

Q & M Dental Group

The Tooth Fairy: A Tooth for A Coin

SINGAPORE | HEALTHCARE | UPDATE (CHANGE OF ANALYST)

- The impending spin-off listing of Aidite is deemed positive for both Aidite and Q&M as capital could be channelled to focus on growing respective core businesses.
- Q&M Dental Holdings (China) is next in the pipeline for spin-off.
- Favorable demographics and business landscape support its effort to build up presence in Northeast China; while its expansion plans in Singapore and Malaysia could shift to lower gear.
- Downgrade to Neutral rating with lower TP at **S\$0.70**.

What's new?

In the process of spinning off Aidite. The Group intends to enhance long-term shareholder value by spinning off of its manufacturing business in China by listing Aidite separately on the National Equities Exchange and Quotations, an emerging over-the-counter market in China (the "New Third Board"). The listing will provide Aidite direct access to the capital market for funding, given its capital-intensive manufacturing business, and also free up Q&M's capital to invest in other areas which could bring higher returns on investments for its shareholders as compared to its manufacturing business. Aidite will remain as an associated company of the Group with substantial holdings of no less than 30% post spin-off. In November 2015, the Group received approval from SGX to spin-off Aidite.

The management is also looking to spin-off Q&M Dental Holdings (China) Pte Ltd, its healthcare services business in Shenyang, separately, following Aidite's listing.

Three out of four acquisition deals in Singapore (announced in early-15) were completed – a testimony to its commitment and effectiveness in delivering what was announced. The management shared that the delay in acquiring Orchard Scotts Dental Clinic and De Pacific Dental Group is due to terms renegotiation. It is not peculiar that deals announced will undergo renegotiation. We are positive that the last deal could be sealed this year with better terms.

Continue to expand its footprint in China, but slowing down on South-East Asia

- Continue its roll-up strategy and some add-on acquisitions.** Expects slower momentum to grow organically in Singapore as the market saturates and to avoid cannibalization within the same vicinity. Opened a new clinic in Blk 502 Bishan (Mar-16).
- Riding on the wave of China's evolving health care system.** Expects the Group to gear up to grow its businesses organically or inorganically in China, particularly in the Northeast region. The Group is acquired five clinics in Liaoning Province in Dec-15 and is in the midst of acquiring a medical equipment distribution company.
- Cautious but remains vested in the Malaysia market.** Facing heightened risks in political and foreign exchange rate, the deal on Smilebay Dental Clinics (announced in Jun-15) is still under review.

14 April 2016

NEUTRAL (Downgrade)

LAST DONE PRICE	SGD 0.680
FORECAST DIV	SGD 0.012
TARGET PRICE	SGD 0.699
TOTAL RETURN	4.5%

COMPANY DATA

O/S SHARES (MN) :	790
MARKET CAP (USD mn / SGD mn) :	393 / 537
52 - WK HI/LO (SGD) :	1 / 0.57
3M Average Daily T/O (mn) :	0.94

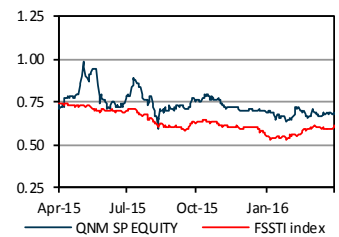
MAJOR SHAREHOLDERS (%)

Quan Min Holdings Pte Ltd	56.05%
Heritas Helios Investmetns Pte Ltd	8.1%
Koh ShunJie, Kelvin	4.67%
Dr Ng Chin Siau	142%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	3.0	(2.1)	(3.2)
STI RETURN	2.27	7.44	(14.25)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD MN	FY 14	FY 15	FY 16 F	FY 17 F
Revenue	100	124	167	198
EBITDA	9	15	23	33
NPAT (adj.)	9	11	15	17
EPS (S Cents)	120	146	183	201
PER, x (adj.)	29.2	32.7	37.2	33.8
P/BV, x	3.3	4.0	5.6	5.3
DPS (S Cents)	0.7	0.8	1.1	1.2
Div Yield, %	2%	2%	2%	2%
ROE, %	14%	14%	16%	16%

Source: Company Data, PSR est.

Valuation Method

P/E Multiple @ 38x

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Figure 1: FY15 Results at a glance

S\$' mn	FY15	FY14	y-y (%)	Comments
Revenue	124.0	100.3	23.6%	
Dental and Medical Clinics	97.8	84.0	16.4%	Higher revenue from existing and new clinics in both SG and CN
Dental Equipment & Supplies Distribution	9.6	9.4	2.1%	Better performance in SG offsetting lower demand in MY
Dental Supplies Manufacturing	16.7	6.9	141.4%	Full year contribution from Aidite (acquired in Aug-14)
EBITDA	23.1	15.1	53.6%	Higher other gains from government subsidies and disposal of Jurong Gateway property
EBIT	19.2	12.2	56.8%	
PATMI	11.4	8.6	33.1%	

Source: Company, PSR est.

Investment Actions

As we rollover the balances into a new financial year, we have (i) adjusted the number of clinics to reflect the latest acquisitions, (ii) revised downward our FY16F earnings by 40% to S\$15 mn to reflect the challenging business environment in the countries where the Group operates in, and (iii) reset the PER multiple to a 38.2x FY16F PER (a slight premium compare to its Asian peers but 1 std. dev. lower from its 4-year historical PER).

In view of the above and with the change of analyst, we downgraded to “**Neutral**” rating with a lower TP of **S\$0.70** from S\$0.96.

Recent Development

Loss and Gain of Aidite Spin-off Listing

What to lose?

- (a) **Material dilution of the Group’s equity interest in Aidite.** To be eligible for listing on the New Third Board, Aidite will need to be converted into a company limited by shares. Post-restructuring exercise, Q&M Dental’s equity interest in Aidite will be diluted from 100% to 51%. Despite the material dilution, it does not have a significant impact on the Group’s current structure, as the Group has always recognised only 51% equity interest in Aidite in its financial results in view of the options granted to the two founders and directors of Aidite.

There is a risk where the eventual post spin-off ownership of Aidite could be less than 51%. However, the Group intends to maintain substantial holdings of no less than 30%, such that Aidite will at least still remain as an associated company of the Group.

- (b) **Changes to the Non-Compete and potential loss of the Profit Guarantee.** If and only upon successful listing of Aidite on the New Third Board, (i) the Non-Compete undertaking will be restructured directly to Aidite instead of the Group; and (ii) the Profit Guarantee will be discharged.

Aidite contributed c.37% of the Group’s profit before tax in FY15, up from that of c.25% in FY14. Notwithstanding its superior growth (Profit Guarantee is expected to grow at 15% y-y vs Singapore’s 5-10%), if successfully listed in FY16, the remaining Profit Guarantee for the next ten years, which amounts to RMB142.86 mn (equivalent to c.S\$29.84 mn @ CNY/SGD 4.787), will be forfeited.

Nonetheless, the managements from both Aidite and Q&M are still in the midst of finalizing the terms and conditions.

What to gain?

- (a) **Unlocks value and a more focused expansion for Aidite as well as Q&M.** The potential listing on the New Third Board will offer Aidite new opportunities to accelerate its growth and enhance its core business.

The New Third Board mainly serves innovation-oriented, entrepreneurial and growth medium, small and micro enterprises. Given its nature as a national over-the-counter stock exchange, the New Third Board is less accessible as compared to China’s other

markets, thus dominated by professional fund managers instead of retail investors. Therefore, it offers new channel for companies to access capital markets and gain greater exposure to the investment community, but less susceptible to erratic trades.

On the other hand, Q&M could free up its capital to invest into other areas which could bring higher returns on investments for its shareholders as compared to its manufacturing business.

- (b) **Potential incentives and compelling offers** by the local authorities to attract companies to list in the New Third Board. In addition to the lower cost of listing, companies could also enjoy policy incentives and government subsidies. The lack of red tape in the New Third Board could also be a plus for Aidite. There is no requirement for companies to be profitable prior to listing. There are no limits on the amount that shares can move in one day.
- (c) **Potential special dividend** from the likely cash accretive restructuring exercise and investment gain (spin-off proceeds less initial acquisition and Aidite's shares purchase costs).

Aidite was acquired in Aug-14 at 9.7x implied PER (RMB39.5 mn cash upfront with further capital injection of RMB35 mn). A value-buy compared to the group's average historical PER at 42.1x.

Taking into consideration of:

(i) **Higher valuation in China markets**

Average forward PERs of SGX- and HKex-listed medical equipment & devices manufacturers at 16x and 19x, respectively, compared to that of 62x in China markets.

(ii) **Pure dental manufacturing peers** trading at 15-29x forward PER

(iii) **Market liquidity risk premium** for Aidite to be listed on the New Third Board

It is highly likely that Aidite could fetch a higher valuation in its bourse at home as compared to Q&M's acquisition PER multiple of 9.7x.

Taking guidance from the Aidite's Profit Guarantee for the year is RMB19.84 mn, and assuming Q&M intends to maintain equity interest in Aidite at 51%,

- (i) if Aidite is listed at **15x FY16F PER**, Q&M would have a **net gain of RMB71 mn (or S\$15 mn)**;
- (ii) if Aidite is listed at **30x FY16F PER**, Q&M would have a **net gain of RMB217 mn (or S\$45 mn)**;
- (iii) if Aidite is listed at **60x FY16F PER**, Q&M would have a **net gain of RMB509 mn (or S\$106 mn)**.

On the other hand, Q&M could also issue new shares to Aidite and retain all the proceeds to fund its own expansion.

Figure 2: Peers Comparison (vs Medical Equipment & Devices Manufacturers and Dental Manufacturers)

Company	Bloomberg Ticker	Mkt Cap (SGD mn)	P/E TTM	P/E FY1	P/E FY2	ROA (%)	ROE (%)	P/B
Q&M Dental Group Singapore Ltd	QNM SP	533	42.8	32.7	36.9	6.3	13.5	5.8
Singapore Medical Equipment & Devices Manufacturers								
Medtecs International Corp Ltd	MED SP	28	38.7	N/A	N/A	0.4	0.8	0.3
Biosensors International Group Ltd	BIG SP	1,411	N/A	22.8	20.5	-15.7	-20.9	1.1
Riverstone Holdings Ltd/Singapore	RSTON SP	748	17.1	15.2	13.4	24.7	28.8	4.5
UG Healthcare Corp Ltd	UGHC SP	67	21.1	12.2	9.6	6.9	9.5	1.8
Vicplas International Ltd	VPS SP	57	8.7	N/A	N/A	9.2	11.5	1.0
QT Vascular Ltd	QTV SP	97	N/A	N/A	N/A	-142.1	N/A	N/A
Miyoshi Ltd	MIYO SP	18	10.0	N/A	N/A	2.5	3.4	0.3
Talkmed Group Ltd	TKMED SP	598	16.0	15.4	14.9	58.1	70.4	10.6
Average			18.6	16.4	14.6	-7.0	14.8	2.8
China Medical Equipment & Devices Manufacturers								
Zhejiang Dian Diagnostics Co Ltd	300244 CH	3,772	91.8	67.0	48.9	10.3	21.7	17.4
Truking Technology Ltd	300358 CH	1,839	55.9	34.0	26.2	7.1	12.0	5.9
Shinva Medical Instrument Co Ltd	600587 CH	2,320	34.2	34.7	30.6	3.5	10.0	3.5
Zhuhai Hokai Medical Instruments Co Ltd	300273 CH	2,745	55.8	59.8	41.8	11.3	19.9	10.3
China Resources Wandong Medical Equipment Co Ltd	600055 CH	1,476	172.0	154.5	81.5	3.0	5.6	9.3
Sinocare Inc	300298 CH	1,481	49.5	29.2	23.4	11.3	12.2	5.8
Edan Instruments Inc	300206 CH	1,093	384.5	N/A	N/A	1.0	1.1	4.5
Zhejiang Starry Pharmaceutical Co Ltd	603520 CH	1,154	61.6	N/A	N/A	6.3	16.9	9.9
Zhejiang International Group Co Ltd	000411 CH	911	63.9	N/A	N/A	1.1	10.9	6.6
Beijing Beilu Pharmaceutical Co Ltd	300016 CH	1,766	76.0	71.3	51.8	12.5	15.9	11.3
Guangzhou Improve Medical Instruments Co Ltd	300030 CH	965	97.8	62.5	46.9	3.6	5.1	5.1
Andon Health Co Ltd	002432 CH	1,418	N/A	N/A	N/A	-3.0	-3.8	9.8
Guangdong Biolight Meditech Co Ltd	300246 CH	853	121.2	N/A	N/A	6.8	8.5	10.0
Ningbo David Medical Device Co Ltd	300314 CH	1,590	165.8	N/A	N/A	6.1	6.6	10.9
Shanghai Kinetic Medical Co Ltd	300326 CH	1,646	115.8	36.2	38.7	6.5	8.0	7.6
Grandhope Biotech Co Ltd	300238 CH	2,311	173.0	N/A	N/A	8.9	11.4	19.0
Zhejiang Canaan Technology Co Ltd	300412 CH	799	74.2	N/A	N/A	10.4	13.7	9.8
Shanghai Runda Medical Technology Co Ltd	603108 CH	1,767	83.5	73.9	52.9	6.6	13.1	9.2
Average			110.4	62.3	44.3	6.3	10.5	9.2
Hong Kong Medical Equipment & Devices Manufacturers								
Shandong Weigao Group Medical Polymer Co Ltd	1066 HK	3,808	16.9	14.3	12.3	9.3	11.5	1.9
PW Medtech Group Ltd	1358 HK	551	12.9	11.0	10.0	8.7	9.8	1.2
Lifetech Scientific Corp	1302 HK	944	8525.7	39.1	20.2	0.3	1.4	25.2
Beijing Chunlizhengda Medical Instruments Co Ltd	1858 HK	147	17.2	11.3	9.9	16.8	19.2	2.5
Average			2143.2	18.9	13.1	8.8	10.5	7.7
Japan Dental Equipment Manufacturers								
Nakanishi Inc	7716 JP	1,306	15.7	17.4	16.0	10.8	12.1	1.8
Shofu Inc	7979 JP	263	39.3	23.4	19.1	2.0	2.5	0.9
Mani Inc	7730 JP	749	19.8	19.7	17.5	9.5	10.6	2.0
Nihon ISK Co Ltd	7986 JP	100	29.5	28.8	29.9	7.1	12.6	3.5
Average			26.1	22.3	20.6	7.4	9.4	2.1
Hong Kong Dental Equipment Manufacturer								
Modern Dental Group Ltd	3600 HK	514	29.8	14.8	11.8	3.8	7.1	1.7
Simple Average (Excl. QNM)			334.2	37.8	28.2	3.6	11.1	6.6

Source: Bloomberg, Phillip Securities Research (Singapore) Estimates

Updates on M&A

Gearing up in China, but slowing down on Singapore and Malaysia.

- (a) **Continue its roll-up strategy and some add-on acquisitions.** Expects slower momentum to of organic grow in Singapore as the market saturates, and targeting strategic location or area where it does not have a presence in, to avoid cannibalization within the same vicinity. One new clinic was opened in Blk 502 Bishan in Mar-16.

On the other hand, three out of four acquisition deals in Singapore (announced in early-15) were completed. Q&M started its roll-up strategy last year and has successfully acquired TP Dental Surgeons, Aesthetics Dental Surgery Clinics, and Tiong Bahru Dental Clinic and Bright Smile Dental Clinic within 2015 itself. Furthermore, it also managed to close the deal on Lee & Lee Dental within a month after its announcement to acquire. This is a testimony to its commitment and effectiveness in delivering what was announced.

The management shared that the delay in acquiring Orchard Scotts Dental Clinic and De Pacific Dental Group is due to terms renegotiation. It is not peculiar that deals announced will undergo renegotiation. For example, terms for both TP Dental Surgeons and Aesthetics Dental Surgery Clinics were converted to profit guarantee instead of profit target. We are positive that the last deal could be sealed this year with better terms.

- (b) **Riding on the wave of China's evolving health care system.** Expects the Group to heighten its effort to expand its footprints in China, particularly in the Northeast region. The Group acquired five clinics in Liaoning Province (Panjin City Dental Clinics, Gaizhou City Dental Clinic and Panjin Jinsai Dental Clinic) in Dec-15 and intends to acquire a medical equipment distribution company (Shenyang Lan Hai Tong Mao Medical Equipment).

The strategic acquisition of 60% stake in Shenyang Lan Hai Tong Mao Medical Equipment allows the Group to add an operational distribution company outside of Singapore and Malaysia, extending its dental equipment and supplies distribution business to China.

The Group noted that it will continue to seek for expansion opportunities, organically and inorganically. It is looking to (i) build up its presence the Northeast region of China, while (ii) leveraging on the current privatization trend of government hospital, preferably, Secondary and Tertiary institutions, or established private hospitals with state insurance benefits, by replicating its 60:40 JV model.

- (c) **Cautious but remains vested in the Malaysia market.** Facing heightened risks in political and foreign exchange rate, the deal on Smilebay Dental Clinics (announced in Jun-15) is still under review.

Figure 3: Summary of Q&M acquisition plan

S/N	Acquisition target	Country	# of outlet(s)	Date of	
				Announcement	Completion
1	Aoxin Stomatology Group	CN	3 dental hospitals 3 dental clinics	Jul-13	Jul-14
2	Qinhuangdao Aidite High Technical Ceramic Co., Ltd.	CN	N/A	Nov-13	Aug-14
3	NG GK Dental Surgery (Melaka) Sdn Bhd	MY	1	Mar-14	Apr-14
4	Foo & Associates	SG	1	Mar-14	Jul-14
5	TP Dental Surgeons	SG	1	Apr-15	Sep-15
6	Orchard Scotts Dental Clinic and De Pacific Dental Group	SG	5	May-15	<i>Pending</i>
7	Tiong Bahru Dental Clinic and Bright Smile Dental Clinic	SG	2	May-15	Sep-15
8	Aesthetics Dental Surgery Clinic	SG	1	May-15	Nov-15
9	Panjin City Dental Clinics	CN	3	Jun-15	Dec-15
10	Gaizhou City Dental Clinic	CN	1	Jun-15	Dec-15
11	Smilebay Dental Clinic	MY	6	Jun-15	Dec-15
12	Panjin Jinsai Dental Clinic	CN	1	Jul-15	Dec-15
13	Shenyang Lan Hai	CN	N/A	Oct-15	<i>Pending</i>
14	Lee & Lee Dental	SG	3	Jan-16	Feb-16

Source: Company, PSR est.

Figure 4: Planned and completed acquisition deals in SG

Year	Profit Target/Guarantee (S\$' 000)					Total
	TP Dental Surgeons	Tiong Bahru Dental Clinic and Bright Smile Dental Clinic	Aesthetics Dental Surgery Clinic	Lee & Lee Dental	Orchard Scotts Dental Clinic and De Pacific Dental Group*	
2015	1,600		320		700	2,620
2016	1,600	1,000	320	1,435	770	5,125
2017	1,600		320		847	2,767
2018	1,600	1,000	320	1,582	932	5,434
2019	1,600		320		1,025	2,945
2020	1,600	1,000	320	1,744	1,127	5,791
2021	1,600		320		1,127	3,047
2022	1,600		320	1,787	1,127	4,834
2023			320		1,127	1,447
2024			320	1,787	1,127	3,234
2025						
2026				1,787		1,787
Total	12,800	3,000	3,200	10,122	9,910	39,032

Source: Company, PSR est.

* Based on initial announcement

Item	Clinics (S\$' 000)					
	TP Dental Surgeons	Tiong Bahru Dental Clinic and Bright Smile Dental Clinic	Aesthetics Dental Surgery Clinic	Lee & Lee Dental	Orchard Scotts Dental Clinic and De Pacific Dental Group*	Overall
Consideration	28,600	3,800	4,000	10,000	12,500	58,900
- Cash	18,000	2,600	2,000	5,130	6,250	33,980
- Shares	10,600	1,200	2,000	4,870	6,250	24,920
Lastest financials						
Revenue	12,400	2,200	1,600		7,600	23,800
Net profit	1,900	400	500		700	3,500
Net margin (%)	15.3	18.2	31.3		9.2	14.7
Implied P/E (x)	15.1	9.5	8.0		17.9	16.8
Upon Acquisition						
Net profit	1,600	500	320	718	700	3,838
Acquisition P/E (x)	17.9	7.6	12.5	13.9	17.9	15.3

Source: Company, PSR est.

* Based on initial announcement

Figure 5: Planned and completed acquisition deals in CN

Year	Profit Target/Guarantee (RMB' 000)				Total
	Panjin City Dental Clinics	Gaizhou City Dental Clinic	Panjin Jinsai Dental Clinic	Shenyang Lan Hai Tong Mao Medical Equipment Leasing Co., Ltd.*	
2016	1,173	217.5	649	838	2,878
2017	1,173	217.5	649	838	2,878
2018	1,173	217.5	649	838	2,878
2019	1,173	217.5	649	838	2,878
2020	1,173	217.5	649	838	2,878
2021	1,173	217.5	649	838	2,878
2022	1,173	217.5	649	838	2,878
2023	1,173	217.5	649	838	2,878
2024	1,173	217.5	649	838	2,878
2025	1,173	217.5	649	838	2,878
2026	1,173	217.5	649	838	2,878
2027	1,173	217.5	649	838	2,878
Total	14,077	2,610	7,789	10,058	34,534

Source: Company, PSR est.

* Based on initial announcement

Item	Clinics/ Manufacturing				Overall
	Panjin City Dental Clinics	Gaizhou City Dental Clinic	Panjin Jinsai Dental Clinic	Shenyang Lan Hai Tong Mao Medical Equipment Leasing Co., Ltd.*	
Consideration	12,150	2,436	6,474	7,560	28,620
- Cash	5,400	1,260	2,241	1,800	10,701
- Shares	6,750	1,176	4,233	5,760	17,919
Lastest financials					
Revenue	4,000	835	3,700	1,000	9,535
Implied P/S (x)	3.0	2.9	1.7	7.6	3.0
Upon Acquisition					
Net profit	1,173	218	649	838	2,878
Acquisition P/E (x)	10.4	11.2	10.0	9.0	9.9

Source: Company, PSR est.

* Based on initial announcement

Figure 6: Planned acquisition deal in MY

Year	Profit Target/Guarantee (MYR' 000)	
	Smilebay Dental Clinics*	Total
2016	900	900
2017	945	945
2018	992	992
2019	1,042	1,042
2020	1,094	1,094
2021	1,149	1,149
2022	1,206	1,206
2023	1,266	1,266
2024	1,330	1,330
2025	1,396	1,396
2026	1,466	1,466
2027	1,539	1,539
Total	14,325	14,325

Source: Company, PSR est.

* Based on initial announcement

Item	Clinics	
	Smilebay Dental Clinics*	Overall
Consideration	12,290	12,290
- Cash	7,774	7,774
- Shares	4,516	4,516
Lastest financials		
Revenue	5,100	5,100
Net profit	237	237
Net margin (%)	4.6	4.6
Implied P/E (x)	51.9	51.9
Upon Acquisition		
Net profit	900	900
Acquisition P/E (x)	13.7	13.7

Source: Company, PSR est.

* Based on initial announcement

Investment Thesis Remains Intact

Favorable demographics. Growing consumer affluence driving demand for high quality private dental healthcare services.

Benefits from government subsidies, which lower patient's out-of-pocket money when seeking private dental services. For example, Community Health Assist Scheme (CHAS) and Pioneer Generation Scheme in Singapore, and national health insurance scheme (Yibao) in China.

A niche and resilient business. Healthcare may not be immune to economic adversity, but its nature as a basic necessity provides a certain degree of resiliency.

Low dentist to population ratio as compared to the developed countries. According to the Group, developed nations have an average dentist to population ratio of 1:1,000, compared to that of Singapore's 1:3,300, and Malaysia's 1:6,000 and China's 1:10,000.

Strong foothold in SG while expanding footprints in CN and MY

The largest private dental healthcare service provider in Singapore. Strategic locations island-wide to serve its 600,000 over patient pool.

On the other hand, **the demand for its China manufacturing business is growing**, where it registered more than 15% growth for both FY14 and FY15, higher than the Group's projections. In Dec-15, Aidite has moved into its own office and manufacturing facility. The new facility could increase its capacity, up to double, to accommodate the increasing international sales. The management shared that, the local demand to export ratio was 60:40 in FY14, but is currently approaching its target of 50:50

Figure 7: Regional footprint

Regional Footprint	FY14	FY15
Singapore		
Dental clinics	60	65
Mobile dental clinic	1	0
Medical outlets	6	3
Aesthetic centre	0	1
Dental supplies and equipment distribution company	2	2
No. of Dentist	180	230
No. of Clinic Staff	300	380
Malaysia		
Dental outlets	8	8
Dental supplies and equipment distribution company	1	1
No. of Dentist	N/A	115
No. of Staff	N/A	415
China		
Dental outlets	4	5
Hospitals	3	3
Dental supplies manufacturer	1	1
No. of Dentist	N/A	20
No. of Staff	N/A	120

Source: Company, PSR est.

Strategic M&A plan

- Expanding its dentist pool, enabling flexibility in working and reducing downtime of dental outlet
- Expanding and/or sharing customer base
- Greater opportunities to enhance skill sets and introduce new technologies
- Vertical integration and achieving economics of scale
- Profit target or profit guarantee could provide long term profit visibility

War Chest Review

The S\$13 mn raised from the rights issue on Dec-2014 was fully utilised, with S\$11.44 mn used for the acquisition of Aoxin and Aidite, and the remaining for general working capital purposes.

In Mar-15, the Group issued an S\$60mn Medium Term Note (MTN) at 4.4% p.a. due 19-Mar-2018 pursuant to the \$200 mn multicurrency medium note programme. We expect an unutilised proceeds of S\$17.8 mn after subtracting the big-ticket acquisition deals it has completed (from Mar-15 till date) as well as setting aside the expected CAPEX for announced acquisition deals. We think that the Group would allocate these funds into its China manufacturing arm as well as to acquire some add-ons in Singapore.

In addition to the potential proceeds of successful Aidite listing, there is also the remaining S\$140 mn MTN under the programme which the Group could tap on.

Figure 8: MTN Proceeds less the big-ticket acquisition deals

Use of Proceeds from MTN	(S\$ '000)
Net proceed from MTN	56,700
Less CAPEX till date	
SG (acquired 7 clinics)*	27,730
CN (@ CNYSGD = 4.787)	1,859
MY (@ MYRSGD = 2.89)	-
Unutilised proceed from MTN	27,111
Expected CAPEX	
SG	6,250
CN (@ CNYSGD = 4.787)	376
MY (@ MYRSGD = 2.89)	2,690
Expected unutilised proceed from MTN	17,795

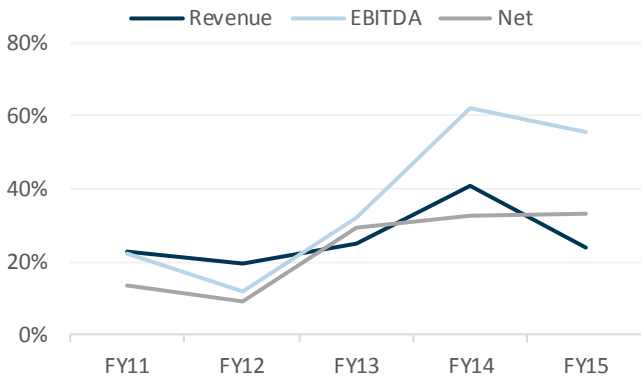
Source: Company, PSR est.

*Exclude the new Bishan outlet

Financial Highlights

Figure 9:

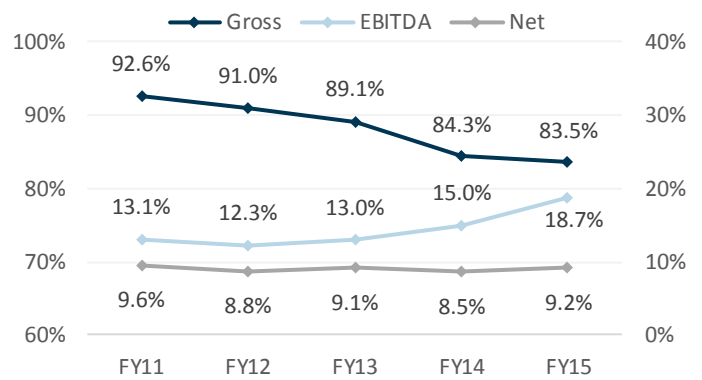
%y-y Growth



Source: Company, PSR est.

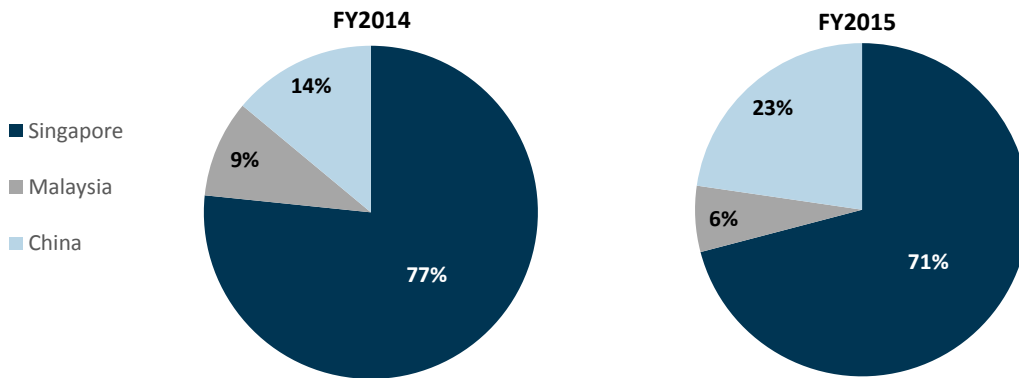
Figure 10:

Margins



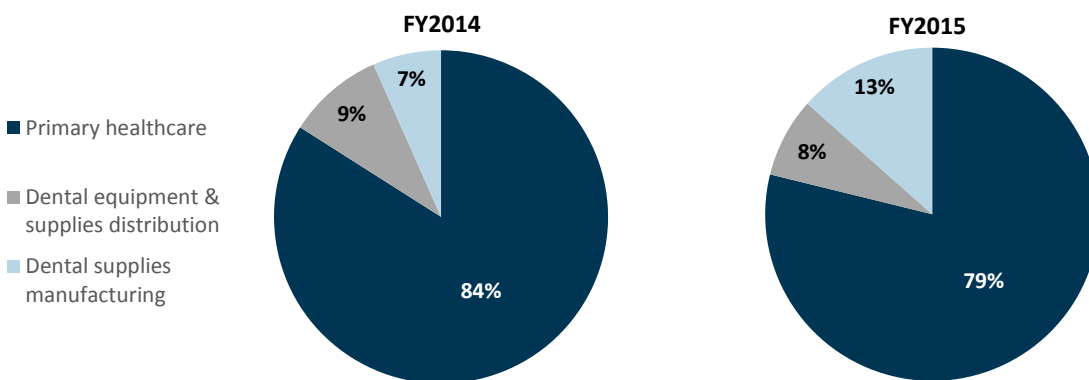
Source: Company, PSR est.

Figure 11: Geographical Revenue



Source: Company, PSR est.

Figure 12: Segment Revenue

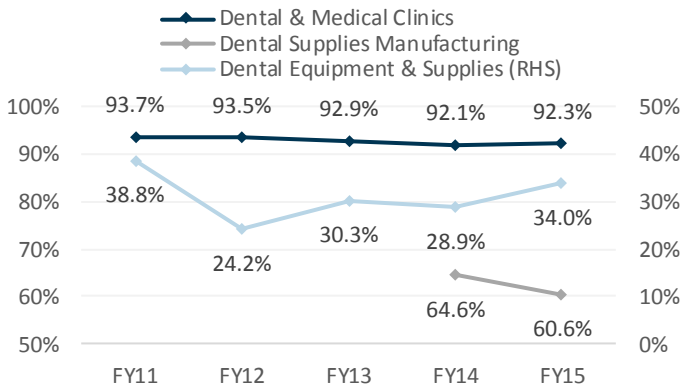


Source: Company, PSR est.

Percentage contribution from dental supplies manufacturing increased to 13% in FY15 as Aidite (acquired in Aug-14) made a full year revenue contribution.

Figure 13:

Segment Gross Margin

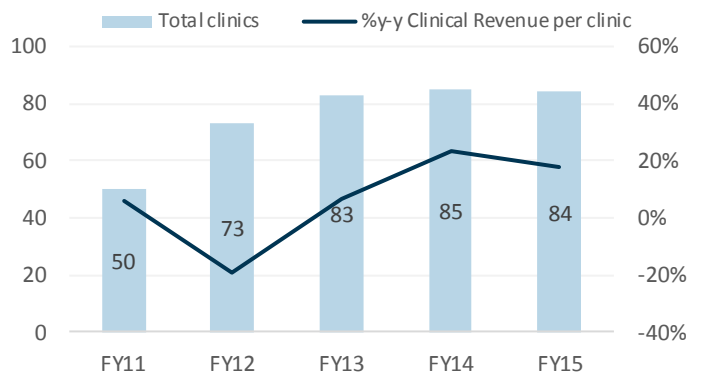


Source: Company, PSR est.

Gross margin for clinics improved marginally in FY15 due to better margin in China; remains above 60% for dental supplies manufacturing; and improved for dental equipment & supplies distribution due to lower sales from its Malaysia company.

Figure 14:

Clinics and Revenue Growth

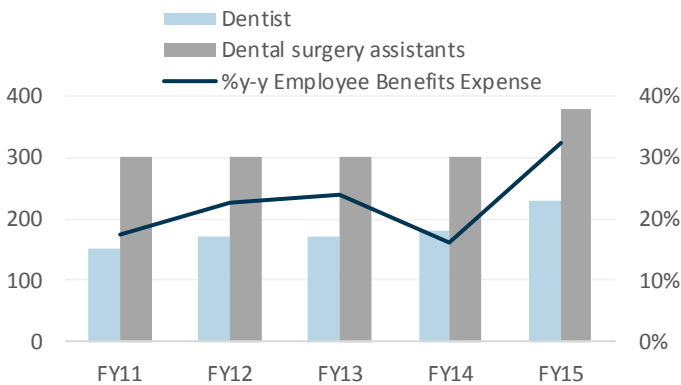


Source: Company, PSR est.

FY15 revenue increased mainly attributed to higher revenue from both existing and new dental outlets in SG, particularly the four acquisitions completed in FY14-15 (TP Dental, Tiong Bahru Dental, Aesthetics Dental, and Aoxin).

Figure 15:

Employee Cost



Source: Company, PSR est.

Higher compared to FY14, in line with the increase in the revenue from dental outlets in Singapore, salary revision and an increase in headcount to support more dental outlets.

However, salary % of total revenue fell to 51.0% in FY15 vs 54.2% in FY14.

Valuation

Q&M currently trades at a 43.1x FY15 PER, which is c.56% premium to its Singapore healthcare services peers.

As we rollover the balances into a new financial year, we have (i) adjusted the number of clinics to reflect the latest acquisitions, (ii) revised downward our FY16F earnings by 40% to S\$15 mn to reflect the challenging business environment in the countries where the Group operates in, and (iii) reset the PER multiple to a 38.2x FY16F PER (a slight premium compare to its Asian peers but 1 std. dev. lower from its 4-year historical PER).

In view of the above and with the change of analyst, we downgraded to “**Neutral**” rating with a lower **TP of S\$0.70** from S\$0.96.

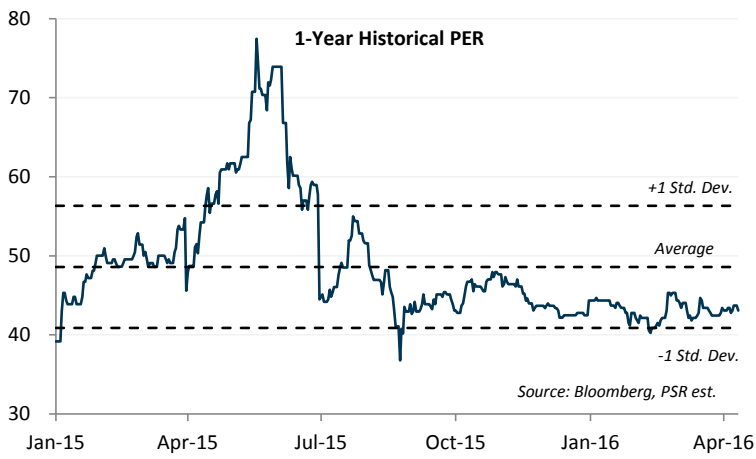
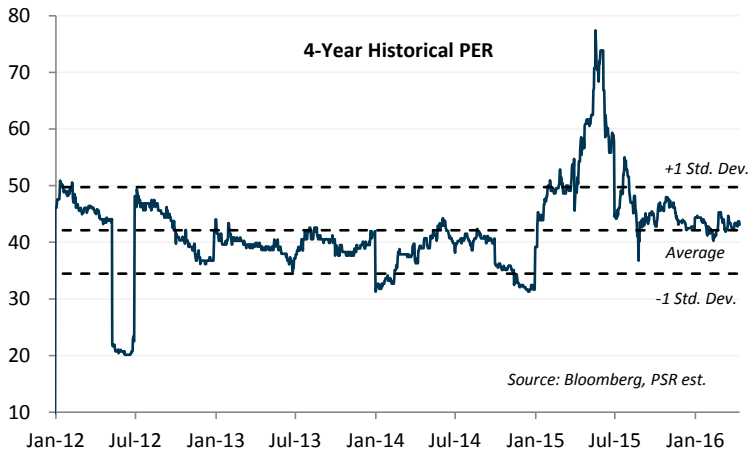
Figure 16: Peer Comparison and Valuation

Item													
EPS FY16F		1.83											
Simple Average P/E FY16F (Excl. QNM)		34.7											
Add 10% premium due exposure to fast growing China dental market		10%											
Actual P/E multiple used		38.2											
Target price (S\$)		0.70											
FY16F dividends		0.01											
Closing price		0.68											
Potential upside		4.0%											

Company	Bloomberg Ticker	Mkt Cap (SGD mn)	EV (SGD mn)	EV/EBITDA TTM	EV/EBITDA FY1	EV/EBITDA FY2	P/E TTM	P/E FY1	P/E FY2	Net D/E (%)	ROA (%)	ROE (%)	P/B
Q & M Dental Group	QNM SP	537	568	27.7	16.1	16.5	43.1	32.7	37.2	13.5	6.3	13.5	5.9
Singapore													
Raffles Medical Group Ltd	RFMD SP	2,614	2,579	25.6	24.4	21.3	37.4	33.4	29.5	Net Cash	9.4	12.1	4.3
Talkmed Group Ltd	TKMED SP	595	546	12.0	11.8	11.3	15.9	15.3	14.8	Net Cash	58.1	70.4	10.6
IHH Healthcare Bhd	IHH SP	18,669	20,907	27.9	23.8	20.8	N/A	49.3	41.4	19.3	2.9	4.5	N/A
Healthway Medical Corp Ltd	HMED SP	76	92	N/A	N/A	N/A	30.0	N/A	N/A	6.8	-0.1	-0.1	0.4
Cordlife Group Ltd	CLGL SP	388	314	41.6	22.9	20.0	6.9	42.7	36.5	61.8	19.4	44.3	3.1
ISEC Healthcare Ltd	ISEC SP	139	114	15.6	9.9	8.9	46.7	19.0	17.8	Net Cash	5.3	5.8	2.7
AsiaMedic Ltd	AMAT SP	27	26	132.9	N/A	N/A	N/A	N/A	N/A	Net Cash	-8.2	-13.6	1.9
Singapore O&G Ltd	SOG SP	188	164	22.0	16.1	13.9	32.2	22.6	19.3	Net Cash	25.1	29.8	7.2
Average				39.7	18.1	16.0	28.2	30.4	26.6	29.3	14.0	19.1	4.3
China													
Aier Eye Hospital Group Co	300015 CH	6,747	6,651	N/A	33.3	25.5	75.1	54.2	40.1	Net Cash	14.7	19.5	13.3
Topchoice Medical Invs Corp	600763 CH	2,262	2,277	N/A	30.1	23.8	55.6	56.8	43.2	Net Cash	18.1	26.5	13.1
Average				N/A	31.7	24.6	65.3	55.5	41.7	N/A	16.4	23.0	13.2
India													
Apollo Hospitals Enterprise Ltd	APHS IN	3,850	4,191	24.7	24.1	20.0	60.2	50.0	40.1	45.5	5.7	11.1	5.9
Hong Kong													
Phoenix Healthcare Group Co. Ltd	1515 HK	1,603	1,407	22.0	16.3	12.8	45.7	27.3	22.6	Net Cash	7.8	9.9	4.4
Thailand													
Bumrungrad Hospital Public Co Ltd	BH TB	5,686	5,614	28.7	24.2	21.2	42.6	38.0	33.3	Net Cash	17.0	29.1	11.5
Malaysia													
KPJ Healthcare Bhd	KPJ MK	1,547	1,939	16.5	14.3	12.6	33.3	29.0	25.2	70.8	3.7	9.7	3.0
US													
Concord Medical Services Holdings Ltd.	CCM US	304	540	N/A	4.3	9.0	N/A	14.1	9.9	72.2	-2.3	-4.7	1.0
Simple Average (Excl. QNM)				33.6	19.6	17.0	40.1	34.7	28.7	46.1	11.8	17.0	5.9

Source: Bloomberg, Phillip Securities Research (Singapore) Estimates

Figure 17 & 18: Historical PER



Financials

Income Statement

Y/E Dec, SGD mn	FY12	FY13	FY14	FY15	FY16F	FY17F
Revenue	57.0	71.2	100.3	124.0	167.5	197.8
EBITDA	7.0	9.2	15.1	23.1	33.2	39.9
Depreciation & Amortisation	(1.5)	(2.0)	(2.8)	(3.9)	(5.5)	(6.9)
EBIT	5.5	7.3	12.2	19.2	27.7	33.0
Net Finance Inc/(Exp)	(0.2)	(0.3)	(0.5)	(2.4)	(4.0)	(6.5)
Profit before tax	5.3	7.0	11.8	16.8	23.7	26.5
Taxation	(0.3)	(0.5)	(1.3)	(2.0)	(2.6)	(2.9)
Net profit before NCI	5.0	6.5	10.5	14.8	21.1	23.6
Non-controlling interest	(0.0)	(0.0)	(1.9)	(3.4)	(6.3)	(7.1)
Net profit, reported	5.0	6.5	8.6	11.4	14.8	16.5

Per share data (SGD Cents)

Y/E Dec	FY12	FY13	FY14	FY15	FY16F	FY17F
EPS, reported	0.91	0.93	1.20	1.46	1.83	2.01
DPS	0.68	1.10	0.73	0.84	1.10	1.21
BVPS	5.24	6.65	10.72	11.81	12.15	12.77

Cash Flow

Y/E Dec, SGD mn	FY12	FY13	FY14	FY15	FY16F	FY17F
CFO						
Profit before tax	5.3	7.0	11.8	16.8	23.7	26.5
Depreciation & Amortisation	1.5	2.0	2.8	3.9	5.5	6.9
WC changes	2.1	(3.2)	(3.2)	(6.7)	(2.7)	(1.3)
Net finance inc/(exp)	0.2	0.3	0.5	2.4	4.0	6.5
Tax paid	(0.2)	(0.5)	(0.6)	(2.6)	(2.6)	(2.9)
Others	(0.2)	(1.4)	(0.7)	(3.0)	0.0	0.0
Cashflow from ops	8.7	4.1	10.6	10.9	27.9	35.7
CFI						
CAPEX, net	(10.4)	1.8	(17.3)	1.5	(17.3)	(21.2)
Others	(0.5)	(5.3)	(21.6)	(21.5)	(27.6)	0.3
Cashflow from investments	(11.0)	(3.6)	(38.8)	(20.1)	(45.0)	(20.8)
CFF						
Share issuance, net	0.0	16.8	12.9	(0.8)	0.0	0.0
Loans, net of repayments	8.0	(0.7)	29.2	(12.5)	0.0	0.0
Dividends	(3.7)	(6.1)	(6.5)	(5.8)	(8.9)	(9.9)
Others	2.8	(0.3)	(0.4)	57.4	(4.4)	(6.8)
Cashflow from financing	7.1	9.7	35.1	38.4	(13.2)	(16.7)
Net change in cash	4.8	10.3	6.9	29.2	(30.3)	(1.8)
CCE, end	18.5	28.7	35.6	64.9	34.6	32.8

Source: Company, Phillip Securities Research (Singapore) Estimates

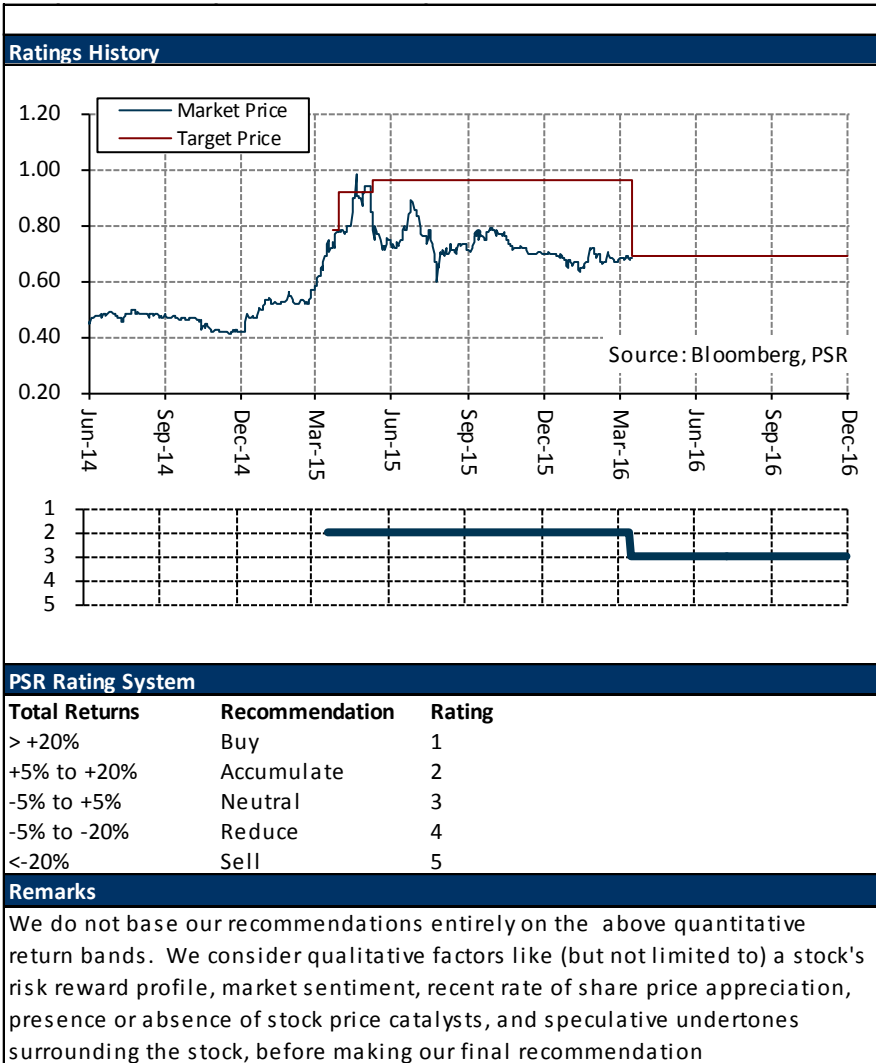
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY12	FY13	FY14	FY15	FY16F	FY17F
ASSETS						
PPE	17.2	15.4	37.4	34.3	74.1	88.3
Others	5.6	10.2	36.4	78.0	78.0	78.0
Total non-current assets	22.7	25.6	73.8	112.3	152.1	166.3
Accounts receivables	5.6	7.7	16.3	22.8	34.9	42.3
Cash	18.5	28.7	35.7	64.9	34.6	32.8
Inventories	1.5	4.1	8.6	11.2	17.2	21.5
Others	1.0	1.5	6.2	5.4	5.4	5.4
Total current assets	26.6	42.1	66.9	104.3	92.1	101.9
Total Assets	49.3	67.6	140.7	216.6	244.2	268.2
LIABILITIES						
Accounts payables	9.9	10.8	21.0	25.7	41.1	51.5
Short term loans	0.6	0.2	3.8	15.5	15.5	15.5
Others	0.1	0.1	1.0	0.6	0.6	0.6
Total current liabilities	10.6	11.1	25.8	41.8	57.2	67.6
Long term loans	8.7	8.7	28.5	64.7	64.7	64.7
Others	1.1	1.2	1.3	1.8	1.8	1.8
Total non-current liabilities	9.8	9.9	29.8	66.5	66.5	66.5
Total Liabilities	20.4	20.9	55.6	108.4	123.7	134.1
EQUITY						
Non-controlling interests	0.1	0.6	8.4	16.1	22.4	29.5
Shareholder Equity	28.8	46.1	76.6	92.1	98.0	104.6

Valuation Ratios

Y/E Dec	FY12	FY13	FY14	FY15	FY16F	FY17F
P/E (X), adj.	89.4	34.8	29.2	32.7	37.2	33.8
P/B (X)	15.5	4.9	3.3	4.0	5.6	5.3
EV/EBITDA (X), adj.	63.7	24.4	16.6	16.1	16.5	14.0
Dividend Yield (%)	0.8%	3.4%	2.1%	1.8%	1.6%	1.8%
Growth & Margins (%)						
Growth						
Revenue	19.4%	24.7%	40.9%	23.6%	35.1%	18.1%
EBITDA	12.0%	31.6%	63.2%	53.6%	43.5%	20.1%
EBIT	7.5%	32.0%	68.8%	56.8%	44.1%	19.1%
Net profit, adj.	9.2%	29.2%	32.6%	33.1%	29.4%	11.9%
Margins						
EBITDA margin	12.3%	13.0%	15.0%	18.7%	19.8%	20.2%
EBIT margin	9.6%	10.2%	12.2%	15.5%	16.5%	16.7%
Net profit margin	8.8%	9.1%	8.5%	9.2%	8.8%	8.3%
Key Ratios						
ROE (%)	17.8%	17.2%	14.0%	13.5%	15.5%	16.3%
ROA (%)	11.7%	11.1%	8.2%	6.4%	6.4%	6.4%
Net Debt / (Cash)	(9.2)	(19.8)	(3.3)	15.3	45.6	47.4
Net Gearing (X)	Net Cash	Net Cash	Net Cash	14.1%	37.8%	35.3%



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