Singapore Results Review

8 August 2019

Consumer Non-cyclical | Healthcare

Singapore Medical Group (SMG SP)

Buy (Maintained)

1H19 Profit In Line; Reiterate BUY

Target Price (Return)	SGD0.48 (+30%)
Price:	SGD0.37
Market Cap:	USD128m
Avg Daily Turnover (SGD/USD)	0.3m/0.2m

- **Maintain BUY with unchanged DCF-derived TP of SGD0.48, 30% upside.** 1H19 revenue of SGD44.6m (+9.4% YoY) was mainly contributed by the acquisition of Pheniks in Apr 2018. 2Q19 PATMI was at SGD3.5m (+3.5% YoY), bringing 1H19 PATMI to SGD6.8m (-1.1% YoY), accounting for 54% of our forecasts. We believe the positive momentum will likely sustain. The stock is trading at 14x P/E vs peers' 20x, offering an attractive upside potential.
- **Higher gross profit on steady gross margins.** Gross profit increased by 10.4% and 11.3% in 2Q19 and 1H19 to SGD10.7m and SGD20.7m, due to stronger contributions from the higher-margin Diagnostic & Aesthetics segment. Gross margin remained unchanged YoY at 46% in 1H19. We expect gross margin to be slightly compressed in 2H19 with the addition of new headcount.
- **Following through its expansion plan.** The group will likely add a new gynaecologist, two new paediatricians, and a radiologist in 2H19. We understand that management intends to bring on board 10-12 specialists during the current financial year to grow its key specialist verticals (obstetrics, and gynaecology & paediatrics).

  With an untapped cash position of SGD9.7m from the full drawdown of its convertible loan, we believe the group is well-positioned for overseas expansion into possible new markets such as Cambodia, Thailand and Malaysia, while further strengthening its footprint in Vietnam.
- **Conversion of convertible loan and proposed acquisition of additional shares in CityClinic Asia (CCAI) to capture opportunities in Vietnam.** SMG has exercised its option to convert the convertible loan of USD0.69m to 177,670 ordinary shares, at the conversion price of USD3.88 apiece, and will acquire an additional 65,647 shares for USD0.26m from existing shareholders at the same price. The group will hold an effective 24.4% in CCAI once the two transactions are completed. CCAI reported a net loss before tax of USD1.13m for FY18, and is likely to continue incurring losses in FY19F although we do not expect the losses to have a material impact on SMG. We believe it will take some time for the business to turn profitable.
- **Reiterate BUY** with unchanged DCF-based TP of SGD0.48. The stock is trading at 14x P/E vs peers' 20x. We believe the steep discount compared to its peers offers a good opportunity to buy in. On a fundamental perspective, we believe SMG still has the potential to grow through the addition of clinics/specialists and/or stepping up its partnership with its largest shareholder, CHA Healthcare, to explore projects in the region.

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)	21.0	13.8	14.1	13.3	12.4
P/BV (x)	1.6	1.4	1.3	1.2	1.1
P/CF (x)	13.4	9.7	7.7	9.1	9.2
Dividend Yield (%)	-	-	1.4	1.5	1.6
EV/EBITDA (x)	13.0	9.2	7.4	7.3	6.8
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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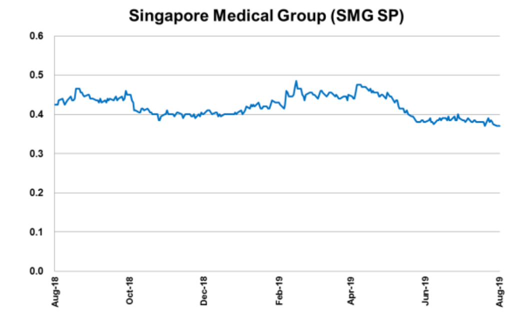
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.5)	(5.1)	(18.7)	(14.0)	(12.9)
Relative	(11.3)	0.2	(14.9)	(13.5)	(8.3)

52-wk Price low/high (SGD) 0.37 – 0.5



Source: Bloomberg

Figure 1: 2Q19 & 1H19 results summary

SGDm	2QFY19	2QFY18	YoY +/- %	1H19	1H18	YoY +/- %
Revenue	23.1	21.6	6.8%	44.6	40.8	9.4%
Gross Profit	10.7	9.7	10.4%	20.7	18.6	11.3%
Gross Profit Margin	*46.4%*	*44.8%*		*46.4%*	*45.6%*	
Profit Before Tax	4.1	3.9	5.6%	7.9	7.7	3.3%
PATMI	3.5	3.4	3.5%	6.8	6.8	0.2%
Net Profit Margin	*15.3%*	*15.8%*		*15.3%*	*16.7%*	

Source: Company data, RHB

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