

Singapore

ADD (previously HOLD)

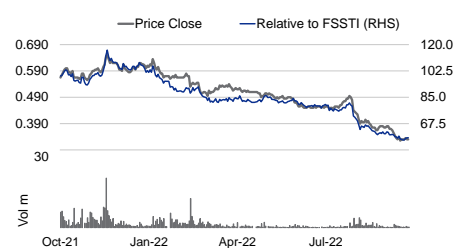
Consensus ratings*: Buy 2 Hold 3 Sell 0

Current price:	S\$0.33
Target price:	S\$0.44
Previous target:	S\$0.44
Up/downside:	33.3%
CGS-CIMB / Consensus:	-10.7%
Reuters:	QMDT.SI
Bloomberg:	QNM SP
Market cap:	US\$215.8m
	S\$310.0m
Average daily turnover:	US\$0.21m
	S\$0.29m
Current shares o/s:	939.4m
Free float:	31.3%

*Source: Bloomberg

Key changes in this note

➤ No changes.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-12	-27.5	-39.5
Relative (%)	-7.1	-26.7	-39.2

Major shareholders

	% held
Quan Min Group	59.0
Heritas Helios Investments	8.1
Ng Chin Siau	1.5

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Q&M Dental Group

Tender win alleviates short-term pressure

- Diagnostics arm Acumen has won a tender from the Ministry of Health (MOH) to operate a Joint Testing & Vaccination Center (JTVC), said QNM.
- The tender, estimated to be worth S\$3.6m in revenue, is for a period of 15 months, from October 2022 to December 2023.
- Upgrade from Hold to Add, with TP unchanged at S\$0.44, as current valuation of 15x forward P/E (-2 s.d. below 5-year mean) looks attractive.

Acumen likely to return to profitability in FY23F

QNM estimates a revenue contribution of S\$3.6m from the operation of the JTVC, which will commence on 21 Nov 22. We have yet to incorporate the potential earnings impact as the contribution is less significant compared to an estimated contribution in excess of c.S\$30m in FY21 from its Covid-19 testing operations. Nevertheless, we believe that the tender will alleviate Acumen's short-term woes in commercialising other diagnostic tests given QNM's 2Q22 disclosures suggested Acumen recorded c.S\$170k in net losses, likely due to the drastic reduction in polymerase chain reaction (PCR) testing for Covid-19 in Singapore during 2Q22. From our understanding, QNM has since streamlined Acumen's operations to manage costs while retaining its diagnostics capabilities. The tender could lift Acumen back to profitability and present QNM with an opportunity to expand its offerings to include vaccination services in the future.

3Q22 likely proved resilience of dental core business

We are expecting QNM to report revenue/net profit of c.S\$45m/c.S\$4.5m in 3Q22. This implies 22%/68% declines yoy due to the peak of Covid-19 contributions resulting in a high base in 3Q21. Stripping off Covid-19-related contributions, revenue run rate was likely comparable both yoy and qoq, which we believe exhibits the resilience of QNM's dental core business. Latest data from the MOH also showed that monthly dental visits in July reached more than 82k, recovering from the downtrend observed across 2Q22. QNM's cost profile is also likely to improve given that employee bonuses, previously recognised only in the fourth quarter in prior years, were accrued for in 2Q22.

Upgrade from Hold to Add with unchanged TP of S\$0.44

Our TP of S\$0.44 is pegged to 20x FY23F P/E, 1 s.d. below QNM's 5-year historical mean. The current share price represents a forward P/E of 15x, close to 2 s.d. below its 5-year historical mean and near its all-time low of 13.7x. We believe valuations have turned attractive for QNM as our FY23F earnings estimates account for negligible contribution from Acumen while expecting continued improvements in its dental core business. Re-rating catalysts include stronger-than-expected growth in dental core revenues, extensive government efforts in rolling out bivalent Covid-19 vaccines and significant commercialisation of gestating assets, such as its digital AI system. Downside risks: larger-than-expected costs for gestating assets and sluggish dental demand.

Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (S\$m)	137.6	205.6	185.8	192.2	208.0
Operating EBITDA (S\$m)	29.45	54.26	32.48	29.90	33.37
Net Profit (S\$m)	19.70	30.47	19.26	20.51	23.26
Core EPS (S\$)	0.013	0.028	0.020	0.022	0.025
Core EPS Growth	20%	114%	(26%)	6%	13%
FD Core P/E (x)	23.40	11.94	16.17	15.18	13.39
DPS (S\$)	0.034	0.040	0.010	0.011	0.013
Dividend Yield	10.3%	12.1%	3.0%	3.3%	3.9%
EV/EBITDA (x)	10.19	5.89	9.91	10.56	9.33
P/FCFE (x)	5.09	4.96	23.86	16.52	15.68
Net Gearing	23.0%	28.8%	25.6%	19.3%	15.2%
P/BV (x)	2.57	3.18	2.89	2.64	2.42
ROE	10.0%	23.8%	18.7%	18.2%	18.9%
% Change In Core EPS Estimates			0%	0%	0%
CGS-CIMB/Consensus EPS (x)			0.93	0.84	0.91

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Tender win alleviates short-term pressure

Figure 1: Monthly visits to dental clinics

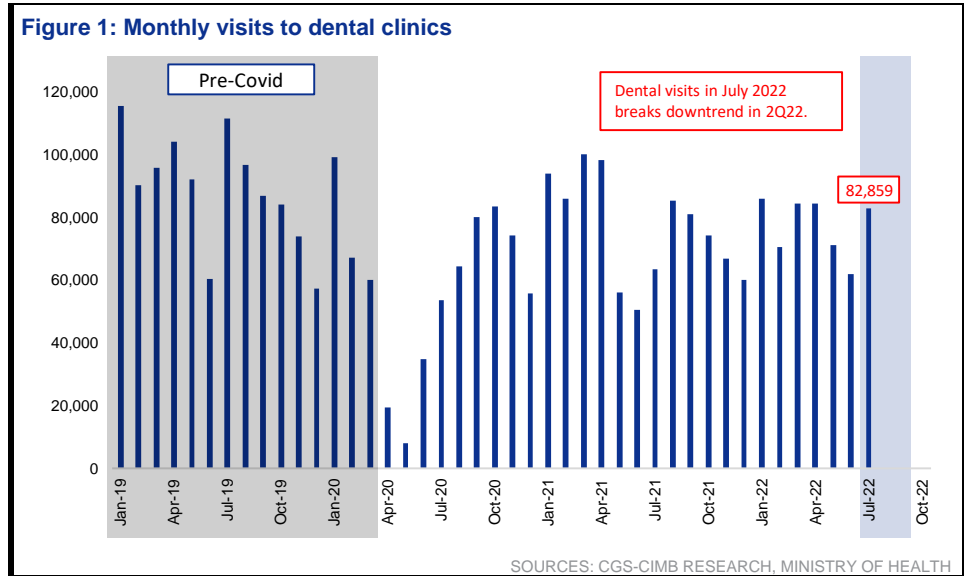


Figure 2: QNM Dental Group 12-mth fwd rolling FD core P/E (x)

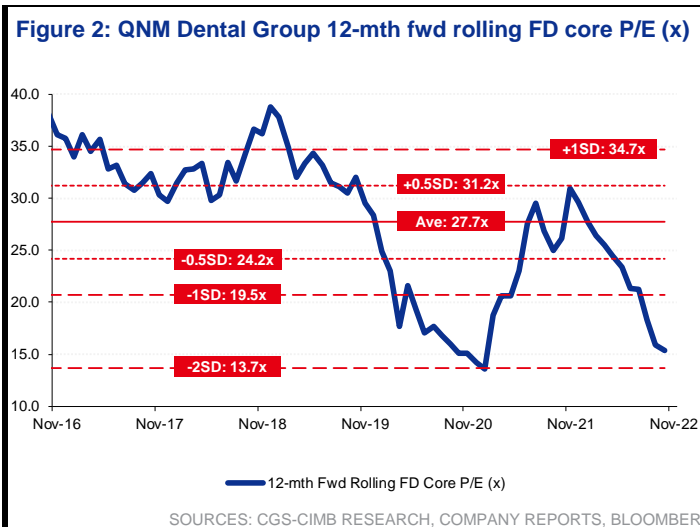
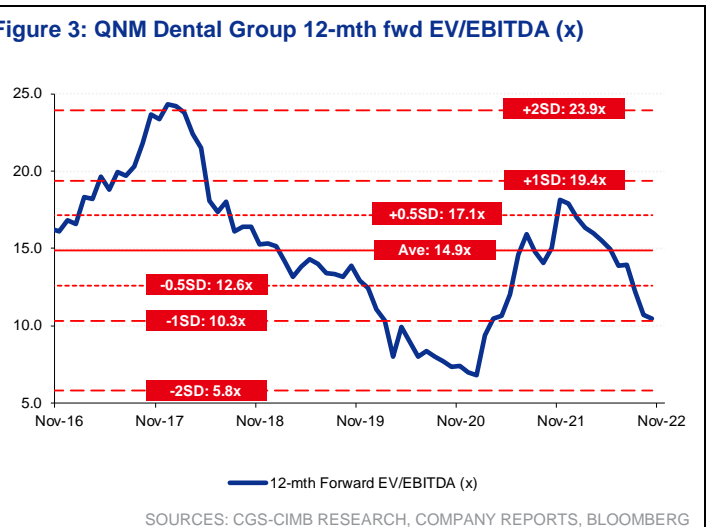




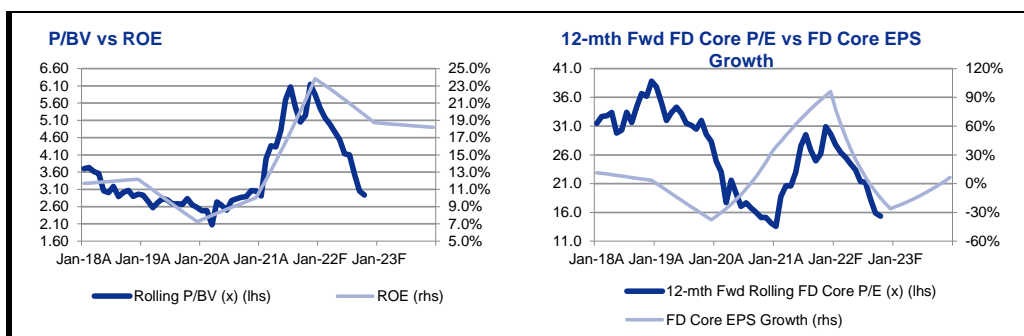
Figure 3: QNM Dental Group 12-mth fwd EV/EBITDA (x)



 <div style="float: right;"> Refinitiv ESG Scores  </div>	
ESG in a nutshell <p>We like that QNM has been improving its ESG standing over the years via new social and CSR initiatives. In FY20, the group expanded into the provision of Covid-19 testing services, contributing to national efforts to combat the pandemic. In addition, QNM has increased its focus on dentistry education via the establishment of the QNM College of Dentistry in 2018, an initiative we view positively as it highlights the group’s intention to nurture a pool of homegrown talent. QNM has just received its maiden ESG score from Refinitiv, and we believe there is scope for improvement with better understanding of the disclosure metrics.</p>	
Keep your eye on <p>QNM conducts PCR testing for Covid-19 via Acumen Diagnostics. Throughout FY21, the group steadily ramped up its testing capacity in Singapore to assist the government in stemming the spread of Covid-19.</p>	Implications <p>From a social lens, we view this business segment very favourably as it shows QNM’s commitment to helping Singapore combat Covid-19. Its testing services contribute directly to community safety as individuals detected with the virus are quickly placed into quarantine to prevent further infections.</p>
ESG highlights <p>QNM has continually invested in Artificial Intelligence to augment the dental practice through applications such as identification of normal and abnormal structures, diagnosis of diseases and prediction of treatment outcomes aimed at the prevention of ‘under/over treatment’ to ensure high standard of ethical dentistry. This is on top of providing specialist training programmes through its dental college to cater to the rising demand for primary and high-value specialist healthcare services of patients.</p>	Implications <p>As it is a leading dental healthcare provider in Singapore, we think it is important for the group to do well in CSR. Furthermore, its educational institutions allow the nurturing of future dental professionals directly within Singapore, growing the nation’s pool of talent in line with the rising demand for dental services. We have not factored these into our valuations just yet.</p>
Trends <p>Over the years, the group has been conferred various awards across the ESG and corporate governance spaces. Examples include the “Eco-Shop certification” (2017-2020), “Best Managed Board (Silver)” (2017) and “Most Transparent Company” (2016).</p>	Implications <p>We like that QNM has been increasingly recognised for its efforts in maintaining good ESG and corporate governance practices. We believe the company could attract further investor interest as it expands its ESG profile.</p>

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS



Profit & Loss

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	137.6	205.6	185.8	192.2	208.0
Gross Profit	44.8	71.7	56.3	56.1	60.8
Operating EBITDA	29.5	54.3	32.5	29.9	33.4
Depreciation And Amortisation	(3.5)	(4.1)	(4.7)	(5.3)	(5.8)
Operating EBIT	26.0	50.1	27.8	24.6	27.6
Financial Income/(Expense)	(3.8)	(3.0)	(2.9)	(2.9)	(2.9)
Pretax Income/(Loss) from Assoc.	0.2	(0.5)	(1.0)	1.1	1.1
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	22.4	46.7	23.9	22.7	25.8
Exceptional Items					
Pre-tax Profit	22.4	46.7	23.9	22.7	25.8
Taxation	(2.5)	(7.3)	(2.9)	(2.0)	(2.3)
Exceptional Income - post-tax					
Profit After Tax	19.8	39.4	21.0	20.7	23.4
Minority Interests	(0.1)	(8.9)	(1.8)	(0.2)	(0.2)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	19.7	30.5	19.3	20.5	23.3
Recurring Net Profit	12.2	26.1	19.3	20.5	23.3
Fully Diluted Recurring Net Profit	12.2	26.1	19.3	20.5	23.3

Cash Flow

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	29.45	54.26	32.48	29.90	33.37
Cash Flow from Invt. & Assoc.	(0.16)	0.47	1.00	(1.08)	(1.08)
Change In Working Capital	(13.02)	(5.60)	(5.81)	(0.24)	(1.96)
(Incr)/Decr in Total Provisions	0.25	(0.07)	0.00	0.00	0.00
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	12.17	7.87	1.90	3.98	3.98
Net Interest (Paid)/Received	(3.78)	(3.01)	(2.90)	(2.90)	(2.90)
Tax Paid	(1.16)	(3.11)	(2.87)	(2.05)	(2.32)
Cashflow From Operations	23.75	50.80	23.80	27.61	29.10
Capex	(6.39)	(7.87)	(11.05)	(9.07)	(9.54)
Disposals Of FAs/subsidiaries	47.52	17.00	0.00	0.00	0.00
Acq. Of Subsidiaries/investments	(1.77)	(4.33)	0.00	0.00	0.00
Other Investing Cashflow	2.40	(1.33)	0.30	0.30	0.30
Cash Flow From Investing	41.75	3.47	(10.75)	(8.77)	(9.24)
Debt Raised/(repaid)	(9.37)	8.54	0.00	0.00	0.00
Proceeds From Issue Of Shares	0.00	0.00	0.00	0.00	0.00
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	(34.61)	(63.97)	(12.64)	(13.58)	(15.47)
Cash Flow From Financing	(43.99)	(55.43)	(12.64)	(13.58)	(15.47)
Total Cash Generated	21.52	(1.16)	0.42	5.27	4.39
Free Cashflow To Equity	56.13	62.81	13.05	18.85	19.86
Free Cashflow To Firm	69.56	57.29	16.25	22.05	23.06

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	48.8	47.6	48.0	53.3	57.7
Total Debtors	18.2	27.8	28.0	29.0	31.3
Inventories	16.1	15.9	11.8	13.6	14.6
Total Other Current Assets	3.2	3.8	3.8	3.8	3.8
Total Current Assets	86.3	95.2	91.6	99.7	107.5
Fixed Assets	28.9	32.6	39.0	42.7	46.5
Total Investments	43.7	27.0	26.0	27.1	28.2
Intangible Assets	56.6	60.2	60.2	60.2	60.2
Total Other Non-Current Assets	59.3	61.2	61.2	61.2	61.2
Total Non-current Assets	188.5	181.0	186.4	191.2	196.0
Short-term Debt	1.9	1.9	1.9	1.9	1.9
Current Portion of Long-Term Debt					
Total Creditors	16.8	26.2	16.5	19.0	20.5
Other Current Liabilities	11.8	17.1	17.1	17.1	17.1
Total Current Liabilities	30.5	45.3	35.5	38.1	39.5
Total Long-term Debt	73.6	73.6	73.6	73.6	73.6
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	46.0	54.1	54.1	54.1	54.1
Total Non-current Liabilities	119.6	127.6	127.6	127.6	127.6
Total Provisions	0.0	0.0	0.0	0.0	0.0
Total Liabilities	150.1	172.9	163.2	165.7	167.2
Shareholders' Equity	121.1	97.8	107.7	117.8	128.8
Minority Interests	3.6	5.4	7.2	7.4	7.5
Total Equity	124.7	103.2	114.9	125.2	136.3

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	7.5%	49.4%	(9.7%)	3.5%	8.2%
Operating EBITDA Growth	24.7%	84.3%	(40.1%)	(7.9%)	11.6%
Operating EBITDA Margin	21.4%	26.4%	17.5%	15.6%	16.0%
Net Cash Per Share (S\$)	(0.030)	(0.032)	(0.031)	(0.026)	(0.022)
BVPS (S\$)	0.13	0.10	0.11	0.12	0.14
Gross Interest Cover	6.41	16.59	8.69	7.67	8.62
Effective Tax Rate	11.3%	15.6%	12.0%	9.0%	9.0%
Net Dividend Payout Ratio	163%	124%	49%	51%	53%
Accounts Receivables Days	140.3	40.8	54.8	54.1	53.1
Inventory Days	45.60	43.60	38.97	33.97	35.07
Accounts Payables Days	86.50	58.66	60.18	47.56	49.09
ROIC (%)	14.3%	32.6%	17.6%	14.4%	15.8%
ROCE (%)	12.3%	26.2%	15.1%	12.6%	13.4%
Return On Average Assets	8.1%	15.4%	8.6%	8.3%	8.9%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Singapore - dental clinics	78.0	92.0	109.0	119.0	129.0
Malaysia - dental clinics	33.0	37.0	52.0	62.0	72.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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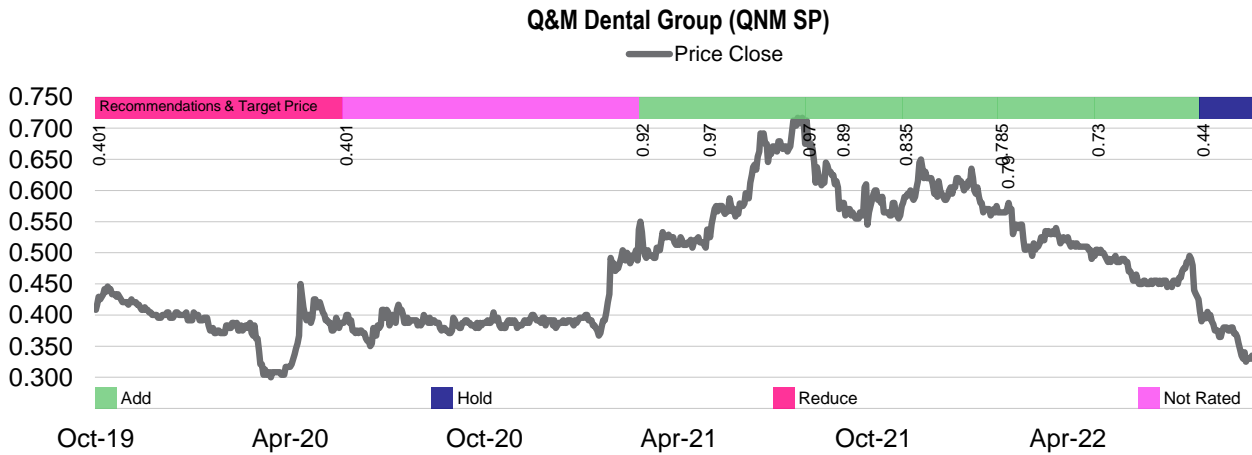
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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2022		
643 companies under coverage for quarter ended on 30 June 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)



Recommendation Framework

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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