



Q & M Dental Group

(QNM SP/QMDT.SI)

Turning challenges into opportunities

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- Q & M Dental Group (Q&M) has remained resilient with its dental and medical services through Covid-19. It continues to be the bread and butter of the group, as its network of clinics dominate the private dental healthcare space.
- Booster shot.** In 1Q21, the group generated S\$4.6mn sales from its equipment and lab tests segment (from S\$1.6mn in 1Q20), a significant part contributed from its investment in medical tech firm Acumen Diagnostics. Given the continued need for Covid-19 testing regardless of the availability of vaccines, we are confident on the outlook of Acumen Diagnostics in the short-medium term.
- We maintain **OUTPERFORM** and raise our 12-month target price to S\$0.91. Q&M continues to generate stable and resilient earnings, and we foresee no material changes in or threats to its market share in the private dental space in the medium term.

| Financials & Key Operating Statistics | | | | | |
|---------------------------------------|---------|---------|---------|---------|---------|
| YE Dec (\$ m) | 2019 | 2020 | 2021F | 2022F | 2023F |
| Revenue | 127,995 | 137,898 | 205,134 | 206,635 | 209,948 |
| PATMI | 18,181 | 19,838 | 32,481 | 32,719 | 33,243 |
| EPS (cents) | 2.31 | 2.52 | 4.13 | 4.16 | 4.22 |
| EPS growth (%) | 29.1% | 8.9% | 63.7% | 0.7% | 1.6% |
| DPS (Sing cents) | 2.8 | 3.4 | 3.3 | 3.3 | 3.4 |
| Div Yield (Y%) | 4.1% | 5.0% | 4.9% | 4.9% | 5.0% |
| Net Profit Margin (%) | 14.2% | 14.4% | 15.8% | 15.8% | 15.8% |
| Net Gearing (%) | 40.7% | 41.4% | 39.3% | 37.4% | 35.7% |
| Price P/B (x) | 4.38 | 4.42 | 4.19 | 3.99 | 3.80 |
| ROE (%) | 15.0% | 16.0% | 24.8% | 23.8% | 23.1% |

Source: Company data, KGI Research

Q&M currently owns the largest network of private dental outlets in Singapore with over 90 clinics/outlets island-wide and 1 Covid-19 testing laboratory newly incorporated in April 2020. Q&M's current overseas presence consists of 36 clinics in Malaysia and 1 clinic in China, bringing the overall total number of clinics as at end-March 2021 to 126, an increase of 8 clinics compared to YE2019. Revenue of Q&M increased by 8% YoY, from S\$128mn in 2019 to S\$138mn in 2020, which was mainly attributable to operations in Singapore.

YoY financial performance. Q&M's dental and medical clinics remain the core segment of its business, contributing more than 90% of FY2020 revenue. Although business at its clinics was somewhat affected during Singapore's circuit breaker period from April-June 2020, demand has quickly bounced back. We see that Singapore's revenue increased by 8% YoY, from S\$116mn in 2019 to S\$126mn in 2020.

On the other hand, for Q&M's clinics in Malaysia and China, the situation was not as optimistic whereby there was a dip in YoY sales of 0.5% and 19% respectively. However, we expect minimal impact on Q&M's financial performance from China's dip in sales and forecasts as it only accounts for 1% of total clinic revenue.

| Outperform - Maintain | | |
|-----------------------------|-------|-------------------------------|
| Price as of 10 Jun 21 (SGD) | 0.68 | Performance (Absolute) |
| 12M TP (\$) | 0.91 | 1 Month (%) 12.2 |
| Previous TP (\$) | 0.54 | 3 Month (%) 7.8 |
| Upside, incl div (%) | 38.3 | 12 Month (%) 55.6 |
| Trading data | | Perf. vs STI Index (Red) |
| Mkt Cap (\$mn) | 535 | |
| Issued Shares (mn) | 787 | |
| Vol - 3M Daily avg (mn) | 4.2 | |
| Val - 3M Daily avg (\$mn) | 2.7 | |
| Free Float (%) | 40.2% | |
| Major Shareholders | | Previous Recommendations |
| Dr Ng Chin Siau | 51.3% | 26-Nov-21 OP S\$0.54 |
| Heritas Capital Mgt | 8.1% | |

On its Malaysia side, the decrease in sales was within our expectations considering that the magnitude of Covid-19 impact such as lockdowns were much more severe compared to Singapore. Moving forward, the Group will continue to pursue organic growth in Malaysia by expanding their network of dental clinics, specifically in the Johor, Selangor, Malacca, and Klang Valley regions.

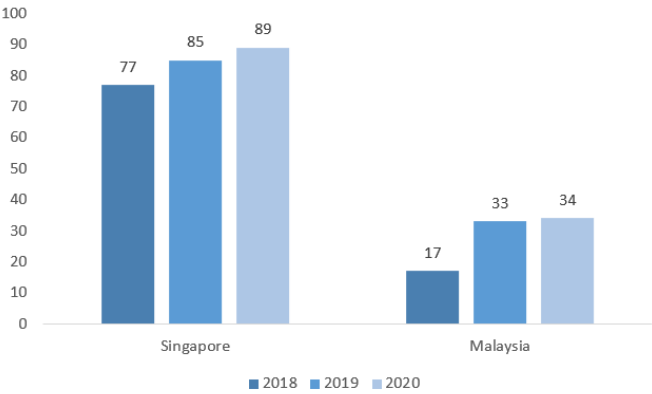
Overall, Singapore continues to be the main revenue driver as a significant proportion of Q&M's sales are generated by the local segment. With Q&M's plans on expanding its network, we expect resilience in future years via gaining greater market share.

1Q2021 rebound and more. Q&M was able to benefit clearly from the rebound in Singapore, in addition to the surprisingly strong maiden contribution from Acumen Diagnostics, which the group had invested in last year. Core PATMI (excluding other gains and associate losses) tripled from S\$2.3mn in 1Q20 to S\$6.8mn in 1Q21. The group expects growth to be driven both by the dental and Covid-19 lab tests business.

Valuation & Action: We maintain our OUTPERFORM recommendation on Q&M with a 12-month TP of S\$0.91, using a conservative 22x core P/E (excluding one-off gains) as compared to its healthcare services peers. While 2020 performance was temporarily impacted by the pandemic, its acquisition of Acumen Diagnostics and expansion into medical technology (Covid-19 test kits) is expected to provide a boost to FY21F and FY22F earnings. Our TP represents a total upside of 38%, inclusive of FY21's dividend yield of 5%.

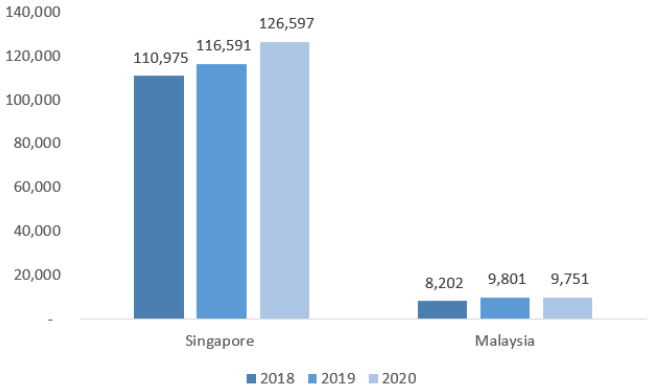
Risks: Litigation risks, laboratory errors in relation to Acumen Diagnostics or non-approval of new technology and/or vaccines that may affect the viability of the business overall.

Figure 1: Number of clinics by geographical location



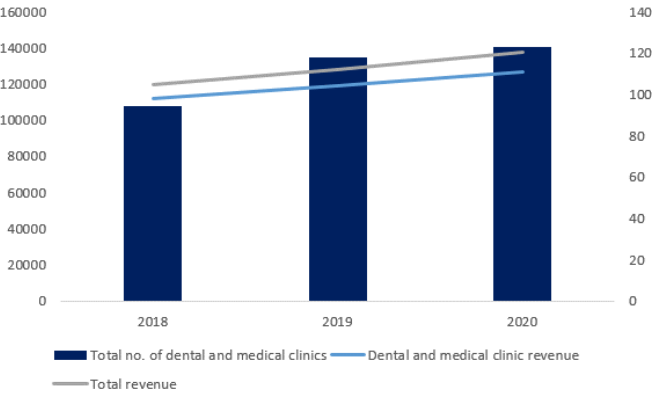
Source: Company data, KGI Research

Figure 2: Revenue by geographical location (S\$'000)



Source: Company data, KGI Research

Figure 3: Revenue contribution from dental and medical clinics to total revenue (S\$'000)



Source: Company data, KGI Research

Continuous improvement through AI. Management has continuously dedicated itself to expanding into other healthcare segments such as medical technology, AI and even specialized education to provide additional value to its shareholders.

Q&M’s AI arm, EM2AI Pte. Ltd, has also made significant progress in the development of the AI-powered dental solutions, which will enable the group to provide their patients with more accurate diagnoses and the most suitable dental treatment plans. Pilot trials were conducted in Q&M Malaysia clinics in FY2020, and plans are made to launch the AI-enhanced treatment planning tool in Singapore later this year.

Upon the takeoff of the AI programme in end 2021, we foresee a more solidified current customer base as well as an increase in future customer acquisition. By implementing this tool, Q&M aims to provide high quality services via a holistic and advanced dentistry approach as the AI tool provides patients an accurate overview of all dental issues discovered, which supports dentists in their diagnosis and treatments. The group is also planning to expand into the China market through their associate once post-Covid conditions permit and would also be planning to take the AI programme overseas.

Tapping into other healthcare segments. Earlier in April 2020, Q&M made a timely venture into medical technology, together with Acumen Holdings. Acumen Diagnostics Pte Ltd (Acumen Diagnostics) has been mainly involved in the manufacture, sale, and distribution of diagnostic test kits for Covid-19, in Singapore and internationally.

In May 2021, Acumen Diagnostics was selected as one of the six successful awardees for the open tender by the Health Promotion Board (HPB) for the provision of Covid-19 swab and testing services.

Figure 2: Acumen Diagnostic kit developed for coronavirus. Q&M has a 51% stake in the Joint Venture. The PCR test kit below can yield results within two hours.



Acu-Corona™ 2.0



For Applied Biosystems® 7500 Fast Real-Time PCR System

Acu-Corona™ 3.0



For Applied Biosystems® 7500 Fast Real-Time PCR System

Source: Company slides

We expect the business to contribute positively, and significantly, to Q&M in the short to medium term as combatting the virus remains an immediate and foremost priority for many countries globally. We do not expect the implementation of vaccines to impact significantly on the rate of testing, as Covid-19 testing will still be needed to ensure the efficacy of vaccines, and even to confirm the absence of any virus transmission within the community.

We expect Q&M's second quarter's revenue coming from Acumen to increase substantially given that more extensive testing was conducted in March and April 2021 due to the increase of Covid cases in Singapore. We expect that this business arm would bring about a considerable amount of revenue in the coming years and might plateau off after 2-3 years as the Covid-19 pandemic becomes endemic.

Dividend surprise. Q&M paid out an interim 1 Sing cents dividend in for 1Q21. We have raised our full year dividend forecast to 3.30 Sing cents for FY2021, based on an 80% payout ratio.

| Dividend per share Sing cents | 2019 | 2020 | 1Q2021 |
|----------------------------------|------|------|--------|
| Interim | 0.40 | 0.40 | 1.00 |
| Final | 0.42 | 0.50 | |
| Special | 2.00 | 2.50 | |
| Total | 2.82 | 3.40 | 1.00 |

| FYE 31 December | | | | | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| INCOME STATEMENT (S\$ mn) | 2019 | 2020 | 2021F | 2022F | 2023F |
| Revenues | 127,995.0 | 137,898.0 | 205,133.8 | 206,634.7 | 209,948.0 |
| Cost of Goods | (15,746.0) | (16,895.0) | (24,616.1) | (24,796.2) | (25,193.8) |
| Employee benefits expense | (77,142.0) | (75,915.0) | (114,874.9) | (115,715.5) | (117,570.9) |
| Depn & amort. expense | (3,281.0) | (3,458.0) | (5,333.5) | (5,372.5) | (5,458.6) |
| Depn of right of use assets | (11,452.0) | (8,067.0) | (16,410.7) | (16,530.8) | (16,795.8) |
| Rental expense | – | – | – | – | – |
| Other expenses | (9,025.0) | (7,546.0) | (13,333.7) | (13,431.3) | (13,646.6) |
| Finance costs | (4,407.0) | (4,058.0) | (6,154.0) | (6,199.0) | (6,298.4) |
| Other gains/(losses) | 9,017.0 | 253.0 | 10,256.7 | 10,331.7 | 10,497.4 |
| Share of profit from associates | 4,163.0 | 159.0 | 1,025.7 | 1,033.2 | 1,049.7 |
| Profit before income tax | 20,122.0 | 22,371.0 | 35,693.3 | 35,954.4 | 36,531.0 |
| Income tax expense | (1,941.0) | (2,533.0) | (3,212.4) | (3,235.9) | (3,287.8) |
| Profit | 18,181.0 | 19,838.0 | 32,480.9 | 32,718.5 | 33,243.2 |
| BALANCE SHEET (S\$ mn) | 2019 | 2020F | 2021F | 2022F | 2023F |
| Cash and cash equivalents | 27,253.0 | 48,772.0 | 61,467.6 | 67,763.8 | 74,227.0 |
| Other current assets | 97,761.0 | 37,508.0 | 45,073.3 | 45,379.5 | 46,055.4 |
| Total current assets | 125,014.0 | 86,280.0 | 106,540.9 | 113,143.3 | 120,282.4 |
| Property, plant and equipment | 26,117.0 | 28,884.0 | 29,348.3 | 29,514.8 | 29,521.3 |
| Intangible assets | 53,497.0 | 55,585.0 | 55,585.0 | 55,585.0 | 55,585.0 |
| Other non-current assets | 101,146.0 | 103,031.0 | 103,031.0 | 103,031.0 | 103,031.0 |
| Total non-current assets | 180,760.0 | 187,500.0 | 187,964.3 | 188,130.8 | 188,137.3 |
| Total assets | 305,774.0 | 273,780.0 | 294,505.2 | 301,274.1 | 308,419.7 |
| Trade and other payables | 27,080.0 | 16,541.0 | 30,770.1 | 30,995.2 | 31,492.2 |
| Finance liabilities | 10,211.0 | 9,131.0 | 9,131.0 | 9,131.0 | 9,131.0 |
| Other current liabilities | 33,600.0 | 4,574.0 | 4,574.0 | 4,574.0 | 4,574.0 |
| Total current liabilities | 70,891.0 | 30,246.0 | 44,475.1 | 44,700.2 | 45,197.2 |
| Lease liabilities | 39,946.0 | 42,143.0 | 42,143.0 | 42,143.0 | 42,143.0 |
| Other non-current liabilities | 71,807.0 | 77,466.0 | 77,466.0 | 77,466.0 | 77,466.0 |
| Total non-current liabilities | 111,753.0 | 119,609.0 | 119,609.0 | 119,609.0 | 119,609.0 |
| Total liabilities | 182,644.0 | 149,855.0 | 164,084.1 | 164,309.2 | 164,806.2 |
| Unitholders' funds and reserves | 123,130.0 | 123,925.0 | 130,421.2 | 136,964.9 | 143,613.5 |
| Total liabilities and equity | 305,774.0 | 273,780.0 | 294,505.2 | 301,274.1 | 308,419.7 |
| CASH FLOW STATEMENT (S\$ mn) | 2019 | 2020F | 2021F | 2022F | 2023F |
| Profit before tax | 20,122.0 | 22,371.0 | 35,693.3 | 35,954.4 | 36,531.0 |
| Adjustments | 3,548.0 | 15,563.0 | 21,517.0 | 11,409.4 | 11,399.3 |
| Operating cash flows before WC changes | 23,670.0 | 37,934.0 | 57,210.3 | 47,363.9 | 47,930.2 |
| Change in working capital | 5,012.0 | (13,021.0) | (3,365.8) | 81.1 | 178.9 |
| Income tax paid | (728.0) | (1,162.0) | (3,212.4) | (3,235.9) | (3,287.8) |
| Cash flows from operations | 27,954.0 | 23,751.0 | 50,632.1 | 44,209.0 | 44,821.3 |
| Capital expenditure | (6,852.0) | (6,390.0) | (5,797.8) | (5,539.0) | (5,465.2) |
| Acquisition of subsidiaries | (2,500.0) | (400.0) | – | – | – |
| Others | 69.0 | 48,543.0 | – | – | – |
| Cash flows from investing | (9,283.0) | 41,753.0 | (5,797.8) | (5,539.0) | (5,465.2) |
| Lease payments | – | – | – | – | – |
| Dividends paid | (6,442.0) | (22,222.0) | (25,984.7) | (26,174.8) | (26,594.5) |
| Interest paid | (2,846.0) | (2,221.0) | (6,154.0) | (6,199.0) | (6,298.4) |
| Other financing cashflow | (7,054.0) | (19,542.0) | – | – | – |
| Cash flows from financing | (16,342.0) | (43,985.0) | (32,138.7) | (32,373.9) | (32,893.0) |
| FX Effects, Others | – | – | – | – | – |
| Net increase in cash | 2,329.0 | 21,519.0 | 12,695.6 | 6,296.2 | 6,463.2 |
| Beginning Cash | 24,924.0 | 27,253.0 | 48,772.0 | 61,467.6 | 67,763.8 |
| Ending cash | 27,253.0 | 48,772.0 | 61,467.6 | 67,763.8 | 74,227.0 |
| KEY RATIOS | 2019 | 2020F | 2021F | 2022F | 2023F |
| EPS (SGD cents) | 2.31 | 2.52 | 4.13 | 4.16 | 4.22 |
| DPS (SGD cents) | 2.82 | 3.40 | 3.30 | 3.33 | 3.38 |
| Dividend yield (%) | 4.1% | 5.0% | 4.9% | 4.9% | 5.0% |
| NAV per share (SGD cents) | 15.5 | 15.4 | 16.2 | 17.0 | 17.9 |
| Price/NAV (x) | 4.4 | 4.4 | 4.2 | 4.0 | 3.8 |
| Profitability | | | | | |
| EBITDA Margin (%) | 27.4% | 27.4% | 30.5% | 30.5% | 30.5% |
| Net Margin (%) | 14.2% | 14.4% | 15.8% | 15.8% | 15.8% |
| ROE (%) | 15.0% | 16.0% | 24.8% | 23.8% | 23.1% |
| ROA (%) | 7.0% | 6.8% | 11.4% | 11.0% | 10.9% |
| Financial Structure | | | | | |
| Interest Coverage Ratio (x) | 3.6 | 5.5 | 5.6 | 5.6 | 5.6 |
| Gearing Ratio (%) | 40.7% | 41.4% | 39.3% | 37.4% | 35.7% |

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|-------------------------|---|
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| Neutral (N) | We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon. |
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