

Q & M Dental Group

Non-deal roadshow key takeaways

SINGAPORE | HEALTHCARE | UPDATE

25 May 2015

- We hosted Q&M for a non-deal roadshow on 21 May-15
- Alignment of management/shareholder interests with moratorium until 2020
- Acquisitions to continue in Singapore and China
- Maintain **Accumulate** with **TP of S\$0.92**

Key Takeaways

- **Favourable acquisition terms** – Q&M reiterated its stance on its acquisition terms: 1) Service agreement (especially for clinics reliant on one/two dentists), 2) Lock up period (alignment of interest) and 3) Profit target/guarantee (incentive to perform). This is positive in our opinion as it ensures the clinics acquired are able to run smoothly.
- **Moratorium until 2020** – Management shared that the initial 18 partners of Q&M are prevented from selling their shares in the open market until 2020. The shares are held under Quan Min Holdings. It holds 52.2% of Q&M's total outstanding shares. Management shared that it looks to do placements only to strategic partners (eg. Heritas Hellos Investment Pte Ltd). We view this positively as it aligns management's interest with shareholders.
- **Why are Chinese firms keen to tie-up with Q&M?** – The Chinese dental firms that are bought by Q&M wish to list. However, some of them are not large enough to list. Also, they are keen on overseas listings, which they may not be able to achieve on their own.
- **Acquisitions to continue in Singapore and China** – Management reiterated its expansion plans via acquisitions in Singapore and China. In Singapore, it would eye either competitors near their existing clinics (eg. Tiong Bahru Dental Clinic and Bright Smile Dental clinic) or in the premium dental space (eg. TP Dental Surgeons). For China, Management shared that it will be looking in the North East region.

How do we view this?

We remain positive on Q&M. The terms applied in all its acquisitions gives us confidence that management will remain prudent in its search for inorganic growth. The moratorium provides a sense of assurance that the Management's interests are aligned with shareholders. With S\$31.4 mn remaining from the drawdown of medium-term note programme, we think Q&M has the financial means to pursue its acquisition targets.

Near-term upside catalysts include better-than-expected valuations on acquisitions and clarity on the listing of its Malaysia and China businesses. The key risks include overpaying for its acquisitions or unfavorable terms in its acquisitions.

Investment Actions

We maintain our "**Accumulate**" rating with a **TP of S\$0.92**.

ACCUMULATE (Maintain)

CLOSING PRICE	S\$ 0.870
FORECAST DIV	S\$ 0.012
TARGET PRICE	S\$ 0.920
TOTAL RETURN	7.1%

COMPANY DATA

O/S SHARES (MN) :	779
MARKET CAP (USD mn / SGD mn) :	505 / 677
52 - WK HI/LO (SGD) :	1 / 0.39
3M Average Daily T/O (mn) :	2.45

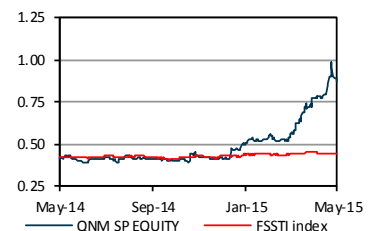
MAJOR SHAREHOLDERS (%)

Dr Ng Chin Siau	53.48%
Heritas Helios Investmetns Pte. Ltd	9.33%
Koh ShunJie, Kelvin	4.30%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	24.8	71.2	114.9
STI RETURN	(0.28)	189	8.98

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD MN	FY 13	FY 14	FY 15F	FY 16F
Revenue	71	100	145	205
EBITDA	9	15	27	43
NPAT (adj.)	6	9	13	23
EPS (S Cents)	0.93	1.20	1.64	2.94
PER, x (adj.)	34.8	29.2	47.7	26.7
P/BV, x	4.9	3.3	7.7	7.1
DPS (S Cents)	1.1	0.7	1.2	2.1
Div Yield, %	3%	2%	1%	3%
ROE, %	17%	14%	17%	28%

Source: Company Data, PSR est.

Valuation Method

P/E

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Financials

Income Statement

Y/E Dec, SGD mn	FY12	FY13	FY14	FY15F	FY16F
Revenue	57.0	71.2	100.3	145.0	205.3
EBITDA	7.0	9.2	15.1	26.8	43.3
Depreciation & Amortisation	(1.5)	(2.0)	(2.8)	(4.2)	(6.2)
EBIT	5.5	7.3	12.2	22.6	37.2
Net Finance Inc/(Exp)	(0.2)	(0.3)	(0.5)	(4.2)	(4.3)
Profit before tax	5.3	7.0	11.8	18.3	32.8
Taxation	(0.3)	(0.5)	(1.3)	(2.0)	(3.6)
Net profit before NCI	5.0	6.5	10.5	16.3	29.2
Non-controlling interest	(0.0)	(0.0)	(1.9)	(3.3)	(5.8)
Net profit, reported	5.0	6.5	8.6	13.1	23.4

Per share data (SGD Cents)

Y/E Dec	FY12	FY13	FY14	FY15F	FY16F
EPS, reported	0.91	0.93	1.20	1.64	2.94
DPS	0.68	1.10	0.73	1.15	2.06
BVPS	5.24	6.65	10.72	10.15	11.03

Cash Flow

Y/E Dec, SGD mn	FY12	FY13	FY14	FY15F	FY16F
CFO					
Profit before tax	5.3	7.0	11.8	18.3	32.8
Depreciation & Amortisation	1.5	2.0	2.8	4.2	6.2
WC changes	2.1	(3.2)	(3.1)	3.8	3.3
Net finance inc/(exp)	0.2	0.3	0.5	4.2	4.3
Tax paid	(0.2)	(0.5)	(0.6)	(2.0)	(3.6)
Others	(0.2)	(1.4)	(1.1)	0.0	0.0
Cashflow from ops	8.7	4.1	10.3	28.5	43.0
CFI					
CAPEX, net	(10.4)	1.8	(17.2)	(14.8)	(21.8)
Others	(0.5)	(5.3)	(21.2)	(59.9)	0.1
Cashflow from investments	(11.0)	(3.6)	(38.4)	(74.7)	(21.7)
CFF					
Share issuance, net	0.0	16.8	12.9	0.0	0.0
Loans, net of repayments	8.0	(0.7)	29.2	60.0	0.0
Dividends	(3.7)	(6.1)	(6.5)	(9.1)	(16.4)
Others	2.8	(0.3)	(0.5)	(4.4)	(4.5)
Cashflow from financing	7.1	9.7	35.1	46.5	(20.8)
Net change in cash	4.8	10.3	6.9	0.4	0.4
CCE, end	18.5	28.7	35.7	36.0	36.5

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY12	FY13	FY14	FY15F	FY16F
ASSETS					
PPE	17.2	15.4	37.4	108.0	123.7
Others	5.6	10.2	36.4	36.4	36.4
Total non-current assets	22.7	25.6	73.8	144.4	160.1
Accounts receivables	5.6	7.7	16.3	28.6	42.2
Cash	18.5	28.7	35.7	36.0	36.5
Inventories	1.5	4.1	8.6	18.1	25.5
Others	1.0	1.5	6.2	6.2	6.2
Total current assets	26.6	42.1	66.9	89.0	110.4
Total Assets	49.3	67.6	140.7	233.4	270.4

LIABILITIES

Accounts payables	9.9	10.8	21.2	46.7	70.9
Short term loans	0.6	0.2	3.7	3.7	3.7
Others	0.1	0.1	1.0	1.0	1.0
Total current liabilities	10.6	11.1	25.8	51.4	75.6
Long term loans	8.7	8.7	28.5	88.5	88.5
Others	1.1	1.2	1.3	1.3	1.3
Total non-current liabilities	9.8	9.9	29.8	89.8	89.8
Total Liabilities	20.4	20.9	55.6	141.2	165.4

EQUITY

Non-controlling interests	0.1	0.6	8.4	11.7	17.5
Shareholder Equity	28.8	46.1	76.6	80.6	87.6

Valuation Ratios

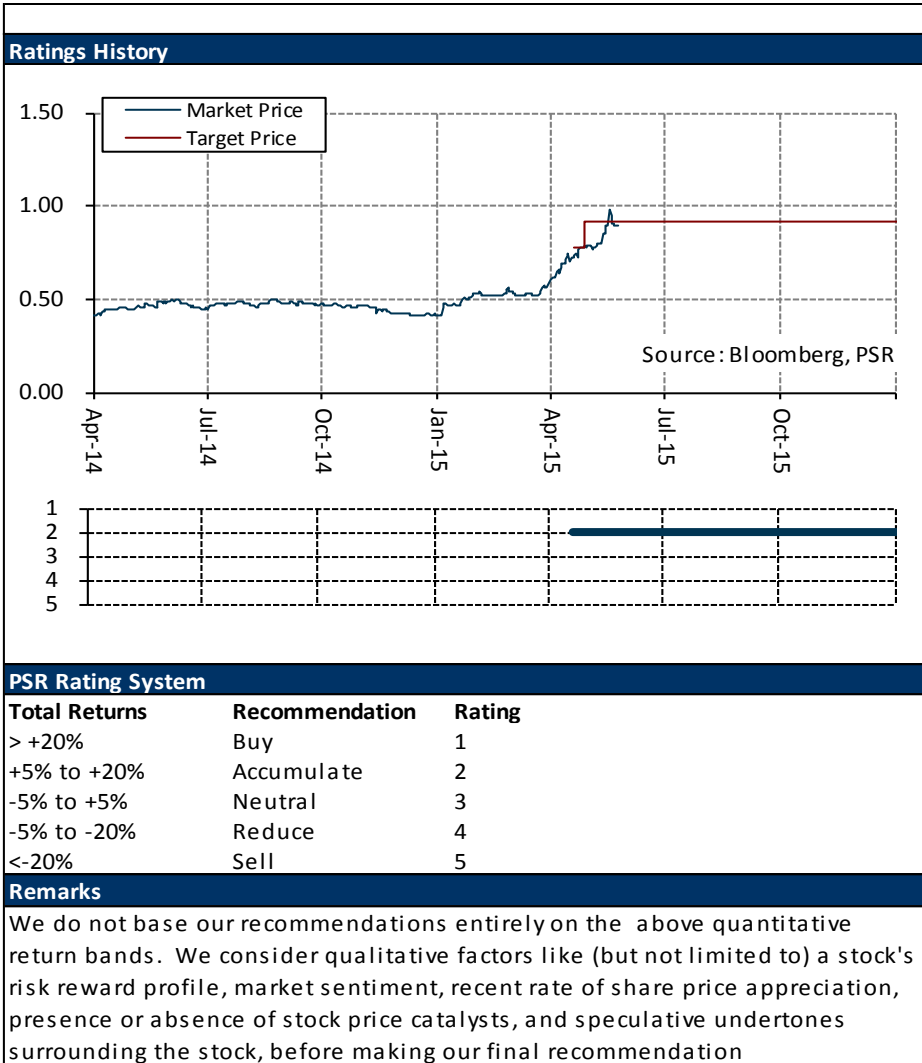
Y/E Dec	FY12	FY13	FY14	FY15F	FY16F
P/E (X), adj.	89.4	34.8	29.2	47.7	26.7
P/B (X)	15.5	4.9	3.3	7.7	7.1
EV/EBITDA (X), adj.	63.7	24.4	16.6	23.3	14.4
Dividend Yield (%)	0.8%	3.4%	2.1%	1.5%	2.6%

Growth & Margins (%)

Growth					
Revenue	19.4%	24.7%	40.9%	44.6%	41.6%
EBITDA	12.0%	31.6%	63.2%	77.7%	61.8%
EBIT	7.5%	32.0%	68.8%	84.3%	64.7%
Net profit, adj.	9.2%	29.2%	32.6%	52.3%	79.0%
Margins					
EBITDA margin	12.3%	13.0%	15.0%	18.5%	21.1%
EBIT margin	9.6%	10.2%	12.2%	15.6%	18.1%
Net profit margin	8.8%	9.1%	8.5%	9.0%	11.4%

Key Ratios

ROE (%)	17.8%	17.2%	14.0%	16.6%	27.8%
ROA (%)	11.7%	11.1%	8.2%	7.0%	9.3%
Net Debt / (Cash)	(9.2)	(19.8)	(3.5)	56.2	55.7
Net Gearing (X)	Net Cash	Net Cash	Net Cash	60.9%	53.0%



Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

Remarks
 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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