

SMALL/MID CAP HIGHLIGHTS

HC Surgical Specialists (HSP SP)

In Search Of Cure And Comfort

The HCSS medical services group is primarily engaged in the provision of endoscopic procedures, including gastroscopies and colonoscopies, and general surgery services with a focus on colorectal procedures across a network of clinics located throughout Singapore. The upcoming listing of an associate also provides a good platform to expand HCSS services and to monetise its assets.

INVESTMENT HIGHLIGHTS

- **A medical network to tackle pressing conditions.** HC Surgical Specialists (HCSS) has set up 9 endoscopy centres, with 5 located in the heartlands, strategically located to provide healthcare services to local and foreign patients. To reach out to more patients, the group also has a number of general practitioners (GP) to extend its presence and provide a conducive platform of patient referrals for its specialists. The group's primary business tackles one of the top conditions amongst patients, with colorectal cancer ranked as the no.1 and no.2 forms of cancer among men and women respectively, according to the Singapore Cancer Society.
- **Listing of Medical Support Platform.** HCSS' would also crystallise the value of its associate, which is a medical support services provider, specialising in providing professional support services to clinics. The associate's business includes Medical Support Services (eg. consultancy for clinic set-up), Pharmaceutical Services (eg. Product procurement) and Business Support Services (eg. Accounting and corporate services). Riding on the increasing healthcare needs of an ageing population and corresponding demand for medical practitioners, the associate could benefit from a growing scale of doctors who would require medical support services as they look to start up their practices. HCSS can also look to expand its range of services through the partnership with its associate.
- **Sustainable, steady growth of specialists.** HCSS has developed its strategy of identifying young specialists at an early stage, acquiring a majority stake and providing them with a platform for growth. Not only reducing the initial investment risk, this also provides HCSS with the growth potential as these younger specialists ramp up their operations. With an eye for value, the group also has the option to acquire the remaining stake in such businesses at a reasonable price. HCSS has added three specialists in FY17 and one specialist in FY18.

PURCHASE AGREEMENT

Date	Specialists	Ownership	Terms
Feb 2017	Julian Ong Endoscopy & Surgery	51%	Able to purchase remaining 49% stake by Apr 2021 at 10x FY20F profit
May 2018	Jason Lim Endoscopy and Surgery	51%	Able to purchase remaining 49% stake by Sep 2022 at 10x FY22F profit

Source: HC Surgical Specialists

KEY FINANCIALS

Year to 31 May (\$m)	2014	2015	2016	2017	2018
Net Turnover	6.9	6.9	7.9	9.5	16.0
EBITDA	4.0	3.8	4.0	2.0	6.5
EBIT	3.9	3.6	3.8	1.8	6.1
Net profit (rep./act.)	3.4	3.3	2.7	1.3	4.5
Net profit (adj.)	3.4	3.3	2.7	2.6	4.5
EPS (cts)	3.5	3.3	2.8	1.0	3.0
P/E (x)	17.7	18.7	22.2	30.4	20.6
P/B (x)	57.5	81.9	46.3	9.7	5.9
EV/EBITDA (x)	27.5	28.4	27.2	53.3	16.8
Dividend Yield (%)	-	-	-	4.1	3.4
Net margin (%)	49.9	47.3	34.6	13.8	27.9
Net debt/(cash) to equity (%)	(60.1)	(129.0)	(265.4)	(62.9)	(16.0)
Interest cover (x)	n.m	n.m	8.5	6.0	160.7
ROE (%)	325.5	438.7	208.7	31.8	28.8

Source: Bloomberg UOB Kay Hian

NOT RATED

Share Price	S\$0.615
Target Price	n.a.
Upside	n.a.

COMPANY DESCRIPTION

HC Surgical Specialists operates as a medical services group. The Company focuses on the provision of endoscopic procedures, including gastroscopies and colonoscopies, and general surgery services with a focus on colorectal procedures. HC Surgical Specialists serves customers in Singapore.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	HSP SP
Shares issued (m):	149.0
Market cap (S\$ m):	91.6
Market cap (US\$ m):	66.9
3-mth avg t'over (US\$ m):	0.02

Price Performance (%)

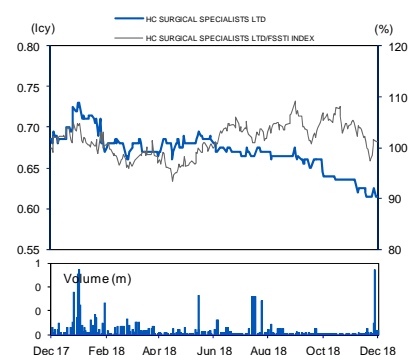
52-week high/low			S\$0.745/S\$0.6	
1mth	3mth	6mth	1yr	YTD
(3.1)	(7.5)	(10.2)	(10.2)	(12.1)

Major Shareholders

Heah Sieu Min	42.6
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FY18 NAV/Share (\$)	0.11
FY18 Net Cash/Share (\$)	0.02

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Strong yielding with robust balance sheet.** With consistent earnings, HCSS also has pledged to pay out at least 70% of its earnings for FY19. This is supported by its strong recurring cashflow business model, as well as a net cash balance. The Group's founders have also had aligning interest, occupying about 70% of ownership.

VALUATION

- **According to Bloomberg, the group is trading at 20.6x 2018 PE.** In addition, HCSS has a stake of 26.7% in the current market capitalisation of its listed associate.

PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 4 Dec 18 (lcy)	Mkt Cap (US\$m)	----- PE (x) -----		2018 Yield (%)	2018 ROE (%)	PB (x)
					2017	2018			
TalkMed Group	TKMD SP	S\$	0.60	575.4	24.6	30.0	3.3	41.0	12.3
Asian Healthcare Specialists	AHSP SP	S\$	0.255	60.6	141.7	27.2	n.a.	13.6	25.0
Singapore Medical	SMG SP	S\$	0.41	141.9	20.3	13.7	n.a.	10.2	1.6
Singapore O&G	SOG SP	S\$	0.34	118.3	19.1	18.9	4.7	19.7	3.6
Average (Excl SMG SP)					61.8	25.4	4.0	24.8	13.7

Source: Bloomberg

PROFIT & LOSS

Year to 31 May (\$m)	2015	2016	2017	2018
Net Turnover	6.9	7.9	9.5	16.0
EBITDA (adj.)	3.8	4.0	3.3	6.5
Deprec. & amort.	(0.2)	(0.2)	(0.2)	(0.4)
EBIT (adj.)	3.6	3.8	3.1	6.1
Total other non-operating income	0.0	0.0	(1.3)	0.0
Associate and JV contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	0.0	(0.4)	(0.3)	(0.0)
Pre-tax profit	3.6	3.3	1.5	6.1
Tax	(0.3)	(0.6)	(0.3)	(0.6)
Minorities	0.0	0.0	(0.0)	1.1
Net profit	3.3	2.7	1.3	4.5
Net profit (adj.)	3.3	2.7	2.6	4.5

BALANCE SHEET

Year to 31 May (\$m)	2015	2016	2017	2018
Fixed assets	0.5	0.5	1.4	1.4
Other LT assets	0.0	0.0	4.0	14.2
Cash/ST investment	0.5	5.8	8.8	5.0
Other current assets	0.7	0.8	1.4	2.1
Total assets	1.8	7.2	15.6	22.6
ST debt	0.0	0.0	0.0	2.3
Other current liabilities	1.4	5.0	1.6	3.0
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	0.0	0.0	0.1	0.2
Shareholders' equity	0.4	2.2	13.8	16.7
Minority Interests	0.0	0.0	0.1	0.4
Total liabilities & equity	1.8	7.2	15.6	22.6

CASH FLOW

Year to 31 May (\$m)	2015	2016	2017	2018
Operating	4.0	2.8	1.3	6.1
Pre-tax profit	3.6	3.3	1.5	6.1
Tax	(0.3)	(0.6)	(0.3)	(0.6)
Deprec. & amort.	0.2	0.2	0.2	0.4
Associates	0.0	0.1	0.0	(0.6)
Working capital changes	0.5	(0.6)	(0.3)	0.5
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	(0.0)	0.3	0.1	0.4
Investing	(0.4)	(0.3)	(3.7)	(8.4)
Capex (growth)	(0.4)	(0.2)	(1.1)	(0.3)
Investments	0.0	0.0	(0.5)	(2.5)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.0	(0.1)	(2.1)	(5.6)
Financing	(3.6)	2.8	5.4	(1.5)
Issue of shares	0.0	0.0	8.1	0.0
Proceeds from borrowings	0.0	0.0	0.0	3.0
Loan repayment	0.0	0.0	0.0	(0.8)
Others/dividends/interest paid	(3.6)	2.8	(2.7)	(3.8)
Net cash inflow (outflow)	(0.1)	5.3	2.9	(3.8)
Beginning cash & cash equivalent	0.6	0.5	5.8	8.8
Ending cash & cash equivalent	0.5	5.8	8.8	5.0

KEY METRICS

Year to 31 May (%)	2015	2016	2017	2018
Growth				
Turnover	(0.2)	15.1	19.8	69.1
EBITDA	(3.2)	4.2	(17.5)	96.0
Pre-tax profit	(6.3)	(7.5)	(54.0)	294.7
Net profit	(5.4)	(15.8)	(52.2)	241.3
Net profit (adj.)	(5.4)	(15.8)	(6.3)	74.0
Profitability				
EBITDA margin	55.9	50.6	21.6	40.4
Pre-tax margin	52.7	47.9	19.5	38.1
Net margin	47.3	34.6	13.8	27.9
ROE	438.7	208.7	31.8	28.8
ROA	170.9	61.0	22.6	23.4
Leverage				
Debt to total capital	n.m	n.m	n.m	9.9
Debt to equity	n.m	n.m	n.m	13.5
Net debt/ (cash) to equity	(129.0)	(265.4)	(62.9)	(16.0)
Interest cover (x)	n.m	8.5	6.0	160.7

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