US\$37.47	9.3	8.7	1.5	14.9	-
Smith & Nephew	SN/ LN	4,287.5	US\$485.5	13.3	11.3	3.7	15.8	1.6
Average				11.6	11.3			
Others								
Fresenius Medica	FME GR	12,945.5	Euro€34.8	15.8	14.1	2.2	13.7	-
Total average				12.4	10.4			

Source: Bloomberg Estimates, SBI E2-Capital

P & L (RMBm)	06A	07A	08F	09F	10F
Year to Mar					
Turnover	786.9	1,095.1	1,615.4	2,297.6	3,216.9
% chg	38.1	39.2	47.5	42.2	40.0
Gross profit	335.3	500.3	762.8	1,119.6	1,599.9
EBITDA	221.0	336.4	512.8	730.9	1,079.8
Depre./amort.	(43.3)	(47.1)	(60.0)	(78.8)	(95.0)
EBIT	177.7	289.3	452.8	652.2	984.8
Net int. income/(exp.)	(20.8)	(16.2)	(18.6)	28.8	44.8
Exceptionals	-	-	-	-	-
Associates	0.0	0.0	0.0	0.0	0.0
Jointly-controlled entit.	32.5	59.0	96.5	177.0	246.1
Pre-tax profit	189.3	332.1	530.7	858.0	1,275.7
Tax	(6.7)	(2.7)	(34.7)	(79.2)	(133.9)
Minority interests	(11.7)	(21.2)	2.1	(7.2)	(10.8)
Net profit	170.9	308.1	498.1	771.7	1,131.1
% chg	68.9	80.3	61.6	54.9	46.6
Dividends	(51.2)	(91.6)	(149.4)	(231.5)	(339.3)
Retained earnings	119.7	216.6	348.7	540.2	791.8
EPS (RMB) - Basic	0.177	0.312	0.500	0.717	1.051
EPS (RMB) - F.D.	0.177	0.312	0.500	0.717	1.051
DPS (RMB)	0.053	0.093	0.150	0.215	0.315
No. sh.s o/s (m) - W.A.	965.6	986.5	995.6	1,076.3	1,076.3
No. sh.s o/s (m) - Y.E.	965.6	995.6	1,076.3	1,076.3	1,076.3
No. sh.s o/s (m) - F.D.	965.6	986.5	995.6	1,076.3	1,076.3
Margins (%)					
Gross	42.6	45.7	47.2	48.7	49.7
EBITDA	28.1	30.7	31.7	31.8	33.6
EBIT	7.0	26.4	28.0	28.4	30.6
Pre-tax	24.1	30.3	32.9	37.3	39.7
Net	21.7	28.1	30.8	33.6	35.2
Balance Sheet (RMBm)	06A	07A	08F	09F	10F
Year to Mar					
Fixed assets	591.9	816.0	907.8	932.8	941.5
Intangible assets	0.0	59.1	244.9	247.8	250.6
Other LT assets	142.7	186.4	284.6	465.1	717.3
Cash & Cash Equivalent	137.5	343.1	1,081.3	1,480.1	2,159.2
Accounts receivable	355.8	487.0	619.5	765.4	909.1
Other receivables	-	-	-	-	-
Inventories	166.2	248.9	302.3	407.7	504.9
Due from related co.s	-	-	-	-	-
Other current assets	0.0	0.0	0.0	0.0	0.0
Total assets	1,394.1	2,140.5	3,440.4	4,298.8	5,482.5
Accounts payable	(253.8)	(410.2)	(524.1)	(734.6)	(904.5)
Other payable	-	-	-	-	-
Tax payable	(6.4)	(5.4)	(16.0)	(20.0)	(30.0)
Due to related co.s	-	-	-	-	-
ST debts	(105.0)	(127.6)	(30.0)	(30.0)	(30.0)
Other current liab.	0.0	(1.5)	0.0	0.0	0.0
LT debts	(281.0)	(210.8)	(50.0)	(50.0)	(50.0)
Other LT liabilities	0.0	0.0	(59.1)	0.0	0.0
Total liabilities	(646.3)	(755.5)	(679.2)	(834.6)	(1,014.5)
Share capital	96.6	99.6	107.6	107.6	107.6
Reserves	602.2	1,228.2	2,590.7	3,287.4	4,284.2
Shareholders' funds	698.7	1,327.8	2,698.3	3,395.0	4,391.8
Minority interest	49.1	57.2	63.0	69.3	76.2
Total	747.8	1,385.0	2,761.2	3,464.3	4,468.0
Capital employed	1,133.9	1,723.4	2,841.2	3,544.3	4,548.0
Net (debt)/cash	(248.6)	4.6	1,001.3	1,400.1	2,079.2
Cash Flow (RMBm)	06A	07A	08F	09F	10F
Year to Mar					
EBIT	177.7	289.3	452.8	652.2	984.8
Depre./amort.	43.3	47.1	60.0	78.8	95.0
Net int. paid	(20.8)	(16.2)	(18.6)	28.8	44.8
Tax paid	(0.3)	(10.4)	(18.7)	(63.2)	(103.9)
Dividends received	0.0	27.7	47.3	86.7	98.4
Gross cashflow	199.9	337.5	522.8	783.4	1,119.2
Chgs. in working cap.	(51.3)	(68.0)	(71.9)	(40.9)	(70.9)
Operating cashflow	148.6	269.6	450.9	742.4	1,048.4
Capex	(114.1)	(322.9)	(244.1)	(159.8)	(100.7)
Free cashflow	34.5	(53.4)	206.8	582.7	947.7
Dividends paid	(38.6)	(69.1)	(115.5)	(187.0)	(271.7)
Net distribution to MI	-	-	-	-	-
Investments	-	-	-	-	-
Disposals	0.8	0.8	0.0	0.0	0.0
New shares	0.0	387.8	899.1	0.0	0.0
Others	(36.6)	(125.7)	(251.6)	3.1	3.1
Net cashflow	(39.9)	140.4	738.8	398.8	679.1
Cash - Beg.	155.0	115.1	255.6	994.3	1,393.1
Cash - End.	115.1	255.6	994.3	1,393.1	2,072.2
Interim Results (RMBm)	06A	07A	08A		
Six months to Sep					
Turnover	352.5	470.7	697.8		
% chg	41.2	33.5	48.2		
Profit from operations	78.2	108.8	184.3		
Interest expenses	(9.9)	(11.5)	(12.2)		
Associates					
Jointly-controlled entit.	4.6	24.6	32.4		
Pre-tax profit	72.9	121.9	204.5		
Tax	(2.6)	(2.6)	(14.8)		
Minority interests	(5.9)	(8.4)	1.0		
Net profit	64.4	110.9	190.7		
% chg	61.2	72.1	72.0		
EPS (RMB) - Basic	0.067	0.114	0.192		
DPS (RMB)	0.020	0.034	0.057		
Shareholding Structure					
				Shares o/s (m)	%
Domestic shares				648.2	65.11
Atlantis				76.2	7.65
JP Morgan				27.8	2.79
Others				250.1	25.12
Total				995.6	100.7
Background					
Shandong Weigao is a leading medical devices manufacturer in China. Weigao manufactures: 1) consumable medical products, including syringes, blood bags, infusion sets, dental and anesthetic products, and blood sampling products; 2) Orthopaedic products; 3) blood purification consumables, drug-eluted stents (DES) and PVC granules. Weigao was listed in HK GEM in Feb. 2004.					
Key Ratios	06A	07A	08F	09F	10F
Net gearing (%)	33.2	Cash	Cash	Cash	Cash
Net ROE (%)	27.0	30.4	24.7	25.3	29.1
EBIT ROCE (%)	16.8	20.2	19.8	20.4	24.3
Dividend payout (%)	29.9	29.7	30.0	30.0	30.0
Effective tax rate (%)	3.6	0.8	6.5	9.2	10.5
Net interest coverage (x)	8.6	17.9	24.4	na	na
A/R turnover (days)	141	140	125	110	95
A/P turnover (days)	162	204	200	195	185
Stock turnover (days)	115	127	118	110	103

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