

# 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

15 Aug 2022

This company is covered under the Research Talent Development Grant Scheme which aims to groom research talent to expand research coverage of small-mid cap SGX listed companies

**HOLD** (Downgrade from BUY)

Last Traded Price (12 Aug 2022): S\$0.480 (STI : 3,269.27)  
Price Target 12-mth: S\$0.53 (10% upside) (Prev S\$0.72)

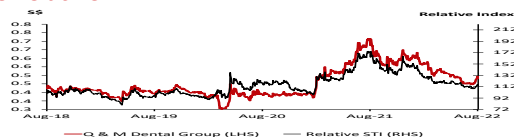
### Analyst

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### What's New

- 1H22 revenue/net profit declined 4%/45% y-o-y to S\$90.9m/S\$9.9m
- No dividend was declared for 2Q22; revise payout ratio to 50% for FY22-24F
- Cut FY22F/23F earnings estimates by c.30% to factor in softer forecasts for dental and testing businesses
- Downgrade to HOLD with lower TP of S\$0.53

### Price Relative



### Forecasts and Valuation

FY Dec (\$m)	2021A	2022F	2023F	2024F
Revenue	206	183	199	216
EBITDA	50.1	34.9	38.8	43.7
Pre-tax Profit	46.7	25.9	29.2	36.7
Net Profit	30.5	22.7	26.0	33.1
Net Pft (Pre Ex.)	26.8	22.5	25.8	32.9
Net Pft Gth (Pre-ex) (%)	37.7	(16.2)	14.8	27.5
EPS (S cts)	3.15	2.35	2.70	3.43
EPS Pre Ex. (S cts)	2.77	2.32	2.67	3.40
EPS Gth Pre Ex (%)	38	(16)	15	27
Diluted EPS (S cts)	2.77	2.32	2.67	3.40
Net DPS (S cts)	5.05	1.18	1.35	1.71
BV Per Share (S cts)	10.1	11.3	12.7	14.4
PE (X)	15.2	20.4	17.8	14.0
PE Pre Ex. (X)	17.3	20.6	18.0	14.1
P/Cash Flow (X)	9.1	33.9	15.1	12.5
EV/EBITDA (X)	10.1	14.5	12.8	11.0
Net Div Yield (%)	10.5	2.4	2.8	3.6
P/Book Value (X)	4.7	4.2	3.8	3.3
Net Debt/Equity (X)	0.3	0.3	0.2	0.1
ROAE (%)	27.8	21.9	22.5	25.4
Earnings Rev (%)		(31)	(33)	N/A
Consensus EPS (S cts):		3.0	3.6	3.5
Other Broker Recs:		B: 5	S: 0	H: 0

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

### Expansion plan delayed

#### Investment Thesis:

Downgrade to HOLD with lower TP of S\$0.53 as earnings execution is delayed. Our TP is lowered to S\$0.53 based on 22x (-0.25 SD) FY23F PE for its core dental business as the company's expansion plan needs more time to execute. Following disappointing 1H22 results, we cut FY22F/23F earnings by 31%/33%.

Slight delay in core dental expansion plan to materialise. We remain positive on the primary healthcare segment in the long-term as Q & M has a clear expansion strategy for the next 10 years and has been aggressively executing its plan. However, we lower our forecasts slightly to 10 new clinics a year in Singapore and we push back our trajectory of seeing the fruits of organic growth to FY23F-24F.

Valuations fair for now at 18x FY23F PE, c.0.5 SD below its five-year average. As our new forecasts assume it will take a few years for Q & M's bottom-line to reach FY20 levels, valuations seem aligned with its fundamentals currently. We believe that a solid earnings momentum from the core dental business will drive its share price re-rating.

#### Valuation:

Downgrade to HOLD with lower TP of S\$0.53 as we roll forward to FY23F valuations. Our TP is based on sum-of-parts valuation: 1) core dental business at 22x FY23F earnings (S\$0.50 per share); and 2) subsidiary Aoxin Q & M at market value (S\$0.03).

#### Where we differ:

We remain conservative on the core dental business as we await the ramp up in profitability for the new clinics.

#### Key Risks to Our View:

Execution risks.

#### At A Glance

Issued Capital (m shrs)	939
Mkt. Cap (S\$m/US\$m)	451 / 329
Major Shareholders (%)	
Quan Min Holdings Pte Ltd	53.5
Heritas Helios Investments Pte Ltd	6.8
Free Float (%)	39.7
3m Avg. Daily Val (US\$m)	0.13
GIC Industry:	Health Care / Health Care Equipment & Services



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## WHAT'S NEW

## Disappointing 1H22 performance; cut FY22F/23F earnings by c.30% and rating to HOLD

## Results highlights

- Revenue fell 4% y-o-y to S\$90.9m in 1H22 from S\$94.6m in 1H21, mainly attributed to the 28% decline y-o-y in revenue from the medical laboratory and dental equipment & supplies segment
- Employee benefits expense and depreciation of right-of-use assets increased 20%/22% y-o-y
- Profit attributable to shareholders declined 45% y-o-y to S\$9.9m in 1H22 from S\$17.8m in 1H21, partially due to the one-off S\$4.4m gain on disposal of Aidite in 1H21
  - Excluding the one-off gain, profit attributable to shareholders declined c.34% y-o-y
- No dividend was declared for 2Q22 as the Group plans to conserve cash for corporate activities and future expansions and guides that they will be paying down bank loans in 3Q22 and 4Q22. (Dividend in 1Q22: 0.04 Scts per share; Dividend in 2Q21: 1 Sct per share)

## Revenue per clinic estimates

S\$m	FY20	FY21	FY22F	FY23F	FY24F
Singapore	1.37	1.51	1.35	1.35	1.50
Malaysia	0.14	0.13	0.13	0.13	0.13
China	1.21	1.21	1.21	1.21	1.21

Source: DBS Bank Estimates

## Forecasts revision and recommendation

- Cut FY22F/23F earnings by c.30% to S\$22.7m/S\$26.0m to factor in 1) lower projections for new clinic openings in Singapore to roughly 10 per year from 15; 2) slower ramp up to profitability for the new clinics; and 3) softer forecasts for the Acumen Diagnostics business as demand for COVID-19 testing drops significantly in Singapore
- Revise dividend payout ratio to a conservative 50% for FY22F-24F from 4 Scts per share previously
- We lower our target price to S\$0.53** based on sum-of-the-parts (SOTP) as we roll forward to FY23F valuations, implying 20x FY23F PE
- Downgrade to HOLD from BUY**

## SOTP Valuation

S\$		FY23F	Per share (\$)
Dental business	22x (prev: 25x)	21.8m	0.50
Aoxin Q&M	Market value	27.6m	0.03
Acumen Diagnostics	5x	0.83m	0.00
Total Equity Value		510.7m	
TP		0.53	

Source: DBS Bank Estimates

## Operational highlights

## No. of dental outlets in Singapore

1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
80	80	81	83	85	87	90	97	99	104

## No. of dental outlets in Malaysia

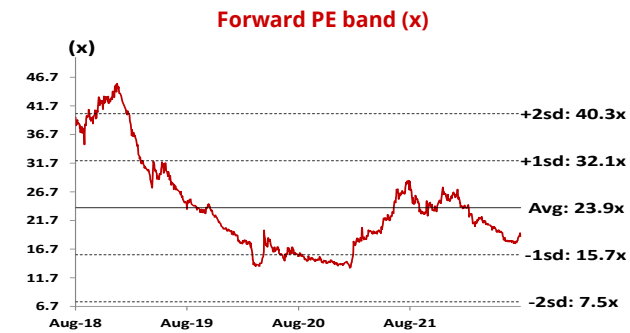
1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
32	33	33	35	36	37	37	38	41	44

Source: Company

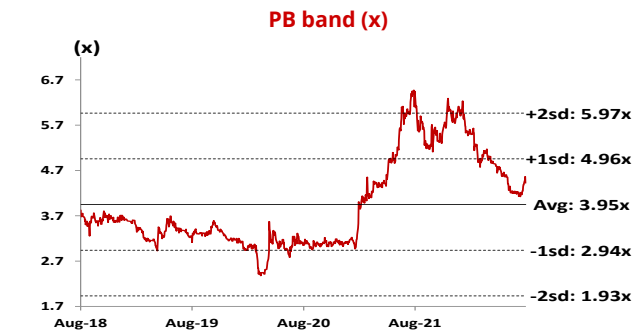
**Company Background**

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

**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	2020A	2021A	2022F	2023F	2024F
No. of dental clinics and medical outlets in Singapore	88.0	102	112	122	132
No. of dental clinics and medical outlets in Malaysia	34.0	38.0	45.0	50.0	55.0
No. of dental clinics and medical outlets in China	1.00	1.00	1.00	1.00	1.00

Lowered no. of new clinic openings for Singapore to 10 per year from 15

### Segmental Breakdown

FY Dec	2020A	2021A	2022F	2023F	2024F
<b>Revenues (\$\$m)</b>					
Primary Healthcare	126	160	158	173	207
Medical Lab + Dental	11.2	45.4	24.4	26.0	9.76
<b>Total</b>	<b>138</b>	<b>206</b>	<b>183</b>	<b>199</b>	<b>216</b>

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

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenue	138	206	183	199	216
Cost of Goods Sold	(16.9)	(30.9)	(33.5)	(36.3)	(34.9)
<b>Gross Profit</b>	<b>121</b>	<b>175</b>	<b>149</b>	<b>162</b>	<b>181</b>
Other Opng (Exp)/Inc	(95.0)	(128)	(120)	(130)	(145)
<b>Operating Profit</b>	<b>25.7</b>	<b>46.4</b>	<b>29.0</b>	<b>32.3</b>	<b>36.9</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.16	(0.5)	(0.5)	(0.5)	(0.5)
Net Interest (Exp)/Inc	(3.8)	(3.0)	(2.9)	(2.9)	0.0
Exceptional Gain/(Loss)	0.25	3.69	0.25	0.25	0.25
<b>Pre-tax Profit</b>	<b>22.4</b>	<b>46.7</b>	<b>25.9</b>	<b>29.2</b>	<b>36.7</b>
Tax	(2.5)	(7.3)	(2.9)	(3.0)	(3.9)
Minority Interest	(0.1)	(8.9)	(0.3)	(0.1)	0.29
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>19.7</b>	<b>30.5</b>	<b>22.7</b>	<b>26.0</b>	<b>33.1</b>
Net Profit before Except.	19.5	26.8	22.5	25.8	32.9
EBITDA	29.4	50.1	34.9	38.8	43.7
<b>Growth</b>					
Revenue Gth (%)	7.5	49.4	(11.0)	8.6	9.0
EBITDA Gth (%)	56.5	70.7	(30.3)	10.9	12.6
Opg Profit Gth (%)	127.4	80.4	(37.6)	11.4	14.5
Net Profit Gth (Pre-ex) (%)	116.9	37.7	(16.2)	14.8	27.5
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	87.7	85.0	81.7	81.7	83.9
Opg Profit Margin (%)	18.7	22.6	15.8	16.2	17.1
Net Profit Margin (%)	14.3	14.8	12.4	13.1	15.3
ROAE (%)	16.2	27.8	21.9	22.5	25.4
ROA (%)	6.8	11.1	8.0	8.6	10.4
ROCE (%)	8.9	16.3	10.7	11.4	12.4
Div Payout Ratio (%)	112.8	160.0	50.0	50.0	50.0
Net Interest Cover (x)	6.8	15.4	10.0	11.2	NM

Source: Company, DBS Bank

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

FY Dec	1H2020	2H2020	1H2021	2H2021	1H2022
Revenue	54.7	82.9	94.6	111	90.9
Cost of Goods Sold	(6.8)	(10.1)	(13.0)	(17.9)	(12.7)
<b>Gross Profit</b>	<b>47.9</b>	<b>72.9</b>	<b>81.6</b>	<b>93.1</b>	<b>78.2</b>
Other Oper. (Exp)/Inc	(36.2)	(58.8)	(60.6)	(67.7)	(64.0)
<b>Operating Profit</b>	<b>11.7</b>	<b>14.1</b>	<b>21.0</b>	<b>25.4</b>	<b>14.1</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.5)	0.67	(0.4)	0.0	(0.5)
Net Interest (Exp)/Inc	(2.0)	(1.8)	(1.6)	(1.5)	(1.5)
Exceptional Gain/(Loss)	(0.1)	0.40	4.04	(0.4)	(0.1)
<b>Pre-tax Profit</b>	<b>9.01</b>	<b>13.4</b>	<b>23.1</b>	<b>23.6</b>	<b>12.1</b>
Tax	(0.1)	(2.4)	(1.6)	(5.7)	(1.5)
Minority Interest	(0.7)	0.60	(3.7)	(5.2)	(0.7)
<b>Net Profit</b>	<b>8.14</b>	<b>11.6</b>	<b>17.8</b>	<b>12.7</b>	<b>9.85</b>
Net profit bef Except.	8.28	11.2	13.8	13.0	9.90
EBITDA	12.9	16.5	22.5	27.6	15.9

**Growth**

Revenue Gth (%)	(17.6)	51.6	14.0	17.4	(18.1)
EBITDA Gth (%)	79.9	27.9	36.8	22.3	(42.2)
Opg Profit Gth (%)	217.6	20.2	49.7	20.7	(44.4)
Net Profit Gth (%)	(15.7)	42.2	53.8	(28.8)	(22.3)

**Margins**

Gross Margins (%)	87.5	87.9	86.3	83.9	86.0
Opg Profit Margins (%)	21.4	16.9	22.2	22.9	15.5
Net Profit Margins (%)	14.9	13.9	18.8	11.4	10.8

**Balance Sheet (\$\$m)**

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	28.9	32.6	31.3	28.8	26.1
Invts in Associates & JVs	43.7	27.0	26.6	26.1	25.7
Other LT Assets	116	121	121	121	121
Cash & ST Invts	48.8	47.6	44.9	58.0	73.9
Inventory	16.1	15.9	32.0	34.6	33.2
Debtors	18.2	27.8	35.1	38.1	41.5
Other Current Assets	3.23	3.83	3.83	3.83	3.83
<b>Total Assets</b>	<b>275</b>	<b>276</b>	<b>295</b>	<b>311</b>	<b>326</b>
ST Debt	1.94	3.55	3.55	3.55	3.55
Creditor	16.8	26.2	33.3	36.1	34.7
Other Current Liab	11.8	15.5	15.5	15.5	15.5
LT Debt	75.5	80.2	80.2	80.2	80.2
Other LT Liabilities	44.2	47.5	47.5	47.5	47.5
Shareholder's Equity	121	97.9	109	122	139
Minority Interests	3.62	5.40	5.69	5.77	5.48
<b>Total Cap. &amp; Liab.</b>	<b>275</b>	<b>276</b>	<b>295</b>	<b>311</b>	<b>326</b>
Non-Cash Wkg. Capital	8.95	5.81	22.0	24.9	28.4
Net Cash/(Debt)	(28.6)	(36.1)	(38.9)	(25.8)	(9.8)
Debtors Turn (avg days)	139.9	40.8	62.8	67.2	67.1
Creditors Turn (avg days)	595.9	293.6	401.2	431.8	465.7
Inventory Turn (avg days)	314.1	218.3	322.2	413.9	446.3
Asset Turnover (x)	0.5	0.7	0.6	0.7	0.7
Current Ratio (x)	2.8	2.1	2.2	2.4	2.8
Quick Ratio (x)	2.2	1.7	1.5	1.7	2.1
Net Debt/Equity (X)	0.2	0.3	0.3	0.2	0.1
Net Debt/Equity ex MI (X)	0.2	0.4	0.4	0.2	0.1
Capex to Debt (%)	7.9	9.1	6.1	5.4	5.4

Source: Company, DBS Bank

## Q & M Dental Group

### Cash Flow Statement (\$m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	22.4	46.7	25.9	29.2	36.7
Dep. & Amort.	3.46	4.13	6.44	6.96	7.17
Tax Paid	(1.2)	(3.1)	(2.9)	(3.0)	(3.9)
Assoc. & JV Inc/(loss)	(0.2)	0.47	0.47	0.47	0.47
Chg in Wkg.Cap.	19.1	1.63	(16.2)	(2.9)	(3.5)
Other Operating CF	(19.9)	1.04	0.0	0.0	0.0
<b>Net Operating CF</b>	<b>23.8</b>	<b>50.8</b>	<b>13.7</b>	<b>30.6</b>	<b>37.0</b>
Capital Exp.(net)	(6.1)	(7.6)	(5.1)	(4.5)	(4.5)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	47.0	16.6	0.0	0.0	0.0
Div from Assoc & JV	1.28	0.0	0.0	0.0	0.0
Other Investing CF	(0.4)	(5.5)	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>41.8</b>	<b>3.47</b>	<b>(5.1)</b>	<b>(4.5)</b>	<b>(4.5)</b>
Div Paid	(22.2)	(48.8)	(11.4)	(13.0)	(16.6)
Chg in Gross Debt	(9.4)	(1.5)	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(12.4)	(5.2)	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>(44.0)</b>	<b>(55.4)</b>	<b>(11.4)</b>	<b>(13.0)</b>	<b>(16.6)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	21.5	(1.2)	(2.8)	13.1	16.0
Opg CFPS (S cts)	0.48	5.09	3.10	3.47	4.19
Free CFPS (S cts)	5.05	4.93	4.64	6.00	7.65

Source: Company, DBS Bank

### Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	02 Sep 21	0.64	0.84	BUY
2:	18 Nov 21	0.60	0.85	BUY
3:	26 Nov 21	0.62	0.80	BUY
4:	25 Feb 22	0.54	0.72	BUY

Source: DBS Bank

Analyst: Tabitha FOO

Paul YONG

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**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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