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Report Review of January 2024

Hong Kong | INVESTNOTES REPORTS REVIEW

Sectors:

TMT, Semiconductors, Consumer & Healthcare (Eric Li)

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This month I released reports of Perfect Medical (1830.HK) & FSE Lifestyle Services (331.HK).

In 1HFY2024 (for the six months ended 30 September 2023), Perfect Medical's revenue increased by 7.5% to HK\$718mn. Profit attributable to equity holders was HK\$ 166.4mn, increased by 10.4% YoY. If excluding the Hong Kong government subsidies, the revised net profit after tax increased by 27.1%. Basic earnings per share increased by 9.1% to HK13.2 cents. The interim dividend and special dividend are HK13.2 cents and 1.0 cent per share, with total dividend of HK14.2 cents per share and dividend payout ratio of 107.6%.

For the period under review, the company has proactively reshaped its operations in Hong Kong, taking advantage of the changing consumer behavior and the relatively affordable rental situation. By further increased its market penetration in Hong Kong through a combination of mega shops and the newly established residential shops business model to tap the demand in the local neighborhood and to further increase its market share. Business performance was particularly appealing for the residential shops in which company was able to obtain a high proportion of new customers into its ecosystem. Aesthetic medical business continued to be the company's core business for the period, contributing to around 80.7% as measured by the value of sale contract. The overall average spending per individual client increased by 16.1% YoY to HK\$27,540. Regarding cost control, the employee benefit expenses increased by 3.3% YoY to HK\$238mn, in line with the revenue growth. The marketing expenses increased by 10.0% YoY to HK\$85.5mn, as a result of the resumption of marketing campaign to boost the brand awareness. The rental lease related expenses decreased by 4.4% YoY to HK\$83.2mn, due to the consolidation of service area in regions outside Hong Kong YoY. The operating profit margin remained at 28.1%, and the net profit margin increased of 0.7 percentage points to 23.2%.

Perfect Medical stated that it will form a new company with Goku SPA, a 15-year-old Japanese company famous for its Japanese-style "deep sleep" head massage, and will provide services in its current 53 service centers. The store-in-store expansion is expected to contribute approximately HK\$600mn annual revenue contribution. The company also plans to open 60 standalone shops in next three years in Greater Bay Area and 1st tier cities of mainland China, which is expected to contribute more than HK\$1.2 billion annual revenue contribution after 3 years. In fact, at its non-aesthetic medical business, the company includes a range of supplementary healthcare management services, including hair growth treatment, pain treatment, health screening service as well as other beauty and wellness services, which are expected to help increase customer stickiness and increase cross-sales.

Fig 1. Performance of Recommended Stocks

Time	Ticker	Company	Analyst	Rating	Price on Recommendation Date	Target Price	Expected Return	Last Month Closing Price	Last Month Return	Closing Price 2M ago	1M Price Chg
20240102	01830.HK	Perfect Medical	EL	Buy	3.22	4.37	35.7%	3.01	-6.52%	3.30	-8.79%
20240131	00331.HK	FSE Lifestyle Services	EL	Accumulate	5.56	6.45	16.0%	5.49	-1.26%	5.68	-3.35%

A stock is calculated by RMB yuan.

Source: Phillip Securities Research

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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