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**Ticker (01846.HK)**

Recommendation	<b>Buy</b>
Target price (HKD)	6.71
Current price (HKD)	5.42
Last 12 mth price range	4.08 – 7.79
Market cap. (HKD, bn)	1.81

Source: Bloomberg, SBI CHINA CAPITAL

**EuroEyes(01846.HK)**

Strong post-pandemic demand in the PRC and new clinic expansion bolster organic growth, upgrade the rating to “Buy” and adjust the TP upward to HKD 6.71/share

EuroEyes(01846.HK) announced its annual result, with a turnover of HKD 610.3 mn in 2022, implying a 3.6% YoY decline. The adjusted gross profit margin(excluding share-based compensation expenses for surgeons and clinic pre-operating expenses) decreased by 5.0p.p YoY to 45.2%. The adjusted net profit of the Group fell 26.3% YoY to approximately 101.2mn in 2022, representing a 5.1p.p YoY drop in adjusted net profit margin to 16.6%.

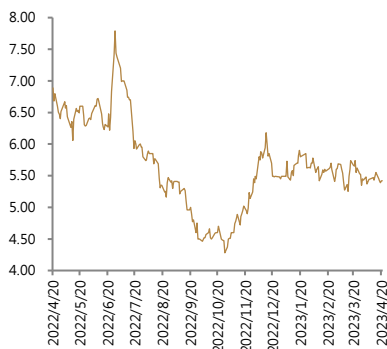
Despite the sales in 2022 being slightly below our previous forecast, the overall performance of Euroeyes(01846.HK) maintained a stable financial condition amidst the highly unstable global economic situation in 2022 and steadily expanded its eye clinics. The Group experienced a decline in capacity utilization rate from 26.2% to 22.8%, primarily due to i.) a two-month lockdown in Shanghai and the closure of Beijing, ii.) COVID-19 control policies in Denmark resulting in a 60-day gap in surgery operations, iii.) the lifting of pandemic-related travel restrictions across Europe, which shifted consumer interests towards vacation travel and delayed patients' operation schedules. As a result, the Group recorded a roughly equivalent decline in both adjusted gross and net profit margin.

**Strong demand for eye surgery in China post-pandemic recovery fueled rally in 1Q23 sales**

The Group's business in Shanghai and Beijing was disrupted for two months due to citywide lockdown and strict control measures, respectively. In addition, the spike of COVID-19 cases in the 4Q22 hampered normal social activities in the PRC, leading to a temporary shortfall in outpatient consultations and surgery reservations.

However, since the PRC government's removal of its zero-Covid policy, there has been a strong rebound in the eye surgery market, stimulating the Group's quarterly sales of vision correction services in the PRC to return to pre-pandemic levels in 1Q23.

**Performance (01846.HK)**



	1mth	3mth	12mth
Change	-4.1%	-6.6%	-20.3%
Relative change	-8.3%	2.4%	-17.5%

Source: Choice, SBI CHINA CAPITAL

The Group is establishing consultation centers as satellite clinics in Beijing and Shanghai to redirect patients to its surgical clinics, thereby optimizing clinical resources and further increasing utilization rates. We anticipate the Group's sales in the PRC to recover to 2021 levels this year.

#### **The expansion of new clinics propels its organic growth sustainably**

The Group plans to launch five new clinics, including three in Germany (Baden-Baden, Wiesbaden, and Kiel), one in London(Knightsbridge), and one in Hong Kong(Russell Street), which are expected to generate extra sales revenue in 2H23. In addition, we expect the flagship clinic in Paris will begin its operations in 1H24.

Notably, the Group made strategic moves to expand its refractive surgery market in the UK with the acquisition of the London Vision Clinic in Jan 2022 and the recruitment of Professor Reinsteink. In line with this, the Group plans to launch a new clinic in Knightsbridge in 2Q23, with Dr. Fadi Kherdaji, a renowned specialist in refractive surgery, leading the local market development. However, among the six new clinics, we forecast the ones in Hong Kong and Paris may require a longer payback period due to higher rental costs.

#### **Strong post-pandemic demand in the PRC and new clinic expansion bolster organic growth, upgrade the rating to “Buy” and adjust the TP upward to HKD 6.71/share**

The overall performance of the Group in 2022 aligned with our expectation. Following the PRC government's decision to lift its zero-Covid policy at the end of 2022, we have seen a strong rebound in the eye surgery market, and we believe that the Group's business in China will experience a full recovery and resurgence in 2023. Furthermore, the Group's expansion plans, including the addition of five clinics(three in Germany, one in London, and one in Hong Kong) and the flagship clinic in Paris set to launch in 2H23 and 1H24 respectively, are expected to sustainably contribute extra sales and bolster its organic growth. Moreover, due to the company's strong operating cash inflow and sufficient cash position, we do not rule out the possibility of potential M&A activities that may further steepen the Group's growth trajectory. Therefore, we upgrade the rating to “Buy” and adjust the TP upward to HKD 6.71/share, implying 18.1x/14.8x/12.8x fw PE of 2023/2024/2025.

## Peers comparison

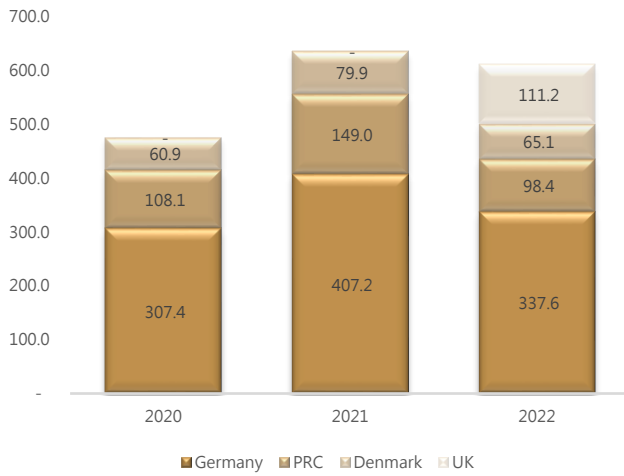
		Mkt cap	PE	Fw PE	PB	PS	Revenue	GM	ROE
		(HKD,mn)	(X)	(X)	(X)	(X)	(HKD,mn)	(%)	(%)
300015.CH	Aier Eye	231,299.4	73.7	59.8	12.4	12.0	18,079.8	51.9	19.6
301103.CH	He Eye	5,620.7	32.9	70.2	2.7	3.0	1,160.0	40.3	8.6
301239.CH	Bright Eye	15,279.7	106.7	640.3	10.6	5.9	2,061.0	43.4	10.4
01406.HK	Clarity Medical	544.0	29.4	N/A	2.1	1.8	225.2	N/A	8.0
02219.HK	Chaoju Eye Care	3,842.4	17.7	15.1	1.5	3.4	1,152.8	43.9	8.6
03309.HK	C-MER Eye	5,572.9	N/A	62.9	3.0	3.1	1,731.9	25.9	(1.4)
	<i>Average</i>	<i>43,693.2</i>	<i>52.1</i>	<i>169.6</i>	<i>5.4</i>	<i>4.9</i>	<i>4,068.5</i>	<i>41.1</i>	<i>9.0</i>
01846.HK	EuroEyes	1,806.2	19.2	10.5	1.7	2.8	610.3	44.4	8.9

Source: Bloomberg, SBI China Capital

## Risk factors

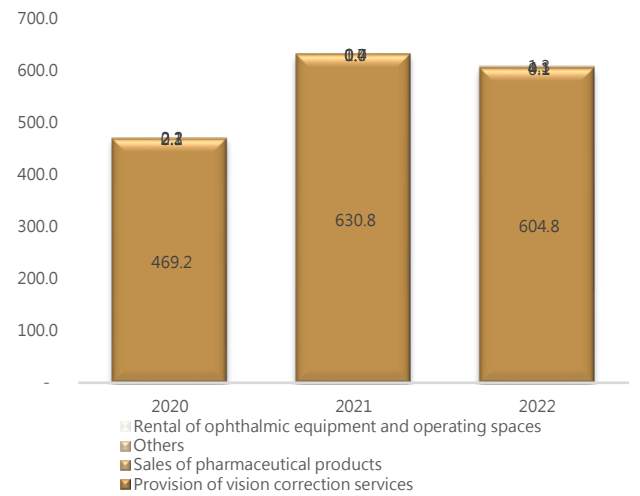
- Malpractice and medical negligence
- Inability to provide services with the latest technology
- Potential economic recession
- The lower than expected rebound of surgery demand in the PRC and Europe
- Operating expenses escalate rapidly due to out-of-control inflation
- London Vision fails to achieve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

### Revenue breakdown by geographical regions(HKD, mn)



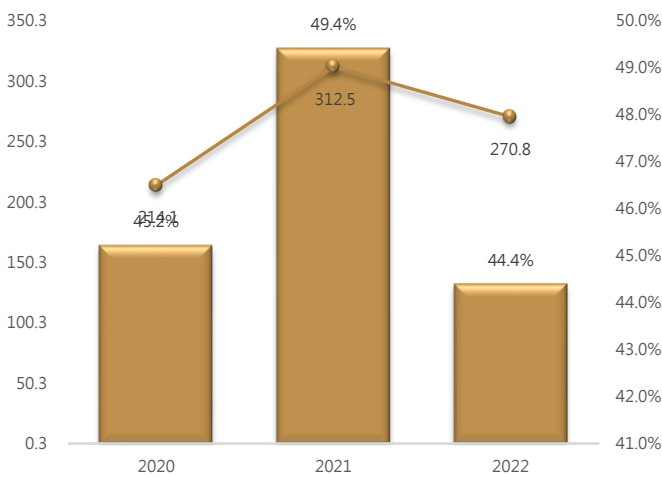
Source: Company data, SBI CHINA CAPITAL

### Revenue breakdown by business functions(HKD, mn)



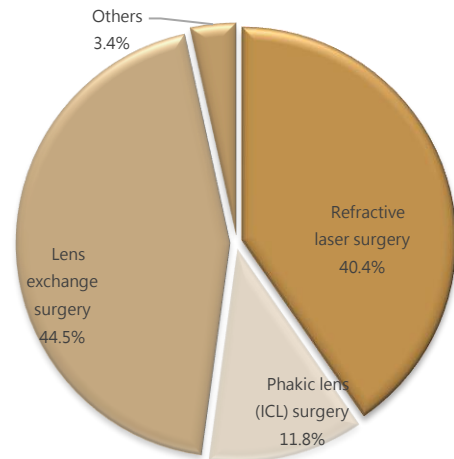
Source: Company data, SBI CHINA CAPITAL

### Gross profit and Gross profit margin(HKD, mn)



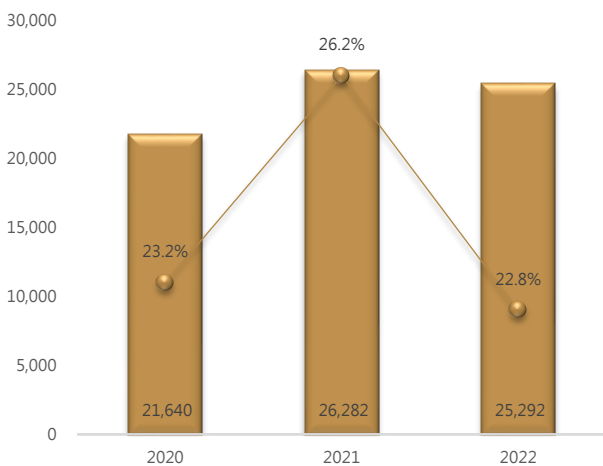
Source: Company data, SBI CHINA CAPITAL

### Revenue distribution by type of surgery in 2022



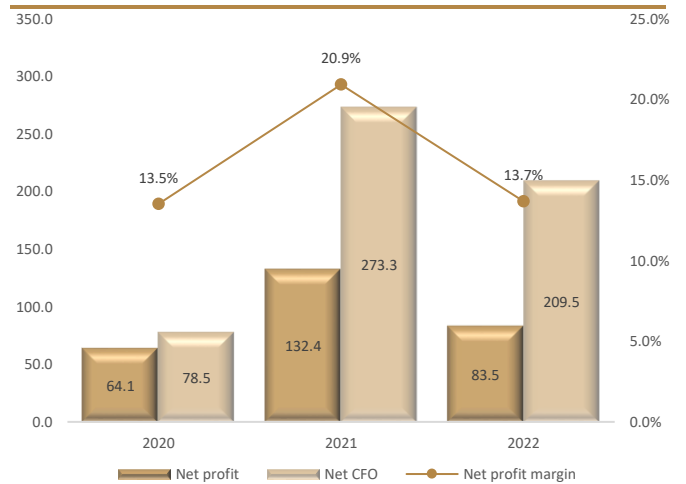
Source: Company data, SBI CHINA CAPITAL

### 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	2022	2023	2024	2025	Balance Sheet	2022	2023	2024	2025
	(HKD, mn)	(A)	(E)	(E)		(E)	(HKD, mn)	(A)	(E)
Revenue	610.3	826.6	978.3	1,079.1	PPE & ROU assets	452.2	478.2	479.1	456.5
<i>YoY growth</i>	-3.6%	35.4%	18.3%	10.3%	Intangible assets	33.4	29.9	26.3	23.2
COGS	(339.4)	(459.0)	(539.3)	(583.6)	Others	217.1	227.2	226.2	230.8
<b>Gross profit</b>	<b>270.8</b>	<b>367.6</b>	<b>439.0</b>	<b>495.5</b>	<b>Non-current assets</b>	<b>702.7</b>	<b>735.2</b>	<b>731.7</b>	<b>710.6</b>
Other income	-0.7	1.7	2.0	2.2					
Operating expenses	(137.3)	(167.8)	(195.7)	(215.8)	Inventories	16.4	36.0	21.1	38.3
<b>Operating profit</b>	<b>132.8</b>	<b>201.5</b>	<b>245.3</b>	<b>281.9</b>	Trade receivables	5.6	5.9	7.5	7.2
Finance expenses	(3.8)	(8.1)	(8.4)	(7.5)	Cash & cash equivalents	779.6	787.9	901.7	970.2
JV & Ass.	-	-	-	-	Others	36.8	106.8	83.0	104.3
<b>Profit before tax</b>	<b>129.0</b>	<b>193.4</b>	<b>236.9</b>	<b>274.4</b>	<b>Current assets</b>	<b>838.3</b>	<b>936.5</b>	<b>1,013.3</b>	<b>1,120.0</b>
Tax	(45.5)	(70.0)	(86.0)	(99.9)					
<b>Net profit</b>	<b>83.5</b>	<b>123.4</b>	<b>150.9</b>	<b>174.5</b>	<b>Total assets</b>	<b>1,541.0</b>	<b>1,671.8</b>	<b>1,745.0</b>	<b>1,830.5</b>
<i>YoY growth</i>	-36.9%	47.7%	22.3%	15.6%	LT borrowings	-	0.1	0.1	0.1
					Others	334.2	316.0	292.4	233.0
<b>Adj. EBITDA</b>	<b>236.9</b>	<b>346.0</b>	<b>406.3</b>	<b>451.3</b>	<b>Non-current liabilities</b>	<b>334.2</b>	<b>316.1</b>	<b>292.5</b>	<b>233.1</b>
					Trade payables	20.0	30.1	27.7	33.7
					ST borrowings	0.3	0.2	0.2	0.2
					Others	143.4	167.2	146.4	148.5
					<b>Current liabilities</b>	<b>163.7</b>	<b>197.5</b>	<b>174.2</b>	<b>182.3</b>
					<b>Total liabilities</b>	<b>497.9</b>	<b>513.6</b>	<b>466.8</b>	<b>415.5</b>
					Non-controlling interests	28.8	43.5	45.5	47.5
					Controlling interests	1,014.3	1,114.7	1,232.8	1,367.6
					<b>Total equities</b>	<b>1,043.1</b>	<b>1,158.2</b>	<b>1,278.3</b>	<b>1,415.1</b>

Cash Flow (HKD,mn)	2022	2023	2024	2025	Financial Ratio	2022	2023	2024	2025
	(E)	(E)	(E)	(E)		(A)	(E)	(E)	(E)
Profit before tax	129.0	193.4	236.9	274.4	Gross margin	44.4%	44.5%	44.9%	45.9%
Finance expenses	10.7	14.1	14.4	13.7	Operating margin	21.8%	24.4%	25.1%	26.1%
Finance income	(6.9)	(6.0)	(6.1)	(6.2)	Net profit margin	13.7%	14.9%	15.4%	16.2%
Depreciation&Amortization	76.7	104.0	109.0	112.6	Adj. EBITDA profit margin	38.8%	41.9%	41.5%	41.8%
Others	(50.3)	(60.0)	(67.7)	(90.9)	Return on Equity	8.0%	11.2%	12.4%	13.0%
Change in working capital	22.9	(46.1)	30.7	(24.8)	Return on Asset	5.7%	7.7%	8.8%	9.8%
<b>CFO</b>	<b>182.1</b>	<b>199.3</b>	<b>317.4</b>	<b>278.8</b>	Current ratio	512.1%	474.3%	581.6%	614.2%
					Quick ratio	492.7%	420.4%	538.6%	555.1%
CAPEX	(38.0)	(89.7)	(92.4)	(90.1)	Cash ratio	476.2%	399.0%	517.6%	532.1%
Others	(116.5)	(18.1)	(20.2)	(28.8)	Debt-to-Equity ratio	0.0%	0.0%	0.0%	0.0%
<b>CFI</b>	<b>(154.5)</b>	<b>(107.8)</b>	<b>(112.6)</b>	<b>(118.9)</b>	Inventory turnover days	93.3	92.4	91.8	91.4
					Receivable turnover days	2.6	2.5	2.5	2.5
Share issuance	-	-	-	-	Payable turnover days	58.6	58.2	57.9	57.7
Net borrowings	(4.4)	(0.0)	(0.0)	(0.0)					
Interest paid	-	-	-	-					
Dividend paid	(33.1)	(20.9)	(30.8)	(37.7)					
Others	(54.5)	(62.3)	(60.0)	(53.7)					
<b>CFF</b>	<b>(92.0)</b>	<b>(83.2)</b>	<b>(90.9)</b>	<b>(91.4)</b>					
<b>FCFE</b>	<b>11.7</b>	<b>91.5</b>	<b>204.7</b>	<b>159.9</b>					
<b>FCFF</b>	<b>16.1</b>	<b>91.5</b>	<b>204.8</b>	<b>159.9</b>					

Source: Company data, SBI CHINA CAPITAL

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### SBI China Capital stock ratings:

- STRONG BUY** : absolute upside of >50% over the next 12 months  
**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

SBI China Capital Financial Services Ltd. acted as the sub-underwriter for EuroEyes International Eye Clinic Limited (Stock code: 01846.HK) in Oct 2019.

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