

Q & M Dental Group

Encouraging results; Waiting for better organic growth



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SINGAPORE | HEALTHCARE | 1Q18 RESULTS

16 May 2018

Neutral (Maintained)

LAST CLOSE PRICE	SGD 0.605
FORECAST DIV	SGD 0.014
TARGET PRICE	SGD 0.625
TOTAL RETURN	5.6%

COMPANY DATA

BLOOMBERG CODE	QNM SP
O/S SHARES (MN)	795
MARKET CAP (USD mn / SGD mn):	358 / 481
52 - WK HI/LO (SGD):	0.7 / 0.58
3M Average Daily T/O (mn):	0.43

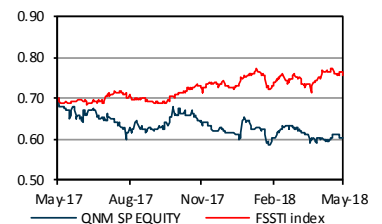
MAJOR SHAREHOLDERS (%)

Quan M in Holdings Pte Ltd	48.1%
Heritas Helios Investmetns Pte Ltd	8.0%
Dr Ng Chin Siau	14.3%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	0.7	0.7	(11.3)
STIRETURN	2.83	6.01	13.18

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY16	FY17	FY18e	FY19e
Revenue (SGD mn)	155	123	148	163
EBITDA (SGD mn)	43	31	26	29
NPAT, adj. (SGD mn)	28	24	18	19
EPS (S Cents)	3.6	3.0	2.3	2.4
PER, adj. (x)*	48.6	36.2	34.9	34.2
P/BV, (x)	4.9	4.5	4.0	3.8
DPS (S Cents)	1.1	1.6	1.4	1.4
Div Yield (%)	2%	3%	2%	2%
ROE (%)	27.4%	21.0%	15.6%	15.3%

Source: Company Data, PSR est.

* Based on adjusted EPS, which we have included government grants as non-recurring items

Valuation Method

P/E Multiple @27x

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- 1Q18 Revenue/PATMI met 19.4%/24.7% of our full year expectations; 1Q18 effective tax rate was lower than our assumption
- Broad-based growth across business segments and countries; Distribution business in Malaysia potentially get a lift from GST abolition
- Yet to see progress for its intensive expansion plan of adding 10 new clinics each in SG and MY by end-FY18e
- Maintained NEUTRAL and TP at S\$0.63, based on estimated 2.3 SCents FY18 EPS and 27x FY18e PER

Results at a glance

S\$' mn	1Q18	1Q17	YoY (%)	Comments
Clinics	26.7	28.9	-7.7%	Deconsolidation of Aoxin in Apr-17; Ex. Aoxin, revenue +4.2% YoY
Distribution	2.0	3.1	-35.1%	Deconsolidation of Aoxin in Apr-17; Ex. Aoxin, revenue +20.4% YoY
Revenue	28.7	32.0	-10.3%	Ex. Aoxin, revenue +5.2% YoY
Gross	25.2	27.9	-9.7%	Pro-rate gross margin +0.6pp to 88.0%
Core EBITDA	4.4	5.5	-20.3%	Higher OpEx and deconsolidation of Aoxin Core EBITDA margin -1.9pp to 15.2%
EBIT	6.5	5.5	18.1%	Aidite and Aoxin as associates
PATMI	4.5	3.8	17.1%	Lower effective tax rate on deconsolidation of Aoxin and tax reliefs in SG 0.9% in 1Q18 vs 9.3% in 1Q17
PATMI, adj.	4.1	3.9	6.5%	Ex. one-offs of \$0.38mn in 1Q18 and -\$0.03mn in 1Q17

Source: Company, PSR

The Positives

- Broad base growth in across business segments and countries.**
 - Net YoY increase of 4 clinics in SG and MY.** Contributions from 7 new dental clinics in Malaysia, alongside higher demand in existing dental clinics in both Malaysia and Singapore, mitigated the loss of 3 dental clinics in Singapore. New and existing clinics contributed c.S\$0.5mn each to the revenue increment.
 - Organic growth for distribution business in SG and MY.** Distribution revenue from Singapore and Malaysia increased YoY by about S\$0.2mn and S\$0.1mn, respectively. The new Malaysia government and policy could give its Malaysia Distribution business a boost. Abolition of GST (Goods and Service Tax), as well as stronger Malaysia ringgit and improving economy, could raise Malaysian's purchasing power for import products.

The Negative

- No progress on its expansion plan after 4 months into 2018.**
 - YTD no new clinic opened in SG and MY.** Management guided to add at least 10 dental clinics in Singapore and Malaysia each for 2018.
 - No inorganic growth.** It has recently announced cessation of interest in the proposed acquisition of Shenzhen Superline Technology Co., Ltd.

Figure 1: Proposed 5 acquisition deals in the past 12 months, out of which, only one deal was completed.

	Acquisition Announced	Initial Date of Announcement	Completed / Ceased Interest
1	Horizon Dental Surgery (Khatib) Pte. Ltd.	15 Jun-17	Completed on 24 Jul-17
2	Starbite Dental Pte. Ltd.	15 Jun-17	Ceased interest on 25 Jan-18
3	<i>CS Tan Dental Surgery (Bandar Puteri Puchong) Sdn. Bhd.</i>	<i>15 Jun-17</i>	<i>To be announced</i>
4	20% of Shenzhen Superline Technology Co., Ltd.	2 Jul-17	Ceased interest on 9 May-18
5	<i>CJ Group (Holding) Limited</i>	<i>30 Sep-17</i>	<i>To be announced</i>

Source: Company

Outlook

Neutral on its expansion plans in Singapore and Malaysia, but hinges on execution. Post-deconsolidation of its major revenue drivers in China, the Group is stepping up its regional expansion in Singapore and Malaysia to plug the gap.

We are impressed by its intensive expansion strategy (from its previous target of opening at least 5 new clinics per year to 20 new clinics this year), but we have yet to see any new clinics opened or acquisition done in 1Q18. The Group has earmarked c.S\$4mn for FY18e CapEx (capital expenditures). As at end-1Q18, the Group has a war chest \$38.4mn ready for deployment.

Johor and Melaka (the Group's targeted area to grow) have lower dentist densities as compared to Kuala Lumpur. In our view, tapping into these markets should give a leg up to the slower growth in Singapore.

Notwithstanding that, we do not discount the possibility that the Group will expanding into Southern China via joint ventures and organic growth initiatives with its Chinese associate, Aoxin Q&M Dental Group. Aoxin Q&M Dental has a strong presence in the Northern China.

Maintained NEUTRAL and TP of S\$0.63. The FY18e EPS of 2.3 Scents includes contributions from the targeted 20 new clinics in Singapore and Malaysia.

Potential re-rating catalysts would be (i) successful earnings accretive acquisitions; and (ii) better-than-expected results from associates.

Financials

Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	124.0	154.9	123.5	148.3	162.7
EBITDA	23.6	43.4	30.9	26.3	29.2
Depreciation & Amortisation	(4.0)	(4.5)	(3.3)	(3.9)	(4.2)
Share of profit from assoc. & JVs	0.0	0.0	4.0	4.0	4.4
Others	3.5	16.9	9.9	4.4	4.9
EBITDA, adj.	20.1	26.5	17.1	17.8	19.9
EBIT	19.6	38.9	27.7	22.4	25.0
Net Finance Inc/(Exp)	(2.7)	(3.4)	(3.2)	(2.3)	(2.1)
Profit before tax	16.8	35.5	24.4	20.1	22.9
Taxation	(2.0)	(2.2)	(0.7)	(1.8)	(3.9)
Net profit, reported	14.8	33.3	23.7	18.3	19.0
Non-controlling interest	(3.4)	(5.0)	0.2	(0.1)	(0.1)
PATMI, reported	11.4	28.3	23.9	18.2	18.9
Non-recurring items	3.5	16.9	9.9	4.4	4.9
PATMI, adjusted	7.9	11.4	14.0	13.8	14.1

Per share data (SGD Cents)

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	1.46	3.55	3.00	2.29	2.38
EPS, adj.	1.01	1.44	1.76	1.73	1.77
DPS	0.84	1.12	1.62	1.38	1.43
BVPS	11.81	14.40	14.23	15.15	16.10

Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Profit before tax	16.8	35.5	24.4	20.1	22.9
Adjustments	4.2	(9.5)	(11.1)	1.9	1.7
WC changes	(5.2)	(4.3)	3.3	(4.5)	(1.1)
Cash generated from ops	15.9	21.7	16.6	17.5	23.6
Others	(2.6)	(2.8)	(0.5)	(1.8)	(3.9)
Cashflow from ops	13.3	18.9	16.1	15.7	19.7
CFI					
CAPEX, net	1.5	(5.9)	(4.3)	(4.9)	(2.6)
Others	(21.0)	(15.8)	(3.9)	0.2	0.1
Cashflow from investments	(19.6)	(21.7)	(8.2)	(4.7)	(2.5)
CFE					
Share issuance, net	(0.8)	(5.4)	(1.5)	0.0	0.0
Loans, net of repayments	(12.5)	0.0	(0.2)	51.5	(7.6)
Dividends	(5.8)	(6.7)	(11.2)	(10.9)	(11.4)
Others	54.5	(5.9)	(2.1)	(62.3)	(2.1)
Cashflow from financing	35.5	(18.0)	(14.9)	(21.7)	(21.1)
Net change in cash	29.2	(20.8)	(7.1)	(10.7)	(3.9)
CCE, end	64.9	44.1	37.0	26.3	22.5

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	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	34.3	27.4	20.3	21.4	19.7
Associates & JVs	0.0	39.8	74.9	78.9	83.4
Intangibles	76.9	75.5	53.5	53.5	53.5
Others	1.1	6.7	7.7	7.7	7.7
Total non-current assets	112.3	149.4	156.4	161.5	164.3
Accounts receivables	22.8	23.9	15.9	16.9	18.6
Cash	64.9	44.1	37.0	26.3	22.5
Inventories	11.2	7.6	6.5	4.6	4.9
Others	4.7	4.8	3.2	3.2	3.2
Total current assets	103.6	80.4	62.6	51.1	49.1
Total Assets	215.9	229.8	219.0	212.5	213.4
LIABILITIES					
Accounts payables	25.7	21.0	18.2	12.9	13.7
Short term loans	15.7	15.5	60.5	0.5	0.5
Others	0.6	0.0	0.0	0.0	0.0
Total current liabilities	42.0	36.5	78.7	13.3	14.2
Long term loans	63.8	69.3	24.4	75.9	68.3
Others	1.8	2.0	1.8	1.8	1.8
Total non-current liabilities	65.6	71.3	26.2	77.7	70.1
Total Liabilities	107.7	107.8	104.9	91.0	84.3
EQUITY					
Non-controlling interests	16.1	7.4	1.0	1.0	1.1
Shareholder Equity	92.1	114.7	113.1	120.4	128.0

Valuation Ratios

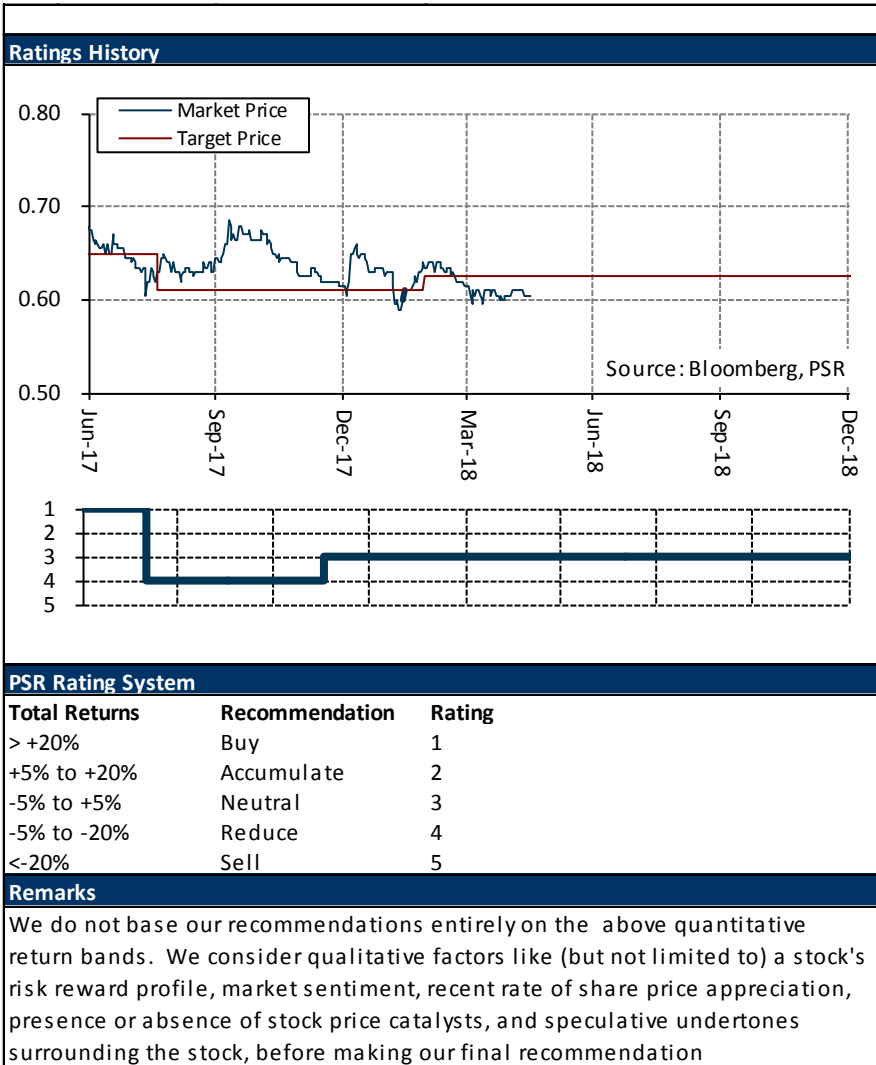
Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	68.4	48.6	36.2	34.9	34.2
P/B (X)	5.8	4.9	4.5	4.0	3.8
EV/EBITDA (X), adj.	26.8	21.0	29.6	27.0	24.2
Dividend Yield (%)	1.2%	1.6%	2.5%	2.3%	2.4%

Growth & Margins (%)

Growth					
Revenue	23.6%	25.0%	-20.3%	20.0%	9.7%
EBITDA	56.0%	83.9%	-28.8%	-15.0%	11.2%
EBIT	59.3%	98.7%	-29.0%	-18.9%	11.5%
Net profit, adj.	1.0%	45.3%	22.5%	-1.6%	2.0%
Margins					
EBITDA margin	19.0%	28.0%	25.0%	17.7%	18.0%
EBIT margin	15.8%	25.1%	22.4%	15.1%	15.4%
Adj. Net profit margin	6.3%	7.4%	11.3%	9.3%	8.6%

Key Ratios

ROE (%)	13.5%	27.4%	21.0%	15.6%	15.3%
ROA (%)	6.4%	12.7%	10.6%	8.4%	8.9%
Net Debt / (Cash)	14.6	40.7	47.9	50.1	46.3
Net Gearing (X)	13.5%	33.3%	42.0%	41.2%	35.8%



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