

# Q&M Dental Group (QNM SP)

Share Price: SGD0.71

MCap (USD): 383M

Singapore

Target Price: SGD0.97 (+37%)

ADTV (USD): 2M

Health Care

**BUY**

(Unchanged)

## Capturing Greater Value in China

- Acquiring 36% effective stake in Shenyang Lan Hai, a dental supply distributor. Should help Q&M become integrated dental player in China.
- Expect synergies with existing distribution arm. Earnings accretive, at only 9x P/E based on profit guarantee.
- BUY.** Reduce TP to SGD0.97 from SGD1.05 after cutting EPS by 1-3% for recent update to terms of another acquisition. Still offers 37% upside. Catalysts from more acquisitions.

### Acquiring Chinese Dental Distributor; Positive

Q&M's 60% subsidiary, Shenyang Quanxin, is acquiring a 60% stake in Shenyang Lan Hai for CNY7.6m. Funded entirely by cash, this translates into a 36% effective stake for Q&M. Shenyang Lan Hai distributes dental equipment and materials in Shenyang, China. We view this move positively, as vertical expansion should help Q&M capture greater value in China's dental industry. Recall that Q&M ventured into the distribution business in Singapore in 2010 with its acquisition of Dentmedix. It further acquired Quantumleap in 2011 and Malaysia-based AR Dental in 2013.

### Expect Synergies; BUY

Q&M should benefit from cross-selling opportunities, in our view. We understand that its Singapore and Malaysia distributors have strong expertise in European products; they are now complemented by Shenyang Lan Hai's capability in China. The acquisition should add to earnings, at 9x forward P/E vs Q&M's 31x. Profit guarantee is SGD0.1m/CNY0.5m a year.

Although this acquisition will contribute positively, we lower our FY15-17 EPS by 1-3%. Q&M allowed TP Dental, acquired last month, to reduce its profit guarantee from SGD2.0m to SGD1.6m, due to a change in the acquisition terms that benefits Q&M more in the long term.

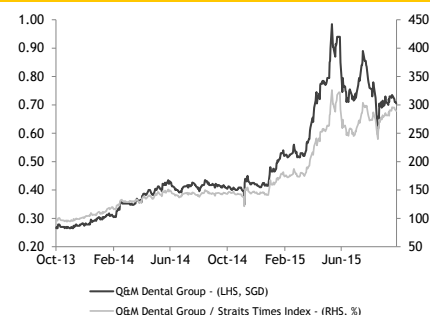
Maintain BUY. We lower our TP to SGD0.97 after cutting EPS, still based on 1SD above its 5-year mean. Our TP still suggests 37% upside. We expect catalysts from more acquisitions.

FYE Dec (SGD m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	71.2	100.3	134.1	163.6	190.8
EBITDA	9.1	15.1	23.1	30.1	35.1
Core net profit	5.2	8.6	11.7	18.7	22.1
Core EPS (cts)	0.9	1.1	1.4	2.3	2.7
Core EPS growth (%)	(6.0)	28.9	31.2	59.5	17.8
Net DPS (cts)	1.3	0.7	0.8	0.8	0.9
Core P/E (x)	82.6	64.1	48.8	30.6	26.0
P/BV (x)	9.3	7.2	5.4	4.8	4.3
Net dividend yield (%)	1.8	1.0	1.1	1.1	1.2
ROAE (%)	13.9	14.0	12.9	16.7	17.5
ROAA (%)	8.8	8.2	6.8	8.8	9.3
EV/EBITDA (x)	17.3	21.5	26.7	20.3	17.1
Net debt/equity (%)	net cash	net cash	28.3	14.3	net cash

### Key Data

52w high/low (SGD)	0.99/0.35
3m avg turnover (USDm)	1.7
Free float (%)	33.0
Issued shares (m)	779
Market capitalization	SGD548.9M
Major shareholders:	
-Quan Min Holdings Pte Ltd.	47.1%
-KOH SHUNJIE KELVIN	8.2%
-KOH SHUHUI FELICIA	4.9%

### Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	1.4	(3.4)	72.5
Relative to index (%)	4.5	15.1	99.4

### Maybank vs Market

	Positive	Neutral	Negative
Market Recs	2	0	0
	Maybank Consensus		% +/-
Target Price (SGD)	0.97	0.99	(1.8)
'15 PATMI (SGDm)	12	13	(8.6)
'16 PATMI (SGDm)	19	19	1.0

Source: FactSet; Maybank

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Figure 1: Deal at a glance

	Comments
Purchase consideration	SGD1.0m/CNY4.5m (Q&M's share)
Acquisition stake	36% effective stake for Q&M (Shenyang Quanxin Medical Equipment Leasing co., a 60%-owned subsidiary of Q&M, will acquire a 60% stake)
Mode of payment	Cash
Asset acquired	Distributes dental equipment, supplies and materials.
Service agreement	12 years
Profit guarantee	SGD109.3k/CNY502.3k a year
Estimated completion date	Dec 2015

Source: Company

Figure 2: Valuations of healthcare stocks in Asia

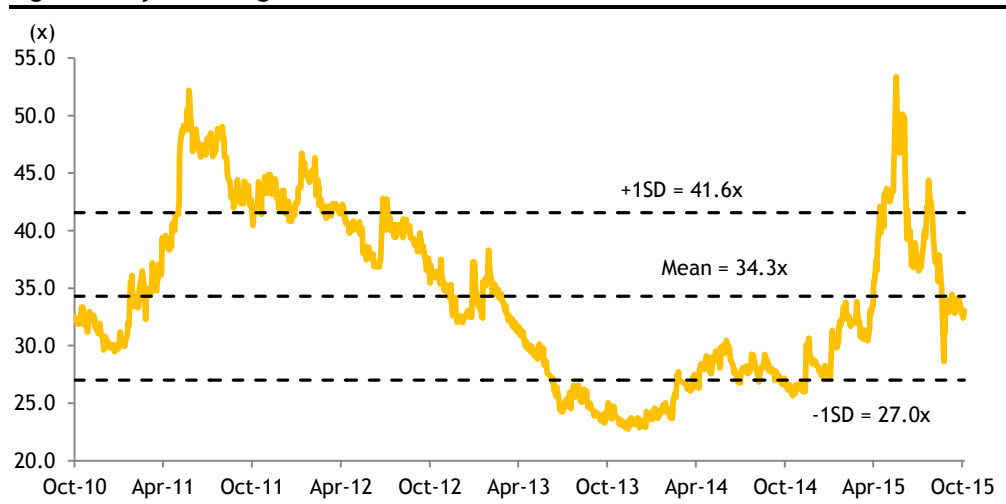
Q&M has the lowest PEG. It warrants a premium over peers, in our view, due to its exciting growth in China

	Rating	Curr.	Share price* (lccy)	Target price (lccy)	Market cap (USD m)	P/E (x)			3Y EPS CAGR (%)	PEG (x)	EV/ EBITDA (x)	P/BV (x)	ROE (%)	Div yield (%)
						FY15E	FY16E	FY17E	FY16E	FY15E	FY15E	FY15E	FY15E	
Q&M Dental	BUY	SGD	0.71	0.97	383	48.8	30.6	26.0	35.1	0.9	26.7	5.4	16.7	1.1
Raffles Medical	BUY	SGD	4.42	5.40	1,796	36.8	31.6	27.6	9.8	3.2	25.9	4.5	13.4	1.3
IHH Healthcare	HOLD	MYR	6.01	6.35	11,226	50.1	42.9	35.4	22.7	1.9	23.5	2.5	5.7	0.5
KPJ Healthcare	NR	MYR	4.19	n/a	976	29.5	27.0	24.5	7.9	3.4	15.0	3.1	11.1	1.7
Bangkok Dusit	BUY	THB	18.7	23.00	8,080	32.2	26.0	22.5	20.0	1.3	21.2	5.6	20.1	1.2
Bangkok Chain	HOLD	THB	6.9	8.50	476	36.3	28.8	22.3	13.9	2.1	15.6	4.1	13.6	1.7
Bumrungrad	HOLD	THB	222.0	170.00	4,561	55.5	47.1	43.4	10.9	4.3	28.4	12.4	30.8	1.2
Chularat Hospital	HOLD	THB	2.16	1.90	670	43.2	36.0	30.9	16.7	2.2	25.5	0.8	20.8	0.9
Fortis Healthcare	NR	INR	171.2	n/a	1,229	81.4	37.9	27.0	n/a	n/a	34.6	1.8	5.1	-
Apollo Hospital	NR	INR	1,444	n/a	3,172	48.8	38.4	30.4	21.6	1.8	24.9	5.7	14.9	0.5
Siloam Hospital	NR	IDR	12,300	n/a	989	141.3	94.8	56.8	58.8	1.6	23.7	8.1	7.9	0.1
Phoenix Healthcare	NR	HKD	12.84	n/a	1,390	40.4	29.0	23.8	24.5	1.2	22.6	5.8	17.8	1.0
Aier Eye Hospital	NR	CNY	28.14	n/a	4,280	67.0	50.6	39.5	31.0	1.6	39.7	10.4	19.2	0.4
Topchoice Medical	NR	CNY	110.36	n/a	2,851	122.9	91.7	68.0	33.0	2.8	n/a	22.8	20.2	n/a
Sector average excl Q&M, Siloam & Topchoice						47.4	35.9	29.8	17.9	2.0	25.2	5.2	15.7	1.0

\*As of market close on 03 Oct 2015

Source: Bloomberg, Maybank KE

Figure 3: 5-year rolling P/E band



Source: Company, Maybank KE

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
<b>Key Metrics</b>					
P/E (reported) (x)	66.1	64.1	48.8	30.6	26.0
Core P/E (x)	82.6	64.1	48.8	30.6	26.0
P/BV (x)	9.3	7.2	5.4	4.8	4.3
P/NTA (x)	9.3	7.2	5.4	4.8	4.3
Net dividend yield (%)	1.8	1.0	1.1	1.1	1.2
FCF yield (%)	nm	nm	nm	3.2	4.3
EV/EBITDA (x)	17.3	21.5	26.7	20.3	17.1
EV/EBIT (x)	22.1	26.5	31.3	22.9	18.9

**INCOME STATEMENT (SGD m)**

Revenue	71.2	100.3	134.1	163.6	190.8
Gross profit	17.5	27.4	40.0	50.2	59.1
EBITDA	9.1	15.1	23.1	30.1	35.1
Depreciation	(2.0)	(2.8)	(3.4)	(3.4)	(3.5)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	7.1	12.2	19.7	26.7	31.6
Net interest income / (exp)	(0.3)	(0.5)	(1.8)	(2.4)	(2.4)
Associates & JV	0.1	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	7.0	11.8	17.9	24.3	29.3
Income tax	(0.5)	(1.3)	(2.0)	(2.7)	(3.2)
Minorities	(0.0)	(1.9)	(4.8)	(6.8)	(8.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	6.5	8.6	11.7	18.7	22.1
Core net profit	5.2	8.6	11.7	18.7	22.1

**BALANCE SHEET (SGD m)**

Cash & Short Term Investments	28.7	35.7	30.0	43.1	62.5
Accounts receivable	7.7	16.3	18.4	22.4	26.1
Inventory	4.1	8.6	11.6	14.2	16.5
Property, Plant & Equip (net)	15.4	37.4	100.0	101.5	102.9
Intangible assets	5.5	35.3	35.3	35.3	35.3
Investment in Associates & JVs	3.5	0.0	0.0	0.0	0.0
Other assets	2.8	7.4	7.4	7.4	7.4
<b>Total assets</b>	<b>67.6</b>	<b>140.7</b>	<b>202.6</b>	<b>223.8</b>	<b>250.7</b>
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	10.8	21.2	21.1	23.2	26.9
LT interest bearing debt	8.7	28.5	60.0	60.0	60.0
Other liabilities	1.0	6.0	2.0	2.0	2.0
<b>Total Liabilities</b>	<b>20.9</b>	<b>55.6</b>	<b>83.3</b>	<b>85.5</b>	<b>89.2</b>
Shareholders Equity	46.1	76.6	106.1	118.3	133.5
Minority Interest	0.6	8.4	13.2	20.0	28.0
<b>Total shareholder equity</b>	<b>46.7</b>	<b>85.0</b>	<b>119.3</b>	<b>138.3</b>	<b>161.5</b>
<b>Total liabilities and equity</b>	<b>67.6</b>	<b>140.7</b>	<b>202.6</b>	<b>223.8</b>	<b>250.7</b>

**CASH FLOW (SGD m)**

Pretax profit	7.0	11.8	17.9	24.3	29.3
Depreciation & amortisation	2.0	2.8	3.4	3.4	3.5
Adj net interest (income)/exp	0.3	0.5	1.8	2.4	2.4
Change in working capital	(3.5)	(4.3)	(5.1)	(4.4)	(2.4)
Cash taxes paid	(0.5)	(0.6)	(2.0)	(2.7)	(3.2)
Other operating cash flow	(1.1)	0.4	0.7	0.0	0.0
Cash flow from operations	4.1	10.6	16.6	23.0	29.5
Capex	(3.4)	(17.3)	(44.3)	(4.9)	(4.9)
Free cash flow	(4.5)	(28.5)	(27.4)	18.3	24.9
Dividends paid	(6.1)	(6.5)	(6.1)	(6.5)	(6.9)
Equity raised / (purchased)	16.8	13.0	2.1	3.9	3.9
Change in Debt	(0.7)	29.2	27.8	0.0	0.0
Other invest/financing cash flow	(5.6)	(22.3)	(1.8)	(2.4)	(2.4)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	5.1	6.6	(5.6)	13.0	19.2

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	24.7	40.9	33.8	21.9	16.6
EBITDA growth	78.5	65.8	53.3	30.4	16.6
EBIT growth	39.6	72.3	61.2	35.3	18.5
Pretax growth	31.4	68.6	52.0	35.5	20.6
Reported net profit growth	29.2	32.6	37.1	59.5	17.8
Core net profit growth	3.4	65.7	37.1	59.5	17.8
<b>Profitability ratios (%)</b>					
EBITDA margin	12.8	15.0	17.2	18.4	18.4
EBIT margin	10.0	12.2	14.7	16.3	16.6
Pretax profit margin	9.8	11.8	13.4	14.8	15.3
Payout ratio	nm	66.3	51.9	34.7	31.3
<b>DuPont analysis</b>					
Net profit margin (%)	9.1	8.5	8.8	11.5	11.6
Revenue/Assets (x)	1.1	0.7	0.7	0.7	0.8
Assets/Equity (x)	1.5	1.8	1.9	1.9	1.9
ROAE (%)	13.9	14.0	12.9	16.7	17.5
ROAA (%)	8.8	8.2	6.8	8.8	9.3
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(5.1)	(4.2)	4.5	15.5	19.2
Days receivable outstanding	33.7	43.2	46.5	44.9	45.8
Days inventory outstanding	18.8	31.5	38.7	40.9	41.9
Days payables outstanding	57.7	78.9	80.7	70.4	68.5
Dividend cover (x)	0.8	1.5	1.9	2.9	3.2
Current ratio (x)	3.8	2.6	3.0	3.5	4.0
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	3.2	2.5	2.4	2.6	2.8
Net debt/equity (%)	net cash	net cash	28.3	14.3	net cash
Net interest cover (x)	27.0	26.7	10.8	11.0	13.4
Debt/EBITDA (x)	1.0	1.9	2.6	2.0	1.7
Capex/revenue (%)	4.7	17.3	33.0	3.0	2.6
Net debt/ (net cash)	(20.1)	(7.2)	30.0	16.9	(2.5)

Source: Company; Maybank

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