

## Cheapest medical aesthetic system provider

Rating **Not Rated**  
Current price **HK\$6.21**

### Leading energy-based medical aesthetic treatment system provider in the world

Sisram is the largest provider of energy-based medical aesthetic treatment system in China with 16.2% market share and 5<sup>th</sup> largest provider in the world with 4.4% market globally. Sisram's core non-invasive professional medical aesthetic product line include hair removal, body contouring and skin tightening accounted for 74% of its total sales in FY17, these products are mainly targeted at hospital and professional clinics. Its beauty product line which is a simplified version targeting beauty shops accounted for 7.1% of FY17 while its minimally invasive product line Femilift for vaginal rejuvenation, Lipolife for liposuction and fat grafting as well as Vasculife for varicose veins treatment accounted for 12.6% of sales in FY17.

### Strong Research and development capability

Sisram's production and R&D centres are based in Israel, the company has 56 researchers, of which 14 are have Ph.D or master degree and the company spent about 7.2% of its revenue each year on R&D development. As such, Sisram has registered 52 patents and over 20 patent applications. New products include Lipolife which is the first FDA/CFDA both approved fat grafting treatment that achieves fat vitality rate of 95%. Other core patent technology include In-Motion which reduces pain on skin from laser treatment and 3 wave-lengths treatment capable for different skin treatments.

### Healthy growth in the global energy-based aesthetic market

According to Medical Insight Report, global sales revenue of energy-based medical aesthetic treatment systems is expected to grow by 10.4% CAGR during 2016-21 to US\$4,380m. By region, North America is expected to grow by CAGR 11.1% during 2016-21 to US\$2,359m while Asia is expected to grow by CAGR 11.5% during 2016-21 to US\$975m. China is expected to grow by CAGR 16% during 2016-21.

### Margin improvement from direct sales expansion

Sisram mainly uses direct sales model in key markets such as North America, Germany, Austria and India, direct sales portion rose from 30.1% of sales in FY15 to 37.6% in FY17, this also help to lift gross margin from 52% in FY15 to 53.5% in FY17. The company is further expanding its direct sales team in the US from 40 sales to 65 by 1Q18. As a result, YTD sales growth in North America is faster than growth record in FY17. In China, Sisram's equipments has successfully implemented in Fosun's Chancheng Hospital, Sisram targets to implement its products to other Fosun affiliated institution in the near future.

### Actively searching for M&A opportunities

Sisram's net proceed from IPO was approximately HK\$774m, of which around 29.5% will be used in M&As. The company is actively searching for M&A opportunities both horizontally such as other aesthetic system manufacturers and going downstream as such distributors to penetrate new markets, we believe M&A could be a catalyst for share price.

## Company Visit

17 May 2018

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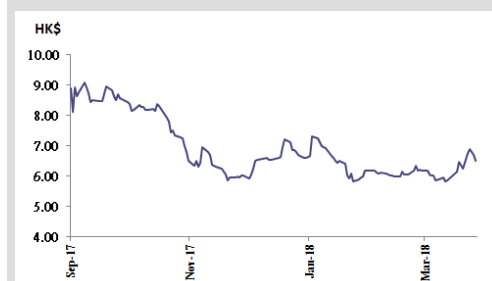
## Trading data

52-Week Range (HK\$)	5.70/9.33
3 Mth Avg Daily Vol (m)	0.4
No of Shares (m)	442
Market Cap (HK\$m)	2,749
Major Shareholders (%)	Fosun (74.8%)
Auditors	E&Y
Result Due	1H18: Aug

## Company description

Sisram was listed on 2017, it is a platform of aesthetic medical equipment for Fosun Group. Fosun acquired Alma Laser which is a Israelian company in 2013.

## Price chart



Sources: Bloomberg

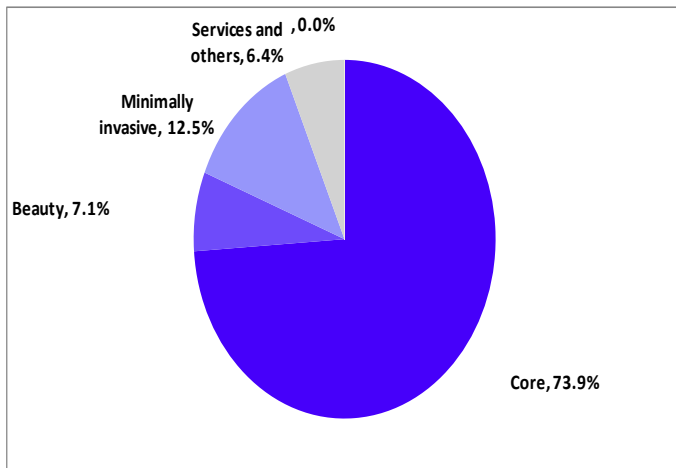
■ **Cheap valuation compared to other aesthetic provider**

Sisram is trading at 15.1x/12.4x FY18/FY19 PE compared to global peer Cutera 36.2x/28.8x and Hong Kong listed medical equipment peers 36.9x/27.2x FY18/FY19 PE, we believe CP's current valuation is undemanding compared with peers. In addition, there were large M&A in the industry in 2017, valuation ranged from 23.8-146x EV/EBITDA, while Sisram currently trades at 9.6x FY17 EV/EBITDA. We believe the stock is under-valued suggest investors to accumulate on weakness.

US mn (Dec YE)	FY15A	FY16A	FY17A	FY18E	FY19E
Revenue	110	118	137	152	171
Operating profit	18.2	18.8	21.2	38.2	46.6
Net profit	7.8	11.6	17.9	22.4	27.3
PE (x)	45.1	30.3	19.7	15.1	12.4
EV/EBITDA	15.7	15.1	9.6	9.2	7.4

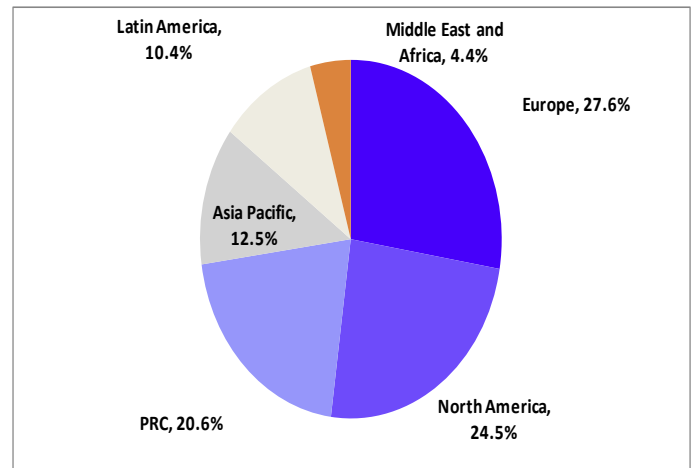
Sources: Company data, Bloomberg estimates

**Exhibit 1: Revenue breakdown of Sisram**



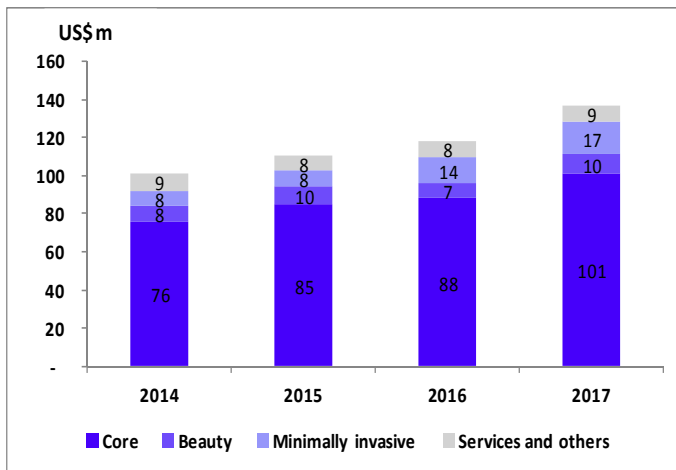
Source: Company, CIRL

**Exhibit 2: Revenue contribution by location**



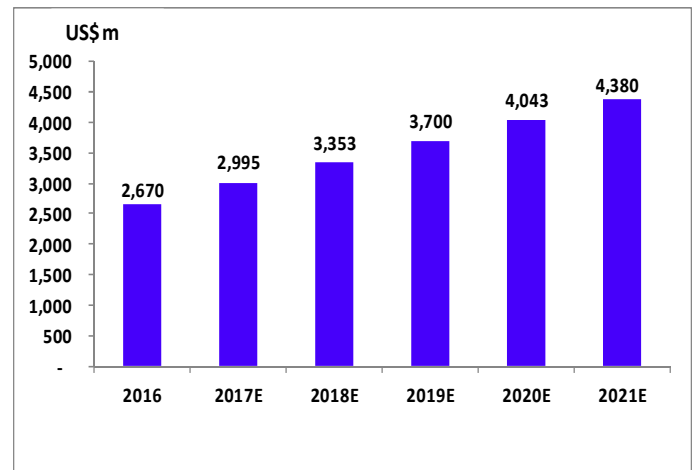
Source: Company, CIRL

**Exhibit 3: Revenue breakdown of Sisram by product**



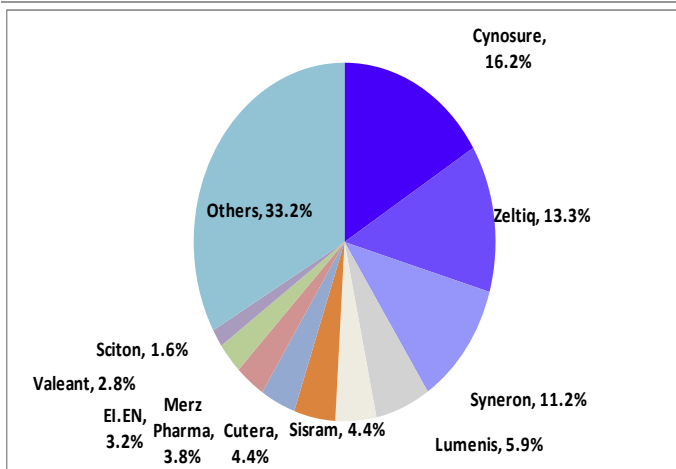
Source: Euromonitor, CIRL

**Exhibit 4: Global sales of energy-based medical aesthetic system**



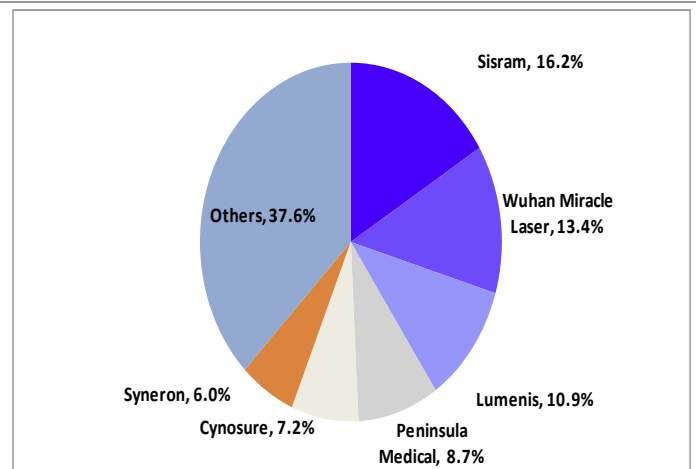
Source: Company, CIRL

**Exhibit 5: Global energy based medical aesthetic system market**



Source: Medical Insight Report, CIRL

**Exhibit 6: China energy based medical aesthetic system market**



Source: Medical Insight Report, CIRL

**Exhibit 7: Key financial figures**

<b>Income statement</b>				
Year to Dec (US\$ mn)	FY14A	FY15A	FY16A	FY17A
<b>Revenue</b>	<b>101</b>	<b>110</b>	<b>118</b>	<b>137</b>
Gross profit (reported)	52	57	62	73
<b>EBITDA</b>	<b>22</b>	<b>24</b>	<b>24</b>	<b>27</b>
Depreciation	(5)	(6)	(6)	(6)
<b>EBIT</b>	<b>17</b>	<b>18</b>	<b>19</b>	<b>21</b>
Net interest income (exp.)	(7)	(7)	(7)	(5)
Associates	0	0	0	0
Exceptionals/others	0	0	0	0
<b>Profit before tax</b>	<b>9</b>	<b>11</b>	<b>12</b>	<b>16</b>
Tax expenses	(3)	(2)	(3)	(5)
Minority interest	(1)	(1)	(0)	0
<b>Net profit</b>	<b>6</b>	<b>8</b>	<b>8</b>	<b>11</b>
Dividends	0	0	0	0
<b>Balance sheet</b>				
Year to Dec (US\$ mn)	FY14A	FY15A	FY16A	FY17A
Cash & equiv	37	39	42	104
Trade receivables	22	23	28	35
Other receivables	2	2	3	3
Inventories	18	22	22	24
Other current assets	0	0	0	0
Fixed assets	2	2	2	2
Intangible assets	77	72	67	64
Investment, associates etc	113	113	115	114
<b>Total assets</b>	<b>270</b>	<b>273</b>	<b>279</b>	<b>347</b>
Account payables	7	7	7	7
Other payables	11	22	15	22
Short-term debt	9	10	22	4
Other current liabs	2	2	2	2
Long-term debts	59	49	37	7
Deferred tax and others	13	12	13	11
Other long-term liabs	144	138	142	2
<b>Total liabilities</b>	<b>245</b>	<b>240</b>	<b>239</b>	<b>54</b>
Share capital	0	0	0	1
Reserves	25	33	40	292
<b>Shareholders' equity</b>	<b>25</b>	<b>33</b>	<b>40</b>	<b>293</b>
Minorities	0	0	0	0
<b>Total equity</b>	<b>25</b>	<b>33</b>	<b>40</b>	<b>293</b>
Net cash (debt)	(31)	(20)	(17)	93

<b>Cash flow</b>				
Year to Dec (US\$ mn)	FY14A	FY15A	FY16A	FY17A
Pre-tax profit	9	11	12	16
Taxes paid	(1)	(4)	(5)	(6)
Depreciation	1	1	1	1
Associates	0	0	0	0
CFO bef. WC change	17	19	20	22
Change in working cap	6	1	1	1
<b>Cashflow from operation</b>	<b>24</b>	<b>20</b>	<b>21</b>	<b>23</b>
CAPEX	(1)	(1)	(1)	(1)
<b>Free cash flow</b>	<b>23</b>	<b>19</b>	<b>20</b>	<b>23</b>
Dividends	0	0	0	0
Balance sheet adj.	2	3	4	5
Share issued	0	0	0	103
Others	(16)	(12)	(13)	(55)
<b>Net cash flow</b>	<b>(2)</b>	<b>2</b>	<b>(1)</b>	<b>20</b>
Net cash (debt) start	19	18	19	18
Net cash (debt) at year-end	18	19	18	38
<b>Ratios</b>				
Year to Dec (US\$ mn)	FY14A	FY15A	FY16A	FY17A
<b>Growth rate (%)</b>				
Revenue		9.0	7.0	15.9
EBITDA		7.6	2.8	10.6
EBIT		9.5	3.3	12.4
Net profit		17.9	30.0	38.8
Fully diluted EPS		17.9	30.0	38.8
<b>Margins (%)</b>				
Gross margin (reported)	51.2	52.0	52.7	53.5
EBITDA	21.8	21.5	20.7	19.7
EBIT	16.4	16.5	15.9	15.5
Net margin	10.6	11.5	14.0	16.7
<b>Other ratios</b>				
ROE (%)	23.7	24.0	19.9	3.8
ROA (%)	2.2	2.9	2.9	3.2
Net gearing (%)	121.6	60.5	42.3	(31.8)
Interest coverage (x)	2.3	2.5	2.7	4.0
Receivables days		74.3	78.6	84.6
Payables days		48.7	46.6	40.4
Inventory days	94.2	137.4	141.8	131.4
Effective tax rate (%)	28.1	21.4	28.3	30.2

Source: Company, CIRL

**Exhibit 8: Peers comparison**

	Bloomberg code	Mkt Cap (HKD mn)	PER (x)			P/B (x)		
			FY17A	FY18E	FY19E	FY17A	FY18E	FY19E
<b>Global peers</b>								
CUTERA INC	CUTR US	4,083	73.6	36.2	28.8	-	-	-
INTUITIVE SURGIC	ISRG US	410,013	52.5	44.7	39.6	-	9.1	7.6
ALIGN TECHNOLOGY	ALGN US	181,168	78.8	60.7	48.8	18.9	16.6	12.8
CONMED CORP	CNMD US	15,142	37.3	31.7	28.6	6.4	5.7	5.4
<b>Average</b>		<b>152,601</b>	<b>60.5</b>	<b>43.3</b>	<b>36.4</b>	<b>6.3</b>	<b>7.9</b>	<b>6.4</b>
<b>Global peers</b>								
MICROPORT SCIENT	853 HK	15,322	50.4	36.5	28.9	5.7	4.8	4.2
SHANDONG WEIG-H	1066 HK	24,665	13.9	13.9	12.4	1.5	1.4	1.3
LIFETECH SCI	1302 HK	12,564	80.6	60.4	40.3	-	-	-
<b>Average</b>		<b>17,517</b>	<b>48.3</b>	<b>36.9</b>	<b>27.2</b>	<b>2.4</b>	<b>2.1</b>	<b>1.9</b>
SISRAM MEDICAL L	1696 HK	2,750	19.7	15.1	12.4	1.2	1.1	1.0

Source: Bloomberg, CIRL.

Date : 17-5-2018

## Rating Policy

	Rating	Definition
<b>Stock Rating</b>	Buy	Outperform HSI by 15%
	Neutral	Between -15% ~ 15% of the HSI
	Sell	Underperform HSI by -15%
<b>Sector Rating</b>	Accumulate	Outperform HSI by 10%
	Neutral	Between -10% ~ 10% of the HSI
	Reduce	Underperform HSI by -10%

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## Analyst Certification

I, Kenneth Li hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was / were, is / are or will be directly or indirectly, related to the specific recommendations or views expressed in this report / note.

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