



EQUITY RESEARCH

February 28, 2020

Intraday Price: \$7.59 (3:28PM ET)

Price Target: \$13.00

Rating: Overweight

Key Statistics:

Symbol	NYSE: AIH
52-Week Range	\$6.03 - \$12.56
Market Cap (M)	177
ADV (3 mo)	79,467
Shares Out (M)	23.6

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One-Year Price History



Aesthetic Medical Int'l Holdings (AIH)

Quick Take

Potential Near-term Disruption to Operations is Possible

Takeaways

- Given its presence in mainland China, it is entirely possible that AIH has seen some short-term disruption in procedure volume.
- The company does not have any facilities in the regions where coronavirus was more prevalent.
- While near-term trends could be impacted, we remain positive regarding the company's long-term growth potential.
- Beyond the immediate coronavirus concerns, there could be lingering impact from potentially lower discretionary income and a slower Chinese economy.
- At this juncture, it is difficult to ascertain the exact impact on the company's fundamentals.

Summary

Growth strategies remain in place. Notwithstanding any near-term disruption, we expect the company will post strong same-store growth over time. The company will continue to add new treatment centers (organic, acquisitions and joint ventures). In conjunction with its 3Q19 earnings release, the company disclosed that three additional satellite clinics are under construction in Zhejiang Province and construction has begun on a new medical institution in Nanchang, Jiangxi Province. Since completing its IPO in 2019, the company did not provide any material forward-looking guidance. The company has not indicated when it plans to release 4Q19 results. Historically, 4Q is the strongest quarter of the year. We expect 4Q19 revenue to be about RMB344 million. Our full year 2019 revenue estimate remains unchanged at RMB975 million (USD\$138.5 million). Any potential disruption in operations would impact our 2020 estimates. At this juncture is difficult to determine what the actual impact may be.

Investment Thesis

AIH is the third-largest private aesthetic medical services provider in China. Third-party research indicates that the market has had a 23.6% CAGR since 2014 and is expected to have a 24.2% CAGR through 2023. Underlying this growth should be greater demand for aesthetic medical services, increasing disposable income, maturing technologies and increasing investment in awareness and access in aesthetic medical services. AIH should be a net beneficiary of these strong industry trends.

Valuation

Our DCF-based price target is \$13 per ADS. Beyond 2020, we estimate 15% top-line growth in 2021/22, and a gradual decline over the remaining explicit forecast period and long-term GAAP operating margin of 20%. We expect capital expenditures to be about 10% of revenue. Our discount rate assumption is 15%, which, in our opinion, reflects the industry, company-specific and country risks. Other assumptions include long-term debt to total capital of 25% and long-term growth estimate (free cash flow), beyond our 10-year explicit forecast, of 3%. The perpetuity value accounts for 42% of total value in our DCF.

Risks

Subject to the effects of government healthcare industry regulation. Because the healthcare industry in China is highly regulated, AIH is constantly subject to changes in the political, legislative, and regulatory arenas. In the past, the company's treatment centers were subject to administrative warnings and penalties due to certain non-compliance incidents.

Complaints and legal proceedings. The company is subject to customer complaints, claims and legal proceedings in the regular course of operations from time to time. This could result in significant costs and in material and adverse effects on the company's brand image, reputation and results of operations.

Competition. The company competes with private aesthetic hospitals and clinics and aesthetic medical departments in public general hospitals located in the same geographic areas as its treatment centers. The company may also compete with future market entrants, as the rapid growth of the aesthetic medical industry in the PRC may attract more domestic or international players to enter. Some of the company's existing and potential competitors may have competitive advantages, such as significantly greater financial, marketing or other resources and may be able to mimic and adopt its business model. The company competes for customers primarily on the basis of location, price, the range and quality of services that are offered and its brand name. The company cannot assure it will be able to successfully compete against new or existing competitors. Any inability to successfully compete with new or existing competitors may prevent the company from increasing or sustaining its revenue and profitability level and may result in a loss of market share.

Economic conditions. Demand for the company's aesthetic medical services and the resulting spending by customers are particularly sensitive to changes in general economic conditions and customers' disposable income. The company cannot assure that the local economy in the places where it operates can sustain stable growth in consumer spending. During periods of economic downturn, people may reduce their spending on aesthetic medical services, which may materially and adversely affect the company's ability to generate revenue from these services and its financial condition and results of operations.

Management. The company is dependent on certain key members of its senior management team, some of whom have been with the company since inception, to manage its current operations and meet future business challenges. In particular, the company relies on the expertise, experience and leadership of Dr. Zhou Pengwu, its chairman and chief executive officer, and Ms. Ding Wenting, its vice-chairwoman and spokesperson.

Concentrated share ownership. Shares sold by the company for its IPO account for just about 10% of total ordinary shares outstanding. Currently, Dr. Zhou and Ms. Ding own about 57.6% of AIH's ordinary shares. About 30.5% of shares are owned by two funds (Series A and Series B). Potential stock sales by Dr. Zhou/Ms. Ding and the Series A and B firms could negatively affect the shares' valuation.

Company Description

Aesthetic Medical International Holdings (AIH) is a leading provider of aesthetic medical services in China. The company was founded in 1997, over 20 years ago, by its Chairman and CEO, Dr. Zhou Pengwu. The company operates 21 treatment centers, with 19 either wholly owned or majority owned. As of June 30, the company had 567 medical staff, including 203 physicians. About 40% of revenue is derived from surgical aesthetic treatments and 51% is generated from non-surgical procedures. About 9% of revenue is related to general healthcare and other aesthetic services

Disclosures Appendix

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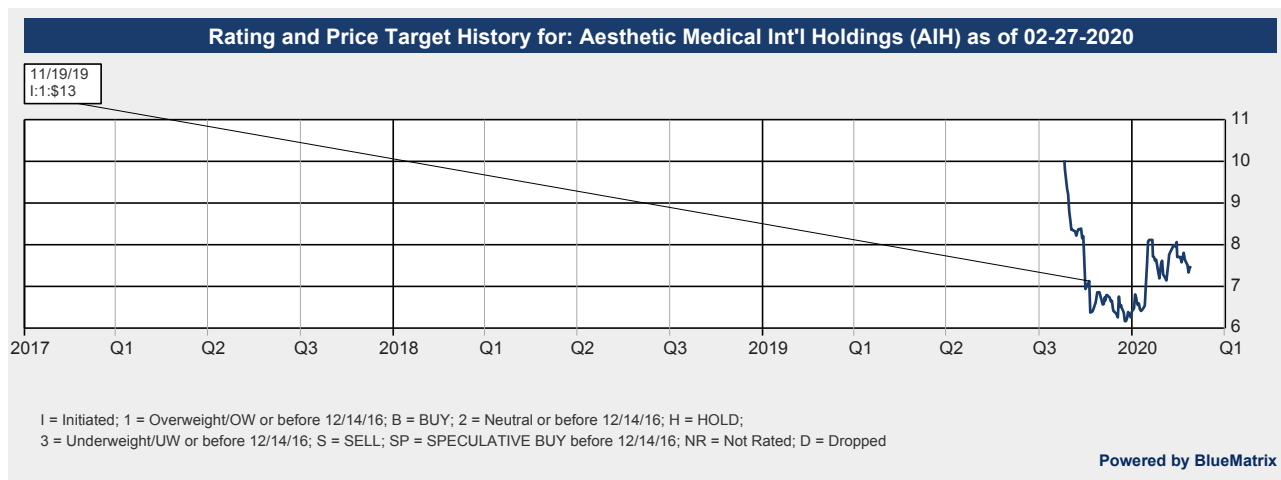
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Distribution of Ratings/Investment Banking Services (IB) as of 02/28/20

Rating	Cantor		IB Serv./Past 12 Mos.	
	Count	Percent	Count	Percent
BUY [1/B]	182	74.59	94	51.65
HOLD [2]	60	24.59	9	15.00
SELL [SL/3]	2	0.82	0	0.00



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