

Kingworld Medicines

(01110.HK/1110 HK)

Not rated

Price as of August 1 (HK\$)	1.07
12M target price (HK\$)	N/A
Previous target price (HK\$)	N/A
Unchanged / Revised up (down) (%)	N/A
Downside (%)	N/A

Key message

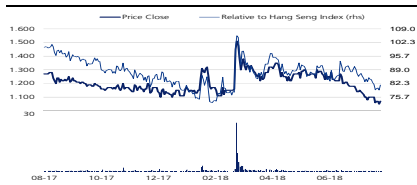
We met Kingworld management last week. Kingworld distributes branded imported pharmaceutical and healthcare products in China. The Nin Jiom product series is its flagship line. It also successfully introduced the Culturelle probiotics product line in 2014 to tap the maternity and baby markets in Hong Kong and China. The company's distribution network includes more than 200k retail pharmacies in China, and over 1,500 retail outlets in Hong Kong and Macau. Shares are trading at 11.6x historical PE, in the low end of the range compared to peers. We currently do not offer a rating on Kingworld.

Trading data

Mkt cap (HK\$bn/US\$m)	0.666 / 84.86
Outstanding shares (mn)	623
Free Float (%)	31.4
3M avg. daily trading (mn)	0.14
52-week trading range (HK\$)	1.050 - 1.51

Performance	3M	6M	12M
Absolute (%)	-15.8	-8.6	-16.4
Relative (%)	-7.8	4.6	-19.3

Share price chart



Source: TEJ

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See the last page for important disclosures.

Strong product portfolio

Event

We met Kingworld management to gain a better understanding of its business model and future plans.

Impact

Renowned branded product range. Established in 1996, Kingworld distributes over 60 branded imported pharmaceutical and healthcare products in China. Its Nin Jiom product series is its flagship product, accounting for 47% of 2017 sales. The company also distributes Taiko Seirogan and medicated oil for external use, including Hoe Hin White Flower Embrocation. To diversify into maternity and baby products, Kingworld introduced the Culturelle probiotics product line to Hong Kong, Macau and China in 2014, with successful market acceptance. Sales from this series rose 32% YoY in 2017 and accounted for 19% of total group sales, becoming another star product line for the group. In its portfolio, it also offers the Lifeline Care maternal and infant fish oil nutrient series from Norway, and slimming products, including Fat Blaster Slimming Coconut Water from Australia and the Tilman Plant Diet Tea series from Belgium.

New medical device segment. The company acquired a 55% stake in Shenzhen Dong Di Xin Technology Company in 2015 to enter the medical device business. Shenzhen Dong Di Xin Technology is a biomedical technology company focused on the R&D and manufacturing of medical devices for physical rehabilitation and treatment in overseas markets.

Extensive online & offline distribution network. Kingworld's distribution network includes more than 200,000 retail pharmacies in China and over 1,500 retail outlets in Hong Kong and Macau, including Mannings and Aeon Stores. The company has also established 24 subsidiaries and 17 branch offices in 34 provincial-level municipalities across China, covering 341 cities. In addition to offline outlets, it also has an online platform, Kingworld Healthy Family. The company also sells products via established online platforms, such as Tmall, JD.com, and Suning.com.

Valuation & Action

Kingworld is an under-covered company with small market capitalization. The counter is trading at 11.6x historical PE, in the low end of the range compared to peers. We currently do not offer a rating on Kingworld.

Risks

Heavy reliance on a single product; ability to identify products with potential in China; risk in expanding its distribution network.

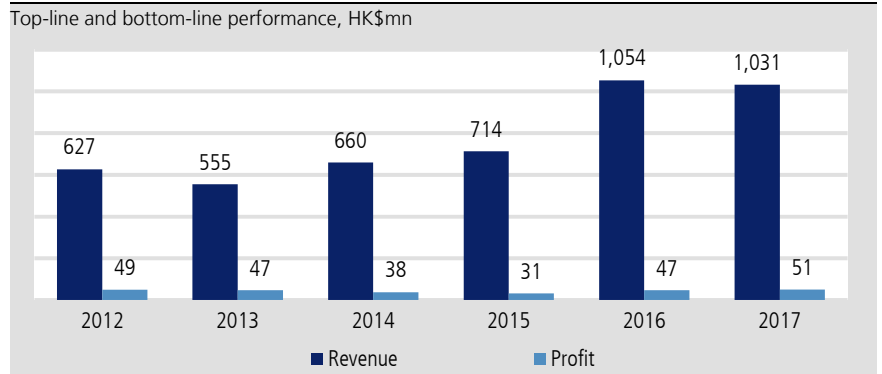
Key financials and valuations

	Dec-15A	Dec-16A	Dec-17A
Revenue (RMBmn)	714	1,054	1,031
Gross profit (RMBmn)	227	324	323
Operating profit (RMBmn)	49	96	96
Net profit (RMBmn)	39	47	51
EPS (RMB)	0.06	0.07	0.08
DPS (RMB)	0.01	0.03	0.03
EPS growth (%)	0.0	22.3	14.0
PE (x)	16.1	13.2	11.6
PB (x)	1.1	1.2	1.0
EV/EBITDA (x)	12.3	7.1	7.3
Net debt to equity (%)	4.0	12.7	28.1
Dividend yield (%)	1.3	2.7	3.1
Return on average equity (%)	0.0	8.4	9.5

Source: Company data, KGI Research estimates

Future plans. Kingworld will continue to enrich its product portfolio by introducing more imported pharmaceutical and healthcare products to the Greater China market. In April, Kingworld became the sole distributor of Carmex lip balm in the Greater China market (except for Taiwan), which has been a leading lip balm brand in the US. The company will also keep an eye on any potential collaborations with well-established pharmaceutical companies in China. For the medical device segment, the company plans to help Shenzhen Dong Di Xin Technology explore the domestic market through its own sales network and client base.

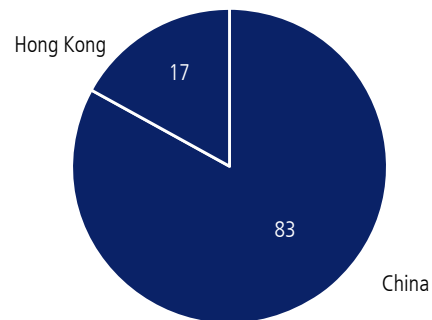
Figure 1: Revenue & profit track record



Source: Company data; KGI Research

Figure 2: China remains the key market

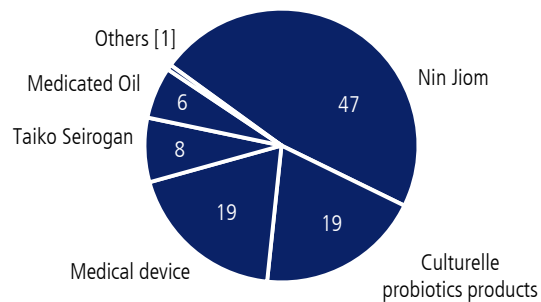
Geographical sales weighting in 2017, percent



Source: Company data; KGI Research

Figure 3: Nin Jiom is the flagship product line

Sales weighting in 2017 by product, percent



Source: Company data; KGI Research

Figure 4: Product portfolio

1. Pharmaceutical products	2. Health-care products	3. Medical devices
Nin Jiom Pei Pa Koa	Culturelle probiotics products (Adults and kids)	Infrared thermometer
Nin Jiom Herbal Candy	Lifeline Care's maternal and infant fish oil nutrient series	Professional physical panel therapeutic apparatus
Taiko Seirogan	Fat Blaster Slimming Coconut Water	Electrical stimulation therapeutic apparatus
Flying Eagle Wood Lok Medicated Oil	Tilman Plant diet tea series	Magnetism therapeutic apparatus
Kingworld Imada Red Flower Oil	Zuccari 100% concentrated diet pineapple juice	
Mentholatum Ointment	Carmex lip balm series	
Hoe Hin White Flower Embrocation	Fengbao Jianfu Capsule	

Source: Company data; KGI Research

Figure 5: Peer comparison – Valuations

Name	Bloomberg Code	Mkt. Cap. (US \$ mn)	Price (8/1) (LCY)	PE (x)				PB (x)		ROE (%)		Dividend yield (%)	
				2017A	2018F	2019F	2020F	2018F	2019F	2018F	2019F	2018F	2019F
Kingworld	1110 HK	85	1.07	11.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
China Medical System	867 HK	4,490	14.08	18.2	15.8	13.4	11.8	3.5	3.0	24.3	23.7	1.9	2.3
Hin Sang Group	6893 HK	147	1.05	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Besunyen Holdings	926 HK	88	0.42	82.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sinopharm Group	1099 HK	12,008	33.85	15.4	15.0	13.3	11.6	2.0	1.8	14.5	15.0	1.8	2.1
H&H	1112 HK	4,815	58.70	34.6	26.1	20.8	16.4	6.1	4.9	25.3	25.5	0.4	0.7
Shanghai Pharmaceutical	2607 HK	8,964	20.90	13.9	12.7	11.0	9.8	1.3	1.2	10.9	11.5	2.1	2.4
Average				29.4	17.4	14.6	12.4	3.2	2.7	18.8	18.9	1.6	1.9

Source: Bloomberg; KGI Research

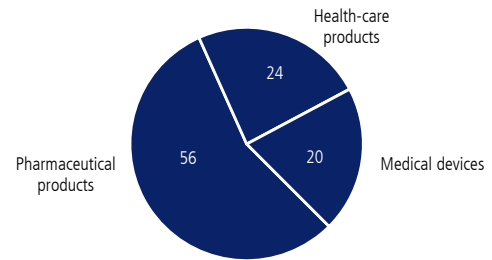
Figure 6: Company profile

Established in 1996, Kingworld is engaged in the distribution of branded imported pharmaceutical and health-care products in China. It distributes more than 60 products, mostly with exclusive distribution rights in China, Hong Kong, and Macau. The Nin Jiom series has been the key product line for the company, contributing 47% of total sales in 2017. In 2014, the company introduced the Culturelle probiotics product line to Hong Kong, Macau, and China. Sales of this line accounted for 19% of the total in 2017. The company was listed in 2010 at HK\$1.6 per share.

Source: KGI Research

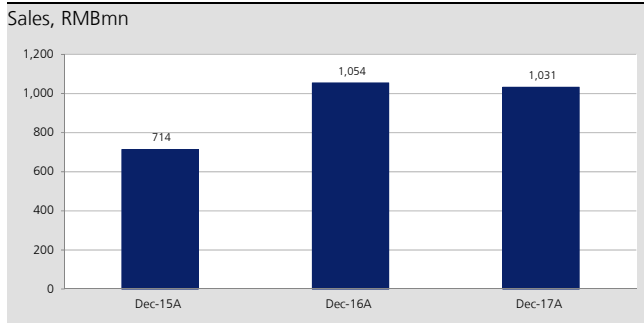
Figure 7: Company overview

Revenue weighting in 2017, percent



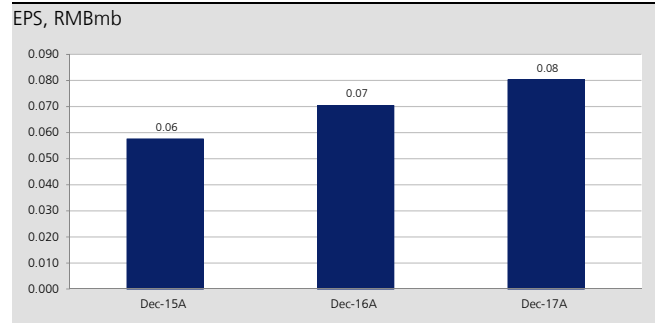
Source: KGI Research

Figure 8: Sales



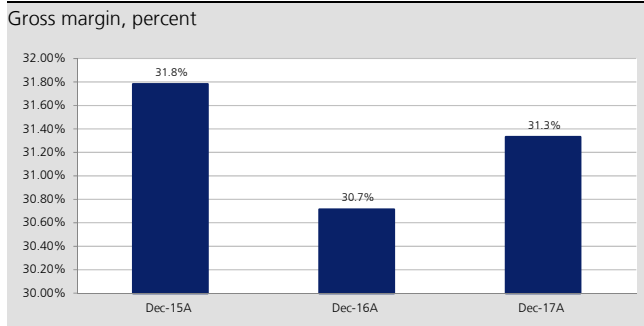
Source: KGI Research

Figure 9: EPS



Source: KGI Research

Figure 10: Gross margin



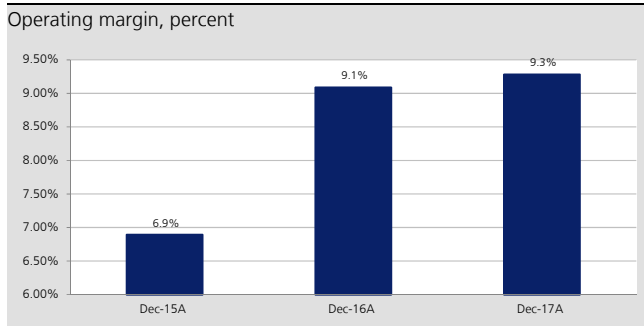
Source: KGI Research

Figure 11: Rolling PE



Source: KGI Research

Figure 12: Operating margin



Source: KGI Research

Figure 13: Rolling PB



Source: KGI Research

Balance sheet			
RMBmn	Dec-15A	Dec-16A	Dec-17A
Total assets	1,089	1,394	1,332
Current assets	611	888	839
Cash & ST securities	140	230	233
Inventory	79	128	149
Accounts receivable	287	438	413
Other current assets	105	92	44
Non-current assets	478	506	493
LT investments	108	108	113
Net fixed assets	16	23	57
Total other assets	354	375	323
Total liabilities	402	755	691
Current liabilities	372	727	665
Accounts payable	167	272	242
Interest bearing ST liabilities	168	311	413
Other current liabilities	38	144	10
Non-current liabilities	30	28	26
Long-term debt	-	-	-
Other L-T liabilities	30	28	26
Total equity	687	639	642
Shareholders' funds	591	524	553
Minority interests	96	115	89
Preferred shareholders funds	-	-	-
Key ratios			
	Dec-15A	Dec-16A	Dec-17A
Growth			
Revenue growth		47.6%	(2.1%)
Operating profit growth		94.8%	(0.0%)
EBITDA growth		88.7%	2.7%
Net profit growth		19.3%	8.7%
EPS growth		22.3%	14.0%
Profitability			
Gross profit margin	31.8%	30.7%	31.3%
Operating margin	6.9%	9.1%	9.3%
EBITDA margin	7.4%	9.5%	10.0%
Net profit margin	5.5%	4.5%	5.0%
Return on average assets		3.8%	3.7%
Return on average equity		8.4%	9.5%
Stability			
Gross debt to equity	24.4%	48.7%	64.4%
Net debt to equity	4.0%	12.7%	28.1%
Interest coverage (x)	4.3	7.9	4.2
Interest & ST debt coverage (x)	0.2	0.2	0.1
Cash flow interest coverage(x)	6.5	(0.3)	2.8
Cash flow/int. & ST debt (x)	0.6	(0.0)	0.2
Current ratio (x)	1.6	1.2	1.3
Quick ratio (x)	1.4	1.0	1.0
Net debt (RMBmn)	27	81	180
Per share data			
EPS (RMB)	0.06	0.07	0.08
CFPS (RMB)	0.15	(0.01)	0.11
BVPS (RMB)	0.86	0.80	0.89
SPS (RMB)	1.04	1.58	1.62
EBITDA/share (RMB)	0.08	0.15	0.16
DPS (RMB)	0.01	0.03	0.03
Activity			
Sales / avg assets		0.85	0.76
Days receivable	146.9	152.1	146.1
Days inventory	59.2	64.0	76.7
Days payable	125.0	136.2	124.8
Cash cycle	81.1	79.9	98.1

Source: Company data, KGI Research estimates

Profit & loss			
RMBmn	Dec-15A	Dec-16A	Dec-17A
Revenue	714	1,054	1,031
Cost of goods sold	(487)	(730)	(708)
Gross profit	227	324	323
Other operating income	(7)	(3)	24
Operating expenses	(171)	(225)	(251)
Operating profit	49	96	96
Other exceptional items	-	-	-
Income from associates	18	6	14
Interest expense	(16)	(13)	(26)
Pre-tax profit	51	89	83
Current taxation	(12)	(22)	(17)
Minorities	(8)	(20)	(15)
Extraordinary items	8	-	-
Net profit	39	47	51
EBITDA	53	100	103
EPS (RMB)	0.06	0.07	0.08

Cash flow			
RMBmn	Dec-15A	Dec-16A	Dec-17A
Operations cash flow	103	(4)	72
Operating profit	49	96	96
Depreciation & amortisation	4	4	7
Decrease in working capital	61	25	(112)
Other operating cashflow	16	(94)	125
Interest paid	(16)	(13)	(26)
Tax paid	(12)	(22)	(17)
Investing cash flow	(168)	(18)	24
Sale of ST investment	-	84	65
New investments	-	-	-
Capital expenditure	(6)	(11)	(40)
Others investing cashflow	(162)	(90)	(1)
Free cash flow	96	90	(70)
Financing cash flow	(1)	121	(83)
Increase in short term debt	(61)	144	112
Increase in long term loans	-	-	-
New ordinary shares issued	-	-	-
Ordinary dividends paid	-	(8)	(16)
Other financing cashflow	60	(15)	(179)
Total cash generated	(66)	99	13

ROIC			
	Dec-15A	Dec-16A	Dec-17A
1 - COGS/revenue	31.8%	30.7%	31.3%
- Operating exp./revenue	23.9%	21.3%	24.4%
= Operating margin	6.9%	9.1%	9.3%
1 / (Working capital/revenue	0.4	0.2	0.3
+ Net PPE/revenue	0.0	0.0	0.1
+ Other assets/revenue)	0.5	0.4	0.3
= Capital turnover	1.1	1.6	1.4
Operating margin	6.9%	9.1%	9.3%
x Capital turnover	1.1	1.6	1.4
x (1 - tax rate)	76.7%	75.7%	79.8%
= After-tax ROIC	5.9%	11.3%	10.4%

Source: Company data, KGI Research estimates

KGI Locations

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KGI Ratings

Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return* of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return* of the KGI coverage universe in the related market over a 12-month investment horizon.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return* of the KGI coverage universe in the related market over a 12-month investment horizon.
Not Rated (NR)	The stock is not rated by KGI Securities.
Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.
	Total return = (12M target price - current price) / current price

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