



Q & M Dental Group Ltd

Pursuing operating leverage post-record expansion



StocksBnB.com

SINGAPORE | HEALTHCARE | 4Q22 RESULTS (Amended)

10 March 2023

- Revenue met expectations but earnings were below. FY22 revenue and adjusted PATMI were 99%/90% of our forecast. The significant drop in COVID-19 related earnings and higher expenses in the development of AI-guided clinical support systems were the drag.
- Our adjusted PATMI excludes S\$5.1mn of impairment of inventories (S\$4.9mn) and plant and equipment (S\$0.2mn) incurred in 4Q22.
- We are lowering our FY23e PATMI by 17% to S\$17.9mn. After increasing the number of clinics by a record 34 (or 30%) over the past two years, the focus is to raise utilisation. Q&M continues to recruit dentists to fill its existing chain of clinics and upgrade the skills of dentists. Our BUY recommendation is maintained but target price lowered to S\$0.47 (prev. S\$0.52). We value the company at 25x PE FY23e earnings, in line with industry peers. Listed associate, Aoxin Q & M Dental (S\$0.115, Not Rated), is valued at market price with a 20% discount.

BUY (Maintained)

CLOSING PRICE	SGD 0.355
FORECAST DIV	SGD 0.010
TARGET PRICE	SGD 0.47
TOTAL RETURN	35.2%

COMPANY DATA

Bloomberg CODE:	QNMSP
O/S SHARES (MN):	946.4
MARKET CAP (USD mn / SGD mn):	248 / 336
52 - WK HI/LO (SGD):	0.55 / 0.3
3M Average Daily T/O (mn):	0.66

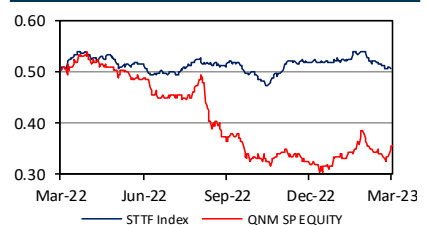
MAJOR SHAREHOLDERS

Quan Min Holdings Pte Ltd	53.1%
Heritas Helios Investments Pte Ltd	6.8%

PRICE PERFORMANCE

	1MTH	3MTH	YTD
COMPANY	(1.1)	12.8	14.6
STTF	(4.6)	(0.2)	(0.7)

PRICE VS. STTF



Source: Bloomberg, PSR

Results at a glance

SGD '000	4Q22	4Q21	YoY	Comments
Revenue	47,783	53,294	-10.3%	Core dental revenue flat YoY at S\$46.2mn.
Gross profit	41,186	45,033	-8.5%	
PBT	-1,868	6,882	-127.1%	
Employee expense	-28,728	-30,208	-4.9%	
Associates	-175	-357	-51.0%	
PATMI	-2,150	3,165	-167.9%	Includes S\$5.1mn of impairments.
PATMI -dental	3,415	1,613	111.7%	Change in accrual of bonus
Minority Interest	-56	778	n.m.	
Gross Margins	86.2%	84.5%	1.7%	
Dental clinics - SG	107	97	10.3%	

Source: Company, PSR

The Positive

+ Number of clinics expanded. In FY22, Q&M expanded the number of clinics by 16 (or 12%). Most of the new clinics were in Singapore, with 10 new clinics. Profitability from core dental operations tripled to S\$3.4mn. This was due to a change in the accrual of staff bonuses from a lumpy 4Q to proportionate provisioning per quarter.

The Negative

- Revenue per clinic declined. 4Q22 revenue per clinic declined by 12% YoY to S\$382k. New clinics have not reached maturity, as nurse shortages and the re-opening of borders have dampened visits. Nevertheless, total revenue from core dental was flat YoY at S\$46.2mn.

Outlook

The priority in FY23 is to raise the utilisation of the existing clinics. After the aggressive expansion over the past two years (34 clinics), the company will look to raise visits and revenue intensity per patient. Recruitment into the existing network of clinics will boost the availability of dentists. Improving the skill sets of the current dentists is another initiative to increase revenue intensity. Q & M is also pursuing an AI-guided dental software that creates an ethical standard cum procedures that supports dentists.

Maintain BUY with lower TP of S\$0.47 (prev. S\$0.52)

FY23e will see a containment of expenses as Q&M pursue operating leverage from their aggressive expansion of clinics.

KEY FINANCIALS

Y/E Dec, SGD (mn)	FY21	FY22	FY23e	FY24e
Revenue	205.6	181.2	186.9	200.8
EBITDA	54.3	23.6	31.4	36.3
PATMI	30.5	11.3	18.0	22.1
PATMI, adjusted	26.8	16.5	17.9	22.0
EPS (SGD cents)	3.2	1.2	1.9	2.3
P/E (X) - adjusted	12.5	20.3	18.8	15.3
Dividend Yield	11.3%	2.8%	2.8%	3.4%
ROE	29.5%	11.1%	16.2%	18.0%
ROA	11.0%	4.2%	6.4%	7.5%

Source: Company, PSR

VALUATION METHOD

25x PE FY23e adj. + Associate market cap

Paul Chew (+65 6212 1851)

Head of Research

paulchewkl@phillip.com.sg

Financials

Income Statement

Y/E Dec, SGD '000	FY20	FY21	FY22	FY23e	FY24e
Revenue	137,619	205,599	181,214	186,900	200,780
Gross profit	120,724	174,722	156,044	161,669	173,875
EBITDA	29,727	54,265	23,613	31,363	36,300
Depreciation & amortisation	(3,458)	(4,125)	(4,890)	(5,101)	(5,419)
EBIT	26,269	50,140	18,723	26,261	30,880
Other gains	253	3,689	(5,210)	100	100
Net Finance Inc/(Exp)	(4,058)	(3,021)	(3,909)	(4,516)	(4,416)
Profit before tax	22,370	46,654	14,277	21,546	26,365
Taxation	(2,533)	(7,296)	(2,421)	(3,447)	(4,218)
Minority interest	(137)	(8,887)	(547)	(100)	(80)
PATMI	19,700	30,471	11,309	17,998	22,066
PATMI, adjusted	19,447	26,782	16,519	17,898	21,966

Per share data (SGD Cents)

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
EPS, Reported	2.09	3.24	1.19	1.90	2.33
EPS, Adjusted	2.06	2.85	1.75	1.89	2.32
DPS	3.40	4.00	1.00	1.00	1.20
BVPS	13.2	11.0	10.8	11.7	13.0

Cash Flow

Y/E Dec, SGD '000	FY20	FY21	FY22	FY23e	FY24e
CFO					
Profit before tax	22,370	46,654	14,277	21,546	26,365
Adjustments	11,783	9,830	17,419	18,301	18,519
WC changes	(13,021)	(5,599)	4,167	1,859	(1,249)
Cash generated from ops	24,912	53,895	39,747	46,077	47,848
Tax paid	(1,162)	(3,101)	(6,196)	(3,447)	(4,218)
Cashflow from ops	23,750	50,794	33,551	42,629	43,630
CFI					
CAPEX, net	(6,390)	(7,799)	(9,310)	(7,000)	(8,000)
Others	48,143	11,352	(1,685)	145	202
Cashflow from investments	41,753	3,553	(10,995)	(6,855)	(7,798)
CFE					
Share issuance, net	(1,529)	(3,053)	1,750	-	-
Loans, net of repayments	(9,374)	8,535	1,500	(2,000)	(2,000)
Dividends	(22,222)	(48,760)	(13,152)	(9,464)	(10,411)
Others	(10,860)	(12,230)	(20,567)	(13,516)	(13,416)
Cashflow from financing	(43,985)	(55,508)	(30,469)	(24,980)	(25,827)
Net change in cash	21,518	(1,161)	(7,913)	10,794	10,005
CCE, end	48,771	47,610	39,697	50,491	60,497

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

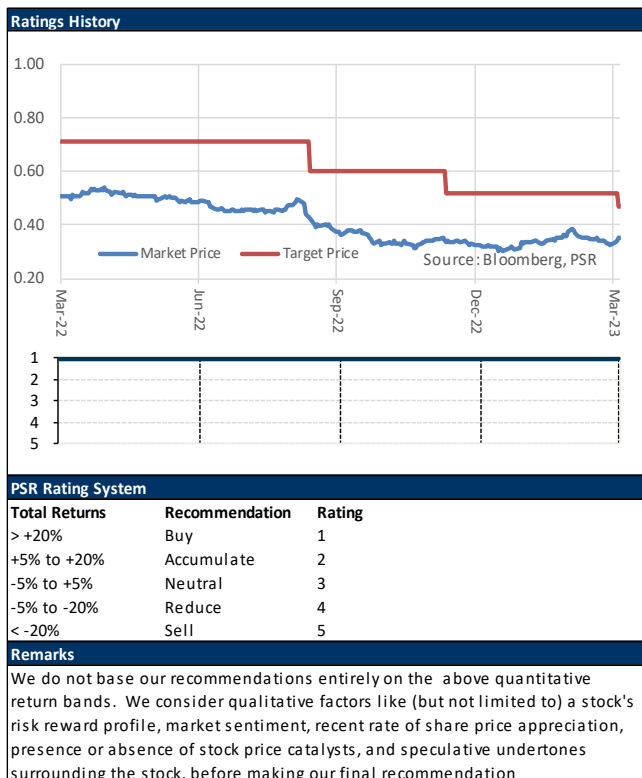
Y/E Dec, SGD '000	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
Trade and other receivables	18,190	27,823	26,970	24,297	26,101
Cash	48,772	47,611	39,698	50,492	60,498
Inventories	16,092	15,892	11,091	20,559	22,086
Total current assets	86,280	95,159	81,803	99,392	112,729
PPE & IA	82,675	89,201	93,511	95,410	97,990
Others	105,845	91,821	92,098	87,898	83,798
Total non-current assets	188,520	181,022	185,609	183,308	181,788
Total Assets	274,800	276,181	267,412	282,700	294,517
LIABILITIES					
Accounts payable	16,791	26,239	19,381	28,035	30,117
Bank borrowings	1,941	3,552	473	473	473
Lease liabilities	9,131	9,908	10,547	10,547	10,547
Others	2,633	5,595	2,273	2,273	2,273
Total current liabilities	30,496	45,294	32,674	41,328	43,410
Deferred tax liabilities	1,160	2,393	1,926	1,926	1,926
Long-term borrowings	75,456	80,176	84,577	82,577	80,577
Others	42,993	45,072	45,987	45,987	45,987
Total non-current liabilities	119,609	127,641	132,490	130,490	128,490
Total Liabilities	150,105	172,935	165,164	171,818	171,900
Equity					
Non-controlling interests	3,615	5,397	5,758	5,858	5,938
Shareholder Equity	124,695	103,246	102,248	110,882	122,617

Valuation Ratios

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E (X) - adjusted	17.2	12.5	20.3	18.8	15.3
P/B (X)	2.7	3.2	3.3	3.0	2.7
EV/EBITDA (X)	9.7	5.4	12.6	9.2	7.6
Dividend Yield	9.6%	11.3%	2.8%	2.8%	3.4%

Growth & Margins

Growth					
Revenue	7.5%	49.4%	-11.9%	3.1%	7.4%
EBITDA	25.7%	82.5%	-56.5%	32.8%	15.7%
EBIT	29.0%	90.9%	-62.7%	40.3%	17.6%
Net profit, adj.	9.5%	54.7%	-62.9%	59.1%	22.6%
Margins					
Gross margin	87.7%	85.0%	86.1%	86.5%	86.6%
EBITDA margin	21.6%	26.4%	13.0%	16.8%	18.1%
EBIT margin	19.1%	24.4%	10.3%	14.1%	15.4%
Net profit margin	14.3%	14.8%	6.2%	9.6%	11.0%
Key Ratios					
ROE	15.8%	29.5%	11.1%	16.2%	18.0%
ROA	7.2%	11.0%	4.2%	6.4%	7.5%
Net Gearing	23.0%	35.0%	44.4%	29.4%	16.8%
Net Debt/EBITDA (X)	1.0	0.7	1.9	1.0	0.6



Contact Information (Singapore Research Team)
Head of Research

 Paul Chew – paulchewkl@phillip.com.sg
Research Admin

 Qystina Azli - gystina@phillip.com.sg
Technical Analyst

 Zane Aw – zaneawyx@phillip.com.sg
Property | REITs

 Darren Chan – darrenchanrx@phillip.com.sg
Banking & Finance

 Glenn Thum – glennthumjc@phillip.com.sg
Credit Analyst

 Shawn Sng – shawnsngkh@phillip.com.sg
US Tech Analyst (Digital Media & Entertainment)

 Jonathan Woo – jonathanwookj@phillip.com.sg
US Tech Analyst (Software & Services)

 Ambrish Shah – amshah@phillipventuresifsc.in
US Tech Analyst (Hardware & Marketplaces)

 Maximilian Koeswoyo – maximilian@phillip.com.sg
Contact Information (Regional Member Companies)
SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

UNITED STATES

Phillip Capital Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited
No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapiatal.in

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited
Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapiatal.com.au

TURKEY

PhillipCapital Menkul Degerler
Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapiatal.com.tr

HONG KONG

Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

CAMBODIA

Phillip Bank Plc
Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

DUBAI

Phillip Futures DMCC
Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

Important Information

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's license under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; and
- (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.