



Q & M Dental Group Ltd

Expansion cost starts to bite

SINGAPORE | HEALTHCARE | 3Q22 RESULTS

- 3Q22 earnings were below expectations. YTD22 revenue and PATMI were 77%/61% of our FY22e forecast. Employee expenses were higher than expected due to Acumen losses, software development expenses and higher opex from new clinics.
- Sharp 62% drop in earnings due to the absence of COVID-19 test revenue from Acumen. Acumen swung from PAT of S\$4.4mn to an estimated S\$0.1mn loss.
- We cut our FY22e PATMI by 30% to S\$22mn. Expenses are running higher than expected. We expect employee expense to revenue to trend downwards as new clinics start to ramp up visitations. Our target price is lowered to S\$0.52 (prev. S\$0.60). We value core dental operations at 25x PE FY22 earnings, in line with industry peers. Listed associate, Aoxin Q & M Dental (S\$0.169, Not Rated), is valued at market price with a 20% discount.

Results at a glance

SGD '000	3Q22	3Q21	YoY	Comments
Revenue	42,521	57,734	-26.4%	Core dental revenue rose 2% to S\$42.2mn.
Gross profit	36,683	48,440	-24.3%	
PBT	4,080	16,678	-75.5%	
Employee expense	-24,526	-24,659	-0.5%	Higher bonus provision, AI costs, payroll cost.
Associates	138	313	-55.9%	
PATMI	3,610	9,512	-62.0%	
PATMI -dental	4,257	5,147	-17.3%	
Minority Interest	-89	4,426	n.m.	Collapse in Acumen COVID-19 PCR earnings.
Gross Margins	86.3%	83.9%	2.4%	
Dental clinics - SG	106	90	17.8%	

Source: Company, PSR

The Positive

+ **Franchise is still expanding.** There were three new clinics opened in 3Q22 (2Q22: 8). Another two clinics are planned in November. There has been a change in strategy in clinic openings. The priority is to fill existing capacity in current clinics before new locations are open. Other efforts are to build larger dental centres where profitability is higher from economies of scale.

The Negative

- **Sluggish dental earnings and other expenses.** Net profit from core dental operations declined 17% YoY to S\$4.2mn. Performance of new clinics has been softer since border re-opening as visits have declined. Other expenses causing a drag in earnings have been the development cost of the AI guided dental software, recruitment cost for new dentists and start-up costs from new clinics. The record expansion of 24 clinics in Singapore and Malaysia over the past 12 months has been a burden on profitability in the near term.

Outlook

Despite the number of clinics in Singapore expanding by almost 18% to 106, revenue growth has been muted. The re-opening of borders has shifted spending towards other discretionary spend. There were also disruptions in patient visitations and nurse availability from the recent surge in COVID-19 cases. We expect FY23e to be a recovery year for the company as new clinics mature and contribute to earnings.

Maintain BUY with lower TP of S\$0.52 (prev. S\$0.60)

We believe FY22e is an investment year for Q & M from start-up cost of new clinics and expenditure in developing the of AI dental guided software.



17 November 2022

BUY (Maintained)

CLOSING PRICE	SGD 0.345
FORECAST DIV	SGD 0.014
TARGET PRICE	SGD 0.52
TOTAL RETURN	54.8%

COMPANY DATA

Bloomberg CODE:	QNMSP
O/S SHARES (MN):	946.4
MARKET CAP (USD mn / SGD mn):	238 / 327
52 - WK HI/LO (SGD):	0.67 / 0.31
3M Average Daily T/O (mn):	0.71

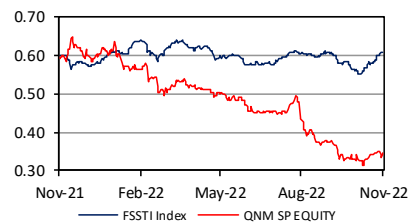
MAJOR SHAREHOLDERS

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

PRICE PERFORMANCE

	1MTH	3MTH	YTD
COMPANY	3.0	(21.8)	(42.3)
STI RETURN	7.8	0.9	8.6

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD (mn)	FY20	FY21	FY22e	FY23e
Revenue	137.6	205.6	183.4	197.3
EBITDA	29.7	54.3	31.2	35.1
PATMI	19.7	30.5	18.3	21.9
PATMI, adjusted	19.4	26.8	18.4	21.8
EPS (SGD cents)	2.1	3.2	1.9	2.3
P/E (X) - adjusted	16.8	12.1	17.8	15.0
Dividend Yield	9.9%	11.6%	4.1%	5.8%
ROE	15.8%	29.5%	16.8%	19.5%
ROA	7.2%	11.0%	6.6%	7.8%

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	183,380	197,295
Gross profit	112,217	120,724	174,722	158,624	171,647
EBITDA	23,647	29,727	54,274	31,211	35,086
Depreciation & amortisation	(3,281)	(3,458)	(4,134)	(4,582)	(4,903)
EBIT	20,366	26,269	50,140	26,629	30,183
Other gains	9,252	253	3,689	(50)	100
Net Finance Inc/(Exp)	(4,407)	(4,058)	(3,021)	(4,191)	(4,091)
Profit before tax	20,122	22,370	46,654	21,988	26,092
Taxation	(1,941)	(2,533)	(7,296)	(3,078)	(3,914)
Minority interest	(197)	(137)	(8,887)	(600)	(300)
PATMI	17,984	19,700	30,471	18,310	21,879
PATMI, adjusted	8,732	19,447	26,782	18,360	21,779

Per share data (SGD Cents)

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
EPS, Reported	1.91	2.09	3.24	1.93	2.31
EPS, Adjusted	0.93	2.06	2.85	1.94	2.30
DPS	2.82	3.40	4.00	1.40	2.00
BVPS	13.1	13.2	11.0	11.5	11.9

Cash Flow

Y/E Dec, SGD '000	FY19	FY20	FY21	FY22e	FY23e
CFO					
Profit before tax	20,122	22,370	46,654	21,988	26,092
Adjustments	(827)	11,783	9,850	17,032	17,903
WC changes	5,012	(13,021)	(5,599)	972	(1,252)
Cash generated from ops	28,682	24,912	53,915	43,945	46,593
Tax paid	(728)	(1,162)	(3,112)	(3,078)	(3,914)
Cashflow from ops	27,954	23,750	50,803	40,866	42,679
CFI					
CAPEX, net	(6,852)	(6,390)	(7,874)	(7,000)	(7,000)
Others	(2,431)	48,143	11,343	238	241
Cashflow from investments	(9,283)	41,753	3,469	(6,762)	(6,759)
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)	(13,250)	(18,929)
Others	(15,075)	(10,860)	(12,155)	(14,691)	(15,091)
Cashflow from financing	(16,342)	(43,985)	(55,433)	(34,941)	(36,020)
Net change in cash	2,329	21,518	(1,161)	(836)	(100)
CCE, end	27,253	48,771	47,610	46,774	46,674

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

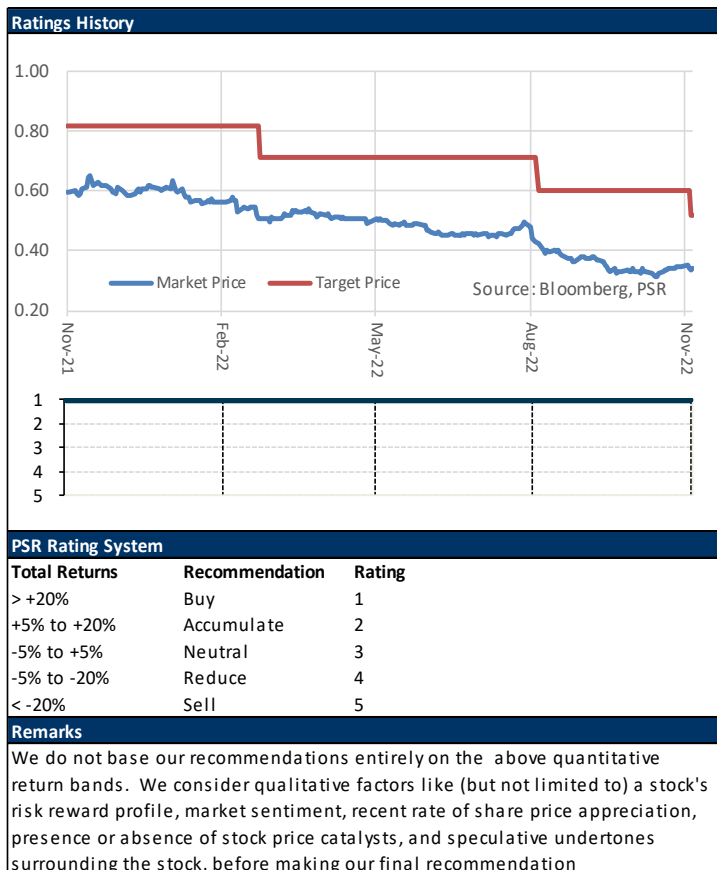
Y/E Dec, SGD '000	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
Trade and other receivables	87,315	18,190	27,823	23,839	25,648
Cash	27,253	48,772	47,611	46,775	46,675
Inventories	7,035	16,092	15,892	20,172	21,702
Total current assets	125,014	86,280	95,159	94,619	97,858
PPE & IA	79,614	82,675	89,201	91,619	93,716
Others	101,146	105,845	91,821	89,871	87,871
Total non-current assets	180,760	188,520	181,022	181,490	181,587
Total Assets	305,774	274,800	276,181	276,108	279,445
LIABILITIES					
Accounts payable	27,080	16,791	26,239	27,507	29,594
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	46,562	48,649
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	167,203	167,290
Equity					
Non-controlling interests	1,157	3,615	5,397	5,997	6,297
Shareholder Equity	123,130	124,695	103,246	108,905	112,155

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/E (X) - adjusted	37.1	16.8	12.1	17.8	15.0
P/B (X)	2.6	2.6	3.1	3.0	2.9
EV/EBITDA (X)	14.1	9.4	5.2	9.1	8.1
Dividend Yield	8.2%	9.9%	11.6%	4.1%	5.8%

Growth & Margins

Growth					
Revenue	5.9%	7.5%	49.4%	-10.8%	7.6%
EBITDA	46.2%	25.7%	82.6%	-42.5%	12.4%
EBIT	58.3%	29.0%	90.9%	-46.9%	13.3%
Net profit, adj.	28.3%	9.5%	54.7%	-39.9%	19.5%
Margins					
Gross margin	87.7%	87.7%	85.0%	86.5%	87.0%
EBITDA margin	18.5%	21.6%	26.4%	17.0%	17.8%
EBIT margin	15.9%	19.1%	24.4%	14.5%	15.3%
Net profit margin	14.1%	14.3%	14.8%	10.0%	11.1%
Key Ratios					
ROE	14.6%	15.8%	29.5%	16.8%	19.5%
ROA	5.9%	7.2%	11.0%	6.6%	7.8%
Net Gearing	61.0%	23.0%	35.0%	27.5%	25.0%
Net Debt/EBITDA (X)	3.2	1.0	0.7	1.0	0.8



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