

# Healthcare

## Key message

Established in 1994, Kingworld is celebrating its 25th anniversary this year. The company's 1H19 revenue was down 6.7% YoY to Rmb519mn. Thanks to stringent control in marketing and promotional expenses, interim profit rose 19.4% YoY to Rmb32.9mn. Management aims to optimize the product portfolio by introducing more new healthcare products to the China market. It also plans to increase stakes in upstream suppliers to strengthen relationships. In order to provide incentives to front-line sales staffs, the company launched a share award scheme. The company announced it will start purchasing shares in the open market from September 4 for this purpose. With a market capitalization of HK\$629mn, Kingworld can be viewed as a small cap and under-covered stock. The counter is trading at 12.3x historical PE. We currently have no rating on it.

## Kingworld – Continues to optimize product portfolio

### Event

Kingworld (1110 HK) reported interim results on August 26, and we met with management yesterday (September 10) for an update.

### Impact

**Results review.** 1H19 revenue was down 6.7% YoY to Rmb519mn. The decrease was mainly due to the drop in sales of Nin Jiom Chuan Bei Pei Koa (down 9.1% YoY) and the suspension of selling Culturelle probiotics products in China. These were partly offset by the impressive sales growth of Taiko Seirogan products in 1H19. Gross margin was down by 3.3ppt to 28%. Thanks to stringent control in marketing and promotional expenses, interim profit rose 19.4% YoY to Rmb32.9mn.

Sales of pharmaceutical products accounted for 69.5% of total revenue in 1H19, and the Nin Jiom series was the largest contributor at 53.9% of total sales. Sales were affected by weaker demand as well as disruption caused by channel reform. The company adjusted business strategies for Nin Jiom products in 1H19, by appointing new management (GM) and exploring markets in lower-tier cities. According to management, sales of Nin Jiom products recovered in July and August.

Sales of the Culturelle probiotics series were down 47% YoY to Rmb41.5mn, accounting for 8% of 1H19 sales. The decline was due to the suspension of China sales on a change of product formula since early 2019. This means the sales recorded during 1H19 were only from the Hong Kong and Macau markets. In fact, sales generated in Hong Kong and Macau grew by 3.2% YoY in 1H19. Management has seen sales performance deteriorate since June, and the company holds a cautious view of the sales outlook in Hong Kong. More promotions will be carried out in 2H19F.

Accounting for 12.5% of 1H19 revenue, Taiko Seirogan surged 56% YoY. This was mainly due to the low base from last year on sales disruption from channel reform. The company has expanded market coverage and strengthened relationships with partners. More promotions were done in 1H19.

Sales of medical devices from Dong Di Xin were down 5.2% YoY, primarily affected by the Sino-US trade war. Dong Di Xin's medical devices have faced an import tariff of 25%. In order to maintain orders and relationships with its loyal customers, the company has shared a majority of the extra costs resulting from tariffs. As a result, profitability was badly affected.

**Outlook.** Kingworld aims to optimize its product portfolio by introducing more new healthcare products to the China market and phasing out some underperforming products. It also plans to increase stakes in upstream suppliers to strengthen relationships. In order to provide incentives to front-line sales staff, the company launched a share award scheme. The company announced it started purchasing shares in the open market from September 4 for this purpose.

### Stocks for action

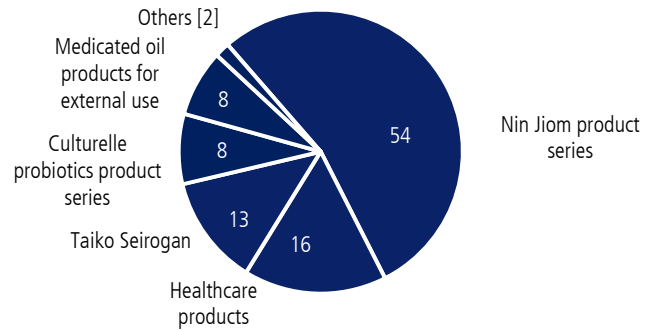
With a market capitalization of HK\$629mn, Kingworld can be viewed as a small cap and under-covered stock. There is no consensus earnings projection. The counter is trading at 12.3x historical PE. We currently have no rating on it.

### Risks

Heavy reliance on a single product; ability to identify products with potential in China.

**Figure 1: Nin Jiom product sales accounted for 54% of 1H19 sales**

Revenue breakdown in 1H19



Source: Company data; KGI Research

**Figure 2: Peer comparison – Valuations**

Name	Bloomberg Code	Mkt. Cap. (US\$ mn)	Price (9/10) (LCY)	PE (x)				PB (x)		ROE (%)		Dividend yield (%)	
				2018A	2019F	2020F	2021F	2019F	2020F	2019F	2020F	2019F	2020F
Kingworld	1110 HK	81	1.01	12.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
China Medical System	867 HK	2,945	9.26	10.1	9.6	8.7	8.3	1.8	24.4	21.0	3.8	3.5	4.2
Hin Sang Group	6893 HK	95	0.68	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Besunyen Holdings	926 HK	87	0.42	6.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sinopharm Group	1099 HK	10,058	26.40	12.0	11.2	9.9	8.7	1.3	14.2	15.0	2.4	2.7	2.0
H&H	1112 HK	2,658	32.30	16.0	14.1	11.9	10.4	2.6	25.0	23.4	1.4	1.8	1.0
Shanghai Pharmaceuticals	2607 HK	6,995	14.68	9.2	8.7	7.8	7.2	0.8	10.5	10.8	3.2	3.6	3.0
<b>Average</b>				<b>11.0</b>	<b>10.9</b>	<b>9.6</b>	<b>8.6</b>	<b>1.7</b>	<b>18.5</b>	<b>17.5</b>	<b>2.7</b>	<b>2.9</b>	<b>2.5</b>

Source: Bloomberg; KGI Research

**KGI Locations**

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*Total return = (12M target price - current price) / current price*

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