

Modern Dental

New PT Implies 100% Upside; Significant Margin Expansion Ahead

25 April 2021

Key Takeaway

We are upgrading Modern Dental to a Buy with a revised PT of HK\$7.30, implying 100% upside. Our upgrade is based on: 1) its defensiveness, and more importantly, its ability to go against the tide amid COVID-19, and 2) significant margin expansion (we expect net margin to expand from current 4.9% to 15-20%). Modern Dental is currently trading at 6.2x/5.4x our 2021E/2022E EV/EBITDA (vs. its dental peers with consensus average of 17.3/15.5x).

Sales growth to rise beyond pre-COVID levels – Modern Dental surprised us with its rapid sales recovery from COVID-19, especially in 4Q20. (1Q20 sales growth: -9% YOY, 2Q20: -40% YOY, 3Q20: +6% YOY, 4Q20: +8% YOY). The recovery largely comes from: 1) inelastic demand for dental products, and 2) market share gain from industry consolidation as weaker/smaller competitors exited the industry. Note that denture devices industry is highly fragmented but characterized by sticky customers. Hence, we see Modern Dental benefiting from market consolidation during COVID-19 as a windfall, with the company gaining sticky clients and sustainable revenues. With the low sales base in 1H20 (-25% YOY), we deem 1H21 to be strong. We expect 2021E sales growth to be higher than pre-COVID levels (+16% YOY). In our view, future sales growth will come from: 1) higher penetration of its digitalized products (intraoral scanning, 3D-printing, etc.), new products (such as its aligner), and 2) further geographical expansion to countries such as Singapore and Vietnam. In 2022E-23E, we expect sales to grow by a CAGR of +7.5% (vs. industry average of 5% to 6%) thanks to abovementioned drivers.

Margin expansion – We believe Modern Dental's low net margin era (4% to 7%), seen in 2015 to 2020, is over. In fact, net margin was always close to 10% excluding the MicroDental US acquisition in 2016 (and COVID-19 in 2020). We expect net margin to move from current mid-single digit, to low-teens in 2021E, to mid-high teens in 2022E onwards (2020: 4.9%, 2021E: 12.9%, 2022E: 15%, 2025E+: 18%). This is likely to be driven by: 1) MicroDental turning profitable in 2019, and being further streamlined during COVID-19, with higher gross margins (around 45%) than in the past (around 30%), 2) its new Dongguan capacity reaching favorable utilization rate, and generating economies of scale for Modern Dental, 3) digitalization, which aids market share gain, while offering a favorable cost profile (lower freight cost, fewer remakes and improved working capital through faster AR turnover).

Current valuation is highly attractive – Our valuation of HK\$7.30 is based on 1.0x PEG ratio, using our 2022E-23E EPS CAGR of 21%. This is compared to our DCF-based valuation of HK\$9.20 per share, which shows more upside. **Dividends:** Note that Modern Dental has been increasing its dividend payout since 2018 (2018: HK \$0.033, 2019: HK\$0.053, 2020: HK\$0.070) despite COVID-19. We expect the company to register dividend payout ratios of 35-40% going forward on rising EPS. Our DDM analysis shows that based on dividends alone, Modern Dental could be worth at least HK\$3.0 per share (2021E: HK\$0.12, $r = 7.0\%$, $g = 3.0\%$).

Risks – ASP pressure, competition, and M&A integration risks.

Rating | Target | Estimate Change

ASIA-PACIFIC excl. Japan | Healthcare Services

RATING	↑ BUY (FROM HOLD)
PRICE	HK\$3.59 [^]
MARKET CAP	HK\$3.5B / \$445.2M
PRICE TARGET (PT)	HK\$7.30 (FROM HK\$1.30)
UPSIDE SCENARIO PT	HK\$9.20
DOWNSIDE SCENARIO PT	HK\$3.00

[^]Prior trading day's closing price unless otherwise noted.

FY Dec				
HKD	2020A	2021E	2022E	2023E
EPS	↓ 0.11	↑ 0.34	↑ 0.42	0.50
Prev.	0.12	0.19	0.22	

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MODERN DENTAL (3600 HK)

HK\$	Estimates			
	2020A	2021E	2022E	2023E
Rev. (MM)	↓ 2,190.2	↓ 2,536.4	↓ 2,751.8	2,932.9
<i>Previous</i>	2,212.5	2,591.0	2,783.5	
Net Profit	↓ 107.8	↑ 327.6	↑ 401.4	476.1
<i>Previous</i>	115.9	180.4	207.7	
EPS	↓ 0.11	↑ 0.34	↑ 0.42	0.50
<i>Previous</i>	0.12	0.19	0.22	

Market Data	
52-Week Range:	HK\$3.59 - HK\$1.15
Total Entprs. Value	HK\$3.6B
Avg. Daily Value MM (USD)	1.58
Float (%)	34.0%

The Long View

Scenarios

Base Case

Margin expansion and slightly-faster than industry growth;

PT of HK\$7.3 derived from PEG-based valuation.

Upside Scenario

Less ASP pressure;

New product launches and fast sales ramp-up;

New M&As with attractive valuation;

PT of HK\$9.2 derived from DCF-based valuation.

Downside Scenario

Higher ASP downside pressure;

COVID-19 situation worsens, causing more lockdowns;

PT of HK\$3.0 derived from DDM valuation.

Investment Thesis / Where We Differ

Modern Dental is a global leading dental prosthetic device provider. We like its global layout and scale, efficient distribution network, cost advantages and consolidation opportunities. We expect Modern Dental to grow at a faster rate than the industry, thanks to higher penetration of its existing and new products, margin expansion from economies of scale and cost-saving strategies.

Catalysts

New product launches/rising penetration;

New M&A deals.

Exhibit 1 - Our valuation of HK\$7.30 is based on 1.0x PEG ratio using our 2022E-23E EPS CAGR of 21%

	2019	2020E	2021E	2022E	2023E
Revenue (HK\$ '000)	2,399,548	2,190,208	2,536,419	2,751,836	2,932,886
Net profit (HK\$ '000)	161,557	107,763	327,568	401,373	476,074
Net margin	6.7%	4.9%	12.9%	14.6%	16.2%
Shares outstanding ('000)	980,162	961,914	962,227	962,227	962,227
EPS (HK\$)	0.16	0.11	0.34	0.42	0.49
EPS YOY%		-32%	204%	23%	19%
EPS CAGR				21%	
PEG			1.0x		
P/E			21x		
Valuation (HK\$)			7.0		
Net cash and others (HK\$)			0.3		
Total PT (HK\$)			7.3		

Source: Jefferies

Exhibit 2 - Sales recovery by quarter in 2020

Markets	Revenue YOY% growth			
	1Q20	2Q20	3Q20	4Q20
Europe	-4%	-36%	9%	13%
Greater China	-37%	-10%	5%	7%
North America	1%	-65%	-1%	-4%
Australia	-2%	-46%	12%	21%
Others	9%	-41%	43%	24%
Total	-9%	-40%	6%	8%

Source: Company data

Exhibit 3 - Peer valuation comparison

Company	Ticker	Share price (local ccy) 21/4/2021	Mkt cap (US\$ mn)	EBITDA YOY growth				EBITDA margin				EV/EBITDA				P/E				PEG			
				(%)				(%)				(x)				(x)				(x)			
				2020	2021E	2022E	2023E	2020	2021E	2022E	2023E	2020	2021E	2022E	2023E	2020	2021E	2022E	2023E	2020	2021E	2022E	2023E
PRC-listed																							
Topchoice	600763 CH	291.00	14,374	3.8	51.3	27.5	30.7	34.4	38.0	38.2	38.6	114.7	85.8	67.3	51.5	189.0	126.6	96.8	74.6	4.8	4.1	3.2	2.5
Average			14,374	3.8	51.3	27.5	30.7	34.4	38.0	38.2	38.6	114.7	85.8	67.3	51.5	189.0	126.6	96.8	74.6	4.8	4.1	3.2	2.5
Overseas-listed																							
Straumann	STMN SE	1225.00	21,249	(46.7)	100.4	17.4	14.6	18.0	30.8	31.6	32.3	48.3	38.2	32.5	28.4	213.0	57.8	48.1	40.9	1.9	3.3	3.2	2.7
Henry Schein	HSIC US	72.30	10,286	(18.5)	14.8	4.3	4.7	8.0	8.0	8.2	8.3	15.0	12.4	11.9	11.4	25.5	19.4	17.9	16.1	1.4	2.7	2.2	2.0
Envista	NVST US	43.60	7,004	(54.5)	131.9	10.3	5.4	8.9	17.2	18.1	18.4	29.0	16.8	15.2	14.5	207.6	25.8	23.2	20.7	1.0	2.2	2.2	1.9
Osstem	048260 KQ	89800.00	1,140	93.6	3.0	12.9	2.7	19.8	17.2	17.2	16.4	14.5	10.8	9.6	9.3	11.4	18.3	15.6	10.0	NA	0.6	0.3	0.2
Q&M Dental	QNM SP	0.62	364	(0.2)	41.0	14.1	8.0	27.5	25.6	25.2	25.3	19.9	10.7	9.4	8.7	24.6	17.6	13.4	12.8	0.7	1.0	1.5	1.4
Pacific Smile	PSQ AU	2.79	345	47.3	5.4	3.2	19.4	27.4	21.6	19.6	20.5	23.0	14.9	14.5	12.1	66.4	28.5	29.7	24.9	1.3	3.4	1.5	1.3
Average			6,731	3.5	49.4	10.4	9.1	18.3	20.1	20.0	20.2	24.9	17.3	15.5	14.1	91.4	27.9	24.6	20.9	1.2	2.2	1.8	1.6

Source: Bloomberg

Exhibit 4 - FY20 results review

P&L FY20 (vs. FY19) and 2H20 (vs. 1H20)						
(HK\$ '000)	FY20	FY19	YOY%	2H20	1H20	HOH%
Net sales	2,190,208	2,399,548	-9%	1,292,985	897,223	44%
COGS	(1,100,220)	(1,246,617)	-12%	(617,020)	(483,200)	28%
Gross profit	1,089,988	1,152,931	-5%	675,965	414,023	63%
Selling expenses	(251,410)	(294,352)	-15%	(151,942)	(99,468)	53%
G&A expenses	(549,383)	(608,278)	-10%	(276,597)	(272,786)	1%
R&D expenses	(6,434)	(7,447)	-14%	(3,247)	(3,187)	2%
Operating income	282,761	242,854	16%	244,179	38,582	533%
D&A	135,751	152,904	-11%	66,270	69,481	-5%
EBITDA	418,512	395,758	6%	310,449	108,063	187%
Other income	26,139	13,467	94%	21,167	4,972	326%
Other gains / (loss) net	(150,695)	(17,177)	777%	4,536	(155,231)	
Finance income	1,255	1,270	-1%	420	835	-50%
Finance costs	(33,699)	(37,902)	-11%	(13,885)	(19,814)	-30%
Share of results of associates	(1,537)	(504)	205%	(1,092)	(445)	145%
Pretax income	124,224	202,008	-39%	255,325	(131,101)	
Taxes	(16,565)	(41,563)	-60%	(8,164)	(8,401)	-3%
Effective tax rate	13%	21%	-35%	3%	-6%	
Net income	107,659	160,445	-33%	247,161	(139,502)	
Minority Interest	104	1,112	-91%	(44)	148	
Net income to common	107,763	161,557	-33%	247,117	(139,354)	
Diluted EPS (HK\$)	0.112	0.165	-32%	0.257	(0.145)	
Adjusted net profit to common	224,274	164,810	36%	209,608	14,666	1329%
Adjusted diluted EPS (HK\$)	0.233	0.168	39%	0.218	0.015	1330%
Diluted sh o/s ('000)	961,914	980,162	-2%	961,397	962,432	0%
Margin Analysis						
	FY20	FY19	Delta	2H20	1H20	Delta
Gross margin	49.8%	48.0%	1.7%	52.3%	46.1%	6.1%
Selling expense as % of sales	11.5%	12.3%	-0.8%	11.8%	11.1%	0.7%
G&A expense as % of sales	25.1%	25.3%	-0.3%	21.4%	30.4%	-9.0%
R&D expense as % of sales	0.3%	0.3%	0.0%	0.3%	0.4%	-0.1%
Operating margin	12.9%	10.1%	2.8%	18.9%	4.3%	14.6%
EBITDA margin	19.1%	16.5%	2.6%	24.0%	12.0%	12.0%
Pretax margin	5.7%	8.4%	-2.7%	19.7%	-14.6%	34.4%
Net margin	4.9%	6.7%	-1.8%	19.1%	-15.5%	34.6%
Adjusted net margin	10.2%	6.9%	3.4%	16.2%	1.6%	14.6%
Revenue breakdown FY20 (vs. FY19) and 2H20 (vs. 1H20)						
(HK\$ '000)	FY20	FY19	YOY%	2H20	1H20	HOH%
Revenue	2,190,208	2,399,548	-9%	1,292,985	897,223	44%
Fixed prosthetic devices	1,516,083	1,682,419	-10%	889,908	626,175	42%
Removable prosthetic devices	403,330	460,099	-12%	240,728	162,602	48%
Other devices	180,812	203,730	-11%	109,699	71,113	54%
Others	89,983	53,300	69%	52,650	37,333	41%
Key balance sheet and operating metrics						
(HK\$ '000)	FY20	FY19	YOY%			
Cash and cash equivalent	702,655	399,235	76%			
ST Bank borrowings	187,680	106,336	76%			
LT Bank Borrowings	673,063	696,012	-3%			
Net cash	(158,088)	(403,113)				
Net cash from operating activities	400,177	342,226	17%			
Capex	72,446	150,738	-52%			
FCF	327,731	191,488	71%			
Inventory days	40	33	22%			
AR days	75	61	22%			
AP days	23	20	16%			

Source: Company data

Exhibit 5 - Revenue model

HK\$ '000	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Revenue	2,181,292	2,315,467	2,399,548	2,190,208	2,536,419	2,751,836	2,932,886	3,081,217	3,206,925
Fixed prosthetic devices	1,575,585	1,664,457	1,682,419	1,516,083	1,778,541	1,941,099	2,078,917	2,184,110	2,272,348
Removable prosthetic devices	417,000	451,304	460,099	403,330	460,658	493,365	518,329	544,556	566,556
Other devices	172,467	179,128	203,730	180,812	193,741	203,544	213,843	224,664	233,740
Others	16,240	20,578	53,300	89,983	103,480	113,828	121,796	127,886	134,281
YOY%									
Revenue	33%	6%	4%	-9%	16%	8%	7%	5%	4%
Fixed prosthetic devices	39%	6%	1%	-10%	17%	9%	7%	5%	4%
Removable prosthetic devices	17%	8%	2%	-12%	14%	7%	5%	5%	4%
Other devices	26%	4%	14%	-11%	7%	5%	5%	5%	4%
Others	1%	27%	159%	69%	15%	10%	7%	5%	5%
Sales volume									
Total sales volume	1,738,966	1,752,491	1,807,754	1,596,322	1,792,981	1,897,111	1,976,791	2,036,095	2,076,817
Fixed prosthetic devices	1,069,391	1,033,151	1,029,746	925,096	1,063,860	1,138,331	1,195,247	1,231,105	1,255,727
Removable prosthetic devices	387,501	401,232	426,365	347,618	389,332	408,799	421,063	433,695	442,369
Other devices	282,074	318,108	351,643	323,608	339,788	349,982	360,482	371,296	378,722
YOY%									
Sales volume	25%	1%	3%	-12%	12%	6%	4%	3%	2%
Fixed prosthetic devices	33%	-3%	0%	-10%	15%	7%	5%	3%	2%
Removable prosthetic devices	9%	4%	6%	-18%	12%	5%	3%	3%	2%
Other devices	21%	13%	11%	-8%	5%	3%	3%	3%	2%
ASP (RMB)									
Overall ASP	1,254	1,321	1,327	1,372	1,415	1,451	1,484	1,513	1,544
Fixed prosthetic devices	1,473	1,611	1,634	1,639	1,672	1,705	1,739	1,774	1,810
Removable prosthetic devices	1,076	1,125	1,079	1,160	1,183	1,207	1,231	1,256	1,281
Other devices	611	563	579	559	570	582	593	605	617
YOY%									
ASP	6%	5%	0%	3%	3%	3%	2%	2%	2%
Fixed prosthetic devices	4%	9%	1%	0%	2%	2%	2%	2%	2%
Removable prosthetic devices	8%	5%	-4%	8%	2%	2%	2%	2%	2%
Other devices	5%	-8%	3%	-3%	2%	2%	2%	2%	2%
Gross margin									
Overall gross margin	48.7%	46.6%	48.0%	49.8%	51.6%	52.6%	53.4%	54.3%	55.2%
Fixed prosthetic devices	48.7%	46.9%	49.2%	51.2%	53.0%	54.0%	55.0%	56.0%	57.0%
Removable prosthetic devices	48.1%	46.6%	47.3%	50.1%	52.0%	53.0%	54.0%	55.0%	56.0%
Others	49.8%	44.2%	42.0%	41.3%	43.0%	43.0%	43.0%	43.0%	43.0%

Source: Company data, Jefferies estimates (E)

Exhibit 6 - Income statement

Income Statement									
HK\$ '000	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Net sales	2,181,292	2,315,467	2,399,548	2,190,208	2,536,419	2,751,836	2,932,886	3,081,217	3,206,925
COGS	(1,119,780)	(1,236,131)	(1,246,617)	(1,100,220)	(1,226,446)	(1,305,689)	(1,365,259)	(1,407,012)	(1,436,166)
Gross profit	1,061,512	1,079,336	1,152,931	1,089,988	1,309,974	1,446,147	1,567,627	1,674,204	1,770,759
Selling expenses	(265,926)	(275,142)	(294,352)	(251,410)	(304,370)	(316,461)	(322,617)	(338,934)	(352,762)
G&A expenses	(586,525)	(616,797)	(608,278)	(549,383)	(558,012)	(591,645)	(615,906)	(647,055)	(673,454)
R&D expenses	0	(13,761)	(7,447)	(6,434)	(7,451)	(8,084)	(8,616)	(9,051)	(9,421)
Operating income	209,061	173,636	242,854	282,761	440,140	529,957	620,488	679,163	735,122
D&A	90,259	95,478	152,904	135,751	139,380	140,565	142,381	137,559	133,433
EBITDA	299,320	269,114	395,758	418,512	579,520	670,522	762,869	816,722	868,555
Other income	23,469	10,797	13,467	26,139	0	0	0	0	0
Other gains / (loss) net	(1,582)	(12,533)	(17,177)	(150,695)	0	0	0	0	0
Finance income	443	547	1,270	1,255	2,204	2,595	3,394	4,100	5,027
Finance costs	(28,582)	(51,516)	(37,902)	(33,699)	(31,741)	(29,784)	(27,826)	(25,869)	(23,911)
Share of results of associates	(1,288)	(1,929)	(504)	(1,537)	(1,537)	(1,537)	(1,537)	(1,537)	(1,537)
Pretax income	201,521	119,002	202,008	124,224	409,065	501,232	594,518	655,857	714,701
Taxes	(44,158)	(35,762)	(41,563)	(16,565)	(81,813)	(100,246)	(118,904)	(131,171)	(142,940)
Effective tax rate	21.9%	30.1%	20.6%	13.3%	20.0%	20.0%	20.0%	20.0%	20.0%
Net income	157,363	83,240	160,445	107,659	327,252	400,985	475,615	524,686	571,760
Minority Interest	(1,992)	2,151	1,112	104	316	387	459	507	552
Net income to common	155,371	85,391	161,557	107,763	327,568	401,373	476,074	525,193	572,313
Diluted EPS (HK\$)	0.156	0.086	0.165	0.112	0.340	0.417	0.495	0.546	0.595
Adjusted net profit to common	155,371	96,951	164,810	224,274	327,568	401,373	476,074	525,193	572,313
Adjusted diluted EPS (HK\$)	0.156	0.097	0.168	0.233	0.340	0.417	0.495	0.546	0.595
Diluted sh o/s ('000)	998,520	997,151	980,162	961,914	962,227	962,227	962,227	962,227	962,227
Dividend	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
DPS (HK\$)	0.05	0.03	0.05	0.07	0.12	0.15	0.17	0.19	0.21
YOY%	52%	-28%	61%	32%	70%	23%	19%	10%	9%
Dividend payout ratio	30%	34%	32%	30%	35%	35%	35%	35%	35%
Margin Analysis	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Gross margin	48.7%	46.6%	48.0%	49.8%	51.6%	52.6%	53.4%	54.3%	55.2%
Selling expense as % of sales	12.2%	11.9%	12.3%	11.5%	12.0%	11.5%	11.0%	11.0%	11.0%
G&A expense as % of sales	26.9%	26.6%	25.3%	25.1%	22.0%	21.5%	21.0%	21.0%	21.0%
R&D expense as % of sales	0.0%	0.6%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Operating margin	9.6%	7.5%	10.1%	12.9%	17.4%	19.3%	21.2%	22.0%	22.9%
EBITDA margin	13.7%	11.6%	16.5%	19.1%	22.8%	24.4%	26.0%	26.5%	27.1%
Pretax margin	9.2%	5.1%	8.4%	5.7%	16.1%	18.2%	20.3%	21.3%	22.3%
Net margin	7.1%	3.7%	6.7%	4.9%	12.9%	14.6%	16.2%	17.0%	17.8%
Adjusted net margin	7.1%	4.2%	6.9%	10.2%	12.9%	14.6%	16.2%	17.0%	17.8%
% YOY Change	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Net sales	33%	6%	4%	-9%	16%	8%	7%	5%	4%
Gross profit	21%	2%	7%	-5%	20%	10%	8%	7%	6%
Selling expense	44%	3%	7%	-15%	21%	4%	2%	5%	4%
G&A expense	17%	5%	-1%	-10%	2%	6%	4%	5%	4%
R&D expense	NA	NA	-46%	-14%	16%	8%	7%	5%	4%
Operating income	7%	-17%	40%	16%	56%	20%	17%	9%	8%
EBITDA	12%	-10%	47%	6%	38%	16%	14%	7%	6%
Pretax income	32%	-41%	70%	-39%	229%	23%	19%	10%	9%
Net income	53%	-45%	89%	-33%	204%	23%	19%	10%	9%
Adjusted net income	53%	-38%	70%	36%	46%	23%	19%	10%	9%
Adjusted diluted EPS	52%	-38%	73%	39%	46%	23%	19%	10%	9%
Diluted shares outstanding	1%	0%	-2%	-2%	0%	0%	0%	0%	0%

Source: Company data, Jefferies estimates (E)

Exhibit 7 - Balance sheet

Balance sheet									
HK\$ '000	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Inventories	81,861	110,906	115,274	128,021	107,188	143,218	118,612	151,226	124,203
Trade receivables	413,682	380,443	423,271	473,105	430,277	474,436	489,800	523,202	531,129
Cash and cash equivalent	368,660	380,393	393,905	697,827	962,616	1,134,580	1,484,979	1,794,970	2,201,877
Pledged bank deposits	12,467	11,482	5,330	4,828	4,828	4,828	4,828	4,828	4,828
Prepayments and other receivables	59,858	58,294	64,739	71,783	71,783	71,783	71,783	71,783	71,783
Other current asset	10,983	17,851	20,098	15,173	15,173	15,173	15,173	15,173	15,173
Current assets	947,511	959,369	1,022,617	1,390,737	1,591,865	1,844,018	2,185,176	2,561,183	2,948,994
PP&E	326,703	433,810	498,613	518,915	558,102	601,203	587,717	578,815	573,496
Intangible assets	1,785,948	1,671,901	1,800,724	1,690,625	1,613,515	1,539,922	1,469,686	1,402,653	1,338,677
Investment in associates	10,325	8,396	9,625	761	761	761	761	761	761
Deferred income tax	9,090	10,814	11,832	49,294	49,294	49,294	49,294	49,294	49,294
Other non-current assets	60,653	21,771	17,830	14,756	13,219	11,682	10,145	8,608	7,071
Non-Current assets	2,192,719	2,146,692	2,338,624	2,274,351	2,234,891	2,202,862	2,117,602	2,040,131	1,969,299
Total Assets	3,140,230	3,106,061	3,361,241	3,665,088	3,826,756	4,046,880	4,302,778	4,601,313	4,918,292
Trade payables	57,195	64,319	70,026	67,670	66,735	76,354	73,263	80,930	76,458
Accruals and other payables	179,947	170,440	197,839	230,627	230,627	230,627	230,627	230,627	230,627
Current income tax liabilities	43,477	40,152	48,902	73,881	73,881	73,881	73,881	73,881	73,881
ST Bank borrowings	270,360	30,171	106,336	187,680	187,680	187,680	187,680	187,680	187,680
Other current liabilities	0	0	53,337	41,395	41,395	41,395	41,395	41,395	41,395
Current Liabilities	550,979	305,082	476,440	601,253	600,318	609,937	606,846	614,513	610,041
LT Bank Borrowings	447,098	779,072	696,012	673,063	623,063	573,063	523,063	473,063	423,063
Deferred tax liabilities	23,379	18,774	16,047	11,250	11,250	11,250	11,250	11,250	11,250
Other non-current liabilities	13,781	10,931	150,335	123,005	123,005	123,005	123,005	123,005	123,005
Non-Current Liabilities	484,258	808,777	862,394	807,318	757,318	707,318	657,318	607,318	557,318
Total Liabilities	1,035,237	1,113,859	1,338,834	1,408,571	1,357,636	1,317,255	1,264,164	1,221,831	1,167,359
Share capital	77,500	77,500	76,078	74,592	74,592	74,592	74,592	74,592	74,592
Reserve	2,019,990	1,918,744	1,944,742	2,173,069	2,385,988	2,646,881	2,956,329	3,297,704	3,669,707
Shareholders' Equity (w/out MI)	2,097,490	1,996,244	2,020,820	2,247,661	2,460,580	2,721,473	3,030,921	3,372,296	3,744,299
Minority interest	7,503	(4,042)	1,587	8,856	8,540	8,153	7,693	7,186	6,634
Total Liabilities and SE	3,140,230	3,106,061	3,361,241	3,665,088	3,826,756	4,046,880	4,302,778	4,601,313	4,918,292

Source: Company data, Jefferies estimates (E)

Exhibit 8 - Cash flow statement

Cash Flow Statement									
HK\$ '000	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Profit before tax	201,521	119,002	202,008	124,224	409,065	501,232	594,518	655,857	714,701
Depreciation of PP&E	53,183	57,439	57,551	58,641	62,270	66,972	72,144	70,526	69,458
Amortization of intangible assets	37,076	38,039	95,353	77,110	77,110	73,593	70,236	67,033	63,975
Asset impairment	(2,715)	516	195	0	0	0	0	0	0
Share of results of associates	1,288	1,929	504	1,537	1,537	1,537	1,537	1,537	1,537
Interest income	(443)	(547)	(1,270)	(1,255)	(2,204)	(2,595)	(3,394)	(4,100)	(5,027)
Finance cost	28,582	51,516	37,902	33,699	31,741	29,784	27,826	25,869	23,911
Gain/loss on disposal of PP&E	(95)	156	(487)	0	0	0	0	0	0
Others	6,748	(226)	1,270	216,844	0	0	0	0	0
Net change in WC	(73,983)	(9,970)	(11,818)	(89,261)	62,726	(70,570)	6,151	(58,349)	14,624
Cash generated from operations	251,162	257,854	381,208	421,539	642,246	599,952	769,020	758,373	883,179
Income tax paid	(56,489)	(52,961)	(38,982)	(21,362)	(81,813)	(100,246)	(118,904)	(131,171)	(142,940)
Net cash from operating activities	194,673	204,893	342,226	400,177	560,433	499,706	650,116	627,202	740,239
Proceeds from disposal of PP&E	1,506	1,696	7,762	0	0	0	0	0	0
Finance income	443	547	1,270	1,255	2,204	2,595	3,394	4,100	5,027
Acquisition of PP&E	(191,360)	(140,679)	(138,712)	(72,446)	(101,457)	(110,073)	(58,658)	(61,624)	(64,139)
Acquisition of intangible assets	0	0	(8,802)	0	0	0	0	0	0
Acquisition of subsidiaries	1,563	0	(3,224)	0	0	0	0	0	0
Increase in restricted cash	(8,741)	985	6,152	0	0	0	0	0	0
Others	(15,178)	(5,151)	(3,032)	24,227	0	0	0	0	0
Net cash from investing activities	(211,767)	(142,602)	(138,586)	(46,964)	(99,253)	(107,478)	(55,264)	(57,525)	(59,112)
Proceeds from bank borrowings	206,895	805,006	20,000	81,344	0	0	0	0	0
Repayments of bank borrowings	(118,602)	(742,513)	(29,970)	(22,949)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
Proceeds from shares issued	0	0	0	0	0	0	0	0	0
Shares repurchase	0	(16,420)	(30,819)	(6,867)	0	0	0	0	0
Dividends paid to equity holders	(34,000)	(40,000)	(44,085)	(67,373)	(114,649)	(140,480)	(166,626)	(183,817)	(200,309)
Acquisitions of non-controlling interests	0	(20,591)	(5,585)	0	0	0	0	0	0
Interest paid	(25,139)	(23,962)	(28,584)	(33,699)	(31,741)	(29,784)	(27,826)	(25,869)	(23,911)
Others	(1,093)	(648)	(64,994)	(39,684)	0	0	0	0	0
Net cash from financing activities	28,061	(39,128)	(184,037)	(89,228)	(196,390)	(220,264)	(244,452)	(259,686)	(274,221)
Net change in cash	10,967	23,163	19,603	263,985	264,789	171,964	350,400	309,991	406,907
Cash at beginning of period	337,004	368,660	380,393	393,905	697,827	962,616	1,134,580	1,484,979	1,794,970
Exchange (losses)/gains	20,689	(11,430)	(6,091)	7,373	0	0	0	0	0
Cash restatement	0	0	0	32,564	0	0	0	0	0
Cash at end of period	368,660	380,393	393,905	697,827	962,616	1,134,580	1,484,979	1,794,970	2,201,877

Source: Company data, Jefferies estimates (E)

Exhibit 9 - Key ratios

Ratios	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
AR days	65	63	61	75	65	60	60	60	60
AP days	21	18	20	23	20	20	20	20	20
Inventory days	25	28	33	40	35	35	35	35	35
Capex as % of sales	8.8%	6.1%	5.8%	3.3%	4.0%	4.0%	2.0%	2.0%	2.0%
D&A as % of PP&E	30.7%	17.6%	13.3%	11.8%	12.0%	12.0%	12.0%	12.0%	12.0%
Current ratio	1.7x	3.1x	2.1x	2.3x	2.7x	3.0x	3.6x	4.2x	4.8x
Quick ratio	1.6x	2.8x	1.9x	2.1x	2.5x	2.8x	3.4x	3.9x	4.6x
Cash ratio	0.7x	1.2x	0.8x	1.2x	1.6x	1.9x	2.4x	2.9x	3.6x
OCF/share	0.2	0.2	0.3	0.4	0.6	0.5	0.7	0.7	0.8
FCF/share	0.0	0.1	0.2	0.3	0.5	0.4	0.6	0.6	0.7
ROA	5%	3%	5%	3%	9%	10%	11%	11%	12%
ROE	7%	4%	8%	5%	13%	15%	16%	16%	15%
Dividend pay-out ratio	30%	39%	32%	63%	35%	35%	35%	35%	35%
Net Gearing Ratio	17%	22%	20%	7%	-6%	-14%	-25%	-34%	-42%

Source: Company data, Jefferies estimates (E)

Company Description

Modern Dental

Modern Dental is a global dental prosthetic device provider with two major product lines: fixed prosthetic devices such as crowns and bridges; and removable prosthetic devices such as removable dentures.

Company Valuation/Risks

Modern Dental

Our PEG based PT for Modern Dental is HK\$7.3. Risks: goodwill impairment, ASP pressure, competition, M&A integration risks.

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(Article 3(1)e and Article 7 of MAR)

Recommendation Published	April 25, 2021 , 22:33 ET.
Recommendation Distributed	April 25, 2021 , 22:33 ET.

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The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is

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Rating and Price Target History for: Modern Dental Group (3600 HK) as of 04-22-2021



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Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

Distribution of Ratings

Distribution of Ratings						
			IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
	Count	Percent	Count	Percent	Count	Percent
BUY	1691	61.67%	179	10.59%	25	1.48%
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