

27 February 2014

# Kingworld Medicines Group(1110.HK)

Not Rated

## Acquisition of a 200 years old TCM brand

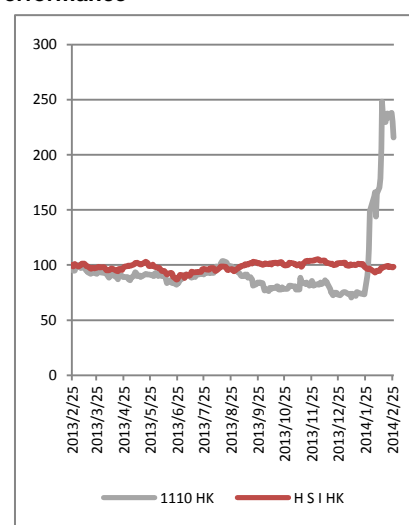
## Healthcare

The acquisition of Wu Hu ZhangHengChun Medicine will transform the company from a healthcare product distributor to a branded TCM manufacturer, distributor and retailer. With marketing experience from Kingworld and rich product portfolio with Time-Honored Brands from ZhanghengChun, there should be substantial synergies to be released from the business combination. The company is currently trading at 26x FY13 and 21x FY14 P/E based on Bloomberg consensus.

### Analyst

Helena Qiu  
SFC CE No.:A0X910  
00852-2899 8328  
helena.qiu@guosen.com.hk

### Performance



Source: Bloomberg

- Acquisition of ZhangHengChun.** Kingworld announced on 24 February 2014 that it has reached an agreement to set up a 55:45 JV with management of Wu Hu ZhangHengChun. Kingworld agreed to inject cash of RMB79.75m (RMB145m\*55%) into the JV while Wu Hu ZhangHengChun is agreed to inject its assets. The JV will use around RMB70m to acquire ZhangHengChun's pharmaceutical manufacture, distribution and retail store business into the JV. Upon completion of the deal, Kingworld will be changed to a branded TCM manufacturer, distributor and retailer from a healthcare product distributor.
- Over 200 years old brands.** ZhangHengChun's TCM business dated back to 1800. It used to be a widely recognized TCM brand name in China. Although its reputation has not been well maintained as Tong Ren Tang, it is a brand with more than 200 years history. It currently has 6 modernized production lines, 42 products in EDL drug list and 38 products in national medicine insurance list. Also, it has 2 exclusive TCM drugs.
- Existing business of Kingworld.** Kingworld is a branded healthcare product distributor in China. One of the key products is "Nin Jiom Mi Lian Chuan Bei Pei Pa Koa", a popular healthcare product for relieving cough and sputum symptoms. It also sells other popular healthcare product, such as Taiko Seirogan (treatment of digestive problem), Mentholatum Ointment and etc. Kingworld has set up 2,518 "Kingworld Health Family" display booths.
- Developing e-commerce to raise sales.** The company is working on developing its e-commerce business. As "Kingworld Health Family" is a package of branded OTC healthcare products, it may be easier for users to buy it through internet shopping platform. The company has planned to develop its healthcare e-commerce business through co-operation with third party's e-Commerce platforms.

### Key Data

Price(HK\$)	2.92
Shares Outstanding(m)	623
Market Cap. (HK\$ m)	1,818
Free float (%)	26.73%
Average Daily Turnover	HK\$43.00m
52 Week Range	0.92/3.60
Controlling Shareholder	Chairman Zhao (73.27%)
BVPS (RMB)	0.679
Net Debt ratio (%)	N.A.

### Financial Summary

Year to Dec	2008A	2009A	2010A	2011A	2012A
Revenue (RMB m)	536	556	638	686	706
Operating Profit (RMB m)	62	56	66	79	66
Reported Profit (RMB m)	34	37	43	51	49
Underlying Profit (RMB m)	34	37	48	51	49
Underlying EPS (RMB)	0.076	0.083	0.102	0.082	0.078
BVPS (RMB)	0.264	0.347	0.793	0.634	0.679
P/E (x)	33.9	31.0	24.2	28.9	30.1
Dividend Yield (%)	4.1	2.3	2.2	1.4	1.0
P/B (x)	9.8	7.4	3.1	3.7	3.5

Source: Guosen Securities (HK)

2014年02月27日

# 金活医药集团 (1110.HK)

未评级

## 收购有 200 年历史的中药品牌带来新亮点

## 医药保健行业

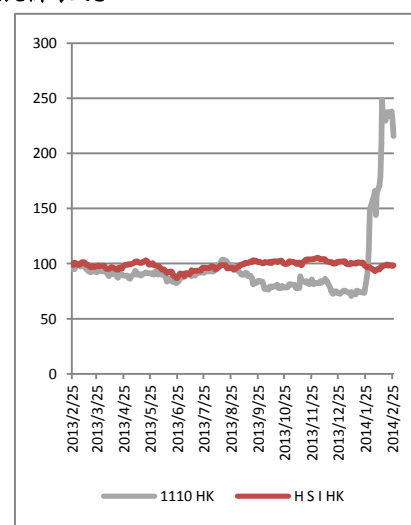
完成收购芜湖张恒春药业后,公司将从一家保健品分销商转型为百年中药品牌的药品生产商、分销商和零售商。金活在中国的药品营销经验和张恒春药业的丰富产品线有可能产生较好的协同效应。根据彭博资讯的数据,该股目前的市盈率为 2013 年的 26 倍,2014 年的 21 倍。

### 分析师

邱海燕  
证监会中央编号:AOX910  
00852-2899 8328  
helen.qiu@guosen.com.hk

- **收购芜湖张恒春。**公司于 2014 年 2 月 24 日宣布与芜湖张恒春的管理层成立合资公司,公司控股 55%,芜湖张恒春控股 45%。金活医药将注入人民币 7975 万元的现金(人民币 1.45 亿注册资本\*55%),芜湖张恒春将注入医药资产,并以金活医药注入的现金完成芜湖张恒春的工业,分销和零售业务的整合。该项目完成后,金活将从一家保健品分销商转型为品牌中药生产商、分销商和零售商。
- **张恒春中药品牌已经有 200 多年的历史。**张恒春的中药业务开始于 1800 年。其在中国曾经获得全国范围的广泛认可。尽管其品牌维护能力不如同仁堂,张恒春的中药品牌也延续了超过 200 年。芜湖张恒春目前拥有 6 条现代化的生产线,42 个基本药物目录产品,38 个国家医保目录产品。这其中还包括 2 个医保独家产品。
- **金活目前的业务情况。**金活目前主要在中国从事品牌保健产品的代销。其主打代理产品京都念慈庵蜜炼川贝枇杷膏是一款非常畅销的止咳化痰产品。公司还代销一些其他的畅销品牌保健品,包括喇叭牌正露丸(胃肠类保健品),曼秀雷敦软膏等。金活目前有 2518 个“金活健康之家”专柜。
- **积极发展电商平台。**公司正在积极建立电商官网平台。“金活健康之家”主要包括一些畅销的品牌保健品,我们认为网上销售会比较容易为消费者所接受。公司计划与第三方电商平台合作发展该业务。

### 股价表现



资料来源:彭博

### 盈利预测

截至 31/03	2008A	2009A	2010A	2011A	2012A
营业额(人民币百万)	536	556	638	686	706
经营盈利(人民币百万)	62	56	66	79	66
净利润(人民币百万)	34	37	43	51	49
实际盈利(人民币)	34	37	48	51	49
每股实际盈利(人民币)	0.076	0.083	0.102	0.082	0.078
每股账面价值(人民币)	0.264	0.347	0.793	0.634	0.679
市盈率(x)	33.9	31.0	24.2	28.9	30.1
股息率(%)	4.1	2.3	2.2	1.4	1.0
市净率(x)	9.8	7.4	3.1	3.7	3.5

资料来源:国信证券(香港)

### 股票数据

收盘价(港币\$)	2.92
总股本(百万)	623
总市值(港币\$百万)	1,818
流通量(%)	26.73%
日均成交额	HK\$43.00m
52周最低/最高	0.92/3.60
主要控股股东□	赵利生主席(73.27%)
每股净资产(港币\$)	0.679
净负债率(%)	N.A.

### Financial Summary

Profit & Loss (RMB m)	2008A	2009A	2010A	2011A	2012A	Financial Ratios	2008A	2009A	2010A	2011A	2012A
						Revenue growth (%)	2	4	15	7	3
						Operating profit growth (%)	39	(9)	18	18	(16)
						Reported profit growth (%)	18	8	15	19	(5)
						Underlying profit growth (%)	18	8	28	7	(5)
<b>Revenue</b>	<b>536</b>	<b>556</b>	<b>638</b>	<b>686</b>	<b>706</b>	Underlying EPS growth (%)	18	8	23	(20)	(5)
Cost of sales	(407)	(436)	(498)	(525)	(542)	Dividend growth (%)	-	(45)	(5)	(19)	(28)
Gross profit	129	121	140	161	164	Dividend payout (%)	139	71	58	40	30
Other net income	16	15	17	26	17	Gross profit margin (%)	24	22	22	23	23
SG&A expenses	(84)	(79)	(90)	(109)	(115)	Operating profit margin (%)	12	10	10	11	9
<b>Operating profit</b>	<b>62</b>	<b>56</b>	<b>66</b>	<b>79</b>	<b>66</b>	Underlying profit margin (%)	6	7	7	7	7
Finance costs	(17)	(10)	(8)	(5)	(3)	ROE (%)	29	24	12	13	11
Change in fair value of derivatives	-	-	-	-	-	ROA (%)	6	6	6	8	7
Associates & JCE	-	-	-	-	-	Net debt/equity (%)	80	-	-	-	-
<b>Profit before taxation</b>	<b>45</b>	<b>47</b>	<b>58</b>	<b>74</b>	<b>63</b>	Net debt/total assets (%)	23	-	-	-	-
Taxation	(11)	(10)	(15)	(23)	(15)	Current ratio (%)	152	138	182	243	218
Non-controlling interests	-	-	-	-	-	Interest cover (x)	2	4	5	11	19
<b>Net profit</b>	<b>34</b>	<b>37</b>	<b>43</b>	<b>51</b>	<b>49</b>	Dividend cover (x)	1	1	2	2	2

Balance Sheet (RMB m)	2008A	2009A	2010A	2011A	2012A	Cash Flows (RMB m)	2008A	2009A	2010A	2011A	2012A
Fixed assets	3	4	4	9	19	Profit before tax	45	47	58	74	63
Associates & JCE	-	-	-	-	-	Depreciation&Amortization	1	1	1	1	2
Others	45	54	62	82	140	Interest income	(5)	(4)	(5)	(2)	(2)
<b>Non-current assets</b>	<b>49</b>	<b>57</b>	<b>67</b>	<b>91</b>	<b>159</b>	Others	19	7	(2)	(3)	(1)
Inventories	99	76	59	49	33	Change in working capital	(46)	117	(31)	(108)	30
Debtors & prepayments	266	179	223	329	310	Tax paid	(8)	(8)	(8)	(15)	(20)
Bank deposits & cash	31	84	270	141	126	<b>Operating activities</b>	<b>6</b>	<b>159</b>	<b>13</b>	<b>(53)</b>	<b>73</b>
Others	103	247	132	10	30	Purchase of non-current assets	(0)	(0)	(2)	(7)	(12)
<b>Current assets</b>	<b>499</b>	<b>585</b>	<b>684</b>	<b>529</b>	<b>498</b>	Disposal of non-current assets	0	0	0	0	0
Bank & other borrowings	160	247	198	47	61	Associates & JCE (net)	-	-	-	-	-
Trade & payables	165	173	168	157	157	others	4	0	5	(8)	(88)
Others	3	5	9	13	10	<b>Investing activities</b>	<b>3</b>	<b>(0)</b>	<b>3</b>	<b>(14)</b>	<b>(100)</b>
<b>Current liabilities</b>	<b>328</b>	<b>424</b>	<b>375</b>	<b>217</b>	<b>228</b>	New loans raised	431	248	144	58	249
Bank & other borrowings	100	60	0	0	0	Repayment of loans	(359)	(201)	(252)	(209)	(235)
Others	1	2	5	9	6	Dividends paid	(48)	0	(32)	(19)	(20)
<b>Non-current liabilities</b>	<b>101</b>	<b>62</b>	<b>5</b>	<b>9</b>	<b>6</b>	fund raising activities	0	0	206	0	0
Net assets	119	156	370	394	423	Others	(51)	(153)	107	117	(23)
Share capital	0	0	53	53	53	<b>Financing activities</b>	<b>(26)</b>	<b>(106)</b>	<b>172</b>	<b>(52)</b>	<b>(29)</b>
Premium & reserves	119	156	317	341	369	Inc/(dec) in cash	(17)	52	189	(120)	(56)
<b>Shareholders' funds</b>	<b>119</b>	<b>156</b>	<b>370</b>	<b>394</b>	<b>423</b>	<b>Cash at beginning of year</b>	<b>48</b>	<b>31</b>	<b>84</b>	<b>270</b>	<b>141</b>
Non-controlling interests	0	0	0	0	0	Foreign exchange effect	0	(0)	(3)	(8)	0
<b>Total equity</b>	<b>119</b>	<b>156</b>	<b>370</b>	<b>394</b>	<b>423</b>	<b>Cash at end of year</b>	<b>31</b>	<b>84</b>	<b>270</b>	<b>141</b>	<b>86</b>

Source: Guosen Securities (HK)

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#### Stock Ratings:

**Buy:** A return potential of 10 % or more relative to overall market within 6 – 12 months.

**Neutral:** A return potential ranging from -10% to 10% relative to overall market within 6 – 12 months.

**Sell:** A negative return of 10% or more relative to overall market within 6 –12 months.

#### Sector Ratings:

**Overweight:** The sector will outperform the overall market by 10% or higher within 6 –12 months.

**Neutral:** The sector performance will range from -10% to 10% relative to overall market within 6 –12 months.

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