



Q & M Dental Group Ltd

Growth drivers appearing

SINGAPORE | HEALTHCARE | UPDATE

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- Q & M is undergoing multiple cost initiatives to improve margins. Some of the cost-down efforts include sharing payment charges, consolidating suppliers, and recovering consumable charges.
- EM2AI has signed a memorandum of understanding (MOU) to integrate its dental AI solution into approximately 1,000 dental clinics in Thailand, the Philippines, Vietnam, and Indonesia. EM2AI has been in development for seven years, and this is a transformative milestone for Q & M. It represents a new source of recurrent earnings growth. There is an opportunity to become the essential clinical tool used in dental procedures as awareness and trust grow with the technology.
- We maintain our BUY recommendation and target price of S\$0.36. There have been no changes in our forecast. We believe new growth opportunities are appearing for Q & M. Organically, the company aggressively looking to cost down its operations. Associate EM2AI AI is turning around with the commercialisation of its AI software. Inorganic opportunities could arise, especially in China, as the healthcare sector is facing major scrutiny and investigations.

Key Highlight

Improving margins through cost initiatives. EBITDA margins of 22% in FY23 have been the lowest since listing. Margins have suffered from higher staff costs and underutilised dentists. After the aggressive 40 clinics (or 66%) expansion in dental clinics from 2019-22, the company is focused on cost rationalisation and raising existing margins. Multiple cost initiatives have been implemented in 2024. Some of the cost-saving measures include sharing credit card payment charges, consolidating lab suppliers, and recovering consumable charges.

The AI blue sky. Q & M has been developing AI-powered tools since Q & M Dental AI Pte Ltd (now EM2AI) was established in 2018. The cloud-based Integrated Dental Management System (EM2Clinic) was rolled out in 2022. The AI tool provides an oral X-ray (i.e., orthopantomogram), dental health report, and automated charting with recommendations for the dentist. In January 2024, the stake in EM2AI was lowered to 49% to secure additional funding and minimise Q & M capital expenditure. The AI tool is currently deployed for patients to purchase in Q & M dental clinics. Last month, EM2AI signed a MOU to license the AI to be deployed in 1,000 dental clinics in Singapore, Malaysia, Thailand, and Vietnam. Dentists are adopting this tool to better identify and diagnose dental issues. It ensures that the dentist does not miss critical issues and can avoid over- and under-treatment of patients. From the patient's perspective, the evidence-based tool provides objectivity in the recommended treatments.

M&A opportunities. With operations on a stable growth trajectory, we believe Q & M is ready for inorganic growth. China's healthcare system is undergoing a major anti-corruption drive. With an aging population, the government wants to bend the current cost curve and remove leakages and inefficiencies. We believe this places pricing pressure on existing private operators. Tight financial conditions in local governments will result in less investments in the sector. The authorities are opening up foreign ownership in several cities to invite more capital. We believe this is fertile ground for Q & M to embark on acquisitions with more attractive valuations that are earnings accretive. Furthermore, foreign ownership can benefit from premium pricing in healthcare services. In October 2024, Q & M entered an MOU to acquire a 25% stake in Guangdong Delun Medical Group, which owns one dental hospital and 28 outpatient clinics.

BUY (Maintained)

CLOSING PRICE	SGD 0.275
FORECAST DIV	SGD 0.011
TARGET PRICE	SGD 0.36
TOTAL RETURN	34.7%

COMPANY DATA

Bloomberg CODE:	QNM SP
O/S SHARES (MN) :	948.9
MARKET CAP (USD mn / SGD mn) :	192 / 261
52 - WK HI/LO (SGD) :	0.32 / 0.23
3M Average Daily T/O (mn) :	0.25

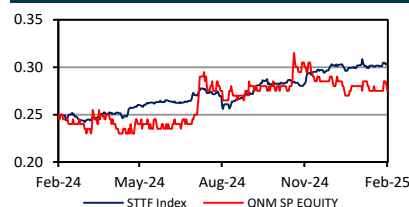
MAJOR SHAREHOLDERS

Quan Min Holdings Pte Ltd	52.4%
Heritas Helios Investments Pte Ltd	6.8%

PRICE PERFORMANCE

	1MTH	3MTH	YTD
COMPANY	0.0	(8.2)	0.0
STTF	0.3	8.0	1.3

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	32.1	32.4
PATMI	11.3	11.5	18.9	19.4
PATMI, adjusted	16.5	14.4	17.1	19.4
EPS (SGD cents)	1.2	1.2	2.0	2.0
P/E (X) - adjusted	15.8	18.0	15.2	13.4
Dividend Yield	3.6%	2.5%	3.8%	4.0%
ROE	11.1%	11.2%	16.6%	15.7%
ROA	4.2%	4.5%	7.0%	6.9%

Source: Company, PSR

VALUATION METHOD

20x PE FY24e adj. + Associate market cap

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Financials

Income Statement

Y/E Dec, SGD '000	FY22	FY23	FY24e	FY25e	FY26e
Revenue	181,214	182,723	186,145	188,760	192,420
Gross profit	156,044	161,404	163,808	166,486	169,714
EBITDA	40,967	40,037	43,315	45,408	46,513
Depreciation & amortisation	(4,890)	(5,083)	(5,464)	(5,437)	(5,412)
EBIT	36,077	34,954	37,851	39,971	41,101
Other gains / (Losses)	(5,210)	(2,920)	1,763	-	-
Net Finance Inc/(Exp)	(3,909)	(5,655)	(4,247)	(4,147)	(4,047)
Profit before tax	14,277	13,664	22,804	23,324	24,553
Taxation	(2,421)	(2,591)	(3,421)	(3,732)	(3,929)
Minority interest	(547)	444	(500)	(200)	(200)
PATMI	11,309	11,517	18,884	19,392	20,425
PATMI, adjusted	16,519	14,437	17,121	19,392	20,425

Per share data (SGD Cents)

Y/E Dec	FY22	FY23	FY24e	FY25e	FY26e
EPS, Reported	1.19	1.22	2.00	2.05	2.16
EPS, Adjusted	1.75	1.53	1.81	2.05	2.16
DPS	1.00	0.69	1.05	1.10	1.10
BVPS	10.8	10.9	12.0	13.0	14.1

Cash Flow

Y/E Dec, SGD '000	FY22	FY23	FY24e	FY25e	FY26e
CFO					
Profit before tax	14,277	13,664	22,804	23,324	24,553
Adjustments	17,428	19,947	18,064	17,937	17,912
WC changes	4,159	(4,154)	(16,156)	(680)	(952)
Cash generated from ops	39,748	35,051	28,824	44,606	45,396
Tax paid	(6,196)	(1,583)	(3,421)	(3,732)	(3,929)
Cashflow from ops	33,552	33,468	25,404	40,874	41,467
CFI					
CAPEX, net	(9,310)	(5,943)	(5,000)	(5,000)	(5,000)
Others	(1,685)	(1,221)	136	122	166
Cashflow from investments	(10,995)	(7,164)	(4,864)	(4,878)	(4,834)
CFE					
Share issuance, net	1,750	-	-	-	-
Loans, net of repayments	1,500	(5,364)	(2,000)	(2,000)	(2,000)
Dividends	(13,152)	(7,193)	(8,802)	(9,938)	(10,411)
Others	(20,567)	(19,452)	(13,247)	(13,147)	(13,047)
Cashflow from financing	(30,469)	(32,009)	(24,049)	(25,085)	(25,458)
Net change in cash	(7,912)	(5,705)	(3,510)	10,911	11,175
CCE, end	39,698	33,993	30,483	41,394	52,569

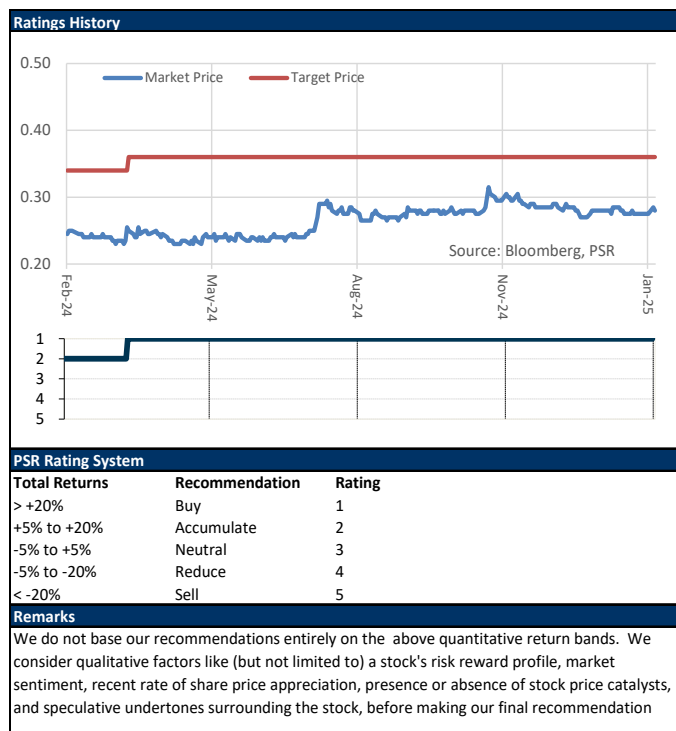
Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD '000	FY22	FY23	FY24e	FY25e	FY26e
ASSETS					
Trade and other receivables	26,970	31,172	50,259	50,965	51,953
Cash	39,698	33,993	30,483	41,394	52,569
Inventories	11,091	11,812	13,030	13,213	13,469
Total current assets	81,803	80,592	97,388	109,188	121,607
PPE & IA	98,115	96,490	96,026	95,589	95,177
Others	87,494	81,506	77,906	74,406	70,906
Total non-current assets	185,609	177,996	173,932	169,995	166,083
Total Assets	267,412	258,588	271,319	279,183	287,690
LIABILITIES					
Accounts payable	19,381	10,742	14,892	15,101	15,394
Bank borrowings	473	1,105	1,105	1,105	1,105
Lease liabilities	10,547	19,221	19,221	19,221	19,221
Others	2,273	2,218	2,218	2,218	2,218
Total current liabilities	32,674	33,286	37,436	37,645	37,938
Deferred tax liabilities	1,926	2,992	2,992	2,992	2,992
Long-term borrowings	84,577	79,181	77,181	75,181	73,181
Others	45,987	40,218	40,218	40,218	40,218
Total non-current liabilities	132,490	122,391	120,391	118,391	116,391
Total Liabilities	165,164	155,677	157,827	156,036	154,329
Equity					
Non-controlling interests	5,758	3,840	4,340	4,540	4,740
Shareholder Equity	102,248	102,911	113,493	123,147	133,361

Valuation Ratios

Y/E Dec	FY22	FY23	FY24e	FY25e	FY26e
P/E (X) - adjusted	15.8	18.0	15.2	13.4	12.7
P/B (X)	2.5	2.5	2.3	2.1	2.0
EV/EBITDA (X)	5.4	5.7	5.4	4.9	4.5
Dividend Yield	3.6%	2.5%	3.8%	4.0%	4.0%
Growth & Margins					
Growth					
Revenue	-11.9%	0.8%	1.9%	1.4%	1.9%
EBITDA	-31.7%	-2.3%	8.2%	4.8%	2.4%
EBIT	-35.5%	-3.1%	8.3%	5.6%	2.8%
Net profit, adj.	-62.9%	1.8%	64.0%	2.7%	5.3%
Margins					
Gross margin	86.1%	88.3%	88.0%	88.2%	88.2%
EBITDA margin	22.6%	21.9%	23.3%	24.1%	24.2%
EBIT margin	19.9%	19.1%	20.3%	21.2%	21.4%
Net profit margin	6.2%	6.3%	10.1%	10.3%	10.6%
Key Ratios					
ROE	11.1%	11.2%	16.6%	15.7%	15.3%
ROA	4.2%	4.5%	7.0%	6.9%	7.1%
Net Gearing	44.4%	45.0%	42.1%	28.3%	16.3%
Net Debt/EBITDA (X)	1.1	1.2	1.1	0.8	0.5



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