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Ticker (01846.HK)

Recommendation	Buy
Target price (HKD)	6.92
Current price (HKD)	5.36
Last 12 mth price range	4.15 – 5.92
Market cap. (HKD, bn)	1.79

Source: Bloomberg, SBI CHINA CAPITAL

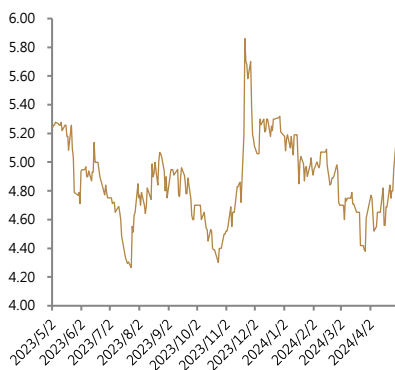
EuroEyes(01846.HK)

Resilient demand for lens exchange surgeries across four regions and intensive M&A strategy accelerate expansion, maintain the rating of “Buy” and the TP remains at HKD 6.92/share

EuroEyes(01846.HK) reached an all-time high turnover of HKD 714.3mn in 2023, marking an increase of about 17.0% YoY. The Group's adjusted gross profit climbed 23.2% YoY to HKD 339.4mn in 2023, with the gross profit margin increase of 2.4 p.p to 47.5%. The adjusted net profit of the Group ascended sharply by 40.0% YoY to nearly HKD 141.7mn in 2023, representing a YoY increment of 3.3p.p to a 19.8% adjusted net profit margin.

The overall performance of Euroeyes(01846.HK) in 2023 slightly fell short of our estimations, primarily attributable to 1.) diminished operational capacity at London Vision Clinic in 1H23 due to the necessity of training new surgeons, compounded by a post-Brexit economic slowdown that adversely affected the demand for refractive laser surgeries in the UK, and 2.) the postponed launch of new clinics in Hong Kong, and in Kiel and Wiesbaden, Germany, which deviated from our initial expectations. However, it is noteworthy that, even amidst the economic stagnation across Europe and patchy recovery in China, the demand of presbyopia correction treatments remained robust across four regions, showing a notable insensitivity to macroeconomic pressures. This strong demand propelled lens exchange surgeries to a record high, with its revenue surging by approximately 37.1% to HKD 371.8mn and boosting the overall capacity utilization rate by 2.9 p.p to 25.6% in 2023.

Performance (01846.HK)



	1mth	3mth	12mth
Change	16.3%	8.3%	2.3%
Relative change	8.9%	-6.4%	13.2%

Source: Choice, SBI CHINA CAPITAL

Lens exchange surgeries and new clinics operations drive sustained organic growth

We forecast the aging demographic shift will increasingly bolster the demand for trifocal lens exchange surgery, reinforcing its role as a primary driver of the Group's future organic growth. The Knightsbridge clinic, opened in Sep 2023 and focusing on lens exchange surgeries, is expected to shorten its ramp-up period to breakeven within 6 to 9 months, based on its strong performance in 1Q24. In contrast, the Hong Kong flagship clinic on Russell Street, as previously anticipated, faces higher operational costs and requires a longer market assimilation period, with a breakeven projected within 1 to 2 years.

The Group is also launching two clinics in Kiel and Wiesbaden, Germany, originally slated for late 2023 openings but now scheduled to open by the end of 1H24. Additionally, in response to the resurging business momentum in the PRC, the Group will proceed this year with the previously planned construction of consultation centers in Beijing and Shanghai to further enhance the utilization rates of the existing surgical centers.

Intensive M&A approach aims to accelerate expansion

Since the acquisition of FreeVis GmbH and PMK in August 2023, the Group is poised to broaden its operations in Mannheim, Germany, while simultaneously solidifying its position as a market leader within the region. Concurrently, leveraging Prof. Knorz's extensive industry network has been instrumental in identifying lucrative M&A opportunities. Seeking to enlarge its global footprint, the Group plans to allocate approximately HKD500mn towards an aggressive M&A strategy, targeting renowned ophthalmologists' private practices or well-established local refractive brands across Europe, America, and the Asia Pacific region, with the aim to complete these acquisitions within the next 24 months. However, we maintain a cautious stance regarding the Group's M&A timeline, and will continue to analyze the feasibility of executing acquisitions at reasonable considerations.

Resilient demand for lens exchange surgeries across four regions and intensive M&A strategy accelerate expansion, maintain the rating of “Buy” and the TP remains at HKD 6.92/share

The overall performance of Euroeyes(01846.HK) in 2023 slightly fell short of our estimations, primarily due to the acquired London Vision not reaching the expected sales target and the postponed launch of new clinics. However, it is impressive to see that, even amidst economic stagnation across Europe and a patchy recovery in China, the demand for presbyopia correction treatments remained robust across four regions, demonstrating notable resilience to macroeconomic pressures. We anticipate that the shifting demographics towards an aging population will consistently strengthen the demand for trifocal lens exchange surgery, further cementing its position as a key contributor to the Group's organic growth moving forward. Moreover, the Group is set to open new clinics in Kiel and Wiesbaden, Germany, with launches moved from late 2023 to the end of 1H24, and is advancing the construction of consultation centers in Beijing and Shanghai to boost utilization at its existing surgical centers, responding to revitalized business momentum in the PRC. Additionally, seeking to enlarge its global footprint, the Group plans to allocate HKD500mn in an aggressive M&A strategy, targeting renowned private practices and brands in Europe, America, and Asia Pacific. This intensive approach aims to accelerate expansion and complete these acquisitions within the next 24 months, although we maintain a cautious stance on the feasibility and timing of these ambitious plans, especially given the current global market instability. However, the Group has announced a share buyback scheme to repurchase up to 3% of the total outstanding shares, approximately 10 mn shares by 6 Jun 24, underscoring the Group's confidence in its future prospects. We maintain the rating of “Buy” and the TP remains at HKD 6.92/share, implying 15.2x/11.7x/10.3x fw PE of 2024/2025/2026.

Peers comparison

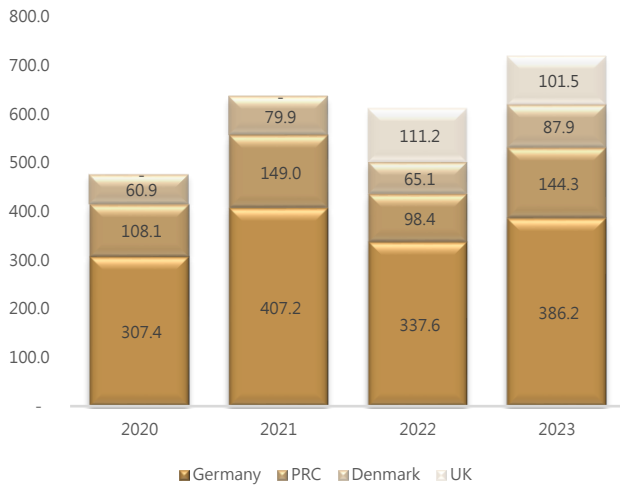
		Mkt cap	PE	Fw PE	PB	PS	Revenue	GM	ROE
		(HKD,mn)	(X)	(X)	(X)	(X)	(HKD,mn)	(%)	(%)
300015.CH	Aier Eye	129,968.8	34.8	29.4	6.1	6.0	22,516.8	50.8	18.7
301103.CH	He Eye	4,304.4	111.7	N/A	1.9	3.4	1,310.3	41.8	1.7
301239.CH	Bright Eye	7,955.3	60.4	24.7	3.2	N/A	3,004.7	44.0	5.4
01406.HK	Clarity Medical	285.2	N/A	N/A	1.1	1.3	213.8	N/A	(1.2)
02219.HK	Chaoju Eye Care	2,724.0	11.0	9.0	1.1	1.8	1,514.0	45.4	9.9
03309.HK	C-MER Eye	3,729.0	60.2	45.7	2.0	1.9	1,924.0	32.2	3.3
	<i>Average</i>	<i>24,827.8</i>	<i>55.6</i>	<i>27.2</i>	<i>2.6</i>	<i>2.9</i>	<i>5,080.6</i>	<i>42.8</i>	<i>6.3</i>
01846.HK	EuroEyes	1,786.2	13.7	N/A	1.6	2.5	714.3	47.0	12.2

Source: Bloomberg, SBI China Capital

Risk factors

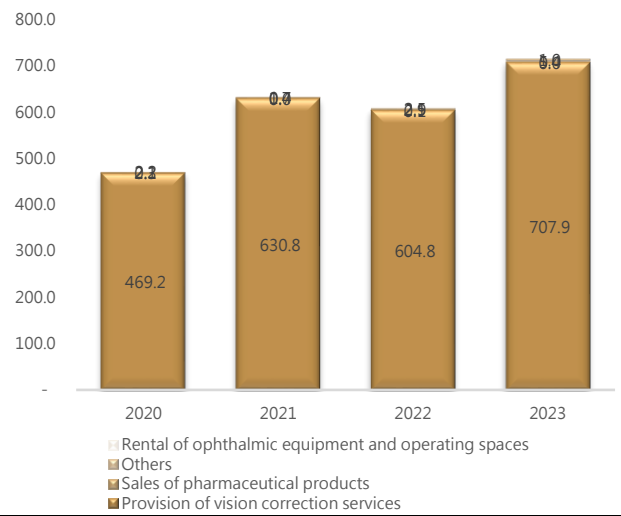
- Malpractice and medical negligence
- Inability to provide services with the latest technology
- Potential worldwide economic recession
- Operating expenses escalate rapidly due to out-of-control inflation
- London Vision, FreeVis GmbH and PMK fail to achieve the growth target

Revenue breakdown by geographical regions(HKD, mn)



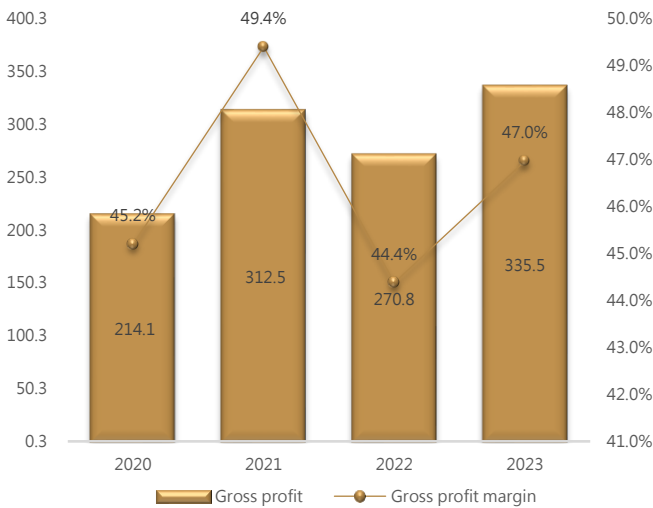
Source: Company data, SBI CHINA CAPITAL

Revenue breakdown by business functions(HKD, mn)



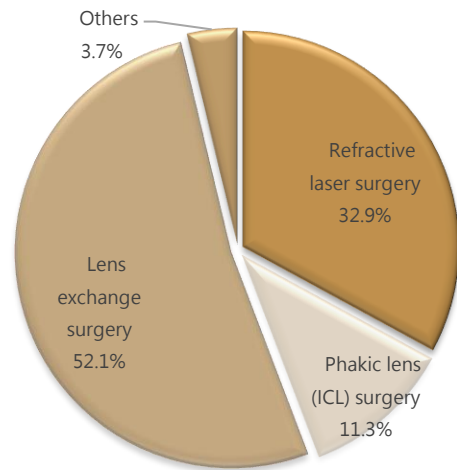
Source: Company data, SBI CHINA CAPITAL

Gross profit and Gross profit margin(HKD, mn)



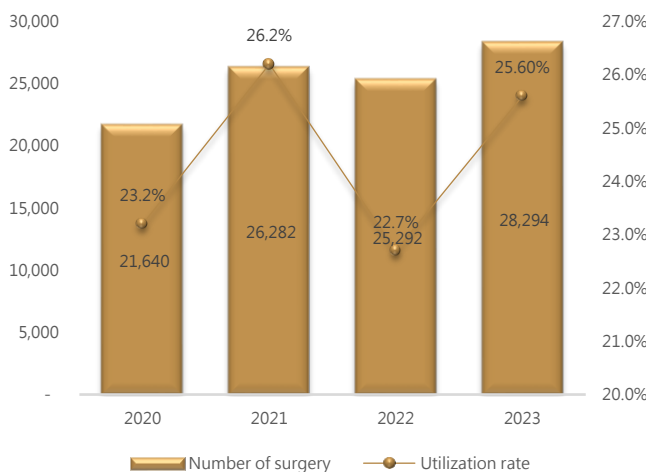
Source: Company data, SBI CHINA CAPITAL

Revenue distribution by types of surgeries in 2023



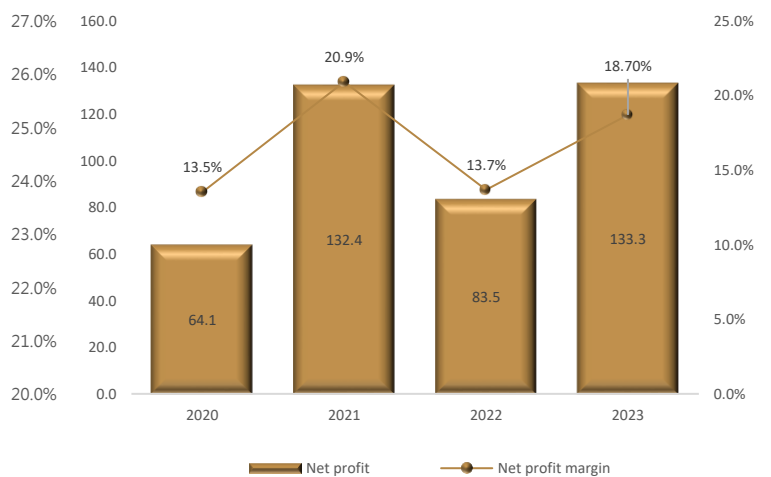
Source: Company data, SBI CHINA CAPITAL

Utilization rate of clinics and no. of surgeries



Source: Company data, SBI CHINA CAPITAL

Net profit performance(HKD, mn)



Source: Company data, SBI CHINA CAPITAL

Financial Statement

PnL	2023	2024	2025	2026	Balance Sheet	2023	2024	2025	2026
	(HKD, mn)	(A)	(E)	(E)		(HKD, mn)	(A)	(E)	(E)
Revenue	714.3	842.7	1,006.4	1,126.1	PPE & ROU assets	622.2	764.9	925.1	1,110.3
<i>YoY growth</i>	<i>17.0%</i>	<i>18.0%</i>	<i>19.4%</i>	<i>11.9%</i>	Intangible assets	37.3	32.1	27.6	23.7
COGS	(378.8)	(446.4)	(520.0)	(568.8)	Others	306.2	328.3	390.5	423.5
Gross profit	335.5	396.3	486.4	557.3	Non-current assets	965.7	1,125.2	1,343.2	1,557.5
Other income	20.4	29.5	32.7	26.5	Inventories	16.2	21.1	22.5	26.2
Operating expenses	(162.4)	(219.1)	(246.6)	(270.3)	Trade receivables	6.9	8.1	10.0	10.4
Operating profit	193.5	206.7	272.6	313.6	Cash & cash equivalents	720.2	651.1	666.4	663.6
Finance expenses, net	(2.9)	5.4	(0.7)	(5.7)	Others	44.6	55.6	70.2	79.2
JV & Ass.	-	-	-	-	Current assets	787.9	735.8	769.1	779.4
Profit before tax	190.6	212.1	271.9	307.9					
Tax	(57.4)	(63.6)	(81.6)	(92.4)					
Net profit	133.3	148.5	190.3	215.5	Total assets	1,753.6	1,861.0	2,112.4	2,336.8
<i>YoY growth</i>	<i>59.6%</i>	<i>11.4%</i>	<i>28.2%</i>	<i>13.3%</i>	LT borrowings	-	-	-	-
					Others	417.6	454.9	509.3	545.0
Adj. EBITDA	283.5	320.1	403.3	474.7	Non-current liabilities	417.6	454.9	509.3	545.0
					Trade payables	22.6	33.4	31.4	40.0
					ST borrowings	0.9	0.9	0.9	0.9
					Others	146.9	150.8	196.7	208.9
					Current liabilities	170.5	185.2	229.0	249.8
					Total liabilities	588.1	640.1	738.3	794.8
					Non-controlling interests	30.7	32.0	33.4	34.8
					Controlling interests	1,134.8	1,188.9	1,340.7	1,507.2
					Total equities	1,165.5	1,220.9	1,374.1	1,542.0

Cash Flow	2023	2024	2025	2026	Financial Ratio	2023	2024	2025	2026
	(HKD, mn)	(E)	(E)	(E)		(E)	(A)	(E)	(E)
Profit before tax	190.6	212.1	271.9	307.9	Gross margin	47.0%	47.0%	48.3%	49.5%
Finance expenses	22.2	16.5	17.3	19.6	Operating margin	27.1%	24.5%	27.1%	27.8%
Finance income	(19.3)	(21.9)	(16.6)	(14.0)	Net profit margin	18.7%	17.6%	18.9%	19.1%
Depreciation&Amortization	87.4	110.4	122.2	140.7	Adj. EBITDA profit margin	39.7%	38.0%	40.1%	42.2%
Others	(96.8)	(32.7)	(53.1)	(91.0)	Return on Equity	12.1%	12.4%	14.7%	14.8%
Change in working capital	15.6	(11.0)	8.4	(11.5)	Return on Asset	8.1%	8.2%	9.6%	9.7%
CFO	199.7	273.5	350.1	351.8	Current ratio	462.2%	397.4%	335.8%	312.0%
					Quick ratio	445.6%	375.3%	317.5%	290.7%
CAPEX	(92.1)	(75.8)	(68.9)	(66.0)	Cash ratio	422.5%	351.6%	291.0%	265.6%
Others	(75.0)	(95.0)	(140.0)	(140.0)	Debt-to-Equity ratio	0.1%	0.1%	0.1%	0.1%
CFI	(167.1)	(170.8)	(208.9)	(206.0)	Inventory turnover days	70.3	70.1	69.9	69.8
					Receivable turnover days	3.2	3.2	3.3	3.3
					Payable turnover days	67.1	65.2	63.9	62.9
Share issuance	-	-	-	-					
Net borrowings	0.6	(0.0)	-	-					
Interest paid	-	-	-	-					
Dividend paid	(22.6)	(33.1)	(37.1)	(47.6)					
Others	(71.5)	(138.7)	(88.7)	(101.0)					
CFF	(93.5)	(171.8)	(125.8)	(148.6)					
FCFE	44.6	102.6	141.2	145.8					
FCFF	44.0	102.7	141.2	145.8					

Source: Company data, SBI CHINA CAPITAL

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