

Euroeyes

2021 Sales/EPS +34%/+132%YOY; London Acquisition a Big Step to Global Expansion

27 March 2022

Key Takeaway

2021 sales/EPS +34%/+132%YOY – significant operating leverage from higher utilization rate and efficient (word of mouth) marketing. New London acquisition would boost 2021 proforma sales/EBIT by +17%/+13%. China lockdown may bring some uncertainties. More expansion/acquisition potential ahead.

2021 Financials – Sales were HK\$633mn (+34%YOY), EPS was HK\$0.406 (+132%YOY). Sales growth was steady across all regions, with China +38%YOY leading the pack, followed by Germany +33%YOY and Denmark +31%YOY. EBIT was up +76%YOY reaching HK\$189.8mn, implying an improved EBIT margin of 30.0% vs. 22.7% in 2020. Net profit amounted to HK\$134mn (+104%YOY) with net margin of 21.1% (vs. 13.8% in 2020). Net cash was HK\$841mn vs. HK\$755mn as of YE2020 (+11%YOY). Final dividend was HK\$0.099 at a payout ratio of 25%.

London Vision Clinic on Harley Street – Euroeyes acquired 100% of London Vision Clinic at a maximum consideration of £34mn, implying price to 2022E EBIT of 12.8x or 2025E EBIT of 5.6x. In a bear case, the consideration would be £16.25mn (or 2022E EBIT of 7.2x and 2025E EBIT of 5.1x). Note that this acquisition would boost Euroeyes 2021 proforma sales by +17% and EBIT by +13%. Management expects London Vision to deliver +10% CAGR in revenue and +60% CAGR in EBIT in 2019-25E driven by synergies with Euroeyes. Founded in 2002, London Vision is a market leader in the UK offering services including PRK, LASIK, SMILE, phakic lens (ICL) surgery and refractive cataract surgery. London Vision's founder Professor Dan Zoltan Reinstein also invented PRESBYOND Laser Blended Vision treatment for presbyopia patients as young as 40 years old. PRESBYOND offers another option via LASIK, avoiding the need of lens replacement surgeries.

Looking ahead – We expect Euroeyes to book top line of HK\$823mn (+30%YOY) and EPS of HK\$0.485 (+20%YOY) in 2022, driven by its recent acquisition in London and growth momentum carried from 2021 offset by uncertainties (including regional quarantines and lockdowns) from rising COVID-19 cases in China in 1Q/2Q22. We believe Euroeyes has ambition and ample resources to expand into new regions such as Paris and Hong Kong in 2022. We also expect operating leverage will return in 2023 as more synergies are created between Euroeyes and its London Vision Clinic, not to mention COVID-19 impact should be largely over by then.

Estimate Change

ASIA-PACIFIC excl. Japan | Healthcare Services

RATING	BUY
PRICE	HK\$7.35 [^]
MARKET CAP	HK\$2.4B / \$312.9M
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	2021A	2022E	2023E	2024E
EPS	↑HK \$0.41	↑HK \$0.49	↑HK \$0.64	HK\$0.80
Prev.	HK\$0.34	HK\$0.45	HK\$0.58	

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EUROEYES (1846 HK)

Estimates				
HK\$	2021A	2022E	2023E	2024E
Rev. (MM)	↓ HK\$632.9	↑ HK\$823.1	↑ HK\$955.6	HK\$1,082.6
<i>Previous</i>	HK\$668.9	HK\$807.1	HK\$930.3	
EBITDA (MM)	↓ HK\$264.5	↓ HK\$304.9	↓ HK\$403.0	HK\$493.2
<i>Previous</i>	HK\$284.0	HK\$341.2	HK\$407.4	
Net Profit	↑ HK\$133.6	↓ HK\$161.8	↓ HK\$212.0	HK\$267.4
<i>Previous</i>	HK\$125.8	HK\$170.3	HK\$217.9	
EPS	↑ HK\$0.41	↑ HK\$0.49	↑ HK\$0.64	HK\$0.80
<i>Previous</i>	HK\$0.34	HK\$0.45	HK\$0.58	

Market Data	
52-Week Range:	HK\$14.90 - HK\$6.01
Total Entprs. Value	HK\$1.6B
Avg. Daily Value MM (USD)	0.51
Float (%)	36.9%

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 clinic 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 that ophthalmology is a key underdiagnosed and undertreated 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 (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 1 - 2021 results review

P&L FY21 YOY% and 2H21 HOH%						
(HK\$ '000)	FY21	FY20	YOY%	2H21	1H21	HOH%
Net sales	632,931	473,818	34%	313,253	319,678	-2%
COGS	(320,386)	(259,718)	23%	(160,533)	(159,853)	0%
Gross profit	312,545	214,100	46%	152,720	159,825	-4%
Selling expenses	(53,767)	(46,044)	17%	(27,053)	(26,714)	1%
G&A expenses	(68,978)	(60,491)	14%	(31,358)	(37,620)	-17%
Operating income	189,800	107,565	76%	94,309	95,491	-1%
D&A	74,658	81,684	-9%	37,767	36,891	2%
EBITDA	264,458	189,249	40%	132,076	132,382	0%
Other gains / (loss) net	1,462	3,492	-58%	31	1,431	-98%
Finance income	12,876	2,517	412%	9,593	3,283	192%
Finance costs	(8,465)	(14,926)	-43%	(4,237)	(4,228)	0%
Pretax income	195,673	98,648	98%	99,696	95,977	4%
Taxes	(63,289)	(34,575)	83%	(32,890)	(30,399)	8%
Effective tax rate	32%	35%	-8%	33%	32%	4%
Net income	132,384	64,073	107%	66,806	65,578	2%
Minority Interest	1,176	1,507	-22%	1,616	(440)	
Net income to common	133,560	65,580	104%	68,422	65,138	5%
Diluted EPS (HK\$)	0.406	0.175	132%	0.209	0.198	6%
Adjusted net profit to common	127,129	72,121	76%	62,328	64,801	-4%
Adjusted diluted EPS (HK\$)	0.386	0.192	101%	0.189	0.197	-4%
Diluted sh o/s ('000)	329,156	375,643	-12%	327,403	329,353	-1%
Margin Analysis	FY21	FY20	Delta	2H21	1H21	Delta
Gross margin	49.4%	45.2%	4.2%	48.8%	50.0%	-1.2%
Selling expense as % of sales	8.5%	9.7%	-1.2%	8.6%	8.4%	0.3%
G&A expense as % of sales	10.9%	12.8%	-1.9%	10.0%	11.8%	-1.8%
Operating margin	30.0%	22.7%	7.3%	30.1%	29.9%	0.2%
EBITDA margin	41.8%	39.9%	1.8%	42.2%	41.4%	0.8%
Pretax margin	30.9%	20.8%	10.1%	31.8%	30.0%	1.8%
Net margin	21.1%	13.8%	7.3%	21.8%	20.4%	1.5%
Adjusted net margin	20.1%	15.2%	4.9%	19.9%	20.3%	-0.4%
Revenue and GM	FY21	FY20	YOY%	2H21	1H21	HOH%
Revenue	632,931	473,818	34%	313,253	319,678	-2%
Germany	404,032	304,788	33%	202,462	201,570	0%
China	149,012	108,114	38%	72,294	76,718	-6%
Denmark	79,887	60,916	31%	38,497	41,390	-7%
	FY21	FY20	Delta	2H21	1H21	Delta
Gross margin	49.4%	45.2%	4.2%	48.8%	50.0%	-1.2%
Germany	55.0%	50.9%	4.1%	54.3%	55.7%	-1.5%
China	34.8%	30.7%	4.1%	33.9%	35.6%	-1.7%
Denmark	48.3%	42.6%	5.7%	47.7%	48.8%	-1.2%
Key balance sheet items and working capital	FY21	FY20	YOY%			
Cash and cash equivalent	845,638	761,960	11%			
ST Bank borrowings	1,916	2,021	-5%			
LT Bank Borrowings	2,729	5,101	-47%			
Net cash	840,993	754,838	11%			
Inventory days	34	47	-28%			
AR days	2	3	-19%			
AP days	24	32	-25%			

Source: Company data

Exhibit 2 - Income statement

Income Statement									
HK\$ '000	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E
Net sales	322,619	374,828	429,692	473,818	632,931	823,109	955,598	1,082,599	1,202,005
COGS	(23,848)	(25,545)	(251,971)	(259,718)	(320,386)	(433,750)	(476,571)	(508,279)	(531,870)
Gross profit	114,549	151,952	177,721	214,100	312,545	389,359	479,027	574,320	670,135
Selling expenses	(49,522)	(48,240)	(60,209)	(46,044)	(53,767)	(69,964)	(78,359)	(86,608)	(96,160)
G&A expenses	(15,225)	(23,322)	(45,870)	(60,491)	(68,978)	(86,426)	(95,560)	(102,847)	(108,180)
Operating income	49,801	80,391	71,642	107,565	189,800	232,968	305,108	384,865	465,794
D&A	49,400	52,716	66,248	81,684	74,658	71,890	97,913	108,318	118,667
EBITDA	99,202	133,106	137,890	189,249	264,458	304,858	403,021	493,182	584,461
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	1,462	1,462	1,462	1,462	1,462
Finance income	0	192	2,466	2,517	12,876	13,068	15,191	17,357	20,976
Finance costs	(11,054)	(7,390)	(11,566)	(14,926)	(8,465)	(8,465)	(8,465)	(8,465)	(8,465)
Pretax income	111,059	63,962	21,324	98,648	195,673	239,033	313,296	395,219	479,767
Taxes	(36,278)	(26,524)	(25,010)	(34,575)	(63,289)	(78,881)	(103,388)	(130,422)	(158,323)
Effective tax rate	32.7%	41.5%	117.3%	35.0%	32.3%	33.0%	33.0%	33.0%	33.0%
Net income	74,781	37,438	(3,686)	64,073	132,384	160,152	209,908	264,796	321,444
Minority Interest	1,187	(3,996)	246	1,507	1,176	1,602	2,099	2,648	3,214
Net income to common	75,967	33,442	(3,440)	65,580	133,560	161,754	212,007	267,444	324,658
Diluted EPS (HK\$)	2.317	0.144	(0.013)	0.175	0.406	0.485	0.636	0.803	0.974
Adjusted net profit to common	22,850	43,999	50,529	72,121	127,129	161,754	212,007	267,444	324,658
Adjusted diluted EPS (HK\$)	0.697	0.189	0.197	0.192	0.386	0.485	0.636	0.803	0.974
Diluted sh o/s ('000)	32,791	233,012	256,518	375,643	329,156	333,240	333,240	333,240	333,240
Margin Analysis									
Gross margin	35.5%	40.5%	41.4%	45.2%	49.4%	47.3%	50.1%	53.1%	55.8%
Selling expense as % of sales	15.4%	12.9%	14.0%	9.7%	8.5%	8.5%	8.2%	8.0%	8.0%
G&A expense as % of sales	4.7%	6.2%	10.7%	12.8%	10.9%	10.5%	10.0%	9.5%	9.0%
Operating margin	15.4%	21.4%	16.7%	22.7%	30.0%	28.3%	31.9%	35.6%	38.8%
EBITDA margin	30.7%	35.5%	32.1%	39.9%	41.8%	37.0%	42.2%	45.6%	48.6%
Pretax margin	34.4%	17.1%	5.0%	20.8%	30.9%	29.0%	32.8%	36.5%	39.9%
Net margin	23.5%	8.9%	-0.8%	13.8%	21.1%	19.7%	22.2%	24.7%	27.0%
Adjusted net margin	7.1%	11.7%	11.8%	15.2%	20.1%	19.7%	22.2%	24.7%	27.0%
% YOY Change									
Net sales	22%	16%	15%	10%	34%	30%	16%	13%	11%
Gross profit	32%	33%	17%	20%	46%	25%	23%	20%	17%
Selling expense	24%	-3%	25%	-24%	17%	30%	12%	11%	11%
G&A expense	11%	53%	97%	32%	14%	25%	11%	8%	5%
Operating income	51%	61%	-11%	50%	76%	23%	31%	26%	21%
EBITDA	31%	34%	4%	37%	40%	15%	32%	22%	19%
Pretax income	301%	-42%	-67%	363%	98%	22%	31%	26%	21%
Net income	266%	-56%	-110%	-2006%	104%	21%	31%	26%	21%
Adjust net income	10%	93%	15%	43%	76%	27%	31%	26%	21%
Diluted EPS	264%	-94%	-109%	-1402%	132%	20%	31%	26%	21%
Diluted shares outstanding	1%	611%	10%	46%	-12%	1%	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, cataracts, 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 include key man risk, expansion uncertainty, pricing pressure, follow-up and related risks (e.g., adverse effect post-surgery, liability), regulatory risks, competition, and execution risks.

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

Recommendation Completion	March 27, 2022 , 01:48 ET.
Recommendation Distributed	March 27, 2022 , 01:48 ET.

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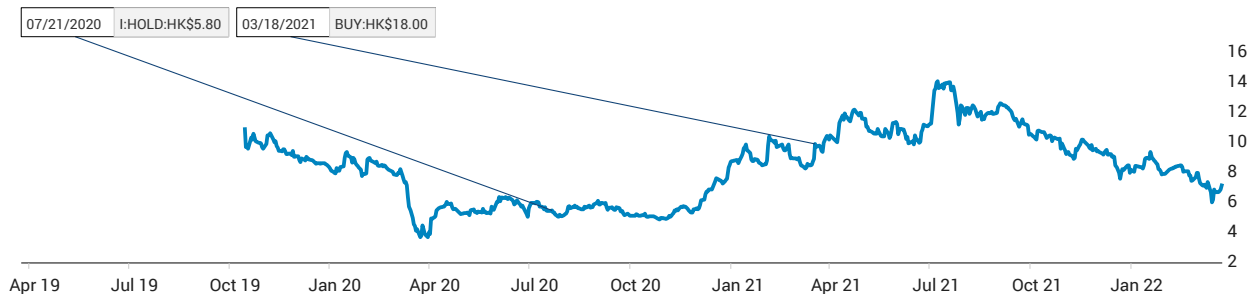
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Rating and Price Target History for: EuroEyes International Eye Clinic Ltd (1846 HK) as of 03-24-2022



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:

I: Initiating Coverage

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	2010	63.71%	130	6.47%	27	1.34%
HOLD	1017	32.23%	23	2.26%	3	0.29%
UNDERPERFORM	128	4.06%	0	0.00%	0	0.00%

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