



Singapore Medical Group

(SMG SP/SMGL.SI)

Don't mistake this diamond for a rock

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- **Undervalued and underappreciated, maintain OUTPERFORM and TP of S\$0.34.** Considering its geographical diversification, a wider network of clinics, doctors and specialists, and its strong net cash position, we think SMG remains highly undervalued, trading at less than 10x FY21F P/E in comparison to its peers.
- **2H20 to do better.** While 1H20 NPAT made up less than 50% of our forecasts, we think it is fair given the lack of contribution from medical tourism and a highly impacted Diagnostics & Aesthetics segment. We expect 2H20 to see a rebound from pent-up demand for elective procedures and aesthetics, despite a slowing economy.
- **New clinics, new doctors.** SMG's continues to leverage on increasing demand for private healthcare, with a new Women's Health and Paediatrics clinic set to open by the end of the year, along with a slew of new doctors.

1H20 review. Revenue declined by just 12.8% YoY, considering the impact of the deferment of non-essential medical services and also the absence of medical tourism, which usually makes up about 15-20% of the Group's revenue. However, NPAT plunged by close to 50%, largely due to fixed costs such as doctor salaries and equipment maintenance. That said, SMG continues to generate strong positive cash flows, and maintained a net cash position of S\$11.2mn as of 30 June 2020.

Its overseas joint ventures and associates have also been affected, especially its SMG Ciputra Eye Clinic in Jakarta, Indonesia, since most LASIK and ophthalmology appointments are considered to be non-essential and have been deferred.

2H20 outlook. All deferred services from the months of April-June during the circuit breaker period is expected to be completed by year end. Also, since the easing of restrictions for non-essential medical services, SMG has seen pent-up demand across all segments of the business for elective procedures, especially in its Diagnostics & Aesthetics segment. Management has also confirmed that space and additional safety measures and procedures are no constraint, and the increased patient load in the second half will not be an issue for the Group's clinics.

Further, while we note that Singapore's slowing economy may affect patients' willingness to spend on elective or aesthetic procedures, management has seen no downtrend in average patient spending since the reopening of its clinics, lending confidence to our 2H20 outlook. Some of the Group's patients also contribute to multiple segments of the business due to the nature of SMG's inter-clinic referrals, and thus we expect revenue and margins to improve going forward.

Outperform - Maintain		Performance (Absolute)	
Price as of 14 Aug 20 (SGD)	0.26	1 Month (%)	-1.9
12M TP (\$)	0.34	3 Month (%)	1.6
Previous TP (\$)	0.34	12 Month (%)	-29.0
Upside, incl div (%)	32.7		
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	123		
Issued Shares (mn)	483		
Vol - 3M Daily avg (mn)	2.4		
Val - 3M Daily avg (\$mn)	0.6		
Free Float (%)	53.3%		
Major Shareholders		Previous Recommendations	
CHA Healthcare Co Ltd	24.0%	7-Jul-20	34.0%
Tony Tan	7.5%		
Beng Teck Liang	6.9%		

Financials & Key Operating Statistics					
YE Dec (S\$ mn)	2018	2019	2020F	2021F	2022F
Revenue	85	95	81	101	122
PATMI	13	14	9	15	19
EPS (cents)	2.74	2.83	1.88	3.05	3.88
EPS growth (%)	35.9	3.3	(33.7)	62.3	27.2
DPS (Sing cents)	-	0.4	0.3	0.6	0.8
Div Yield (Y%)	0.0	1.5	1.1	2.4	3.0
Net Profit Margin (%)	15.2	14.4	11.2	14.5	15.3
Net Gearing (%)	NC	NC	NC	NC	NC
Price/Book (x)	0.9	0.8	0.8	0.7	0.7
ROE (%)	9.9	9.4	5.8	8.8	10.5

Source: Company data, KGI Research

Persistent about organic growth. SMG has also announced the opening of a new Women's Health and Paediatrics clinic at the end of the year, with which the Group will be onboarding more doctors. An IVF specialist has also recently joined the Group's Astra Women's and Fertility Specialists clinic at Gleneagles Hospital on August 1st 2020. Its new clinics in Indonesia, Vietnam and Australia are also still on track and expected to open by year end, although the new IVF clinic in Australia may be delayed by 1-2 months depending on the Covid-19 situation in Melbourne.

Valuation & Action: Maintain OUTPERFORM based on fair value of S\$0.34. We believe that SMG is still undervalued and underappreciated for its ability to successfully expand internationally, a feat not many other healthcare services providers have been able to achieve. Our target price is based on a highly conservative 11x FY21F P/E, as compared to its peers who are averaging, minimally, around 15-20x FY21F P/E. Based on current prices, SMG is trading at less than 10x of our FY21F P/E.

Risks: Slower than expected recovery in medical tourism, stronger than expected recessionary pressures, further delays in recovery of overseas joint ventures and associates.

Valuations

Figure 1: P/E valuation

Valuations (S\$)	Remarks
P/E multiple	11.0x 11x P/E represents 1-year historical average
2021F EPS	\$0.031
P/E Valuation	\$0.336
Upside	31.6%
Dividend yield	1.1%
Total upside (incl. div)	32.7%

Source: KGI Research

Figure 2: Peer comparison

BB ticker	Company Name	Last Price (local \$)	Currency Adj. Market Cap (US\$ m)	Dividend Yield (%)		Net Gearing (%)	P/E (x)		P/B (x)		(YTD) Price Performance	(1YR) Price Performance	(1YR) Total Returns (%)
				FY19	FY20F		12M	Forward	Historical	Forward			
SMG SP	SINGAPORE MEDICAL GROUP LTD	SGD 0.26	90	2.7	2.7	NC	11.9	11.0	1.0	0.8	-15.0	-29.1	-29.0
Healthcare Services													
TKMED SP	TALKMED GROUP LTD	SGD 0.43	408	4.5	4.7	NC	15.6	21.3	8.1	6.1	-17.5	-20.6	-18.3
QNM SP	Q & M DENTAL GROUP SINGAPORE	SGD 0.47	267	1.7	-	101.8	20.4	-	3.1	-	-3.1	-2.1	7.9
IHC SP	OUE LIPPO HEALTHCARE LTD	SGD 0.04	117	0.0	-	114.2	9.7	1.4	1.0	-	-37.9	-43.8	-43.8
ISEC SP	ISEC HEALTHCARE LTD	SGD 0.29	109	2.3	-	NC	32.1	-	3.0	-	-18.3	-12.1	-11.2
CLGL SP	CORDUFE GROUP LTD	SGD 0.40	74	0.0	-	NC	15.7	16.0	0.9	-	-14.6	-1.1	-1.5
SOG SP	SINGAPORE O&G LTD	SGD 0.24	83	2.1	325.0	NC	-	0.2	4.0	-	-20.0	-35.1	-34.0
HMED SP	HEALTHWAY MEDICAL CORP LTD	SGD 0.03	102	0.0	-	NC	-	-	0.7	-	19.2	10.7	14.8
Consumables													
TOPG SP	TOP GLOVE CORP BHD	SGD 8.24	16,250	-	1.1	85.1	-	46.5	-	18.7	NM	NM	NM
TIAN SP	TIANJIN ZHONG XIN PHARM CO-S	USD 0.86	1,601	5.1	-	NC	7.5	-	0.8	-	0.6	4.9	13.3
HPAR SP	HAW PAR CORP LTD	SGD 9.55	1,539	2.3	-	NC	11.6	-	0.9	-	-25.1	-31.1	-30.1
RSTON SP	RIVERSTONE HOLDINGS LTD	SGD 3.98	2,149	2.4	1.6	NC	69.1	20.5	2.6	8.7	NM	NM	NM
UGHC SP	UG HEALTHCARE CORP LTD	SGD 2.79	399	0.6	1.2	48.6	40.8	14.9	4.4	6.3	NM	NM	NM
MED SP	MEDTECS INTERNATIONAL CORP	SGD 1.62	648	0.0	-	59.0	16.3	-	0.2	-	NM	NM	NM
IXBIO SP	IX BIOPHARMA LTD	SGD 0.28	130	0.0	-	NC	-	-	8.0	-	22.2	10.0	10.0
TTGL SP	TRENDLINES GROUP LTD/THE	SGD 0.10	57	0.0	-	NC	-	-	0.6	-	3.1	25.3	20.7

Source: Bloomberg, KGI Research

Financials

YE 31 December

INCOME STATEMENT (SGD mn)	2018A	2019A	2020F	2021F	2022F
Revenue	85.1	94.7	81.2	101.2	122.4
Cost of Sales	(47.3)	(51.4)	(46.3)	(56.5)	(68.3)
Gross Profit	37.8	43.2	34.9	44.8	54.1
Selling, General & Admin Expenses	(23.1)	(26.1)	(24.4)	(28.2)	(34.1)
Operating Profit	14.7	17.1	10.6	16.5	20.0
Finance Income/(Expenses)	(1.0)	(1.3)	(1.0)	(0.9)	(0.9)
Share of JV/Associates' Results	0.1	0.3	0.3	0.4	0.6
Profit Before Tax	14.1	16.1	10.7	17.3	22.1
Income Tax Expenses	(1.2)	(2.4)	(1.6)	(2.6)	(3.3)
Net Profit After Tax	12.9	13.6	9.1	14.7	18.7
Core PATMI	12.9	13.7	9.1	14.7	18.7
BALANCE SHEET (SGD mn)	2018A	2019A	2020F	2021F	2022F
Cash and Cash Equivalents	20.0	27.3	27.9	40.0	55.6
Trade and Other Receivables	7.1	7.3	8.4	8.9	9.7
Inventory	1.7	1.8	1.4	1.4	1.4
Other Current Assets	1.8	1.0	0.9	0.9	0.9
Total Current Assets	30.5	37.4	38.7	51.3	67.7
Property, Plant and Equipment	13.7	7.7	7.2	6.4	5.4
Other Non-Current Assets	137.6	152.5	151.3	151.3	151.3
Total Non-Current Assets	151.3	160.2	158.5	157.7	156.7
Total Assets	181.8	197.6	197.2	208.9	224.4
Short-Term Borrowings	4.8	14.9	5.7	5.3	5.0
Trade and Other Payables	29.8	17.7	14.4	17.4	20.6
Other Current Liabilities	3.2	8.1	8.1	8.1	8.1
Total Current Liabilities	37.8	40.7	28.1	30.7	33.6
Long-Term Borrowings	10.0	5.3	5.3	5.0	5.0
Other Non-Current Liabilities	3.7	6.4	6.9	6.9	6.9
Total Non-Current Liabilities	13.7	11.7	12.2	11.9	11.9
Shareholders' Equity	130.3	145.2	156.8	166.3	178.9
Total Liabilities and Equity	181.8	197.6	197.2	208.9	224.4
CASH FLOW STATEMENT (SGD mn)	2018A	2019A	2020F	2021F	2022F
Net Profit After Tax	14.1	16.1	9.1	14.7	18.7
Depreciation & Amortisation	4.0	9.2	9.1	9.9	10.7
Other Non-Cash Adjustments	0.5	0.6	1.9	2.8	3.4
Changes in Working Capital	(0.2)	2.1	0.8	(3.5)	(4.0)
Taxes Paid	(0.9)	(1.9)	(1.6)	(2.6)	(3.3)
Cash from Operations	17.4	26.1	19.3	21.3	25.4
Capital Expenditure	(3.4)	(2.1)	(2.4)	(2.9)	(3.5)
Other CFI	(25.3)	(16.6)	0.0	0.0	0.0
Cash from Investing	(28.7)	(18.7)	(2.4)	(2.9)	(3.5)
Dividends Paid	(0.3)	(0.4)	(1.9)	(1.4)	(2.9)
Borrowings Raised / (Repaid)	5.0	(3.9)	(10.0)	0.0	0.0
Equity Raised / (Bought Back)	7.1	0.7	0.0	0.0	0.0
Cash from Financing	10.0	(0.1)	(16.3)	(6.3)	(6.3)
FX Effects, Others	0.0	1.0	2.0	3.0	4.0
Net Increase in Cash and Cash Equiv.	(1.3)	7.3	0.6	12.1	15.6
Beginning Cash	21.3	20.0	27.3	27.9	40.0
Ending Cash	20.0	27.3	27.9	40.0	55.6
KEY RATIOS	2018A	2019A	2020F	2021F	2022F
Core EPS (SGD cents)	2.74	2.83	1.88	3.05	3.88
Core EPS Growth	35.9%	3.3%	-33.7%	62.3%	27.2%
DPS (SGD Cents)	0.00	0.40	0.28	0.61	0.78
Dividend Yield	0.0%	1.5%	1.1%	2.4%	3.0%
Profitability					
Gross Margin	44.4%	45.7%	43.0%	44.2%	44.2%
EBITDA Margin	13.2%	15.2%	10.7%	14.3%	15.1%
ROE	9.9%	9.4%	5.8%	8.8%	10.5%
ROA	7.1%	6.9%	4.6%	7.0%	8.3%
Leverage					
Net Gearing Ratio	NC	NC	NC	NC	NC
Interest Coverage Ratio (x)	13.81	12.48	10.99	17.24	20.96
Valuation (x)					
Price/Earnings	9.3	9.0	13.6	8.4	6.6
Price/Book	0.9	0.8	0.8	0.7	0.7
EV/EBITDA	10.2	7.4	12.2	6.4	4.2

Source: Company, KGI Research

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