

Q&M Dental Group (QNM SP)

Share Price: SGD0.75

Target Price: SGD0.97 (+30%)

MCap (USD): 408M

ADTV (USD): 1M

Singapore

Health Care

BUY

(Unchanged)

Strong delivery; expect more to come

- 3Q15 in line, 9M15 formed 65% of our FY15F. Two major acquisitions completed in Sep 2015 will boost earnings in the quarters ahead and we expect more deals to come.
- Acquisition model has shown great success in delivering sustainable growth and is increasingly replicated across the niche medical industry, ie. ISEC and Singapore O&G.
- Maintain BUY and TP of SGD0.97, based on 42x FY16 EPS, 1SD above its LT mean. Catalysts from more acquisitions.

Strong delivery despite negative carry from MTN

3Q15 core earnings grew 17% YoY, largely due to Chinese acquisitions completed in 3Q15 and one month contributions from TP Dental and Tiong Bahru Dental Clinic acquired in Sep 2015. The earnings growth would have been higher, at 45%, if we exclude SGD0.7m financing costs in the quarter from MTN issued in Mar 2015. Expect stronger 4Q from full quarter contributions of the two acquisitions and seasonality.

A sound business model that is increasingly valuable

Q&M's model of acquiring smaller players at earnings accretive valuations has successfully lifted its growth profile since 2014. We see great value in its ability to attract more players in Singapore and China to join its family, as it continues to build a strong track record. Two major deals completed in Sep 2015 are good examples.

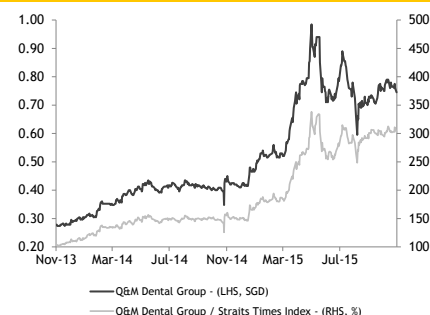
Beyond financials and its watertight structure in the form of profit guarantee and retaining joint ownership for the sellers, we are impressed with its practice of going into great lengths in its due diligence process. We note that it performs majority of the process with experienced in-house professional team which focuses highly on cash auditing and does not cut corners regardless of the deal size. During our recent company visit with a client in Oct 2015, we were impressed that its CFO went to China personally to perform due diligence on a small deal, worth only SGD1.7m. Operationally, Q&M has also put in great effort to share its expertise and business model with its new partners, to unlock revenue synergies.

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)	87.3	67.7	51.6	32.3	27.5
P/BV (x)	9.8	7.6	5.7	5.1	4.5
Net dividend yield (%)	1.7	1.0	1.0	1.1	1.1
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	28.1	21.4	18.0
Net debt/equity (%)	net cash	net cash	28.3	14.3	net cash

Key Data

52w high/low (SGD)	0.99/0.41
3m avg turnover (USDm)	1.1
Free float (%)	33.0
Issued shares (m)	780
Market capitalization	SGD581.3M
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(%)	(2.0)	(4.5)	69.3
Relative to index (%)	1.5	1.7	91.9

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	2	0	0
	Maybank Consensus		% +/-
Target Price (SGD)	0.97	0.95	2.4
'15 PATMI (SGDm)	12	13	(7.5)
'16 PATMI (SGDm)	19	18	1.9

Source: FactSet; Maybank

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Figure 1: 3Q15 results summary

FYE Dec (SGD m)	3Q15	2Q15	3Q14	QoQ (%)	YoY (%)	Comments
Revenue	30.6	30.5	28.4	0.3	7.6	In line with expectations 3Q15 lifted by three major acquisitions: Aidite (completed Aug 2014): SGD4.6m revenue contribution One month contribution from TP Dental One month contribution from Tiong Bahru and Bright Smile Dental Dental revenue, including Aoxin, increased 6% YoY
Other income	1.0	2.1	0.1	(51.0)	>100	Dental equipment & supply distribution revenue declined 35% YoY Gain from disposal of property of SGD1.8m
Consumables & supplies	(5.2)	(5.4)	(5.3)	(3.6)	(0.3)	More patients & higher costs of purchases related to new dental and medical outlets in Singapore and new entities in China
Employee benefits exp	(15.0)	(14.8)	(14.0)	1.0	7.1	Larger headcount post-acquisition of Aoxin and Aidite
Rental expenses	(2.6)	(2.2)	(2.2)	17.4	19.0	
Other expenses	(3.3)	(3.7)	(3.2)	(9.8)	2.9	
Share of associates' P&L	0.0	0.0	(0.0)	n.a.	n.a.	
Net financing costs	(0.8)	(0.7)	(0.2)	>100	>100	Higher following issue of SGD60m MTN in Mar 2015
PBT	4.6	5.7	3.7	(19.1)	26.4	
Income tax	(0.6)	(0.8)	0.0	(19.9)	>100	
Net profit before MI	4.0	4.9	3.7	(19.0)	9.0	
PATMI	2.7	3.7	2.3	(26.1)	16.7	
Recurring PATMI	2.7	2.0	2.3	34.6	16.7	Excludes: SGD1.8m gain from disposal of property in 2Q15 SGD0.1m professional fees for issuance of MTN and termination of IFC's term loan in 2Q15 Three acquisitions started contributing from 3Q15: Aidite (China) TP Dental (Singapore) Tiong Bahru and Bright Smile Dental (Singapore) Quarterly profit guarantees from newly-acquired entities: Aidite: SGD0.4m (3 months' contribution) TP Dental: SGD0.13m (1 month contribution) Tiong Bahru and Bright Smile Dental: SGD0.04m (1 month contribution)
EPS (SGD cts)	0.33	0.67	0.30	(50.0)	11.7	
Recurring EPS (SGD cts)	0.33	0.37	0.30	(8.9)	11.7	
DPS (SGD cts)	0.0	0.42	0.0	n.a.	n.a.	
				QoQ (ppt)	YoY (ppt)	
Recurring EBIT margin (%)	12.4	15.6	13.5	(3.1)	(1.1)	Improved YoY due to Aoxin and Aidite's lower cost structures
Recurring net margin (%)	7.6	10.7	12.8	(3.1)	(5.2)	

Source: Company, Maybank KE

Figure 2: 9M15 results summary

FYE Dec (SGD m)	9M15	9M14	YoY (%)	MBKE	YTD as a %	Comments
				FY15F	of FY15F	
Revenue	90.1	68.2	32.1	134.1	67.2	In line with expectations Lifted by two major acquisitions: Aoxin (completed on 7 Jul 2014) Aidite (completed on 13 Aug 2014): SGD10.3m Dental revenue, including Aoxin, increased SGD16% YoY Dental equipment and supply distribution revenue increased 491% YoY
Other income	3.3	0.9	>100	1.1	>100	Lifted by gain from disposal of property in 2Q15, amounting to SGD1.8m
Consumables & supplies	(15.5)	(10.4)	49.4	(21.2)	73.1	More patients, higher costs of purchases related to new dental and medical outlets in Singapore and new entities in China
Employee benefits exp	(43.9)	(38.5)	14.0	(69.6)	63.0	Larger headcount from acquisition of Aoxin and Aidite
Rental expenses	(7.2)	(6.1)	16.4	(11.0)	65.0	
Other expenses	(10.4)	(7.1)	45.8	(13.7)	75.8	
Share of associates' P&L	0.0	0.02	n.a.	-	n.a.	
Net financing costs	(1.8)	(0.3)	>100	(1.8)	96.4	Higher following issue of SGD60m MTN in Mar 2015
PBT	14.8	6.6	0.1	17.9	82.7	
Income tax	(2.0)	(0.6)	>100	(2.0)	103.2	
Net profit before MI	12.8	6.1	110.6	16.0	80.1	
PATMI	9.3	5.1	83.9	11.7	79.2	
Recurring PATMI	7.6	5.1	51.1	11.7	65.0	Excludes: SGD1.8m gain from disposal of property in 2Q15 SGD0.1m professional fees for issuance of MTN and termination of IFC's term loan in 2Q15 Three acquisitions started contributing from 3Q14: Aoxin (China) Foo and Associates (Singapore), completed on 16 Jul 2014 Aidite (China) Quarterly profit guarantees from newly-acquired entities: Aoxin: SGD0.34m (3 months contribution) Aidite: SGD0.4m (3 months contribution) Foo and Associates: SGD0.13m Expect seasonally-stronger 4Q (typically 30% of FY) to be further boosted by 4 acquisitions in Singapore and Malaysia
EPS (SGD cts)	1.14	0.65	76.0	1.44	79.2	
Recurring EPS (SGD cts)	0.94	0.65	44.5	1.44	65.0	
DPS (SGD cts)	0.42	1.30	(67.7)	0.75	56.0	
			YoY (ppt)			
Recurring EBIT margin (%)	16.6	10.2	6.3	14.7	16.6	Improved YoY from lower cost structures for Aoxin and Aidite.
Recurring net margin (%)	12.4	8.9	3.5	11.9	12.4	

Source: Company, Maybank KE

Figure 3: Peer comparison

Q&M is still trading at a discount vs its China-listed peers, despite having comparable 3Y EPS CAGR

	Rating	Curr.	Share price* (lccy)	Target price (lccy)	Market cap (USD m)	P/E (x)			3Y EPS CAGR (%)	EV/ EBITDA (x)	P/BV (x)	ROE (%)		Div yield (%)
						FY15F	FY16F	FY17F				FY15E	FY16E	
<u>China/HK healthcare peers</u>														
Topchoice Med	NR	CNY	110.36	n/a	2,851	125	93	65	35	71	23	20	21	-
Aier Eye Hospital	NR	CNY	33.09	n/a	5,102	77	58	45	33	45	12	17	19	0.3
Phoenix Healthc	NR	HKD	11.00	n/a	1,183	35	25	20	24	19	5	14	18	1.2
Sector average						79	59	43	31	45	13	17	19	0.8
<u>Local healthcare peers</u>														
Q&M Dental	BUY	SGD	0.75	0.97	408	52	32	28	35	28	6	13	17	1.0
Raffles Medical	BUY	SGD	4.30	5.22	1,738	39	33	31	5	25	4	12	13	1.4
IHH Healthcare	HOLD	MYR	6.56	6.35	12,298	55	47	39	23	25	3	5	6	0.5
Sector average						47	40	35	14	25	3	9	10	1.0

^aAs of market close on 16 Nov 2015

Source: Bloomberg, Maybank KE

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Metrics					
P/E (reported) (x)	69.8	67.7	51.6	32.3	27.5
Core P/E (x)	87.3	67.7	51.6	32.3	27.5
P/BV (x)	9.8	7.6	5.7	5.1	4.5
P/NTA (x)	9.8	7.6	5.7	5.1	4.5
Net dividend yield (%)	1.7	1.0	1.0	1.1	1.1
FCF yield (%)	nm	nm	nm	3.0	4.1
EV/EBITDA (x)	17.3	21.5	28.1	21.4	18.0
EV/EBIT (x)	22.1	26.5	32.9	24.1	20.0

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
Total assets	67.6	140.7	202.6	223.8	250.7
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
Total Liabilities	20.9	55.6	83.3	85.5	89.2
Shareholders Equity	46.1	76.6	106.1	118.3	133.5
Minority Interest	0.6	8.4	13.2	20.0	28.0
Total shareholder equity	46.7	85.0	119.3	138.3	161.5
Total liabilities and equity	67.6	140.7	202.6	223.8	250.7

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
Key Ratios					
Growth ratios (%)					
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
Profitability ratios (%)					
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
DuPont analysis					
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
Liquidity & Efficiency					
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
Leverage & Expense Analysis					
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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