



Q & M Dental Group Ltd

New clinics support earnings growth

SINGAPORE | HEALTHCARE | 1Q22 RESULTS

- Earnings were within expectations. 1Q22 revenue and PATMI were 27%/25% of our FY22e forecast. New dental clinics drove dental earnings growth.
- Excluding disposal gains and COVID-19 PCR earnings, we estimate dental earnings growth of 27% to S\$5.7mn in 1Q22.
- We maintain our FY22e PATMI and BUY recommendation. The target price is unchanged, and core dental operations are valued at 25x PE FY22 earnings, in line with industry peers. Listed associate, Aoxin Q & M Dental (S\$0.175, Not Rated), is valued at market price with a 20% discount. Q & M Dental is expanding its franchise of dental clinics across Singapore and Malaysia. We estimate the number of clinics to grow at 18% CAGR over the next two years (or 27 p.a. vs management target of at least 30 p.a.).

Results at a glance

SGD '000	1Q22	1Q21	YoY	Comments
Revenue	46,782	43,762	6.9%	No. of clinics in Singapore rose 17% YoY.
Gross profit	40,131	38,144	5.2%	
PBT	7,915	10,461	-24.3%	
Other gains	-26	4,255	n.m.	1Q21 \$4.4mn gain on sale of associate
Associates	-83	-240	n.m.	
PATMI	6,462	9,411	-31.3%	Employee expense declined 2% to S\$24.3mn.
PATMI -dental (est.)	5,740	4,516	27.1%	
Minority Interest	748	640	16.9%	
Gross Margins	85.8%	87.2%	-1.4%	
Dental clinics - SG	99	85	16.5%	
DPS - Quarterly (cents)	0.40	1.00	-60.0%	1Q21 DPS included gain from sale of

Source: Company, PSR

The Positive

+ Fewer clinics this quarter but up 17% YoY. Only 2 clinics were opened in Singapore, unchanged from a year ago, but fewer than the 7 clinics opened last quarter. Total number of clinics in Singapore rose 17% YoY to 99. Together with Malaysia, the total number of new clinics opened was 5. The company maintained the guidance of at least 30 and has identified 10 new locations.

The Negative

- COVID-19 PCR tests contribution becoming negligible. COVID-19 related earnings from Acumen, as measured by minority interest, has declined 76% QoQ from S\$2.9mn to S\$0.7mn. The need for PCR tests is now largely for outbound travellers. Acumen's focus is on sepsis and cancer marker PCR tests.

Outlook

We believe the reopening of borders will become a near-term headwind as the availability of dentists decline and patients will likely fall due to travel reasons. New dental clinics will be the key earnings driver for the company. Other benefits of a larger dental chain are the de-risking revenue contribution from a larger pool of dentists and a more valuable referral ecosystem to the specialist dentist. In 1Q22, industry outpatient dental admissions was down 14%, QNM likely took some market share judging by the more stable revenue.

Maintain BUY with an unchanged TP of S\$0.71

QNM is on its most aggressive expansion plan from an average of 5 clinics p.a. before 2019 to currently 25 to 30 p.a. Earnings in FY22e will be impacted by the collapse in COVID-19 PCR test revenue.

23 May 2022

BUY (Maintained)

CLOSING PRICE	SGD 0.500
FORECAST DIV	SGD 0.025
TARGET PRICE	SGD 0.71
TOTAL RETURN	47.0%

COMPANY DATA

Bloomberg CODE:	QNM SP
O/S SHARES (MN):	939.4
MARKET CAP (USD mn / SGD mn):	340 / 470
52 - WK HI/LO (SGD):	0.73 / 0.49
3M Average Daily T/O (mn):	1.29

MAJOR SHAREHOLDERS

Quan Min Holdings Pte Ltd	53.5%
Heritas Helios Investments Pte Ltd	6.8%

PRICE PERFORMANCE

	1MTH	3MTH	YTD
COMPANY	(2.0)	(10.6)	(15.8)
STI RETURN	(1.5)	(3.8)	5.8

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD (mn)	FY20	FY21	FY22e	FY23e
Revenue	137.6	205.6	173.6	195.2
EBITDA	29.7	54.3	42.6	52.0
PATMI	19.7	30.5	26.8	36.1
PATMI, adjusted	19.4	26.8	26.3	35.5
EPS (SGD cents)	2.1	3.2	2.9	3.8
P/E (X) - adjusted	24.3	17.5	17.9	13.2
Dividend Yield	6.8%	8.0%	5.0%	6.2%
ROE	15.8%	29.5%	24.7%	30.9%
ROA	7.2%	11.0%	9.8%	12.7%

Source: Company, PSR

VALUATION METHOD

25x PE FY22e adj. + Associate market cap

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Financials

Income Statement

Y/E Dec, SGD '000	FY19	FY20	FY21	FY22e	FY23e
Revenue	127,963	137,619	205,599	173,580	195,195
Gross profit	112,217	120,724	174,722	145,807	165,916
EBITDA	23,647	29,727	54,274	42,603	51,974
Depreciation & amortisation	(3,281)	(3,458)	(4,134)	(4,582)	(4,903)
EBIT	20,366	26,269	50,140	38,021	47,071
Other gains	9,252	253	3,689	521	586
Net Finance Inc/(Exp)	(4,407)	(4,058)	(3,021)	(4,191)	(4,091)
Profit before tax	20,122	22,370	46,654	33,330	42,980
Taxation	(1,941)	(2,533)	(7,296)	(4,666)	(6,447)
Minority interest	(197)	(137)	(8,887)	(1,860)	(465)
PATMI	17,984	19,700	30,471	26,804	36,068
PATMI, adjusted	8,732	19,447	26,782	26,283	35,483

Per share data (SGD Cents)

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
EPS, Reported	1.91	2.09	3.24	2.85	3.84
EPS, Adjusted	0.93	2.06	2.85	2.80	3.78
DPS	2.82	3.40	4.00	2.50	3.10
BVPS	13.1	13.2	11.0	11.5	12.4

Cash Flow

Y/E Dec, SGD '000	FY19	FY20	FY21	FY22e	FY23e
CFO					
Profit before tax	20,122	22,370	46,654	33,330	42,980
Adjustments	(827)	11,783	9,850	15,082	15,903
WC changes	5,012	(13,021)	(5,599)	1,854	(1,945)
Cash generated from ops	28,682	24,912	53,915	54,219	60,796
Tax paid	(728)	(1,162)	(3,112)	(4,666)	(6,447)
Cashflow from ops	27,954	23,750	50,803	49,553	54,349
CFI					
CAPEX, net	(6,852)	(6,390)	(7,874)	(7,000)	(7,000)
Others	(2,431)	48,143	11,343	238	233
Cashflow from investments	(9,283)	41,753	3,469	(6,762)	(6,767)
CFE					
Share issuance, net	-	(1,529)	(3,053)	-	-
Loans, net of repayments	5,175	(9,374)	8,535	(7,000)	(2,000)
Dividends	(6,442)	(22,222)	(48,760)	(23,486)	(28,183)
Others	(15,075)	(10,860)	(12,155)	(14,691)	(15,091)
Cashflow from financing	(16,342)	(43,985)	(55,433)	(45,177)	(45,274)
Net change in cash	2,329	21,518	(1,161)	(2,386)	2,307
CCE, end	27,253	48,771	47,610	45,224	47,531

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

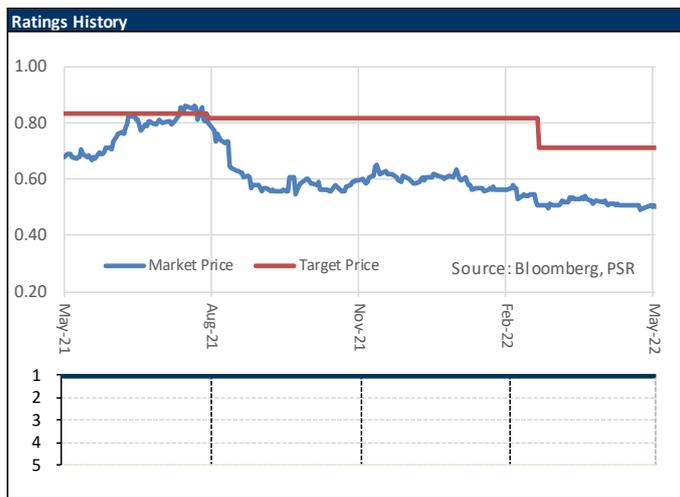
Y/E Dec, SGD '000	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
Trade and other receivables	87,315	18,190	27,823	22,565	25,375
Cash	27,253	48,772	47,611	45,225	47,532
Inventories	7,035	16,092	15,892	19,094	21,471
Total current assets	125,014	86,280	95,159	90,717	98,212
PPE & IA	79,614	82,675	89,201	91,619	93,716
Others	101,146	105,845	91,821	91,821	91,821
Total non-current assets	180,760	188,520	181,022	183,440	185,537
Total Assets	305,774	274,800	276,181	274,157	283,749
LIABILITIES					
Accounts payable	27,080	16,791	26,239	26,037	29,279
Bank borrowings	32,576	1,941	3,552	3,552	3,552
Lease liabilities	10,211	9,131	9,908	9,908	9,908
Others	1,024	2,633	5,595	5,595	5,595
Total current liabilities	70,891	30,496	45,294	45,092	48,334
Deferred tax liabilities	1,371	1,160	2,393	2,393	2,393
Long-term borrowings	69,839	75,456	80,176	73,176	71,176
Others	40,543	42,993	45,072	45,072	45,072
Total non-current liabilities	111,753	119,609	127,641	120,641	118,641
Total Liabilities	182,644	150,105	172,935	165,733	166,975
Equity					
Non-controlling interests	1,157	3,615	5,397	7,257	7,722
Shareholder Equity	123,130	124,695	103,246	108,424	116,774

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/E (X) - adjusted	53.8	24.3	17.5	17.9	13.2
P/B (X)	3.8	3.8	4.5	4.3	4.0
EV/EBITDA (X)	20.3	14.4	7.9	10.2	8.3
Dividend Yield	5.6%	6.8%	8.0%	5.0%	6.2%

Growth & Margins

Growth					
Revenue	5.9%	7.5%	49.4%	-15.6%	12.5%
EBITDA	46.2%	25.7%	82.6%	-21.5%	22.0%
EBIT	58.3%	29.0%	90.9%	-24.2%	23.8%
Net profit, adj.	28.3%	9.5%	54.7%	-12.0%	34.6%
Margins					
Gross margin	87.7%	87.7%	85.0%	84.0%	85.0%
EBITDA margin	18.5%	21.6%	26.4%	24.5%	26.6%
EBIT margin	15.9%	19.1%	24.4%	21.9%	24.1%
Net profit margin	14.1%	14.3%	14.8%	15.4%	18.5%
Key Ratios					
ROE	14.6%	15.8%	29.5%	24.7%	30.9%
ROA	5.9%	7.2%	11.0%	9.8%	12.7%
Net Gearing	61.0%	23.0%	35.0%	29.1%	23.3%
Net Debt/EBITDA (X)	3.2	1.0	0.7	0.7	0.5



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks
 We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation.

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