

# Q&M Dental Group (QNM SP)

## More Testing

### 2Q21 shows potential of testing business

2Q21 reported PATMI rose 23% YoY to SGD8.4m, which brings 1H21 earnings to SGD17.8m (+119% YoY) or about 50% of MKE/street consensus' full-year estimates. It was a slight beat considering our/market expectation of a stronger 2H21, mainly due to its continued dental clinics expansion and ramping up of testing operation. While our EPS forecasts are largely unchanged, we raise our TP to SGD1.03 as we roll forward valuations to FY22E, still based on 22x P/E. Maintain BUY.

### Expansion of Singapore outlets on track

Total revenue doubled to SGD50.8m, driven by higher turnover in its core dental division (+86% YoY) and estimated contribution of SGD10-11m from the testing business (1Q21: SGD2-3m; 1H20: NIL). In Jun '21, the Group opened one clinic in Jurong Yuhua. It has also secured locations to open six more dental clinics island-wide and is expected to commence operations by 4Q21. YTD, Q&M has added 10 clinics to its network and it's targeting to open another 10 by 4Q21. However, expansion in Malaysia has slowed down due to MCO amid the worsening pandemic.

### Aoxin to acquire 49% of Acumen

Q&M's 43.94%-owned associate Aoxin is acquiring 49% of Acumen Diagnostics for SGD29.4m. The deal will be financed via an allotment and issue of new shares at SGD0.231 apiece, which represents a premium of 31% to the last done price. The acquisition implies an attractive FY21E P/E of c.3x. This will enable Aoxin to enter the medical diagnostics business in Singapore and accelerate its turnaround. Post-completion, Q&M's effective stake in Aoxin and Acumen will be c.33% and c.67% respectively.

### Proposed 1:5 bonus issue and 2<sup>nd</sup> interim DPS

Testing demand should remain firm as Singapore prepares to live with this endemic and gradually reopen its borders. In addition, the Group sees new opportunities to support the government beyond PCR testing, including swabbing and vaccination services. To reward shareholders, it has proposed to issue 1 bonus share for every 5 existing shares held, while a 2<sup>nd</sup> interim DPS of SGD1.0 cent was also declared.

FYE Dec (SGD m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	128	138	207	230	251
EBITDA	35	38	66	70	77
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	56.4	19.5	13.9
Net DPS (cts)	2.8	3.4	4.0	4.0	4.0
Core P/E (x)	21.0	18.8	20.6	17.2	15.1
P/BV (x)	3.1	3.1	5.9	6.1	5.9
Net dividend yield (%)	5.9	7.2	5.0	5.0	5.0
ROAE (%)	15.5	16.2	30.7	34.8	39.6
ROAA (%)	6.9	6.8	11.2	13.3	14.9
EV/EBITDA (x)	12.6	10.7	10.1	9.7	8.8
Net gearing (%) (incl perps)	52.6	23.1	24.9	27.7	26.0
Consensus net profit	-	-	31	37	40
MKE vs. Consensus (%)	-	-	(0.6)	(1.0)	4.4

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# BUY

Share Price	SGD 0.81
12m Price Target	SGD 1.03 (+33%)
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

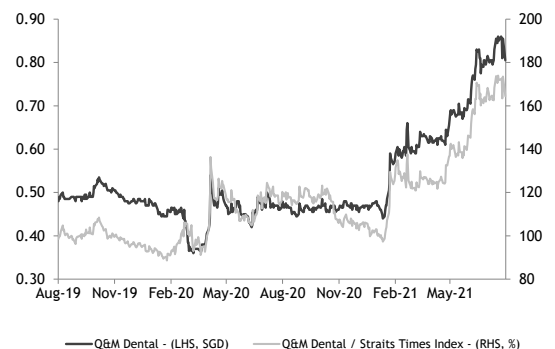
### Statistics

52w high/low (SGD)	0.86/0.44
3m avg turnover (USDm)	2.7
Free float (%)	34.2
Issued shares (m)	805
Market capitalisation	SGD647.9M USD478M

### 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 (%)	1	23	73
Relative to index (%)	1	20	42

Source: FactSet

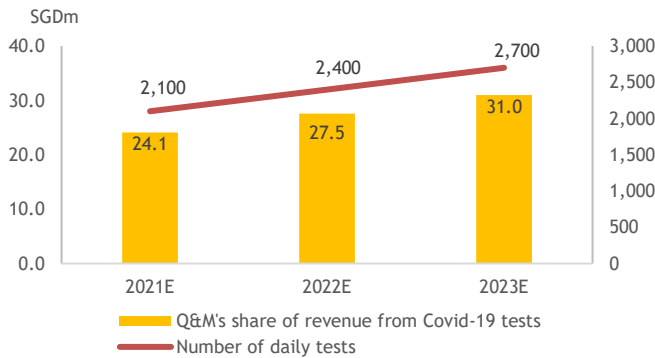
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MKE  
OPPORTUNITY+

## 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.

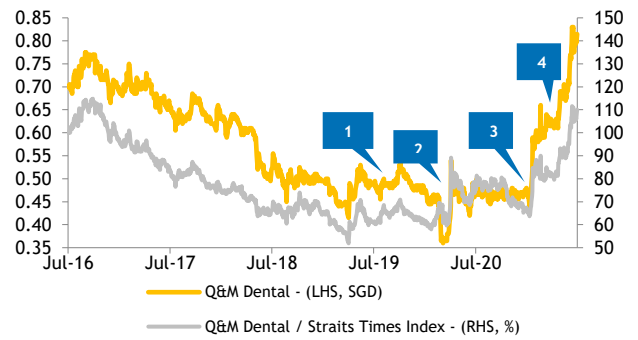
### Growing revenue from Covid-19 tests



Source: Company, Maybank Kim Eng

## Price Drivers

### Historical share price trend



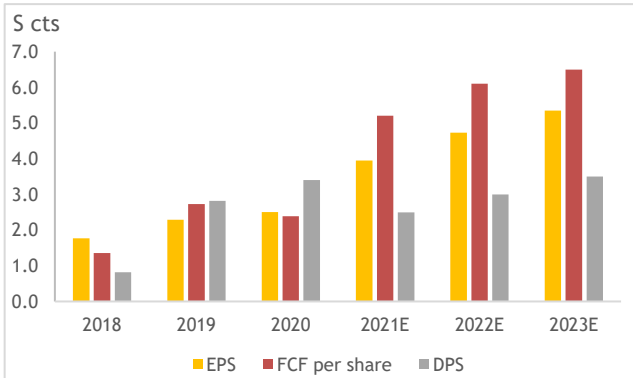
Source: Company, Maybank Kim Eng

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.

## 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

## 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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Risk Rating & Score <sup>1</sup>	Not Rated
Score Momentum <sup>2</sup>	na
Last Updated	na
Controversy Score <sup>3</sup>	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 2020, 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 FY20, there were 3 minor and non-fatal workplace accidents where clinic assistants suffered cuts and/or pricks by needles.

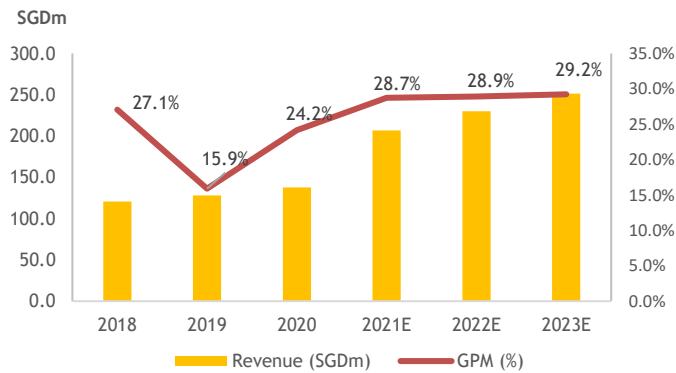
## Key G metrics and issues

- 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 2020.
- 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 FY20.
- 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.

<sup>1</sup>**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. <sup>2</sup>**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. <sup>3</sup>**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).

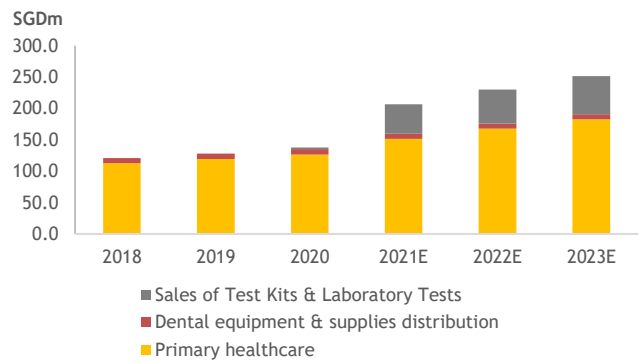
## Focus charts

**Fig 1: Revenue and gross margin (%)**



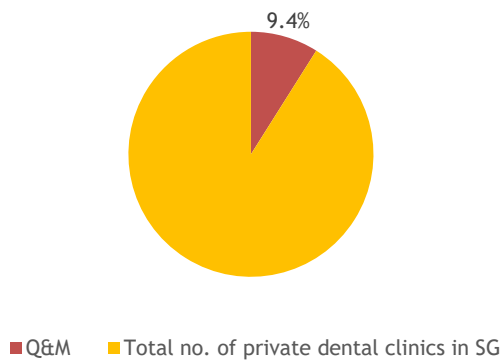
Source: Company data, Maybank Kim Eng

**Fig 2: Revenue by business segments**



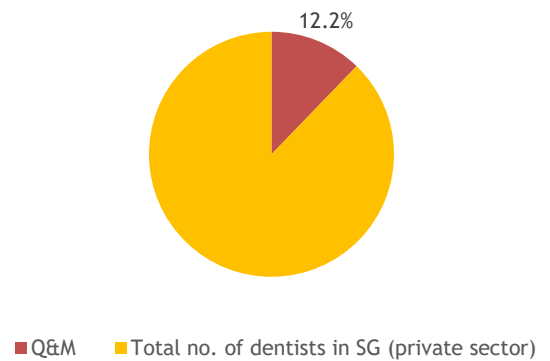
Source: Company data, Maybank Kim Eng

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



Source: Company data, MOH

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



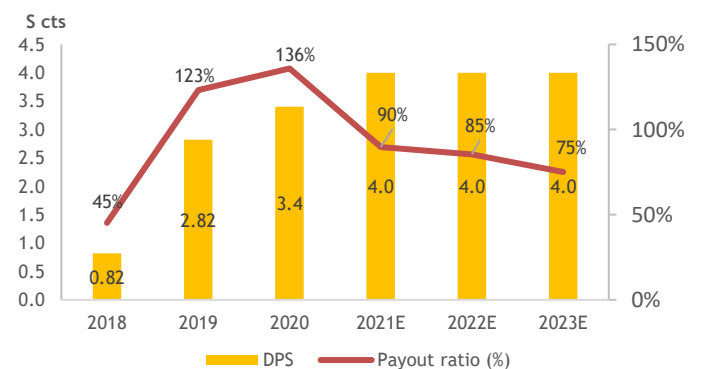
Source: Company data, MOH

**Fig 5: Breakdown of quarterly performance**

FYE Dec	2Q21 (SGD m)	2Q20 (SGD m)	YoY Chg (%)	1Q21 (SGD m)	QoQ chg (%)
Revenue	50.8	24.9	104.5%	43.8	16.1%
Key operating expenses	33.1	14.5	128.4%	33.2	-0.2%
Other expenses	2.8	1.2	128.2%	2.4	17.6%
Share of profit (loss) from associates	(0.2)	0.4	NM	0.2	-175.4%
Other gains	0.2	0.0	578.1%	4.3	-94.9%
PATMI	8.4	6.8	22.8%	9.4	-10.9%
Adjusted PATMI	8.2	0.7	996.4%	6.8	20.4%

Source: Company data

**Fig 6: DPS and payout ratio (%)**



Source: Company data, Maybank Kim Eng

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Metrics</b>					
P/E (reported) (x)	21.2	18.2	18.1	17.2	15.1
Core P/E (x)	21.0	18.8	20.6	17.2	15.1
P/BV (x)	3.1	3.1	5.9	6.1	5.9
P/NTA (x)	5.4	5.4	10.3	10.6	10.0
Net dividend yield (%)	5.9	7.2	5.0	5.0	5.0
FCF yield (%)	5.7	5.1	7.7	8.2	8.7
EV/EBITDA (x)	12.6	10.7	10.1	9.7	8.8
EV/EBIT (x)	21.8	15.4	12.7	12.1	10.8
<b>INCOME STATEMENT (SGD m)</b>					
Revenue	128.0	137.6	206.7	229.9	251.4
EBITDA	35.1	37.5	66.4	70.0	77.2
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	52.9	56.0	62.7
Net interest income / (exp)	(4.4)	(3.8)	(2.9)	(2.9)	(2.9)
Associates & JV	4.2	0.2	(0.5)	(0.3)	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	20.1	22.4	49.5	52.8	59.8
Income tax	(1.9)	(2.5)	(4.5)	(5.3)	(6.6)
Minorities	(0.2)	(0.1)	(9.9)	(10.7)	(11.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	18.0	19.7	35.1	36.8	42.0
Core net profit	18.0	19.7	30.8	36.8	42.0
<b>BALANCE SHEET (SGD m)</b>					
Cash & Short Term Investments	27.3	48.8	48.2	45.5	46.4
Accounts receivable	87.3	18.2	22.7	29.9	37.7
Inventory	7.0	16.1	20.7	23.0	27.6
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	75.6	78.4	72.9	67.4	61.9
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
<b>Total assets</b>	<b>305.8</b>	<b>273.8</b>	<b>276.9</b>	<b>278.1</b>	<b>286.0</b>
ST interest bearing debt	22.2	1.9	1.9	1.9	1.9
Accounts payable	27.1	16.5	26.5	29.4	33.8
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
<b>Total Liabilities</b>	<b>182.6</b>	<b>149.9</b>	<b>159.8</b>	<b>162.7</b>	<b>167.1</b>
Shareholders Equity	122.0	121.1	107.1	104.6	107.6
Minority Interest	1.2	2.8	9.9	10.7	11.3
<b>Total shareholder equity</b>	<b>123.1</b>	<b>123.9</b>	<b>117.0</b>	<b>115.3</b>	<b>118.9</b>
<b>Total liabilities and equity</b>	<b>305.8</b>	<b>273.8</b>	<b>276.9</b>	<b>278.1</b>	<b>286.0</b>
<b>CASH FLOW (SGD m)</b>					
Pretax profit	20.1	22.4	49.5	52.8	59.8
Depreciation & amortisation	14.7	11.5	13.5	14.0	14.5
Adj net interest (income)/exp	4.4	3.8	2.9	2.9	2.9
Change in working capital	5.0	(11.1)	(8.8)	(9.2)	(12.2)
Cash taxes paid	(0.7)	(1.2)	(1.2)	(1.2)	(1.2)
Other operating cash flow	(15.6)	0.4	1.0	0.8	0.5
Cash flow from operations	28.0	25.8	56.9	60.2	64.4
Capex	(6.5)	(7.0)	(8.0)	(8.5)	(9.0)
Free cash flow	21.5	18.8	48.9	51.7	55.4
Dividends paid	(6.4)	(22.2)	(31.5)	(31.5)	(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	(0.5)	(2.8)	1.0

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	5.9	7.5	50.2	11.2	9.3
EBITDA growth	118.3	7.0	76.9	5.4	10.4
EBIT growth	59.4	27.8	103.4	5.9	12.1
Pretax growth	35.5	11.2	121.1	6.8	13.3
Reported net profit growth	28.3	9.5	78.0	5.0	13.9
Core net profit growth	28.3	9.5	56.4	19.5	13.9
<b>Profitability ratios (%)</b>					
EBITDA margin	27.4	27.3	32.1	30.4	30.7
EBIT margin	15.9	18.9	25.6	24.3	25.0
Pretax profit margin	15.7	16.3	23.9	23.0	23.8
Payout ratio	123.2	135.9	89.8	85.5	75.0
<b>DuPont analysis</b>					
Net profit margin (%)	14.1	14.3	17.0	16.0	16.7
Revenue/Assets (x)	0.4	0.5	0.7	0.8	0.9
Assets/Equity (x)	2.5	2.3	2.6	2.7	2.7
ROAE (%)	15.5	16.2	30.7	34.8	39.6
ROAA (%)	6.9	6.8	11.2	13.3	14.9
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(13.9)	8.2	7.2	(9.2)	0.4
Days receivable outstanding	146.2	138.0	35.6	41.2	48.4
Days inventory outstanding	82.6	146.5	166.0	179.1	193.2
Days payables outstanding	242.7	276.3	194.5	229.4	241.2
Dividend cover (x)	0.8	0.7	1.1	1.2	1.3
Current ratio (x)	1.8	2.9	2.4	2.4	2.4
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.7	1.8	1.7	1.7	1.7
Net gearing (%) (incl perps)	52.6	23.1	24.9	27.7	26.0
Net gearing (%) (excl. perps)	52.6	23.1	24.9	27.7	26.0
Net interest cover (x)	4.6	6.9	18.2	19.3	21.6
Debt/EBITDA (x)	2.6	2.1	1.2	1.1	1.0
Capex/revenue (%)	5.1	5.1	3.9	3.7	3.6
Net debt/ (net cash)	64.8	28.6	29.2	31.9	31.0

Source: Company; Maybank

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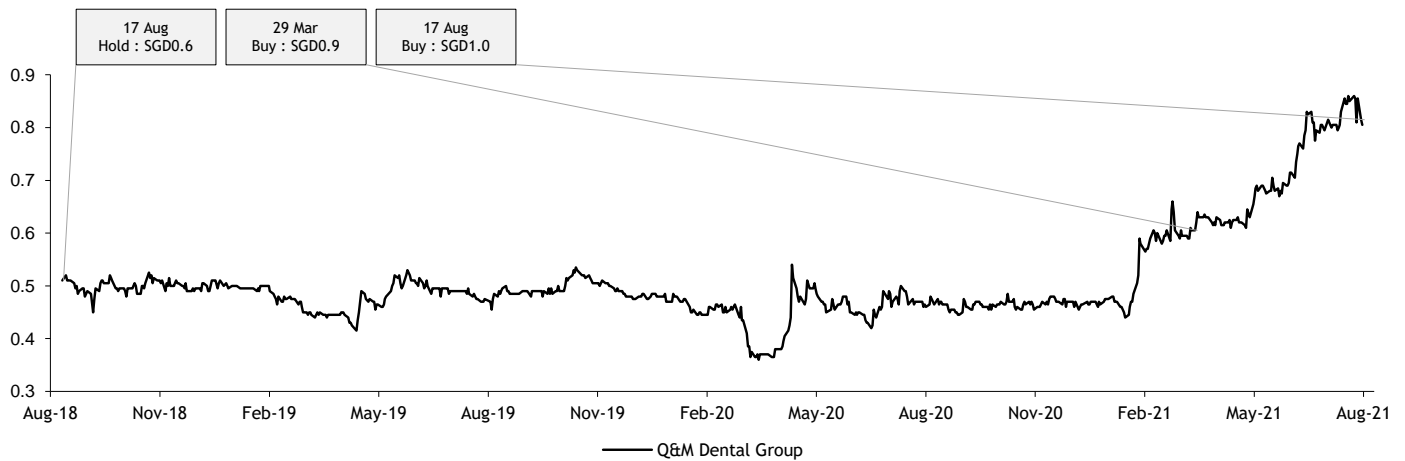
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