

Clearbridge Health Ltd

Rolling up profits centres in healthcare



SINGAPORE | HEALTHCARE | INITIATION

- Penetrating high-growth in Indonesian and Phillipine healthcare markets
- Acquires asset-light healthcare franchises that yield recurrent revenues and revitalised through expansion in capacity, network and capabilities
- Initiate with a BUY recommendation and target price of S\$0.28. We used a DCF valuation to capture the full benefits of CBH's impressive growth trajectory over the next five years.

Company Background

Clearbridge Health (CBH) began in 2010 with a focus on the medical technology industry. It made its first investment in Biolidics in 2011, listed on the Catalist in December 2018. It then co-founded Sam Lab in 2011. In 2017, CBH acquired Clearbridge Medical Group that owned two medical clinics. CBH listed on December 2017 at S\$0.28 a share. 2018 was a watershed year as CBH expanded into high growth markets of Indonesia, by acquiring a renal dialysis operator, and the Philippines, by acquiring a large medical facility. There is a further proposal to acquire 12 clinical diagnostic laboratories in Indonesia.

With only two clinics during listing, CBH has expanded into a well-diversified portfolio of asset-light healthcare businesses. The focus is on healthcare segments with the fastest growth and to create an eco-system of businesses that can support each other and serve the complete lifecycle needs of a patient. We can essentially split CBH's businesses into three key segments:

- Healthcare services and medical centres: Two medical clinics in Singapore and Hong Kong, one aesthetic facility in Singapore and one medical centre in the Philippines.
- Healthcare systems: (a) Pathology laboratories in Singapore and the Philippines. With a proposed 12 laboratories in Indonesia pending; (b) 34 renal care centres in Indonesia.
- Strategic investments: 24.8% stake (with another 10.67% option) in liquid biopsy equipment and consumables developer and producer, Biolidics.

Investment Thesis

Penetrating high-growth healthcare markets in Indonesia and the Philippines. CBH has entered the fast-growing healthcare markets in Indonesia and the Philippines through two acquisitions. Both countries rank among the lowest in Asia in terms of the number of hospital beds and health professionals per capita. Healthcare spending in both countries has been growing at around 9 - 10% p.a.

Creating a recurrent revenue stream in healthcare. A key feature of its new Indonesian business is recurring revenue. Renal dialysis is a lifetime treatment, and CBH expanded from 15 hospitals at acquisition to 21 currently and another 13 under renovation.

Targeting and revitalising profitable segments. CBH acquires asset-light, fast-growing healthcare segments. After the acquisition, CBH grows the businesses through expansion in capacity, network and capabilities.

Initiate coverage with a BUY and TP of S\$0.28. Initiate with a BUY recommendation and target price of S\$0.28. We used DCF valuation to capture the full benefit of CBH impressive growth over the next five years.

The report is produced by Phillip Securities Research under the 'SGX StockFacts Research Programme' (administered by SGX) and has received monetary compensation for the production of the report from the entity.

1 April 2019

BUY (Initiation)

LAST CLOSE PRICE	SGD 0.142
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 0.280
TOTAL RETURN	97.2%

COMPANY DATA

BLOOMBERG CODE	CBH SP
O/S SHARES (MN)	489
MARKET CAP (USD mn / SGD mn)	53.9 / 72.9
52 - WK HI/LO (SGD)	0.58 / 0.14
3M Average Daily T/O (mn)	0.49

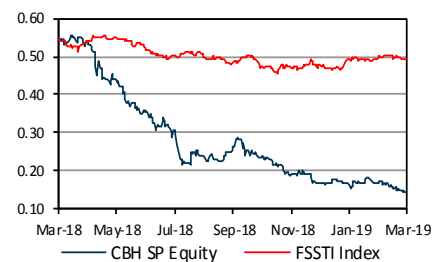
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(10.8)	(10.8)	(72.7)
STI RETURN	(1.6)	6.7	(2.7)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY17	FY18	FY19e	FY20e
Revenue (SGD mn)	288	6,135	29,949	38,980
EBITDA (SGD mn)	(3,876)	(7,461)	1510	6,253
NPAT adj. (SGD mn)	(801)	(8,610)	415	2,454
EPS adj. (Cents)	(0.3)	(18)	0.1	0.5
PER adj. (x)	-	n.m.	166.6	28.2
P/BV (x)	-	17	14	14
Div Yield	0.0%	0.0%	0.0%	0.0%
ROE	0.9%	4.9%	7.0%	8.6%

Source: Company Data, PSR est.

VALUATION METHOD

DCF (WACC 8%, Terminal growth 3%)

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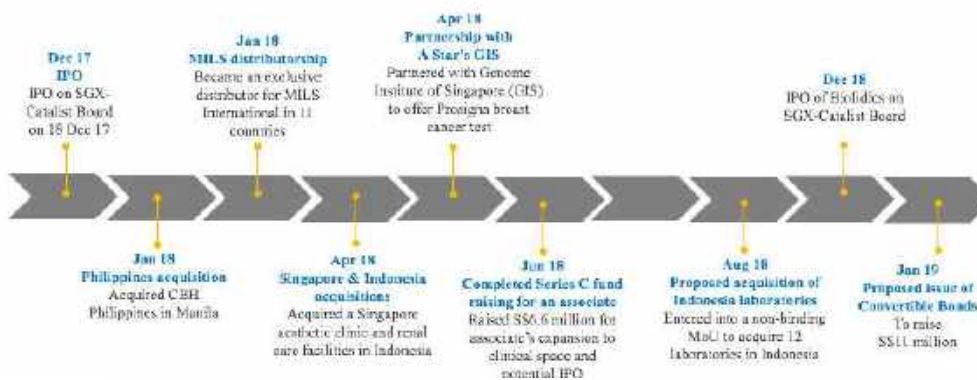
HISTORY

Clearbridge Health (CBH) began in 2010 with a focus on the medical technology industry. It made its first investment in Biolidics in 2011, listed on the Catalist in December 2018. It then co-founded Sam Lab in 2011. In 2017, CBH acquired Clearbridge Medical Group that owned two medical clinics. CBH listed on December 2017 at S\$0.28 a share. 2018 was a watershed year as CBH expanded into high growth markets of Indonesia, by acquiring a renal dialysis operator, and the Philippines, by acquiring a large medical facility. There is a further proposal to acquire 12 clinical diagnostic laboratories in Indonesia.

With only two clinics during listing, CBH has expanded into a well-diversified portfolio of asset-light healthcare businesses. The focus is on healthcare segments with the fastest growth and creates an ecosystem of businesses that can support each other and serve the complete lifecycle needs of a patient. We can essentially split its business into three key segments:

- Healthcare services and medical centres:** Two medical clinics in Singapore and Hong Kong, one aesthetic facility in Singapore and one medical centre in the Philippines.
- Healthcare systems:** (a) Pathology laboratories in Singapore and the Philippines. With a proposed 12 laboratories in Indonesia pending; (b) 34 renal care centres in Indonesia.
- Strategic investments:** (a) 24.8% stake (with another 10.67% option) in liquid biopsy equipment and consumables developer and producer, Biolidics; (b) Clearbridge Biophotonics (CBBP), a subsidiary in the research of an algorithm powered microscopy technology. It is a leap in imaging technology and enables several medical applications (CBH has a stake of 47.83% with an option to buy 26.85% from an existing shareholder).

Figure 1: CBH key milestones



Source: CBH

Figure 2: Details of all acquisitions

Company	Country	Stake	Acquisition Date	Price (\$\$mn)	Consideration
Medic Laser & Surgical Pte. Ltd	Singapore	85%	Jan18	5.5	Cash and shares
Clearbridge Medical Philippines	Philippines	65%	Jan18	1.9	Cash
Tirta Medika Jaya	Indonesia	55%	Apr18	5.5	Cash
Indo Genesis Medika	Indonesia	75%	Aug18	3.8	Cash

(Proposed)

Source: CBH, PSR

INDONESIA

CBH entered Indonesia through the acquisition of Tirta Medika Jaya (TMJ) in April 2018. The attractiveness of TMJ includes the recurrent nature of its revenue, high growth and low capex intensity.

1. Recurrent revenue: Patients are required to undertake kidney dialysis around three times per week.
2. High growth: TMJ currently manages the kidney dialysis facility in 21 hospitals under a joint operations agreement. TMJ has contracts to service up to 34 hospitals. The number of renal devices will more than double from 267 to 626. Indonesia presents a huge opportunity with at least 2,770 hospitals in the country.
3. Low capital intensity: Capex for TMJ consist of renovations after taking over the facilities. Equipment is provided by suppliers that are seeking to sell consumables attached to the equipment.

Tirta Medika Jaya (55% stake)

- Description:** Renal dialysis centre for 21 hospitals in Indonesia and each hospital can accommodate 10-20 dialysis machines.
- Revenue:** A fixed fee is charged and able to accommodate 3 to 4 treatments or patients per day per machine. Each treatment is 4 hours. There are generally two revenue models: a) a 70:30 revenue share with the hospital and TMJ purchases the consumable; b) Sell consumables to the hospitals at a mark-up.
- Cost:** The cost for running the business include employee expense (1 admin each facility), consumables costs (which are imported from machine provider) and initial fitting and renovation costs. Medical staff in the facility are provided from the hospital.
- Cash-flow:** Initial renovation cost is S\$60,000 to S\$80,000 per hospital.

Kidney Disease in Indonesia

End-stage renal disease (ESRD) is also known as kidney failure. The most common cause of ESRD is diabetes, followed by high blood pressure and hypertension. There is currently no cure for ESRD. Treatment options are either dialysis or kidney transplant.

Once the kidneys fail (defined as both kidneys functioning at only 15%), the body will be unable to process toxins and waste. Consequently, the body will be filled with excess toxins, a condition called uremia. Dialysis is an artificial process for removing waste and excess water from the blood.

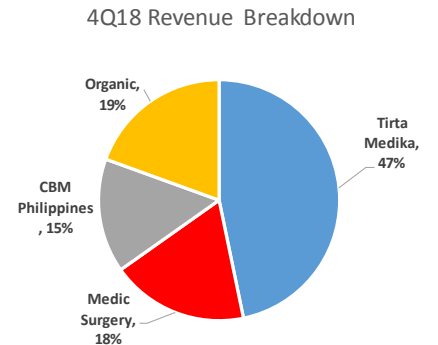
According to the Indonesia Nephrology Association (PERNEFRI), 25mn Indonesians have developed chronic kidney disease, with 200,000 suffering from ESRD. Hemodialysis treatment ranks the second-largest claim covered by the Healthcare and Social Security Agency (BPJS), having already cost 7% of the agency's total spending, or Rp2.68tr (US\$195mn).

There are currently two methods of dialysis.

- Hemodialysis:** therapy conducted at a hospital or dialysis centre three times a week.
- Peritoneal dialysis (PD):** uses the peritoneal membrane of the abdomen as a filter to remove toxins from the blood. A type of treatment that can be done at home.

<https://www.thejakartapost.com/life/2017/09/27/living-with-kidney-failure.html>

Figure 3: Tirta Medika and Medic Laser were the major revenue contributors



Source: CBH, PSR

Figure 4: Revamped dialysis facility



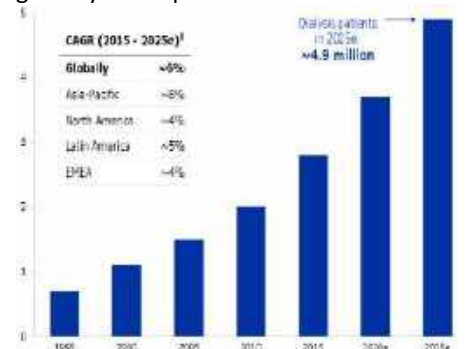
Source: CBH

Figure 5: Dialysis treatment equipment



Source: CBH

Figure 6 : Dialysis patients is rising globally at 6% p.a.



Source: Fresenius Feb2019

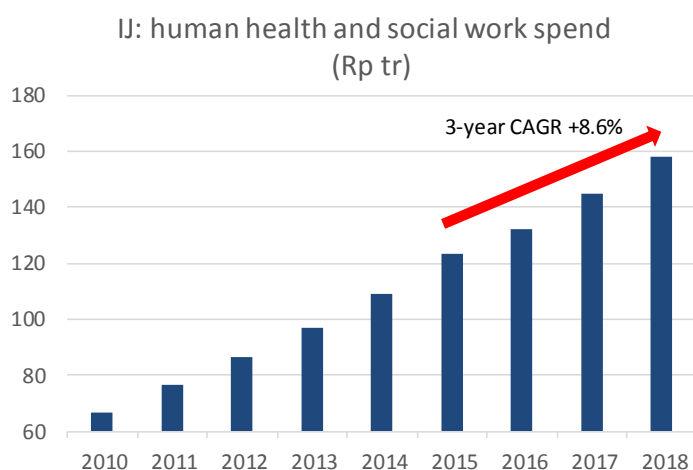
In August 2018, CBH entered into a non-binding memorandum of understanding to acquire 12 clinical laboratories operated by Indo Genesis Medika (IGM) in Indonesia.

Indo Genesis Medika (75% stake)

- a) **Description:** Twelve joint operation contracts to operate diagnostic laboratories in public hospitals in Indonesia. As the lab resides inside the hospital, it will enjoy captive patient pool from the hospital. Patients can be fully reimbursed under the Indonesia BPJS national health scheme. It serves six grade-A referral hospitals* in Indonesia. There are only sixteen such grade-A referral hospitals in the country.
* referral hospitals mean that these grade A hospitals are referred patients from other lower grade hospitals as grade A hospitals generally have better equipment and medical resources.
- b) **Revenue:** Revenue sharing with the hospital. Equipment suppliers will provide the machines.
- c) **Cost:** Enjoyed EBITDA of S\$3.8mn in 2017.
- d) **Cash-flow:** 49% stake for S\$2.5mn and S\$1.3mn for 26% stake via exchangeable bond. In addition, CBH will be extending an interest-bearing loan of up to S\$9.5mn for working capital and operational requirements.

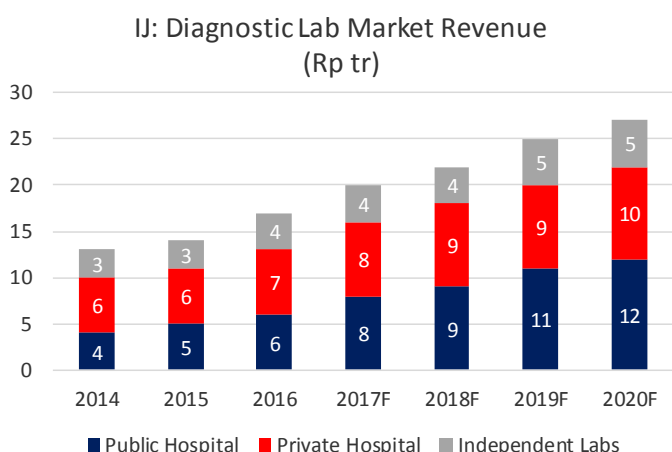
Clinical laboratory testing is the use of specimens to ascertain the health of the patient. It can be generally categorized as (i) Routine tests: Fast turnaround test on the function of organs such as kidney, liver, heart, thyroid, blood, etc. The test may be for HIV, allergy, glucose, cholesterol and various substances; (ii) Esoteric test: A more specialised and higher priced test done on the tissue or cell for cancer and other diseases, such as tissue and liquid biopsy. Or testing of biological markers in hormones, protein and genes. Hospitals may conduct routine test and more esoteric or specialised test undertaken by private labs.

Figure 7: Healthcare spending rising almost 9% p.a. in Indonesia



Source: CEIC, PSR

Figure 8: Diagnostic lab market in Indonesia to grow 12% CAGR (2016 to 2020e)



Public: public hospital laboratories, public independent laboratories and Puskesmas clinics. Puskesmas is the government primary health clinics.

Source: IMS Health Analysis (2017), Prodia Widyahusada (Nov18), PSR

PHILIPPINES

CBH entered the Philippines healthcare sector in 2018 with the acquisition of Marzan Health in January 2018 (renamed Clearbridge Medical Philippines). Since taking over, CBH renovated the facility, introduced more medical services and opened three additional branches.

According to the Philippines statistics authority (Figure 14), total healthcare expenditure (excluding fixed capital formation) in the country grew around CAGR 9.5% p.a. over the past three years to US\$13bn in 2017. A surge in government spending has been supporting growth as well. As Figure 15 suggests, the government budget for healthcare has been rising at 26% p.a. over the past five years.

Healthcare spending in the Philippines is expected to grow at a much faster pace with the introduction of universal health insurance. In February, the Universal Health Care Act was signed into law. The act is a US\$4bn (P217bn) funded automatic enrollment of all citizens into the National Health Insurance Programme (NHIP) administered by PhilHealth. It is an expansion of the existing PhilHealth insurance where only 2 out of 3 Philippine citizens received coverage. Coverage will also be widened from not just hospitalization but preventive healthcare services. It will be funded by taxes on tobacco and alcohol.

Clearbridge Medical Philippines (65% stake)

- Description:** A four-storey multi-speciality clinic facility in Quezon City (formerly known as Marzan Health Care Diagnostic Centre). There are no inpatient beds but some recovery rooms in this facility. It is a convenient facility for all major primary care needs.
- Since taking over the facility, CBH has undertaken a major renovation in early 4Q18 which was completed in February 2019. New services, such as seven specialist outpatient clinics which were accredited by the Department of Health as an approved overseas foreign worker screening and medical facility, have been added. Another initiative in the Philippines will be the setting up of three ClearSkin skincare and aesthetic centres (wholly owned by CBH) which includes a centre inside a hospital located in Lapu-Lapu City, Cebu.
- Revenue:** Revenue comes from drug sales, dental care, renal dialysis and diagnostics. A large component of sales come from the pharmacy because it received approval to sell drugs that will be subsidised by the government (or Department of Social Health).
- Cost:** Depreciation, staff, wages and drug cost. The land is leased for 30 years.
- Cash-flow:** Acquired for S\$1.86mn.

Listed exposure to healthcare in the Philippines:

- Ayala Corp: 100% subsidiary AC Health that was established in 2015 to focus on healthcare services. It runs the Generika drugstore chain (acquired in Jul 2015). The chain runs 816 retail pharmacy stores and plans to expand this to 1,000 by 2020. AC Health also operates 55 primary care clinics called FamilyDOC, with plans to expand to 100.
- Metro Pacific: owns 60% subsidiary called Metro Pacific Hospital Holdings Inc. It operates 14 hospitals with 3200 beds. The target is to expand to 5,000 beds.
- Philab Holdings: provider of life science equipment and services to healthcare, pharmaceutical, education and research industries

Figure 9: The 4-storey medical centre



Source: CBH

Figure 10: Renovated interior



Source: CBH

Figure 11: A patient waiting floor



Source: CBH

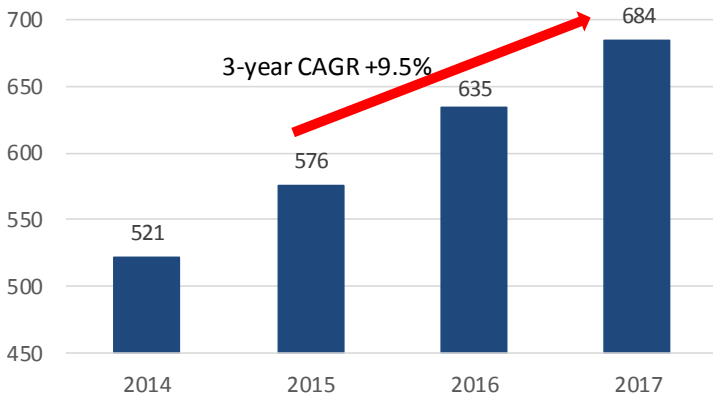
Figure 12: Facility is in Quezon City



Source: CBH

Figure 14: Healthcare spending grew at almost 10% p.a. in the Philippines

PH: Total health expenditure
(Peso bn)



Source: Philippine Statistics Authority (psa.gov.ph), PSR

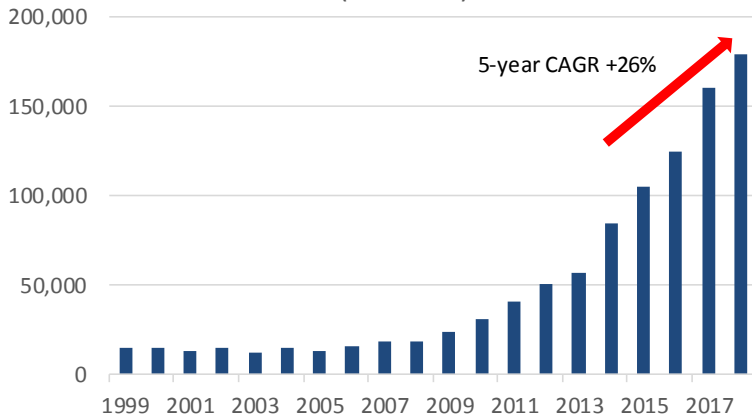
Figure 13: One branch inside a hospital in Lapulapu City, City



Source: CBH

Figure 15: Government spending will surge further with Universal Healthcare

PH: Government Spending on Health
(Peso mn)



Source: Department of Budget and Management, CEIC, PSR

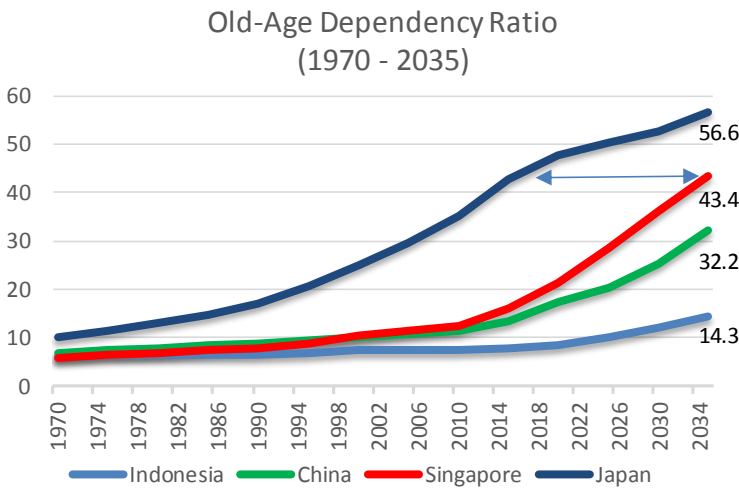
SINGAPORE

CBH has a strategy to cater to the growing needs of a consumer's health care in Singapore with various medical touchpoints along the treatment journey. It owns a medical clinic, aesthetic and clinical laboratory in Singapore. This suite of services can cater to the general, lifestyle and chronic care lifecycle of a patient. The spending on healthcare in Singapore continues to escalate but competition will be intense especially from the public sector. For instance, government expenditure on health has more than doubled from S\$3.9bn in 2010 to S\$9.3bn in 2016. The government has built seven hospitals since 2010.

Demand for healthcare in Singapore will continue to expand as the nation faces the trifecta challenge in healthcare.

- a. Ageing population (Figure 14): By 2030 and 2035, the old-age dependency ratio for Singapore will reach 36 and 43 respectively. This will be similar to Japan in 2010 and 2015. The old-age dependency ratio is the number of those aged above 65 years (defined as old age) as a share of the working age (15 to 64 years).

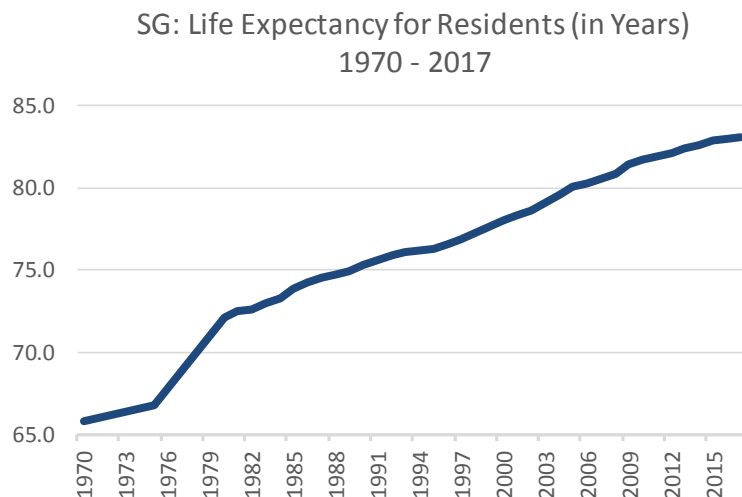
Figure 16: Singapore is ageing rapidly and similar to current Japan ratios by 2035



Source: UNDESA Forecast, PSR

- b. Longer life expectancy of the population (Figure 17): Since 1990, the life expectancy of the population has risen from 66 in 1970 to 83 in 2017. This is a rise of 17 years. However, for every ten years we live, more than one year is spent in illness.

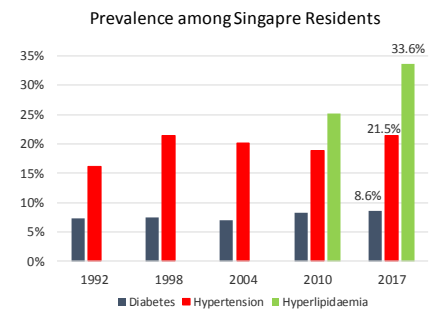
Figure 17: Singapore life expectancy rise 4+ years in every decade



Source: CEIC, PSR

c. Less healthy lifestyles: In a recent budget speech, the Minister of Health highlighted the rising prevalence of chronic illness due to ageing and unhealthy lifestyle. From 2010 to 2017, diabetes has increased 4%, hypertension up 14% and hyperlipidaemia jumped 33% (Figure 18).

Figure 18: Rise in lifestyle illness



Source: National population health survey 2017, 1992-2010 based on National Health Survey; Survey is on residents aged 18-69 years

Sam Laboratory (100% stake)

samlaboratory.com

- a) **Description:** Provides diagnostic test such as health screening, cancer diagnosis and biomarker diagnostics. Before Clearbridge increased its stake to 100%, Sam Lab was a subsidiary of the Singapore Institute of Advanced Medicine Holdings (SIAMH). Sam Lab is CAP accredited. CAP is considered the highest global accreditation for clinical laboratories. CAP accreditation helps in building brand credibility, especially when working with research centres.
- b) **Revenue:** Revenue comes routine or esoteric test. A major customer in Singapore is Asia Health Partners that requires blood, stool and urine analyses. Referrals from doctors are an important source of business. Cost per test can range between S\$300-900. Another source of revenue to become a principal for the esoteric test by providers such as CELLSEARCH® Circulating Tumor Cell Test, Prosigna® Breast Cancer Prognostic Signature Assay and MILS International diagnostics test. Sam Lab will have a sales team in various countries to educate the doctors on the merits of these esoteric test.
- c) **Cost:** Staff, rental and consumables.
- d) **Cash-flow:** Capital expenditure is minimal because some equipment rented can be paid via purchases of receivables. Relocation of Sam Lab from its current location in Lucky Plaza to CBH’s Mapex office unit in the second quarter of 2018 for S\$2mn in Nov17. The office is freehold and belongs to the company.

Figure 19: New premises for Sam Lab



Source: CBH

Medic Surgery and Laser Clinic (85% stake)

www.medicsurg.com

- a) **Description:** Began operations in November 2011 and owns one clinic in Tanjong Pagar. The medical services provided are general medical, surgical and aesthetics.
- b) **Revenue:** Revenue usually comes from aesthetic services sold through packages.
- c) **Cost:** Doctor, nurse, rental and medicine.
- d) **Cash-flow:** Certain packages enjoy prepayment features.

Figure 20: Clearbridge clinic in Tanjong Pagar

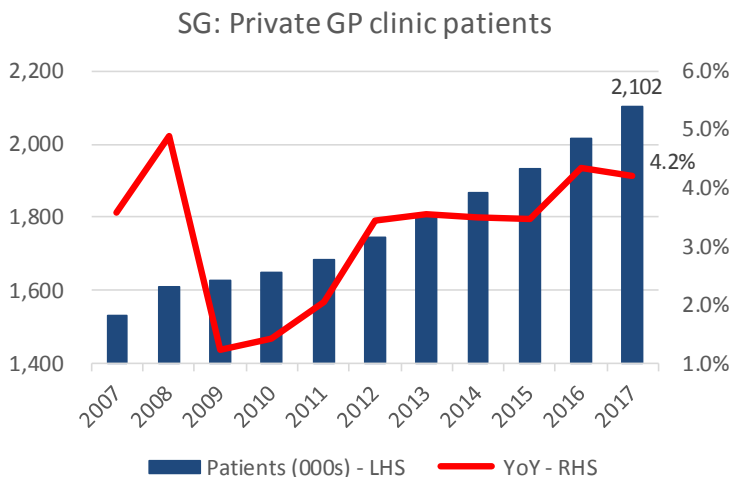


Source: CBH

Clearbridge Medical Group (100% stake)

- a) **Description:** Owns two medical clinics in Hong Kong and Singapore which commenced operations in July and August 2017 respectively.
- b) **Revenue:** Revenue comes from drug sales and services.
- c) **Location:** The Singapore clinic is located in Tanjong Pagar and the Hong Kong clinic in East Point Centre.

Figure 21: Still steady 4% growth in patients for private GP clinics



Source: CEIC, PSR

HONG KONG

www.clearbridgemedical.com.hk

A medical clinic that started in 2017. The target patients are medical tourists from China. The key driver to growth will be the co-operation with marketing agents in late 2018 to bring medical tourists to this clinic. Some of the services offered include health screening, vaccination and medical consultation. The clinic is also collaborating with insurance companies such as Prudential and Tai Ping. There are currently plans to expand the premises of this clinic.

There are over 3mn outbound Chinese health tourists per year. The most frequently travelled destinations for medical tourism include Hong Kong, Macau and Taiwan (using the latest total China Outbound Tourism Research Institute (COTRI) figures of 145mn in 2017). The report (as per link below) highlighted that both the number and percentage of Chinese health tourists are expected to rise in 2018.

<https://www.imtj.com/news/health-tourism-flows-and-out-china/>

Figure 22: Hong Kong clinic



Source: CBH

MALAYSIA

CBH expanded its presence into Malaysia with the opening of a paediatric cum family clinic in Kuala Lumpur. The commencement of the clinic is dependent on a pending license from the Ministry of Health. CBH will also work with several other GP clinics in KlangVallent to provide their Hereditary Cancer Gene Test.

Figure 23: New clinic in Desa Park, KL



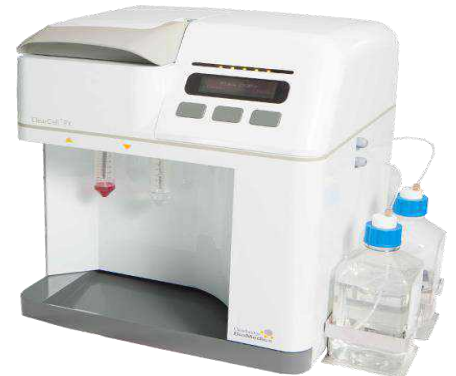
Source: CBH

STRATEGIC INVESTMENT

Biolidics Ltd (24.8% stake, with Jan2020 call option for SEEDS Capital 10.67% stake)

- Description:** Incorporated in 2009. Biolidics launched its medical device called the ClearCell® FX1 System in 2013. The device can separate live cancer cells from blood samples. Rather than taking a tissue biopsy of the cancerous tumour, liquid biopsy using blood is less invasive and expensive.
- Technology:** The core technology behind the separation is the use of Dean Flow Fractionation process. When blood flows through the CTChip® FR1 biochip consumable inside this device, different sized cells can be separated through fractionation via a Dean vortex. Cancer cells (or called circulating tumour cells - CTCs) that are relatively larger, are separated from other normal cells in the blood. This method can preserve the CTCs in their original state.
- Revenue:** Revenue in FY18 was S\$1.2mn. The key revenue generator is now the device but the consumables used (i.e. the biochip). Each test will require single-use biochip. There are around 80 ClearCell® FX1 System deployed globally.
- Opportunity:** We believe the significant revenue opportunity is available from three key milestones:
 - Collaboration with Sysmex. Sysmex is a US\$13bn market cap leader in haematology and coagulation instrumentation worldwide. It is a Japanese company. Biolidics can tap on Sysmex's immense distribution network to sell the FX1 system as part of a complete oncology test kit for clinical labs globally.
 - Lab-developed tests in China. In China, Biolidics is working with labs in Hunan and Hangzhou to gain such validation and thereafter to offer cancer diagnostic services (with these lab-developed tests) to patients. Professor Xie Tian is a shareholder and winner of the Wu Jieping Medical Innovation Award. He is considered a key opinion leader in the field of oncology in China.
 - China FDA Class 3 registration. The FX1 system currently has a Class 1 registration. A Class 3 registration will allow the product to be used nationwide.

Figure 24: ClearCell®FX1 System machine



Source: CBH

Figure 25: CTChip® FR1 biochip



Source: CBH

A leader in liquid biopsy is Nasdaq listed Guardant Health (GH). However, the model is different because blood samples need to be sent to Guardant labs in the U.S. to be tested. However, unlike GH, Biolidics' ClearCell® FX1 System is a fully automated and portable CE-IVD medical device. The device uses a label-free approach to enrich circulating tumour cells ("CTCs"), which helps to maintain the CTCs in their original state and preserve their viability for further use in diagnostic tests and downstream applications. The portability of ClearCell® FX1 System enables swift deployment and commercial scalability as compared to lab-based systems such as GH.

In addition, leveraging on its ClearCell® FX1 System, Biolidics is developing a range of laboratory developed tests for the cancer diagnostics market in China and Japan. Biolidics will be ideally positioned to increase the sales potential of its ClearCell® FX1 System and CTChip® FR1 biochips once these blood-based lab-developed tests are approved clinically.

Figure 26: Guardant share price has surged from \$19 at IPO to \$73.



Source: Bloomberg, PSR

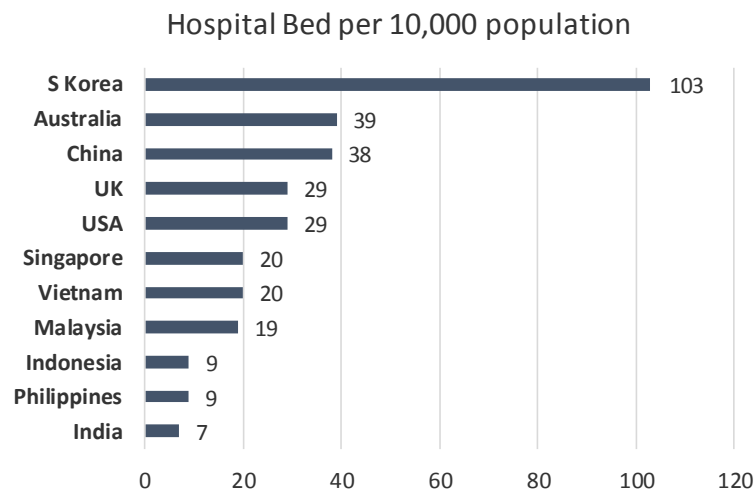
OUTLOOK – Macro Tailwind + Good execution

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 it's aggressive and strong execution to grow the various businesses acquired.

A) MULTI-YEAR MACRO TAILWIND

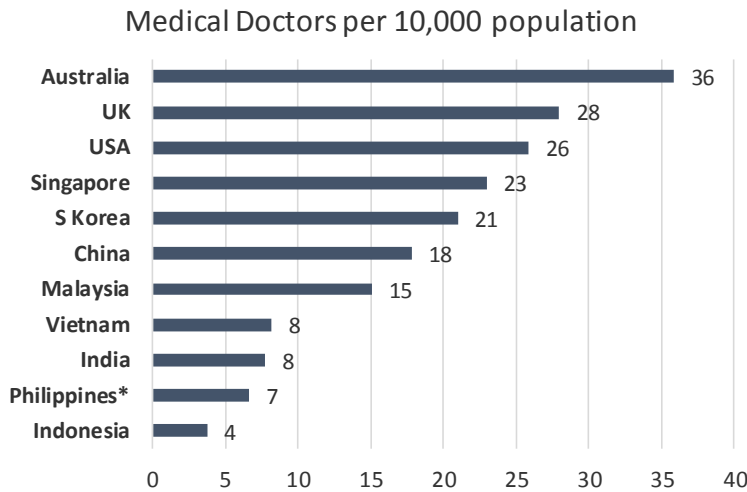
There is low penetration of healthcare in key markets – Indonesia and the Philippines. As Figure 27 and 28 suggest, the penetration of facilities or hospital beds and medical professionals are some of the lowest in the region.

Figure 27: Low penetration of medical facilities



Source: CEIC, Media, PSR, Siloam Hospitals

Figure 28: Lack of medical professionals



Source: CEIC, Media, PSR, Siloam Hospitals

* Philippines based on 70,000 active physicians out of 130,000 registered

In Singapore, the demand for healthcare is ever growing. Over the past three years, healthcare expenditure has been rising at almost 8% CAGR. As highlighted, there are three major drivers to the rise of healthcare demand in Singapore. Firstly, Singapore population is ageing fast (Figure 16). By 2035, our number of old age to working age will be similar to current levels in Japan. Secondly, Singaporean life expectancy is rising (Figure 17), and for every ten years extra we live, more than one year is spent in illness. Thirdly, less healthy lifestyles have seen the rise of chronic diseases such as diabetes, hypertension and hyperlipidaemia (Figure 18).

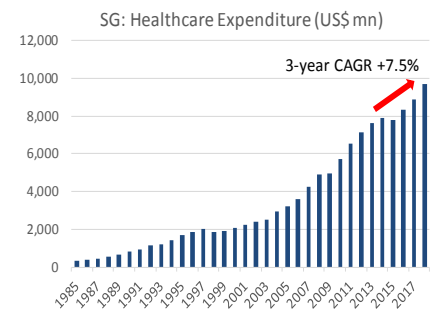
B) STRONG EXECUTION POST ACQUISITION

Secondly, after taking over the new acquisition, CBH has undertaken initiatives to expand the original business at a much faster pace.

- (i) **TMJ:** When acquired, it only operated renal dialysis in 15 hospitals. After taking control in April 2018, CBH has secured contracts to expand the network to 34 hospitals. All this was completed within 12 months.
- (ii) **Philippines:** After acquiring the four-storey medical centre, CBH undertook a renovation of the facility, introduced new services and expanded their footprint.
- (iii) **Hong Kong:** Refocus strategy to target medical tourist from China.
- (iv) **Indo Genesis Medika (Proposed):** Introduce more innovative clinical lab tests into Indonesia, attract more hospitals to tap on their facilities and support from Singapore on the more complex tests.

With the S\$11mn raised from convertible bonds, we expect more acquisition to be undertaken by CBH. Around 70% of the proceeds will be earmarked for expansion of the business plus merger and acquisitions. The convertible bonds bear an interest of 7% p.a. and repayable at 120% of principal by January 2022. Up to 39.28mn new shares can be issued upon full conversion. Worth noting that the accounting treatment of the convertible bond is to recognize the value of the embedded option at fair value in the income statement.

Figure 29: The rise and rise of healthcare expenditure in Singapore



Source: CEIC, PSR

INVESTMENT THESIS

Penetrating high-growth healthcare markets in Indonesia and the Philippines. CBH has entered the fast-growing healthcare markets in Indonesia and the Philippines through two acquisitions. Both countries rank among the lowest in Asia in the number of hospital beds and health professionals per capita. Healthcare spending in both countries has been growing at around 9 - 10% p.a.

Creating a recurrent revenue stream in healthcare. A key feature of its new Indonesian business is recurring revenue. Renal dialysis is a lifetime treatment, and CBH is expanding from 15 hospitals at the time of its acquisition to 21 currently and another 13 under renovation.

Targeting and revitalise profitable segments. CBH acquires asset-light, fast-growing healthcare segments. After the acquisitions, it will generally streamline operations, enhance costs efficiencies and grow revenue to maximize the business potential of the healthcare segments. After which, CBH will expand the businesses through expansion in capacity, network and capabilities.

VALUATION

Initiate coverage with a BUY and TP of S\$0.28. Initiate with a BUY recommendation and target price of S\$0.28. We used DCF valuation to capture the full benefit of CBH impressive growth over the next five years. Our assumptions are as follows:

A. Financial assumptions

Description	Value
Firm value (SG\$ m)	190
Adjust for: Net cash/(debt), SG\$ m	1
Adjust for: Minority interest	(72)
Adjust for: Biolidics	17
Equity value (S\$ m)	135
Number of shares (m)	489
Fair value (S\$/share)	0.280

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

B. Operating assumptions

Indonesia

- (i) TMJ: Assumption is to add an additional 250 machines in FY19e, 250 in FY20e and 150 machines in FY21e and FY22e.
- (ii) IGM: Patient load expected to grow at a single-digit pace for existing contracts and revenue to expand to double-digit pace from new contracts. However, with direct access to doctors, there is an opportunity to introduce and sell higher value adding esoteric tests. It will be the revenue and margin driver. Other revenue drivers could be the expansion of one or two hospitals per year and re-negotiations with suppliers for better margins.

Philippines: Introduction of new services in the medical centre will be the growth driver. New services include more pharmacy sales, health screening for overseas foreign workers, renal care and new aesthetics centres.

Hong Kong: Medical tourism will be the key driver. Limitations are space and medical doctors.

Singapore

- (i) Sam Lab: Introduce more high value-added esoteric tests, especially focused on oncology.
- (ii) Medic Laser: With only one doctor and several therapists, growth will be driven by mid-to-high single digit volume growth.
- (iii) GP clinic: Only one doctor and growth is driven by volume.
- (iv) Product distribution: Distribution into the region (Singapore, Hong Kong, Malaysia, Indonesia) of esoteric tests for principals such as Biolidics ClearCell® FX1 System, CELLSEARCH® Circulating Tumor Cell Test, Prosigna® Breast Cancer Prognostic Signature Assay and MILS International diagnostics test.

Figure 30: Healthcare comparables trade at 20x EV/EBITDA but with a slower growth profile

Company	1 Mth Perf.	3 Mth Perf.	YTD Perf.	Share Px Local	Market Cap (US\$ m)	PE FY18	PE FY19e	PE FY20e	Dividend Yield	ROE	EV/EBITDA	EBITDA Margin
<u>Indonesia</u>												
Mitra Keluarga	-0.3%	22.9%	22.9%	1935	1,974	41.4	43.2	41.2	1.6%	17.3%	29.8	35.0%
Medikaloka Hermina	0.9%	32.8%	32.8%	3400	709	103.6	66.5	54.5	0.4%	11.8%	17.1	20.5%
Siloam International	10.6%	4.7%	4.7%	3760	429	377.8	108.3	88.3	0.3%	0.3%	7.2	11.6%
Prodia Widyahusa	-2.4%	25.9%	25.9%	2870	189	15.3	16.6	14.4	2.1%	12.0%	6.2	16.0%
	1.3%	22.8%	22.8%		3,300	65.9	62.4	56.7	1.2%	13.6%	22.8	27.7%
<u>Singapore</u>												
IHH	3.2%	6.7%	6.7%	1.91	12,354	108.9	65.2	52.0	1.8%	2.7%	19.7	20.9%
Raffles Medical	-2.7%	-2.7%	-2.7%	1.07	1,419	36.7	43.1	42.0	2.1%	9.3%	19.9	21.0%
HMI	0.0%	0.9%	0.9%	0.55	337	30.7	30.7	27.0	3.3%	25.2%	12.7	24.6%
Q&M Dental	-7.4%	-13.7%	-12.0%	0.44	255	32.7	28.8	25.5	2.7%	12.8%	20.6	13.3%
Singapore Medical	1.1%	10.0%	10.0%	0.44	154	21.9	19.8	17.6	2.3%	10.8%	9.9	22.4%
	2.4%	5.3%	5.4%		14,518	81.6	58.1	48.0	1.9%	4.1%	19.5	20.9%
Average	2.2%	8.6%	8.6%		17,819	78.7	58.9	49.6	1.8%	5.9%	20.1	22.2%

Source: Bloomberg, PSR

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)	(20,170)	(22,824)
EBITDA	(7,020)	(3,876)	(7,461)	1,510	6,253
Depreciation & Amortisation	(105)	(111)	(1,099)	(716)	(1,791)
EBIT	(7,125)	(8,327)	(10,816)	794	4,461
Fair value gains/(losses)	5,109	(2,329)	(7,582)	-	-
Finance costs	(193)	(250)	(329)	(202)	(964)
Profit/(loss) before tax	(2,209)	(10,906)	(18,727)	592	3,497
Income tax credit/(expense)	(735)	2,981	(158)	1	8
Profit/(loss) after tax	(2,944)	(7,925)	(18,885)	593	3,505
Minority interest	(993)	(455)	(437)	178	1,052
Net Income, reported	(1,951)	(7,470)	(18,448)	415	2,454
Net Income, adj	(7,060)	(801)	(8,610)	415	2,454

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)	0.1	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)	592	3,497
Adjustments	(4,382)	4,211	10,257	(88)	1,151
WC changes	839	(79)	(2,077)	4,834	1,902
Cash flows used in ops	(5,752)	(6,774)	(10,547)	5,338	6,550
Taxes paid, others	(2)	8	14	1,863	1,706
Net cash flows used in ops	(5,754)	(6,766)	(10,533)	7,201	8,256
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	-	-	-	-	-
Net cash flows from/(used in) 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)	-	-
Net cash flow generated from financing	10,589	22,087	708	10,884	(551)
Net change in cash and cash equivalents	1,645	23,383	(19,755)	11,090	5,756
Effects of foreign exchange rate chan	(32)	49	(215)	(215)	(215)
Restricted deposits	-	-	235	235	235
CCE, end	4,308	27,740	8,005	14,883	16,919

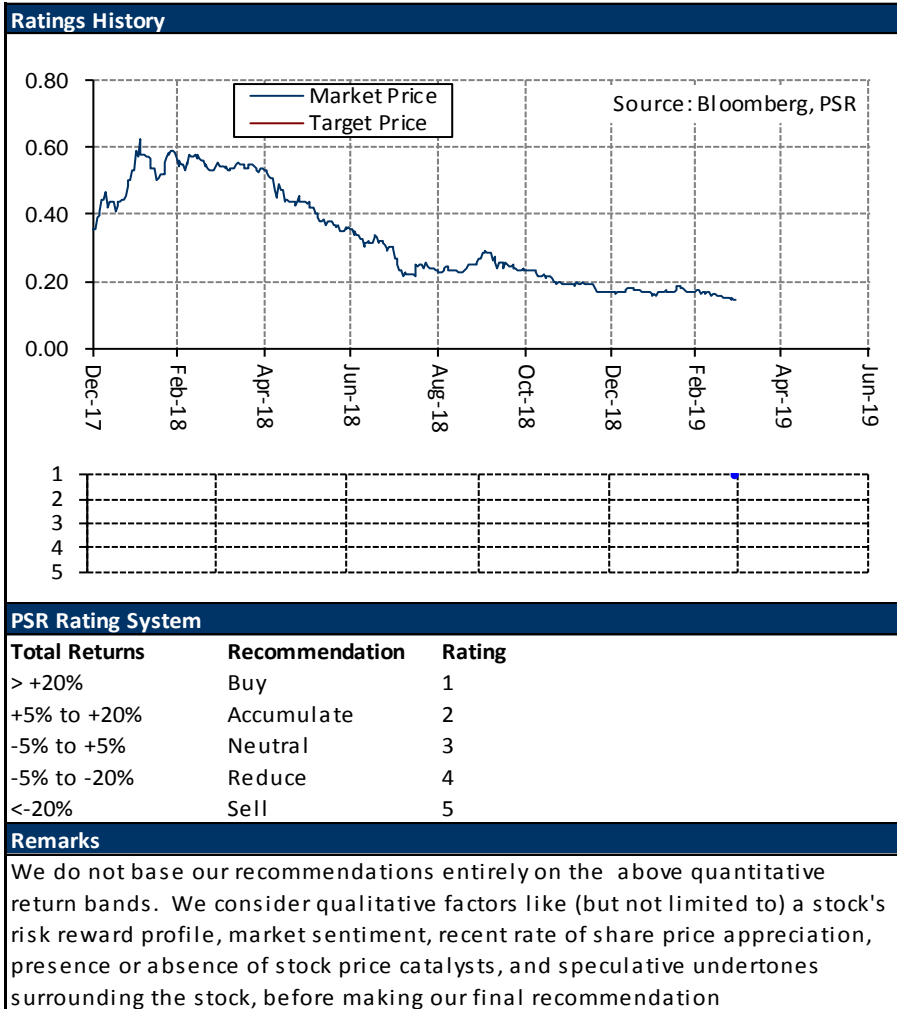
Source: Company, Phillip Securities Research (Singapore) Estimates

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
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	50,609	51,059
Cash and bank balances	4,308	27,740	8,005	14,883	16,919
Trade receivables	25	71	2,050	4,923	6,408
Other receivables	200	-	-	-	-
Others	372	4,835	4,642	5,214	5,190
Current assets	4,905	32,646	14,697	25,020	28,516
Total assets	46,671	68,793	62,762	75,629	79,575
LIABILITIES					
Borrowings	-	9	470	470	470
Trade payables	69	183	1,007	2,396	2,837
Other payables	4,225	5,540	7,072	7,072	7,072
Others	-	-	669	669	669
Current liabilities	4,294	5,732	9,218	10,607	11,048
Borrowings	-	1,632	2,419	13,303	13,303
Others	4,748	1,786	3,595	3,595	3,595
Non-current liabilities	4,748	3,418	6,014	16,898	16,898
EQUITY					
Share capital	28,495	73,897	77,670	77,670	77,670
(Acc losses)/retained earni	6,245	(10,858)	(30,041)	(29,626)	(27,172)
Others	2,889	(3,396)	(99)	79	1,130
Total equity	37,629	59,643	47,530	48,123	51,628

Valuation Ratios

Y/E Dec, SGD '000	FY16	FY17	FY18	FY19e	FY20e
P/E (X), adj.			n.m.	166.6	28.2
P/B (X)			1.5	1.4	1.4
EV/EBITDA (X)			0.7	-0.7	0.0
Dividend Yield (%)			0.0%	0.0%	0.0%
Growth & Margins (%)					
Growth					
Revenue		134.1%	2030.2%	388.2%	30.2%
EBITDA		-44.8%	92.5%	-120.2%	314.2%
EBIT		16.9%	29.9%	-107.3%	461.9%
Net Income, adj.		-88.7%	974.9%	-104.8%	491.0%
Margins					
EBITDA margin	-5707.3%	-1345.8%	-121.6%	5.0%	16.0%
EBIT margin	-5792.7%	-2891.3%	-176.3%	2.7%	11.4%
Net Profit Margin	-5739.8%	-278.1%	-140.3%	1.4%	6.3%
Key Ratios					
ROE (%)		-2%	-16.1%	0.9%	4.9%
ROA (%)		-1.4%	-13.1%	0.6%	3.2%
Interest coverage (X)	(67.9)	(75.0)	(9.8)	1.1	2.5
Net gearing (X)	Net cash	0.0	Net cash	Net cash	Net cash



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