



# Q & M Dental Group Ltd

## Profits more than tripled

### SINGAPORE | HEALTHCARE | 1Q21 RESULTS

- 1Q21 revenue and PATMI were within, at 24% of our FY21e forecasts.
- Core dental revenue surged 41% YoY to S\$39.2mn. Dental visits climbed with households having more time and opportunities to undertake regular and elective procedures.
- Revenue from Covid-19 PCR lab tests yet to be material. We estimate only 10% of PATMI this quarter.
- We raise FY21e PATMI (excl. exceptionals) by 10% to S\$30.3mn. Estimates for daily PCR tests have been doubled. But we shave off revenue in Malaysia in view of its extended lockdown.
- BUY recommendation maintained. We expect stellar earnings growth from higher patient visits and maiden earnings from PCR testing. Despite Covid-19 vaccinations, PCR testing in Singapore has increased. The threat of variants will likely make PCR tests a norm even when international borders re-open.
- Target price raised to S\$1.00 from S\$0.73. Our initial 20x FY21e P/E target or 50% discount to historical normalised average has been lifted to 25x. We think this can be justified by greater visibility of the sustainability of PCR revenue and core dental earnings as aggressive expansion of clinics is underway. Another S\$0.03 is added from the market value of listed associate, Aoxin (S\$0.18, Not Rated), at a 20% discount.

#### Results at a glance

SGD '000	1Q21	1Q20	YoY	Comments
Revenue	43,762	29,844	46.6%	No. of clinics rose 7.6% YoY to 122.
Gross profit	38,144	26,289	45.1%	
PBT	10,461	1,391	652.0%	
Other gains	4,255	-110	n.m.	S\$4.37mn gain from sale of Aidite.
Associates	-240	-856	-72.0%	Turnaround in Auxin from lockdowns a year ago.
PATMI	9,411	1,311	617.8%	
PATMI - adjusted	6,796	1,421	n.m.	Excl. other gains and JSS (S\$0.8mn)
Gross Margins	87.2%	88.1%	-0.9%	
DPS - Interim (cents)	1.00	0.00	n.m.	

Source: Company, PSR

#### The Positive

**+ Surge in revenue.** 1Q21 revenue jumped 47% YoY to a record S\$43mn. Core dental business was up 41% to S\$39.2mn. The remaining revenue came from PCR tests and equipment that more than doubled to S\$4.5mn. Revenue was supported by a 7.6% increase in dental clinics to 122. Admissions were also higher. With borders closed and more time available, households could opt for more regular and elective dental procedures. Due to strict MOH requirements, revenue from PCR test kits is no longer separately disclosed.

**+ Interim DPS.** Net debt declined from S\$75mn in FY19 to S\$20mn in FY20. FCF was S\$19mn. Another S\$47mn was collected from the disposal of Aidite in 1H20. Q & M announced a special DPS of 2.5 cents to return S\$19mn to shareholders from the proceeds of its sale of Aidite.

**+ Higher Covid-19 PCR test earnings.** PCR revenue was not disclosed. We used minority interest of S\$0.6mn during the quarter as PATMI contributions from PCR. With PCR tests rising in Singapore, we double our daily test assumption for FY21e to 1,200. Q & M's ability to ramp capacity is limited by a short supply of lab technicians in the country.

19 May 2021

#### BUY (Maintained)

CLOSING PRICE	SGD 0.670
FORECAST DIV	SGD 0.025
TARGET PRICE	SGD 1.00
TOTAL RETURN	53.0%

#### COMPANY DATA

Bloomberg CODE:	QNMSP
O/S SHARES (MN):	787.3
MARKET CAP (USD mn / SGD mn):	397 / 527
52 - WK HI/LO (SGD):	0.69 / 0.4
3M Average Daily T/O (mn):	3.93

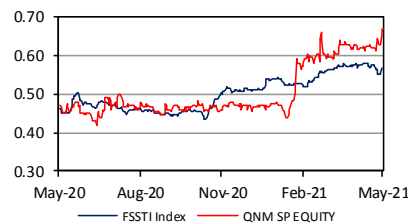
#### MAJOR SHAREHOLDERS

Quan Min Holdings Pte Ltd	54.4%
Heritas Helios Investments Pte Ltd	8.1%

#### PRICE PERFORMANCE

	1MTH	3MTH	YTD
COMPANY	7.2	21.4	49.9
STI RETURN	(0.8)	9.5	12.2

#### PRICE VS. STI



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Dec, SGD (mn)	FY19	FY20	FY21e	FY22e
Revenue	128.0	137.6	212.8	231.0
EBITDA	23.6	29.7	57.2	54.3
PATMI	18.0	19.7	35.6	35.8
PATMI, adjusted	8.7	19.4	30.3	35.1
EPS (SGD cents)	2.3	2.5	4.5	4.6
P/E (X)	60.3	27.1	17.4	15.0
Dividend Yield	4.2%	5.1%	3.7%	3.1%
ROE	14.6%	15.9%	26.3%	22.4%
ROA	5.9%	7.2%	12.2%	11.5%

Source: Company, PSR

#### VALUATION METHOD

25x PE Multiple FY21e adj. + Associate market cap

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### The Negative

- **Short-term impact on revenue.** While the country has entered a Phase 2 heightened alert lockdown from 16 May, dental clinics are allowed to stay open. However, we do expect cancellations. Patients will be wary of going for dental procedures despite all the safeguards in place. During the circuit breaker last April, dental clinics were not allowed to undertake any aerosol-generating procedures. This meant 90% of the procedures were prohibited except for extractions and temporary fillings.

### Outlook

The number of Covid-19 PCR\* tests conducted in the country is not regularly disclosed. But media and government statements point to a rising trend. In September last year, tests were conducted on 27,200 individuals a day, according to the Ministry of Health. Commentaries this February suggested 34,000 tests per day with the media this month reporting more than 73,000 per day\*\*.

Q & M operates the largest private dental chain in Singapore. Even then, this is only 10% of the market. As such, a doubling of its footprint is possible without cannibalising revenue. Capex is not large at around S\$200,000 per clinic. The key is managing the manpower and recruiting and retaining dentists. We expect it expand clinics by 20% this year to 149.

\*Polymerase chain reaction

\*\*[www.straitstimes.com/singapore/health/14-covid-19-cases-in-past-week-did-not-see-doctor-when-sick-experts-say-next-few](http://www.straitstimes.com/singapore/health/14-covid-19-cases-in-past-week-did-not-see-doctor-when-sick-experts-say-next-few)

### Maintain BUY with higher TP of S\$1.00, from S\$0.73

We raise FY21e earnings by 11% to S\$30.3mn, adjusting PATMI - excluding exceptionals - for higher PCR tests conducted during the year. We now peg the stock at 25x P/E, up from 20x, which was a 50% discount to its historical 7-year normalised average.

We think a higher P/E can be justified by greater visibility of its PCR revenue despite large-scale vaccinations. Also, core dental earnings are expected to grow from multi-year expansion of its clinic footprint. Another S\$0.03 is added from the market value of listed associate, Aoxin, at a 20% discount.

## Financials

### Income Statement

Y/E Dec, SGD '000	FY18	FY19	FY20	FY21e	FY22e
<b>Revenue</b>	<b>120,808</b>	<b>127,963</b>	<b>137,620</b>	<b>212,750</b>	<b>231,020</b>
Gross profit	106,573	112,217	120,725	172,328	173,265
<b>EBITDA</b>	<b>16,174</b>	<b>23,647</b>	<b>29,728</b>	<b>57,199</b>	<b>54,302</b>
Depreciation & amortisation	(3,306)	(3,281)	(3,458)	(4,136)	(4,510)
<b>EBIT</b>	<b>12,868</b>	<b>20,366</b>	<b>26,270</b>	<b>53,063</b>	<b>49,793</b>
Other gains	590	9,252	253	5,319	693
Net Finance Inc/(Exp)	(2,635)	(4,407)	(4,058)	(3,714)	(3,364)
Profit before tax	14,845	20,122	22,371	48,349	45,929
Taxation	(760)	(1,941)	(2,533)	(5,802)	(5,511)
Minority interest	(73)	(197)	(137)	(6,975)	(4,650)
<b>PATMI</b>	<b>14,012</b>	<b>17,984</b>	<b>19,701</b>	<b>35,572</b>	<b>35,767</b>
<b>PATMI, adjusted</b>	<b>13,612</b>	<b>8,732</b>	<b>19,448</b>	<b>30,253</b>	<b>35,074</b>

### Per share data (SGD Cents)

Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
EPS, Reported	1.78	2.29	2.51	4.53	4.55
EPS, Adjusted	1.73	1.11	2.48	3.85	4.47
DPS	0.82	2.82	3.40	2.50	2.05
BVPS	14.2	15.7	15.8	17.2	20.3

### Cash Flow

Y/E Dec, SGD '000	FY18	FY19	FY20	FY21e	FY22e
<b>CFO</b>					
<b>Profit before tax</b>	<b>14,845</b>	<b>20,122</b>	<b>22,371</b>	<b>48,349</b>	<b>45,929</b>
Adjustments	(1,272)	(827)	11,886	16,136	16,010
WC changes	(2,564)	5,012	(11,073)	(1,407)	(1,644)
Cash generated from ops	13,533	28,682	26,964	66,305	63,162
Tax paid	(444)	(728)	(1,162)	(5,802)	(5,511)
<b>Cashflow from ops</b>	<b>13,089</b>	<b>27,954</b>	<b>25,802</b>	<b>60,503</b>	<b>57,650</b>
<b>CFI</b>					
CAPEX, net	(2,747)	(6,852)	(6,390)	(7,000)	(7,000)
Others	(2,244)	(2,431)	46,193	488	496
<b>Cashflow from investments</b>	<b>(4,991)</b>	<b>(9,283)</b>	<b>39,803</b>	<b>(6,512)</b>	<b>(6,504)</b>
<b>CCF</b>					
Share issuance, net	(4,723)	-	(1,529)	-	-
Loans, net of repayments	(151)	5,175	(9,374)	(8,000)	(7,000)
Dividends	(10,468)	(6,442)	(22,222)	(31,419)	(16,102)
Others	(4,872)	(15,075)	(10,961)	(13,714)	(13,864)
<b>Cashflow from financing</b>	<b>(20,214)</b>	<b>(16,342)</b>	<b>(44,086)</b>	<b>(53,133)</b>	<b>(36,966)</b>
Net change in cash	(12,116)	2,329	21,519	858	14,181
<b>CCE, end</b>	<b>38,859</b>	<b>27,253</b>	<b>48,772</b>	<b>49,630</b>	<b>63,811</b>

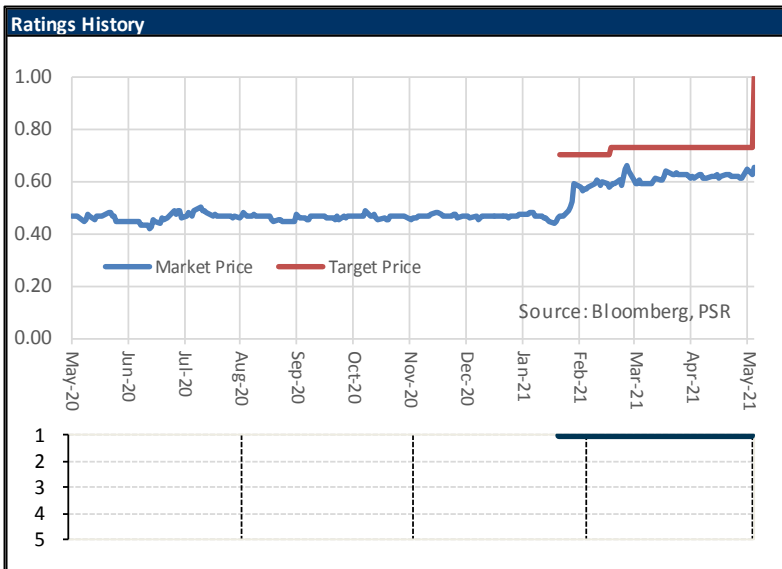
Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Dec, SGD '000	FY18	FY19	FY20	FY21e	FY22e
<b>ASSETS</b>					
Trade and other receivables	16,653	87,315	18,190	27,658	30,033
Cash	24,924	27,253	48,772	49,630	63,811
Inventories	6,945	7,035	16,092	23,403	25,412
<b>Total current assets</b>	<b>51,144</b>	<b>125,014</b>	<b>86,280</b>	<b>103,916</b>	<b>122,481</b>
PPE & IA	73,746	79,614	84,469	87,333	89,823
Others	89,262	101,146	103,031	101,031	100,031
<b>Total non-current assets</b>	<b>163,008</b>	<b>180,760</b>	<b>187,500</b>	<b>188,364</b>	<b>189,854</b>
<b>Total Assets</b>	<b>214,152</b>	<b>305,774</b>	<b>273,780</b>	<b>292,280</b>	<b>312,336</b>
<b>LIABILITIES</b>					
Accounts payable	14,018	27,080	16,541	31,913	34,653
Bank borrowings	443	32,576	1,941	1,941	1,941
Lease liabilities	-	10,211	9,131	9,131	9,131
Others	110	1,024	2,633	2,633	2,633
<b>Total current liabilities</b>	<b>14,571</b>	<b>70,891</b>	<b>30,246</b>	<b>45,618</b>	<b>48,358</b>
Deferred tax liabilities	1,072	1,371	1,160	1,160	1,160
Long-term borrowings	86,185	69,839	75,456	67,456	60,456
Others	638	40,543	42,993	42,993	42,993
<b>Total non-current liabilities</b>	<b>87,895</b>	<b>111,753</b>	<b>119,609</b>	<b>111,609</b>	<b>104,609</b>
<b>Total Liabilities</b>	<b>102,466</b>	<b>182,644</b>	<b>149,855</b>	<b>157,227</b>	<b>152,967</b>
<b>Equity</b>					
Non-controlling interests	1,035	1,157	2,845	9,820	14,470
<b>Shareholder Equity</b>	<b>111,686</b>	<b>123,130</b>	<b>123,925</b>	<b>135,053</b>	<b>159,369</b>

### Valuation Ratios

Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
P/E (X)	38.7	60.3	27.1	17.4	15.0
P/B (X)	4.7	4.3	4.2	3.9	3.3
EV/EBITDA (X)	31.1	22.5	16.2	8.4	8.6
Dividend Yield	1.2%	4.2%	5.1%	3.7%	3.1%
<b>Growth &amp; Margins</b>					
<b>Growth</b>					
Revenue	-2.2%	5.9%	7.5%	54.6%	8.6%
EBITDA	-40.2%	46.2%	25.7%	92.4%	-5.1%
EBIT	-45.7%	58.3%	29.0%	102.0%	-6.2%
Net profit, adj.	-41.3%	28.3%	9.5%	80.6%	0.5%
<b>Margins</b>					
Gross margin	88.2%	87.7%	87.7%	81.0%	75.0%
EBITDA margin	13.4%	18.5%	21.6%	26.9%	23.5%
EBIT margin	10.7%	15.9%	19.1%	24.9%	21.6%
Net profit margin	11.6%	14.1%	14.3%	16.7%	15.5%
<b>Key Ratios</b>					
ROE	12.5%	14.6%	15.9%	26.3%	22.4%
ROA	6.5%	5.9%	7.2%	12.2%	11.5%
Net Gearing	55.2%	61.0%	23.1%	14.6%	Net cash
Net Debt/EBITDA (X)	3.8	3.2	1.0	0.3	0.0



### 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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