

Q & M Dental Group

Acquisitions for stronger bite

SINGAPORE | HEALTHCARE | UPDATE

- Three acquisition deals, total costs at S\$3.24 mn with c.90% funded by cash, with remainder by issuing new shares
- All in favourable terms: Expected to add S\$410,000 to FY17 bottom line (Profit Guarantee); which implies an inexpensive average acquisition PER at 7.9x
- Expects more accretive acquisitions with S\$20million unutilised proceeds from term loan, coupled with impending proceeds from spin-off listing of Aidite

Maintained roll-up strategy by adding two more access points to capture market share

Ho Dental Surgery, Toofy and Jurong Point Dental Surgery are dental clinics providing general and specialist services. Toofy Pte. Ltd. will be relocated to TP Dental Surgeons, adding one more dental professional to the current team of 24 dental professionals. Meanwhile, Jurong Point Dental Surgery adds an additional access point in Jurong West region, which has relatively lesser Q&M dental clinics. The Group has opened a new dental outlet at the Midtown in mid-August 2016, after a closing an outlet at Aljunied MRT in end-July 2016. The Group now has a total of 70 dental outlets, 4 medical outlets and 1 aesthetic centre in Singapore; a total of 8 dental outlets in Malaysia; and 3 dental hospitals and 8 dental outlets in China.

Figure 1:

Item	Clinics			
	Ho Dental Surgery	Toofy Pte. Ltd.	Jurong Point Dental Centre	Overall
Consideration	1,700	260	1,280	3,240
- Cash	1,364	260	1,280	2,904
- Shares	336	0	0	336
Upon Acquisition				
Net profit	210	40	160	410
Acquisition P/E (x)	8.1	6.5	8.0	7.9

Source: Company, PSR est.

S\$20mn in firepower for more acquisitions in Singapore and China

This firepower comes from the unutilised term loan, notwithstanding the impending divestment proceeds of Aidite. To recap, the Group was in S\$23.6mn net debt position and has S\$65.5mn cash as at 30 June 2016, which we think could fund acquisitions for at least 20 outlets. Only Ho Dental Surgery deal is funded via its typical cash to equities funding structure of 80:20; the other two deals are fully cash funded. Shareholders gave their blessing to the spin-off listing of Aidite on 26 August 2016 Extraordinary General Meeting, and we think that the spin-off listing could materialised by end-FY16.

We continue to remain positive of the Group's prudent acquisition strategy in Singapore and China. The Group stepping up its pace of acquisitions or picking up favourable deals, could lead to further re-rating.

Upgrade to Buy with new higher TP of S\$0.93 (previous S\$0.72)

These three additional dental clinics will add S\$410,000 to FY17 bottom line, by our estimates. Our TP is based on 2.43 Singapore cents FY17F EPS and unchanged 38.2x FY17F PER.

6 September 2016

BUY (Upgraded)

CLOSING PRICE	SGD 0.740
FORECAST DIV	SGD 0.015
TARGET PRICE	SGD 0.930
TOTAL RETURN	27.6%

COMPANY DATA

O/S SHARES (MN) :	797
MARKET CAP (USD mn / SGD mn) :	434 / 589
52 - WK HI/LO (SGD) :	0.81 / 0.63
3M Average Daily T/O (mn) :	0.94

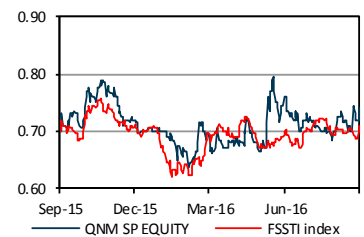
MAJOR SHAREHOLDERS (%)

Quan Min Holdings Pte Ltd	55.58%
Heritas Helios Investmetns Pte Ltd	8.04%
Koh ShunJie, Kelvin	4.63%
Dr Ng Chin Siau	14.1%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	3.5	(2.8)	4.8
STI RETURN	146	3.8	3.50

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 14	FY 15	FY 16 F	FY 17 F
Revenue (SGD mn)	100	124	166	215
EBITDA (SGD mn)	15	23	33	45
NPAT, adj. (SGD mn)	9	11	15	20
EPS (S Cents)	12	15	19	2.4
PER, adj. (x)	29.2	32.7	39.2	30.4
P/BV, (x)	3.3	4.0	6.4	6.0
DPS (S Cents)	0.7	0.8	1.1	1.5
Div Yield (%)	2%	2%	2%	2%
ROE (%)	14.0%	13.5%	16.5%	20.6%

Source: Company Data, PSR est.

Valuation Method

P/E Multiple @ 38.2x

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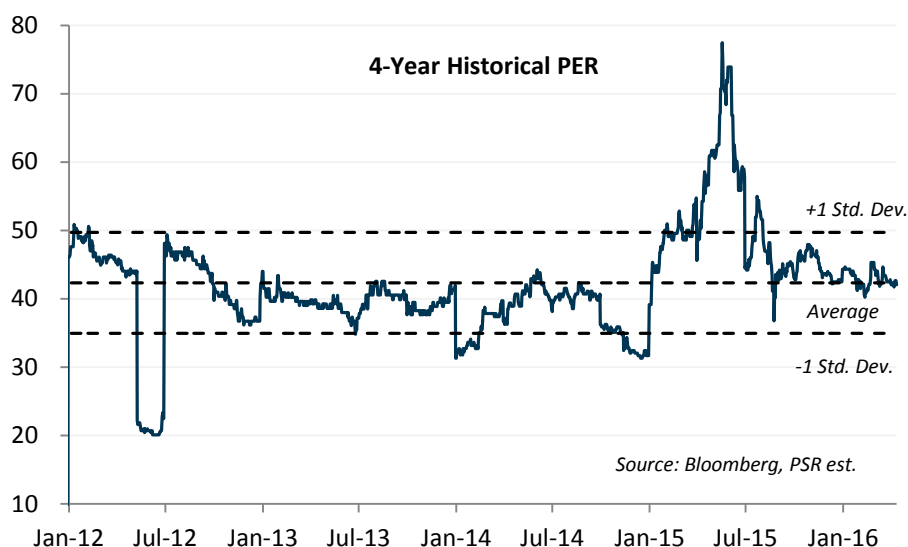
Q&M Dental Group is currently trading above the average Price/Earnings and in line with the average return on equity (ROE), as compared to its regional peers.

Figure 2: Peers Comparison

Company	Bloomberg Ticker	Mkt Cap (SGD mn)	P/E TTM	P/E FY1	P/E FY2	Net D/E (%)	ROA (%)	ROE (%)	P/B
Q & M Dental Group	QNM SP	589	47.2	39.2	30.4	13.5	5.6	13.7	6.0
Singapore									
Raffles Medical Group Ltd	RFMD SP	2,699	37.8	36.8	32.2	Net Cash	9.0	11.7	4.3
Talkmed Group Ltd	TKMED SP	657	18.2	17.5	16.9	Net Cash	52.5	63.5	11.0
IHH Healthcare Bhd	IHH SP	17,616	N/A	51.8	42.9	19.5	3.0	4.8	N/A
Healthway Medical Corp Ltd	HMED SP	67	N/A	N/A	N/A	8.2	-0.5	-0.7	0.3
Cordlife Group Ltd	CLGL SP	322	24.7	47.7	40.0	Net Cash	4.3	8.9	2.4
ISEC Healthcare Ltd	ISEC SP	154	37.1	22.5	19.7	Net Cash	7.7	8.3	2.8
AsiaMedic Ltd	AMAT SP	26	N/A	N/A	N/A	Net Cash	-8.2	-13.6	1.8
Singapore O&G Ltd	SOG SP	273	42.9	27.3	23.4	Net Cash	25.1	29.8	10.4
Average			32.1	33.9	29.2	13.8	11.6	14.1	4.7
China									
Aier Eye Hospital Group Co	300015 CH	7,194	69.0	59.3	43.9	Net Cash	14.8	20.5	12.8
Topchoice Medical Invs Corp	600763 CH	2,101	52.1	55.8	43.6	Net Cash	18.0	24.7	11.6
Average			60.6	57.5	43.7	N/A	16.4	22.6	12.2
India									
Apollo Hospitals Enterprise Ltd	APHS IN	3,928	58.2	52.4	39.2	62.1	4.7	10.0	5.6
Hong Kong									
Phoenix Healthcare Group Co. Ltd	1515 HK	2,020	49.7	35.7	31.1	Net Cash	9.0	10.9	5.3
Thailand									
Bumrungrad Hospital Public Co Ltd	BH TB	4,680	34.7	33.7	30.2	Net Cash	16.3	27.3	8.9
Malaysia									
KPJ Healthcare Bhd	KPJ MK	1,501	35.7	30.8	26.8	70.8	3.4	8.8	2.9
US									
Concord Medical Services Holdings Ltd.	CCM US	255	N/A	N/A	N/A	68.1	-5.9	-12.0	1.0
Simple Average (Excl. QNM)			41.8	39.3	32.5	45.7	10.2	13.5	5.8

Source: Bloomberg, Phillip Securities Research (Singapore) Estimates

Figure 3: 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	166.3	215.5
EBITDA	7.0	9.2	15.1	23.1	33.2	44.9
Depreciation & Amortisation	(1.5)	(2.0)	(2.8)	(3.9)	(5.5)	(7.5)
EBIT	5.5	7.3	12.2	19.2	27.7	37.4
Net Finance Inc/(Exp)	(0.2)	(0.3)	(0.5)	(2.4)	(4.2)	(6.7)
Profit before tax	5.3	7.0	11.8	16.8	23.4	30.7
Taxation	(0.3)	(0.5)	(1.3)	(2.0)	(2.6)	(3.4)
Net profit before NCI	5.0	6.5	10.5	14.8	20.9	27.3
Non-controlling interest	(0.0)	(0.0)	(1.9)	(3.4)	(5.6)	(7.4)
Net profit, reported	5.0	6.5	8.6	11.4	15.2	20.0

Per share data (SGD Cents)

Y/E Dec	FY12	FY13	FY14	FY15	FY16F	FY17F
EPS, reported	0.91	0.93	1.20	1.46	1.89	2.43
DPS	0.68	1.10	0.73	0.84	1.13	1.46
BVPS	5.24	6.65	10.72	11.81	11.52	12.30

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	23.4	30.7
Depreciation & Amortisation	1.5	2.0	2.8	3.9	5.5	7.5
WC changes	2.1	(3.2)	(3.2)	(6.7)	(3.5)	(4.0)
Net finance exp/(inc)	0.2	0.3	0.5	2.4	4.2	6.7
Tax paid	(0.2)	(0.5)	(0.6)	(2.6)	(2.6)	(3.4)
Others	(0.2)	(1.4)	(0.7)	(3.0)	0.0	0.0
Cashflow from ops	8.7	4.1	10.6	10.9	27.1	37.6
CFI						
CAPEX, net	(10.4)	1.8	(17.3)	1.5	(17.2)	(23.1)
Others	(0.5)	(5.3)	(21.6)	(21.5)	(19.7)	0.5
Cashflow from investments	(11.0)	(3.6)	(38.8)	(20.1)	(36.9)	(22.6)
CFF						
Share issuance, net	0.0	16.8	12.9	(0.8)	(5.2)	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)	(9.1)	(12.0)
Others	2.8	(0.3)	(0.4)	57.4	5.4	(7.1)
Cashflow from financing	7.1	9.7	35.1	38.4	(8.9)	(19.1)
Net change in cash	4.8	10.3	6.9	29.2	(18.7)	(4.2)
CCE, end	18.5	28.7	35.6	64.9	46.2	42.0

Source: Company, Phillip Securities Research (Singapore) Estimates

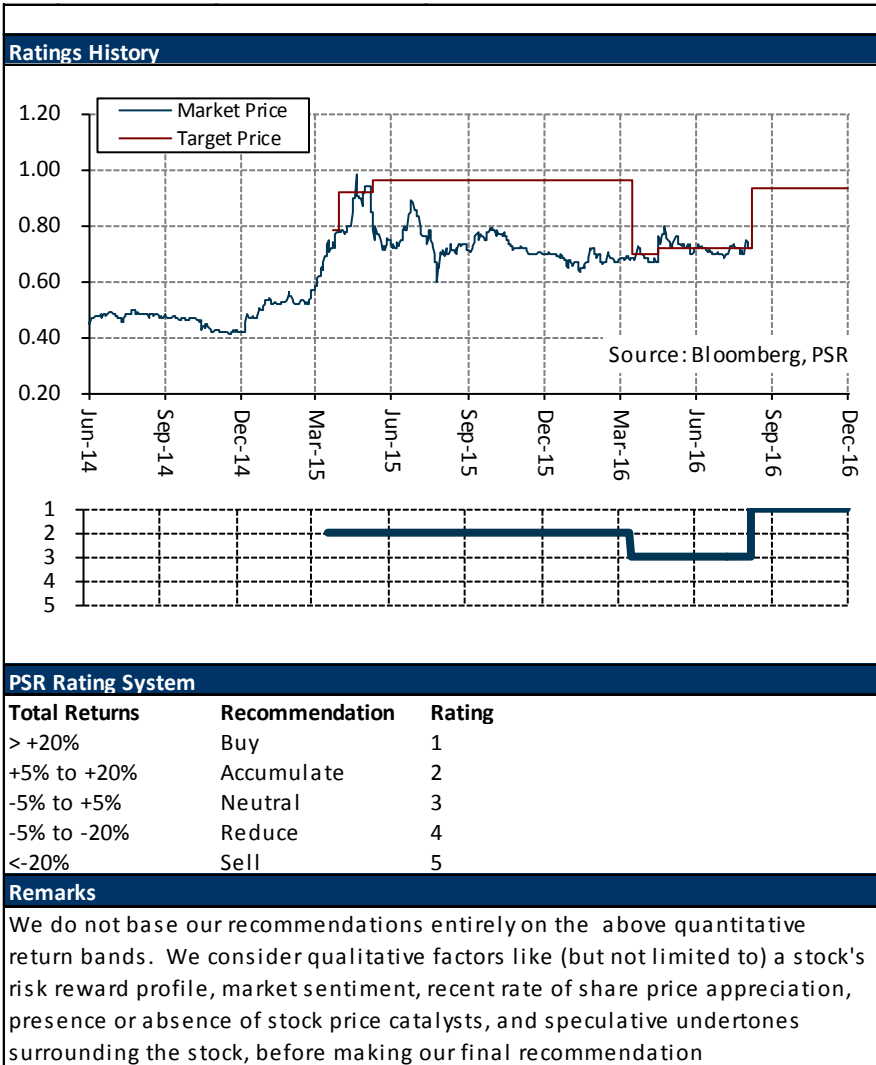
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY12	FY13	FY14	FY15	FY16F	FY17F
ASSETS						
PPE	17.2	15.4	37.4	34.3	66.0	81.6
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	144.0	159.6
Accounts receivables	5.6	7.7	16.3	22.8	34.6	46.0
Cash	18.5	28.7	35.7	64.9	46.2	42.0
Inventories	1.5	4.1	8.6	11.2	16.4	21.6
Others	1.0	1.5	6.2	5.4	5.4	5.4
Total current assets	26.6	42.1	66.9	104.3	102.7	115.1
Total Assets	49.3	67.6	140.7	216.6	246.7	274.7
LIABILITIES						
Accounts payables	9.9	10.8	21.0	25.7	39.3	51.9
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	55.4	68.0
Long term loans	8.7	8.7	28.5	64.7	74.7	74.7
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	76.5	76.5
Total Liabilities	20.4	20.9	55.6	108.4	131.9	144.5
EQUITY						
Non-controlling interests	0.1	0.6	8.4	16.1	21.7	29.1
Shareholder Equity	28.8	46.1	76.6	92.1	93.0	101.0

Valuation Ratios

Y/E Dec	FY12	FY13	FY14	FY15	FY16F	FY17F
P/E (X), adj.	89.4	34.8	29.2	32.7	39.2	30.4
P/B (X)	15.5	4.9	3.3	4.0	6.4	6.0
EV/EBITDA (X), adj.	63.7	24.4	16.6	16.1	18.0	13.5
Dividend Yield (%)	0.8%	3.4%	2.1%	1.8%	1.5%	2.0%
Growth & Margins (%)						
Growth						
Revenue	19.4%	24.7%	40.9%	23.6%	34.1%	29.5%
EBITDA	12.0%	31.6%	63.2%	53.6%	43.3%	35.5%
EBIT	7.5%	32.0%	68.8%	56.8%	44.1%	35.1%
Net profit, adj.	9.2%	29.2%	32.6%	33.1%	33.6%	31.1%
Margins						
EBITDA margin	12.3%	13.0%	15.0%	18.7%	19.9%	20.8%
EBIT margin	9.6%	10.2%	12.2%	15.5%	16.6%	17.3%
Net profit margin	8.8%	9.1%	8.5%	9.2%	9.2%	9.3%
Key Ratios						
ROE (%)	17.8%	17.2%	14.0%	13.5%	16.5%	20.6%
ROA (%)	11.7%	11.1%	8.2%	6.4%	6.6%	7.7%
Net Debt / (Cash)	(9.2)	(19.8)	(3.3)	15.3	44.0	48.2
Net Gearing (X)	Net Cash	Net Cash	Net Cash	14.1%	38.3%	37.0%



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