Thomson Medical Group Ltd

Building a regional healthcare footprint

SINGAPORE | HEALTHCARE | INITIATION

- The 70%-owned listed TMC Life Sciences Bhd is recording record earnings and growth from an increase in beds, higher patient load and larger bill size. It has grown its pool of domestic and foreign patients, drawn by improved service standards, relatively lower costs, and weak Ringgit.
- Earnings contribution from Franco-Vietnam Hospital, acquired at end 2023, will more than offset the absence of government contract for Covid-related work in Singapore. FV extends its geographical reach to a population of 120mn people in Vietnam, Cambodia, and Laos.
- We estimate the development of the Iskandar landbank could yield a development gain of S$1.1bn. The value of real estate could rise with the completion of the railway link between Singapore and Johor Bahru and the setting up of a free trade zone in the area. We initiate coverage with a BUY recommendation and SOTP TP of S$0.066.

Background

Thomson Medical Group (TMG) is a regional healthcare group that operates 3 tertiary hospitals with 757 licensed beds in Singapore, Malaysia and Vietnam. It also runs specialist medical clinics and diagnostic imaging centres in Singapore and Malaysia. TMG owns 1mn sq ft freehold land in Johor Bahru, Malaysia, which could be developed into an integrated health and wellness city, including a medical hub under 70%-owned TMC Life Sciences Bhd (TLS).

Highlights

- **Malaysian operations are the key growth engine.** Bursa-listed TLS has enjoyed strong growth since FY20, led by increased bed count, higher patient load, and bigger bill size with a larger scope of treatment. Improved quality of healthcare services and a weak Ringgit are drawing both domestic and foreign patients to seek treatment in Malaysia. TLS has room to increase bed count by more than 50%, from 350 currently.
- **Franco-Vietnam Hospital (FV) extends TMG's geographical reach** to the burgeoning economies of Vietnam, Cambodia, and Laos, with a combined population of 120mn. A full-year contribution from FV in FY25e could lift EBITDA to 12.6% above that of FY23. Founded in 2003, FV is one of Vietnam's six Joint Commission International (JCI) accredited hospitals. It has 200 doctors offering more than 30 specialties. FV is adding a new wing to raise floor space by 33% from FY26e.
- **Expect a dip in FY24e net profit.** Singapore government contracts for Covid-related work, such as managing the vaccination centres and the Transitional Care Facilities, tapered off in 2023. The absence of this income stream and cost incurred in FV purchase could lead to a 65% decline in FY24e net profit but +157% rebound in FY25e with FV contributions.
- **Unlock the value of the Iskandar landbank.** The land in Iskandar has a book value of S$91mn as at Jun 23. At current real estate prices, we estimate it could yield a gross development value of S$3.6bn and a development gain of about S$1.1bn when fully developed. Johor's state government has proposed that Iskandar Malaysia be designated a special economic zone with Singapore. The completion of the Johor Bahru-Singapore Rapid Transit System Link (RTS) at the end of 2026 could revitalise the region and lift the value of the real estate.

Initiate coverage with a Buy recommendation and TP of S$0.066

Our TP is based on the sum-of-the-parts valuation methodology. The healthcare operations are valued at an industry average of 12.5x FY25e EV/EBITDA. We estimate the 1mn sq ft of freehold land at Iskandar, Malaysia, could reap a development gain of S$1.1bn.

25 March 2024

BUY (INITIATION)

LAST CLOSE PRICE	SGD 0.052
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 0.066
TOTAL RETURN	26.6%

COMPANY DATA

BLOOMBERG CODE:	TMG SP
O/S SHARES (MN) :	26,441
MARKET CAP (USD mn / SGD mn) :	1052 / 1401
52 - WK HI/LO (SGD) :	0.08 / 0.05
3M Average Daily T/O (mn) :	4.06

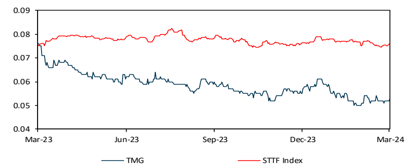
MAJOR SHAREHOLDER (%)

LIM ENG HOCK	90.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	3.9	(3.6)	(29.8)
STTF RETURN	0.7	2.1	6.0

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Jun, (S$'mn)	FY22	FY23	FY24e	FY25e
Revenue	334	356	350	465
EBITDA	110	103	89	116
EBIT	92	82	69	95
NPAT	54	37	13	33
P/NAV (x)	2.6	2.8	2.7	2.6
P/E (x)	25.6	37.1	107.3	41.7
ROE (%)	10.1%	7.4%	2.6%	6.2%

Source: Company, PSR

VALUATION METHOD

SOTP

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Background

TMG owns and operates three tertiary hospitals. These include the flagship women hospital, Thomson Medical Centre (TMC) in Singapore, Thomson Hospital Kota Damansara in Kota Damansara, Malaysia held under 70%-owned TMC Life Sciences Bhd (TLS), and Franco-Vietnam Hospital (FV) in Ho Chi Minh City, Vietnam which was acquired in Dec 2023. The hospitals have a total 757 licensed beds.

It also runs a chain of specialist medical centres and diagnostic centres in Singapore, fertility centres in Malaysia, and chiropractic clinics in Vietnam.

TMG owns 1m sq ft of freehold land in Iskandar, Malaysia, and Johor Bahru City Centre. It plans to develop these areas into an integrated health and wellness city. TLS also plans to develop Thomson Iskandar Medical Hub with 500 beds in Iskandar.

Figure 1: Portfolio of healthcare assets in Singapore, Malaysia and Vietnam

Singapore	**Malaysia - 70% TMC Life Sciences**	**Vietnam**
Thomson Medical Centre	Thomson Hospital Kota Damansara	Franco-Vietnam Hospital
187 beds	350 beds*	230 beds
3 Diagnostic imaging centres	6 Fertility centres	1 FV Clinic (secondary care)
34 clinics	1 TCM clinic	4 clinics (chiropractic)
	1 Pharmacy	
Under planning	***Under planning***	***Under planning***
Vantage Bay Healthcare City,	Thomson Iskandar Medical Hub	New wing of 9,000 sqm (+33%
Iskandar (1mn sq ft landbank)	500 beds	floor space)
	400 Medical suites	
	* Growing to 535 beds	

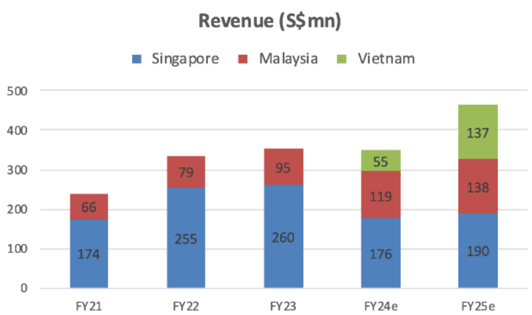
Source: Company, PSR

Singapore

Established in 1979, Thomson Medical Centre is one of the largest private providers of healthcare services for women and children in Singapore. It also operates a network of specialist medical clinics and facilities providing diagnostic imaging, gynaecological oncology, specialist dermatology and Traditional Chinese Medicine.

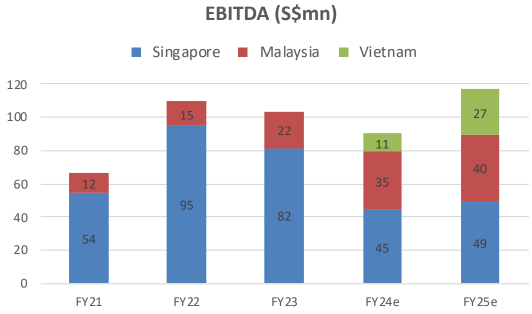
Singapore has been the key earnings pillar, with the highest healthcare expenditure per capita in Southeast Asia and growing at a 5-year CAGR of 5.7% (Figure 9 & Figure 10). TMG also enjoyed a bump in profits in the last two years from government contracts to manage vaccination centres and Transitional Care Facilities. These jobs tapered off at end-2023. We expect Singapore's FY24e revenue to return to FY21's level.

Figure 2: FV to more than make up for revenue decline from Singapore



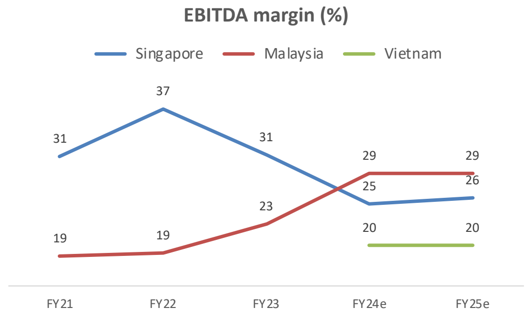
Source: Company, PSR

Figure 3: EBITDA growth to rebound in FY25e



Source: Company, PSR

Figure 4: Malaysia grows EBITDA margin from higher patient load, more value-added services

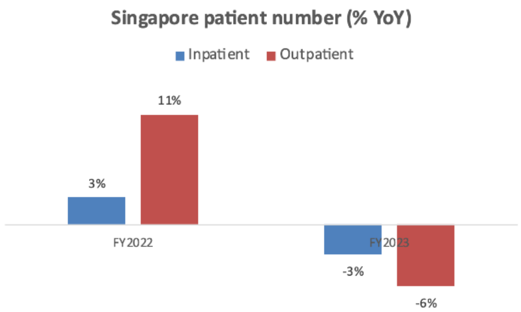


Source: Company, PSR

Obstetrics and gynaecology (O&G) specialty faces a structural decline in Singapore. Resident live-births fell by a steeper 5.5% per year in the last two years (Figure 7). Thomson Medical Centre is tapping into the growing demand for egg-freezing services. It continues to expand specialty clinics to enhance other offerings, such as paediatric treatment.

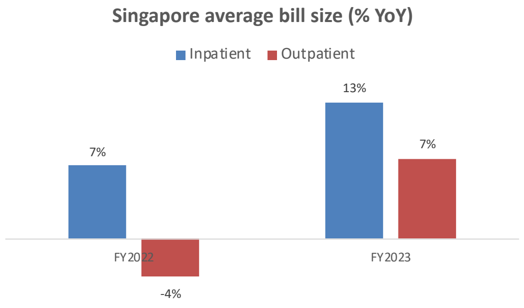
Patient numbers declined in FY23 (Figure 5) due to 1) lower births, 2) fewer foreign patients, and 3) Covid fading off. However, the average bill size continues to grow (Figure 6), due to higher costs passed through and a wider scope of treatment per patient.

Figure 5: Singapore patient number fell YoY in FY23



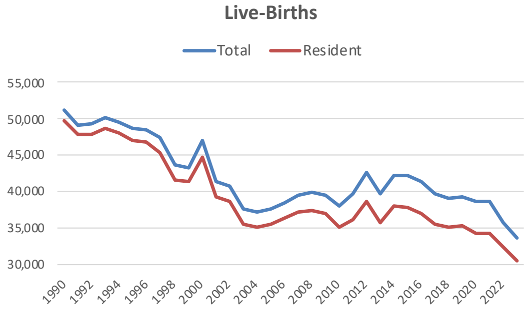
Source: Company, PSR

Figure 6: But average bill size continued to grow



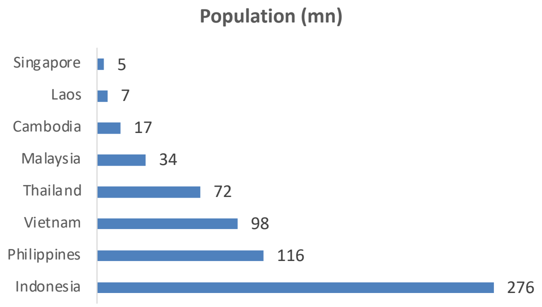
Source: Company, PSR

Figure 7: Singapore live-births fell 5.5% per year in the last two years



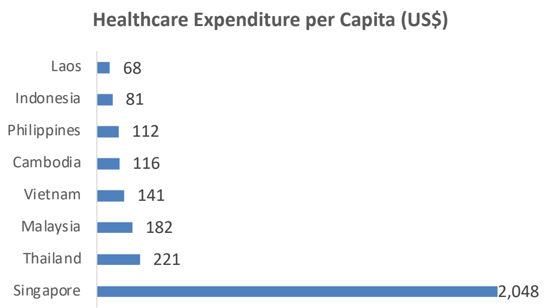
Source: Singapore department of statistics

Figure 8: Vietnam's acquisition will extend its reach to >160mn population



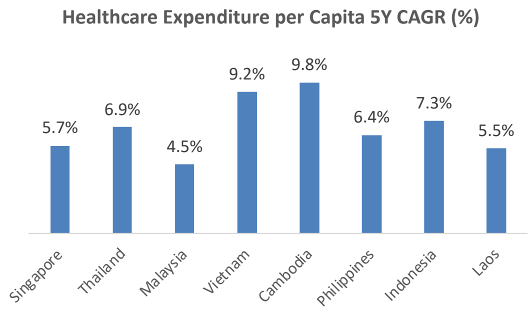
Source: Euromonitor

Figure 9: Singapore's healthcare expenditure per cap is the highest in South-east Asia



Source: Euromonitor

Figure 10: Expenditure growth in Vietnam and Cambodia amongst the highest in South-east Asia



Source: Euromonitor

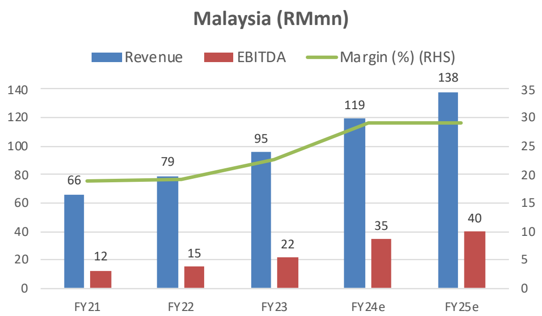
Malaysia

70%-owned Bursa-listed TMC Life Sciences Bhd (TML)'s business covers Thomson Hospital Kota Damansara (THKD), TMC Fertility Centre, Thomson Chinese Medicine, TMC Care Pharmacy and a new integrated medical hub, Thomson Iskandar Medical Hub, to be developed in Johor Bahru, Malaysia.

Established in 2008, THKD is a multi-disciplinary tertiary care centre that caters to local and international patients. A panel of 137 consultant specialists serves the hospital. THKD is licenced to operate 554 beds, with 10 operating theatres, and more than 150 specialist outpatient clinics. TMC Fertility Centre chain of clinics is run by eleven resident fertility specialists and two O&G specialists, 17 scientists and a team of nursing staff. It also houses one of the largest IVF laboratories in Southeast Asia.

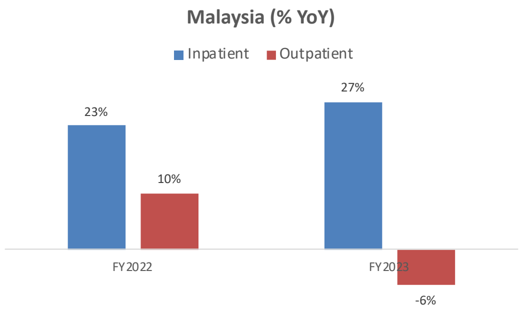
Malaysia is TMG's key growth engine. The drivers are: 1) increase in bed capacity; 2) increase in specialties and scope of services; and 3) foreign patients drawn by lower costs and weak Ringgit. The number of inpatients has risen by more than 20% each in the last two years (Figure 12), while average bill size grew by 6% per year (Figure 13). We believe Malaysia could continue to draw foreign patients as it scales up on service quality and offerings.

Figure 11: Malaysia is growing revenue and EBITDA



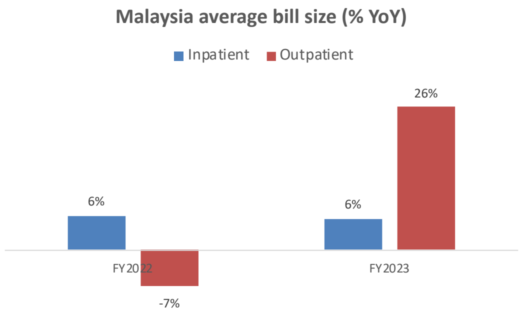
Source: Company, PSR

Figure 12: The number of inpatients grew more than 20%



Source: Company, PSR

Figure 13: Average bill size expanded



Source: Company, PSR

Vietnam

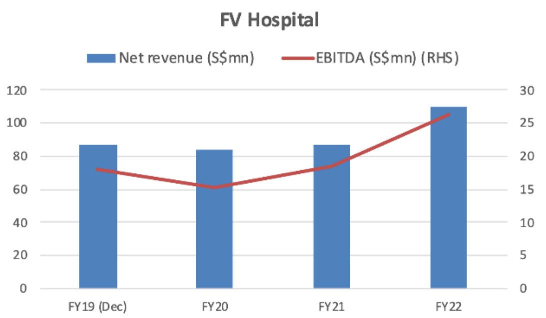
FV is a strategy acquisition, as it positions TMG to tap into Vietnam's burgeoning economy and the healthcare needs of neighbouring Cambodia and Laos, which have a combined population of more than 120 million.

TMG acquired the Vietnam hospital, Franco-Vietnam Hospital (FV) in Dec 2023 for S$460mn. Founded in 2003, FV is one of Vietnam's six Joint Commission International (JCI) accredited hospitals. It currently has about 1,600 staff, including 200 doctors. The hospital provides care across over 30 medical specialties, including oncology, cardiology, ophthalmology, orthopaedics, maternity, and gastroenterology.

In 2013, it set up FV Saigon Clinic in Ho Chi Minh City, an advanced multidisciplinary outpatient facility offering comprehensive secondary care. In 2022, FV Group acquired the American Chiropractic Clinic business, which has a chain of four clinics across Vietnam.

FV is adding a new wing of 9,000 sqm of gross floor area, targeting to complete at end 2025/early 2026. We estimate the capex at US$45mn.

Figure 14: FV has performed above pre-COVID level



Source: Company, PSR

FV enjoyed strong EBITDA growth at a 3-year CAGR of 13.8% (Figure 14), backed by rising affluence and the country's growing middle-income population. More Vietnamese patients who used to seek medical treatment overseas are increasingly opting for treatment locally due to proximity, improved service quality, lower cost (including medical, accommodation, and flight), and language. We expect these tailwinds to continue to drive FV's contributions in the next few years.

With a population of 100 million, Vietnam is the third-most populous country in ASEAN. More than 90% of the population enjoys universal health coverage. The Master Plan for Universal Coverage aims to reduce out-of-pocket costs for patients to about 40% of their healthcare costs.

Healthcare expenditure per capita has been growing at an average of 9.2% over the last five years (Figure 10). In spite of this, at US$141, it is still lower than Malaysia and Thailand (Figure 9). The number of doctors per 10,000 people has risen to 12.5, ahead of other neighbouring countries. Foreign doctors are allowed to practice in Vietnam. About 7% of the health establishments are privately owned. The government plans to raise this to 15%.

Iskandar land

The book value of the 1mn sq ft freehold land at Iskandar is S$91mn as at Jun 2023. The approved development plot ratio is 11x. We estimate that the land can fetch a gross development value of S$3.6bn based on current prices in the vicinity. This is expected to yield a gain of about S$1.1bn (or S$0.0416/share) when fully developed.

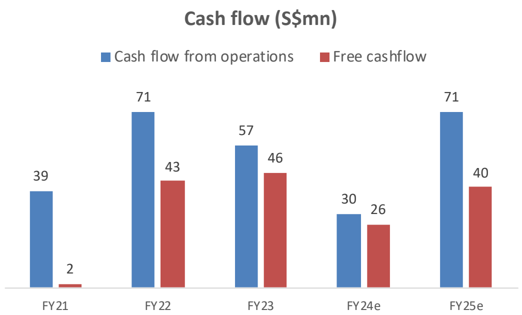
Plans to develop the land were put on hold in 2018 when the financial woes of Chinese property developers and visa restrictions for foreigners stalled property development and sale in Iskandar.

However, in early 2024, the Johor state government proposed that the Iskandar region be designated as a special economic zone with Singapore. This would boost trade and economic activities in the region. The completion of the RTS at end-2026 will ease the traffic between Singapore and Johor, adding to the appeal and value of properties in Iskandar and Johor Bahru. We therefore believe that the development of this landbank now looks viable and could return to the drawing board.

Financials

The development of the land could also free up cash for the group and lower debt. Net debt has risen to S$835mn, and net gearing 1.48x as at Dec 23, after the acquisition of FV at end 2023. Annualised net debt/EBITDA was 10.9x, and interest coverage was 1.9x. With contributions and cash flow from FV from 2H24, net debt/EBITDA is expected to fall to 7.5x in FY25e, and interest coverage improve to 2.5x.

Figure 15: Cash flow remains healthy



Source: Company, PSR

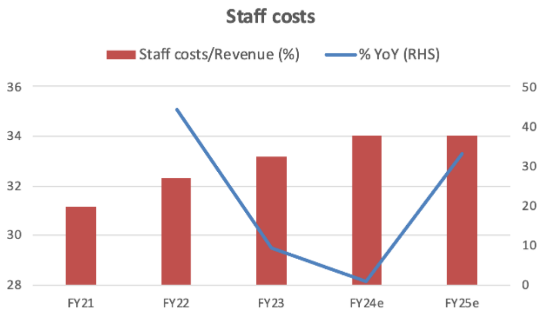
The two biggest cost components for healthcare players are capital expenditure and staff costs. Healthcare players must constantly invest in new equipment or upgrades to keep pace with evolving technologies and broaden the treatment scope. Hence, FCF growth is expected to trail behind the growth in operating cash flow (Figure 15).

Staff costs as a percentage of revenue reached 33% in FY23, which is in line with the industry average. The steep increase of 44% in FY22 was due to additional manpower for Covid-related work.

Besides the addition of FV, further cost increases are also due to the manpower crunch for healthcare workers. In Singapore, the authorities rolled out a scheme to retain experienced nurses with at least five years of service in the public healthcare sector, with payouts every four to six years. Though there is no significant impact on staff costs in the near term, it implies rising costs, which will also be faced by private operators.

We expect the overall staff cost increase to ease to 1% in FY24e and rise by 33% in FY25e (Figure 16). Still, we think it could be maintained at 34% of revenue for the group as a whole due to lower costs in Vietnam and Malaysia.

Figure 16: Staff costs as a percentage of revenue is expected to sustain at 34%



Source: Company, PSR

The public float has fallen below 10%, and the company has until 10 Apr 2024 to restore it. This can be done via issuance of new shares or paring down the stake held by the major shareholder.

Financials

Income Statement

Y/E Jun, (S$'mn)	FY21	FY22	FY23	FY24e	FY25e
Revenue	**240**	**334**	**356**	**350**	**465**
Cost of sales	-	-	-	-	-
Gross Profit	**240**	**334**	**356**	**350**	**465**
Other operating income	12	10	6	5	2
Staff cost	(75)	(108)	(118)	(119)	(158)
Inventory and consumables	-50	-55	-59	-59	-79
Other expenses	(79)	(88)	(102)	(107)	(135)
Share of results of associates an	-	-	-	-	-
EBIT	**49**	**92**	**82**	**69**	**95**
Net finance expenses	(23)	(23)	(27)	(44)	(43)
Profit before tax	**26**	**69**	**56**	**25**	**52**
Taxation	(9)	(11)	(14)	(6)	(13)
Net Profit	**17**	**59**	**42**	**19**	**39**
Minority interests	(3)	(5)	(5)	(6)	(6)
Profit attributable to owners	**14**	**54**	**37**	**13**	**33**

Per share data (S$ cents)

Y/E Jun	FY21	FY22	FY23	FY24e	FY25e
BVPS	1.9	2.0	1.9	1.9	2.0
DPS	0.0	0.1	0.0	0.0	0.0
EPS	0.1	0.2	0.1	0.0	0.1

Cash Flow

Y/E Jun, (S$'mn)	FY21	FY22	FY23	FY24e	FY25e
CFO					
Pretax profit	**26**	**69**	**56**	**25**	**52**
Adjustments	41	41	50	64	64
WC changes	(1)	(10)	(5)	(1)	4
Cash generated from ops	**67**	**100**	**100**	**88**	**120**
Others	(28)	(29)	(43)	(58)	(49)
Cashflow from ops	**39**	**71**	**57**	**30**	**71**
CFI					
CAPEX, net	(37)	(28)	(11)	(4)	(31)
Others	(0)	(2)	(2)	(460)	-
Cashflow from investments	**(38)**	**(29)**	**(13)**	**(464)**	**(31)**
CFF					
Dividends paid to owners	(1)	(5)	(32)	(11)	(4)
Proceeds from borrowings, net	(36)	4	117	400	-
Others	-	0	-	(0)	-
Cashflow from financing	(37)	(1)	85	389	(4)
Net change in cash	(35)	40	129	(45)	37
Cash at the start of the period	148	112	151	287	242
Currency translation	(0)	(1)	(4)	-	-
Ending cash	**112**	**151**	**276**	**242**	**278**

Source: Company, Phillip Securities Research (Singapore) Estimates

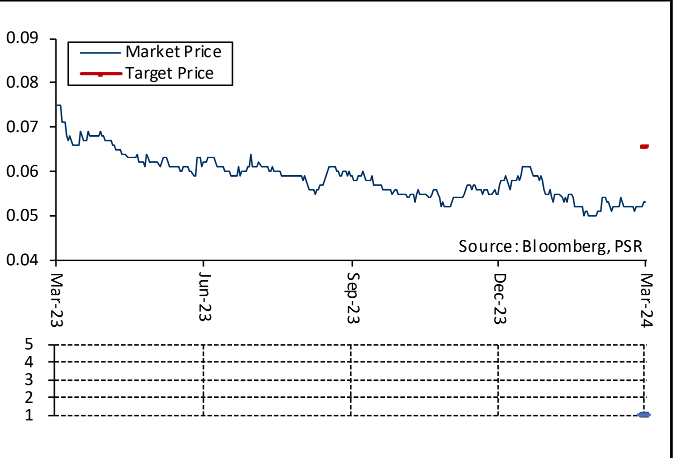
Balance Sheet

Y/E Jun, (S$'mn)	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
PPE & Investment Properties	537	544	507	495	509
Others	498	501	500	956	952
Total non-current assets	**1,035**	**1,044**	**1,007**	**1,451**	**1,461**
Cash and cash equivalents	123	162	287	242	278
Inventories	5	6	6	7	9
Trade and other receivables	27	60	62	61	82
Others	95	93	85	85	85
Total current assets	**250**	**321**	**441**	**395**	**454**
Total Assets	**1,286**	**1,365**	**1,448**	**1,846**	**1,915**
LIABILITIES					
Trade and other payables	66	87	84	81	108
ST borrowings	0	228	12	12	12
Others	17	24	24	16	23
Total current liabilities	**83**	**339**	**120**	**110**	**144**
LT borrowings	619	401	736	1,136	1,136
Others	17	17	17	17	17
Total non-current liabilities	**636**	**418**	**752**	**1,152**	**1,152**
Total liabilities	**720**	**757**	**872**	**1,262**	**1,296**
Net assets	**566**	**608**	**575**	**584**	**619**
EQUITY					
Share Capital	2,364	2,365	2,365	2,365	2,365
Retained profits	98	149	155	157	186
Others	(1,973)	(1,981)	(2,020)	(2,020)	(2,020)
Total equity	**490**	**532**	**499**	**502**	**531**
Minority interests	76	77	76	82	88
Total equity and liabilities	**566**	**608**	**575**	**584**	**619**

Valuation Ratios

Y/E Jun	FY21	FY22	FY23	FY24e	FY25e
P/E (x)	96.6	25.6	37.1	107.3	41.7
P/B (x)	2.8	2.6	2.8	2.7	2.6
EV/EBITDA (x)	28.0	16.8	17.8	25.6	19.4
Dividend yield (%)	0.3	2.2	0.8	0.3	0.7
Growth & Margins (%)					
Growth					
Revenue	-26.7%	38.8%	6.6%	-1.7%	32.9%
Gross profit	-26.7%	38.8%	6.6%	-1.7%	32.9%
EBIT	-207.5%	88.1%	-10.4%	-15.8%	37.2%
PBT	-132.9%	164.7%	-19.6%	-55.0%	107.3%
Margins					
Gross profit margin	100.0%	100.0%	100.0%	100.0%	100.0%
EBIT margin	20.3%	27.5%	23.1%	19.8%	20.4%
Net profit margin	5.9%	16.1%	10.4%	3.7%	7.1%
Key Ratios					
ROE	2.9%	10.1%	7.4%	2.6%	6.2%
ROA	1.1%	3.9%	2.6%	0.7%	1.7%
Net Gearing	101.4%	87.9%	92.3%	180.6%	163.8%

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

PhillipCapital

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