Clearbridge Health Limited (SGX:1H3): Price Target $0.205

Team Name: The oracles **10/09/19**
Team No: 221
Team Leader: Jonathan Lau

Market Cap / Price: $71.15mn / $ 0.142
52 Wk Low / High: $0.138 / $0.300
Beta / Yield: 0.991 / 44.3%

Q3 FY2019 Rev Projection: $4.03 million
Q3 FY2019 EPS Projection: -$467,000
FY2020 Rev Projection (Q3 2019 to Q2 2020): $20.36 million
FY2020 EPS Projection (Q3 2019 to Q2 2020): $0.00183

Fundamentals

Drivers / Catalysts:
- Significant growth potential of the precision medicine industry
- Clearbridge Health's involvement in every aspect of the supply chain of its goods and services
- Synergistic benefits from the 3 business arms of Clearbridge health

Management:
- CEO: YEE PINH JEREMY
  - Former CEO of Cordlife Group Limited from 2011- and was appointed on 15 May 2017 by Clearbridge Health
- FINANCIAL CONTROLLER: FEXLICIA LEE PEI YUE
  - Former Financial Controller at Life Corporation Limited and was appointed in April 2017 by Clearbridge Health
- CHIEF BUSINESS OFFICER: SIMON HOO KIA WEI
  - Former CEO of Life Corporation Limited and was appointed by Clearbridge Health in April 2017

Financials:
- Last Q Recap: Q1 FY2019 Rev -1.6%. EPS ↑-48.6%.
- This Q Expectation: Q2 FY2019 Rev + 53.6%. EPS ↓-2.1%.

Competition/Distribution/Production:
- Few international competitive players moving in the region but Clearbridge still holds first mover's advantage
- Various majority-owned, multi-specialty outpatient clinics as well as collaborations with external clinics and hospitals in emerging regions
- Certified technology with wide-ranging applications developed in-house that are being increasingly utilized

Industry overview and comparison:
- Precision medicine industry is expected to grow by over $150 billion USD in the next decade
- Clearbridge Health possesses first mover's advantage with their approved proprietary technology to establish barriers of entry
- Clearbridge Health reaps synergistic benefits with their extensive control of the supply chain

Recent Corporate Announcements of Interest:
- Proposed issue of Convertible Bonds – Notice of adjustment to conversion price on 1 Aug 2019
- Placements:: Proposed placement of 80,450,200 New ordinary shares in the capital of Clearbridge Health Limited on 29 July 2019
- Acquisition shares in PT Indo Genesis Medika-Completion subscription of redeemable exchangeable bonds on 24 July 2019

Risks:
- Unpredictable long term demand
- Threat of external competition
- Negative earnings for several financial quarters

Bottom Line: Despite the short-term downward trend of the stock, Clearbridge has assets that are potentially worth more than its current share price. The barriers to entry into the bio-tech industry is extremely high, and it is rare that new technologies are approved for market. Clearbridge has moved past this obstacle, with traction in its services as proof-of-concept, and is set to reap the benefits from their research efforts over the years. It is currently in the middle of its expansionary phase, marked with acquisitions and collaborations to achieve economies of scale and scope. We believe their efforts will culminate into a healthcare ecosystem of the future, and their business will prosper, underpinned by emerging market demand for more personalized and esoteric treatments.

Valuation

This Year P/E: 1H3 = -3.74x vs STI =12x
Next Year P/E : 1H3 = 77.6x vs STI =14x
Comps: P/S compared with SingMed, TalkMed, RafflesMed, IHH Healthcare = 6.17868

The Year EPS Growth: 1H3=↓62.7% vs STI=31.6%
Next Year EPS Growth: 1H3 =↑-95.2% vs STI= 9.20%

Valuation Methodology/Thesis:
- Since CHL is currently making a loss, common valuation methods like the Discounted Cash Flow Model and Discounted Price to Earnings Model are unsuitable. But, we expect CHL's loss to be temporary, as it consolidates its recent acquisitions to maximize revenues in emerging markets and reduces costs as reaches the peak of its expansionary business phase. Hence, it would be prudent to avoid an overemphasis on the near-term negative earnings. Rather, we will use Discounted Price to Sales Model and switch focus to the revenue of CHL, which we believe it reflective of the potential of CHL, as revenue will outpace costs in the long run.

Bottom Line: Comparing to the multiple similar industry peers of CHL, we have calculated an average Price/Sales ratio of 6.17868. Projecting the revenue exponentially, we obtain a revenue of $19.05 million SGD a year from now, given 574 million outstanding. Thus, our calculated target share price a year from now will be $0.205.

Clearbridge Health Limited (SGX:1H3)

Hidden bio-tech gem with immense upside potential reaches critical inflexion

Clearbridge Health Limited (CHL) is an integrated healthcare group with a central focus on the delivery of precision medicine through its three business arms: strategic investments in medical technology companies, healthcare systems and medical clinics/centres. Building upon the synergistic benefits of their extensive involvements in the various points of the precision medicine supply chain, they aim to position themselves as the leading precision healthcare provider in the region[i].

a. Strategic investments in medical technology companies

At present, CHL maintain strategic interests in three medical technology companies to provide access to new products and/or services, serving to strengthen market awareness and relationships with industry stakeholders.

a) **CLEARBRIDGE BIOPHOTONICS PTE. LTD. (CBBP)**
CBBP is an early-stage start-up that utilises a novel microscope technology from the California Institute of Technology (Caltech) known as Fourier Ptychographic Microscope that has numerous uses in clinic diagnostics and biological research[ii]

b) **BIOLIDICS LIMITED (BIOLIDICS)**
Biolidics is a Catalist-listed medical technology subsidiary focussed on the development of cell enrichment systems which, coupled with other analytical tests, have applications ranging from cancer diagnosis and prognosis to treatment selection and monitoring[ii].

c) **SINGAPORE INSTITUTE OF ADVANCED MEDICINE HOLDINGS PTE. LTD. (SIAMH)**
SIAMH owns and operates a medical centre offering services in wellness, aesthetic, digital radiology and specialist management of gastrointestinal and liver disorders[i]. In June 2018, it opened the $100 Advanced Medicine Imaging Centre in Singapore in a joint venture with Philips aimed at early detection and treatment of cancer, housing the first proton therapy centre in Asia[iii].

b. Medical Clinics/Centres

Through various acquisitions, CHL have aggressively expanded its network of owned and operated primary healthcare points, successfully establishing a foothold in Singapore, Hong Kong, Kuala Lumpur in Malaysia and in the Philippines. They currently own (hold a majority stake) and operate a total of 6 clinics with a multitude of specialisations, ranging from paediatrics to aesthetics. For future plans, they intend to open a new clinic in Hong Kong this year and have recently acquired a 51% stake in 9 dental clinics in Singapore, further bolstering their network[i].

c. Healthcare system

CHL provides a wide range of accredited and licensed in-house clinical diagnostic tests and services through their wholly-owned subsidiary SAM Lab either through their own clinics/centres or external partnerships. These tests can and are being augmented through third party-collaborations to better serve their patients.

In Indonesia, CHL has taken a 75% stake through a Memorandum of Understanding in PT Indo Genesis Medika, enabling them to manage 12 potential joint operations contacts for diagnostics laboratories in public hospitals there[i]. CHL also offers renal care services in 21 hospitals in Indonesia through their 55% stake in PT Tirta Medika Jaya[i].

Business model

Through its 3 business arms, CHL intends to develop and nurture incipient novel technology in the field of precision medicine through its strategic investment, integrating it into its range of clinical diagnostic tests and services which can then be offered to consumers through its network of clinics/centres.

This end-to-end involvement from the initial research to the final provision of products and services enables higher profit margins through efficiency gains and scaling opportunities. Although barriers of entry for this field are high, CHL is fully exploiting its first-movers advantage to capture this growing market. Despite lower profits in recent quarters, investors should not gloss over the fact that CHa has a sound business model, with future profits to be harvested.

Investment merits

The healthcare sector is primed for a secular trend of expansion supported by unabated demand despite market volatility.

2019 has kept investors on their toes. Opprobrious political rhetoric and animosity between major parties in the global arena has caused unwanted tension and consternation to reverberate into the economic market, with no conspicuous compromise in sight. Hence, as investors are naturally more cautious with their investments and seek to readjust their portfolios, it forms an unorthodox yet compelling case for a timely entry into the defensive healthcare sector.

Apart from being a financial hub, Singapore, is also a known leader in procuring quality healthcare services. Given the reliable infrastructure in place and talented workforce, it is the preferred destination for advanced medical care. Singapore was ranked first in Asia in the US-based International Healthcare Research Centre's Medical Tourism Index 2016[iv].

Singapore's healthcare sector has expanded significantly over the years and is likely poised for a higher magnitude of multi-year growth prospects. Over the last decade, the market capitalisation of Singapore's healthcare sector - including primary and secondary listings - has increased nearly 13-fold[v]. The sector is predicted to continue following a secular trend of expansion due to a rising incidence of chronic diseases, a burgeoning middle class with disposable income, and an overall shift in age demographic.

Global health care expenditures are expected to continue rising as spending is projected to increase at an annual rate of 5.4 percent between 2017-2022, from USD $7.724 trillion to USD $10.059 trillion[vi]. The market in the Asia-Pacific region, in particular, is expanding at an astounding 19.9%, well above the 10% growth rate recorded in the US and Europe[vii].

Demand for healthcare services is almost guaranteed to be sustainable. We are hence bullish in our market outlook, for these factors have set the stage for the future of the medical industry - MedTech - which has yet to be fully realized.

Prospects of the healthcare sector is promising with emerging biotech as its growth driver

While it may not come as a surprise to some that this quintessential market is poised for long-term growth, one should not mistake the healthcare sector's short-term performance to be otherwise mellow. Recent corporate actions in the healthcare sector have also reignited investor interest, with the P/E of listed healthcare specialists currently at 22.1x[viii]. technology and generated, the medical industry might soon leave the side-lines generated, the medical industry might soon leave the side-lines and savvy investors might find this an opportune time to enter the market.

With new developments in the realm of omics, the trajectory of the healthcare sector seems to be targeted at precision medicine. Precision medicine is a burgeoning field of study which offers a deeper understanding of human physiology using genetic insights and advances in technology. Unbeknownst to the average person, the abstraction of "cancer" can be further broken down into subcategories, where the genetic composition of malign cells in patients are dissimilar due to heredity, environment and lifestyle. Precision medicine enables medical professionals to analyze diseases at a higher resolution through advanced bio-technologies such as genome sequencing and liquid biopsy. The data helps to eliminate ineffective treatment plans at the outset, reducing cost hence significantly increases operational efficiency and profit margins.

Advances in medtech have brought precision medicine closer to reality. The market size is expected to grow over USD216.75 billion by 2028[ix]. USA introduced the Precision Medicine Initiative as early as 2015, and China followed closely. In fact, China's Ministry of Science & Technology announced precision medicine as part of its five-year plan, with an expected investment of 60 billion Yuan (or more than USD9 billion) for research. In Singapore, the Ministry of Health is working with partners such as the Genome Institute of Singapore (A*STAR) to develop an integrated national strategy charting the future of this technology.

Geographically, Asia Pacific's precision medicine segment has a predicted CAGR of 14.38% in the period 2018 to 2025[x]. Singapore healthcare companies are well positioned to leverage on this by engaging in favourable trade deals and strategic partnerships. Furthermore, the cost of deciphering the entire human genome has dropped by an order of magnitude from USD 10,000 in 2011 to about USD 1,000 today[xi].

With technologies advancing at such an unprecedented rate, it introduces the strong possibility that genetic testing services would be proliferated to the masses soon. From here, the rate of progress is expected to compound, and this can signify a timely opportunity to capitalize on this exponential growth. But is there a medtech company on the Catalist?

CHL is building a self-subsistent ecosystem through synergistic assets

CHL is a rapidly emerging company which is capitalizing on the immense potential of precision medicine, and its investments are starting to bear fruit. CHL is striving to set a superior standard for personalised care through the integration of healthcare services, medical technology and data science.

To achieve its ultimate goal of distributing its precision medicine technology, CHL is building an ecosystem of medical services through complementary business divisions, forming a wholesome portfolio. In our perspective, this is a major investment merit. Ever since it went public in December 2017, it has in the past year, made enormous strides in restructuring its operations by making purposeful acquisitions and strategic partnerships. It has amassed numerous synergistic assets which would strengthen its core competencies to accelerate progress in achieving its mission and vision. Reviewing what CHL has planned ahead and its current progress, we believe this biomedical stock offers a tempting value proposition.

Each acquisition of CHL can provide the necessary support to one another, with the ability to vertically integrate and target different audiences. CHL's ecosystem will empower them to maximise revenue by achieving economies of scope, scale and cross-selling opportunities. For the more wary investors, unsystematic risks are also mitigated as CHL provides investors a safety net with its inherent diversification and exposure. CHL has 3 main business segments, comprising of proprietary healthcare systems, multi-specialty medical clinics/centres, and strategic equity investments in medical technology companies. In a broader picture, by investing in this stock, you would have indirectly invested in a well-balanced portfolio.

a. Healthcare Systems

At its origins, CHL is focused on its laboratory-based medical research to develop successful proprietary precision medicine technologies that will be proliferated to the masses. This is the primary value behind biotech companies: the patents they control. Undeniably, the gestation period to develop new technologies are long and several are still budding, but there has been visible business traction for CHL. CHL has access to approved technologies, with permission to market it internationally. In our perspective, CHL's aggressive plays in recent years indicate that they have moved from the development phase to the market phase.

With their specialisation in oncology, their flagship product is the CellSearch CTC test, the only FDA-approved blood test for enumerating circulating tumor cells (CTCs). This technology patent adds enormous value to the intangible assets of the company. Furthermore, the oncology segment which trailed behind cardiology in 2019, is expected to grow at the highest pace from 2019-2025[xii], following the growing burden of cancer patients. With few competing technologies in the market, SAM Lab will be well-positioned to thrive.

With their eyes set on the rapidly growing market of Indonesia, CHL has been trying to push its technology to market through providing diagnostic test services at major hospitals. In this cutthroat industry where competing companies are fighting to be the first with a successful product, CHL is taking first-movers advantage to gain market share in this emerging economy.

To bring its products to market, CHL has an 89.6% stake in Indonesia's PT Indo Genesis Medika (IGM Labs) and a 55% stake in PT Tirta Medika Jaya (PT TMJ) through SAM Lab. Through leveraging on the existing hospital networks and contracts, related laboratory diagnostic services and renal care services will be proliferated to 34 major hospitals. These hospitals are well-positioned to draw in volumes of patients consistently, hence form a recurring revenue stream. CHL has made accretive acquisitions while being aggressive in rolling out its technologies, demonstrating its ability to make strategic decision with great foresight.

b. Strategic Investments

With goals to be an established leader of medtech innovation, CHL has also been an avid supporter in related incipient technologies. In fact, it pivoted from its former business as a technology accelerator to become an operating healthcare entity, divesting but maintaining an approximate 25% stake in Clearbridge Biolidics (CBB) and Clearbridge Bio Photonics (CBP). Taking an asset-light approach, their equity participation enables them to have access to the research and development activities carried out and technologies employed by these companies.

CBB has clinched contracts with multiple established companies. In China, it has contracts with BGI, the world's largest omics organization, and Hunan Agen Medicine Laboratory Technology Co. Both would play a crucial role in the distribution of the proprietary liquid biopsy ClearCell FX1 System throughout China. In Germany, linking technologies with Leica Biosystems will create an integrated solution for CTC enrichment and immunostaining, accelerating the development of clinical applications using CTCs.

Clearbridge Biophotonics FPM, Inc (CBBP-FPM) has developed its first working prototype FPM system to target unmet needs in the area of live cell imaging for drug discovery and biomedical research. With the Global Live Cell Imaging Market is expected to reach US$2.9 billion by 2023, there are huge market opportunities in this specialised area. Just recently, CBBP has secured new funds to accelerate its commercialisation activities. SEEDS Capital Pte. Ltd., the investment arm of Enterprise Singapore, will subscribe for S$1.0 million of the convertible bonds. This is attracting investor interest from US venture capital firms specializing in life sciences investments.

Their equity participation in SIAMH will also enable them to offer physicians the cutting-edge ProBeam Proton Therapy System, which has just been installed in Biopolis at one-north.

With functional products being rolled out, it significantly reduces the risk that usually comes with pre revenue biotech companies. When patents have been obtained and technologies approved, investors are assured that the companies they are backing have substance.

c. Multi-specialty Chain of Medical Clinics/ Centres

At the forefront of company, CHL has a line of medical clinics/centres which has inroads in most Asia Pacific countries, including Korea, Australia and Taiwan, asserting a far-reaching presence that connects the company to its consumers. CHL also has recently confirmed long-term partnerships with established companies. Their business in the ownership and operation of medical clinics/centres can serve as additional marketing channels for their laboratory services and provide them with direct access to patients.

The well-thought international locations of these clinics not only generate reliable and diversified streams of revenue, but also leverage on these relationships to provide better service offerings to customers, bolstering its reputation as a trustworthy brand.

A note-worthy step taken by CHL was when it forayed into the untapped Philippines market early 2018, which averages a GDP growth of 6.2%[xiii]. It is capitalizing on Philippines' well-established infrastructure and existing distribution networks, which will expedite further expansion in the country. It covers a wide range of services including pathology services, imaging diagnostics, dental care, diversifying the services provided by CHL.

Since then, there have been other acquisitions and developments - integrated ambulatory Medical Center in Quezon City, new clinics in Metropolitan Manila, Valenzuela City and Cebu, Lapulapu City – that have generated $1.20M in revenues for FY 2018. Signing a contract with the Department of Social Welfare and Development, CHL is even part of a national healthcare programme such as the "Lingap sa Masa", serving numerous hospitals[X].

Therefore, these clinics/centres are multi-purpose, generating a reliable revenue stream and building a physical presence before being upgraded with multi-specialty treatments. We see how these acquisitions meld nicely with CHL's mission and vision, and thus have strong confidence in their ability to follow through.

Combination of solid foundations and tantalising prospects

With the healthcare industry set to rise in prominence, investors will be looking for gems within. The solid foundation CHL has laid in the past years together with its high-potential strategic investments set to show returns provides for one of the highest upside to risk ratio that will attract prospective investors thereby driving up the price.

1. Revenue

With its strategic investment business arm intended to only provide significant Return On Investment in the long run through dividends and capital gains, CHL has focused on its healthcare systems and clinics/centres to bolster its recurrent revenue stream. This strategy has largely worked, with revenue rising more than 2000%, from S$0.29 million in 2017 to S$6.14 million. Against the backdrop of ASEAN's rising healthcare spending of 76% in the next 5 years to $420 billion, the macroeconomic tailwinds for the healthcare industry remains highly positive.

Medical Clinics/Centres

At present, revenue under this business arm is primarily derived from:

a) 2 Medical clinics in Singapore and Hong Kong
b) An aesthetic facility in Singapore
c) A medical centre and an aesthetic clinic in Philippines
d) A paediatrics clinic in Kuala Lumpur in Q1 2019

From 2018 to 2019, revenue attributed to medical clinics/centres has increased from S$0.10 million to S$2.93 million, a 2930% increase Y.O.Y due to an increase in the number of clinics it owns. Looking forward, CHL has acquired a 51% stake in 9 dental clinics across Singapore and has plans to open a new and bigger medical clinic in Hong Kong. With goals of multi-specialty clinics, their services would target a huge proportion of the addressable healthcare market. With healthcare spending in ASEAN predicted to rise 76% in the next 5 years to $420 billion, revenue in this business arm is set to increase.

Healthcare systems

At present, revenue under this business arm is primarily derived from:

a) Diagnostic testing by its wholly-owned subsidiary SAM lab
b) Joint operation (JO) contracts with grade-A hospitals through its 89.6% stake in Indo Genesis Medika Labs
c) Renal care services provided by PT Tirta Medika Jaya where it has a 55% stake

From 2018 to 2019, revenue attributed to healthcare services has increased 487%, from S$0.19 million to S$3.20 million, due to the acquisition of renal care service provider PT Tirta Medika Jaya. CHL has plans to almost double the number of renal care centres from 21 to 37. Owing to the chronic nature of kidney failure, revenue from renal care services rendered will likely remain stable. Beyond that, the contractual work done by the diagnostic lab and SAM lab will provide a stable revenue for the foreseeable future. 6 out of 12 JO Contracts are still being novated to IGM Labs. These contracts have generated a total revenue of approximately S$14.7 million, EBITDA of S$3.8 million and net profit after tax of S$1.3 million in the financial year ended 31 December 2017[xiv]. These contracts are hence expected to generate similar significant revenues for CHL once they are fully realised. Upon further consolidation to reduce unnecessary costs and integration of CHL's proprietary technologies, their net profit margin should also rise rapidly, enabling them to retain more earnings.

2. *Costs*

Year on year, costs before taxation has increased by $13,648,000, a 121% of the costs incurred in 2017. However, much of the increase has been attribute to increases in fair value losses on other investments, associates and derivative financial instruments with these increase amounting to S$5,254,000, accounting to 38.4% of the increase. The huge increase in fair value losses is linked to Biolidics which was spun off in Dec 2018 and listed on Catalyst. With a sharp drop in share price, its current stake, as well as its call option for an additional 10.67% stake, decreased in valuation which amounted for the bulk of the losses. Given that CHL does not intend to divest off its current strategic investments, it would be prudent not to account for the fair values losses that are likely to not be realised.

	2018 S$'000	2017 S$'000
Purchases	**3,250**	**241**
Employees benefits expense	**7,415**	**3,499**
Depreciation expense	**1,018**	**88**
Amortisation expense	**81**	**23**
Research and development expense	**20**	**202**
Fair value loss on other investments	**1,444**	**301**
Fair value loss on associates	**4,020**	**1,818**
Fair value loss on derivative financial instruments	**2,119**	**210**
Other operating expenses	**5,802**	**4,908**
Finance costs	**329**	**250**
Costs before taxation	**24,862**	**11,214**
Costs before taxation and fair value loss	**17,915**	**9,211**

To ascertain if the rise in costs is justified, we have to understand the primary underlying causes of this rise and analyse if this is in tandem with the rapid expansion policy CHL is pursuing.

Variable costs, comprising purchases and employees benefits expenses, has increased 185%, from S$3,740,000 in 2017 to S$10,665,000. Going deeper, the efficiency ratio, which is expenses divided by revenue, provides a good indicator on whether the business is obtaining sufficient productivity gains from its spent cash. Seeing that the efficiency ratio improves drastically from 12.90 in 2017 to 1.74, CHL has greatly improved upon its financial standing.

Recurrent operating expenses has increased 65%, from S$2.04 million in 2017 to S$3.34 million in 2018. This has been attributed to increased administrative costs of expansion as well as increased rental expenses. As with any expansion, it would be logical to incur additional costs due to the complexity of the organisational structure and increased management oversight needed.

3. *Managing principles and team*

As a company who has largely focused on inorganic growth, the company has in recent years incorporated organic growth into its expansion strategy, which is characterised by these underlying principles:

a) They will only acquire assets that have a positive EBITDA[1]. This will help to ensure that assets will contribute to the balance sheet, reducing their risk exposure.
b) They aim to strengthen their recurrent revenue and profit base. With losses in the previous years, a strong base of profits will provide greater leeway for them to invest in precision medicine technologies, an industry which traditionally requires significant investments before positive returns can be seen

These two guiding principles serves to maintain a sustainable yet aggressive expansion strategy of CHL to capitalise on their first mover advantage.

Beyond the principles guiding the team, equally important is the CEO and his team who are ultimately responsible for day-to-day operations as well as long term planning. CEO Yee Pinh Jeremy[xv], former chief financial officer of Cordlife group ltd from 2011[xvi] to 2016[xvii], successfully implemented business growth strategies that helped Cordlife profits almost double. Chief Business officer, Simon Hoo Kia Wei, was former CEO of Cordlife, responsible for restructuring of Cordlife from 2014 to 2016[13]. Despite the restructuring, he managed to increase the profits by 14.5%, from S$34.9 million in 2014[xviii] to S$39.5 million, a remarkable feat. By all indications, the management team is highly competent. Coupled with a sound expansion strategy, it enables a conducive environment for an outsized reward to risk ratio.

4. Balance sheet and cash flow

With net assets falling from S$5.9 million in 2017 to S$4.8 million in 2019, it is the result of the asset light strategy adopted by CHL is working. An asset light strategy is characterised by immense flexibility in a fast-changing environment and generation of greater returns on assets[xix]. With revenue increasing exponentially from 31 Dec 2017 to 31 March 2019, it is evident that this strategy has been effective in reaching its intended goal.

S$'000	As at 31 Mar 2019	As at 31 Dec 2017
Cash and bank balances	14,597	27,740
Total assets	73,839	68,793
Borrowings (current)	2,024	9
Borrowings (non-current)	11,908	1,632
Total liabilities	26,163	9,150
Net assets	47,676	59,643
Net debt / Total equity	29.22%	2.75%

With a debt to equity ratio of 29.22%, it is slightly below the industry average and is in line with their sustainable and aggressive expansion strategy. Coupled with an interest coverage ratio of 23.4X, given that they have S$7.8 million in cash and cash equivalents and a financing cost of S$0.3 million at the end of 2018, CHL has the opportunity to fund further expansion.

5. Business phase

At present, CHL will be pursuing further expansion in the near future but 2019-2020 will be a critical period for the company. With multiple nascent collaborations and projects embarked by the wide variety of assets under them, this period will serve as a proof-of-concept to show the viability of the technology of their strategic investments as well as the profitability of their healthcare clinics.

For the healthcare clinics segment, CHL newly acquired majority stake in 9 dental clinics, their new, bigger clinic in Hong Kong and paediatrics clinic in Kuala Lumpur will see them venture into new areas. Given the past track record of their team and their assets on hand, they are poised to succeed in these projects.

For the healthcare systems segment, CHL will finish their renovation and operationalisation of the remaining 45% of the renal centres, officially securing most of their recurrent revenue. In the following financial period, it is expected that the current renal centres will be able to further streamline their operations through efficiency gains and economies of scale, enabling higher returns on the dollar for these centres.

For their strategic investments, the multiple collaborations Biolidics have together with the sub-licensing agreement CPB have with Scopier, a leading developer of next-generation digital microscopes and image analysis tools, will start to take flight. If everything runs smoothly, it will be a ringing endorsement of the viability and potential of the underlying technology.

Hence, barring any unexpected results, the positive outcome of all these will significantly boost investor confidence and consequently, the share price.

Investment Risks

Unpredictable long-term demand

Despite an increasing demand for healthcare in the Southeast Asian region, it is worth noting that there is a simultaneous increase in the push for a healthier lifestyle. In Indonesia, 75% of metro consumers aim to have a healthier lifestyle, whilst 58% commit to exercising more[xx]. In the Philippines, campaigns such as the annually held nutrition month, which has been institutionalized by schools and local government units as well as other stakeholders, strive to create greater healthcare awareness[xxi]. Consequently, 97 percent of Filipinos agree that everyone can age healthily and that they can take positive steps towards healthy ageing[xxii]. Such efforts could dampen the effect of a growing and ageing population on demand. However, such changes are laden with inertia, and are unlikely to have a significant impact on the demand for healthcare in the foreseeable future.

Threat (External): competitors (Low market capitalisation → Lack of economies of scale)

Although novel in its pursuit of precision medicine, CHL's subsidiaries do face some competition. Below is the breakdown of the competition that each branch of CHL faces:

1. **Clearbridge Medical Philippines**
   - i. **Ayala Corp**: A diversified conglomerate with USD 5.23 billion in revenue, USD 1.26 billion in cash and cash equivalents, and 22% CAGR net income. Its subsidiary AC Health operates 56 primary care clinics called FamilyDoc , with plans to expand to 100. However, it is worth noting that Ayala's FamilyDoc clinics exist as single clinics rather than as a one stop medical facility, hence are not direct competitors with CHL.

   - ii. **Metro Pacific**: Another diversified conglomerate with USD 1.63 in billion revenue, USD 295 million in core income. It operates 14 hospitals with 3200 beds, of which many are the nation's largest hospitals, and has a target to expand to 5,000 beds.

2. **Sam Lab**

   Sam Lab is not the only CAP accredited diagnostics laboratory in Singapore. Other notable ones are:

   1. **Quest laboratories**: Has a main facility spanning over 25,000 square feet, a satellite lab in Thompson Medical Centre and another in Paragon Medical Centre
   2. **Innovative Labs**: Has a total of 1 core laboratory and 4 satellite laboratories.

3. **Biolidics**

   There are 2 major players in the global sphere of liquid biopsy. Both utilise deep learning technology which is made possible by their enormous resources. This enables their technology to improve over time as they conduct more blood tests. As Biolidics expands into the US, it is bound to compete with these 2 giants.

   - i. **Guardant Health**: Revenue for Q1 19 was $36.7 million, a 120% increase over Q1 18[xxiii]. Blood samples have to be sent back to Guardant Health's labs to be analysed, where else Biolidics's ClearCell FX1 System is portable. This enables Biolidics' technology to be marketed to diagnostics laboratories and allows for a shorter waiting time, representing a differentiated market and significant advantage as it leverages on the laboratories' existing distribution networks. Additionally, Guardant Health is only expected to file with the FDA in 2020, providing Biolidics with time for expansion.

   - ii. **Grail**: Investors include Amazon and Bill Gates, with USD 1.5 Billion in venture cap money[xxiv]. Strives to detect cancer early in healthy individuals.

Unlike these 2 competitors, CHL's portfolio is more diversified, cushioning itself from substantial losses should Biolidics lose out.

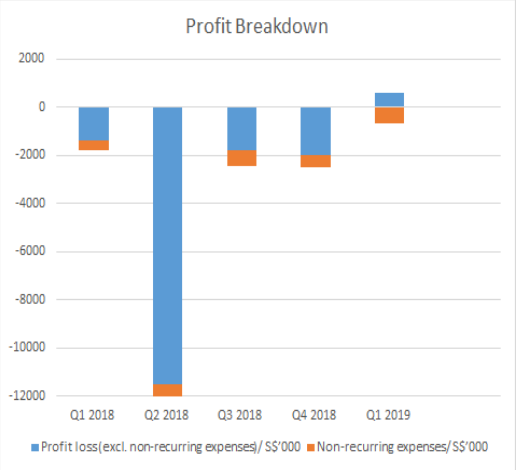
4. **Tirta Mediki Jaya: Renal dialysis centres**

   The initial renovation cost to set up the renal dialysis facilities is S$60,000 to S$80,000 per hospital[xxv]. Hence, there is little to prevent hospitals from setting up these renal dialysis themselves.

   All that being said, we can look forward to more integration of precision medicine in CHL's subsidiaries, which would differentiate them from their competitors and place them in an up and coming field with no real monopolies as of yet

Profits

As mentioned above, Clearbridge Medical has been registering negative profits since its IPO as seen in this table detailing its profit losses in recent quarters. At first glance, this may be a worrying trend. However, as explained, the loss is largely attributed to non-recurring fair value loss, which will not affect the financial liquidity of day to day operations.



Increasing Headroom

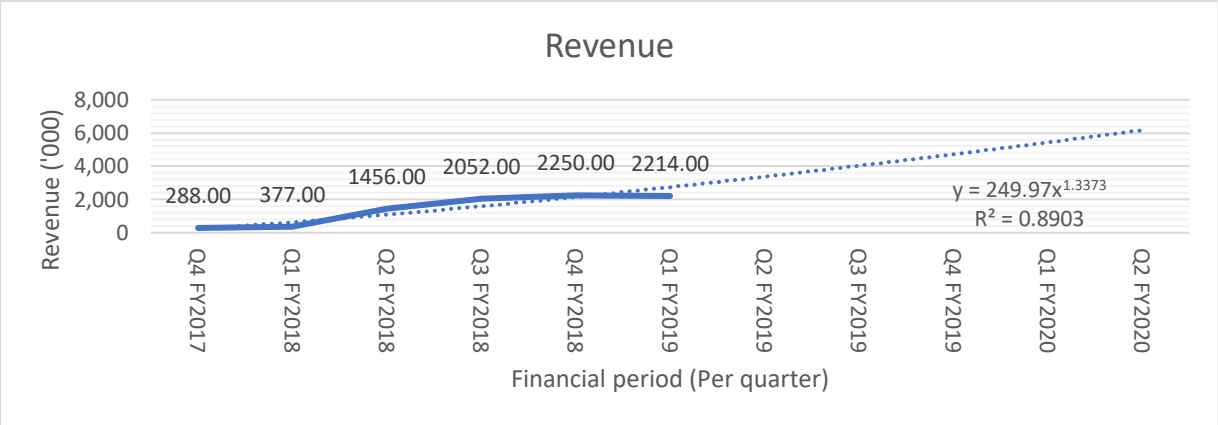
To further enhance financial liquidity, Clearbridge Health is aiming to raise S$11 million through a convertible bond issuance. This not only provides for an opportunity to seize acquisition opportunities for medical clinics and centres and laboratories in South-east Asia but fund the streamlining of their current operations to enable organic growth of their current assets[xxvi].

Financial projections

Looking forward, it is essential for us to project the key numbers in the financial statement so as to paint a clearer picture of its potential as well as analyse its value proposition.

Costs extrapolation

With a large proportion of the costs in 2018 attributed to non-recurrent fair value loss, we would not expect it to occur again from Q3FY 2019 to Q2FY 2020. However, given their aggressive expansion, their employee benefits are expected to rise in the following few quarters. Hence, we predict that these opposing influences on costs will cancel each other out and lead to costs maintaining at approximately $18 million.



Revenue extrapolation

To project revenue, we have plotted the quarterly revenue on a graph and after modelling the graph using a power equation with the highest R squared value, we are able to extrapolate the revenue of CHL 5 financial quarters ahead. Here, we are using quarterly revenue to make up for the lost accuracy of using annual revenue due to the rapidly progressing nature of CHL as well as the lack of historical data.

As we can see, the projected revenue for the next 12 months, which would be from Q3FY2019 to Q2FY2020, of CHL is $20,360,000 SGD. Using the Capital Asset Pricing Model (CAPM) to take into account current market systematic risk, we have arrived at a discount rate of 6.87%. Hence, the discounted 1st year revenue of CHL will be $19,051,000 SGD.

For our discount rate, we used the following variables in the CAPM formula:

500-day Beta: 0.991[xxvii]

STI Return YTD: 6.91% (as taken from Bloomberg)

SG Risk Free Rate using the 10-year bonds interest rate of 2.625% [xxviii]

Final calculation: CAPM = 2.625% + 0.991(6.91% - 2.625%) = 6.87% discount rate.

Profit projection

Utilizing our projected revenue and costs, we can project that profits will be $1.05 million SGD from Q3FY2019 to Q2FY2020, with an earnings per share of $0.00183 given that there are 574 million outstanding shares.

Valuation

Since CHL is currently making a loss, common valuation methods like the Discounted Cash Flow Model and Discounted Price to Earnings Model are unsuitable. Yet as elucidated, we expect CHL's loss to be temporary, as it consolidates its recent acquisitions to maximise revenues in emerging markets and reaches the peak of its expansionary business phase.

With the confluence of the growth stage CHL is in and the inherently long gestation period of the earnings cycle within the biotech industry, it would be prudent to avoid an overemphasis on the near-term negative earnings as long as the going concern assumption holds. Rather, we will use Discounted Price to Sales Model and switch focus to the revenue of CHL. This is in line with the expectation that revenue will outpace costs in the long run given the economies of scope and scale as it expands its depth and breadth of its business and streamlined operations. With revenue growth commensurate to the gain in market share and consequently the synergistic benefits reaped from its extensive network of subsidiaries, revenue is reflective of the potential of CHL.

Company	SingMedical	TalkMed	Raffles Medical	IHH Healthcare	Clearbridge Health
Price/Sale ratio[xxix]	2.0774	9.8629	3.6382	4.0400	11.2749
	Average = 6.17868				

Comparing to the industry peers of CHL, we have calculated an average Price/Sales ratio of 6.17868. We used the following companies in our calculation based on their similarities with CHL's scope of business and target countries: SingMedical as it a growing diversified medical company with technological initiatives that is looking to expand into the Southeast Asian region; TalkMed as it is an expanding medical company with innovative STEM cell technology and has the largest market capitalisation for a medical company on the Catalist; Raffles Medical as it has a very diversified portfolio ranging from primary healthcare to specialist care and is expanding into Southeast Asia; IHH Healthcare as it is the largest private healthcare company in Asia. We also included CHL in our calculation as its own Price/Sales ratio is likely to carry some momentum within the one-year time horizon.

Utilising the projected revenue of CHL of $19.05 million SGD, the average price to sales ratio calculated above and the 574 million outstanding shares of CHL, our target share price a year from now will be $0.205.

As we can see, CHL is currently undervalued, with a reasonable minimum upside potential of 44.3% at the current price of $0.142 on 7 August 2019.

In comparison, the Straits Times Index (STI), largely regarded as the benchmark for the Singapore stock market, only posted a 3.26% growth year-on-year, as checked on 10 August 2019. With the bearish conditions within the stock market owing to the uncertainty surrounding Brexit and the US-China trade war, a 44.3% return on CHL would resoundingly trump the stock market.

Hence, our team would recommend a BUY/LONG position for Clearbridge Health Limited (SGX:1H3) at the time this report is published.

Conclusion

In summary, the immense potential of CHL as well as the robust execution of its expansion strategy makes for a rare gem in a crowded field. While its negative earnings may turn away some prospective investors, we are certain the upcoming financial year where it will finally showcase the viability of its products will finally put it on the map and be the start of an upturn in its price. Thereby, we strongly believe CHL is a strong value proposition and strongly recommend investors to buy in at this current price to reap the rewards in the near future.

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