

Aier Eye Hospital (300015.SZ)

Chinese National Leading Eye Hospital to Benefit from Consumption Upgrade and Rising Market demand

20 September 2018

Mainland China | Healthcare | Company report

Investment Summary

Aier is a leading ophthalmic medical chain in China and even in the world. It operates more than 330 ophthalmic medical institutions worldwide, with total revenue amounting to RMB5.9bn and net profit reaching RMB790mn in 2017. We highlight that the company 1) expands through both horizontal extension and vertical sinking of hospital network, 2) increases employee motivation with equity incentive programs and vigorously cultivates medical talents, and 3) actively explores the international and mobile medical fields. We expect FY18E/19E revenue to achieve yoy growth of 35%/30%, and initiate 12-mon TP of RMB35.2 with target PE 50x, BUY rating. (Closing price at 18 Sep 2018)

BUY (Initially)

CMP RMB29.07
(Closing price at 18 Sep 2018)
TARGET RMB35.2 (+21%)

Business Overview

Aier, established in 2003 was listed on Shenzhen Exchange in 2009 (300015SZ). By 2018, Aier has built more than 250 professional ophthalmic hospitals in over 30 Chinese provinces and cities, covering more than 70% of the national medical insurance population and serving over 6.5 million outpatients annually. The company is committed to the parallel introduction and absorption of world-leading ophthalmic technology and management concepts, with professionalism, scale and science as its strategy. Aier has bridged all three areas of medicine, education and research, the establishment of these educational and research institutions is expected to boost research and clinical standards. Also, the company focuses on international development, given it operates more than 80 ophthalmic medical institutions in US, Europe and Hong Kong through investment holding.

COMPANY DATA

O/S SHARES (MN)	2,383.95
MARKET CAP (RMBMN)	53,373
52 - WK HI/LO (RMB)	36.0 / 15.58

SHARE HOLDING PATTERN, %

Aier Investment	39.1
Chen Bang	17.06
Li Li	3.93
Guo Hongwei	3.18
HK Connect	2.91
Gaoling Capital	2.34

PRICE PERFORMANCE, %

	1M	6M	1Y
Aier	-2.94	-11.44	74.72
HS300	-0.86	-11.94	-16.70

RETURN VS. HS300



Source: Aastocks, Phillip Securities (HK) Research

Figure: Milestones

2003	Aier was established
2006	The number of hospital under management reached 9
2009	Listed on Shenzhen Exchange with 18 hospitals under management
2010	Operated 31 hospitals in 19 Chinese provinces and cities
2012	44 chain hospitals with revenue of RMB1.64bn and 1.84mn outpatients
2013	Co-founded an Ophthalmology College with Central South University
2014	Cooperated with industry investment fund to expand into more blank markets and cultivate potential hospital projects; Implemented `partnership scheme` to incentive staff
2015	Set Aier HK to acquire Hong Kong Asia Medical Group to enter HK market
2016	First time submitted non-public share offering scheme
2017	Above scheme generated fund of RMB1.72bn; Acquired HK AMG, US MING WANG Ophthalmology Center, European Clínica Baviera.S.A Ophthalmology Center
2018	Established a cornea research institute
2020E	1000 ophthalmology hospital are expected to be founded by then

Source: Company, Phillip Securities

KEY FINANCIALS

RMB/mn	FY16	FY17	FY18E	FY19E
Net Sales	4,000	5,963	8,050	10,465
Net Profit	567	793	1,272	1,676
EPS, RMB	0.23	0.31	0.53	0.70
PER, x	124.31	93.33	54.48	41.34
BVPS, RMB	1.23	2.30	2.64	3.04
P/BV, x	23.60	12.66	11.01	9.58
ROE, %	21.54	18.57	20.21	23.16

Source: Wind, Phillip Securities Est.

Eurus Zhou (2277 6515)
euruszhou@phillip.com.hk

Special hierarchical chain management model.

The company runs professional ophthalmic chain medical institutions, mainly engaged in the diagnosis and treatment of various ophthalmic diseases, surgical services and medical optometry glasses. Given the superior hospitals give technical support to lower-tier hospitals, and the difficult patients in lower-tier hospitals can be referred to superior ones, this mode is expected to realize the optimization of resource allocation and offer convenience to patients. Hospitals with different function and responsibility, facilitate to improve the efficiency of resource sharing and optimize management system. We believe that the advantages of the mode will be further demonstrated after accelerated expansion and penetration of hospital network.

Figure: Global layout



Figure: Hierarchical chain management model



Source: Company, Phillip Securities

Increasing outpatient visits and ophthalmic surgeries.

From 2012 to 2017, we see the numbers of outpatient visits and ophthalmic surgeries continuously increased, with 5y CAGR of 22.5%/21% respectively. In 2017, the number of outpatients exceeded 5mn, and ophthalmic surgery volume reached nearly 520,000 times. Accordingly, its topline/operating profit/net profit all achieved 5y CAGR of over 30%, given FY17 revenue/operating profit/net profit reached RMB5.96bn/1.11bn/790mn, respectively representing yoy growth of 49%/59%/40%. As the penetration of hospital coverage increases and the citizens` demand for ophthalmic treatment hikes, we expect that escalated outpatient visits and surgery volume will drive revenue further growing.

Figure: Operating results from FY12 to 18H1

	2012	2013	2014	2015	2016	2017	2018H1
Outpatient visit /thousand	1844.0	2018.9	2432.5	3215.4	3705.5	5076.3	2744.1
YoY	28.77%	9.49%	20.48%	32.19%	15.24%	36.99%	21.97%
Surgery volume /thousand	199.9	222.9	250.4	323.2	377.2	517.6	280.0
YoY	22.45%	11.53%	12.34%	29.03%	16.74%	37.21%	20.43%
Revenue/ mn	1640	1985	2402	3166	4000	5963	3780
YoY	25.14%	21.02%	21.01%	31.79%	26.37%	49.06%	45.94%
Operating income/ mn	252	320	429	601	701	1111	770
YoY	4.18%	26.94%	34.00%	39.90%	16.62%	59.20%	53.47%
Net profit/ mn	182	219	313	437	567	793	547
YoY	6.04%	20.46%	42.66%	39.53%	29.90%	39.91%	39.72%

Source: Company, Phillip Securities

Rapid expansion leveraging on capital advantage.

The company has continuously invested in expanding hospital network with its own funds, cooperation with industrial funds or non-public fund-raising. Back to 2009 when it was listed, Aier only owned 18 ophthalmic hospitals in Mainland China. Now the company has developed 250 ophthalmic hospitals in China and more than 80 ophthalmic institutions abroad, rapidly horizontally expanding. Since 2014, the company has explored the cooperation with the M&A fund of medical industry, and three professional funds have been established (深圳前海東方愛爾醫療服務產業並購基金、華泰瑞聯並購基金以及愛爾中鈺眼科醫療產業並購基金). The cooperation has deepened the vertical network and improve hospital penetration, given it dramatically speeds up the development of city-level and county-level hospitals. The project fund also invests in and cultivates potential hospital targets, which guarantees for the sustainable development of the company. In 2017, through non-public offering, the company raised RMB1.72bn for hospital acquisition and construction. Meanwhile, Aier is engaged to construct a hierarchical diagnosis and treatment system in city, and develop eye care centers (clinics) and community eye health services, further sinking services to lower-tier channel.

Developing mobile medical system.

In 2016, the company released a scheme about Ophthalmology Mobile Medical Development and Implementation Progress, which specifies that leveraging on its national hierarchical hospital chain, the company aims to build an eye health guarantee system, which involving online and offline channels, disease prevention and treatment, hospitals and out-of-hospital institutions. One of its invested firms has laid out a number of community centers offering eye health services in Changsha, Tianjin, and Chengdu, which involve online platform and off-line service providers.

Facilitating international development.

Currently, the company owns overseas ophthalmic institutions such as Hong Kong Asia Medical Service, MINGWANG Ophthalmology Center in US, and Clinica Baviera.S.A. in Europe, which will help to effectively integrate the advanced international medical service concepts and cutting-edge technical systems, as well as high-end service models and management experience for Aier. On the one hand, the company takes advantage of the international network to strengthen the international interactions, and promotes the growth of high-end medical services. On the other hand, through the Global Science and Technology Innovation Incubation Fund, the company invests in innovative projects in ophthalmology and related cutting-edge fields, to enrich its potential investment project reserve.

Science and education research platform for training talents.

The talent training system is maturing and talent introduction system has become a healthy circle. The company has set up an integrated platform involving teaching, research and training, cooperated with several quality Chinese universities to set up ophthalmology academies and research institutes, and established 9 academic groups for different diseases including cataract, optometry, refraction and fundus, which promotes the transformation from research results to real products, and improves the company's innovation ability and drive business development. Meanwhile, the company provides attractive compensation to appeal intelligent talents and experts from outside to enhance the technical strength.

Increasing demand and upgrading consumption in China.

The modern lifestyle with lots of pressure from learning, work, and entertainment, leads to a rising prevalence of various eye diseases. At the same time, eye diseases, such as cataracts and diabetic retinopathy, emerges more often as the aging of the population, which puts higher demands on eye medical services. In the case of cataracts, which is more common in people over 50 years old, the incidence increases with age. According to a government research (中國人口老齡化發展趨勢預測研究報告), China's population over 60 years old will exceed 400mn in 2050E. So we predict that the number of age-related eye diseases such as cataracts will show a long-term growing trend. With the gradual popularization of eye health knowledge and enhanced eye protection concepts, the demand for eye care services is expected to continue increasing. Also, as the residents' income level goes up, people are more willing to pay for eye healthcare and mid- to high-end services will become more affordable for them. We expect that the market will continue to expand under the combined effect of improving demand and consumption upgrades.

Investment Thesis, Valuation & Risk

Our model initiate TP of RMB35.2. Benefiting from the expanding hospital network and the endogenous growth of existing hospitals, we predict that revenue growth will reach 35%/30% in FY18E/19E. Assuming that profit margins remain relatively stable, we expect EPS to be RMB0.53/0.70 in FY18E/19E. With target PE 50x, we give 12-months target price of RMB35.2. **Risks include:** Rising sales costs; Rapid expansion of hospital networks leads to reduced management efficiency; Sluggish market demand.

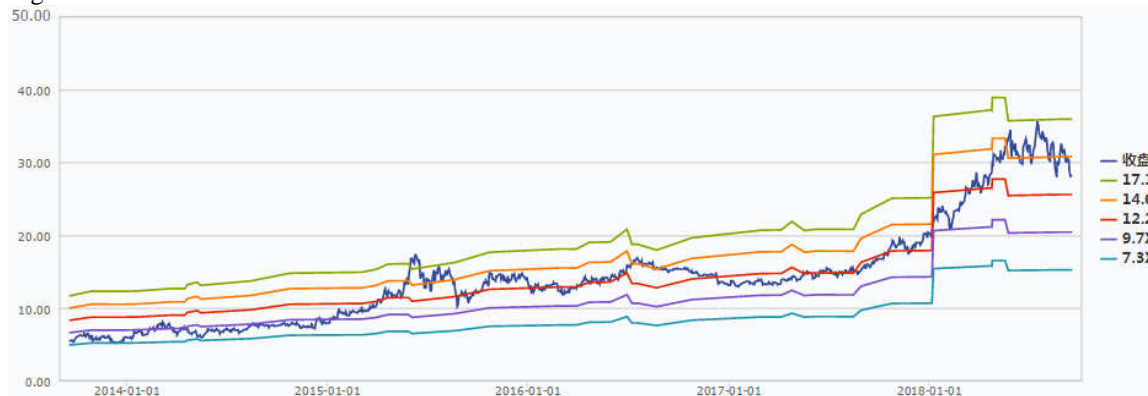
Figure: Peers

Code	Firm	Mrk. Cap /mn	FY17 Revenue /mn	FY17 Net Profit /mn	3y CAGR of Revenue (%)	ROE (%)	PE			PB (MRQ)
							17A	18E	19E	
300015.SZ	愛爾眼科	67211.32	5949.39	742.51	35.36	18.57	90.52	66.04	49.27	13.39
A share										
	Max	67211.32	5949.39	742.51	71.21	23.93	90.52	66.04	49.27	13.93
	Median	5428.33	2275.84	178.73	30.88	8.2	31.96	54.2	41.78	1.72
	Average	16641.91	2796.58	127.38	23.8	4.82	40.35	47.1	36.47	5.58
600763.SH	通策醫療	15576.69	1175.18	216.57	26.4	23.93	71.92	54.2	41.78	13.93
002219.SZ	恒康醫療	6080.67	3376.51	202.81	70.55	4.9	29.98	--	--	1.43
002173.SZ	創新醫療	3121.46	5336.99	154.66	4.57	11.51	20.18	--	--	1.65
002172.SZ	澳洋健康	4775.99	897.7	140.74	71.21	3.92	33.93	21.07	18.34	1.3
600896.SH	*ST 海投	3085.3	43.71	-693	-65.27	-33.89	-4.45	--	--	1.79
HK share										
	Max	7833.16	1882.04	421.03	30.38	36.34	112.99	49.83	35.99	12.8
	Median	2474.2	597.21	30.47	20.77	6.31	21.66	18.63	15.99	2.53
	Average	2786.33	702.79	70.42	19.18	8.61	-23.38	23.16	18.39	3.76
1515.HK	華潤鳳凰醫療	7833.16	1882.04	421.03	14.63	7.86	17.81	18.63	15.99	1.37
3309.HK	希瑪眼科	2571.78	1396.17	156.59	12.12	12.94	15.73	12.65	10.59	1.84
1518.HK	新世紀醫療	3105.66	537.26	73.49	29.2	11.55	40.46	--	--	2.49
2120.HK	康寧醫院	2891.59	657.16	49.07	30.38	4.76	56.43	23.7	19.54	2.58
3689.HK	康華醫療	3957.86	261.44	33.54	25.92	36.34	112.99	49.83	35.99	5.62
1526.HK	瑞慈醫療	1522.78	926	27.39	-0.37	2	53.23	10.98	9.82	1.13
3869.HK	弘和仁愛醫療	590.13	101.96	21.24	19.79	25.53	25.5	--	--	5.77
1509.HK	和美醫療	890.43	34.51	-2.3	--	-7.13	-371.51	--	--	12.8
8437.HK	德斯控股	2123.25	149.22	-13.75	--	-1.04	-147.87	--	--	1.31
8358.HK	卓珈控股	2376.62	1082.09	-62.17	21.76	-6.72	-36.61	--	--	2.74

Figure: PE Band



Figure: PB Band



Source: Wind (as at Sep 17th), Phillip Securities

Financials

	2015	2016	2017	2018E	2019E
Income Statement (RMB mm)					
Revenue	3,166	4,000	5,963	8,050	10,465
COGS	(1,691)	(2,156)	(3,203)	(4,146)	(5,389)
Gross Profit	1,475	1,845	2,760	3,904	5,075
Operating Expense	(874)	(1,144)	(1,649)	(2,294)	(2,980)
Operating Income	601	701	1,111	1,610	2,095
Net non-operating G/L	(51)	(16)	(84)	0	0
Pretax Income	550	684	1,027	1,610	2,095
Tax	114	117	234	338	419
Minority Interest	9	10	50	0	0
Net Profit	437	567	793	1,272	1,676
Growth (%)					
Revenue	31.79	26.37	49.06	35.00	30.00
Gross Profit	36.71	25.06	49.61	41.47	30.00
Operating Profit	39.90	16.62	58.64	44.90	30.12
Net Profit	39.53	29.90	39.79	60.46	31.77
Profit Margin (%)					
GPM	46.59	46.11	46.28	48.50	48.50
OPM	18.98	17.51	18.64	20.00	20.02
NPM	13.79	14.18	13.30	15.80	16.02
Key Ratio					
P/E	161.90	124.31	93.33	54.48	41.34
P/B	27.73	23.60	12.66	11.01	9.58
EPS/RMB (adjusted)	0.18	0.23	0.31	0.53	0.70
BVPS/RMB (adjusted)	1.05	1.23	2.30	2.64	3.04
Dividen/RMB	0.29	0.18	0.30	0.32	0.35
ROE%	19.37	21.54	18.57	20.21	23.16
ROA%	18.66	18.61	15.66	12.13	13.90

Source: Company, Wind, Phillip Securities (HK) Research Estimates
(Financial figures as at 18 Sep 2018)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within ± 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2018 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG

Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website: www.phillip.co.th

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96188238
Fax (613) 92002272
Website: www.phillipcapital.com.au

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN

PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd
No 436 Hengfeng Road,
Greentech Unit 604,
Postal code 200070
Tel (86-21) 51699400
Fax (86-21) 63532643
Website: www.phillip.com.cn

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED STATES

Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005