

Livingstone Health Holdings Ltd

3 Feb 2022

HOLD (Initiation)

BBG	LHH SP
Market cap	S\$46.9m
Price (3 Feb 2022)	S\$0.147
52-week range	S\$0.14 – S\$0.50
Target Price	S\$0.168
Shares Outstanding	318.9m
Free Float	25%
Major Shareholder	Livingstone Health Consolidated 67.5% Teh Wing Kwan 7.4%
P/BV (09/21)	13.0x
Net Debt to EBITDA (03/21)	-

Source: Company data, Bloomberg, SAC Capital

Reopening recovery and improved employment outlook

LHH is a diversified medical group with multi-disciplinary specialists. Services include aesthetics and wellness, anesthesiology and pain management, family medicine, internal medicine and orthopedic surgery. The group has 16 medical doctors practising at 12 clinics. It also runs a medical spa and health screening centre. In Cambodia, it has a JV to provide aesthetics and wellness services and project consultancy for the development of a medical hub.

LHH was listed via a reverse takeover in 2021. This resulted in negative reserve of S\$20.3m. Excluding this, FY21 bottom line would have been a positive S\$3.5m.

Reopening recovery in patient visits. Medical tourists fell in the last 2 years due to border restrictions. Local patients also postponed non-essential medical services for fear of getting infected and to free up hospital beds for COVID needs. We estimate the industry's patient visits fell about 30%. The worst is probably behind. A reopening of borders and relaxation of quarantine requirements should encourage more foreign patients to return. Local patients would also direct their spending towards services, with a bigger budget directed to medical wellness. Continued improvements in the unemployment rate (Dec 2021: 2.4%), wage gains (2021: +3.2% yoy) and an ageing population could eclipse the decline in Singapore's population (June 2021: -4.1% yoy) to drive increased healthcare spending.

Regional competition and shrinking population are long-term headwinds. Regional countries raised their game in healthcare services during the pandemic. Unable to travel abroad, their patients were forced to seek treatment in their home countries. This provided a unique opportunity for healthcare players to cultivate patient acceptance and loyalty. For instance, Indonesian Siloam Hospital reported a 42.8% gain in revenue and turnaround in net profit to S\$50m for 9M2021 (9M2020: net loss S\$4.6m).

As a diversified healthcare group, LHH enjoys synergies. These include: 1) patient referrals within the group; 2) limited cannibalization; 3) no reliance on a single discipline or doctor; and 4) operating leverage in support staff and procurement of supplies.

Doctors are key assets. As patient-doctor relationships are sticky and patients tend to follow their doctors wherever they go, the main risk for LHH is doctors leaving its practice. The group's challenge lies in retaining good doctors and increasing its profits, while ensuring that patients get only the medical care that they need. In the past, medical groups expanded by acquiring practices with profit guarantees from the acquired doctors for 5-10 years. However, we understand that doctors are no longer permitted to sign profit guarantees. Besides recruiting new doctors, the sector is likely to tilt towards mergers and acquisitions to build scale.

Initiate with HOLD, TP S\$0.168. Our DCF-based price target assumes a risk-free rate of 1.8% and cost of equity of 14%. Our HOLD recommendation reflects FY2023E PE of 10.7x on 19% net earnings growth.

Analyst

Peggy Mak
pmak@saccapital.com.sg

YE 31 Mar (S\$m)	FY21A (15 mths)	FY22E	FY23E	FY24E
Revenue	24.3	32.0	38.4	44.2
EBIT	(15.9)	5.6	6.6	7.3
Net profit	(16.8)	4.2	5.0	5.7
EPS (S cents)	(5.3)	1.3	1.6	1.8
DPS (S cents)	-	0.3	0.3	0.4
Net cash / (debt)	-	(0.1)	2.7	6.5
Valuation				
EBIT margin (%)	(65.5)	17.6	17.1	16.5
ROIC (%)	78.4	51.1	49.7	49.3
EV/EBITDA (x)	10.9	6.6	5.3	4.3
P/E (x)	(3.5)	11.2	9.4	8.3
Dividend yield (%)	-	1.8	2.1	2.4

Income Statement

FYE 31 Mar (\$m)	FY21A*	FY22E	FY23E	FY24E
Revenue	24.3	32.0	38.4	44.2
Other income	0.0	0.4	1.0	1.0
Supplies and consumables	(4.3)	(5.8)	(6.9)	(7.9)
Purchased and contracted services	(0.1)	-	-	-
Staff costs	(11.7)	(15.7)	(18.8)	(21.6)
Other operating expenses	(3.2)	(4.5)	(5.4)	(6.2)
EBITDA	5.3	7.1	8.3	9.4
Depreciation	(1.4)	(1.3)	(1.7)	(2.1)
Associates & JV	(0.2)	(0.1)	-	-
Exceptional items	(19.6)	-	-	-
EBIT	(15.9)	5.6	6.6	7.3
Finance costs	(0.3)	(0.3)	(0.2)	(0.1)
Pretax profit	(16.2)	5.3	6.3	7.2
Tax expense	(0.6)	(0.9)	(1.1)	(1.2)
Minority interests	-	(0.2)	(0.3)	(0.3)
Net profit	(16.8)	4.2	5.0	5.7

Balance Sheet

FYE 31 Mar (\$m)	FY21A*	FY22E	FY23E	FY24E
Assets				
PPE	3.5	3.7	4.0	3.9
Joint venture	0.1	0.6	0.6	0.6
Deferred tax	0.3	0.3	0.3	0.3
Goodwill on consolidation	3.6	3.6	3.6	3.6
Non-current assets	7.5	8.2	8.5	8.4
Cash	6.8	6.7	7.5	8.3
Trade receivables	4.4	7.2	8.6	9.9
Inventories	0.5	1.5	1.8	2.1
Other receivables	1.0	1.0	1.0	1.0
Current assets	12.7	16.5	18.9	21.3
Total assets	20.3	24.7	27.5	29.7
Liabilities				
Bank loans	1.1	1.1	1.1	1.1
Trade payables	1.2	0.8	0.9	1.1
Other payables	3.9	3.9	3.9	3.9
Hire purchase	0.1	0.1	0.1	0.1
Lease liabilities	1.1	1.1	1.1	1.1
Deferred revenue	1.2	1.2	1.2	1.2
Current tax payable	0.9	0.9	1.1	1.2
Current liabilities	9.6	9.2	9.5	9.8
Bank loans	5.7	5.7	3.7	0.7
Deferred tax	-	-	-	-
Other payables	1.8	1.8	1.8	1.8
Hire purchase	0.2	0.2	0.2	0.2
Lease liabilities	1.1	1.1	1.1	1.1
Non-current liabilities	8.8	8.8	6.8	3.8
Net assets	1.9	6.8	11.2	16.1
Equity				
Share capital	22.3	22.8	22.8	22.8
Other reserves	0.1	0.1	0.1	0.1
Retained earnings	(20.9)	(16.7)	(12.5)	(7.9)
	1.5	6.2	10.3	15.0
Minority interests	0.4	0.6	0.8	1.1
Total equity	1.9	6.8	11.2	16.1

Cash Flow

FYE 31 Mar (\$m)	FY21A*	FY22E	FY23E	FY24E
Pretax profit	(16.2)	5.3	6.3	7.2
Depreciation & amortisation	1.4	1.3	1.7	2.1
Associates & JV	0.2	0.1	-	-
Net finance expense	0.3	0.3	0.2	0.1
Non-fund items	18.9	-	-	-
Working capital changes	(2.2)	(4.2)	(1.6)	(1.4)
Interest paid	(0.1)	(0.3)	(0.2)	(0.1)
Dividend from associates	-	-	-	-
Tax paid	(0.2)	(0.9)	(0.9)	(1.1)
Operating cash flow	2.1	1.6	5.6	6.8
Capex	(0.3)	(1.5)	(2.0)	(2.0)
Net investments	(0.2)	(0.6)	-	-
Fixed assets disposall	-	-	-	-
Others	(0.3)	-	-	-
Investing cash flow	(0.8)	(1.1)	(2.0)	(2.0)
Free cash flow	1.3	(0.5)	3.6	4.8
Dividend paid	(1.4)	-	(0.8)	(1.0)
Borrowings	4.2	-	(2.0)	(3.0)
Equity	1.0	0.5	-	-
Financing cash flow	3.8	0.5	(2.8)	(4.0)
Net change	5.1	-	0.7	0.8

Ratios

FYE 31 Mar (\$m)	FY21A*	FY22E	FY23E	FY24E
Profitability (%)				
EBIT margin	(65.5)	17.6	17.1	16.5
Net margin	(69.1)	13.1	13.0	12.8
Liquidity (x)				
Current ratio	1.3	1.8	2.0	2.2
Net Debt/EBITDA	-	-	-	-
Interest coverage ratio	17.4	20.8	34.6	104.2
Net Debt to Equity (%)	-	-	-	-
Valuation (x)				
P/E	(3.5)	11.2	9.4	8.3
P/B	30.7	7.6	4.5	3.1
EV/EBITDA	10.9	6.6	5.3	4.3
Cash Conversion Cycle				
Trade receivable days	66	82	82	82
Inventory days	44	96	96	96
Trade payable days	105	49	49	49

* For 15 months ended 31 March 2021

DISCLAIMERS AND DISCLOSURES

This report has been prepared and distributed by SAC Capital Private Limited (“**SAC Capital**”) which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report has been prepared for the purpose of general circulation, we have not had regard to the specific investment objectives, financial situation, tax position or unique needs and constraints of any individual person or any specific group of persons and does not purport to be comprehensive or contain all necessary information which a prospective investor may require in arriving at an investment decision. Any prospective purchaser should make his own investigation of the securities and all information provided. Advice should be sought from a financial adviser regarding suitability, taking into account the specific investment objectives, financial situation or particular needs of the person in receipt of the recommendation, before a commitment to purchase is entered into.

This report does not constitute or form part of any offer or solicitation of any offer to buy or sell any securities. This report is confidential and the information in this report shall not be copied or reproduced in part or in whole, and save for the recipient of this report, shall not be disclosed to any other person without the prior written consent of SAC Capital. The distribution of this report outside the jurisdiction of Singapore is also strictly prohibited.

Whereas SAC Capital has not independently verified all the information set out in this report, all reasonable care and effort has been taken to ensure that the facts stated herein are accurate, this report might contain certain forward looking statements and forward looking financial information which are based on certain assumptions and involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the subject company to be materially different from those expressed herein. Predictions, projections or forecasts of the economy or market trends are not indicative of the future performance of the subject company. The inclusion of such statements and information should not be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions of the subject company or that the forecast results will or are likely to be achieved.

Our opinion and facts set out in this report are based on the market, economic, industry and other applicable conditions prevailing as at the date of the preparation of this report. Such conditions may change significantly over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report, that may or may not have affected our opinion contained herein.

This report contains forward-looking statement which are based on assumptions or forecasts and are subject to uncertainties which may result in the actual result or performance to be materially different from the opinion or facts set out herein. Caution should be exercised in placing undue reliance on such statements. such assumptions or forecasts may change over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report.

No representation or warranty, expressed or implied, is made and no responsibility is accepted by the company, SAC Capital, or any of their affiliates, advisers or representatives as to the fairness, accuracy, completeness or adequacy of such information or facts, in this report or any other written or oral information made available to any interested party or its advisers and any liability therefore is hereby expressly disclaimed.

SAC Capital and its associates, directors, and/or employees may have positions in the securities covered in the report and may also perform or seek to perform other corporate finance and/or capital markets related services for the company whose securities are covered in the report. SAC Capital and its related companies may from time to time perform advisory services or solicit such advisory services from the entity mentioned in this report (“**Other Services**”). This report is therefore classified as a non-independent report. However, the research professionals involved in the preparation of this report are independent of those possible or actual business relationships as they have not and will not participate in the solicitation or provision of such business.

As at the date of this report, SAC Capital does not have proprietary positions or interests in the subject company, except for:

Party	Quantum of position
Nil	Nil

As at the date of this report, SAC Capital, has had business relations with the subject company within the past 12 months, as disclosed hereunder:

Nature of Business Relation	Date of Business Relation
Catalist Sponsorship	Continuing

As at the date of this report, none of the analysts who covered the securities in this report have any proprietary position or material interest in the subject companies covered here in, except for:

Analyst name	Quantum of position
Nil	Nil

ANALYST CERTIFICATION/REGULATION AC

As noted above, research analyst(s) of SAC Capital who produced this report hereby certify that

- (i) The views expressed in this report accurately reflect his/her personal views about the subject corporation(s);
- (ii) The report was produced independently by him/her;
- (iii) He/she does not on behalf of SAC Capital or any other person carry out Other Services involving any of the subject corporation(s) or securities referred to in this report; and
- (iv) He/she has not received and will not receive any compensation directly or indirectly related to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. He/she has not and will not receive any compensation directly or indirectly linked to the performance of the securities of the subject corporation(s) from the time of the publication of this report either.