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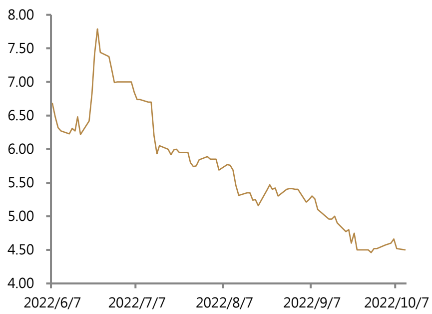
Ticker (01846.HK)

Recommendation	**HOLD**
Target price (HKD)	5.05
Current price (HKD)	4.59
Last 12 mth price range	4.20 – 10.60
Market cap. (HKD, bn)	1.53

Source: Bloomberg, SBI CHINA CAPITAL

Performance (01846.HK)



	1mth	3mth	12mth
Change	-14.4%	-32.8%	-55.7%
Relative change	1.4%	-11.8%	-20.4%

Source: Choice, SBI CHINA CAPITAL

EuroEyes(01846.HK)

Synergy from the acquisition and gain of access to the UK market, stabilize procurement costs by renewed agreement with Carl Zeiss AG, maintain the rating of "Hold" and adjust the TP to HKD 5.05/share

EuroEyes (01846.HK) recorded a total revenue of HKD 315.6 mn in 1H22, implying a 1.3% YoY decline. The adjusted gross profit margin(excluding share-based compensation expenses for surgeons and clinic pre-operating expenses) decreased by 4.4p.p YoY to 45.7%. The net profit of the Group was slashed 33.7% YoY to approximately 43.5mn in 1H22, representing a 6.7p.p YoY drop in net profit margin to 13.8%.

Sluggish performance in the PRC, but Europe is expected to rally when the vacation season ends

The overall performance of EuroEyes (01846.HK) in 1H22 was slightly below our expectation. Although London Vision Clinic, fully acquired by the Group on 20 Jan 2022, contributed the extra sales of HKD 56.5 mn in the UK market, the other three existing regions experienced double-digit falls simultaneously in 1H22 and resulted in a total revenue drop of 1.3% YoY. The Group reported the revenue of Germany/China/Denmark in 1H22 were HKD 180.4mn/HKD 48.7mn/HKD 30.0mn, representing -10.5%/-36.5%/-27.4% YoY respectively.

The business in Europe was primarily dragged down by i.) the lifting of the two-year pandemic inter-country travel restrictions across Europe which shifted consumer interests into vacation travel and postponed their operation schedules to 2H22; ii.) the construction period of the new flagship clinic in Copenhagen was prolonged in early 2022, because of COVID-19 control policy in Denmark, and led to an around 2-month of vacancy for surgery operation. On the other hand, the recovery pace in the PRC lost steam, mainly due to the stringent lockdown of major cities caused by the resurgence outbreak of the Omicron variant.

We become less optimistic about the performance of the PRC in 2H22 owing to the COVID restriction policy and believe it remains trapped in the haze of the pandemic. However, we forecast the turnover in Europe in 2H22 will resume or be slightly better than the level of 2H21 as the rebound of surgery demand is expected when the vacation season ends. Moreover, we are positive towards the three coming clinics in Baden-baden, Wiesbaden and Kiel, which are anticipated to commence trial operation between 4Q22 and 1Q23 and continue to increase its penetration rate in the Germany market.

Harvesting synergy from fully acquiring London Vision Clinic and gaining access to the UK market

The Group has successfully penetrated into the UK market through the full acquisition of London Vision Clinic in late January 22. The fair value of total consideration at the acquisition date was approximately GBP 25.0mn(equivalent to HKD 265.2 mn), composed of i.) cash consideration paid of HKD 128.0mn, ii.) consideration shares of HKD 35.7mn, settled on 4 Feb 22, iii.) contingent consideration of around HKD 101.4mn subject to earnings target achievement. The acquisition allows the Group to tap into London's high-end refractive and presbyopia surgery markets and expand its business by means of market differentiation approach, while London Vision is projected to grow 10% in revenue and 35% in adjusted EBIT between 2022 and 2024. In the meantime, the Group is planning for another new clinic in London, which will be located in Knightsbridge, and is anticipated to open in the 2Q23.

The newly acquired subsidiary, London Vision, has been a market and price leader in the UK and has a solid reputation for expertise, including the founder Professor Reinstein, in providing training to specialist surgeons and managing complicated cases. PRESBYOND ® Laser Blended Vision treatment, invented by Professor Reinstein and commercialized by Carl Zeiss Meditec, provides an additional method of treating younger patients with presbyopia, from the age of 40, by a LASIK procedure. This essentially avoids the need to do surgery inside the eye to replace the natural lens. As trifocal lens exchange surgery adopted by EuroEyes primarily treats presbyopia for people over the age of 45, the acquisition of London Vision strategically provides the Group a business opportunity to reach more potential patients suffering from presbyopia at an early stage, which bolsters its long-term revenue and profit growth.

Medical supplier agreement with Carl Zeiss AG secures the stability of procurement costs in the medium term

The Group announced in early Sep that it signed a four-year medical equipment supplier agreement with Carl Zeiss AG, effective from 1 Jul 22. Not only will the agreement ensure the stability of medical supply for the Group in the coming years, including lenses and laser systems, but also foster collaboration to enhance refractive surgery equipment for the treatment of presbyopia. Moreover, it also secures stable procurement cost which will help the Group weather surging inflation.

Synergy from the acquisition and gain of access to the UK market, stabilize procurement costs by renewed agreement with Carl Zeiss AG, maintain the rating of "Hold" and adjust the TP to HKD 5.05/share

The overall performance in 1H22 was slightly below our estimation. Although London Vision Clinic, fully acquired by the Group in late January 22, contributed the extra sales of HKD 56.5 mn in the UK market, the other three existing regions, including Germany, China and Denmark, experienced double-digit falls simultaneously in 1H22 and resulted in a total revenue drop of 1.3% YoY. However, we forecast the turnover in Europe in 2H22 will resume or be slightly better than the level of 2H21 as the rebound of surgery demand is expected when the vacation season ends. We are positive about the growth in the Germany market due to another three new clinics in Baden-baden, Wiesbaden and Kiel, and the synergy from acquiring London Vision Clinic. In addition, the four-year medical supplier agreement with Carl Zeiss AG further optimizes its procurement costs, especially under rising inflationary environment. However, we become less optimistic about the performance of the PRC in 2H22 owing to the COVID restriction policy and believe it remains trapped in the haze of the pandemic. Therefore, we maintain the rating of "Hold" and adjust the TP to HKD 5.05/share, implying 16.5x/12.9x/10.7x fw PE of 2022/2023/2024.

Peers comparison

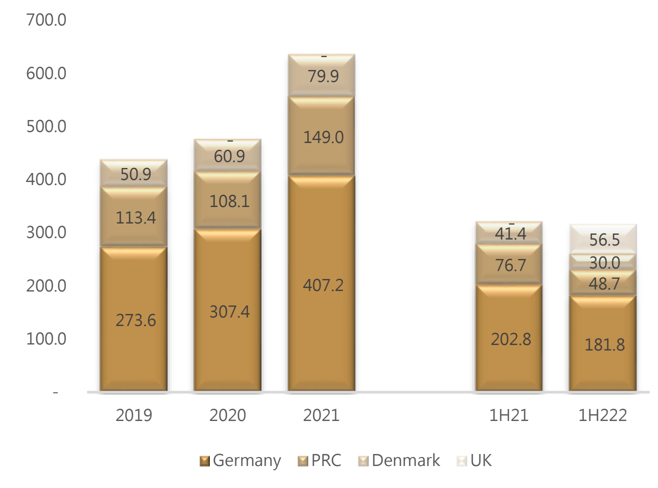
		Mkt cap (HKD,mn)	PE (X)	Fw PE (X)	PB (X)	PS (X)	Revenue (HKD,mn)	GM (%)	ROE (%)
03309.HK	C-MER Eye	4,092.8	172.4	41.4	2.2	2.7	1,984.0	32.2	1.5
300015.CH	Aier Eye	215,529.0	56.9	54.5	12.2	9.1	25,034.3	51.9	22.3
01406.HK	Clarity Medical	584.4	32.0	N/A	2.2	1.9	225.2	N/A	8.0
02219.HK	Chaoju Eye Care	2,492.2	11.3	10.7	1.0	2.2	1,670.1	45.0	12.8
	Average	*55,674.3*	*68.4*	*35.5*	*4.4*	*4.0*	*9,562.8*	*43.0*	*11.1*
01846.HK	EuroEyes	1,530.0	11.4	N/A	1.6	2.4	656.3	49.4	13.0

Source: Bloomberg, SBI China Capital

Risk factors

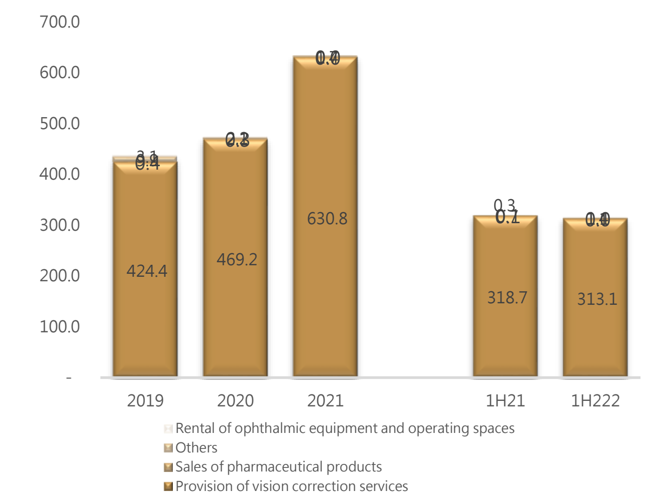
- Malpractice and medical negligence
- Inability to provide services with the latest technology
- Potential economic recession
- The lower than expected rebound of surgery demand in Europe
- Operating expenses shoot up due to out-of-control inflation
- London Vision fails to achieve the growth target
- More stringent COVID-19 measures in PRC

Revenue breakdown by geographical regions(HKD, mn)



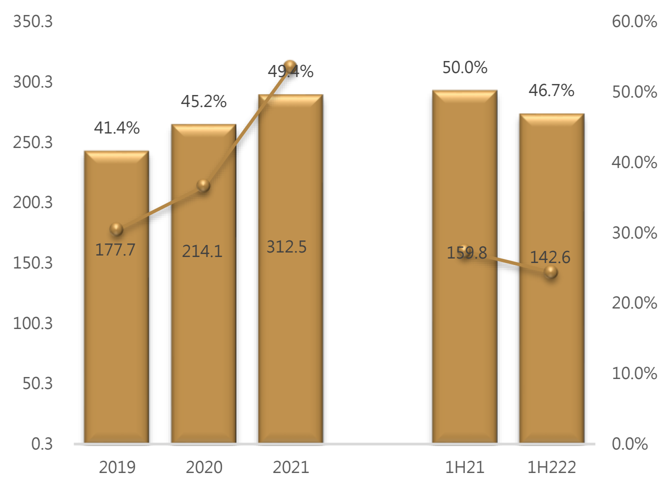
Source: Company data, SBI CHINA CAPITAL

Revenue breakdwon by business functions(HKD, mn)



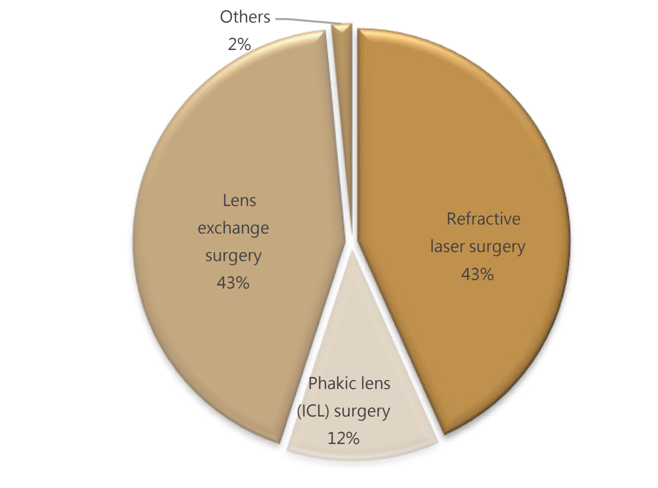
Source: Company data, SBI CHINA CAPITAL

Gross profit and Gross profit margin(HKD, mn)



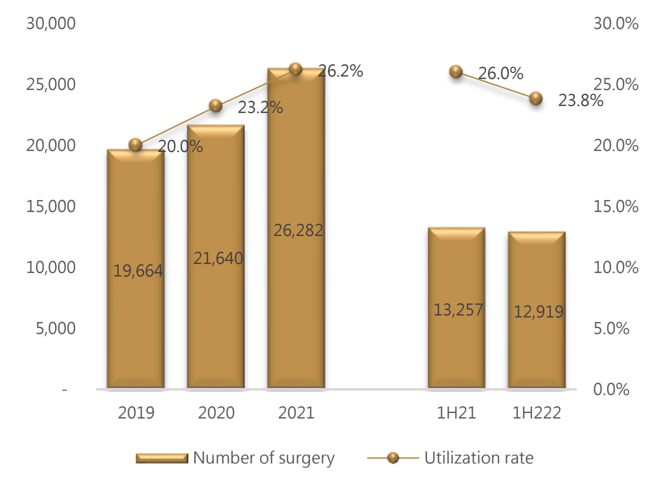
Source: Company data, SBI CHINA CAPITAL

Revenue distribution by type of surgery 1H22



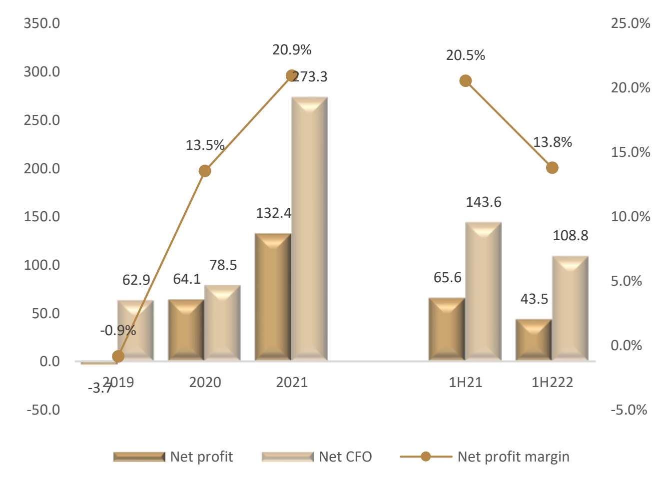
Source: Company data, SBI CHINA CAPITAL

Utilization rate of clinics and no. of surgery



Source: Company data, SBI CHINA CAPITAL

Net profit performance and Net CFO (HKD, mn)



Source: Company data, SBI CHINA CAPITAL

Financial Statement

PnL (USD, mn)	2021 (A)	2022 (E)	2023 (E)	2024 (E)
Revenue	**632.9**	**656.3**	**786.0**	**883.5**
YoY growth	*14.0%*	*3.7%*	*19.8%*	*12.4%*
COGS	(320.4)	(350.1)	(413.3)	(447.9)
Gross profit	**312.5**	**306.2**	**372.7**	**435.6**
Other income	1.6	1.0	1.6	1.8
Operating expenses	(122.9)	(139.1)	(159.6)	(176.7)
Operating profit	**191.262**	**168.0**	**214.7**	**260.7**
Finance expenses	4.4	(5.3)	(8.7)	(12.1)
JV & Ass.	-	-	-	-
Profit before tax	195.7	162.7	206.0	248.6
Tax	(63.3)	(60.2)	(74.6)	(89.7)
Net profit	**132.4**	**102.5**	**131.4**	**158.8**
YoY growth	*106.6%*	*-22.6%*	*28.2%*	*20.9%*
Adj. EBITDA	**293.5**	**281.4**	**352.3**	**418.8**

Balance Sheet (USD, mn)	2021 (A)	2022 (E)	2023 (E)	2024 (E)
PPE & ROU assets	355.6	470.7	531.9	510.2
Intangible assets	4.5	32.9	29.5	25.9
Others	52.0	244.5	241.8	225.6
Non-current assets	**412.2**	**748.1**	**803.1**	**761.7**
Inventories	23.7	30.9	30.1	33.1
Trade receivables	3.1	5.8	5.8	8.1
Cash & cash equivalents	845.6	796.0	882.0	1,028.2
Others	84.5	105.9	112.6	87.1
Current assets	**956.8**	**938.6**	**1,030.5**	**1,156.5**
Total assets	**1,369.0**	**1,686.7**	**1,833.6**	**1,918.2**
LT borrowings	2.7	1.8	1.8	1.7
Others	183.3	343.6	364.5	329.3
Non-current liabilities	**186.1**	**345.4**	**366.3**	**331.0**
Trade payables	21.5	27.0	30.6	32.9
ST borrowings	1.9	2.7	2.6	2.5
Others	119.0	164.1	175.5	160.7
Current liabilities	**142.5**	**193.9**	**208.7**	**196.1**
Total liabilities	**328.5**	**539.2**	**575.0**	**527.1**
Non-controlling interests	34.9	41.3	43.5	45.5
Controlling interests	1,005.6	1,106.2	1,215.1	1,345.6
Total equities	**1,040.5**	**1,147.5**	**1,258.6**	**1,391.1**

Cash Flow (USD,mn)	2021 (A)	2022 (E)	2023 (E)	2024 (E)
Profit before tax	195.7	162.7	206.0	248.6
Finance expenses	8.5	11.3	14.0	16.4
Finance income	(12.9)	(6.0)	(5.3)	(4.3)
Depreciation&Amortization	73.9	80.0	98.9	111.7
Others	(23.0)	(38.6)	(64.3)	(72.7)
Change in working capital	31.1	(4.9)	(3.5)	5.4
CFO	**273.3**	**204.6**	**245.8**	**305.1**
CAPEX	(44.0)	(50.0)	(60.0)	(40.4)
Others	(15.9)	(116.5)	(16.8)	(20.0)
CFI	**(59.9)**	**(166.5)**	**(76.8)**	**(60.4)**
Share issuance	-	-	-	-
Net borrowings	(1.9)	(0.2)	(0.2)	(0.1)
Interest paid	-	-	-	-
Dividend paid	(9.8)	(33.1)	(20.5)	(26.3)
Others	(57.4)	(54.5)	(62.3)	(72.0)
CFF	**(69.2)**	**(87.8)**	**(83.0)**	**(98.4)**
FCFE	**211.3**	**26.4**	**168.8**	**244.5**
FCFF	**213.2**	**26.6**	**169.0**	**244.7**

Financial Ratio	2021 (A)	2022 (E)	2023 (E)	2024 (E)
Gross margin	49.4%	46.7%	47.4%	49.3%
Operating margin	30.2%	25.6%	27.3%	29.5%
Net profit margin	20.9%	15.6%	16.7%	18.0%
Adj. EBITDA profit margin	46.4%	42.9%	44.8%	47.4%
Return on Equity	13.0%	9.4%	10.9%	12.0%
Return on Asset	9.9%	6.7%	7.5%	8.5%
Current ratio	671.6%	484.2%	493.7%	589.7%
Quick ratio	603.9%	428.6%	439.5%	543.3%
Cash ratio	593.5%	410.6%	422.6%	524.3%
Debt-to-Equity ratio	0.4%	0.4%	0.3%	0.3%
Inventory turnover days	115.9	114.4	113.3	112.5
Receivable turnover days	2.2	2.5	2.7	2.9
Payable turnover days	70.0	70.3	70.4	70.6

Source: Company data, SBI CHINA CAPITAL

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BUY : absolute upside of >10% over the next 12 months

HOLD : absolute return of -10% to +10% over the next 12 months

SELL : absolute downside of >10% over the next 12 months

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