

25 February 2020

Consumer Non-cyclical | Healthcare

Singapore Medical (SMG SP)

Neutral (Maintained)

Steady 4Q19 But Clouded By Short-Term Uncertainty

Target Price (Return): SGD0.35 (9.4%)
 Price: SGD0.32
 Market Cap: USD110m
 Avg Daily Turnover (SGD/USD) 0.24m/0.17m

- **Maintain NEUTRAL with a P/E-derived TP of SGD0.35, from SGD0.36, offering a 9.4% upside and c.3% yield.** 4QFY19 revenue grew 16.5% YoY to SGD 25.9m on the back of an organic growth. FY19 revenue grew 11.3% YoY and hit a record SGD94.7m, driven by growth across Health and Diagnostic & Aesthetics ("D&A") segments. Full-year PATMI of SGD13.7m, was up 5.7% YoY, exceeding our forecast by 5.8%. As such, we lift our earnings by 5-6% for FY20F-22F.
- **PATMI of SGD13.7m, up 5.7% YoY** was higher than our forecast of SGD12.9m, on the back of a stronger revenue growth. Full-year revenue rose 11.3% YoY to a record of SGD94.7m was a result of higher revenue in the D&A segment (contributed by Pheniks which was acquired in Apr 2018), and the Health segment (organic growth in existing clinics offset by the closure of the Orthopaedic clinic).
- **COVID-19 is not necessary positive for the medical businesses** as we believe it brought a more negative overall impact to medical firms in Singapore. In addition to a drop in medical tourism, local patients may choose to defer or even cancel their visits to doctors, for non-urgent cases, in view of the current situation. Hence, we expect COVID-19 to bring some damage to the group business in 1QFY20, especially in D&A.
- **The group declared its maiden final dividend of 0.8 cents**, representing a dividend payout ratio of 28.3%, higher than our forecasted DPS of 0.53 cents. Simultaneously, the group announced a formal dividend policy of dividends amounting no less than 20% of the group's core earnings. With a steady cash flow of more than SGD20m a year, coupled with a growing bottom-line, we think a dividend per share of 0.8 cents is sustainable.
- **Opportunities amid uncertainty.** The group will continue its organic growth plan by adding 8-10 specialist this year as well as focusing on its overseas growth plan ie in Vietnam, Indonesia and Australia. Management thinks that there could be some opportunities arising during this period of uncertainty. With net cash of SGD5.1m and a healthy debt/equity ratio of 15.3%, the group has the capacity to also expand through acquisitions.
- **Maintain NEUTRAL** due to a lack of immediate catalysts and the uncertainty brought by the COVID-19. FY20-21 earnings forecast are lifted by 5-6% due to a better than expected performance in FY19. Our lower TP of SGD0.35, from SGD0.36, is pegged to a 1-year forward average P/E of 11.3x (from a 1-year historical average P/E of 13.4x).

Analyst

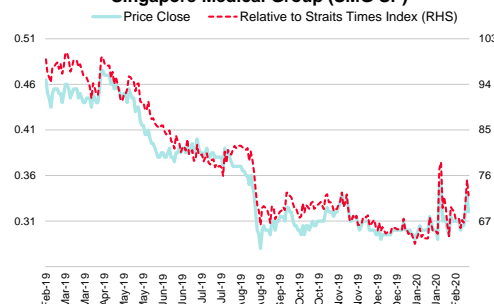
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	6.7	6.7	4.9	0.0	(31.2)
Relative	9.2	9.6	7.5	(1.0)	(27.3)
52-wk Price low/high (SGD)				0.28 – 0.48	

Singapore Medical Group (SMG SP)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	85	95	101	108	112
Recurring net profit (SGDm)	13	14	15	16	17
Recurring net profit growth (%)	48.1	5.7	7.6	8.5	3.6
Recurring P/E (x)	11.66	11.91	11.07	10.20	9.84
P/B (x)	1.2	1.1	1.0	0.9	0.9
P/CF (x)	8.96	6.41	10.79	8.82	9.01
Dividend Yield (%)	na	2.5	2.7	2.9	3.0
EV/EBITDA (x)	7.31	5.49	6.80	5.85	5.22
Return on average equity (%)	10.8	9.9	9.7	9.9	9.6
Net debt to equity (%)	(2.7)	(4.9)	(8.8)	(14.1)	(18.4)

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	0.03	0.03	0.03	0.03	0.03
Consumer Non-cyclical	DPS	-	0.01	0.01	0.01	0.01
Singapore Medical	BVPS	0.27	0.30	0.32	0.35	0.37
SMG SP	Return on average equity (%)	10.8	9.9	9.7	9.9	9.6
Neutral						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	11.66	11.91	11.07	10.20	9.84
Average 12mths forward P/E of 11.3x	P/B (x)	1.2	1.1	1.0	0.9	0.9
	FCF Yield (%)	9.2	14.7	7.4	9.5	9.3
Key drivers	Dividend Yield (%)	-	2.5	2.7	2.9	3.0
Acquisitions and organic growth	EV/EBITDA (x)	7.31	5.49	6.80	5.85	5.22
	EV/EBIT (x)	9.22	8.44	7.55	6.53	5.86
Key risks						
Ability to attract and retain doctors and specialists, execution risks						
Company Profile	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore Medical Group Limited is engaged in the operation of medical clinics and provision of general medical services and investment holdings. The Group operates through three segments, (1) Health (2) Aesthetics and (3) Diagnostics	Total turnover	85.1	94.7	101.3	108.4	111.6
	Gross profit	37.8	43.2	46.2	49.4	50.9
	EBITDA	19.1	26.4	20.3	21.9	22.6
	Depreciation and amortisation	(4.0)	(9.2)	(2.0)	(2.3)	(2.5)
	Operating profit	15.1	17.2	18.3	19.6	20.2
	Net interest	(1.1)	(1.4)	(1.4)	(1.4)	(1.4)
	Pre-tax profit	14.1	16.1	17.3	18.8	19.5
	Taxation	(1.2)	(2.4)	(2.6)	(2.8)	(2.9)
	Reported net profit	12.9	13.7	14.7	16.0	16.5
	Recurring net profit	12.9	13.7	14.7	16.0	16.5
	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(0.7)	1.8	(2.6)	(0.6)	(1.6)
	Cash flow from operations	16.8	25.4	15.1	18.5	18.1
	Capex	(2.9)	(1.5)	(3.0)	(3.0)	(3.0)
	Cash flow from investing activities	(28.0)	(18.7)	(3.0)	(3.0)	(3.0)
	Dividends paid	(0.3)	(0.4)	(4.5)	(4.9)	(5.1)
	Cash flow from financing activities	10.0	0.3	(6.0)	(6.3)	(6.5)
	Cash at beginning of period	21.3	20.0	27.3	33.9	43.6
	Net change in cash	(1.2)	7.0	6.1	9.2	8.6
	Ending balance cash	20.1	27.0	33.6	43.6	52.7
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	20	27	34	44	53
	Tangible fixed assets	14	8	9	9	10
	Total investments	7	9	9	9	9
	Total assets	182	198	208	219	231
	Short-term debt	5	15	15	15	15
	Total long-term debt	12	5	5	5	5
	Total liabilities	52	53	52	53	53
	Total equity	130	145	155	166	178
	Total liabilities & equity	182	198	208	219	231
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	25.1	11.3	7.0	7.0	3.0
	Recurrent EPS growth (%)	32.2	(2.1)	7.6	8.5	3.6
	Gross margin (%)	44.4	45.7	45.6	45.6	45.6
	Operating EBITDA margin (%)	22.5	27.9	20.1	20.2	20.3
	Net profit margin (%)	15.2	14.4	14.5	14.7	14.8
	Capex/sales (%)	3.4	1.6	3.0	2.8	2.7
	Interest cover (x)	13.8	12.3	12.9	13.9	14.3

Source: Company data, RHB

Figure 1: 4QFY19 and FY19 results snapshot

SGDm	4QFY19	4QFY18	YoY +/- %	FY19	FY18	YoY +/- %
Revenue	25.9	22.2	16.5%	94.7	85.1	11.3%
Gross Profit	11.5	9.6	19.3%	43.2	37.8	14.4%
Gross Profit Margin	44.4%	43.4%		45.7%	44.4%	
Profit Before Tax	4.3	2.8	52.4%	16.1	14.1	13.9%
PATMI	3.7	2.9	25.1%	13.7	12.9	5.7%
Net Profit Margin	14.2%	13.3%		14.4%	15.2%	

Source: Company data

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2019-11-13	Neutral	0.36	0.31
2019-08-08	Buy	0.48	0.37
2019-06-07	Buy	0.48	0.38
2019-05-10	Neutral	0.48	0.45
2019-02-21	Buy	0.54	0.49
2018-11-08	Buy	0.56	0.40
2018-08-15	Buy	na	0.43

Source: RHB, Bloomberg

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