



Q & M Dental Group Ltd

Data-driven treatments can commence

SINGAPORE | HEALTHCARE | 2H23 RESULTS

- 2023 adjusted PATMI exceeded our expectations at 121% of forecasts. Operating margins recovered from higher revenue per patient and more stable employee expenses. Associates also turned around from losses the prior year.
- Q&M is rationalising their network of clinics and closing poor performing clinics. Revenue intensity per patient is raised by utilising its EM2AI software. Data is drawn from dental scans, medical notes and records to ascertain the necessary level and timeliness of the treatments for patients. We view EM2AI as a critical tool for efficiency and differentiation.
- We upgraded from ACCUMULATE to BUY and raised our target price to S\$0.36 (prev. S\$0.34). We value the company at 20x PE FY24e earnings, in line with industry peers. Listed associate, Aoxin Q & M Dental (S\$0.051, Not Rated) is valued at market price with a 20% discount. We expect Q&M to return to growth in FY24e. The key drivers are higher revenue per patient, more stable employee cost (as staffing levels for nurses normalise), deconsolidation of EM2AI R&D expenses and turnaround in associates.

Results at a glance

SGD '000	2H23	2H22	YoY	Comments
Revenue	95,578	90,304	5.8%	
Gross profit	84,851	77,869	9.0%	
PBT	6,844	2,212	209.4%	
Employee expense	(56,914)	(53,254)	6.9%	More stable cost of nurses.
Associates	120	(37)	-424.3%	
Adj. PATMI	9,027	6,623	36.3%	
Gross Margins	88.8%	86.2%	2.5%	
Dental clinics - SG	105	107	-1.9%	2 clinics closed.
DPS - 2nd Interim (cents)	0.53	0.60	-11.7%	

Source: Company, PSR

The Positive

+ Recover in revenue and margins. 2H23 revenue growth is the fastest over the past two years. Despite fewer clinics, revenue expanded from higher revenue per patient. Using data driven treatment, Q&M can ascertain and provide a more intensive treatment for patients. Margins recovered from operating leverage and a stable number of staff or nurses.

The Negative

- Declining number of clinics. 2023 saw the first decline in the number of clinics in six years. Q&M closed two clinics in Singapore. The restructuring was to close loss-making clinics. Q&M is still looking to expand its clinics but for larger sites.

Outlook

We expect growth in 2024. Using EM2AI tools and data, dentists can raise the treatment levels for the benefit of patients and improve the timelines or regularity of patient check-ups and treatments. Other initiatives include training Malaysia clinics for more advanced treatments. Associate Aoxin Q&M Dental turnaround is supported by government incentives in the healthcare sector. The 51% sale of EM2AI will also reduce the R&D expenses borne by the group.

Upgrade to BUY from ACCUMULATE with a higher TP of S\$0.36 (prev. S\$0.34)

Apart from improved efficiencies in both revenue and cost, we believe data (or evidence-based) based treatment plans can differentiate Q&M from the competition and enjoy premium pricing.

18 March 2024

BUY (Upgraded)

CLOSING PRICE	SGD 0.245
FORECAST DIV	SGD 0.008
TARGET PRICE	SGD 0.36
TOTAL RETURN	50.1%

COMPANY DATA

Bloomberg CODE:	QNM SP
O/S SHARES (MN) :	946.4
MARKET CAP (USD mn / SGD mn) :	173 / 232
52 - WK HI/LO (SGD) :	0.35 / 0.22
3M Average Daily T/O (mn) :	0.20

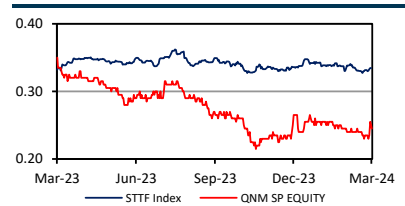
MAJOR SHAREHOLDERS

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

PRICE PERFORMANCE

	1MTH	3MTH	YTD
COMPANY	4.3	2.3	0.3
STTF	1.4	1.7	(1.5)

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD (mn)	FY22	FY23	FY24e	FY25e
Revenue	181.2	182.7	186.1	188.8
EBITDA	23.6	24.5	30.3	32.4
PATMI	11.3	11.5	17.0	18.9
PATMI, adjusted	16.5	14.4	17.0	18.9
EPS (SGD cents)	1.2	1.2	1.8	2.0
P/E (X) - adjusted	14.0	16.1	13.6	12.3
Dividend Yield	4.1%	2.8%	3.2%	3.6%
ROE	11.1%	11.2%	15.0%	15.1%
ROA	4.2%	4.5%	6.3%	6.7%

Source: Company, PSR

VALUATION METHOD

20x PE FY24e adj. + Associate market cap

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Financials

Income Statement

Y/E Dec, SGD '000	FY21	FY22	FY23	FY24e	FY25e
Revenue	205,599	181,214	182,723	186,145	188,760
Gross profit	174,722	156,044	161,404	163,808	166,486
EBITDA	54,265	23,613	24,485	30,315	32,408
Depreciation & amortisation	(4,125)	(4,890)	(5,083)	(5,464)	(5,437)
EBIT	50,140	18,723	19,402	24,851	26,971
Other gains / (Losses)	3,689	(5,210)	(2,920)	-	-
Net Finance Inc/(Exp)	(3,021)	(3,909)	(5,655)	(4,247)	(4,147)
Profit before tax	46,654	14,277	13,664	20,403	22,624
Taxation	(7,296)	(2,421)	(2,591)	(3,265)	(3,620)
Minority interest	(8,887)	(547)	444	(100)	(100)
PATMI	30,471	11,309	11,517	17,039	18,904
PATMI, adjusted	26,782	16,519	14,437	17,039	18,904

Per share data (SGD Cents)

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
EPS, Reported	3.24	1.19	1.22	1.80	2.00
EPS, Adjusted	2.85	1.75	1.53	1.80	2.00
DPS	4.00	1.00	0.69	0.78	0.89
BVPS	11.0	10.8	10.9	12.0	13.2

Cash Flow

Y/E Dec, SGD '000	FY21	FY22	FY23	FY24e	FY25e
CFQ					
Profit before tax	46,654	14,277	13,664	20,403	22,624
Adjustments	9,830	17,428	19,947	18,664	18,637
WC changes	(5,599)	4,159	(4,154)	(16,156)	(680)
Cash generated from ops	53,895	39,748	35,051	27,023	44,604
Tax paid	(3,101)	(6,196)	(1,583)	(3,265)	(3,620)
Cashflow from ops	50,794	33,552	33,468	23,759	40,984
CFI					
CAPEX, net	(7,799)	(9,310)	(5,943)	(5,000)	(5,000)
Others	11,352	(1,685)	(1,221)	136	124
Cashflow from investments	3,553	(10,995)	(7,164)	(4,864)	(4,876)
CFF					
Share issuance, net	(3,053)	1,750	-	-	-
Loans, net of repayments	8,535	1,500	(5,364)	(2,000)	(2,000)
Dividends	(48,760)	(13,152)	(7,193)	(6,720)	(7,477)
Others	(12,230)	(20,567)	(19,452)	(13,247)	(13,147)
Cashflow from financing	(55,508)	(30,469)	(32,009)	(21,967)	(22,624)
Net change in cash	(1,161)	(7,912)	(5,705)	(3,072)	13,484
CCE, end	47,610	39,698	33,993	30,921	44,404

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD '000	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Trade and other receivables	27,823	26,970	31,172	50,259	50,965
Cash	47,611	39,698	33,993	30,921	44,404
Inventories	15,892	11,091	11,812	13,030	13,213
Total current assets	95,159	81,803	80,592	97,825	112,198
PPE & IA	89,201	98,115	96,490	96,026	95,589
Others	91,821	87,494	81,506	77,306	73,106
Total non-current assets	181,022	185,609	177,996	173,332	168,695
Total Assets	276,181	267,412	258,588	271,157	280,893
LIABILITIES					
Accounts payable	26,239	19,381	10,742	14,892	15,101
Bank borrowings	3,552	473	1,105	1,105	1,105
Lease liabilities	9,908	10,547	19,221	19,221	19,221
Others	5,595	2,273	2,218	2,218	2,218
Total current liabilities	45,294	32,674	33,286	37,436	37,645
Deferred tax liabilities	2,393	1,926	2,992	2,992	2,992
Long-term borrowings	80,176	84,577	79,181	77,181	75,181
Others	45,072	45,987	40,218	40,218	40,218
Total non-current liabilities	127,641	132,490	122,391	120,391	118,391
Total Liabilities	172,935	165,164	155,677	157,827	156,036
Equity					
Non-controlling interests	5,397	5,758	3,840	3,940	4,040
Shareholder Equity	103,246	102,248	102,911	113,330	124,857

Valuation Ratios

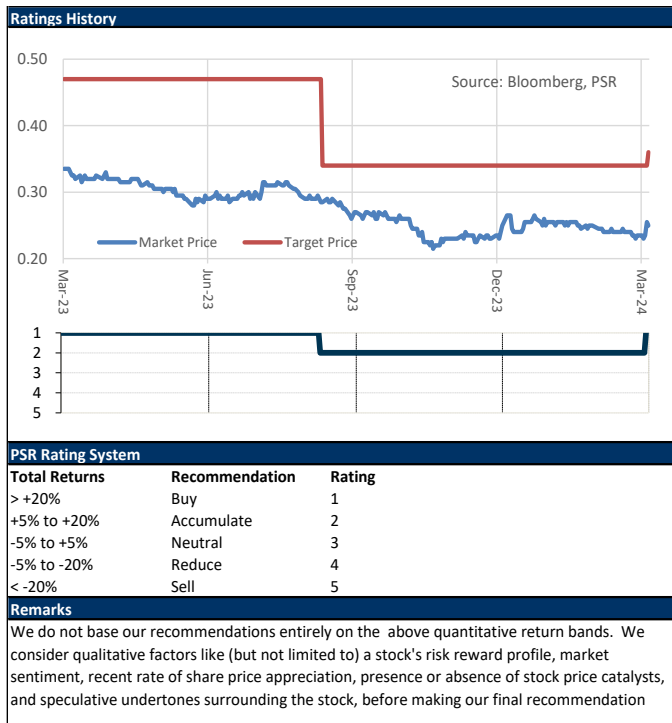
Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (X) - adjusted	8.6	14.0	16.1	13.6	12.3
P/B (X)	2.2	2.3	2.3	2.0	1.9
EV/EBITDA (X)	3.5	8.2	8.2	6.8	5.9
Dividend Yield	16.3%	4.1%	2.8%	3.2%	3.6%

Growth & Margins

Growth					
Revenue	49.4%	-11.9%	0.8%	1.9%	1.4%
EBITDA	82.5%	-56.5%	3.7%	23.8%	6.9%
EBIT	90.9%	-62.7%	3.6%	28.1%	8.5%
Net profit, adj.	54.7%	-62.9%	1.8%	47.9%	10.9%
Margins					
Gross margin	85.0%	86.1%	88.3%	88.0%	88.2%
EBITDA margin	26.4%	13.0%	13.4%	16.3%	17.2%
EBIT margin	24.4%	10.3%	10.6%	13.4%	14.3%
Net profit margin	14.8%	6.2%	6.3%	9.2%	10.0%

Key Ratios

ROE	29.5%	11.1%	11.2%	15.0%	15.1%
ROA	11.0%	4.2%	4.5%	6.3%	6.7%
Net Gearing	35.0%	44.4%	45.0%	41.8%	25.5%
Net Debt/EBITDA (X)	0.7	1.9	1.9	1.6	1.0



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