

Singapore Medical Group (SMG SP)

Dragged by start-up costs

BUY

Share Price SGD 0.56
 12m Price Target SGD 0.70 (+25%)
 Previous Price Target SGD 0.78

Earnings missed due to upfront costs for expansion

FY17 net profit missed our estimate by 11%, due to professional fees for M&As and start-up costs for two sizeable clinics, in Paragon and Novena Medical Hub, estimated to be c.SGD1m. Nonetheless, FY17 earnings surged 251% and the topline grew 64% YoY, mainly from 3 new acquisitions. Three growth drivers in FY18 include: 1) acquisition of SW1 Clinic with earnings potential of SGD1-2m; 2) organic expansion in Singapore via two new diagnostic centres and two new doctors; and 3) growing overseas businesses. Our TP fell 10% to SGD0.70 after factoring in: 1) 5% EPS dilution from a rights issue; 2) 1.3% EPS dilution from new share issuance for SW1 acquisition; and 3) 2% EPS cut for FY18E for expansion costs (FY19 also reduced 2%). Our TP remains 27x FY18E EPS (average of 2-year forward mean of small-cap healthcare peers in Singapore). Maintain BUY.

Another acquisition, plus organic growth at home

In Singapore, SMG has announced the acquisition of SW1 for SGD6.5m, a renowned aesthetics group with a team of six doctors. This is complementary to its women's health segment and earnings potential of SGD1-2m prices the acquisition at a forward P/E of only 3-6x. In addition, two new diagnostic centres in Novena Medical Hub and Medical Downtown have started in 1Q18. Also, SMG has added two new doctors in 1Q18, obstetrics & gynaecology (O&G) and a paediatrician.

Positive on overseas expansion

SMG is targeting to grow its two 15k sf clinics in Vietnam. The operations are ramping up with more patients and expected to break even in FY18. Management sees great potential for this underpenetrated market. A paediatric team of six will drive growth initiatives in Vietnam. Also, Indonesia's Ciputra eye clinic is showing signs of growth and profitability.

Rights issue to fund growth

To fund further growth and strengthen its balance sheet, SMG has proposed a 1-for-20 rights issue at an issue price of SGD0.48 per share (c.14% discount to the last closing price). This could raise SGD4-11m cash. Four major shareholders with a combined stake of 35% have provided the irrevocable undertakings to fully subscribe for the rights.

FYE Dec (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	42	68	91	104	117
EBITDA	5	13	16	19	21
Core net profit	2	8	13	15	17
Core EPS (cts)	0.8	1.9	2.6	3.0	3.4
Core EPS growth (%)	nm	137.5	39.6	15.5	13.2
Net DPS (cts)	0.0	0.0	0.0	0.0	0.0
Core P/E (x)	71.9	30.3	21.7	18.8	16.6
P/BV (x)	7.5	2.4	2.0	1.8	1.6
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	14.4	12.9	10.4	10.2	10.4
ROAA (%)	9.6	8.4	7.3	8.1	8.8
EV/EBITDA (x)	26.6	19.4	16.1	14.0	11.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	14	15	17
MKE vs. Consensus (%)	-	-	(6.5)	(5.3)	(5.1)

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Company Description

SMG engages in the premium specialist healthcare services.

Statistics

52w high/low (SGD) 0.72/0.54
 3m avg turnover (USDm) 0.4
 Free float (%) 28.6
 Issued shares (m) 459
 Market capitalisation SGD257.3M
 USD194M

Major shareholders:

Tan Choon Keat 13.3%
 Beng Teck Liang 12.5%
 Ho Choon Hou 9.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(7)	(2)	(6)
Relative to index (%)	(7)	(4)	(16)

Source: FactSet

Fig 1: FY17 results

FYE Dec	FY17	FY16	Change	MBKE	FY17A as %	2H17	1H17	2H16	Change
	(SGD m)	(SGD m)	(YoY %)	FY17E	of FY17E	(SGD m)	(SGD m)	(SGD m)	(HoH %)
Revenue	68.0	41.6	63.5	72.3	94.0	37.3	22.1	19.5	68.9
Cost of sales	(39.0)	(26.7)	46.3	(45.6)	85.7	(21.7)	(13.7)	(13.0)	58.1
Gross profit	29.0	14.9	94.4	26.8	108.3	15.7	8.4	6.5	86.5
Other income	0.4	1.7	n/a	0.3	120.0	0.2	1.6	0.1	(87.8)
Other losses	(0.1)	(0.9)	n/a	0.0	n/a	(0.1)	(0.9)	0.0	n/a
Distribution & selling exp	(2.9)	(2.5)	17.2	(3.2)	90.8	(1.5)	(1.3)	(1.2)	15.9
Administrative expenses	(16.0)	(9.8)	63.5	(12.3)	129.7	(8.8)	(5.3)	(4.5)	66.7
Share of results of JV entities	(0.3)	(0.4)	(28.2)	(0.4)	63.5	(0.1)	(0.3)	(0.1)	(66.2)
Operating income	10.1	3.1	n/a	11.2	90.8	5.4	2.2	0.9	141.7
Financial income	0.1	0.0	391.7	0.1	40.8	0.1	0.0	0.0	800.0
Financial expenses	(0.7)	(0.1)	523.3	(0.3)	274.3	(0.5)	(0.1)	(0.1)	714.8
Profit before tax	9.5	3.0	n/a	11.1	85.7	4.9	2.2	0.9	127.4
Tax expense	(0.8)	(0.2)	344.4	(1.1)	67.9	(0.3)	(0.1)	(0.0)	103.1
Non-controlling interests	0.2	0.5	(48.3)	0.4	66.4	0.2	0.3	0.2	(24.4)
Profit after tax and NCI	8.5	2.4	250.8	9.6	88.5	4.5	1.8	0.6	150.7
Recurring NP	8.5	2.4	250.8	9.6	88.5	4.5	1.3	0.6	237.1
EPS (SGD cents)	1.85	0.66	181.2	2.1	86.3	0.98	0.29	0.20	237.1
DPS (SGD cents)	0.0	0.0	n/a	0.0	n/a	0.0	0.0	0.0	n/a
			Change						Change
			(ppt)						(ppt)
EBIT margin	14.9	7.6	7.4	15.5	n/a	14.4	10.1	4.7	4.3
Net margin	12.5	4.9	7.6	13.3	n/a	12.0	6.0	3.3	6.0

Source: Company, Maybank Kim Eng

Fig 2: Earnings revisions

FYE Dec	Forecasts	
	2018E	2019E
Total Revenue	90.6	104.2
Changes from old (%)	+5.1%	+8.8%
Admin expense	19.3	21.9
Changes from old (%)	+41.6%	+52.4%
Core earnings	12.6	14.6
Changes from old (%)	-2.2%	-2.4%

Source: Company, Maybank Kim Eng

Value Proposition

- Provides a platform to attract 2 distinct groups of doctors: 1) young and motivated specialists, given difficulties in starting out on their own; and 2) senior specialists.
- Senior specialists who sell their practice to SMG could: 1) seek longevity for their business; 2) partially realise value for the practice; 3) achieve more upside via equity stake.
- Targets to grow seven key medical specialities: oncology, ophthalmology, obstetrics & gynaecology, health screening, aesthetics, sports medicine and dental.
- Multi specialities vs. single specialty: 1) more cross-referral opportunities; 2) bundling of specialties, (i.e. women's care and aesthetics); and 3) prevent overheated competition.
- FY17E ROIC at 13% > WACC of 9%. Continued expansion via asset-light model should lead to ROIC expansion.

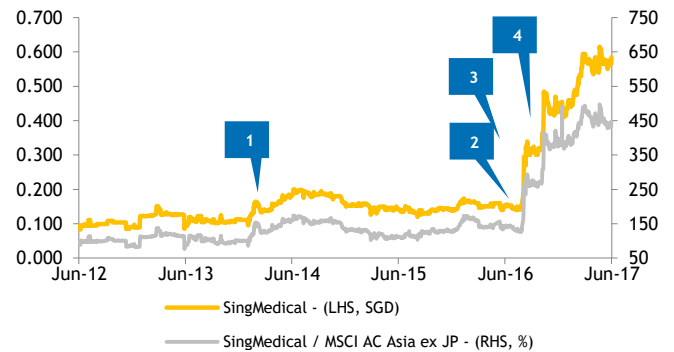
Market positioning of SMG's key specialties

Specialty	SMG's mkt position	Avg bill size (SGD)	Notable peers
Ophthalmology	N/A (3 doctors)	3-6k (Lasik & cataract)	ISEC
Obstetrics & gynaecology	Notable player (8 doctors incl Astra)	6-9k for normal delivery	Singapore O&G
Oncology	N/A (2 doctors)	40-50k pa. (cancer care)	Talkmed
Health screening	Top 3 player (Largest in Paragon - 7 doctors)	0.2-9k	Asiamedic, Fullerton, Parkway
Aesthetics	N/A (4 doctors)	0.1-3k	N/A
Sports Medicine	N/A (1 doctor)	0.1-30k	N/A
Dental	N/A (6 dentists)	0.1-10k	Q&M Dental

Source: Companies, Singapore MOH, Maybank Kim Eng

Price Drivers

Historical share price trend



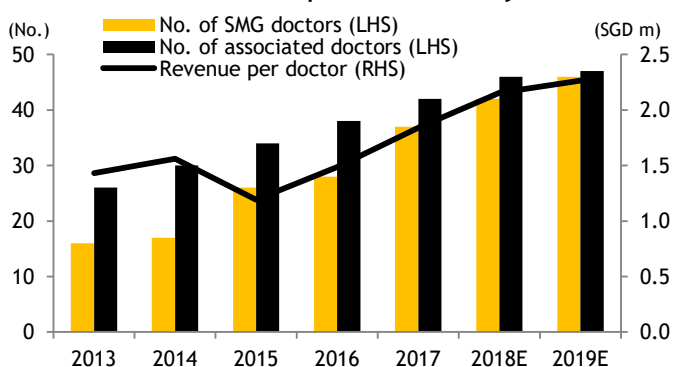
Source: Company, Bloomberg, Maybank Kim Eng

1. Oct 2013: New CEO and shareholders took over majority stake of SMG.
2. 3 Aug 2016: 1H16 results recorded a turnaround into profitability.
3. 5 Aug 2016: Proposed to fully acquire its health screening associate, Lifescan Imaging.
4. Oct 2016: Proposed to acquire a women's health group for SGD60m, its largest acquisition ever.

Financial Metrics

- EPS growth led by various expansions. M&A of senior doctor groups have the largest impact on SMG's EPS and share price.
- Main drivers of EPS are: 1) number of doctors; and 2) revenue per doctor. Expect SMG to add around five doctors a year to drive organic growth.
- Since new management took over in late-2013, the number of doctors has increased by 75% to 28 in FY16, from only 16 in 2013.
- ROE closely tied to earnings growth, but new share issuance for major acquisition could temporarily drag ROE.

No. of doctors and revenue per doctor are key EPS drivers



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Increasing discovery could lead to a rerating of the shares.
- More M&A: we have not factored in any future acquisitions. Every SGD1m profit acquisition could raise FY7E EPS and TP by at least 7%.
- Faster-than-expected earnings growth from existing businesses and newly-acquired entities.

Downside

- Failure to integrate M&A targets. For a major acquisition, integrating the business might require more resources.
- Failure to maintain profitability for recently turned around businesses, as SMG might overspend on expansions.
- Competition from other integrated and specialised players. They could take away SMG's patients and specialist doctors.

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
P/E (reported) (x)	32.0	31.6	21.7	18.8	16.6
Core P/E (x)	71.9	30.3	21.7	18.8	16.6
P/BV (x)	7.5	2.4	2.0	1.8	1.6
P/NTA (x)	12.7	(23.6)	28.8	11.4	6.7
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	0.7	nm	nm	nm	4.9
EV/EBITDA (x)	26.6	19.4	16.1	14.0	11.8
EV/EBIT (x)	36.9	24.3	16.3	14.2	12.0
INCOME STATEMENT (SGD m)					
Revenue	41.6	68.0	90.6	104.2	117.2
Gross profit	14.9	29.0	38.6	44.4	49.9
EBITDA	4.9	13.0	15.9	18.6	20.9
Depreciation	(1.4)	(2.6)	(0.2)	(0.3)	(0.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	3.5	10.4	15.7	18.4	20.6
Net interest income / (exp)	(0.1)	(0.7)	(0.3)	(0.6)	(0.6)
Associates & JV	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	3.0	9.5	15.1	17.5	19.7
Income tax	(0.2)	(0.8)	(2.3)	(2.6)	(3.0)
Minorities	(0.5)	(0.2)	(0.2)	(0.3)	(0.3)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	2.4	8.5	12.6	14.6	16.5
Core net profit	2.4	8.5	12.6	14.6	16.5
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	7.8	21.3	27.2	23.0	36.5
Accounts receivable	3.5	4.7	5.0	5.7	6.4
Inventory	1.1	1.5	1.8	2.1	2.3
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	7.4	13.5	13.4	15.2	16.8
Intangible assets	9.6	119.2	125.7	125.7	125.7
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	5.1	7.3	7.3	7.3	7.3
Total assets	34.4	167.6	180.4	178.9	195.1
ST interest bearing debt	0.6	2.3	2.3	2.3	2.3
Accounts payable	1.8	1.9	2.8	3.3	3.7
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.6	7.4	7.4	7.4	7.4
Other liabilities	7.0	48.0	32.0	16.0	15.0
Total Liabilities	10.5	59.3	44.9	28.6	28.0
Shareholders Equity	23.3	108.3	135.2	149.8	166.3
Minority Interest	0.6	0.1	0.3	0.6	0.8
Total shareholder equity	23.9	108.3	135.5	150.3	167.1
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	34.4	167.6	180.4	178.9	195.1
CASH FLOW (SGD m)					
Pretax profit	3.0	9.5	15.1	17.5	19.7
Depreciation & amortisation	1.4	2.6	0.2	0.3	0.3
Adj net interest (income)/exp	0.0	(0.2)	0.0	0.0	0.0
Change in working capital	0.4	0.2	0.4	(0.6)	(0.6)
Cash taxes paid	0.0	(0.1)	(2.3)	(2.6)	(3.0)
Other operating cash flow	(1.0)	0.8	1.0	0.0	0.0
Cash flow from operations	3.7	12.8	14.5	14.5	16.5
Capex	(2.6)	(22.0)	(19.4)	(18.7)	(3.0)
Free cash flow	1.2	(9.4)	(4.9)	(4.2)	13.5
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.1	15.5	10.8	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	(0.2)	8.5	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(3.3)	(23.3)	(19.4)	(18.7)	(3.0)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	0.4	13.6	5.9	(4.2)	13.5

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	34.3	63.5	33.2	15.0	12.5
EBITDA growth	224.5	168.2	22.2	16.9	12.3
EBIT growth	695.7	197.1	51.3	16.7	12.3
Pretax growth	6,976.7	211.6	59.6	15.3	13.1
Reported net profit growth	nm	250.8	48.5	15.5	13.2
Core net profit growth	nm	250.8	48.5	15.5	13.2
Profitability ratios (%)					
EBITDA margin	11.7	19.2	17.6	17.9	17.9
EBIT margin	8.4	15.3	17.4	17.6	17.6
Pretax profit margin	7.3	13.9	16.7	16.8	16.8
Payout ratio	0.0	0.0	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	5.8	12.5	13.9	14.0	14.1
Revenue/Assets (x)	1.2	0.4	0.5	0.6	0.6
Assets/Equity (x)	1.5	1.5	1.3	1.2	1.2
ROAE (%)	14.4	12.9	10.4	10.2	10.4
ROAA (%)	9.6	8.4	7.3	8.1	8.8
Liquidity & Efficiency					
Cash conversion cycle	14.5	16.6	14.4	11.7	11.8
Days receivable outstanding	20.9	21.7	19.3	18.4	18.6
Days inventory outstanding	14.8	12.2	11.5	11.7	11.8
Days payables outstanding	21.2	17.3	16.5	18.4	18.6
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	1.8	0.9	1.1	1.8	2.7
Leverage & Expense Analysis					
Asset/Liability (x)	3.3	2.8	4.0	6.3	7.0
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	33.7	15.7	51.8	29.5	34.6
Debt/EBITDA (x)	0.2	0.7	0.6	0.5	0.5
Capex/revenue (%)	6.2	32.4	21.4	17.9	2.6
Net debt/ (net cash)	(6.6)	(11.6)	(17.5)	(13.3)	(26.8)

Source: Company; Maybank

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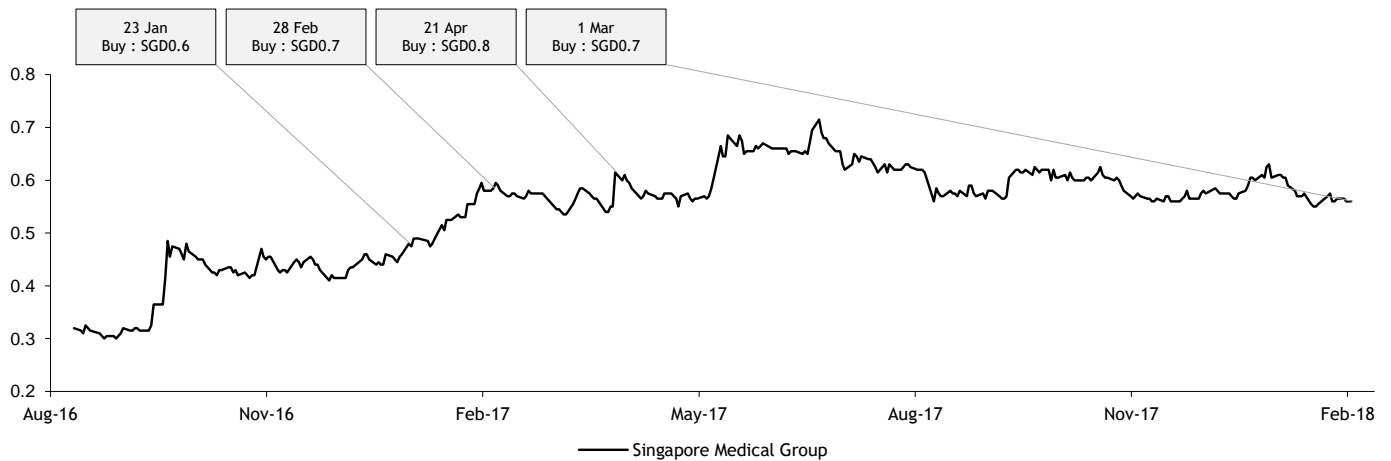
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