

Company Report

C-MER Eye Care (3309 HK)

A good reopening COVID play

■ Co. now runs 60 medical institutions (o/w 12+ hospitals) across 11 cities in China, o/w 29 in Mainland and 31 in HK

■ We believe Co. is a good reopening COVID play as HK govt. has steadily eased pandemic restrictions

■ We upgrade Co. to BUY as we see Co. stock risk/reward turns attractive and We like Co.'s M&A growth strategy

Transforming to a multi-specialty healthcare provider

Co. had a fruitful 1H22 in term of M&A, as Co. acquired 100% stake of Champion Eye Center and 60% share of Optometry (OPT) Centre. Co. also entered into dental service via acquisition of CKJ Dentistry in Shenzhen (1 hospital and 12 clinics) and 3 dental specialty centres in HK. Meanwhile, Co. made inroad into medical aesthetic, family medicine, oncology and other specialties. Co. expects to achieve synergies and cost savings from its enhanced healthcare service platform. We think these moves demonstrated Co. is well positioned to pursue increased M&A opportunities in the healthcare service sector as many smaller players were hit hard during pandemic disruptions. We think its active M&A strategy to continue in 2022 given 1) smaller players are still suffering COVID-19 restrictions in 1H22 and 2) its platform enables business synergy for smaller players (i.e. patient traffic and operation efficiency); 3) robust B/S with net cash position (HKD274mn in FY22E).

1H22 results impacted by Omicron wave

Total revenue during 1H22 grew by ~69% yoy to ~HKD882mn, thanks to sales of COVID-19 RAT tests and M&A growth. But both legacy ophthalmic services in HK and Mainland were hit by Omicron wave during 1H22. Overall GPM thus dropped by 6.4ppts to 27.9%. Net cash remained sound at HKD444mn at end of 1H22 (vs. HKD203mn at YE21) after a busy period of acquisition and Omicron adversity, reflecting healthy operating cash flow in 1H22.

Upgrade to BUY as risk/reward turns attractive

We maintain earnings forecast unchanged and our DCF TP remained at HKD4.8. During a recent global broad-based selloff, we think Co.'s stock risk/reward turns attractive (FY23E earnings growth at 48% vs. 29x FY23E PER, reflecting below 1x PEG). We thus upgrade Co. to BUY rating and we like Co.'s M&A growth strategy and its transformation to a multi-specialty healthcare provider. **Investment risk:** slower than expected expansion, COVID-19, regulatory, government payer risk.

HKD mn	2019	2020	2021	2022E	2023E
Consolidated revenue	576	700	1,113	1,657	1,984
yoy change	34%	21%	59%	49%	20%
Adjusted net profit	45	(3)	22	93	139
yoy change	-10%	-108%	n.a.	327%	48%
Adjusted EPS (HKD)	0.04	0.00	0.02	0.08	0.12
PER (x)	82.1	n.a.	166.2	43.2	29.0
PBR (x)	4.3	2.8	3.0	2.9	2.7

Sources: Company data, CMS (HK) estimates

Note*: adj. net profit excluded one-off items and SBC

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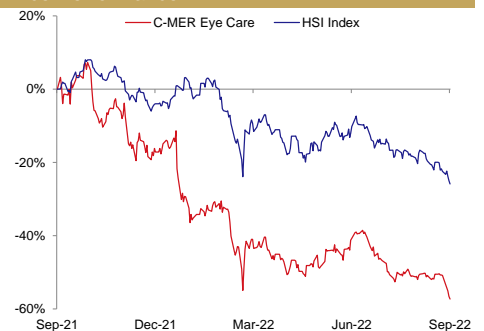
WHAT'S NEW

Company updates, upgrade to BUY

▲ BUY

Previous	HOLD
Price (Sep 23, 2022)	HKD3.46
12-month Target Price (Potential up/downside)	HKD4.8 (+40%)
Previous	HKD4.8

Price Performance



%	1m	6m	12m
3309 HK	(11.1)	(24.8)	(57.3)
HSI	(6.9)	(17.3)	(25.9)

Sector: Pharmaceutical & Healthcare	
Hang Seng Index (Sep 23, 2022)	17,933
HSCEI (Sep 23, 2022)	6,114
Key Data	
52-week range (HKD)	3.4-9.2
Market cap (HKD mn)	4,278
Avg. daily traded value (HKD mn)	4.2
BVPS (HKD)	1.3
Shareholding Structure	
C-MER Group	55.3%
Free float	44.7%

Source: Bloomberg

Related Research

1. C-MER Eye Care (3309 HK) – Pandemic provides more M&A opportunities (HOLD) (June 7, 2022)
2. C-MER Eye Care (3309 HK) – Broadening service network nationwide (HOLD) (Oct 8, 2019)

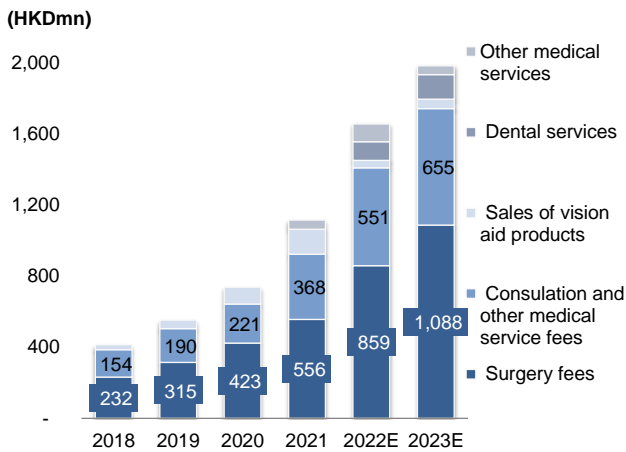
Focus charts

Figure 1: Company's geographic footprint in the Greater China



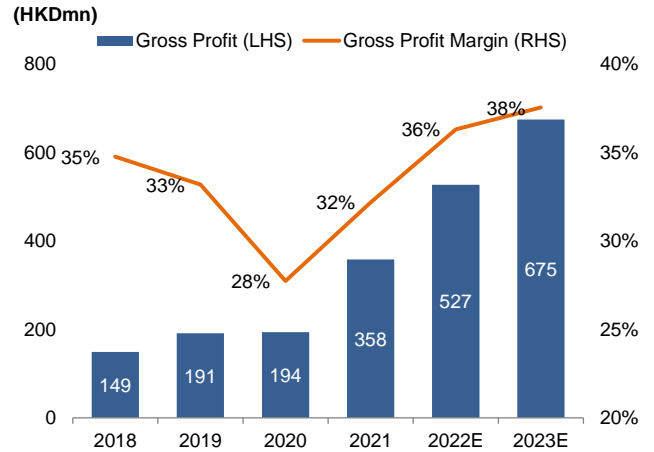
Source: Company

Figure 2: Revenue breakdown and forecasts



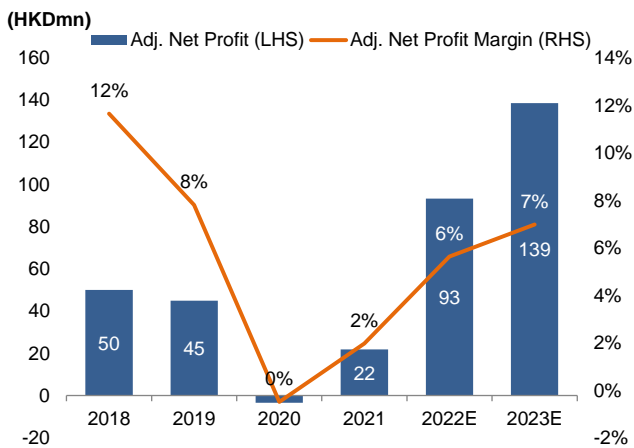
Sources: Company, CMS (HK) estimates

Figure 3: Gross profit and gross profit margin



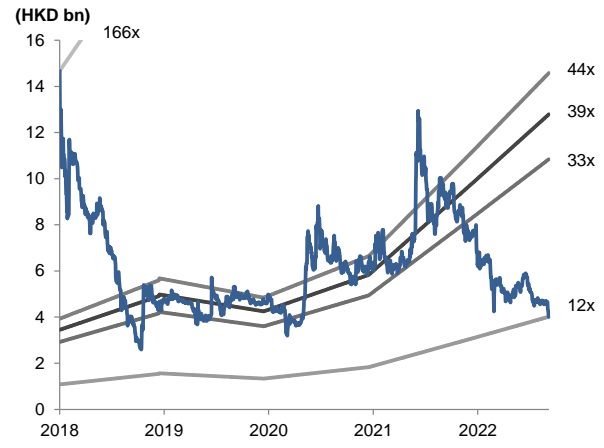
Sources: Company, CMS (HK) estimates

Figure 4: Adjusted net income forecasts



Sources: Company, CMS (HK) estimates

Figure 5: EV/EBITDA band



Source: CMS (HK) estimates

Figure 6: DCF summary results

DCF summary results

Enterprise value (HKD mn)	5,245
Net cash (HKD mn) in FY22E	274
Minority interest (HKD mn) in FY22E	-
Equity value (HKD mn)	5,519
Shares outstanding (mn)	1,150
TP at DCF valuation (HKD)	4.8

Source: CMS (HK) estimates

Figure 7: DCF details (HKD mn)

High Growth Phase	2022	2023	2024	2025	2026
EBIT Adjusted	120	176	276	331	380
% YoY	5430%	47%	56%	20%	15%
NOPAT (EBIT*(1-t))	93	137	215	258	297
Add: Depreciation and amortization	150	150	150	180	207
Less: Capital Expenditures	(100)	(100)	(100)	(100)	(100)
Less: Net Working Capital Change	(32)	(8)	(11)	(17)	(19)
FCFF	112	179	254	321	385
% YoY		61%	42%	27%	20%
PV	101	147	187	214	232
Transitional Growth Phase	2027	2028	2029	2030	2031
FCFF	448	509	561	602	626
% YoY Growth	17%	13%	10%	7%	4%
PV	244	250	249	242	227
Stable Growth Phase	2032				
FCFF in terminal year =	626				
Price at the end of growth phase =	9,922				
Present Value of FCFE in high growth phase	780				
Present Value of FCFE in transition phase	1,212				
Present Value of Terminal Price	3,253				
Intrinsic Enterprise Value	5,245				

Source: CMS (HK) estimates

Financial Summary

Balance Sheet

HKD mn	2019	2020	2021	2022E	2023E
Non-current assets	538	1,018	1,209	1,158	1,107
PP&E	164	218	302	252	202
Intangible assets	105	145	204	203	202
Deferred tax assets	5	3	11	11	11
Interests in associates	2	2	25	25	25
Current assets	582	611	746	868	1,005
Inventories	14	20	33	74	86
Trade receivables	11	15	18	29	35
Prepayments/other receivables	20	22	240	240	240
Amount due from related parties	-	-	12	12	12
Short-term bank deposits	254	-	-	-	-
Bank balances and cash	282	554	387	457	576
Total assets	1,120	1,629	1,956	2,027	2,112
Current liabilities	130	152	408	428	438
Trade and bills payables	14	19	40	60	69
Other payables	60	60	90	90	90
Due to a related party	0	0	4	4	4
Income tax payable	-	-	-	-	-
ST bank debt	-	-	179	179	179
Others	56	73	95	95	95
Non-current liabilities	128	180	210	210	210
Long-term payables	-	2	4	4	4
Deferred tax liabilities	-	-	1	1	1
LT bank loans	-	-	-	-	-
Shareholders' funds	857	1,294	1,331	1,380	1,454
Minorities	5	3	6	8	10
Total liability and equity	1,120	1,629	1,956	2,027	2,112

Cashflow Statement

HKD mn	2019	2020	2021	2022E	2023E
Operating cash flow	129	99	132	205	272
Pretax profit	53	3	27	119	177
OP before WC changes	131	128	158	268	325
Net working capital change	15	(1)	(0)	(32)	(8)
Income tax paid	(9)	(17)	(14)	(26)	(39)
Interest paid	(8)	(10)	(13)	(6)	(6)
Investing cash flow	(259)	(153)	(396)	(92)	(91)
Purchase of PPE	(124)	(31)	(118)	(100)	(100)
Purchase of intangible assets	(1)	(2)	(4)	-	-
Purcha./disposal of ST investment	7	219	(39)	-	-
Advances to director & shrhlds.	-	-	-	-	-
Interest received	11	5	4	8	9
Others	-	(117)	(186)	-	-
Financing cash flow	(59)	322	98	(42)	(62)
Fund raising	2	11	0	-	-
Issuance of equity shares	-	388	9	-	-
Dividends	(21)	(22)	(23)	(42)	(62)
Bank borrowings, net	-	-	-	-	-
Related parties, net	-	-	-	-	-
Others	(46)	(55)	111	-	-
Beginning cash	472	282	554	387	457
Forex	(0)	3	(1)	-	-
End cash	282	554	387	457	576

Profit & Loss Statement

HKD mn	2019	2020	2021	2022E	2023E
Consolidated revenue	576	700	1,113	1,657	1,984
COGS	(385)	(505)	(754)	(1,130)	(1,309)
Gross profit	191	194	358	527	675
(-) Total SG&A expense	(145)	(209)	(361)	(417)	(509)
Administrative expenses	(98)	(139)	(234)	(298)	(357)
Selling and distribution costs	(46)	(70)	(126)	(118)	(152)
(+/-) Other income, net	-	9	4	7	8
(+/-) Profit from JV&Asso.	-	(0)	11	-	-
Adj. EBITDA	128	109	150	270	326
Total Depreciation & amortisation	(78)	(113)	(147)	(150)	(150)
Adj. EBIT	50	(4)	2	120	176
(+/-) Finance expense - net	5	5	2	2	3
(+/-) Other gains/losses	2	4	12	-	-
Profit before tax	53	3	27	119	177
(-) Tax	(14)	(11)	(11)	(26)	(39)
Net Profit	39	(8)	16	93	138
(+/-) Minority interest	(2)	(2)	(6)	2	2
Net profit attri. to shareholders	41	(6)	22	91	136
Adjusted net profit	45	(3)	22	93	139
EPS fully diluted (HKD)	0.04	0.00	0.02	0.08	0.12

Financial Ratios

	2019	2020	2021	2022E	2023E
Growth					
Consolidated revenue	34%	21%	59%	49%	20%
Gross profit	37%	31%	49%	50%	16%
Adjusted net profit	-10%	-108%	n.a.	327%	48%
Profitability					
Gross margin	33%	28%	32%	36%	38%
Adj. net profit margin	8%	0%	2%	6%	7%
ROE	5%	0%	2%	7%	9%
ROA	4%	0%	1%	4%	6%
Efficiency					
Inventory days	21	21	20	20	22
Accounts receivable days	6	6	5	5	6
Accounts payable days	9	12	14	16	18
Cash cycle days	17	15	11	9	10
Liquidity					
FCF (HKD mn)	4.4	3.9	1.7	1.9	2.1
Net gearing (%)	-62%	-43%	-15%	-20%	-27%

Sources: Company data, CMS (HK) estimates

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
HOLD	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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