



Q & M Dental Group Ltd

Still filling up the new clinics



SINGAPORE | HEALTHCARE | 1H23 RESULTS

27 August 2023

- 1H23 revenue was within expectations, but earnings were below. Revenue and adjusted PATMI were 47%/29% of our FY23e forecast. Post-expansion of clinics, the company is facing operating cost pressure such as staff cost, utilities, rent, finance and development expenditure of AI-guided clinical support software.
- Q&M has not opened any new clinics this year. The aim is to raise the utilisation of existing clinics with dentists and improve skill sets, especially for the loss-making clinics.
- We cut our FY23e PATMI by 34% to S\$11.9mn. We lowered revenue by 4% and raised our operating expense assumptions. Our recommendation is downgraded from BUY to ACCUMULATE. The target price is lowered to S\$0.34 (prev. S\$0.47). We value the company at 25x PE FY23e earnings, in line with industry peers. Listed associate, Aoxin Q & M Dental (S\$0.125, Not Rated), is valued at market price with a 20% discount. After building out a record 34 clinics or 30% more, Q&M needs to raise profitability by recruiting new dentists to fill its existing chain of clinics, installing new equipment and upgrading the poorer performing dentists.

ACCUMULATE (Downgraded)

CLOSING PRICE	SGD 0.290
FORECAST DIV	SGD 0.003
TARGET PRICE	SGD 0.34
TOTAL RETURN	18.4%

COMPANY DATA

Bloomberg CODE:	QNMSP
O/S SHARES (MN):	946.4
MARKET CAP (USD mn / SGD mn):	202 / 274
52 - WK HI/LO (SGD):	0.4 / 0.28
3M Average Daily T/O (mn):	0.24

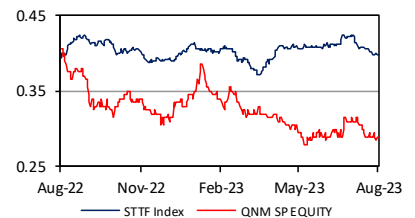
MAJOR SHAREHOLDERS

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

PRICE PERFORMANCE

	1MTH	3MTH	YTD
COMPANY	(6.5)	(1.7)	(6.4)
STTF	(1.1)	1.1	2.0

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD (mn)	FY21	FY22	FY23e	FY24e
Revenue	205.6	181.2	179.0	184.4
EBITDA	54.3	23.6	24.9	29.2
PATMI	30.5	11.3	12.0	16.0
PATMI, adjusted	26.8	16.5	11.9	15.9
EPS (SGD cents)	3.2	1.2	1.3	1.7
P/E (X) - adjusted	10.2	16.6	23.1	17.3
Dividend Yield	13.8%	3.4%	1.2%	1.3%
ROE	29.5%	11.1%	11.2%	13.3%
ROA	11.0%	4.2%	4.3%	5.5%

Source: Company, PSR

VALUATION METHOD

25x PE FY23e adj. + Associate market cap

Paul Chew (+65 6212 1851)
Head of Research
paulchewk1@phillip.com.sg

Results at a glance

SGD '000	1H23	1H22	YoY	Comments
Revenue	87,145	90,910	-4.1%	Core healthcare down 1% to S\$83.3mn.
Gross profit	76,553	78,175	-2.1%	
PBT	6,820	12,065	-43.5%	
Employee expense	(51,939)	(50,358)	3.1%	Absence of S\$500k wage credit.
Associates	(203)	(500)	-59.4%	
PATMI	5,334	9,849	-45.8%	
Gross Margins	87.8%	86.0%	1.9%	
Dental clinics - SG	107	102	4.9%	No expansion since Sep22.
DPS - Interim (cents)	0.16	0.40	-60.0%	

Source: Company, PSR

The Positive

+ Growing the number of dentists. 1H23, the company has grown the number of dentists by 40 to 320 currently. This expansion in headcount will support revenue in 2H23. The company has stopped expanding into new clinics since September 2022. The aim is to grow the number of dentists or chairs in the existing chain.

The Negative

- Negative operating leverage. 1H23 operating expenses rose 3.7%, or S\$2.1mn. Around 70% of the increase was higher employee expenses. Wages rose due to higher nurse wages and absence of a S\$500k wage credit. Other increases were expansion-related fixed costs such as rental and depreciation. Q&M will suffer from negative operating leverage as fixed costs have elevated.

Outlook

2023 will be a year of consolidation post-expansion. The top 40% of the clinics account for 90% of the revenue. And the bottom 20% are loss-making. Q & M is undergoing an internal restructuring to improve the quality of the bottom 20% through training and upgrading of the equipment. The AI software is pending the completion of the treatment planning feature.

Downgrade to ACCUMULATE with lower TP of S\$0.34 (prev. S\$0.47)

FY23e is a year of consolidation and restructuring to improve the revenue and skill sets of the poorer performing clinics

Financials

Income Statement

Y/E Dec, SGD '000	FY20	FY21	FY22	FY23e	FY24e
Revenue	137,619	205,599	181,214	179,025	184,410
Gross profit	120,724	174,722	156,044	154,857	159,699
EBITDA	29,727	54,265	23,613	24,948	29,166
Depreciation & amortisation	(3,458)	(4,125)	(4,890)	(5,101)	(5,419)
EBIT	26,269	50,140	18,723	19,847	23,746
Other gains	253	3,689	(5,210)	100	100
Net Finance Inc/(Exp)	(4,058)	(3,021)	(3,909)	(4,967)	(4,416)
Profit before tax	22,370	46,654	14,277	14,529	19,131
Taxation	(2,533)	(7,296)	(2,421)	(2,325)	(3,061)
Minority interest	(137)	(8,887)	(547)	(200)	(100)
PATMI	19,700	30,471	11,309	12,005	15,970
PATMI, adjusted	19,447	26,782	16,519	11,905	15,870

Per share data (SGD Cents)

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
EPS, Reported	2.09	3.24	1.19	1.27	1.69
EPS, Adjusted	2.06	2.85	1.75	1.26	1.68
DPS	3.40	4.00	1.00	0.34	0.38
BVPS	13.2	11.0	10.8	11.3	12.7

Cash Flow

Y/E Dec, SGD '000	FY20	FY21	FY22	FY23e	FY24e
CFO					
Profit before tax	22,370	46,654	14,277	14,529	19,131
Adjustments	11,783	9,830	17,419	18,951	18,619
WC changes	(13,021)	(5,599)	4,167	2,568	(485)
Cash generated from ops	24,912	53,895	39,747	40,871	41,488
Tax paid	(1,162)	(3,101)	(6,196)	(2,325)	(3,061)
Cashflow from ops	23,750	50,794	33,551	38,546	38,427
CFI					
CAPEX, net	(6,390)	(7,799)	(9,310)	(7,000)	(8,000)
Others	48,143	11,352	(1,685)	145	193
Cashflow from investments	41,753	3,553	(10,995)	(6,855)	(7,807)
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)	(7,193)	(3,407)
Others	(10,860)	(12,230)	(20,567)	(13,967)	(13,416)
Cashflow from financing	(43,985)	(55,508)	(30,469)	(23,160)	(18,823)
Net change in cash	21,518	(1,161)	(7,913)	8,531	11,797
CCE, end	48,771	47,610	39,697	48,228	60,025

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	23,273	23,973
Cash	48,772	47,611	39,698	48,229	60,026
Inventories	16,092	15,892	11,091	19,693	20,285
Total current assets	86,280	95,159	81,803	95,239	108,329
PPE & IA	82,675	89,201	93,511	95,410	97,990
Others	105,845	91,821	92,098	87,248	83,048
Total non-current assets	188,520	181,022	185,609	182,658	181,038
Total Assets	274,800	276,181	267,412	277,896	289,367
LIABILITIES					
Accounts payable	16,791	26,239	19,381	26,854	27,662
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	40,147	40,955
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	170,637	169,445
Equity					
Non-controlling interests	3,615	5,397	5,758	5,958	6,058
Shareholder Equity	124,695	103,246	102,248	107,260	119,922

Valuation Ratios

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E (X) - adjusted	14.1	10.2	16.6	23.1	17.3
P/B (X)	2.2	2.6	2.7	2.6	2.3
EV/EBITDA (X)	7.7	4.3	10.0	9.1	7.4
Dividend Yield	11.7%	13.8%	3.4%	1.2%	1.3%

Growth & Margins

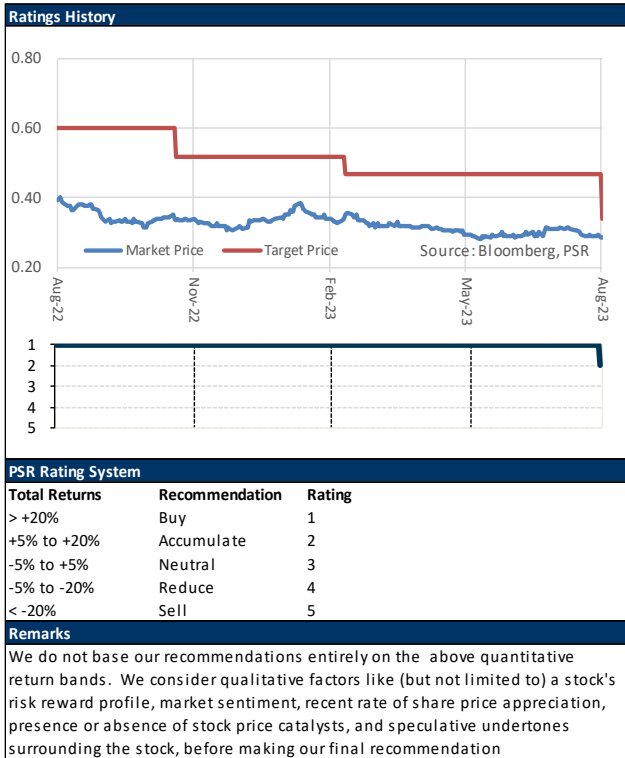
Growth					
Revenue	7.5%	49.4%	-11.9%	-1.2%	3.0%
EBITDA	25.7%	82.5%	-56.5%	5.7%	16.9%
EBIT	29.0%	90.9%	-62.7%	6.0%	19.6%
Net profit, adj.	9.5%	54.7%	-62.9%	6.2%	33.0%

Margins

Gross margin	87.7%	85.0%	86.1%	86.5%	86.6%
EBITDA margin	21.6%	26.4%	13.0%	13.9%	15.8%
EBIT margin	19.1%	24.4%	10.3%	11.1%	12.9%
Net profit margin	14.3%	14.8%	6.2%	6.7%	8.7%

Key Ratios

ROE	15.8%	29.5%	11.1%	11.2%	13.3%
ROA	7.2%	11.0%	4.2%	4.3%	5.5%
Net Gearing	23.0%	35.0%	44.4%	32.5%	17.5%
Net Debt/EBITDA (X)	1.0	0.7	1.9	1.4	0.7



Contact Information (Singapore Research Team)
Head of Research

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

 Qystina Azli – qystina@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
Property | REITs

 Liu Miaomiao – liumm@phillip.com.sg
Conglomerate | Transport

 Peggy Mak – peggyamak@phillip.com.sg
US Technology Analyst (Hardware & Marketplaces)

 Maximilian Koeswoyo – maximilian@phillip.com.sg
US Technology Analyst (Digital Media & Entertainment)

 Jonathan Woo – jonathanwookj@phillip.com.sg
US Technology Analyst (Software/Services)

 Ambrish Shah – amshah@phillipventuresifsc.in
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, Bangkok,
 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.phillipcapital.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.phillipcapital.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.phillipcapital.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

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