

# Singapore O&G Ltd.

O&G still on and going strong



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## SINGAPORE | HEALTHCARE | 1Q18 RESULTS

- 1Q18 Revenue/PATMI met 25.3%/28.5% of our full year estimations
- Number of deliveries increased despite industry decline; Cancer-related segment continues to ramp up
- HIFU, new technology in Singapore to bring in new revenue avenue
- Maintained ACCUMULATE and TP of S\$0.42

### Results at a glance

| S\$' mn        | 1Q18       | 1Q17       | YoY (%)      | Comments   |
|----------------|------------|------------|--------------|--|
| O&G            | 4.8        | 4.2        | 12.5%        | Higher patient load  |
| Cancer-related | 1.2        | 0.8        | 54.7%        | Higher patient load  |
| Dermatology    | 2.0        | 2.0        | 2.7%         |  |
| Paediatric     | 0.2        | 0.0        | n.m.         | New segment started in Jul-17; 2nd clinic opened in Nov-17                                 |
| <b>Revenue</b> | <b>8.2</b> | <b>7.0</b> | <b>17.3%</b> | As above   |
| Gross          | 6.9        | 5.9        | 16.6%        | Gross Profit Margin -0.5pp to 84.4%  |
| EBITDA         | 3.1        | 2.5        | 23.0%        |  |
| EBIT           | 2.9        | 2.4        | 23.0%        | Stronger profitability from O&G and Cancer-related segments<br>EBIT Margin +1.7pp to 35.8% |
| <b>NPAT</b>    | <b>2.5</b> | <b>2.0</b> | <b>23.7%</b> |  |

Source: Company, PSR

### The Positives

- O&G segment continued to deliver despite market weakness.** Its Obstetrics and Gynaecology segment continues to gain market share (4.7% of 1Q18 Singapore total live births vs 4.3% a year ago). It delivered 446 babies in 1Q18, up 0.7% YoY, in contrast to a continuous slowdown in Singapore birth rate of -2.5% YoY.
- Greater profitability from O&G and Cancer-related segments.** EBIT from O&G and Cancer-related segments increased by 17.7% and 206.9% YoY, respectively, more than offset the challenging Dermatology segment and 'start-up' losses incurred by the newly established Paediatrics segment. 1Q18 EBIT margin for Cancer-related segment expanded from 16.6% to 32.9%, as Dr. Lim Siew Kuan broke even in FY17 and started contributing positively to the earnings.

### The Negatives

- Lower earnings from Dermatology segment.** 1Q18 EBIT -5.2% YoY and EBIT margin -2.3pps to 28.1%. Recall that this business segment is dependent on medical tourism. Foreign patient load, particularly from Indonesia, has yet to pick up. Currently, local to foreign patient mix stood at 50:50.
- S\$0.1mn 'start-up' losses** incurred by the newly established Paediatrics segment. We expect both Paediatricians to breakeven by end-FY18.

### Outlook

**We are cautiously optimistic about FY18e.** We expect its Cancer-related segment to support Group's FY18e profitability amidst persistent headwinds – (a) sluggish birth rate; and (b) structural slowdown in medical tourism.

In addition, the Group is also introducing new income streams – (a) collaboration with SATA CommHealth (to commence in end-May 2018); and (b) tapping into an unserved niche market for HIFU (High Intensity Focused Ultrasound) treatment.

15 May 2018

### Accumulate (Maintained)

|                     |              |
|---------------------|--------------|
| LAST CLOSE PRICE    | SGD 0.380    |
| FORECAST DIV        | SGD 0.016    |
| TARGET PRICE        | SGD 0.420    |
| <b>TOTAL RETURN</b> | <b>14.7%</b> |

### COMPANY DATA

|                              |             |
|------------------------------|-------------|
| BLOOMBERG CODE               | SOG SP      |
| O/S SHARES (MN)              | 477         |
| MARKET CAP (USD mn / SGD mn) | 136 / 181   |
| 52 - WK HI/LO (SGD)          | 0.72 / 0.34 |
| 3M Average Daily T/O (mn)    | 0.26        |

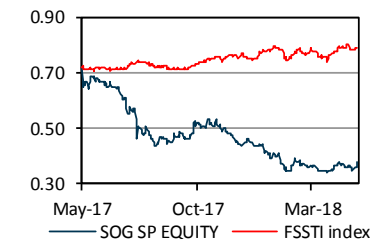
### MAJOR SHAREHOLDERS (%)

|                                  |        |
|----------------------------------|--------|
| 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    | 5.4  | 5.4  | (48.8) |
| STI RETURN | 3.69 | 7.04 | 12.88  |

### 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  | 20.9  | 17.3  |
| P/BV, x       | 6.8   | 4.6   | 4.0   | 3.9   |
| DPS (S Cents) | 3.1   | 1.5   | 1.5   | 1.9   |
| Div Yield, %  | 3.7%  | 3.6%  | 4.1%  | 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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**Maintained ACCUMULATE and TP of S\$0.42, based on unchanged FY18e EPS of 1.82 SCents and forward PER of 23.2x.** We like the company as it has consistently gain traction in O&G market, a testament to the underlying strength of its core businesses. Meanwhile, the Group has been actively seeking new recruits of medical practitioners to expand its four growth pillars. Management targets to add 2-3 new specialists, to its O&G, Dermatology and/or Paediatrics segments, by FY18e. We are cognizant of the margin pressures arising from the latent period of the new doctors. The Group has a clean balance sheet with zero debt and a cash position of S\$19.98mn (c.11% of its market cap).

#### 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.
- Expansion into other complementary medical services.

#### Other Updates

##### Providing an alternative treatment for uterine fibroid patients

- HIFU (High Intensity Focused Ultrasound) treatment is a non-surgical procedure to treat uterine fibroid, using focused ultrasound energy. It can also be used to treat liver tumour. Major expected benefits of HIFU treatment include low complication rate, non-invasive treatment thus faster recovery rate, and non-ionized radiation.
- Lack of competitions in the Singapore and neighbouring markets.
  - (a) Management shared that the machine manufactured by Chongqing Haifu Technology Co., Ltd. is one of the most effective HIFU machine available. Currently, only China, South Korea and Myanmar are providing HIFU treatment via this machine.
  - (b) Farrer Park Hospital is expected to bring in this machine in coming months. With the introduction of this machine into Singapore, the Group believes that it could also attract foreign patients from the region.
  - (c) Only 4 gynaecologists in Singapore who have underwent training to operate the machine, and 3 are from SOG, namely Dr. Lee Keen Whye, Dr. Beh Suan Tiong, and Dr. Hong Sze Ching.

##### Collaboration with SATA CommHealth

- SOG will provide on-site medical services to SATA CommHealth with 50% profit sharing for an initial term of 12 months.
- Dr. Hong Sze Ching will take lead to initiate the collaboration in the SATA Woodlands medical centre on 24 May-18.
- While we do not expect a significant revenue generated from this collaboration, it allows the Group to expand its potential patient pool in the heartland areas.

*SATA is an award winning social enterprise cum voluntary welfare organization and it serves the public with a comprehensive range of health screening and general practitioner services at its medical centres.*

##### S\$1.25mn non-recurring item to be booked in 2Q18

- Refer to the [announcement](#) dated 6 Mar-18, SOG will receive a settlement amount of S\$1.25mn for a settlement related to a dispute with its former Lead Independent Director, Mr. Christopher Chong Meng Tak.

##### New Chief Executive Officer on-board on 2 May-18

- Dr. Ivan Lau Eng Kien has over 20 years of experience in the healthcare industry.
- He has held several healthcare executive roles in the last 7 years, including the medical director at Parkway Shenton (Singapore) and the medical director at Jiahui Health (Shanghai).

## 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 |
|--------------------------|------|------|------|-------|-------|
| <b>ASSETS</b>            |      |      |      |       |       |
| 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

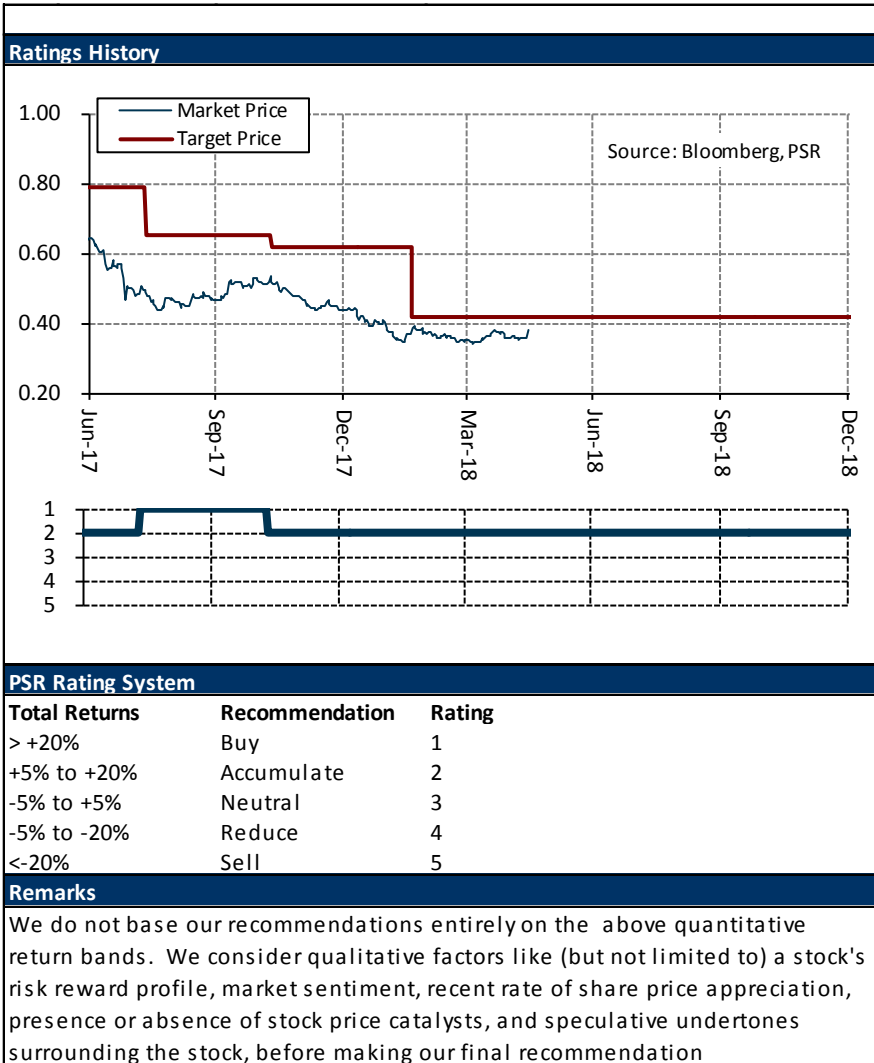
| Y/E Dec             | FY15 | FY16 | FY17 | FY18e | FY19e |
|---------------------|------|------|------|-------|-------|
| P/E (X), adj.       | 27.1 | 32.2 | 23.3 | 20.9  | 17.3  |
| P/B (X)             | 6.0  | 6.8  | 4.6  | 4.0   | 3.9   |
| EV/EBITDA (X), adj. | 25.1 | 26.6 | 19.1 | 16.5  | 13.8  |
| Dividend Yield (%)  | 0.8% | 3.7% | 3.6% | 4.1%  | 4.9%  |

### Growth & Margins (%)

|                   |       |       |       |       |       |
|-------------------|-------|-------|-------|-------|-------|
| <b>Growth</b>     |       |       |       |       |       |
| 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% |
| <b>Margins</b>    |       |       |       |       |       |
| 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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