Aoxin Q & M Dental Group Limited

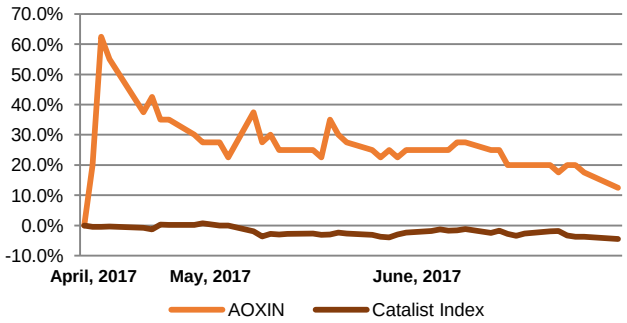
Date: 11th July 2017

Non Rated

AOXIN SP

Price: S$0.225 (as at 27th June 2017)

Returns



Share price	1M	3M	6M	1Y
Aoxin	(10.0)%	N/A	N/A	N/A
Catalist Index	(2.4)%	(7.6)%	10.1%	9.7%

Market capitalisation	S$80.1 million
Current price	S$0.225
Shares outstanding	355,815,638**
Free Float	17.5%
Major shareholders	Q & M Dental Group Singapore 45.94% Health Field Enterprises Limited* 30.75%
Recommendation of other brokers	N/A

Source: Company data, Bloomberg, SAC Advisors

**Executive Director and Group CEO, Dr Shao Yongxin is deemed interested in Health Field Enterprises Limited shares by virtue of his 100.0% indirect shareholding*

***Excludes the Honour Subscription for the issue and allotment of 16,346,000 new Shares to reward and incentivise dental professionals and employees of the Group, who will be the beneficial owners of such Shares. Shares will be locked up for 5 years from completion of subscription.*

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Riding on Fast Growing Dental Industry in China

Exposure to the fast growing dental industry in China. The PRC dental industry remains underdeveloped relative to that of the developed countries, whereas demand is expected to grow strongly as a result of (i) rising income and educational levels, (ii) ageing population and (iii) urbanisation.

Top-line has soared by a three year CAGR of 87.2%. Moving forward, Aoxin Q & M Dental Group ("**Aoxin**") intends to use a combination of organic and inorganic growth to drive growth. Aoxin is already profitable, and in the most recent FY16, profit from continuing operations recorded a 61.4% increase on a year-on-year ("**y-y**") basis.

Acquisition led growth. Aoxin announced in May this year – one month after their listing – that they have signed a memorandum of understanding ("**MOU**") to acquire Shenyang Qingaomei Oral Restorative Technology Co., Ltd ("**SYQM**") and Zhuanghe City Chengguan Street Jiadawei Dental Clinic ("**ZHJDW**"). The deal will be financed by a mixture of cash and shares.

Cash business. The cash nature of the dental care business is particularly appealing as the patients of Aoxin can pay either by cash or insurance. With the exception of 2 of their dental clinics, all of their dental clinics are designated medical institutions of medical insurance. Aoxin has an average trade receivables days of about 24 days from FY14-FY16, suggesting that payment from the insurance companies are processed in less than a month.

Aoxin is currently trading at about 4x of their FY16 sales with a much more superior top-line growth profile than their listed comparables. For the latest FY2016, Aoxin's top-line grew 87% on a y-y basis.

Key risks: (i) Loss of accreditation as designated medical institutions of medical insurance, (ii) dependence on key management personnel and (iii) their ability to attract and retain skilled dental professionals.

Key Historical Financials

Year ended December (RMB'000)	FY2013	FY2014	FY2015	FY2016
Revenue	461	24,791	46,450	86,861
% Growth	N/A	n.m.	87.4%	87.0%
(Loss)/Profit before tax from continuing operations	(4,066)	3.717	8,700	13,735
(Loss)/Profit from continuing operations, net of tax attributable to owners of the company	(4,126)	(538)	540	1,239
EV/EBITDA	n.m.	71.2x	28.2x	11.3x
(LPS)/EPS (RMB cents)^	(1.2)	(0.2)	0.2	0.3
(LPS)/EPS (Singapore cents)	(0.24)	(0.03)	0.03	0.07
Net Debt/Equity				Net Cash

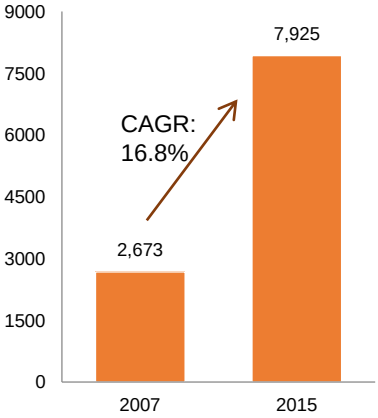
Based on exchange rate of 1SGD/RMB: 4.8084 *n.m.: not meaningful*

^EPS is computed based on the profit from continuing operations attributable to owners of the company divided by total shares outstanding

Business Overview:

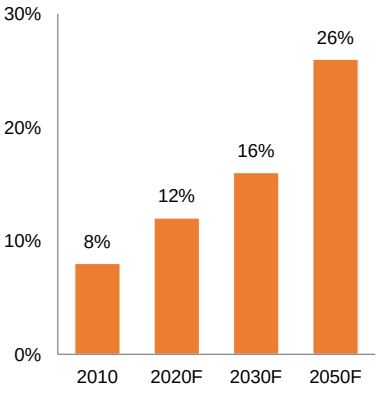
Aoxin is one of the leading providers of private dental services and dental equipment and supplies in the Liaoning Province, Northern PRC. As at the latest date, they have 240 dental professionals, comprising 110 dentists and 130 dental surgery assistants.

China GDP per capita (at current US$)



Source: World Bank, SAC Advisors

Share of Population aged 65 and above (China)



Source: United Nations, Department of Social Affairs, Population Division, SAC Advisors

Investment Highlights

Exposure to the fast growing dental industry in China. The PRC dental industry remains underdeveloped relative to that of the developed countries, whereas demand is expected to grow strongly as a result of (i) rising income and educational levels, (ii) ageing population and (iii) urbanisation.

Rising income and awareness

The PRC has been experiencing rising income levels as a result of its rapid economic growth, with GDP per capita (at current US$) rising from US$2,673 in 2007 to US$7,925 in 2015. With rising income levels and affluence, healthcare expenditure has grown exponentially. The World Bank estimates that health expenditure per capita for the PRC has risen from US$115 in 2007 to US$420 in 2014. With rising income levels, and consequently disposable income, this will result in an increase in awareness of dental hygiene and healthcare, and correspondingly an increase in demand for their dental services as well as an increase in demand for dental equipment and supplies from dental centres.

Ageing population

The population in the PRC has been gradually ageing due to its low birth rate, rising life expectancy and decreasing mortality rate. According to the National Bureau of Statistics of China, the proportion of the population aged 65 or above has increased from 7.6% in 2004 to 10.1% in 2014. Geriatrics dentistry is the branch of dentistry that focuses on treatment of dental conditions of the elderly, including the detection and prevention of caries and the management of periodontal disease and dentures associated with ageing. An ageing population is expected to lead to an increase in demand for dental healthcare services such as maintenance of oral health, care for tooth erosion, replacements for failing restorations or treatment of different types of decay such as those around the cervical areas as well as more complex dental procedures such as periodontics, prosthodontics and dental implantology.

Urbanisation

According to the 2014 World Urbanisation Prospects published by the United Nations, the urbanisation rate in the PRC is projected to rise from 54% in 2014 to 76% in 2050, with a total urban population of over 1.0 billion. We believe that as these new urban residents realise improved economic conditions, their demand for dental healthcare services is in turn expected to increase.

Investment Highlights

Top-line has soared by a three year CAGR of 87.2%. Moving forward, Aoxin intends to use a combination of organic and inorganic growth to drive growth. Aoxin is already profitable, and in the most recent FY16, profit from continuing operations recorded a 61.4% increase on a y-y basis.

Aoxin is also currently in a net cash position with no debt.

Cash business. The cash nature of the dental care business is particularly appealing as the patients of Aoxin can pay either by cash or insurance. With the exception of 2 of their dental clinics, all of their dental clinics are designated medical institutions of medical insurance. Aoxin has an average trade receivables days of about 24 days from FY14-FY16, suggesting that payment from the insurance companies are processed in less than a month. In the latest FY16, Aoxin took an average of 23 days to collect their receivables.

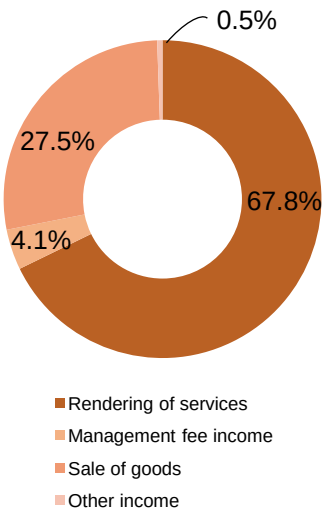
Aoxin is currently trading at about 4x of their FY16 sales with a much more superior top-line growth profile than their listed comparables. For the latest FY2016, Aoxin's top-line grew 87% on a y-y basis.

Company Background

- Aoxin is one of the leading providers of private dental services and dental equipment and supplies in the Liaoning Province, Northern PRC. Based on their Annual Report 2016, they have 240 dental professionals, comprising 110 dentists and 130 dental surgery assistants.

- They operate and/or manage 11 dental centres, comprising four dental hospitals and seven polyclinics, in four different cities in Liaoning Province, Northern PRC, namely Shenyang, Huludao, Panjin and Gaizhou. Additionally, their dental equipment and supplies distribution network covers the Liaoning, Heilongjiang and Jilin Provinces in the Northern PRC.

Revenue Breakdown (FY2016)



- Their core business can be categorised into two business segments:

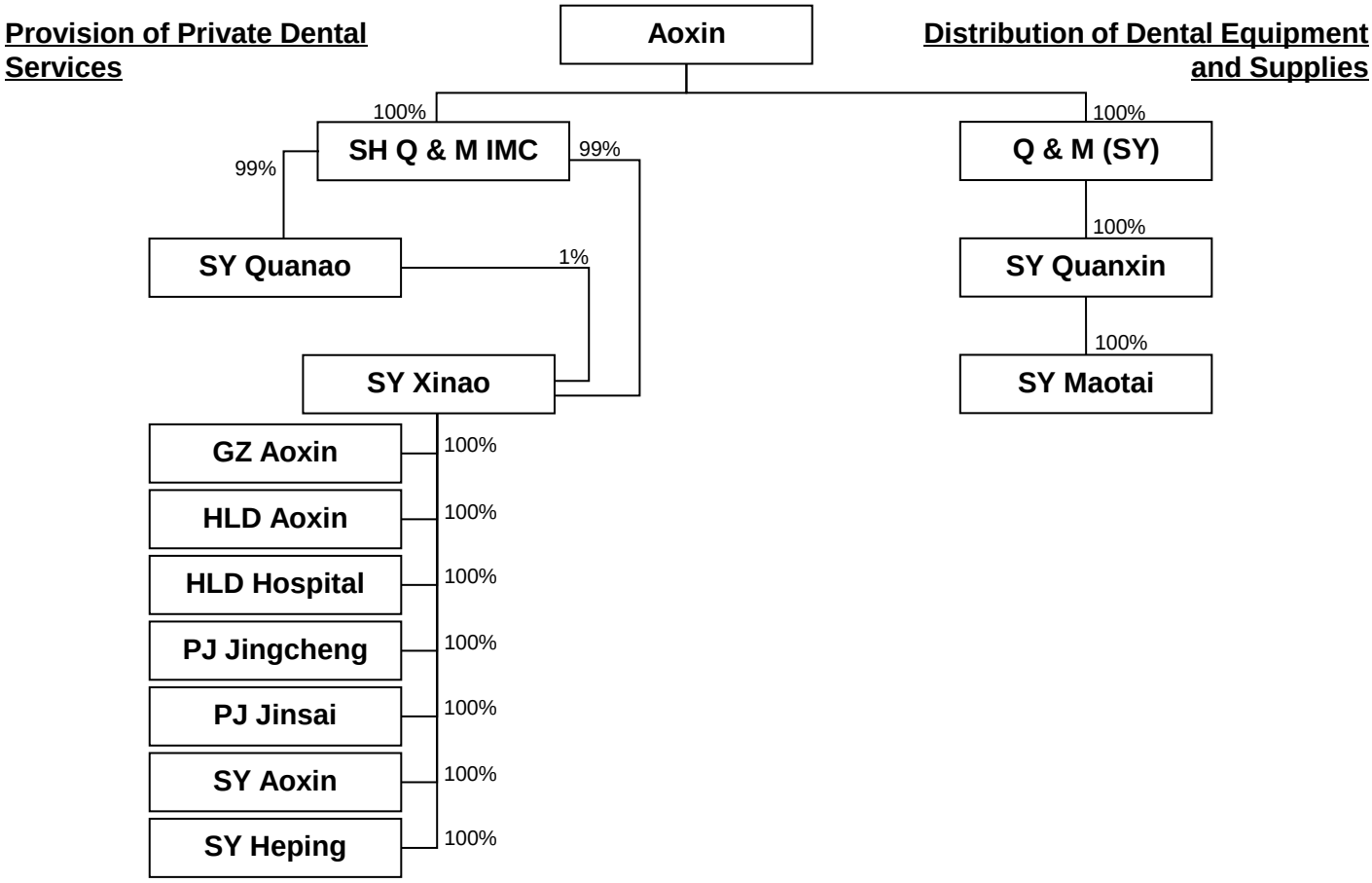
(a) The provision of private dental services, which includes, amongst others, the practice of stomatology, and general dentistry, endodontics, orthodontics, periodontics, prosthodontics, dental implantology, oral and maxillofacial surgery, aesthetic dentistry and paedodontics, as well as the management of dental centres for and on behalf of other owners; and

(b) the distribution of dental equipment and supplies, which includes, amongst others, the distribution of equipment and supplies used in the provision of dental services.

Source: Company data, SAC Advisors

Business Segment	Products / Services
Provision of Private Dental Services	• Stomatology and General Dentistry • Endodontics • Orthodontics • Periodontics • Prosthodontics • Dental Implantology • Oral and Maxillofacial Surgery • Aesthetic Dentistry • Paedodontics • Management of dental centres
Distribution of Dental Equipment and Supplies	• Distribution and sale of dental equipment and supplies

Corporate Structure



Source: Company data

Overview on Corporate Structure

History

Aoxin was established in 2011 as Q & M Dental Holdings (China) Pte. Ltd by their Controlling Shareholder Q & M Singapore to provide dental services in the PRC. In 2013, they began significant business expansion into the PRC market through the acquisition of 60.0% of Q & M (SY) and SY Xinao from Dr. Shao. Together with Dr. Shao, they envisioned bringing on board like-minded professionals to establish a leading provider of private dental services and dental equipment and supplies in the Northern PRC.

	FY16
Market capitalisation (S$m)	
Q & M Dental*	529.8m
Aoxin	80.1m
P/E ratio	
Q & M Dental	19.3x
Aoxin	310.7x
Aoxin profit contribution as a % of Q & M Dental	11.1%

Source: Company data, SAC Advisors
** Q & M Dental Group (Singapore) Limited ("**Q & M Dental**")*

Corporate Structure

Corporate Developments

Total Dental Centres

Name	2015	2016
Dental hospitals	3	4
Dental polyclinics	3	7
Total dental centres	**6**	**11^**

Source: Company data, SAC Advisors

^ Includes 2 dental centres under management agreements.

In 2015, they expanded into Panjin city, Liaoning Province, by acquiring three (3) dental polyclinics therein, through the acquisition of 60.0% of PJ Jingcheng from Dr. Ren, and pursuant thereto, engaged Dr. Ren as the principal dentist. Further to the restructuring exercise, they acquired the remaining 40.0% of PJ Jingcheng in Nov 2016. The acquisitions allowed the Group to add operational dental clinics in the Liaoning Province.

In 2015, they diversified into the distribution of dental equipment and supplies through the acquisition of 60.0% of SY Maotai from Mr. Cui, and pursuant thereto, engaged Mr. Cui as part of their senior management. Through this acquisition, they also expanded their geographic reach into the Jilin and Heilongjiang Provinces, Northern PRC. Further to the restructuring exercise, they acquired the remaining 40.0% of SY Maotai in 2016.

In 2015, they further expanded their presence in Panjin city, Liaoning Province, by acquiring one (1) dental polyclinic therein, through the acquisition of 60.0% of PJ Jinsai from Dr. Zhang, and pursuant thereto, engaged Dr. Zhang as the principal dentist. Further to the restructuring exercise, they acquired the remaining 40.0% of PJ Jinsai in Nov 2016 as part of its PRC expansion plans.

In 2015, they expanded into Gaizhou city, Liaoning Province, by acquiring one dental polyclinic therein, through the acquisition of 60.0% of GZ Aoxin from Dr. Li, and her mother, Ms. Gao, and pursuant thereto, engaged Dr. Li as the principal dentist. Further to the restructuring exercise, they acquired the remaining 40.0% of GZ Aoxin in Nov 2016 as part of its PRC expansion plans.

As at 31 December 2016, the Group had a total of 11 dental centres, comprising 4 dental hospitals and 7 dental polyclinics. Of these, 2 are dental centres owned by others but managed by them pursuant to certain management agreements ("**Management Agreements**").

Risks relating to the Management Agreements

For the dental centres managed by them for and on behalf of their owners, the owners may unilaterally terminate the Management Agreements pursuant to breach of the same. Additionally, they may choose not to renew the Management Agreements or seek to renew the same on less favourable terms. Moreover, the owners of these dental centres may have business or economic interests different from theirs, and may dispute the Management Agreements, or take actions inconsistent with their interests, objectives or instructions. They also cannot guarantee that the owners would not intentionally terminate or attempt to terminate the Management Agreements in breach of contract.

Corporate Structure

Definition of clinics

Dental Centres
Comprises dental hospitals and dental polyclinics.

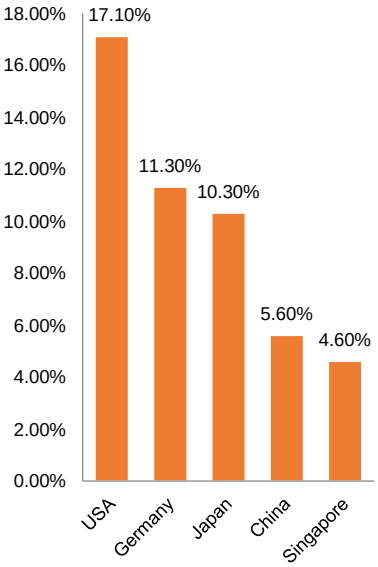
Dental Clinics
Dental centres that, amongst other legal and regulatory requirements have at least 1 dental chair available for use by dental professionals for the provision of dental services, and which provide general dental services.

Dental Hospitals
Dental centres that, amongst other legal and regulatory requirements, have at least 20 dental chairs available for use by dental professionals for the provision of dental services, and which provide comprehensive dental services.

Dental Polyclinics
Dental centres, that amongst other legal and regulatory requirements have at least 4 dental chairs available for use by dental professionals for the provision of dental services, and which provides a wider variety of dental services than dental clinics.

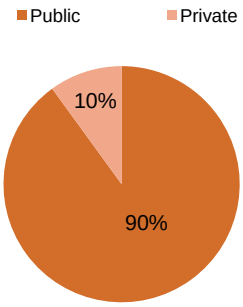
Industry Overview

Health expenditure as a % of GDP (2013)



Source: World Bank, SAC Advisors

Provision of healthcare services in China



Source: Deloitte, SAC Advisors

Healthcare expenditure per capita (US$)

	2008	2012	CAGR %
U.S.	7,980	9,262	3.8
Australia	5,058	7,598	10.7
Canada	4,769	5,927	5.6
Germany	4,739	4,930	1.0
France	5,107	4,942	-0.8
Japan	3,238	4,491	8.5
China	161	333	19.9

Source: WHO, OECD, SAC Advisors

Summary

The dental care industry has been growing, influenced by demographic changes, government policies and national income. The dental equipment market also saw sharp growth in developed countries, backed by the expansion of medical welfare and ageing population in the US and Europe. The private dental sector in China which began around 20 years ago, has increased dramatically recently, especially in areas where the private sector is more encouraged by the government and accepted by the public. Moving forward, the market for dental services is expected to increase especially in urban and more developed regions where income levels are higher and people are more willing to pay for such services.

Dental Services in the PRC

The dental services industry involves treating and assisting patients with a spectrum of oral related health services, which may be broadly categorised into stomatology and general dentistry, endodontics, orthodontics, periodontics, prosthodontics, dental implantology, oral and maxillofacial surgery, aesthetic dentistry and paedodontics.

Dental services in the PRC are mainly delivered through dental hospitals, dental polyclinics and dental clinics, which can be broadly categorised as public dental services (comprising government or university dental hospitals) and private dental services providers. The private dental services sector comprises a number of privately-owned dental hospitals, dental polyclinics and dental clinics.

Even though dental services in the PRC today are mainly delivered through dental hospitals, this will likely change as China is aiming for 20% of all healthcare services to be provided by private players, with foreign investment encouraged by the Government.

Demand

According to a study done by KPMG, demand for dental services is expected to grow strongly in mainland China. One reason for this is the low treatment rate for oral disease despite the prevalence of oral disease in China. The National Surveillance Studies of the Population Dental Health, conducted in 2005 indicate that the prevalence of caries – tooth decay - in China was 88.1% among adults aged 35-44, treatment rates however was at 8.3-21.1%.

Another reason is that education about oral health has improved over the past decade resulting in many to seek treatment. This is evident from the high compounded annual growth rate of dental hospitals, growing more than 18% from 2003 – 2012 according to a study done by Deloitte. Moreover, the attainment of universal healthcare with a 95% coverage rate in 2011 will continue to drive demand for basic dental treatments, including in Liaoning Province which has a population of 43.78 million in 2016.

Industry Overview

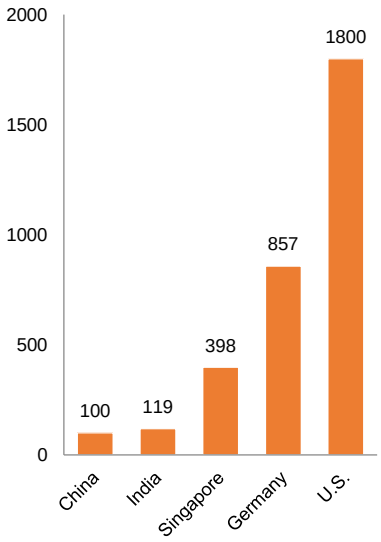
GDP per capita (US$'000)

Name	2015	2016
China	7,390	7,938
Liaoning	9,610	7,400

Source: China Data Online, SAC Advisors

Based on exchange rate of: 1 USD/CNY: 6.80

Dentistry personnel per 1 million population (2013 – 2016)



Source: WHO, Research in China, SAC Advisors

The PRC dental equipment market is relatively underdeveloped with supply struggling to catch up with demand, especially in wealthier urban areas. Local manufacturers dominate the dental chairs market, whereas imports are dominated by dental X-ray apparatus and dental cements with Finland being the leading supplier, followed by South Korea and Germany.

Supply

In comparison with developed countries, the PRC market is in a fledging stage. There are approximately 100 dentists for every 1 million population, far below the level of developed or moderately developed countries which ranges between 500 and 1,000 dentists for every 1 million population.

Referring to the table on the left, China's dentistry sector still has a long way to go before matching the more developed countries. The Chinese government has begun to recognise this, the State Council's 12th Five-Year Plan explicitly proposed that private hospital service volume should comprise 20% of the total by 2015. Whilst the target was a little ambitious, the policies supporting private investment appear to be more specific and practical than ever, which should support the growth of the private sector moving forward.

The PRC dental equipment market is estimated to be worth £1.5 billion (equivalent to approximately RMB 10.6 billion) in 2015, and is forecasted to grow to more than £4.5 billion (equivalent to approximately RMB 31.9 billion) in 2020, which represents a compounded annual growth rate of 24.3%. This is primarily driven by the growth in the number of dental care organisations in the PRC.

Financial Summary

Revenue model

- The core business can be broadly categorised into two business segments:

(a) Primary Healthcare: Income under Primary Healthcare comprises mainly fees from private clients for clinical consultation and dental treatment procedures, laboratory charges to the dental centres they manage, and the sale of medicine and oral care products to their patients and the dental centres they manage. The fees from dental healthcare services vary depending on the type and complexity of treatment procedures, costs of medication, and the expertise of the individual dentist.

Income from this segment also includes dental centre management fees relating to management contracts signed with private or government-owned dental centres for the management and operation of these dental centres. Income from these management contracts may be structured in the following manner: (i) a fixed periodic payment; or (ii) a fee equivalent to the entire profit or loss of a hospital, less an administrative fee payable to the owner.

(b) Distribution: Revenue from their dental equipment and supplies distribution business comprises sales receipts from the distribution of dental equipment and supplies, such as dental chairs, ultrasound scanners, dental prosthesis, dental supplies, dental instruments and consumables to hospitals, clinics, distributors and laboratories.

This segment contributed revenue of RMB23.9m in FY16, the first year since acquisition, or 27.5% of total revenue. Pretax margin, however, is lower at 7.6%.

Revenue Breakdown	FY13	FY14	FY15	FY16
Primary healthcare	100.0%	100.0%	100.0%	71.9%
Dental equipment & supplies distribution	-	-	-	27.5%
Other income	-	-	-	0.5%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Profit before tax margin				
Primary healthcare	N/A	15.0%	18.7%	19.1%
Dental equipment & supplies distribution	N/A	N/A	N/A	7.6%
Total	**N/A**	**15.0%**	**18.7%**	**15.8%**

Source: Company data, SAC Advisors

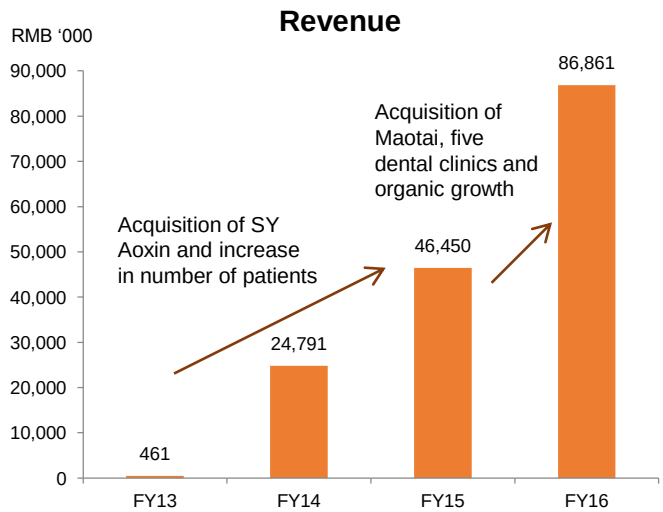
Financial Summary

Revenue

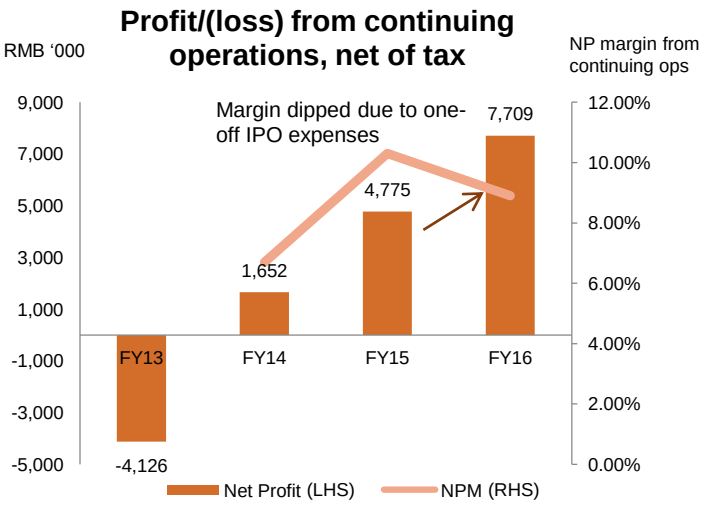
Aoxin's revenue increased by a compounded annual growth rate ("**CAGR**") of 473.3% from FY13 to FY16, mainly due to the low base effect. The RMB 24.3 million increase in FY14 was attributable to the acquisition of the SY Aoxin group of companies in July 2014, comprising three dental hospitals and three dental polyclinics.

Revenue in FY15 increased by RMB 21.7 million or 87.4%, driven by a combination of an increase in the number of patients, and the full year recognition of revenue from acquisitions in 2014 and those in 2015.

FY16 revenue rose by RMB 40.4 million, derived from (a) the acquisition of Maotai, (b) the acquisition of five dental centres in Panjin and Gaizhou in the Liaoning Province and (c) organic growth from existing dental centres.



Source: Company data, SAC Advisors



Source: Company data, SAC Advisors

Profit/(loss) from continuing operations, net of tax

Net Profit from continuing operations turned positive from a loss in FY13 mainly due to the completion of the Aoxin acquisition in July 2014, which resulted in higher revenue, though this was partially offset by higher expenses in FY14. For FY15, Aoxin benefited from the full year contribution of their acquisition of the dental clinics in FY14 and enjoyed a higher profit margin.

For the latest FY16, profit from continuing operations, net of tax recorded a 61.4% increase on a y-y basis, which arose from the PG and Maotai acquisition. This was however, partially offset by an increase in marketing and IPO-related expenses amounting to RMB 3.3 million. When we exclude the impact of the IPO-related expenses, profit from continuing operations would have recorded a 69.1% increase on a y-y basis.

Management

Mr. Chua Ser Miang is the Non-Executive Chairman and Independent Director. Mr. Chua has more than 20 years of experience in the financial industry. He began his career in 1993 with the Monetary Authority of Singapore, and left in 1996 as its Senior Review Officer. He also has experience as a director of listed companies, and is currently an independent director of Yamada Green Resources Limited, which is listed on the SGX-ST. He is a graduate of the National University of Singapore (Bachelor of Business Administration (Second Upper Class Honours) (1993)).

Dr. Shao Yongxin (邵永新) is the Executive Director and Group CEO, and is responsible for the overall strategic, management and business development of the Group. He has more than 35 years of experience in the dental industry. He is also a representative of the 15th Shenyang City People's Congress (沈阳市第十五届人民代表大会). He is a graduate of the Shenyang Shenhe District Health Improvement School (沈阳市沈河区卫生进修学校) (1986) and holds a Master of Business Administration (2000) from the Jilin University of Technology.

Dr. Bai Yi (白毅) is their General Manager and joined their Group in 2014. She assists the Executive Director and Group CEO, Dr. Shao, in overseeing their operations. She has more than 35 years of experience in the dental industry. In her last position, she was the General Manager of Shenyang Aoxin Industrial Co., Ltd and Hospital Director of Shenyang Aoxin Stomatology Hospital. She is a graduate of the Shenyang Medical College (沈阳医学专科学校) (Diploma (Stomatology) (1983)) and holds a Master's Degree in Administration from Peking University (北京大学) (2002).

Mr. Cui Guo An (崔国安) is the General Manager of SY Maotai and joined their Group in 2016. He is responsible for overseeing SY Maotai's operations. He has over 30 years of experience in the medical industry, of which more than 20 years have been in the dental industry. Following their 60.0% acquisition of SY Maotai in 2015, he joined the Group and was appointed General Manager of SY Maotai in 2016. He is a graduate of the China Medial University (Bachelor's Degree (Clinical Medicine) (1993)).

Dr. Zhang Chun (张纯) is the Principal Dentist of PJ Jinsai and joined their Group in 2016. As the Principal Dentist of PJ Jinsai, he is responsible for overseeing PJ Jinsai's operations. Dr. Zhang has more than 25 years of experience in the dental industry. Following their 60.0% acquisition of PJ Jinsai, he joined the Group and was appointed as Principal Dentist of PJ Jinsai in 2016. Since 2016, he has also been a Deputy Professor of the Jinzhou Medical University. He is a graduate of the China Medical University (中国医科大学) (Bachelor's Degree (Stomatology (1991)).

Future Plans

Expand their business through organic growth, mergers & acquisitions, joint ventures and partnerships

Aoxin Q & M Dental intends to expand and open more dental centres in Northern PRC to meet the rapidly growing demand there, particularly in areas in which they currently do not have a presence. They also expect to expand through mergers and acquisitions, joint ventures and partnerships with other dental centres who seek to collaborate with them. They also intend to use the proceeds to hire and retain more dental professionals.

Enhance infrastructure to be at the forefront of the industry

They have collaborated with Jinzhou Medical University, to provide, amongst others, instruction and training to their dental professionals. Such collaboration ensures that they are on the cutting edge of dental and oral health developments. They intend to constantly adopt such developments into their business to ensure that they are at the forefront in the provision of private dental services. To achieve this, they intend to continuously improve the quality of their dental centres and enhance their infrastructure by investing in equipment with the latest technologies (such as CBCT, which allows cross-sectional images to be obtained, and the data used to construct a three-dimensional (3D) image of teeth and oral-facial skeletal structure) and facilitating their dental professionals' access to continuous and professional development and training.

In addition, they intend to consolidate the infrastructure of their dental equipment and supplies business with the supply chain of their dental centres. By having their dental equipment and supplies business control and manage the procurement needs of their dental centres, they will be better positioned to obtain volume discounts from their suppliers.

Key Risks

Loss of accreditation as Designated Medical Institutions of Medical Insurance
Save for the two dental centres of PJ Jincheng's branches, all their dental centres are accredited as Designated Medical Institutions of Medical Insurance pursuant to the PRC's public medical insurance programs. Patients who are covered by the PRC's public medical insurance programs ("**Insured Patients**") are entitled to pay for certain medical expenses incurred at Designated Medical Institutions of Medical Insurance out of the available balance of their public medical insurance accounts. Given that they generate significant revenue from Insured Patients, any changes to the PRC's public medical insurance such as any reduction in coverage may result in a fall in revenue.

Dependent on key management personnel
Their continued success is dependent on certain members of their management team, including some who have been with their Group since inception. In particular, they rely on the expertise, experience and leadership ability of Executive Director and Group CEO, Dr. Shao. They also rely on their Executive Officers to assist Dr. Shao in formulating and implementing their growth, corporate development and overall business strategies.

Dependent on their ability to attract and retain skilled dental professionals
The demand for dental professionals in the PRC is highly competitive. The supply of dentists is limited by the long training period, which generally, requires at least six years and even longer for certain dental specialisations, while dental surgery assistants typically undergo at least three years of training. Furthermore, their dental professionals are employed on employment contracts and there is no assurance that they will not leave or renew their employment with them upon the expiry of their employment contracts.

Addressing potential conflict of interest

Aoxin's controlling shareholder, Q & M Dental Group (Singapore), also provides dental services. It has an associated company, Q & M Aidite ("**Aidite**"), which manufactures specialised dental materials used in dental computer-aided design/computer-aided manufacturing machines (CAD/CAM). Aidite also distributes the CAD/CAM equipment as a complementary service.

Aoxin's dental services are focused in the Liaoning Province, Northern PRC, while Q & M Dental Group (Singapore)'s operations are based in Singapore, Malaysia and Southern PRC.

Unlike Aidite, Aoxin only distributes but does not manufacture dental equipment and supplies. There is no conflict of interests in their operations.

Addressing potential conflict of interest

Notwithstanding that Q & M Dental (Singapore) and Aidite's businesses are distinct from Aoxin's, Q & M Dental (Singapore) has provided Aoxin with a non-compete undertaking that Q & M Dental (Singapore) will keep its operations in the PRC market restricted to the Southern region and Shanghai.



Source: Company data

Aoxin have also provided Q & M Dental (Singapore) with a non-compete undertaking that Aoxin will not engage in the provision of dental services or the provision, distribution or sale of dental equipment and supplies, outside of the Northern PRC region.

These non-compete undertakings by both parties are effective for so long as Q & M Dental (Singapore) is a controlling shareholder, and Aoxin remains listed on the SGX-ST.

Comparables

There is no direct listed comparable company that operates dental centres and dental hospitals, and distributes dental equipment and supplies in the PRC. Some of Aoxin's competitors only compete in one of the two segments, and only Harbin Pharmaceuticals Group Co., which supplies dental equipment and products, is listed.

Dental Services

- Hospital of Stomatology, China Medical University (中国医科大学附属口腔医院)
- Stomatological Hospital of Shenyang (沈阳市口腔医院)
- 拜博口腔医疗集团

Dental Equipment and Supplies

- Shenyang Saint Xinjiamei Medical Devices Co., Ltd. (沈阳市圣星嘉美医疗器械有限公司)
- Shenyang Jinyue Dental Equipment and Supplies Co., Ltd. (沈阳今越齿科器材有限公司)
- Harbin Pharmaceutical Group Co., Ltd. (哈药集团医药有限公司)

Notwithstanding the above, we have highlighted a few listed comparables in the table below.

Name	Ticker	Price (local ccy)	Mkt Cap (US$mn)	Price-to-Book Ratio (x) Latest period	Price-to-Sales Ratio (x) LFY*	Price-to-Earnings Ratio (x) LFY	EV/EBITDA LFY (x)	ROE LFY
Medical / Dental Service Providers								
Raffles Medical Group Ltd	RFMD SP	1.330	1,737.8	3.7	5.2	33.1	25.4	11.1%
Topchoice Medical Investment-A	600763 CH	24.02	1,310.0	9.8	11.0	55.5	N/A	22.8%
Q & M Dental Group Singapore	QNM SP	0.680	390.1	5.8	3.6	19.3	10.0	14.0%
UMP Healthcare Holdings Ltd	722 HK	2.38	280.9	2.4	2.0	n.m.	13.0	2.8%
Average			**929.7**	**5.4**	**5.5**	**36.0**	**16.1**	**2.7%**
Medical / Dental Equipment Providers								
Lepu Medical Technology-A	300003 CH	21.20	6,295.2	6.4	8.9	56.3	29.9	15.9%
Harbin Pharmaceuticals Group Co.	600664 CH	5.84	2,822.4	2.7	1.6	21.2	13.2	10.4%
Jiangsu Yuyue Medical Equipment-A	002223 CH	23.00	2,247.3	4.4	8.0	23.1	N/A	13.4%
Modern Dental Group Ltd	3600 HK	3.06	453.2	2.0	2.0	29.9	N/A	7.1%
Average			**2,954.5**	**4.3**	**6.3**	**32.6**	**21.6**	**12.1%**

Source: Bloomberg, extracted on 27th June 2017
Based on exchange rate of 1USD/SGD: 1.42
**LFY: Last Financial Year*
n.m.: not meaningful

Recent corporate developments

Two proposed acquisitions

In May 2017, Aoxin announced the proposed acquisitions of Shenyang Qingaomei Oral Restorative Technology Co., Ltd ("**SYQM**") and Zhuanghe City Chengguan Street Jiadawei Dental Clinic ("**ZHJDW**").

SYQM is one of the largest dental prosthetic device maker in North Eastern China with a focus on providing custom-made prostheses to dental patients. The acquisition price of RMB16.9m values SYQM at 13x forward earnings. The acquisition will be paid via RMB10.45m cash and about 5.7m new Aoxin shares at S$0.236 each.

ZHJDW is a dental clinic based in Zhuanghe City, Liaoning Province, China that provides general dental healthcare services. Aoxin will pay RMB8.4m, at forward PE of 14x, via cash of RMB4.1m and about 3.8m new shares at S$0.236 each.

Both acquisitions come with a 12-year profit guarantee provided by the vendors. The new Aoxin shares to be issued will be locked up for 5 years.

Profit Guarantee (RMB)	Mn
SYQM	
1 Jul 17 – 30 Jun 18	1.30
1 Jul 18 – 30 Jun 19	1.43
1 Jul 19 – 30 Jun 20	1.57
1 Jul 20 – 30 Jun 21	1.73
1 Jul 21 – 30 Jun 22	1.90
1 Jul 22 – 30 Jun 23	2.09
1 Jul 23 – 30 Jun 24	2.30
1 Jul 24 – 30 Jun 25	2.53
1 Jul 25 – 30 Jun 26	2.79
1 Jul 26 – 30 Jun 27	3.07
1 Jul 27 – 30 Jun 28	3.37
1 Jul 28 – 30 Jun 29	3.71
Total (100% entitlement)	27.79

Source: Company data, SAC Advisors

Profit Guarantee (RMB)	Mn
ZHJDW	
1 Jul 17 – 30 Jun 18	0.60
1 Jul 18 – 30 Jun 19	0.63
1 Jul 19 – 30 Jun 20	0.68
1 Jul 20 – 30 Jun 21	0.75
1 Jul 21 – 30 Jun 22	0.84
1 Jul 22 – 30 Jun 23	0.91
1 Jul 23 – 30 Jun 24	1.00
1 Jul 24 – 30 Jun 25	1.09
1 Jul 25 – 30 Jun 26	1.18
1 Jul 26 – 30 Jun 27	1.29
1 Jul 27 – 30 Jun 28	1.41
1 Jul 28 – 30 Jun 29	1.50
Total (100% entitlement)	11.88

Source: Company data, SAC Advisors

Income Statement (RMB'000)

	Fiscal Year Ended				
	FY13	FY14	FY15	FY16	FY17F
Revenue	**461**	**24,791**	**46,450**	**86,861**	**N/A**
Interest income	1	10	43	47	N/A
Other gains	30	573	0	10	N/A
Consumables and dental supplies	(98)	(3,244)	(5,335)	(6,892)	N/A
Cost of dental equipment and supplies	N/A	N/A	N/A	(19,255)	N/A
IPO listing expenses	N/A	N/A	N/A	(3,324)	N/A
Other expenses	(4,461)	(18,413)	(32,458)	(43,109)	N/A
Finance expenses	N/A	N/A	N/A	(603)	N/A
Profit/(Loss) before tax	**(4,066)**	**3,717**	**8,700**	**13,735**	**N/A**
Income tax	(60)	(2,065)	(3,925)	(6,026)	N/A
Profit/(Loss) for the year/period from continuing ops	**(4,126)**	**1,652**	**4,775**	**7,709**	**N/A**
Profit/(Loss) attributable to owners of company from continuing ops	**(4,126)**	**(538)**	**540**	**1,239**	**N/A**
Earnings/(Loss) per share:					
-Basic (SG cents)	**(0.24)**	**(0.03)**	**0.03**	**0.07**	**N/A**
-Diluted (SG cents)	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**

Cash Flow Statement (RMB'000)

	Fiscal Year Ended				
	FY13	FY14	FY15	FY16	FY17F
Profit/(Loss) before tax	**(4,066)**	**3,717**	**8,700**	**13,735**	N/A
Depreciation & amortisation	13	1,756	3,892	4,944	N/A
Change in working capital	1,368	(2,140)	(6,008)	1,368	N/A
Others	(163)	5,664	6,714	(12,249)	N/A
Net Cash (used in)/ from operations	**(2,848)**	**8,997**	**13,298**	**7,798**	**N/A**
Purchase of PPE	(10)	(4,176)	(6,780)	(6,132)	N/A
Others	(9,142)	(111,392)	(36,616)	(1,436)	N/A
Net Cash (used in)/ from investing	**(9,152)**	**(115,568)**	**(43,396)**	**(7,568)**	**N/A**
Net increase in equity	N/A	N/A	N/A	2,161	N/A
Net increase in debt	N/A	N/A	N/A	N/A	N/A
Others	42,341	85,499	34,250	18,137	N/A
Net Cash (used in)/ from financing	**42,341**	**85,499**	**34,250**	**20,298**	**N/A**

Balance Sheet (RMB'000)

	Fiscal Year Ended				
	FY13	FY14	FY15	FY16	FY17F
As at 31 Dec					
Cash and bank balances	31,310	10,238	14,390	34,918	N/A
Trade, other receivables and other assets	2,246	43,375	48,412	16,810	N/A
Inventories	4	1,158	1,530	6,780	N/A
Assets classified as disposal group	11,774	115,780	189,616	13,218	N/A
Total current assets	**45,334**	**170,551**	**253,948**	**71,726**	N/A
Plant and Equipment	40	32,013	35,146	36,778	N/A
Intangible assets	997	87,582	87,337	99,798	N/A
Other assets	N/A	N/A	561	491	N/A
Total non-current assets	**1,037**	**119,595**	**123,044**	**137,067**	N/A
Total assets	**46,371**	**290,146**	**376,992**	**208,793**	N/A
Trade and other payables	49,991	168,298	177,437	111,128	N/A
Liabilities classified as disposal group	1,131	58,916	108,982	276	N/A
Income tax payables	64	1,316	1,668	870	N/A
Total current liabilities	**51,186**	**228,530**	**288,087**	**112,274**	N/A
Deferred tax liabilities	N/A	878	1,133	1,657	N/A
Total non-current liabilities	**0**	**878**	**1,133**	**1,657**	N/A
Total liabilities	**51,186**	**229,408**	**289,220**	**113,931**	N/A
Share capital	525	525	525	44,312	N/A
(Accumulated losses) / Retained earnings	(6,777)	(3,140)	6,498	12,317	N/A
Foreign currency translation reserve	971	8,180	10,348	22,646	N/A
Equity attributable to owners of the parent	**(5,281)**	**5,565**	**17,371**	**79,275**	N/A
Non-controlling interest	466	55,173	70,401	15,587	N/A
Total Equity	**(4,815)**	**60,738**	**87,772**	**94,862**	N/A
Total equity and liabilities	**46,371**	**290,146**	**376,992**	**208,793**	N/A

Ratios

	Fiscal Year Ended				
	FY13	FY14	FY15	FY16	FY17F
Profitability (%)					
Gross profit/(loss) margin	N/A	N/A	N/A	N/A	N/A
Operating profit margin	N/A	N/A	N/A	N/A	N/A
Profit/(loss) before tax margin (continuing ops)	n.m.	15.0%	18.7%	15.8%	N/A
Liquidity (x)					
Current ratio	0.9	0.7	0.9	0.6	N/A
Quick ratio	0.9	0.7	0.9	0.6	N/A
Interest coverage ratio	N/A	N/A	N/A	N/A	N/A
Net Debt to Equity	Net cash	Net cash	Net cash	Net cash	N/A
Valuation (x)					
P/S	835.0	15.5	8.3	4.4	N/A
Core P/E	N/A	N/A	N/A	N/A	N/A
Core P/E at target price	N/A	N/A	N/A	N/A	N/A
P/B	n.m.	6.3	4.4	4.1	N/A
P/NTA	n.m.	n.m.	885.0	n.m.	N/A
Cash Conversion Cycle					
Trade receivable days	N/A	28	19	23	N/A
Inventory days	N/A	64	105	79	N/A
Trade payable days	N/A	81	51	N/A	N/A
CCC days	N/A	N/A	N/A	N/A	N/A
Returns					
Return on equity	N/A	N/A	N/A	N/A	N/A
Return on capital employed	N/A	N/A	N/A	N/A	N/A
Dividend payout ratio	N/A	N/A	N/A	N/A	N/A

n.m.: not meaningful

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Aoxin Q & M Dental Group	Issue Manager and Placement Agent	Apr 26 2017

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