

Q&M Dental Group (QNM SP)

A transition year

HOLD

[Prior:BUY]

Share Price SGD 0.37
 12m Price Target SGD 0.40 (+8%)
 Previous Price Target SGD 0.78

2Q22 below market expectations; D/G to HOLD

To recap, QNM's 2Q22 net profit of SGD3.4m (48% QoQ; -60% YoY) was disappointing due to the sharply lower-than-expected contribution from PCR tests. While 2Q revenue fell 13% YoY to SGD44.1m, earnings suffered more due to negative operating leverage amid current inflationary pressures. To conserve cash, the group did not declare an interim DPS. We cut our FY22-24E EPS by over 40% on complete removal of testing revenues and slower core dental business growth. Downgrade to HOLD with a lower TP of SGD0.40 as we roll forward our valuation to 20x FY23E P/E.

Outlet expansion to drive core dental business

Management will now focus on its dental operations (SG/MY: +17/+7 new outlets in the last 12 months) and has initiated a strategy of intensive organic growth going forward. At the same time, the Group will continue to look for opportunities to further expand its core healthcare business through the opening of more dental clinics in the region. Even as the Group seeks to further grow its network, we are cognisant of the increased staff costs in this tight labour market, as well as the gestation period of about one year for new outlets to break-even.

TechMed could be next growth engine

Meanwhile, Q&M is looking to develop and optimise its digital Artificial Intelligence (AI) guided clinical decision support system to provide the most effective and suitable treatment plans for patients. While this could potentially be the next blockbuster, catering to rising demand for primary and high-value specialist dental healthcare services, we think continued investments could weigh on its bottomline in the near-term.

Looks to roll out pipeline of new tests

To offset the rapid decline in Covid tests volumes/prices, the Group's 51%-owned subsidiary, Acumen Diagnostics, aims to progressively roll out its pipeline of new PCR tests. These include tests for sepsis, identification of bacteria pathogens and their associated antimicrobial resistance in hospitalised pneumonia, as well as colorectal cancer screening and pharmacogenomics. But given the lack of visibility on commercialisation, we do not assume any contributions from these new ventures.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	138	206	182	184	185
EBITDA	38	64	43	43	44
Core net profit	20	26	18	19	20
Core EPS (cts)	2.5	2.8	1.9	2.0	2.1
Core EPS growth (%)	9.3	12.1	(32.7)	6.0	5.1
Net DPS (cts)	3.4	4.0	1.0	1.1	1.2
Core P/E (x)	15.7	21.6	19.6	18.5	17.6
P/BV (x)	2.5	6.1	3.6	3.9	4.3
Net dividend yield (%)	8.7	6.6	2.7	3.0	3.2
ROAE (%)	16.2	28.3	18.8	20.2	23.4
ROAA (%)	6.8	9.6	6.7	7.3	7.9
EV/EBITDA (x)	9.1	9.6	8.9	8.8	8.8
Net gearing (%) (incl perps)	23.1	28.8	24.5	27.7	32.5
Consensus net profit	-	-	22	26	28
MKE vs. Consensus (%)	-	-	(17.6)	(25.1)	(27.7)

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Company Description

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

Statistics

52w high/low (SGD)	0.65/0.37
3m avg turnover (USDm)	0.2
Free float (%)	34.2
Issued shares (m)	805
Market capitalisation	SGD297.8M USD210M

Major shareholders:

Quan Min Holdings Pte Ltd.	50.2%
Heritas Capital Management Pte Ltd.	6.7%
Q & M Dental Group (Singapore) Ltd.	2.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(5)	(19)	(35)
Relative to index (%)	(5)	(23)	(39)

Source: FactSet

Link to sector note:

[Singapore Healthcare - Rebooting medical tourism | POSITIVE](#)

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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.

No. of dentists per 10,000 people

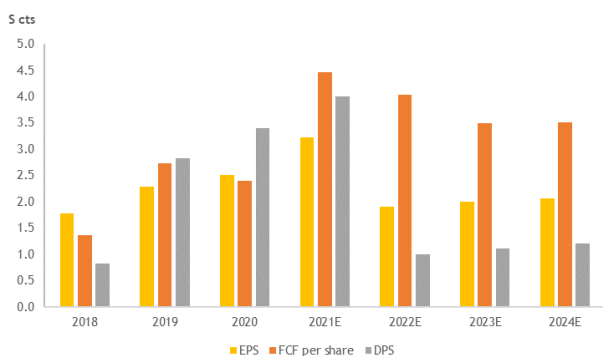


Source: Company, Maybank IBG Research

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.

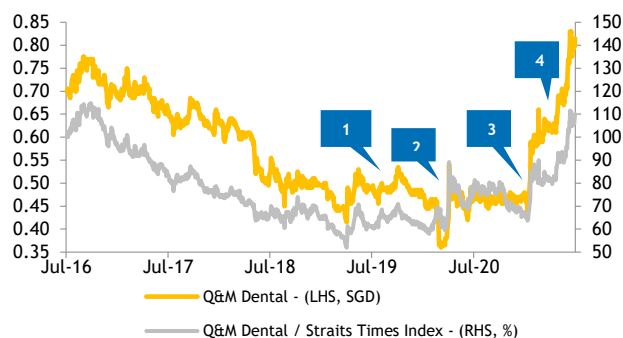
EPS, FCF per share and DPS



Source: Company, Maybank IBG Research

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

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.

Risk Rating & Score ¹	NOT RATED
Score Momentum ²	na
Last Updated	na
Controversy Score ³	na

Business Model & Industry Issues

- As a dental services provider, its first priority was the safety of all patients and employees amid the current COVID-19 pandemic and it had implemented tighter access and strict infection control protocols.
- 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 were no reported non-compliances with regulations relating to disposal of hazardous and non-hazardous waste.

Material S issues

- As at 31 Dec 2021, the group has a total of 713 employees under its Singapore and Malaysia operations. Of which, 77 are temporary employees and they are treated in accordance with salary practices in the region it operates in as part of the fair working environment practice.
- 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 Oct '19.
- 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 FY21, there were 3 minor and non-fatal workplace accidents where clinic assistants suffered cuts and/or pricks by needles.

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 c.2%/1% of total employee compensation in 2021.
- 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 FY21.
- In Sep '20, the Group had discovered a case relating to the misappropriation of company's funds which involved two employees from its clinics in Johor. A police report has been lodged immediately following the discovery of the incident and the investigation is still ongoing.
- 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.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative parameters (Score: 58)						
	Particulars	Unit	2019	2020	2021	RFMD SP (2021)
E	Scope 1 GHG emissions	m tCO ₂ e	N/A	N/A	N/A	N/A
	Scope 2 GHG emissions	m tCO ₂ e	N/A	N/A	N/A	N/A
	Total	m tCO₂e	N/A	N/A	N/A	N/A
	Scope 3 GHG emissions	m tCO ₂ e	N/A	N/A	N/A	N/A
	Total	m tCO₂e	N/A	N/A	N/A	N/A
	GHG intensity (Scope 1 and 2)	tCO ₂ e/t	N/A	N/A	N/A	N/A
	Energy consumption	m KWh	1.92	2.08	2.28	N/A
	Energy intensity ratio	KWh/m ²	258.4	274.0	247.1	N/A
	Water consumption	m ³	20,228	19,198	21,439	N/A
	Water intensity ratio	m ³ /m ²	2.8	2.6	2.3	N/A
	Air emissions intensity	ton/kT	N/A	N/A	N/A	N/A
	NPE (New Plastic Economy) investments	SGD m	N/A	N/A	N/A	N/A
Cases of environmental non-compliance	number	0	0	0	0	
S	% of women in workforce	%	79%	78%	84%	N/A
	% of women in management roles	%	40%	29%	33%	45%
	Lost time injury frequency (LTIF) rate	number	0.0	0.0	0.0	0.0
	Average training hours per employee	hours	13.9	3.7	4.1	11.7
G	CEO/MD salary as % of reported net profit	%	7.8%	3.6%	9.1%	N/A
	Board salary as % of reported net profit	%	2.7%	3.2%	4.3%	N/A
	Independent directors on the Board	%	50%	37.5%	37.5%	64%
	Female directors on the Board	%	16.7%	12.5%	12.5%	18%

Qualitative Parameters (Score: 68)	
a) is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?	<i>Yes. Led by the CEO and COO, the committee oversees the implementation of the group's overall sustainability strategy.</i>
b) is the senior management salary linked to fulfilling ESG targets?	<i>No</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>Yes</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>No</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>1) Installation of thimbles in taps; 2) All new clinics were installed with refrigerated areas to store clinical waste prior to disposal; and 3) engaged licensed waste disposal suppliers to collect and dispose sharps & biohazardous waste.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes</i>

Target (Score: 40)		
Particulars	Target	Achieved
Reduce electricity consumption per clinic	N/A	N/A
Maximise water efficiency per clinic	N/A	N/A
Minimise clinical waste per clinic	N/A	N/A
Maintain zero-reported data privacy incidents	0	0
Increase average training hours for staff	3.0	4.1
Impact		
NA		
Overall score: 56		
As per our ESG matrix, Q&M Dental (QNM SP) has an overall score of 56.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	58	29
Qualitative	25%	68	17
Target	25%	40	10
Total			56

As per our ESG assessment, Q&M has an established framework, internal policies, and tangible mid/long-term targets but needs to make headway in improving its quantitative "E" metrics YoY. Its overall ESG score is 56, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	15.2	17.4	19.6	18.5	17.6
Core P/E (x)	15.7	21.6	19.6	18.5	17.6
P/BV (x)	2.5	6.1	3.6	3.9	4.3
P/NTA (x)	4.5	13.3	8.9	11.3	16.1
Net dividend yield (%)	8.7	6.6	2.7	3.0	3.2
FCF yield (%)	6.1	7.4	10.9	9.4	9.5
EV/EBITDA (x)	9.1	9.6	8.9	8.8	8.8
EV/EBIT (x)	13.1	12.2	14.4	14.4	14.4
INCOME STATEMENT (SGD m)					
Revenue	137.6	205.6	182.4	183.8	185.5
EBITDA	37.5	63.7	43.2	43.4	43.6
Depreciation	(11.5)	(13.6)	(16.6)	(16.8)	(17.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	26.0	50.1	26.6	26.6	26.6
Net interest income / (exp)	(3.8)	(3.0)	(3.1)	(3.2)	(3.2)
Associates & JV	0.2	(0.5)	(1.5)	(1.0)	(0.5)
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	22.4	46.7	22.0	22.5	22.9
Income tax	(2.5)	(7.3)	(2.9)	(2.7)	(2.5)
Minorities	(0.1)	(8.9)	(0.9)	(0.4)	(0.1)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	19.7	30.5	18.2	19.3	20.3
Core net profit	19.7	26.5	18.2	19.3	20.3
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	48.8	47.6	52.8	52.0	50.3
Accounts receivable	18.2	27.8	25.5	25.7	26.0
Inventory	16.1	15.9	13.7	13.8	13.9
Reinsurance assets	0.0	0.0	0.0	0.0	1.0
Property, Plant & Equip (net)	78.4	84.3	76.2	68.4	60.4
Intangible assets	55.6	60.2	60.2	60.2	60.2
Investment in Associates & JVs	43.7	27.0	27.0	27.0	27.0
Other assets	13.0	13.3	13.3	13.3	14.3
Total assets	273.8	276.2	268.8	260.4	253.1
ST interest bearing debt	1.9	1.9	1.9	1.9	1.9
Accounts payable	16.5	26.2	21.6	21.8	22.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	1.0
LT interest bearing debt	75.5	75.5	75.5	75.5	75.5
Other liabilities	56.0	69.0	69.0	69.0	69.0
Total Liabilities	149.9	172.9	168.3	168.5	169.7
Shareholders Equity	121.1	94.4	99.5	91.5	82.3
Minority Interest	2.8	8.9	0.9	0.4	0.1
Total shareholder equity	123.9	103.2	100.5	91.9	82.4
Perpetual securities	0.0	0.0	0.0	0.0	1.0
Total liabilities and equity	273.8	276.2	268.8	260.4	253.1
CASH FLOW (SGD m)					
Pretax profit	22.4	46.7	22.0	22.5	22.9
Depreciation & amortisation	11.5	13.6	16.6	16.8	17.0
Adj net interest (income)/exp	3.8	3.0	3.1	3.2	3.2
Change in working capital	(11.1)	(5.6)	4.8	0.0	(0.0)
Cash taxes paid	(1.2)	(3.1)	(1.2)	(1.2)	(1.2)
Other operating cash flow	0.4	(3.7)	2.0	1.5	1.0
Cash flow from operations	25.8	50.8	47.4	42.8	43.0
Capex	(7.0)	(8.6)	(8.5)	(9.0)	(9.0)
Free cash flow	18.8	42.2	38.9	33.8	34.0
Dividends paid	(22.2)	(48.8)	(9.7)	(10.6)	(11.6)
Equity raised / (purchased)	0.0	(3.1)	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	1.0
Change in Debt	(9.4)	8.6	(10.0)	(10.0)	(10.0)
Perpetual securities distribution	0.0	0.0	0.0	0.0	1.0
Other invest/financing cash flow	34.3	(17.1)	(14.0)	(14.0)	(11.0)
Effect of exch rate changes	0.0	0.0	0.0	0.0	1.0
Net cash flow	21.5	(18.1)	5.2	(0.9)	4.4

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	7.5	49.4	(11.3)	0.8	0.9
EBITDA growth	7.0	69.8	(32.2)	0.4	0.5
EBIT growth	27.8	92.9	(46.9)	(0.1)	0.1
Pretax growth	11.2	108.5	(52.8)	1.9	2.1
Reported net profit growth	9.5	54.7	(40.2)	6.0	5.1
Core net profit growth	9.5	34.4	(31.1)	6.0	5.1
Profitability ratios (%)					
EBITDA margin	27.3	31.0	23.7	23.6	23.5
EBIT margin	18.9	24.4	14.6	14.5	14.4
Pretax profit margin	16.3	22.7	12.1	12.2	12.4
Payout ratio	135.9	123.9	53.0	55.0	57.1
DuPont analysis					
Net profit margin (%)	14.3	14.8	10.0	10.5	11.0
Revenue/Assets (x)	0.5	0.7	0.7	0.7	0.7
Assets/Equity (x)	2.3	2.9	2.7	2.8	3.1
ROAE (%)	16.2	28.3	18.8	20.2	23.4
ROAA (%)	6.8	9.6	6.7	7.3	7.9
Liquidity & Efficiency					
Cash conversion cycle	8.2	(3.4)	(23.9)	(16.1)	(16.0)
Days receivable outstanding	138.0	40.3	52.7	50.2	50.2
Days inventory outstanding	146.5	129.5	123.6	113.8	113.6
Days payables outstanding	276.3	173.2	200.2	180.1	179.8
Dividend cover (x)	0.7	0.8	1.9	1.8	1.8
Current ratio (x)	2.9	2.1	2.4	2.3	2.3
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.6	1.6	1.5	1.5
Net gearing (%) (incl perps)	23.1	28.8	24.5	27.7	32.5
Net gearing (%) (excl. perps)	23.1	28.8	24.5	27.7	32.9
Net interest cover (x)	6.9	16.7	8.6	8.4	8.3
Debt/EBITDA (x)	2.1	1.2	1.8	1.8	1.8
Capex/revenue (%)	5.1	4.2	4.7	4.9	4.9
Net debt/ (net cash)	28.6	29.8	24.6	25.4	27.1

Source: Company; Maybank IBG Research

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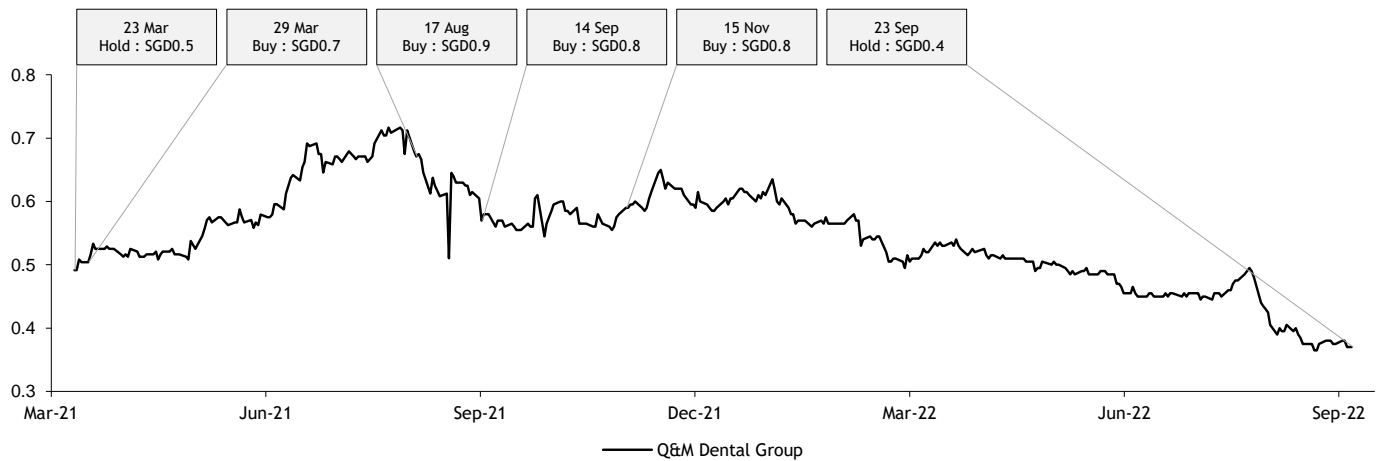
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