

Clearbridge Health Limited

Ramping up



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SINGAPORE | HEALTHCARE | 1Q19 RESULTS

30 May 2019

- 1Q19 revenue/PATMI made up 7.4%/0.3% of our full-year estimates.
- Healthcare system revenue surged 892% YoY to S\$1.3mn.
- Medical clinics and centres revenue grew 267% YoY to S\$0.9mn.
- We expect higher revenue contribution from the new acquisitions and business expansions to kick in from 2Q19 onwards to reach our FY19e earnings estimates.
- Maintain Buy with an unchanged TP of S\$0.28.**

Results at a glance

SGD '000	1Q19	1Q18	YoY (%)	4Q18	QoQ(%)	Comments
Healthcare system (laboratory + renal care)	1.3	0.1	892%	1.4	-6.2%	Acquisition of PT TMJ post 1Q18. Number of renal care centres rose to 37 from 15 centres a year ago.
Medical clinics/centres (SG, HK, PH, MY)	0.9	0.2	267%	0.9	5.5%	Expansion of clinic operations in HK, MY and PH. Acquisition of MSLC post 1Q18.
Revenue	2.2	0.4	487%	2.3	-1.6%	
Gross profit	1.0	0.2	339%	0.9	3.6%	Gross profit margin fell to 43.5% from 58.1% in 1Q18.
EBITDA	(0.9)	(1.9)	nm	(3.1)	nm	
Net income, reported	0.0	(1.5)	nm	(2.2)	nm	
Net income, adjusted	(1.4)	(2.0)	nm	(3.5)	nm	Excludes non-recurring opex and FV gains/losses.

Source: Company, PSR

The Positives

- Healthcare system (TMJ + Marzan + Laboratory) revenue surged 9x YoY to S\$1.3mn.** The growth was due to the acquisition of PT Tirta Medika Jaya (TMJ) located in Indonesia, in April 2018. The number of TMJ's renal care centres that are under contract with hospitals in Indonesia increased by 22 YoY to 37 contracts currently. The key feature of renal care is its recurrent revenue stream (dialysis is a lifetime treatment). From the 37 contracts, revenue was from 23 operational hospitals, with the remainder under renovation. We expect TMJ's revenue growth to pick up in the following quarters as renal care volume increases and more hospitals complete their renovations.
- Medical clinics and centres revenue grew 267% YoY to S\$0.9mn.** The growth was due to the Group's expansion of medical clinics and centres in Hong Kong, Malaysia and the Philippines, coupled with revenue contribution from Medic Laser and Surgical Private Limited (MSLC) acquired in April 2018.

The Negatives

- Temporary disruption to business in Clearbridge Medical Philippines (Marzan)** due to renovations and delay of receivables from the Department of Social Welfare and Development (DSWD). Renovations at Marzan commenced around 4Q18, resulting in a disruption to business in 1Q19. However, renovations were completed in February 2019 and revenue should recover in 2Q19. Pharmacy sales fell due to a delay in medical subsidy claim receivables from DSWD, caused by a migration of government systems.
- Margins to remain under pressure.** Gross profit margin fell 14.6 p.p. YoY to 43.5% due to a 692.4% YoY increase in purchases, which rose in tandem with higher business activity as the Group expands. Purchases mainly comprised direct expenses incurred in processing specimens by in-house laboratory testing facilities or outsourced third-party clinical laboratories, as well as consumables and medicines used by medical clinics/centres.

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BUY (Maintained)

LAST CLOSE PRICE	SGD 0.149
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 0.280
TOTAL RETURN	87.9%

COMPANY DATA

BLOOMBERG CODE	CBH SP
O/S SHARES (MN)	489
MARKET CAP (USD mn / SGD mn)	52.8 / 72.9
52 - WK HI/LO (SGD)	0.44 / 0.14
3M Average Daily T/O (mn)	3.77

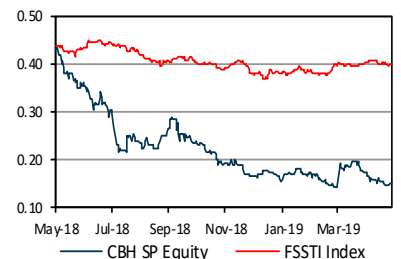
MAJOR SHAREHOLDERS (%)

Chen Johnson	15.8%
Vorobyev Maxim	8.1%
Chen Chung Ni	6.4%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(15.2)	(11.2)	(65.7)
STI RETURN	(4.3)	0.5	(6.4)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, (SGD '000)	FY17	FY18	FY19e	FY20e
Revenue	288	6,135	29,949	38,980
EBITDA	(3,876)	(7,461)	1,510	6,253
NPAT adj.	(801)	(8,610)	213	2,417
EPS adj. (\$\$ Cents)	(0.3)	(1.8)	0.0	0.5
P/E (X), adj.	-	n.m.	340.5	30.0
P/B (X)	-	1.5	1.5	1.4
Div Yield	0.0%	0.0%	0.0%	0.0%
ROE	-1.6%	-16.1%	0.4%	4.9%

Source: Company Data, PSR est.

VALUATION METHOD

DCF (WACC 8%, Terminal growth 3%)

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Investment Actions

Maintain BUY with an unchanged TP of S\$0.28. We believe the two primary growth drivers for CBH is the healthy underlying demand for healthcare services in the three key countries that it is operating in – Indonesia, Philippines, Singapore, and its aggressive M&A in various EBITDA accretive businesses.

Despite this quarter's miss in earnings forecast, we expect higher revenue contribution from the following acquisitions and business expansions to kick in from 2Q19 onwards to reach our FY19e earnings estimates.

The growth drivers:

- i. Recovery of patient volume from Marzan
- ii. Increased renal care patient volume in TMJ as more hospitals become operational
- iii. New IGM acquisition in Indonesia
- iv. Nine newly acquired dental clinics in Singapore
- v. Expansion of Hong Kong clinic
- vi. New Paediatric clinic in Malaysia

Valuation

We used DCF valuation to fully capture CBH impressive growth over the next five years.

Description	Value
Firm value (SG\$ m)	190
Adjust for: Net cash/(debt), SG\$ m	3
Adjust for: Minority interest	(72)
Adjust for: Biolidics	18
Equity value (S\$ m)	138
Number of shares (m)	489
Fair value (S\$/share)	0.280

Cost of equity = 10%; WACC = 8%; terminal growth rate = 3%

For more details on CBH's business strategy, please refer to our [Initiation Report](#) dated 1 April 2019.

Updates

Healthcare system

1. Marzan – Medical centre and pharmacy business in the Philippines (acquired in January 2018). Marzan's pharmacy is registered under DSWD to provide drugs at a subsidised rate to patients. Marzan's revenue may also receive a boost, pending the approval for accreditation by the Department of Health as an approved Overseas Foreign Worker screening facility and other major Health Management Organisations for private corporate clients. Hence, we believe Marzan's revenue should recover in 2Q19 (due to renovation completion) and pick up pace in 3Q19 (rise in pharmacy sales and accreditation approval).

2. PT Tirta Medika Jaya (TMJ) – Renal care facilities (acquired in April 2018) located in Indonesia that offers renal care services through joint operations with equipment manufacturers and hospitals in Indonesia. The number of renal care centres under contract with the Group increased from 15 at acquisition to 37 in 1Q19. Out of the 37 centres, 23 is operational and 14 others are currently under renovation. The average utilisation rate of the renal care facilities was around 70%. Each patient requires dialysis around three times a week, 4 hours each treatment. The Group incurs CAPEX of S\$60-80k to fit out each renal care centre. The Group currently focuses on ramping up occupancy instead of acquiring more contracts.

3. PT Indo Genesis Medika ("IGM" labs) – Provides laboratory services and located in Indonesia (acquired in May 2019). IGM operates laboratories with collaborating public hospitals in Indonesia under Joint Operation (JO) contracts. Currently has 13 clinical laboratories, out of which, three is pending contracts for novation. We expect revenue contribution from the ten operating JOs to kick in around 3Q19-4Q19. With an estimated 2,500 hospitals in Indonesia, only 16 are class A, and CBH has a JO with 6 class A hospitals in the most affluent locations.

Medical clinics/ centres

1. Clearbridge Medical, Hong Kong – Single medical clinic in Hong Kong, which achieved rapid patient volume growth in FY18 of > 350 patients per month. Patients are mainly from China seeking health screening and vaccinations. CBH expanded collaborations with new local and Chinese agents to introduce more medical tourists from China. Renovation of the new clinic (that is double the size of the current clinic) has been completed in 2Q19 and will be able to cater to more patients. We expect higher volume from the larger clinic to boost revenue in 3Q19. The newly renovated clinic is located in the same building as the existing clinic.

2. Clearbridge Medica, Malaysia – New Paediatric clinic received MOH license and opened in March 2019. It is located in a new township with affluent middle-class young families. Revenue contribution should kick in from 2Q19 onwards. CBH also has 12 GP clinics in Klang Valley, KL. Out of which, six branches will aid in marketing CBH's hereditary cancer gene tests.

3. Dental Focus, Singapore – The Group agreed to acquire nine dental clinics in Singapore under the brand name "Dental Focus". The acquisition is in line with the Group's EBITDA-focused business strategy and increases its network of primary healthcare touchpoints. The clinics are profitable and the acquisition is expected to have a positive impact on the Group's financial performance for FY19. Consideration for the acquisition is approximately S\$3.3 million and likely to be funded by bank borrowings.

Financials

Income Statement

Y/E Dec, SGD '000	FY16	FY17	FY18	FY19e	FY20e
Revenue	123	288	6,135	29,949	38,980
Purchases	(3)	(241)	(3,250)	(8,985)	(11,694)
Gross profits	120	47	2,885	20,964	27,286
Operating expenses	(7,245)	(8,374)	(13,701)	(20,227)	(22,877)
EBITDA	(7,020)	(3,876)	(7,461)	1,510	6,253
Depreciation & Amortisation	(105)	(111)	(1,099)	(773)	(1,844)
EBIT	(7,125)	(8,327)	(10,816)	737	4,409
Fair value gains/(losses)	5,109	(2,329)	(7,582)	-	-
Finance costs	(193)	(250)	(329)	(433)	(964)
Profit/(loss) before tax	(2,209)	(10,906)	(18,727)	304	3,444
Income tax credit/(expense)	(735)	2,981	(158)	1	8
Profit/(loss) after tax	(2,944)	(7,925)	(18,885)	304	3,452
Minority interest	(993)	(455)	(437)	91	1,036
Net Income, reported	(1,951)	(7,470)	(18,448)	213	2,417
Net Income, adj	(7,060)	(801)	(8,610)	213	2,417

Per share data

Y/E Dec, SG cents	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	(0.9)	(2.5)	(3.9)	0.1	0.7
EPS, adj.	(3.4)	(0.3)	(1.8)	0.0	0.5
DPS	0.0	0.0	0.0	0.0	0.0
BVPS	8.0	12.7	9.7	9.8	10.3

Cash Flows

Y/E Dec, SGD '000	FY16	FY17	FY18	FY19e	FY20e
CFO					
PBT	(2,209)	(10,906)	(18,727)	304	3,444
Adjustments	(4,382)	4,211	10,257	(31)	1,204
WC changes	839	(79)	(2,077)	4,839	1,902
Cash flows used in ops	(5,752)	(6,774)	(10,547)	5,111	6,550
Taxes paid, others	-	-	-	-	-
Cash flows used in ops	(5,752)	(6,774)	(10,547)	5,111	6,550
CFI					
CAPEX, net	(208)	(2,573)	(1,607)	(2,995)	(1,949)
Net acquisition of subsidiaries	(2,982)	10,635	(8,323)	(4,000)	-
Others	-	-	-	-	-
Cash flows from investing	(3,190)	8,062	(9,930)	(6,995)	(1,949)
CFE					
Proceeds from issuance of shares	-	24,640	-	-	-
Loans, net of repayments	500	1,637	943	10,884	(551)
Dividends	-	-	-	-	-
Others	10,089	(4,190)	(235)	-	-
Cash flows from financing	10,589	22,087	708	10,884	(551)
Net change in cash	1,645	23,383	(19,755)	10,863	5,756
Effects of exchange rate changes	(32)	49	(215)	(215)	(215)
Restricted deposits	-	-	235	235	235
CCE, end	4,308	27,740	8,005	14,933	16,773

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD '000	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
Investment in associates	28,174	15,051	13,230	13,230	13,230
PPE	48	2,597	6,625	8,957	10,011
ROU	-	-	-	743	885
Intangible assets	95	106	266	4,478	3,874
Goodwill on consolidation	-	11,002	22,296	22,296	22,296
Others	13,449	7,391	5,648	1,648	1,648
Non-current assets	41,766	36,147	48,065	51,352	51,944
Cash and bank balances	4,308	27,740	8,005	14,933	16,773
Trade receivables	25	71	2,050	4,923	6,408
Others	572	4,835	4,642	5,214	5,190
Current assets	4,905	32,646	14,697	25,069	28,371
Total assets	46,671	68,793	62,762	76,422	80,315
LIABILITIES					
Borrowings	-	9	470	470	470
Trade payables	69	183	1,007	2,401	2,841
Other payables	4,225	5,540	7,072	7,072	7,072
Others	-	-	669	854	854
Current liabilities	4,294	5,732	9,218	10,797	11,237
Borrowings	-	1,632	2,419	13,303	13,303
Others	4,748	1,786	3,595	4,487	4,487
Non-current liabilities	4,748	3,418	6,014	17,790	17,790
EQUITY					
Share capital	28,495	73,897	77,670	77,670	77,670
(Acc loss)/RE	6,245	(10,858)	(30,041)	(29,828)	(27,411)
Others	2,889	(3,396)	(99)	(8)	1,028
Total equity	37,629	59,643	47,530	47,834	51,287

Valuation Ratios

Y/E Dec,	FY16	FY17	FY18	FY19e	FY20e
P/E (X), adj.			n.m.	340.5	30.0
P/B (X)			1.5	1.5	1.4
EV/EBITDA (X)			0.7	-0.7	0.0
Dividend Yield			0.0%	0.0%	0.0%

Growth & Margins

	FY16	FY17	FY18	FY19e	FY20e
Growth					
Revenue	134.1%	2030.2%	388.2%	30.2%	
EBITDA	-44.8%	92.5%	-120.2%	314.2%	
EBIT	16.9%	29.9%	-106.8%	498.1%	
Net Income, adj.	-88.7%	974.9%	-102.5%	1033.8%	
Margins					
EBITDA margin	-5707.3%	-1345.8%	-121.6%	5.0%	16.0%
EBIT margin	-5792.7%	-2891.3%	-176.3%	2.5%	11.3%
Net Profit Margin	-5739.8%	-278.1%	-140.3%	0.7%	6.2%

Key Ratios

	FY16	FY17	FY18	FY19e	FY20e
ROE		-2%	-16.1%	0.4%	4.9%
ROA		-1.4%	-13.1%	0.3%	3.1%
Interest coverage (X)	(67.9)	(75.0)	(9.8)	1.0	2.4
Net gearing (X)	Net cash	0.0	Net cash	Net cash	Net cash



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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