

10 May 2019

Consumer Non-cyclical | Healthcare

Singapore Medical Group (SMG SP)

Neutral (from Buy)

Growth Initiatives Need Time; D/G To NEUTRAL

Target Price (Return) SGD0.48 (+8%)
 Price: SGD0.445
 Market Cap: USD154m
 Avg Daily Turnover (SGD/USD) 0.17m/0.13m

- Downgrade to NEUTRAL from Buy, with new DCF based TP of SGD0.48 from SGD0.56, 8% upside.** Despite higher revenue of SGD21.6m (+12.3% YoY) recorded in 1QFY19, PATMI decreased 3% YoY to SGD3.3m on higher marketing and personnel costs. We think that near-term profit growth should be impacted as the group is likely to incur higher costs as it embarks on aggressive growth expansion. We lower FY19F-21F earnings by 11-14%.
 - Aggressive organic expansion initiatives.** The group added five new clinics YTD. The newly opened clinics are one O&G clinic and one Paediatrics clinic (opened in January), a new breast care clinic this month, and two SW1 clinics in January and April (Vietnam) respectively. It was also mentioned that the group has plans to onboard 10-12 specialists in the current FY. Alongside the organic expansion, the group is actively seeking M&A targets and partnership opportunities.
 - Revenue increased 12.3% YoY and gross profit margin maintained.** Revenue increased mainly due to the acquisition of Pheniks in Apr 2018 under the diagnostic & aesthetics business segment. Health business segment revenue remained flat, as revenue growth was offset by the absence of revenue from the orthopaedic clinic. Gross profit margin stayed the same at 46% in 1QFY19, while net profit margin decreased to 15.4% from 17.8%, due to higher distribution and selling expenses, as well as administrative cost.
 - Near term profitability to be impacted by the opening of new clinics.** Typically, it takes a new clinic 2-3 years to break even. Proportionally, expenses for new overseas clinics may be higher as more distribution & selling costs are needed to market its products and services in newer markets.
- In addition, new specialists may take time to ramp up their practice to full capacity. Hence, despite healthy revenue growth, costs could outrun revenue in the next 2-3 years. As such, we lower FY19F-21F PATMI by 11-14%
- Downgrade to NEUTRAL with new DCF-based TP of SGD0.48.** Although we think that the CHA-SMG partnership may create synergies and onboarding of new specialists and new clinics launched will bring in decent topline growth, near-term cost pressure should impact net profit growth.

Analysts

Lee Cai Ling
 +65 6232 3892
lee.cai.ling@rhbgroup.com

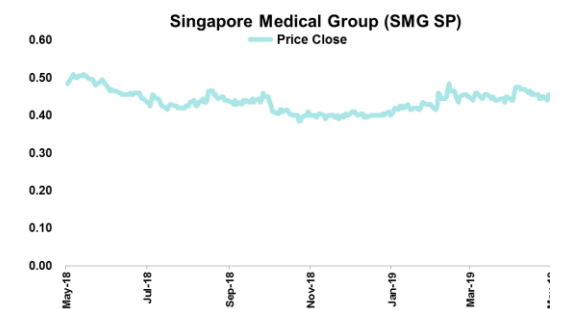


Jarick Seet
 +65 6232 3891
jarick.seet@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	11.3	1.1	4.7	11.3	(8.2)
Relative	4.7	2.8	2.6	5.0	(0.4)
52-wk Price low/high (SGD)	0.38 – 0.53				



Source: Bloomberg

Forecasts and Valuations	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
Total turnover (SGDm)	68.0	85.1	104.4	111.2	120.4
Recurring net profit (SGDm)	8.50	12.92	12.70	13.40	14.41
Recurring net profit growth (%)	250.8	52.0	(1.6)	5.5	7.5
Recurring P/E (x)	25.2	16.6	16.8	16.0	14.8
P/BV (x)	2.0	1.6	1.5	1.4	1.3
P/CF (x)	16.1	11.6	9.2	10.9	11.1
Dividend Yield (%)	na	na	1.2	1.3	1.3
EV/EBITDA (x)	15.7	11.0	9.1	9.1	8.5
ROE (%)	8.1	9.9	9.0	8.9	8.9
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Interest coverage (x)	14.1	13.8	12.4	13.0	13.9

Source: Company data, RHB

Figure 1: 1Q19 results summary

FYE Dec (SGDm)	1Q19	1Q18	YoY (%)	4Q18	QoQ (%)	Remarks
Revenue	21.6	19.2	12.3%	22.2	-2.7%	Revenue growth in 1QFY19 was driven primarily from SW1 clinic which was acquired in Apr 2018
Gross Profit	10.0	8.9	12.3%	9.6	4.0%	
<i>Gross Profit Margin</i>	<i>46.4%</i>	<i>46.4%</i>		<i>43.4%</i>		
Profit Before Tax	3.8	3.8	0.1%	2.8	35.4%	Higher marketing and staff cost has impacted the group's profits despite healthy revenue growth
PATMI	3.3	3.4	-3.0%	2.9	12.7%	
<i>Net Profit Margin</i>	<i>15.4%</i>	<i>17.8%</i>		<i>13.3%</i>		

Source: Company data, RHB

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Wisma Mulia, 20th Floor
Jl. Jenderal Gatot Subroto No. 42
Jakarta 12710
Indonesia
Tel : +6221 2783 0888
Fax :+6221 2783 0777

HONG KONG

RHB Securities Hong Kong Ltd.
12th Floor, World-Wide House
19 Des Voeux Road
Central
Hong Kong
Tel : +852 2525 1118
Fax : +852 2810 0908

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

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**RHB Securities Singapore
Pte Ltd.**
10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +65 6533 1818
Fax : +65 6532 6211