

SMALL/MID CAP HIGHLIGHTS

Singapore Medical Group (SMG SP)

2022: Cured Of COVID-19, Potential Takeover Target

SMG announced a record-high PATMI of S\$15.6m (+78.8% yoy), beating expectations. Recovery in demand for the diagnostic and aesthetics segment drove earnings past pre-pandemic levels. The reopening of international borders will also help the foreign patient load to recover, which historically contributed 15-20% of annual revenue. The group continues to make inroads in overseas growth and is focused on key vertical acquisitions. Maintain BUY with a higher PE-based target price of S\$0.53.

2021 RESULTS

Year to 31 Dec (\$m)	2021	yoy % chg	2H21	yoy % chg	hoh % chg
Revenue	100.8	15.5	51.2	5.7	3.0
Gross Profit	44.3	16.4	22.0	(0.7)	(1.3)
Gross Margin (%)	43.9	0.3ppts	43.0	(2.8ppts)	(1.9ppts)
Profit to Owners	15.6	78.8	8.4	59.6	(6.1)
Net Margin (%)	15.5	5.5ppts	14.8	0.5ppts	(1.4ppts)

Source: SMG, UOB Kay Hian

RESULTS

- Recovered from COVID-19, beating expectations.** Singapore Medical Group (SMG) reported record-high revenue (+15.5% yoy, +6.5% yoy vs 2019) and net profit (+78.8% yoy, +14.3% yoy vs 2019) for 2021, forming 108.0% and 112.1% of our full-year estimates respectively. A final dividend of 0.65 S cents (0.4 S cents in 2020) was declared along with a special dividend of 0.25 S cents, implying a payout ratio of 25% of 2021's earnings.
- Organic growth driven by diagnostic and aesthetics segment.** SMG's robust growth in 2021 was largely contributed by the diagnostic and aesthetics (D&A) segment as segmental revenue grew 29.8% yoy and 16.2% yoy as compared with 2019. This is due to stronger domestic demand for plastic surgery. We reckon that this is due to international borders being closed in 2021, resulting in patients turning to domestic providers.
- Impressive results despite absence of foreign patients.** Accounting for approximately 15-20% of SMG's historical annual revenue, SMG suffered from a lack of foreign medical patients as international travel remained closed for most of 2021, especially in key markets such as Vietnam and Indonesia. Despite this, SMG managed to post robust revenue and earnings growth for 2021. As Singapore starts reopening its borders through vaccinated travel lanes, SMG expects a slow and gradual recovery as medical tourists return.
- Healthy balance sheet.** With strong core business operations cash flows of S\$24.4m, the group improved its net cash position to S\$22.9m (2020: S\$15.8m). Gearing ratio also fell to 2.2% from 6.4% in 2020. We reckon that the group is in strong position to continue its organic growth in Singapore as well as to expand in overseas markets which management has earmarked as SMG's next revenue growth driver.

KEY FINANCIALS

Year to 31 Dec (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	87	101	111	116	121
EBITDA	14	21	24	25	25
Operating profit	11	18	20	22	23
Net profit (rep./act.)	9	16	18	19	20
Net profit (adj.)	12	16	18	19	20
EPS (S cent)	2.4	3.2	3.8	4.0	4.2
PE (x)	12.6	9.4	8.1	7.6	7.2
P/B (x)	1.0	0.9	0.8	0.7	0.7
EV/EBITDA (x)	7.7	5.2	4.5	4.4	4.3
Dividend yield (%)	1.3	2.3	2.5	2.6	2.8
Net margin (%)	10.0	15.5	16.4	16.6	16.9
Net debt/(cash) to equity (%)	(10.8)	(13.7)	(21.2)	(27.8)	(33.6)
Interest cover (x)	14.1	42.1	48.7	49.8	51.3
ROE (%)	5.8	9.7	10.4	10.2	9.9

Source: SMG, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.305
Target Price	S\$0.530
Upside	+73.8%
(Previous TP:	S\$0.480)

COMPANY DESCRIPTION

Singapore Medical Group is a private specialist and healthcare provider with a network of more than 20 medical specialties. The group has more than 27 clinics strategically located across Singapore with operations in Vietnam and Indonesia.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	SMG SP
Shares issued (m):	486.3
Market cap (S\$ m):	148.3
Market cap (US\$ m):	108.8
3-mth avg t'over (US\$ m):	0.1

Price Performance (%)

52-week high/low	S\$0.395/S\$0.290			
1mth	3mth	6mth	1yr	YTD
0.0	1.7	(1.6)	(18.7)	0.0

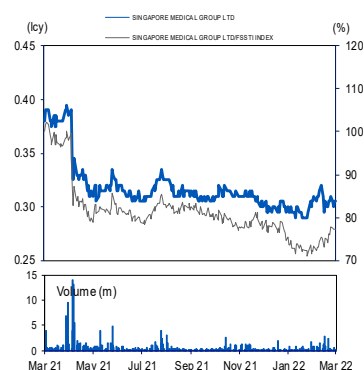
Major Shareholders

	%
CHA Healthcare	23.9
Tony Tan Choon Keat	7.5
Dr Beng Teck Liang	6.9

FY22 NAV/Share (S\$) 0.38

FY22 Net Cash/Share (S\$) 0.08

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

• **Potential acquisition target.** In Mar 22, Singapore O&G, a listed obstetrics and gynaecology (O&G) company on SGX, received a voluntary unconditional takeover offer from a vehicle wholly-owned by Dymon Asia Private Equity (SE Asia) II. Singapore O&G provides healthcare services in Singapore and Malaysia, specifically in paediatrics, cancer-related general surgery, dermatology and O&G, similar to SMG. The cash offer of S\$0.295 a share (about 16x 2021 PE) implies a 15.7% and 11.3% premium over Singapore O&G's last closing price and a six-month volume weighted average price respectively. Armed with a healthy balance sheet and strong operating segments, we view SMG as an attractive potential acquisition target given that SMG is trading at 9.4x 2021 PE and 8.1x 2022F PE respectively, undervalued as compared with similar SGX listed peers average (17.5x 2021 PE and 14.0x 2022F PE respectively).

EARNINGS REVISION/RISK

• **Increase our 2022 and 2023 earnings estimates while adding our 2024 estimate**, on the back of a full recovery from COVID-19. We now estimate 2022-24 earnings at S\$18.2m (S\$16.5m), S\$19.4m (S\$17.2m) and S\$20.4m respectively.

VALUATION/RECOMMENDATION

• **Maintain BUY with a higher PE-based target price of S\$0.53 (S\$0.48 previously)**, pegged to peers' average of 14.0x 2022F PE.

• Assuming a potential offer, we think SMG should be valued at a premium or at least on par with peers' average, given its expansion in high-growth markets, such as Vietnam's aesthetics clinics, telemedicine through HiDoc, as well as solid organic growth initiatives from the addition of medical specialists.

• The stock is currently trading at an attractive 8.1x 2022F PE.

SHARE PRICE CATALYST

- Recovery in foreign patient load.
- Earnings-accretive M&As.
- Stronger traction in high-growth markets, such as Vietnam.

PEER COMPARISON

Company	Ticker	Trading		Price @ 8-Mar-22 (1cy)	Target Price (1cy)	Market Cap (US\$m)	PE			P/B 2022 (x)	Yield 2022 (%)	ROE 2022 (%)
		Curr (1cy)	Rec				2021 (x)	2022 (x)	2023 (x)			
Raffles Medical	RFMD SP	S\$	HOLD	1.16	1.34	1,585	25.7	30.0	32.2	2.2	2.2	7.4
Talkmed	TKMED SP	S\$	NR	0.40	n.a.	383	20.8	n.a.	n.a.	n.a.	n.a.	n.a.
Q & M Dental	QNM SP	S\$	NR	0.51	n.a.	348	15.6	14.0	12.6	4.4	7.1	31.8
Singapore O&G	SOG SP	S\$	NR	0.30	n.a.	103	16.8	n.a.	n.a.	n.a.	n.a.	n.a.
Asian Healthcare	AHSP SP	S\$	NR	0.16	n.a.	67	16.7	n.a.	n.a.	n.a.	n.a.	n.a.
Hc Surgical	HSP SP	S\$	NR	0.48	n.a.	52	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Average (Excl RFMD)							17.5	14.0	12.6	4.4	4.4	7.1
Singapore Medical Group	SMG SP	S\$	BUY	0.31	0.53	109	9.4	8.1	7.6	0.8	2.5	10.4

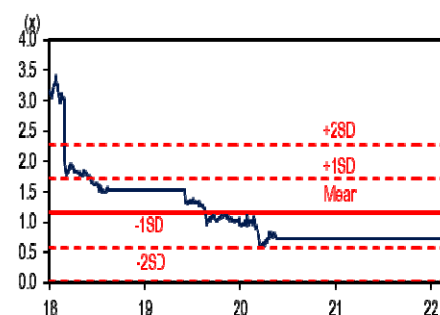
Source: UOB Kay Hian, Bloomberg

SMG'S HISTORICAL FORWARD PE



Source: UOB Kay Hian, Bloomberg

SMG'S HISTORICAL FORWARD P/B



Source: UOB Kay Hian, Bloomberg

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	100.8	110.7	116.3	121.0
EBITDA	20.8	24.0	24.6	25.3
Deprec. & amort.	3.1	3.5	2.7	2.2
EBIT	17.6	20.5	21.8	23.1
Associate contributions	0.9	0.9	0.9	0.9
Net interest income/(expense)	(0.5)	(0.4)	(0.4)	(0.4)
Pre-tax profit	18.1	21.0	22.4	23.6
Tax	(2.4)	(2.7)	(2.9)	(3.1)
Minorities	(0.1)	(0.1)	(0.1)	(0.1)
Net profit	15.6	18.2	19.4	20.4

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	8.8	6.8	5.6	4.8
Other LT assets	157.1	157.1	157.1	157.1
Cash/ST investment	26.6	42.3	58.8	75.7
Other current assets	9.2	11.4	11.9	12.3
Total assets	201.7	217.6	233.4	250.0
ST debt	1.5	1.5	1.5	1.5
Other current liabilities	24.8	26.1	26.3	26.4
LT debt	2.2	2.2	2.2	2.2
Other LT liabilities	6.6	6.6	6.6	6.6
Shareholders' equity	167.9	182.5	198.0	214.3
Minority interest	(1.4)	(1.3)	(1.2)	(1.1)
Total liabilities & equity	201.7	217.6	233.4	250.0

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	24.5	20.8	21.8	22.5
Pre-tax profit	18.1	21.0	22.4	23.6
Tax	(2.0)	(2.7)	(2.9)	(3.1)
Deprec. & amort.	8.9	3.5	2.7	2.2
Associates	(0.9)	0.0	0.0	0.0
Working capital changes	1.3	(0.9)	(0.3)	(0.3)
Non-cash items	(1.4)	0.0	0.0	0.0
Other operating cashflows	0.5	0.0	0.0	0.0
Investing	(9.7)	(1.5)	(1.5)	(1.5)
Capex (growth)	(3.9)	(1.5)	(1.5)	(1.5)
Investments	(3.6)	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(2.3)	0.0	0.0	0.0
Financing	(13.8)	(3.6)	(3.9)	(4.1)
Dividend payments	(3.0)	(3.6)	(3.9)	(4.1)
Issue of shares	(0.0)	0.0	0.0	0.0
Proceeds from borrowings	0.0	2.0	2.0	2.0
Loan repayment	(11.3)	(2.0)	(2.0)	(2.0)
Others/interest paid	0.6	0.0	0.0	0.0
Net cash inflow (outflow)	1.0	15.7	16.5	16.9
Beginning cash & cash equivalent	25.6	26.6	42.3	58.8
Ending cash & cash equivalent	26.6	42.3	58.8	75.7

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	20.6	21.7	21.1	20.9
Pre-tax margin	17.9	19.0	19.3	19.5
Net margin	15.5	16.4	16.6	16.9
ROA	8.0	8.7	8.6	8.5
ROE	9.7	10.4	10.2	9.9
Growth				
Turnover	15.5	9.8	5.0	4.0
EBITDA	48.4	15.5	2.3	3.1
Pre-tax profit	71.6	16.3	6.5	5.6
Net profit	78.8	16.4	6.5	5.6
Net profit (adj.)	33.1	16.4	6.5	5.6
EPS	33.1	16.4	6.5	5.6
Leverage				
Debt to total capital	2.2	2.0	1.8	1.7
Debt to equity	2.2	2.0	1.9	1.7
Net debt/(cash) to equity	(13.7)	(21.2)	(27.8)	(33.6)
Interest cover (x)	42.1	48.7	49.8	51.3

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