

Singapore Company Update

Thomson Medical Group

Bloomberg: TMG SP | Reuters: THOS.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

14 Feb 2024

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NOT RATED

Last Traded Price (13 Feb 2024): S\$0.051 (STI : 3,141.87)

Analysts

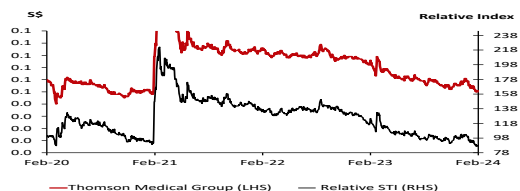
Rachel TAN racheltanlr@dbs.com

Amanda Tan amandatankh@dbs.com

What's New

- Thomson Medical Group completed the acquisition of FV Hospital on 17 Jan 2024, biggest healthcare acquisition to-date in Vietnam and Southeast Asia since 2010
- FV Hospital - first JCI accredited hospital in Vietnam, plays a critical role in the advancement of healthcare in Vietnam
- FV Hospital has state of the art facilities and plans to expand capacity by c.35% via another new block
- FV Hospital could potentially raise Thomson Medical's FY25F EBITDA by c.19%, based on our estimates

Price Relative



Forecasts and Valuation

FY Jun (\$m)	2022A	2023A	2024F	2025F
Revenue	334	356	417	486
EBITDA	110	103	117	133
Pre-tax Profit	69.3	55.2	39.2	52.3
Net Profit	53.8	36.6	27.4	36.6
Net Pft (Pre Ex.)	53.8	36.6	27.4	36.6
Net Pft Gth (Pre-ex) (%)	277.6	(32.0)	(25.0)	33.5
EPS (S cts)	0.20	0.14	0.10	0.14
EPS Pre Ex. (S cts)	0.20	0.14	0.10	0.14
EPS Gth Pre Ex (%)	278	(32)	(25)	33
Diluted EPS (S cts)	0.20	0.14	0.10	0.14
Net DPS (S cts)	0.12	0.04	0.0	0.0
BV Per Share (S cts)	2.01	1.89	1.99	2.13
PE (X)	25.1	36.9	49.2	36.8
PE Pre Ex. (X)	25.1	36.9	49.2	36.8
P/Cash Flow (X)	14.5	15.2	26.4	18.0
EV/EBITDA (X)	17.2	18.3	20.4	17.5
Net Div Yield (%)	2.3	0.8	0.0	0.0
P/Book Value (X)	2.5	2.7	2.6	2.4
Net Debt/Equity (X)	0.8	0.8	1.6	1.4
ROAE (%)	10.5	7.1	5.3	6.7

Earnings Rev (%): - -

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

Bold move makes history

Investment Thesis:

Strong portfolio of healthcare assets in Singapore and Malaysia with potential to expand footprint in IVF. With the flagship Thomson Medical Centre and 37 clinics and centres in Singapore, Thomson Medical Group (Thomson Medical) intends to deepen its presence in the healthcare industry. Thomson Medical has a strong reputation as one of the largest private providers of healthcare services for women and children in Singapore. Its niche focus on obstetrics & gynaecology (O&G) places it in prime position to grow its presence in the in vitro fertilisation (IVF) space across APAC. Aside from O&G, Thomson Medical aspires to expand its medical specialty and progressively grow into a reputable full healthcare service provider.

Inorganic growth boosted by FV Hospital acquisition and potential M&A activities in the pipeline.

The acquisition deepens Thomson Medical's footprint in South-East Asia (SEA), drives its geographic diversification, and will boost growth. Healthcare expenditure per capita in Vietnam registered a higher CAGR of 9.2% between 2017-2022 compared to other countries in the region. We understand the group remains on the lookout for further M&A opportunities in countries such as Thailand, Indonesia, and Cambodia, to expand its pan-Asian footprint, while also seeks to de-risk via partnerships.

Revenue and EBITDA projected to grow at CAGRs of 12% and 11% between 2024-2026.

We believe Thomson Medical's prospects will be shaped by a combination of both organic and inorganic levers. The acquisition of FV Hospital will add 230 licensed beds, which brings its total licensed beds up to 757 (+44%), and grow its top line and EBITDA by 26% and 19% in FY25F. In the medium term, the planned addition of licensed beds across Singapore, Malaysia will also augment longer term profitability and cashflows.

Fair value estimate at S\$0.08 with strong growth potential. Our fair value estimate is based on 23x FY25 EBITDA, which is around -0.5SD below the historical mean. Despite trading at a premium to its peers, Thomson Medical is expected to deliver EBITDA growth with a CAGR of 11% between FY24-FY26, much stronger than some of its peers with maturing operations.

Key Risks

High gearing, execution risks, and highly regulated healthcare environment.

At A Glance

Issued Capital (m shrs)	26,441
Mkt. Cap (S\$m/US\$m)	1,348 / 1,003
Major Shareholders (%)	
T Holdings	20.0
Free Float (%)	46.6
3m Avg. Daily Val (US\$m)	0.17

GIC Industry : Health Care / Health Care Equipment & Services

WHAT'S NEW

Bold move makes history

On 17 January 2024, Thomson Medical Group (Thomson Medical) successfully completed the acquisition of FV Hospital after approximately 6 months from its first announcement. The milestone was celebrated by government officials from both Singapore and Vietnam, including the Deputy Health Minister of Vietnam.

On 12 July 2023, Thomson Medical made a bold move to lock-in the biggest healthcare acquisition to-date in Vietnam and the largest in Southeast Asia since 2020 with the proposed acquisition of FV Hospital. We understand that Thomson Medical had secured a highly competitive bid, contending with several other interested parties including private equity firms making up a majority of the bidders. Thomson Medical acquired FV Hospital from 10 founders, including Dr Jean-Marcel and Quadria Capital.

Since July 2023, Thomson Medical has kickstarted its integration process and we understand the process is largely completed. With the official completion of the acquisition, Thomson Medical will accelerate its growth and expansion efforts.

FV Hospital plays a vital role in advancing hospital and healthcare standards in Vietnam

First 100% foreign-owned hospital in Vietnam and first to obtain JCI standards. FV Hospital was founded by Dr Jean-Marcel Guillon in 2003 with a group of French doctors (10 founders) who shared the vision of bringing world class healthcare to Vietnam. We understand that was the first 100%-owned private hospital and the first JCI accredited hospital in South Vietnam. FV Hospital is known for providing international standard of care, commitment to clinical quality and patient centric service. In one of the speeches during the ceremony, we learned that FV Hospital, as the first Vietnam hospital to obtain JCI accreditation, played a critical role in assisting the Health Ministry to set standards / regulations in line with JCI standards. Operating for over 20 years, FV Hospital has contributed tremendously in bringing quality service and standards to Vietnam's healthcare industry.

The Hospital has more than 1,500 staff, 236 doctors (comprising both local and foreign doctors), offering 36 specialist services. The specialist services include outpatient women and children healthcare services, diagnostic imaging, health screening, gynaecology, oncology, dentistry, specialist dermatology, traditional Chinese medical, musculoskeletal and sports medicine. The hospital has 230 beds and 9 operating theatres (currently 7 are operational).

FV Hospital serves both the local and expatriate community in South Vietnam. The hospital serves c.250k patients annually, the majority are local patients (c.70% of patient load) while expatriates form 25% and the remaining 5% are foreigners mainly from neighbouring countries like Laos, Cambodia and Myanmar.

State of the art medical facilities to provide more advance treatment. FV Hospital is equipped with state of the art medical facilities, one of the best in Ho Chi Minh. During the site visit, we

were impressed by the hospital's advanced equipment and organized structure, comparable to a modern private hospital in Singapore or Malaysia.

The oncology department was the most remarkable, with equipment to provide brachytherapy. The hospital has a duo energy CT scan and capabilities to provide 3D brachytherapy. We understand that this is the only hospital in Vietnam that can perform stereotactic body radiation therapy (SBRT) on the spine.

The hospital also has its own laboratory that uses ultra-modern equipment and the latest technologies to provide a comprehensive range of routine and emergency laboratory tests to patients. FV Laboratory is the first and currently the only laboratory in Vietnam to proactively ensure highest possible quality of test results by measuring its performance against 1k international laboratories in developed countries through Roche Diagnostics' quality control and quality assurance tools.

Aside from the hospital, FV Hospital has two ACC Chiropractic Clinics located in Hanoi and Da Nang that offers chiropractic treatment, rehabilitation, and foot care. This is the first chiropractic clinic registered under the Ministry of Health, Vietnam

Enroute to expand capacity by 1/3 with a new wing as a center of excellence; targeted to complete by end-2025.

The acquisition comes along with an expansion of a new wing (H Building) with an addition 9k sqm of GFA, c.35% expansion from current 26k sqm of GFA. Estimated capex would be c.US\$45m. The building is targeted to complete by end-2025 / early 2026 assuming approvals are obtained within the timeline. The new wing is plans to expand its centre of excellences and an additional 20 beds.

Expansion of a new centre of excellences to offer newer medical treatments that may not be widely available in Vietnam. Thomson Medical, together with FV Hospital plans to expand its centre of excellences focusing on 4 key areas:

- Expanded oncology centre – inpatient and surgical oncology, the first hospital in Vietnam to offer surgical oncology and new haemodialysis centre, new bone marrow transplant unit. With the expansion, management hopes to add another brachytherapy machine to increase capacity.
- IVF Centre – riding on Thomson Medical's expertise, the new IVF Centre will be able to offer consultations, hysteroscopy procedures, egg freezing and frozen embryo transfer.
- Expanded Gastroenterology Centre – increase capacity for gastroenterology consultations, endoscopy, EUS, ERCP, capsule endoscopy, fibroscan, impedance pH test and manometry
- Enhanced Diagnostics Capabilities – new PET Scan (one of only two in Ho Chi Minh City)

Ample room to grow in Vietnam's private healthcare market, riding on the growing affluent society in Vietnam and its neighbouring countries.

Vietnam's private healthcare market is still in its nascent stages of development. Currently, private healthcare comprises less than 10% of public healthcare capacity (approximately 6%). Given the low penetration rate, we believe there is huge room for improvement especially riding on the growing middle class and affluent society in Vietnam. In addition, quality private healthcare could attract foreign patients from the growing affluent class from neighbouring countries such as Laos, Cambodia, and Myanmar.

Given the limited number of private healthcare facilities in Vietnam, we understand some private equity firms have been early entrants into the Vietnam healthcare space. A past headline transaction was when GIC invested more than US\$203m in 2020 in Vinmec International Hospital.

Investment interest in Vietnam healthcare remains strong.

Thomson Medical collaborations

Despite founding partner, Dr Jean-Marcell, selling its stake in the hospital to Thomson Medical, Dr Jean-Marcell expressed in the press release that he does not intend to leave and has plans to continue to bring the hospital, together with Thomson Medical, into a new era of growth and development in tandem with the advancement of medical technology.

The "marriage" of two hospitals brings about joint-collaboration and aside from financial support, Thomson Medical brings along its expertise that could further drive the growth of FV Hospital.

- Sharing of medical knowledge and best practice
- Expertise in IVF
- Import / visiting doctors from Singapore / Malaysia to Vietnam

Aside from growing within Vietnam, FV Hospital could also be a good referral point for more complex cases into Thomson Medical Group's network of hospitals in Singapore and Malaysia.

Financial impact

In CY2022, FV Hospital delivered revenue, EBITDA and PAT of S\$110m, S\$26m and S\$16m respectively, its highest performance since CY2019. Based on the announcement in July 2023 and CY2022 performance, FV Hospital was acquired at 16.8x EV/EBITDA or c.29x PE.

In our previous non-rated report on Thomson Medical Group dated 15 Dec 2023 ([Discovering a diamond in the rough](#)), we had estimated that the acquisition could raise FY25 revenue by 26% and EBITDA by 19%. FV Hospital will be one of the key drivers enabling Thomson Medical to achieve revenue and EBITDA growth with CAGRs of 12% and 11%, respectively, between FY24-FY26 (upon a full-year recognition of FV hospital and normalisation of operations post COVID-19 pandemic). We have yet to incorporate the contribution from the new wing.

A new era of medical development for FV Hospital and its significant contribution to Vietnam Healthcare.

Although FV Hospital was acquired at full valuation, the quality of the hospital, doctors and staff strengths and the reputation of the hospital sets itself apart from its peers. This first foray immediately placed Thomson Medical Group on a strong platform to ride on the long-term growth potential in Vietnam's healthcare market. In addition, Thomson Medical Group, will elevate FV Hospital and enable the hospital to offer higher standards of medical treatment and facilities, and help to advance healthcare standards in Vietnam.

Company Background

Thomson Medical Group ("TMG") is one of Singapore's largest healthcare players headquartered in Singapore. It operates 1 hospital and a network of 37 clinics and centres in Singapore. TMG operates 1 hospital and a facility centre in Malaysia via TMC Life Sciences Berhad and owns a land in Johor for the proposed Thomson Iskandar Medical Hub.

Thomson Medical Group

Official ceremony on the acquisition of FV Hospital



Lobby of FV Hospital



Café conveniently located next to the pharmacy



Brachytherapy



Chemotherapy day bed



CT Scan machine

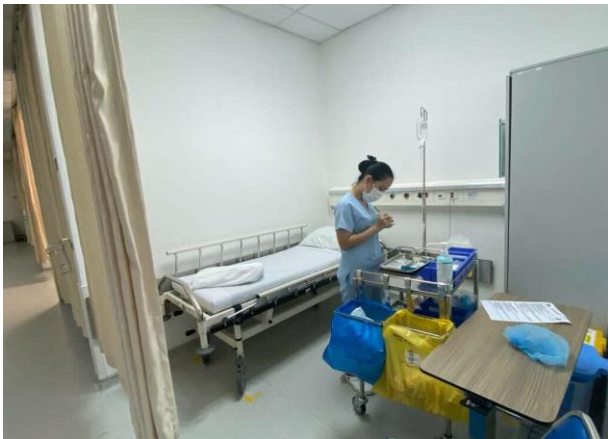


Source: Company, DBS Bank Ltd

FV Laboratory



Day bed



Romantic lighting in the maternity ward



Maternity ward



Paediatric outpatient clinic



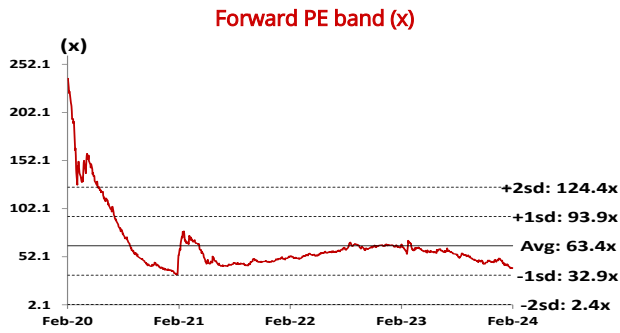
One of the longest serving staff



Source: Company, DBS Bank Ltd

Thomson Medical Group

Historical PE and PB band



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



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

Thomson Medical Group

Income Statement (\$m)

FY Jun	2021A	2022A	2023A	2024F	2025F
Revenue	240	334	356	417	486
Cost of Goods Sold	(49.5)	(55.3)	(59.4)	(69.6)	(81.2)
Gross Profit	191	278	296	347	405
Other Opng (Exp)/Inc	(142)	(187)	(214)	(254)	(300)
Operating Profit	48.8	91.8	82.3	93.5	106
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	(0.5)	0.0	0.0
Net Interest (Exp)/Inc	(22.6)	(22.5)	(26.6)	(54.3)	(53.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	26.2	69.3	55.2	39.2	52.3
Tax	(9.3)	(10.7)	(14.2)	(7.8)	(10.5)
Minority Interest	(2.7)	(4.8)	(4.5)	(3.9)	(5.3)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	14.2	53.8	36.6	27.4	36.6
Net Profit before Except.	14.2	53.8	36.6	27.4	36.6
EBITDA	66.8	110	103	117	133
Growth					
Revenue Gth (%)	11.2	38.8	6.6	17.2	16.7
EBITDA Gth (%)	40.6	64.4	(6.3)	13.5	14.3
Opg Profit Gth (%)	66.9	88.1	(10.4)	13.7	13.0
Net Profit Gth (Pre-ex) (%)	nm	277.6	(32.0)	(25.0)	33.5
Margins & Ratio					
Gross Margins (%)	79.4	83.4	83.3	83.3	83.3
Opg Profit Margin (%)	20.3	27.5	23.1	22.4	21.7
Net Profit Margin (%)	5.9	16.1	10.3	6.6	7.5
ROAE (%)	2.9	10.5	7.1	5.3	6.7
ROA (%)	1.1	4.1	2.6	1.7	2.0
ROCE (%)	(0.7)	2.5	0.8	(1.8)	(1.0)
Div Payout Ratio (%)	27.9	56.6	28.9	0.0	0.0
Net Interest Cover (x)	2.2	4.1	3.1	1.7	2.0

Source: Company, DBS Bank Ltd

Thomson Medical Group

Interim Income Statement (\$m)

FY Jun	2H2021	1H2022	2H2022	1H2023	2H2023
Revenue	124	145	188	184	172
Cost of Goods Sold	(25.0)	(26.7)	(28.7)	(29.7)	(29.7)
Gross Profit	98.8	119	160	154	142
Other Oper. (Exp)/Inc	(76.1)	(87.8)	(98.7)	(109)	(105)
Operating Profit	22.7	30.9	60.9	45.2	37.0
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	(0.3)	(0.2)
Net Interest (Exp)/Inc	(10.9)	(11.0)	(11.5)	(12.3)	(14.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	11.8	19.9	49.4	32.7	22.5
Tax	(4.7)	(6.0)	(4.8)	(8.4)	(5.8)
Minority Interest	(1.0)	(1.5)	(3.4)	(1.5)	(3.0)
Net Profit	6.14	12.5	41.3	22.8	13.8
Net profit bef Except.	6.14	12.5	41.3	22.8	13.8
EBITDA	22.7	30.9	60.9	44.9	36.8

Growth

Revenue Gth (%)	6.1	17.5	29.5	(2.3)	(6.6)
EBITDA Gth (%)	(13.0)	36.0	97.2	(26.2)	(18.1)
Opg Profit Gth (%)	(13.0)	36.0	97.2	(25.8)	(18.1)
Net Profit Gth (%)	(24.3)	103.5	230.6	(44.8)	(39.6)

Margins

Gross Margins (%)	79.8	81.7	84.8	83.9	82.7
Opg Profit Margins (%)	18.4	21.2	32.3	24.6	21.6
Net Profit Margins (%)	5.0	8.6	21.9	12.4	8.0

Balance Sheet (\$m)

FY Jun	2021A	2022A	2023A	2024F	2025F
Net Fixed Assets	435	444	416	532	535
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	600	600	591	989	988
Cash & ST Invts	123	162	287	114	160
Inventory	5.40	5.58	6.33	7.41	8.65
Debtors	26.9	60.2	62.5	73.2	85.4
Other Current Assets	95.5	93.2	85.5	85.5	85.5
Total Assets	1,286	1,365	1,448	1,802	1,863
ST Debt	0.32	228	12.1	12.1	12.1
Creditor	65.6	86.5	83.8	98.2	115
Other Current Liab	17.4	24.3	24.1	18.0	20.7
LT Debt	619	401	736	1,050	1,050
Other LT Liabilities	17.3	16.7	16.7	16.7	16.7
Shareholder's Equity	490	532	499	527	563
Minority Interests	76.2	76.7	76.0	79.9	85.2
Total Cap. & Liab.	1,286	1,365	1,448	1,802	1,863
Non-Cash Wkg. Capital	44.8	48.1	46.4	49.9	44.3
Net Cash/(Debt)	(497)	(468)	(461)	(948)	(902)
Debtors Turn (avg days)	38.3	47.6	62.9	59.4	59.5
Creditors Turn (avg days)	713.2	742.6	811.6	716.0	726.2
Inventory Turn (avg days)	66.8	53.6	56.7	54.0	54.8
Asset Turnover (x)	0.2	0.3	0.3	0.3	0.3
Current Ratio (x)	3.0	0.9	3.7	2.2	2.3
Quick Ratio (x)	1.8	0.7	2.9	1.5	1.7
Net Debt/Equity (X)	0.9	0.8	0.8	1.6	1.4
Net Debt/Equity ex MI (X)	1.0	0.9	0.9	1.8	1.6
Capex to Debt (%)	5.9	4.4	1.5	50.6	2.7

Source: Company, DBS Bank Ltd

Thomson Medical Group

Cash Flow Statement (\$m)

FY Jun	2021A	2022A	2023A	2024F	2025F
Pre-Tax Profit	26.2	69.3	55.2	39.2	52.3
Dep. & Amort.	18.0	17.9	21.1	23.2	27.7
Tax Paid	(6.5)	(8.3)	(14.8)	(13.9)	(7.8)
Assoc. & JV Inc/(loss)	0.0	0.0	0.49	0.0	0.0
Chg in Wkg.Cap.	6.18	(10.6)	3.03	2.58	2.94
Other Operating CF	17.5	24.5	23.6	0.0	0.0
Net Operating CF	61.3	92.8	88.6	51.1	75.1
Capital Exp.(net)	(36.7)	(27.7)	(11.1)	(538)	(29.2)
Other Invs.(net)	0.0	(1.4)	0.0	0.0	0.0
Invs in Assoc. & JV	0.0	0.0	(0.7)	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(0.9)	(0.4)	(1.6)	0.0	0.0
Net Investing CF	(37.6)	(29.4)	(13.4)	(538)	(29.2)
Div Paid	(0.8)	(5.0)	(31.9)	0.0	0.0
Chg in Gross Debt	(30.9)	10.2	124	314	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(27.1)	(28.7)	(37.4)	0.0	0.0
Net Financing CF	(58.8)	(23.5)	54.2	314	0.0
Currency Adjustments	(0.3)	(1.1)	(4.2)	0.0	0.0
Chg in Cash	(35.4)	38.8	125	(172)	45.9
Opg CFPS (S cts)	0.21	0.39	0.32	0.18	0.27
Free CFPS (S cts)	0.09	0.25	0.29	(1.8)	0.17

Source: Company, DBS Bank Ltd

Target Price & Ratings 12-mth 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:	15 Dec 23	0.06	n.a	NOT RATED

Source: DBS Bank Ltd

Analysts: Rachel TAN

Amanda Tan

DBS Group Research 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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DBS Regional Research Offices

HONG KONG

DBS Bank (Hong Kong) Ltd

Contact: Dennis Lam
 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

SINGAPORE

DBS Bank Ltd

Contact: Andy Sim
 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: indonesiaresearch@dbs.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul
 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
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