

# Singapore Company Update

## Q & M Dental Group

Bloomberg: QNM SP | Reuters: QMDT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

25 Feb 2022

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### BUY

Last Traded Price (24 Feb 2022): S\$0.530 (STI : 3,276.06)  
Price Target 12-mth: S\$0.72 (36% upside) (Prev S\$0.80)

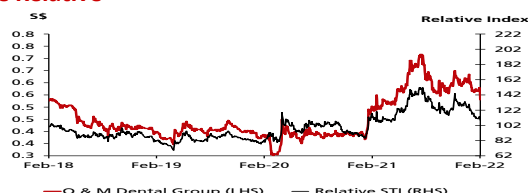
#### Analyst

Paul YONG, CFA +65 6682 3712 paulyong@dbs.com  
Singapore Research Team groupresearch@dbs.com

### What's New

- Record full year net profit of S\$30.5m missed our estimates by 20%, mainly due to Acumen business
- 4Q21 was 1 Sct, full year dividend at 4 Scts
- Cut FY22F/FY23F earnings by 17%/11%
- Maintain BUY with lower TP of S\$0.72

#### Price Relative



#### Forecasts and Valuation

FY Dec (S\$m)	2020A	2021A	2022F	2023F
Revenue	138	206	215	249
EBITDA	29.4	50.1	47.8	54.6
Pre-tax Profit	22.4	46.7	37.8	43.5
Net Profit	19.7	30.5	33.0	38.8
Net Pft (Pre Ex.)	19.5	26.8	32.7	38.5
Net Pft Gth (Pre-ex) (%)	116.9	37.7	22.1	17.8
EPS (S cts)	2.04	3.15	3.41	4.02
EPS Pre Ex. (S cts)	2.01	2.77	3.39	3.99
EPS Gth Pre Ex (%)	117	38	22	18
Diluted EPS (S cts)	2.01	2.77	3.39	3.99
Net DPS (S cts)	2.30	5.05	4.00	4.00
BV Per Share (S cts)	12.5	10.1	9.54	9.56
PE (X)	26.0	16.8	15.5	13.2
PE Pre Ex. (X)	26.3	19.1	15.7	13.3
P/Cash Flow (X)	21.6	10.1	26.5	12.2
EV/EBITDA (X)	18.5	11.0	12.1	10.7
Net Div Yield (%)	4.3	9.5	7.5	7.5
P/Book Value (X)	4.2	5.2	5.6	5.5
Net Debt/Equity (X)	0.2	0.3	0.6	0.6
ROAE (%)	16.2	27.8	34.7	42.0
Earnings Rev (%):			(17)	(11)
Consensus EPS (S cts):			3.80	4.00
Other Broker Recs:		B: 6	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

## Bearing fruits of organic growth

#### Investment Thesis:

Maintain BUY with lower TP of S\$0.72, implying potential upside of 36%. We lower our FY22F/FY23F earnings forecasts for Q & M by 17%/11% as we moderate our expectations for the Acumen Diagnostics business due to the fall in demand for PCR tests in Singapore.

Focused on execution of core dental expansion plan. We remain positive on the primary healthcare segment as Q & M has a clear expansion strategy for the next 10 years and is aggressive in executing its plan. Q & M has been off to a good start with 14 new clinics opened in Singapore and 4 new clinics in Malaysia in FY21 and we expect to see the fruits of organic growth in FY22F, with more to come in the next 9 years.

Undemanding valuations; good time to BUY. Q & M is currently trading at 15.5x FY22F PE, which is c.1 SD below its five-year average, with an EPS CAGR of 12.8% over FY21-FY23F. It is also an attractive yield play with FY22F yield of 7.5%.

#### Valuation:

Maintain BUY with lower TP of S\$0.72 based on sum-of-parts valuation: 1) core dental business at 25x FY22F earnings (S\$0.67 per share), 2) subsidiary Aoxin Q & M at market value (S\$0.04), and 3) Acumen Diagnostics business at 5x (S\$0.01).

#### Where we differ:

We remain conservative as we await more concrete plans for the testing business.

#### Key Risks to Our View:

Reopening of borders and execution risks.

#### At A Glance

Issued Capital (m shrs)	939
Mkt. Cap (S\$m/US\$m)	498 / 367
Major Shareholders (%)	
Quan Min Holdings Pte Ltd	53.3
Heritas Helios Investments Pte Ltd	6.9
Free Float (%)	39.8
3m Avg. Daily Val (US\$m)	1.0
GIC Industry : Health Care / Health Care Equipment & Services	



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## WHAT'S NEW

### Optimistic on core dental business; pressure on Acumen business

**Record high full year net profit.** Q & M Dental Group reported record revenue of S\$205.6m (+49% y-o-y) and net profit of S\$30.5m (+55% y-o-y) for FY21. This is on the back of growth in both its primary healthcare core segment and the medical laboratory and dental equipment & supplies segment. Q & M declared a fourth quarterly dividend of 1 Sct following last three quarters of 1 Sct each, bringing full-year dividends to 4 Scts.

#### However, full year net profit missed our estimate by 20%.

4Q21 was weaker than expected, and weighed on full year performance. The main miss came from the Acumen Diagnostics business, resulting in a decline in revenue for the medical laboratory and dental equipment & supplies segment by 50% q-o-q to S\$9.7m in 4Q21, from \$18.4m in 3Q21. Coupled with higher staff costs from increased headcount and provision of additional employee benefits in 4Q21, net profit for 4Q21 was S\$3.2m (-46% y-o-y / -68% q-o-q).

**Softer performance from Acumen business ahead.** With the switch from PCR tests to ART kits for COVID-19 and the removal of rostered routine testing for some sectors in Singapore, we expect pressure on revenue and margins for the Acumen business going forward as demand for PCR testing falls. Hence, we cut our estimates as we moderate our expectations and await more concrete plans regarding the testing business.

**Keeping to its dental clinic expansion plan.** We remain positive on the primary healthcare segment as Q & M has a clear expansion strategy for the next 10 years and is aggressive in executing its plan. The Group opened 15 new clinics and consolidated 1 clinic in Singapore (vs only 5-7 new clinics a year previously) and opened 4 new clinics in Malaysia in FY21, which is roughly in line with our estimate. Our projections for FY22F and FY23F remain the same at 15 new clinics a year in Singapore and 5 new clinics a year in Malaysia. Management has also shared that they have expanded the operations team by 3x as well as the number of dentists from 250 a year ago to 270, in a bid to ramp up on their execution plan.

**Core dental business to bear fruits in coming years.** As the breakeven period is about between 1-2 years, we should start seeing improvements to the bottom line of the core dental business from the new clinics from 2H22 onwards. Further, Q & M is looking to roll out its proprietary Artificial Intelligence Guided Clinical Decision Support System at its clinics this year, a first-of-its-kind medical technology that will help to diagnose and recommend an optimal treatment plan to patients. This value-add should help increase customer retention and lift top line numbers. With only 10% market share, we think cannibalism will be limited and we look forward to solid growth for this core business segment.

#### We revise our FY22F/FY23F net profit down by 17%/11%

mainly on lower earnings from the Medical Laboratory and Dental Equipment & Supplies segment.

S\$m	FY22F	FY23F
Prev estimates	39.9	43.8
New estimates	33.0	38.8

Source: DBS Bank Estimates

**We lower our target price to S\$0.72 based on sum-of-the-parts (SOTP) valuation, implying 21x FY22F PE.**

S\$		FY22F	Per share (\$)
Dental business	25x	26.0m	0.67
Aoxin Q &M	Market value	35.2m	0.04
Acumen Diagnostics	5x	2.6m	0.01
Total Equity Value		697.4m	
TP		0.72	

Source: DBS Bank Estimates

**Maintain BUY with lower TP of S\$0.72.**

### Company Background

Q & M Dental Group (Singapore) has the largest network of private dental outlets in Singapore with an expanding presence in China and Malaysia.

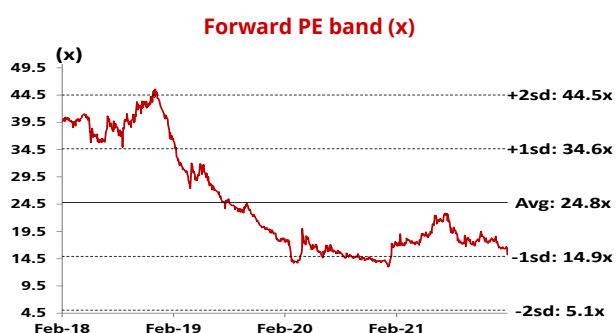
## Q & M Dental Group

### Interim Income Statement (\$m)

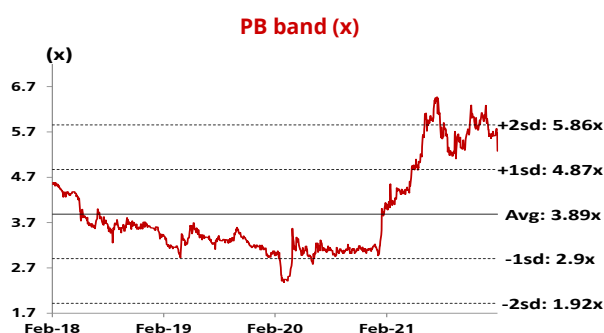
FY Dec	2H2020	1H2021	2H2021	% chg yoy	% chg hoh
Revenue	83	95	111	33.9	17.4
Cost of Goods Sold	(10)	(13)	(18)	78.0	37.8
<b>Gross Profit</b>	<b>73</b>	<b>82</b>	<b>93</b>	<b>27.8</b>	<b>14.2</b>
Other Oper. (Exp)/Inc	(58)	(61)	(68)	16.3	11.9
<b>Operating Profit</b>	<b>15</b>	<b>21</b>	<b>25</b>	<b>73.3</b>	<b>20.7</b>
Other Non Opg (Exp)/Inc	0	0	0	-	-
Associates & JV Inc	1	0	0	nm	-
Net Interest (Exp)/Inc	(2)	(2)	(1)	15.6	3.8
Exceptional Gain/(Loss)	(2)	4	0	nm	nm
<b>Pre-tax Profit</b>	<b>12</b>	<b>23</b>	<b>24</b>	<b>102.1</b>	<b>1.8</b>
Tax	(2)	(2)	(6)	137.4	251.2
Minority Interest	1	(4)	(5)	nm	41.3
<b>Net Profit</b>	<b>10</b>	<b>18</b>	<b>13</b>	<b>28.5</b>	<b>(29.0)</b>
Net profit bef Except.	12	14	13	10.4	(5.7)
EBITDA	17	23	28	61.4	22.3
<b>Margins (%)</b>					
Gross Margins	87.9	86.3	83.9		
Opg Profit Margins	17.7	22.2	22.9		
Net Profit Margins	11.9	18.8	11.4		

Source of all data: Company, DBS Bank

### Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

## Q & M Dental Group

### Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
No. of dental clinics and medical outlets in Singapore	85.0	88.0	102	117	132
No. of dental clinics and medical outlets in Malaysia	31.0	34.0	38.0	43.0	48.0
No. of dental clinics and medical outlets in China	1.00	1.00	1.00	1.00	1.00
No. of daily Covid-19 tests conducted by Q & M	0.0	210	1,650	500	350

### Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
<b>Revenues (\$m)</b>					
Primary Healthcare	119	126	160	191	223
Medical Lab + Dental Equipment and Supplies Distribution	8.81	11.2	45.4	24.4	26.0
<b>Total</b>	<b>128</b>	<b>138</b>	<b>206</b>	<b>215</b>	<b>249</b>

### Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	128	138	206	215	249
Cost of Goods Sold	(15.8)	(16.9)	(30.9)	(33.5)	(38.7)
<b>Gross Profit</b>	<b>112</b>	<b>121</b>	<b>175</b>	<b>182</b>	<b>210</b>
Other Opng (Exp)/Inc	(101)	(95.0)	(128)	(141)	(164)
<b>Operating Profit</b>	<b>11.3</b>	<b>25.7</b>	<b>46.4</b>	<b>40.9</b>	<b>46.6</b>
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	4.16	0.16	(0.5)	(0.5)	(0.5)
Net Interest (Exp)/Inc	(4.4)	(3.8)	(3.0)	(2.9)	(2.9)
Exceptional Gain/(Loss)	9.02	0.25	3.69	0.25	0.25
<b>Pre-tax Profit</b>	<b>20.1</b>	<b>22.4</b>	<b>46.7</b>	<b>37.8</b>	<b>43.5</b>
Tax	(1.9)	(2.5)	(7.3)	(4.0)	(4.3)
Minority Interest	(0.2)	(0.1)	(8.9)	(0.9)	(0.5)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>18.0</b>	<b>19.7</b>	<b>30.5</b>	<b>33.0</b>	<b>38.8</b>
Net Profit before Except.	8.97	19.5	26.8	32.7	38.5
EBITDA	18.8	29.4	50.1	47.8	54.6
<b>Growth</b>					
Revenue Gth (%)	5.9	7.5	49.4	4.6	15.8
EBITDA Gth (%)	(7.5)	56.5	70.7	(4.6)	14.2
Opg Profit Gth (%)	(8.4)	127.4	80.4	(12.0)	14.1
Net Profit Gth (Pre-ex) (%)	(34.1)	116.9	37.7	22.1	17.8
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	87.7	87.7	85.0	84.4	84.5
Opg Profit Margin (%)	8.8	18.7	22.6	19.0	18.7
Net Profit Margin (%)	14.1	14.3	14.8	15.3	15.6
ROAE (%)	15.5	16.2	27.8	34.7	42.0
ROA (%)	6.9	6.8	11.1	11.9	13.8
ROCE (%)	4.4	8.9	16.3	15.8	18.3
Div Payout Ratio (%)	35.8	112.8	160.0	117.2	99.6
Net Interest Cover (x)	2.6	6.8	15.4	14.2	16.1

Source: Company, DBS Bank

## Q & M Dental Group

### Interim Income Statement (\$\$m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	66.3	54.7	82.9	94.6	111
Cost of Goods Sold	(8.2)	(6.8)	(10.1)	(13.0)	(17.9)
<b>Gross Profit</b>	<b>58.2</b>	<b>47.9</b>	<b>72.9</b>	<b>81.6</b>	<b>93.1</b>
Other Oper. (Exp)/Inc	(54.5)	(36.8)	(58.2)	(60.6)	(67.7)
<b>Operating Profit</b>	<b>3.68</b>	<b>11.1</b>	<b>14.7</b>	<b>21.0</b>	<b>25.4</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	1.79	(0.5)	0.67	(0.4)	0.0
Net Interest (Exp)/Inc	(2.3)	(2.0)	(1.8)	(1.5)	(1.5)
Exceptional Gain/(Loss)	8.33	2.18	(1.9)	4.04	(0.4)
<b>Pre-tax Profit</b>	<b>11.6</b>	<b>10.7</b>	<b>11.6</b>	<b>23.1</b>	<b>23.5</b>
Tax	(1.8)	(0.1)	(2.4)	(1.6)	(5.7)
Minority Interest	(0.1)	(0.7)	0.60	(3.7)	(5.2)
<b>Net Profit</b>	<b>9.65</b>	<b>9.85</b>	<b>9.85</b>	<b>17.8</b>	<b>12.7</b>
Net profit bef Except.	1.32	7.67	11.8	13.8	13.0
EBITDA	7.16	12.3	17.1	22.5	27.6

### Growth

Revenue Gth (%)	7.7	(17.6)	51.6	14.0	17.4
EBITDA Gth (%)	(40.9)	71.5	39.1	32.0	22.3
Opg Profit Gth (%)	(54.8)	201.2	32.2	43.6	20.7
Net Profit Gth (%)	15.9	2.1	(0.1)	81.0	(29.0)

### Margins

Gross Margins (%)	87.7	87.5	87.9	86.3	83.9
Opg Profit Margins (%)	5.5	20.3	17.7	22.2	22.9
Net Profit Margins (%)	14.5	18.0	11.9	18.8	11.4

### Balance Sheet (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	26.1	28.9	32.6	31.2	28.7
Invts in Associates & JVs	42.0	43.7	27.0	26.6	26.1
Other LT Assets	113	116	121	121	121
Cash & ST Invts	27.3	48.8	47.6	22.3	19.5
Inventory	7.04	16.1	15.9	31.9	36.8
Debtors	87.3	18.2	27.8	41.2	47.8
Other Current Assets	3.41	3.23	3.83	3.83	3.83
<b>Total Assets</b>	<b>306</b>	<b>275</b>	<b>276</b>	<b>278</b>	<b>284</b>
ST Debt	32.6	1.94	3.55	3.55	3.55
Creditor	27.1	16.8	26.2	33.3	38.4
Other Current Liab	11.2	11.8	15.5	15.5	15.5
LT Debt	69.8	75.5	80.2	80.2	80.2
Other LT Liabilities	41.9	44.2	47.5	47.5	47.5
Shareholder's Equity	122	121	97.9	92.2	92.3
Minority Interests	1.16	3.62	5.40	6.27	6.72
<b>Total Cap. &amp; Liab.</b>	<b>306</b>	<b>275</b>	<b>276</b>	<b>278</b>	<b>284</b>
Non-Cash Wkg. Capital	59.5	8.95	5.81	28.2	34.5
Net Cash/(Debt)	(75.2)	(28.6)	(36.1)	(61.4)	(64.2)
Debtors Turn (avg days)	148.3	139.9	40.8	58.6	65.2
Creditors Turn (avg days)	601.7	595.9	293.6	416.7	433.4
Inventory Turn (avg days)	204.7	314.1	218.3	334.5	415.4
Asset Turnover (x)	0.5	0.5	0.7	0.8	0.9
Current Ratio (x)	1.8	2.8	2.1	1.9	1.9
Quick Ratio (x)	1.6	2.2	1.7	1.2	1.2
Net Debt/Equity (X)	0.6	0.2	0.3	0.6	0.6
Net Debt/Equity ex MI (X)	0.6	0.2	0.4	0.7	0.7
Capex to Debt (%)	6.3	7.9	9.1	7.2	7.2

Source: Company, DBS Bank

## Q & M Dental Group

### Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	20.1	22.4	46.7	37.8	43.5
Dep. & Amort.	3.28	3.46	4.13	7.41	8.47
Tax Paid	(0.7)	(1.2)	(3.1)	(4.0)	(4.3)
Assoc. & JV Inc/(loss)	(4.2)	(0.2)	0.47	0.47	0.47
Chg in Wkg.Cap.	(25.6)	19.1	1.63	(22.4)	(6.3)
Other Operating CF	35.0	(19.9)	1.04	0.0	0.0
<b>Net Operating CF</b>	<b>28.0</b>	<b>23.8</b>	<b>50.8</b>	<b>19.3</b>	<b>41.9</b>
Capital Exp.(net)	(6.5)	(6.1)	(7.6)	(6.0)	(6.0)
Other Invs.(net)	0.0	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	(2.5)	47.0	16.6	0.0	0.0
Div from Assoc & JV	2.22	1.28	0.0	0.0	0.0
Other Investing CF	(2.5)	(0.4)	(5.5)	0.0	0.0
<b>Net Investing CF</b>	<b>(9.3)</b>	<b>41.8</b>	<b>3.47</b>	<b>(6.0)</b>	<b>(6.0)</b>
Div Paid	(6.4)	(22.2)	(48.8)	(38.6)	(38.6)
Chg in Gross Debt	(0.2)	(9.4)	(1.5)	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(9.8)	(12.4)	(5.2)	0.0	0.0
<b>Net Financing CF</b>	<b>(16.3)</b>	<b>(44.0)</b>	<b>(55.4)</b>	<b>(38.6)</b>	<b>(38.6)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	2.33	21.5	(1.2)	(25.3)	(2.8)
Opg CFPS (S cts)	5.54	0.48	5.09	4.32	4.99
Free CFPS (S cts)	2.82	5.05	4.93	2.31	2.02

Source: Company, DBS Bank

### Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	23 Apr 21	0.52	0.68	BUY
2:	29 Apr 21	0.52	0.68	BUY
3:	20 May 21	0.58	0.70	BUY
4:	27 Jul 21	0.66	0.83	BUY
5:	02 Sep 21	0.64	0.84	BUY
6:	18 Nov 21	0.60	0.85	BUY
7:	26 Nov 21	0.62	0.80	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Paul YONG, CFA

Singapore Research Team

DBS Bank recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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Sources for all charts and tables are DBS Bank unless otherwise specified.

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**DBS Regional Research Offices**
**HONG KONG**
**DBS (Hong Kong) Ltd**

Contact: Carol Wu  
13th Floor One Island East,  
18 Westlands Road,  
Quarry Bay, Hong Kong  
Tel: 852 3668 4181  
Fax: 852 2521 1812  
e-mail: dbsvhk@dbs.com

**MALAYSIA**
**AllianceDBS Research Sdn Bhd**

Contact: Wong Ming Tek  
19th Floor, Menara Multi-Purpose,  
Capital Square,  
8 Jalan Munshi Abdullah 50100  
Kuala Lumpur, Malaysia.  
Tel.: 603 2604 3333  
Fax: 603 2604 3921  
e-mail: general@alliancedbs.com  
Co. Regn No. 198401015984 (128540-U)

**SINGAPORE**
**DBS Bank Ltd**

Contact: Janice Chua  
12 Marina Boulevard,  
Marina Bay Financial Centre Tower 3  
Singapore 018982  
Tel: 65 6878 8888  
e-mail: groupresearch@dbs.com  
Company Regn. No. 196800306E

**INDONESIA**
**PT DBS Vickers Sekuritas (Indonesia)**

Contact: Maynard Priajaya Arif  
DBS Bank Tower  
Ciputra World 1, 32/F  
Jl. Prof. Dr. Satrio Kav. 3-5  
Jakarta 12940, Indonesia  
Tel: 62 21 3003 4900  
Fax: 6221 3003 4943  
e-mail: indonesiaesearch@dbs.com

**THAILAND**
**DBS Vickers Securities (Thailand) Co Ltd**

Contact: Chanpen Sirithanarattanukul  
989 Siam Piwat Tower Building,  
9th, 14th-15th Floor  
Rama 1 Road, Pathumwan,  
Bangkok Thailand 10330  
Tel. 66 2 857 7831  
Fax: 66 2 658 1269  
e-mail: research@th.dbs.com  
Company Regn. No 0105539127012  
Securities and Exchange Commission, Thailand