Asian Insights SparX – Future of Singapore

Singapore Healthcare

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 Jul 2016

Grow old with you

- Healthcare expenditure to triple by 2030 with ageing demographics
- Expect public sector to bear bulk of demand; private sector has available headroom
- Opportunities in primary healthcare and long-term care
- Initiate SOG; upgrade IHH and maintain BUY on PREIT

Healthcare expenditure to triple by 2030. With ageing demographics, we project total healthcare expenditure (THE) to triple by 2030, rising to S$44bn from S$17bn in 2013 at 5.9% CAGR. Personal healthcare expenditure is projected to rise to S$28bn from S$11bn in 2013 at 5.7% CAGR.

Long term: Public sector to bear bulk of demand; private hospitals have available headroom. We estimate that hospital admissions to grow by 1.5x to 791k per year in 2030, from 520k currently. But, the pressure on healthcare infrastructure is uneven. Of the estimated 7k total additional beds needed by 2030, we estimate public: private bed additions ratio to be 6-to-1. Private hospitals currently already have the existing capacity to add c.500 beds. We believe private infrastructure expansion is not priority, and could benefit more if they could tap the flow-over effects from the public sector.

Stock picks: BUY - IHH, PREIT, initiate SOG. Sector valuations are at premium thus we are selective. We upgrade IHH to BUY, [IHH MK; TP: RM7.60], being the key proxy to healthcare services counter in this region. We initiate coverage on Singapore O&G [SOG SP; BUY, TP: S$1.05] for its specialised focus on women's health, high growth and reasonable yield. We believe the opening of its Gleneagles HK hospital will be well-received and provide another earnings boost to the Group over the medium term. We like ParkwayLife REIT for its defensive and resilient model [PREIT SP; BUY, TP: S$2.65].

KLCI : 1,654.08

STI : 2,840.93

Analyst
Rachel TAN +65 6682 3713
racheltanlr@dbs.com

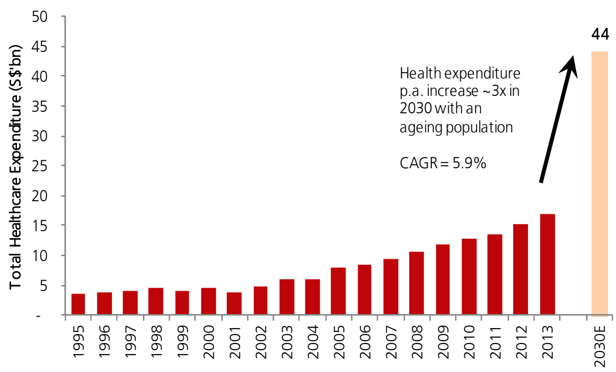
Andy SIM CFA +65 6682 3718
andysim@dbs.com

STOCKS

	Price (LCY) 30 Jun 16	Mkt Cap US$m	Target Price LC	Performance (%) 3 mth	12 mth	Rating
IHH Healthcare	RM6.60	13,607	RM7.60	0.6	16.6	BUY
Singapore O&G Ltd	S$0.83	147	S$1.05	9.2	25.8	BUY
Parkway Life REIT	S$2.42	1,087	S$2.65	1.3	5.2	BUY
Raffles Medical	S$1.51	1,941	S$1.43	0.5	(1.5)	HOLD
Riverstone Holdings	S$0.905	497	S$1.00	(5.7)	7.1	HOLD
Q & M Dental Group	S$0.72	425	S$0.80	5.1	0.0	NR
Cordlife Group Ltd	S$1.265	243	S$1.41	(4.5)	12.4	NR
UG Healthcare Corp	S$0.295	56	S$0.44	(19.2)	(4.8)	NR

*Source: DBS Bank, Bloomberg Finance L.P., *NR = Not rated*

Total Healthcare Expenditure (THE) estimated to triple by 2030



Source: Singstat, WHO, DBS estimates

The DBS Asian Insights SparX report is a deep dive look into thematic angles impacting the longer term investment thesis for a sector, country or the region. We view this as an ongoing conversation rather than a one off treatise on the topic, and invite feedback from our readers, and in particular welcome follow on questions worthy of closer examination.

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Special thanks to……
Alfie YEO alfieyeo@dbs.com
LING Lee Keng leekeng@dbs.com
Singapore Research Team
For their contributions on the respective company notes

Note: Prices used as of 30 Jun 2016

EXECUTIVE SUMMARY

Singapore's society is ageing and the impact is increasingly being felt. In the past decade, Singapore's aged population (over 65 years old) has grown at a faster rate than the rest of its population. In preparation for this demographic change, the Singapore government published the Population White Paper in 2013 projecting that the number of citizens aged 65 and above will triple to 900,000 by 2030 and the dependency ratio will fall to 2.1 by 2030 from 4.9 in 2015.

Healthcare expenditure to triple by 2030 with ageing demographics. Based on the projected Singapore's population growth to 2030, we estimate **total healthcare expenditure (THE) to triple by 2030**, rising to S$44bn from S$17bn in 2013. **Personal healthcare expenditure (PHE)** would rise to **S$28bn** from S$11b in 2013, comprising 64% of total healthcare expenditure, implying the potential growth in private healthcare. The projected THE is expected to grow at 5.9% CAGR and healthcare expenditure as a percentage of GDP is expected to increase to 7.3% in 2030 from 4.6% in 2013. PHE is expected to grow at 5.7% CAGR. Healthcare cost inflation and ageing factor are the two largest contributors to the growth, representing 2.6% and 1.7% CAGR respectively.

Demand for hospital infrastructure increases, but pressure is uneven between public and private. With the increase in the aged population, we estimate that **hospital admissions** will grow by more than 1.5x to 791,000 per year in 2030, from 520,000 currently, driving the need for 7,000 more hospital beds (c.60% increase), 5,000 physicians and 17,000 nurses. We estimate that the split in beds increase need are in the ratio of 6:1 (public: private). Our estimate shows that the **public hospitals will require c.6,000 beds by 2030**, of which newly completed / planned hospitals (such as Ng Teng Fong Hospital and Sengkang General Hospital) would add only 2,000 beds by 2018.

Available capacity headroom on the private side. At the private side, the tension is not as strong. In fact, we estimate that private hospitals currently already have the available licensed capacity to add c.500 beds, which is half of the c.1,000 beds required by 2030. While private hospitals may face rising competition with ample spare capacity available in the near-term, we believe IHH Healthcare (IHH) and Raffles Medical Group (Raffles), the two largest hospital operators in Singapore with the most potential capacity, will be poised to benefit from rising demand for private hospital services in the medium-term. IHH and Raffles have 71% and 18% market share respectively in the private hospital segment. That said, growth should be gradual and thus, international expansion will play a larger factor for these companies.

Opportunities in primary healthcare market consolidation; long-term care an untapped long-term market. The primary healthcare segment in Singapore has progressed and matured, but is still very fragmented with the big players comprising only 15% of the primary healthcare market by number of clinics. We believe that there are still consolidation opportunities in the primary healthcare segment as players continue to seek volume growth to benefit from economies of scale. We believe demand for enterprise healthcare services will continue to grow especially as healthcare insurance expands in a predominantly private-funded healthcare system. Furthermore, we believe the need for long-term nursing care will grow with ageing demographics coupled with a gradual change in social stigma of long-term care homes. Based on the OECD average, long-term nursing care expenditure has the potential to grow to S$5.4bn-S$7.3bn.

Healthcare – the most resilient sector. The healthcare sector has been the best performing sector since 2012, outperforming the market by 72% with the large cap healthcare providers (IHH and Raffles) leading at 91%. The healthcare sector is seen to be resilient amid the recent de-rating of the market (April 2015 to January 2016), led by the fall in oil prices and talk of the Fed raising interest rates, leading to the sector (large cap healthcare providers) trading at 24x forward EV/EBITDA, at the higher end of historical range.

Stock picks:

IHH Healthcare Berhad [IHH MK, BUY; TP: S$7.60]. We upgrade our rating to BUY (from HOLD) with a revised TP of S$7.60. Among the larger cap, we prefer IHH Healthcare due to its growth potential, geographically diversified operations and key management team with strong track record. Whilst earnings growth could be a tad slower in the immediate term due to opening of a number of new hospitals, we believe its upcoming Gleneagles Hong Kong Hospital (target to open by Jan 2017) could have positive impact double that of Mt E Novena, given that the size of Gleneagles HK is more than double Mt E Novena, thus, leading IHH into its next phase of growth. Apart from Gleneagles Hong Kong, IHH plans to open 2 other new hospitals in 2017 (Acibadem's largest hospital, Acibadem Altunizade and Parkway Hospital in Chengdu) and ParkwayHealth Shanghai in 2020. We believe near-term price weakness could be a good entry opportunity for medium to long term growth prospects.

Singapore O&G [SOG SP, Initiate BUY; TP: S$1.05]. We initiate coverage on Singapore O&G (SOG). We are projecting 3-year earnings CAGR of 29%, driven by recent acquisitions coupled with market share growth with new recruitment of doctors. We like this counter for its specialized focus on women's health, and aiming to grow via adding on ancillary and complementary services to the obstetrician and gynaecology (O&G) specialization. In addition, we believe SOG has aligned its doctors and shareholders' interest, with a high dividend policy of 90%. The medical practitioners collectively own 78% stake in the company.

ParkwayLife REIT [PREIT SP, BUY; TP: S$2.65]. We like Parkway Life REIT (PLife REIT) for its steady earnings stream, defensive profile and astute management. The REIT has a weighted average lease expiry of close to 9 years. Furthermore, we like the rental structure of its Singapore Hospitals (63% of total revenues) pegged to CPI+1%, and thus we would still witness 1% growth with CPI trailing below zero recently. The remaining 36% is derived from its nursing homes and healthcare facilities in Japan. Key potential catalysts are i) positive roll-out of its asset recycling exercise in Japan, and ii) potential acquisition of earnings accretive hospital assets.

Raffles Medical [RFMD SP, HOLD; TP: S$1.43]. We maintain our HOLD recommendation for Raffles Medical [RMFD SP; HOLD, TP: S$1.43] as near-term earnings will moderate as a result of the gestation period of new hospitals / medical practices and potential headwinds from slowing economic growth. The Raffles Hospital Extension is expected to complete in 2017 while the completion of its Shanghai Hospital has been deferred to 2018. Raffles currently trades at 27x FY16E EV/EBITDA, above the higher end of historical range. We maintain our HOLD rating with a target price of S$1.43 per share.

We introduce a few non-rated small cap stocks in the sector, such as Q&M (dental), and Cordlife (cord blood & lining banking services). The indirect beneficiaries are glove makers, namely Riverstone (HOLD) and UG Healthcare (non-rated).

Sector Valuations Table

Company	Ticker	Price LC$	Rating	Target price^ LC$	Mkt Cap US$b	3M ADV US$m	P/E FY16E	P/E FY17E	P/BV FY15	EV/EBITDA FY16E	EV/EBITDA FY17E
Hospitals											
IHH	IHH MK	6.60	BUY	7.25	12.8	11.4	55.2	43.5	2.4	26.8	22.4
Raffles	RFMD SP	1.51	HOLD	1.43	3.7	3.8	35.5	33.5	4.3	25.5	24.4
Asset Owners											
PLife REIT	PREIT SP	2.42	BUY	2.65	2.0	1.8	19.1	18.8	1.4	22.5	22.4
Religare	RHT SP	0.99	HOLD	0.95	1.1	0.9	16.7	15.3	1.0	11.9	9.9
Dental Care											
Q&M	QNM SP	0.72	NR	0.80	0.8	1.9	35.6	33.0	6.4	28.0	25.4
Outpatient Clinics (Specialists and/or General Practitioners, Services)											
Singapore O&G	SOG SP	0.83	BUY	1.05	0.3	0.1	24.1	20.5	7.5	17.5	14.5
Talkmed	TKMED SP	1.03	NR	NA	0.8	0.0	17.1	17.1	12.0	11.7	11.2
Cordlife	CLGL SP	1.27	NR	1.41	0.5	1.1	50.8	47.9	2.0	22.3	35.8
Medical Supplies and Equipments											
Riverstone	RSTON SP	0.91	HOLD	1.00	0.9	0.8	15.4	14.1	4.1	10.2	9.0
UG Healthcare	UGHC SP	0.30	NR	0.33	0.1	0.2	15.7	14.4	1.5	10.7	9.9

*Source: Bloomberg Finance L.P., DBS estimates, IBES estimates. *Prices as at 30 June 2016. ^Potential target price for non-rated stocks.*
NR – Non-rated, NA – not available / not applicable

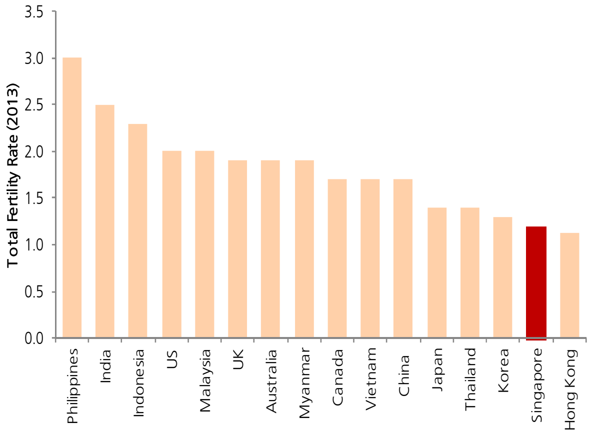
Ageing population – A demand driver for Healthcare?

Ageing demographics in Singapore

Singapore is inevitably moving towards an ageing demographic and is increasingly feeling its impact. In the past decade, Singapore's aged population (over 65 years old) grew at a faster rate than the rest of its population. Residents aged 65 years old and above grew at a 10-year CAGR of 5.1% versus 0.8% for population aged below 65 (working population aged between 20 to 64 years old grew at an average of 1.4% per annum). Ageing residents hit its highest y-o-y growth rate of 7.4% in 2012 when post-war Baby Boomers turned 65 years starting from 2012. Since then, its aged population has been growing at still a fairly fast pace of 6.5% to 6.8% per annum.

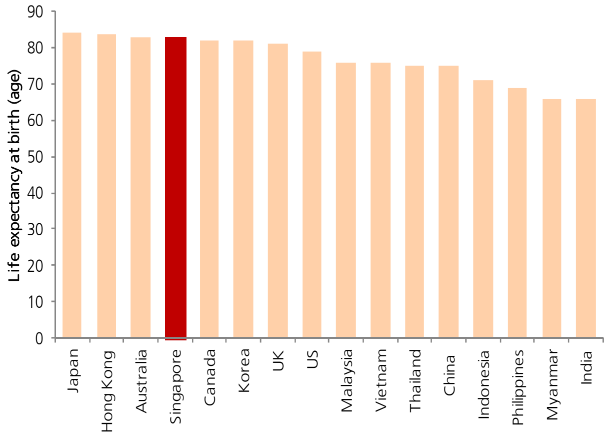
As is the case in other developed and urbanised societies like Japan and Hong Kong, Singapore's low (and declining) fertility rate, and high (and rising) life expectancy further accentuates the potential impact of an ageing population. Singapore's fertility rate at 1.2 is below the replacement rate of 2.1and the second lowest after Hong Kong. Life expectancy is 83 years old, only 1 year behind Japan but the latter has a higher fertility rate of 1.4. As at end-2015, Singapore's aged population comprises 12% of the total population and ranks the highest among its ASEAN peers but still lags behind developed countries and OECD average of 16%. Singapore's old-age support ratio (working persons aged 20 to 64 per one 65-year old and above) fell to 5.7 in 2015, lowest among its ASEAN peers but above the OECD average of 3.9.

Singapore : Second lowest fertility rate at 1.2; below the replacement rate of 2.1



Source: WHO

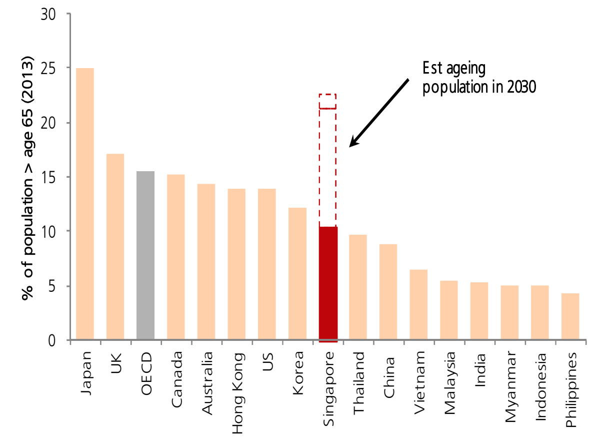
Singapore : life expectancy of 83 years; 1 year behind Japan



Source: WHO

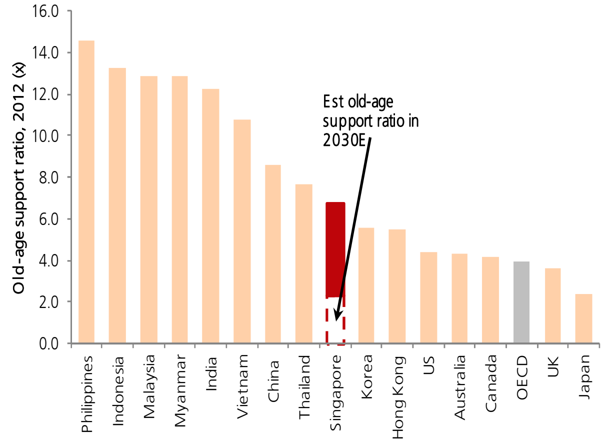
Singapore Healthcare

% of ageing population: Singapore ranks highest among ASEAN peers while lags developed countries and OECD average of 16%



Source: WHO

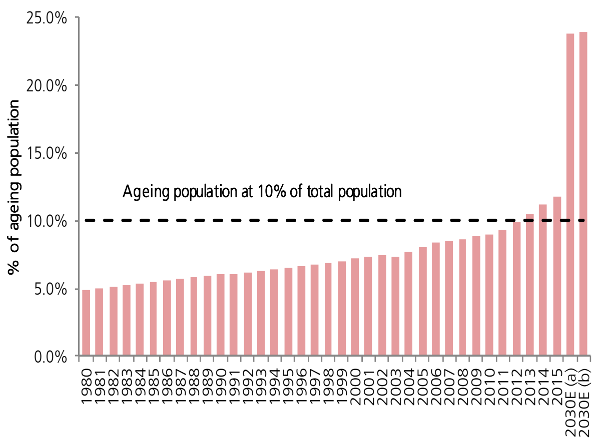
Old-age support ratio: Singapore ranks higher than developed countries and OECD average of 3.9x; lowest among ASEAN peers



Source: WHO

**For ASEAN countries, old-age support ratio calculated based on population aged 15-64 per one 65-year old and above.*

Singapore's aged population reached10% of total population in 2012 and continues to rise

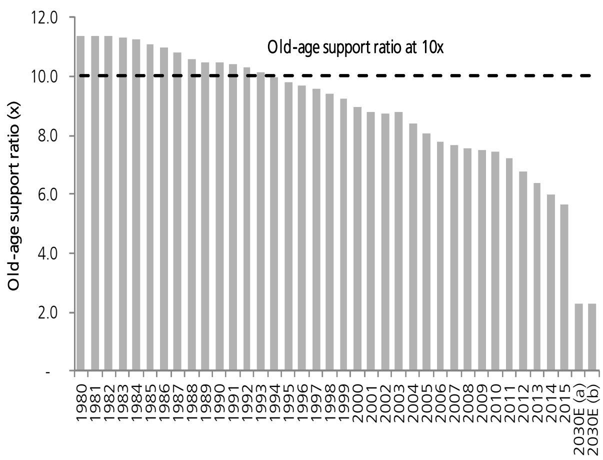


Source: Singstat

** (L) – lower range of estimated population in 2030E*

(U) – upper range of estimated population in 2030E

Singapore's old-age support ratio fell below 10x in 1995 and continues to fall



Source: Singstat

** (L) – lower range of estimated population in 2030E*

(U) – upper range of estimated population in 2030E

Ageing population – higher consumption of healthcare

Typically, an ageing population is a major demand driver for healthcare and related healthcare services. In a speech made by Ministry of Health (MOH) in 2012 on the Healthcare 2020 Masterplan, the Minister said that studies have shown that an ageing population is four times more likely to be hospitalised than younger Singaporeans.

Based on hospital admissions data in 2014, hospital admissions for aged population was five times that of the working population. Consequently, the rising healthcare demand translates to higher healthcare expenditure for the individual and the government.

According to an article published by HealthAffairs (*Does The Ageing of the Population Really Drive The Demand for Health Care? By Uwe E. Reinhardt),* the average health spending per capita for Americans aged 65 and older was more than triple that for Americans in the benchmark group (ages 34-44) in 1999, and it was more than 5 times as high for Americans aged 75 and older.

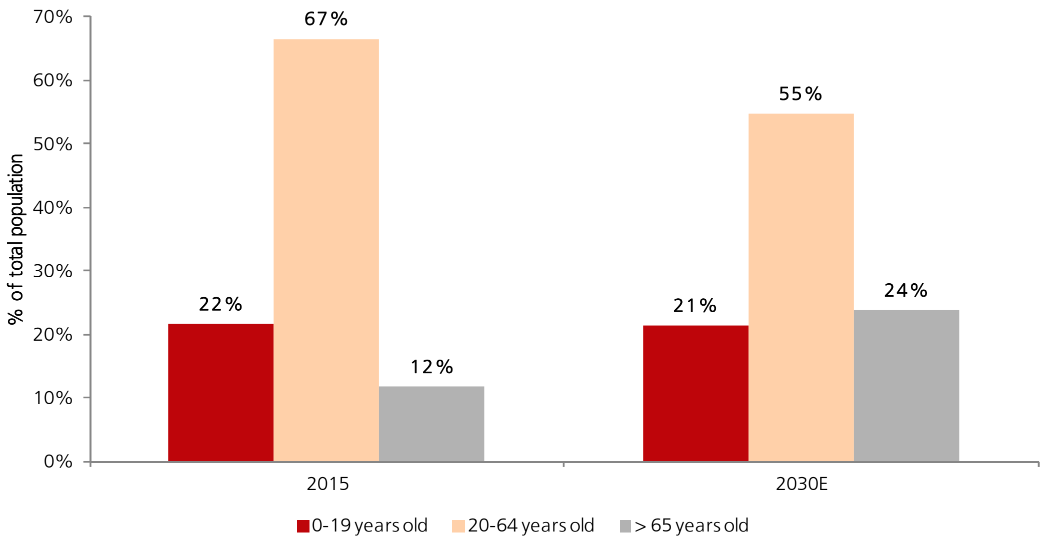
With the rapid decreasing trend of the dependency ratio, quoting Singapore's Prime Minister, Mr Lee Hsien Loong, "*We are going to be growing old faster than any society in the world",* the economic burden on the working population is heightened not only on income support but increasing healthcare costs.

Healthcare expenditure estimated to triple in 2030
In 2013, the Singapore government published the Population White Paper mapping out demographic changes and challenges, and key policies for a sustainable population. In the paper, it was projected that

- Singapore's population could range between 6.5m to 6.9m by 2030
- Citizens aged 65 and above will triple to 900,000 by 2030 (as at 2015, residents aged 65 stood at 460,000)
- Old-age support ratio (number of working age person per each person aged 65 and above) for citizens will fall to 2.1 by 2030 from 4.9 in 2015.

Based on the parameters projected in the Population White Paper, we estimated the composition of the aged population would rise to 24% of the total population in 2030 from 12% in 2015 and working population (aged 20 to 64) is estimated to decrease from 67% of total population to 55% in 2030E.

Change in Singapore's demographic in 2030



Source: Singstat, DBS estimates

Based on the above projected population, we estimate the total healthcare expenditure (THE) and personal healthcare expenditure (PHE) will triple by 2030, rising to S$44bn and S$28bn from S$17bn and S$11bn in 2013 respectively. The projected THE is expected to grow at 5.5% to 5.9% CAGR and as a percentage of GDP, it is expected to increase to 6.9% to 7.3% of GDP from 4.6% in 2013. Dissecting the data further, we highlight our key findings below.

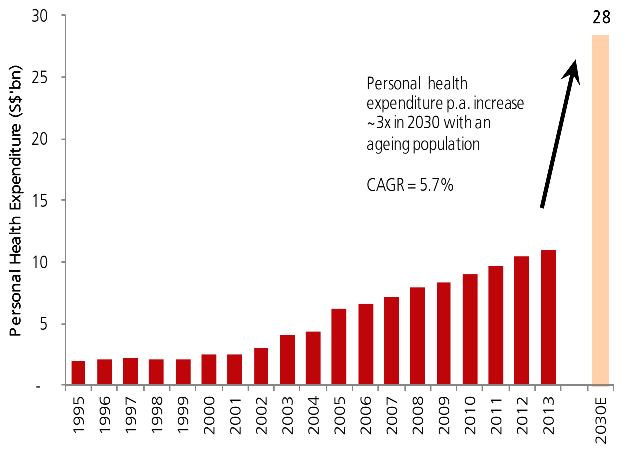
- Contrary to popular belief, the largest component in THE growth is healthcare cost inflation which accounts for 2.6% CAGR. Nevertheless, the ageing factor is substantial, comprises 1.7% CAGR while population growth contributes 1.0% to 1.4% CAGR in THE growth. This implies that while the ageing factor plays a part in rising healthcare cost, the inflationary pressures are higher. In our estimates, we have assumed that healthcare cost inflation will remain flat; however, advances in medical technology could potentially drive healthcare cost higher or lower.

- As a percentage of GDP, inflation comprises 2.5% to 2.6% while ageing factor comprises 1.1% to 1.2%.

- Based on our sensitivity analysis, a 0.5 point change in dependency ratio would have a 0.3-0.7 ppt impact on THE's CAGR (please refer to the sensitivity analysis table below).

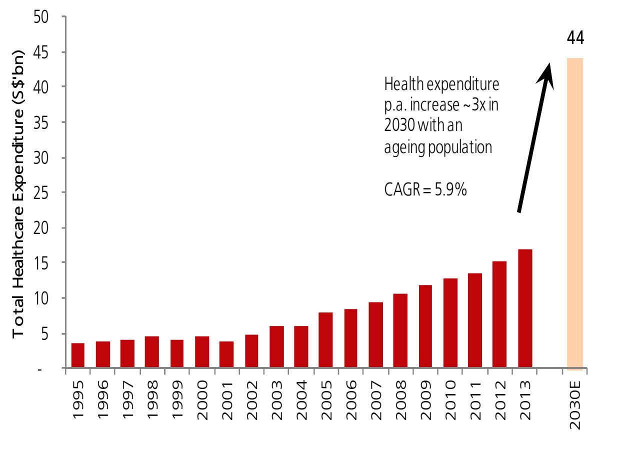
- Based on our sensitivity analysis, a 0.5 ppt change in inflation to THE would have a 0.5 ppt impact on THE's CAGR (please refer to the sensitivity analysis table below)

Personal Health Expenditure (PHE) estimated to triple by 2030



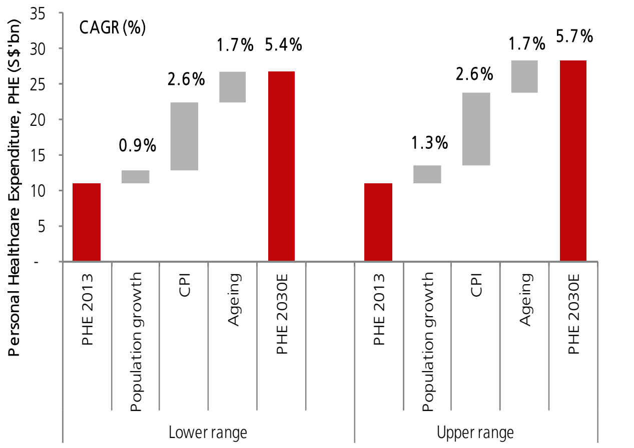
Source: Singstat, WHO, DBS estimates

Total Healthcare Expenditure (THE) estimated to triple by 2030



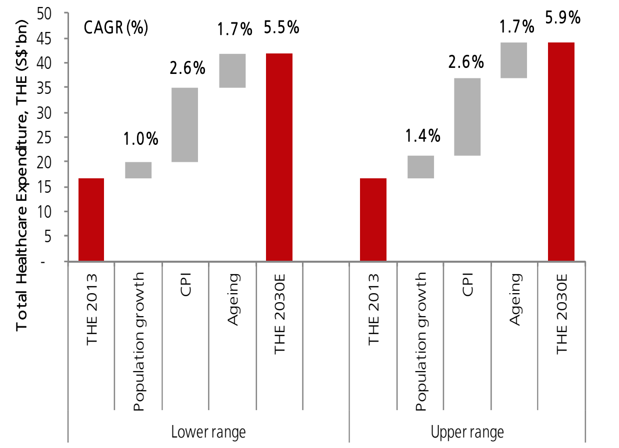
Source: Singstat, WHO, DBS estimates

Personal Healthcare Expenditure (PHE) estimated to grow at 5.4% - 5.7% CAGR to S$27bn-S$28bn



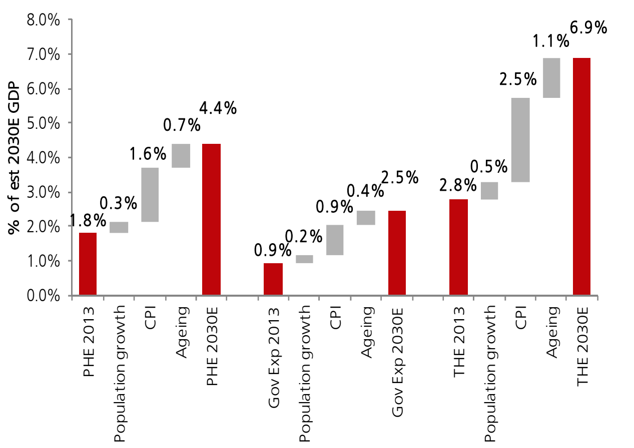
Source: Singstat, WHO, DBS estimates

Total Healthcare Expenditure (THE) estimated to grow at 5.5% - 5.9% CAGR to S$41bn – S$43bn



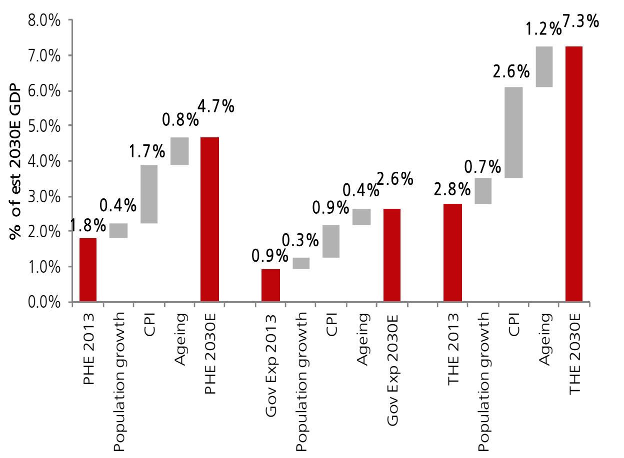
Source: Singstat, WHO, DBS estimates

Healthcare Expenditure % of GDP: Lower range (6.5m population)



Source: Singstat, WHO, DBS estimates

Healthcare Expenditure % of GDP: Upper range (6.9m population)



Source: Singstat, WHO, DBS estimates

Sensitivity analysis of total healthcare expenditure CAGR to inflation (CPI) and dependency ratio

Total Healthcare CAGR (L) CPI (%) / Dependency ratio (x)	1.3	1.8	Base case = 2.3	2.8	3.3
3.6%	7.7%	7.0%	6.5%	6.1%	5.8%
3.1%	7.2%	6.5%	6.0%	5.6%	5.3%
Base case = 2.6%	6.7%	6.0%	5.5%	5.1%	4.8%
2.1%	6.1%	5.5%	5.0%	4.6%	4.3%
1.6%	5.6%	5.0%	4.5%	4.1%	3.8%

Total Healthcare CAGR (U) CPI (%) / Dependency ratio (x)	1.3	1.8	Base case = 2.3	2.8	3.3
3.6%	8.0%	7.4%	6.9%	6.5%	6.2%
3.1%	7.5%	6.9%	6.4%	6.0%	5.7%
Base case = 2.6%	7.0%	6.4%	5.9%	5.5%	5.2%
2.1%	6.5%	5.8%	5.3%	5.0%	4.7%
1.6%	6.0%	5.3%	4.8%	4.4%	4.1%

Source: Singstat, OECD, MOH, WHO
** (L) – lower range of estimated population in 2030*
(U) – upper range of estimated population in 2030

Where does Singapore stand among G7 and OECD countries?

Based on OECD data, the aged population was 12% of the total population in 1995, rising moderately to 15% in 2012. The aged population proportion in the OECD/G7 countries ranged from 6%-17% in 1995. Within 17 years, the aged population now ranges from 12%-24%. Japan leads in terms of percentage of aged population at 24%, followed by Germany (21%) and Italy 21%. The "youngest" in the OECD / G7 group is Korea at 12%. Dependency ratio trends are closely tied to the percentage of aged population. OECD's average old-age support ratio fell from 4.8 in 1995 to 3.9 in 2012.

Singapore with an aged population ratio of 10% and old-age support ratio of 6.7 in 2012, looks "young" compared to the OECD / G7 countries. Nevertheless, based on the population projection over the next 17 years, Singapore's aged population is estimated to rise to 24% while old-age support ratio will fall to 2.3. While this looks similar to Japan's experience in 1995 to 2012, it appears that Singapore's rate of ageing is faster than Japan (Japan's aged population increased to 24% from 15% in 1995).

The CAGR from 1995 to 2012, ranged from 2.4% (Japan) to 11.4% (Korea) while OECD's CAGR was 5.8%. Singapore's estimated THE CAGR at 5.5% to 5.9% is in line with the OECD average.

Comparison of Singapore's total healthcare expenditure forecast vs OECD countries

	% Ageing Population		Old-age support ratio (x)		Healthcare expenditure		Healthcare exp per capita	
	1995	2012	1995	2012	growth (x)	CAGR (%)	growth (x)	CAGR (%)
Japan	14.6%	24.1%	4.3	2.4	1.5	2.4%	1.5	2.3%
Germany	15.5%	20.7%	3.9	2.9	1.7	3.0%	1.7	3.1%
Italy	16.7%	20.6%	3.7	3.0	2.1	4.5%	2.0	4.2%
France	15.2%	17.5%	3.9	3.3	1.9	3.8%	1.7	3.2%
UK	15.8%	16.6%	3.7	3.6	3.0	6.6%	2.7	6.0%
Netherlands	13.2%	16.5%	4.7	3.6	3.0	6.6%	2.7	6.1%
OECD Average	**12.3%**	**15.3%**	**4.8**	**3.9**	**2.6**	**5.8%**	**2.5**	**5.5%**
Canada	12.0%	14.9%	5.1	4.2	2.6	5.9%	2.2	4.8%
Australia	11.9%	14.2%	5.0	4.3	3.7	7.9%	2.9	6.5%
US	12.7%	13.7%	4.6	4.4	2.8	6.2%	2.3	5.1%
Korea	5.9%	11.8%	10.5	5.6	6.3	11.4%	5.6	10.7%
Singapore	**6.5%**	**9.9%**	**9.8**	**6.7**	**4.1**	**8.7%**	**2.7**	**6.1%**
Singapore (2013 – 2030E)	2013	2030E	2013	2030E	growth (x)	CAGR (%)	growth (x)	CAGR (%)
Lower range (6.5mn)	10.5%	23.8%	6.4	2.3	2.5	5.5%	2.5	5.5%
Upper range (6.9mn)	10.5%	23.9%	6.4	2.3	2.6	5.9%	2.6	5.9%

Source: Singstat, OECD, MOH, WHO

Comparison of Singapore's personal healthcare expenditure forecast vs OECD countries

	% Aged Population		Old-age support ratio (x)		Healthcare expenditure		Healthcare exp per capita	
	1995	2012	1995	2012	growth (x)	CAGR (%)	growth (x)	CAGR (%)
Japan	14.6%	24.1%	4.3	2.4	1.4	2.1%	1.4	2.0%
Germany	15.5%	20.7%	3.9	2.9	2.1	4.4%	2.1	4.5%
Italy	16.7%	20.6%	3.7	3.0	1.7	3.1%	1.6	2.8%
France	15.2%	17.5%	3.9	3.3	1.9	3.9%	1.7	3.3%
UK	15.8%	16.6%	3.7	3.6	3.3	7.3%	3.0	6.7%
Netherlands	13.2%	16.5%	4.7	3.6	1.6	2.7%	1.4	2.2%
OECD Average	**12.3%**	**15.3%**	**4.8**	**3.9**	**2.6**	**5.7%**	**2.3**	**5.0%**
Canada	12.0%	14.9%	5.1	4.2	2.7	6.0%	2.2	4.9%
Australia	11.9%	14.2%	5.0	4.3	3.5	7.7%	2.8	6.2%
US	12.7%	13.7%	4.6	4.4	2.7	5.9%	2.3	4.9%
Korea	5.9%	11.8%	10.5	5.6	4.5	9.2%	4.1	8.6%
Singapore	**6.5%**	**9.9%**	**9.8**	**6.7**	**5.3**	**10.3%**	**3.5**	**7.6%**
Singapore (2013 – 2030E)	2013	2030E	2013	2030E	growth (x)	CAGR (%)	growth (x)	CAGR (%)
Lower range (6.5m)	10.5%	23.8%	6.4	2.3	2.4	5.4%	2.4	5.4%
Upper range (6.9m)	10.5%	23.9%	6.4	2.3	2.6	5.7%	2.6	5.7%

Source: Singstat, OECD, MOH, WHO

Assumptions

Our key assumptions to estimate the healthcare expenditure in 2030 are listed below:

- Population assumptions are based on parameters projected in the Population White Paper, 2013

	2013	2030E (L)	2030E (U)
Singapore total population	5,399,162	6,500,000	6,900,000
Singapore residents	3,844,751	4,200,000	4,400,000
Singapore non-residents	1,554,411	2,300,000	2,500,000
Age 0 - 19 years	870,309	900,000	935,000
Age 20 - 64 years	2,570,005	2,300,000	2,415,000
Age 65 years and above	404,437	1,000,000	1,050,000
Dependency ratio for residents	6.4	2.3	2.3
17-year CAGR (%)			
Singapore total population	2.3%	1.1%	1.5%
Singapore residents	1.3%	0.5%	0.8%
Singapore non-residents	5.7%	2.3%	2.8%
Age 0 - 19 years	-0.2%	0.2%	0.4%
Age 20 - 64 years	1.6%	-0.7%	-0.4%
Age 65 years and above	4.1%	5.5%	5.8%

- Key assumptions to estimate the healthcare expenditure growth:

Key assumptions	2013	2030E (L)	2030E (U)	Remarks
Avg healthcare cost per capita	1,695	4,125	4,103	Cost by age group based on the composition of healthcare cost in the US according to government body CMS
Healthcare inflation (CPI)	2.6%	2.6%	2.6%	based on 5-yr CAGR healthcare CPI
Government healthcare expenditure (% of GDP)	1.5%	2.5%	2.6%	
GDP growth	3.9%	3.0%	3.0%	

Source: DBS Bank

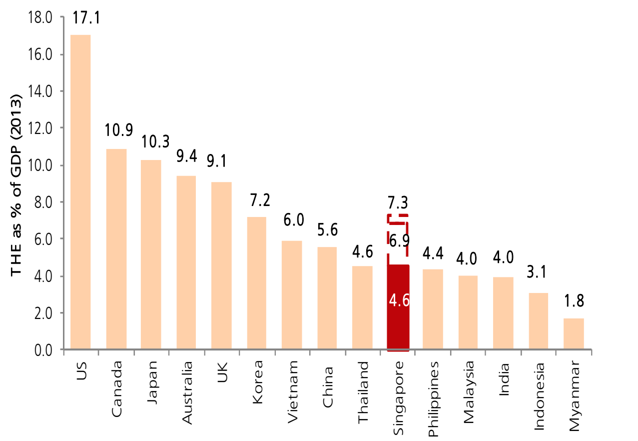
Who pays for medical bills?

Singapore has successfully kept healthcare cost low, albeit on a rising trend. Singapore spent 4.6% of GDP on healthcare in 2013, a moderate increase from 3.6% a decade ago. While Singapore's healthcare cost is marginally higher than its ASEAN peers, except Thailand's 4.6% (Malaysia at 4%; Philippines at 4.4%; Indonesia at 3.1%), its healthcare spending is half of what most developed countries have spent. Incorporating the ageing factor (2030 healthcare expenditure estimates), Singapore's healthcare expenditure at 6.9%-7.3% of GDP is still below the 9%-17% for most developed countries. Japan, with a similar ageing profile as Singapore, spends 10.3% of GDP on healthcare.

The success of keeping healthcare cost low could be partly attributed to Singapore's founding Prime Minister, Lee Kuan Yew moving away from the UK's "cradle-to-grave" health system, which is believed to be "expensive, not viable, breeds dependency on the government and leads to wastage and over-consumption", and adopted the approach where the individual, and not the state, is expected to bear responsibility for his/her needs in healthcare, retirement, unemployment and other episodes of income volatility (Case of Healthcare Financing published by Lee Kuan Yew School of Public Policy). Families are expected to buttress self-reliance by providing care to its family members and ensuring there is income and risk pooling at the household level.

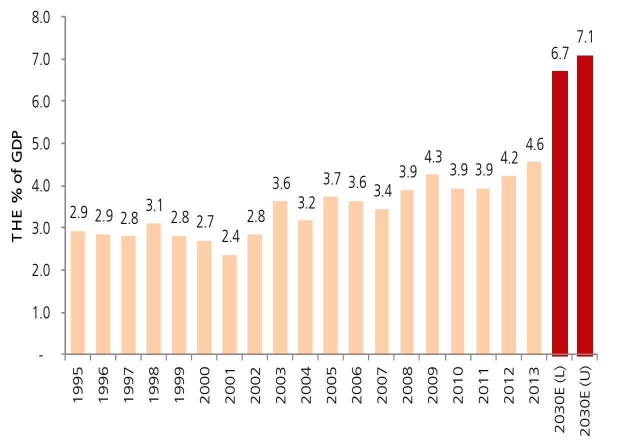
Hence, Singapore's private funding comprises 60% of healthcare expenditure while the government funds the remaining 40% (led by a revision of healthcare financing in 2013 to increase the government's share of healthcare costs from 30% to 40%). This puts Singapore way below its peers (in terms of share of government funding in healthcare), except developing countries such as Indonesia, India, Philippines and Myanmar.

Singapore's THE is 4.6% of GDP, lower than most peers



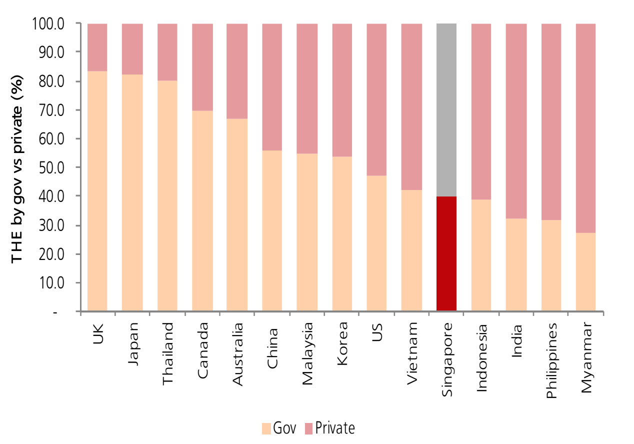
Source: Singstat, WHO

Increasing trends of Singapore's THE as a % of GDP



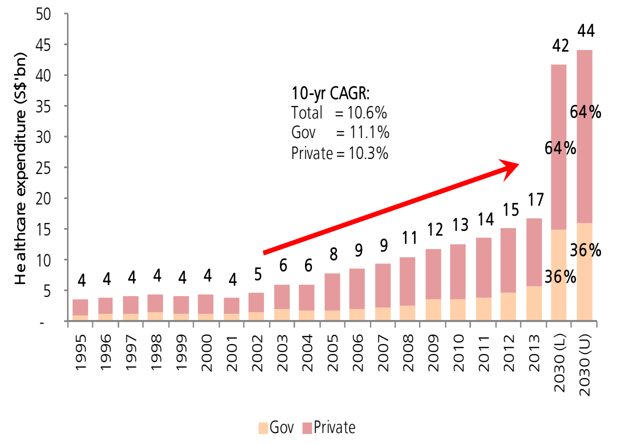
Source: Singstat, WHO, DBS estimates

60% of Singapore's THE is privately financed



Source: Singstat, WHO

THE 10-yr CAGR > 10%



Source: Singstat, WHO, DBS estimates
** (L) – lower range of estimated population in 2030*
(U) – upper range of estimated population in 2030

Healthcare financing system in Singapore

With the underlying philosophy on health and welfare financing, Singapore adopts a 3M+subsidies approach – Medisave, MediShield Life (replacing MediShield), Medifund + government subsidies. This system delegates the responsibilities of healthcare to individuals (Medisave and MediShield Life) while the government ensures that every Singapore resident has access to affordable basic medical care (Medifund and government subsidies). The government further enforces 'individual responsibility' via a co-payment system to prevent any misuse of the system and over-consumption of healthcare.

- Medisave – Compulsory savings account for immediate and future healthcare bills. Introduced in April 1984, Medisave is a national savings scheme (via compulsory monthly contribution of 8%-10.5% of income) which helps individuals pay for healthcare bills, including those that will be incurred after retirement. Medisave can be used for self and one's dependents. Medisave claims account for approximately 5% p.a. and 7% p.a. of total healthcare expenditure and private healthcare expenditure respectively.

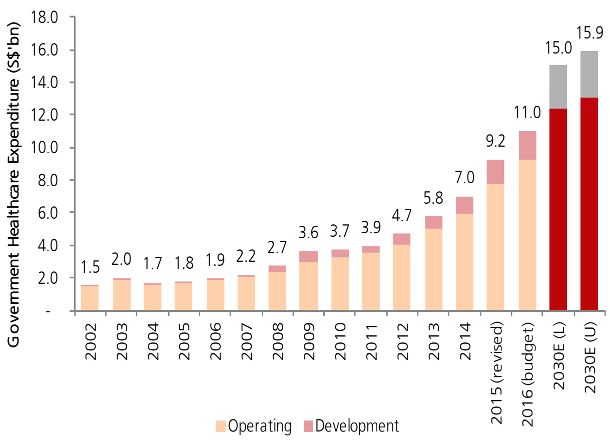
- MediShield Life – A basic national health insurance plan to pay for large hospital expenses and selected expensive outpatient treatments, including those with pre-existing conditions. MediShield Life replaced MediShield from 1 Nov 2015 and is an enhanced policy that has i) better protection and higher payouts, ii) protection for all Singapore Citizens and Permanent Residents including those with pre-existing conditions, and iii) it is a protection for life. The previous MediShield claims accounted for 2% p.a. and 3% p.a. of total healthcare expenditure and private healthcare expenditure respectively

- Medifund – Government's safety net to help Singaporeans in need. Medifund is an endowment fund set up to provide for Singaporeans who face difficulties on the remaining bills after deducting payments from cash, government subsidies, Medisave, Medishield Life and private integrated shield plans. It started with an initial capital of S$200m and has grown to S$4bn as at end of FY2013.

- Government subsidies – While there are various subsidies and schemes in place, the largest component is from the government covering 20% to 80% of the cost of treatment at public medical centers based on income. These means-tested subsidies are also given for intermediate and long-term care (ILTC). Government subsidies is the majority portion of the government's operating healthcare spending which accounts for 80% to 90% of total government healthcare expenditure.

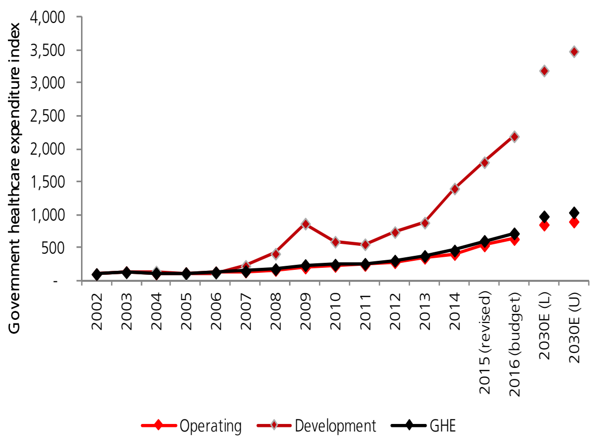
The government's healthcare expenditure has been growing at 15% CAGR, and has increased significantly since 2012 upon the implementation of Healthcare 2020 Masterplan and the issuance of Population White Paper where the government recognises the need to increase healthcare infrastructure to support an ageing population. The government's healthcare budget in 2016 has almost tripled since 2011, led by both operating expenditure (subsidies) and development expenditure. Development component has increased from 11% of total government healthcare budget to 16% in the 2016 budget as the government continues to add capacity to public medical centers (please refer to Healthcare 2020 Masterplan section below).

Government Healthcare Expenditure largely spent on operating expenditure (mostly subsidies) vs development



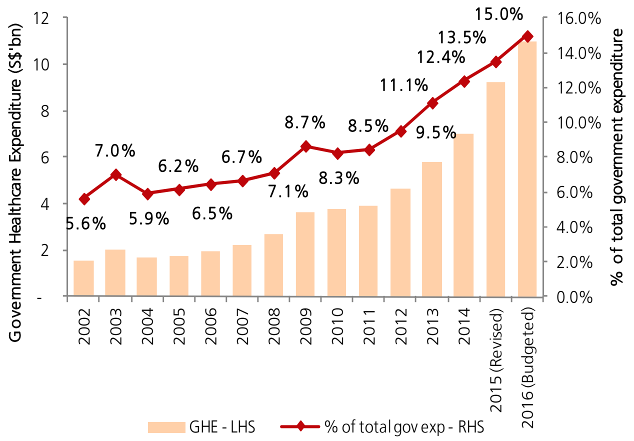
Source: Singstat, WHO, DBS estimates
** (L) – lower range of estimated population in 2030*
(U) – upper range of estimated population in 2030

Government increased development spending as it continues to add capacity to public medical services



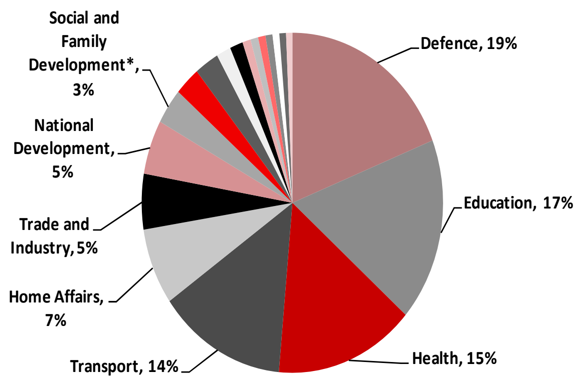
Source: Singstat, WHO, DBS estimates
** (L) – lower range of estimated population in 2030*
(U) – upper range of estimated population in 2030

Government healthcare expenditure comprises 15% of total government expenditure…



Source: MOF

…and is the third largest segment in 2016 Budget



Source: MOF

Singapore's institutions for healthcare financing

Singapore's Institutions for Healthcare Financing

Medisave	A national medical savings scheme to help Singaporeans prepare for their healthcare expenses, especially after retirement.
Medishield Life	A basic national health compulsory insurance scheme that will cover all Singaporeans for life, including those with pre-existing conditions.
Medifund	Government safety net to help needy Singaporeans with their healthcare expenses to ensure that no one will be denied essential healthcare because of inability to pay.

Subsidies & Schemes

Community Health Assist Scheme (CHAS)
Scheme by the Ministry of Health (MOH) that enables Singaporeans from lower- and middle- income households to receive subsidies for medical and dental care at participating General Practitioner (GP) and dental clinics near their homes.

Eldershield
An affordable severe disability insurance scheme designed to help Singaporeans meet with expenses incurred in the event of severe disability.

Marriage and Parenthood Schemes
Government grants for each newborn baby. Medisave can also be used for delivery, pre-delivery expenses, assisted conception procedures.

Drug Subsidies
Patients receive drug subsidies based on their paying status and the scheme under which the drug is covered.

Interim Disability Assistance Program for the Elderly (IDAPE)
Provides financial help to those who become disabled; caters to Singapore citizens who are not eligible for ElderShield..

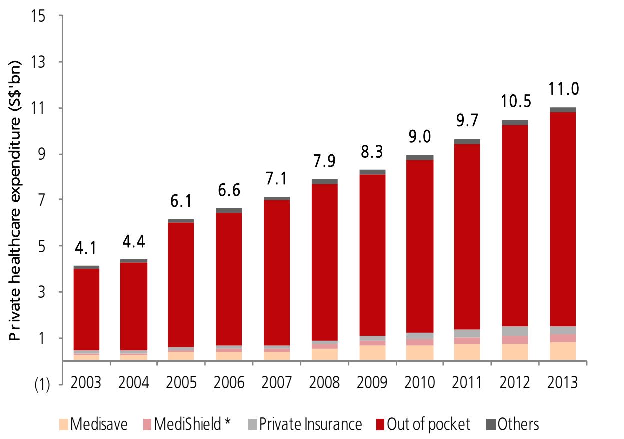
Pioneer Generation Package
Package provides healthcare benefits for all Pioneers (approx 450,000 Singaporeans) for life. Healthcare benefits include subsidies for outpatient care, annual Medisave top-ups, subsidies for Medishield Life Premiums, and a Disability Assistance Scheme.

Source: Singstat, OECD, MOH, WHO
** Medishield in 2013 is estimated based on 9-yr CAGR of 16%*

Private funding of Healthcare mostly from out-of-pocket

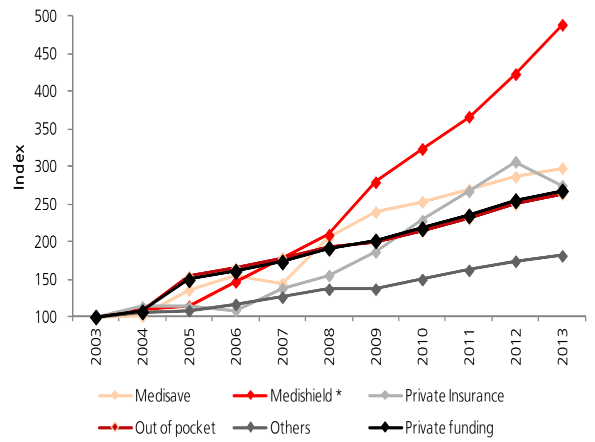
While the government has put in place national savings and medical insurance schemes to ensure that its residents are sufficiently covered for basic medical needs, out-of-pocket funding remains a large component of private funding of healthcare, and this accounts for 84% of total private healthcare expenditure. Singapore's out-of pocket funding is the second largest, only after India, when compared to its ASEAN peers and developed nations. We believe the large out-of-pocket component has driven the demand for private hospitals and medical centers in Singapore. Nevertheless, Medisave, Medishield and private insurance schemes are gaining traction and expenditure funded by these schemes has been growing rapidly.

Private funding mostly from out-of-pocket



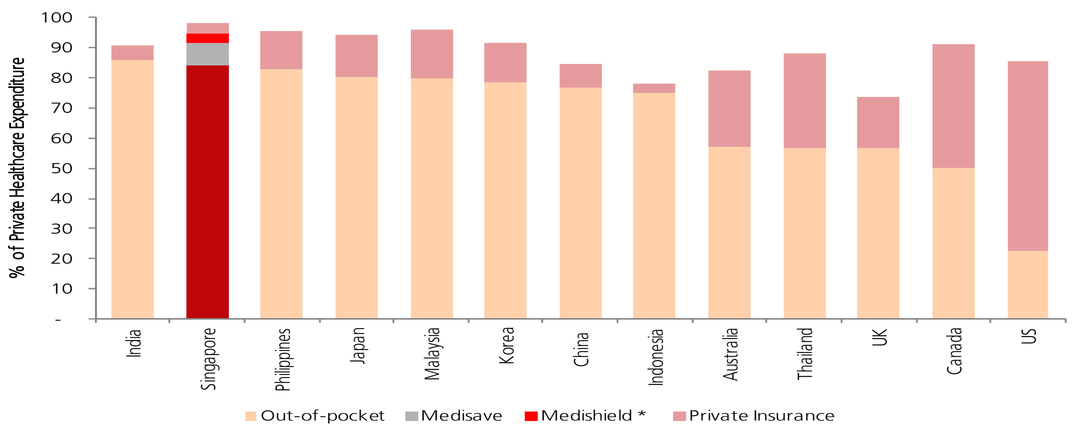
Source: Singstat, WHO, MOH
** Medishield in 2012 and 2013 is estimated based on 9-yr CAGR of 16%*

Medisave, Medishield and private insurance showing growth, albeit small part of xxx



Source: Singstat, WHO, MOH, DBS estimates
** Medishield in 2012 and 2013 is estimated based on 9-yr CAGR of 16%*

Singapore's privately funded healthcare cost is the highest among peers



Source: Singstat, OECD, MOH, WHO
** Medishield in 2013 is estimated based on 9-yr CAGR of 16%*

Healthcare Infrastructure

Following on from the notion that an ageing population increases demand for healthcare, we have done an analysis to determine if Singapore's healthcare infrastructure is sufficient to support the rising consumption of healthcare, based on a potential increase in hospital admissions from the higher population projections.

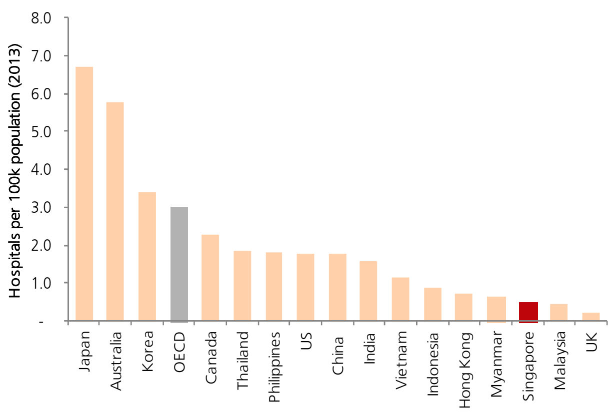
Our scenario analysis shows that while the private hospital sector is well-positioned to undertake the additional demand as the population increases, the public hospital sector may face some constraints in building sufficient capacity by 2030. Based on historical trends, the number of doctors added per year, with the support from non-resident doctors, is sufficient to cover the new capacity required per year by 2030E, ceteris paribus. However, it is too subjective to determine the quality and the specialisation of the physicians and nurses.

Singapore's medical infrastructure versus peers

Singapore has been known for its state-of-the-art medical facilities and services especially in the ASEAN region. Singapore has been one of the top destinations for those from ASEAN who can afford and require medical services. Here, we review the availability of medical infrastructure for Singapore's population compared to its ASEAN peers and developed nations. Given the limited information available on medical infrastructure across the various countries, we reviewed a few parameters on Singapore's medical infrastructure, namely, i) number of hospitals, ii) number of hospital beds, iii) physicians, iv) nurses and v) hospital admissions. We list below some of our observations:

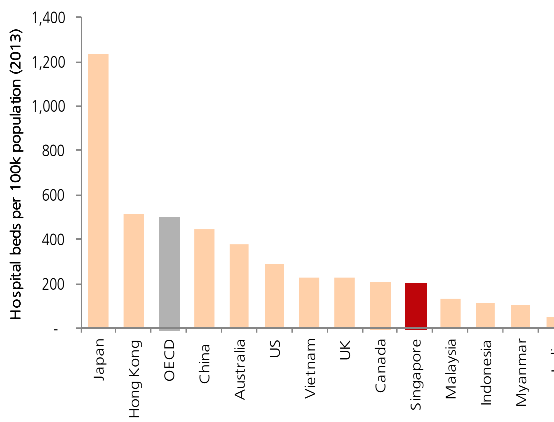
- As expected, Singapore fares better than most of the ASEAN countries, China and India in terms of available number of hospitals, hospital beds, physicians and nurses. However, Singapore lags behind the developed nations and OECD average.
- Singapore has 90 hospital admissions per 1,000 population, which is the lowest among OECD / G7 countries. The OECD average is 143 admissions and Germany has the highest at 251 admissions. We believe the reason could partly be the result of the healthcare financing system in Singapore where the individual bears most of the cost, hence, there is a more discerning usage of medical services.
- Singapore's hospital admissions per bed at 40 admissions per year is significantly higher than the OECD average of only 24 admissions. Japan has the lowest at only 9 admissions per bed while UK is the highest at 48 admissions. This could be correlated with the average length of stay (ALOS) in the individual countries.
- Singapore's ALOS is 5.8 days compared to OECD average of 8.5 days. Japan has the highest number at 31 days while Australia is the lowest among the group at 5.6 days, a notch lower than Singapore.
- While hospital admissions per bed and ALOS partially imply the efficiency of the hospital services, it may also be an indication of the quality of medical services provided to a patient. We are unable to come to a conclusion based on this number alone.

Hospitals per 100,000 population



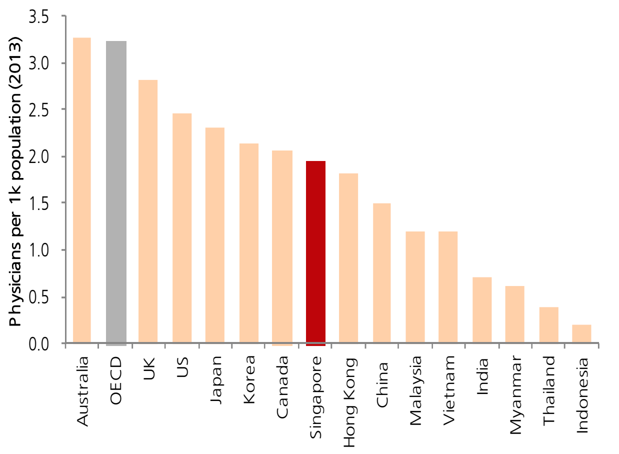
Source: WHO

Hospital beds per 100,000 population



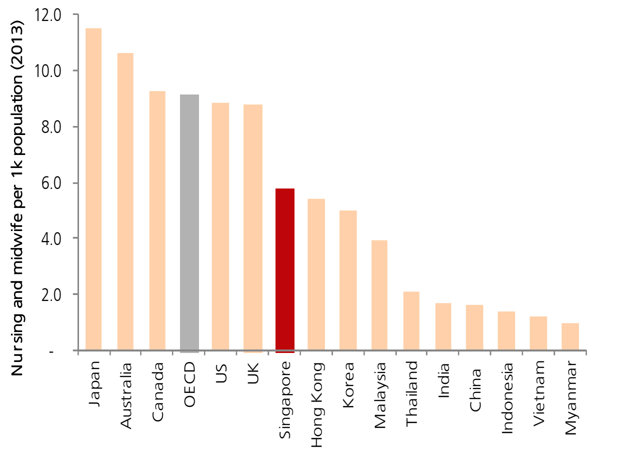
Source: WHO

Physicians per 1,000 population



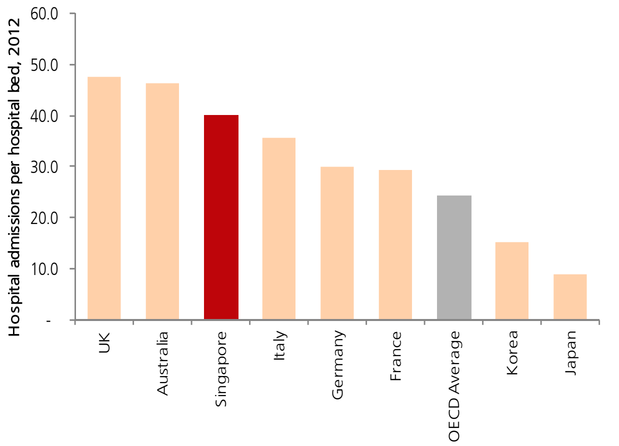
Source: WHO

Nurses (including midwives) per 1,000 population



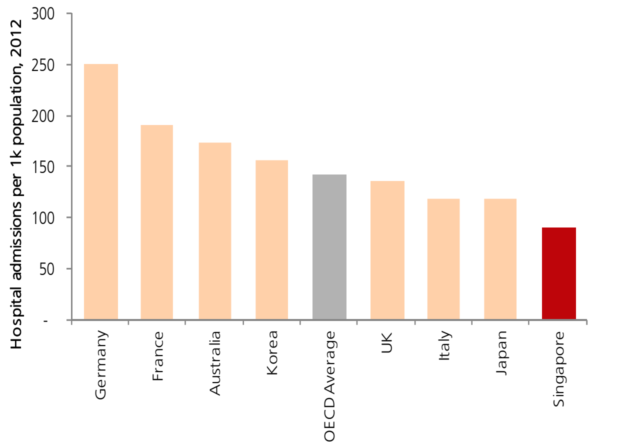
Source: WHO

Hospital admissions per hospital bed



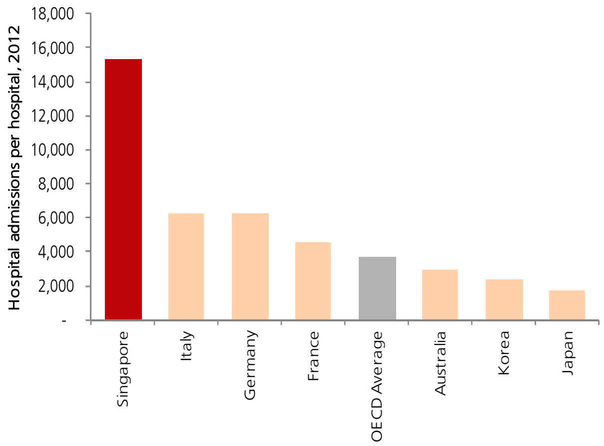
Source: OECD, Singstat, MOH

Hospital admissions per 1,000 population



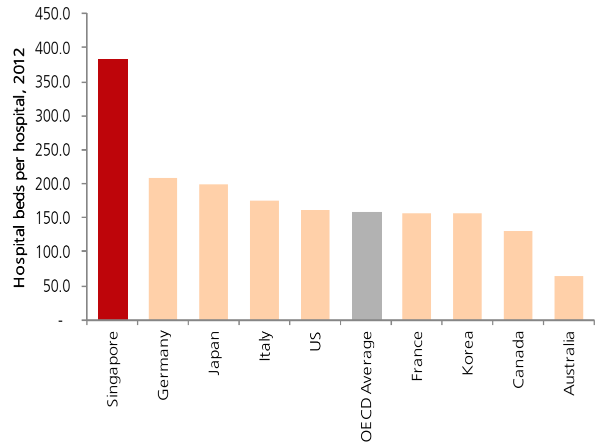
Source: OECD, Singstat, MOH

Hospital admissions per hospital



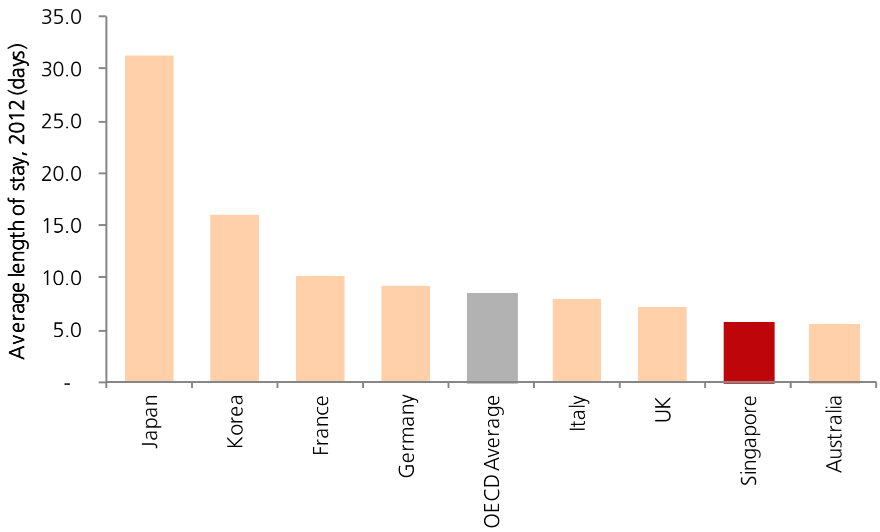
Source: OECD, Singstat, MOH

Hospital beds per hospital



Source: OECD, Singstat, MOH

Average length of stay (ALOS)



Source: OECD, MOH

Growth in hospital admissions driving increase in hospital beds and manpower

- Hospital admissions

Since 2012 (the year the baby boomers turned 65), hospital admissions have grown at a faster rate than the growth in population. Singapore's population grew 6.8% from 2012 to 2015 at CAGR of 1.7%. Residents over age-65 increased 30% (6.9% CAGR) in the same period. In comparison, hospital admissions have increased 12% to 520,000 admissions in a year, representing CAGR of 2.9%. Hospital admissions at the private hospitals have increased 22% while admissions at public hospitals rose 9%, implying 5.2% CAGR at private hospitals and 2.2% at public hospitals. Accordingly, the composition of admissions at private hospitals has increased from 23% to 25% in 2015.

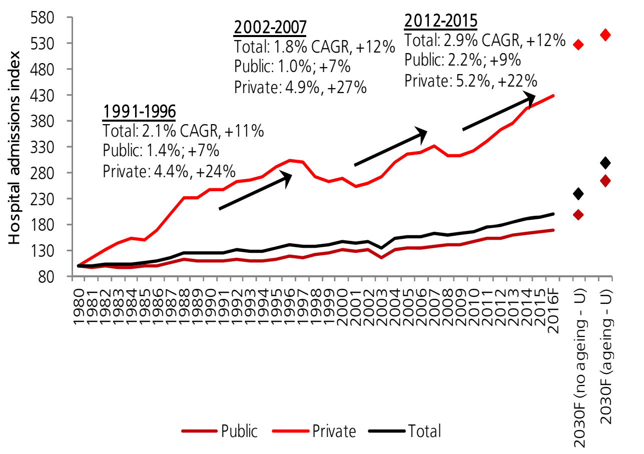
- Hospital beds

The number of hospital beds has increased by 10% from 2012 to 2014 to 12,500 beds, growing at 3.1% CAGR. Public hospital beds increased 7.5% (2.4% CAGR) while private hospital beds increased by 18% at 5.7% CAGR.

- Number of doctors and nurses

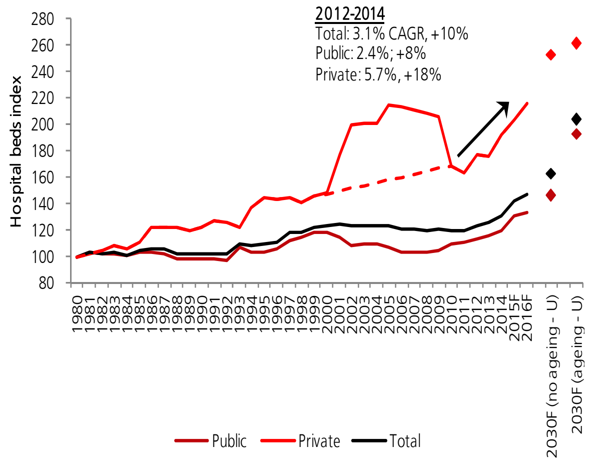
In the period 2012 to 2014, the number of doctors and nurses has increased 23% and 18% respectively to complement the increase in hospital admissions and hospital beds. While we saw higher growth rates in the private hospital admissions and hospital beds, the number of doctors and nurses in public hospitals have seen higher growth rates compared to private hospitals.

Hospital admissions index – strong growth in private hospital admissions



Source: OECD, MOH

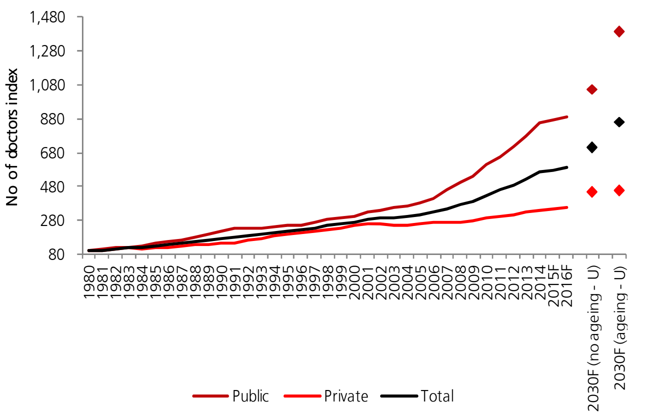
Hospital beds index – strong growth in private hospital beds



Source: OECD, Singstat, MOH

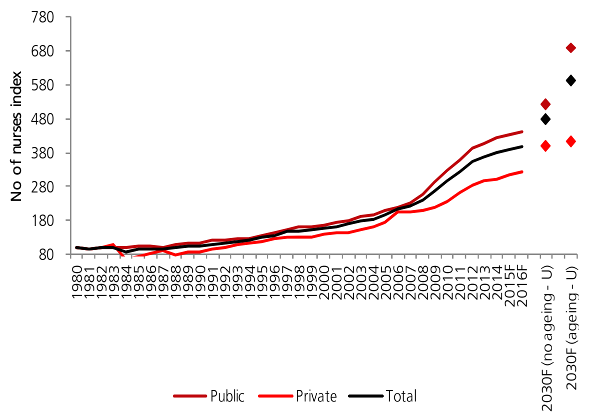
** Note: the abnormal increase and decrease from period 2000 – 2010 was due to change in classification of beds by MOH*

No of doctors index – higher requirements in public hospitals due to ageing population



Source: OECD, MOH

No of nurses (incl midwives) index – higher requirements in public hospitals due to ageing population



Source: OECD, Singstat, MOH

Capacity required and ability to meet this by 2030

Based on projected population published in the Population White Paper, we estimate that hospital admissions will grow to 750,000 to 791,000 per annum in 2030 from 520,000 currently. The increase in admissions require a further 7,000 hospital beds, 15 hospitals, 6,000 physicians and 17,000 nurses. The table below shows the breakdown for public and private sectors.

Based on our analysis, the private hospital sector is well-positioned to meet the additional demand as the population increases, but the public hospital sector may face some constraints in building sufficient capacity by 2030.

Current private hospitals have the potential to add c.500 beds with existing licensed beds capacity, which is approximately half of the c.1,000 beds required by 2030. Public hospitals need an additional c.6,000 beds by 2030, which is approximately 440 beds per year. However, in the past 5 years, public hospitals have only added an average of 188 beds per year. Based on the Healthcare 2020 Masterplan, the addition of 1,900 beds coming mainly from the newly completed Ng Teng Fong Hospital (~700 beds yet to be included in the current operational number of beds) and Sengkang General Hospital (1,000 beds to be completed by 2018) represents only a quarter of the total number of beds required by 2030. Nevertheless, the government has four acute hospitals in the pipeline subject to review in 2020.

While it may be easier to add 'brick and mortar' i.e. medical facilities, it is more challenging to build manpower in the near-to-medium term especially specialised doctors. The number of new physicians needed by 2030 is around 6000 physicians, or 371 physicians per year. From historical trends, Singapore has been able to add an average of 677 physicians per year, double the number required per year. The increase is typically drawn from around 300 doctors who are Singapore residents, and 300 to 350 non-resident doctors, of which, c.200 are graduates from Singapore's medical institutions.

Comparison of infrastructure needed by 2030 with and without the ageing factor (ie % of aged population remains the same in 2030)

	Based on Singapore's current ratios		Based on OECD average ratios	
	Ageing (U) no. additions	No Ageing (U) no. additions	Ageing (U) no. additions	No Ageing (U) no. additions
Total				
Hospital beds	7,037	3,119	20,059	13,633
Hospitals	15	8	50	34
Physicians	5,930	2,875	5,117	1,913
Nurses (incl midwives)	17,421	8,055	15,650	6,296
Public				
Hospital beds	6,007	2,209	15,403	10,468
Hospitals	9	3	24	16
Physicians	4,586	1,686	3,136	1,213
Nurses (incl midwives)	14,229	5,233	10,585	4,386
Private				
Hospital beds	1,030	910	4,657	3,165
Hospitals	6	5	26	17
Physicians	1,344	1,188	1,980	699
Nurses (incl midwives)	3,193	2,823	5,064	1,910

Source: Singstat, OECD, MOH, WHO
(U) – upper range of estimated population (6.9m) by 2030
Key assumptions below

Infrastructure additions required per year vs historical capacity to add

	5-yr historical avg additions p.a	Based on Singapore's current ratios Ageing (U) additions p.a	No Ageing (U) additions p.a	Based on OECD average ratios Ageing (U) additions p.a	No Ageing (U) additions p.a
Total					
Hospital beds	188	440	195	1,254	852
Hospitals	0.4	0.9	0.5	3.1	2.1
Physicians	677	371	180	320	120
Nurses (incl midwives)	1,922	1,089	503	978	394
Public					
Hospital beds	229	375	138	963	654
Hospitals	0.2	0.6	0.2	1.5	1.0
Physicians	544	287	105	196	76
Nurses (incl midwives)	1,414	889	327	662	274
Private	4-yr historical				
Hospital beds	73	64	57	291	198
Hospitals	0.2	0.4	0.3	1.6	1.1
Physicians	120	84	74	124	44
Nurses (incl midwives)	509	200	176	317	119

Source: Singstat, OECD, MOH, WHO

** (U) – upper range of estimated population (6.9m) by 2030*

Key assumptions below

Key Assumptions

	Singapore's current ratio (2014)			Based on OECD average ratios			
	Public	Private	Total	Public	Private	Total	Remarks
Admissions per bed	39.8	43.4	40.6	24.8	22.6	24.3	
Hospital beds per hospital	640	181	403	640	181	403	Singapore's ratios
Hospital admission per doctor	52	33	46	59	30	49	
Hospital admissions per nurse	17	14	16	19	12	17	

Source: DBS Bank

Plans to increase public medical services infrastructure – Healthcare 2020 Masterplan

In 2012, the Singapore government presented the Healthcare 2020 Masterplan, planning ahead for potential challenges as Singapore's population ages. In summary, the Masterplan targets 3 key areas to ensure i) **accessibility** to healthcare services, ii) **affordability** of healthcare services, and iii) **quality** for Singaporeans. The table below presents the key highlights of the government's plan in building new capacity.

Healthcare 2020 Masterplan – plan, progress and completion

	2012	Healthcare 2020 Masterplan (Announced in 2012)	Completed new capacity (2013 – 2015E)	Planned capacity (post 2016)
Increasing accessibility - Infrastructure				
Acute hospital and beds	7 hospitals (7000 hospital beds)	- add 1,900 beds (+30% capacity) - expand 1 existing hospital *Ng Teng Fong General Hospital (NTFGH) (700 beds) expected to open by 2014* *Sengkang General Hospital (SKGH) (1,000 beds) expected to open by 2018* *Expand Changi General Hospital (CGH) (add 250 beds) by 2014*	Est no. of hospitals as at end-2015 = 8 (~8,200 beds) - NTFGH (700 beds) opened in Jun 2015 - Expansion in existing hospitals by 482 new beds, including CGH (opened in Jul 2014) & NUH - NUH's renovation added 79 new beds in Dec 2013	Est no. of hospitals by 2020 = 9 (~9,200 beds) - Sengkang General Hospital (SKGH) (1,000 beds) target to complete by 2018 - In 2013, MOH announced plans to build four new acute hospitals between 2020 to 2030, subject to review nearer end 2020 eg Woodlands Integrated Healthcare Campus (WIHC), expected to open by 2022
Community hospital and beds	5 hospitals (822 beds)	- add 1,800 beds (4 new community hospitals) *St Andrew's Community Hospital (SACH) (225 beds) expansion by 2014* *Jurong Community Hospital (JCH) (400 beds), Yishun Community Hospital (YCH) (428 beds) expected to open by 2015* *Sengkang Community Hospital (SKCH) (400 beds) expected to open by 2018* *Outram Community Hospital (OCH) (550 beds) to be built next to Singapore General Hospital*	Est community hospitals as at end-2015 = 7 (1,900 beds) - JCH and YCH, opened in Jun and Dec 2015 respectively - expansion of existing community hospitals - incl SACH (2014), Ang Mo Kio Thye Hua Kwan Hospital (AMKTHKH) (50 beds; 2013), St Luke's Hospital (SLH) (50 beds; 2013)	Est community hospitals as at end-2020 = 9 (~2,800 beds) - SKCH (400 beds) target completion by 2018 - OCH (550 beds) target completion by 2020 - WIHC's community hospital; target opening in 2022
Nursing homes and beds	64 nursing homes (9,500 beds)	- approx. 560 every year from 2013 - 2015	Est homes by end-2015 = 68 (11,200 beds) - 2 new nursing homes opened in 2013 - 2 new nursing homes opened in 2015; Ren Ci Nursing Home (257 beds) & All Saints Home Yishun (183 beds)	Est homes by 2020 = 78 (17k beds) - 3 new homes to open in 2016 (All Saints Home Jurong East target to open in May 2016) - 7 new homes and add ~6,000 new beds by 2020 - WIHC's nursing home, target opening in 2022

Source: MOH, DBS estimates

Healthcare 2020 Masterplan – plan, progress and completion (cont'd)

	2012	Healthcare 2020 Masterplan (Announced in 2012)	Completed new capacity (2013 - 2015)	Planned capacity (post 2016)
Increasing accessibility – Infrastructure (cont'd)				
Increase Specialist Outpatient Clinics (SOC) capacity		- National University Cancer Institute (NUH Medical Center); expected to complete by 2013 - New National Heart Centre (NHC) expected to complete by 2013; capacity to increase by three times	- Completed NUH Medical Centre in 2013 - NHC building opened in 2014	
Increase polyclinics	18 polyclinics		- In 2013, 2 polyclinics (Geylang & Tampines) completed expansion to take in more capacity. 2 polyclinics - Ang Mo Kio Polyclinic and Bedok Polyclinic - announced upgrading works - In 2014, redevelopment plans for Bedok Polyclinic announced - to be redeveloped within an integrated campus - In 2015, expansion plans for Marine Parade Polyclinic started	Est polyclinics by 2020 = 22 - Identified 4 new polyclinics at Yishun (by 2017), Jurong West (by 2017), Sembawang (by 2020), Bukit Panjang (by 2020) - Marine Parade Polyclinic to be expanded from single to double storey by 2016 - In 2013, MOH announced plans to build 6 to 8 more polyclinics by 2030, on top of 2020's target

Source: MOH, DBS estimates

Healthcare 2020 Masterplan – plan, progress and completion (cont'd)

Healthcare 2020 Masterplan (announced in 2012)	Progress Update
Increasing accessibility - Private sector engagement	
Aim: Expand public hospital beds by tapping on spare capacity in private hospitals (average occupancy rate in private hospitals is approx. 55%) - NUH has been leasing 30 beds from Westpoint Hospital (WH) since 2009 - Parkway East Hospital (PEH) has agreed in-principle to lease beds to Changi General Hospital (CGH) - Patients to pay similar rates as-if staying in CGH, enjoy applicable subsidies - MOH will sign MOU with Raffles Hospital for similar arrangements	Updates in 2013: 50 beds leased from WH and PEH
Increasing accessibility - Building public healthcare workforce	
Aim: Increase healthcare workforce (i.e. doctors, nurses, dentists, pharmacists, allied health professionals) by 50%, or approx 20,000 more, by 2020 - Doctors (locally trained): Second medical school, Lee Kong Chian School of Medicine, to open in 2013. Intake to increase from 50 in 2013 to 150 eventually Third medical school in the works. Targeting 500 locally-trained doctors from three schools - Dentists: Increasing intake at National University of Singapore from 48 to 80 - Nurses: Increasing annual intake from 1700 to 2700 - Pharmacy: Increasing intake at National University of Singapore from 160 to 240 - Foreign trained professionals: Giving pre-employment grants for overseas-trained Singaporean medical students, 89 grants given out since 2010. Continue efforts to attract overseas-trained foreign medical professionals - Salaries enhancement: Increase doctors total compensation of c.20% by 2014. Increases and adjustments for doctors and dentists thereafter. One-time base pay increase of 4%-17% from Apr 2012 for nurses, pharmacists, allied professionals	Updates in 2013: About 100 pre-employment grants given out in the last year. MOH will give out S$50 million for training of healthcare professionals for FY2013 Updates in 2014: - Lee Kong Chian School of Medicine opened, increasing national intake by 17% to 413. - Annual nursing intake increased to 1,682, with target increased to 2,750 - 4000 senior public sector doctors will be remunerated under new framework, increased funding for intermediate to long-term care providers to increase staff pay and hire more staff - Singapore Institute of Technology to introduce healthcare related degree programmes Updates in 2015: Funding for selected doctors for postgraduate training in family medicine Updates in 2016: - Added 11,000 to healthcare workforce since 2011. - Various schemes introduced to attract non-practising local nurses and mid-career professionals for management roles, as well as Healthcare Skills Future Study Awards for healthcare workforce skills upgrading and training

Source: MOH, DBS estimates

** Please refer to appendix for further details on the Healthcare 2020 Masterplan*

Private sector has sufficient capacity in the near term

As mentioned above, the private sector has 532 licensed beds available, which is half of the 1,000 estimated to be required by 2030. The table below shows that Raffles Medical Group (Raffles) and IHH both have the largest number of potential new beds that can be added at 212 and 173 beds respectively. Farrer Park Hospital, the newest hospital, has 117 potential beds.

Singapore private hospitals have potential to add ~500 new beds vs an estimated 1,000 required by 2030

Singapore Private Hospitals	Hospital Operators	Operational (est)	Licensed (est)	Potential new beds	Remarks
Raffles Hospital	Raffles	168	380	212	Extension of Raffles Hospital target to open by 2018
Mt Elizabeth Novena Hospital	IHH	180	333	153	
Farrer Park Hospital (newest)	Farrer Park	103	220	117	
West Point Hospital	Econ Healthcare	28	58	30	Leased to NUH since 2009
Parkway East Hospital	IHH	93	113	20	Leased to MOH
Johns Hopkins / NUH Int. Medical Centre	Johns Hopkins	30	30	-	
Gleneagles Hospital	IHH	270	270	-	
Mt Alvernia Hospital	Mt Alvernia	335	335	-	
Mt Elizabeth Hospital	IHH	345	345	-	
Thomson Medical Centre	Thomson Medical	190	190	-	
Total		1,742	2,274	532	
Hospital operators with capacity					
Raffles		168	380	212	
IHH		888	1,061	173	
Farrer Park Hospital		103	220	117	
West Point Hospital		28	58	30	
Total		1,187	1,719	532	

Source: Singstat, OECD, MOH, WHO

The Healthcare Marketplace

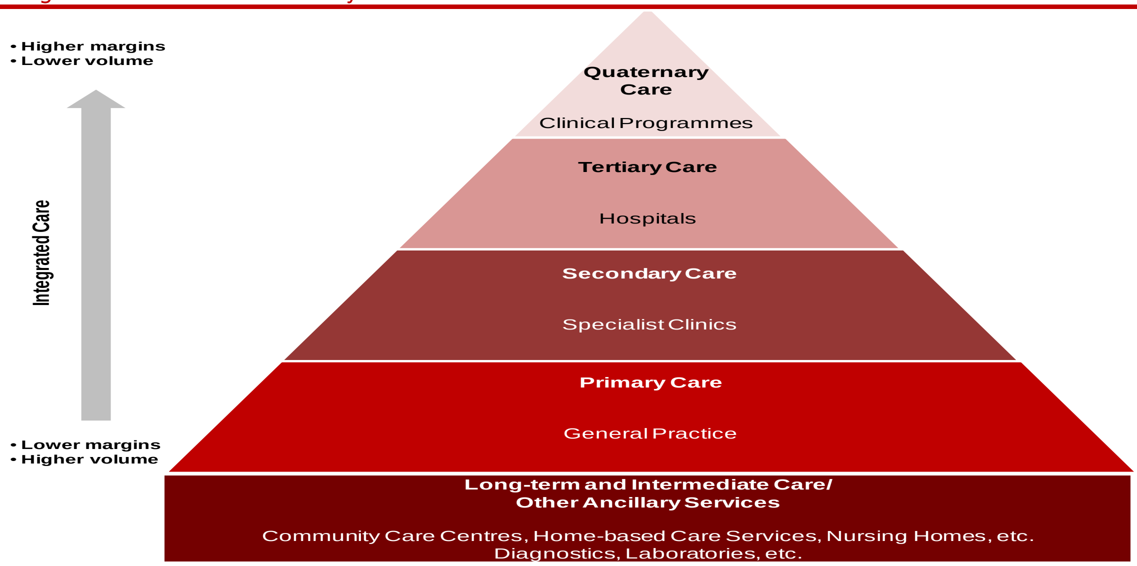
Market segments within the healthcare industry

Health care services are typically divided into four levels – primary, secondary, tertiary and quaternary - depending on the level of specialisation and complexity in the services performed. Ancillary services are supplemental services including diagnostic services, physical therapy and occupational therapy. The four levels of healthcare form the pyramid of healthcare where primary care, which is usually high in volume low in profit margins forms the base. Margins increase with the level of specialisation and complexity of services provided.

Based on data from the listed healthcare service companies in Singapore, primary healthcare margins are typically below 10% while margins for tertiary care (such as oncology) ranges between 60% to 80%. The hospital service providers report blended margins, ranging from 20% to 30%, depending on the level of complexity / specialisation of the service provided. (Please refer to the chart below).

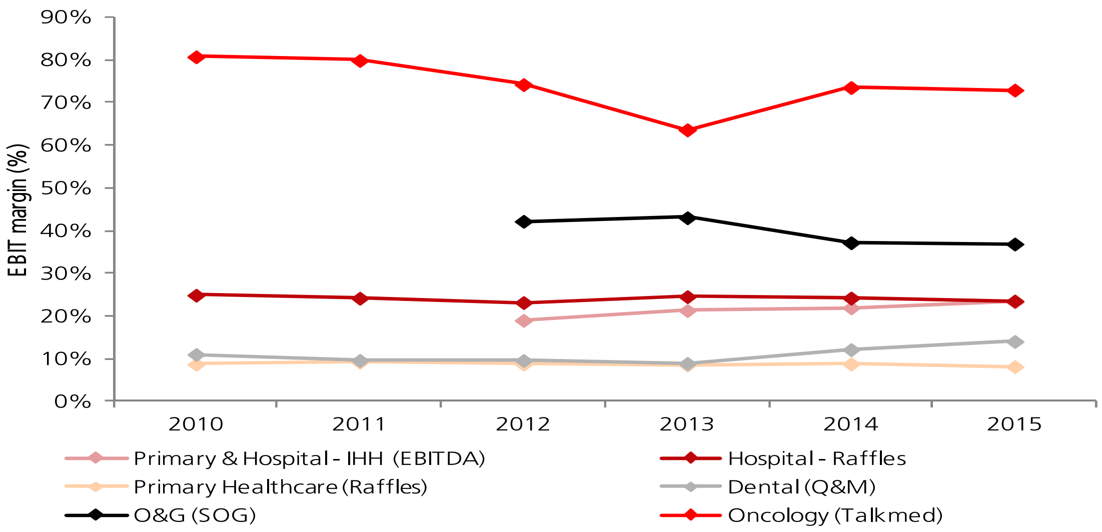
- Primary care – the most basic healthcare services provided to the general public, delivered by primary care physicians, nurses or family doctors on an outpatient basis. Primary care services are generally provided via health centres, clinics and sometimes pharmacies. They also include administering first-aid to injuries and dental services.
- Secondary care – refers to the intermediate healthcare services or consultation by medical specialists to patients, usually referred by primary care personnel and may be delivered through inpatient treatment and general surgery. Secondary care services are supported by healthcare workers such as nurses, pharmacists and allied health personnel.
- Tertiary care – this is the level of healthcare services provided to patients which typically involve specialist consultative care, advanced treatment or complex surgery and inpatient care. Tertiary care patients are usually referred by primary or secondary care personnel. The provision of these services is delivered via hospitals and medical centres with specialised equipment and facilities for complex medical interventions. Examples of tertiary care include cardiac surgery, neurosurgery, reconstructive surgery and cancer treatment.
- Quaternary care – is the highest level of healthcare services which involve high-risk and complex surgeries such as organ transplants.
- Ancillary services – auxiliary or supplemental services, such as diagnostic services, home health services, physical therapy and occupational therapy, used to support diagnosis and treatment of a patient's condition.

Categories of healthcare services by level of service



Source: IHH Prospectus

EBIT margins of operations of healthcare providers in Singapore

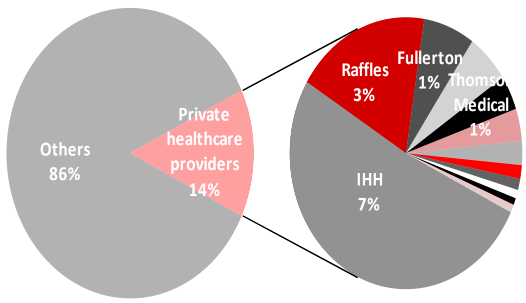


Source: Individual company's financials

Healthcare value chain in Singapore

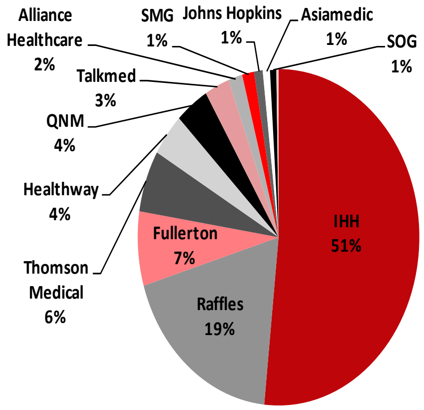
The key players in the healthcare industry are mainly the healthcare service providers with the largest being the hospital operators / owners, namely IHH and Raffles. The larger private healthcare providers account for approximately 14% of total private healthcare spending. Of this, IHH and Raffles are the two largest with a market share of 51% and 19% respectively.

Revenue of private healthcare providers comprises only 14% of private healthcare spending (FY15E)



Source: Individual company's latest financial statement. from ACRA/SGX, Singstat
Note: the list is not exhaustive

Market share by revenue of private healthcare providers' operations in Singapore



Source: Individual company's latest financial statement. from ACRA/SGX
Note: the list is not exhaustive

Healthcare Value Chain			
		Companies listed on SGX	Private companies
Payers	Governments, insurers, individuals	Great Eastern Holdings, Prudential PLC	NTUC
Sponsors/ Investors	Sovereign wealth funds, private equity, institutional investors		
Healthcare Providers	Hospitals, clinics (general practitioners, specialists, alternative medicine), nursing homes, elderly care, laboratories and diagnostics	Health Management International, Healthway Medical Corporation Ltd, IHH Healthcare Berhad, ISEC Healthcare Ltd, Q&M Dental Group, Raffles Medical Group, Singapore Medical Group, Singapore O&G Ltd, Talkmed Group, Asiamedic	Alliance Healthcare, Ma Guang (TCM), Pacific Healthcare, Prohealth Medical Group, Thomson Medical Centre, Econ Healthcare, Farrer Park Hospital, Concord Cancer Hospital
Asset Owners	REITS, hospitals, nursing homes, pharmaceutical warehouses	First Reit, Parkway Life REIT, Religare Health Trust	
Distributors	Pharmacies, distributors and wholesalers, healthcare logistics and service providers		Unity
Producers	Manufacturers of pharmaceutical drugs, biologics, medical equipment and devices, health consumables, personal healthcare products, other medical technology and biotechnology firms, information systems providers, medical facilities builders	Cordlife Singapore, Haw Par Corporation, IX Biopharma QT Vascular, Riverstone Holdings, Tianjin Zhongxin Pharmaceutical Group, UG Healthcare Corporation, VicPlas International	

Source: DBS Bank

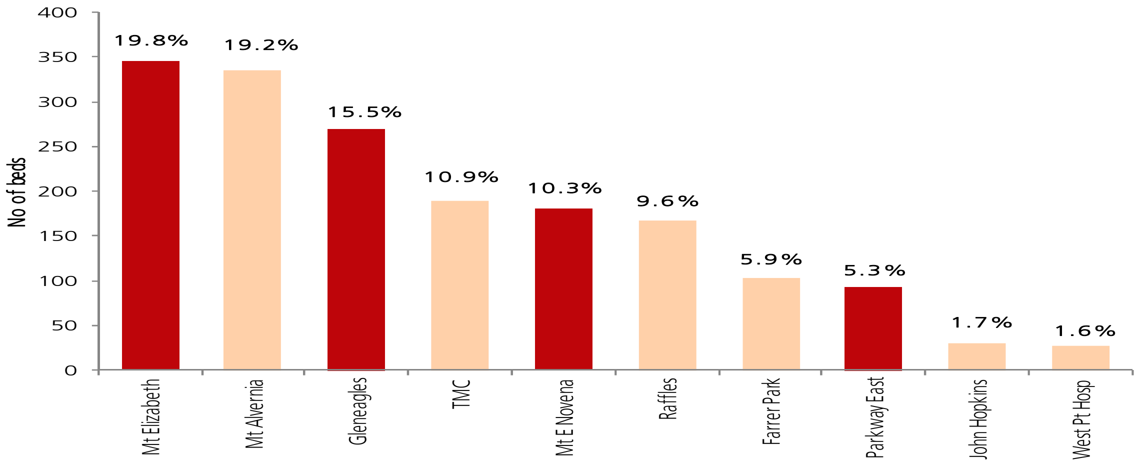
Note: The list is not exhaustive

Private hospitals

Singapore's private hospitals operate in an oligopoly market with IHH being the largest hospital operator. Singapore has ten private hospitals currently, of which four are owned by IHH - Mount Elizabeth, Gleneagles, Mount Elizabeth Novena and Parkway East. IHH's operational beds account for half the total number of beds in private hospitals. By revenue, IHH has an estimated market share of 71%, followed by Raffles at 18% and Thomson Medical Center at 9%. Farrer Park Hospital is the newest-kid-on-the-block, and started operations in 2015. Based on licensed beds, Farrer Park has a market of 10%.

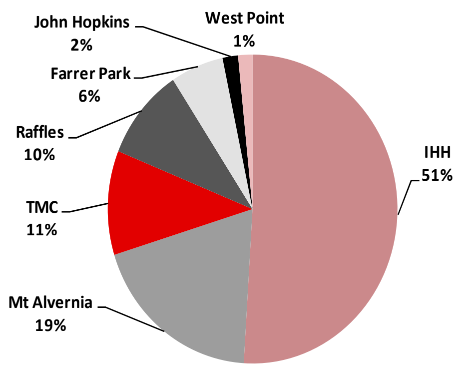
As mentioned above, the private hospitals have yet to fully utilise their licensed capacity with potentially some 530 beds yet to be put to use. Raffles Hospital has the largest spare capacity with 212 beds, potentially to be used for the Raffles Hospital extension, which is expected to complete by 2017. IHH and Farrer Park have spare capacity of 173 beds and 117 beds respectively.

Market share of private hospitals by number of operational beds



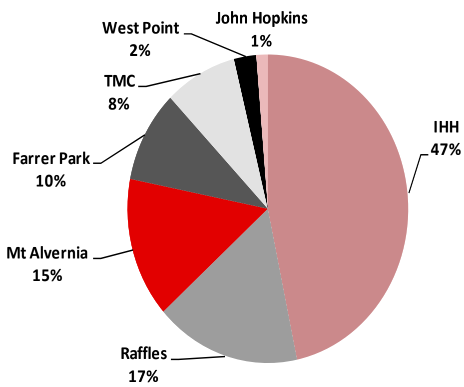
Source: Individual hospital's website

Market share by estimated number of operational beds



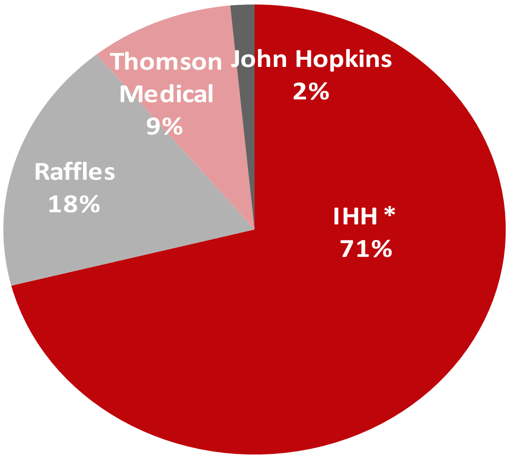
Source: Individual hospital's website

Market share by estimated number of licensed beds



Source: Individual hospital's website

Market share of private hospitals by revenue



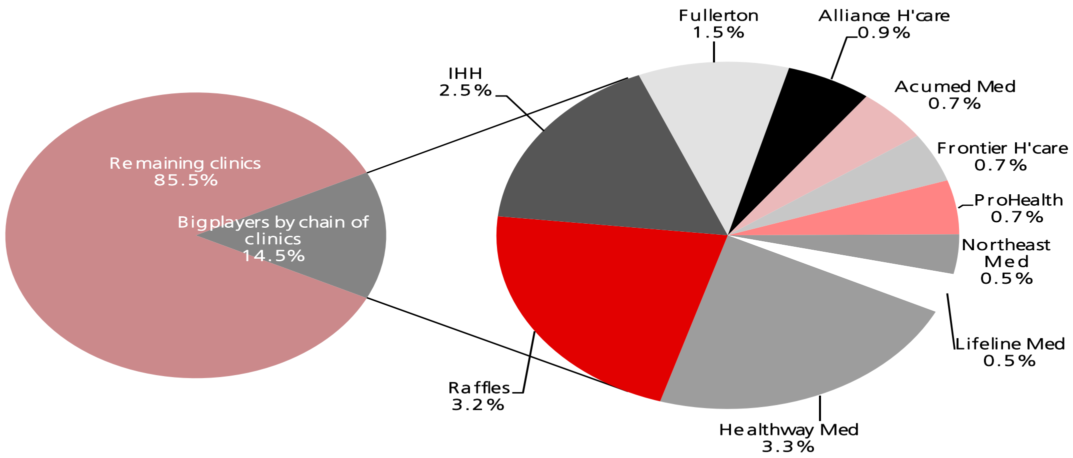
Source: Individual company's latest financial statement. from ACRA/SGX
** estimates*
Note: list is not exhaustive

Primary Healthcare

The primary healthcare segment in Singapore has progressed and matured from a large number of fragmented and predominantly individual-owned clinics to primary healthcare providers with large chain of clinics and some providing integrated services, and the development of enterprise healthcare services. Nevertheless, the primary healthcare segment in Singapore is still very fragmented with the big players comprising only 15% of the primary healthcare market by number of clinics. The key players in this segment are Healthway Medical (3.3%), Raffles (3.2%), IHH (2.5%) and Fullerton Healthcare (1.5%). By revenue, Fullerton Healthcare leads with a market share 28% among the key primary healthcare providers, followed by Raffles at 27% and IHH (via Parkway Shenton) at 23%.

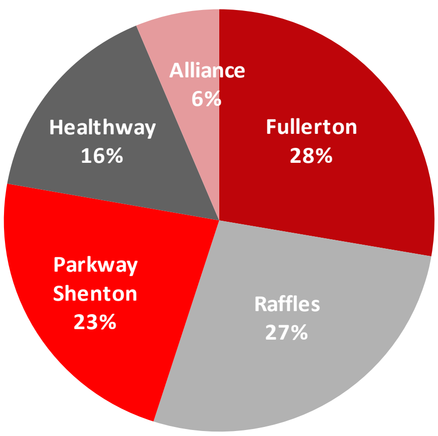
There are still consolidation opportunities in the primary healthcare segment as players continue to seek volume growth to benefit from economies of scale. We believe demand for enterprise healthcare services will continue to grow especially as healthcare insurance expands in a predominantly private-funded healthcare system.

Market share of primary healthcare players by number of clinics: The 10 largest players make up only 15% of the market



Source: Individual company's website
Note: list is not exhaustive

Market share of key primary healthcare players by revenue



Source: Individual company's latest financial statement. from ACRA/SGX

The potential of the long-term healthcare services

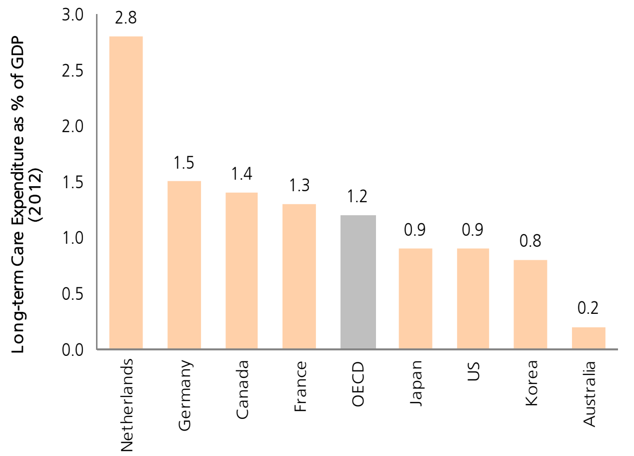
The need for long-term care as society ages has driven the evolution of long-term care services to better meet the needs of seniors and persons with disabilities. Long-term care is not limited to nursing care only but now encompasses a wide range of health, personal care and supportive services for frail older people and adults with limited self-care capabilities due to health-related conditions. Long-term care can come in various settings including adult day services center, home helath agency, hospice, nursing homes and residential care community.

Currently in Singapore, long-term care is largely provided by the government and individually owned or charity-based elderly homes. The lack of private sector providing long-term care services could partly be due to the social-stigma of living in long-term care homes following a strong Confucius-based Asian culture, and hiring of helpers for assisted living is still relatively affordable. However, with the dependency ratio falling and rising wages, we believe elderly people may soon be left with few options when assisted living is required. Additionally, the modern concept of long-term care homes coupled with a change in mindset among the 'new' elderly generation could be factors to change the social stigma, albeit gradually.

In comparison with the OECD countries, Singapore has the lowest number of long-term care beds per 1,000 population at 2 beds versus 6 beds. Singapore's number of long-term care beds per 1,000 aged population at 28 beds is below the OECD average of 38 beds but fared better than Japan (25 beds), Korea (23 beds) and Italy (18 beds).

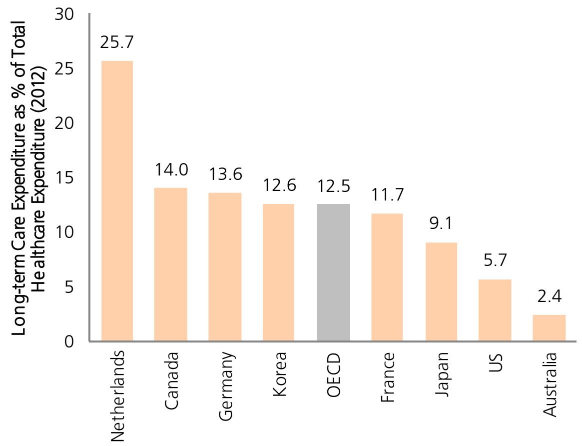
Based on the OECD average, long-term nursing care expenditure comprises approximately 1.2% of GDP and 12.5% of total healthcare expenditure. Drawing parallels to the experiences in the OECD countries, the long-term nursing care market could potentially grow to S$5.4bn to S$7.3bn.

Long-term care expenditure (% of GDP)



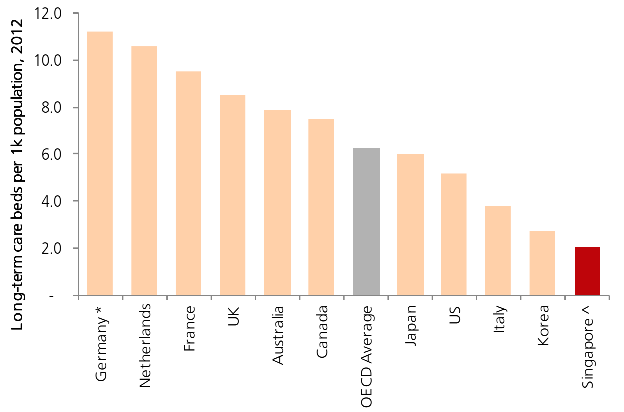
Source: OECD

Long-term care expenditure (% of THE)



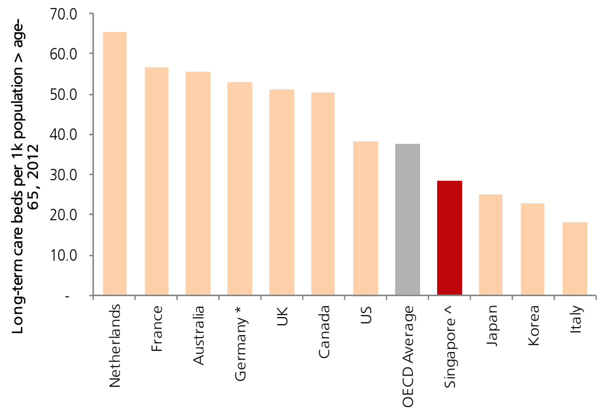
Source: OECD

Singapore has the lowest long-term nursing care beds per 1k population (FY12) …



*Source: OECD, *Germany's data is as at FY13*

….fares better for beds per 1k aged population



Source: OECD, Germany's data is as at FY13

Valuations and stock picks in the healthcare sector

The healthcare sector has been the best performing sector since 2012. The sector outperformed the market by 72% with the large cap healthcare providers (IHH and Raffles) leading at 91%. The healthcare sector is favoured as a resilient sector amid market weakness. The healthcare sector was one of the two sectors to show a positive performance since December 2014, up 25% in absolute terms vs 17% fall in STI Index. During the recent market correction (April 2015 to January 2016) led by the fall in oil prices and Fed potentially raising interest rates, the healthcare sector has stayed resilient - healthcare stocks fell marginally by 5.2% while the large cap healthcare providers remained relatively flat (-0.3%), compared to the 25% drop in STI Index.

Within the healthcare sector, there are only a handful of stocks with market caps above US$1bn and 3-mth average daily value of US$1m, namely IHH, Raffles and Parkway Life REIT (PLife REIT). The sector's performance since Dec 2011 was largely led by the large cap healthcare providers with share prices almost doubling while healthcare asset owners' stock prices have increased 47% versus 7% rise in STI index. The small caps healthcare stocks have underperformed the market with prices of small cap healthcare service providers largely flat and 6% lower for the medical products segment.

The healthcare sector (large cap healthcare providers) currently trade at 24x forward EV/EBITDA, at the higher end of historical range. In comparison to global peers, the healthcare sector in ASEAN trades at higher valuation than its peers in the US and Australia. However, the ASEAN healthcare hospitals offer higher growth versus the larger cap hospital operators in the US and Australia. On EV/EBITDA-to-EBITDA 2- year CAGR, the large US and Australia hospital providers trade at multiples of 1.2-1.3x. IHH currently trades at 1.6x EV/EBITDA-to-Growth while Raffles trades at 3.2x.

Stock picks:

IHH Healthcare Berhad [IHH MK, BUY; TP: S$7.60]. We upgrade our rating to BUY (from HOLD) with a revised TP of S$7.60. Among the larger cap, we prefer IHH Healthcare due to its growth potential, geographically diversified operations and key management team with strong track record. Whilst earnings growth could be a tad slower in the immediate term due to opening of a number of new hospitals, we believe its upcoming Gleneagles Hong Kong Hospital (target to open by Jan 2017) could have positive impact double that of Mt E Novena, given that the size of Gleneagles HK is more than double Mt E Novena, thus, leading IHH into its next phase of growth. Apart from Gleneagles Hong Kong, IHH plans to open 2 other new hospitals in 2017 (Acibadem's largest hospital, Acibadem Altunizade and Parkway Hospital in Chengdu) and ParkwayHealth Shanghai in 2020. We believe near-term price weakness could be a good entry opportunity for medium to long term growth prospects. IHH currently trades at 22x FY17E EV/EBITDA, close to historical average of 21x, in line with regional peers.

Singapore O&G [SOG SP, Initiate BUY; TP: S$1.05]. We initiate coverage on Singapore O&G (SOG). We are projecting 3-year earnings CAGR of 29%, driven by recent acquisitions coupled with market share growth with new recruitment of doctors. We like this counter for its specialized focus on women's health, and aiming to grow via adding on ancillary and complementary services to the obstetrician and gynaecology (O&G) specialization. In addition, we believe SOG has aligned its doctors and shareholders' interest, with a high dividend policy of 90%. The medical practitioners collectively own 78% stake in the company. SOG currently trades at 21x FY17F PE, close to the higher end of historical range but looks like a steal compared to other healthcare peers.

ParkwayLife REIT [PREIT SP, BUY; TP: S$2.65]. We like Parkway Life REIT (PLife REIT) for its steady earnings stream, defensive profile and astute management. The REIT has a weighted average lease expiry of close to 9 years. Furthermore, we like the rental structure of its Singapore Hospitals (63% of total revenues) pegged to CPI+1%, and thus we would still witness 1% growth with CPI trailing below zero recently. The remaining 36% is derived from its nursing homes and healthcare facilities in Japan. Key potential catalysts are i) positive roll-out of its asset recycling exercise in Japan, and ii) potential acquisition of earnings accretive hospital assets. PLife REIT currently trades at historical average yield of 5%.

Raffles Medical [RFMD SP, HOLD; TP: S$1.43]. We maintain our HOLD recommendation for Raffles Medical [RMFD SP; HOLD, TP: S$1.43] as near-term earnings will moderate as a result of the gestation period of new hospitals / medical practices and potential headwinds from slowing economic growth. The Raffles Hospital Extension is expected to complete in 2017 while the completion of its Shanghai Hospital has been deferred to 2018. Raffles currently trades at 26x FY16E EV/EBITDA, above the higher end of historical range. We maintain our HOLD rating with a target price of S$1.43 per share.

Riverstone is the global market leader in the manufacture of higher-margin cleanroom nitrile gloves, and indirect beneficiary of the healthcare sector. Despite being a relatively new entrant in the healthcare glove industry, it has grown this segment quickly – which now makes up about half of the group's revenues. Its key geographic market in Europe contributed 42.5% of the group's FY15 revenue. Given weakness in the Hard Disc Drive (HDD) manufacturing sector, which currently represents 45% of revenue, we think that the unfavourable mix shift toward a greater proportion of lower-margin healthcare gloves, coupled with ASP pressure and near-term industry headwinds (such as the weaker USD/MYR and higher raw material costs, compared to a year ago), will likely lead to flat earnings growth for the Group in FY16 despite the 19% increase in planned capacity for 2016. Riverstone currently trades at c.15x blended FY16/17F PE.

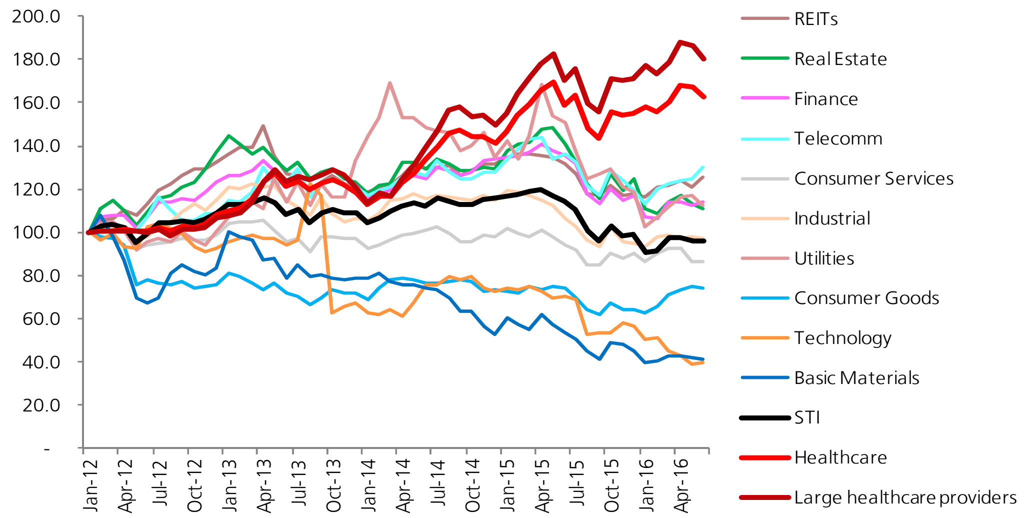
- Non-rated stocks within the sector:

  - Q&M Dental (Q&M) owns the largest network of private dental outlets in Singapore. It derives 71% of its revenue from its Singapore operations and its second largest market is China, contributing 23%. Q&M continues to expand in China with its recent MOU to acquire 33% effective interest in Shenzhen New Perfect Dental Research, a dental prosthetic device provider (focusing on custom-made prostheses), to further expand its dental manufacturing business. Q&M has plans to spin-off its China operations (Q&M Dental Holdings (China) and Q&M Aidite International) in the future. Q&M currently trades at 33x FY17F PE, below its peak of 50x. Historical average was 26x.

  - Cordlife provides cord blood and cord lining banking services regionally. Its core business provides a steady stream of earnings and recurring cashflows. Its Singapore operation contributed 58% of FY15 revenue, followed by India (22%) and Hong Kong (8%). Cordlife remains committed to its strategy to drive growth by increasing its market share and market penetration in existing markets (India, Philippines and Indonesia) and expanding its ancillary services through the development of new diagnostics products. While the core business remains stable, there is uncertainty with the change of leadership in the company. Cordlife had recently appointed Dr Wong Chiang Yin as the new Executive Director cum Group CEO after ex-CEO Mr Jeremy Yee left the company in March 2016. Cordlife currently trades at a core PE of c.48x FY17F earnings. Valuations are supported by cashflows, taking into account recurring nature of the instalment plans, its stake in Stemlife and net cash position.

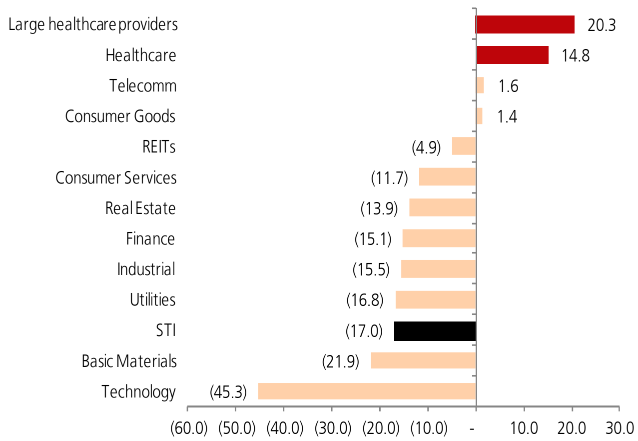
  - UG Healthcare, a glove (mainly examination gloves) manufacturer and distributor, is an indirect beneficiary of the growth in the healthcare sector. Its largest market, UK contributed 23% of the group's FY15 revenue. Unlike its peers, UG Healthcare could leverage on its own international distribution network for better margin preservation compared to peers amidst rising competition and near-term industry headwinds from the weaker USD/MYR and higher raw material costs. UG Healthcare currently trades at 14x FY17E PE, below its historical average.

Healthcare sector has been the best performing sector since Jan 2012



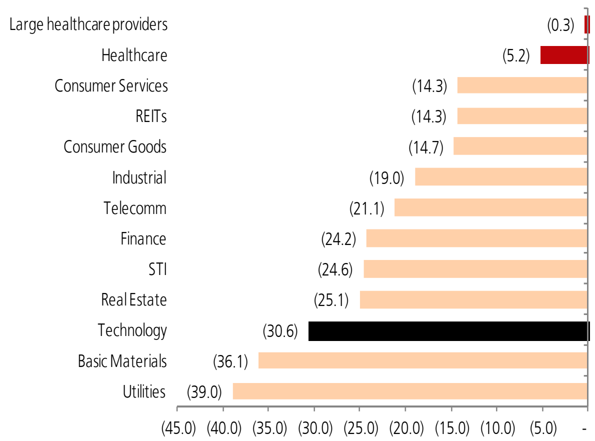
Source: Bloomberg Finance L.P.

Healthcare sector : best performing sector (+37% relative performance) since Dec 2014



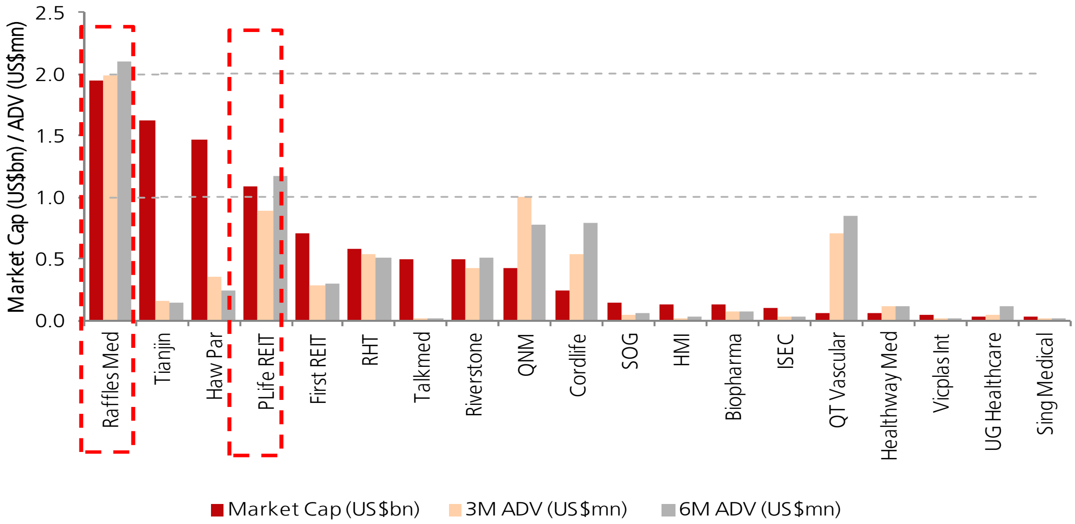
Source: Bloomberg Finance L.P.

Healthcare sector : most resilient during market correction (April 2015 to Jan 2015)



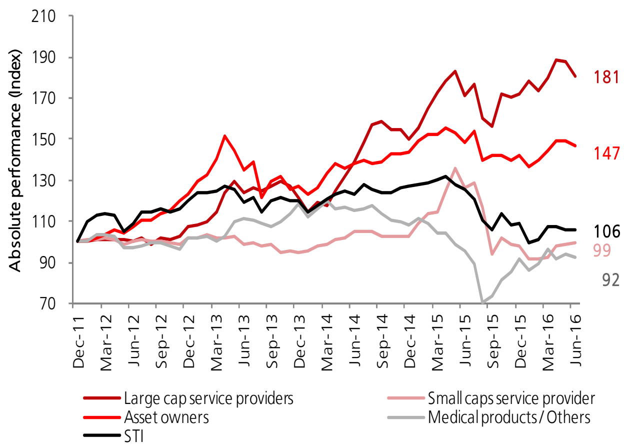
Source: Bloomberg Finance L.P.

Most listed healthcare stocks have market cap below US$1b and average daily value (ADV) below US$1m except IHH, Raffles Med and Plife REIT (IHH , market cap of US$13b and ADV of US$11m, has been excluded in the chart for better presentation purposes)



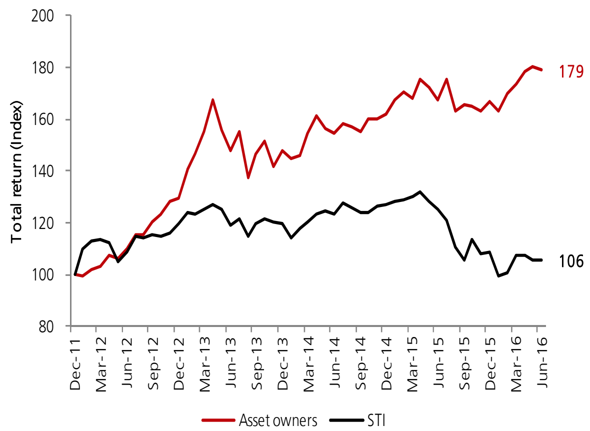
Source: Bloomberg Finance L.P.

Absolute share price performance of various health care classes



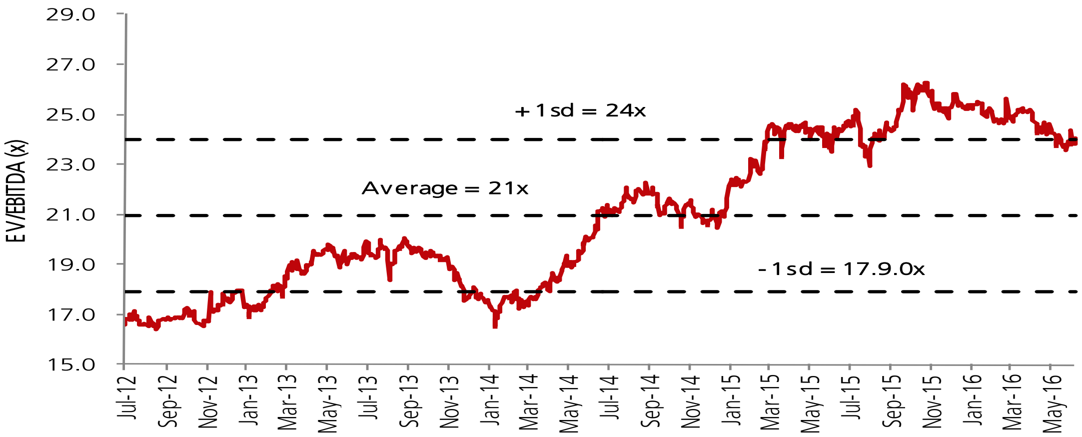
Source: Bloomberg Finance L.P., DBS estimates

Total return of health care asset owners



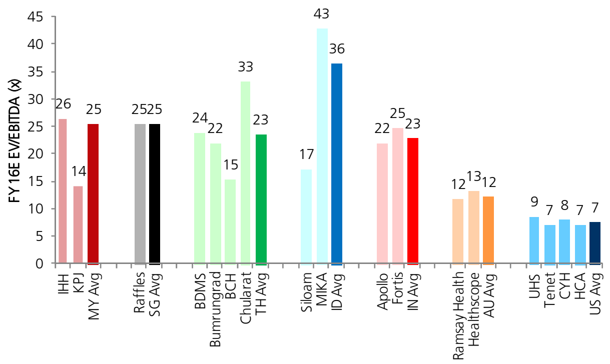
Source: Bloomberg Finance L.P., DBS estimates

Large healthcare service providers' sector trades at 24x forward EV/EBITDA, 1 standard deviation above historical average



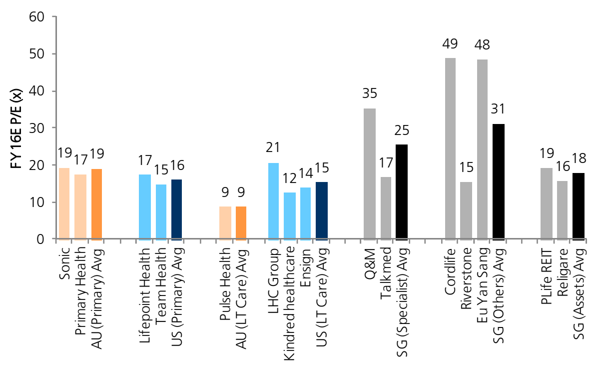
Source: Bloomberg Finance L.P.

FY2016E Regional EV/EBITDA – Hospitals



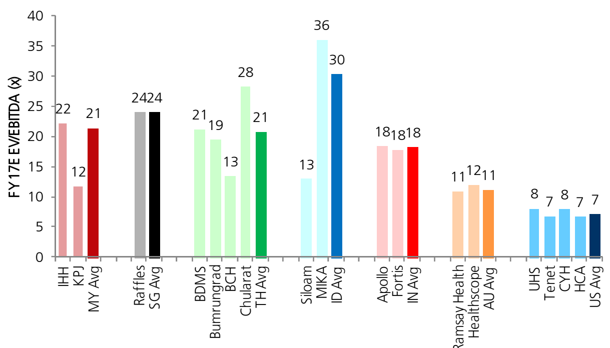
Source: Thomson Reuters, DBS estimates, IBES estimates

FY2016E Regional PE – Other segments



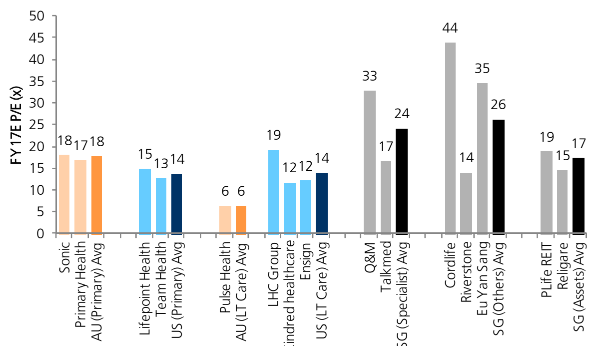
Source: Thomson Reuters, DBS estimates, IBES estimates

FY2017E Regional EV/EBITDA – Hospitals



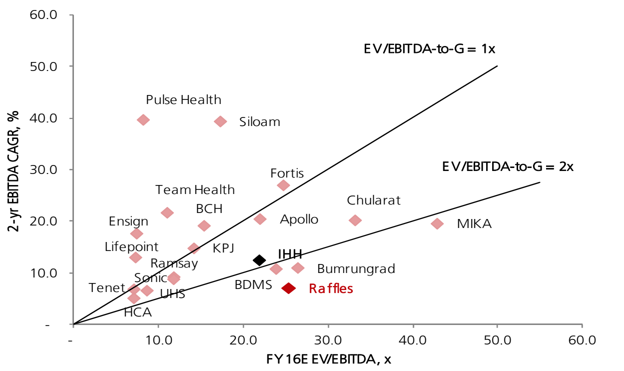
Source: Thomson Reuters, DBS estimates, IBES estimates

FY2017E Regional PE – Other segments



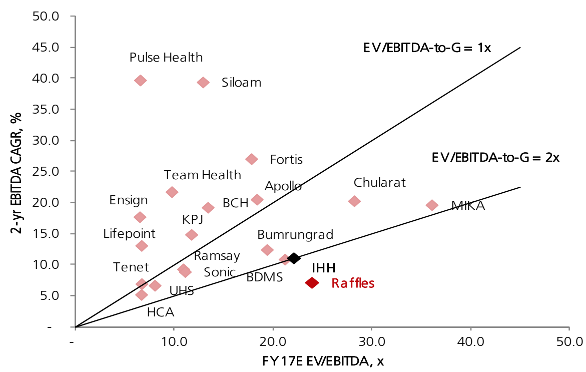
Source: Thomson Reuters, DBS estimates, IBES estimates

FY2016E EV/EBITDA to 2-yr EBITDA CAGR – Hospitals



Source: Thomson Reuters, DBS estimates, IBES estimates

FY2017E EV/EBITDA to 2-yr EBITDA CAGR – Hospitals



Source: Thomson Reuters, DBS estimates, IBES estimates

Peer Comparisons – Listed Healthcare-related stocks

Company	Ticker	Price LC$	Rating	Target price^ LC$	Mkt Cap US$b	3M ADV US$m	P/E FY16E	P/E FY17E	P/BV FY15	EV/EBITDA FY16E	EV/EBITDA FY17E
Hospitals											
IHH	IHH MK	6.60	BUY	7.25	12.8	11.4	55.2	43.5	2.4	26.8	22.4
Raffles	RFMD SP	1.51	HOLD	1.43	3.7	3.8	35.5	33.5	4.3	25.5	24.4
Asset Owners											
PLife REIT	PREIT SP	2.42	BUY	2.65	2.0	1.8	19.1	18.8	1.4	22.5	22.4
Religare	RHT SP	0.99	HOLD	0.95	1.1	0.9	16.7	15.3	1.0	11.9	9.9
Dental Care											
Q&M	QNM SP	0.72	NR	0.80	0.8	1.9	35.6	33.0	6.4	28.0	25.4
Outpatient Clinics (Specialists and/or General Practitioners)											
Singapore O&G	SOG SP	0.83	BUY	1.05	0.3	0.1	24.1	20.5	7.5	17.5	14.5
Talkmed	TKMED SP	1.03	NR		0.8	0.0	17.1	17.1	12.0	11.7	11.2
Medical Supplies and Equipments											
Cordlife	CLGL SP	1.27	NR	1.41	0.5	1.1	50.8	47.9	2.0	22.3	35.8
Riverstone	RSTON SP	0.91	HOLD	1.00	0.9	0.8	15.4	14.1	4.1	10.2	9.0
UG Healthcare	UGHC SP	0.30	NR	0.33	0.1	0.2	15.7	14.4	1.5	10.7	9.9

*Source: Bloomberg Finance L.P., DBS estimates, IBES estimates. *Prices as at 30 June 2016. ^Potential target price for non-rated stocks.*
NR – Non-rated, NA – not available / not applicable

Appendix

Appendix 1: Healthcare 2020 Masterplan – plan, progress and completion

	2012	Healthcare 2020 Masterplan (Announced in 2012)	Completed new capacity (2013 – 2015E)	Planned capacity (post 2016)
Increasing accessibility - Infrastructure				
Acute hospital and beds	7 hospitals (7000 hospital beds)	- add 1,900 beds (+30% capacity) - expand 1 existing hospital *Ng Teng Fong General Hospital (NTFGH) (700 beds) expected to open by 2014* *Sengkang General Hospital (SKGH) (1,000 beds) expected to open by 2018* *Expand Changi General Hospital (CGH) (add 250 beds) by 2014*	Est no. of hospitals as at end-2015 = 8 (~8,200 beds) - NTFGH (700 beds) opened in Jun 2015 - Expansion in existing hospitals by 482 new beds, including CGH (opened in Jul 2014) & NUH - NUH's renovation added 79 new beds in Dec 2013	Est no. of hospitals by 2020 = 9 (~9,200 beds) - Sengkang General Hospital (SKGH) (1,000 beds) target to complete by 2018 - In 2013, MOH announced plans to build four new acute hospitals between 2020 to 2030, subject to review nearer end 2020 eg Woodlands Integrated Healthcare Campus (WIHC), expected to open by 2022
Community hospital and beds	5 hospitals (822 beds)	- add 1,800 beds (4 new community hospitals) *St Andrew's Community Hospital (SACH) (225 beds) expansion by 2014* *Jurong Community Hospital (JCH) (400 beds), Yishun Community Hospital (YCH) (428 beds) expected to open by 2015* *Sengkang Community Hospital (SKCH) (400 beds) expected to open by 2018* *Outram Community Hospital (OCH) (550 beds) to be built next to Singapore General Hospital*	Est community hospitals as at end-2015 = 7 (1,900 beds) - JCH and YCH, opened in Jun and Dec 2015 respectively - expansion of existing community hospitals - incl SACH (2014), Ang Mo Kio Thye Hua Kwan Hospital (AMKTHKH) (50 beds; 2013), St Luke's Hospital (SLH) (50 beds; 2013)	Est community hospitals as at end-2020 = 9 (~2,800 beds) - SKCH (400 beds) target completion by 2018 - OCH (550 beds) target completion by 2020 - WIHC's community hospital; target opening in 2022
Nursing homes and beds	64 nursing homes (9,500 beds)	- approx. 560 every year from 2013 - 2015	Est homes by end-2015 = 68 (11,200 beds) - 2 new nursing homes opened in 2013 - 2 new nursing homes opened in 2015; Ren Ci Nursing Home (257 beds) & All Saints Home Yishun (183 beds)	Est homes by 2020 = 78 (17k beds) - 3 new homes to open in 2016 (All Saints Home Jurong East target to open in May 2016) - 7 new homes and add ~6,000 new beds by 2020 - WIHC's nursing home, target opening in 2022
Increase Specialist Outpatient Clinics (SOC) capacity		- National University Cancer Institute (NUH Medical Center); expected to complete by 2013 - New National Heart Centre (NHC) expected to complete by 2013; capacity to increase by three times	- Completed NUH Medical Centre in 2013 - NHC building opened in 2014	

Source: MOH, DBS estimates

Appendix 1: Healthcare 2020 Masterplan – plan, progress and completion (cont'd)

	2012	Healthcare 2020 Masterplan (Announced in 2012)	Completed new capacity (2013 - 2015)	Planned capacity (post 2016)
Increasing accessibility – Infrastructure (cont'd)				
Increase polyclinics	18 polyclinics		- In 2013, 2 polyclinics (Geylang & Tampines) completed expansion to take in more capacity. 2 polyclinics - Ang Mo Kio Polyclinic and Bedok Polyclinic - announced upgrading works - In 2014, redevelopment plans for Bedok Polyclinic announced - to be redeveloped within an integrated campus - In 2015, expansion plans for Marine Parade Polyclinic started	Est polyclinics by 2020 = 22 - Identified 4 new polyclinics at Yishun (by 2017), Jurong West (by 2017), Sembawang (by 2020), Bukit Panjang (by 2020) - Marine Parade Polyclinic to be expanded from single to double storey by 2016 - In 2013, MOH announced plans to build 6 to 8 more polyclinics by 2030, on top of 2020's target

Healthcare 2020 Masterplan (announced in 2012)	Progress Update
Increasing accessibility - Private sector engagement	
Aim: Expand public hospital beds by tapping on spare capacity in private hospitals (average occupancy rate in private hospitals is approx. 55%) - NUH has been leasing 30 beds from Westpoint Hospital (WH) since 2009 - Parkway East Hospital (PEH) has agreed in-principle to lease beds to Changi General Hospital (CGH) - Patients to pay similar rates as-if staying in CGH, enjoy applicable subsidies - MOH will sign MOU with Raffles Hospital for similar arrangements	**Updates in 2013:** 50 beds leased from WH and PEH
Increasing accessibility - Building public healthcare workforce	
Aim: Increase healthcare workforce (i.e. doctors, nurses, dentists, pharmacists, allied health professionals) by 50%, or approx 20,000 more, by 2020 - Doctors (locally trained): Second medical school, Lee Kong Chian School of Medicine, to open in 2013. Intake to increase from 50 in 2013 to 150 eventually Third medical school in the works. Targeting 500 locally-trained doctors from three schools - Dentists: Increasing intake at National University of Singapore from 48 to 80 - Nurses: Increasing annual intake from 1700 to 2700 - Pharmacy: Increasing intake at National University of Singapore from 160 to 240 - Foreign trained professionals: Giving pre-employment grants for overseas-trained Singaporean medical students, 89 grants given out since 2010. Continue efforts to attract overseas-trained foreign medical professionals - Salaries enhancement: Increase doctors total compensation of c.20% by 2014. Increases and adjustments for doctors and dentists thereafter. One-time base pay increase of 4%-17% from Apr 2012 for nurses, pharmacists, allied professionals	**Updates in 2013:** About 100 pre-employment grants given out in the last year. MOH will give out S$50 million for training of healthcare professionals for FY2013 **Updates in 2014:** - Lee Kong Chian School of Medicine opened, increasing national intake by 17% to 413. - Annual nursing intake increased to 1,682, with target increased to 2,750 - 4000 senior public sector doctors will be remunerated under new framework, increased funding for intermediate to long-term care providers to increase staff pay and hire more staff - Singapore Institute of Technology to introduce healthcare related degree programmes **Updates in 2015:** Funding for selected doctors for postgraduate training in family medicine **Updates in 2016:** - Added 11,000 to healthcare workforce since 2011. - Various schemes introduced to attract non-practising local nurses and mid-career professionals for management roles, as well as Healthcare Skills Future Study Awards for healthcare workforce skills upgrading and training

Source: MOH, DBS estimates

Appendix 1: Healthcare 2020 Masterplan – plan, progress and completion (cont'd)

Healthcare 2020 Masterplan (announced in 2012)	Progress Update
Increasing quality – Regional Health System (RHS)	
Aim: Focus on integrated care, seamless care post-discharge - Re-organise healthcare system into Regional Health Systems (RHS) - Each RHS within a geographical region will be anchored by an acute hospital, supported by community hospitals, other care providers such as nursing homes, home care, day rehabilitation providers, polyclinics and general practitioner clinics - Agency for Integrated Care (AIC) will help patients identify suitable care providers - National Electronic Health Records (NEHR) will help in terms of information flow between acute hospitals and step-down care facilities	Updates in 2013: - MOH has set up Eastern Health Alliance, which is working with Health Promotion Board on community outreach efforts - NEHR has been extended to approx 5000 clinical users within public healthcare system: 8 hospitals, 6 specialty centres, polyclinics, as well as AIC, selected GPs and long-term care providers - Will be rolled out to nursing homes subsequently Updates in 2014: - Healthcare clusters are starting new programmes, for instance, Khoo Teck Puat Hospital's Ageing-in-Place programme places emphasis on patients with multiple admissions within a half year period - Introduction of Telehealth: projects in development under RHS for patients with chronic illnesses Updates in 2016: - AIC's pilot transportation program to fetch the number of elderly people from home to care facilities to be expanded from 130 in the previous year to 200 in 2016
Increasing quality – Primary care	
Aim: Support General Practitioners (GPs) to facilitate better community-based care for residents, outside of specialist outpatient clinics in hospitals - Pilot 4 Family Medicine Clinics (FMCs) in 2012 to test effectiveness in managing chronic disease patients within the community, patients will see same doctors in every visit in FMCs - MOH in midst of working with potential providers to set up Community Health Centres (CHCs) aimed at providing allied health services and supporting GPs - MOH studying feasibility of Medical Centers set up by hospitals to provide community-based services such as day surgery and other basic specialist services	Updates in 2013: 4 CHCs will be set up by 2013, including Tampines, Bedok, Jurong East, Tiong Bahru. 4 FMCs piloted in 2013 instead at Clementi, Lakeside, Ang Mo Kio, and Bedok Updates in 2014: 2 new FMCs and 3 CHCs (Bedok, Tiong Bahru, mobile CHC covering Ang Mo Kio, Hougang, Toa Payoh) to open in 2014 Updates in 2015: 1 new FMC at Hougang. Further plans to integrate GPs into healthcare system
Increasing quality – Dental care	
	Updates in 2015: New Centre for Oral Health at NUH, target completion by 2019

Source: MOH, DBS estimates

Appendix 1: Healthcare 2020 Masterplan – plan, progress and completion (cont'd)

Healthcare 2020 Masterplan (announced in 2012)	Progress Update
Increasing quality – Aged care	
	Updates in 2013: - 39 senior care centres, and 56 seniors' activity centres by 2016, of which 3 senior care centres will open in 2013 - Added 750 new home healthcare places, from 3,750 in previous year - MOH to review care standards in nursing homes and centre-based care, look into developing home care sector Updates in 2014: - Enhanced Nursing Home Standards to be effective from 2015, with necessary funding provided to providers to cope with new standards, new Home Care Guidelines also in works - Target to increase transitional care programmes' capacity from 2,000 patients a year to 3,300 patients by end of FY14 - Home care providers now manage 5,400 elderly people with home-based healthcare needs, 1,100 elderly with home-based personal care needs annually, with target of 10,000 patients and 7,500 patients respectively by 2020 - Introduced Interim Caregiver Service, for elderly who are just discharged, 12 hours of personal care per day for up to 12 days - AIC to work with homecare providers to integrate home-based healthcare and home-based personal care provision - MOH prepared to change funding approach for home nursing, home medical and home-based personal care from per-visit basis to per-client basis to promote integrated care approach, centering around each patient's needs - Nursing Home Respite Care (NHRC) Pilot involving nursing homes, weekend respite care will also be piloted in eldercare centres by end of FY14 Updates in 2015: - Weekend respite care introduced in Apr 2014, now offering 280 places per weekend - Target 10,000 home care places, 6,200 day care places, 6,000 home pallative care places by 2020. Since 2011, no. of places increased by 2,700, 1,200, 1,000 respectively - Private sector now able to provide subsidised home and community care services under Build-Own-Lease model Updates in 2016: - On track to add more than 6,600 places in community care, home care, and palliative care. As of Apr 2016, 6,900 home care places and 3,500 day care places available - Home and Community Care Masterplan unveiled, several initiatives to be piloted, including (1) single Integrated Home and Day Care packages bundling home and centre-based care services together: 300 places offered in pilot phase (2) Active Ageing Hubs (AAHs) within 10 new HDB developments by 2020 - New Integrated Operator Scheme (IOS), bundled nursing home, eldercare facilities, home care under same premise: 1 tender can potentially have 500 nursing home beds, 240 day care places and 150 home care places - Pilot community networks for seniors

Source: MOH, DBS estimates

Appendix 1: Healthcare 2020 Masterplan – plan, progress and completion (cont'd)

Healthcare 2020 Masterplan (announced in 2012)	Progress Update
Increasing quality – Palliative care	
Aim: Ensure good care during life's last stages - MOH looking to expand funding for palliative providers, currently funding 5 homes serving 3,800 patients annually - Advance Care Planning programmes are being scaled up in RHS to encourage discussions on modes of care and treatment between patients, families and care providers	
Increasing affordability – Outpatient setting	
Aim: Attract more clinics to participate in Community Health Assist Scheme (CHAS) - Target to reach out to 70% of GPs and dentists, approximately 1000 clinics. As at Mar 2012, there were 460 clinics participating in CHAS	**Updates in 2013:** GPs under CHAS can refer CHAS patients to public sector Specialist Outpatient Clinics. Previously, only polyclinics were able to do the referral. CHAS patients will pay subsidised rates on GP referrals **Updates in 2015:** CHAS' monthly household income per capita increased to S$1,800 in FY14, no. of clinics participating in CHAS at 1,300 as of FY14
Increasing affordability – Intermediate to long-term care	
Aim: Increase support for intermediate to long-term care services - Increase subsidy from S$1,400 to S$2,200 per month per capita household income for long-term care services - Minimum 20% subsidy for community hospitals, higher subsidy for lower-income group - MOH in midst of reviewing ElderShield payouts - Increasing payouts for Interim Disability Assistance Programme for the Elderly, increasing per capita household income cap to S$2,200 per month	**Updates in 2013:** - Increase Seniors' Mobility and Enabling Fund (SMF) from S$10 million to S$50 million to subsidise elderly's devices and consumables, extend transport subsidies to more wheelchair-bound elderly when they travel to day centres etc. **Updates in 2014:** - Introduce subsidies for home-based rehabilitation services - More than S$3.7 million has been given out from SMF since Jul 2013 **Updates in 2015:** More than S$17 million has been given out from SMF since Jul 2013
Increasing affordability – Drug subsidies	
Aim: Increase affordability for subsidised patients - Raise subsidy from 50% to 75% for some drugs on Standard Drug List (SDL) for treatment of chronic illnesses, S$1,500 per month per capita household income - Raise subsidy from 50% to 75% for expensive drugs not on SDL, from Medication Assistance Fund (MAF) - Explore new options for subsidised patients to obtain common drugs at more convenient places, in contrast to only being able to obtain them at subsidised prices during a specialist visit	**Updates in 2014:** 75% subsidy for all drugs on SDL from Jan 2015, add 13 more drugs to SDL and MAF

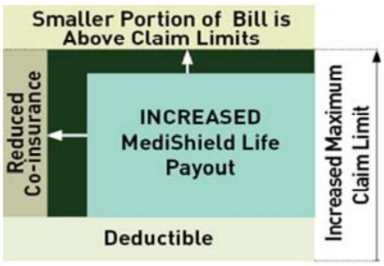
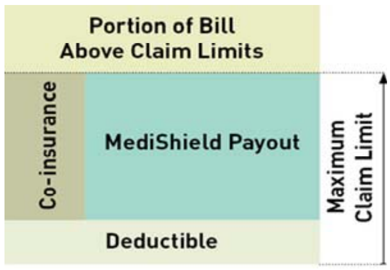
Source: MOH, DBS estimates

Appendix 1: Healthcare 2020 Masterplan – plan, progress and completion (cont'd)

Healthcare 2020 Masterplan (announced in 2012)	Progress Update
Increasing affordability – Medisave and Medishield	
Aim: Ensure affordability - MOH to look into expanding Medisave usage to include more healthcare expenses - S$600 million top-up to Medifund, annual available grants to increase from S$80 million to S$100 million, to help needy Singaporeans	**Updates in 2014:** - S$300 annual limit from Medisave eligible to be used for non-cancer related scans for diagnosis and treatment purposes - S$400 annual limit from Medisave for outpatient chronic disease treatments - S$200 annual limit under Flexi-Medisave scheme for other outpatient treatments at SOCs, polyclinics and CHAS clinics **Updates in 2015:** - Increased conditions eligible for S$400 annual limit for outpatient chronic disease treatment from 15 to 19 - Introduction of Basic Healthcare Sum to replace existing Medisave Minimum Sum
Increasing affordability – Medishield	
Aim: Increase coverage - Increase coverage to include congenital and neonatal conditions - Explore to include coverage for inpatient psychiatric treatment - Extend coverage for elderly, from 85 years old to 90 years old Others updates · Medishield premiums due for adjustment	**Updates in 2014:** Introduction of Medishield Life, effective Nov 2015 (please refer to appendix 2 for more details) **Updates in 2015:** MOH in works with MAS on transparency and accuracy of Integrated Shield Plans (IPs) - Subsequently, new standard IPs to be offered from May 2016 onwards
Increasing affordability - Others	
	Updates in 2014: Introduction of Pioneer Generation (PG) package, a series of special healthcare package for PG, Eldershield under review **Updates in 2015:** Action Plan for Successful Ageing to be developed **Updates in 2016:** Action Plan for Successful Ageing released in Feb 2016, to launch National Seniors' Health Programme targeting healthy ageing programmes

Source: MOH, DBS estimates

Appendix 2: Details on Medishield Life and comparison with Medishield

<table>
<tr><th></th><th>MediShield Life</th><th>MediShield</th></tr>
<tr><td>Enrolment</td><td>Compulsory for all citizens and permanent residents</td><td>Voluntary</td></tr>
<tr><td>Co-insurance</td><td>Lower co-insurance rates (3-10%)
<table>
<tr><th>Claimable amount for inpatient and day surgery $</th><th>Co-insurance payable by insured (% of claimable amount)</th></tr>
<tr><td>0 – 3,000</td><td>20%</td></tr>
<tr><td>3,001 – 5,000</td><td>15%</td></tr>
<tr><td>5,001 – 10,000</td><td>10%</td></tr>
<tr><td>>10,000</td><td>10%</td></tr>
<tr><td>Outpatient treatments</td><td>20%</td></tr>
</table></td><td>Higher co-insurance rates (10-20%)
<table>
<tr><th>Claimable amount for inpatient and day surgery $</th><th>Co-insurance payable by insured (% of claimable amount)</th></tr>
<tr><td>0 – 3,000</td><td>10%</td></tr>
<tr><td>3,001 – 5,000</td><td>10%</td></tr>
<tr><td>5,001 – 10,000</td><td>5%</td></tr>
<tr><td>>10,000</td><td>3%</td></tr>
<tr><td>Outpatient treatments</td><td>10%</td></tr>
</table></td></tr>
<tr><td>Payout</td><td>Higher MediShield Life payout, increased Maximum Claim Limit
i.e. MediShield Life pays a larger proportion of the bill

</td><td>Lower MediShield payout and Maximum Claim Limit

</td></tr>
<tr><td>Premiums</td><td>More expensive than MediShield for most age groups</td><td>Cheaper</td></tr>
<tr><td>Coverage</td><td>Includes individuals with pre-existing conditions including chronic illness</td><td>Excludes individuals with pre-existing conditions</td></tr>
</table>

Source: MOH

Stock Profiles

Singapore Company Guide
IHH Healthcare

Version 4 | Bloomberg: IHH MK | Reuters: IHHH.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 Jul 2016

BUY (Upgrade from HOLD)
Last Traded Price: RM6.60 (KLCI : 1,654.08)
Price Target : RM7.60/ S$2.51 (15% upside) (Prev RM6.33)

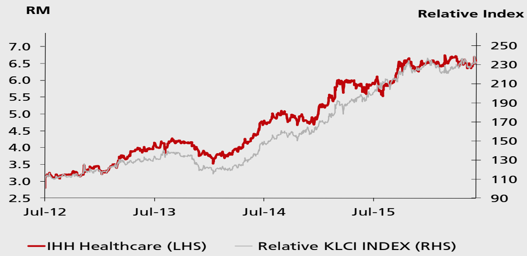
Potential Catalyst: Strong performance from Gleneagles HK
Where we differ: Higher start-up expenses in FY16F/17F, but stronger contribution from FY18F

Analyst
Rachel TAN +65 6682 3713 racheltanlr@dbs.com
Andy SIM CFA +65 6682 3718 andysim@dbs.com

What's New

- **Gleneagles HK leads IHH's 'Growth 2.0'**
- **Medium-term growth from new hospitals**
- **Limited downside risks**
- **Upgrade to BUY, TP of RM7.60**

Price Relative



Forecasts and Valuation

FY Dec (RM m)	2015A	2016F	2017F	2018F
Revenue	8,455	9,473	11,002	12,183
EBITDA	2,233	2,317	2,755	3,302
Pre-tax Profit	1,218	1,351	1,715	2,235
Net Profit	934	983	1,248	1,627
Net Pft (Pre Ex.)	934	983	1,248	1,627
Net Pft Gth (Pre-ex) (%)	23.8	5.3	27.0	30.3
EPS (sen)	11.4	12.0	15.2	19.8
EPS Pre Ex. (sen)	11.4	12.0	15.2	19.8
EPS Gth Pre Ex (%)	23	5	27	30
Diluted EPS (sen)	11.4	12.0	15.2	19.8
Net DPS (sen)	3.00	3.16	4.01	5.23
BV Per Share (sen)	272	280	292	306
PE (X)	58.1	55.2	43.5	33.4
PE Pre Ex. (X)	58.1	55.2	43.5	33.4
P/Cash Flow (X)	27.3	28.1	22.6	19.3
EV/EBITDA (X)	27.4	26.8	22.4	18.3
Net Div Yield (%)	0.5	0.5	0.6	0.8
P/Book Value (X)	2.4	2.4	2.3	2.2
Net Debt/Equity (X)	0.2	0.2	0.2	0.1
ROAE (%)	4.5	4.3	5.3	6.6
Earnings Rev (%):		(3)	(4)	2
Consensus EPS (sen):		13.0	15.8	21.0
Other Broker Recs:		B: 8	S: 5	H: 14

Source of all data: Company, DBS Bank, Bloomberg Finance L.P

Recreating the magic in Hong Kong

Gleneagles Hong Kong leads IHH's 'Growth 2.0'. The long awaited Gleneagles HK, targeted to open by Jan 2017 leads IHH into its next phase of growth. We are positive on the prospects of Gleneagles HK and believe the positive impact could be double that of Mount Elizabeth Novena (Mt E Novena), given that Gleneagles HK is more than double the size of operational beds in Mt E Novena (500 beds in Gleneagles HK versus 180 operational beds in Mt E Novena).

Medium-term growth from new hospitals, China and India. Management targets to add c.1k (includes Gleneagles HK) new beds by end-2017, with the opening of two other hospitals in 2017. Subsequently, IHH plans to further expand its footprints in China (ParkwayHealth Shanghai Hospital by 2020) and in India (via its newly acquired Global and Continental Hospitals). However, we believe these new hospitals would start contributing significantly post-2022 (when they stabilise).

Limited downside risks. While we believe that earnings growth could moderate in the near term due to i) start-up/pre-operating costs of new hospitals, and ii) macro-economic headwinds, we believe downside risks are limited as the healthcare sector remains resilient amid market uncertainties. In addition, foreign shareholdings have fallen to IPO levels at 21%. We believe any share price weakness offers a good entry opportunity for medium- to long-term growth prospects.

Valuation:

Upgrade to BUY, TP of RM7.60. We upgrade our rating to BUY (from HOLD) with a revised TP of RM7.60/S$2.51 (from RM6.33/S$2.09) by including the DCF valuation of Gleneagles HK and raising the EV/EBITDA multiples of Malaysia and Turkey as the operations in these markets mature. IHH trades at FY17F EV/EBITDA of 22x, close to the historical average of 21x, in line with regional peers.

Key Risks to Our View:

i) **Economic slowdown**; ii) **lower-than-expected performance**, especially in new markets; iii) **higher-than-expected start-up and pre-operating costs**; and iv) **government policy changes**.

At A Glance

Issued Capital (m shrs)	8,229
Mkt. Cap (RMm/US$m)	54,309 / 13,607
Major Shareholders (%)	
Khazanah Nasional Bhd	41.2
Mitsui & Co Ltd	20.1
Employees Provident Fund	7.6
Free Float (%)	26.0
3m Avg. Daily Val (US$m)	10.7
ICB Industry : Health Care / Health Care Equipment & Services	

WHAT'S NEW

Recreating the magic in Hong Kong

Gleneagles Hong Kong leads IHH's 'Growth 2.0'. IHH embarks on its next phase of growth from 2017, led by the long awaited Gleneagles HK, targeted to open by Jan 2017. We are positive on the prospects of Gleneagles HK and believe the positive impact could be double that of Mount Elizabeth Novena (Mt E Novena), given that Gleneagles HK is more than double the size of operational beds in Mt E Novena (500 beds in Gleneagles HK versus 180 operational beds in Mt E Novena).

While the HK government has stringent requirements on the hospital, we believe Gleneagles HK may achieve better-than-expected performance due to:

i) First new private hospital in more than two decades. The number of beds in private hospitals has fallen by 3% in the past three years to 3,906 beds in 2014, mainly due to the closure of Hong Kong Central Hospital in 2012. This presents a rare opportunity for Gleneagles Hong Kong to fill in the current undersupply of private hospital beds caused by the closure of the Hong Kong Central Hospital;

ii) Potential spillover demand from the closure for redevelopment of 10 public hospitals. In the 2016/2017 budget, the Hong Kong government plans to redevelop 10 public hospitals including Queen Mary Hospital (base hospital for Gleneagles HK's collaboration partner, Hong Kong University Li Ka Shing Faculty of Medicine) and Grantham Hospital, both located nearest to Gleneagles HK; and

iii) Demand from China's affluent society seeking for healthcare services outside of China. Apart from serving the affluent society in Hong Kong, we believe Gleneagles HK is a potential beneficiary of affluent communities in China seeking better quality healthcare services outside of China. Moreover, IHH could potentially derive synergies from referrals from its medical centres in China and from possibly cross referrals with its new hospitals in China, Parkway Hospital in Chengdu (target to open by mid-2017) and ParkwayHealth Shanghai Hospital (target to open by 2020).

Similar to Mt E Novena, we estimate that Gleneagles HK could potentially achieve EBITDA breakeven in the first year of operations and record stabilised margins within 4-5 years of operations.

Medium-term growth from new hospitals, China and India. Apart from Gleneagles HK, management targets to open two new hospitals in 2017; Acibadem's largest hospital, Acibadem Altunizade (325 bed) in early 2017 and Parkway Hospital in Chengdu (350 beds), adding c.800 beds by end-2017 (total new beds including Gleneagles HK is c.1.2k by end-2017).

Subsequently, IHH plans to expand its footprints in China (ParkwayHealth Shanghai Hospital aims to open by 2020) and in India (via its newly acquired Global and Continental Hospitals).

While earnings contributions from these hospitals in the near term are small, we believe that these new hospitals' contributions could be significant post-2022 (after the hospitals stabilise).

Limited downside risks. While we believe that earnings growth could moderate in the near term due to i) start-up/pre-operating costs of new hospitals, and ii) macro-economic headwinds, we believe downside risks are limited as the healthcare sector remains resilient amid market uncertainties. We believe any short-term share price weakness would offer a good entry opportunity for medium to long term growth prospects of the company.

While we are not advocating that historical share price trend is a good indicator of future price trend, historically, the fall in share price ranges between 4% and 17%, potentially led by various reasons including macroeconomic headwinds. During the recent market correction led by the fall in oil prices (May15 to Sep15), IHH's share price fell 17%. Currently, IHH's share price has fallen 6% from its recent peak.

We also note that IHH's share price has a positive correlation with EBITDA growth (please see Chart 1). The next leg of EBITDA growth could potentially be a re-rating catalyst.

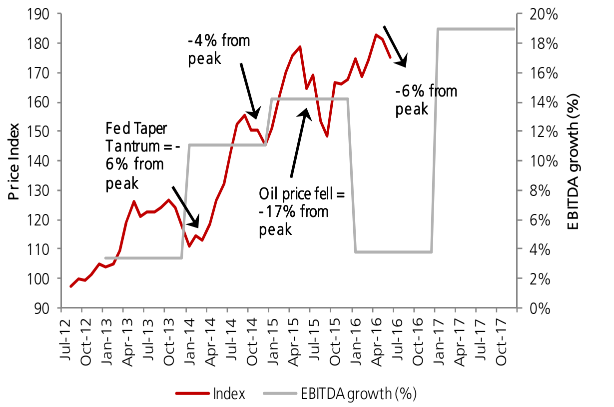
In addition, foreign shareholdings have fallen to IPO levels at 21%. We believe any share price weakness offers a good entry opportunity for medium- to long-term growth prospects (please see Chart 2).

Upgrade to BUY, TP of RM7.60. We upgrade our rating to BUY (from HOLD) with a revised TP of RM7.60/S$2.51 (from RM6.33/S$2.09), based on sum-of-parts valuation methodology by including i) the DCF valuation of Gleneagles HK, and ii) raising the EV/EBITDA multiple of Malaysia and Turkey to 20x and 18x respectively (18x and 16x previously), as the operations in these markets mature. We reduce our FY16E-FY17E earnings by 3%-4% to factor in start-up and pre-operating costs of the new hospitals in 2017.

IHH trades at FY17F EV/EBITDA of 22x, close to the historical average of 21x, in line with regional peers. The key potential catalysts are i) positive performance from Gleneagles HK and the other new hospitals and shorter-than-expected gestation period, ii) better-than-expected performance from existing operations despite a macroeconomic slowdown, and iii) positive developments in the new markets, such as India.

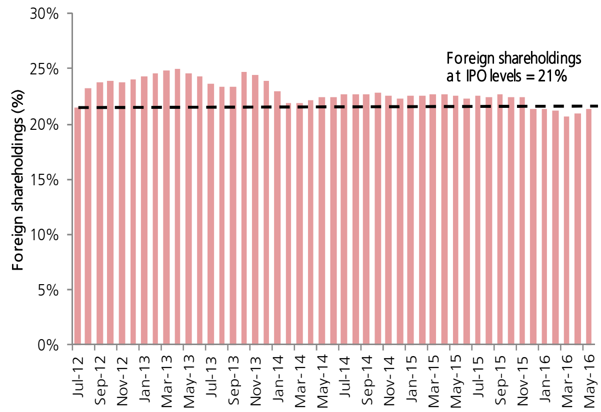
Key risks. The key risks are i) economic slowdown may impact the demand for private healthcare services; ii) lower-than-expected performance / profitability, especially in new markets / hospitals; iii) higher-than-expected start up and pre-operating costs; and iv) change in government policies.

Chart 1: Limited downside risks based on historical share price trends



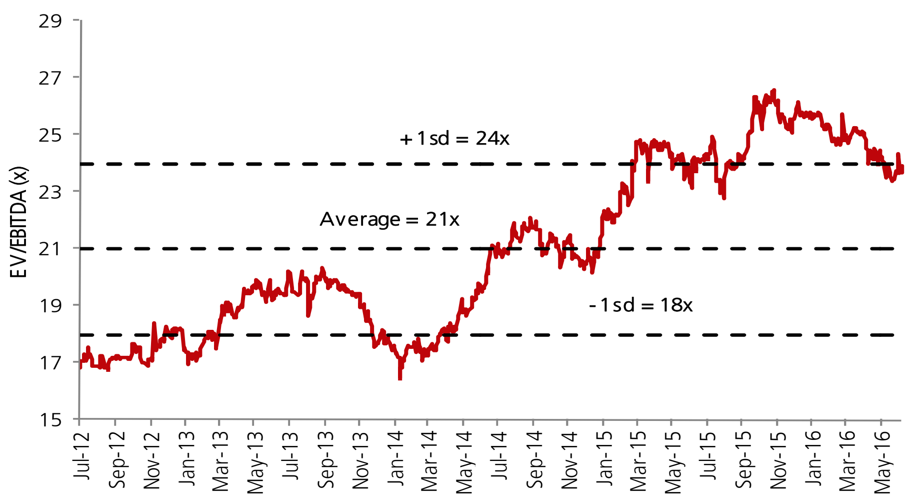
Source: Bloomberg Finance L.P., Company, DBS estimates

Chart 2: IHH's foreign shareholdings at IPO levels = 21%



Source: Company

Chart 3: EV/EBITDA Chart



Source: Bloomberg FinanceL.P., Company, DBS estimates

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

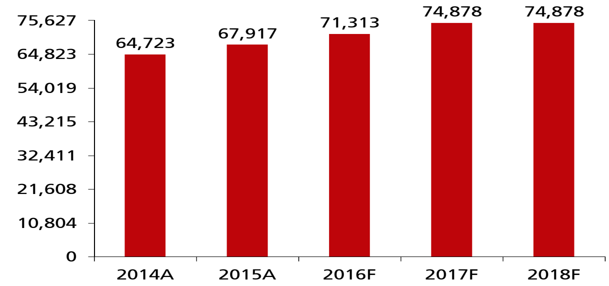
Providing premium quality healthcare. IHH is a leading international provider of premium healthcare services with a global network of over 7,000 licensed beds in 39 hospitals and medical centres. Its key markets include Singapore, Malaysia and Turkey, which contribute c.40%, c.20% & c.35% of group revenue respectively. In Singapore, it operates four hospitals with a total of 908 licensed beds. Singapore's inpatient admissions have been steadily rising from 55,251 in FY12 to 67,917 in FY15. The average inpatient revenue per inpatient day also increased from S$2,091 in FY10 to S$3,010 in FY15 on the back of higher revenue intensities.

Increasing scale in Malaysia. The group is focused on increasing its scale in Malaysia and the number of operational hospitals was 14 as at end-FY15. The average revenue per inpatient day increased to RM1,904 in FY15 because of higher revenue intensities that resulted from more complex cases undertaken as well as price increases. EBITDA grew 14% y-o-y in FY15, due mainly to increase in inpatient admissions. Earnings will continue to be driven by growth in inpatient admission numbers as well as average inpatient revenue.

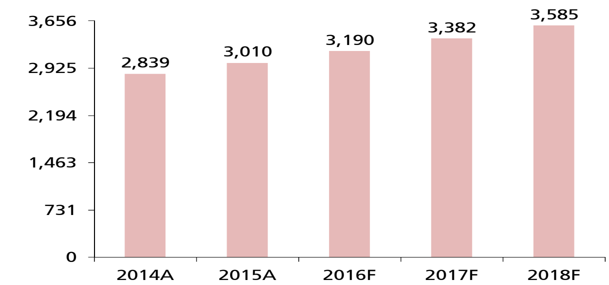
Turkey operations through Acibadem. IHH holds a 60% stake in Acibadem, which operates 18 hospitals as of FY15. Revenue was driven by strong performance from its existing hospitals as well as new revenue stream from the newly opened Acibadem Atakent hospital. Inpatient admissions have grown from 66,428 in FY10 to 130,429 in FY15. The long-term outlook in Turkey is likely to improve due to the continuing growth in private healthcare demand. Other than growth in inpatient admissions and average inpatient revenue, earnings are also influenced by the volatility of the Turkish lira against the Malaysian ringgit – a stronger lira will translate into higher earnings in ringgit terms.

Tapping into new markets such as China and India. Besides its home markets, IHH is also building up a presence and, for its next stage of growth, is looking at India and China. The group is in the midst of developing a 60:40 greenfield hospital in Hong Kong, and has signed a long-term lease agreement to start and operate a 380-bed hospital in Chengdu. In India, it made two acquisitions in 2015: (i) a 51%-stake in Continental Hospitals in Hyderabad, India; and (ii) Global Hospital, a 5-hospital chain with 1,100 beds for INR12,838m (MYR819m). These developments will help the group gain a strategic foothold in new markets that can provide strong growth avenues in the future.

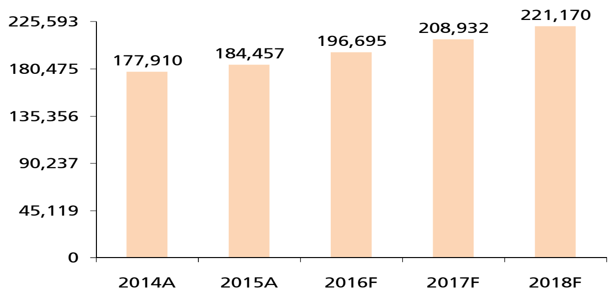
SGP inpatients adm



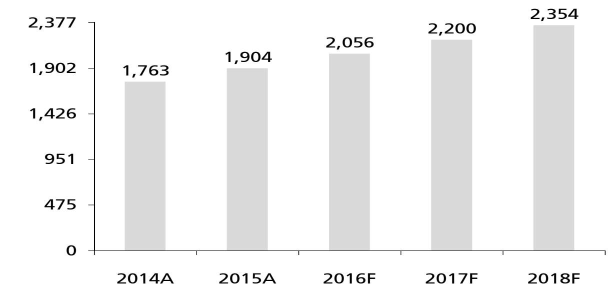
SGP avg patient rev (S$)



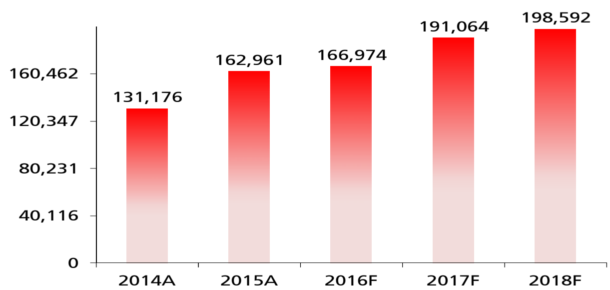
Msia inpatient adm



Msia avg patient rev (RM$)



Turkey adm



Source: Company, DBS Bank

Balance Sheet:

Low gearing to pursue inorganic growth. Gearing remains low for the group, and this provides ample war chest for management to pursue inorganic growth opportunities, particularly in China and India.

Share Price Drivers:

Inorganic growth and greenfield operations. The group is embarking on its next growth phase for the longer term, with a focus on China and India. Further initiatives via acquisitions and/or greenfield should be viewed positively in boosting growth for the longer term. In addition, the ramp-up of upcoming greenfield projects such as Gleneagles Hong Kong, if it progresses better than expected, will be a catalyst for the share price.

Key Risks:

Economic slowdown. While healthcare is deemed as a defensive sector, private healthcare will, nonetheless, be impacted by a slowdown in the economy, since elective procedures can be deferred and patients may choose public hospitals as a lower-cost alternative.

Staff costs. Staff costs account for close to one-third of group revenue. Supply shortages in doctors and/or skilled allied healthcare workers could result in higher wages needed to retain or attract talent

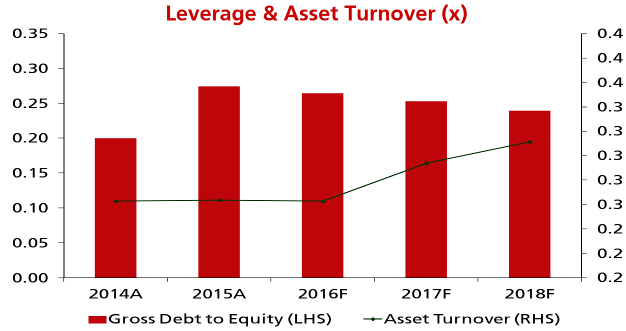
Outbreak of epidemics. The outbreak of epidemics, such as SARS, could adversely affect healthcare services as consumers may opt to delay elective surgery and this could negatively impact bed occupancy.

Exchange rate risk. As the group reports its results in MYR, any depreciation of the SGD and the Turkish lira (TRY) against the MYR will negatively affect its results.

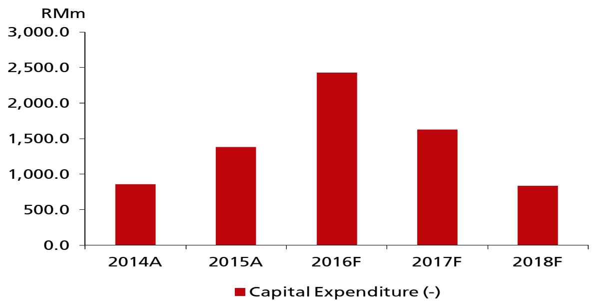
Company Background

IHH Healthcare Berhad is a leading international provider of premium healthcare services in Asia and Central & Eastern Europe, the Middle East and North Africa. As at end-2015, it operated over 7,000 licensed hospital beds in 39 hospitals, and there are plans to add over 3,000 beds across 19 new hospitals and existing hospitals.

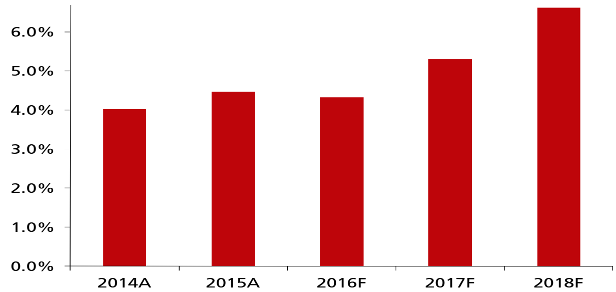
Leverage & Asset Turnover (x)



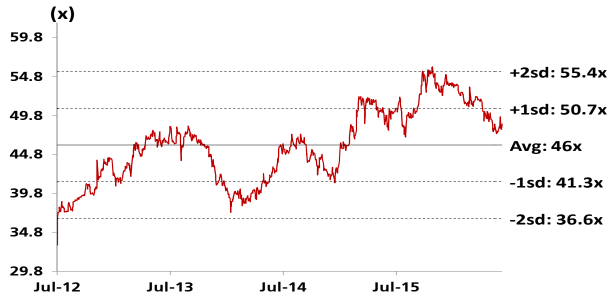
Capital Expenditure



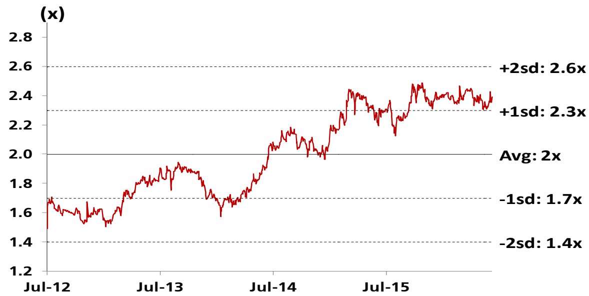
ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, DBS Bank

Key Assumptions

FY Dec	2014A	2015A	2016F	2017F	2018F
SGP inpatients adm	64,723	67,917	71,313	74,878	74,878
SGP avg patient rev (S$)	2,839	3,010	3,190	3,382	3,585
Msia inpatient adm	177,910	184,457	196,695	208,932	221,170
Msia avg patient rev	1,763	1,904	2,056	2,200	2,354
Turkey adm	131,176	162,961	166,974	191,064	198,592

Segmental Breakdown

FY Dec	2014A	2015A	2016F	2017F	2018F
Revenues (RMm)					
PPL-Total	4,375	5,160	5,858	6,899	7,737
Acibadem	2,652	2,953	3,235	3,694	4,004
IMU Health	218	229	264	290	319
Plife REIT	94.3	106	108	110	112
Others	4.70	7.87	8.65	9.52	10.5
Total	7,344	8,455	9,473	11,002	12,183
EBITDA (RMm)					
PPL-Total	1,180	1,271	1,428	1,756	2,174
Acibadem	477	522	582	683	801
IMU Health	76.7	80.6	92.3	102	112
Plife REIT	298	306	242	247	252
Others	(93.7)	(38.1)	(42.7)	(49.6)	(54.9)
Total	1,939	2,142	2,302	2,738	3,284
EBITDA Margins (%)					
PPL-Total	27.0	24.6	24.4	25.5	28.1
Acibadem	18.0	17.7	18.0	18.5	20.0
IMU Health	35.2	35.1	35.0	35.0	35.0
Plife REIT	316.4	289.9	225.0	225.0	225.0
Others	(1,992.6)	(484.2)	(493.2)	(520.7)	(524.2)
Total	26.4	25.3	24.3	24.9	27.0

FY16F/18F does not take into account potential revaluation gains of PREIT properties

Income Statement (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Revenue	7,344	8,455	9,473	11,002	12,183
Other Opng (Exp)/Inc	(6,008)	(6,926)	(7,880)	(9,024)	(9,699)
Operating Profit	1,336	1,529	1,592	1,978	2,483
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	9.85	14.3	15.0	16.4	17.9
Net Interest (Exp)/Inc	(124)	(326)	(257)	(279)	(266)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	1,221	1,218	1,351	1,715	2,235
Tax	(278)	(165)	(184)	(233)	(304)
Minority Interest	(189)	(118)	(184)	(234)	(305)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	754	934	983	1,248	1,627
Net Profit before Except.	754	934	983	1,248	1,627
EBITDA	1,953	2,233	2,317	2,755	3,302
Growth					
Revenue Gth (%)	8.7	15.1	12.0	16.1	10.7
EBITDA Gth (%)	11.5	14.3	3.8	18.9	19.9
Opg Profit Gth (%)	16.2	14.5	4.1	24.2	25.6
Net Profit Gth (Pre-ex) (%)	19.5	23.8	5.3	27.0	30.3
Margins & Ratio					
Opg Profit Margin (%)	18.2	18.1	16.8	18.0	20.4
Net Profit Margin (%)	10.3	11.0	10.4	11.3	13.4
ROAE (%)	4.0	4.5	4.3	5.3	6.6
ROA (%)	2.7	2.9	2.7	3.3	4.2
ROCE (%)	3.9	4.4	4.2	5.0	6.1
Div Payout Ratio (%)	32.5	26.4	26.4	26.4	26.4
Net Interest Cover (x)	10.8	4.7	6.2	7.1	9.3

Reduce FY16F-FY17F estimates by 3% to 4% to factor in start-up and pre-operating costs of new hospitals

Source: Company, DBS Bank

Quarterly / Interim Income Statement (RMm)

FY Dec	1Q2015	2Q2015	3Q2015	4Q2015	1Q2016
Revenue	2,003	2,093	2,064	2,295	2,475
Other Oper. (Exp)/Inc	(1,648)	(1,706)	(1,749)	(1,824)	(2,071)
Operating Profit	**355**	**388**	**315**	**471**	**404**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	2.47	3.88	4.06	3.88	3.52
Net Interest (Exp)/Inc	(125)	(48.7)	(240)	87.6	(52.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**233**	**343**	**78.9**	**563**	**355**
Tax	(52.3)	(75.7)	(8.9)	(28.6)	(83.3)
Minority Interest	(9.2)	(39.1)	48.5	(118)	(36.6)
Net Profit	**171**	**228**	**118**	**416**	**235**
Net profit bef Except.	171	228	118	416	235
EBITDA	517	556	490	670	608
Growth					
Revenue Gth (%)	3.4	4.5	(1.4)	11.2	7.9
EBITDA Gth (%)	(11.8)	7.5	(11.8)	36.8	(9.4)
Opg Profit Gth (%)	(20.1)	9.2	(18.7)	49.5	(14.3)
Net Profit Gth (Pre-ex) (%)	(28.3)	33.0	(48.1)	250.9	(43.4)
Margins					
Gross Margins (%)	100.0	100.0	100.0	100.0	100.0
Opg Profit Margins (%)	17.7	18.5	15.3	20.5	16.3
Net Profit Margins (%)	8.6	10.9	5.7	18.1	9.5

Balance Sheet (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Net Fixed Assets	9,895	11,436	13,214	14,146	14,239
Invts in Associates & JVs	183	227	242	258	276
Other LT Assets	14,822	19,191	19,131	19,070	19,010
Cash & ST Invts	2,468	1,978	1,226	1,660	3,208
Inventory	172	219	248	288	318
Debtors	1,028	1,234	1,383	1,606	1,778
Other Current Assets	73.7	1,213	1,213	1,213	1,213
Total Assets	28,640	35,498	36,655	38,241	40,043
ST Debt	677	374	374	374	374
Creditor	1,391	2,555	2,869	3,253	3,483
Other Current Liab	291	307	244	293	364
LT Debt	3,593	6,323	6,323	6,323	6,323
Other LT Liabilities	1,376	1,518	1,518	1,518	1,518
Shareholder's Equity	19,452	22,340	23,063	23,981	25,178
Minority Interests	1,862	2,081	2,265	2,499	2,803
Total Cap. & Liab.	28,640	35,498	36,655	38,241	40,043
Non-Cash Wkg. Capital	(408)	(196)	(269)	(439)	(537)
Net Cash/(Debt)	(1,801)	(4,719)	(5,471)	(5,036)	(3,488)
Debtors Turn (avg days)	50.4	48.8	50.4	49.6	50.7
Creditors Turn (avg days)	(817.7)	(1,044.6)	(1,394.3)	(1,469.5)	(1,536.2)
Inventory Turn (avg days)	(97.5)	(103.4)	(119.9)	(128.5)	(138.2)
Asset Turnover (x)	0.3	0.3	0.3	0.3	0.3
Current Ratio (x)	1.6	1.4	1.2	1.2	1.5
Quick Ratio (x)	1.5	1.0	0.7	0.8	1.2
Net Debt/Equity (X)	0.1	0.2	0.2	0.2	0.1
Net Debt/Equity ex MI (X)	0.1	0.2	0.2	0.2	0.1
Capex to Debt (%)	20.0	20.6	36.2	24.4	12.4
Z-Score (X)	4.9	4.8	4.7	4.7	4.7

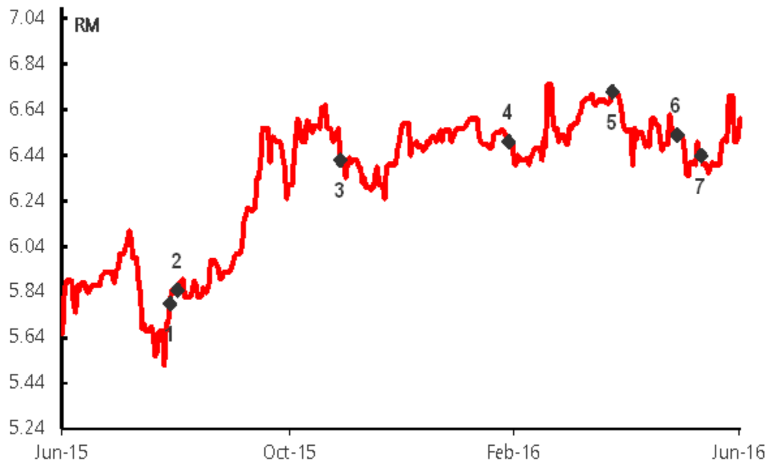
Source: Company, DBS Bank

Cash Flow Statement (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Pre-Tax Profit	1,221	1,218	1,351	1,715	2,235
Dep. & Amort.	607	689	710	760	800
Tax Paid	(203)	(315)	(247)	(184)	(233)
Assoc. & JV Inc/(loss)	(9.9)	(14.3)	(15.0)	(16.4)	(17.9)
Chg in Wkg.Cap.	(11.3)	120	136	121	26.8
Other Operating CF	26.0	288	0.0	0.0	0.0
Net Operating CF	1,631	1,986	1,935	2,396	2,811
Capital Exp.(net)	(854)	(1,380)	(2,427)	(1,632)	(833)
Other Invts.(net)	0.0	(705)	0.0	0.0	0.0
Invts in Assoc. & JV	12.7	7.63	0.0	0.0	0.0
Div from Assoc & JV	2.71	2.39	0.0	0.0	0.0
Other Investing CF	92.8	(1,322)	0.0	0.0	0.0
Net Investing CF	(746)	(3,396)	(2,427)	(1,632)	(833)
Div Paid	(164)	(247)	(260)	(330)	(430)
Chg in Gross Debt	(179)	1,193	0.0	0.0	0.0
Capital Issues	0.40	0.0	0.0	0.0	0.0
Other Financing CF	(184)	(122)	0.0	0.0	0.0
Net Financing CF	(526)	824	(260)	(330)	(430)
Currency Adjustments	(35.7)	96.2	0.0	0.0	0.0
Chg in Cash	323	(490)	(752)	434	1,548
Opg CFPS (sen)	20.1	22.7	21.9	27.7	33.9
Free CFPS (sen)	9.49	7.37	(6.0)	9.29	24.1

Source: Company, DBS Bank

Target Price & Ratings History



***Note**: Share price and Target price are adjusted for corporate actions.*

S.No.	Date	Closing Price	Target Price	Rating
1:	27 Aug 15	5.79	1.80	HOLD
2:	31 Aug 15	5.85	1.80	HOLD
3:	27 Nov 15	6.42	2.04	HOLD
4:	26 Feb 16	6.50	2.09	HOLD
5:	22 Apr 16	6.72	2.09	HOLD
6:	27 May 16	6.53	6.33	HOLD
7:	09 Jun 16	6.44	6.33	HOLD

Source: DBS Bank

Singapore O&G

Bloomberg: SOG SP | Reuters: SINP.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 Jul 2016

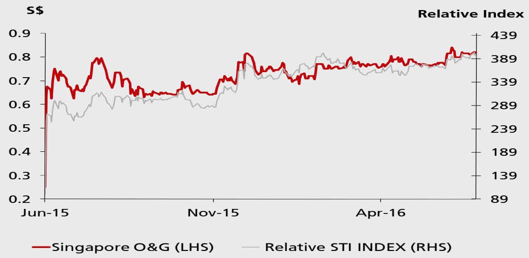
BUY

(Initiating Coverage)
Last Traded Price: S$0.83 (STI : 2,840.93)
Price Target : S$1.05 (27% upside)

Potential Catalyst: Successful recruitment of new medical practitioners and expansion into new complementary medical services

Analyst
Rachel TAN +65 6682 3713 racheltanlr@dbs.com
Andy SIM CFA +65 6682 3718 andysim@dbs.com

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2015A	2016F	2017F	2018F
Revenue	16.4	28.2	33.4	39.6
EBITDA	6.30	9.98	12.1	14.2
Pre-tax Profit	6.18	9.51	11.2	13.2
Net Profit	5.34	8.22	9.65	11.4
Net Pft (Pre Ex.)	5.34	8.22	9.65	11.4
EPS (S cts)	2.45	3.45	4.05	4.78
EPS Pre Ex. (S cts)	2.45	3.45	4.05	4.78
EPS Gth (%)	1	41	17	18
EPS Gth Pre Ex (%)	1	41	17	18
Diluted EPS (S cts)	2.45	3.45	4.05	4.78
Net DPS (S cts)	2.14	3.01	3.53	4.17
BV Per Share (S cts)	11.0	15.8	16.3	16.9
PE (X)	33.9	24.1	20.5	17.4
PE Pre Ex. (X)	33.9	24.1	20.5	17.4
P/Cash Flow (X)	28.3	24.3	18.4	15.7
EV/EBITDA (X)	24.9	17.5	14.5	12.3
Net Div Yield (%)	2.6	3.6	4.3	5.0
P/Book Value (X)	7.5	5.3	5.1	4.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	29.8	26.7	25.3	28.8
Consensus EPS (S cts):		3.6`	4.1	4.7
Other Broker Recs:		B: 2	S: 0	H: 0

ICB Industry : Health Care
ICB Sector: Health Care Equipment & Services
Principal Business: Singapore O&G (SOG) is a chain of medical practices, specialising in women's health mainly obstetrics and gynaecology (O&G). It currently operates ten clinics in six locations with nine medical practitioners.

Source of all data: Company, DBS Bank, Bloomberg Finance L.P

Embracing women's needs

- **Gaining market share in O&G**
- **Diversifying into higher margin, complementary services**
- **High dividend payout**
- **Initiating coverage with BUY and S$1.05 TP**

Growing market share in O&G, strong growth profile; Initiate with BUY, TP: S$1.05 for 27% upside. We initiate coverage on Singapore O&G (SOG). We are projecting 3-year earnings CAGR of 29%, driven by recent acquisitions coupled with market share growth with new recruitment of doctors. SOG has grown its market share in obstetrician and gynaecology (O&G) to 6.7% in 2015 from 4.3% in 2012, mainly led by recruitment of new doctors. With a still low market share, there is still room to grow. In addition, the latent period of SOG's new doctors are typically shorter (less than a year), benefitting from spill-over referrals from its existing well-established team of doctors.

Diversifying into higher-margin complementary services. SOG has the potential to grow its women's cancer-related, and newly acquired dermatology and aesthetics businesses by leveraging on referrals from its existing bread-and-butter O&G business. SOG aims to achieve equal revenue contributions from its four key segments in the medium term. In line with its goal to be an integrated women's health medical practice, we believe other complementary services to explore includes paediatrics, in-vitro fertilization (IVF) and child care.

High dividend payout. SOG has a high dividend policy of 90% payout to align the interests of its medical practitioners (who together own a 78% stake), which represents dividend yields of 4-5%.

BUY, S$1.05 TP. Our TP S$1.05 is based on the average derived from PE multiple (pegged to peers' 26x) and DCF valuation methods, offering potential 27% upside. SOG currently trades at 21x FY17F PE, close to the higher end of historical range but looks like a steal compared to other healthcare peers. Key potential catalysts are i) new recruitments and ability to retain doctors; and ii) successful acquisitions of new medical practices.

At A Glance

Issued Capital (m shrs)	238
Mkt. Cap (Sm/USm)	198 / 147
Major Shareholders (%)	
Tung Lan heng	20.4
Keen Whye Lee	18.9
Suan Tiong Beh	10.2
Free Float (%)	24.3
3m Avg. Daily Val (US$m)	0.05

INVESTMENT THESIS

Profile	Rationale
Medical practice specialising in Women's Health. Singapore O&G (SOG) is a chain of medical practices, specialising in women's health mainly obstetrics and gynaecology (O&G). It currently operates ten clinics in six locations with nine medical practitioners.	**Growing its market share in O&G.** Starting from a low base, SOG has potential to grow its market share of 6.7% of total babies delivered through the private sector via new recruitments. The latent period of SOG's new doctors are typically shorter (less than a year), benefitting from its well-established existing medical practice. **Expanding into higher-margin complementary specialised services.** SOG expressed during its IPO that it plans to expand its services into synergistic and complementary businesses, helped by leveraging on referrals from its existing "bread-and-butter" O&G business. It acquired an aesthetics business at the end of 2015 and earnings could increase by more than 50% from consolidation of this newly acquired business. Next on management's pipeline, as many would expect, could be paediatrics. SOG aims to achieve equal revenue contributions from all four segments in the medium term. Apart from these four segments, we believe other complementary services to explore include IVF and child care services. **Expanding into new markets.** SOG is exploring overseas opportunities in countries such as Indonesia, Myanmar, Indochina, Malaysia and China. **High dividend payout.** SOG has a high dividend payout policy of 90%, to align the interests of its medical practitioners (who together own a 78% stake), offering dividend yields of 4-5%.
Valuation	**Risks**
Target price of S$1.05; 31% potential upside. Based on the average using PE multiple (at peers PE of 26x) and DCF valuation methods, we estimate a target price of S$1.05, offering potential upside of 31%. Our estimates are based on 29% 3-year CAGR. SOG currently trades at 21x FY17F PE, close to its historical average. We have not included any future acquisitions. We believe key potential catalysts are i) new recruitments and ability to retain doctors, and ii) successful acquisitions of new medical practices.	**Execution risks; lacks track record.** SOG lacks a track record in terms of quality recruitment and successful acquisitions of new medical practices. **Dependent on key doctors.** SOG is dependent on its key doctors and may have potential earnings risk should it fail to renew the service contracts which expire in 2019. **Low liquidity.** With a market cap of US$141m and ADV of US$0.05m, SOG is a small cap stock with low liquidity.

Source: DBS Bank

Highlights

Growing its market share in O&G. SOG derives more than 90% of its revenue from obstetrics and gynaecology (O&G) services which is predominantly served by the private sector (57% of babies are delivered through the private sector).

In its effort to increase fertility rates, the Singapore government continues to provide incentives such as baby bonus, tax benefits and more recently, the extension of paternal leave. SOG currently has five doctors specialising in O&G and has plans to further expand its market share in this segment through recruiting new doctors. SOG is well positioned to benefit from the potential increase in birth rate.

Diversification into higher-margin complementary specialisations

i) **Women's cancer division.** Apart from its O&G services, SOG currently has three doctors specialising in breast and oncology surgery. Although small, with revenue contribution of only 9%, management believes that demand for services in this segment will rise. Breast cancer is the most common cancer among women worldwide and the second most common cancer overall. In addition, two out of the top ten most common cancers are related specifically to women (breast and cervix uteri) which account for 45% of all women cancers. Breast cancer accounts for around 30% of all women cancers while the combined uterus, ovary and cervix cancers comprise 15%.

ii) **Potential growth from newly acquired dermatology division.** SOG acquired an aesthetics business (Dr Joyce Lim's aesthetics and dermatology medical practice) at the end of 2015. Apart from skincare being one of women's top concerns, management believes it is complementary to its O&G business as 25-30% of pregnant ladies have skin problems. Post acquisition, management believes SOG will benefit from i) earnings growth contributed by Dr Joyce Lim's existing well-established and profitable practice, ii) sale of skin care products, self-developed by Dr Joyce Lim, and iii) scaling up the business with new medical practitioners trained by Dr Joyce Lim. We estimate that the dermatology division will form 29% of group revenue in FY16F, a major contributor to FY16F earnings growth of more than 50%.

iii) **Targets to have four major business segments with equal contributions in the medium-term.** SOG is striving to provide comprehensive services for life-long health and wellness for women. To achieve this, SOG aims to expand its range of specialities under four major segments, contributing equally to total revenue. With the acquisition of the dermatology division, SOG now offers three of its four targeted segments, namely, O&G, cancer-related medical services and aesthetics. Next in the pipeline, as many would expect, could be paediatrics, which management plans to grow organically via new recruitments.

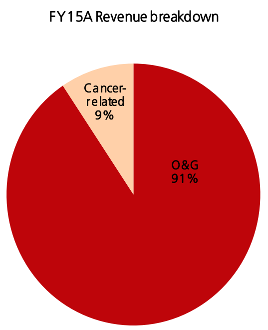
However, apart from these four segments, we believe other complementary services to explore include IVF and child care services.

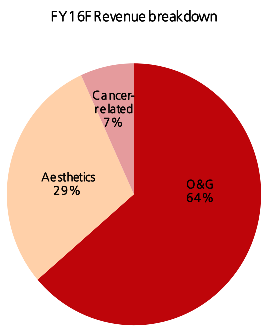
Expanding into new markets. In the longer-term, SOG aspires to have a regional presence and continues to explore overseas opportunities in countries including Indonesia, Myanmar, Indochina, Malaysia and China.

High dividend payout. SOG has a high dividend payout policy of 90%, to align the interests of its medical practitioners (who together own a 78% stake), offering dividend yields of 4-5%.

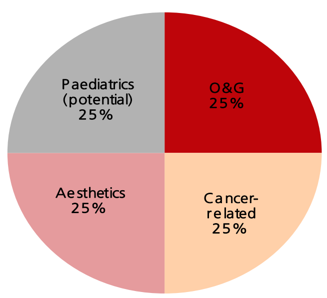
Key risks. Key risks that could derail our assumptions and earnings forecast includes i) Execution risks due to lack of a track record, ii) highly dependent on a few key doctors, and iii) low liquidity.

Breakdown of revenue by business segment





Medium-term targeted revenue mix



Source: Company, DBS Bank

SWOT Analysis

Strengths	Weakness
• Experienced team of specialist doctors within the obstetrics and gynaecology field and specialisations related to women's health. Key doctors have close to 30 years of experience in their respective fields. • SOG is the first chain of medical practices that specialise in women's health, granting it first mover advantage. • Focused on women's health and ancillary services, which is predominantly served by the private sector. • Well-established presence across the different areas in Singapore, with accreditation to perform surgeries in all major private hospitals and public hospitals. • Strong balance sheet to expand and acquire specialty practices to complement its current range of services • Strong cashflow generation for a high payout and attractive dividend yield • Interest of shareholders, doctors and key management are aligned as doctors and key management own 78% of the company coupled with a high dividend payout policy.	• Four key specialist medical practitioners account for the majority of group revenue (2014: 93.1%). While the specialists have service agreements with the group, sudden termination of services due to unforeseen circumstances could affect group revenue. Nevertheless, the dependency on the key doctors has reduced with new recruitments and expansion into new specialised services. • Operations are currently Singapore-focused, and thus the group is exposed to single country specific risks such as economic growth, political risks, regulatory risks, etc. • Lack of track record of successful acquisitions and retention of doctors

Opportunities	Threats
• Extension into other related specialisation areas in Singapore, such as paediatrics, and in-vitro fertilisation that are ancillary and related to women's health • Potential growth from its dermatology and aesthetics division, including sale of in-house skincare products. • Potential economies of scale and synergies through referrals as an integrated medical practice specialising in women's health • Opportunity to replicate current practice in Singapore to other countries through acquisitions • Leverage on medical tourism	• Declining birth rates in Singapore which may impact organic growth • Competition from other healthcare groups specialising in women's health may undermine SOG's ability to grow its patient base, as well as recruit talented medical specialists and healthcare workers. • An outbreak of epidemics and/or contagious diseases may have an impact on patient load • Limited availability of talented medical practitioners may hinder the group's ability to expand and grow.

Source: DBS Bank

Company Background

- **Corporate History.** Singapore O&G (SOG) is a chain of medical practices, specialising in women's health mainly obstetrics and gynaecology (O&G). It was founded in 2011 by Dr Lee Keen Whye, Dr Heng Tung Lan and Dr Ng Koon Keng who envisioned building a medical platform focused on women's healthcare.

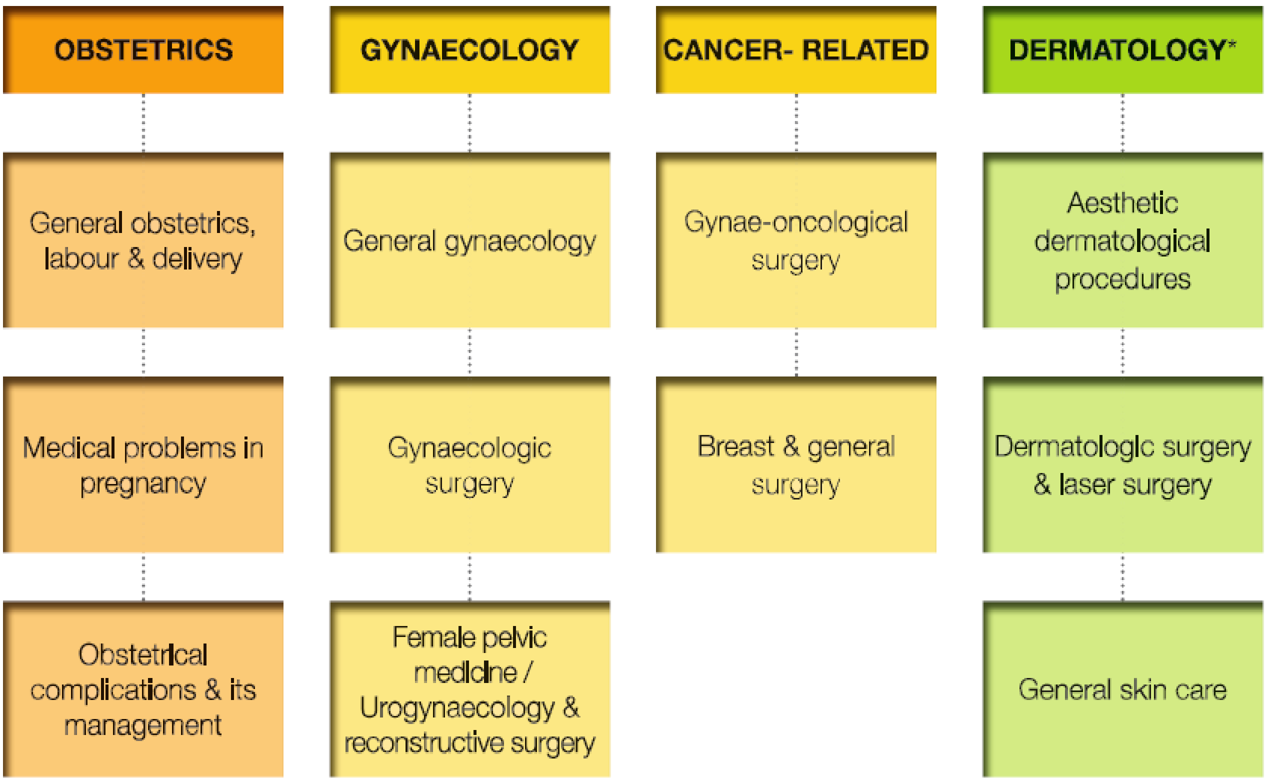
- **Medical services offered.** Currently, SOG offers three major specialised medical services for women.

i) **obstetrics and gynaecology** – general obstetrics, labour & delivery, medical problems in pregnancy, obstetrical complications & its management, general gynaecology, gynaecologic surgery, female pelvic medicine / urogynaecology and reconstruction surgery

ii) **cancer-related** – gynae-oncological surgery, breast and general surgery

iii) **dermatology and aesthetics** - aesthetic dermatological procedures, dermatologic surgery & laser surgery, general skin care.

Business segments and services offered

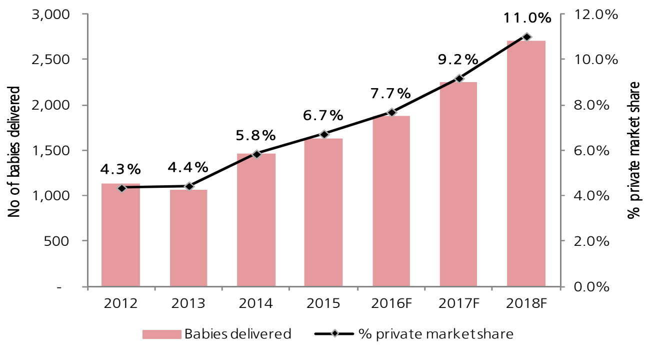


*Source: Company, * Dermatology business commenced in January 2016*

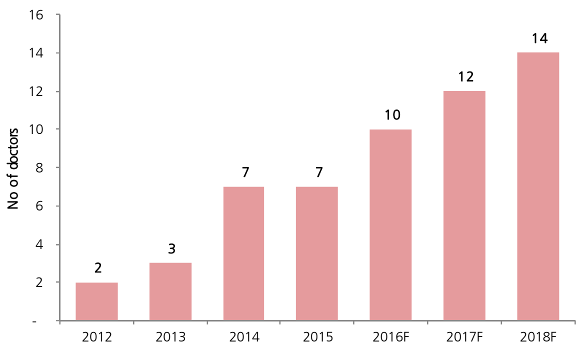
- **SOG's market share has increased to 6.7% in 2015.** In terms of babies delivered through the private sector, SOG's market share has increased from 4.3% in 2012 to 6.7% in 2015, mostly through the new recruitment of medical practitioners. We estimate that SOG should be able to increase its market share to more than 10% by 2018F based on its target to hire 2 to 3 new medical practitioners in a year.

- **Medical practitioners have increased from 2 to 9.** SOG started with the 2 founding and practising medical practitioners and now has five doctors specialising in obstetrics and gynaecology. In 2012, SOG started its cancer division via setting up SOG – Radhika Breast & General Surgicare (previously known as SOG Breast Surgicare). Albeit a smaller division compared to O&G, it now has three women cancer specialists. Post the acquisition of Dr Joyce Lim's practice at the end of 2015, SOG now offers dermatology and skin care services. Its senior doctors have close to 30 years of experience in their respective specialised areas of practise while most of the junior doctors have more than 10 years of experience.

Market share of babies delivered



Number of doctors



Source: Company, DBS Bank

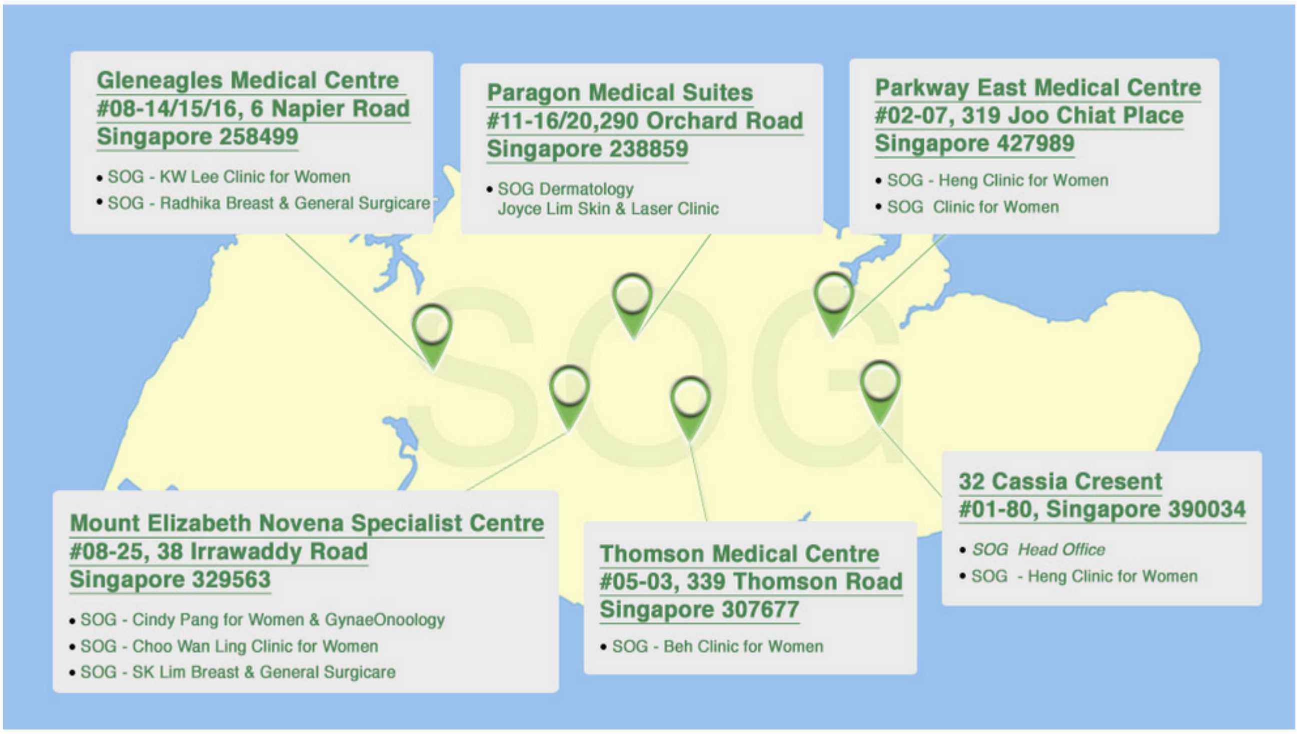
- **Up to 8 years service agreements with key doctors.** SOG has signed 5-year service agreements with key doctors who were 'acquired' together with the doctors' medical practices ('acquired' doctors), with most expiring in Dec 2019. The 'acquired' doctors are on a two-fold system of remuneration, i.e. a basic salary and bonus of up to 20% on earnings generated above a minimum earnings target. Key highlights of the service agreements are disclosed in the table below.

Key doctors	Term of service agreement	Salary (S$ pa)	Min NPAT (S$)
Dr Lee Keen Whye (O&G)	5 years, expiring in Dec 19	384,000	1,037,897
Dr Heng Tung Lan (O&G)	5 years, expiring in Dec 19	1,000,000	1,849,852
Dr Beh Suan Tiong (O&G)	5 years, expiring in Dec 19	444,000	1,000,000
Dr Choo Wan Ling (O&G)	5 years, expiring in Dec 19	540,000	900,000
Dr Joyce Lim (Dermatologist)	8+2 years, expiring in Dec 23	2,500,000	2,500,000

*Source: Company, *NPAT: Net profit after tax*

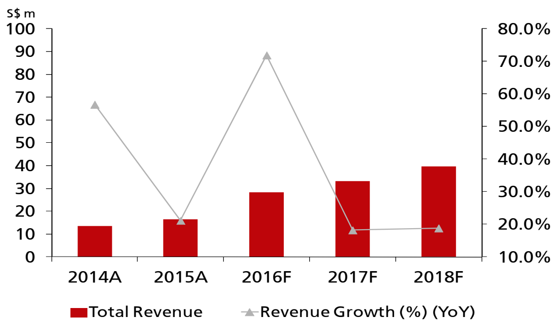
- **No of clinics have doubled to 10.** It currently operates ten clinics in six locations. SOG's O&G specialist medical practitioners are accredited to perform deliveries and O&G surgeries in all major private hospitals in Singapore including Parkway Group of Hospitals, Mount Alvernia Hospital and Thomson Medical Centre. Similarly, its women cancer specialists are accredited to perform surgeries in all major private hospitals including Parkway Group of Hospitals, Mount Alvernia Hospital and Raffles Medical Hospital, and public hospitals including Khoo Teck Phuat Hospital.

SOG has 10 clinics in 6 locations

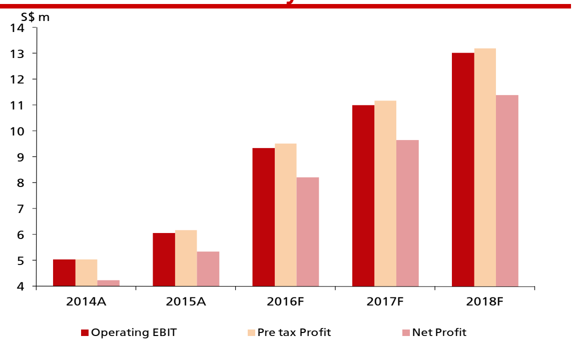


Source: Company

Sales Trend



Profitability Trend

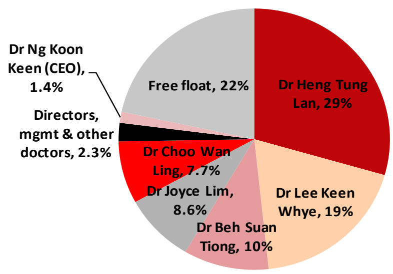


Source: Company, DBS Bank

- **Co-founding doctors lead the Board while key management led by Dr Victor Ng.** The co-founding and well-established O&G doctors, namely Dr Lee Keen Whye, Dr Heng Tung Lan and Dr Beh Suan Tiong lead the Board of Directors. The key management team is led by CEO, Dr Victor Ng, who was a medical practitioner (trained in O&G previously) but subsequently ventured into the financial industry. Prior to starting SOG with the co-founders, Dr Ng gained his experience in running a healthcare medical practice as the CEO of Asiamedic, a listed healthcare company specialising in health screening. As part of the key management team, Dr Ng does not practice medicine, but is involved in building the business on a full time basis.

- **Doctors and key management own 78% stake.** In total, the doctors and key management have a 78% stake in SOG, with free float of 22% from the remaining shares. SOG has a dividend payout policy of 90% to align the interests of its medical practitioners. It paid out 87% of its FY2015 earnings as dividends.

Doctors and management shareholdings



Source: Company

Doctors and Key Management Team

Doctors	Profile
Obstetrician & Gynaecologist Specialists **Dr Lee Keen Whye** Consultant Obstetrician & Gynaecologist Executive Chairman, SOG	• Consultant O&G at Gleneagles Medical Centre (SOG-KW Lee Clinic for Women) • Specialty includes endoscopy especially in hysteroscopy, laparoscopy and vaginal rejuvenation. • Chairman of the Minimally Invasive Surgery Centre, Gleneagles (2001 – 2008) • President of the Obstetrical and Gynaecological Society of Singapore (2003 – 2005) • Founding member of the Asia-Pacific Association of Gynaecological Endoscopists. • Associate of the Laser Vaginal Institute of Los Angeles, USA • Chairman of Surgeons International Holdings Pte Ltd (2005 – 2010), established medical marketing group in Singapore • Awarded the Singapore Armed Forces HQ Army Medical Services (National Serviceman of the Year Award) • Awarded the Benjamin Henry Sheares Gold Medal by the Obstetrical and Gynaecological Society of Singapore • Education: i) MBBS, National University of Singapore, ii) FRCOG, Royal College of Obstetricians and Gynaecologist, UK iii) FAMS, National University of Singapore

Source: Company

Doctors and Key Management Team (cont'd)

Doctors	Profile
Dr Heng Tung Lan Consultant Obstetrician & Gynaecologist Executive Director, SOG	• Leading Consultant O&G at Parkway East Medical Centre and a shophouse unit in Cassia Crescent (SOG-Heng Clinic for Women) • Specialises in pregnancy care and delivery, female health screening, menopause and female wellness enhancement • Established private practice in Sept 1993 and has since built a solid reputation as a renowned physician. Highly sought after for her medical and interpersonal skills. • Has more than 30 years of experience in this field. In 2014, she has delivered more than 755 babies • Education: i) MBBS, National University of Singapore ii) Trained at Kandang Kerbau Hospital iii) Master of Medicine (O&G) in 1988 iv) Academy of Medicine Singapore, 2004
Dr Beh Suan Tiong Consultant Obstetrician & Gynaecologist Executive Director, SOG	• Consultant O&G at Thomson Medical Centre (SOG-Beh Clinic for Women) • Senior Consultant of the Minimally Invasive Surgery Unit in the Department of Obstetrics and Gynaecology of KK Women's and Children's Hospital on a part-time basis. • Specialises in antenatal, intrapartum and postnatal care, minimal invasive surgery (keyhole surgery), laparoscopic and hysteroscopic surgery for various gynaecological problems. • Chairman of the Operating Room and ICU Committee of Thomson Medical Centre • Member of the medical advisory board of Thomson Medical Centre • Chairman of the Gynaecology Endoscopy Subsection • Part-time Senior Consultant of the Minimally invasive Surgery Unit in the Department of Obstetrics and Gynaecology of KK Women's and Children's Hospital • Past President of the Obstetrical & Gynaecological Society, Singapore (OGSS) and the past Treasurer of College of Obstetricians & Gynaecologists, Singapore (COGS). • First doctor recipient of the KK Service from the Heart Award • Education: i) MBBS, National University of Singapore ii) Specialist medical practitioner membership from The Royal College of Obstetricians and Gynaecologists in 1993 iii) FAMS, Academy of Medicine, Singapore

Source: Company

Doctors and Key Management Team (cont'd)

Doctors	Profile
Dr Choo Wan Ling Obstetrician & Gynaecologist	• Operates at SOG-Choo Wan Ling Clinic for Women in Gleneagles Medical Centre • Experienced in antenatal and gynaecological scans, antenatal care and risk assessment, prenatal screening, vaginal, assisted and caesarean delivery and has a special interest in menopausal care and female sexual dysfunction. • Council member of the Obstetrical and Gynaecological Society of Singapore (OGSS) • Has published in scientific journals such as Gynaecologic and Obstetric Investigations – Vaginal Delivery after Previous Caesarean Section, Annals of Medicine – Osteoporosis in relation to Menopause and contributed to various medical publications in her field of specialisation. Contributed chapters to a guidebook for expectant mothers, published by Oxford University Press. • Winner of the IV Asian Obstetrics and Gynaecology Congress Gold Medal (2000) • Education: i) MBBS, National University of Singapore ii) Masters in Obstetrics and Gynaecology, NUS
Dr Natalie Chua Obstetrician & Gynaecologist	• Operates at SOG Clinic for Women in Parkway East Medical Centre and SOG-Heng Clinic for Women (Cassia) • Specialises in obstetric care which includes preconception health screening, gynaecological cancer screening and prevention, and the management of common gynaecological problems. • Council member of the Obstetrical and Gynaecological Society of Singapore in 2010 • O&G Representative for the Association for Breastfeeding Advocacy (ABAS) (2011-2013) • Fellow of the Academy of Medicine Singapore in 2013 • Honoured with the Excellent Service Award by SingHealth in 2010 • Education: i) MBBS, National University of Singapore ii) Traineeship at Kandang Kerbau Hospital iii) Membership of the Royal College of O&G (MRCOG London)

Source: Company

Doctors and Key Management Team (cont'd)

Doctors	Profile
Women Cancer Specialists Dr Radhika Lakshmanan Consultant Breast & General Surgeon Oncoplastic Surgery	• Operates out of SOG-Radhika Breast & General Surgicare in Gleneagles Medical Centre and SOG Clinic for Women in Parkway East Medical Centre • General surgeon with more than 18 years of surgical experience. • Breast specialist trained in Reconstructive Breast Surgery. Sub-specialised in the treatment of breast diseases ranging from management of benign breast disorders such as breast cysts, lumps, nipple discharge, lactation problems, screening, male breast disorders and breast cancer. • Was a consultant surgeon in the Department of Surgery at Khoo Teck Phuat Hospital where she still practices as a visiting consultant. • Education: i) MBBS, National University of Singapore ii) Accredited by the Royal College of Surgeons of Edinburgh iii) Trained for specialisation in Breast and Reconstructive Surgery under the Human Manpower Development Programme scholarship. iv) Appointed as an Honorary Clinical Fellow in Breast Surgery at the Nottingham Breast Institute v) Clinical Lead in Surgery for Lee Kong Chian School of Medicine, NTU/Imperial College of London.
Dr Cindy Pang Obstetrician & Gynaecologist GynaeOncology	• Operates out of SOG-Cindy Pang Clinic for Women & GynaeOncology in Mount Elizabeth Novena Specialist Centre • Experienced obstetrician and gynae-oncologist with more than 10 years of clinical practice. • Main subspecialty in gynaecological cancer care • Accredited colposcopist and trainer in the Obstetrics and Gynaecology Centre, SGH • Council Member in the Society of Colposcopy and Cervical Pathology of Singapore (SCCPS) • Assists the division of graduate medical studies, NUH in assessing trainees for in-hospital clinical training modules on colposcopy. • Was a clinical instructor of Yong Loo Lin School of Medicine and adjunct professor at the Duke-NUS Graduate School of Medicine • Awarded the Tony McCartney Surgical Innovation Prize at the Australian Society of Gynaecological Oncologists Annual Scientific Meeting at Darwin in 2013 • Education: i) MBBS, National University of Singapore ii) 6 years of specialist training in Obstetrics & Gynaecology iii) Granted Membership to the Royal College of Obstetricians and Gynaecologists in the UK iv) Master of Medicine (O&G), NUS v) Specialist Accreditation with the Ministry of Health Singapore and the Singapore Medical Council in 2010. vi) Advanced surgical training as a fellow at the Western Australian Gynae-oncology Group in Perth in 2012

Source: Company

Doctors and Key Management Team (cont'd)

Doctors	Profile
Dr Lim Siew Kuan Consultant General Surgeon Breast & Oncoplastic Surgery	• Consultant general surgeon, specialises in breast surgery at her private practice in Mount Elizabeth Novena Specialist Centre. • Visiting consultant at Changi General Hospital and Khoo Teck Puat Hospital • Education: i) MBBS, National University of Singapore ii) Masters of Medicine (Surgery), National University of Singapore iii) Fellow of the Royal College of Surgeons of Edinburgh iv) Subspecialty training at the Center for Breast Cancer, National Cancer Center, Korea under the Human Manpower Development Programme scholarship in 2013 v) Done observerships at several renowned hospitals in Korea and Japan (Yonsei Severance Hospital, Kameda Medical Center, Nakagami Hospital).
Skin Specialist **Dr Joyce Lim Teng Ee** Dermatologist	• Skin specialist, recognised and accredited by the Ministry of Health and Ministry of Health, Malaysia. • Registered doctor with the Health Authority in Hong Kong SAR • First Division Head, Dermatologic and Laser Surgery at the National Skin Centre, Singapore until 2000 • Thereafter, started her own practice, the Joyce Lim Skin and Laser Clinic at the Paragon in Orchard Road, Singapore • Appointed member of Pigment Disorders Academy (PDA) since its inception in 2003. • Founding directors of Asian Dermatologic Laser and Surgery Research Group (ADLAS) formed in 2005. • Founding director of Aesthetic Dermatology Educational Group (ADEG), recognised by the Singapore Medical Council to conduct courses and to issue certificates of competence for doctors who wish to learn aesthetic procedures. • Education: i) Graduated specialising in internal medicine from the Medical Faculty, University of Malaya ii) Fellowship of the Royal College of Physicians and Surgeons of Ireland iii) Completed her dermatological training at the National Skin Centre, Singapore and went on to sub-specialise in dermatologic surgery and laser surgery. iv) Preceptorships under renowned dermatogists/dermatologic and laser surgeons in both Europe and the USA.

Source: Company

Doctors and Key Management Team (cont'd)

Key Management	Profile
Dr Ng Koon Keng Chief Executive Officer	• SOG's CEO since Aug 2011 • Responsible for overall administration, operation, business development, marketing and management of SOG • Trained as a medical doctor and started his traineeship in Obstetrics and Gynaecology but decided to pursue a career in family medicine. • Became a partner in a successful GP practice servicing the eastern part of Singapore • Joined the financial industry and subsequently gained management experiences from his previous management positions in medical-related entities which includes: i) Started A-Vic Enterprises Pte Ltd, a media company that produced a lifestyle magazine designed for medical profession ii) CEO of Surgeons International Holdings, medical marketing company iii) Medical Advisor to Red Carpet Medical, a premier medical tourism business of Red Carpet Edition iv) Director of the Orchard Surgery Center Pte Ltd v) CEO of Asiamedic • Education: i) First Class Honours degree in Pharmacology ii) Obtained her medical degree from the University of Dundee (UK)
Ms Heng Tong Bwee Chief Administrative Officer	• Appointed as Chief Administrative Officer in Nov 2013 • Oversees, maintains and enhances the administrative structure of the group, including the supervision and management of the staff of the group, and the planning and implantation of various administrative systems of the group. • Previous career as an auditor; Audit Manager at Harry Tan & Partners and director at Transview Decor Pte Ltd and A-Plan Management Pte Ltd. • Prior to joining SOG, she was the Finance Manager at Heng Clinic for Women. • Education: Degree in Accountancy, National University of Singapore.
Mr Eric Choo Financial Controller	• Joined SOG in June 2014 as Financial Controller • Oversees the financial accounting and reporting function of SOG including cash management, corporate governance and internal controls. • Over 13 years of experience in the accounting and finance sector. • Began his career as an Accountant with Pacific Healthcare Holdings • Prior to joining SOG, he was an Audit Senior Manager with KPMG Singapore • Education: i) Bachelor of Business (Accountancy) degree from the Royal Melbourne Institute of Technology ii) Member of the Institute of Singapore Chartered Accountants and CPA Australia

Source: Company

Competitive Strengths

- **Well-established and experienced specialist medical practitioners.** Experienced team of specialists doctors within obstetrics and gynaecology, and specialisations related to women's health. Key doctors have close to 30 years of experience in their respective fields.

- **First mover advantage.** SOG is the first chain of medical practices to specialise in women's health, which grants them first mover advantage in both recruitment of specialists and an expanding client base.

- **Healthcare segment that is predominantly served by the private sector.** Focused on women's health and ancillary services, a healthcare segment that is predominantly served by the private sector.

- **Conveniently located clinics with accreditation at all major hospitals.** SOG has clinics across the different areas in Singapore to reach out to a wider client base. In addition, its doctors have accreditation to perform surgeries in all major private hospitals and public hospitals.

Growth Strategies

- **Grow market share.** Starting from a low base, SOG has potential to grow its market share of 6.7% of total babies delivered through the private sector via new recruitments. The latent period of SOG's new doctors are typically shorter (less than a year), benefitting from its well-established existing medical practice.

- **Expanding into higher-margin complementary specialised services.** SOG expressed during its IPO that it plans to expand its services into synergistic and complementary businesses, of which it can leverage on referrals from its existing bread-and-butter O&G business. It acquired an aesthetics business at the end of2015 and earnings could increase by more than 50% with the consolidation of this newly acquired business. Next on management's agenda, as many would expect, could be paediatrics. SOG aims to achieve equal revenue contributions from all four segments in the medium term.

Apart from these four segments, we believe there are more complementary services in women's healthcare including IVF and child care services.

- **Expanding into new markets.** SOG continues to explore overseas opportunities in countries such as Indonesia, Myanmar, Indochina, Malaysia and China.

Key Risks

- **Execution risks; lacks track record.** SOG lacks a track record in quality recruitment, successful retention of doctors, and successful acquisitions of new medical practices.

- **Dependent on key doctors.** SOG is dependent on its key doctors and may have potential earnings risk should it fail to renew the service contracts which expire in 2019.

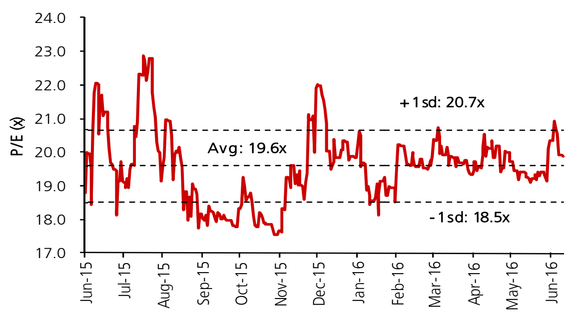
- **Low liquidity.** With a market cap of US$141m and ADV of US$0.05m, SOG is a small cap with liquidity risks.

Valuation

- **Initiating coverage with BUY, TP of S$1.05.** We initiate coverage with a BUY and target price of S$1.05 based on the average of PE multiple (peers' average of 26x) and DCF valuation methods, offering potential upside of 31%. Our estimates are based on 29% 3-year CAGR. SOG currently trades at 20x FY17F PE, close to its historical average.

- **Key potential catalysts** are i) successful new recruitments and ability to retain doctors, and ii) successful acquisitions of new medical practices.

Forward P/E (x)



Source: Bloomberg Finance L.P., DBS estimates, Company

Peers Valuation Table

Company	Ticker	Price LC$	Rating	Target price^ LC$	Mkt Cap US$b	3M ADV US$m	P/E FY16E	P/E FY17E	P/BV FY15	EV/EBITDA FY16E	EV/EBITDA FY17E
Singapore O&G	SOG SP	0.83	BUY	1.05	0.3	0.1	24.1	20.5	7.5	17.5	14.5
Q&M	QNM SP	0.72	NR	0.80	0.8	1.9	35.6	33.0	6.4	28.0	25.4
Cordlife	CLGL SP	1.27	NR	1.41	0.5	1.1	50.8	47.9	2.0	22.3	35.8
Talkmed	TKMED SP	1.03	NR	NA	0.8	0.0	17.1	17.1	12.0	11.7	11.2

*Source: Bloomberg Finance L.P., DBS estimates, IBES estimates. *Prices as at 30 June 2016. ^Potential target price for non-rated stocks.*
NR – Non-rated, NA – not available / not applicable

Key Assumptions

FY Dec	2013A	2014A	2015A	2016F	2017F	2018F
Market share of babies delivered (%)	0.04	0.06	0.07	0.08	0.09	0.11
No. of doctors	3.00	7.00	7.00	10.0	12.0	14.0
No. of patient visits		9,726	10,067	11,577	13,892	16,671

Segmental Breakdown

FY Dec	2013A	2014A	2015A	2016F	2017F	2018F
Revenues (S$m)						
O&G	8.64	13.5	14.9	18.0	22.2	27.4
Cancer-related	0.0	0.09	1.54	1.92	2.40	3.00
Aesthetics	0.0	0.0	0.0	8.33	8.75	9.19
Total	8.64	13.6	16.4	28.2	33.4	39.6
Operating profit (S$m)						
O&G	3.72	5.09	6.13	6.29	7.77	9.61
Cancer-related	0.0	(0.1)	(0.1)	0.13	0.17	0.21
Aesthetics	0.0	0.0	0.0	2.92	3.06	3.22
Total	3.72	5.04	6.06	9.34	11.0	13.0
Operating profit Margins (%)						
O&G	43.1	37.9	41.2	35.0	35.0	35.0
Cancer-related	N/A	(57.4)	(4.6)	7.0	7.0	7.0
Aesthetics	N/A	N/A	N/A	35.0	35.0	35.0
Total	43.1	37.2	36.9	33.1	33.0	32.9

Acquired aesthetics business at end-2015

Assumptions based on net margins of 30%

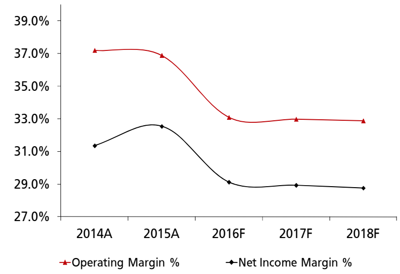
Source: Company, DBS Bank

Income Statement (S$m)

FY Dec	2013A	2014A	2015A	2016F	2017F	2018F
Revenue	8.64	13.6	16.4	28.2	33.4	39.6
Cost of Goods Sold	0.0	0.0	0.0	0.0	0.0	0.0
Gross Profit	8.64	13.6	16.4	28.2	33.4	39.6
Other Opng (Exp)/Inc	(4.9)	(8.5)	(10.4)	(18.9)	(22.4)	(26.6)
Operating Profit	3.72	5.04	6.06	9.34	11.0	13.0
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.0	0.0	0.13	0.17	0.17	0.16
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	3.72	5.04	6.18	9.51	11.2	13.2
Tax	(0.6)	(0.8)	(0.8)	(1.3)	(1.5)	(1.8)
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	3.12	4.25	5.34	8.22	9.65	11.4
Net Profit before Except.	3.12	4.25	5.34	8.22	9.65	11.4
EBITDA	3.85	5.23	6.30	9.98	12.1	14.2
Growth						
Revenue Gth (%)	6.5	56.8	21.2	71.9	18.2	18.8
EBITDA Gth (%)	9.7	35.9	20.4	58.6	21.2	17.5
Opg Profit Gth (%)	8.6	35.5	20.1	54.2	17.8	18.4
Net Profit Gth (Pre-ex) (%)	4.0	36.1	25.7	53.9	17.4	18.1
Margins & Ratio						
Opg Profit Margin (%)	43.1	37.2	36.9	33.1	33.0	32.9
Net Profit Margin (%)	36.1	31.4	32.5	29.1	28.9	28.8
ROAE (%)	53.7	45.6	29.8	26.7	25.3	28.8
ROA (%)	43.7	36.5	25.1	19.3	16.9	20.1
ROCE (%)	53.2	45.6	30.4	24.1	22.2	27.8
Div Payout Ratio (%)	69.7	34.9	87.2	87.2	87.2	87.2
Net Interest Cover (x)	NM	5,964.7	NM	NM	NM	NM

Source: Company, DBS Bank

Margins Trend



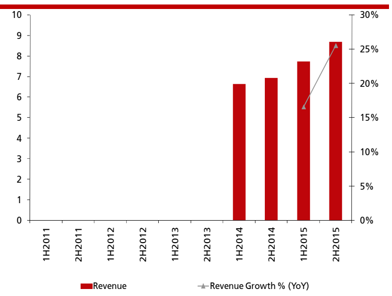
Earnings growth from the consolidation of aesthetics business

Quarterly / Interim Income Statement (S$m)

FY Dec	1H2013	2H2013	1H2014	2H2014	1H2015	2H2015
Revenue			7	7	8	9
Cost of Goods Sold			0	0	0	0
Gross Profit			7	7	8	9
Other Oper. (Exp)/Inc			(4)	(5)	(4)	(6)
Operating Profit			3	2	3	3
Other Non Opg (Exp)/Inc			0	0	0	0
Associates & JV Inc			0	0	0	0
Net Interest (Exp)/Inc			0	0	0	0
Exceptional Gain/(Loss)			0	0	0	0
Pre-tax Profit			3	2	3	3
Tax			(1)	0	(1)	0
Minority Interest			0	0	0	0
Net Profit			3	2	3	3
Net profit bef Except.			3	2	3	3
EBITDA			3	2	3	3
Growth						
Revenue Gth (%)			nm	4.5	11.6	12.5
EBITDA Gth (%)			nm	(30.8)	55.1	(9.3)
Opg Profit Gth (%)			nm	(35.3)	63.8	(13.4)
Net Profit Gth (%)			nm	(32.7)	58.8	(3.1)
Margins						
Opg Profit Margins (%)			46.2	28.6	42.0	32.3
Net Profit Margins (%)			38.3	24.7	35.1	30.3

Source: Company, DBS Bank

Revenue Trend

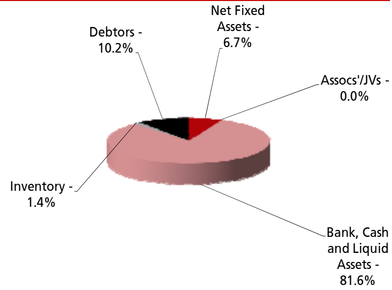


Balance Sheet (S$m)

FY Dec	2013A	2014A	2015A	2016F	2017F	2018F
Net Fixed Assets	0.41	0.60	0.68	1.93	1.23	0.44
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0	0.0
Other LT Assets	0.0	0.84	0.99	26.0	26.0	26.0
Cash & ST Invts	6.41	11.3	24.2	23.4	22.7	22.7
Inventory	0.22	0.20	0.28	0.42	0.49	0.58
Debtors	1.39	1.93	1.48	2.93	3.46	4.12
Other Current Assets	0.0	0.0	0.0	2.74	2.74	2.74
Total Assets	8.43	14.9	27.6	57.4	56.7	56.6
ST Debt	0.0	0.0	0.0	0.0	0.0	0.0
Creditor	0.78	1.75	1.65	2.92	3.45	4.10
Other Current Liab	0.88	1.24	1.89	8.84	10.3	12.1
LT Debt	0.0	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	0.01	0.01	0.09	8.09	4.09	0.09
Shareholder's Equity	6.76	11.9	24.0	37.6	38.8	40.3
Minority Interests	0.0	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	8.43	14.9	27.6	57.4	56.7	56.6
Non-Cash Wkg. Capital	(0.1)	(0.9)	(1.8)	(5.7)	(7.1)	(8.8)
Net Cash/(Debt)	6.41	11.3	24.2	23.4	22.7	22.7
Debtors Turn (avg days)	46.3	44.8	37.9	28.5	35.0	34.9
Creditors Turn (avg days)	(1,771.0)	(2,454.3)	(2,584.3)	(1,295.5)	(1,056.7)	(1,159.0)
Inventory Turn (avg days)	(550.7)	(411.6)	(367.5)	(196.7)	(150.3)	(164.8)
Asset Turnover (x)	1.2	1.2	0.8	0.7	0.6	0.7
Current Ratio (x)	4.8	4.5	7.3	2.5	2.1	1.9
Quick Ratio (x)	4.7	4.4	7.3	2.2	1.9	1.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	N/A	N/A	N/A	N/A

Source: Company, DBS Bank

Asset Breakdown

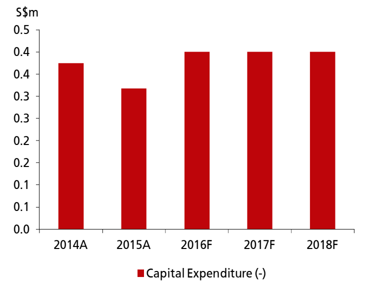


Cash Flow Statement (S$m)

FY Dec	2013A	2014A	2015A	2016F	2017F	2018F
Pre-Tax Profit	3.72	5.04	6.18	9.51	11.2	13.2
Dep. & Amort.	0.13	0.19	0.24	0.64	1.10	1.19
Tax Paid	(0.5)	(0.5)	(0.2)	(1.5)	(1.3)	(1.5)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	0.0	0.42	0.38	(0.3)	(0.1)	(0.1)
Other Operating CF	0.01	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Net Operating CF	3.38	4.92	6.39	8.16	10.7	12.6
Capital Exp.(net)	(0.3)	(0.4)	(0.3)	(0.4)	(0.4)	(0.4)
Other Invts.(net)	0.07	0.0	0.0	(6.0)	(4.0)	(4.0)
Invts in Assoc. & JV	0.0	2.51	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.04	0.17	0.17	0.16
Net Investing CF	(0.2)	2.13	(0.3)	(6.2)	(4.2)	(4.2)
Div Paid	(1.2)	(2.2)	(3.4)	(2.7)	(7.2)	(8.4)
Chg in Gross Debt	(0.1)	0.0	0.0	0.0	0.0	0.0
Capital Issues	0.0	0.0	10.2	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0	0.0
Net Financing CF	(1.3)	(2.2)	6.81	(2.7)	(7.2)	(8.4)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0	0.0
Chg in Cash	1.83	4.87	12.9	(0.8)	(0.7)	(0.1)
Opg CFPS (S cts)	1,699,576	2.58	2.76	3.55	4.53	5.33
Free CFPS (S cts)	1,539,325	2.61	2.79	3.25	4.33	5.12

Source: Company, DBS Bank

Capital Expenditure



Staggered payment for acquisition of aesthetics business

Singapore Company Guide

Parkway Life REIT

Version 3 | Bloomberg: PREIT SP | Reuters: PWLR.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

27 Apr 2016

BUY

Last Traded Price: S$2.45 (STI : 2,894.66)
Price Target : S$2.65 (8% upside) (Prev S$2.50)

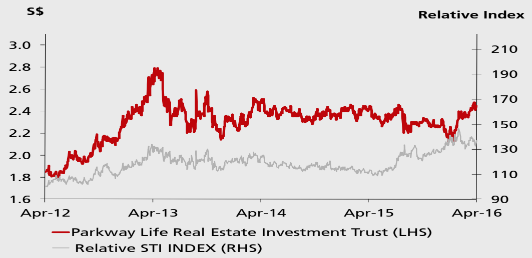
Potential Catalyst: Acquisitions
Where we differ: We have forecasted acquisitions in our numbers

Analyst
Singapore Research Team
equity research@dbs.com

What's New

- **DPU (ex one-off gain) +5% y-o-y; in line**
- 1Q16 NPI recorded strong growth of 9% y-o-y mainly from Japan assets (asset recycling) and increase in rental for Singapore assets
- **Maintain Buy; raise TP to $2.65 from $2.50**

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2015A	2016F	2017F	2018F
Gross Revenue	103	113	114	114
Net Property Inc	96.0	105	106	106
Total Return	67.0	74.7	75.2	75.4
Distribution Inc	83.4	75.7	76.2	76.4
EPU (S cts)	10.1	12.3	12.4	12.5
EPU Gth (%)	(19)	22	1	0
DPU (S cts)	13.3	12.1	12.2	12.3
DPU Gth (%)	15	(9)	1	0
NAV per shr (S cts)	169	169	170	170
PE (X)	24.2	19.9	19.7	19.7
Distribution Yield (%)	5.4	5.0	5.0	5.0
P/NAV (x)	1.4	1.4	1.4	1.4
Aggregate Leverage (%)	35.2	37.8	37.8	37.7
ROAE (%)	6.0	7.3	7.3	7.3
Distn. Inc Chng (%):		-	-	-
Consensus DPU (S cts):		12.0	12.0	12.5
Other Broker Recs:		B: 2	S: 0	H: 3

Source of all data: Company, DBS Bank, Bloomberg Finance L.P

Steadyship

Steady ship amid uncertainty. Parkway Life REIT (Plife REIT) offers one of the strongest earnings visibility profile among S-REITs, with a weighted average lease expiry of close to 9 years. Revenue from Singapore (c.63% of total revenues) is forecast to grow at CPI + 1%, ensuring that rental income keeps pace with inflation growth. The remaining 36% is derived from its nursing homes and healthcare facilities in Japan which offer long-term certainty given a weighted average lease expiry of 13 years. We believe investors should continue to add at current levels. BUY!

Optimism returns from Japan; acquisitions to grow portfolio. After a portfolio recycling exercise in Japan, we continue to see positive growth momentum for Plife REIT in the country. The manager is aiming to acquire and bulk up its exposure in Japan. Given a relatively low gearing ratio of c.35%, we see opportunities to grow via debt-funded acquisitions. We have priced in S$45m of acquisitions @ 6.5% yield in our forecast.

Conservative balance sheet profile. Plife REIT has been proactively refinancing its maturing debts in advance to prevent any near-term refinancing risks. As a result, there is no refinancing until 2017, with a weighted average debt to maturity of 3.5 years and a low 1.6% cost of debt which is fully hedged.

Valuation:

We raise our target price to S$2.65 from S$2.50, by reflecting the negative interest rates in Japan. Our target price implies a potential total return of 13%. We believe further potential upside to our forecasts stems from positive roll-out of its asset recycling exercise in Japan which we have yet to include in our estimates.

Key Risks to Our View:

Currency risks. Plife REIT derives c.36% of its earnings from its healthcare assets in Japan. Thus, foreign exchange volatility could hit earnings as distributions are based on SGD.

At A Glance

Issued Capital (m shrs)	605
Mkt. Cap (Sm/USm)	1,482 / 1,096
Major Shareholders (%)	
Parkway Pantai Limited	35.70
BNY Mellon	13.71
Britten Holdings Pte Ltd	6.36
Free Float (%)	44.23
3m Avg. Daily Val (US$m)	1.4
ICB Industry : Real Estate / Real Estate Investment Trust	

WHAT'S NEW

1Q16 results: DPU (ex one-off gain) +5% y-o-y; in line

Results Highlights – 1Q16 DPU in line

- PREIT's 1Q16 DPU fell 7% y-o-y 2.99 Scts due to a one-off distribution of divestment gain in 1Q2015. Excluding the one-off distribution, DPU grew 5% y-o-y, in line with consensus' estimates.
- 1Q16 NPI recorded strong growth of 9% y-o-y, mainly from the inflation-linked rental review at its Singapore hospitals (+1.3% y-o-y) and 22% y-o-y growth from the Japanese assets following its asset recycling initiatives and the appreciation of Japanese Yen.
- Gearing remains relatively stable at 36% vs 35% as at Dec 2015. In March 2016, PREIT successfully termed out 34% of FY17 refinancing requirements at an attractive interest rate of 0.58% for 6-year JPY fixed rate notes. Effective all-in cost of debt reduced marginally to 1.5% from 1.6% in FY15.

Outlook

Steady returns from its Singapore hospitals given low CPI expectations.

- PREIT is expected to continue delivering steady returns with a high degree of income visibility. Its Singapore hospitals, contributing c.61% of topline and pegged to CPI-linked revision formula, underpin a steady growth profile for PREIT going forward.
- However, with a weaker outlook on Singapore CPI, we forecast rental income from its Singapore hospitals to grow by 1% at best this year.

Japan acquisitions to provide upside

- PREIT's portfolio recycling strategy in Japan remains intact. We believe the asset recycling exercise will provide some potential growth given its successful track record. However, the timing of these assets recycling remains uncertain.

Maintain Buy, TP S$2.65

- We continue to like PREIT for its strong earnings visibility, which we believe to be a positive attribute given the current volatile and uncertain market conditions.
- We maintain our BUY rating and raise our target price to $2.65 from $2.50 previously by reflecting the negative interest rates in Japan. Our target price implies a potential total return of 13%.
- We believe further potential upside to our forecasts stems from positive roll-out of its asset recycling exercise in Japan which we have yet to include in our estimates.

Quarterly / Interim Income Statement (S$m)

FY Dec	1Q2015	4Q2015	1Q2016	% chg yoy	% chg qoq
Gross revenue	24.8	26.3	26.9	8.6	2.3
Property expenses	(1.6)	(1.7)	(1.8)	9.8	2.4
Net Property Income	23.2	24.6	25.1	8.5	2.2
Other Operating expenses	(1.6)	(3.0)	(2.9)	83.8	(3.6)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Net Interest (Exp)/Inc	(2.1)	(2.3)	(2.5)	(19.6)	(9.2)
Exceptional Gain/(Loss)	(1.5)	0.04	(0.8)	nm	nm
Net Income	**18.0**	**19.4**	**18.9**	**5.3**	**(2.2)**
Tax	(1.6)	(7.4)	(1.7)	6.0	(76.8)
Minority Interest	0.0	0.0	0.0	nm	nm
Net Income after Tax	**16.4**	**12.0**	**17.2**	**5.2**	**43.7**
Total Return	16.4	17.7	17.2	5.2	(2.8)
Non-tax deductible Items	1.56	1.10	1.62	3.5	46.8
Net Inc available for Dist.	17.9	18.8	18.9	5.1	0.1
Ratio (%)					
Net Prop Inc Margin	93.5	93.4	93.4		
Dist. Payout Ratio	108.5	108.1	96.0		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

Strong income visibility backed by long leases. Plife REIT offers one of the strongest earnings visibility profile among S-REITs, with a weighted average lease expiry of close to 9 years. As of FY15, Plife REIT derived c.63% of its revenues from its Singapore hospitals, where income is pegged to a revenue formula where the master-lessee, its sponsor IHH Group, will pay the REIT the higher of (i) Base Rent + variable rent pegged to higher performance or (ii) CPI + 1% on previous year's rent. This structure allows Plife REIT to grow its rental by at least 1% per annum and to protect its rental income from being eroded by inflation.

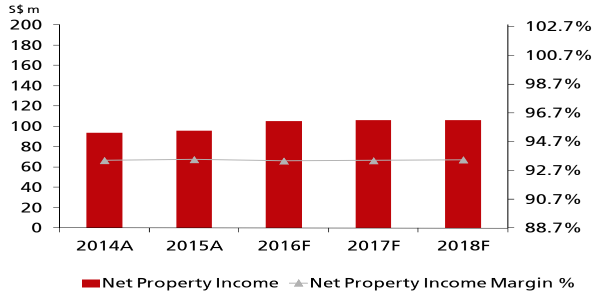
The remaining 36% of its revenues were from its investments in nursing homes and healthcare-related facilities in Japan, where Plife REIT owned 43 properties. The average lease term to expiry is 13 years, which offers strong income visibility to the REIT.

Capital recycling strategy to fund acquisitions.
In 2014/2015, the REIT divested seven Japan properties at S$88.3m with an exit yield of 5.9% and acquired seven Japan properties at S$126.1m with a yield of 6.4%, disposing of its lower-performing assets to acquire higher-yielding ones. The changes in portfolio are in line with management's previously stated rebalancing strategy to enhance the quality and diversify the REIT's exposure within Japan, and keep its portfolio contemporary. Thus, we expect the REIT to continue to record steady earnings going forward. The manager has also taken a 5-year hedge to lock in cash flows from the new acquisitions.

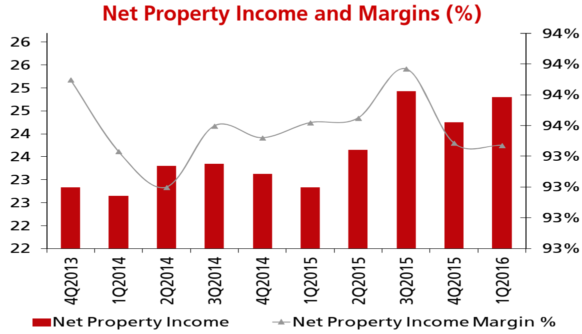
FY16F-18F 3-year NPI CAGR growth of c.5%. Top-line and net property income grew by 5% CAGR during the last 5 years and we continue to estimate stable growth in the next 3 years on the back of higher-yielding properties in Japan post asset recycling and higher rents from its Singapore properties due to the increase in the variable lease structure. We have also forecasted S$45m worth of acquisitions in our forecasts.

Distributable income has been growing at 5-year CAGR of 6%, excluding the divestment gain of S$9m in FY15. We assume a conservative 3-year CAGR of 1.2% in FY16F-FY18F, excluding any potential divestment gain from its asset recycling strategy.

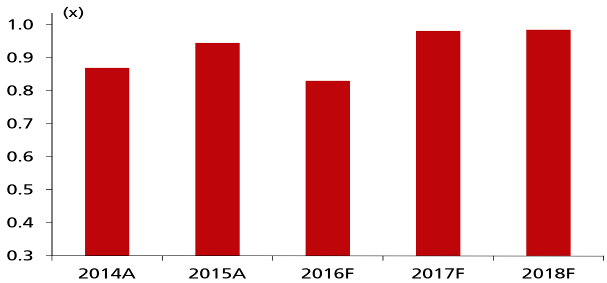
Net Property Income and Margins (%)



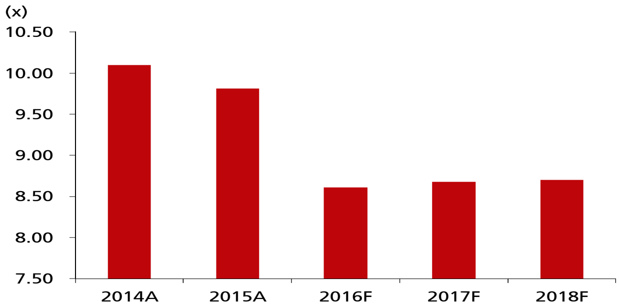
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Ample debt headroom. A gearing of 35% provides the REIT with greater financial flexibility and headroom to acquire opportunistically and to fund the acquisitions via debt. At an assumed management's optimal gearing target of 40-45%, there is additional headroom of S$130-300m for acquisitions that could boost asset value by 8-18%.

No refinancing needs in the near term. Plife REIT has been proactively refinancing its maturing debts in advance to prevent any near-term refinancing risks. As a result, the REIT has no need for refinancing until 2017, with a weighted average debt to maturity of 3.5 years and a low 1.6% average cost of debt. Close to 95% of its interest rate exposure has been hedged.

Share Price Drivers:

More opportunities for accretive acquisitions. Given that medical tourism in Singapore is expected to double from S$1bn by 2020, there would be rising demand for medical services. We anticipate Plife REIT to leverage on its specialization in medical care properties as it acquires opportunistically to meet the growing demand which would provide higher distributions to buoy its share price. We have priced in S$45m worth of acquisitions in our forecasts.

Safe haven in uncertain times. We expect Plife REIT's strong income visibility to be a valued trait in the current uncertain economic climate. The stock offers attractive yields in excess of 5.0%.

Key Risks:

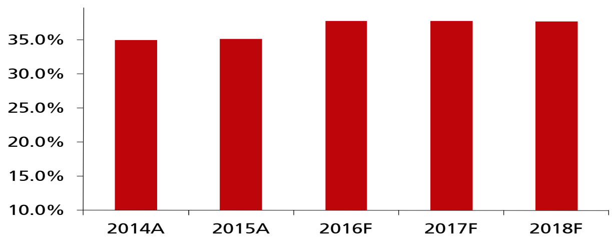
Interest rate risks. Any increase in interest rates will result in higher interest payments (if it coincides with a loan maturity) that the REIT has to make annually to service its loan. This reduces the income available for distribution, which will result in a lower distribution per unit (DPU) for unitholders.

Currency risks. Plife REIT derives c.36% of its earnings from its healthcare assets in Japan. Thus, foreign exchange volatility could hit earnings as distributions are based on SGD. However, we note that the trust has conservatively hedged its foreign income exposures on a long-term basis.

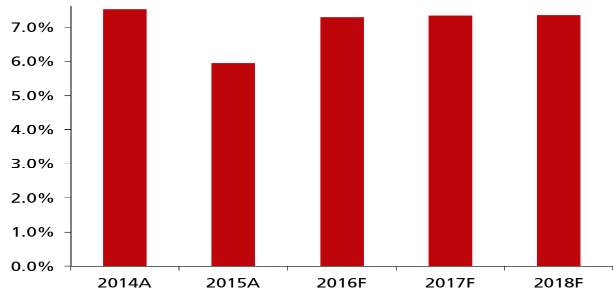
Company Background

Parkway Life REIT is one of Asia's largest listed healthcare REITs. It invests in income-producing real estate and real estate-related assets used primarily for healthcare and healthcare-related purposes.

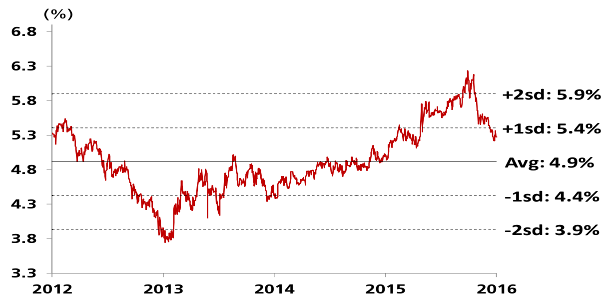
Aggregate Leverage (%)



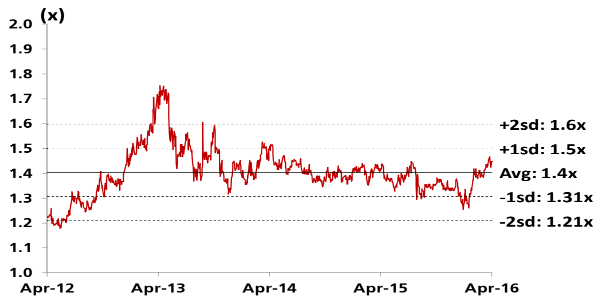
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Segmental Breakdown

FY Dec	2014A	2015A	2016F	2017F	2018F
Revenues (S$m)					
Singapore	63.3	64.7	65.3	66.2	67.5
Japan Nursing homes	36.5	37.5	46.8	46.8	45.8
Malaysia	0.56	0.55	0.51	0.51	0.52
Total	100	103	113	114	114
NPI (S$m) (S$m)					
Singapore	60.2	61.6	62.7	63.5	64.8
Japan Nursing homes	33.2	34.0	42.2	42.2	41.2
Malaysia	0.41	0.42	0.35	0.35	0.36
Total	93.8	96.0	105	106	106
NPI (S$m) Margins (%)					
Singapore	95.1	95.2	96.0	96.0	96.0
Japan Nursing homes	90.9	90.8	90.0	90.0	90.0
Malaysia	73.2	76.8	69.0	69.0	69.0
Total	93.4	93.5	93.4	93.4	93.5

Singapore to grow at 1% p.a.

Contribution from assumed S45m acquisitions

Income Statement (S$m)

FY Dec	2014A	2015A	2016F	2017F	2018F
Gross revenue	100	103	113	114	114
Property expenses	(6.6)	(6.7)	(7.5)	(7.5)	(7.4)
Net Property Income	93.8	96.0	105	106	106
Other Operating expenses	(10.5)	(10.0)	(13.4)	(13.7)	(13.7)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(8.3)	(8.8)	(10.7)	(10.6)	(10.7)
Exceptional Gain/(Loss)	13.7	(4.1)	0.0	0.0	0.0
Net Income	88.8	73.2	81.1	81.7	82.0
Tax	(12.7)	(11.9)	(6.5)	(6.5)	(6.6)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	76.1	61.3	74.7	75.2	75.4
Total Return	121	67.0	74.7	75.2	75.4
Non-tax deductible Items	(48.4)	7.29	1.00	1.00	1.00
Net Inc available for Dist.	72.7	83.4	75.7	76.2	76.4
Growth & Ratio					
Revenue Gth (%)	7.1	2.3	9.7	0.8	0.2
N Property Inc Gth (%)	7.1	2.4	9.6	0.8	0.3
Net Inc Gth (%)	14.8	(19.5)	21.9	0.7	0.3
Dist. Payout Ratio (%)	95.9	96.4	97.0	97.0	97.0
Net Prop Inc Margins (%)	93.4	93.5	93.4	93.4	93.5
Net Income Margins (%)	75.8	59.6	66.3	66.2	66.3
Dist to revenue (%)	72.4	81.2	67.1	67.1	67.2
Managers & Trustee's fees	10.4	9.7	11.9	12.1	12.1
ROAE (%)	7.5	6.0	7.3	7.3	7.3
ROA (%)	4.8	3.7	4.3	4.3	4.3
ROCE (%)	4.5	4.4	5.0	4.9	4.9
Int. Cover (x)	10.1	9.8	8.6	8.7	8.7

Interest rates fixed

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Dec	1Q2015	2Q2015	3Q2015	4Q2015	1Q2016
Gross revenue	24.8	25.7	27.0	26.3	26.9
Property expenses	(1.6)	(1.7)	(1.7)	(1.7)	(1.8)
Net Property Income	23.2	24.0	25.3	24.6	25.1
Other Operating expenses	(1.6)	(2.5)	(3.9)	(3.0)	(2.9)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(2.1)	(2.3)	(2.1)	(2.3)	(2.5)
Exceptional Gain/(Loss)	(1.5)	1.33	(3.9)	0.04	(0.8)
Net Income	**18.0**	**20.5**	**15.3**	**19.4**	**18.9**
Tax	(1.6)	(1.5)	(1.5)	(7.4)	(1.7)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	**16.4**	**19.1**	**13.8**	**12.0**	**17.2**
Total Return	16.4	19.1	13.8	17.7	17.2
Non-tax deductible Items	1.56	(0.3)	4.94	1.10	1.62
Net Inc available for Dist.	17.9	18.8	18.8	18.8	18.9
Growth & Ratio					
Revenue Gth (%)	(1)	4	5	(2)	2
N Property Inc Gth (%)	(1)	4	5	(3)	2
Net Inc Gth (%)	(33)	16	(27)	(13)	44
Net Prop Inc Margin (%)	93.5	93.5	93.7	93.4	93.4
Dist. Payout Ratio (%)	108.5	108.2	108.1	108.1	96.0

Stable returns q-o-q basis

Balance Sheet (S$m)

FY Dec	2014A	2015A	2016F	2017F	2018F
Investment Properties	1,501	1,635	1,685	1,688	1,691
Other LT Assets	11.2	3.35	3.35	3.35	3.35
Cash & ST Invts	146	20.4	65.4	63.7	61.8
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	10.4	10.4	11.6	11.7	11.7
Other Current Assets	0.40	0.0	0.0	0.0	0.0
Total Assets	**1,669**	**1,669**	**1,766**	**1,767**	**1,768**
ST Debt	80.9	1.00	1.00	1.00	1.00
Creditor	21.5	15.7	24.2	24.4	24.2
Other Current Liab	1.26	1.73	8.22	8.26	8.28
LT Debt	503	586	666	666	666
Other LT Liabilities	26.7	41.6	41.6	41.6	41.6
Unit holders' funds	1,035	1,023	1,024	1,026	1,027
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	**1,669**	**1,669**	**1,766**	**1,767**	**1,768**
Non-Cash Wkg. Capital	(12.0)	(7.1)	(20.8)	(20.9)	(20.7)
Net Cash/(Debt)	(438)	(567)	(602)	(603)	(605)
Ratio					
Current Ratio (x)	1.5	1.7	2.3	2.2	2.2
Quick Ratio (x)	1.5	1.7	2.3	2.2	2.2
Aggregate Leverage (%)	35.0	35.2	37.8	37.8	37.7
Z-Score (X)	1.7	1.7	1.5	1.5	1.5

Source: Company, DBS Bank

Gearing to remain within comfortable levels

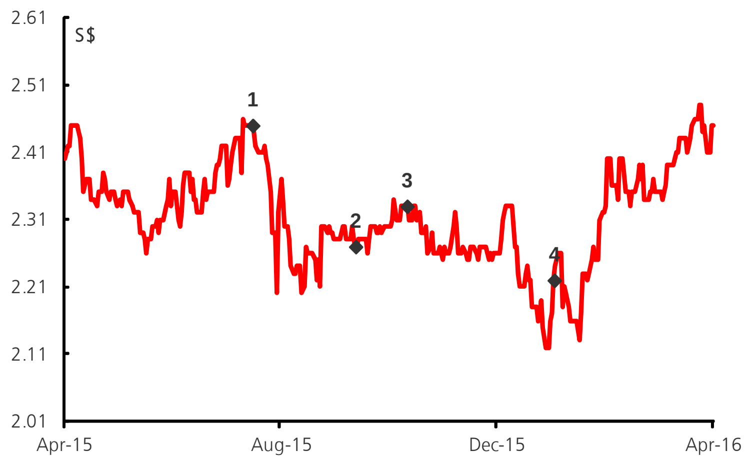
Cash Flow Statement (S$m)

FY Dec	2014A	2015A	2016F	2017F	2018F
Pre-Tax Income	88.8	73.2	81.1	81.7	82.0
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(4.2)	0.0	0.0	(6.5)	(6.5)
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	0.51	5.46	7.26	0.03	(0.2)
Other Operating CF	(5.5)	3.37	0.0	0.0	0.0
Net Operating CF	**79.7**	**82.0**	**88.4**	**75.2**	**75.3**
Net Invt in Properties	4.63	(103)	(50.0)	(3.0)	(3.1)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.01	(1.7)	0.0	0.0	0.0
Net Investing CF	**4.64**	**(105)**	**(50.0)**	**(3.0)**	**(3.1)**
Distribution Paid	(69.2)	(77.6)	(73.4)	(73.9)	(74.1)
Chg in Gross Debt	117	(23.7)	80.0	0.0	0.0
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(8.5)	(8.5)	0.0	0.0	0.0
Net Financing CF	**39.0**	**(110)**	**6.62**	**(73.9)**	**(74.1)**
Currency Adjustments	(4.2)	6.69	0.0	0.0	0.0
Chg in Cash	119	(126)	45.0	(1.6)	(2.0)
Operating CFPS (S cts)	13.1	12.7	13.4	12.4	12.5
Free CFPS (S cts)	13.9	(3.5)	6.35	11.9	11.9

Assumed acquisitions

Source: Company, DBS Bank

Target Price & Ratings History



***Note** : Share price and Target price are adjusted for corporate actions.*

S.No.	Date	Closing Price	Target Price	Rating
1:	10 Aug 15	2.45	2.69	BUY
2:	07 Oct 15	2.27	2.56	BUY
3:	05 Nov 15	2.33	2.56	BUY
4:	27 Jan 16	2.22	2.50	BUY

Source: DBS Bank

Singapore Company Guide
Raffles Medical

Version 3 | Bloomberg: RFMD SP | Reuters: RAFG.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 Jul 2016

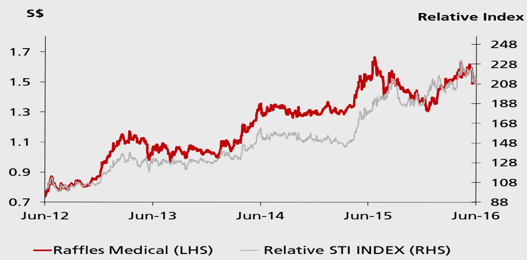
HOLD

Last Traded Price: S$1.54 (STI : 2,846.37)
Price Target : S$1.43 (7% downside)

Potential Catalyst: Acquisitions, JVs
Where we differ: Below consensus as we expect profit growth from core operations to be partially negated by gestation costs

Analyst
Rachel TAN +65 6682 3713 racheltanlr@dbs.com
Andy SIM CFA +65 6682 3718 andysim@dbs.com

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2015A	2016F	2017F	2018F
Revenue	411	468	527	597
EBITDA	93.4	101	107	115
Pre-tax Profit	81.6	87.8	92.9	100
Net Profit	69.3	73.4	77.7	83.8
Net Pft (Pre Ex.)	69.3	73.4	77.7	83.8
Net Pft Gth (Pre-ex) (%)	2.4	5.9	5.9	7.9
EPS (S cts)	4.02	4.25	4.50	4.86
EPS Pre Ex. (S cts)	4.02	4.25	4.50	4.86
EPS Gth Pre Ex (%)	1	6	6	8
Diluted EPS (S cts)	4.00	4.23	4.48	4.84
Net DPS (S cts)	2.00	2.17	2.33	2.50
BV Per Share (S cts)	35.0	37.2	39.5	42.1
PE (X)	38.2	36.1	34.1	31.6
PE Pre Ex. (X)	38.2	36.1	34.1	31.6
P/Cash Flow (X)	36.4	21.7	25.8	23.8
EV/EBITDA (X)	28.0	26.1	25.1	23.3
Net Div Yield (%)	1.3	1.4	1.5	1.6
P/Book Value (X)	4.4	4.1	3.9	3.6
Net Debt/Equity (X)	CASH	CASH	0.0	0.0
ROAE (%)	12.1	11.8	11.7	11.9
Earnings Rev (%):		-	-	-
Consensus EPS (S cts):		4.20	4.80	5.70
Other Broker Recs:		B: 8	S: 1	H: 4

Source of all data: Company, DBS Bank, Bloomberg Finance L.P

Valuation pricing in long-term growth

Maintain HOLD, TP revised to S$1.43. We maintain our HOLD recommendation for Raffles Medical with a TP of S$1.43 (including potential value of its Shanghai JV hospital). At its current valuation of 36x FY16F PE, the counter has reflected its growth potential, in our view. We project growth over the next few years to be a tad slower than its historical average.

Expansion plans in Singapore on track while Shanghai was deferred. The progress of its expansion plans in Singapore is on track, with Raffles Holland V opening its doors recently and Raffles Hospital Extension expected to complete in 2017. However, we note that its Shanghai Hospital's completion is now projected to be in late 2018, instead of mid-2018 as was previously expected, and slated to be operational from 2019.

Slower growth in the immediate horizon. The group has embarked on an expansion phase with several projects in progress locally and overseas. While this should provide it with a growth trajectory over the long term, we expect a period of gestation and forecast a 3-year earnings CAGR of 7%, significantly slower vis-à-vis the 19% rate in the last decade.

Valuation:
Our target price of S$1.43 is based on its historical average PE of 29x on average FY16F/17F earnings. Our estimates include S$0.49/share from the value of its Shanghai greenfield hospital.

Key Risks to Our View:
Economic slowdown. While healthcare is considered a defensive sector, private healthcare will nonetheless be impacted by a slowdown in the economy since elective procedures can be deferred or patients can choose public hospitals as a lower cost alternative.

At A Glance

Issued Capital (m shrs)	1,731
Mkt. Cap (Sm/USm)	2,658 / 1,975
Major Shareholders (%)	
Raffles Medical Hldgs Pte Ltd	38.2
Choon Yong Loo	10.0
FIL Limited	4.9
Free Float (%)	46.9
3m Avg. Daily Val (US$m)	2.0

ICB Industry : Health Care / Health Care Equipment & Servic

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

Raffles Hospital the key profit generator. Raffles Medical derives earnings mainly from three key segments – Hospital Services, Healthcare Services and Investments. Hospital Services is the largest revenue contributor, accounting for c.65% (as of FY15) of the group's revenue. The group owns and operates Raffles Hospital, which is a licensed 380-bed tertiary hospital, located just at the outskirts of Singapore's Central Business District. There are c.200 operational beds, and revenue growth has been largely driven by inpatient admissions, higher prices and increased intensity of services.

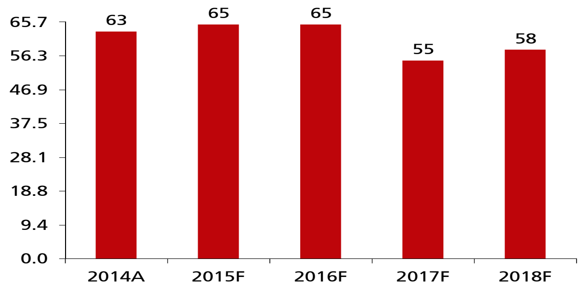
Healthcare services revenue derived through network of clinics and medical centres. Raffles Medical has a network of over 80 clinics across Singapore that provide primary care. Revenue and profit growth for this segment have been and will continue to be driven largely by patient visits. This segment contributes c.39% of the group's revenue. The network of its clinics serves as a feeder and a referral source for patients to its Raffles Hospital. The group has five clinics in Hong Kong and a comprehensive medical centre in Shanghai. It has recently set up a 17,000-sq ft medical centre in Shaw Centre, and signed an agreement to acquire a chain of 10 clinics in China, Vietnam and Cambodia for US$24.5m.

Leveraging on Singapore's status as a premier medical hub. About one-third of Raffles Hospital's patients are foreigners, with Indonesians accounting for c.25% of this segment. Over the years, concerted efforts have been made to diversify the sources of its foreign patients and it now has patients of over 100 nationalities. This is also achieved through its network of international associates throughout Asia.

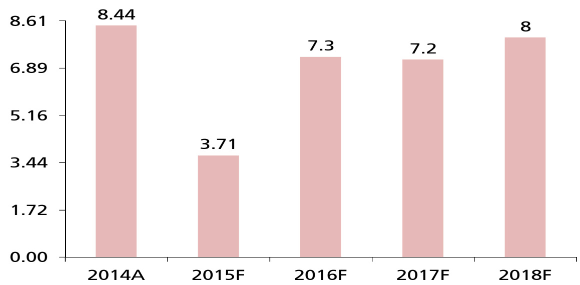
In expansion phase for next stage of growth. The group is currently embarking on expanding its capacities for its next stage of growth. There are several ongoing projects, such as: (i) extension of its Raffles Hospital with the addition of a medical block with 220k sq ft of additional space (by 2017); and (ii) development of a 70:30 greenfield hospital in Shanghai in conjunction with Shanghai Lujiazhui Group (by end-2018). While this is positive for its longer-term growth prospects, we believe there could be a gestation period and this could undermine the group's growth in the near term.

Staff costs. Staff costs are currently at close to 50% of the group's revenue. Competition for healthcare workers between the public and private sectors, cap on foreign nurses, as well as a worldwide shortage of doctors has resulted in upward pressure on staff costs. For FY15, staff costs rose 12% on a y-o-y basis. The group seeks to lower staff costs in the longer term by starting its own residency programme for its physicians to develop an in-house supply of doctors for its operations.

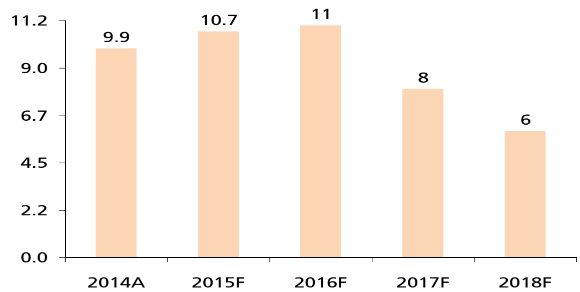
Avg Utilisation (%)



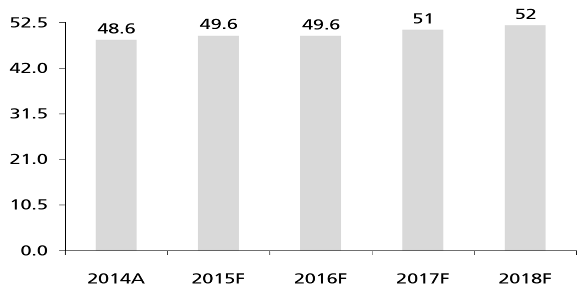
Avg rate increase (%)



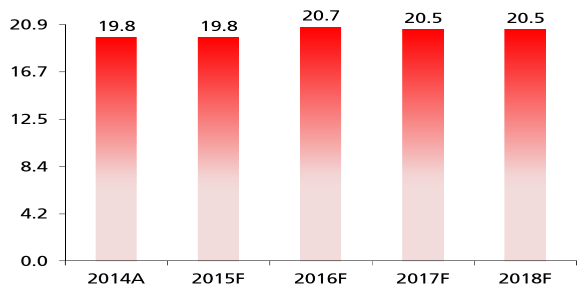
Avg clinic fee growth (%)



Staff costs/ Rev (%)



Consumables, svcs/ Rev (%)



Source: Company, DBS Bank

Balance Sheet:

Net cash position. As at FY15, the group had approximately S$86m of cash on its balance sheet, down from c.S$150m as of end-FY14, due to payments for its expansion projects. The group also generates S$80-90m of operating cashflow each year. This strong cash position enables the group to pursue expansion projects without having the need to tap on other sources of funding.

Share Price Drivers:

Strong and consistent revenue growth. Management has delivered a 10-year revenue and net profit CAGR of 14% and 19% respectively. In our forecasts, we are projecting growth at a slower clip due to gestation of its expansion projects. Assuming that management is able to continue delivering consistent growth, this could boost its share price, and a testament to management's ability in managing its operations.

Successful cost control. The group is facing a rise in costs primarily from the rise in cost of labour due to shortages of medical professionals such as doctors and nurses. If these costs can be successfully controlled, they will yield positive results for the group's bottom line.

Execution of its expansion plans, new initiatives. Further expansion into China could provide a further catalyst to the share price. The group is engaged in an ongoing process to clinch an MOU in Shenzhen, and is considering investing in another hospital in Beijing. Any announcements with regard to its increased scale in China could be positively received by investors.

Key Risks:

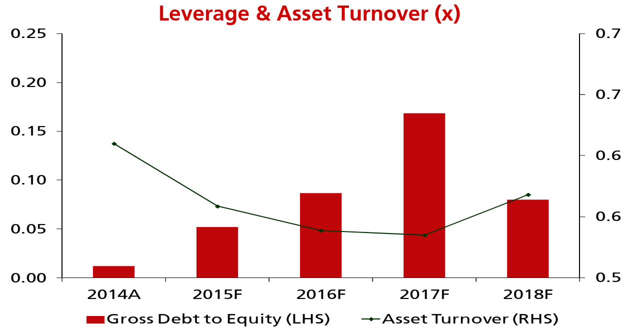
Staff costs. Staff costs account for close to half of the group's revenue. Supply shortages in doctors and/or skilled allied healthcare workers could result in higher wages needed to retain or attract talent.

Macro-economic headwinds. A weak economic environment may impinge on inpatient admissions, particularly elective procedures. Furthermore, patients could opt for public hospitals over private institutions in a weak environment.

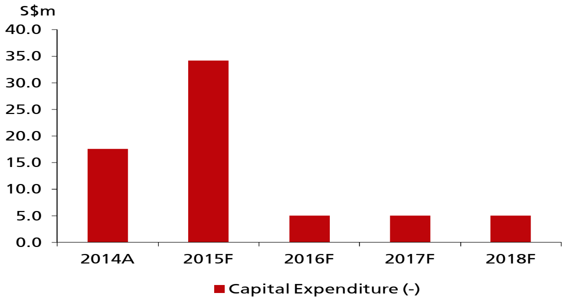
Company Background

Raffles Medical is an integrated private healthcare service provider that focuses on Singapore. It owns and operates a network of family medicine clinics, a tertiary care hospital, insurance services and a consumer healthcare division. It was founded in 1976 with two clinics in Singapore, and serves more than one million patients today and over 6,500 corporate clients.

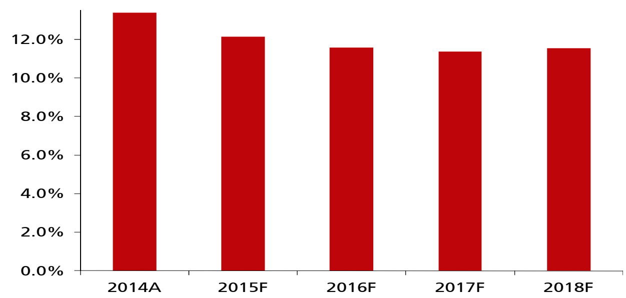
Leverage & Asset Turnover (x)



Capital Expenditure



ROE (%)



Forward PE Band (x)

PB Band (x)

Source: Company, DBS Bank

Key Assumptions

FY Dec	2014A	2015A	2016F	2017F	2018F
Avg Utilisation (%)	63.0	65.0	65.0	55.0	58.0
Avg rate increase (%)	8.44	3.71	7.30	7.20	8.00
Avg clinic fee growth (%)	9.91	10.7	11.0	8.00	6.00
Staff costs/ Rev (%)	48.6	49.6	49.6	51.0	52.0
Consumables, svcs/ Rev	19.8	19.8	20.7	20.5	20.5

Segmental Breakdown

FY Dec	2014A	2015A	2016F	2017F	2018F
Revenues (S$m)					
Healthcare services	140	161	200	223	243
Hospital services	251	268	288	321	365
Investment holdings	14.7	12.8	14.6	21.8	30.5
Less: Eliminations	(31.0)	(31.1)	(34.3)	(37.7)	(41.4)
Total	375	411	468	527	597
Operating profit (S$m)					
Healthcare services	12.4	13.1	14.0	15.6	17.0
Hospital services	60.8	63.2	65.0	64.8	65.4
Investment holdings	10.8	9.18	8.73	13.1	18.3
Total	80.3	80.6	87.7	93.5	101
Operating profit Margins					
Healthcare services	8.8	8.2	7.0	7.0	7.0
Hospital services	24.2	23.6	22.6	20.2	17.9
Investment holdings	73.1	71.8	60.0	60.0	60.0
Less: Eliminations	0.0	0.0	0.0	0.0	0.0
Total	22.4	20.8	18.7	17.7	16.9

Income Statement (S$m)

FY Dec	2014A	2015A	2016F	2017F	2018F
Revenue	375	411	468	527	597
Other Opng (Exp)/Inc	(294)	(330)	(381)	(434)	(496)
Operating Profit	80.3	80.6	87.7	93.5	101
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.95	1.00	0.04	(0.6)	(0.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	81.3	81.6	87.8	92.9	100
Tax	(13.3)	(12.6)	(14.0)	(14.9)	(16.0)
Minority Interest	(0.3)	0.26	(0.4)	(0.4)	(0.4)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	67.6	69.3	73.4	77.7	83.8
Net Profit before Except.	67.6	69.3	73.4	77.7	83.8
EBITDA	90.0	93.4	101	107	115
Growth					
Revenue Gth (%)	9.9	9.6	14.1	12.6	13.2
EBITDA Gth (%)	9.4	3.8	8.3	5.9	7.0
Opg Profit Gth (%)	8.6	0.3	8.8	6.5	7.7
Net Profit Gth (Pre-ex) (%)	4.9	2.4	5.9	5.9	7.9
Margins & Ratio					
Opg Profit Margin (%)	21.4	19.6	18.7	17.7	16.9
Net Profit Margin (%)	18.1	16.9	15.7	14.7	14.0
ROAE (%)	13.4	12.1	11.8	11.7	11.9
ROA (%)	11.0	9.4	8.6	8.1	8.2
ROCE (%)	13.0	11.1	10.5	10.0	10.2
Div Payout Ratio (%)	45.9	49.8	50.9	51.8	51.5
Net Interest Cover (x)	NM	NM	NM	167.3	242.0

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Dec	1Q2015	2Q2015	3Q2015	4Q2015	1Q2016
Revenue	95.0	99.3	102	115	117
Other Oper. (Exp)/Inc	(77.4)	(80.1)	(83.0)	(89.5)	(98.1)
Operating Profit	17.7	19.2	18.5	25.3	18.7
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.25	0.30	0.29	0.17	0.21
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	17.9	19.5	18.8	25.4	18.9
Tax	(2.9)	(3.4)	(3.1)	(3.1)	(3.7)
Minority Interest	(0.1)	(0.1)	0.0	0.45	0.32
Net Profit	15.0	16.0	15.6	22.8	15.5
Net profit bef Except.	15.0	16.0	15.6	22.8	15.5
EBITDA	20.6	22.2	21.8	28.8	22.4
Growth					
Revenue Gth (%)	(5.0)	4.5	2.3	13.0	1.9
EBITDA Gth (%)	(28.9)	7.7	(2.1)	32.5	(22.5)
Opg Profit Gth (%)	(32.7)	8.5	(3.4)	36.5	(25.9)
Net Profit Gth (Pre-ex) (%)	(32.0)	6.5	(2.1)	45.7	(31.7)
Margins					
Opg Profit Margins (%)	18.6	19.3	18.2	22.0	16.0
Net Profit Margins (%)	15.8	16.1	15.4	19.8	13.3

Balance Sheet (S$m)

FY Dec	2014A	2015A	2016F	2017F	2018F
Net Fixed Assets	228	264	256	247	238
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	231	380	492	594	646
Cash & ST Invts	150	86.1	83.9	105	58.3
Inventory	8.53	9.58	10.9	12.3	13.9
Debtors	37.0	75.0	58.6	65.9	74.6
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	655	815	901	1,024	1,031
ST Debt	6.39	11.4	11.4	11.4	11.4
Creditor	85.6	131	150	169	191
Other Current Liab	12.9	14.2	15.7	16.5	17.7
LT Debt	0.0	20.9	47.9	111	50.0
Other LT Liabilities	9.89	15.2	15.2	15.2	15.2
Shareholder's Equity	539	603	642	682	726
Minority Interests	1.47	18.9	19.3	19.6	20.0
Total Cap. & Liab.	655	815	901	1,024	1,031
Non-Cash Wkg. Capital	(53.0)	(60.9)	(96.0)	(107)	(120)
Net Cash/(Debt)	144	53.8	24.6	(17.0)	(3.1)
Debtors Turn (avg days)	39.5	49.8	52.0	43.1	43.0
Asset Turnover (x)	0.6	0.6	0.5	0.5	0.6
Current Ratio (x)	1.9	1.1	0.9	0.9	0.7
Quick Ratio (x)	1.8	1.0	0.8	0.9	0.6
Net Debt/Equity (X)	CASH	CASH	CASH	0.0	0.0
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	0.0	0.0
Capex to Debt (%)	275.6	106.0	8.4	4.1	8.1
Z-Score (X)	15.0	9.5	7.9	6.2	6.9

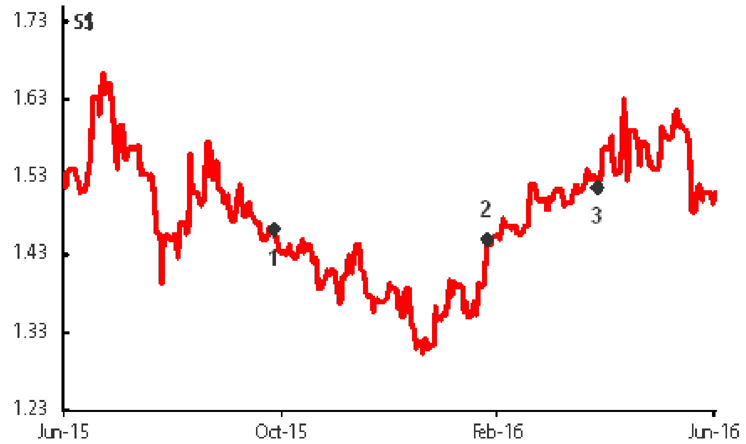
Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2014A	2015A	2016F	2017F	2018F
Pre-Tax Profit	81.3	81.6	87.8	92.9	100
Dep. & Amort.	9.65	12.8	13.4	13.7	14.0
Tax Paid	(13.6)	(12.5)	(12.5)	(14.0)	(14.9)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	13.1	(8.8)	33.6	10.1	12.0
Other Operating CF	3.07	(0.3)	0.0	0.0	0.0
Net Operating CF	**93.5**	**72.8**	**122**	**103**	**111**
Capital Exp.(net)	(17.6)	(34.2)	(5.0)	(5.0)	(5.0)
Other Invts.(net)	0.0	(29.8)	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(188)	(114)	(112)	(102)	(52.2)
Net Investing CF	**(206)**	**(178)**	**(117)**	**(107)**	**(57.2)**
Div Paid	(12.4)	(11.6)	(34.5)	(37.4)	(40.3)
Chg in Gross Debt	1.42	25.6	27.0	63.0	(60.9)
Capital Issues	7.83	12.4	0.0	0.0	0.0
Other Financing CF	(0.1)	14.7	0.0	0.0	0.0
Net Financing CF	**(3.3)**	**41.2**	**(7.5)**	**25.6**	**(101)**
Currency Adjustments	0.07	0.11	0.0	0.0	0.0
Chg in Cash	(116)	(64.1)	(2.1)	21.4	(47.0)
Opg CFPS (S cts)	4.75	4.73	5.14	5.36	5.76
Free CFPS (S cts)	4.48	2.24	6.80	5.66	6.16

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	26 Oct 15	1.46	1.45	HOLD
2:	23 Feb 16	1.45	1.43	HOLD
3:	25 Apr 16	1.52	1.43	HOLD

Source: DBS Bank

Singapore Company Guide
Riverstone Holdings

Version 4 | Bloomberg: RSTON SP | Reuters: RVHL.SI **Refer to important disclosures at the end of this report**

DBS Group Research . Equity 9 May 2016

HOLD (downgrade from Buy)

Last Traded Price: S$0.94 (STI : 2,730.80)
Price Target : S$1.00 (6% upside) (Prev S$1.30)

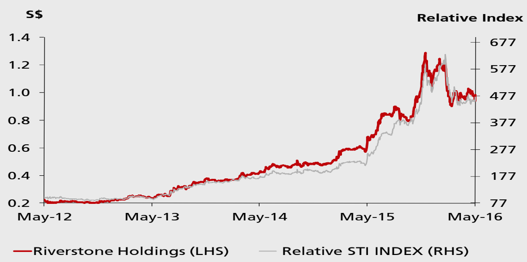
Potential Catalyst: Capacity growth and earnings execution
Where we differ: We are below consensus

Analyst
Paul YONG CFA +65 6682 3712 paulyong@dbs.com
Singapore Research Team

What's New

- **Lacklustre 1Q16 earnings (+0.6% y-o-y to RM27.2m) to continue into 2Q**
- **Unfavourable mix shift towards more healthcare gloves offsets capacity growth in 2016**
- **Downgrade to HOLD, based on 16x blended FY16/17F earnings**

Price Relative



Forecasts and Valuation

FY Dec (RM m)	2014A	2015A	2016F	2017F
Revenue	399	560	651	722
EBITDA	100	169	183	205
Pre-tax Profit	81.1	144	147	162
Net Profit	71.0	127	130	142
Net Pft (Pre Ex.)	71.0	127	130	142
Net Pft Gth (Pre-ex) (%)	22.4	78.4	2.4	9.4
EPS (S cts)	3.25	5.79	5.93	6.48
EPS Pre Ex. (S cts)	3.25	5.79	5.93	6.48
EPS Gth Pre Ex (%)	19	78	2	9
Diluted EPS (S cts)	3.25	5.79	5.93	6.48
Net DPS (S cts)	1.17	2.19	2.24	2.45
BV Per Share (S cts)	17.0	22.0	25.7	29.8
PE (X)	28.9	16.2	15.9	14.5
PE Pre Ex. (X)	28.9	16.2	15.9	14.5
P/Cash Flow (X)	32.7	16.8	16.3	12.6
EV/EBITDA (X)	19.6	11.4	10.5	9.3
Net Div Yield (%)	1.2	2.3	2.4	2.6
P/Book Value (X)	5.5	4.3	3.7	3.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	20.4	29.7	24.8	23.4
Earnings Rev (%):			(15)	(20)
Consensus EPS (S cts):			6.2	7.1
Other Broker Recs:		B: 3	S: 1	H: 2

Source of all data: Company, DBS Bank, Bloomberg Finance L.P

Pausing for breath

Downgrade to HOLD; TP lowered to S$1.00. We reduce FY16F/17F earnings by -15/-20% on a combination of lower USD/MYR forecasts, higher healthcare glove output mix (which carries lower margins) and slightly lower healthcare glove margins, and also revise target valuation multiple from 18x to 16x blended FY16/17F PE to account for lower earnings growth.

Since our last update, our USD/MYR forecasts for FY16/17F have also shifted from 4.34 to 4.10, which had a -5.4% impact on our FY16-17F earnings forecasts.

1Q16 net profit below expectations on FX losses. 1Q profits grew 0.6% y-o-y to RM148.1m, primarily as the Group suffered net foreign exchange loss of c.RM3m after the Ringgit strengthened by c.10% against the US dollar between January and March 2016. Cleanroom glove volumes also declined by c.30% y-o-y, and contributed to 18% of total glove output in 1Q16 – below expectations of 25% previously.

Lacklustre 1Q earnings to continue into 2Q. While ongoing automation efforts - which have yielded good results previously, should provide some relief from continued ASP pressure, we think that with cleanroom demand still weak, 2Q numbers could disappoint.

Unfavourable mix shift towards healthcare gloves offsets capacity growth in 2016. Beyond 2Q, with the gradual commissioning of new production lines from June 2016, Riverstone's annual production capacity should grow by 19.2% y-o-y to 6.2bn by end-FY16. While current order books indicate healthy take-up of these new capacities, the unfavourable mix shift towards a higher proportion of lower-margin healthcare gloves due to weak HDD sector, will likely offset capacity growth in 2016. We thus expect flat earnings growth of 2.4% y-o-y to RM129.5m for FY16F and higher growth of 9.4% y-o-y to RM141.7m in FY17F.

Valuation:

Downgrade to HOLD; lower 12-month TP to S$1.00. To account for lower earnings growth, we lower our target valuation multiple for Riverstone from 18x to 16x blended FY16/17F PE. Given its smaller capacity, the implied discount of c.30% to larger peers appears fair.

Key Risks to Our View:

Global economic slowdown. While margins for cleanroom gloves tend to be resilient, demand for these gloves – which makes up c.45% of 1Q16 revenue – could be threatened in the event of a slowdown in the global economy.

At A Glance

Issued Capital (m shrs)	741
Mkt. Cap (Sm/USm)	697 / 512
Major Shareholders (%)	
Ringlet Investment Limited	50.8
Wai Keong Lee	11.7
Free Float (%)	33.5
3m Avg. Daily Val (US$m)	0.58

ICB Industry : Health Care / Health Care Equipment & Services

WHAT'S NEW

Flat 1Q16 net profit growth (+0.6% y-o-y), largely due to impact from foreign exchange losses

Foreign exchange losses weigh on otherwise decent profits. Earnings for 1Q16 grew by only 0.6% y-o-y to RM27.2m, primarily impacted by net foreign exchange loss of c.RM3m, as the Ringgit strengthened by almost 10% against the US dollar between January and March 2016.

Revenue rose 16.5% y-o-y on higher volumes, but fell by 3.5% q-o-q, mostly due to the less favourable volume mix in 1Q16. While volumes recovered in 1Q16, a shift in the product mix to a greater proportion of healthcare gloves (away from higher-margin cleanroom gloves) led to a modest c.3.5% q-o-q decline in revenue to RM148.1m.

ASP and gross margin erosion were minimal, which is encouraging. We believe that Riverstone's key strength is its ability to defend ASPs and gross margins through a combination of customisation, higher-performing cleanroom gloves and efficiency improvements.

Despite keen industry competition, ASPs (in US dollar terms) for Riverstone's cleanroom and healthcare gloves declined by an average of c.3-5% over the last quarter - holding up better than some of its larger peers, while gross margins fell 7% from 31.3% in 4Q15 to 29.1% in 1Q16.

Potentially lacklustre 2Q. Ongoing industry challenges should put further pressure on ASPs in 2Q, especially for the highly commoditised healthcare gloves. While ongoing automation efforts (which have yielded good results previously) could provide some relief, we believe that all else constant (stable USD/MYR), 2Q16 earnings will likely be weaker q-o-q.

Expect improvements from 2H16 onwards, but unfavourable mix shift could offset capacity growth in 2016. New production lines will gradually be commissioned from June/July 2016, which should grow Riverstone's annual production capacity by 19.2% y-o-y to 6.2bn by end-FY16. Current order books indicate healthy take-up of these new capacities, as well as better demand for cleanroom gloves in 2H16, which provides support for expected improvements from 2H16 onwards.

However, the unfavourable mix shift towards a higher proportion of lower-margin healthcare gloves will likely offset capacity growth in 2016. We thus expect flat earnings growth of 0.4% to RM127.1m for FY16F.

We assume lower ASPs (in Ringgit terms) as we revise our USD/MYR forecasts and adjust for a higher healthcare glove output. We revise our USD/MYR assumptions from 4.34 to 4.10 for FY16F and FY17F, to reflect DBS's revised foreign exchange forecasts. Together with new assumptions of a higher healthcare glove-to-cleanroom glove output ratio of 80:20 (from 75:25 previously), we thus assume a more modest top-line growth of 16% from 30% previously.

As competition among healthcare glove manufacturers is likely to persist in the medium term, we also impute slightly lower healthcare gross margins – bringing blended GROSS margins to c.28% from almost 30% previously.

Downgrade to HOLD, TP of S$1.00. To account for lower earnings growth, we thus lower our target valuation multiple for Riverstone from 18x to 16x blended FY16/17F PE. This translates to a lower target price of S$1.00 from S$1.30 previously.

Quarterly / Interim Income Statement (RMm)

FY Dec	1Q2015	4Q2015	1Q2016	% chg yoy	% chg qoq
Revenue	127	153	148	16.5	(3.5)
Cost of Goods Sold	(87.0)	(105)	(105)	20.7	(0.4)
Gross Profit	40.2	48.0	43.1	7.4	(10.1)
Other Oper. (Exp)/Inc	(7.3)	(8.8)	(11.4)	57.1	30.7
Operating Profit	32.9	39.2	31.7	(3.6)	(19.2)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	0.0	0.0	0.0	nm	nm
Net Interest (Exp)/Inc	0.0	0.0	0.0	nm	nm
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	32.9	39.2	31.7	(3.6)	(19.2)
Tax	(5.9)	(2.0)	(4.5)	(23.3)	126.2
Minority Interest	0.0	0.0	0.0	nm	nm
Net Profit	27.0	37.2	27.2	0.6	(27.0)
Net profit bef Except.	27.0	37.2	27.2	0.6	(27.0)
EBITDA	38.8	46.8	39.8	2.3	(15.0)
Margins (%)					
Gross Margins	31.6	31.3	29.1		
Opg Profit Margins	25.9	25.6	21.4		
Net Profit Margins	21.2	24.3	18.3		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

Growth in global demand for healthcare gloves, at least in near to medium term. The Malaysian Rubber Glove Manufacturers Association (MARGMA) estimates that demand for healthcare gloves is likely to grow at 8-12% p.a. between 2014 and 2020. As a relatively new entrant in the healthcare glove industry and with ambitions to grow revenue from this segment quickly to drive its earnings, we project a ramp-up in Riverstone's healthcare glove production at a 25.8% CAGR between FY13 and FY17F.

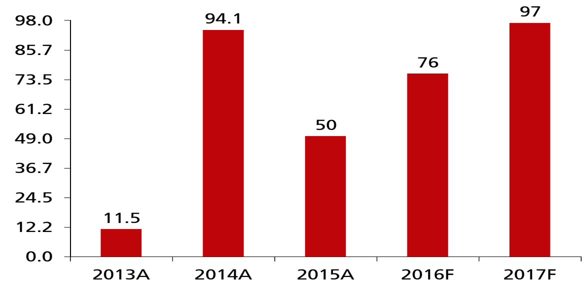
Long-term trends also indicate favourable demand prospects. According to MARGMA, the global demand ratio of natural rubber and synthetic (nitrile) rubber gloves shifted from 74:26 in 2009 to 53:47 in 2014. On the back of rising awareness of latex allergies in emerging economies and the synthetic variety's low cost, we expect the ratio to shift away from natural rubber gloves in the long run. Principally engaged in the manufacture of nitrile gloves, Riverstone could be a beneficiary of the long-run substitution by nitrile gloves.

Capacity expansion to underpin growth. To capitalise on the favourable demand growth outlook in both the short and long term, Riverstone will continue to expand its manufacturing capacity to a minimum of 8.2bn gloves by 2018. We expect new production capacities to propel top-line growth at a CAGR of 19.2% between FY13 and FY17F, as they gradually come on stream.

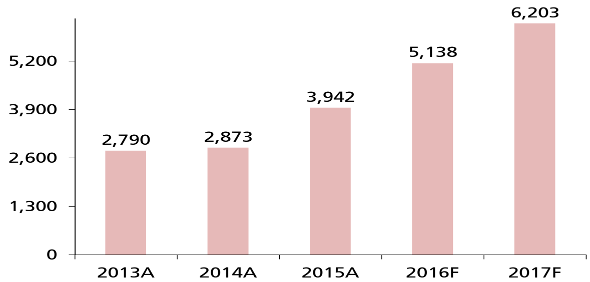
Beneficiary of strong US dollar vs Ringgit. Riverstone generates a surplus in US dollar as it receives c.90% of its revenues in US dollar, while c.35% of its costs are incurred in US dollar, and will benefit from a strong US dollar versus the Ringgit. All else being constant, strengthening of the US dollar by 1% could boost net profit in Ringgit terms by c.1.2%.

Greater efficiency from higher automation and larger scale should help to maintain margins. As Riverstone scales up on its production and further automation efforts, we expect net margins to be maintained within the range of 19-20% in FY16F and FY17F, which should support stable growth in net profit from RM58m in FY13 to c.RM130m in FY17F.

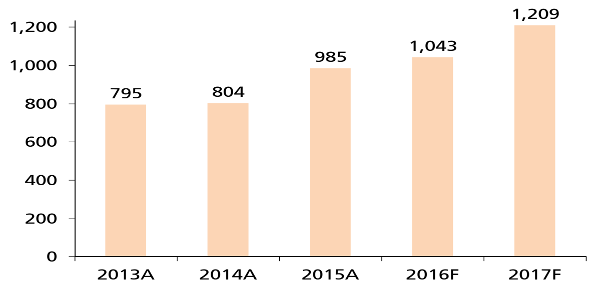
Capital Expenditure (RM$m)



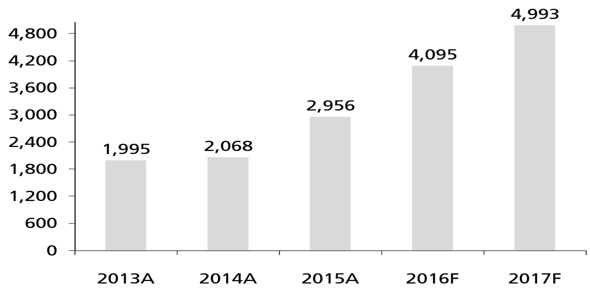
Production Capacity (m gloves)



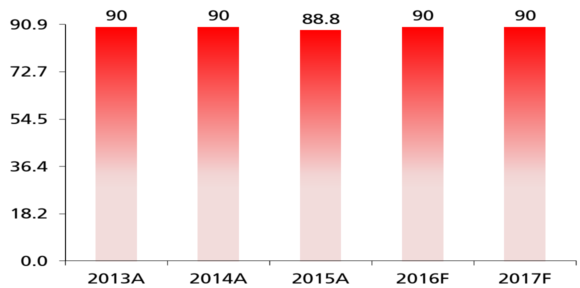
Cleanroom Gloves (m gloves)



Healthcare Gloves (m gloves)



Utilization Rate (%)



Source: Company, DBS Bank

Balance Sheet:

Healthy balance sheet. Riverstone has been in a net cash position over the observed period. Our projections show that Riverstone should be able to internally fund capital expenditures from 2015 to 2017.

Forecast net fixed asset growth at a CAGR of c.14.7% between 2014 and 2017. With capacity expected to nearly double in 2018 from 2014 levels, we project the group's net fixed assets to jump by c.60% from RM228m in 2014 to RM371m in 2017.

Share Price Drivers:

Opportunities for inorganic growth. Due to the stringent requirements for the establishment of cleanroom facilities, Riverstone does not rule out the possibility of acquiring quality cleanroom glove manufacturing companies in the future.

Cultivation of new markets for cleanroom products. As cleanroom products are manufactured in controlled environments and are subject to stringent requirements, they are able to deliver much higher margins relative to healthcare gloves. The ability to cultivate new markets for cleanroom products, similar to what Riverstone recently achieved with its diversification into the consumer electronics sector, should help to boost earnings.

Key Risks:

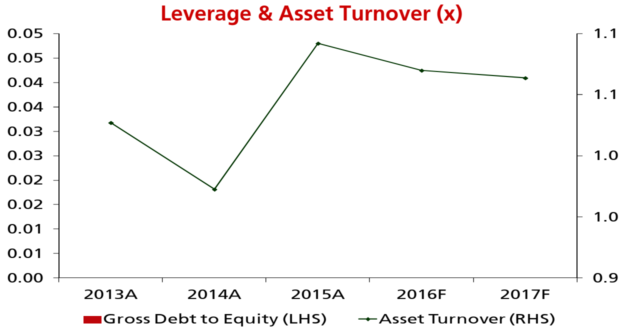
Global economic slowdown could impact cleanroom sales. A slowdown in the general economy could lead to declines in discretionary spending and manufacturing activity in the HDD industry. Although Riverstone has been gradually reducing its exposure to HDDs, down from historical highs of up to 70%, they still make up c.45% of the company's cleanroom portfolio today.

Intensifying competition could erode profitability. While we believe that oversupply over the next few years is unlikely, the influx of healthcare gloves beyond 2017 could threaten Riverstone's market share and pricing power if it fails to advance on the technological front.

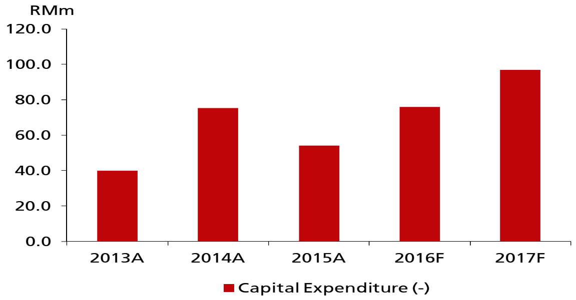
Company Background

Riverstone Holdings (RSTON SP) is a natural rubber and nitrile (synthetic rubber) glove manufacturer specialising in cleanroom and healthcare gloves. It is also engaged in the manufacture and distribution of other ancillary products such as finger cots, packaging bags and face masks.

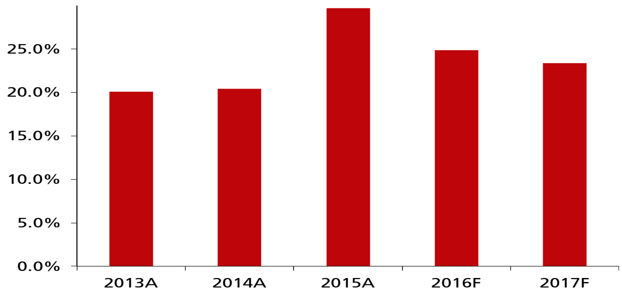
Leverage & Asset Turnover (x)



Capital Expenditure

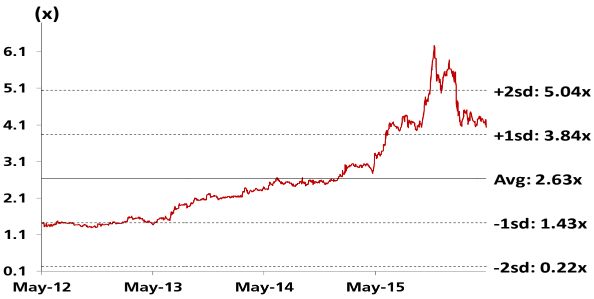


ROE (%)



Forward PE Band (x)

PB Band (x)



Source: Company, DBS Bank

Key Assumptions

FY Dec	2013A	2014A	2015A	2016F	2017F
Capital Expenditure	11.5	94.1	50.0	76.0	97.0
Production Capacity (m	2,790	2,873	3,942	5,138	6,203
Cleanroom Gloves (m	795	804	985	1,043	1,209
Healthcare Gloves (m	1,995	2,068	2,956	4,095	4,993
Utilization Rate (%)	90.0	90.0	88.8	90.0	90.0

Segmental Breakdown

FY Dec	2013A	2014A	2015A	2016F	2017F
Revenues (RMm)					
Cleanroom Gloves	173	198	274	289	325
HealthcareGloves	173	191	274	350	385
Other Cleanroom	11.2	10.3	11.3	11.9	12.5
Total	358	399	560	651	722
Gross Profit (RMm)					
Cleanroom Gloves	65.9	75.4	104	110	123
HealthcareGloves	31.2	33.4	65.9	75.3	78.8
Other Cleanroom	0.74	0.12	0.13	0.14	0.14
Total	97.8	109	170	185	202
Gross Profit Margins (%)					
Cleanroom Gloves	38.0	38.0	38.0	38.0	38.0
HealthcareGloves	18.0	17.5	24.0	21.5	20.5
Other Cleanroom	6.6	1.1	1.1	1.1	1.1
Total	27.3	27.3	30.4	28.4	28.0

Cleanroom gloves tend to enjoy higher, more-resilient margins as compared to healthcare gloves.

Income Statement (RMm)

FY Dec	2013A	2014A	2015A	2016F	2017F
Revenue	358	399	560	651	722
Cost of Goods Sold	(260)	(290)	(385)	(466)	(520)
Gross Profit	97.8	109	175	185	202
Other Opng (Exp)/Inc	(25.2)	(27.8)	(30.6)	(38.0)	(40.5)
Operating Profit	72.6	81.1	144	147	162
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	72.6	81.1	144	147	162
Tax	(14.7)	(10.2)	(17.8)	(17.7)	(20.2)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	58.0	71.0	127	130	142
Net Profit before Except.	58.0	71.0	127	130	142
EBITDA	91.6	100	169	183	205
Growth					
Revenue Gth (%)	15.5	11.6	40.3	16.2	10.9
EBITDA Gth (%)	42.1	9.7	68.4	8.2	12.0
Opg Profit Gth (%)	50.3	11.7	78.0	2.0	10.0
Net Profit Gth (Pre-ex) (%)	46.2	22.4	78.4	2.4	9.4
Margins & Ratio					
Gross Margins (%)	27.3	27.3	31.2	28.4	28.0
Opg Profit Margin (%)	20.3	20.3	25.8	22.6	22.4
Net Profit Margin (%)	16.2	17.8	22.6	19.9	19.6
ROAE (%)	20.1	20.4	29.7	24.8	23.4
ROA (%)	16.6	17.3	24.7	21.3	20.9
ROCE (%)	19.2	19.7	28.8	24.3	22.9
Div Payout Ratio (%)	38.1	36.1	37.8	37.8	37.8
Net Interest Cover (x)	NM	NM	NM	NM	NM

Record margins in FY15 helped partly by favourable exchange rate conditions but assume decline ahead to more normalized levels ahead.

Source: Company, DBS Bank

Quarterly / Interim Income Statement (RMm)

FY Dec	1Q2015	2Q2015	3Q2015	4Q2015	1Q2016
Revenue	127	129	151	153	148
Cost of Goods Sold	(87.0)	(90.2)	(103)	(105)	(105)
Gross Profit	40.2	38.8	48.0	48.0	43.1
Other Oper. (Exp)/Inc	(7.3)	(6.6)	(7.9)	(8.8)	(11.4)
Operating Profit	32.9	32.2	40.1	39.2	31.7
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	32.9	32.2	40.1	39.2	31.7
Tax	(5.9)	(5.2)	(4.8)	(2.0)	(4.5)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	27.0	27.0	35.3	37.2	27.2
Net profit bef Except.	27.0	27.0	35.3	37.2	27.2
EBITDA	38.8	38.7	47.1	46.8	39.8
Growth					
Revenue Gth (%)	13.6	1.4	16.8	1.9	(3.5)
EBITDA Gth (%)	39.5	(0.4)	21.8	(0.7)	(15.0)
Opg Profit Gth (%)	46.7	(2.1)	24.6	(2.2)	(19.2)
Net Profit Gth (Pre-ex) (%)	20.7	(0.1)	30.9	5.4	(27.0)
Margins					
Gross Margins (%)	31.6	30.1	31.9	31.3	29.1
Opg Profit Margins (%)	25.9	25.0	26.6	25.6	21.4
Net Profit Margins (%)	21.2	20.9	23.5	24.3	18.3

Tax claims (capital allowances, etc) are typically made progressively, but finalised in 4Q when the company has better visibility of earnings.

Revenue declined q-o-q mostly due to a shift in the product mix and slightly lower ASPs.

Balance Sheet (RMm)

FY Dec	2013A	2014A	2015A	2016F	2017F
Net Fixed Assets	153	228	277	317	371
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	12.4	3.11	9.61	9.61	9.61
Cash & ST Invts	114	79.4	129	130	143
Inventory	35.7	42.1	61.2	44.8	52.2
Debtors	62.5	86.7	103	125	144
Other Current Assets	2.50	1.81	6.06	6.06	6.06
Total Assets	381	441	585	632	726
ST Debt	0.0	0.0	0.0	0.0	0.0
Creditor	39.3	50.4	84.4	50.7	56.1
Other Current Liab	5.58	5.68	7.65	7.65	7.65
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	13.0	13.1	11.7	11.7	11.7
Shareholder's Equity	323	372	482	562	650
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	381	441	585	632	726
Non-Cash Wkg. Capital	55.8	74.5	78.3	117	139
Net Cash/(Debt)	114	79.4	129	130	143
Debtors Turn (avg days)	61.5	68.2	61.8	63.9	68.1
Creditors Turn (avg days)	66.0	60.4	68.3	57.3	40.9
Inventory Turn (avg days)	50.0	52.4	52.3	45.0	37.2
Asset Turnover (x)	1.0	1.0	1.1	1.1	1.1
Current Ratio (x)	4.8	3.7	3.2	5.2	5.4
Quick Ratio (x)	3.9	3.0	2.5	4.4	4.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	N/A	N/A	N/A
Z-Score (X)	24.7	21.5	15.5	20.4	18.1

Source: Company, DBS Bank

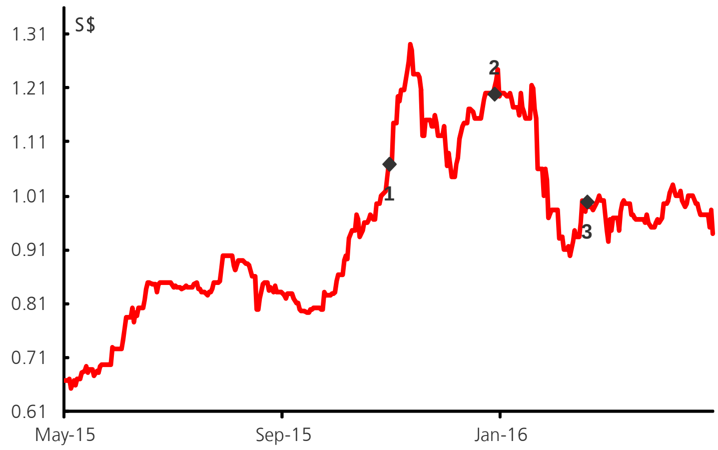
Cash Flow Statement (RMm)

FY Dec	2013A	2014A	2015A	2016F	2017F
Pre-Tax Profit	72.6	81.1	144	147	162
Dep. & Amort.	19.0	19.4	24.8	35.9	43.2
Tax Paid	(10.3)	(14.8)	(18.5)	(17.7)	(20.2)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(2.1)	(25.2)	(26.3)	(39.2)	(21.5)
Other Operating CF	0.99	2.32	(2.3)	0.0	0.0
Net Operating CF	80.2	62.8	122	126	163
Capital Exp.(net)	(40.0)	(75.4)	(54.2)	(76.0)	(97.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0	0.0
Net Investing CF	(40.0)	(75.4)	(54.2)	(76.0)	(97.0)
Div Paid	(22.5)	(25.4)	(25.8)	(49.0)	(53.6)
Chg in Gross Debt	0.0	0.0	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	30.3	1.00	0.0	0.0	0.0
Net Financing CF	7.86	(24.4)	(25.8)	(49.0)	(53.6)
Currency Adjustments	1.89	2.38	7.07	0.0	0.0
Chg in Cash	50.0	(34.6)	49.3	1.31	12.8
Opg CFPS (S cts)	3.87	4.03	6.79	7.57	8.46
Free CFPS (S cts)	1.89	(0.6)	3.11	2.30	3.04

We expect future dividend payouts to remain close to current levels, or payout ratio of c.38%.

Source: Company, DBS Bank

Target Price & Ratings History



***Note**: Share price and Target price are adjusted for corporate actions.*

S.No.	Date	Closing Price	Target Price	Rating
1:	06 Nov 15	1.07	1.24	BUY
2:	04 Jan 16	1.20	1.41	BUY
3:	25 Feb 16	1.00	1.30	BUY

Source: DBS Bank

Singapore Equity Explorer

Q & M Dental Group

Bloomberg: QNM SP | Reuters: QMDT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

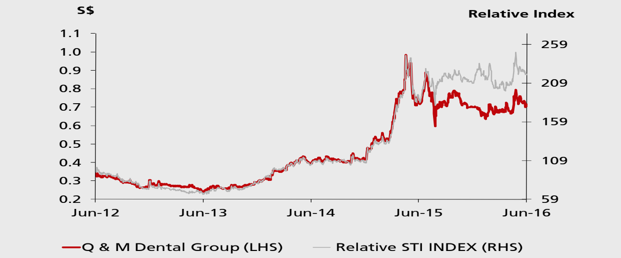
4 Jul 2016

NOT RATED S$0.72 STI : 2,840.93

Return *: 2
Risk: Moderate
Potential Target * : 12-Month S$ 0.80 (11% upside)

Analyst
LING Lee Keng +65 6682 3703
leekeng@dbs.com

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2014A	2015A	2016F	2017F
Revenue	100	124	141	159
EBITDA	12.2	19.2	21.6	23.1
Pre-tax Profit	11.8	16.9	19.3	20.7
Net Profit	10.5	14.8	16.7	17.9
Net Pft (Pre Ex.)	10.5	14.8	16.7	17.9
EPS (S cts)	1.47	1.80	2.02	2.18
EPS Pre Ex. (S cts)	1.47	1.80	2.02	2.18
EPS Gth (%)	41	23	12	8
EPS Gth Pre Ex (%)	41	23	12	8
Diluted EPS (S cts)	1.47	1.80	2.02	2.18
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	10.7	11.2	13.2	15.4
PE (X)	49.0	39.9	35.6	33.0
PE Pre Ex. (X)	49.0	39.9	35.6	33.0
P/Cash Flow (X)	48.6	44.5	25.6	26.3
EV/EBITDA (X)	42.8	32.5	28.0	25.4
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	6.7	6.4	5.4	4.7
Net Debt/Equity (X)	CASH	0.1	CASH	CASH
ROAE (%)	17.1	17.6	16.6	15.2
Consensus EPS (S cts):			2.0	2.4
Other Broker Recs:		B: 1	S: 0	H: 2

ICB Industry : Health Care
ICB Sector: Health Care Equipment & Services
Principal Business: Q & M Dental Group owns the largest network of private dental outlets in Singapore and continues to expand its operations in China and Malaysia. It also owns four dental supplies manufacturer /distributor of dental equipment company in China, Singapore and Malaysia.

Source of all data: Company, DBS Bank, Bloomberg Finance L.P

Scaling up

- **Largest integrated private dental healthcare group in Singapore**
- **Expansion of clinical network**
- **Exploring possible spin-offs in China**
- **Fair value of S$0.80**

The Business

Integrated private dental healthcare group. Founded in 1996, Q & M Dental Group (Q&M) owns the largest network of private dental outlets in Singapore and continues to expand its operations in China and Malaysia. The Group has approximately 12% of the overall market share in Singapore. To branch out along the dental value chain, Q&M also owns four dental supplies manufacturers/distributors of dental equipment company in China, Singapore and Malaysia.

Expansion of dental clinic network. Q&M will continue to widen its network of dental clinics in its countries of operations, both organically and through acquisitions. In Singapore, acquisition targets include family-run clinics that have no successors or clinics preferring to be part of a larger group in order to reap economies of scale. In China, Q&M aims to become the largest clinic in the various cities that it has a foothold.

Exploring possible spin-offs in China. Q&M is also exploring the possible spin-offs of Q & M Dental Holdings (China) and Q & M Aidite International, in a bid to widen and strengthen its revenue streams and profits.

The Stock

Currently trading at above average FY17F valuations. The stock currently trades at 36x FY16F earnings and 33x FY17F earnings, vs average of the healthcare stocks listed on SGX of 37x FY16F and 30.5x FY17F PE. Valuation is even higher when compare to direct peer, Modern Dental, listed on HKSE, which trades at a mid-teen PE. We arrive at a fair value of S$0.80 per share, based on +2SD of 36.5x FY17F earnings, which we believe is fair, given its acquisition spree in China which should drive earnings higher.

Key risks: Stall in M&A plans, competition, increase in staff benefits, which account for >50% of sales.

At A Glance

Issued Capital (m shrs)	797
Mkt. Cap (Sm/USm)	574 / 425
Major Shareholders (%)	
Quan Min Holdings	55.6
Heritas Helios	8.0
Shunjie Koh	4.6
Free Float (%)	31.8
3m Avg. Daily Val (US$m)	1.0

*This Equity Explorer report represents a preliminary assessment of the subject company, and does not represent initiation into DBSV's coverage universe. As such DBSV does not commit to regular updates on an ongoing basis. The rating system is distinct from stocks in our regular coverage universe and is explained further on the back page of this report.

REVENUE DRIVERS

Integrated private dental healthcare group. Founded in 1996, Q & M Dental Group owns the largest network of private dental outlets in Singapore and continues to expand its operations in China and Malaysia. The Group has a team of about 230 dentists, supported by about 380 staff in Singapore, to provide quality service to its patient pool of about 700,000 to 800,000 island-wide. Q&M enjoys approximately 12% of the overall market share in Singapore, based on 1,905 registered dentists in Singapore, as extracted from the Singapore Dental Council's Annual Report 2014. In China, it has about 115 dentists and 415 staff; and in Malaysia, about 20 dentists and 120 staff. To branch out along the dental value chain, Q&M also owns four dental supplies manufacturers/distributors of dental equipment company in China, Singapore and Malaysia.

Exploring possible spin-offs in China. Q&M is also exploring the possible spin-offs of Q & M Dental Holdings (China) and list on the Catalist Board of SGX, and also Q & M Aidite International, in a bid to widen and strengthen its revenue streams and profits. Aidite is a leading manufacturer of dental zirconium blocks for use in dental Computer-Aided Design/Computer-Aided Manufacturing (CAD CAM) machines. Aidite is the first company in the world to produce a multi-layer zirconium block with six layers of gradient colours which allows a restored tooth to appear more natural. These multi-layer blocks are now available in more than 50 countries and Q&M has also applied for patent coverage. Currently, the Group has received a Letter of No objection from SGX for the spin-off and listing of Aidite on the New Third Board in Beijing.

COST STRUCTURE

Staff cost and consumable, dental supplies account for >60% of sales. Employee benefits expense accounted for 51% of sales in FY15, while consumables and dental supplies accounted for another 16% of sales. Rental expense made up about 8%.

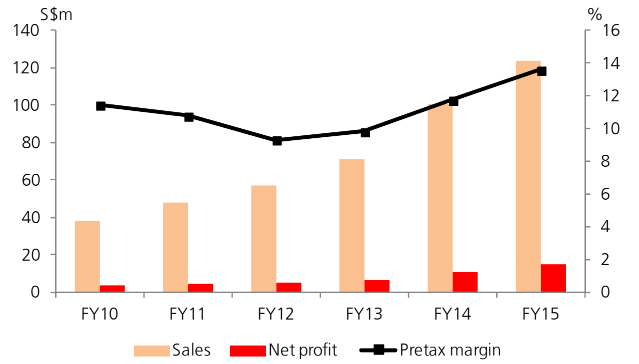
KEY OPERATING ASSETS

Operations in Singapore, China and Malaysia. In Singapore, the Group has 68 (65 as at December 2015) dental clinics located island-wide and four medical clinics. It also owns two dental supplies and equipment distribution companies in Singapore.

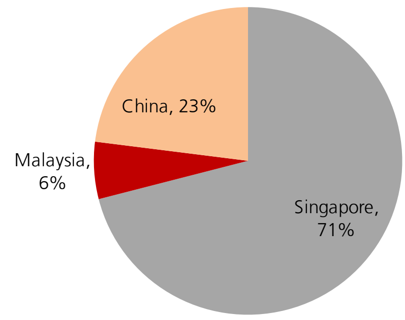
In China, Q & M operates 12 clinics/hospitals and one dental supplies manufacturer. Q&M's operations in China include Shanghai, Qinhuangdao, Shenyang, Panjin and Gaizhou.

In Malaysia, Q&M has eight clinics in Kuala Lumpur, Johor and Malacca. It also has ventured upstream, with a 70% stake in a dental supplies and equipment distribution company.

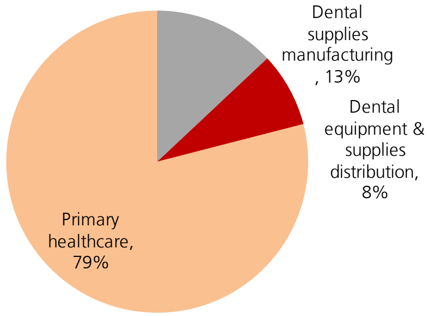
Revenue, profit and margin trends



FY15 Revenue breakdown – by geography



FY15 Revenue breakdown – by segment



Aidite – manufacturing plant for zirconium blocks

Source: Company, DBS BankDBS Bank

GROWTH PROSPECTS

Expansion of dental clinic network. Q&M will continue to widen its network of dental clinics in its countries of operations, both organically and through acquisitions. In Singapore, the number of clinics has increased to 68 as at 31 March 2015, up from 65 as at 31 December 2015 and 60 in December 2014. In China, the number of clinics has increased to 12 from seven during the same period. Acquisition targets include family-run clinics that have no successors or clinics preferring to be part of a larger group in order to reap economies of scales.

Besides expansion, Q&M is also consistently reviewing and streamlining its operations to achieve optimum operational efficiency.

Gaining traction in China. Q&M's recent acquisitions in China of three dental clinics, a dental equipment & supplies distribution company and a dental prosthetic device provider, comes with profit guarantees. Revenue contribution from China has increased to 23% in FY15 from 14% in FY14. Going forward, we expect Q&M to continue focusing on strategic acquisitions of large dental hospitals and material manufacturers. Q&M aims to become the largest clinic in the various cities that it has a foothold, thus developing a sustainable growth pillar in China.

Rising income level driving demand for aesthetic services. Its two key markets, Singapore and China, have seen rising household income in the last five years. In China, according to data reported by the National Bureau of Statistics of China, disposable personal income in China grew at a 5-year CAGR of 10% from 2010 to 2015. Coupled with the growing awareness for dental health supported by the government's push to open up the healthcare industry, this has resulted in a large and burgeoning market. There are >1,000 dental hospitals in China but the penetration rate is still very low as compared to developed countries.

In Singapore, the median monthly household income from work rose by 20.4% cumulatively or 3.8% p.a. in real terms from 2010 to 2015, according to data from the department of Statistics Singapore. The increasing focus on aesthetics bodes well for Q&M.

MANAGEMENT & STRATEGY

Helmed by industry veteran, Dr Ng Chin Siau. Dr Ng is the founder and Group CEO of Q&M Dental Group. He founded the group in 1996 and has been charting its growth since then. He is responsible for the corporate direction of the Group and leads in all aspects of its business strategies, policy planning and business development in Singapore and overseas, especially the PRC.

Target 80% healthcare, 20% dental equipment and supplies distribution business. Q&M's focus will still be in primary healthcare, providing dental health-related services. Its presence in the dental equipment and supplies distribution segment will help to create an integrated value chain.

Regional outlets

as at 31 Dec	2013	2014	2015
Clinics			
Singapore			
Dental clinics	57	60	65
Medical clinics	8	6	4
China			
Dental clinics/hospitals	10	7	12
Malaysia			
Dental clinics	8	8	8
Distribution of Dental Equipment and Supplies			
Singapore		2	2
China		1	1
Malaysia		1	1

Key Management Team

Narayanan Sreenivasan, Non-Executive Chairman	Mr Sreenivasan was appointed as Non-Executive Chairman of Q & M Dental Group in October 2009. He is the Managing Director of Straits Law Practice LLC and has 30 years of experience in government and private legal practice.
Dr Ng Chin Siau, founder, Group CEO	Dr Ng was appointed as an Executive Director of Q & M Dental Group on 7 Jan 2008. He is responsible for the corporate direction of the Group. He leads the Group in all aspects of its business strategies, policy planning and business development in Singapore and overseas, especially the PRC. From May 1992 to October 1994, he was a dental officer with the Ministry of Health. He left to join the private practice in November 1994.
Dr Ng Jet Wei, Deputy CEO	Dr Ng was appointed as an Executive Director of Q & M Dental Group in April 2008. Dr Ng is also the CEO of Q & M Dental Group (Malaysia) and is responsible for the Group's business development activities in Malaysia. He is also responsible for the Group's dental equipment and supplies business and dental laboratory services.
Dr Ang Ee Peng Raymond, COO	Dr Ang was appointed as an Executive Director of Q & M Dental Group on in June 2008. Dr Ang's responsibilities include the Group's human resource function, information technology, procurement, marketing, ISO implementation and complaints handling.

Management Renumeration Structure

	Remuneration Band		Salary	Bonus	Benefits [1]	Professional Fees [2]	Directors' Fees [3]	Total
Name	Below $250,000	$250,000 to $500,000	%	%	%	%	%	%
Mr Narayanan Sreenivasan	√		0.0	0.0	0.0	0.0	100	100
Mr Ng Weng Sui Harry	√		0.0	0.0	0.0	0.0	100	100
Professor Toh Chooi Gait	√		0.0	0.0	0.0	0.0	100	100
Dr Ng Chin Siau		√	80.5	16.1	3.4	0.0	0.0	100
Dr Ng Jet Wei		√	67.0	13.9	4.8	14.3	0.0	100
Dr Ang Ee Peng Raymond		√	68.0	13.0	4.3	14.7	0.0	100

Source: Company, DBS DBS Bank

Segmental Breakdown

FY Dec	2012A	2013A	2014A	2015A	2016F	2017F
Revenues (S$m)						
Primary healthcare			84.3	97.8	112	135
Dental supplies			9.38	9.57	9.57	9.57
Dental equipment & supplies distribution			6.64	16.7	19.2	15.0
Total			100	124	141	159
Pretax profit (S$m)						
Primary healthcare			8.43	10.4	12.4	14.8
Dental supplies			0.38	0.14	0.19	0.19
Dental equipment & supplies distribution			2.97	6.29	6.71	5.70
Total			11.8	16.9	19.3	20.7
Pretax profit Margins						
Primary healthcare			10.0	10.7	11.0	11.0
Dental supplies			4.0	1.5	2.0	2.0
Dental equipment & supplies distribution			44.8	37.7	35.0	38.0
Total			11.7	13.6	13.6	13.0

Assume a successful spin-off of Aidite

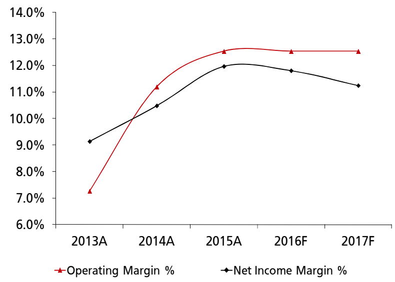
Increase in production line

Income Statement (S$m)

FY Dec	2012A	2013A	2014A	2015A	2016F	2017F
Revenue	57.0	71.2	100	124	141	159
Other Opng (Exp)/Inc	(52.0)	(66.0)	(89.1)	(108)	(123)	(139)
Operating Profit	5.04	5.17	11.2	15.6	17.7	20.0
Other Non Opg (Exp)/Inc	0.39	1.94	1.02	3.66	3.93	2.35
Associates & JV Inc	0.06	0.15	0.0	0.0	0.0	0.75
Net Interest (Exp)/Inc	(0.2)	(0.3)	(0.5)	(2.4)	(2.4)	(2.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	5.32	6.99	11.8	16.9	19.3	20.7
Tax	(0.3)	(0.5)	(1.3)	(2.0)	(2.6)	(2.8)
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	5.05	6.50	10.5	14.8	16.7	17.9
Net Profit before Except.	5.05	6.50	10.5	14.8	16.7	17.9
EBITDA	5.49	7.25	12.2	19.2	21.6	23.1
Growth						
Revenue Gth (%)	19.4	24.7	40.9	23.6	13.8	13.0
EBITDA Gth (%)	7.5	32.0	68.8	56.8	12.6	6.8
Opg Profit Gth (%)	14.6	2.5	117.2	38.5	13.8	13.0
Net Profit Gth (Pre-ex) (%)	10.1	28.9	61.7	41.2	12.3	7.6
Margins & Ratio						
Opg Profit Margin (%)	8.8	7.3	11.2	12.5	12.5	12.5
Net Profit Margin (%)	8.8	9.1	10.5	12.0	11.8	11.2
ROAE (%)	18.0	17.4	17.1	17.6	16.6	15.2
ROA (%)	11.8	11.1	9.9	8.2	7.4	7.2
ROCE (%)	14.1	13.0	11.2	8.0	7.2	7.2
Div Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest Cover (x)	29.0	19.7	24.5	6.6	7.5	8.5

Source: Company, DBS Bank

Margin Trend

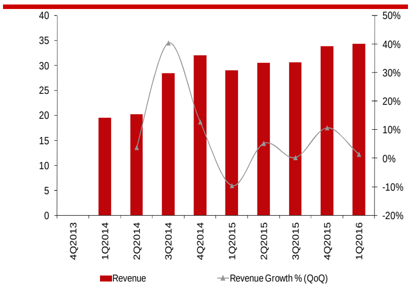


Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2014	1Q2015	2Q2015	3Q2015	4Q2015	1Q2016
Revenue	32.1	29.0	30.5	30.6	33.9	34.4
Other Oper. (Exp)/Inc	(26.9)	(24.5)	(27.0)	(26.2)	(30.7)	(29.0)
Operating Profit	5.13	4.48	3.50	4.44	3.13	5.32
Other Non Opg (Exp)/Inc	0.19	0.25	2.07	0.85	0.49	0.67
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.2)	(0.2)	0.14	(0.7)	(1.6)	(0.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	5.15	4.50	5.70	4.61	2.03	5.28
Tax	(0.7)	(0.6)	(0.8)	(0.6)	0.03	(0.6)
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	4.45	3.90	4.91	3.98	2.06	4.73
Net profit bef Except.	4.45	3.90	4.91	3.98	2.06	4.73
EBITDA	5.30	4.73	5.57	5.29	3.62	5.99
Growth						
Revenue Gth (%)	12.8	(9.6)	5.2	0.3	10.7	1.4
EBITDA Gth (%)	38.7	(10.8)	17.7	(5.0)	(31.6)	65.5
Opg Profit Gth (%)	36.0	(12.7)	(21.9)	26.8	(29.5)	70.1
Net Profit Gth (%)	35.9	(12.3)	26.0	(19.0)	(48.2)	129.5
Margins						
Opg Profit Margins (%)	16.0	15.4	11.5	14.5	9.2	15.5
Net Profit Margins (%)	13.9	13.4	16.1	13.0	6.1	13.8

Source: Company, DBS Bank

Revenue Trend



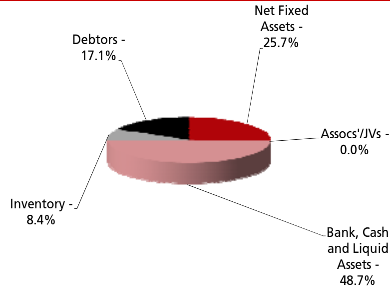
Margins in 4Q15 affected by the relocation of the zirconium manufacturing plant

Balance Sheet (S$m)

FY Dec	2012A	2013A	2014A	2015A	2016F	2017F
Net Fixed Assets	17.2	15.4	37.4	34.3	39.3	44.3
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0	0.0
Other LT Assets	5.55	10.2	41.2	78.0	78.0	78.0
Cash & ST Invts	18.5	28.8	35.7	64.9	83.1	101
Inventory	1.50	4.11	8.71	11.2	11.3	12.8
Debtors	5.60	7.74	16.3	22.8	22.3	25.2
Other Current Assets	0.97	1.48	6.24	4.73	1.51	1.51
Total Assets	49.3	67.6	145	216	235	262
ST Debt	0.62	0.23	3.82	15.7	15.7	15.7
Creditor	9.90	10.8	21.1	25.7	26.7	30.1
Other Current Liab	0.06	0.05	0.99	0.64	2.60	2.79
LT Debt	8.66	8.70	28.5	63.8	63.8	63.8
Other LT Liabilities	1.13	1.16	1.71	1.85	1.85	7.14
Shareholder's Equity	28.8	46.1	76.6	92.1	109	127
Minority Interests	0.10	0.62	12.7	16.1	16.1	16.1
Total Cap. & Liab.	49.3	67.6	145	216	235	262
Non-Cash Wkg. Capital	(1.9)	2.50	9.15	12.4	5.84	6.54
Net Cash/(Debt)	9.21	19.8	3.35	(14.6)	3.60	21.1
Debtors Turn (avg days)	40.5	34.2	43.8	57.6	58.3	54.3
Asset Turnover (x)	1.3	1.2	0.9	0.7	0.6	0.6
Current Ratio (x)	2.5	3.8	2.6	2.5	2.6	2.9
Quick Ratio (x)	2.3	3.3	2.0	2.1	2.3	2.6
Net Debt/Equity (X)	CASH	CASH	CASH	0.1	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	0.2	CASH	CASH
Capex to Debt (%)	112.1	(14.2)	53.3	(1.4)	6.3	6.3

Source: Company, DBS Bank

Asset Breakdown (2015)

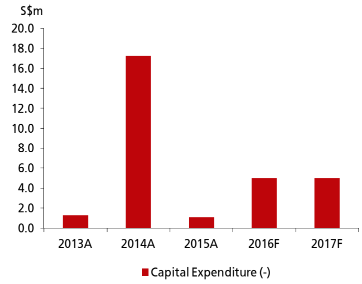


Cash Flow Statement (S$m)

FY Dec	2012A	2013A	2014A	2015A	2016F	2017F
Pre-Tax Profit	5.32	6.99	11.8	16.9	19.3	20.7
Dep. & Amort.	1.52	1.98	2.82	4.00	4.55	5.14
Tax Paid	(0.2)	(0.5)	(0.6)	(2.6)	(0.6)	(2.6)
Assoc. & JV Inc/(loss)	(0.1)	(0.2)	0.0	0.0	0.0	(0.8)
Chg in Wkg.Cap.	0.0	0.0	0.0	0.0	0.0	0.0
Other Operating CF	2.16	(4.2)	(3.4)	(5.0)	0.0	0.0
Net Operating CF	8.73	4.14	10.6	13.3	23.2	22.5
Capital Exp.(net)	(10.4)	1.27	(17.2)	1.11	(5.0)	(5.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	(0.8)	(5.4)	(21.8)	(21.4)	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.23	0.62	0.15	0.74	0.0	0.0
Net Investing CF	(11.0)	(3.6)	(38.8)	(19.6)	(5.0)	(5.0)
Div Paid	(3.7)	(6.2)	(6.5)	(5.8)	0.0	0.0
Chg in Gross Debt	7.98	(0.7)	29.2	47.5	0.0	0.0
Capital Issues	0.0	16.8	13.0	0.0	0.0	0.0
Other Financing CF	2.81	(0.3)	(0.5)	(6.3)	0.0	0.0
Net Financing CF	7.07	9.68	35.1	35.5	0.0	0.0
Currency Adjustments	0.0	0.0	0.0	0.0	0.0	0.0
Chg in Cash	4.85	10.3	6.90	29.2	18.2	17.5
Opg CFPS (S cts)	1.55	0.67	1.48	1.62	2.82	2.74
Free CFPS (S cts)	(0.3)	0.87	(0.9)	1.75	2.21	2.13

Source: Company, DBS Bank

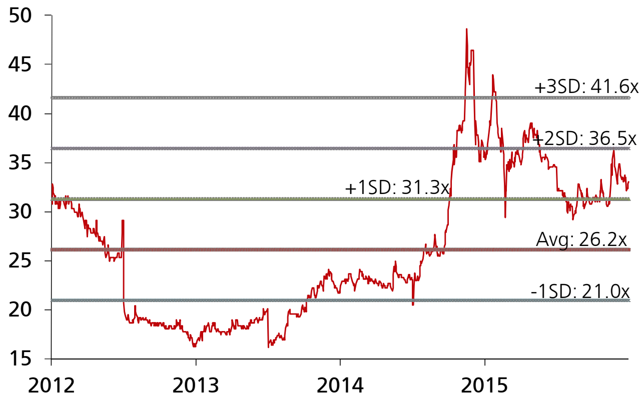
Capital Expenditure



VALUATIONS

Currently trading at above average FY17F valuations. The stock currently trades at 36x FY16F earnings and 33x FY17F earnings, vs average of the healthcare stocks listed on SGX of 37x FY16F and 30.5x FY17F PE. Valuation is even higher when compare to direct peer, Modern Dental, listed on HKSE, which trades at a mid-teen PE. We arrive at a fair value of S$0.80 per share, based on +2SD of 36.5x FY17F earnings, which we believe is fair, given its acquisition spree in China which should drive earnings higher. This translates to an upside of 11% from the current price.

Historical 12-month forward PE ratio (x)



Risk Assessment: Moderate

Category	Risk Rating 1 (Low) - 3 (High)	Wgt	Wgtd Score
Earnings	2	40%	0.8
Financials	1	20%	0.2
Shareholdings	1	40%	0.4
Overall			1.4

Peer Comparison

Name	Mkt Cap ($m)	Px Last Date	FY Act PE (x)	FY1 PE (x)	FY2 PE (x)	Sales FY Act (mlns)	Net Profit FY Act (mlns)	Net Profit Margin FY Act	FY Act ROE (%)	FY Act P/BV (x)
Q&M Dental	577.5	0.725	39.9	35.6	33.0	124.0	11.4	9.2	13.5	6.3
Cordlife	335.9	1.295	9.4	49.8	40.5	57.6	32.5	56.4	26.2	2.6
Spore O&G	199.1	0.835	31.3	24.1	20.5	16.4	5.3	32.5	29.8	7.6
Average (ex Q&M)			**34.5**	**37.0**	**30.5**					
Modern Dental (HK$)	3,350.0	3.35	33.7	16.0	13.4	1,415.6	82.0	5.8	7.1	1.9

Source: DBS Bank, Bloomberg Finance L.P

KEY RISKS

Stall in M&A plans. Q&M has been gaining traction in China with its recent acquisitions of dental clinics and hospitals. It is also expanding and rationalising its network of clinics in Singapore. Any hiccups in its acquisition spree could affect earnings.

Competition. There are 1,905 registered dentists in Singapore, as extracted from the Singapore Dental Council's Annual Report 2014. Emergence of other players that can offer more competitive packages could affect Q&M's business.

Staff costs account for more than half of sales. Employee benefits expense accounted for 51% of sales in FY15. A steep increase in staff costs could affect margins.

SMC Research

Singapore Equity Explorer
Cordlife Group Ltd

Bloomberg: CLGL SP | Reuters: CORD.SI **Refer to important disclosures at the end of this report**

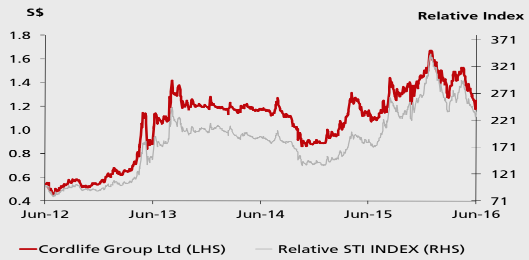
DBS Group Research . Equity 4 Jul 2016

NOT RATED S$1.265 STI : 2,840.93
Return *: 2
Risk: Moderate
Potential Target * : 12-Month S$ 1.41 (12% upside)

Analyst
Alfie YEO +65 6682 3717
alfieyeo@dbs.com

Andy SIM CFA +65 6682 3718
andysim@dbs.com

Price Relative



Forecasts and Valuation

FY Jun (S$m)	2015A	2016F	2017F	2018F
Revenue	57.6	59.0	65.7	72.0
EBITDA	6.95	12.3	7.41	8.20
Pre-tax Profit	33.3	16.0	7.23	8.35
Net Profit	32.1	15.2	6.86	7.92
Net Pft (Pre Ex.)	6.57	6.46	6.86	7.92
EPS (S cts)	12.4	5.86	2.64	3.05
EPS Pre Ex. (S cts)	2.53	2.49	2.64	3.05
EPS Gth (%)	3	(53)	(55)	15
EPS Gth Pre Ex (%)	22	(1)	6	15
Diluted EPS (S cts)	12.3	5.86	2.64	3.05
Net DPS (S cts)	2.00	14.0	2.10	2.20
BV Per Share (S cts)	62.6	45.6	46.2	47.0
PE (X)	10.2	21.6	47.9	41.4
PE Pre Ex. (X)	50.1	50.8	47.9	41.4
P/Cash Flow (X)	nm	nm	22.5	36.3
EV/EBITDA (X)	61.6	22.3	35.8	32.0
Net Div Yield (%)	1.6	11.1	1.7	1.7
P/Book Value (X)	2.0	2.8	2.7	2.7
Net Debt/Equity (X)	0.6	CASH	CASH	CASH
ROAE (%)	4.3	4.6	5.8	6.5
Consensus EPS (S cts):		2.60	3.20	3.60
Other Broker Recs:		B: 0	S: 0	H: 1

ICB Industry : Consumer Services
ICB Sector: General Retailers
Principal Business: Provides cord blood and tissue banking services in Asia. Its services include the collection, processing, testing, cryopreservation and storage of umbilical cord blood at birth.

Source of all data: Company, DBS Bank, Bloomberg Finance L.P

Penetrating regional markets

- **A regional market leader in cord blood banking**
- **Growth driven by regional market expansion**
- **Fair value of S$1.41 based on SOTP valuation**

The Business

Market leader in cord blood banking. Cordlife provides cord blood and cord lining banking services regionally. Its services include the collection, processing, testing, cryopreservation and storage of umbilical cord blood at birth. Its revenue is predominantly derived from Singapore, India and Hong Kong. Cordlife owns an 89.88% stake in KLSE-listed Stemlife Bhd.

Driving growth geographically and through new products. We see growth coming from market share gains via higher market penetration in existing markets as well as through new products. Cordlife has developed a new diagnostics product segment. This is in line with Cordlife's vertical growth plan to improve economies of scope by offering complementary products and services catering to the mother and child segment.

Stable, recurring business. With >50% of its banking customers on an annual instalment payment scheme, we see Cordlife as a stock that delivers stable revenue, earnings and recurring cashflows from its cord blood and cord lining banking business. A strong balance sheet (of S$0.15 net cash) and cash balances of over S$100m will provide resources for future acquisitions.

The Stock

Stock's fair value at S$1.41 based on SOTP. Our TP of S$1.41 for Cordlife's stock price is backed by its cashflows, taking into account recurring nature of the instalment plans. We use DCF (t=4%, WACC=8.4%) to value Cordlife's core business at S$1.13/share. Its 89.88% stake in Stemlife is worth S$0.13/share based on market value, while its net cash is worth S$0.15/share.

At A Glance

Issued Capital (m shrs)	259
Mkt. Cap (Sm/USm)	328 / 243
Major Shareholders (%)	
LH Capital	21.4
Minglie Hu	21.4
Wells Spring	11.3
Free Float (%)	11.0
3m Avg. Daily Val (US$m)	0.50

*This Equity Explorer report represents a preliminary assessment of the subject company, and does not represent initiation into DBSV's coverage universe. As such DBSV does not commit to regular updates on an ongoing basis. The rating system is distinct from stocks in our regular coverage universe and is explained further on the back page of this report.

REVENUE DRIVERS

Predominantly a cord blood banking business. Cordlife remains predominantly a cord blood banking business which holds clients' cord blood for a fee. Almost all of Cordlife's reported revenue was derived from Cord Blood and Cord Lining Banking as its diagnostics business is still small. Its key banking operation is in Singapore, while the Philippines, Indonesia and India are its growth markets. Due to the "zero birth quota" restrictions banning China patients from giving birth in Hong Kong since 2012, Hong Kong's contribution has significantly reduced. Cord Lining contributes to approximately 15% to the banking business.

Started diagnostics business in 2013. Cordlife has a diagnostics business. But its contribution is small compared to the cord banking business. The diagnostics business offers screening tests specially designed for mother and child. The business started with the launch of Metascreen, a metabolic screening test for newborns in India in 2013. This was subsequently extended to the Philippines, Hong Kong, and Indonesia. The current products and services offered include Eyescreen (eye testing screening for kids) in Singapore, and iGene (a pre-natal test to screen for foetal chromosomal abnormalities in expectant mothers) in Singapore, the Philippines and Indonesia. iGene is a partnership with iGene Diagnostics, a Singapore-based molecular diagnostics company. Nonetheless, the diagnostics segment's key product remains largely Metascreen (still unavailable in Singapore pending approvals). Pricing ranges from S$133-250 and as with all diagnostics products and services, this segment has lower margins (than the banking business).

COST STRUCTURE

Processing fee forms bulk of cost. Per contract, about 70% of Cordlife's cost of sales is processing costs, while the balance of 30% comprises storage fees. As the facility cost for storage in Singapore is fixed, Cordlife has room to gain economies of scale from higher utilisation of its Singapore storage facility.

Adequately covered by insurance. We believe Cordlife is adequately covered by insurance against potential losses and claims. There is also a cap of up to a maximum of S$4m claim per case in the event of any negligence.

KEY OPERATING ASSETS

Minimal capex. Cordlife operates processing facilities located in Singapore, Hong Kong, the Philippines, India and Indonesia. There is a total of c.100,000 cord blood units stored in these locations. Its Yishun facility in Singapore can store up to 650,000 cord blood units. This will facilitate a larger customer base and bigger scale operations. Cordlife also provides umbilical cord lining banking in all countries. We expect capex to be minimal as there is currently sufficient capacity to scale, and assets in the form of tanks are inexpensive at around SS$300,000 per tank. Higher contribution of services such as the diagnostics business and scaling the banking business would potentially provide margin uplift over the longer term.

Chart 1: FY15 revenue breakdown by geography

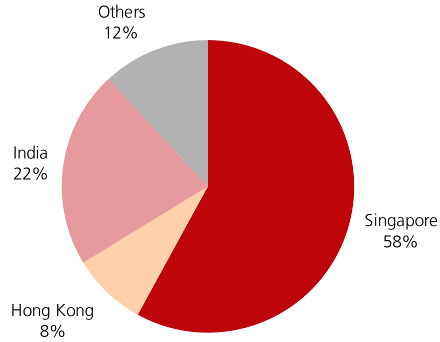


Chart 2: FY15 revenue breakdown by operating segment

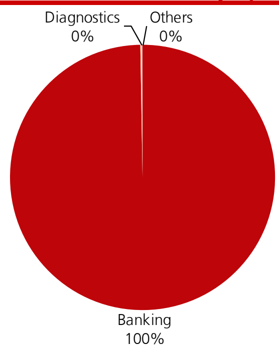


Chart 3: Organisation chart

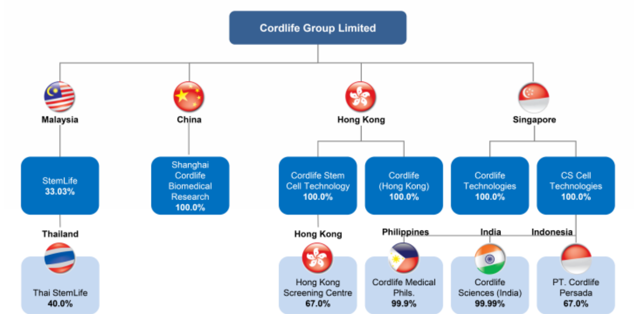


Table 1: Pricing structure in Singapore

Company	Collection Fee or One Time Fee	Annual Storage Fee	Storage Period
Cordlife	S$1,950	S$250	21 years
	S$6,200	0	21 years
	S$4,200 for the 1st 10 yrs	S$250 for the next 11 yrs	21 years

Source: Company, DBS Bank

GROWTH PROSPECTS

Geographical expansion and new products. Cordlife's focus is on the mother and child segment. It will expand both geographically for its cord blood and umbilical cord lining banking business, and will introduce new products to its target customers. To avoid overreliance on the banking business, Cordlife has diversified into the diagnostics business in 2013. The aim is to provide more its customers with a wider scope of services, coupled with additional uplift to margins. Both banking and diagnostics services can be offered as a bundle or as separate services. For now, Cordlife will focus on growing its banking business in the existing markets of India, the Philippines and Indonesia, penetrating various cities. It will concentrate on growing in Cebu, Davao City, metropolitan Manila, Jakarta, Bandung, Medan, Surabaya and Bali.

Increasing awareness and acceptance. With higher educational attainment, the younger population has greater awareness and acceptance of cord blood and cord lining banking as a form of biological insurance. The successful transplants so far and active participation in cord blood banking from hospitals, both private and public, are also contributing factors to a more favourable attitude towards banking. Cordlife's selling and marketing expenses in FY15 were 31% of total sales.

MANAGEMENT & STRATEGY

Appointed a new COO and CEO. Cordlife has recently appointed a new Executive Director cum CEO, Dr Wong Chiang Yin to replace its former CEO Mr. Jeremy Yee, who left the company for personal reasons in March 2016. It has also put Ms Tan Poh Lan, the former CEO of Fortis Healthcare Singapore, into the new position of COO to concentrate on increasing service offerings, grow the core business, streamline and improve operating performance. This frees up the new CEO's time to drive the group's strategy and to seek new businesses. Both the CEO and COO are supported by Executive Officers who have experience in other functions within the company before assuming their current leadership roles. Cordlife believes that the cross functional experience it has given its employees have helped to broaden their knowledge of the industry and the company. Four of its five key management executives have been with the company for at least nine years.

Improving scale and scope. Cordlife aims to achieve sustainable long-term growth through economies of scale and scope. Expanding its geographical footprint will fuel horizontal growth plans, while expanding its product and service range will vertically improve growth. Most notably, Cordlife has grown its India business since 2009 and has introduced diagnostics products to support this.

Table 2: Key competitors

Market	Key competitors	Total players
Singapore	Stemcord, Singapore Cord Blood Bank	3
Hong Kong	Health Baby, CryoLife	6
Malaysia	Cellsafe, CryoCord, KOZA, StemTech	5
India	LifeCell, CyroBanks	11
Philippines	StemCord, Medical City	5
Indonesia	BabyBanks, StemCord	5
China	China Cord Blood Corporation, Zhongyuan Union Cell, Shandong Province Cord Blood Bank	8

Table 3: Key management team

Name	Designation
Dr Ho Choon Hou	Non-executive Chairman
Vacant	CEO
Ms Thet Hnin Yi	CFO
Ms Tan Poh Lan	COO
Mr Laiu Yen San, Jonathan	Senior Director Corporate Development
Ms Woon Geok Peng, Jamie	Business Unit Director, Banking
Ms Lee Mei Suan, Stella	Business Unit Director, Organisational Development
Ms Tan Huiying	Business Unit Director, Diagnostics

Table 4: Management remuneration structure

Name	FY15 total remuneration
Dr Ho Choon Hou	S$250,000 and below
Mr Yee Pinh, Jeremy (ex-CEO)	Above S$500,000 to S$1,000,000
Ms Thet Hnin Yi	Above S$250,000 to S$500,000
Mr Laiu Yen San, Jonathan	Above S$250,000 to S$500,000
Ms Woon Geok Peng, Jamie	S$250,000 and below
Ms Lee Mei Suan, Stella	S$250,000 and below
Ms Tan Huiying	S$250,000 and below

Source: Company, DBS Bank

Segmental Breakdown

FY Jun	2013A	2014A	2015A	2016F	2017F	2018F
Revenues (S$m)						
Banking	34.7	49.0	57.4	58.9	64.8	70.6
Diagnostics	0.0	0.01	0.10	0.10	0.97	1.46
Others	0.0	0.13	0.04	0.0	0.0	0.0
Total	34.7	49.1	57.6	59.0	65.7	72.0
Pretax profit (S$m)						
Banking	7.36	9.04	5.95	4.01	4.78	5.27
Diagnostics	0.0	0.0	(0.3)	(0.1)	0.0	0.05
Others	0.0	0.0	0.0	0.0	0.0	0.0
Total	7.36	9.01	5.70	3.91	4.78	5.32
Pretax profit Margins						
Banking	21.2	18.5	10.4	6.8	7.4	7.5
Diagnostics	N/A	(142.9)	(240.8)	(97.1)	0.0	3.4
Others	N/A	(13.2)	(4.5)	N/A	N/A	N/A
Total	21.2	18.4	9.9	6.6	7.3	7.4

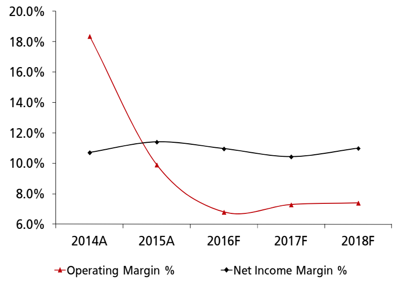
Increase in client deliveries from 7,700 to 15,880

Income Statement (S$m)

FY Jun	2013A	2014A	2015A	2016F	2017F	2018F
Revenue	34.7	49.1	57.6	59.0	65.7	72.0
Cost of Goods Sold	(9.4)	(14.2)	(17.6)	(20.1)	(22.3)	(24.5)
Gross Profit	25.3	34.9	40.0	38.9	43.4	47.6
Other Opng (Exp)/Inc	(18.0)	(25.9)	(34.3)	(34.9)	(38.6)	(42.2)
Operating Profit	7.36	9.01	5.70	4.01	4.78	5.32
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	6.01	0.0	0.0
Associates & JV Inc	2.75	(2.4)	(0.4)	(0.1)	0.0	0.0
Net Interest (Exp)/Inc	0.45	0.07	2.45	(2.7)	2.45	3.03
Exceptional Gain/(Loss)	4.00	25.1	25.6	8.73	0.0	0.0
Pre-tax Profit	14.6	31.9	33.3	16.0	7.23	8.35
Tax	(1.1)	(1.5)	(1.1)	(0.8)	(0.4)	(0.4)
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	13.5	30.4	32.1	15.2	6.86	7.92
Net Profit before Except.	9.48	5.26	6.57	6.46	6.86	7.92
EBITDA	10.9	8.17	6.95	12.3	7.41	8.20
Growth						
Revenue Gth (%)	20.6	41.5	17.3	2.4	11.4	9.6
EBITDA Gth (%)	6.2	(24.9)	(14.9)	76.2	(39.5)	10.7
Opg Profit Gth (%)	(1.5)	22.4	(36.7)	(29.7)	19.4	11.3
Net Profit Gth (Pre-ex) (%)	7.0	(44.6)	24.9	(1.6)	6.1	15.4
Margins & Ratio						
Gross Margins (%)	73.0	71.0	69.5	65.9	66.0	66.0
Opg Profit Margin (%)	21.2	18.4	9.9	6.8	7.3	7.4
Net Profit Margin (%)	27.3	10.7	11.4	11.0	10.4	11.0
ROAE (%)	12.8	4.8	4.3	4.6	5.8	6.5
ROA (%)	9.0	3.4	2.5	2.2	2.6	3.0
ROCE (%)	7.3	6.2	2.2	1.4	2.1	2.3
Div Payout Ratio (%)	68.6	100.5	79.0	561.8	79.4	72.1
Net Interest Cover (x)	NM	NM	NM	1.5	NM	NM

Source: Company, DBS Bank

Margins Trend



Higher contribution from India, which has lower pricing.

Quarterly / Interim Income Statement (S$m)

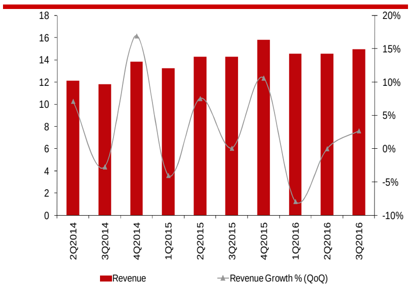
FY Jun	2Q2015	3Q2015	4Q2015	1Q2016	2Q2016	3Q2016
Revenue	14.3	14.3	15.8	14.5	14.6	14.9
Cost of Goods Sold	(4.9)	(4.5)	(4.0)	(4.6)	(5.1)	(5.2)
Gross Profit	9.40	9.80	11.8	9.96	9.43	9.75
Other Oper. (Exp)/Inc	(5.9)	(7.6)	(12.7)	(8.2)	(8.8)	(8.8)
Operating Profit	3.47	2.21	(1.0)	1.74	0.60	0.92
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	7.88	(1.9)	0.0
Associates & JV Inc	(0.3)	(0.1)	(0.1)	0.06	(0.1)	0.0
Net Interest (Exp)/Inc	0.09	0.77	0.86	1.00	(2.3)	(0.7)
Exceptional Gain/(Loss)	(6.5)	15.8	21.2	(2.7)	13.4	(1.9)
Pre-tax Profit	(3.2)	18.7	21.0	7.96	9.70	(1.7)
Tax	(0.1)	(0.4)	(0.4)	(0.4)	(0.1)	(0.4)
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	(3.3)	18.4	20.6	7.60	9.58	(2.1)
Net profit bef Except.	3.19	2.54	(0.5)	10.3	(3.8)	(0.1)
EBITDA	3.72	2.47	(0.6)	10.1	(0.9)	1.60
Growth						
Revenue Gth (%)	7.5	0.1	10.6	(7.9)	0.0	2.7
EBITDA Gth (%)	176.1	(33.8)	nm	nm	nm	nm
Opg Profit Gth (%)	256.1	(36.1)	nm	nm	(65.4)	53.2
Net Profit Gth (%)	6.3	nm	12.2	(63.2)	26.1	nm
Margins						
Gross Margins (%)	65.9	68.6	74.5	68.5	64.9	65.3
Opg Profit Margins (%)	24.3	15.5	(6.0)	11.9	4.1	6.2
Net Profit Margins (%)	22.3	17.8	(3.3)	70.9	(26.0)	(0.9)

Source: Company, DBS Bank

Includes gain on sale of CCBC shares

Includes better mix of upfront plans, supplier rebates and other adjustments

Revenue Trend

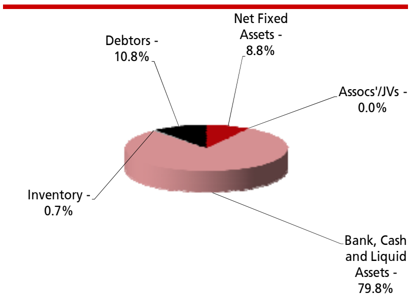


Balance Sheet (S$m)

FY Jun	2013A	2014A	2015A	2016F	2017F	2018F
Net Fixed Assets	7.61	8.41	9.57	12.7	11.1	9.22
Invts in Associates & JVs	28.0	16.8	13.5	0.0	0.0	0.0
Other LT Assets	57.8	103	258	94.9	94.9	94.9
Cash & ST Invts	11.8	45.8	29.6	131	139	141
Inventory	0.44	0.65	0.85	0.95	1.03	1.01
Debtors	12.1	12.9	15.3	15.6	16.0	19.0
Other Current Assets	2.71	2.72	5.91	5.16	1.60	1.60
Total Assets	120	191	333	260	264	267
ST Debt	0.27	4.45	4.49	2.12	2.12	2.12
Creditor	7.51	8.89	11.6	11.9	13.5	14.2
Other Current Liab	9.38	6.94	5.09	28.8	29.2	29.6
LT Debt	5.93	8.40	125	74.5	74.5	74.5
Other LT Liabilities	19.8	20.7	25.0	25.0	25.0	25.0
Shareholder's Equity	77.6	141	162	118	120	122
Minority Interests	0.0	(0.2)	(0.5)	(0.5)	(0.5)	(0.5)
Total Cap. & Liab.	120	191	333	260	264	267
Non-Cash Wkg. Capital	(1.6)	0.43	5.33	(19.0)	(24.1)	(22.3)
Net Cash/(Debt)	5.62	32.9	(99.8)	54.3	62.4	64.8
Debtors Turn (avg days)	108.9	93.0	89.2	95.6	87.9	88.6
Creditors Turn (avg days)	218.1	235.2	235.5	240.6	234.9	234.0
Inventory Turn (avg days)	18.1	15.5	17.2	18.5	18.3	17.2
Asset Turnover (x)	0.3	0.3	0.2	0.2	0.3	0.3
Current Ratio (x)	1.6	3.1	2.4	3.6	3.5	3.5
Quick Ratio (x)	1.4	2.9	2.1	3.4	3.5	3.5
Net Debt/Equity (X)	CASH	CASH	0.6	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	0.6	CASH	CASH	CASH
Capex to Debt (%)	28.4	15.0	0.9	6.5	1.3	1.3

Source: Company, DBS Bank

Asset Breakdown (2016)



Net cash post sale of CCBC shares net of increasing stake in Stemlife Bhd to 89.88%

Net debt geared up to finance Magnus Opus in a deal to subscribe for CCBC convertible notes

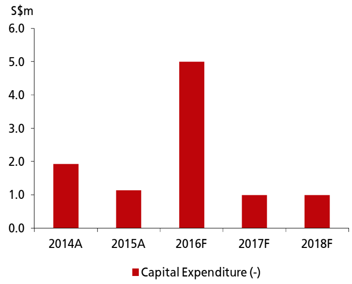
Cordlife Group Ltd

Cash Flow Statement (S$m)

FY Jun	2013A	2014A	2015A	2016F	2017F	2018F
Pre-Tax Profit	14.6	31.9	33.3	16.0	7.23	8.35
Dep. & Amort.	0.77	1.51	1.69	2.30	2.63	2.88
Tax Paid	(1.1)	(1.1)	(1.6)	(1.1)	0.0	0.0
Assoc. & JV Inc/(loss)	(2.8)	2.35	0.44	0.08	0.0	0.0
Chg in Wkg.Cap.	0.70	(5.7)	(9.9)	24.6	4.71	(2.2)
Other Operating CF	(3.5)	(25.1)	(28.2)	(45.9)	0.0	0.0
Net Operating CF	8.67	3.75	(4.2)	(4.0)	14.6	9.04
Capital Exp.(net)	(1.8)	(1.9)	(1.1)	(5.0)	(1.0)	(1.0)
Other Invts.(net)	(4.2)	2.58	(57.6)	0.0	0.0	0.0
Invts in Assoc. & JV	(5.1)	(8.1)	0.0	(14.6)	0.0	0.0
Div from Assoc & JV	0.0	0.92	0.0	0.0	0.0	0.0
Other Investing CF	0.62	(7.0)	(2.0)	142	0.0	0.0
Net Investing CF	(10.4)	(13.5)	(60.6)	123	(1.0)	(1.0)
Div Paid	(6.5)	(5.3)	(5.2)	(36.3)	(5.5)	(5.7)
Chg in Gross Debt	3.33	6.65	58.1	(50.3)	0.0	0.0
Capital Issues	0.0	33.6	0.0	0.0	0.0	0.0
Other Financing CF	0.0	(0.5)	(6.0)	55.0	0.0	0.0
Net Financing CF	(3.2)	34.4	46.9	(31.6)	(5.5)	(5.7)
Currency Adjustments	0.0	0.01	0.0	0.0	0.0	0.0
Chg in Cash	(5.0)	24.7	(17.9)	87.3	8.13	2.33
Opg CFPS (S cts)	3.43	3.73	2.18	(11.0)	3.80	4.33
Free CFPS (S cts)	2.97	0.72	(2.1)	(3.5)	5.23	3.10

Source: Company, DBS Bank

Capital Expenditure



Collects cash on lumpsum basis or installment terms

Minimal capex

Increased stake in Stemlife from to 89.88%

VALUATIONS

Fair value of S$1.41 using SOTP methodology. Our TP of S$1.41 for Cordlife's stock price is backed by its cashflows, taking into account the recurring nature of the instalment plans. We use DCF (t=4%, WACC=8.4%) to value Cordlife's core business at S$1.13/share. Its 89.88% stake in Stemlife is worth S$0.13/share based on market value, while its net cash is worth S$0.15/share.

Risk Assessment: Moderate

Category	Risk Rating 1 (Low) - 3 (High)	Wgt	Wgtd Score
Earnings	2	40%	0.8
Financials	1	20%	0.2
Shareholdings	1	40%	0.4
Overall			1.4

Expect steady earnings growth and strong balance sheet. Cordlife runs a depository business which yields stable cashflows. Growth is slow and dependent on birth rates. Yet, the recurring payment element of its cord blood banking plans offers stability as well as steady growth in terms of sales and earnings.

Diluted shareholding structure, professionally managed. Shareholding in Cordlife is thin, with the largest shareholder owning only 10% of the company. Its management team and board are professionals and do not hold any majority stake in the company.

Table 5: SOTP valuation

SOTP Valuation		
SOTP components	Valn S$	Basis
Core business	292	DCF (t=4%, WACC=8.4%)
Stemlife Bhd (89.88%)	35	Mkt value
Net cash (debt)	39	FY16F net cash (debt)
Equity Value	366.8	
Shares	259.4	
Fair Value	1.41	

Table 6: Peer comparison

Company	Country	FYE	Market Cap (S$m)	Px Last	PE (Act)	PE (Yr 1)	PE(Yr 2)	P/BV (x)	ROE (%)	Operating Margin (%)	Net Margin (%)	Dividend Yield (%)
Cordlife Group	Singapore	Dec	351	1.26	53.7x	54.4x	51.3x	3.0x	5%	6.8%	11.0%	10.3%
International cord blood banking peers												
Medipost	Korea; Republic (S. Korea		799.4	88800	7166.8x	NaN	NaN	4.6x	2%	-10.6%	7.4%	0.0%
Green Cross Cell	Korea; Republic (S. Korea		542.4	40350	210.6x	46.9x	43.1x	11.8x	8%	2.7%	10.1%	0.0%
China Cord Blood	Cayman Islands		594.9	5.99	31.4x	31.5x	27.2x	1.7x	7%	37.0%	15.6%	nm
Cryolife	United States of America		521.3	11.75	52.0x	58.8x	40.9x	2.0x	3%	3.7%	2.7%	1.0%
HLB	Korea; Republic (S. Korea		824.2	20100	59.7x	NaN	NaN	7.5x	15%	-16.7%	33.2%	0.0%
Bionet Corp	Taiwan		58.8	28.35	90.6x	NaN	NaN	1.2x	2%	-0.3%	3.7%	2.5%
StemLife	Malaysia		39.4	0.49	NULL	NaN	NaN	5.0x	-3%	nm	nm	nm
VITA 34	Germany		20.5	4.39	7.2x	36.6x	15.7x	0.6x	8%	11.4%	14.0%	3.6%
Life Corporation	Australia		2.8	0.04	NULL	NaN	NaN	NULL	-129%	-177.3%	-177.1%	0.0%
				Regional average	**1088.3x**	**43.4x**	**31.7x**	**4.3x**	**-10%**	**-18.8%**	**-11.3%**	**1.0%**
Singapore listed medical peers												
Raffles Medical	Singapore		2734.4	1.58	38.9x	35.1x	32.9x	4.4x	14%	19.6%	16.9%	3.2%
Pacific Healthcr	Singapore		4.0	0.01	140.0x	0.2x	NaN	nm	-271%	-16.0%	-5.2%	0.0%
Health Mgmt Intl	Singapore		196.3	0.34	15.4x	NaN	NaN	3.5x	43%	15.9%	8.0%	0.0%
Healthway	Singapore		76.8	0.03	nm	11.0x	NaN	0.4x	1%	4.0%	1.8%	0.0%
Intl Healthway	Singapore		87.9	0.05	13.3x	NaN	NaN	nm	10%	47.1%	15.9%	0.0%
SG Medical Group	Singapore		43.1	0.16	NULL	NaN	NaN	nm	0%	1.6%	-0.5%	0.0%
Q & M Dental	Singapore		605.4	0.76	47.5x	38.0x	36.2x	6.5x	20%	15.8%	9.2%	1.1%
				Regional average	**3.2x**	**21.1x**	**34.6x**	**2.5x**	**-26%**	**12.6%**	**6.6%**	**0.6%**

Source: DBS Bank, Bloomberg Finance L.P

Singapore Equity Explorer
UG Healthcare Corp

Bloomberg: UGHC SP | Reuters: UGHE.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 Jul 2016

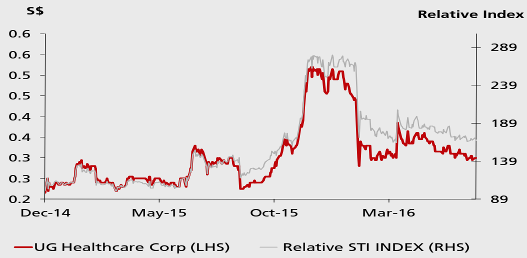
NOT RATED S$0.295 STI : 2,840.93

Return *: 2
Risk: Moderate
Potential Target * : 12-Month S$ 0.33 (11% upside)

Analyst
Paul YONG CFA +65 6682 3712
paulyong@dbs.com

Singapore Research Team

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2014A	2015A	2016F	2017F
Revenue	49.0	55.7	58.8	65.6
EBITDA	7.20	5.17	5.01	5.60
Pre-tax Profit	6.13	3.96	4.41	4.82
Net Profit	4.90	3.16	3.54	3.86
Net Pft (Pre Ex.)	4.90	3.16	3.54	3.86
EPS (S cts)	2.61	1.68	1.88	2.05
EPS Pre Ex. (S cts)	2.61	1.68	1.88	2.05
EPS Gth (%)	30	(35)	12	9
EPS Gth Pre Ex (%)	30	(35)	12	9
Diluted EPS (S cts)	2.61	1.68	1.88	2.05
Net DPS (S cts)	0.0	0.0	0.38	0.41
BV Per Share (S cts)	15.9	19.6	21.5	23.2
PE (X)	11.3	17.5	15.7	14.4
PE Pre Ex. (X)	11.3	17.5	15.7	14.4
P/Cash Flow (X)	28.8	28.0	11.3	23.4
EV/EBITDA (X)	8.0	10.5	10.7	9.9
Net Div Yield (%)	0.0	0.0	1.3	1.4
P/Book Value (X)	1.8	1.5	1.4	1.3
Net Debt/Equity (X)	0.1	CASH	CASH	CASH
ROAE (%)	18.5	9.5	9.1	9.2
Consensus EPS (S cts):			2.4	2.9
Other Broker Recs:		B: 1	S: 0	H: 0

ICB Industry : Health Care
ICB Sector: Health Care Equipment & Services
Principal Business: Manufacturer and distributor of latex and nitrile examination gloves

Source of all data: Company, DBS Bank, Bloomberg Finance L.P

Execution is key

- **Established Malaysian glove manufacturer with plans to grow its global distribution network**
- **Potential beneficiary of a greater shift in pricing and bargaining power to distributors as competition is expected to heat up ahead**
- **Further prospects ultimately a factor of the Group's ability to bring plans to fruition**

The Business

Malaysia-based glove manufacturer with extensive global distribution platform. On top of its disposable examination glove manufacturing business, UG Healthcare, unlike most peers, is further integrated downstream with a global distribution network, which allows the Group to retain full control over its entire supply chain.

As competition heats up, UG Healthcare's edge lies in the ownership of an international distribution business, which could be increasingly valuable for ASP and margin preservation ahead. As the industry collectively ramps up on the construction of new capacities to ride the demand in healthcare gloves, third-party distributors (counterparties to glove manufacturers) have been taking the opportunity to reduce ASPs (average selling prices).

The Group sells close to 50% of its manufactured products via its own distribution network – where it also markets gloves procured from manufacturers such as Top Glove. With competition expected to heat up ahead, we believe that the ownership of an international distribution network could be increasingly valuable for the Group, as it should allow UG Healthcare to command superior ASP and margin preservation relative to pure-manufacturing peers.

But prospects for the Group ultimately boil down to the execution and delivery of longer-term plans. While the longer-term plans and objectives (i.e. capacity expansion, extension of distribution network, and development of higher-margin products) of the Group could pave the way for multifaceted growth opportunities beyond FY17F, much of it is still on the drawing board, and management's ability to bring these plans to fruition in a timely manner still remains to be seen.

The Stock

Fair value of S$0.33 based on 16x FY17F PE. Larger peers are trading at an average of 18x blended CY16/17F earnings currently, but given its smaller scale, we believe that UG Healthcare should be valued at 16x FY17F PE, close to its average valuation since listing in December 2014.

At A Glance

Issued Capital (m shrs)	188
Mkt. Cap (Sm/USm)	55.5 / 41.1
Major Shareholders (%)	
Zen UG Pte Ltd	49.2
Beng Teck Ang	15.0
Raydion Direct	9.3
Free Float (%)	26.5
3m Avg. Daily Val (US$m)	0.04

*This Equity Explorer report represents a preliminary assessment of the subject company, and does not represent initiation into DBSV's coverage universe. As such DBSV does not commit to regular updates on an ongoing basis. The rating system is distinct from stocks in our regular coverage universe and is explained further on the back page of this report.

REVENUE DRIVERS

Malaysia-based glove manufacturer with extensive global distribution platform. Established in 1989, UG Healthcare is an established manufacturer of both natural and synthetic (nitrile) rubber gloves, which are supplied to a diverse range of industries. UG Healthcare operates on a much smaller scale (global market share of c.1% in 2015) vs listed peers, but is further integrated downstream with its own distribution arm, where it distributes products under the "Unigloves" brand - thus retaining full control over its entire supply chain.

UG Healthcare's latex-to-nitrile glove output mix decisions tend to be influenced by the indicative mix of global demand, and have historically been maintained at a 60:40 ratio.

Expanding production capacity to ride demand for healthcare gloves. MARGMA (Malaysian Rubber Glove Manufacturers Association) estimates that the global demand for disposable gloves was c.193bn pieces in 2015, and believes that it will likely grow at 6-8% p.a. going forward, primarily due to the uptick in demand for healthcare gloves.

UG Healthcare, like most glove manufacturers, has been building and ramping up on new capacity to ride this growing demand. The Group's top-line growth, at 10.3% CAGR from S$41.6m in FY12 to S$55.7m in FY15, was mostly led by the expansion of production capacity, which almost doubled from c.0.85bn in FY12 to 1.5bn p.a. in FY15. By end-FY16F, UG Healthcare expects to grow capacity to 1.9bn gloves p.a.

The Group has planned capacity expansions to an annual capacity of 2.4bn gloves by 1Q17 (September 2016). Expansion plans beyond FY17F are still on the drawing board and we note that the Group's newer plant has the potential to house up to five additional dipping lines. When these new lines are eventually built and commissioned, we believe that production capacity could be boost by another 41.6% to at least 3.4bn gloves p.a.

Grow distribution network by venturing into underpenetrated regions. Nearly 100% of UG Healthcare's production are for export, and are priced in USD. In FY15, c.70% of UG Healthcare's revenues were generated from developed markets, such as Europe and the US, where gloves were predominantly marketed.

Having established a relatively stronger presence in developed countries, the Group hopes to further strengthen its network and grow market share in emerging markets such as South America, Africa, Middle East, the PRC, and India ahead, to take advantage of opportunities in these underpenetrated regions.

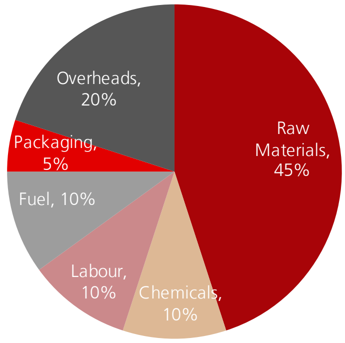
If successful, we believe that the establishment of sales offices in these underpenetrated regions ahead of the anticipated convergence of globally accepted hygiene, safety and healthcare standards could help pave the way for UG Healthcare's longer-term growth.

COST STRUCTURE

Main raw materials – natural rubber and nitrile butadiene. While raw materials represent the largest individual component of UG Healthcare's overall cost structure, the Group is relatively isolated from prolonged periods of elevated raw material (such as latex and butadiene) prices due to the industry practice of cost-plus pricing.

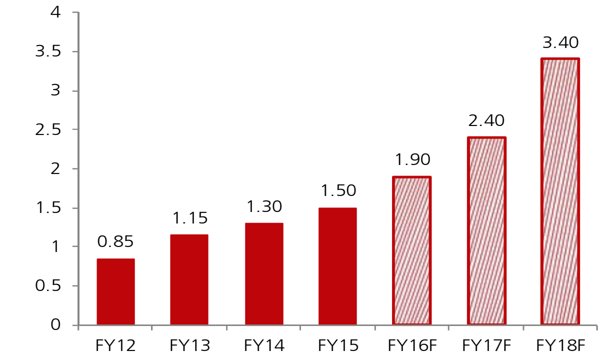
However, margins can be affected by short-term spikes as prices with end-customers are negotiated on a monthly basis.

Breakdown of Costs

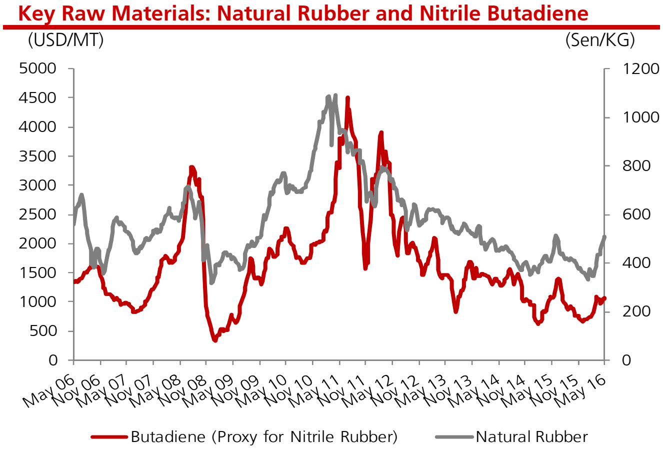


Capacity Expansion (FY12-18F)

(bn pcs p.a.)



Key Raw Materials: Natural Rubber and Nitrile Butadiene



Manufacturing Facilities and Distribution Network

Source: Company, DBS Bank

KEY OPERATING ASSETS

Two manufacturing facilities in Malaysia. As at end-FY15, UG Healthcare had two manufacturing facilities, both of which are located in Seremban, Malaysia, with an aggregate production capacity of close to 1.9bn gloves p.a. currently. The Group is in the midst of upgrading production lines at its older facility, which will pave the way for opportunities in producing the higher-requirement and niche surgical glove going forward.

GROWTH PROSPECTS

Led by broad trends in the healthcare industry, longer-term demand dynamics appear fairly resilient. With the rising adoption of healthcare gloves (especially in emerging economies), coupled with the ongoing cultivation of new markets for glove use, we believe longer-term demand for disposable rubber gloves should remain fairly resilient.

In the medium term, however, glove manufacturers are faced with rising competition and near-term industry headwinds... Competition among glove manufacturers has heightened in recent years as industry players have been collectively building new capacities and ramping up on production - planned capacity expansions of the larger listed peers indicate potential growth in oncoming supply at 8.5% CAGR over the next three years, outpacing long-term demand growth of 6-8% p.a. With greater oncoming supply, third-party distributors (middlemen in the procurement and distribution of gloves to end-users) have thus been taking the opportunity to reduce ASPs (average selling prices).

Other near-term industry headwinds that have been weighing on the profitability of glove manufacturers include the weaker USD/Ringgit (which have come off c.8.5% from a high of c.4.41 in October 2015) and higher raw material costs.

…but UG Healthcare's competitive edge lies in its integrated business model. In the current landscape, we see distributors such as UG Healthcare benefitting from higher bargaining power as about half of its gloves are distributed via its own network, and as the Group also procures from other producers such as Top Glove whenever it is cost-efficient to do so.

Meanwhile, the remaining 50% of UG Healthcare's gloves are sold through third-party distributors (in regions where the Group has yet to establish a strong network). With competition expected to heat up, we thus believe that the ownership of an international distribution network could be increasingly valuable for ASP and better margin preservation compared to peers, ahead.

In addition, the development of higher-margin niche products could provide some respite from competition and headwinds. UG Healthcare's products are primarily focused on the disposable examination glove (healthcare and industrial gloves) market but going forward, the Group hopes to focus on more specialised gloves (which carry higher gross margins of >30%) for developed markets, such as dental and surgical gloves.

Post-1H16, the company shared that it was finalising the audit process for its new surgical glove product and expects to begin production in 1H17. However, as these niche products take a longer time to market, we have not assumed significant contribution from surgical gloves in our forecasts.

Development and execution of strategy is key. Given its much smaller scale (vs listed peers) and the unique proposition of its dual platforms, we still see opportunities for multifaceted growth for UG Healthcare beyond FY17F. However, we believe that prospects ahead should ultimately depend on the Group's ability to execute and deliver on its communicated plans on the capacity expansion, network extension, and product development fronts, which still remain to be seen.

MANAGEMENT & STRATEGY

Led by founding member. UG Healthcare was founded by Mr Ang Beng Teck and Mr Lee Keck Keong, both of whom currently sit on the Board. Today, the business is largely helmed by Mr Ang and the second generation of the Lee family. Since FY12, under their leadership, revenue has grown from S$41.6m to S$55.7m in FY15, which represents a 3-year CAGR of 10.3%.

Proposed dividend payout of 20% from FY16F. The Group has yet to propose or pay dividends since inception, but has signalled its intent to declare and distribute dividends of at least 20% of net profit p.a. from FY16F onwards.

Key Competitors Listed on the SGX and KLSE

Source: Companies

Key Executive and Management Team

Ang Beng Teck	Chief Executive Officer, Executive Director and Co-Founder	• Co-founder with over 26 years of experience in the glove industry • Responsible for overseeing the formulation of overall business and corporate policies and strategies, operations, and business development for the Group
Terence Yap Seng Keong	Chief Financial Officer	• Joined the Group in April 2014 • Responsible for the oversight and control of the Group's overall accounting and finance function
Lee Keck Keong	Non-Executive Director, Co-Founder	• Co-founder, who began his career as a chemical engineer in a state owned company • Has been instrumental to the Group's growth
Lee Jun Yih	Executive Director, Business and Corporate Development	• Primarily responsible for oversight and management of the Group's business and corporate development • Works with the CEO to formulate the overall business and corporate policies and strategies for the Group

Source: Company, DBS Bank

UG Healthcare Corp

Key Assumptions

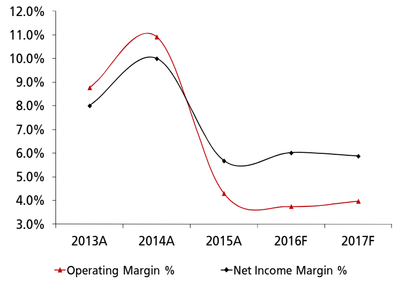
FY Dec	2012	2013A	2014A	2015A	2016F	2017F
Capacity (bn gloves p.a.)	0.85	1.15	1.30	1.50	1.90	2.40
Latex Examination Gloves (bn)	0.45	0.58	0.66	0.78	0.96	1.15
Nitrile Examination Gloves (bn)	0.30	0.39	0.44	0.52	0.64	0.77
Utilisation (%)	89.4	84.3	84.7	86.7	84.0	80.0
ASP/thousand gloves (USD)	37.4	30.9	28.3	26.7	24.8	23.1

Assuming a 60:40 mix of latex and nitrile gloves.

Segmental Breakdown

FY Dec	2012A	2013A	2014A	2015A	2016F	2017F
Revenues (S$m)						
Latex examination gloves	28.9	27.8	28.9	32.2	33.0	37.3
Nitrile examination gloves	10.9	16.3	17.3	20.0	22.0	24.2
Other ancillary products	1.81	2.94	2.80	3.52	3.72	4.15
Total	41.6	47.0	49.0	55.7	58.8	65.6
Gross Profit (S$m)						
Latex examination gloves	3.86	4.46	5.96	6.15	6.28	7.08
Nitrile examination gloves	2.03	3.20	3.67	4.67	4.63	4.85
Other ancillary products	0.31	0.45	0.58	0.73	0.78	0.87
Total	6.21	8.11	10.2	11.6	11.7	12.8
Gross Profit Margins (%)						
Latex examination gloves	13.4	16.0	20.6	19.1	19.0	19.0
Nitrile examination gloves	18.6	19.6	21.2	23.3	21.0	20.0
Other ancillary products	17.3	15.4	20.6	20.7	21.0	21.0
Total	14.9	17.2	20.8	20.7	19.9	19.5

Margins Trend



Income Statement (S$m)

FY Dec	2012A	2013A	2014A	2015A	2016F	2017F
Revenue	41.6	47.0	49.0	55.7	58.8	65.6
Cost of Goods Sold	(35.4)	(38.9)	(38.8)	(44.2)	(47.1)	(52.8)
Gross Profit	6.21	8.11	10.2	11.6	11.7	12.8
Other Opng (Exp)/Inc	(3.6)	(4.0)	(4.9)	(9.2)	(9.5)	(10.2)
Operating Profit	2.57	4.13	5.35	2.40	2.21	2.61
Other Non Opg (Exp)/Inc	0.43	0.45	0.45	1.35	1.35	1.35
Associates & JV Inc	0.52	0.61	0.56	0.51	0.51	0.51
Net Interest (Exp)/Inc	0.0	(0.2)	(0.2)	(0.3)	0.34	0.35
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	3.51	4.96	6.13	3.96	4.41	4.82
Tax	(0.7)	(1.2)	(1.2)	(1.0)	(1.0)	(1.1)
Minority Interest	0.0	(0.1)	0.0	0.23	0.10	0.10
Preference Dividend	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	2.85	3.76	4.90	3.16	3.54	3.86
Net Profit before Except.	2.85	3.76	4.90	3.16	3.54	3.86
EBITDA	4.14	6.03	7.20	5.17	5.01	5.60
Growth						
Revenue Gth (%)	nm	13.1	4.2	13.7	5.5	11.6
EBITDA Gth (%)	nm	45.4	19.5	(28.1)	(3.2)	11.8
Opg Profit Gth (%)	nm	60.8	29.7	(55.2)	(8.0)	18.2
Net Profit Gth (Pre-ex) (%)	nm	31.9	30.2	(35.4)	11.8	9.1
Margins & Ratio						
Gross Margins (%)	14.9	17.2	20.8	20.7	19.9	19.5
Opg Profit Margin (%)	6.2	8.8	10.9	4.3	3.8	4.0
Net Profit Margin (%)	6.9	8.0	10.0	5.7	6.0	5.9
ROAE (%)	29.6	17.8	18.5	9.5	9.1	9.2
ROA (%)	20.0	12.0	13.1	6.9	6.6	6.8
ROCE (%)	23.2	13.2	14.2	7.1	8.5	8.6
Div Payout Ratio (%)	0.0	0.0	0.0	0.0	20.0	20.0
Net Interest Cover (x)	641.3	18.9	22.6	8.0	NM	NM

Expect effective tax rate to be closer to 22% p.a.

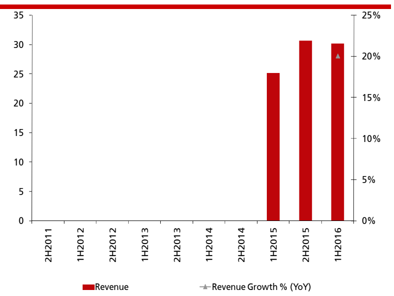
Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Dec	1H2015	2H2015	1H2016
Revenue	25	31	30
Cost of Goods Sold	(20)	(24)	(23)
Gross Profit	5	6	7
Other Oper. (Exp)/Inc	(3)	(5)	(4)
Operating Profit	2	1	4
Other Non Opg (Exp)/Inc	0	0	0
Associates & JV Inc	0	0	0
Net Interest (Exp)/Inc	0	0	0
Exceptional Gain/(Loss)	0	0	0
Pre-tax Profit	3	1	4
Tax	0	(1)	(1)
Minority Interest	0	0	0
Net Profit	2	1	3
Net profit bef Except.	2	1	3
EBITDA	3	2	4
Growth			
Revenue Gth (%)	nm	22.0	(1.6)
EBITDA Gth (%)	nm	(38.6)	125.3
Opg Profit Gth (%)	nm	(47.0)	177.0
Net Profit Gth (%)	nm	(69.0)	331.8
Margins			
Gross Margins (%)	20.1	21.2	23.9
Opg Profit Margins (%)	9.9	4.3	12.1
Net Profit Margins (%)	9.6	2.4	10.7

Source: Company, DBS Bank

Revenue Trend



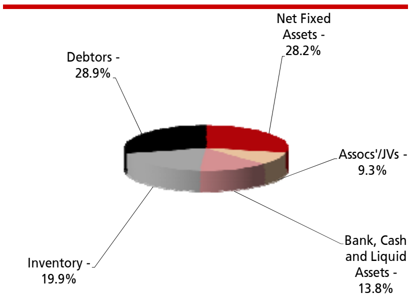
Revenue grew on higher volume of gloves produced and sold, but was partially offset by lower ASPs.

Balance Sheet (S$m)

FY Dec	2012A	2013A	2014A	2015A	2016F	2017F
Net Fixed Assets	10.3	11.9	12.9	14.5	17.5	20.4
Invts in Associates & JVs	1.53	1.77	4.56	4.77	5.13	5.49
Other LT Assets	0.0	0.0	0.0	0.40	0.40	0.40
Cash & ST Invts	3.31	3.59	3.88	7.10	8.15	5.96
Inventory	5.49	6.74	9.02	10.2	10.5	11.7
Debtors	7.83	10.5	10.1	14.8	13.4	14.9
Other Current Assets	0.04	0.04	0.0	0.0	0.0	0.0
Total Assets	28.5	34.5	40.4	51.8	55.0	58.9
ST Debt	2.34	1.42	1.48	1.88	1.88	1.88
Creditor	3.43	4.70	4.10	7.23	6.04	6.77
Other Current Liab	0.49	0.59	0.02	0.57	1.54	1.63
LT Debt	2.78	4.46	4.30	4.08	4.08	4.08
Other LT Liabilities	0.10	0.19	0.39	0.95	0.95	0.95
Shareholder's Equity	19.3	23.1	30.0	36.9	40.5	43.6
Minority Interests	0.05	0.10	0.10	0.16	0.06	0.0
Total Cap. & Liab.	28.5	34.5	40.4	51.8	55.0	58.9
Non-Cash Wkg. Capital	9.43	12.0	15.0	17.3	16.2	18.3
Net Cash/(Debt)	(1.8)	(2.3)	(1.9)	1.14	2.19	0.0
Debtors Turn (avg days)	34.4	71.2	76.6	81.5	87.6	78.7
Creditors Turn (avg days)	18.0	39.0	42.3	47.8	52.4	45.2
Inventory Turn (avg days)	28.8	58.6	75.7	81.2	81.8	78.3
Asset Turnover (x)	2.9	1.5	1.3	1.2	1.1	1.2
Current Ratio (x)	2.7	3.1	4.1	3.3	3.4	3.2
Quick Ratio (x)	1.8	2.1	2.5	2.3	2.3	2.0
Net Debt/Equity (X)	0.1	0.1	0.1	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.1	0.1	0.1	CASH	CASH	CASH
Capex to Debt (%)	60.6	19.6	19.8	60.5	67.1	67.1

Source: Company, DBS Bank

Asset Breakdown (2015)

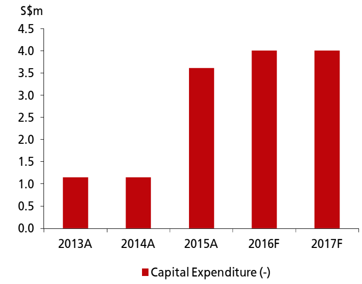


Cash Flow Statement (S$m)

FY Dec	2012A	2013A	2014A	2015A	2016F	2017F
Pre-Tax Profit	3.51	4.96	6.13	3.96	4.41	4.82
Dep. & Amort.	0.63	0.85	0.83	0.92	0.94	1.13
Tax Paid	(0.6)	(1.0)	(1.4)	(1.2)	(1.0)	(1.1)
Assoc. & JV Inc/(loss)	(0.5)	(0.6)	(0.6)	(0.5)	(0.5)	(0.5)
Chg in Wkg.Cap.	0.38	(2.7)	(2.2)	(1.7)	1.03	(2.0)
Other Operating CF	0.32	0.0	(0.8)	0.56	0.0	0.0
Net Operating CF	3.75	1.57	1.93	1.98	4.89	2.37
Capital Exp.(net)	(3.1)	(1.2)	(1.1)	(3.6)	(4.0)	(4.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.08	0.0	(2.3)	0.15	0.15	0.15
Div from Assoc & JV	0.05	0.05	0.05	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	(0.1)	0.0	0.0
Net Investing CF	(3.0)	(1.1)	(3.4)	(3.6)	(3.9)	(3.9)
Div Paid	0.0	0.0	(0.1)	0.0	0.0	(0.7)
Chg in Gross Debt	(1.0)	(0.2)	(0.9)	0.02	0.0	0.0
Capital Issues	0.0	0.26	2.82	4.74	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0	0.0
Net Financing CF	(1.0)	0.08	1.85	4.76	0.0	(0.7)
Currency Adjustments	0.06	0.02	(0.1)	0.04	0.0	0.0
Chg in Cash	(0.3)	0.54	0.28	3.23	1.05	(2.2)
Opg CFPS (S cts)	1.79	2.25	2.21	1.97	2.06	2.33
Free CFPS (S cts)	0.34	0.22	0.42	(0.9)	0.48	(0.9)

Source: Company, DBS Bank

Capital Expenditure



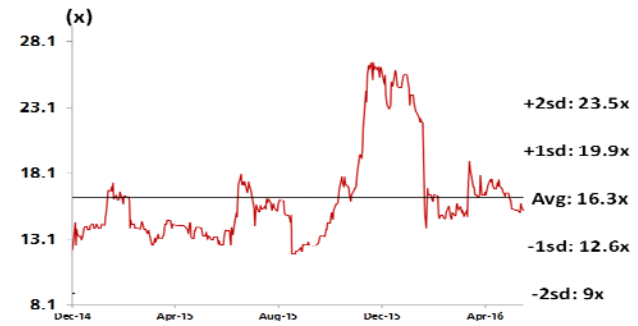
Initiation of dividend payment from FY16 onwards.

VALUATIONS

Currently trading near fair value. The stock is currently trading slightly below its average (since IPO) PE multiple, at 15x blended CY16/17F EPS, which implies a discount of 17% to larger peers' 18x. As the ownership of an international distribution platform could bode well for ASP and margin preservation ahead, we think that valuation at its historical average of 16x for FY17F is fair. TP works out to S$0.33 per share, which translates to an upside of 5% from the current price.

However, we think that share price could further rerate with better clarity on production capacity and distribution network expansion plans beyond FY17F.

Historical 12 month current PE ratio (x)



Risk Assessment: Moderate

Category	Risk Rating 1 (Low) - 3 (High)	Wgt	Wgtd Score
Earnings	2	40%	0.8
Financials	2	20%	0.4
Shareholdings	1	40%	0.4
Overall			1.6

Table 6: Peers' Comparisons

Company	Price (LCL $)		Mkt Cap (US$m)	PE (x) CY16/17F	EPS CAGR	T12M Net Margin (%)
UG Healthcare	SGD	0.31	43.1	15.1	10%	8.0%
Riverstone Hldg	SGD	0.92	502.6	14.8	7%	21.8%
Kossan Rubber	MYR	6.50	1031.7	16.4	16%	12.4%
Hartalega Hldg	MYR	4.10	1638.0	26.9	0%	17.9%
Top Glove	MYR	5.00	1581.0	13.2	24%	14.3%

Source: DBS Bank, Bloomberg Finance L.P

RISKS

Delays in expansion plans. Delays in planned capacity expansion to 1.9bn gloves p.a. and 2.4bn gloves p.a. by end-FY16 and 1Q17 respectively could lead to downside risks to our earnings forecasts.

Pricing and competition. Unfavourable shifts in the supply-demand dynamics for disposable gloves could lead to more intense competition and pricing pressure.

Explorations

QT Vascular (S$0.087, QTVC SP)

QT Vascular (QTVC) is engaged in the the design, assembly and distribution of balloon catheters used in angioplasty. The company has been loss-making for at least the past 6 years due to a combination of high expenses (R&D, marketing, litigation) and sales volumes below break-even levels; it is now considering a sale of key assets. At 4.1x Price/Sales, the group trades at a c.27% premium to regional and global medical device makers.

- QT Vascular is engaged in the design, assembly and distribution of balloon catheters for the treatment of Peripheral Artery Disease (PAD) and Coronary Artery Disease (CAD), which result from of the obstruction of blood flow in the lower limb arteries and coronary arteries respectively due to the accumulation of plaque over time. These diseases are more prevalent in the elderly. QT Vascular was listed on the Catalist in April 2014 but traces its history back to 2005 when co-founder and CEO Dr. Eitan Konstantino started TriReme US, which was later merged with TriReme SG and Quattro Vascular – all related companies – to form QT Vascular.

- **Profits have been elusive**. The company has yet to ramp-up its sales to breakeven levels, with R&D, marketing and litigation expenses (fully provided for) far outstripping revenues. About 90% of FY15's US$12.4m in revenues were derived from the US, where the company sells its **Chocolate PTA** and **Chocolate PTCA** balloon catheters – used for treatment of PAD and CAD respectively – with the bulk of sales coming from the Chocolate PTA product. Thus, QT Vascular's historical sales have been a derivative of the US PAD market, and the acceptance of its product there.

- **Strong headwinds prevail over the positive trend of ageing populations.** By 2050, the proportion of the global population over 65 years of age will double to 16%, from 8% as of 2015. In the US, that number will be 22% in 2050, versus 15% as of 2015; this should theoretically drive sales of QT Vascular's products. However, as we will elaborate, QT Vascular faces headwinds on multiple fronts that subtract from this trend: First, its traditional products (including the Chocolate PTA and Chocolate PTCA) are increasingly being replaced by drug-coated balloons. Second, its drug-coated balloons (DCBs) under development face strong competition from the incumbent powerhouses and are behind the curve in entering the more lucrative market (the US). Third, cash-flow issues could force the company to sell its drug-coated technology, thus undermining potential growth.

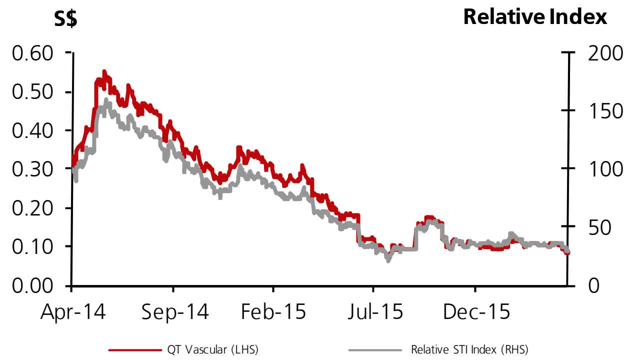
- **On the first point: traditional balloon catheters are being upended by drug-coated balloons.** The bulk of QT Vascular's current sales come from traditional balloon catheters, but these are gradually being superceded by DCBs which – via the delivery of drugs such as paclitaxel into the artery vessel wall – provide the important advantage of lowering restenosis rates amongst patients. Studies have shown that DCBs lower the proportion of patients undergoing repeat procedures (known as Total Lesion Vasculatization, or TLR) by 2-3x versus a non-drug coated balloon, thus lowering the medium-term (1-2 year) cost of treatment by 10-15%. In addition, DCBs present certain advantages over Drug-Eluting Stents (DES) – an alternative – because DES have not been particularly effective in treatment of peripheral artery disease (despite being relatively successful in usage on coronary arteries), and essentially leave a foreign body behind in the arteries.

At A Glance

Issued Capital (m shrs)	953
Market Cap (Sm/USm)	83/62
Major Shareholders (%)	
Three Arch Partners	16.4
Luminor Pacific Fund I	10.7
Biomedical Sciences Investment Fund	6.9
Free Float (%)	72.8
Avg Daily Vol (m shrs)	13.6

Forecasts and Valuation

FY Dec (US$ m)	2012	2013	2014	2015
Turnover	1.2	5.5	13.2	12.4
EBITDA	(10.2)	(16.9)	(25.2)	(50.1)
Pre-tax Profit	(4.6)	(35.6)	(34.2)	(53.0)
Net Profit	(3.2)	(34.5)	(34.2)	(53.1)
EPS (S cts)	(0.47)	(5.00)	(4.95)	(7.68)
EPS Gth (%)	(68.9)	974.2	(1.0)	55.2
Net DPS (S cts)	-	-	-	-
BV Per Share (S cts)	(6.0)	(14.8)	5.8	(0.0)
PE (X)	nm	nm	nm	nm
P/Cash Flow (X)	nm	nm	nm	nm
EV/EBITDA (X)	nm	nm	nm	nm
Net Div Yield (%)	0.0%	0.0%	0.0%	0.0%
P/Book Value (X)	nm	nm	1.4	nm
Net Debt/Equity (X)	nm	nm	CASH	CASH
ROA (%)	nm	nm	(85.3)	nm
ROE (%)	nm	nm	(107.8)	nm



Source: Bloomberg Finance L.P., DBS Bank

- **On the second point: QT Vascular's competitors have the first-mover advantage.** We view the US PAD market as being much more attractive than the EU market for one key reason:

reimbursement policy for DCBs remains non-existent or incomplete in most of Europe, but reimbursement policy is highly favorable to DCBs in the US, with the Centre for Medicare and Medicaid Services (CMS) approving DCB use in outpatient settings since June 2015, and also allows add-on payments for DCBs in inpatient settings. However, QT Vascular's **Chocolate Touch** DCB for peripheral use, while having received CE Mark approval for sale in the EU since July 2015, is still an estimated 2 years away from potential FDA approval in the US, while front-runners Medtronic and C.R. Bard – the first two to clinch FDA approval in the US – are already aggresively jostling for market share; QT Vascular will have to play a difficult game of catch-up.

- Meanwhile, QT Vascular's **Chocolate Heart**, a DCB for use in the coronary arteries, is still ~5 years from commerciality, and the use of DCBs for coronary angioplasty in general remains in its infant stage of testing and acceptance.

- **On the third point: the company could be forced to sell its key assets.** QT Vascular announced on 2 May 2016 that it had received "preliminary non-binding proposals from third parties" expressing interest in purchasing certain assets of the company. Given the positive outlook for DCBs as an angioplasty device, we speculate that a sale could involve the company's Chocolate Touch platform. Of course, since the Chocolate Touch is based on the Chocolate PTA platform, this could be packaged and sold together as well.

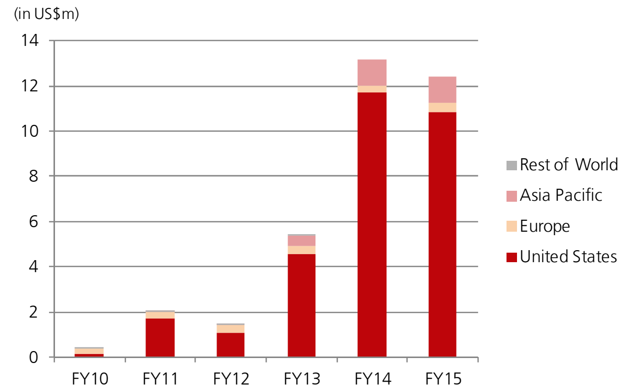
  Due to a 'Qualifying Exit Event' covenant under the company's convertible bonds, specifying that any sale of assets with a transaction size greater than S$75m would trigger a doubling of the principal amount owed to investors, we think there is an implicit ceiling set for a transaction price; in addition QT Vascular's market capitalization is S$87m at the time of writing, which leaves little upside.

  The real issue though is that a (potential) sale of the Chocolate Touch/Chocolate PTA would be tantamount to selling the golden goose to pay off the rent; the remaining portfolio would either be sunset devices (non-drug coated balloons: Glider products, Chocolate PTA/PTCA) or years from commerciality (Chocolate Heart).

- **We think more capital injections would be preferrable.** In our opinion a best-case scenario for QT Vascular would be additional capital injection(s) from VCs, PE funds, or angel investors, which would enable the company to complete clinical testing on the Chocolate Touch DCB. After investing over US$150m in its development, and only ~US$20m in incremental investment needed to complete clinical trials, we think bringing it to market could unlock more value for shareholders, despite strong competition from global powerhouses such as Medtronic and C.R. Bard.

- **QT Vascular trading at a premium to competitors.** Valuation-wise, using a price-to-sales ratio as comparison, QT Vascular is trading at a 4.1x P/S ratio – above the median of 3.2x for regional peers and 3.7x for global peers. Thus, even at these levels, the stock looks a bit expensive.

QT Vascular sales – mainly from the US, Chocolate PTA



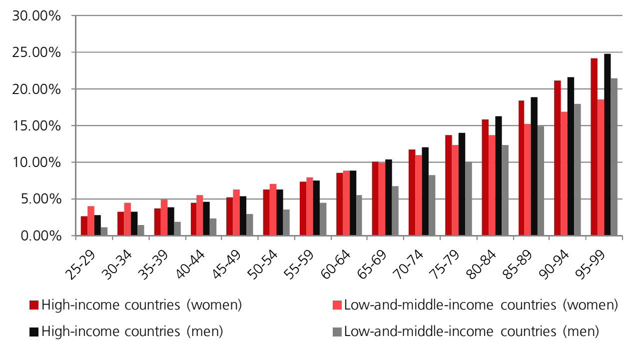
Source: Company

DCBs leading the pack in both efficacy and total cost

24-month probability of TLR: Pietzsch et al (2015)	DCB 16.5%	DES 19.4%	BMS 26.9%	PTA 39.6%
12-month probability of TLR: Micari et al (2016)	DCB 6.9%	DES 7.3%	BMS 14.2%	PTA 21.6%
24-month cost: Pietzsch et al (2015)	DCB € 3,913	DES € 3,799	BMS € 4,189	PTA € 4,451
12-month cost: Micari et al (2016)	DCB € 6,073	DES € 6,095	BMS € 6,492	PTA € 6,914

Source: Micari et al (2016), Pietzsch et al (2015). Numbers may not be consistent due to calculation differences between studies. TLR = Total Lesion Revascularization (a measure of repeat procedures).

Prevalence of PAD across age groups



Source: Fowkes, F Gerald R et al (2013).

Rachel Lih Rui Tan +65 6682 3713 racheltanlr@dbs.com

Singapore Research Team

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DBS Bank Ltd
12 Marina Boulevard, Marina Bay Financial Centre Tower 3
Singapore 018982
Tel. 65-6878 8888
e-mail: equityresearch@dbs.com
Company Regn. No. 196800306E