

11 Dec, 2023

Clarity Medical | 01406.HK

More time is required to realize the targets

STOCK RATING

NR

TARGET PRICE

HK\$ -

Clarity Medical (01406.HK) reported HKD 101.6mn revenue in 2023/24 1H, implying YoY 5.6% decline. Dragged by increased profit sharing and the expenses incurred in the New Tsim Sha Tsui Center, the Group reported a HKD 20.0mn loss in 2023/24 1H.

Uncertainties in the HK market: Clarity Medical (01406.HK) conducted 1,962 refractive treatments in 2023/24 1H, of which the ICL Implantation Surgery was the only treatment recording a growth. The decrease in the number of surgeries conducted was due to a change in the doctor portfolio, extreme weather in Sep 2023 and the keen competition in SMILE Surgery. The ASP of SMILE Surgery, LASIK Surgery and ICL Implantation Surgery also recorded a retreat when compared to last year, resulting in a YoY 18.4% decrease in the revenue contribution from the refractive treatments. The pricing strategies adopted by the competitors and the business expansion plan of the newcomer, a Germany-based company, are the major uncertainties faced by the Group.

Incubation of new business: The opening of New Tsim Sha Tsui Center marked a new start for Clarity (01406.HK), the regular prevention and control services provided for children will provide the Group with a more stable income source. The Group acquired a decent number of customers in this business, but the ASP was far below the standard price due to the discounts offered in the initial stage. The Group likely need more time for marketing strategy and pricing strategy adjustments to increase the contribution from this business.

Besides, we see an exciting growth in the number of ICL Implantation Surgery, and the number of surgeries conducted keeps growing to about 100/month in 2023/24 Q3. It is a positive signal showing that i) the penetration rate of ICL Implantation Surgery is growing, ii) the Group, a leader in the market of ICL Implantation Surgery, is creating market demand as it introduced SMILE Surgery to Hong Kong years ago.

Cost-cutting policies will be carried out: Clarity (01406.HK) considers carrying out cost-cutting policies in response to the weak financial performance, including i) an adjustment in the doctor portfolio and profit-sharing scheme, ii) consideration of shrinking the GFA of the particular medical center, and iii) a reduction in headcount. The effectiveness will gradually reflect in 2024, in addition to the contribution from the New Tsim Sha Tsui Center, we may see an amelioration soon and even a positive bottom-line in 2024/25 FY.

COMPANY NOTE

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Clarity Medical (01406.HK)

Stock Rating NR

Target Price HK\$ -

Current Price HK\$ 0.63

52-Week Range HK\$ 0.53 – 1.30

Market cap. (HKD, bn) HK\$ 0.3

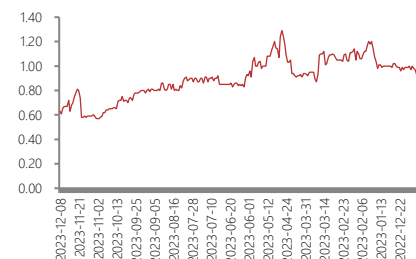
HKD, mn	2019/	2020/	2021/	2022/
	20 (A)	21 (A)	22 (A)	23 (A)

Revenue	218.4	222.4	225.2	213.8
Operating Profit	34.3	44.7	19.8	(1.4)
Operating Margin	15.7%	20.1%	8.8%	-0.7%
Net Profit	26.4	35.8	13.5	(3.2)
ROE	32.7%	35.2%	8.0%	-1.2%

Performance	1 mth	3 mth	6 mth	1 year
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Absolute 6.8% -22.2% -25.0% -35.7%

Relative to HSI 13.8% -12.0% -9.6% -19.7%



Peers comparison

		Mkt. Cap.	P/E	Fw. P/E	P/B	P/S	Revenue	GM	ROE
		(HKD, mn)	(x)	(x)	(x)	(x)	(HKD, mn)	(%)	(%)
01846.HK	Euroeyes	1,752.8	15.4	-	1.6	2.7	610.3	44.4	10.7
02219.HK	Chaoju Eye Care	3,120.6	12.3	11.3	1.2	2.5	1,152.8	43.9	10.5
03309.HK	C-MER Eye	4,395.0	-	57.8	2.4	2.4	1,731.9	25.9	(0.4)
300015.CH	Aier Eye	166,054.9	45.3	38.7	8.1	8.0	18,759.0	50.5	19.2
	<i>Average</i>	<i>43,830.8</i>	<i>24.3</i>	<i>35.9</i>	<i>3.3</i>	<i>3.9</i>	<i>5,563.5</i>	<i>41.1</i>	<i>10.0</i>
01406.HK	Clarity Medical	332.7	-	-	1.3	1.5	213.8	-	(1.2)

Source: Bloomberg, West Bull Securities

Risk factors

- Strong competition results in a decrease in the ASP of SMILE Pro and ICL Implantation Surgery
- Weakening demand for refractive treatments in Hong Kong
- Limited market education leads to a low penetration rate for children prevention and control services in Hong Kong
- The fixed expenses incurred in the New Tsim Sha Tsui Center drags the financial performance

Financial Statement

PnL					Balance Sheet				
(HKD, mn)	2019/20 (A)	2020/21 (A)	2021/22 (A)	2022/23 (A)	(HKD, mn)	2019/20 (A)	2020/21 (A)	2021/22 (A)	2022/23 (A)
Revenue	218.4	222.4	225.2	213.8	PPE	24.5	25.2	17.7	33.8
YoY growth	5.7%	1.8%	1.3%	-5.1%	Others	31.3	12.6	22.9	59.8
COGS	-	-	-	-	Non-current assets	55.7	37.8	40.6	93.6
Gross profit	218.4	222.4	225.2	213.8	Inventories	5.7	4.2	3.7	3.7
Other income	(0.0)	7.0	1.7	6.3	Trade receivables	0.8	1.9	1.1	2.0
Operating expenses	(184.1)	(184.6)	(207.1)	(221.6)	Cash & cash equivalents	65.6	64.9	241.3	207.5
Operating profit	34.3	44.7	19.8	(1.4)	Others	41.4	8.4	3.5	20.5
Finance expenses	(1.1)	(0.9)	(0.8)	(1.5)	Current assets	113.6	79.4	249.6	233.7
JV & Ass.	-	-	-	-	Total assets	169.3	117.2	290.1	327.3
Profit before tax	33.2	43.8	19.0	(2.9)	LT borrowings	-	-	-	-
Tax	(6.8)	(8.0)	(5.6)	(0.3)	Others	11.2	5.1	10.5	27.8
Net profit	26.4	35.8	13.5	(3.2)	Non-current liabilities	11.2	5.1	10.5	27.8
YoY growth	-12.2%	35.6%	-62.3%	-123.7%	Trade payables	7.9	8.4	5.9	7.2
					ST borrowings	3.8	-	-	-
					Others	23.6	23.1	18.3	33.0
					Current liabilities	35.4	31.5	24.2	40.2
					Total liabilities	46.6	36.7	34.7	68.0
					Non-controlling interests	-	-	-	-
					Controlling interests	122.7	80.5	255.4	259.3
					Total equities	122.7	80.5	255.4	259.3

Cash Flow					Financial Ratio				
(HKD, mn)	2019/20 (A)	2020/21 (A)	2021/22 (A)	2022/23 (A)		2019/20 (A)	2020/21 (A)	2021/22 (A)	2022/23 (A)
Profit before tax	33.2	43.8	19.0	(2.9)	Operating margin	15.7%	20.1%	8.8%	-0.7%
Finance expenses	1.1	0.9	0.8	1.5	Net profit margin	12.1%	16.1%	6.0%	-1.5%
Finance income	-	-	(0.0)	(3.9)	Adj. EBITDA profit margin	20.6%	27.4%	19.6%	-0.2%
D&A	6.8	8.4	7.7	6.2	Return on Equity	32.7%	35.2%	8.0%	-1.2%
Others	5.9	14.4	2.8	18.7	Return on Asset	21.1%	25.0%	6.6%	-1.0%
Change in working capital	(5.9)	3.8	(2.7)	(3.4)	Current ratio	320.9%	251.6%	1031.5%	581.3%
CFO	41.1	71.4	27.6	16.2	Quick ratio	304.7%	238.3%	1016.1%	572.1%
					Cash ratio	185.5%	205.6%	997.1%	516.2%
CAPEX	(5.6)	(9.2)	(0.2)	(22.4)	Debt-to-Equity ratio	3.1%	0.0%	0.0%	0.0%
Others	(39.0)	(34.4)	0.0	(121.3)	Net Debt-to-Equity ratio	-50.4%	-80.6%	-94.5%	-80.0%
CFI	(44.7)	(43.5)	(0.2)	(143.8)					
Shares issuance	55.0	-	205.5	10.5					
Net borrowings	(3.7)	(3.8)	-	-					
Interest paid	-	-	-	-					
Dividend paid	-	(5.3)	(26.0)	-					
Others	(16.7)	(19.5)	(30.5)	(19.7)					
CFF	34.6	(28.6)	149.0	(9.2)					
FCFE	31.8	58.3	27.3	(6.2)					
FCFF	31.8	58.3	27.3	(6.2)					

Source: Company data, West Bull Securities

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