

### SMALL/MID CAP HIGHLIGHTS

## Singapore Medical Group (SMG SP)

Wait Out For A Potentially Better Offer

On 13 Sep 22, SMG received a general offer of S\$0.37/share from TLW Success, an investment vehicle of its directors. Although the offer represents a premium to the VWAPs, it is below our reduced target price of S\$0.45 (14x 2022F EPS), after trimming our 2022 EPS by 15% to account for the weak 1H22 results. Also, the offer represents 11.5x 2021 PE, lower than Singapore O&G's 16x 2021 PE. **REJECT OFFER. We recommend shareholders to wait for a potentially better offer.**

### WHAT'S NEW

- General offer of S\$0.37/share from TLW Success.** Singapore Medical Group (SMG) received a voluntary conditional general offer to privatise the company at S\$0.37/share (cash consideration) or a 1-for-1 new share in the offeror (share consideration) on 13 Sep 2022. TLW Success is equally-owned by SMG's Non-Executive Chairman Mr. Tony Tan Choon Keat, Executive Director and Chief Executive Officer Dr Beng Teck Liang and Executive Director Dr Wong Seng Weng. TLW has secured irrevocable undertakings to accept the share consideration in respect of approximately 51.67% of the shares. The offer is conditional upon TLW and concert parties holding more than 90% of the total number of shares at the close of the offer (acceptance condition). However, the offeror reserves the right to reduce the acceptance condition to a lower minimum acceptance level (but above 50%), subject to obtaining the consent of the Securities Industry Council of Singapore.
- Significant short-term headwinds.** TLW Success has highlighted significant headwinds SMG faces, including a challenging macro-economic and operating environment driven by operational cost increases, a shortage of skilled healthcare labour, and wage increases in the midst of an inflationary environment. The offeror added that while there are still investment opportunities in both organic and inorganic growth, the environment in which such opportunities can be realised will become more challenging in the short to medium term. The offeror is of the view that the offer provides an attractive exit alternative for shareholders who wish to exit their investment in an uncertain economic environment.
- Wait for a potentially better offer.** The cash price of S\$0.37 represents P/NAV and P/NTA of 1.1x and 4.2x respectively. On a PE basis, it implies an 11.5x 2021 PE and 11.7x 2022F PE based on our reduced estimate. The PE multiple offered is lower compared to the recent takeover offer of Singapore O&G, which offers a PE ratio of around 16x 2021 PE. While the cash price represents premiums of 18%, 19%, 16% and 18% over the volume-weighted average price (VWAP) per share for the 1-month, 3-month, 6-month and 12-month periods respectively, it is 18% below our target price of S\$0.45/share (based on 14x 2022F PE). The cash price represents a premium over that for the last three-year period, other than the period between Dec 20 and Apr 21 where SMG announced a potential transaction involving its shares which eventually did not come to fruition.

### KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	87	101	111	116	121
EBITDA	14	21	20	21	22
Operating profit	11	18	17	19	20
Net profit (rep./act.)	9	16	15	17	18
Net profit (adj.)	12	16	15	17	18
EPS (S cent)	2.4	3.2	3.2	3.4	3.7
PE (x)	12.6	9.4	11.5	10.6	9.9
P/B (x)	1.0	0.9	1.0	0.9	0.8
EV/EBITDA (x)	7.7	5.2	6.9	6.6	6.3
Dividend yield (%)	1.3	2.3	1.7	1.9	2.0
Net margin (%)	10.0	15.5	13.9	14.3	14.7
Net debt/(cash) to equity (%)	(10.8)	(13.7)	(21.4)	(28.5)	(34.7)
Interest cover (x)	14.1	42.1	40.2	42.3	44.5
ROE (%)	5.8	9.7	8.8	8.9	8.9

Source: SMG, Bloomberg, UOB Kay Hian

## REJECT OFFER

Share Price	S\$0.37
Target Price	S\$0.45
Upside	+0%
(Previous TP:	S\$0.53)

### COMPANY DESCRIPTION

Singapore Medical Group is a private specialist and healthcare provider with a network of more than 20 medical specialties. The group has more than 27 clinics strategically located across Singapore with operations in Vietnam and Indonesia.

### STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	SMG SP
Shares issued (m):	486.3
Market cap (S\$ m):	177.5
Market cap (US\$ m):	125.6
3-mth avg t'over (US\$ m):	0.2

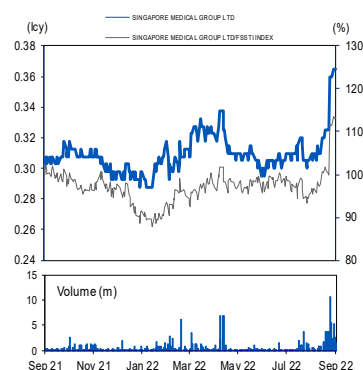
### Price Performance (%)

52-week high/low	S\$0.365/S\$0.290			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
19.7	23.7	16.7	20.6	20.6

### Major Shareholders

	%
CHA Healthcare	23.9
Tony Tan Choon Keat	7.5
Dr Beng Teck Liang	6.9
FY22 NAV/Share (S\$)	0.37
FY22 Net Cash/Share (S\$)	0.08

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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### STOCK IMPACT

- **TLW Success' offer is lower than the recent comparable offer.** In Mar 22, Singapore O&G, a listed obstetrics and gynaecology (O&G) company on SGX, received a voluntary unconditional takeover offer from a vehicle wholly-owned by Dymon Asia Private Equity (SE Asia) II. Singapore O&G provides healthcare services in Singapore and Malaysia, specifically in paediatrics, cancer-related general surgery, dermatology and O&G, similar to SMG. The cash offer of S\$0.295 a share implies about 16x 2021 PE, which is higher than SMG's offer of 11.5x 2021 PE. Armed with better overseas exposures in Vietnam Indonesia and Australia, we think there could be potential upside to SMG's offer. As the offer is not final, the offer price and/or the acceptance condition are subject to revision.

### EARNINGS REVISION/RISK

- **Reduce our 2022-24 earnings estimates after accounting for the weak 1H22 on higher staff costs.** We trim our 2022/23/24 earnings by 15%/14%/13% after reducing our gross margin assumptions by 1.9%/2.0%/2.0% to 43%/43%/43%, to account for higher staff costs and doctors' fees.

### VALUATION/RECOMMENDATION

- **Wait for a potentially better offer.** We recommend investors to wait for a better offer potentially as the offer from TLW Success is not final, and the offer price and/or the acceptance condition(s) are subject to revision. In addition, we think SMG should be valued closer to the recent general offer of Singapore O&G, given its expansion in high-growth markets, such as Vietnam's aesthetics clinics, telemedicine through HiDoc, as well as solid organic growth initiatives from the addition of medical specialists. Singapore O&G was recently taken over for around 16x 2021 PE, higher than SMG's current offer of 11.5x 2021 PE. Our target price would have been reduced by 15% to S\$0.45 from S\$0.53 previously based on an unchanged 2022F PE of 14x (historical mean PE).

### SHARE PRICE CATALYST

- Recovery in foreign patient load.
- Earnings-accretive M&As.
- Stronger traction in high-growth markets, such as Vietnam.

### PEER COMPARISON

Company	Ticker	Price @ 21-Sep-22 (1cy)	Target Price (1cy)	Market Cap (US\$m)	PE			P/B 2022 (x)	Yield 2022 (%)	ROE 2022 (%)
					2021 (x)	2022 (x)	2023 (x)			
Raffles Medical	RFMD SP	1.38	1.42	1,809	30.6	23.7	29.6	2.5	1.8	10.9
Talkmed	TKMED SP	0.385	n.a.	361	20.3	n.a.	n.a.	n.a.	n.a.	n.a.
Q & M Dental	QNM SP	0.37	n.a.	246	11.5	16.8	13.2	3.3	3.2	20.1
Asian Healthcare	AHSP SP	0.16	n.a.	65	17.0	n.a.	n.a.	n.a.	n.a.	n.a.
Hc Surgical	HSP SP	0.435	n.a.	46	10.2	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Average (Excl RFMD)</b>					<b>14.7</b>	<b>16.8</b>	<b>13.2</b>	<b>3.3</b>	<b>3.2</b>	<b>20.1</b>
Singapore Medical	SMG SP	0.365	0.45	126	11.3	9.7	9.1	1.0	2.1	10.4

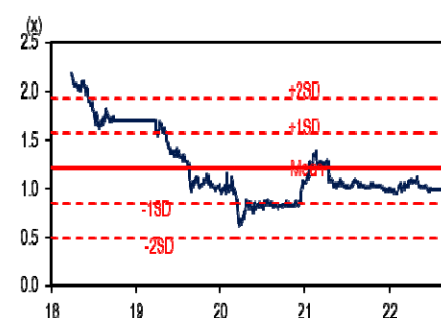
Source: UOB Kay Hian, Bloomberg

### HISTORICAL PE CHART



Source: UOB Kay Hian, Bloomberg

### HISTORICAL P/B CHART



Source: UOB Kay Hian, Bloomberg

### PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	100.8	110.7	116.3	121.0
EBITDA	20.8	19.8	20.8	21.9
Deprec. & amort.	3.1	2.5	2.1	1.9
EBIT	17.6	17.3	18.7	20.1
Associate contributions	0.9	0.9	0.9	0.9
Net interest income/(expense)	(0.5)	(0.4)	(0.4)	(0.4)
Pre-tax profit	18.1	17.8	19.2	20.6
Tax	(2.4)	(2.3)	(2.5)	(2.7)
Minorities	(0.1)	(0.1)	(0.1)	(0.1)
Net profit	15.6	15.4	16.6	17.8

### BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	8.8	5.3	4.7	4.3
Other LT assets	157.1	157.1	157.1	157.1
Cash/ST investment	26.6	42.3	58.8	75.7
Other current assets	9.2	11.4	11.9	12.3
<b>Total assets</b>	<b>201.7</b>	<b>217.6</b>	<b>233.4</b>	<b>250.0</b>
ST debt	1.5	1.5	1.5	1.5
Other current liabilities	24.8	28.3	30.7	32.9
LT debt	2.2	2.2	2.2	2.2
Other LT liabilities	6.6	6.6	6.6	6.6
Shareholders' equity	167.9	180.2	193.5	207.8
Minority interest	(1.4)	(1.3)	(1.2)	(1.1)
<b>Total liabilities &amp; equity</b>	<b>201.7</b>	<b>217.6</b>	<b>233.4</b>	<b>250.0</b>

### CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	24.5	20.8	21.8	22.5
Pre-tax profit	18.1	17.8	19.2	20.6
Tax	(2.0)	(2.3)	(2.5)	(2.7)
Deprec. & amort.	8.9	2.5	2.1	1.9
Associates	(0.9)	(0.9)	(0.9)	(0.9)
Working capital changes	1.3	(0.9)	(0.3)	(0.3)
Non-cash items	(1.4)	0.0	0.0	0.0
Other operating cashflows	0.5	0.0	0.0	0.0
Investing	(9.7)	(1.5)	(1.5)	(1.5)
Capex (growth)	(3.9)	(1.5)	(1.5)	(1.5)
Investments	(3.6)	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(2.3)	0.0	0.0	0.0
Financing	(13.8)	(3.1)	(3.3)	(3.6)
Dividend payments	(3.0)	(3.1)	(3.3)	(3.6)
Issue of shares	(0.0)	0.0	0.0	0.0
Proceeds from borrowings	0.0	2.0	2.0	2.0
Loan repayment	(11.3)	(2.0)	(2.0)	(2.0)
Others/interest paid	0.6	0.0	0.0	0.0
Net cash inflow (outflow)	1.0	15.7	16.5	16.9
Beginning cash & cash equivalent	25.6	26.6	42.3	58.8
Ending cash & cash equivalent	26.6	42.3	58.8	75.7

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	20.6	17.9	17.9	18.1
Pre-tax margin	17.9	16.1	16.6	17.0
Net margin	15.5	13.9	14.3	14.7
ROA	8.0	7.3	7.4	7.4
ROE	9.7	8.8	8.9	8.9
<b>Growth</b>				
Turnover	15.5	9.8	5.0	4.0
EBITDA	48.4	(4.6)	5.2	5.3
Pre-tax profit	71.6	(1.5)	8.1	7.1
Net profit	78.8	(1.5)	8.1	7.1
Net profit (adj.)	33.1	(1.5)	8.1	7.1
EPS	33.1	(1.5)	8.1	7.1
<b>Leverage</b>				
Debt to total capital	2.2	2.0	1.9	1.7
Debt to equity	2.2	2.0	1.9	1.8
Net debt/(cash) to equity	(13.7)	(21.4)	(28.5)	(34.7)
Interest cover (x)	42.1	40.2	42.3	44.5

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