

Singapore O&G Ltd.

Strong finish to 2017



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SINGAPORE | HEALTHCARE | FY17 RESULTS

- FY17 Revenue and PATMI were in line with our full year estimations
- Solid result from O&G amidst challenging business environment, and stellar performance from Cancer-related segment
- Declared final dividend of 0.89 SCents per share (FY17 total dividend of 1.50 SCents)
- Maintained ACCUMULATE at a lower TP of S\$0.42 (previously S\$0.62)

Results at a glance

S\$' mn	4Q17	4Q16	YoY (%)	FY17	FY16	YoY (%)	Comments
O&G	4.8	4.4	9.8%	18.0	17.4	3.3%	Higher patient load
Cancer-related	1.1	0.7	56.1%	3.8	2.8	37.1%	Higher patient load
Dermatology	1.9	2.1	-10.8%	7.9	8.5	-6.8%	Affected by slowdown in medical tourism
Paediatric	0.1	0.0	n.m.	0.2	0.0	n.m.	New segment started in Jul-17; 2nd clinic opened in Nov-17
Revenue	7.9	7.2	10.3%	29.9	28.7	4.3%	As above
Gross	6.5	6.0	9.1%	25.3	24.3	4.2%	FY17 Gross Profit Margin -0.1pp to 84.7%
EBITDA	2.2	0.9	151.9%	10.4	10.8	-3.6%	Higher staff and rental expenses FY17 EBITDA Margin -2.8pp to 34.8%
EBIT	2.1	0.8	166.5%	9.9	10.4	-5.1%	Higher depreciation cost FY17 EBIT Margin -3.3pp to 33.0%
NPAT	2.0	0.8	163.9%	8.5	8.8	-3.4%	Ex. non-cash finance expense, FY17 PATMI -5.5% YoY
DPS (Cents)	0.89	0.79*	12.7%	1.50	1.55*	-3.2%	* Considering the effect of 2-for-1 share split in May-17

Source: Company, PSR

The Positives

- Stronger contributions from Gynaecology mitigated slowdown in Obstetrics.** 2017 birth rate in Singapore was affected by Zika virus outbreak (between Aug-16 and early-2017). There were early sign of recovery only in 2H17. Nonetheless, the Group delivered 1,716 babies in FY17, comparable with FY16's 1,728 babies. Worth noting, Dr. Natalie Chua has generated high double-digit growth YoY in FY17.
- Profit from Cancer-related segment more than doubled.** FY17 EBIT margin expanded from 14.0% to 23.9%, thanks to the stellar performance from Dr. Radhika. The Group's marketing strategy has proven to be successful.
- FY17 total dividend of 1.50 SCents with slightly higher payout ratio at 84%** (vs FY16's 83%). The Group has been stepping up its payout ratio. We expect a 1.55 SCents FY18e dividend, implying a dividend yield of 4%. We believe that it could be achievable with the Group strong cash generating businesses and zero-debt position. In addition, no further cash commitments, as the second and third cash tranche consideration of S\$4.0mn each for the acquisition for Dr. Joyce Lim's businesses was fully paid as at 31 Dec-17.

The Negatives

- FY17 profitability was dragged by:**
 - Weaker foreign demand** was partially mitigated by higher local patient load. FY17 EBIT from Dermatology -18.7% YoY to S\$2.41mn, but was within the expectation range of S\$2.3mn and S\$2.5mn (expected recurring profit mentioned in the acquisition deal).
 - S\$0.2mn 'start-up' losses** incurred by the newly established new Paediatrics segment.
 - Higher staff and rental expenses.** The Group added 2 new Paediatric specialists, Dr. Lim Xue Yan and Dr. Irene Teo, and 6 more clinical and management staff during the year. Staff costs +9.0% YoY (to 40.1% of FY17 revenue vs FY16's 38.4%).

20 February 2018

Accumulate (Maintained)

LAST CLOSE PRICE	SGD 0.385
FORECAST DIV	SGD 0.016
TARGET PRICE	SGD 0.420
TOTAL RETURN	13.2%

COMPANY DATA

BLOOMBERG CODE	SOG SP
O/S SHARES (MN):	477
MARKET CAP (USD mn / SGD mn):	140 / 184
52 - WK HI/LO (SGD):	0.74 / 0.34
3M Average Daily T/O (mn):	0.72

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	(9.8)	(25.3)	(43.0)
STI RETURN	(2.47)	2.61	15.13

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD MN	FY16	FY17	FY18e	FY19e
Revenue	28.7	29.9	32.4	34.6
EBITDA	10.8	10.4	11.0	13.1
NPAT (adj.)	8.8	8.5	8.7	10.5
EPS (S Cents)	3.73	1.78	1.82	2.20
PER, x (adj.)	32.2	23.3	21.2	17.5
P/BV, x	6.8	4.6	4.1	4.0
DPS (S Cents)	3.1	1.5	1.5	1.9
Div Yield, %	3.7%	3.6%	4.0%	4.9%
ROE, %	26.8%	20.0%	19.7%	23.0%

Source: Company Data, PSR est.

Valuation Method

P/E Multiple @ 23x

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Outlook

We are cautiously optimistic about FY18e. Impact from the revival of Zika cases in Jan-18 (the third wave) should be contained compared to initial panic seen in Aug-16 (the first occurrence). We also expect persistent weakness in Dermatology business on slowdown in Singapore medical tourism. Management shared that foreign patient accounts for c.30% of Dermatology patient load.

On a positive note, we believe that its Cancer-related segment should continue to gain traction and support the Group's growth in FY18e. Meanwhile, two doctors, namely Dr. Hong Sze Ching and Dr. Lim Siew Kuan, have broken even in FY17 and will be contributing positively to FY18e earnings. In addition, both Paediatricians are on track to breakeven by end-FY18 – Dr. Lim Xue Yan by 1Q18 and Dr. Irene Teo by 3Q18.

Assisted Reproductive Technology services under the collaboration with KL Fertility Centre is on track to commence by 1Q18. **(Related report: [Singapore O&G - Completing the life cycle](#))**

Maintained ACCUMULATE at lower TP of S\$0.42 (previously S\$0.62), based on lower FY18e EPS of 1.82 SCents (previously 2.15 SCents) and forward PER of 23.2x (previously 29x).

We trimmed our FY18e revenue/earnings by 6%/16% on challenging business environment. These translate to a lower FY18e EPS of 1.82 SCents.

We are cognizant of the margin pressures arising from sluggish birth rate, slowing medical tourism, higher operating costs and the latent period of the new doctors. Nonetheless, we remain upbeat of the Group's ability to deliver organic growth. The Group has been actively seeking new recruits of medical practitioners to expand its four growth pillars. Management targets to add 2 new specialists, one in Dermatology/Aesthetic segment and one in either O&G or Paediatrics segment, into the Group by FY18e.

Management also shared that it has recently adjusted its fees upward to mark to market rate: (a) Dermatology's consultation fee +15% on average; and (b) delivery fees +10-15%. These should be able to cushion the margin pressures somewhat.

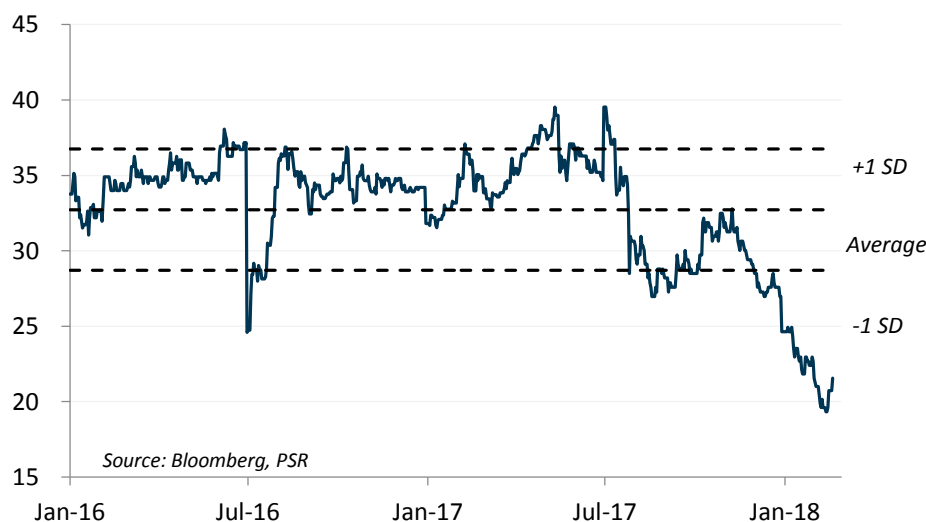
While the long-term fundamentals remain intact, we have revised to a lower PER to 23.2x (previously 29x). This is in-line with the lower peers average PER, as well as due to the recent corporate movements. The Group has appointed a new Lead Independent Director and Audit Committee Chairman, but is still in search for a new CEO. We will review the PER once the new CEO comes on board, to see if the Group's strategy moving forward remains the same.

Management shared that Dermatology business is more resilient compared to aesthetic services. Patients tend to seek quality care for skin disorders. On the other hand, aesthetic industry is highly competitive, with saturated aesthetic practices by general practitioners and neighbourhood beauty services.

Potential re-rating catalysts:

- Better-than-expected margin improvement, particularly its Cancer-related segment.
- Faster-than-expected time to reach profitability for the Paediatric segment.
- A strong demand for Assisted Reproductive Technology.
- Expansion into other complementary medical services.

Figure1: Historical PER since Jan-16



SOG is currently trading 21.6x, which is below 2-year average of 32.7x.

Figure2: SOG is trading at a 15% discount to its peers average forward PER of 25.5x

Item	
EPS FY18e	1.82
Simple Average P/E FY18e (Excl. SOG)	29.0
20% discount due to liquidity risk	20%
Actual P/E multiple used	23.2
Target price (S\$)	0.42
FY18e dividends	0.02
Closing price	0.39
Potential upside	13.1%

Company	Bloomberg Ticker	Mkt Cap (SGD mn)	P/E TTM	P/E FY1	P/E FY2	Net D/E (%)	ROA (%)	ROE (%)	P/B
Singapore O&G Ltd	SOG SP	184	21.6	21.2	17.5	Net Cash	16.5	20.0	4.2
IHH Healthcare Bhd	IHH SP	17,221	N/A	74.7	52.1	21.1	2.2	3.7	N/A
Raffles Medical Group Ltd	RFMD SP	1,948	27.3	27.5	30.6	Net Cash	7.5	10.4	2.7
Talkmed Group Ltd	TKMED SP	887	26.1	30.7	28.1	Net Cash	48.8	58.7	14.2
Q&M Dental Group Singapore Ltd	QNM SP	489	12.7	32.4	30.8	33.3	18.0	37.6	4.4
Singapore Medical Group Ltd	SMG SP	258	34.9	28.5	19.0	Net Cash	7.8	12.0	2.8
Market Cap Weighted Average (Excl. SOG and IHH)			25.5	29.0	29.1	4.5	19.2	26.2	5.8

Source: Bloomberg, PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	16.4	28.7	29.9	32.4	34.6
EBITDA	6.3	10.8	10.4	11.0	13.1
Depreciation & Amortisation	(0.2)	(0.4)	(0.5)	(0.6)	(0.6)
EBIT	6.1	10.4	9.9	10.4	12.5
Net Finance Inc/(Exp)	0.1	(0.3)	(0.2)	0.1	0.1
Profit before tax	6.2	10.1	9.7	10.5	12.6
Taxation	(0.8)	(1.3)	(1.2)	(1.8)	(2.1)
Net profit, reported	5.3	8.8	8.5	8.7	10.5

Per share data (SGD Cents)

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	2.67	3.73	1.78	1.82	2.20
DPS	2.03	3.10	1.50	1.55	1.87
BVPS	12.02	17.66	9.12	9.40	9.73

* 2-for-1 share split in May-17

Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Profit before tax	6.2	10.1	9.7	10.5	12.6
Adjustments	0.2	0.7	0.9	0.5	0.5
WC changes	0.2	1.0	(7.2)	1.5	(1.9)
Cash generated from ops	6.6	11.8	3.4	12.5	11.2
Others	(0.2)	(1.5)	(1.2)	(1.8)	(2.1)
Cashflow from ops	6.4	10.4	2.2	10.7	9.1
CFI					
CAPEX, net	(0.3)	(0.8)	(0.6)	(0.6)	(0.7)
Others	0.0	(6.0)	0.1	0.1	0.1
Cashflow from investments	(0.3)	(6.8)	(0.5)	(0.5)	(0.6)
CFF					
Share issuance, net	10.2	0.0	0.0	0.0	0.0
Loans, net of repayments	0.0	0.0	0.0	0.0	0.0
Dividends	(3.4)	(6.4)	(6.7)	(7.4)	(8.9)
Others	0.0	0.0	0.0	0.0	0.0
Cashflow from financing	6.8	(6.4)	(6.7)	(7.4)	(8.9)
Net change in cash	12.9	(2.8)	(5.0)	2.8	(0.4)
CCE, end	24.2	21.4	16.4	19.2	18.8

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	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	0.7	1.6	1.6	1.6	1.7
Others	1.0	27.1	26.9	26.9	26.9
Total non-current assets	1.7	28.6	28.6	28.6	28.6
Accounts receivables	1.5	2.1	2.5	2.7	2.8
Cash	24.2	21.4	16.4	19.2	18.8
Inventories	0.3	2.2	1.6	2.1	1.5
Others	0.0	0.0	0.0	0.0	0.0
Total current assets	26.0	25.6	20.5	23.9	23.1
Total Assets	27.6	54.3	49.1	52.5	51.7
LIABILITIES					
Accounts payables	1.6	7.1	3.8	5.9	3.6
Short term loans	0.0	0.0	0.0	0.0	0.0
Others	1.9	1.7	1.7	1.7	1.7
Total current liabilities	3.5	8.8	5.5	7.6	5.3
Long term loans	0.0	0.0	0.0	0.0	0.0
Others	0.1	3.8	0.1	0.1	0.1
Total non-current liabilities	0.1	3.8	0.1	0.1	0.1
Total Liabilities	3.6	12.6	5.6	7.7	5.4
EQUITY					
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Shareholder Equity	24.0	41.6	43.5	44.8	46.4

Valuation Ratios

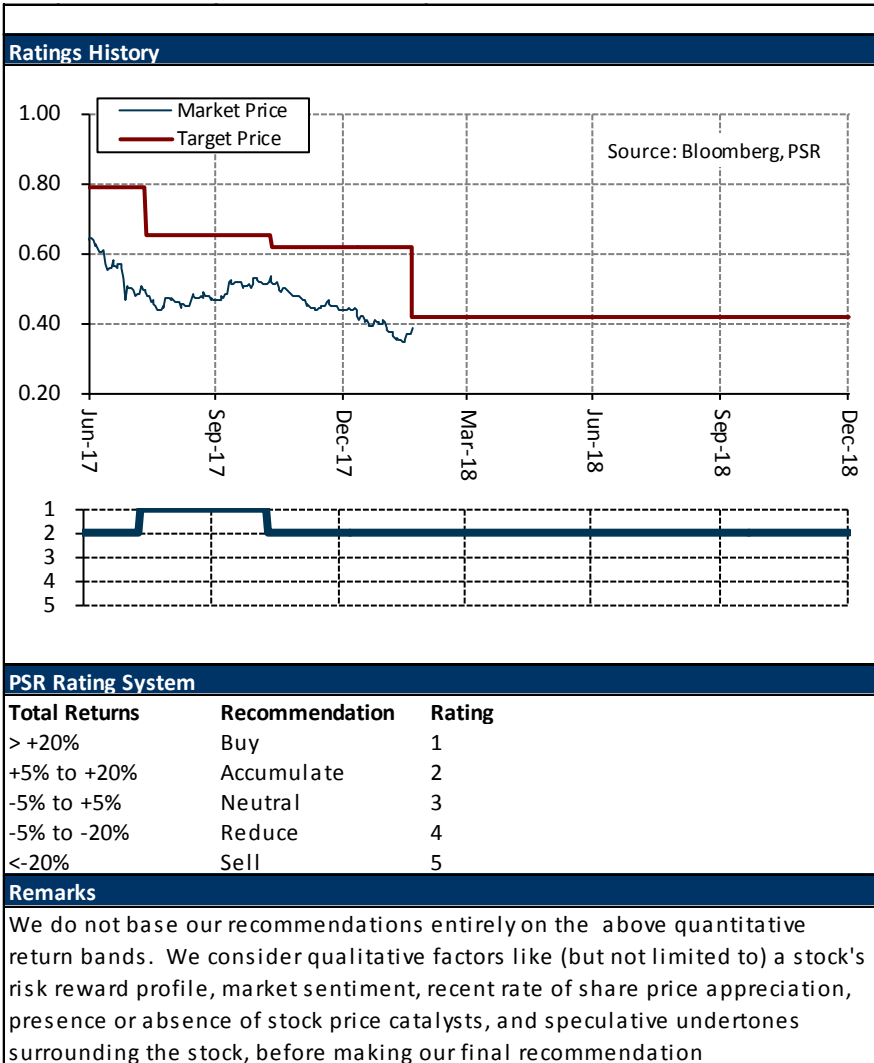
Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	27.1	32.2	23.3	21.2	17.5
P/B (X)	6.0	6.8	4.6	4.1	4.0
EV/EBITDA (X), adj.	25.1	26.6	19.1	16.7	14.0
Dividend Yield (%)	0.8%	3.7%	3.6%	4.0%	4.9%

Growth & Margins (%)

Growth					
Revenue	21.2%	74.7%	4.3%	8.2%	6.9%
EBITDA	20.4%	71.2%	-3.6%	5.9%	19.5%
EBIT	20.1%	71.7%	-5.1%	4.9%	20.9%
Net profit, adj.	25.7%	64.8%	-3.4%	2.0%	20.9%
Margins					
EBITDA margin	38.4%	37.6%	34.8%	34.0%	38.0%
EBIT margin	36.9%	36.3%	33.0%	32.0%	36.2%
Net profit margin	32.5%	30.7%	28.5%	26.8%	30.3%

Key Ratios

ROE (%)	29.8%	26.8%	20.0%	19.7%	23.0%
ROA (%)	25.1%	21.5%	16.5%	17.1%	20.1%
Net Debt / (Cash)	(24.2)	(21.4)	(16.4)	(19.2)	(18.8)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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