

Thursday, 21 December, 2017

Bringing China to the World

Company Visit

Not rated

Sisram Medical Ltd

Sector: Health Care

Industry: Health Care Equipment & Suppli

Sub-industry: Health Care Equipment

Key data

Price (HK\$)	6.24
52wk High (HK\$)	9.09
52wk Low (HK\$)	5.85
Market Cap (HK\$m)	2,755
Market Cap (US\$m)	352
Shares outstanding (m)	442
Free float (%)	41.6
1M relative return	-1.8
6M relative return	-
YTD relative return	-
Hong Kong Hang Seng Index	29,234
Dividend yield (2016)	-
US\$:HK\$	7.8229

Inst Ownership (Top 5, %)

CHINDEX MEDICAL LTD	28.79
AMPLE UP LTD	23.91
MAGNIFICENT VIEW INV	21.93
CHINA INTERNATIONAL	3.9
SHANGHAI FREE TRADE	2.98

Source: Bloomberg

Sisram Medical (1696 HK)

为美丽助力

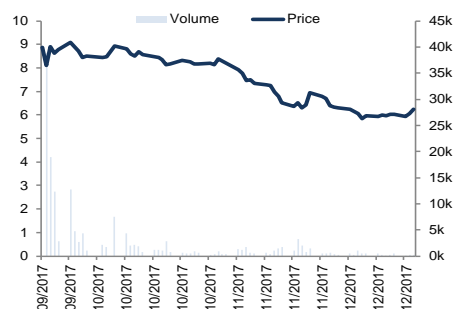
Sisram 专注于设计, 开发和生产能量源医疗美容器械, 产品可用于多种无创医疗美容和微创医疗美容治疗, 例如, 脱毛、紧肤、嫩肤、靓肤、血管治疗及色素性病治疗、去除纹身等。根据 Medical Insight 报告, Sisram 是国内最大的能量源医疗美容器械生产商, 市场份额约为 16%; 公司在全球市场的份额为 4%, 排名第五。

丰富的产品线。目前公司的营收主要来自三个方面: 1) 无创医疗美容器械; 2) 微创医疗美容器械; 3) 售后服务及其他收入。无创医疗美容产品分为两条产品线, 即医疗美容产品线和生活美容产品线。其中医疗美容产品线主要包括四个产品系列, 包括 Soprano, Harmony, Accent 以及 Aesthetic Precision。该产品线主要针对专业的医疗美容机构, 例如, 医院的整形美容外科、诊所、激光中心等。生活美容产品线也提供与医疗美容产品线类似的治疗服务, 主要针对未经医学培训的医疗美容机构。此外, Sisram 的微创医疗美容产品线主要针对专业的医疗美容机构, 主要包括三个品牌, FemiLift, VasuLife 和 LipoLife。该产品线可提供激光抽脂, 静脉曲张等治疗。

全球布局的销售网络。目前公司的销售网络已经拓展至约 80 个国家。17 年第一季度, 欧洲、北美以及中国市场占据公司 28%、23% 以及 22% 的销售额; 其余 28% 的销售额来自亚太 (除中国以外)、拉丁美洲、中东以及非洲。公司主要采用两种销售模式, 包括直接向医疗美容机构销售产品, 例如医院的整形美容外科、诊所、激光中心等, 以及向分销商销售产品。

需求持续增长以及激烈的竞争格局。根据 Medical Insight 报告, 能量源医疗美容器械的全球销售额于 2016 年达到 27 亿美元, 预计未来 5 年实现 10.4% 的复合增速, 并于 2021 年达到 44 亿美元。随着中国经济的增长以及城镇人均可支配收入从 2006 年的 10,000 元上升至 2015 年的 30,000 元, 国内能量源医疗美容器械的销售额从 2014 年的 9,300 万美元增长至 2016 年的 1.59 亿美元; 预计中国能量源医疗美容器械的市场规模有望于 2021 年达到 3.3 亿美元, 2016-2021 年的复合增速约为 15.5%。全球能量源医疗美容器械市场的竞争较为激烈, 约有 11 个主要生产厂商, 合计约占 70% 的市场份额。

行业整合。近年来, 能量源医疗美容器械市场呈现整合趋势。2017 年, 全球排名前三的能量源医疗美容器械公司发生了三起并购。今年 3 月, 全球市场份额排名第一的 Cynosure 被 Hologic (HOLX.US-N-R) 收购。今年 4 月, 全球市场份额排名第二的 Zeltiq Aesthetic 被 Allergan (AGN.US-N-R) 收购。今年 7 月, 全球市场份额排名第三的 Syneron Medical 被 Apax Partners 收购。Sisram 通过 IPO 募集了 6.89 亿港元的资金, 管理层预计募集资金中较大部分将用于并购。



Source: Bloomberg

Financial Table

	2013	2014	2015	2016
Revenue (US\$m)	-	101	110	118
YoY (%)	-	-	9.0	7.0
Net income (US\$m)	-	6	8	8
YoY (%)	-	-	31.5	3.1
Diluted EPS (HK\$)	-	-	-	-
YoY (%)	-	-	-	-
ROE (%)	-	-	-	-
Dividend yield (%)	-	-	-	-
Free cash flow/shr (HK\$)	-	-	-	-
PE (x)	-	-	-	-
PB (x)	-	-	-	-
EV/Ebitda	-	-	-	-
Debt/equity	-	-	-	-

Source: SWS Research, Bloomberg

Sisram Medical is China's largest energy-based medical aesthetic treatment systems provider, with 16% market share, and the world's fifth largest player, with 4% market share. The company develops and sells treatment solutions for hair removal, skin tightening, skin rejuvenation, skin resurfacing, vascular and pigmented lesions, and tattoo removal, among other treatments. Sisram raised HK\$689m through its IPO in September 2017. Management plans to use most of the proceeds for strategic acquisitions in the medical devices sector.

Diversified product offerings. Sisram operates three business segments: non-invasive medical aesthetic products, minimally invasive products, and after-sale services and others. Non-invasive medical aesthetic products are divided into core products and beauty products. The core product line, which includes the *Soprano*, *Harmony*, *Accent*, and *Aesthetic Precision* series, targets medical aesthetic institutions, such as cosmetic surgery divisions of hospitals, medical clinics, and laser centres. By contrast, the beauty product line focuses on non-medically trained users in medical spas and beauty spas. Its minimally invasive product line also targets medical aesthetic institutions, with brands like *Femilift*, *Vasculife*, and *LipoLife* providing solutions such as laser-based liposuction and varicose veins treatment.

Global distribution. Sisram's sales network covers c.80 countries worldwide, Europe, North America, and China representing 27.7%, 22.6%, and 22.0% of total revenue, respectively, in 1Q17. The remaining 27.7% were generated in Asia Pacific (excluding China), Latin America, the Middle East, and Africa. The company uses a mixed sales model, composed of direct sales to medical aesthetic institutions and spas, and sales to distributors.

Growing market. According to Medical Insight, the global market for energy-based medical aesthetic treatment systems reached US\$2.7bn in 2016 and is expected to grow at a five-year Cagr of 10.4%, reaching US\$4.4bn in 2021F. Backed by China's growing economy, with increasing urban per-capita disposable income (Rmb30,000 in 2015 vs Rmb10,000 in 2006), sales of energy-based medical aesthetic treatment systems in China increased from US\$93m in 2014 to US\$159m in 2016. Medical Insight expects the Chinese market to grow at a 15.5% Cagr in 2016-21F, reaching c.US\$330m in 2021F. However, the global market is highly competitive, with 11 major players accounting for a combined c.70% market share.

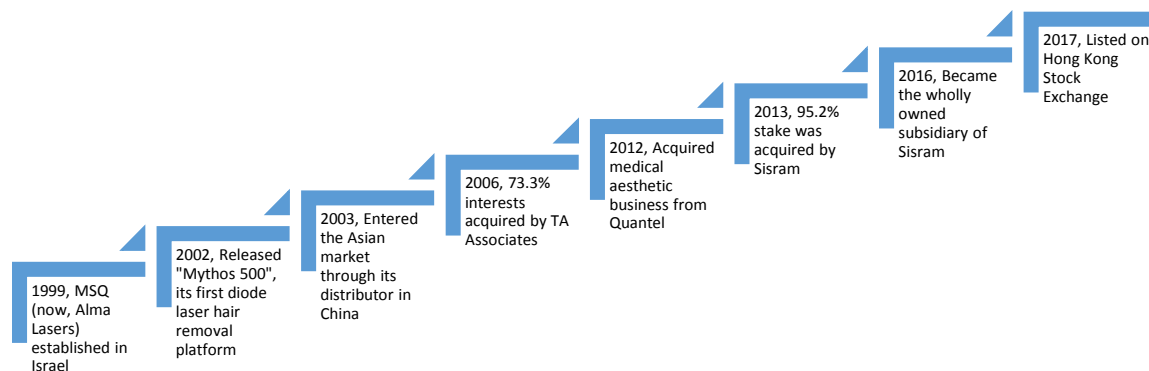
Sector consolidation. We highlight a number of recent mergers and acquisitions (M&As) in the industry. In July 2017, Syneron Medical, the world's third largest player with 11% market share in 2016, was acquired by an affiliate of funds advised by Apax Partners. In April 2017, Allergan (AGN:US) acquired Zeltiq Aesthetics, the world's second largest player with 13% market share in 2016. In March 2017, Hologic (HOLX:US) acquired Cynosure, the world's largest player with 16% market share in 2016.

Skin in the game

Sisram Medical is China's largest energy-based medical aesthetic treatment systems provider, with 16% market share, and the world's fifth largest player, with 4% market share. The company develops and sells treatment solutions for hair removal, skin tightening, skin rejuvenation, skin resurfacing, vascular and pigmented lesions, and tattoo removal, among other treatments.

Alma Lasers is Sisram's main operating subsidiary. Previously named as MSQ, Alma Lasers was founded in 1999 in Israel. It entered the Asian market through its Chinese distributor in 2003. TA Associates, a private equity firm, acquired 73% of Alma Lasers in 2006. In 2013, Sisram, subsidiary of Shanghai Fosun Pharmaceutical Group (2196:HK – N-R), acquired a 95.2% stake in Alma Lasers. Sisram was listed on the Hong Kong Stock Exchange in 2017.

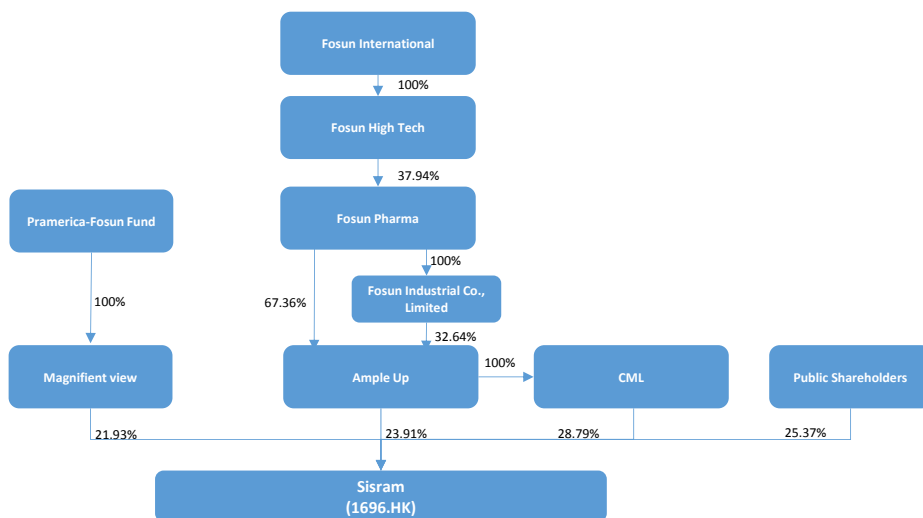
Fig 1: Company history



Source: Company data, SWS Research

Shanghai Fosun Pharmaceutical Group (2196:HK – N-R) indirectly holds a 52.7% stake in Sisram. In addition, the Pramerica-Fosun Fund indirectly owns a 21.9% stake in the company. Public shareholders represent 25.4% of equity shares.

Fig 2: Shareholding structure of Sisram



Source: Company data, SWS Research

The company's total revenue reached US\$101m in 2014, US\$110m in 2015 (+9% YoY), US\$118m in 2016 (+7% YoY), and US\$66m in 1H17 (+13% YoY), growing at a Cagr of 8% in

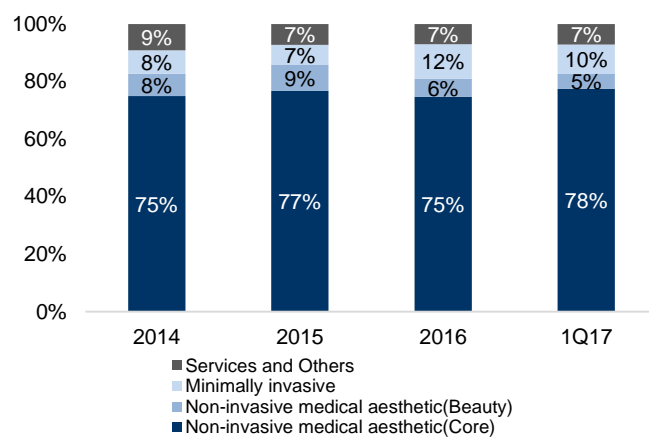
2014-16. Sales growth was mainly driven by increasing demand. Sisram recorded net profit of US\$5.9m in 2014, US\$7.8m in 2015 (+31% YoY), US\$8.1m in 2016 (+3% YoY). In 2016, Sisram booked one-off listing expenses of US\$3.6m. In 1H17, net profit increased 37% YoY to US\$7.8m.

Diversified product offerings

Sisram's revenue is derived from three sources: non-invasive medical aesthetic products, minimally invasive products, and other sales and services to direct sales customers, including after-sale services, sales of warranty extensions, and sales of replacement applicators.

Sisram's largest revenue contributor is the non-invasive medical aesthetic products segment, including the core product line and the beauty product line, which accounted for 78% and 5% of total revenue in 1Q17, respectively, while the minimally invasive products segment contributed c.10% of total revenue.

Fig 3: Revenue by segment (2014-1Q17)



Source: Company data, SWS Research

Non-invasive medical aesthetic products provide treatment solutions for hair removal, skin tightening, skin rejuvenation, skin resurfacing, vascular and pigmented lesions, and tattoo removal, among other treatments. These products are divided into two product lines: the core product line and the beauty product line.

The core product line includes four major product series, namely *Soprano*, *Harmony*, *Accent*, and *Aesthetic Precision*. Core products mainly target medical aesthetic institutions, such as plastic and cosmetic surgery divisions of hospitals, medical clinics, and laser centres. Beauty products, which provide similar non-invasive medical aesthetic treatments, mainly focus on non-medically trained users in medical spas and beauty spas.

Sisram's minimally invasive product line also targets medical aesthetic institutions, with brands like *FemiLift*, *VascuLife*, and *LipoLife* providing solutions such as laser-based liposuction and varicose veins treatment.

Fig 4: Summary of key products

Product line	Product series	Product name	Year of Launch	Energy Source	Intended Indications
Non-invasive medical aesthetic products (Core)	Soprano series	Soprano XL	2006	Laser	Hair removal and skin tightening
		Soprano Accord	2009		
		Soprano XLI	2010		
		Soprano ICE	2014		
		Soprano ICE Platinum	2016		
	Harmony series	Harmony XL	2007	Laser; Ultrasound; AFT; NIR and LED	Over 65 indications, such as skin rejuvenation, hair removal, treatment of
		Harmony XL Pro	2014		

Product Line	Product Series	Product Model	Year	Technology	Indications
Non-invasive medical aesthetic products (Beauty)	Accent series	Accent XL	2009	Radiofrequency and ultrasound	vascular and pigmented lesions, scar removal and skin tightening
		Accent Ultra V	2011		Body and face contouring, skin tightening, skin resurfacing and rejuvenation and cellulite reduction
		Accent Prime	2016		Skin rejuvenation and tightening;
		Pixel CO2	2012		Tattoo removal and pigmentation;
		Alma-Q	2016		Hair removal, pigmented lesions and Pigmentation disorders;
	Aesthetic Precision series	SINON	2016	CO2 Laser and ultrasound; Laser; Light	Skin resurfacing and rejuvenation; smoothing of scars; Vascular indications and pigmented skin changes
		ARION	2012		
		308 Excimer	2012		
		IDAS	2012		
		Burane II/ Burane II XL	2012		
Non-invasive medical aesthetic products (Beauty)	-	Remove	2015	Laser; AFT, Dye, NIR; Radiofrequency Microplasma; Ultrasound	Hair removal; Skin rejuvenation and tightening, face and body contouring; Improving the appearance of skin imperfections;
		Rejuve	2015		
		Reform	2015		
		Reboost	2015		
		Spa RF Pro	2015		
Minimally invasive products	-	FemiLift	2013	CO2 Laser	Vaginal rejuvenation, stress urinary incontinence (SUI), vaginal dryness and recurrent infections, post-menopause—GSM and post-delivery Varicose veins Body contouring, liposuction and fat grafting
			2015		
		VascuLife	2015	Laser	
		LipoLife	2016	Laser	

Source: Company data, SWS Research

Sisram currently has over 50 different treatment systems and over 100 different models of applicators. Products usually consist of two parts: a main console and an interchangeable applicator. The company has sold over 27,400 main consoles and 118,100 applicators thus far.

Core products are priced at US\$10,000-135,000 per main console, and US\$1,000-25,000 per applicator, while beauty products are sold at US\$11,000-59,000 per main console, and US\$1,000-15,000 per applicator. Compared with the core product line, the beauty product line is more affordable, slightly less powerful, and used for treating fewer and less complicated indications. We note the beauty products are particularly popular in China. In addition, prices of minimally invasive products range from US\$10,000 to US\$100,000 per main console, and from US\$3,000 to US\$10,000 per applicator.

Fig 5: Price range of key products

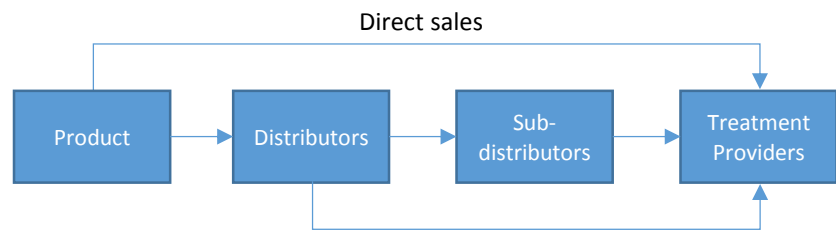
Product line	Product series	Price range (US\$)	Target customers	Highlights
Non-invasive medical aesthetic products (Core)	Soprano series	US\$10,000 to US\$135,000 per main console, US\$1,000 to US\$25,000 per applicator	Medically trained treatment providers	
	Harmony series			
	Accent series			
Non-invasive medical aesthetic products (Beauty)	Aesthetic Precision series	US\$11,000 to US\$59,000 per main console, US\$1,000 to US\$15,000 per applicator	Non-medically trained treatment providers	1. Less expensive, slightly less powerful, and capable of treating fewer, as well as less complicated indications 2. Particularly popular in the China market
	Remove			
	Rejuve			
	Reform			
	Reboost			
	Spa RF Pro			
Minimally invasive products	Spa Slim	US\$10,000 to US\$100,000 per main console, US\$3,000 to US\$10,000 per applicator	Medically trained treatment providers	
	FemiLift			
	VascuLife			
	LipoLife			

Source: Company data, SWS Research

Global distribution

Sisram's sales network covers c.80 countries worldwide. The company uses a mixed sales model, composed of direct sales to medical aesthetic institutions and spas, and sales to distributors. Medical aesthetic treatment providers include core physicians (plastic surgeons and dermatologists), non-core physicians (primary care physicians, obstetricians, gynaecologists...), and aestheticians.

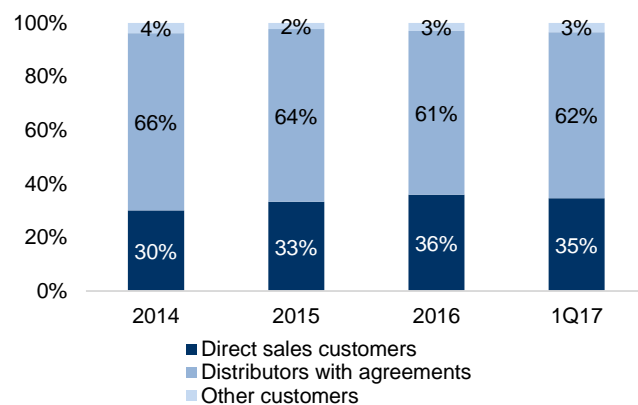
Fig 6: Product distribution channels



Source: Company data, SWS Research

Direct sales represented 35% of the company's total revenue in 1Q17, while sales to distributors accounted for 62% of total revenue.

Fig 7: Revenue by customer type (2014-1Q17)

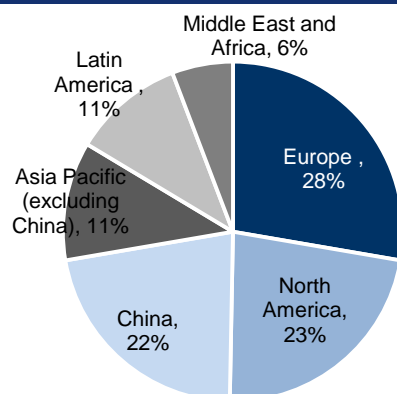


Source: Company data, SWS Research

Looking at the geographical breakdown, Europe, North America, and China represented 27.7%, 22.6%, and 22.0% of total revenue, respectively, in 1Q17. The remaining 27.7% were generated in Asia Pacific (excluding China), Latin America, the Middle East, and Africa.

The company mainly conducts direct sales in Germany, Austria, North America, and India, while it relies on third-party distributors in other regions. We note that Sisram's largest client is an exclusive distributor in China, contributing 22% of total revenue in 1Q17.

Fig 8: Sales by region (1Q17)



Source: Company data, SWS Research

Fig 9: Sales and distribution networks

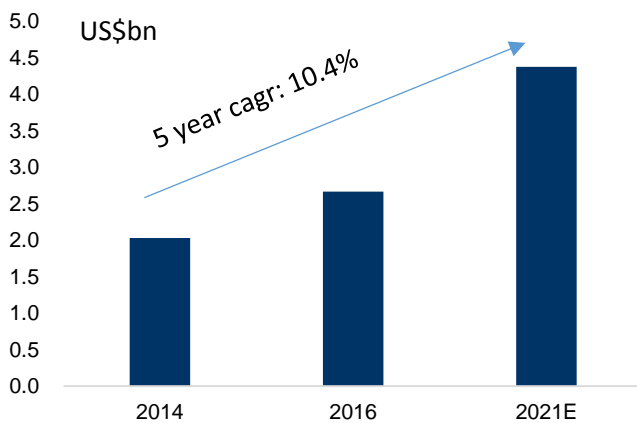
Region	Sales model
Europe (Germany and Austria)	Primarily direct sales
Europe (Others)	Primarily third-party distributors
North America	Primarily direct sales
PRC	Third-party distributor (sole and exclusive distributor in the PRC)
India	Primarily direct sales
Asia Pacific (Others)	Primarily third-party distributors
Latin America	Primarily third-party distributors
Middle East and Africa	Primarily third-party distributors

Source: Company data, SWS Research

Growing market

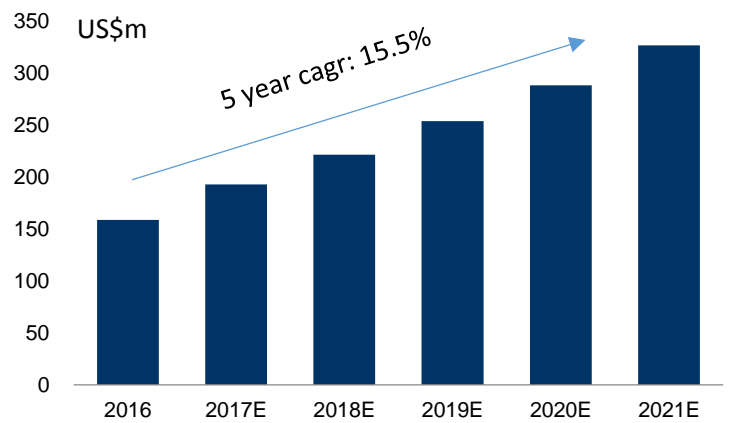
According to Medical Insight, the global market for energy-based medical aesthetic treatment systems reached US\$2.7bn in 2016 and is expected to grow at a five-year Cagr of 10.4%, reaching US\$4.4bn in 2021F. Backed by China's growing economy, with increasing urban per-capita disposable income (Rmb30,000 in 2015 vs Rmb10,000 in 2006), sales of energy-based medical aesthetic treatment systems in China increased from US\$93m in 2014 to US\$159m in 2016. Medical Insight expects the Chinese market to grow at a 15.5% Cagr in 2016-21F, reaching c.US\$330m in 2021F.

Fig 10: Global market of energy-based medical aesthetic treatment systems



Source: Medical Insight Report, SWS Research

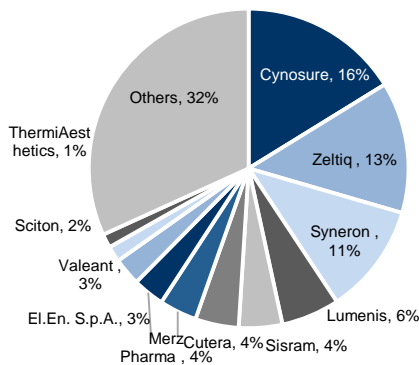
Fig 11: China's market of energy-based medical aesthetic treatment systems



Source: Medical Insight Report, SWS Research

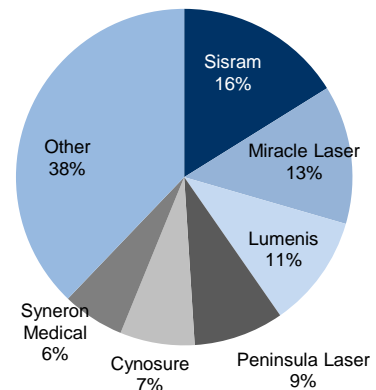
We note the global market is highly competitive, with 11 major players accounting for a combined c.70% market share. By revenue, the top-three players in 2016 were Cynosure, Zeltiq, and Syneron, with 16%, 13%, and 11% market share, respectively. Sisram was the world's fifth largest supplier with 4.4% market share. There are six major suppliers of energy-based medical aesthetic treatment systems in the Chinese market, accounting for a combined 62% market share. By revenue, Sisram had the largest market share in China (16%).

Fig 12: Global market breakdown (2016)



Source: Medical Insight Report, SWS Research

Fig 13: China's market breakdown (2016)



Source: Medical Insight Report, SWS Research

Compared with US-listed peers, Sisram posted much higher adjusted net profit margin, reaching 14.3% in 2014, 15.0% in 2015, 17.2% in 2016, and 20.1% in 1H17. Its net profit margin is similar to that of Wuhan Miracle Laser Systems, a Chinese competitor whose stock is pending listing.

Fig 14: Peers' adjusted net profit margin

	Ticker	2014	2015	2016	1H17
Sisram	1696:HK	14.3%	15.0%	17.2%	20.1%
Miracle Laser	Pending listing	13.6%	17.0%	17.0%	14.7%
Syneron	ELOS:US (Delisted)	-1.0%	-1.0%	2.0%	NA
Lumenis	LUMEE:US	4.0%	NA	NA	NA
Cutera	CUTR:US	-13.0%	-4.0%	2.0%	NA
Cynosure	Unlisted	NA	NA	NA	NA
Zeltiq	Unlisted	NA	NA	NA	NA

Source: Bloomberg, Wind, SWS Research

Sector consolidation

We highlight a number of recent mergers and acquisitions (M&As) in the industry. In July 2017, Syneron Medical, the world's third largest player with 11% market share in 2016, was acquired by an affiliate of funds advised by Apax Partners. In April 2017, Allergan (AGN:US) acquired Zeltiq Aesthetics, the world's second largest player with 13% market share in 2016. In March 2017, Hologic (HOLX:US) acquired Cynosure, the world's largest player with 16% market share in 2016.

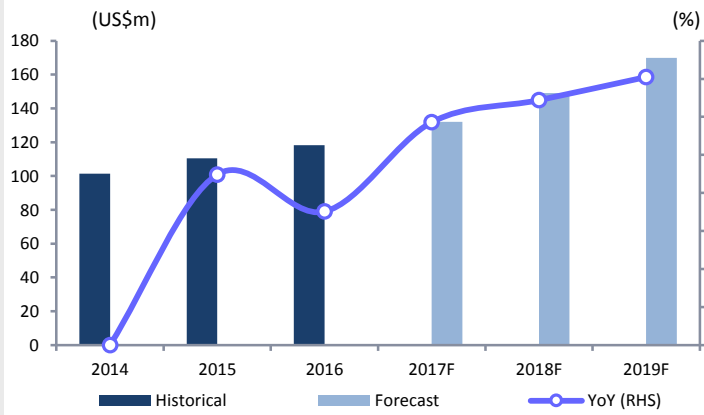
Sisram raised HK\$689m through its IPO in September 2017. Management plans to use most of the proceeds for strategic acquisitions in the medical devices sector.

Fig 15: Recent M&As in the energy-based medical aesthetic treatment systems market

Date	Acquirer	Acquisition target
July 2017	Funds advised by Apax Partners	Syneron Medical (the 3rd largest player in the global market by revenue in 2016)
April 2017	Allergan	Zeltiq Aesthetics (the 2nd largest player in the global market by revenue in 2016)
March 2017	Hologic	Cynosure (the largest player in the global market by revenue in 2016)
October 2015	XIO Group	Lumenis (the 4th largest player in the global market by revenue in 2016)
2014	Merz Pharma GmbH & Co. KGaA	Ulthera
2013	Cynosure	Palomar Medical Technologies

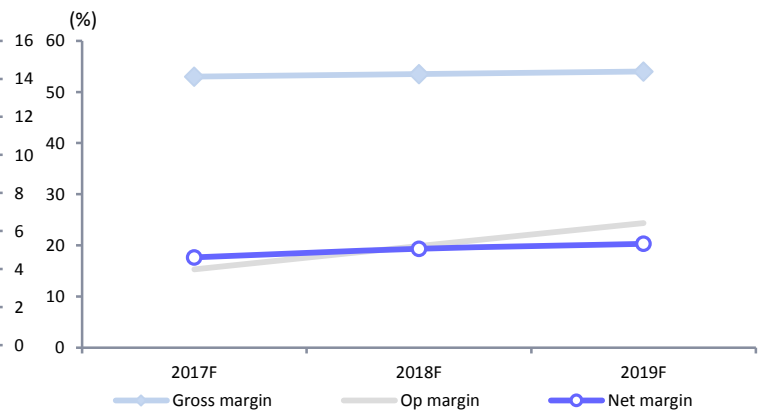
Source: Company data, SWS Research

Fig 16: Revenue



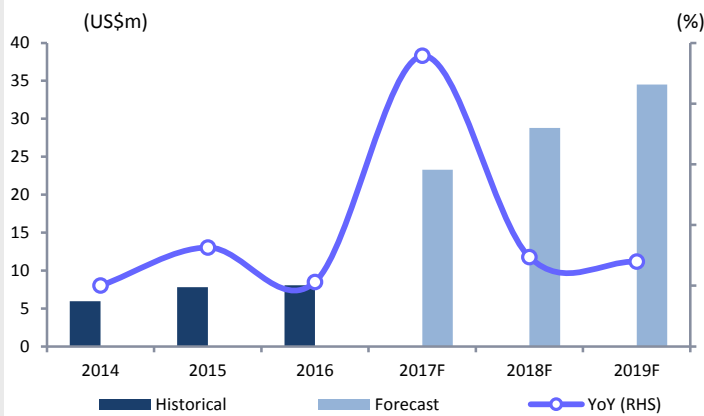
Source: SWS Research & Bloomberg

Fig 17: Margins



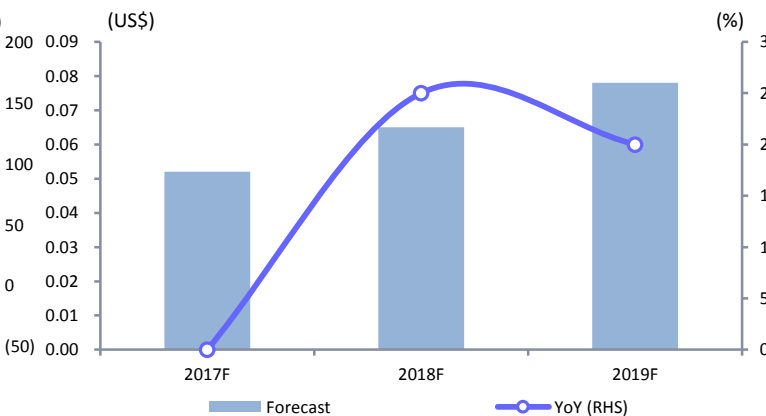
Source: SWS Research & Bloomberg

Fig 18: Net profit



Source: SWS Research & Bloomberg

Fig 19: EPS



Source: SWS Research & Bloomberg

Appendix

Income Statement

(US\$)	2013	2014	2015	2016
Revenue (m)	-	101	110	118
Operating income (m)	-	17	19	19
Pretax income (m)	-	-	-	-
Income before XO items (m)	-	7	9	9
Net income (m)	-	6	8	8
Basic EPS before XO items	-	-	-	-
Basic EPS	-	-	-	-
Diluted EPS before XO items	-	-	-	-
Diluted EPS	-	-	-	-
Dividends per share	-	-	-	-
Ebitda (m)	-	-	-	-
ROE (%)	-	-	-	-

Source: Bloomberg

Balance Sheet

(US\$)	2013	2014	2015	2016
Total current assets (m)	-	80	86	95
Total long-term assets (m)	-	-	-	-
Total assets (m)	-	270	273	279
Total current liabilities (m)	-	29	41	47
Total long-term liabilities (m)	-	-	-	-
Total liabilities (m)	-	-	-	-
Total shareholders' equity (m)	-	-	-	-
Shares outstanding (m)	-	-	-	-
Book value per share	-	-	-	-
Tangible book value per share	-	-	-	-
Equity to total liabilities	-	-	-	-

Source: Bloomberg

Cash Flow Statement

(US\$)	2013	2014	2015	2016
Net income (m)	-	6	8	8
Depreciation & amortisation (m)	-	5	6	6
Change in working capital (m)	-	-	-	-
Cash from operations (m)	-	20	13	14
Capital expenditures (m)	-	-	-	-
Cash from investing activities (m)	-	-9	-2	-5
Cash from financing activities (m)	-	-12	-9	-10
Net changes in cash (m)	-	-1	2	-1
Free cash flow (m)	-	-	-	-
FCF per share (basic)	-	-	-	-
FCF per share (diluted)	-	-	-	-
Cash flow per share	-	-	-	-

Source: Bloomberg

Information Disclosure :

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Thursday, 21 December, 2017

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