

## SMALL/MID CAP HIGHLIGHTS

### Singapore Medical Group (SMG SP)

#### An Improved And Final Offer

SMG received a revised general offer of S\$0.40/share (up from S\$0.37/share) from TLW on 2 Nov 22. We recommend shareholders to accept the offer, given that it: a) falls within the fair value range of S\$0.39-0.46 of the IFA; b) represents a premium to the VWAPs, exceeding all closing prices in the past 15 months; and c) is close to our last target price of S\$0.45 (14x 2022F EPS). If the offer fails, SMG's share price could trend downwards significantly. The offer closing date is 15 Nov 22.

#### WHAT'S NEW

- Revised voluntary conditional offer of S\$0.40/share from TLW.** In Sep 22, TLW Success (TLW) made 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). This was later revised to S\$0.40/share in Nov 22. TLW 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. As of 1 Nov 22, TLW and concert parties have secured 77.37% of the total number of issued 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). The offeror, TLW, has also indicated that it does not intend to revise the offer price, but reserves the right to do so in a competitive situation.
- IFA concluded that the original offer was reasonable, advised to accept the offer.** The independent financial adviser (IFA) for the independent directors of SMG, ZICO Capital (ZICO), had released its report on the first general offer by TLW in Oct 22. According to ZICO, the S\$0.37/share initial offer from TLW was reasonable based on: a) the premiums of approximately 5.7% and 289.5% to the NAV/share and NTA/share respectively, as at 30 Jun 22, and b) the 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. With the revised offer of S\$0.40/share being 8.1% higher than the initial offer price of S\$0.37/share, premiums over the VWAP/share have risen to 28%, 29%, 26% and 28% for the 1-month, 3-month, 6-month and 12-month periods respectively. In addition, the revised offer now falls within the IFA's estimated fair value range of S\$0.39-0.46.
- Potential negative impact upon lapse of offer.** Minority shareholders should note that the offer is conditional. In the event the offer from TLW fails and no competing offer emerges, the share price of SMG could trend downwards significantly. As an indication, the revised offer price of S\$0.40/share exceeds all previous daily closing prices of SMG in the last 15 months. Investors should also note the closing date of the offer is 15 Nov 22. Our analysis indicates that there are a number of instances whereby conditional offers not meeting the acceptance criteria led to sharp declines in the share price of between 0-36% three months after the offers lapsed, such as the most recent example of Frasers Hospitality Trust. We highlight instances of failed conditional general offers and their impact on the share price.

#### KEY FINANCIALS

Year to 31 Dec (\$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 (\$ cent)	2.4	3.2	3.2	3.4	3.7
PE (x)	16.3	12.2	12.4	11.5	10.7
P/B (x)	1.2	1.1	1.1	1.0	0.9
EV/EBITDA (x)	10.9	7.3	7.7	7.3	6.9
Dividend yield (%)	1.0	1.8	1.6	1.7	1.9
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

## ACCEPT OFFER

Share Price	S\$0.395
Target Price	n.a.
Upside	n.a.
(Previous TP:	n.a.)

#### 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 (\$m):	192.1
Market cap (US\$ m):	136.8
3-mth avg t'over (US\$ m):	0.4

#### Price Performance (%)

52-week high/low		S\$0.395/S\$0.290		
1mth	3mth	6mth	1yr	YTD
6.8	25.4	23.4	26.3	30.5

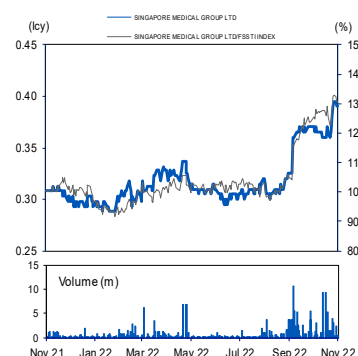
#### Major Shareholders

	%
TLW Success P/L	77.42

FY22 NAV/Share (\$)	0.37
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FY22 Net Cash/Share (\$)	0.08
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#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

**Heidi Mo**  
+65 6590 6630  
heidimo@uobkayhian.com

### PRECEDENTS OF FAILED CONDITIONAL GENERAL OFFERS

Company	Announced Date	Closing Date	Remarks	Price Performance after offer lapsed	
				1M (%)	3M (%)
IPC Corp	01 Apr 15	15 May 15	Acceptance below condition	(3.5)	(10.0)
New Wave	19 Oct 17	30 Nov 17	Acceptance below condition	(7.7)	0.0
Challenger	20 Mar 19	27 Jun 19	Not passed in EGM	0.0	(4.5)
Indofood Agri Resources	10 Apr 19	25 Jun 19	Acceptance below condition	(8.4)	0.8
JEP	13 May 19	24 Jun 19	Acceptance below condition	0.7	(0.7)
Darco Water	05 May 20	23 Jun 20	Acceptance below condition	(5.9)	(29.4)
Fraser's Hospitality Trust	13 Jun 22	12 Sep 22	Not passed in EGM	(32.1)	(35.7)

Source: Bloomberg, UOB Kay Hian

### STOCK IMPACT

- **TLW's revised offer of S\$0.40/share falls within the estimated range of value of the IFA.** As mentioned in paragraphs 9.1 to 9.6 of the IFA Letter, the IFA has evaluated various factors, and considered among others the historical market prices of the shares, earnings-based ratios such as PER and EV/EBITDA, as well as asset-based ratios such as P/NAV and P/NTA of SMG. Given that SMG does not rely on its fixed assets to generate revenue, the IFA has focused on the earnings-based approach for the purpose of estimating a range of values of the shares. Based on the average PE and EV/EBITDA statistics of the Comparable Companies as well as the offer premium analyses in connection with the Selected Comparable Transactions, the IFA is of the view that the estimated range of values of SMG's shares is between S\$0.39 and S\$0.46 per share.

### EARNINGS REVISION/RISK

- None.

### VALUATION/RECOMMENDATION

- **Accept offer.** We recommend investors to accept the offer as TLW has revised the offer upwards by 8.1% to achieve significantly higher premiums to the VWAPs, and the share price may potentially trade lower in the event that the offer fails. Also, the revised offer is closer to our last target price of S\$0.45, based on an 2022F PE of 14x (historical mean PE).

### SHARE PRICE CATALYST

- Earnings-accretive M&As.
- Diversity in business segments and geographic footprint.

### PEER COMPARISON

Company	Ticker	Price @ 7-Nov-22 (Icy)	Market Cap (US\$m)	PE			P/B 2022 (x)	Yield 2022 (%)	ROE 2022 (%)
				2021 (x)	2022 (x)	2023 (x)			
Raffles Medical	RFMD SP	1.34	1,769	29.7	18.8	20.5	2.4	1.9	13.3
Talkmed	TKMED SP	0.40	377	21.1	n.a.	n.a.	n.a.	n.a.	n.a.
Q & M Dental	QNM SP	0.345	233	10.7	15.7	13.3	3.1	3.5	19.8
Asian Healthcare	AHSP SP	0.186	77	19.8	n.a.	n.a.	n.a.	n.a.	n.a.
Hc Surgical	HSP SP	0.38	40	8.9	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Average (Excl RFMD)</b>				<b>15.1</b>	<b>15.7</b>	<b>13.3</b>	<b>3.1</b>	<b>3.5</b>	<b>19.8</b>
Singapore Medical	SMG SP	0.395	137	12.2	12.4	11.5	1.1	1.6	8.8

Source: UOB Kay Hian, Bloomberg

### SMG'S HISTORICAL PE CHART



Source: UOB Kay Hian, Bloomberg

### SMG'S 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
<b>Investing</b>	<b>(9.7)</b>	<b>(1.5)</b>	<b>(1.5)</b>	<b>(1.5)</b>
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
<b>Financing</b>	<b>(13.8)</b>	<b>(3.1)</b>	<b>(3.3)</b>	<b>(3.6)</b>
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
<b>Net cash inflow (outflow)</b>	<b>1.0</b>	<b>15.7</b>	<b>16.5</b>	<b>16.9</b>
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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