

Euroeyes

1Q21 Surgery Volume +52% YOY – All Organic and a Record High; Reiterate Buy

31 May 2021

Key Takeaway

Euroeyes reported that 1Q21 surgery volume reached a record high of ~6.5k (+52% YOY, or +40% vs 1Q19). Note that volume growth has historically been a close proxy to revenue growth (see table). We expect this strong momentum to continue. Our EV/EBITDA-based PT of HK\$18 implies 58% potential upside. Reiterate Buy.

New record number of surgeries in 1Q21, all organic – Euroeyes reported a record-high number of eye surgeries in 1Q21, reaching 6.5k, vs 4.3k in 1Q20 (+52% YOY), and 4.7k in 1Q19 (+40% increase).

Higher utilization rate may imply better margins – Euroeyes posted strong growth in 4Q20 with a utilization rate of 28.7% and a net margin of 23.2%. We expect increasing surgery volume will improve the utilization rate and hence lead to better margins.

Exhibit 1 - New record of surgeries in 1Q21

				1Q19	1Q20	1Q21	1Q21 vs. 1Q19
Surgery volume				4,666	4,301	6,537	
YOY%					-8%	52%	40%
1Q surgeries as % of full year				24%	20%		
	2016	2017	2018	2019	2020		4Q20
Surgery volume	12,129	14,969	17,373	19,625	21,640		
YOY%		23%	16%	13%	10%		
Sales (HKD '000)	265,253	322,619	374,828	429,692	473,818		151,415
YOY%		22%	16%	15%	10%		
Utilization rate					23.2%		28.7%
Gross margin	32.6%	35.4%	40.5%	42.1%	45.2%		
Net margin	6.4%	6.7%	12.8%	11.7%	14.9%		23.2%

Source: Company data

Our stance – We expect the strong momentum to carry on, not to mention the contribution from the ramp-up of two new consultation centers in Germany and its Beijing East clinic, which has just reached the breakeven point late 2Q20 after launching in late 3Q19. We expect the revenue growth of the company to accelerate to +41% YOY in 2021E. In addition, the two brand-new China clinics, in Chongqing and Shanghai Pudong, are expected to contribute soon, with a Chengdu clinic to open sometime later. We expect the utilization rate to reach 30-40% over the next few years, and margin expansion should continue from economies of scale and operational efficiencies. We believe ophthalmology is a key under-diagnosed and under-treated area with much unmet need. With an aging population, healthcare awareness, and higher disposable income, Euroeyes could become the go-to platform for eye surgeries, including myopia, high myopia, hyperopia, astigmatism, keratoconus, cataracts, and presbyopia, especially the use of lens exchanges and ICLs.

COMPANY UPDATE

ASIA-PACIFIC excl. Japan | Healthcare Services

RATING	BUY
PRICE	HK\$11.30^
MARKET CAP	3.7B / \$479.3M
PRICE TARGET (PT)	HK\$18.00
UPSIDE SCENARIO PT	HK\$26.00
DOWNSIDE SCENARIO PT	HK\$6.50

^Prior trading day's closing price unless otherwise noted.

FY Dec

HKD	2020A	2021E	2022E	2023E
EPS	HK\$0.18	HK\$0.34	HK\$0.45	HK\$0.58

See our recent report on Euroeyes: Improving Fundamentals and a Much Better Outlook, Upgrade to BUY ([link](#))

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Valuation – We reiterate Buy rating. Our PT of HK\$18 implies 20x our 2021E EV/EBITDA and 16x our 2022E EV/EBITDA. **Risks:** expansion uncertainty, pricing pressure, follow-up risks, regulatory risks, competition, and execution risks.

EUROEYES (1846 HK)

Estimates				
HK\$	2020A	2021E	2022E	2023E
Rev. (MM)	HK\$473.8	HK\$668.9	HK\$807.1	HK\$930.3
<i>Previous</i>				
EBITDA (MM)	HK\$189.2	HK\$284.0	HK\$341.2	HK\$407.4
<i>Previous</i>				
Net Profit	HK\$65.6	HK\$125.8	HK\$170.3	HK\$217.9
<i>Previous</i>				
EPS	HK\$0.18	HK\$0.34	HK\$0.45	HK\$0.58
<i>Previous</i>				

Market Data	
52-Week Range:	HK\$12.44 - HK\$4.81
Total Entprs. Value	HK\$3.0B
Avg. Daily Value MM (USD)	0.84
Float (%)	36.3%

The Long View

Scenarios

Base Case

Ramp up and operating leverage from new clinics;
Steady expanding network of clinics in China;
PT of HK\$18 from EV/EBITDA based valuation

Upside Scenario

Stronger demand for premium vision correction/
cataract/DR services;
Faster ramp up of new clinics;
Faster clinics expansion;
PT of HK\$26 from EV/EBITDA based valuation

Downside Scenario

Soft demand for premium vision correction/cataract/
DR services;
Longer breakeven period for new clinics;
Delay of clinic acquisitions;
PT of HK\$6.5 from EV/EBITDA based valuation

Investment Thesis / Where We Differ

The unique value proposition is that Euroeyes flies very experienced surgeons from Europe to China to perform surgeries. We believe ophthalmology is a key under-diagnosed and under-treated area with much unmet need. With an aging population, healthcare awareness, and higher disposable income, Euroeyes can become the go-to platform for eye surgeries (for myopia, high myopia, hyperopia, astigmatism, keratoconus, cataract, and presbyopia, including the use of lens exchange and ICL).

Catalysts

New clinics organically and/or inorganically;
Cross-selling and synergies with partners

Exhibit 2 - Income statement

Income Statement									
HK\$ '000	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Net sales	322,619	374,828	429,692	473,818	668,930	807,133	930,342	1,043,187	1,145,288
COGS	(23,848)	(25,545)	(251,971)	(259,718)	(342,689)	(396,441)	(435,772)	(464,060)	(482,224)
Gross profit	114,549	151,952	177,721	214,100	326,241	410,691	494,570	579,126	663,063
Selling expenses	(49,522)	(48,240)	(60,209)	(46,044)	(53,514)	(64,571)	(74,427)	(83,455)	(91,623)
G&A expenses	(15,225)	(23,322)	(45,870)	(60,491)	(73,582)	(80,713)	(83,731)	(83,455)	(80,170)
Operating income	49,801	80,391	71,642	107,565	199,144	265,407	336,412	412,217	491,270
D&A	49,400	52,716	66,248	81,684	84,807	75,811	71,021	69,238	69,609
EBITDA	99,202	133,106	137,890	189,249	283,952	341,219	407,433	481,454	560,879
Listing expenses	0	(10,557)	(42,219)	0	0	0	0	0	0
Other gains / (loss) net	72,312	1,326	1,001	3,492	2,000	2,000	2,000	2,000	2,000
Finance income	0	192	2,466	2,517	3,024	3,618	4,361	5,197	6,221
Finance costs	(11,054)	(7,390)	(11,566)	(14,926)	(14,926)	(14,926)	(14,926)	(14,926)	(14,926)
Pretax income	111,059	63,962	21,324	98,648	189,243	256,099	327,847	404,488	484,565
Taxes	(36,278)	(26,524)	(25,010)	(34,575)	(66,327)	(89,760)	(114,907)	(141,768)	(169,834)
Effective tax rate	32.7%	41.5%	117.3%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Net income	74,781	37,438	(3,686)	64,073	122,915	166,339	212,940	262,719	314,730
Minority Interest	1,187	(3,996)	246	1,507	2,891	3,912	5,008	6,179	7,402
Net income to common	75,967	33,442	(3,440)	65,580	125,806	170,252	217,949	268,898	322,133
Diluted EPS (HK\$)	2.317	0.144	(0.013)	0.175	0.335	0.453	0.580	0.715	0.857
Adjusted net profit to common	22,850	43,999	50,529	72,121	125,806	170,252	217,949	268,898	322,133
Adjusted diluted EPS (HK\$)	0.697	0.189	0.197	0.192	0.335	0.453	0.580	0.715	0.857
Diluted sh o/s ('000)	32,791	233,012	256,518	375,643	375,912	375,912	375,912	375,912	375,912
Margin Analysis									
Gross margin	35.5%	40.5%	41.4%	45.2%	48.8%	50.9%	53.2%	55.5%	57.9%
Selling expense as % of sales	15.4%	12.9%	14.0%	9.7%	8.0%	8.0%	8.0%	8.0%	8.0%
G&A expense as % of sales	4.7%	6.2%	10.7%	12.8%	11.0%	10.0%	9.0%	8.0%	7.0%
Operating margin	15.4%	21.4%	16.7%	22.7%	29.8%	32.9%	36.2%	39.5%	42.9%
EBITDA margin	30.7%	35.5%	32.1%	39.9%	42.4%	42.3%	43.8%	46.2%	49.0%
Pretax margin	34.4%	17.1%	5.0%	20.8%	28.3%	31.7%	35.2%	38.8%	42.3%
Net margin	23.5%	8.9%	-0.8%	13.8%	18.8%	21.1%	23.4%	25.8%	28.1%
Adjusted net margin	7.1%	11.7%	11.8%	15.2%	18.8%	21.1%	23.4%	25.8%	28.1%
% YOY Change									
Net sales	22%	16%	15%	10%	41%	21%	15%	12%	10%
Gross profit	32%	33%	17%	20%	52%	26%	20%	17%	14%
Selling expense	24%	-3%	25%	-24%	16%	21%	15%	12%	10%
G&A expense	11%	53%	97%	32%	22%	10%	4%	0%	-4%
Operating income	51%	61%	-11%	50%	85%	33%	27%	23%	19%
EBITDA	31%	34%	4%	37%	50%	20%	19%	18%	16%
Pretax income	301%	-42%	-67%	363%	92%	35%	28%	23%	20%
Net income	266%	-56%	-110%	-2006%	92%	35%	28%	23%	20%
Adjust net income	10%	93%	15%	43%	74%	35%	28%	23%	20%
Diluted EPS	264%	-94%	-109%	-1402%	92%	35%	28%	23%	20%
Diluted shares outstanding	1%	611%	10%	46%	0%	0%	0%	0%	0%

Source: Company data, Jefferies estimates (E)

Company Description

Euroeyes

Euroeyes performs vision correction surgeries and has a leading market share in Germany and Denmark. Services offered include treatment of myopia, high myopia, hyperopia, astigmatism, keratoconus, cataract and presbyopia. The company entered China in 2013 and is now running six clinics over five cities.

Company Valuation/Risks

Euroeyes

Our EV/EBITDA based PT for Euroeyes is HK\$18. Risks: Key man risk, expansion uncertainty, pricing pressure, follow-up and related risks (i.e. adverse effect post-surgery, liability, etc.), regulatory risks, competition, and execution risks.

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(Article 3(1)e and Article 7 of MAR)

Recommendation Published May 31, 2021 , 12:02 ET.

Recommendation Distributed May 31, 2021 , 12:02 ET.

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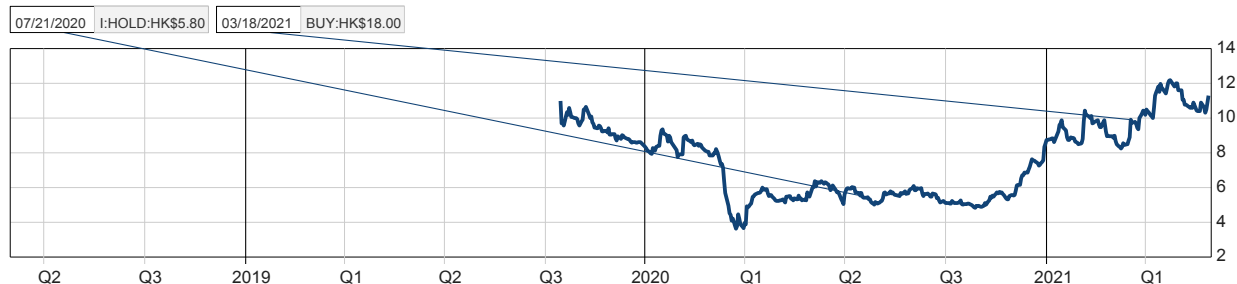
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Rating and Price Target History for: EuroEyes International Eye Clinic Ltd (1846 HK) as of 05-28-2021



Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

Legend:

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D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

Distribution of Ratings

Distribution of Ratings						
			IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
	Count	Percent	Count	Percent	Count	Percent
BUY	1739	62.46%	181	10.41%	27	1.55%
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