

07 June 2019

Consumer Non-cyclical | Healthcare

Singapore Medical Group (SMG SP)

Buy (from Neutral)

Buy On Dips; Upgrade To BUY

Target Price (Return) SGD0.48 (+26%)
 Price: SGD0.38
 Market Cap: USD132m
 Avg Daily Turnover (SGD/USD) 0.05m/0.04m

- **Upgrade to BUY from Neutral, with unchanged DCF-based TP of SGD0.48, 26% upside.** SMG's share price 10 May. The stock is currently trading at 14x P/E, a discount to its peer average of 23x P/E. We think that it is a good level to accumulate.
- **CHA Healthcare paid an average of SGD0.549/share.** Singapore Medical Group first issued 30m shares via private placement to CHA Healthcare in Feb 2017 at SGD0.50/share, and subsequently, CHA subscribed to 3m rights shares at SGD0.48/share. In Feb 2019, CHA increased its stake to 24.13% (from 6.87%) by purchasing 83m shares from SMG's existing shareholders (including management) at SGD0.605/share. CHA is also providing a SGD10m convertible loan at a conversion price of SGD0.423/share. About 80% of the loan has been earmarked for M&A activities. If the bond is converted, CHA stands to own 27.69% stake in SMG.
- **Near term profitability should be impacted by aggressive growth plan.** In 1Q19, the group opened the O&G and paediatrics clinic in Punggol, and its second aesthetic clinic SW1 in downtown Singapore. SMG also recently opened a breast care clinic last month. Regionally, it has expanded SW1 into Vietnam, and should take a new clinic 2-3 years to breakeven. The group intends to on-board 10-12 specialists this year, and new specialists may take time to ramp up their practice to full capacity.
- **Share price 1-year return of over 20%.** The stock slipped 15% since 10 May with a 1-year return of -22.4%. Share price fell due to recent market sentiment, coupled with SMG's higher operating cost as a result of its ongoing expansion plan. Another overhang could be the price disparity between the conversion price (at SGD 0.423/share) of the convertible loan, and the sale of vendor shares (at SGD0.605/share), which may have raised some concerns as to the minority shareholders' interests. The stock is currently trading at 14x P/E, a discount to peer average of c.23x P/E.
- **We upgrade to BUY from Neutral, with an unchanged DCF-based TP of SGD0.48, given the share price has fallen 15% from SGD0.445 to SGD0.38, at a 52 week low since 10 May.** FY19F P/E was trading at 16.8x compared to the current 14.4x. We think this is a good opportunity to buy on dips.

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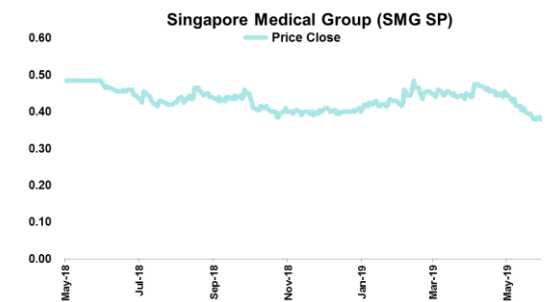


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.0)	(13.6)	(16.5)	(5.0)	(22.4)
Relative	(7.4)	(6.3)	(13.7)	(4.6)	(12.7)
52-wk Price low/high (SGD)	0.38 – 0.50				



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)	8.5	12.9	12.7	13.4	14.4
Recurring net profit growth (%)	250.8	52.0	(1.6)	5.5	7.5
Recurring P/E (x)	21.5	14.1	14.4	13.6	12.7
P/BV (x)	1.7	1.4	1.3	1.2	1.1
P/CF (x)	13.7	9.9	7.9	9.3	9.4
Dividend Yield (%)	-	-	1.4	1.5	1.6
EV/EBITDA (x)	13.3	9.4	7.6	7.5	7.0
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

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Financial Exhibits

Asia		Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Singapore		Core EPS (SGD)	0.02	0.03	0.03	0.03	0.03
Singapore Medical Group		EPS (SGD)	0.02	0.03	0.03	0.03	0.03
SMG SP		DPS (SGD)	-	-	0.01	0.01	0.01
		BVPS (SGD)	0.24	0.27	0.29	0.31	0.34
Major shareholders (%)		ROE (%)	8.06	9.88	9.03	8.87	8.87
Cha Healthcare Opera	24.4	ROA (%)	5.21	7.10	6.56	6.56	6.67
Tony Tan	7.5						
Beng Teck Liang	7.0						
Valuation basis		Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Our DCF assumptions:		Core P/E (x)	21.5	14.1	14.4	13.6	12.7
i. WACC of 7.5%;		P/B (x)	1.7	1.4	1.3	1.2	1.1
ii. Terminal growth of 0%.		Dividend Yield (%)	-	-	1.4	1.5	1.6
		EV/EBITDA (x)	13.3	9.4	7.6	7.5	7.0
Key drivers		Income statement (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Our FY19 forecasts are most sensitive to changes in:		Total turnover	68	85	104	111	120
i. Synergistic partnership with CHA;		Gross profit	29	38	45	47	51
ii. On boarding new doctors/specialists;		EBITDA	13	19	21	20	20
iii. New clinics.		Operating profit	10	15	16	16	17
		Net interest	(1)	(1)	(1)	(1)	(1)
Key risks		Exceptional items	-	-	-	-	-
i. Ability to attract and retain doctors and specialists;		Pre-tax profit	9	14	14	15	16
ii. Execution risk;		Taxation	(1)	(1)	(2)	(2)	(2)
iii. Reputational risk.		Net profit	9	13	13	13	14
		Core net profit	8	13	13	13	14
Company Profile		Cash flow (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Singapore Medical Group operates medical clinics and provides general medical services in Singapore. The company operates through three segments: Health Business, Diagnostic & Aesthetics Business, and others.		Cash flow from operations	13	17	22	18	18
		Capex	(5)	(3)	(1)	(1)	(1)
		Cash flow from investing activities	(22)	(28)	(1)	(1)	(1)
		Cash flow from financing activities	23	10	(4)	(4)	(4)
		Cash at beginning of period	8	21	20	37	50
		Net change in cash	14	(1)	17	13	13
		Ending balance cash	21	20	37	50	63
		Balance sheet (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
		Total cash and equivalents	21	20	37	50	63
		Tangible fixed assets	14	14	8	5	4
		Intangible assets	119	127	127	127	127
		Total investments	2	7	7	7	7
		Total other assets	12	14	14	15	15
		Total assets	168	182	194	204	216
		Short-term debt	2	6	6	6	6
		Total long-term debt	7	12	12	12	12
		Total liabilities	59	51	53	54	54
		Shareholders' equity	108	131	141	151	162
		Minority interests	0	(0)	(0)	(0)	(0)
		Total equity	108	130	140	151	162
		Total liabilities & equity	168	182	194	205	216
		Key metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
		Revenue growth (%)	63.5	25.1	22.7	6.5	8.2
		Core net profit growth (%)	250.8	52.0	(1.6)	5.5	7.5
		Core EPS growth (%)	91.1	37.7	(3.5)	5.5	7.5
		Gross margin (%)	42.6	44.4	43.1	42.5	42.4
		Core net profit margin (%)	12.5	15.2	12.2	12.0	12.0
		Dividend payout ratio (%)	-	-	20.0	20.0	20.0

Source: Company data, RHB

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