Q & M Dental Group

Organic growth picking up

SINGAPORE | HEALTHCARE | 2Q18 RESULTS

- 1H18 Revenue/PATMI met 39.3%/49.7% of our full year expectations; 2Q18 effective tax rate was lower than our assumption.
- Opened 3 new clinics in 1H18. Another 4 more clinics for Singapore and 3 for Malaysia in 2H18.
- Adoption of dividend policy of paying out at least 30% of core operating earnings. Interim dividend was lower at 0.4 cents per share (-43% YoY).
- Upgraded to BUY and TP of S$0.65 (previously S$0.63), based on estimated 2.3 SCents FY18 EPS and 28x FY18e PER. No change to our earnings estimates.

Results at a glance

S$' mn	2Q18	2Q17	YoY (%)	Comments
Clinics	27.1	27.3	*-1.0%*	Deconsolidation of Aoxin in Apr-17; Excluding Aoxin, revenue +2.1% YoY.
Distribution	2.5	2.3	*8.2%*	Deconsolidation of Aoxin in Apr-17; Excluding Aoxin, revenue +51.3% YoY
Revenue	**29.5**	**29.6**	***-0.3%***	Excluding Aoxin, revenue +5.0% YoY
Gross	25.8	26.5	*-2.7%*	Pro-rate gross margin -2.1pp to 87.5% due to change in accounting treatment to inventorise small dental instruments.
Core EBITDA (ex. assoc. and non-recurring items)	4.3	4.8	*-10.8%*	Decrease mainly due to one-time gain from spin-off of Aoxin last year, offset by higher share of profit from Aidite this year.
EBIT	7.1	15.7	*-55.0%*	Including Aidite and Aoxin as associates
PATMI	**4.6**	**13.6**	***-66.6%***	
PATMI, adj.	**4.6**	**4.3**	***6.4%***	Ex. one-off gain of of $9.4mn in 2Q17 from spin-off of Aoxin offset by spin-off provisions and expenses.
No. of clinics	**90**	**88**		

Source: Company, PSR

The Positives

+ Aggressive expansion plan underway in SG and MY. Management reiterated their aggressive expansion plan of adding 10 new clinics each in SG and MY by end-FY18e is underway, with the opening 3 net new clinics in 1H18 and 4 more upcoming in Singapore. Malaysia is to add 3 new clinics in 2H18.

+ Organic growth for distribution business in SG and MY. Distribution revenue excluding Aoxin increased 51% YoY mainly due to higher revenue from the distribution company in Malaysia.

+ Interest savings from refinancing. The Group repaid the 4.4% MTN on 19 March 2018 with a drawdown of S$60mn bank facilities secured on 25 January 2018. The favourable interest rate of the new bank facilities (<4.4%) will provide annual interest savings.

The Negative

- Facing some challenges in Malaysia. YTD no new clinics opened in Malaysia. Management guided to add at least 10 dental clinics in Malaysia for 2018. However, with 3 new rental agreements signed for 2H18, management still has to achieve the opening of 7 more clinics in 2H18.

16 August 2018

BUY (Upgraded)

LAST CLOSE PRICE	SGD 0.510
FORECAST DIV	SGD 0.014
TARGET PRICE	SGD 0.649
TOTAL RETURN	30.0%

COMPANY DATA

BLOOMBERG CODE	QNM SP
O/S SHARES (MN) :	789
MARKET CAP (USD mn / SGD mn) :	292 / 402
52 - WK HI/LO (SGD) :	0.68 / 0.49
3M Average Daily T/O (mn) :	0.49

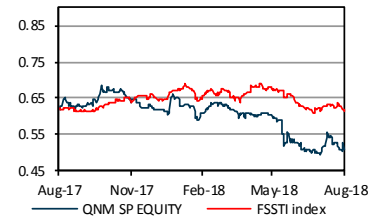
MAJOR SHAREHOLDERS (%)

Quan Min Holdings Pte Ltd	49.96%
Heritas Helios Investmetns Pte Ltd	8.08%
Dr Ng Chin Siau	1.46%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	2.0	(15.7)	(16.9)
STI RETURN	0.56	(7.09)	1.82

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY16	FY17	FY18e	FY19e
Revenue (SGD mn)	155	123	148	163
EBITDA (SGD mn)	43	31	26	29
NPAT, adj. (SGD mn)	28	24	18	19
EPS (S Cents)	3.6	3.0	2.3	2.4
PER, adj. (x)*	48.6	36.2	29.4	28.8
P/BV, (x)	4.9	4.5	3.4	3.2
DPS (S Cents)	11	16	14	14
Div Yield (%)	2%	3%	3%	3%
ROE (%)	27.4%	21.0%	15.6%	15.3%

Source: Company Data, PSR est.
*Based on adjusted EPS, which we have included government grants as non-recurring items

Valuation Method

P/E Multiple @28x

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Outlook

We are cautiously optimistic on the expansion plans in Singapore and Malaysia. Post-deconsolidation of its major revenue drivers in China, the Group is stepping up its regional expansion in Singapore and Malaysia to plug the gap (from its previous target of opening at least 5 new clinics per year to 20 new clinics this year). With 24 new dentists recruited in the last 3-4 months, we remain optimistic on the expansion plan.

We do not discount the possibility that the Group will expand into Southern China via joint ventures and organic growth initiatives with its Chinese associate, Aoxin Q&M Dental Group (the Group currently owns 43%). Aoxin Q&M Dental has a strong presence in Northern China.

Upgraded to BUY and TP of S$0.65 (previously S$0.63). The FY18e EPS of 2.3 SCents includes contributions from the targeted 20 new clinics in Singapore and Malaysia. We increased PER from 27.3x to 28.3x, which is in line with peers' (excluding hospitals) average FY18e PER.

Potential re-rating catalysts would be (i) successful earnings accretive acquisitions; and (ii) better-than-expected results from associates.

Valuation

Item	
EPS FY18e	2.29
Simple Average P/E FY18e (Excl. hospitals)	28.3
Target price (S$)	0.649
FY18e dividends	0.01
Closing price	0.510
Potential upside	29.9%

Company	Bloomberg Ticker	Mkt Cap (SGD mn)	P/E TTM	P/E FY1	P/E FY2	Net D/E (%)	ROA (%)	ROE (%)	P/B
Q & M Dental Group	QNM SP	402	26.3	29.4	28.8	43.8	10.8	20.7	3.4
Singapore									
IHH Healthcare Bhd	IHH SP	14,923	N/A	49.4	39.3	2.8	1.5	2.4	N/A
Raffles Medical Group Ltd	RFMD SP	1,940	26.9	29.2	32.7	Net Cash	7.1	9.7	2.5
Health Management International Ltd	HMI SP	473	24.8	23.3	21.0	51.6	9.5	18.7	6.2
Talkmed Group Ltd	TKMED SP	867	32.0	33.0	33.0	Net Cash	34.0	41.1	13.1
Singapore O&G Ltd	SOG SP	169	16.0	19.7	16.1	Net Cash	16.5	20.0	3.9
Singapore Medical Group Ltd	SMG SP	206	21.5	15.5	14.5	Net Cash	8.4	12.9	1.8
Market Cap Weighted Average (ex. QNM and IHH)			27.0	28.1	29.5		14.3	19.0	5.5
Market Cap Weighted Average (ex. hospitals)			28.1	28.3	27.6		27.4	33.6	10.0

Financials

Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	**124.0**	**154.9**	**123.5**	**148.3**	**162.7**
EBITDA	**23.6**	**43.4**	**30.9**	**26.3**	**29.2**
Depreciation & Amortisation	(4.0)	(4.5)	(3.3)	(3.9)	(4.2)
Share of profit from assoc. & JVs	0.0	0.0	4.0	4.0	4.4
Others	3.5	16.9	9.9	4.4	4.9
EBITDA, adj.	**20.1**	**26.5**	**17.1**	**17.8**	**19.9**
EBIT	**19.6**	**38.9**	**27.7**	**22.4**	**25.0**
Net Finance Inc/(Exp)	(2.7)	(3.4)	(3.2)	(2.3)	(2.1)
Profit before tax	**16.8**	**35.5**	**24.4**	**20.1**	**22.9**
Taxation	(2.0)	(2.2)	(0.7)	(1.8)	(3.9)
Net profit, reported	**14.8**	**33.3**	**23.7**	**18.3**	**19.0**
Non-controlling interest	(3.4)	(5.0)	0.2	(0.1)	(0.1)
PATMI, reported	**11.4**	**28.3**	**23.9**	**18.2**	**18.9**
Non-recurring items	3.5	16.9	9.9	4.4	4.9
PATMI, adjusted	**7.9**	**11.4**	**14.0**	**13.8**	**14.1**

Per share data (SGD Cents)

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	1.46	3.55	3.00	2.29	2.38
EPS, adj.	1.01	1.44	1.76	1.73	1.77
DPS	0.84	1.12	1.62	1.38	1.43
BVPS	11.81	14.40	14.23	15.15	16.10

Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Profit before tax	**16.8**	**35.5**	**24.4**	**20.1**	**22.9**
Adjustments	4.2	(9.5)	(11.1)	1.9	1.7
WC changes	(5.2)	(4.3)	3.3	(4.5)	(1.1)
Cash generated from ops	15.9	21.7	16.6	17.5	23.6
Others	(2.6)	(2.8)	(0.5)	(1.8)	(3.9)
Cashflow from ops	**13.3**	**18.9**	**16.1**	**15.7**	**19.7**
CFI					
CAPEX, net	1.5	(5.9)	(4.3)	(4.9)	(2.6)
Others	(21.0)	(15.8)	(3.9)	0.2	0.1
Cashflow from investments	**(19.6)**	**(21.7)**	**(8.2)**	**(4.7)**	**(2.5)**
CFF					
Share issuance, net	(0.8)	(5.4)	(1.5)	0.0	0.0
Loans, net of repayments	(12.5)	0.0	(0.2)	51.5	(7.6)
Dividends	(5.8)	(6.7)	(11.2)	(10.9)	(11.4)
Others	54.5	(5.9)	(2.1)	(62.3)	(2.1)
Cashflow from financing	**35.5**	**(18.0)**	**(14.9)**	**(21.7)**	**(21.1)**
Net change in cash	**29.2**	**(20.8)**	**(7.1)**	**(10.7)**	**(3.9)**
CCE, end	**64.9**	**44.1**	**37.0**	**26.3**	**22.5**

Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	34.3	27.4	20.3	21.4	19.7
Associates & JVs	0.0	39.8	74.9	78.9	83.4
Intangibles	76.9	75.5	53.5	53.5	53.5
Others	1.1	6.7	7.7	7.7	7.7
Total non-current assets	**112.3**	**149.4**	**156.4**	**161.5**	**164.3**
Accounts receivables	22.8	23.9	15.9	16.9	18.6
Cash	64.9	44.1	37.0	26.3	22.5
Inventories	11.2	7.6	6.5	4.6	4.9
Others	4.7	4.8	3.2	3.2	3.2
Total current assets	**103.6**	**80.4**	**62.6**	**51.1**	**49.1**
Total Assets	**215.9**	**229.8**	**219.0**	**212.5**	**213.4**
LIABILITIES					
Accounts payables	25.7	21.0	18.2	12.9	13.7
Short term loans	15.7	15.5	60.5	0.5	0.5
Others	0.6	0.0	0.0	0.0	0.0
Total current liabilities	**42.0**	**36.5**	**78.7**	**13.3**	**14.2**
Long term loans	63.8	69.3	24.4	75.9	68.3
Others	1.8	2.0	1.8	1.8	1.8
Total non-current liabilities	**65.6**	**71.3**	**26.2**	**77.7**	**70.1**
Total Liabilities	**107.7**	**107.8**	**104.9**	**91.0**	**84.3**
EQUITY					
Non-controlling interests	16.1	7.4	1.0	1.0	1.1
Shareholder Equity	**92.1**	**114.7**	**113.1**	**120.4**	**128.0**

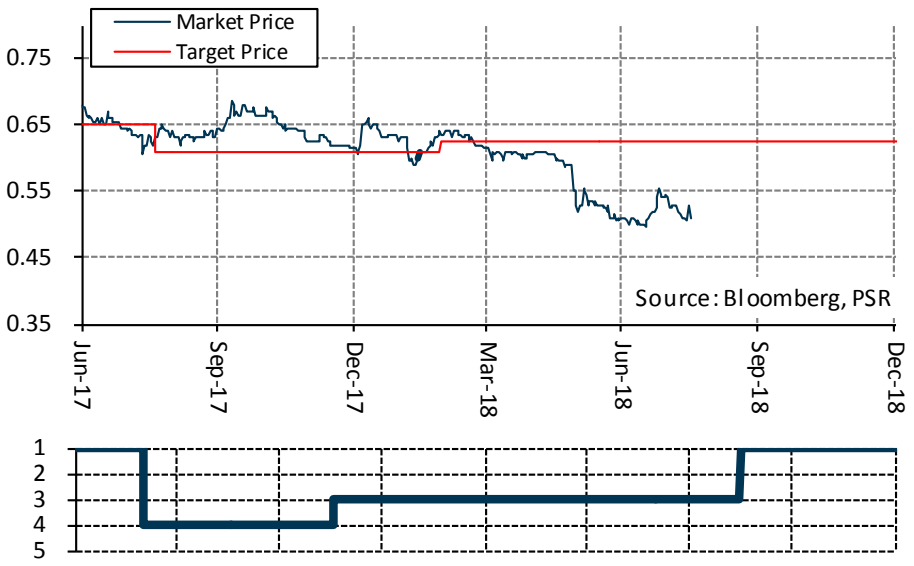
Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	68.4	48.6	36.2	29.4	28.8
P/B (X)	5.8	4.9	4.5	3.4	3.2
EV/EBITDA (X), adj.	26.8	21.0	29.6	22.8	20.4
Dividend Yield (%)	1.2%	1.6%	2.5%	2.7%	2.8%
Growth & Margins (%)					
Growth					
Revenue	23.6%	25.0%	-20.3%	20.0%	9.7%
EBITDA	56.0%	83.9%	-28.8%	-15.0%	11.2%
EBIT	59.3%	98.7%	-29.0%	-18.9%	11.5%
Net profit, adj.	1.0%	45.3%	22.5%	-1.6%	2.0%
Margins					
EBITDA margin	19.0%	28.0%	25.0%	17.7%	18.0%
EBIT margin	15.8%	25.1%	22.4%	15.1%	15.4%
Adj. Net profit margin	6.3%	7.4%	11.3%	9.3%	8.6%
Key Ratios					
ROE (%)	13.5%	27.4%	21.0%	15.6%	15.3%
ROA (%)	6.4%	12.7%	10.6%	8.4%	8.9%
Net Debt / (Cash)	14.6	40.7	47.9	50.1	46.3
Net Gearing (X)	13.5%	33.3%	42.0%	41.2%	35.8%

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Ratings History



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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