

ISEC Healthcare Ltd

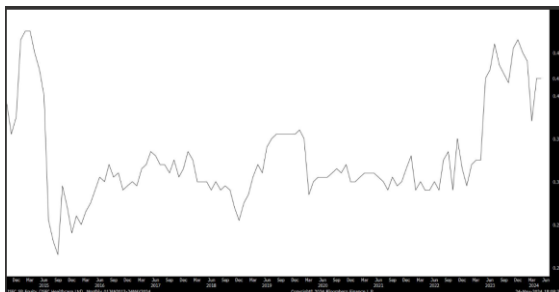
Date: 6 June 2024

BUY (Initiation)

BBG	ISEC SP	
Market Cap (S\$m)	218.6	
Price (S\$)	0.38	
52-week range (S\$)	0.35 - 0.48	
Target Price (S\$)	0.44	
Shares Outstanding (m)	575.2	
Free Float	22.1%	
Major Shareholder	Aier Eye International	57.18%
	Wong Jun Shyan	4.81%
	Lee Hung Ming	3.48%

Source: Company data, Bloomberg, SAC Capital

Share Price



Source: Company data, Bloomberg, SAC Capital

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Eyeing Opportunities

ISEC Healthcare Ltd. is a leading regional provider of comprehensive medical eye care services with ambulatory surgical centers. With over 15 years of experience, it operates in Malaysia, Singapore and Myanmar, providing advanced treatments through a team of specialist doctors at well-equipped centers. Listed on the Catalist board of the Singapore Exchange in 2014, ISEC Healthcare has expanded its market presence and, in 2019, became a subsidiary of Aier Eye International (Singapore) Pte. Ltd., part of China's Aier Eye Hospital Group, listed on the Shenzhen Stock Exchange.

For 1Q24, the Group sustained its revenue and net profit at levels comparable to its record years. Following a double-digit growth in both topline and bottom-line for FY22, the Group reported strong results for FY23, achieving a revenue of S\$70m and a net profit of S\$13.2m, marking a +3.3% y/y and setting a new record since its IPO in 2014. In 1Q24, the Group posted a revenue of S\$16.9m and a net profit of S\$3.2m, maintaining a stable performance y/y and q/q.

In the medium term, we are upbeat about the prospects of ISEC Healthcare's continued expansion, particularly in Malaysia. In December 2023, the Group signed a S&P agreement to the proposed acquisition of certain parcels in a new 15-storey building with 2 lower ground floors at Bangsar South Township, Kuala Lumpur. The new premises will be c.2.5X its existing clinic size in KL. With increasing demand for ophthalmology services in the region, strategic plans to expand into existing and new markets and the Group's effort to enlarge their highly-specialized talent pool, positions it well for sustainable growth.

Potential risks include i) political instability in Myanmar affecting operations and ii) exposure to currency fluctuations, particularly in Malaysia and Myanmar.

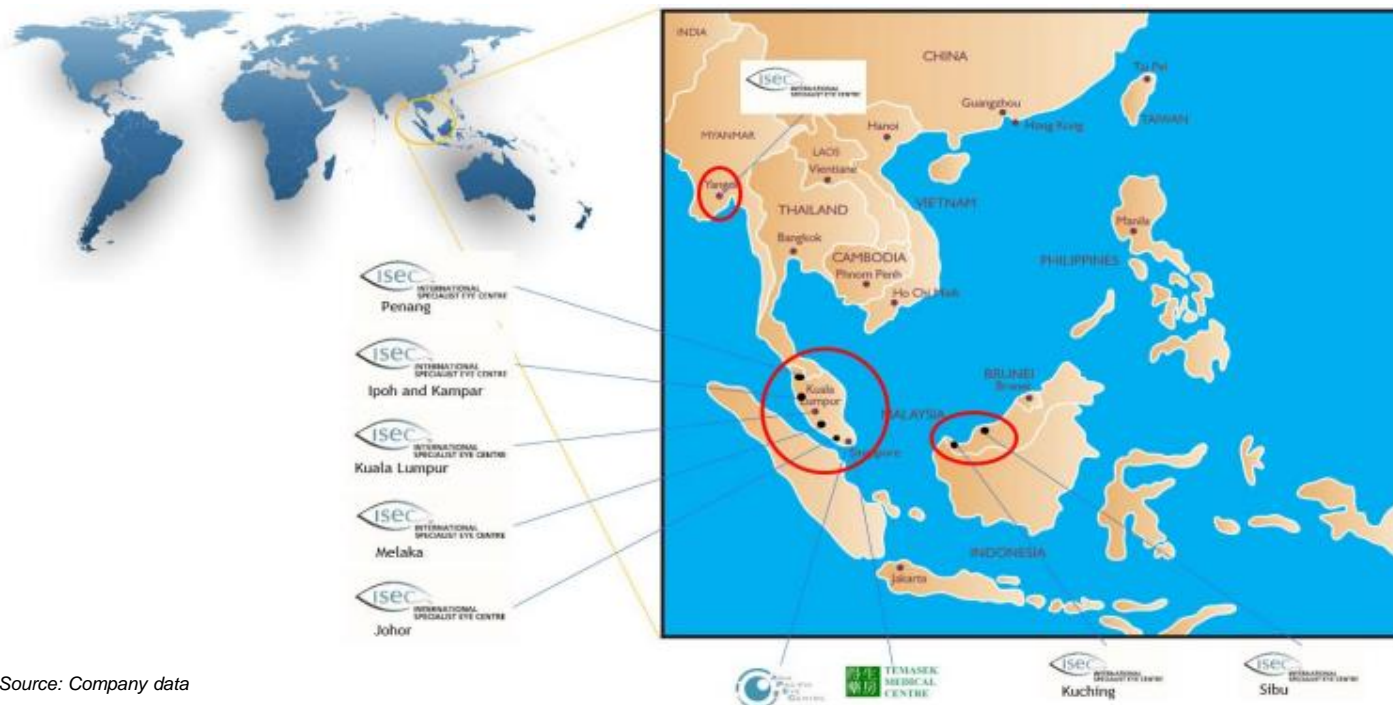
BUY; target price at S\$0.44, an upside of 15% from current levels. Our TP is based on comparable company analysis and implies a PE of c.15.5, which is close to the Group's historical average.

YE Dec (S\$m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	63.0	70.0	72.8	84.5	91.7
Revenue Growth	55.6%	11.2%	4.0%	16.1%	8.5%
Net Profit	12.7	13.2	14.2	16.5	17.9
Net Profit Growth	85.0%	3.3%	7.9%	16.1%	8.5%
EPS (S cents)	2.2	2.3	2.5	2.9	3.1
EPS Growth	77.0%	1.8%	9.2%	16.4%	8.5%
DPS (S cents)	1.56	1.61	1.73	2.01	2.18
Dividend Yield	5.04%	4.11%	4.54%	5.29%	5.74%
Dividend Payout	70.2%	71.2%	70.0%	70.0%	70.0%

Company Background

ISEC Healthcare, short for International Specialist Eye Centre, was formed by seven eye specialist doctors, including Dr. Wong Jun Shyan. The company was listed on 28 October 2014. Dr. Lee Hung Ming who joined the Group in 2014, began his private practice in 2007 at Gleneagles Hospital. Led by specialist doctors who are leaders in their fields, the Group offers advanced treatments with state-of-the-art ophthalmic equipment at well-equipped eye centers. The doctors continually undergo professional development and medical education to provide the highest standards of eye care.

Location of ISEC Healthcare Ltd. Clinics



Source: Company data

Expansion Efforts

ISEC Healthcare is strategically expanding its operations to drive future growth.

Malaysia

The Group is opening three new centres in Perak, which are expected to commence operations in 3Q24. An expanded facility in Melaka, which will be 50% larger than the current centre, is also expected to be operational in 3Q24. A new centre in Klang Town is expected to be operational at the end of 2024.

Kuala Lumpur

In December 2023, ISEC signed a sales and purchase agreement for the acquisition of strata-titled units in a new 15-storey purpose-built medical center in Bangsar South Township, Kuala Lumpur. This new facility will be about 2.5 times larger than the current leased premises in Mid Valley City, allowing the Group to serve more patients and expand its health services. The construction of the building is estimated to be completed by December 2026.

Myanmar

ISEC Healthcare has expanded into hospital premises in Myanmar. The new eye center, located within a hospital, provides a platform for ISEC Myanmar to better reach out to patients who are seen or treated in the hospital and require specialized eye treatment options. The new clinic has been operational since February 2023.

Timeline of Recent Corporate Developments

2023

Feb 2023

ISEC Myanmar has a new additional ophthalmology clinic at ARYU International hospital, located at Tamwe Township, Yangon. It commenced full operation in February 2023.

Mar 2023

ISEC Kuching has attained the operating license from the Ministry of Health, Malaysia. It commenced full operation in March 2023.

Dec 2023

Signed a S&P to acquire certain strata-title units in a new building to be constructed according to ISEC's KL specifications. ISEC KL will have an c.2.5X additional floor space compared to its current leased premises.

2024

3Q24

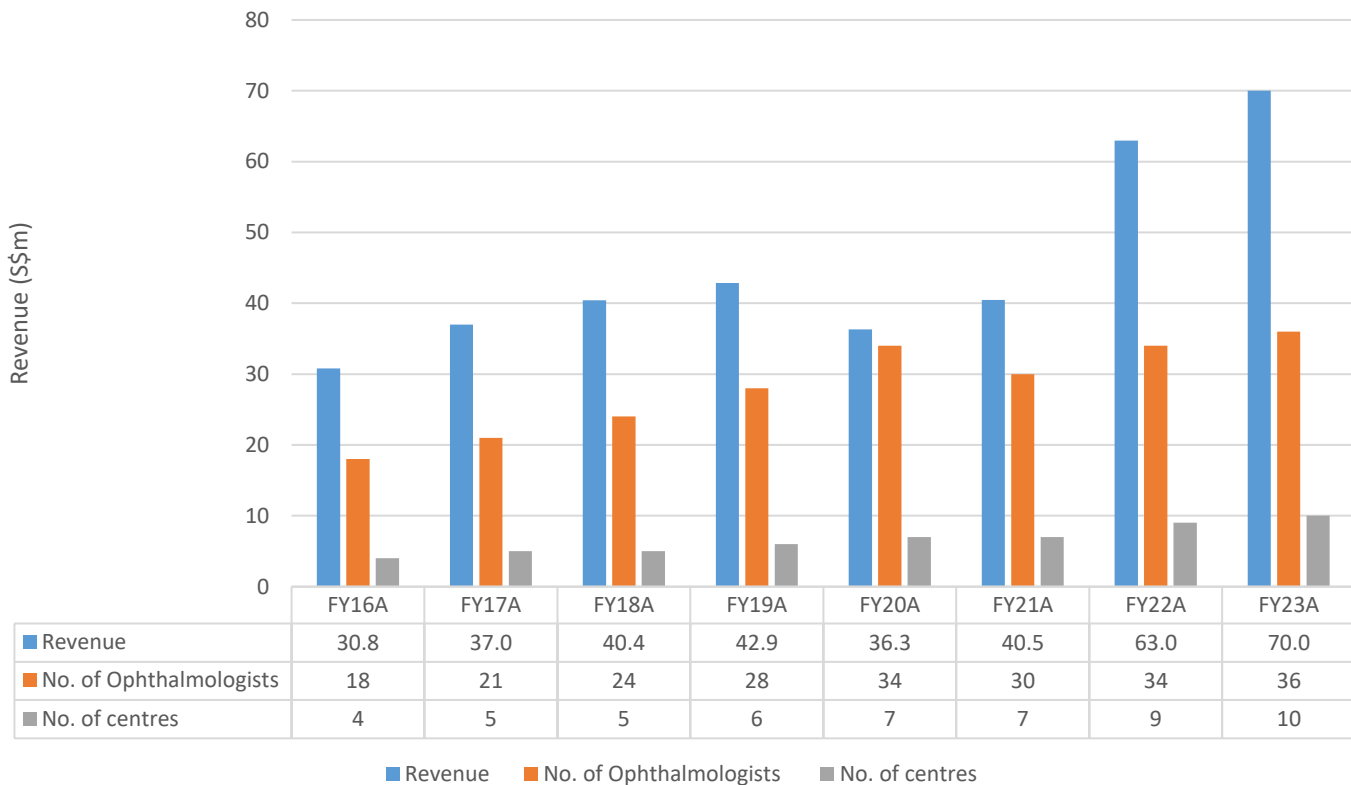
3 centres from the IPOH Eye Transaction (ME Centre, TE Centre, Taiping Eye) are expected to commence operations.

Expected completion of the expansion of Melaka Eye Centre ; it will be about 50% larger than the current centre.

4Q24

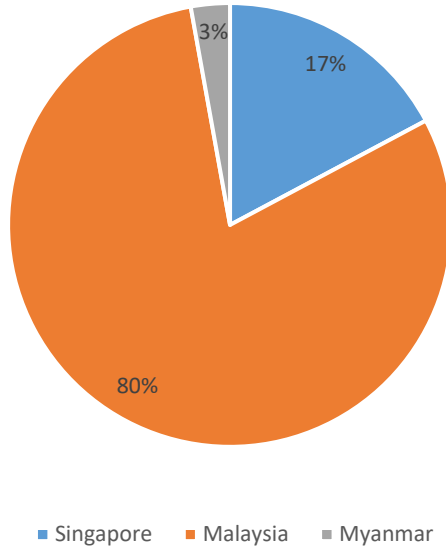
A new eye centre in the city of Klang, is expected to be ready for operation.

Growth of Revenue, Number of Ophthalmologists and Number of Centers from 2016 to 2023



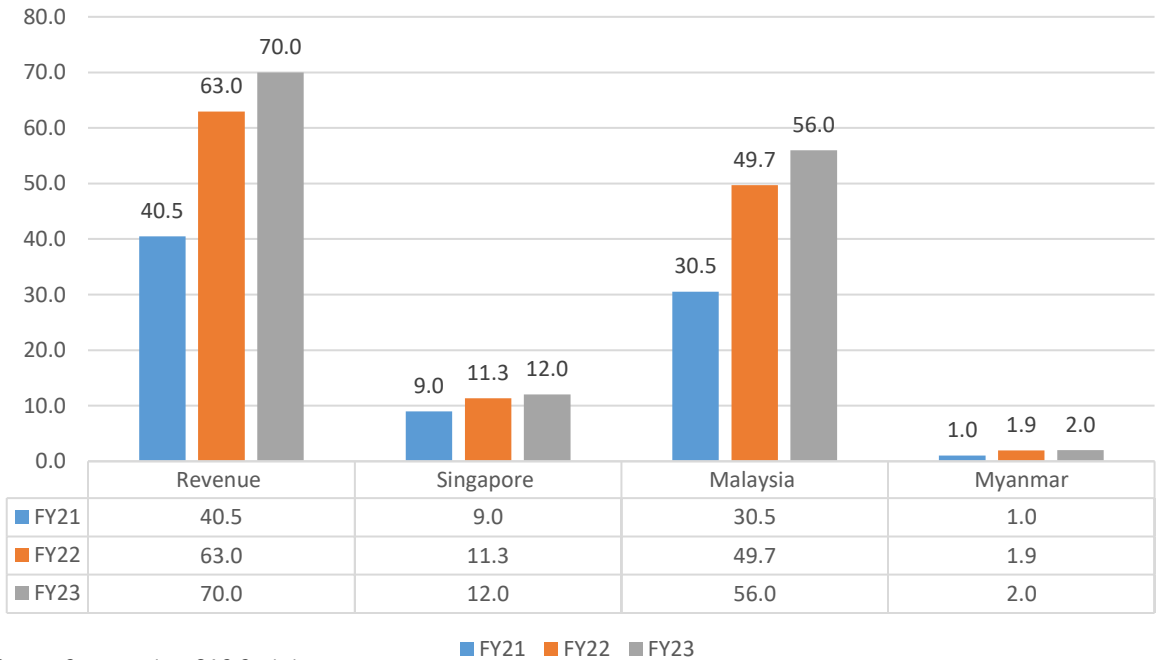
Revenue Geographical Breakdown

Revenue (%) Geographical Breakdown FY23



Source: Company data, SAC Capital

Revenue Geographically S\$m



Source: Company data, SAC Capital

Types of Services

Cataract and Intraocular Lens Implant

Multifocal IOL Implant
Mature Cataract Management
Child Cataract Management
Refractive Lens Exchange

Glaucoma Diagnostics and Therapeutics

Adult Glaucoma Treatment
Child Glaucoma Treatment
Humphrey Visual Field Test
Optical Coherent Tomography
Glaucoma Surgery and Lasers

Refractive Surgery

LASIK, PRK, LASEK and Epi-LASIK
Phakic Intraocular Lens Implant
Refractive Lenticule Extraction (ReLEx™ and ReLEx® SMILE™)
SupraCor Presbyopic Laser Surgery

Medical Retinal Diseases

Fluorescein Angiography
Optical Coherent Tomography
Anti-VEGF Therapy
Photodynamic Therapy

Vitreous and Retinal Diseases

Retinal Detachment Surgery
Macular Hole Surgery
Epiretinal Membrane Surgery
Diabetic Eye Disease Management
Retinal Laser Photocoagulation

Oculoplastics, Facial Cosmetics and Aesthetics Surgery

Lids

Ptosis Correction in Adults & Children
Correction of Lid Abnormalities
Lid Lacerations
Brow Lift
Removal of Lid Tumours and Reconstruction

Cornea, External Eye Diseases and Anterior Segment

Pterygium Surgery
Corneal Transplant Surgery
Anterior Segment Reconstruction
Cornea Collagen Cross-Linking

Orbit

Management of Orbital Floor Fracture
Removal of Tumours and Reconstruction
Evisceration, Enucleation and Reconstruction with Orbital Implant
Exenteration for Extensive Tumours
Management of Tear Duct Obstruction
Management of Canalicular Laceration
Thyroid Eye Disease (Medical & Surgical)
Removal of Lesions on Face and Lid
Blepharoplasty
Skin Crease Formation (Double Eye Lid)
Aesthetic Facial Fillers and Botox

Adult Strabismus and Paediatric Ophthalmology

Visual Screening
Paediatric Cataract Surgery
Retinopathy of Prematurity Management
Squint Surgery
Childhood Tumour Management
Paediatric Myopia

Uveitis

Ocular Immunology

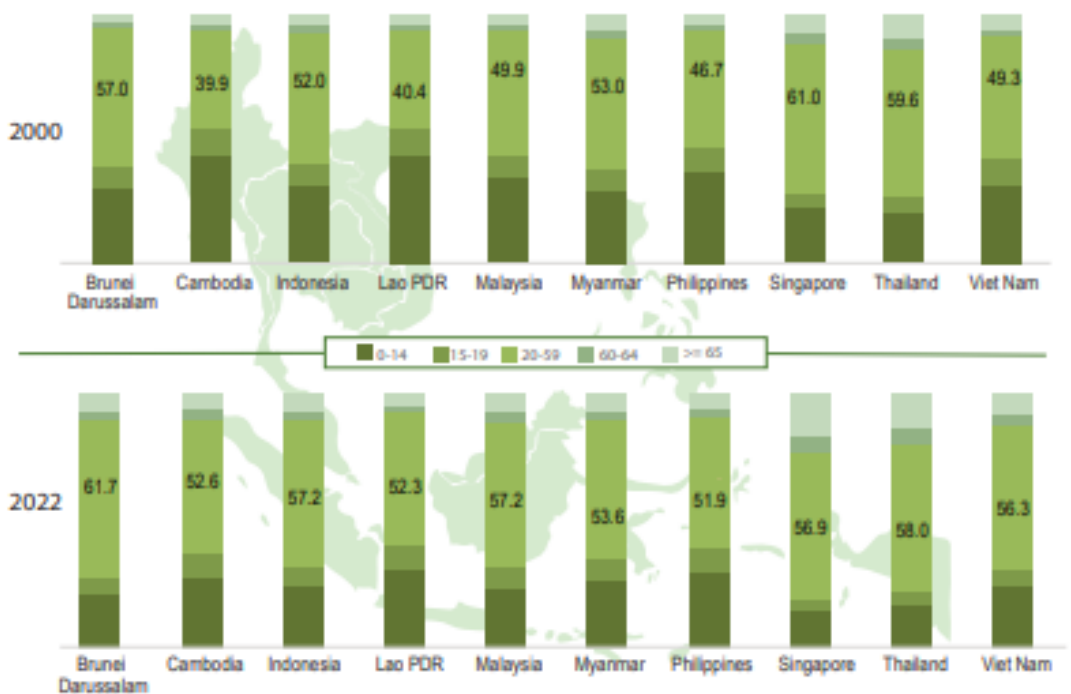
Optometry and Orthoptics

Source: Company data

Industry Overview

Aging Population

The aging population in the ASEAN region is growing rapidly, with the proportion of elderly individuals increasing from 5.3% in 2000 to 7.5% in 2022. This demographic shift is driven by longer life expectancies and declining birth rates. Consequently, the old-age dependency ratio has risen, indicating a higher number of elderly people relative to the working-age population. For instance, Singapore saw its old-age dependency ratio increase significantly from 11.8 in 2000 to 29.2 in 2022. This trend creates challenges for healthcare systems and infrastructure, necessitating enhanced services and support for the elderly. As the population continues to age, there will be a higher demand for specialized healthcare services such as those provided by the Group, which focuses on ophthalmology, an area often requiring increased attention in older age. Moreover, with the increasing aging population, the prevalence of age-related eye conditions also rises.



Source: ASEAN Secretariat, ASEANstats database

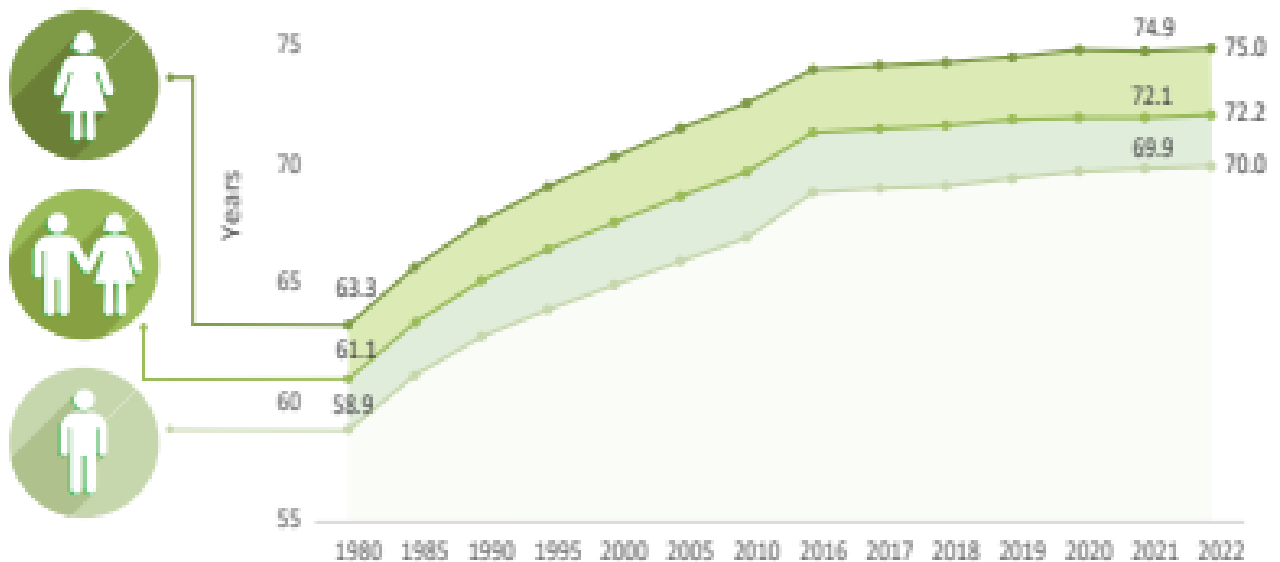
Increased Prevalence of Age-Related Eye Conditions:

- Cataracts**
 One of the most common eye conditions among the elderly, requiring surgical intervention to restore vision.
- Glaucoma**
 A leading cause of irreversible blindness, with higher incidence rates in older populations.
- Age-Related Macular Degeneration (AMD)**
 A major cause of vision loss in the elderly, necessitating regular monitoring and treatment.
- Diabetic Retinopathy**
 As diabetes is more prevalent in older adults, regular eye examinations become crucial to prevent blindness from diabetic retinopathy.

Industry Overview

Higher Life Expectancy

The aging population in the ASEAN region, coupled with increasing life expectancy, highlights the rising demand for specialized healthcare services. The average life expectancy in ASEAN reached 72.2 years in 2022, a significant increase from 1980 (61.2 years). This demographic shift is driven by improved healthcare systems and higher healthcare expenditures, resulting in better health outcomes and longer lives. As the population ages, the prevalence of age-related eye conditions such as cataracts, glaucoma, and age-related macular degeneration increases. These conditions necessitate regular monitoring and treatment, boosting the demand for ophthalmology services.



Source: ASEAN Secretariat, ASEANstats database

Longer Lifespans:

- Extended Need for Eye Care

As life expectancy increases, so does the need for prolonged eye care services to manage chronic eye conditions and maintain quality of life.

- Proactive Health Management

Older adults are more likely to seek proactive eye care to preserve their vision and independence.

Prevalence of Eye Diseases

- High Incidence of Refractive Errors

Myopia (nearsightedness), hyperopia (farsightedness), and astigmatism are common in both children and adults. Urbanization and increased screen time have led to a rise in these conditions, requiring regular eye examinations and corrective measures.

- Diabetes-Related Eye Conditions

The prevalence of diabetes is rising in ASEAN countries, leading to an increase in diabetic retinopathy, a condition that affects the eyes and can lead to blindness if untreated.

Industry Overview

Tourism and Medical Tourism; Rising Affluence

ASEAN countries, particularly Thailand, Malaysia, and Singapore, are increasingly popular destinations for medical tourism, including ophthalmology services. High-quality care at competitive prices attracts international patients, boosting demand for medical services in the region. This trend is further supported by rising affluence in ASEAN countries, leading to higher disposable incomes and a greater willingness to pay for quality eye care services, including elective procedures like LASIK and premium intraocular lenses (IOLs) for cataract surgery. Increased financial capability encourages more frequent and regular eye check-ups, facilitating early detection and treatment of eye conditions.

Additionally, rising affluence has led to broader health insurance plans that cover a wider range of eye care services, reducing out-of-pocket expenses for patients. Employers are also more likely to offer comprehensive health benefits, including eye care, as part of their employee wellness programs, further increasing access to quality eye care services in the region. These factors collectively contribute to the growing demand for specialized ophthalmology services provided by groups like ISEC Healthcare.

Tourism and Medical Tourism

- Medical Tourism

ASEAN countries like Thailand, Malaysia, and Singapore are becoming popular destinations for medical tourism, including ophthalmology services. High-quality care at competitive prices attracts international patients, boosting demand.

Rising Affluence

- Higher Disposable Incomes

Willingness to Pay for Quality Care: As disposable incomes rise, individuals are more willing to pay for high-quality eye care services, including elective procedures like LASIK and premium intraocular lenses (IOLs) for cataract surgery.

- Regular Eye Check-Ups


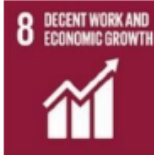

Increased financial capability encourages more frequent and regular eye check-ups, leading to early detection and treatment of eye conditions.

- Health Insurance Coverage
 - Broader Insurance Plans
 - Rising affluence leads to more comprehensive health insurance plans that cover a wider range of eye care services, reducing out-of-pocket expenses for patients.
 - Employer-Sponsored Health Benefits
 - With increasing affluence, employers are more likely to offer health benefits, including eye care, as part of their employee wellness programs.

ESG

As a healthcare service provider, ISEC Healthcare’s sustainability initiatives are closely aligned with several Sustainable Development Goals (SDGs), particularly SDG 3: Good Health and Well-Being, SDG 8: Decent Work and Economic Growth, and SDG 12: Responsible Consumption and Production.

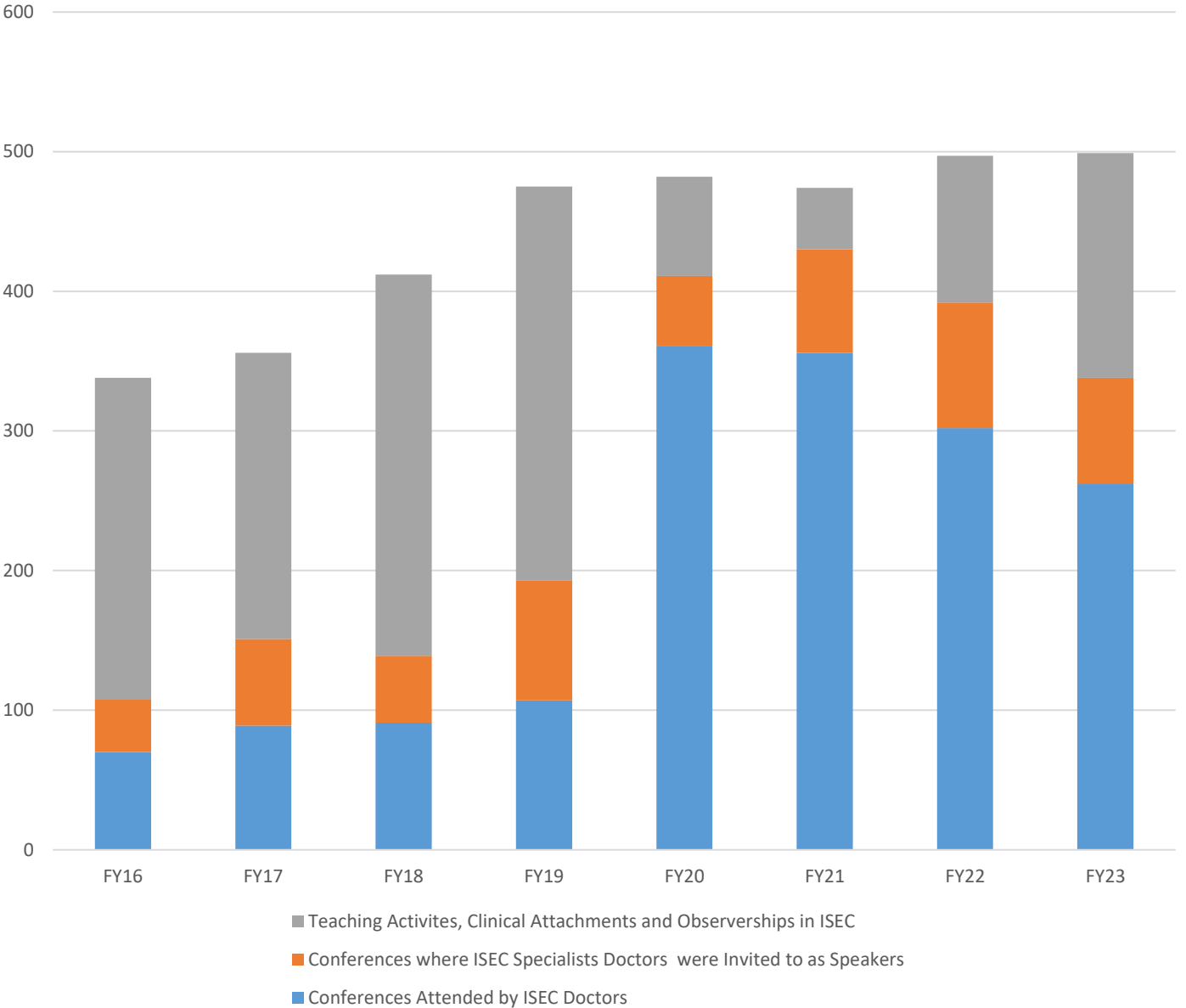
SUSTAINABLE DEVELOPMENT GOALS

		
Good Health and Well-Being	Decent Work and Economic Growth	Responsible Consumption and Production
Ensure healthy lives and promote well-being for all at all ages	Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all	Ensure sustainable consumption and production patterns
How is ISEC Healthcare working towards the goals		
Raising public awareness on good eye health and early detection through preventive treatment methods and eye health checks	Decent work for employees and workers in a safe environment	Standard Operating Procedures (“SOPs”) on waste management were developed in strict accordance with government regulations
Doctors’ participation in symposiums, clinical trials, development of eye care technology	In-house certified trainers and external training for all	Advocating 3R (“Reduce, Reuse and Recycle”) behaviour through bag-free Saturdays across various clinics
Physical and online talks, podcasts, and virtual awareness topics such as diabetic retinopathy and glaucoma-related topics.	Provision of complimentary updated influenza vaccination for all employees	Replacement of conventional light fittings to LED type
Provided consultation to patients in Myanmar via tele-consultation	Performance-based promotions for suitable employees	Refurbishment of existing medical equipment such as replacing faulty lamps, parts of the microscope and tonometer ² across clinics instead of purchasing new units
Relevant Material Matters		
<ul style="list-style-type: none"> Excellent Service Quality (Pg. 14-16) 	<ul style="list-style-type: none"> Employee Development and Retention (Pg. 20-22) Occupational Health and Safety (Pg. 23-24) Diversity and Equal Opportunities (Pg. 18-20) 	<ul style="list-style-type: none"> Energy and Carbon Footprint (Pg. 27-28) Waste Management (Pg. 28-29)

Source: Company data

Commitment to Training of Specialists Doctors

The Group consistently upholds the highest standards of eye care practices. Doctors regularly attend conferences and seminars, either as speakers to share their expertise or to stay updated on the latest healthcare technologies and trends.



Source: Company data, SAC Capital

Valuation

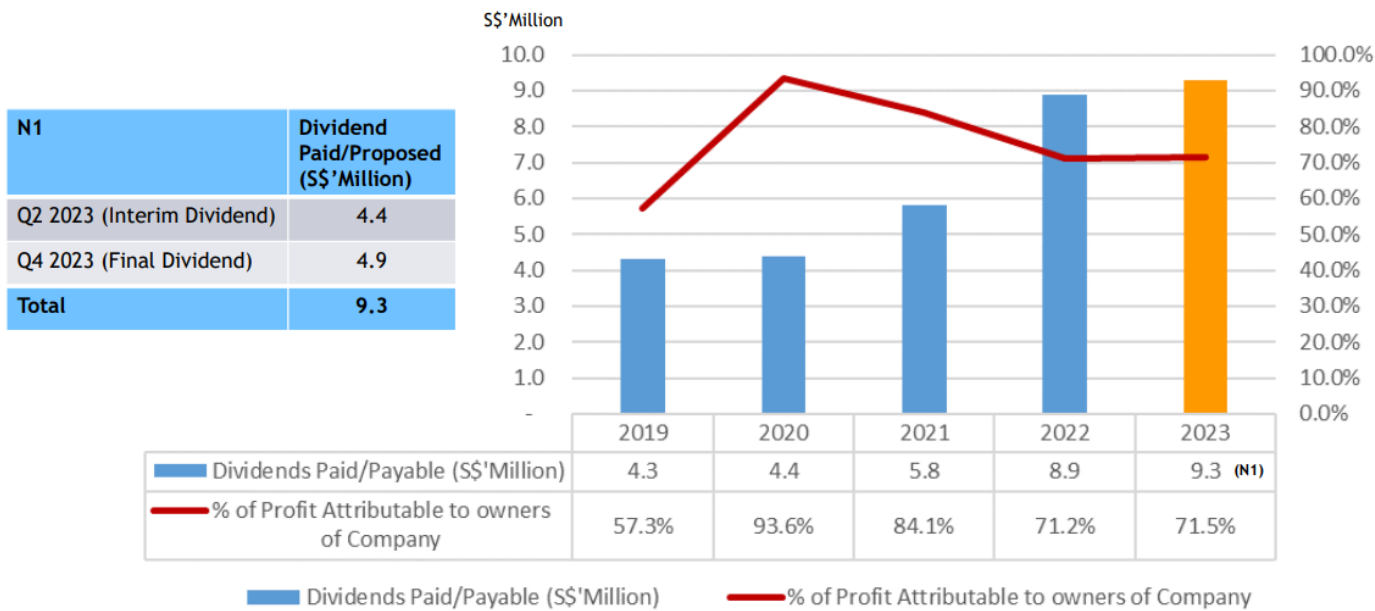
Applying the average P/E ratio of similar companies in the healthcare sector to ISEC Healthcare's forward EPS, we estimate a TP of S\$0.44, an upside of 15%. This method provides a market-based valuation that reflects the expected future earnings potential of ISEC Healthcare.

Company	Ticker	Market Cap	P/E: Current	P/E: 12M Forward	P/E: 24M Forward	P/E: 36 M Forward
Thomson Medical	TMG SP	1348.5	85	52.0	52.0	26
Raffles Medical	RFMD SP	1910	21.24	26.4	24.0	21.46
OUE Healthcare	OUE SP	983.2	12.19	-	-	-
Econ Healthcare	ECON SP	50.5	10.11	-	-	-
Aoxin Q&M	AOXIN SP	39.9	-	-	-	-
TalkMed	TKMED SP	517.4	16.05	-	-	-
Q&M Dental	QNM SP	222.4	19.58	13.1	11.8	11.75
Alliance healthcare	AHG SP	27.8	22.5	-	-	-
Clearbridge healthcare	CBH SP	6.8	-	-	-	-
Healthway Medical Corp	HMED SP	-	-	-	-	-
Singapore Pain Care	SPCH SP	26.2	-	-	-	-
Asia Medic	AMAT SP	13.9	7.1	-	-	-
<i>Mean</i>			<i>15.5</i>			
<i>source: Bloomberg</i>						

Source: Bloomberg

Dividends

The Group has a payout ratio of over 70% since 2020. Extrapolating from this trend, we anticipate a dividend payout of 1.73 S cents in FY24, translating to a dividend yield of 4.54%.



N1 - Includes final dividend of 0.85 Singapore Cents proposed but not yet approved by the shareholders; to be tabled for approval in the AGM on 19 April 2024.

Source: Company data

Income Statement

YE Dec (\$\$m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	63.0	70.0	72.8	84.5	91.7
Cost of sales	(34.2)	(39.0)	(40.5)	(47.0)	(51.0)
Gross profit	28.8	31.0	32.3	37.5	40.7
<i>% Change</i>	<i>60.91%</i>	<i>7.89%</i>	<i>4.00%</i>	<i>16.12%</i>	<i>8.51%</i>
Other item of income					
Other income	0.5	0.5	0.5	0.6	0.6
Selling and distribution expenses	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)
Administrative expenses	(10.3)	(12.1)	(12.6)	(14.6)	(15.9)
Other expenses	(1.5)	(1.3)	(1.3)	(1.5)	(1.7)
Finance costs	(0.6)	(0.7)	-	-	-
Profit before income tax	16.8	17.3	18.7	21.7	23.5
Income tax expense	(4.1)	(4.2)	(4.5)	(5.2)	(5.7)
Profit for the year	12.7	13.2	14.2	16.5	17.9

Balance Sheet

YE Dec (\$\$m)	FY22A	FY23A	FY24E	FY25E	FY26E
ASSETS					
Non-current assets					
Property, plant and equipment	16.3	17.0	15.6	14.3	12.9
Right-of-use assets	10.9	9.8	8.0	6.1	4.2
Intangible assets	55.3	52.9	52.4	52.0	51.6
Investment in associate	-	-	-	-	1.0
Net investment in sublease	-	0.1	0.1	0.1	0.1
Deposits	-	-	-	-	1.0
Deferred tax assets	0.2	0.3	0.3	0.3	0.3
Total non-current assets	82.7	80.1	76.4	72.7	71.0
Current assets					
Inventories	1.9	2.2	2.2	3.5	3.9
Trade and other receivables	4.7	5.0	4.2	4.6	4.9
Other receivables and deposits					
Prepayments	0.3	0.3	0.3	0.4	0.5
Net investment in sublease	0.1	0.1	0.1	0.1	0.1
Cash and cash equivalents	20.6	19.4	19.8	26.2	34.7
Total current assets	27.6	27.0	26.5	34.7	43.9
Total assets	110.3	107.1	102.9	107.4	114.9
Net assets					
EQUITY AND LIABILITIES					
EQUITY					
Share capital	75.5	76.1	76.1	76.1	76.1
Treasury share reserve	(0.1)	-	-	-	-
Other reserves	(10.6)	(12.9)	(12.9)	(15.0)	(15.0)
Retained earnings	15.1	17.5	21.7	26.7	32.0
Equity attributable to owners of the Company	79.9	80.7	85.0	87.8	93.2
Non-controlling interests	1.5	1.4	1.4	1.4	1.4
Total equity	81.3	82.2	86.4	89.3	94.6
LIABILITIES					
Non-current liabilities					
Other payables	1.0	-	-	-	-
Borrowings	1.8	1.3	-	-	1.0
Lease liabilities	9.6	8.8	9.1	10.6	11.5
Deferred tax liabilities	0.3	0.2	0.2	0.2	0.2
Provisions	0.2	0.2	0.2	0.2	0.2
Total non-current liabilities	12.9	10.5	9.5	11.0	12.9
Current liabilities					
Trade and other payables	7.0	5.2	5.2	5.2	5.2
Advances and contract liabilities	0.3	0.4	-	-	-
Accrued expenses	0.9	1.1	-	-	-
Borrowings	0.8	0.8	-	-	-
Payroll payable	3.6	3.8	-	-	-
Lease liabilities	1.7	1.6	1.7	1.9	2.1
Current income tax payable	1.8	1.4	-	-	-
Provisions	0.0	-	-	-	-
Total current liabilities	16.1	14.5	6.9	7.2	7.4
Total liabilities	29.0	25.0	16.4	18.2	20.2
Total equity and liabilities	110.3	107.1	102.8	107.4	114.9

Cash Flow Statement

YE Dec (\$\$m)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flows from operating activities					
Profit before income tax	16.8	17.3	18.7	21.7	23.5
Adjustments for:					
Amortisation of intangible assets	0.5	0.5	0.5	0.5	0.5
Depreciation of property, plant and equipment	1.2	1.5	1.5	1.5	1.5
Depreciation of right-of-use assets	1.7	1.9	1.9	1.9	1.9
Interest income	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
Interest expense	0.6	0.7	-	-	-
Other income from rental rebates	-	-	-	-	-
Loss on disposal of associate	0.2	-	-	-	-
Share of results of associate	0.0	-	-	-	-
Share-based compensation expense	-	0.1	0.1	0.1	0.1
Operating cash flows before movements in working capital	20.8	21.7	22.4	25.4	27.2
Working capital changes:					
Inventories	(0.5)	(0.5)	-	-	-
Trade and other receivables	0.5	0.1	-	-	-
Trade and other payables	0.5	0.6	(0.9)	1.7	0.7
Cash generated from operations	21.3	21.9	21.5	27.1	27.9
Income tax paid	(3.5)	(4.7)	(4.5)	(5.2)	(5.7)
Net cash generated from operating activities	17.8	17.2	17.0	21.8	22.2
Cash flows from investing activities					
Purchase of property, plant and equipment	5.7	(3.4)	-	-	-
Purchase of intangible assets	-	(0.1)	(0.1)	(0.1)	(0.1)
Deposits for intended acquisition of property, plant and equipment	-	-	-	-	1.0
Interest received	0.2	0.3	0.3	0.3	0.3
Payment to vendors	(0.6)	(3.2)	(3.2)	(3.2)	(3.2)
Acquisition of subsidiaries, net of cash acquired	(5.5)	-	-	-	-
Net cash used in investing activities	(11.6)	(6.4)	(3.0)	(3.0)	(2.0)
Cash flows from financing activities					
Advances from non-controlling interests	-	1.2	-	1.0	2.0
Dividends paid	(4.4)	(10.5)	(9.9)	(11.5)	(12.5)
Subscription of shares in a subsidiary by non-controlling interest	0.3	-	-	-	-
Proceeds from exercise of share options	-	0.7	-	-	-
Principal elements of lease payments, net	(1.8)	(1.8)	(0.4)	(1.7)	(1.1)
Interest paid - lease liabilities	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)
Proceeds from bank loan	-	0.5	-	1.0	1.0
Repayment of loan	(0.8)	(0.8)	(2.2)	-	-
Interest paid - loan	(0.1)	(0.1)	-	-	-
Net cash used in financing activities	(7.2)	(11.3)	(13.0)	(11.7)	(11.0)
Net change in cash and cash equivalents	(0.9)	(0.6)	1.0	7.1	9.2
Cash and cash equivalents at beginning of year	22.5	20.6	19.4	19.8	26.2
Effect of exchange rate changes on cash and cash equivalents	(0.9)	(0.7)	(0.7)	(0.7)	(0.7)
Cash and cash equivalents at end of year	20.6	19.4	19.8	26.2	34.7

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