

# Perfect Medical (01830.HK)

1HFY2023 results under pressure

Resumption of normal life and border reopening would revive business

Hong Kong | Healthcare

23 February 2023

## Accumulate

CMP HKD4.23

(Closing price as of 16 February)

Target HKD 4.91 (+16.1%)

### COMPANY DATA

O/S SHARES (MN) :	1,256.537
MARKET CAP (HKD MN) :	53.152
52 - WK HI/LO (HKD):	5.299/2.570

### SHARE HOLDING PATTERN, %

Dr. Au-Yeung Kong	74.53%
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Perfect Medical Health Management (“Perfect Medical”) is a comprehensive medical beauty and medical healthcare service provider, through integrating and developing its “Medical + Beauty” operational model, offering customers safe and effective medical services. Perfect Medical has a presence throughout Hong Kong, China, Australia, Singapore and Macau. The company principally engages in the provision of providing one-stop “Medical + Beauty” services and provides a full range of services, including “Medical (Pain Management)”, “hair growth treatment”, “Gynaecological medical service”, “men’s beauty and weight management”, “Medical Beauty services” and etc.

### Negative impact by the Pandemic, 1HFY2023 results under pressure

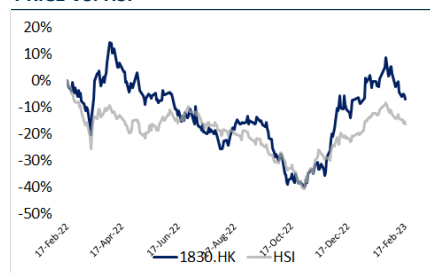
In 1HFY2023 (for the six months ended 30 September 2022), Perfect Medical’s revenue decreased by 16.6% to HK\$668.3mn, impacted by Covid-19 pandemic. EBITDA decreased by 25.5% to HK\$229.7mn, representing the EBITDA margin of 34.4% for the period (1HFY2022: 38.4%). Profit attributable to equity holders was HK\$150.7mn, dropped 30.4% YoY, representing a net profit margin of 22.5% for the period, down 4.5 percentage points YoY. Basic earnings per share was HK12.1 cents. Interim dividend of HK13.0 cents, the dividend payout ratio is 107.4%.

For the period under review, with the 5th wave of Pandemic had lingering effect in Hong Kong, together with the adverse market sentiment due to the global and local economic downturn, the overall consumption sentiment had deteriorated. The company’s performance has been impacted by the slower consumption trend in Hong Kong and the return of the Pandemic in China. The softening of the company’s revenue had led to a drop in net profit during the period; and mainly impacted by the Pandemic, the company had business suspension of 20 days in Hong Kong, 39 days in Macau, as well as business disruption for an average of 14 days, 23 days, 63 days and 19 days across Guangzhou, Shenzhen, Shanghai and Beijing respectively. The employee benefit expenses decreased by 3.8% to HK\$230.6mn. The marketing expenses decreased substantially by 26.1% to HK\$77.7mn. The rental lease related expenses increased by 11.0% at HK\$87.1mn, in line with the expansion in service areas. The operating profit decreased by 31.9% and reached HK\$187.0mn, representing an operating profit margin of 28.0%, down 6.3 percentage points YoY.

By regions, revenue from Hong Kong operation decreased by 21.5% to HK\$492.4 million. Following the ease of the Pandemic, second quarter in Hong Kong marked a 52.1% growth in revenue QoQ. As of 30 September 2022, the company has an established network of service centres in Hong Kong covering a total of 189,000 square feet. In view of the increasing demand in the New Territories, Perfect Medical has opened an additional service centre in Yuen Long during the period to capture additional demand in the surrounding areas. Currently, revenue from Hong Kong operation accounted for 73.7% (1HFY2022: 78.3%) of the company’s revenue.

Revenue from regions outside Hong Kong increased by 1.0% to HK\$175.9mn (1HFY2022: HK\$174.1mn), impacted substantially by the periodic suspension of business in China and Macau but compensated by the encouraging performance in both Singapore and Australia. Revenue from regions outside Hong Kong accounted for 26.3% (1HFY2022: 21.7%) of the company’s revenue. As of 30 September 2022, Perfect Medical has an extensive network in China, Macau, Sydney, Melbourne and Singapore, covering a gross service area of approximately 118,000 square feet.

### PRICE VS. HSI



Source: Phillip Securities (HK) Research

### KEY FINANCIALS

HKD mn	FY21	FY22	FY23E	FY24E
Revenue	1,089.8	1,350.0	1,357.9	1,501.2
Net profit	284.6	305.2	319.4	381.1
Reported EPS	0.24	0.25	0.25	0.29
P/E ratio, x	17.4	17.1	16.9	14.7
Dividend Yield, %	9.0%	5.9%	5.9%	6.8%

Source: Company reports, Phillip Securities Est.

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## Investment Thesis

In China, the wide-spreading pandemic in April to May 2022 and the resurgence in several provinces and cities in September 2022 has severely disrupted the economic development in all aspects. Periodic lockdown in selected areas and the advocacy of “zero-Covid-19” policy have substantially reduced the traffic flow in shopping malls, which directly impacted on the customers visit and consumption. The company’s domestic business will inevitably be affected. However, as for the aesthetic medical industry, the non-invasive aesthetic services continued to receive strong demand in China. With the benefit of a much lower penetration rate relative to other international countries, a relatively higher repeat purchase rate nature and the improving living standard in China, the high-end aesthetic medical industry is expected to grow healthily. Currently, Perfect Medical focuses on the first tier cities including Beijing, Shanghai, Guangzhou and Shenzhen, and opened three shops in strategic locations in Hong Kong, Guangzhou and Beijing during the period to strengthen the presence. In fact, as China and Hong Kong gradually resume normal life and resume normal customs clearance, and the potential influx of tourists into Hong Kong in coming years, which is expected to be conducive to the recovery of the company's business. We expect FY2023E-FY2024E EPS to be HK\$0.25 and HK\$0.29 respectively, with PT of HK\$4.91, implies a FY2023E P/E of 19.6x (in line with industry average). Our investment rating is “Accumulate”.

## Risk factors

1) Market competition intensifies; 2) Soaring in operating cost; and 3) Unexpected slowdown in service demand; 4) Tighten regulatory policies related to medical aesthetics.

## Financial

**Consolidated Statement of Profit or Loss**

Mar Y/E, HKD mn	FY20	FY21	FY22	FY23E	FY24E
<b>Revenue</b>	<b>1,241.0</b>	<b>1,089.8</b>	<b>1,350.0</b>	<b>1,357.9</b>	<b>1,501.2</b>
Other income	5.5	56.9	9.6	4.4	5.0
Other (losses)/gains — net	(3.1)	6.1	(0.9)	0.2	0.2
Marketing expenses	(136.8)	(153.3)	(182.6)	(184.1)	(211.7)
Depreciation & Amortization	(154.8)	(171.3)	(219.0)	(196.5)	(185.9)
Other operating expenses	(495.5)	(462.4)	(564.5)	(568.0)	(617.2)
<b>Operating profit</b>	<b>456.2</b>	<b>365.9</b>	<b>392.5</b>	<b>414.0</b>	<b>491.6</b>
Financial cost, net	(5.6)	(7.7)	(14.3)	(14.9)	(13.9)
<b>Profit before tax</b>	<b>450.6</b>	<b>358.2</b>	<b>378.2</b>	<b>399.1</b>	<b>477.8</b>
Income tax	(90.4)	(73.5)	(72.9)	(79.7)	(96.6)
<b>Shareholders Net profit</b>	<b>360.2</b>	<b>284.6</b>	<b>305.2</b>	<b>319.4</b>	<b>381.1</b>
Reported EPS	0.32	0.24	0.25	0.25	0.29
DPS (HKD)	0.34	0.38	0.25	0.25	0.29
Payout ratio	1.05	1.56	1.00	1.00	1.00

**Key Financial Data**

Mar Y/E	FY20	FY21	FY22	FY23E	FY24E
<b>Valuation Ratio</b>					
P/S ratio, x	3.8	4.5	3.9	4.0	3.7
P/E ratio, x	13.1	17.4	17.1	16.9	14.7
Dividend Yield, %	8.0%	9.0%	5.9%	5.9%	6.8%

**Per share data (RMB)**

EPS	0.32	0.24	0.25	0.25	0.29
BVPS	0.61	0.59	0.40	0.43	0.49
DPS (HKD)	0.34	0.38	0.25	0.25	0.29

**Growth & Margin**

<b>Growth</b>					
Revenue Growth	3.7%	-12.2%	23.9%	0.6%	10.5%
Operating Profit Growth	14.1%	-19.8%	7.3%	5.5%	18.8%
Net Profit Growth	12.9%	-21.0%	7.2%	4.7%	19.3%
<b>Margin</b>					
Operating Profit Margin	36.8%	33.6%	29.1%	30.5%	32.8%
Net Profit Margin	29.0%	26.1%	22.6%	23.5%	25.4%

**Key Ratios**

ROE	58.1%	41.7%	51.8%	61.4%	64.1%
ROA	33.4%	20.5%	22.1%	24.3%	27.1%

**Consolidated Statement of Financial Position**

Mar Y/E, HKD mn	FY20	FY21	FY22	FY23E	FY24E
<b>Non Current Asset</b>					
PPE	142.2	162.4	250.2	228.3	218.8
Right-of-use assets	246.4	251.8	302.4	275.6	266.4
Others	122.8	412.4	220.5	307.8	355.1
<b>Total Non Current Assets</b>	<b>511.4</b>	<b>826.6</b>	<b>773.1</b>	<b>811.7</b>	<b>840.2</b>
<b>Current Asset</b>					
Inventories	1.8	2.8	5.9	4.1	3.6
Trade and other receivables	74.7	78.0	14.8	70.9	98.3
Bank balance and cash	563.6	489.8	444.6	422.9	473.7
Others	147.8	83.3	42.8	42.8	42.8
<b>Total Current Assets</b>	<b>787.9</b>	<b>653.8</b>	<b>508.1</b>	<b>540.7</b>	<b>618.3</b>
<b>Total Assets</b>	<b>1,299.2</b>	<b>1,480.4</b>	<b>1,281.2</b>	<b>1,352.4</b>	<b>1,458.6</b>
<b>Current Liabilities</b>					
Payables	0.7	0.7	1.6	1.2	1.3
Other current Liabilities	382.7	558.8	521.3	528.6	535.5
<b>Total current Liabilities</b>	<b>383.4</b>	<b>559.5</b>	<b>522.9</b>	<b>529.8</b>	<b>536.7</b>
<b>Non Current Liabilities</b>					
Lease liabilities	158.5	156.0	175.7	183.0	189.9
Others	78.3	80.0	88.3	93.3	88.3
<b>Total Non-Current Liabilities</b>	<b>236.8</b>	<b>236.0</b>	<b>264.0</b>	<b>276.3</b>	<b>278.2</b>
<b>Equity</b>					
Shareholders' equity	679.0	684.8	494.3	546.2	643.6
Non-controlling interests	-	-	-	-	-
<b>Total equity</b>	<b>679.0</b>	<b>684.8</b>	<b>494.3</b>	<b>546.2</b>	<b>643.6</b>
<b>Total Liabilities and Equity</b>	<b>1,299.2</b>	<b>1,480.4</b>	<b>1,281.2</b>	<b>1,352.4</b>	<b>1,458.6</b>

**Consolidated Statement of Cash Flow**

Mar Y/E, HKD mn	FY20	FY21	FY22	FY23E	FY24E
<b>CFO</b>					
Profit before income tax	450.6	358.2	378.2	399.1	477.8
D&A add-back	154.8	171.3	219.0	196.5	185.9
Others	14.1	12.4	21.4	14.6	13.7
Net (inc)/dec working capital	123.0	146.7	(74.5)	(54.6)	(26.9)
Tax	(98.1)	(90.6)	(30.2)	(74.7)	(101.6)
<b>Net cash flow from operating activities</b>	<b>644.4</b>	<b>597.9</b>	<b>513.9</b>	<b>480.9</b>	<b>548.9</b>
<b>CFI</b>					
Purchase of PP&E and Investment	(96.4)	(78.2)	(144.6)	(51.9)	(61.3)
Others	23.4	(220.0)	154.6	(53.2)	(14.7)
<b>Net cash flow from investing activities</b>	<b>(73.1)</b>	<b>(298.2)</b>	<b>10.1</b>	<b>(105.2)</b>	<b>(76.0)</b>
<b>CCF</b>					
Dividends paid	(218.8)	(282.3)	(405.5)	(316.6)	(331.3)
Others	(111.7)	(112.1)	(160.5)	(95.5)	(104.6)
<b>Net cash flows from financing activities</b>	<b>(330.5)</b>	<b>(394.4)</b>	<b>(566.0)</b>	<b>(412.0)</b>	<b>(435.9)</b>
<b>Net Change in Cash</b>	<b>224.9</b>	<b>(73.8)</b>	<b>(45.2)</b>	<b>(36.3)</b>	<b>37.0</b>
<b>Cash and CE at Y/E</b>	<b>563.6</b>	<b>489.8</b>	<b>444.6</b>	<b>408.3</b>	<b>445.3</b>

Current Price as of: February 16

Source: PSHK Est.

**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 $\pm$ 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

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