February 27, 2024

Health Care

Singapore

Thomson Medical Group (TMG SP)

The next healthcare giant

BUY

Share Price	SGD 0.05
12m Price Target	SGD 0.08 (+54%)

Growing ASEAN footprint; Initiate BUY

Thomson Medical Group (TMG) is one of the largest private providers of healthcare services for women and children in Singapore. It also has a strategic presence in Malaysia and, more recently, expanded to Vietnam via the acquisition of FV Hospital in Jul 2023. We initiate with a BUY and 12-month TP of SGD0.08, pegged at 23x FY25E EV/EBITDA, representing about -0.5 standard deviation below its historical mean. While trading at a premium to peers, we think this is justifiable given its strong portfolio of healthcare assets in the region which offers high growth potential.

Gearing up for more Dragon Year babies

TMG is now working to maximise its hospital bed capacity in Singapore, anticipating a rise in deliveries associated with The Dragon Year. According to data from the Singapore Department of Statistics, in 2012, the last Dragon Year, 38,641 resident live births were recorded (vs 36,178 in 2011 and 35,681 in 2013) and in 2000, there were 44,765 resident live births (vs 41,327 in 1999, and 39,281 in 2001). In Malaysia, the newly added wing at its Thomson Hospital Kota Damansara (THKD) will be introduced in phases, with potential expansion in the total licensed bed capacity to 535 beds from 350, which is expected to be commissioned in the next 2 years.

EBITDA accretive acquisition in Vietnam

On 21 Dec 2023, TMG completed the USD381m acquisition of FV Hospital in Ho Chi Minh City, marking the biggest healthcare deal to-date in Vietnam and the largest in Southeast Asia since 2020. This paves the way for further inroads into one of Southeast Asia's fastest-growing healthcare markets, including the huge potential for medical tourism in the country. The deal is immediately accretive to its EBITDA (+25% on proforma basis), as well as providing financial scale and geographical diversification for the Group.

Potential beneficiary of Johor-Singapore SEZ

We are sanguine on TMG's long-term growth plans as it looks to capitalize on its strategic hospital assets to expand to other healthcare adjacencies. Notably, its Thomson Iskandar Medical Hub project in Johor (which will house a 500-bed tertiary hospital and 400 medical suites) is set to benefit from the establishment of Johor-Singapore Special Economic Zone when completed within the next few years. TMG also owns a prime 9.23ha freehold waterfront land plot in Johor's City Centre that holds immense potential for monetisation and/or value unlocking, in our view.

FYE Jun (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	334	356	390	451	482
EBITDA	110	103	98	133	140
Core net profit	54	37	20	37	43
Core EPS (cts)	0.2	0.1	0.1	0.1	0.2
Core EPS growth (%)	277.9	(32.0)	(45.2)	82.7	16.2
Net DPS (cts)	0.1	0.0	0.0	0.0	0.0
Core P/E (x)	38.9	42.7	68.6	37.5	32.3
P/BV (x)	3.4	2.7	2.4	2.3	2.2
Net dividend yield (%)	1.5	0.7	0.8	0.8	0.8
ROAE (%)	10.5	7.1	4.0	7.1	7.8
ROAA (%)	4.1	2.6	1.2	2.0	2.2
EV/EBITDA (x)	24.1	20.4	24.7	18.1	17.1
Net gearing (%) (incl perps)	76.8	80.1	162.6	154.4	143.7
Consensus net profit	-	-	27	37	45
MIBG vs. Consensus (%)	-	-	(26.9)	0.1	(6.3)

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Company Description

Thomson Medical Group primarily engages in the healthcare and real estate business.

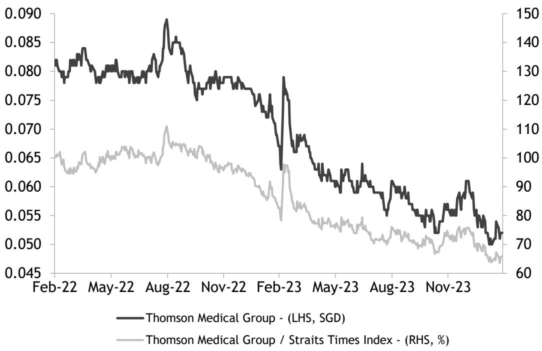
Statistics

52w high/low (SGD)	0.08/0.05
3m avg turnover (USDm)	0.2
Free float (%)	10.0
Issued shares (m)	26,441
Market capitalisation	SGD1.4B
	USD1.0B

Major shareholders:

Lim Eng Hock	89.8%
Norges Bank Investment	0.3%
IFast Financial Pte Ltd	0.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(5)	(9)	(25)
Relative to index (%)	(6)	(11)	(22)

Source: FactSet

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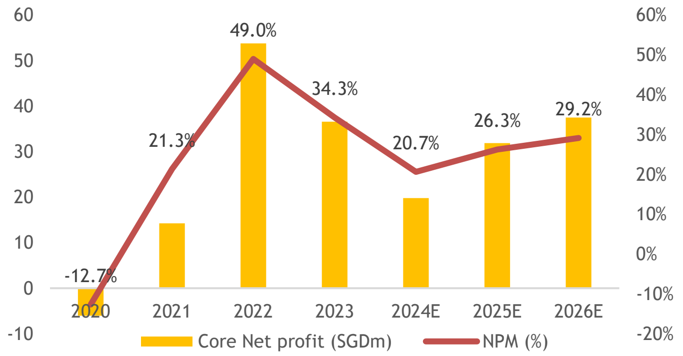
Value Proposition

- Thomson Medical Centre delivers c.25% of Singapore's babies annually with about 40-50% market share of live birth deliveries within the private sector.
- The Group will focus on higher-margin services along with expansion of its specialist care as its egg freezing offering complements an already strong fertility specialism.
- With one of the largest IVF laboratories in Southeast Asia, THKD intends to double down on its fertility leadership.
- The acquisition of FV Hospital unlocks a potentially huge Vietnam opportunity for the Group, paving the way for further inroads into one of Southeast Asia's fastest-growing healthcare markets.

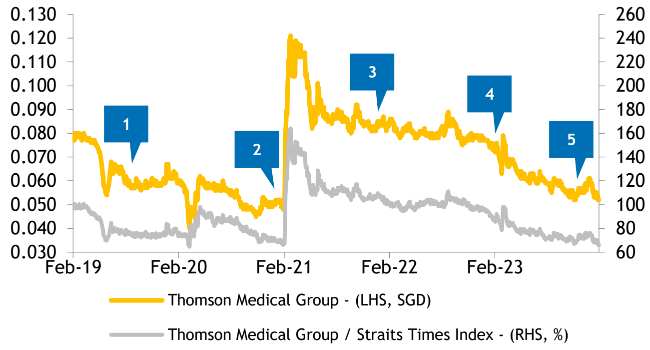
Net profit and NPM trend



Source: Company, Maybank IBG Research

Price Drivers

Historical share price trend



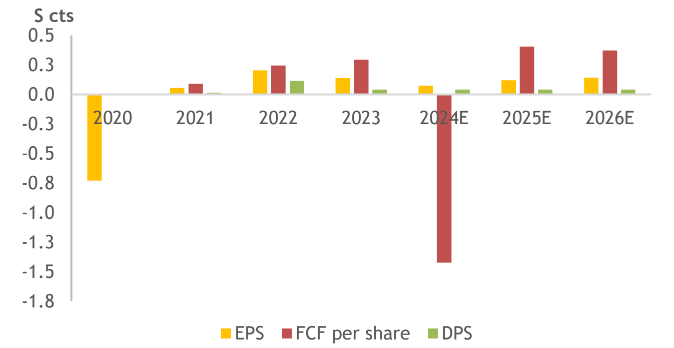
Source: Company, Maybank IBG Research

1. Debut Bond Offering, marking TMG's first step into the debt capital markets.
2. Completed the construction of its THKD expansion wing in 2021 with additional bed capacity of 300.
3. The group ran two paediatric vaccination centres at its Tampines Hub and One Punggol centres to support the health ministry in its fight against Covid-19.
4. Launched Thomson X as part of its technology roadmap.
5. Acquired Vietnam's FV Hospital for USD381.4m, which is the country's biggest healthcare transaction to-date and Southeast Asia's largest healthcare acquisition since 2020.

Financial Metrics

- Total revenue is projected to rise by 10% in FY24E and 13% YoY in FY25E on the back of the contribution from its newly-acquired FV Hospital.
- We also expect EBITDA to improve as TMG looks to focus on higher-margin offerings with expansion of its specialist care, especially in IVF and paediatric services.
- While current net gearing is high at 1.6x, this is expected to reduce with its strong operating cash flows.
- Expect capex to normalise after the FV hospital acquisition completion barring any major M&As.

EPS, DPS and FCF per share



Source: Company, Maybank IBG Research

Swing Factors

Upside

- More deliveries associated with the 'Chinese Dragon Year'.
- Better-than-expected margins from new services especially in the areas of fertility, paediatric services and integrated specialist healthcare.
- Potential monetisation and/or value unlocking of its 9.2ha of freehold waterfront land strategically located in Johor Bahru's City Centre, which is currently carried at historical cost (est. SGD255m) in its balance sheet.

Downside

- Growth could take longer than anticipated to play out, driven negatively by execution risks.
- High leverage post the FV hospital acquisition, which led to higher finance costs, especially in the current high interest rate environment.
- Continued decline in total live births & total fertility rate in Singapore, thus shrinking its O&G business.

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Risk Rating & Score[1]	Not Rated
Score Momentum[2]	Na
Last Updated	Na
Controversy Score[3]	Na

Business Model & Industry Issues

- Founded in 1979, Thomson Medical Pte Ltd (TMPL) is a major private healthcare provider in Singapore, particularly for women and children. It owns Thomson Medical Centre (TMC) and a network of clinics offering diverse services including diagnostics, health screening, dentistry, oncology, and aesthetics with patient wellbeing being their utmost priority.
- TMG is dedicated to retaining its workforce and establishing a workplace that is safe, healthy, and resilient.
- TMG values ongoing learning and improvement, offering various training and development programmes tailored to employees' roles.
- Given the current shortage of healthcare professionals, more staff are being brought in and TMG is planning to double the total number of paediatricians in the next 12-18 months which may lead to increase in staff expenses.
- TMG adheres to applicable laws, regulations, and implements procedures to protect customer information.

Material E issues

- TMC received the Green Mark certification awarded by the Building & Construction Authority (BCA) in Sep 2020. TMPL also gained the ISO 14001 - Environmental Management System Certification.
- There was an improvement in the company's Biohazardous Waste Index which decreased from 6.96 litre/patient-day to 6.83 litre/patient-day
- The company met the water consumption Index target set by ISO14001, even though FY23 showed higher consumption compared to FY22. Initiatives that address this include recycling initiatives, sustainable meals & local produce, environmental awareness and education.
- In Jan 2020, TMPL was awarded the Water Efficient Building Basic certification. The BCA Building Energy Benchmarking Report 2022 positions TMC commendably at a rank of 6 out of 16 hospitals in Singapore concerning the lowest energy use intensity within the healthcare realm.

Material S issues

- As of 30 June 2023, TMPL employed 695 individuals, stable from the 699 employees at end-FY22, indicating easing pandemic-related workforce challenges.
- The current board demonstrates the company's dedication to diversity, particularly in terms of female representation and age range, with one-third of the board now women.
- The TMG Workplace Safety and Health Committee (WSHC) meets monthly to establish protocols, ensuring legal compliance through audits, incident reviews, and staff training.
- The number of recordable work-related injuries decreased from 13 in FY22 to 10 in FY23 but various policies and committees are set up to ensure better clinical quality, nursing quality, patient safety, workplace health and safety.

Key G metrics and issues

- The current board consists of 7 members, of whom three are executives, including the vice chairman. The remaining directors are independent (57%). All members of the ARC are non-executive directors. None of the ARC member is a former partner or director of the existing auditing firm or auditing corporation.
- During the financial period under review, the ARC independently met with the company's auditors to discuss accounting, auditing and financial reporting matters to ensure the group maintains an effective control environment.
- Mr Ng was appointed non-executive independent chairman on 1 Dec 2015 and was last re-elected on 27 Oct 2022. He currently chairs the Nominating and Remuneration Committee.
- In 2023, there were no validated complaints regarding leaks, thefts, or losses of customer data and no security breaches occurred. All employees had undergone the Personal Data Protection Awareness Training (PDPA)
- 14 clinical sub-committees were established to tackle various aspects of clinical quality, overseen by TMPL's Medical Advisory Board.
- The independent auditors are Ernst & Young LLP and Ms Tan Peck Yen who was appointed in FY21.
- Ernst & Young LLP is the firm's auditor of its Singapore, Malaysia and Vietnam operations.
- The group boosts cybersecurity with updated protocols and audits, collaborating with NetSfere, for secure communication among healthcare professionals.
- Regular briefings, training, and evaluations ensure team awareness. Emphasising compliance, learning sessions, and quarterly assessments address improvements. The team stays updated on risks, with standard operating procedures (SOPs) for potential breaches.

[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).

1. Investment thesis

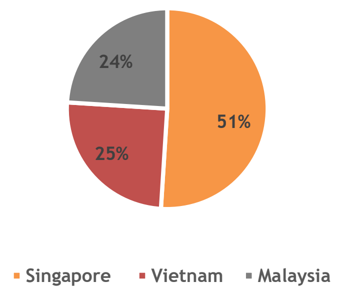
1.1 Expanding its footprint in ASEAN

We like Thomson Medical Group (TMG) for its strategic presence in key healthcare markets Singapore, Malaysia and Vietnam. It offers high value potential as the group adopts a localised approach to each market to maximise each geography's unique opportunities. We believe TMG will continue to capitalize on the group's hospital assets and expand into healthcare adjacencies such as IVF, O&G and fertility health, leveraging on its existing health areas and target geographies.

Fig 1: TMG's ASEAN footprint

Source: Company

Fig 2: Revenue diversification (on a pro-forma basis)



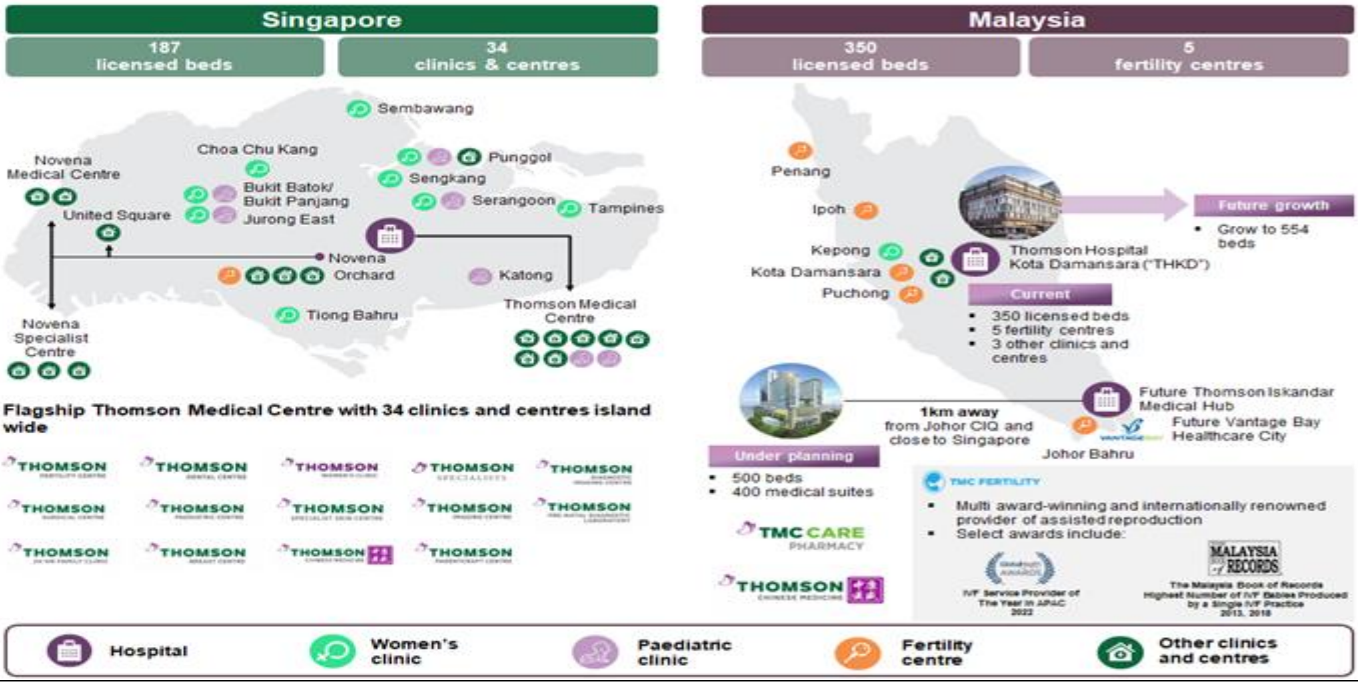
Source: Company

1.2 Enhancing its Singapore franchise

While Singapore may be a mature market, management believes there is still room to grow as it seeks to further optimise its local operations. Thomson Medical Centre is currently undergoing a multi-year renovation which could increase its bed count to >200 (up from 187) along with the recruitment of more doctors to provide multi-disciplinary services. Last year, it added a new specialist centre in Woodleigh, which offers integrated care for women across a range of specialties relevant to different life stages, including endocrinology, obstetrics & gynaecology, colorectal and ophthalmology services. These multi-disciplinary specialist centres integrate resources across the areas of treatment, management and prevention to provide patients with end-to-end, holistic & personalised care.

TMG aims to step up efforts to grow in three key areas of fertility, paediatric services and integrated specialist healthcare. Its egg freezing offering complements an already strong fertility specialism even as it focuses on growing its paediatric capability; while expanding its specialist care offering via a growing network of integrated specialist care centres. To cope with higher admissions, the group has boosted its core infrastructure and incorporates new technologies, which include the introduction of a Dual-Energy X-ray Absorptiometry (DXA) machine at its Thomson Diagnostic Imaging Centre in Thomson Medical Centre (TMC). The machine measures Bone Mineral Density (BMD) and conducts body composition analysis.

Fig 3: Healthcare assets in Singapore and Malaysia



Source: Company

1.3 Increasing bed capacity in Malaysia

Across the Causeway, the group continues to execute its growth plans at Thomson Hospital Kota Damansara (THKD), the flagship hospital of its 70.13%-owned subsidiary, TMC Life Sciences (TMCL MK, CP MYR0.735 Not rated). Listed on the Main Market of Bursa Malaysia Securities Berhad since 2005, TMCLS is now one of the fastest-growing private hospitals in Malaysia. THKD opened its new 300-bed expansion wing in 3Q22, increasing its total capacity to 554 beds. The ongoing program to enhance its expansion wing will add another 847,430 sq ft, comprising 14 centres of excellence, 154 outpatient clinics, 11 delivery suites and 10 operating theatres (from the current 2) to cater to the growing demand for more complex surgical procedures.

With the phased opening of the new wing at THKD, the number of licensed beds has further increased from 205 to 350 as at end-1H24, significantly increasing the hospital's patient load. With one of the largest IVF (in-vitro fertilisation) laboratories in Southeast Asia, THKD continues to double down on its fertility leadership. Taking the group's focus beyond Malaysia, TMC Life Sciences has also expanded its referral centres in Vietnam and Indonesia to further boost medical tourism.

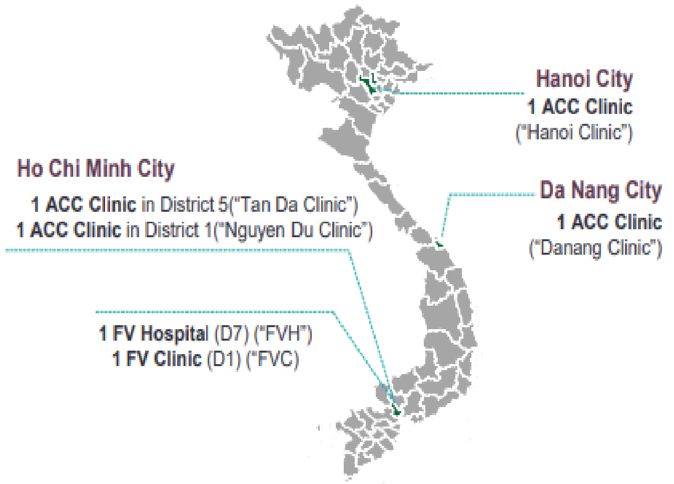
TMCLS owns the proposed Thomson Iskandar Medical Hub that will sit on a 1.6ha site in Johor Bahru, Malaysia. When fully operational, it will comprise a 500-bed multi-disciplinary tertiary hospital, as well as medical, allied health and nursing training/ medical research facilities. The group aims to complete the Iskandar hospital within two years of when a rapid rail system linking Malaysia's Johor Bahru to Singapore is completed by the end of 2026.

Adjacent to the medical hub, the group holds a prime 9.23ha freehold waterfront plot in Johor Bahru's City Centre, with a long-term plan to build an integrated health & wellness development. In our view, this huge plot of land has the potential for monetisation and/or value unlocking (now carried at FY23 book value of SGD176m in its balance sheet) especially with the establishment of Johor-Singapore Special Economic Zone.

1.4 Accretive acquisition of FV Hospital in Vietnam

In Jul 2023, the group said it will acquire Vietnam's FV Hospital for USD381m (or about SGD517m). This also marks the country's biggest healthcare transaction to-date and Southeast Asia's largest healthcare acquisition since 2020. Based on FY22 EBITDA of USD19.5m, the price paid translates to 16.8x EV/EBITDA. We understand the bidding process was highly competitive with multiple interested parties, with private equity firms making up the majority of bidders. This transaction not only marks the addition of a strategic asset to the group, but also represents its entry into a fast-growing market and the opportunity to tap into other ventures across the healthcare value chain.

Fig 4: Snapshot of FV Group's network



Source: Company

Fig 5: FV Group overview

FV Hospital	Years in operation: 20+ Location: District 7, Ho Chi Minh City Modern multi-specialty private tertiary care hospital offering more than 30 specialties Approximately 200 operating beds About 200 doctors **First JCI-accredited general hospital in South Vietnam**
FV Clinic	Years in operation: 10 (Formed in 2013) Location: District 1, Ho Chi Minh City Advanced multi-disciplinary outpatient facility offering comprehensive secondary care Fully equipped with outpatient rooms, x- ray, ultrasound, CT scanner, laboratory and pharmacy facilities Focused on 9+ specialties – Paediatrics, gynecology, dermatology, rheumatology, neurology, cardiology, ENT, internal medicine, physiotherapy
ACC Clinic	Years in operation: 16+ Locations: Ho Chi Minh City (2 clinics), Hanoi, Da Nang State-of-the-art chiropractic, rehabilitation and foot care centre First chiropractic clinic registered under the Ministry of Health, Vietnam Entire stake acquired by FV Group in 2022 Key treatment areas – Disc syndrome, sciatica, scoliosis, sports injuries, foot problems, lower back / neck / knee / shoulder / ankle / elbow / wrist pain

Source: Company

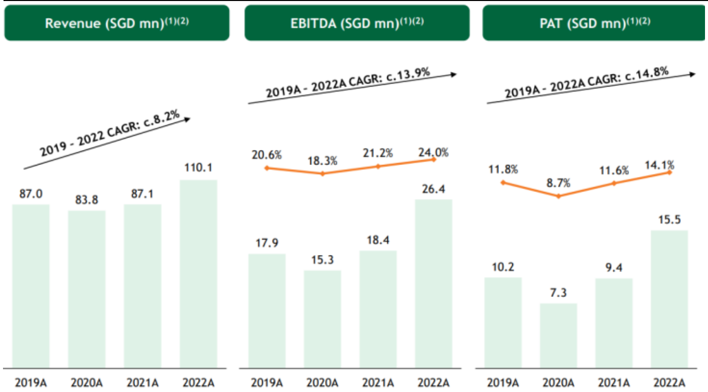
Founded by Dr Jean-Marcel Guillon in 2003 with a group of French physicians, FV Hospital has evolved into a full-service, one-stop provider of healthcare for patients locally, as well as from Cambodia. Dubbed the "Gleneagles Hospital of Vietnam", it was the first Joint Commission International (JCI) accredited hospital in Ho Chi Minh City, and has been accredited twice over, a testament to its clinical quality and patient-centric services across its two-decade-long history. The hospital provides care across over 30 medical specialties, including oncology, cardiology, ophthalmology, orthopaedics, maternity, and gastroenterology.

The FV Group currently has more than 1,600 staff, including more than 200 Vietnamese and expatriate doctors. FV Hospital also operates, since 2013, an outpatient clinic known as FV Saigon Clinic at the heart of District 1, Ho Chi Minh City's traditional business district. The American Chiropractic Clinic Ltd (ACC) business consists of a network of four clinics across Vietnam, which was acquired in 2022 to allow for expansion into chiropractic services.

Fig 6: Snapshot of FV Group's network

Source: Company

Fig 7: FV Hospital's financial performance



Source: Company

To meet increasing future demand, TMG is constructing a new seven-story medical tower with an additional 9k sqm of GFA (+35% from the current 26k sqm), which is expected to be completed by late 2025/early 2026. The H Building will house the extension of the cancer centre with the addition of advanced capabilities like PET scan, a CyberKnife and a bone marrow transplant unit. It will also be home to new activities like IVF and dialysis, and the extension of outpatient services in cardiology, urology, maxillo-facial and gastroenterology. According to management, the total capex for this new wing is estimated at around USD45m.

1.5 Digital transformation

Since inception, the group's digital arm, Thomson X (TX), has been actively forging partnerships with forward looking and credible technology partners for Thomson Medical's healthcare ecosystem. As the group's tech enabler, TX catalyses advancements in telemedicine, digital healthcare products, and treatment methods to enhance and engage Thomson Medical's patient base and increase revenue opportunities. To support the group's digital healthcare initiatives, TX has commenced a 5-year tech transformation journey aimed at enhancing the patient and partner experience for Thomson Medical.

For patient engagement initiative, Thomson Medical recently relaunched its website to provide a more patient-centric experience, focusing on the needs of women, children, and families. The updated website incorporates an enterprise content management system, laying the groundwork for improvements in information search, service discovery, and appointment requests. Going forward, TX will continue to forge more strategic partnerships with like-minded digital partners with the aim of executing initiatives to broaden accessibility to the group's doctors and services, delivering a holistic omni-channel healthcare experience to a wider patient base through telemedicine and other digital health technology offerings.

2. Corporate information

Listed on the Mainboard of the Singapore Exchange, Thomson Medical Group (TMG) is one of the leading listed healthcare players in the South-East Asian region with operations in Singapore, Malaysia and Vietnam. Established in 1979, the group's Thomson Medical Pte Ltd is one of the largest private providers of healthcare services for women and children in Singapore.

It owns and operates the iconic Thomson Medical Centre and a network of specialist medical clinics and facilities providing outpatient healthcare services and service offerings in diagnostic imaging, health screening, gynaecological oncology, dentistry, specialist dermatology and traditional Chinese Medicine.

Fig 8: Thomson Medical Pte Ltd

Source: Company

The group's operation in Malaysia under 70.13%-owned TMC Life Sciences Berhad (TMCLS) is a multi-disciplinary healthcare company listed on Bursa Malaysia. It operates Thomson Hospital Kota Damansara (THKD), a tertiary hospital located in Kota Damansara, and the award-winning TMC Fertility Centre which is the industry leader in assisted reproduction in Malaysia. In FY23, THKD expanded its services to include palliative care medicine ophthalmology & vitreoretinal surgery, rheumatology, paediatric anaesthesiology and vascular surgery. This enabled THKD to record new milestones by accomplishing its first Kasai surgery in Jan 2023, as well as its first Thymoma surgery in Feb 2023.

In Mar 2023, THKD successfully obtained the Australian Council on Healthcare Standards (ACHS) EQuIP7 Accreditation for Cancer Services. This comes on the heels of the launch of its Oncology & Nuclear Medicine facility, which features the Mediso AnyScan SPECT/CT/PET imaging system, making the group the first in Asia Pacific to offer this technology. The new facility offers a range of cancer treatments, including surgery, chemotherapy, radiosurgery, radiotherapy, nuclear medicine diagnostics and theranostics.

Fig 9: TMC Life Sciences Berhad

Source: Company

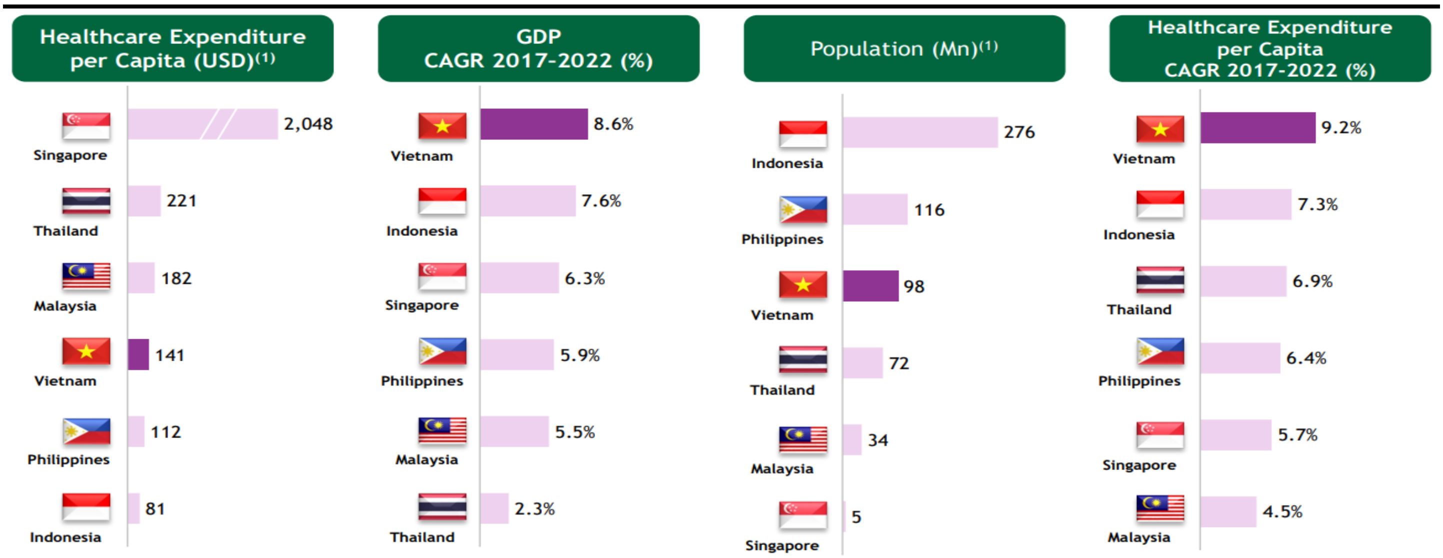
3. Industry landscape

3.1 ASEAN's burgeoning healthcare sector

ASEAN's changing demographics and rising middle-class is driving growing demand in the healthcare sector. Life longevity in Southeast Asia is expected to exceed other areas in Asia in the long term, challenging healthcare providers to equip themselves with skills and resources in caring for elderly people. As communicable diseases have successfully been placed under control and infant mortality ratio improves, the focus in many ASEAN countries has shifted to treating chronic diseases and injuries which are top death causes.

World Health Organization data estimates that average total healthcare expenditure per capita in ASEAN is USD544, about 4% of GDP. ASEAN is expected to boost health spending in order to provide better healthcare services and catch up with the average spending rate in fully developed countries. Mental health is also getting increasingly recognized as a serious issue with people getting more awareness in order to combat it. Individuals strive to prioritize overall wellness for productivity and quality of life with the focus shifting towards healthcare prevention rather than illness cure.

Fig 10: The right markets

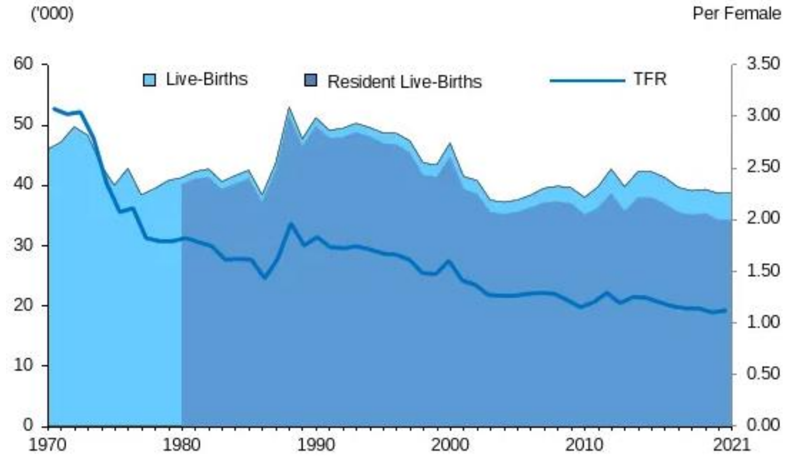


Source: Company

Economic growth has also stirred greater demand for quality and innovative healthcare services. Increasing disposable income of ASEAN market allows people to avail themselves of higher-value products and services. Today, a visit to a medical facility may not necessarily spell bad news. Healthcare services have expanded to elective treatments and aesthetic surgery, assisted reproductive technologies, sports skills rehabilitation, and weight loss centres, among others.

According to market insights firm Fitch Solutions, Singapore's healthcare market is expected to grow to USD49.4b by 2029, and healthcare spending is expected to reach 9% of GDP by the same year. As more Singaporeans are using healthcare services, given its ageing population – 26.6% of the country's population will be over the age of 65 in 2035. Singapore, however, still spends less of its fiscal budget on healthcare than other major economies, such as the US, which spends on average 17% of GDP (USD3.6t) on healthcare annually.

Fig 11: Total Live-Births and Total Fertility Rate (TFR)



Source: Department of Statistics Singapore

On the other hand, more people in Singapore are postponing marriage, resulting in more couples delaying having children or having fewer children In line with global societal trends. Singapore's resident total fertility rate hit an all-time low of 1.05 in 2022, dipping below the previous record of 1.1 in 2020 and 1.12 in 2021. In fact, the country's total fertility rate has been declining for many years, like other developed nations.

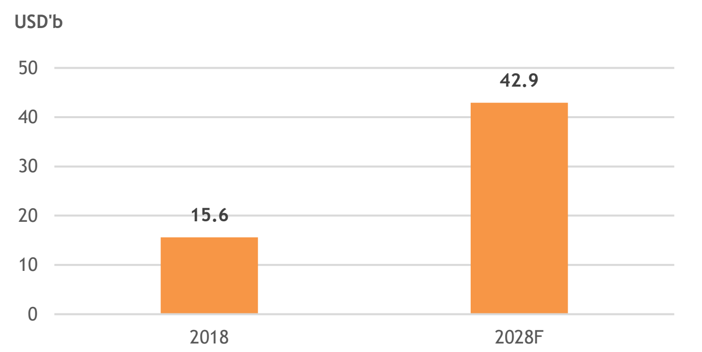
To mitigate the impact, TMG has been building depth into its service offerings such as IVF, O&G and fertility health. It is also extending its coverage to include more comprehensive health services for women and children at every life stage and health milestone.

3.2 Vietnam is one of SEA's fastest-growing markets

Vietnam's growing private healthcare market has been driven by favourable macroeconomic tailwinds with a significant growth potential in healthcare expenditure. According to the Economist Intelligence Unit (EIU), Vietnam's healthcare expenditure was about USD18.5b in 2022, representing 4.6% of the country's GDP. Together with the birth rate decline, Vietnam's aging population is resulting in higher demand for healthcare services and products. According to the WHO, non-communicable diseases (NCDs) are an increased mortality and morbidity burden that accounts for approximately 74% of total deaths in Vietnam.

Vietnam is also one of the fastest growing economies in Southeast Asia fuelled by strong inflow of foreign direct investment given its geographical and competitive advantages. According to Euromonitor International, Vietnam has recorded strong historical GDP growth at around 8.6% CAGR in 2017-22, with healthcare expenditure growth at around 9.2% CAGR in 2017-22. Public and private hospitals in Vietnam are upgrading their facilities and opening new departments for specialty treatment, which underpins the strong growth in healthcare expenditure.

Fig 12: Vietnam's healthcare expenditure forecast



Source: Flanders Investment & Trade market survey

Fig 13: Room for private healthcare market to grow

Source: Flanders Investment & Trade market survey

Accelerating healthcare demand in Vietnam is fuelled by a rising middle class, an ageing population, as well as an expanding expatriate population. The country is well on its way towards its goal of becoming an upper-middle-class country by 2035, and a high-income country by 2045, given that the nation has the seventh-fastest growing middle class globally, and will add 36m to its middle class by 2030. Vietnam's population also officially entered an ageing phase in 2017, and it is among the most rapidly ageing countries in the world.

Further underpinning the industry's robust outlook is Vietnam's rise as a medical tourism destination, thanks to solid demand from neighbouring countries that include Cambodia, Laos and Myanmar. Medical tourism in the country is estimated to generate annual revenues of about USD2b a year, with recent years seeing an influx of about 300,000 foreign tourists annually for medical check-ups and treatments, 40% of whom arrive in Ho Chi Minh City. Ho Chi Minh City and the Mekong Delta together make up about 30% of Vietnam's estimated 97m population.

Currently, public hospitals dominate the healthcare system and account for 86% of the total hospital number in Vietnam. However, the Vietnamese healthcare sector is currently facing several challenges:

i) Most hospitals are outdated and face chronic overcrowding. Hospitals in Hanoi and Ho Chi Minh City receive up to 60% of the country's patients and operate at 200% of the capacity.
ii) Much of the existing medical equipment in public hospitals in Vietnam is obsolete and needs replacement. Many hospitals lack sufficient equipment for surgery and intensive care units.
iii) Vietnamese public hospitals rely largely on a state budget to upgrade their facilities, equipment, and services. The total budget for the health sector has increased but is still too low to meet the demands.
iv) A shortage of qualified medical staff is common in many hospitals. Doctors and nurses work under stressful conditions and wages are relatively low.

As high-quality healthcare service is not yet widely available in Vietnam, the Ministry of Health estimates that around 40,000 Vietnamese people spend roughly USD2b to travel abroad for medical services every year. We believe there is opportunity for FV Hospital to fill this leakage following the integration with TMG's regional medical network that allows the group to update its advanced equipment on a regular basis and expand its treatment capacity.

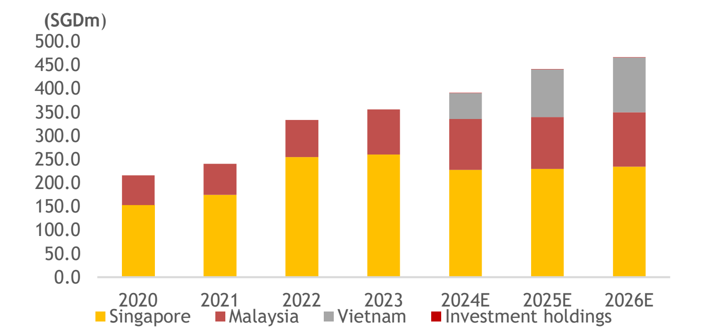
4. Financial analysis

4.1 P&L segmental breakdown

Previously, we note that TMG reported its financial performance based on the business segments of Hospital services, Specialised services, and Investment holdings, respectively, since FY18. In recent years, it has gradually expanded its existing operations, developed new businesses, and made new acquisitions. Hence, management has conducted a review of its businesses and found that the previous segments are no longer representative of its enlarged group offerings.

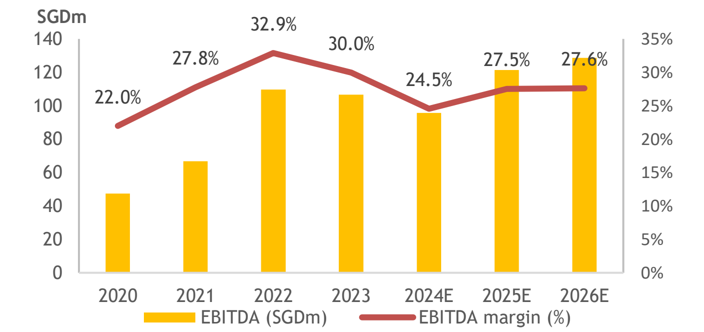
To present a clearer view of its businesses, management has redefined its business segments. With effect from FY24, the group will report its financial performance based on key geographical markets (i.e Singapore, Malaysia and Vietnam), as well as investment holdings, which mainly relate to its investment properties and development property.

Fig 14: Revenue breakdown by markets



Source: Maybank IBG Research, Company

Fig 15: EBITDA margins trend



Source: Maybank IBG Research, Company

In 1HFY24, total revenue fell 8.6% YoY to SGD168.1m as sales from Singapore fell 18.2% YoY while Malaysia grew 20.8% compared to last year. The lower turnover from Singapore is attributed to the completion of short-term Covid-related projects such as managing the vaccination centres and the Transitional Care Facilities (TCFs) but partially offset by increasing revenue intensity in Singapore. In Malaysia, the topline growth was driven by increased operating capacity at its Thomson Hospital Kota Damansara (THKD).

Group EBITDA slumped 30.8% YoY to SGD38.4m during 1HFY24, dragged by the lower revenues, as well as one-off transaction costs and foreign exchange loss incurred in relation to the acquisition of Far East Medical Vietnam Limited (FEMVN).

Excluding all non-recurring & one-off items, 1HFY24 adjusted EBITDA would have been SGD44.2m. For FY24, we are forecasting core underlying net profit and adjusted EBITDA of SGD20m and SGD96m, respectively, buttressed by maiden contribution from FV Hospital.

Fig 16: Key operating statistics

	FY21	FY22	FY23	1H24
No of licensed beds				
Singapore	187	187	187	187
Malaysia	205	308	350	350
Vietnam				230
Total	**392**	**495**	**537**	**767**
No of operational beds				
Singapore	181	181	178	178
Malaysia	205	299	314	336
Vietnam				198
Total	**386**	**480**	**492**	**712**
Bed Occupancy Rate (%)				
Singapore	55.9%	59.1%	63.7%	59.0%
Malaysia	47.1%	52.7%	57.4%	63.2%
Vietnam				51.0%

Source: Company

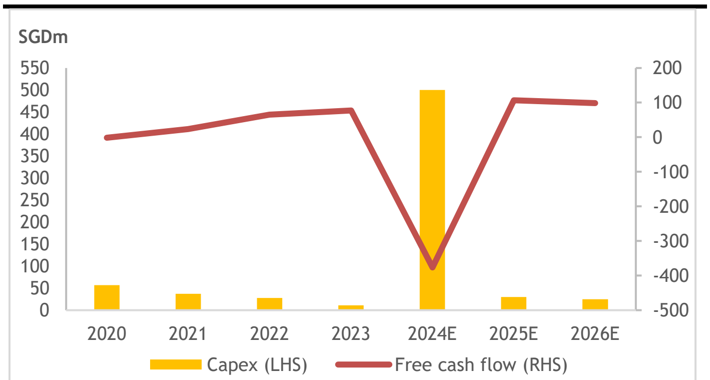
Fig 17: Key operating statistics

	FY21	FY22	FY23	1H24
No of inpatient				
Singapore	20,402	20,972	20,315	9,221
Malaysia	18,806	23,107	29,390	16,246
Vietnam				4,023
Total	**39,208**	**44,079**	**49,705**	**29,490**
No of outpatient				
Singapore	277,398	308,308	288,638	129,783
Malaysia	166,254	183,470	171,613	93,888
Vietnam				128,843
Total	**443,652**	**491,778**	**460,251**	**352,514**
Inpatient ABS				
Singapore (SGD)	3,547	3,784	4,257	4,893
Malaysia (MYR)	7,106	7,555	7,993	8,802
Vietnam (USD)				3,999
Outpatient ABS				
Singapore (SGD)	282	272	292	307
Malaysia (MYR)	252	235	297	323
Vietnam (USD)				181

Source: Company

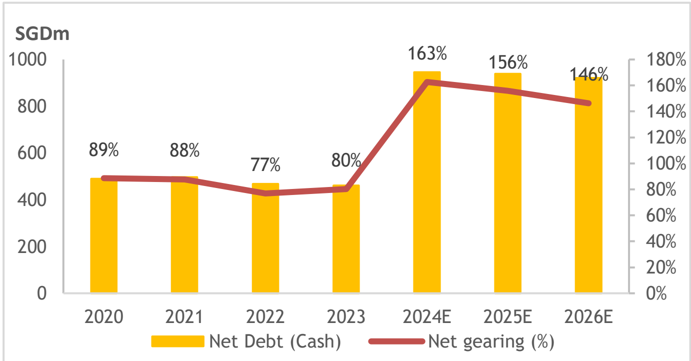
We project revenue/EBITDA growth at 13%/27% for FY25E, boosted by the full year contribution of FV Hospital following the completion of the acquisition of FEMVN. Organically within Singapore, TMG is actively working to maximise hospital bed capacity, anticipating a rise in deliveries associated with the Chinese Year of the Wood Dragon. Meanwhile, the group is tapping into growing demand for egg-freezing services, while continually expanding its specialist clinics. Plans are in the pipeline to further enhance its paediatric offerings. In Malaysia, the expansion of Thomson Hospital Kota Damansara (THKD), with its newly added wing, has resulted in a 70% increase in total licensed bed capacity, positioning the group for sustained growth in the country.

Fig 18: Capex and FCF



Source: Maybank IBG Research, Company

Fig 19: Net debt and gearing ratio



Source: Maybank IBG Research, Company

4.2 Balance sheet & cashflow analysis

We expect depreciation & amortisation and finance expenses to increase following its new expansion wing at THKD and recent acquisition of FV Hospital. In Jul 2023, the group also issued SGD30m worth of notes that mature in 2028 at a 5.5% interest rate. Notwithstanding its current net gearing of 1.6x, we think this high leverage will taper off given its ability to generate strong cash flows from healthcare operations, coupled with the normalisation of capex. We also assume that TMG will continue to distribute its yearly dividend payout of 0.04 Singapore cents to shareholders, even the though yield is still meagre at 0.8%.

5. Valuation

We derive our target price of SGD0.08 based on 23x FY25 EV/EBITDA, representing about -0.5 standard deviation below its historical mean. While trading at a premium to peers, we think this is justifiable given its strong portfolio of healthcare assets in the region which offer high growth potential. We believe EBITDA multiple is a more appropriate valuation methodology due its ability to generate strong cash flows from its healthcare operations post-acquisition.

In addition, we think the successful integration of FV Hospital into TMG will help to unlock potential synergies of the combined entity which should drive robust EBITDA growth going forward. In our view, TMG offers long-term investors a rare proxy to its strategic assets that have significant presence across three of the region's most important geographies in healthcare.

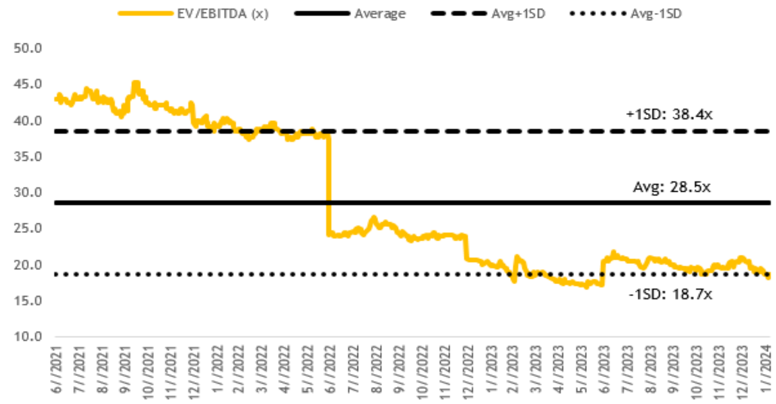
Key re-rating catalysts include better-than-expected admission numbers, stronger margins from cross-selling of high-value services, as well as potential monetisation and/or value unlocking of its 9.2ha of freehold waterfront land strategically located in Johor Bahru's City Centre, which is currently carried at historical cost (est. SGD176m) in its balance sheet.

Fig 20: Peer comparisons

Company	BBG		TP	Price	FYE	Mcap	P/E (x)				EV /EBITDA (x)	Div Yield (%)	ROE (%)
	Code	Rec	(LC)	(LC)	mm/dd	USDm	Act	FY1	FY2	FY3	FY1	FY1	FY1
Thomson Medical	**TMC SP**	**Buy**	**0.08**	**0.05**	**06**	**1,023**	**37.1**	**68.6**	**37.5**	**32.3**	**19.6**	**0.8%**	**6.9%**
Singapore listed peers													
Q&M Dental	QNM SP	Hold	0.31	0.24	12	172	13.9	12.0	9.6	8.0	8.0	4.2	17.0
Raffles Med	RMFD SP	Hold	1.15	1.03	12	1,444	28.8	22.9	13.5	21.5	12.7	0.0	16.8
IHH Healthcare	IHH MK	Buy	7.13	6.20	12	11,390	37.6	32.6	29.5	27.0	13.4	1.0	5.9
Average							*26.7*	*22.5*	*17.5*	*18.8*	*11.4*	*1.7*	*13.2*
APAC ex- China peers													
KPJ	KPJ MK	Hold	1.42	1.64	12	1,549	25.6	28.8	24.8	-	10.4	2.1	-
BDMS	BDMS TB	NR	-	28.50	12	12,633	31.7	29.9	27.8	25.1	18.7	2.2	15.3
BCH	BCH TB	NR	-	22.00	12	1,530	18.0	38.3	30.9	27.0	18.9	1.6	11.1
Bumrungrad Hosp	BH TB	NR	-	242.00	12	5,364	42.5	28.3	26.7	25.4	19.3	1.9	28.8
Chularat Hosp	CHG TB	NR	-	2.96	12	908	11.7	30.0	26.0	23.7	17.8	2.3	14.4
Fortis Healthcare	FORH IN	NR	-	445.75	03	4,056	65.3	57.4	42.1	33.1	27.7	0.1	7.4
Apollo Hosp	APHS IN	NR	-	6,759	03	11,712	118.7	101.6	64.6	48.5	40.9	0.2	13.7
Ramsay Health	RHC AU	NR	-	50.51	06	7,583	43.5	37.8	26.4	20.1	7.5	1.7	6.8
PT Mitra Keluarga	MIKA IJ	NR	-	2,780	12	2,533	39.3	42.1	36.4	31.6	25.8	1.2	15.9
PT Siloam Int'l	SILO IJ	NR	-	2,400	12	1,996	44.7	27.5	23.7	20.8	11.3	0.5	14.4
Average							*57.7*	*50.7*	*37.5*	*29.9*	*22.8*	*1.3*	*13.8*
China peers													
China Resouces Med	1515 HK	NR	-	4.52	12	749	36.1	7.1	6.4	5.8	3.2	4.7	5.7
Aier Eye Hosp.	300015 CH	NR	-	14.55	12	18,881	54.0	38.4	30.5	24.4	22.3	0.7	17.3
Topchoice Med	600763 CH	NR	-	63.88	12	2,849	37.4	34.9	27.9	22.6	20.8	0.1	14.8
Average							*51.3*	*36.9*	*29.4*	*23.6*	*21.5*	*0.7*	*16.6*

Source: Bloomberg, FactSet

Fig 21: Historical EV/EBITDA valuation band



Source: Bloomberg, FactSet

6. Risks

Regulatory changes

All healthcare facilities such as hospitals, medical centres, community health centres, nursing homes, clinics, and clinical laboratories are required to apply for a licence under the Private Hospitals & Medical Clinics (PHMC) Act/Regulations. Responding to new or changing regulations is a persistent challenge for any healthcare player. In addition, regulators are continuing a trend to emphasize innovation in healthcare and to make it easier for non-traditional players to enter the space, thus laying the groundwork for continuing disruption and the need for new alliances.

High gearing post-acquisition

The net gearing ratio has increased from 0.8x to 1.5x post the acquisition of FV Hospital in Vietnam. The group issued SGD30m worth of notes that mature in 2028 at 5.5% interest. The notes will be consolidated with some SGD120m worth of existing notes due in 2028 – to form a single series. They are part of the group's SGD1b multi-currency debt-issuance programme, which was established on 28 Jun 2019, and updated on 21 Apr last year. Despite the current high interest rate environment, we believe that the higher finance costs can be offset by the strong cash flow generated by its hospital operations.

Execution risks in overseas market

While we are generally positive on TMG's future growth plans, we are cognisant that proper execution still holds the key to success. If there are delays in the expansion or any possibility that the project may not come to fruition, this would pose material downside risks to our earnings forecasts and target price.

Ability to attract & retain skilled healthcare staff

The scarcity of proficient medical professionals may lead to an increase in staff expenses (which forms c.33% of revenue in FY23) as efforts are made to retain/attract talent. Other hospital operators are also struggling with manpower issue, which could lead to higher opex and/or customer complaints if TMG cannot secure the skilled doctors it requires. To keep up-to-date with the best industry practices, TMG provides continuous education to its employees, equipping them with various training and development programmes depending on their roles.

Falling fertility rate in Singapore

In line with global societal trends, more people in Singapore are postponing marriage, resulting in more couples delaying having children or having fewer children. Singapore's resident total fertility rate hit an all-time low of 1.05 in 2022, dipping below the previous record of 1.10 in 2020 and 1.12 in 2021. In fact, the country's total fertility rate has been declining for many years, like other developed nations. To mitigate the impact, TMG has been building depth into its offerings to include other high-margin services such as IVF, O&G and fertility health.

Low free float

In Sep 2023, the group announced that its public float had dipped under 10%. SGX has already granted TMG a further period of 3 months until 10 Apr 2024 to explore options for the restoration of its free float. The group intends to undertake roadshows sometime in Mar 2024 after taking into account (i) its recent 1H FY24 financial results ended 31 Dec 2023, as well as (ii) the recent acquisition of the FV hospital in Vietnam. However, the stock's trading could face suspension in the event that the company fails to restore its public float under Rule 723 of the listing manual.

7. Management

Ng Ser Miang Chairman Non-Executive and Independent Director	Mr Ng was appointed Non-Executive Independent Chairman on 1 Dec 2015 and was last re-elected on 27 Oct 2022. He currently chairs the Nominating and Remuneration Committee. Mr Ng holds directorships in various companies and was also Singapore's non-resident Ambassador to Norway and Hungary. He is the Chairman of Dunman High School Advisory Committee, Chairman of the Singapore Olympic Foundation and Fundacion Valencia Club de Futbol De La Comunidad Valenciana, and the Vice President of the International Olympic Committee Executive Board and chairs its Finance Commission and Group Staff Pension Fund Foundation Board. Mr Ng was also a Nominated Member of Parliament from 2002 to 2005.
Lim Wee Kiat Executive Vice-Chairman	Mr Lim was appointed to the board on 15 Mar 2019 and was last re-elected on 22 Oct 2021. He was appointed as Chief Executive Officer of Thomson X, a subsidiary of TMG and was re-designated from non-executive to executive director of the company on 1 Jan 2022. On 1 Sep 2022, Mr Lim was appointed Executive Vice-Chairman of the group. Mr Lim is responsible for the overall growth strategies of the group and also works with the board to grow the group's business through mergers and acquisitions, particularly for core hospital services in fast-growing economies in Southeast Asia.
Heng Jun Li Melvin Executive Director and Group Chief Executive Officer	Dr Heng was appointed as Executive Director and Group CEO on 1 Dec 2022. He leads and manages the group and works actively with the board and Management to set the overall strategic direction focused on driving business operations and growth of the Group. Dr Heng is a physician and healthcare executive with more than 10 years of experience in hospital management, primary and specialist clinics, teleradiology, MedTech and aeromedical evacuations. Before joining Thomson Medical, Dr Heng was with Gleneagles Hospital where he held various leadership positions including Chief Executive Officer and Chief Operating Officer. From 2009 to 2015, Dr Heng was a medical doctor with the National Health Service (UK) and Tan Tock Seng Hospital.
Wilson Sam Executive Director and Group Chief Financial Officer	Mr Sam was appointed to the board on 15 Mar 2019 as Executive Director and Group CFO and was last re-elected on 22 Oct 2021. Mr Sam is responsible for providing leadership for financial and management reporting, corporate finance, treasury, investor relations and corporate and regulatory compliance of the group. Mr Sam holds directorships in various companies and is currently a Non-Executive and Non-Independent Director of Secura Group. Mr Sam has over 20 years of experience in finance, investments and advisory in Singapore. Prior to joining the group, he was with Kestrel Capital as Senior Vice President (Investments) where he led M&A activities, investment execution and management.
Wan Nadiah Binti Wan Mohd Abdullah Yaakob Executive Director and Group CEO – TMC Life Sciences Berhad	Ms Nadiah was appointed to the board on 1 Jan 2022 and was last re-elected on 27 Oct 2022. She is also the Group CEO of TMC Life Sciences (TMCLS) and was appointed Executive Director of TMCLS in Feb 2019. Ms Nadiah has also been the CEO of Thomson Hospital Kota Damansara since Jun 2017. Since May 2021, she also served as a Director of the Institute of Corporate Directors Malaysia. Prior to joining TMCLS and Thomson Hospital Kota Damansara, Ms Nadiah was the COO at Sunway Medical Centre after being promoted from Director of Business Development and Corporate Communications in Oct 2016. She started her career at The Boston Consulting Group in 2007 as an Associate Consultant before joining Sunway Group as Manager, Strategy and Corporate Development in 2010.

FYE 30 Jun	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	41.0	53.5	68.6	37.5	32.3
Core P/E (x)	38.9	42.7	68.6	37.5	32.3
P/BV (x)	3.4	2.7	2.4	2.3	2.2
P/NTA (x)	16.8	16.6	(3.6)	(3.8)	(4.2)
Net dividend yield (%)	1.5	0.7	0.8	0.8	0.8
FCF yield (%)	3.1	5.0	nm	7.9	7.3
EV/EBITDA (x)	24.1	20.4	24.7	18.1	17.1
EV/EBIT (x)	28.8	25.7	32.5	22.8	22.0
INCOME STATEMENT (SGD m)					
Revenue	333.7	355.8	390.3	450.6	482.2
EBITDA	109.7	103.3	97.7	132.7	139.6
Depreciation	(17.6)	(20.0)	(22.0)	(25.5)	(29.0)
Amortisation	(0.4)	(1.0)	(1.5)	(2.0)	(2.5)
EBIT	91.8	82.3	74.2	105.2	108.1
Net interest income /(exp)	(22.5)	(26.6)	(34.5)	(44.0)	(38.9)
Associates & JV	0.0	(0.5)	(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	69.3	55.2	39.4	60.9	68.9
Income tax	(10.7)	(14.1)	(13.4)	(16.7)	(18.3)
Minorities	(4.8)	(4.5)	(6.0)	(7.5)	(8.1)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	53.8	36.6	20.0	36.6	42.5
Core net profit	53.8	36.6	20.0	36.6	42.5
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	161.6	286.6	160.9	168.3	187.1
Accounts receivable	60.1	62.5	64.4	72.1	77.1
Inventory	5.6	6.3	7.8	9.0	9.6
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	444.0	416.0	465.9	503.2	523.4
Intangible assets	484.1	481.6	958.1	965.6	964.1
Investment in Associates & JVs	0.0	0.2	0.1	0.1	0.1
Other assets	209.5	194.5	191.2	188.9	186.7
Total assets	**1,364.9**	**1,447.8**	**1,848.5**	**1,907.3**	**1,948.1**
ST interest bearing debt	227.7	12.1	100.0	100.0	100.0
Accounts payable	86.5	83.8	117.3	146.7	154.0
Insurance contract liabilities	3.8	3.6	5.1	5.1	5.1
LT interest bearing debt	401.4	735.6	1,006.0	1,006.0	1,006.0
Other liabilities	37.0	37.0	39.0	42.0	44.0
Total Liabilities	**756.6**	**872.3**	**1,267.2**	**1,299.9**	**1,308.8**
Shareholders Equity	531.7	499.4	505.1	531.2	563.2
Minority Interest	76.7	76.0	76.1	76.1	76.1
Total shareholder equity	**608.3**	**575.4**	**581.3**	**607.3**	**639.3**
Total liabilities and equity	**1,364.9**	**1,447.8**	**1,848.5**	**1,907.3**	**1,948.1**
CASH FLOW (SGD m)					
Pretax profit	69.3	55.2	39.4	60.9	68.9
Depreciation & amortisation	17.9	21.1	23.5	27.5	31.5
Adj net interest (income)/exp	21.5	25.9	34.5	44.0	38.9
Change in working capital	(9.9)	(5.5)	30.1	20.4	1.7
Cash taxes paid	(8.3)	(14.8)	(13.4)	(16.7)	(18.3)
Other operating cash flow	9.7	18.2	15.7	19.1	20.6
Cash flow from operations	92.8	88.6	125.9	144.2	130.4
Capex	(27.8)	(11.2)	(500.0)	(35.0)	(30.0)
Free cash flow	65.0	77.4	(374.1)	109.2	100.4
Dividends paid	(5.0)	(31.9)	(12.1)	(12.2)	(12.3)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	3.7	117.2	315.0	(39.8)	(25.1)
Other invest/financing cash flow	(23.8)	(33.3)	(44.0)	(49.8)	(44.2)
Effect of exch rate changes	(1.1)	(4.2)	0.0	0.0	0.0
Net cash flow	38.8	125.3	(115.2)	7.4	18.8

FYE 30 Jun	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	38.8	6.6	9.7	15.4	7.0
EBITDA growth	64.4	(5.8)	(5.4)	35.8	5.2
EBIT growth	88.1	(10.4)	(9.8)	41.7	2.8
Pretax growth	164.7	(20.3)	(28.6)	54.4	13.2
Reported net profit growth	277.6	(32.0)	(45.2)	82.9	16.1
Core net profit growth	277.6	(32.0)	(45.2)	82.9	16.1
Profitability ratios (%)					
EBITDA margin	32.9	29.0	25.0	29.4	29.0
EBIT margin	27.5	23.1	19.0	23.3	22.4
Pretax profit margin	20.8	15.5	10.1	13.5	14.3
Payout ratio	56.6	28.9	52.8	28.9	24.9
DuPont analysis					
Net profit margin (%)	16.1	10.3	5.1	8.1	8.8
Revenue/Assets (x)	0.2	0.2	0.2	0.2	0.2
Assets/Equity (x)	2.6	2.9	3.7	3.6	3.5
ROAE (%)	10.5	7.1	4.0	7.1	7.8
ROAA (%)	4.1	2.6	1.2	2.0	2.2
Liquidity & Efficiency					
Cash conversion cycle	(299.9)	(292.5)	(300.5)	(363.8)	(382.4)
Days receivable outstanding	46.9	62.0	58.5	54.5	55.7
Days inventory outstanding	27.0	26.6	27.1	28.5	29.0
Days payables outstanding	373.9	381.2	386.2	446.8	467.1
Dividend cover (x)	1.8	3.5	1.9	3.5	4.0
Current ratio (x)	0.9	3.7	1.3	1.2	1.3
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.7	1.5	1.5	1.5
Net gearing (%) (incl perps)	76.8	80.1	162.6	154.4	143.7
Net gearing (%) (excl. perps)	76.8	80.1	162.6	154.4	143.7
Net interest cover (x)	4.1	3.1	2.2	2.4	2.8
Debt/EBITDA (x)	5.7	7.2	11.3	8.3	7.9
Capex/revenue (%)	8.3	3.1	128.1	7.8	6.2
Net debt/ (net cash)	467.5	461.2	945.1	937.7	918.9

Source: Company; Maybank IBG Research

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