

1 April 2020

Consumer Non-cyclical | Healthcare

## TalkMed (TKMED SP)

**Buy** (Maintained)

### Disrupted By COVID-19; Keep BUY

Target Price (Return): SGD0.53 (23.3%)  
 Price: SGD0.43  
 Market Cap: USD398m  
 Avg Daily Turnover (SGD/USD) 0.01m/0.01m

- Maintain BUY with a lower DCF-derived TP of SGD0.53 from SGD0.62, 23% upside and c.4% yield.** The current travel restrictions in place, which do not allow international visitors on short-term trips to enter Singapore, resulted in a halt of foreign medical tourism which is the bulk of TalkMed's portfolio. As a result, we lower FY20F PATMI by 14% and continue to monitor the way COVID-19 impacts TalkMed's operations. The company has a strong net cash balance sheet, an attractive dividend yield and is capable to withstand this situation.
- A drop in number of medical tourists.** The ongoing travel restrictions aimed at stopping the spread of COVID-19, decreased the number of medical tourists. This further has impacted TalkMed's operations as the company is reliant on foreign patients, especially those from Indonesia. As a result, we factored in a drop in the number of medical tourists until the end of June 2020, which would result in a much weaker performance in 2020F for TalkMed.
- Attractive yield of c.4% with a net cash balance sheet.** We expect the management to continue to reward the company shareholders. Management declared a total of 2.3 cents per share in dividends, including an interim dividend for FY19, vs 1.83 cents per share in FY18, a 25.6% increase YoY. For FY19, the dividend payout ratio was 84.5% and we expect this ratio to remain unchanged, which would result in a c.4% yield in FY20F.
- Huge potential for mesenchymal stem cells (MSCs) based therapies.** MSCs are currently used overseas in regenerative medicine and therapy, for aesthetic as well as other purposes and management believes there is a huge potential in this area. TalkMed's 60%-owned subsidiary Stem Med Pte Ltd, has embarked on a research and clinical programme for the use of MSCs-based therapies in the region. However, we understand that in Singapore, a cellular therapy can only be approved under the auspices of clinical trials. As such, monetisation of such therapies in Singapore, would only be possible after regulations are changed.
- Strong balance sheet to weather through this crisis.** Before the COVID-19 crisis began, the earnings recovery for TalkMed was underway as we understand that Dr. Ang's utilisation increased significantly YoY. We estimate the COVID-19 pandemic to stop by the end of June 2020. Until then, we assess that the company's net cash balance sheet and its solid positive operating cashflow should help buffer this crisis. Maintain BUY.

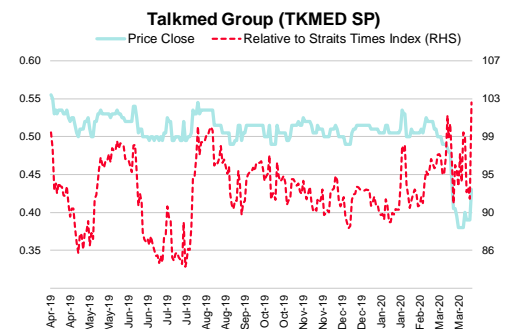
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(16.5)	(14.0)	(16.5)	(16.5)	(22.5)
Relative	6.5	3.6	6.5	4.0	0.3
52-wk Price low/high (SGD)	0.38 – 0.55				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	61	76	61	64	66
Recurring net profit (SGDm)	29	36	29	31	32
Recurring net profit growth (%)	(9.8)	23.7	(17.8)	7.1	2.6
Recurring P/E (x)	19.55	15.81	19.23	17.95	17.50
P/B (x)	7.7	6.8	6.3	5.8	5.4
P/CF (x)	18.42	15.74	18.16	19.30	18.79
Dividend Yield (%)	4.2	5.3	4.0	4.3	4.5
EV/EBITDA (x)	14.15	10.81	13.71	13.23	12.71
Return on average equity (%)	39.6	45.6	34.0	33.8	32.2

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	0.02	0.03	0.02	0.02	0.02
Consumer Non-cyclical	DPS	0.02	0.02	0.02	0.02	0.02
<b>TalkMed</b>	BVPS	0.06	0.06	0.07	0.07	0.08
TKMED SP	Return on average equity (%)	39.6	45.6	34.0	33.8	32.2
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Recurring P/E (x)	19.55	15.81	19.23	17.95	17.50
	P/B (x)	7.7	6.8	6.3	5.8	5.4
	FCF Yield (%)	4.7	6.0	5.4	5.1	5.2
	Dividend Yield (%)	4.2	5.3	4.0	4.3	4.5
	EV/EBITDA (x)	14.15	10.81	13.71	13.23	12.71
	EV/EBIT (x)	14.31	11.71	14.54	13.65	13.05
	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total turnover	61.3	75.9	60.8	63.7	65.6
	Gross profit	40.3	50.6	39.9	41.9	43.1
	EBITDA	34.4	44.4	34.2	34.9	35.8
	Depreciation and amortisation	(0.4)	(3.4)	(2.0)	(1.1)	(0.9)
	Operating profit	34.1	41.0	32.3	33.9	34.9
	Net interest	1.0	1.3	1.3	1.3	1.3
	Pre-tax profit	34.0	41.3	32.7	35.3	36.3
	Taxation	(6.8)	(8.5)	(6.2)	(6.7)	(6.9)
	Reported net profit	28.9	35.8	29.4	31.5	32.3
	Recurring net profit	28.9	35.8	29.4	31.5	32.3
	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	2.5	(3.1)	2.7	(0.3)	(0.2)
	Cash flow from operations	30.7	35.9	31.1	29.3	30.1
	Capex	(3.9)	(2.1)	(0.6)	(0.6)	(0.6)
	Cash flow from investing activities	(3.9)	(2.0)	(0.6)	(0.6)	(0.6)
	Dividends paid	(28.0)	(27.1)	(22.7)	(24.6)	(25.3)
	Cash flow from financing activities	(23.2)	(27.2)	(22.7)	(24.6)	(25.3)
	Cash at beginning of period	71.1	74.0	80.7	88.5	92.6
	Net change in cash	3.5	6.7	7.8	4.1	4.2
	Ending balance cash	74.6	80.7	88.5	92.6	96.8
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	74.0	80.7	88.5	92.6	96.8
	Tangible fixed assets	4.2	4.9	3.5	3.1	2.8
	Total investments	3.4	2.9	2.9	2.9	2.9
	Total assets	91.3	106.1	108.8	112.9	117.0
	Total liabilities	17.9	24.4	23.4	23.5	23.5
	Total equity	73.4	81.7	85.4	89.4	93.5
	Total liabilities & equity	91.3	106.1	108.8	112.9	117.0
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	(0.1)	23.9	(19.9)	4.8	2.9
	Recurrent EPS growth (%)	(9.8)	23.7	(17.8)	7.1	2.6
	Gross margin (%)	65.7	66.6	65.7	65.7	65.8
	Operating EBITDA margin (%)	56.2	58.5	56.3	54.8	54.6
	Net profit margin (%)	47.2	47.1	48.4	49.4	49.3
	Dividend payout ratio (%)	83.0	84.6	77.4	78.0	78.2
	Capex/sales (%)	6.4	2.8	1.0	0.9	0.9

Source: Company data, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-02-19	Neutral	0.62	0.53
2020-02-19	Buy	0.62	0.53
2019-11-15	Buy	0.62	0.51
2019-04-29	Buy	0.62	0.51
2019-02-21	Neutral	0.62	0.56
2018-11-09	Neutral	0.64	0.62
2018-04-27	Neutral	na	0.70

Source: RHB, Bloomberg

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