

Q&M Dental Group (QNM SP)

A reason to smile

Strong 1Q21 well on track; BUY

1Q21 headline net profit soared 618% YoY to SGD9.4m, partly boosted by disposal gains of SGD4.3m from sale of its remaining 12.2% stake in Aidite. Excluding the one-off items, core earnings jumped by 198% to SGD6.8m on total revenue of SGD43.8m (+47% YoY), largely in line with MKE/consensus expectations. Post results briefing, we stay positive on Q&M on the back of robust organic growth with upside potential from better-than-expected testing business (versus our profit assumption of SGD8m or 25.8% of underlying PATMI).

Good showing from core dental business

Turnover from dental/medical clinics rose 41% YoY to SGD39.2m, mainly due to higher contribution from its existing outlets in Singapore. As at end-April, the Group has set up three new clinics in Singapore (Tampines Hub, Compassvale Crescent, and Orchard Central) and another two in Malaysia (Semenyih and Seremban). Meanwhile, it has also secured leases for three new dental outlets locally (Bedok Reservoir, Jurong Yuhua, and Canberra), which are expected to commence operations later this year. Q&M targets to open 10 new clinics in Singapore by 1H21 (+12% from 83 outlets in FY20).

Govt aggressively ramping up Covid-19 tests

The group's 51%-owned Acumen Diagnostics made its maiden contribution to bottomline in 1Q21, and is expected to grow for the rest of the year. According to MOH, the average daily number of swab tests over the past week has risen sharply to 76,400 (from c.34,600 in early Apr) given the recent spike of unlinked Covid-19 community cases. Moving forward, it will continue to ramp up this business via automation to improve efficiency and productivity to cater for higher number of swab tests conducted by the government, as well as expanding its in-house laboratory testing to include serology test.

Dental services not impacted by latest restrictions

With net proceeds of SGD17m received from the disposal of Aidite, Q&M has declared its first interim DPS of 1.0 cents (1Q20: NIL). As dental services are not affected by the latest tightening of Covid-19 measures, we leave our EPS estimates and TP of SGD0.87 intact, still pegged at 22x FY21e P/E or 15% discount to its bigger listed peers. Maintain BUY.

FYE Dec (SGD m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	128	138	208	233	257
EBITDA	35	38	63	67	74
Core net profit	18	20	31	37	42
Core EPS (cts)	2.3	2.5	3.9	4.7	5.3
Core EPS growth (%)	29.1	9.3	57.4	19.9	13.1
Net DPS (cts)	2.8	3.4	3.0	3.5	4.0
Core P/E (x)	21.0	18.8	16.6	13.9	12.3
P/BV (x)	3.1	3.1	4.5	4.5	4.4
Net dividend yield (%)	5.9	7.2	4.6	5.3	6.1
ROAE (%)	15.5	16.2	29.9	32.4	36.4
ROAA (%)	6.9	6.8	11.1	13.0	14.4
EV/EBITDA (x)	12.6	10.7	8.7	8.3	7.6
Net gearing (%) (incl perps)	52.6	23.1	20.2	22.0	24.2
Consensus net profit	-	-	31	37	41
MKE vs. Consensus (%)	-	-	1.6	(0.4)	3.4

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BUY

Share Price	SGD 0.66
12m Price Target	SGD 0.87 (+37%)
Previous Price Target	SGD 0.87

Company Description

Q&M Dental is one of the leading integrated dental healthcare group in Asia, which owns the largest network of private dental outlets in Singapore

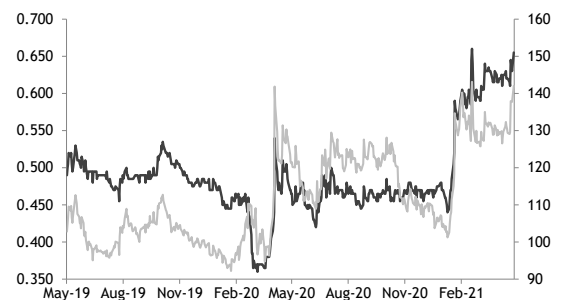
Statistics

52w high/low (SGD)	0.66/0.42
3m avg turnover (USDm)	1.8
Free float (%)	21.9
Issued shares (m)	805
Market capitalisation	SGD527.2M USD395M

Major shareholders:

Quan Min Holdings Pte Ltd.	53.3%
Heritas Capital Management Pte Ltd.	7.9%
KOH SHUNJIE KELVIN	4.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	4	15	36
Relative to index (%)	9	10	13

Source: FactSet

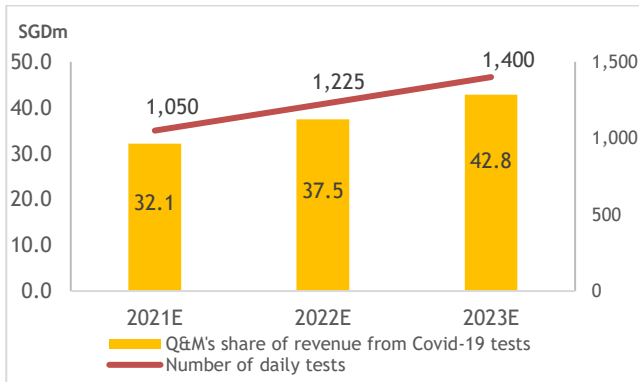
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Tear Sheet Insert

MKE
OPPORTUNITY+

Value Proposition

- Fills the gap between cheap-but-slow public dental services and premium services.
- Group model enables dentists to concentrate on core duties and leverage the firm's strong branding to attract patients.
- Healthy balance sheet with low gearing provides ample headroom for more organic expansion and accretive M&As.
- Covid-19 testing presents a new growth engine as the Singapore Government plans to raise its daily testing capacity by tapping private sector healthcare players.

Growing revenue from Covid-19 tests

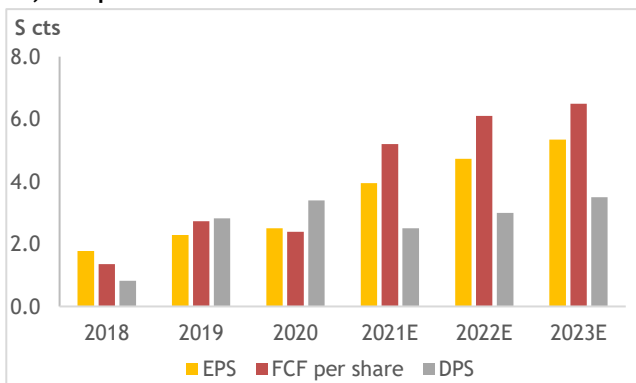


Source: Company, Maybank Kim Eng

Financial Metrics

- We expect sustainable revenue growth due to sale of Covid-19 test kits & testing, and contribution from new outlets.
- However, higher capex is expected as the Group progressively expands more dental clinics in Singapore and Malaysia over the next few years.
- Free cash flow is likely to stay positive given its robust cash generating business model.

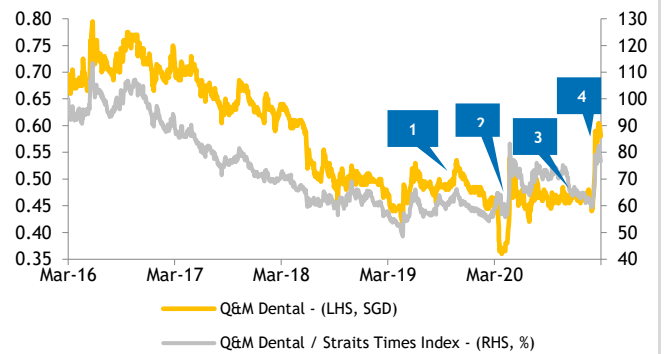
EPS, FCF per share and DPS



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

1. Proposed disposal of 36% stake in Aidite for SGD49m, giving rise to an estimated one-off gain of SGD19m. Net proceeds will be used for working capital and business expansion purposes.
2. Appoints Azion Healthcare as the exclusive distributor for cu-Corona® 3.0 in Mexico.
3. Its 51% subsidiary, Acumen was granted a healthcare institution licence from MOH to conduct SARS-CoV-2 PCR testing services for COVID-19.
4. FY20 net profit rose 10% YoY due to higher revenue from existing and new dental outlets. Declared special DPS of 2.5 cents.

Swing Factors

Upside

- Better-than-expected sale of Covid-19 test kits and laboratory testing.
- Ability to add more dental clinics at strategic locations to entrench its dominant market position.
- Potential accretive M&A to accelerate growth given the group's conservative balance sheet.

Downside

- Unable to attract new dentists or longer-than-expected gestation loss at new outlets.
- Lower patient volumes due to imposition of stricter measures amid another Covid-19 resurgence.
- Market share loss in its key markets due to keen competitive pressures from other players.

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Business Model & Industry Issues

- As a dental services provider, customer health/safety/privacy are amongst the highest priorities for both Q&M and stakeholders. Equal employment opportunity and continuous training & education are also important matters.
- In managing its supply chain, the Group ensures that its suppliers are continually assessed by management in accordance with the guiding principles established in its procurement policies.
- On the clinical front, it is working towards gradually obtaining “Eco-Shop” certifications at its clinics over the next few years. This is aimed at guiding and encouraging retailers to fit out their shops in an environmentally-sustainable manner, as well as to adopt eco-friendly habits and implement green practices in their daily operations.

Material E issues

- Q&M handles different types of clinical waste on a daily basis and it is important that its waste management process is conducted under a safe and sustainable manner.
- Licensed waste disposal vendors are engaged to collect and dispose sharps and biohazardous waste to ensure adherence to requirements stated in the Private Hospital and Medical Clinics Act by the Ministry of Health.
- The Group has yet to implement tracking mechanism to measure the quantity of waste disposed. However, the vendors it engaged have a proper system in place to collate data on the amount of waste collected to analyse.
- It will ensure all the defective ionising radiation irradiating apparatus such as x-ray machines are properly returned to the equipment vendor/distributor for proper disposal.
- There was no reported non-compliances with regulations relating to disposal of hazardous and non-hazardous waste.

Material S issues

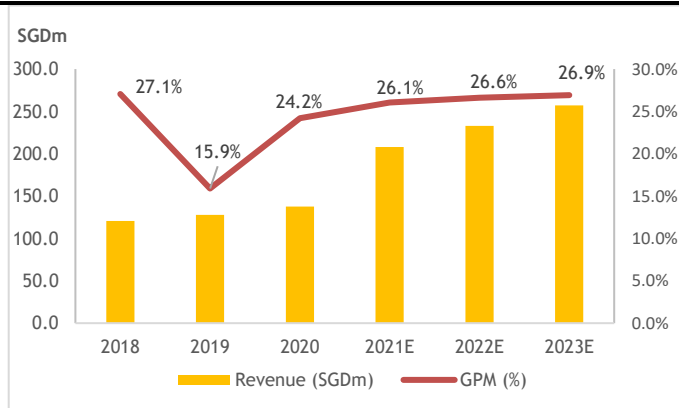
- As at 31 Dec 2019, the group has a total of 475 employees under its Singapore and Malaysia operations. The total employee retention rate was 89% and 100% in Singapore and Malaysia respectively.
- To ensure sustainability of its pool of dentists, the Group has launched its first private dentistry institution in Singapore, Q&M College of Dentistry which offers post-graduate diploma studies in clinical dentistry and Q&M Dental Group Scholarship Scheme in October 2019.
- All dentists must meet the mandatory requirements under the Dental Registration Act and the Medical Registration Act respectively. They are also required to fulfil certain number of hours of Continuing Professional Education in order to proceed with their practicing certificates renewal.
- In FY19, there were a total of 9 minor and non-fatal workplace accidents where clinic assistants suffered cuts and/or pricks by needles. It has taken immediate action such as reviewing and strengthening its procedures, implementing regular inspections on clinical equipment or instruments and sharing the incidents to all staffs.

Key G metrics and issues

- Board consists six directors, of whom two are executive directors, one is a non-executive, non-independent chairman, and three are independent (50%). There is one female director.
- The nominating, audit and remuneration committees are chaired by independent directors.
- Founder and CEO Dr. Ng Chin Siau’s deemed stake in company is approximately 54.46%.
- Two independent directors have served more than nine years from date of appointments. This will be taken into consideration when evaluating its board renewal.
- Diversified background of independent directors from legal and accounting with strong industry knowledge.
- Key management/ directors’ compensation accounted for 2.8%/0.25% of total employee compensation in 2019.
- Auditor is RSM Chio Lim LLP, which were appointed in 2016.
- It has a zero tolerance approach towards corrupt and dishonest practices or acts of bribery to obtain an unfair advantage and its employees are expected to report any concerns or unethical behaviour.
- All complaints or information would be forwarded to the Chairman of AC or CFO. There was no reported incident pertaining to whistle blowing during FY19.
- There were a total number of six complaint concerning a breach of customer privacy raised by patients in FY19. It has followed up promptly with the complainant and relevant authority to address their concerns.
- In Jan ‘21, Q&M reached a full settlement for RM3.5m against Madam Chong Lee Lee and her husband, Dr Hong An Liang on claim that the duo transferred company funds into their personal accounts. They also had set up a competing outfit behind Q&M Johor clinics, using its resources without permission.

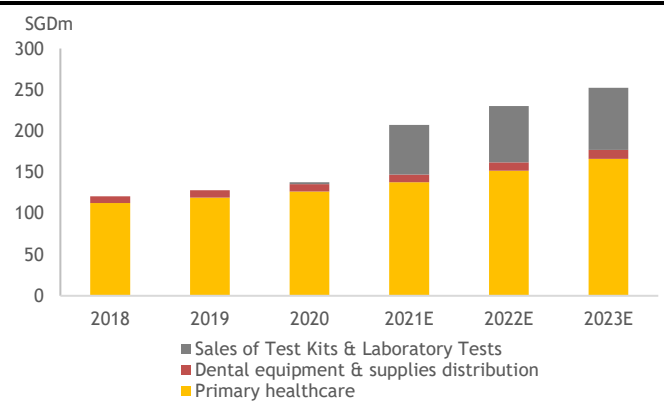
Focus charts

Fig 1: Revenue and gross margin (%)



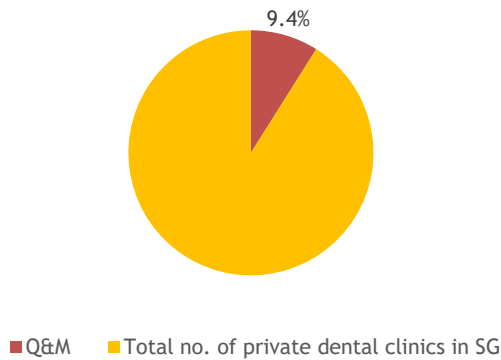
Source: Company data, Maybank Kim Eng

Fig 2: Revenue by business segments



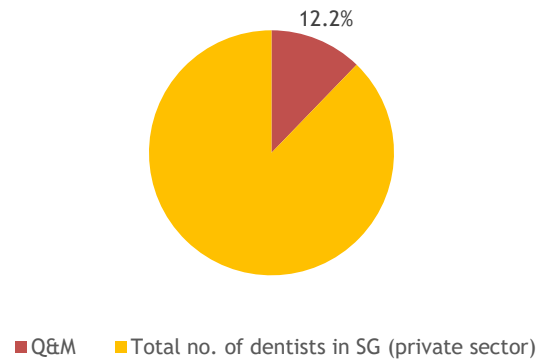
Source: Company data, Maybank Kim Eng

Fig 3: Market share based on number of outlets (2019)



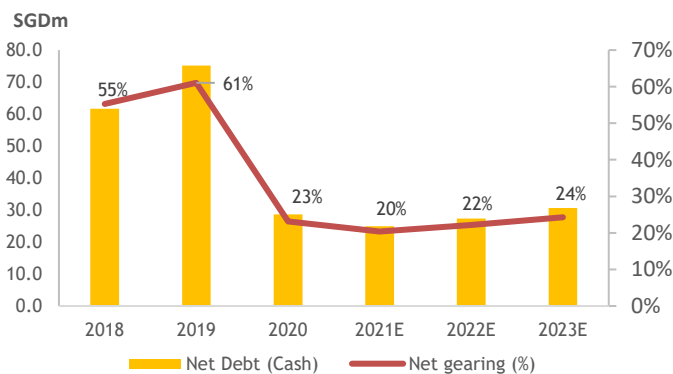
Source: Company data, MOH

Fig 4: Market share based on number of dentists (2019)



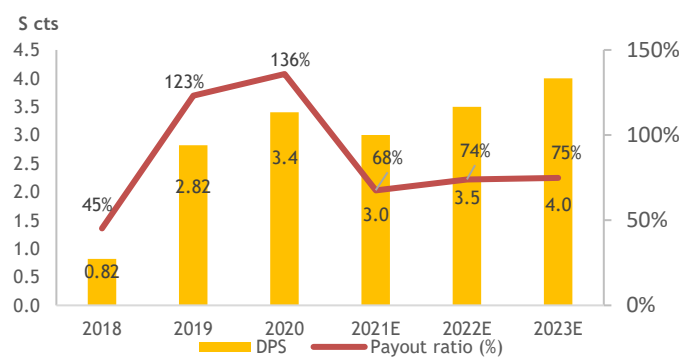
Source: Company data, MOH

Fig 5: Net debt (cash) and gearing (x)



Source: Company data, Maybank Kim Eng

Fig 6: DPS and payout ratio (%)



Source: Company data, Maybank Kim Eng

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	21.2	18.2	14.7	13.9	12.3
Core P/E (x)	21.0	18.8	16.6	13.9	12.3
P/BV (x)	3.1	3.1	4.5	4.5	4.4
P/NTA (x)	5.4	5.4	7.7	7.6	7.3
Net dividend yield (%)	5.9	7.2	4.6	5.3	6.1
FCF yield (%)	5.7	5.1	8.8	9.3	9.9
EV/EBITDA (x)	12.6	10.7	8.7	8.3	7.6
EV/EBIT (x)	21.8	15.4	10.6	10.0	9.0
INCOME STATEMENT (SGD m)					
Revenue	128.0	137.6	208.1	233.0	257.1
EBITDA	35.1	37.5	63.2	66.7	73.7
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	20.3	26.0	51.7	55.2	62.1
Net interest income / (exp)	(4.4)	(3.8)	(3.5)	(3.4)	(3.5)
Associates & JV	4.2	0.2	0.3	0.3	0.3
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	20.1	22.4	48.5	52.1	58.9
Income tax	(1.9)	(2.5)	(5.5)	(5.8)	(6.5)
Minorities	(0.2)	(0.1)	(7.8)	(9.1)	(10.4)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	18.0	19.7	35.2	37.2	42.0
Core net profit	18.0	19.7	31.0	37.2	42.0
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	27.3	48.8	52.7	50.2	46.8
Accounts receivable	87.3	18.2	22.9	30.3	38.6
Inventory	7.0	16.1	20.8	23.3	28.3
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	75.6	78.4	74.9	71.9	69.3
Intangible assets	53.5	55.6	55.6	55.6	55.6
Investment in Associates & JVs	42.0	43.7	43.7	43.7	43.7
Other assets	13.0	13.0	13.0	13.0	13.0
Total assets	305.8	273.8	283.6	287.9	295.3
ST interest bearing debt	22.2	1.9	1.9	1.9	1.9
Accounts payable	27.1	16.5	27.7	30.8	35.7
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	69.8	75.5	75.5	75.5	75.5
Other liabilities	64.0	56.0	56.0	56.0	56.0
Total Liabilities	182.6	149.9	161.0	164.1	169.0
Shareholders Equity	122.0	121.1	114.7	114.7	115.9
Minority Interest	1.2	2.8	7.8	9.1	10.4
Total shareholder equity	123.1	123.9	122.6	123.8	126.3
Total liabilities and equity	305.8	273.8	283.6	287.9	295.3
CASH FLOW (SGD m)					
Pretax profit	20.1	22.4	48.5	52.1	58.9
Depreciation & amortisation	14.7	11.5	11.5	11.5	11.5
Adj net interest (income)/exp	4.4	3.8	3.5	3.4	3.5
Change in working capital	5.0	(11.1)	(9.1)	(9.6)	(12.9)
Cash taxes paid	(0.7)	(1.2)	(1.2)	(1.2)	(1.2)
Other operating cash flow	(15.6)	0.4	0.2	0.2	0.2
Cash flow from operations	28.0	25.8	53.5	56.5	60.1
Capex	(6.5)	(7.0)	(8.0)	(8.5)	(9.0)
Free cash flow	21.5	18.8	45.5	48.0	51.1
Dividends paid	(6.4)	(22.2)	(23.6)	(27.6)	(31.5)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	5.2	(9.4)	(10.0)	(10.0)	(10.0)
Other invest/financing cash flow	(17.8)	34.3	(7.9)	(12.9)	(12.9)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	2.4	21.5	3.9	(2.5)	(3.3)

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	5.9	7.5	51.2	12.0	10.3
EBITDA growth	118.3	7.0	68.5	5.5	10.4
EBIT growth	59.4	27.8	98.9	6.8	12.6
Pretax growth	35.5	11.2	116.8	7.4	13.1
Reported net profit growth	28.3	9.5	78.7	5.6	13.1
Core net profit growth	28.3	9.5	57.4	19.9	13.1
Profitability ratios (%)					
EBITDA margin	27.4	27.3	30.4	28.6	28.7
EBIT margin	15.9	18.9	24.8	23.7	24.2
Pretax profit margin	15.7	16.3	23.3	22.4	22.9
Payout ratio	123.2	135.9	67.1	74.2	75.0
DuPont analysis					
Net profit margin (%)	14.1	14.3	16.9	15.9	16.3
Revenue/Assets (x)	0.4	0.5	0.7	0.8	0.9
Assets/Equity (x)	2.5	2.3	2.5	2.5	2.5
ROAE (%)	15.5	16.2	29.9	32.4	36.4
ROAA (%)	6.9	6.8	11.1	13.0	14.4
Liquidity & Efficiency					
Cash conversion cycle	(13.9)	8.2	(0.0)	(23.5)	(14.3)
Days receivable outstanding	146.2	138.0	35.5	41.1	48.2
Days inventory outstanding	82.6	146.5	178.9	198.2	216.5
Days payables outstanding	242.7	276.3	214.5	262.7	279.0
Dividend cover (x)	0.8	0.7	1.5	1.3	1.3
Current ratio (x)	1.8	2.9	2.4	2.4	2.4
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	1.8	1.8	1.8	1.7
Net gearing (%) (incl perps)	52.6	23.1	20.2	22.0	24.2
Net gearing (%) (excl. perps)	52.6	23.1	20.2	22.0	24.2
Net interest cover (x)	4.6	6.9	14.8	16.2	17.8
Debt/EBITDA (x)	2.6	2.1	1.2	1.2	1.1
Capex/revenue (%)	5.1	5.1	3.8	3.6	3.5
Net debt/ (net cash)	64.8	28.6	24.7	27.2	30.6

Source: Company; Maybank

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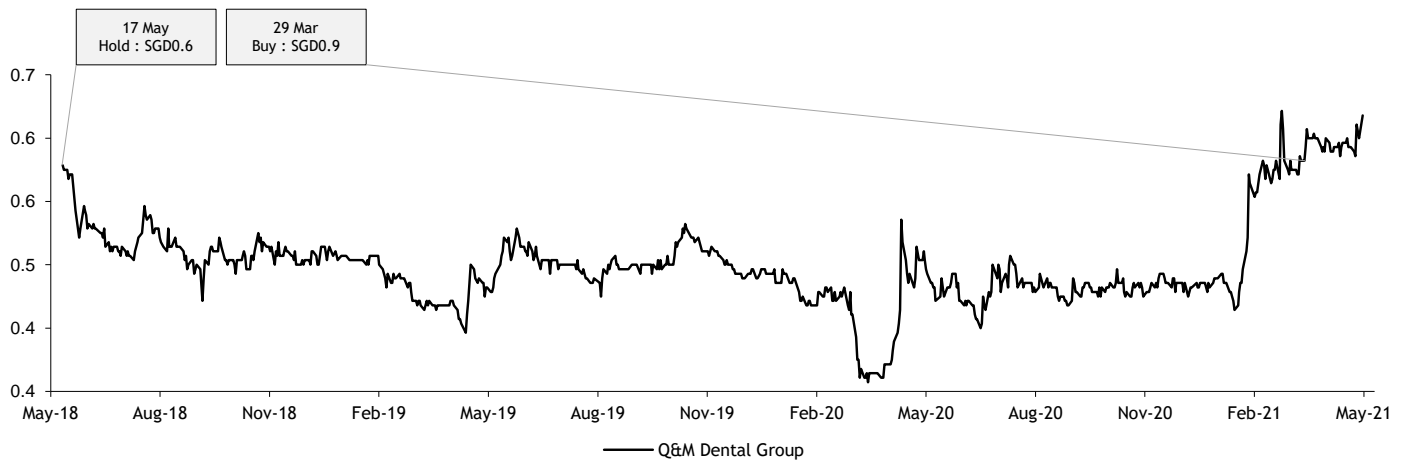
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