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Ticker (01846.HK)

Recommendation	Buy
Target price (HKD)	6.92
Current price (HKD)	4.96
Last 12 mth price range	4.08 – 6.20
Market cap. (HKD, bn)	1.65

Source: Bloomberg, SBI CHINA CAPITAL

EuroEyes(01846.HK)

A robust revival in the PRC steered by the surge in presbyopia correction and strategic acquisition of clinics in Germany, maintain the rating of “Buy” and adjust the TP upward to HKD 6.92/share

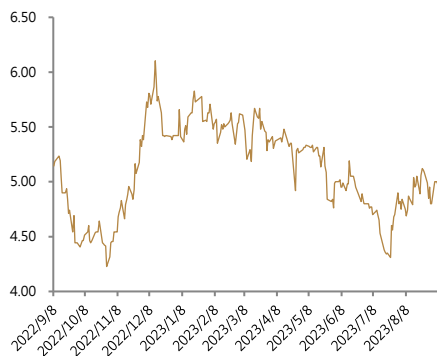
EuroEyes(01846.HK) reported a half-year period record-high turnover of HKD 346.4mn in 1H23, which marked an increase of approximately 9.7% YoY. Disregarding share-based compensation expenses for surgeons and clinic pre-operating expenses, the Group’s adjusted gross profit margin rose by 3.3p.p YoY, attaining 49.0%. The adjusted net profit of the Group soared by 31.7% YoY to nearly HKD 70.5mn in 1H23, representing a YoY increment of 3.4p.p to a 20.4% adjusted net profit margin.

The overall performance of Euroeyes(01846.HK) in 1H23 modestly exceeded our projections, primarily due to 1.) a robust rebound in PRC from Feb to Jun, following the lifting of COVID-19 policies, and 2.) a notable upswing in revenue from high-margin lens exchange surgeries. Boosted by an aging demographic and mounting demand for presbyopia corrections, the surge in lens exchange surgeries across all four regions appreciably contributed not only to the Group’s heightened profitability, but also to an increase in the occupancy rate from 23.8% in 1H22 to 24.6% in 1H23. As a result, this catalyzed a 17.6% growth in gross profit, recording HKD 167.6mn, and a 45.0% leap in the profit attributable to shareholders, reaching HKD 67.5mn in 1H23.

A robust revival in the PRC from February steered by the promising expansion in presbyopia correction surgeries

Subsequent to the lifting of COVID-19 restrictions in the PRC, which triggered a full recovery in early February, with significant growth in ICL and lens exchange surgeries by 34.7% and 94.0% in 1H23 respectively, the revenue in this region jumped by 49.3% YoY to HKD 72.8 million, despite the temporary halt starting from April at the Hangzhou clinic for relocation. The Group is actively striving to enhance its utilization rate by exploring B2B opportunities and efficaciously streamlining the patient flow from consultation centers to operation clinics. Moreover, we continue to see a consistently strong demand for presbyopia corrections, and with the Hangzhou clinic resuming operation in Q4, we project an escalation in the annual revenue in the PRC, potentially surpassing the level of 2021.

Performance (01846.HK)



	1mth	3mth	12mth
Change	5.8%	0.2%	-3.6%
Relative change	10.9%	5.9%	-0.1%

Source: Choice, SBI CHINA CAPITAL

Leveraging Prof. Knorz's expertise through strategic acquisition of FreeVis GmbH and PMK

The Group is set to disburse approximately EUR 3.28mn to Knorz GmbH, owned by the family of Prof. Knorz, for the full acquisition of FreeVis GmbH, an eye clinic at the University of Mannheim in Germany, on 17 Aug 23. Concurrently, a loan arrangement of approximately EUR 5.15mn at 3% per annum will be extended to FreeVis GmbH for the acquisition of PMK, an ophthalmological private practice owned by Prof. Knorz. FreeVis GmbH specializes in refractive laser surgeries, including SmartSurf PRK, Femto-LASIK, and SMILE, whereas PMK specializes in lens exchange surgery. Moreover, an additional earn-out payment of up to around EUR 3.6mn has been stipulated, subject to 1.) FreeVis GmbH and PMK achieving a combined annual turnover exceeding EUR 3.33mn during the first three fiscal years, and 2.) Prof. Knorz committing to provide specialist medical and administrative services in China for the Group and FreeVis GmbH over the ensuing five years.

We regard the acquisition price as reasonable, given the combined revenue of FreeVis GmbH and PMK was about EUR 3.6mn and EUR 3.3mn in 2021/22 respectively, along with their net profit of about EUR 1.0mn and EUR 1.2mn. We believe the Group, with its strong cash flow, is making a sound strategic move by acquiring businesses during a period of sluggish European economy to expand its market share in high-margin areas, specifically Germany, thereby enhancing its overall profitability in the long run. Crucially, Prof. Knorz, a renowned expert in the field of refractive and cataract surgery, brings his extensive network which help identify valuable M&A opportunities, contributing to the Group's future revenue growth.

A robust revival in the PRC steered by the surge in presbyopia correction and strategic acquisition of clinics in Germany, maintain the rating of “Buy” and adjust the TP upward to HKD 6.92/share

The overall performance of Euroeyes(01846.HK) in 1H23 modestly exceeded our projections, largely due to a strong rebound in the PRC after the lifting of COVID-19 restrictions and significant revenue growth from high-margin lens exchange surgeries, driven by an aging demographic and increasing demand for presbyopia corrections. The UK revenue fell 15.4% to HKD 47.8mn in 1H23 due to new surgeon training, which we believe could possibly affect the London Vision Clinic's annual sales target. However, we expect the on-going strong demand for eye surgeries in the PRC to continue boosting this region's annual revenue, potentially surpassing the level of 2021. Moreover, taking advantage of the current sluggish European economy, the recent acquisition of FreeVis GmbH and PMK in August at a reasonable price serves as a sound strategic move to bolster market share in high-margin regions and ensure long-term growth. In addition, Prof. Knorz's extensive network helps ascertain potential future M&A opportunities. Imminent clinic openings in Russel Street, Hong Kong; Knightsbridge, UK; and Kiel and Wiesbaden, Germany, scheduled for 2H23, are poised to further increase the Group's revenue. Coupled with the use of the latest generation of high-quality Zeiss trifocal lenses and the implementation of Pentacam Wave technology for eye diagnosis, this combination provides the Group with a competitive edge in upholding ophthalmic specialization. Therefore, we maintain the rating of “Buy” and adjust the TP upward to HKD 6.92/share, implying 14.7x/12.0x/10.8x fw PE of 2023/2024/2025.

Peers comparison

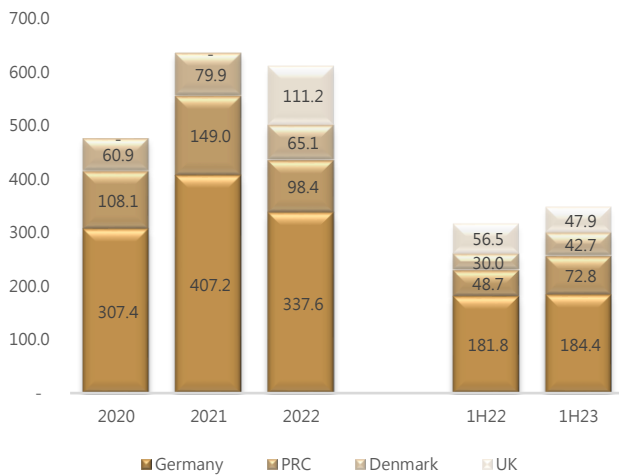
		Mkt cap	PE	Fw PE	PB	PS	Revenue	GM	ROE
		(HKD,mn)	(X)	(X)	(X)	(X)	(HKD,mn)	(%)	(%)
300015.CH	Aier Eye	185,422.6	58.2	45.2	9.9	9.5	18,759.0	50.5	18.0
301103.CH	He Eye	5,699.0	150.4	44.4	2.5	5.2	1,112.4	38.4	2.1
301239.CH	Bright Eye	18,341.8	716.2	61.0	8.3	8.5	2,009.4	41.7	1.4
01406.HK	Clarity Medical	427.8	N/A	N/A	1.6	2.0	213.8	N/A	(1.2)
02219.HK	Chaoju Eye Care	3,148.9	12.6	12.6	1.3	2.5	1,152.8	43.9	10.5
03309.HK	C-MER Eye	4,559.6	N/A	60.0	2.5	2.5	1,731.9	25.9	(0.4)
	<i>Average</i>	<i>36,266.6</i>	<i>234.3</i>	<i>40.5</i>	<i>4.3</i>	<i>5.0</i>	<i>4,163.2</i>	<i>40.1</i>	<i>5.3</i>
01846.HK	EuroEyes	1,652.9	14.6	10.5	1.5	2.5	610.3	44.4	8.9

Source: Bloomberg, SBI China Capital

Risk factors

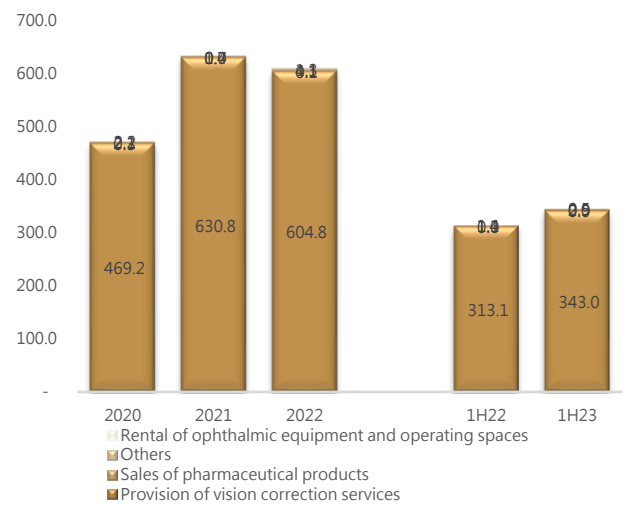
- Malpractice and medical negligence
- Inability to provide services with the latest technology
- Potential worldwide economic recession
- Operating expenses escalate rapidly due to out-of-control inflation
- London Vision, FreeVis GmbH and PMK fail to achieve the growth target

Revenue breakdown by geographical regions(HKD, mn)



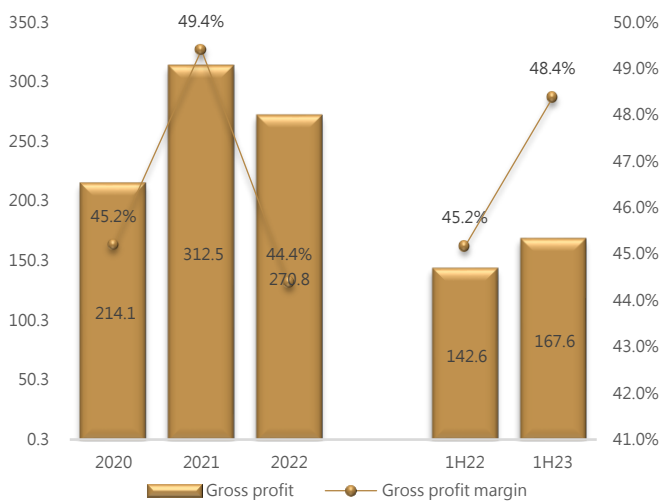
Source: Company data, SBI CHINA CAPITAL

Revenue breakdown by business functions(HKD, mn)



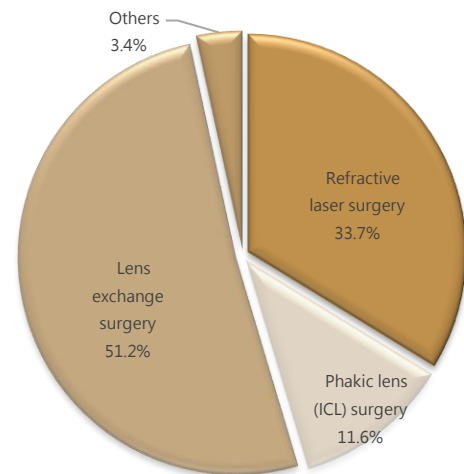
Source: Company data, SBI CHINA CAPITAL

Gross profit and Gross profit margin(HKD, mn)



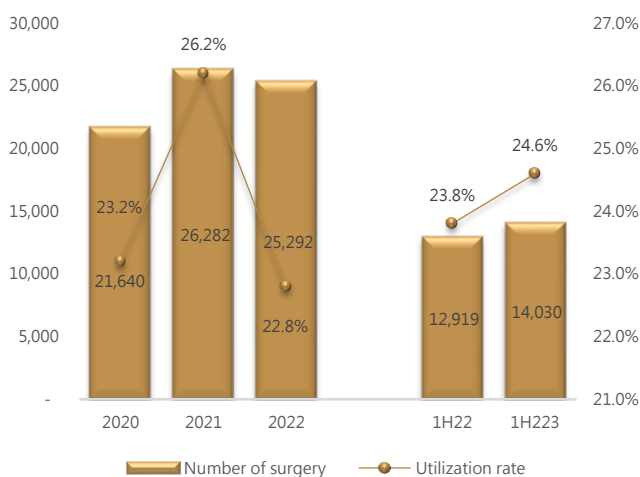
Source: Company data, SBI CHINA CAPITAL

Revenue distribution by types of surgeries in 1H23



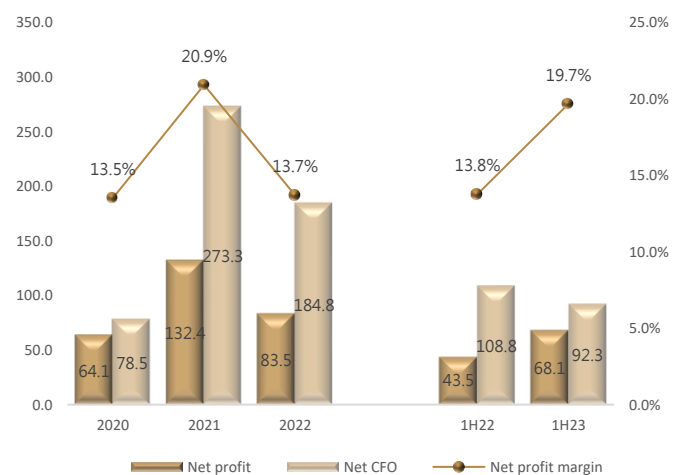
Source: Company data, SBI CHINA CAPITAL

Utilization rate of clinics and no. of surgeries



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	754.7	932.5	1,036.8	PPE & ROU assets	452.2	521.7	537.4	544.5
<i>YoY growth</i>	-3.6%	23.7%	23.6%	11.2%	Intangible assets	33.4	51.2	44.1	37.9
COGS	(339.4)	(381.8)	(477.3)	(533.9)	Others	217.1	316.1	316.9	364.3
Gross profit	270.8	372.9	455.2	502.9	Non-current assets	702.7	889.1	898.4	946.7
Other income	-0.7	4.0	3.0	2.0	Inventories	16.4	23.3	26.3	29.1
Operating expenses	(137.3)	(150.9)	(181.8)	(198.0)	Trade receivables	5.6	6.4	7.7	7.5
Operating profit	132.8	225.9	276.3	306.9	Cash & cash equivalents	779.6	797.5	868.5	930.5
Finance expenses	(3.8)	(6.8)	(7.3)	(9.2)	Others	36.8	44.2	58.0	50.1
JV & Ass.	-	-	-	-	Current assets	838.3	871.3	960.5	1,017.2
Profit before tax	129.0	219.1	269.0	297.7	Tax	(45.5)	(62.4)	(76.7)	(84.8)
Net profit	83.5	156.7	192.4	212.8	Total assets	1,541.0	1,760.5	1,858.9	1,964.0
<i>YoY growth</i>	-36.9%	87.6%	22.8%	10.6%	LT borrowings	-	-	-	-
Adj. EBITDA	236.9	344.0	419.0	464.7	Others	334.2	397.5	339.5	288.6
					Non-current liabilities	334.2	397.5	339.5	288.6
					Trade payables	20.0	24.6	31.1	30.7
					ST borrowings	0.3	1.0	0.5	0.3
					Others	143.4	148.9	146.1	138.0
					Current liabilities	163.7	174.5	177.7	168.9
					Total liabilities	497.9	572.0	517.2	457.5
					Non-controlling interests	28.8	40.9	42.2	43.6
					Controlling interests	1,014.3	1,147.6	1,299.5	1,462.8
					Total equities	1,043.1	1,188.5	1,341.7	1,506.4

Cash Flow	2022	2023	2024	2025	Financial Ratio	2022	2023	2024	2025
	(HKD, mn)	(E)	(E)	(E)		(A)	(E)	(E)	(E)
Profit before tax	129.0	219.1	269.0	297.7	Gross margin	44.4%	49.4%	48.8%	48.5%
Finance expenses	10.7	20.9	16.1	14.9	Operating margin	21.8%	29.9%	29.6%	29.6%
Finance income	(6.9)	(14.0)	(8.8)	(5.7)	Net profit margin	13.7%	20.8%	20.6%	20.5%
Depreciation&Amortization	76.7	90.4	104.3	112.9	Adj. EBITDA profit margin	38.8%	45.6%	44.9%	44.8%
Others	(11.1)	(51.1)	(42.0)	(74.1)	Return on Equity	8.0%	14.0%	15.2%	14.9%
Change in working capital	10.3	(10.5)	2.5	4.1	Return on Asset	5.7%	9.5%	10.6%	11.1%
CFO	208.8	254.8	341.2	349.7	Current ratio	512.1%	499.4%	540.5%	602.1%
					Quick ratio	492.7%	472.4%	513.1%	568.9%
CAPEX	(56.3)	(50.6)	(75.4)	(76.1)	Cash ratio	476.2%	457.0%	488.8%	550.8%
Others	(75.5)	(89.4)	(85.4)	(89.9)	Debt-to-Equity ratio	0.0%	0.0%	0.0%	0.0%
CFI	(131.8)	(140.0)	(160.8)	(166.0)	Inventory turnover days	93.3	83.4	85.1	86.3
					Receivable turnover days	2.6	2.9	2.8	2.7
Share issuance	-	-	-	-	Payable turnover days	58.6	59.0	59.2	59.4
Net borrowings	(4.0)	0.7	(0.5)	(0.2)					
Interest paid	-	-	-	-					
Dividend paid	(33.1)	(36.1)	(39.2)	(48.1)					
Others	(65.1)	(61.2)	(69.7)	(73.4)					
CFF	(102.2)	(96.6)	(109.4)	(121.7)					
FCFE	56.4	115.3	179.9	183.5					
FCFF	60.4	114.6	180.4	183.7					

Source: Company data, SBI CHINA CAPITAL

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- 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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