

# Singapore O&G Ltd.

Completing the life cycle



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SINGAPORE | HEALTHCARE | UPDATE

5 October 2017

## What is the news?

### Service agreement with KL Fertility & Gynaecology Centre Sdn. Bhd. ("KL Fertility Centre") on 3 Oct-17

- The Group has entered into a commercial collaboration with KL Fertility Centre, a wholly owned subsidiary of Monash IVF Group Ltd based in Australia.
- This collaboration will enable SOG to offer new and existing patients with Assisted Reproductive Technology ("ART") services such as In-Vitro Fertilisation ("IVF") and Intracytoplasmic Sperm Injection ("ICSI") Procedures.
- The collaboration is for an initial term of 36 months and is limited to the Singapore market only.

## How does it work?

- An IVF treatment cycle can be broken down into two segments (*See Figure 1*):
  1. SOG to conduct initial investigations, consultations and stimulations.
  2. SOG will refer patients to KL Fertility Centre for ART services.
 Nonetheless, specialists from both SOG and KL Fertility Centre would work hand in hand throughout the entire cycle.
- Target to commence in early-2018.
- While all six O&G specialists are certified to provide such services, SOG plans to have 2-3 designated specialists to carry out such activities as the patients undergoing medication will require more time and attention. Patient undergoing stimulation injections are required to visit the clinics in every 2-4 days to monitor follicles development.
- Appeals to cost-conscious patients and Singaporeans who had exhausted their government subsidy for ART. Savings could be up to 25%, while receiving quality private healthcare services.
- No fee sharing. Patients will pay for ovarian stimulation fees to SOG and IVF services costs to KL Fertility Centre separately.

## What do we think?

- This completes SOG as a **holistic care for women's wellness with multidisciplinary team approach**, and without incurring additional CAPEX.
- **The structural change in Singapore underpins demand for fertility services.** About 15% of the couples in Singapore face infertility issues. With the median age at first marriage and first birth rising, we believe that there is an increasing number of couples who need medical help in conceiving.
- **The strategic partnership enables SOG to capture part of the value chain** – on consultancy, monitoring, and drug prescriptions. Previously, SOG has been referring its patients to external fertility centre.
- **It could also unfold multiple opportunities for future revenue growth.** If pregnancy occurs, the patient could eventually return to SOG for obstetrical, aesthetic and paediatric services.
- **We do not expect the new initiative to have a significant impact on FY18e margin.** Management shared that the pricing structure for drugs, diagnostic tests and scans, as well as consultation will be similar to its current business model. Obstetrics services will remain as the most profitable business. Hence, we expect EBIT margin for ovarian stimulation to be in the range of 30-35%. **A higher than expected demand for fertility services would be an upside catalyst.**

**Maintained Buy rating with TP of S\$0.65 based on FY18e EPS of 2.24 Cents pegged to a forward PER of 29x.**

## Buy (Maintained)

LAST CLOSE PRICE	SGD 0.490
FORECAST DIV	SGD 0.016
TARGET PRICE	SGD 0.650
<b>TOTAL RETURN</b>	<b>35.9%</b>

### COMPANY DATA

BLOOMBERG CODE	SOG SP
O/S SHARES (MN):	477
MARKET CAP (USD mn / SGD mn):	168 / 229
52 - WK HI/LO (SGD):	0.74 / 0.43
3M Average Daily T/O (mn):	0.87

### MAJOR SHAREHOLDERS (%)

Dr. Heng Tung Lan	29.46%
Dr. Lee Keen Whye	17.10%
Dr. Beh Suan Tiong	10.17%
Dr. Lim Teng Ee Joyce	8.56%
Dr. Choo Wan Ling	7.71%
Legg Mason Asset Management Asia	2.68%

### PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	6.7	(22.3)	(17.5)
STI RETURN	0.21	2.14	15.97

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

SGD MN	FY15	FY16	FY17e	FY18e
Revenue	16	29	31	36
EBITDA	6	11	11	13
NPAT (adj.)	5	9	9	11
EPS (S Cents)	2.67	3.73	1.84	2.24
PER, x (adj.)	27.1	32.2	26.6	21.9
P/BV, x	6.0	6.8	5.4	5.2
DPS (S Cents)	2.0	3.1	1.6	1.9
Div Yield, %	1%	3%	3%	4%
ROE, %	30%	27%	21%	24%

Source: Company Data, PSR est.

### Valuation Method

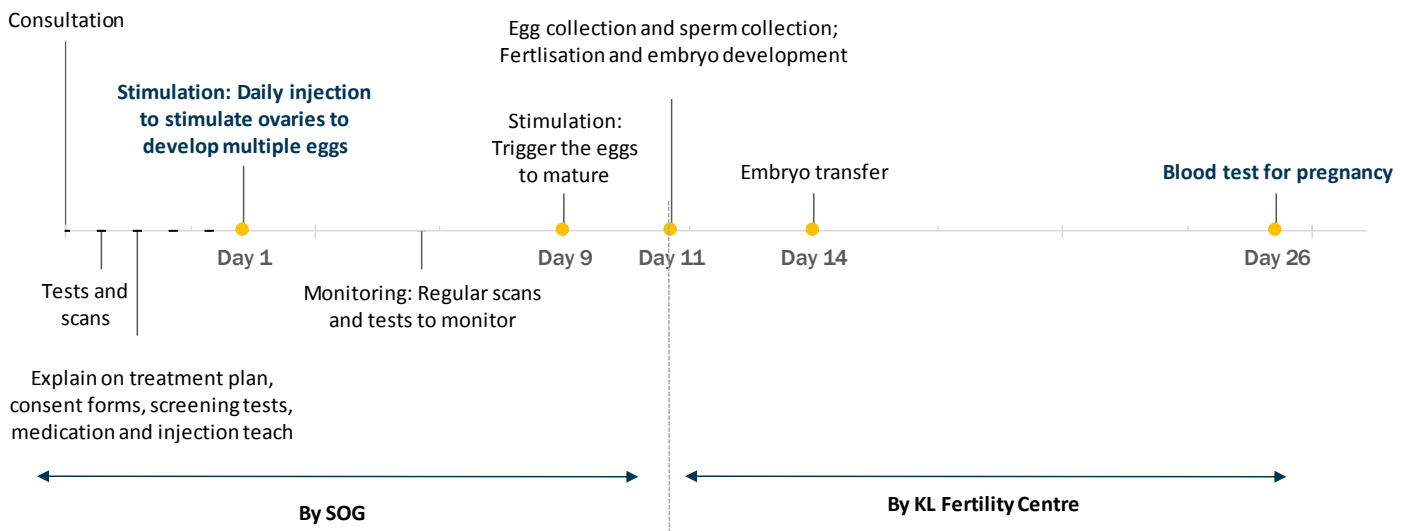
P/E Multiple @ 29x

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Figure 1: One full IVF cycle



Source: PSR

### What are IVF and ICSI?

- In-Vitro Fertilisation ("IVF") involves putting the eggs and sperms together and fertilisation occurs by natural selection.
- While Intracytoplasmic Sperm Injection ("ICSI") involves injecting a single sperm into each egg to allow fertilisation to occur.
- After fertilisation, the embryos are allowed to grow for a short period of time before being placed into the uterus.
- A successful pregnancy can be confirmed about two weeks later.
- The success rate is likely to fall with age.

Figure 2: ICSI Procedures



Source: Singhealth website

### How does SOG differ?

#### Price competitiveness

- Due to the complexities of the process, expensive equipment, and scarce production of the hormones (there are only a handful of companies worldwide), such treatment can be very costly.
  - Range of cost for a full IVF cycle in Singapore = S\$10,000 to S\$15,000 (Public); S\$12,000 to S\$20,000 (Private)
  - Range of cost for a full IVF cycle in Malaysia = RM15,000 to RM25,000
- **Medisave can be used to co-pay SOG's bill; While the IVF cost (i.e. payment to KL Fertility Centre) will follow the rate in Malaysia.**

*Based on a report on IVF, published by MOH in 2004:*

*In 2002, 67% of the IVF cycles was done in public IVF centres, and 33% in private.*

*There were more private IVF centres set up since 2002, e.g. Raffles Medical Group and Sincere Healthcare Group. We believe that the mix should remain around 70:30.*

Singapore government has instituted measures to relieve the financial burden and to push for higher fertility rate

**1. Medisave for Assisted Conception Procedures**

- Lifetime withdrawal limit for each patient of \$15,000 for out-of-pocket costs for Assisted Conception Procedures

**Figure 3:**

The withdrawal limit for ACP treatments such as in-vitro fertilisation (IVF) and intra-uterine insemination (IUI) is as follows:



Source: HeyBaby.sg

**2. Government Co-Funding Scheme for Assisted Reproduction Technology (ART) Treatment**

- Up to 75% in co-funding from the Government for ART treatment cycles, for a maximum of 3 fresh and 3 frozen ART cycles
- Only available at AR centres in Singapore public hospitals, namely at National University Hospital (NUH), Singapore General Hospital (SGH), and KK Women’s and Children’s Hospital (KKH)

*MOH has co-funded 3,512 assisted reproduction cycles in 2015, up from 3,173 cycles in 2014 and 2,749 cycles in 2013.*

**Figure 4:**

Eligible couples can receive up to 75% co-funding, depending on their citizenship status.

Couple’s citizenship status	Both are Singapore Citizens	One Singapore Citizen & one Permanent Resident	One Singapore Citizen and one Foreigner
Fresh Cycle	75%; up to \$6,300	55%; up to \$4,600	35%; up to \$3,000
Frozen Cycle	75%; up to \$1,200	55%; up to \$900	35%; up to \$600

*The IVF market in Singapore is estimated to worth over S\$75mn.*

*Assuming:*

- *The 3,512 cycles formed the 70% total cycles done in 2015, based on the 70:30 public-private mix*
- *The average cost is S\$15,000 per cycle*

Qualifying criteria:

- The patient (for women) must be below 40 years of age at the start of the ART cycle. i.e. the date of the ovarian stimulation phase (for fresh cycle) or the thawing of the embryo (for frozen cycle).
- The patient must not have completed 3 co-funded fresh and 3 co-funded frozen cycles (with subsidies).
- The patient has been assessed by a doctor that she meets the clinical requirements for ART.
- Either the patient or her spouse must be a Singapore Citizen at the start of the ART cycle.

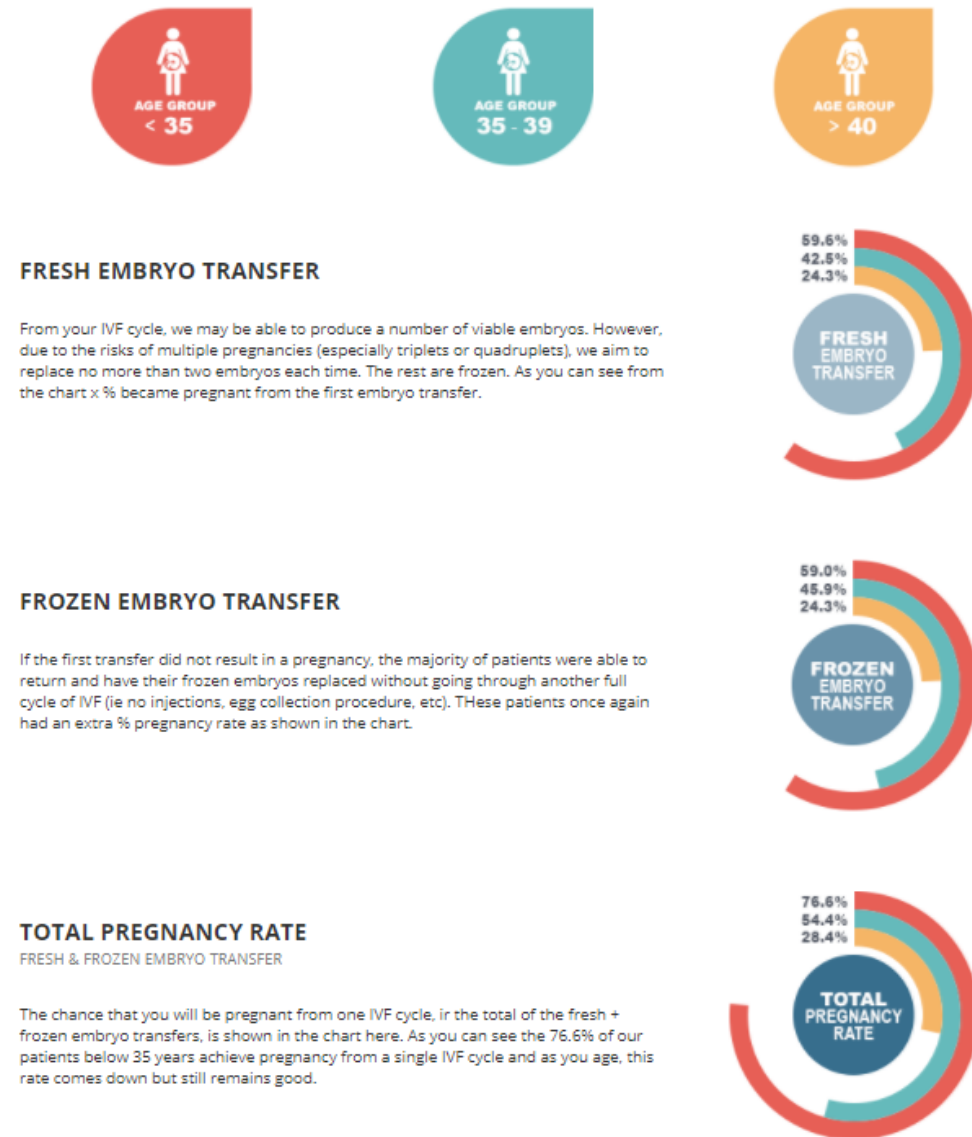
Source: HeyBaby.sg

### Background of KL Fertility Centre

- KL Fertility Centre, a Monash IVF owned fertility centre, was recently certified by RTAC (Reproductive Technology Accreditation Committee) Code of Practice and is one of the largest fertility centres in Malaysia.

RTAC is a committee under The Fertility Society of Australia (FSA) that oversees and manages the accreditation for all ART units in Australia, New Zealand and Singapore

Figure 5: KL Fertility Centre's pregnancy success rates



Source: KL Fertility Centre website

### Background of Monash IVF Australia

- A leader in the field of fertility services in Australia with over 40 years of experience and over 35,000 babies impressive success rates.
- Have been at the forefront of many developments in Assisted Reproductive Services, delivering numerous Australian and world firsts in the fertility services field.
- Some of the team's ground-breaking achievements include:
  - ✓ Monash IVF co-joint team achieved world's first IVF pregnancy in 1973
  - ✓ World's first frozen embryo birth 1984
  - ✓ World's first donor egg baby 1984
  - ✓ World's first birth from a sperm retrieval operation 1985
  - ✓ Australia's first surrogate pregnancy 1988
  - ✓ Australia's first blastocyst baby after in-vitro maturation of human primary eggs 1995
- KL Fertility is their first international business**

## Financials

### Income Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
Revenue	13.5	16.4	28.7	30.5	35.9
EBITDA	5.2	6.3	10.8	11.1	13.3
Depreciation & Amortisation	(0.2)	(0.2)	(0.4)	(0.5)	(0.5)
EBIT	5.0	6.1	10.4	10.7	12.7
Net Finance Inc/(Exp)	(0.0)	0.1	(0.3)	(0.1)	0.1
Profit before tax	5.0	6.2	10.1	10.6	12.9
Taxation	(0.8)	(0.8)	(1.3)	(1.8)	(2.2)
Net profit before NCI	4.2	5.3	8.8	8.8	10.7
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Net profit, reported	4.2	5.3	8.8	8.8	10.7

### Per share data (SGD Cents)

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
EPS, reported	2.79	2.67	3.73	1.84	2.24
DPS	0.00	2.03	3.10	1.56	1.91
BVPS	7.79	12.02	17.66	9.01	9.35

### Cash Flow

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
Profit before tax	5.0	6.2	10.1	10.6	12.9
Adjustments	0.3	0.2	0.7	0.6	0.4
WC changes	0.1	0.2	1.0	3.7	0.7
Cash generated from ops	5.5	6.6	11.8	14.8	13.9
Others	(0.5)	(0.2)	(1.5)	(1.8)	(2.2)
Cashflow from ops	4.9	6.4	10.4	13.0	11.7
CFI					
CAPEX, net	(0.4)	(0.3)	(0.8)	(0.6)	(0.7)
Others	2.5	0.0	(6.0)	(3.9)	(3.9)
Cashflow from investments	2.1	(0.3)	(6.8)	(4.5)	(4.6)
CFF					
Share issuance, net	0.0	10.2	0.0	0.0	0.0
Loans, net of repayments	(0.0)	0.0	0.0	0.0	0.0
Dividends	(2.2)	(3.4)	(6.4)	(7.5)	(9.1)
Others	(0.0)	0.0	0.0	0.0	0.0
Cashflow from financing	(2.2)	6.8	(6.4)	(7.5)	(9.1)
Net change in cash	4.9	12.9	(2.8)	1.1	(1.9)
CCE, end	11.3	24.2	21.4	22.5	20.5

Source: Company, Phillip Securities Research (Singapore) Estimates

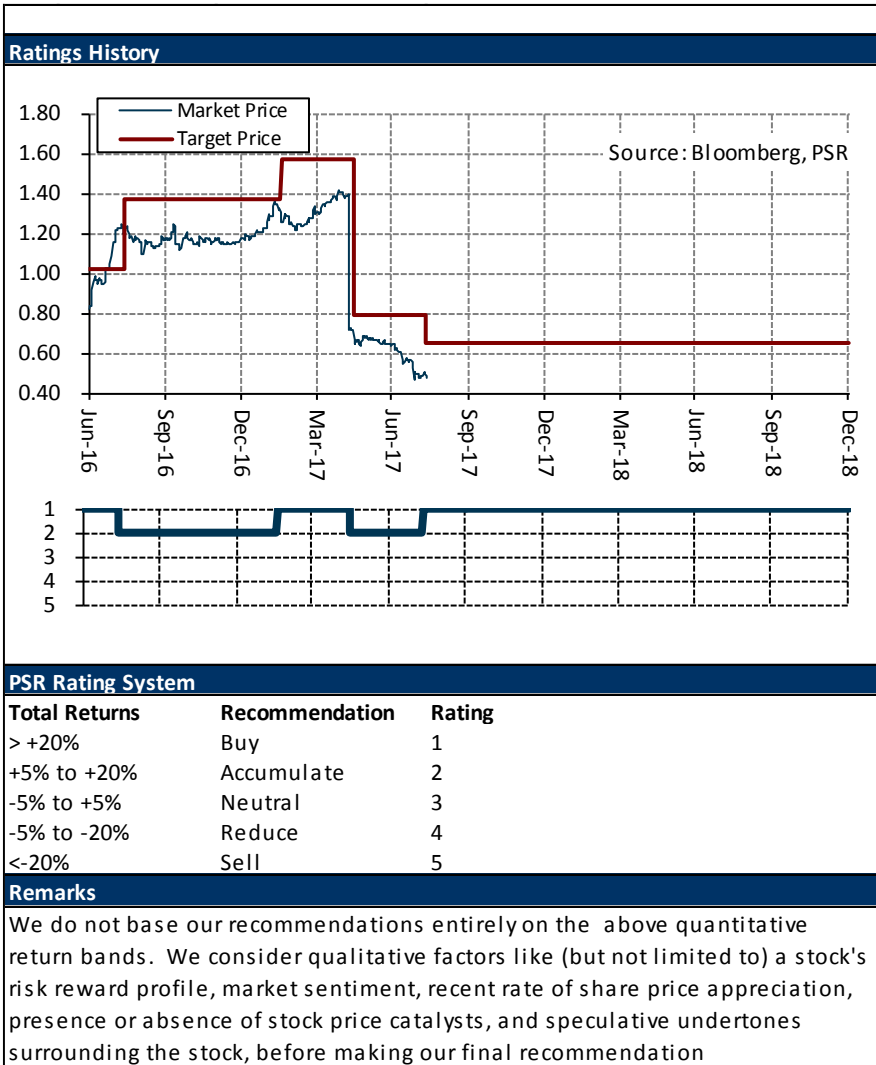
\*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

### Balance Sheet

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
<b>ASSETS</b>					
PPE	0.6	0.7	1.6	1.7	1.9
Others	0.8	1.0	27.1	27.1	27.1
Total non-current assets	1.4	1.7	28.6	28.8	29.0
Accounts receivables	1.9	1.5	2.1	2.1	2.5
Cash	11.3	24.2	21.4	22.5	20.5
Inventories	0.2	0.3	2.2	2.4	2.8
Others	0.0	0.0	0.0	0.0	0.0
Total current assets	13.4	26.0	25.6	27.0	25.8
Total Assets	14.9	27.6	54.3	55.8	54.8
<b>LIABILITIES</b>					
Accounts payables	1.7	1.6	7.1	11.0	8.4
Short term loans	0.0	0.0	0.0	0.0	0.0
Others	1.2	1.9	1.7	1.7	1.7
Total current liabilities	3.0	3.5	8.8	12.7	10.2
Long term loans	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.1	3.8	0.1	0.1
Total non-current liabilities	0.0	0.1	3.8	0.1	0.1
Total Liabilities	3.0	3.6	12.6	12.8	10.2
<b>EQUITY</b>					
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Shareholder Equity	11.9	24.0	41.6	43.0	44.6

### Valuation Ratios

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/E (X), adj.	17.1	27.1	32.2	26.6	21.9
P/B (X)	6.1	6.0	6.8	5.4	5.2
EV/EBITDA (X), adj.	15.9	25.1	26.6	21.0	17.6
Dividend Yield (%)	0.0%	0.8%	3.2%	3.2%	3.9%
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	56.8%	21.2%	74.7%	6.4%	17.6%
EBITDA	35.9%	20.4%	71.2%	3.4%	19.2%
EBIT	35.5%	20.1%	71.7%	2.7%	19.3%
Net profit, adj.	36.1%	25.7%	64.8%	-0.3%	21.8%
<b>Margins</b>					
EBITDA margin	38.6%	38.4%	37.6%	36.5%	37.0%
EBIT margin	37.2%	36.9%	36.3%	35.0%	35.5%
Net profit margin	31.4%	32.5%	30.7%	28.7%	29.8%
<b>Key Ratios</b>					
ROE (%)	45.6%	29.8%	26.8%	20.7%	24.4%
ROA (%)	36.5%	25.1%	21.5%	16.0%	19.3%
Net Debt / (Cash)	(11.3)	(24.2)	(21.4)	(22.5)	(20.5)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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