Deutsche Bank
Markets Research

Rating
Buy

Asia
China

Health Care
Health Care

Company
Aier Eye Hospital

Reuters	Bloomberg	Exchange	Ticker
300015.SZ	300015 CH	SHZ	300015

Date
28 August 2017

Results

Price at 25 Aug 2017 (CNY)	22.44
Price target - 12mth (CNY)	28.70
52-week range (CNY)	35.58 - 21.20
Shenzhen Index	1,998

Valuation & Risks

Jack Hu, PhD
Research Analyst
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Key changes

Sales (FYE)	5,416 to 5,439	↑	0.4%
Op prof margin (FYE)	18.2 to 18.8	↑	3.2%
Net profit (FYE)	733.9 to 749.1	↑	2.1%

Source: Deutsche Bank

Price/price relative

Performance (%)	1m	3m	12m
Absolute	1.1	0.4	-36.2
Shenzhen Index	3.3	5.4	-5.4

Source: Deutsche Bank

Growth acceleration driven by acquisition and organic growth

Growth acceleration led by consolidation, margin expansion underway

Aier reported revenue/core profit of RMB1.4bn/214m in 2Q17, representing YoY growth of 39%/41% respectively, vs. 31%/25% for revenue/core profit growth recorded in 1Q17. Excluding the contribution from 9 new hospitals and AW Healthcare, organic growth would be 31%/ 27% in 2Q17, vs. 24%/ 22% in 1Q17. We attribute the robust results to rapid ramp-up of the profitability of the new hospitals following asset injection, as well as solid performance from excimer and cataract segments. We expect higher contribution from new assets, with margin improvements driven by transition from low-end to high-end services.

Growth momentum continued in all three major segments

Excimer surgery, cataract surgery, and optometry achieved YoY growth of 46%/38%/29% in 2Q17, compared with 36%, 26%, and 32% in 1Q17, respectively. Management attribute the growth recovery of cataract business to deeper penetration from promotional efforts. On the acquisition front, the company is likely to take a pause but rather focus on integration of acquired assets. Management highlighted that acquisition of Clinica Baviera is completed, and expect the consolidation to add another leg of growth to 2H17.

Margin expansion achieved in 2Q17

Gross margin and operating margin stood at 49.4% and 21.7% respectively, in 2Q17, compared with 47.7% and 19.5% in 2Q16. We attribute the GM increase to improved service mix as customers switch to high-ASP excimer surgeries. The 220bps OPM improvement was driven by smooth ramp-up of new hospitals and lower admin expenses. We highlight newly acquired hospitals achieved 15% net margin in 2Q17 vs. 7% in 1Q17.

Maintaining price target of RMB28.7; risks

Our PT is based on 25x EV/EBITDA of 2018E EBITDA. We believe 25x is justified as its Asia-listed peers are trading at 18x with 6.5% EBITDA growth in 2019E (vs. 27% we model for Aier). Key risks include delays in geographical expansion and slower ASP/volume growth.

Forecasts and ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	3,165.6	4,000.4	5,439.4	7,462.3	9,310.7
EBITDA (CNYm)	788.4	915.4	1,259.5	1,746.0	2,211.9
EV/EBITDA (x)	53.2	52.3	27.4	19.5	15.2

Source: Deutsche Bank estimates, company data

Figure 1: Income statement

Income Statement (RMB millions)	2014	2015	1H16A	2H16A	2016	1H17	2H17E	2017E	2018E	2019E
Service - Excimer surgery	641	840	562	580	1,141	796	782	1,578	2,099	2,729
Service - cataract surgery	575	802	492	490	981	652	641	1,294	1,682	2,203
Service - anterior segment surgery	447	576	297	309	606	370	386	756	915	1,098
Service - posteria segment surgery	244	299	163	168	331	221	227	449	525	609
Service - diagnosis	0	0	-	-	0	-	-	0	0	0
Medical services	1,905	2,517	1,514	1,547	3,060	2,039	2,037	4,076	5,220	6,638
Optometry	494	638	382	490	872	498	627	1,125	1,429	1,787
Drug sales	0	0			0		-	0	0	0
Others	678	603	24	44	741	53	-	739	813	886
Total revenue	**2,402**	**3,166**	**1,920**	**2,081**	**4,000**	**2,590**	**2,849**	**5,439**	**7,462**	**9,311**
COGS	(1,323)	(1,691)	(1,024)	(1,131)	(2,156)	(1,374)	(1,550)	(2,924)	(4,079)	(5,044)
Gross profit - reported	**1,079**	**1,475**	**895**	**949**	**1,845**	**1,216**	**1,300**	**2,516**	**3,383**	**4,267**
Business tax and surplus	(3)	(3)	(2)	(4)	(7)	(5)	(6)	(11)	(11)	(11)
Selling expenses	(273)	(405)	(248)	(264)	(512)	(343)	(353)	(696)	(938)	(1,145)
General and administrative expenses	(381)	(466)	(285)	(343)	(627)	(359)	(428)	(787)	(1,060)	(1,313)
EBIT	**422**	**601**	**361**	**338**	**699**	**510**	**512**	**1,022**	**1,374**	**1,797**
Non-operating income	8	5	13	16	29	6	17	23	75	93
Non-operating expense	(30)	(55)	(21)	(24)	(46)	(25)	(31)	(56)	(37)	(47)
Finance income/expense	4	4	(4)	(1)	(5)	(6)	(15)	(21)	(56)	(62)
Fair value gain	17	10	8	13	21	10		12		
Loss on asset impairment	(13)	(14)	(7)	(7)	(14)	(12)		(7)		
Others										
Net profit before tax	**407**	**550**	**349**	**335**	**684**	**483**	**483**	**973**	**1,356**	**1,782**
Income tax expenses	(94)	(114)	(68)	(49)	(117)	(91)	(85)	(176)	(243)	(319)
Tax rate	23.1%	20.6%	19.6%	14.5%	17.1%	18.8%	17.7%	18.1%	17.9%	17.9%
Net profit after tax	**313**	**437**	**281**	**286**	**567**	**392**	**398**	**797**	**1,113**	**1,463**
Minority interests	(4)	(9)	(8)	(2)	(10)	(30)	(18)	(48)	(48)	(59)
Reported net profit	**309**	**428**	**273**	**285**	**557**	**362**	**380**	**749**	**1,065**	**1,404**
Core earnings adjustments	7	32	(1)	(9)	(11)	3	(4)	(1)	(1)	(1)
Reported net profit - Core	**316**	**460**	**271**	**275**	**547**	**365**	**376**	**748**	**1,064**	**1,403**
EPS: Basic (RMB) - reported	0.21	0.29	0.18	0.19	0.37	0.24	0.23	0.47	0.65	0.86
EPS: Diluted (RMB) - reported	0.21	0.29	0.18	0.19	0.37	0.24	0.23	0.47	0.65	0.86
EPS: Basic (RMB) - core	**0.21**	**0.31**	**0.18**	**0.18**	**0.36**	**0.24**	**0.23**	**0.47**	**0.65**	**0.86**
EPS: Diluted (RMB) - core	**0.21**	**0.31**	**0.18**	**0.18**	**0.36**	**0.24**	**0.23**	**0.47**	**0.65**	**0.86**
Weighted average no. of shares - Basic (millic	1,478	1,478	1,495	1,507	1,501	1,519	1,637	1,578	1,637	1,637
Weighted average no. of shares - Diluted (mill	1,478	1,478	1,495	1,515	1,501	1,519	1,637	1,578	1,637	1,637
No. of shares outstanding (millions)	1,478	1,478	1,495	1,515	1,501	1,519	1,637	1,578	1,637	1,637

Source: Deutsche Bank, company data

Model updated: 27 August 2017

Running the numbers

Asia

China

Health Care

Aier Eye Hospital

Reuters: 300015.SZ Bloomberg: 300015 CH

Buy

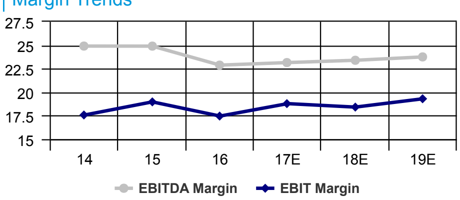
Price (25 Aug 17)	CNY 22.44
Target Price	CNY 28.70
52 Week range	CNY 21.20 - 35.58
Market cap (m)	CNYm 36,730 USDm 5,511.1

Company Profile

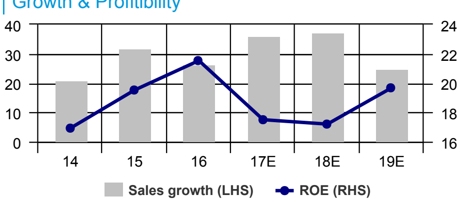
Aier Eye Hospital Group Co., Ltd. is a China-based ophthalmonogy medical institution. The company's services include ophthalmocace diagnosis, ophthalmocace treatment, pharmaceuticals distribution and medical optometry. The company provides excimer operations, cataract operations, anterior segment operations, and posterior segment operations and examinations.

Price Performance

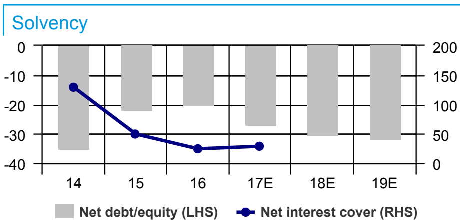
Margin Trends



Growth & Profitibility



Solvency



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Fiscal year end 31-Dec	2014	2015	2016	2017E	2018E	2019E
Financial Summary						
DB EPS (CNY)	0.21	0.31	0.36	0.47	0.65	0.86
Reported EPS (CNY)	0.21	0.29	0.37	0.47	0.65	0.86
DPS (CNY)	0.04	0.07	0.09	0.11	0.15	0.21
BVPS (CNY)	1.3	1.6	1.9	3.5	4.0	4.7
Weighted average shares (m)	1,478	1,478	1,501	1,578	1,637	1,637
Average market cap (CNYm)	24,553	42,646	49,066	36,730	36,730	36,730
Enterprise value (CNYm)	23,785	41,942	47,831	34,528	34,104	33,683
Valuation Metrics						
P/E (DB) (x)	77.7	92.7	89.7	47.4	34.5	26.2
P/E (Reported) (x)	79.4	99.6	88.0	47.3	34.5	26.2
P/BV (x)	13.62	19.49	16.13	6.36	5.56	4.79
FCF Yield (%)	1.1	0.6	0.7	1.3	1.9	2.2
Dividend Yield (%)	0.3	0.2	0.3	0.5	0.7	0.9
EV/Sales (x)	9.9	13.2	12.0	6.3	4.6	3.6
EV/EBITDA (x)	39.8	53.2	52.3	27.4	19.5	15.2
EV/EBIT (x)	56.3	69.8	68.5	33.8	24.8	18.7
Income Statement (CNYm)						
Sales revenue	2,402	3,166	4,000	5,439	7,462	9,311
Gross profit	1,079	1,475	1,845	2,516	3,383	4,267
EBITDA	598	788	915	1,259	1,746	2,212
Depreciation	114	122	141	148	306	366
Amortisation	62	66	76	90	66	49
EBIT	422	601	699	1,022	1,374	1,797
Net interest income(expense)	4	4	-5	-21	-56	-62
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	3	-4	7	5	0	0
Other pre-tax income/(expense)	-22	-51	-16	-33	37	47
Profit before tax	407	550	684	973	1,356	1,782
Income tax expense	94	114	117	176	243	319
Minorities	4	9	10	48	48	59
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	309	428	557	749	1,065	1,404
DB adjustments (including dilution)	7	32	-11	-1	-1	-1
DB Net profit	316	460	547	748	1,064	1,403
Cash Flow (CNYm)						
Cash flow from operations	454	522	675	1,013	1,458	1,844
Net Capex	-177	-261	-314	-544	-746	-1,024
Free cash flow	277	261	361	469	711	820
Equity raised/(bought back)	0	0	0	2,427	0	0
Dividends paid	-70	-105	-312	-178	-240	-341
Net inc/(dec) in borrowings	0	174	0	1,000	0	0
Other investing/financing cash flows	-106	-396	6	-1,703	0	0
Net cash flow	101	-66	55	2,015	472	479
Change in working capital	-37	-116	-106	-21	-27	-33
Balance Sheet (CNYm)						
Cash and other liquid assets	720	721	776	2,791	3,262	3,742
Tangible fixed assets	575	646	769	1,591	2,032	2,690
Goodwill/intangible assets	265	465	471	1,747	1,745	1,743
Associates/investments	120	264	803	803	803	803
Other assets	871	1,160	1,246	1,401	1,562	1,701
Total assets	2,550	3,257	4,066	8,333	9,405	10,680
Interest bearing debt	0	177	188	1,188	1,188	1,188
Other liabilities	489	581	941	1,163	1,361	1,514
Total liabilities	489	757	1,129	2,351	2,549	2,702
Shareholders' equity	1,988	2,395	2,781	5,779	6,604	7,668
Minorities	73	104	156	203	251	310
Total shareholders' equity	2,061	2,499	2,937	5,982	6,855	7,977
Net debt	-720	-544	-588	-1,603	-2,074	-2,554
Key Company Metrics						
Sales growth (%)	21.0	31.8	26.4	36.0	37.2	24.8
DB EPS growth (%)	33.8	45.5	17.1	30.0	37.2	31.9
EBITDA Margin (%)	24.9	24.9	22.9	23.2	23.4	23.8
EBIT Margin (%)	17.6	19.0	17.5	18.8	18.4	19.3
Payout ratio (%)	20.7	22.9	24.6	23.0	22.5	24.3
ROE (%)	16.9	19.5	21.5	17.5	17.2	19.7
Capex/sales (%)	7.4	8.2	7.9	10.0	10.0	11.0
Capex/depreciation (x)	1.0	1.4	1.5	2.3	2.0	2.5
Net debt/equity (%)	-34.9	-21.8	-20.0	-26.8	-30.3	-32.0
Net interest cover (x)	nm	nm	129.3	49.6	24.5	28.9

Source: Company data, Deutsche Securities estimates

Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Aier Eye Hospital	300015.SZ	22.44 (CNY) 25 Aug 2017	NA

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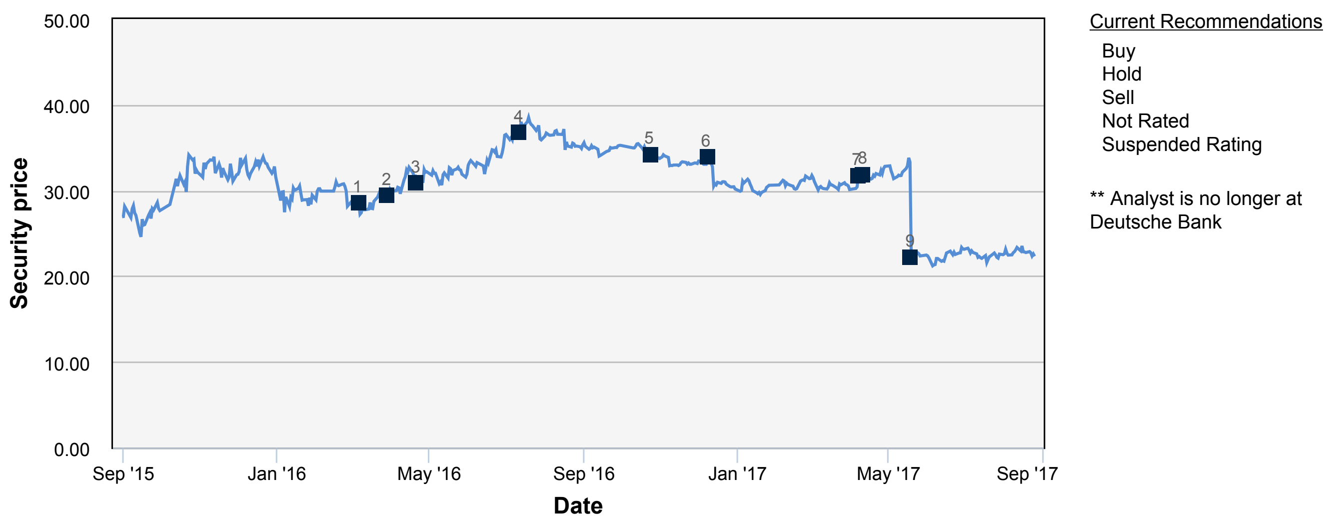
Historical recommendations and target price. Aier Eye Hospital (300015.SZ)
(as of 08/25/2017)



1. 03/06/2016 Buy, Target Price Change CNY 33,00 Jack Hu, Ph.D
2. 03/29/2016 Buy, Target Price Change CNY 34,00 Jack Hu, Ph.D
3. 04/21/2016 Buy, Target Price Change CNY 36,00 Jack Hu, Ph.D
4. 07/12/2016 Buy, Target Price Change CNY 39,50 Jack Hu, Ph.D
5. 10/24/2016 Buy, Target Price Change CNY 39,00 Jack Hu, Ph.D
6. 12/08/2016 Buy, Target Price Change CNY 42,00 Jack Hu, Ph.D
7. 04/07/2017 Buy, Target Price Change CNY 41,00 Jack Hu, Ph.D
8. 04/11/2017 Buy, Target Price Change CNY 43,00 Jack Hu, Ph.D
9. 05/19/2017 Buy, Target Price Change CNY 28,70 Linc Yiu**

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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.
Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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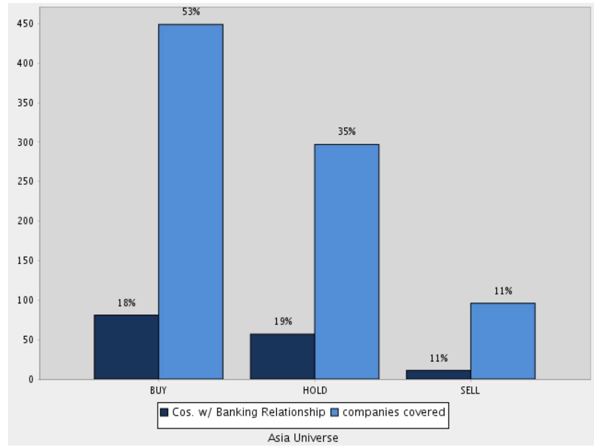
Equity rating dispersion and banking relationships



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