

18 November 2020

Consumer Non-cyclical | Healthcare

TalkMed (TKMED SP)

Neutral (from Buy)

Recovery Not Imminent; D/G To NEUTRAL

Target Price (Return): SGD0.49 (+9%)
 Price: SGD0.45
 Market Cap: USD440m
 Avg Daily Turnover (SGD/USD) 0.01m/0.01m

- **Downgrade to NEUTRAL from Buy with a lower DCF-backed SGD0.49 TP from SGD0.53, 9% upside and c.3% yield.** Travel restrictions barring all short-term global visitors from entering Singapore has caused the stoppage of international medical tourists – this forms the bulk of TalkMed’s portfolio of patients. We think recovery will not be imminent, as the formation of travel bubbles with other countries will likely be slow. As a result, we lower our FY20F-21F earnings by 13%.
- **A drop in medical tourist volumes.** With ongoing travel restrictions to temper the spread of COVID-19, medical tourist numbers have sharply plunged as well. This has impacted TalkMed, as it has a significant portion of tourists that come from overseas, especially countries like Indonesia. As a result, we have factored in a drop in medical tourists for the company till end December, resulting in a much weaker 2020. As at 3Q20, revenue dipped 23.1% YoY due to lower number of patient visits, especially from overseas.
- **Lower yields likely to correlate with decreased earnings.** We expect management to continue to reward shareholders like it has done in the past, with dividends likely to be sustainable and of a similar payout ratio (>80%). However, as FY20F earnings are expected to decline, dividends will also likely decrease to 2.7%.
- **Huge potential in mesenchymal stem cells (MSCs).** MSCs are currently used in regenerative medicine and therapy overseas, as well as for aesthetic and other purposes. Management believes there is huge potential in this area. Its 60%-owned subsidiary, Stem Med, has embarked on a research and clinical programme for MSC use in the region. However, we understand that, in Singapore, cellular therapy can only be approved under the auspices of clinical trials. As such, the main monetisation of this therapy here will likely come only when the regulations are altered, in our view.
- **Strong balance sheet to weather through this crisis.** If not for COVID-19, earnings recovery would have continued, as we understand that Executive Director and CEO Dr Ang Peng Tiam’s utilisation also increased significantly YoY. However, we believe this COVID-19 situation will be resolved eventually, but at a slower pace and recovery will not be imminent. Having said that, TalkMed has a net cash balance sheet with solid positive operating cash flows to tide through this crisis.

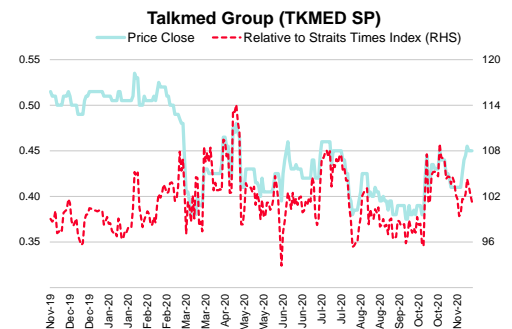
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(12.6)	4.7	5.9	9.8	(10.9)
Relative	1.2	(5.0)	(2.1)	(0.3)	3.3
52-wk Price low/high (SGD)				0.38	– 0.54



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	61	76	57	60	62
Recurring net profit (SGDm)	29	36	22	25	26
Recurring net profit growth (%)	(9.8)	23.7	(39.6)	15.2	2.7
Recurring P/E (x)	20.46	16.55	27.37	23.77	23.15
P/B (x)	8.0	7.1	6.7	6.2	5.9
P/CF (x)	19.27	16.48	24.24	26.34	25.33
Dividend Yield (%)	4.1	5.1	2.7	3.2	3.3
EV/EBITDA (x)	14.92	11.40	19.49	17.13	16.52
Return on average equity (%)	39.6	45.6	25.2	27.2	26.1

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

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	0.01	0.01	0.01
TalkMed	BVPS	0.06	0.06	0.07	0.07	0.08
TKMED SP	Return on average equity (%)	39.6	45.6	25.2	27.2	26.1
Neutral						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	20.46	16.55	27.37	23.77	23.15
DCF-backed TP of SGD0.49	P/B (x)	8.0	7.1	6.7	6.2	5.9
	FCF Yield (%)	4.5	5.7	4.0	3.7	3.8
Key drivers	Dividend Yield (%)	4.1	5.1	2.7	3.2	3.3
i. Tapping into the PHS customer base;	EV/EBITDA (x)	14.92	11.40	19.49	17.13	16.52
ii. Led by renowned specialist Dr Ang Peng Tiam;	EV/EBIT (x)	15.08	12.35	21.11	17.79	17.06
iii. High dividends and healthy balance sheet;						
iv. Hong Kong associate potential turnaround;						
v. M&A						
	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	61.3	75.9	57.1	59.9	61.6
i. Consultancy Restatement Agreement not renewed;	Gross profit	40.3	50.6	30.7	35.1	36.1
ii. Highly dependent on a group of specialists.	EBITDA	34.4	44.4	25.4	28.6	29.3
	Depreciation and amortisation	(0.4)	(3.4)	(2.0)	(1.1)	(0.9)
	Operating profit	34.1	41.0	23.5	27.5	28.4
	Net interest	1.0	1.3	0.5	0.5	0.5
	Pre-tax profit	34.0	41.3	23.1	27.1	27.9
	Taxation	(6.8)	(8.5)	(4.4)	(5.2)	(5.3)
	Reported net profit	28.9	35.8	21.6	24.9	25.6
	Recurring net profit	28.9	35.8	21.6	24.9	25.6
Company Profile						
TalkMed provides tertiary healthcare services in the fields of medical oncology and palliative care to oncology patients in the private sector in Singapore through Parkway Cancer Centre.						
	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	2.5	(3.1)	3.8	(0.5)	(0.2)
	Cash flow from operations	30.7	35.9	24.4	22.5	23.4
	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)	(16.1)	(18.9)	(19.4)
	Cash flow from financing activities	(23.2)	(27.2)	(16.1)	(18.9)	(19.4)
	Cash at beginning of period	71.1	74.0	80.7	88.4	91.4
	Net change in cash	3.5	6.7	7.7	3.0	3.3
	Ending balance cash	74.6	80.7	88.4	91.4	94.7
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	74.0	80.7	88.4	91.4	94.7
	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	108.2	111.2	114.4
	Total liabilities	17.9	24.4	23.9	23.8	23.8
	Total equity	73.4	81.7	84.3	87.4	90.5
	Total liabilities & equity	91.3	106.1	108.2	111.2	114.4
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	(0.1)	23.9	(24.8)	4.8	2.9
	Recurrent EPS growth (%)	(9.8)	23.7	(39.6)	15.2	2.7
	Gross margin (%)	65.7	66.6	53.7	58.6	58.6
	Operating EBITDA margin (%)	56.2	58.5	44.5	47.8	47.5
	Net profit margin (%)	47.2	47.1	37.8	41.6	41.5
	Dividend payout ratio (%)	83.0	84.6	74.3	75.8	76.1
	Capex/sales (%)	6.4	2.8	1.1	1.0	1.0

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-04-01	Buy	0.53	0.43
2019-04-29	Buy	0.62	0.51
2019-02-21	Neutral	0.62	0.56
2018-11-09	Neutral	0.64	0.62
2018-04-26	Neutral	0.70	0.69

Source: RHB, Bloomberg

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