Singapore Company Focus

Medtecs International Corporation

Bloomberg: MED SP | Reuters: MTCS.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 Dec 2020

DBS is supported by the Research Talent Development Grant Scheme which aims to groom research talent to expand research coverage of small-mid cap SGX listed companies

BUY (Initiating Coverage)

Last Traded Price (7 Dec 2020): S$0.905 (**STI** : 2,825.51)
Price Target 12-mth: S$1.30 (43% upside)

Potential catalysts: Delay in availability of vaccines, M&A activity, announcement of large long-term supply contracts

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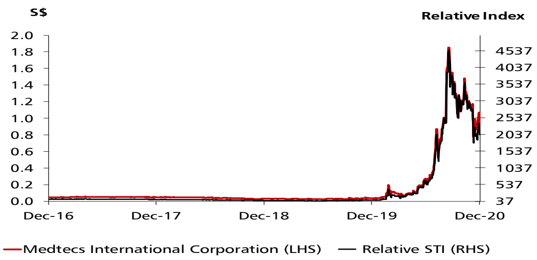
Price Relative



Forecasts and Valuation

FY Dec (US$m)	2019A	2020F	2021F	2022F
Revenue	69.0	418	300	156
EBITDA	9.61	159	99.6	47.7
Pre-tax Profit	1.52	148	90.3	38.5
Net Profit	1.16	130	77.9	33.2
Net Pft (Pre Ex.)	1.16	130	77.9	33.2
EPS (S cts)	0.28	31.6	18.9	8.08
EPS Pre Ex. (S cts)	0.28	31.6	18.9	8.08
EPS Gth (%)	27	nm	(40)	(57)
EPS Gth Pre Ex (%)	27	nm	(40)	(57)
Diluted EPS (S cts)	0.28	31.6	18.9	8.08
Net DPS (S cts)	0.0	1.56	1.89	0.81
BV Per Share (S cts)	15.5	45.5	62.5	69.8
PE (X)	327.4	2.9	4.9	11.5
PE Pre Ex. (X)	327.4	2.9	4.9	11.5
P/Cash Flow (X)	87.1	4.5	3.3	5.3
EV/EBITDA (X)	43.3	2.2	2.4	3.8
Net Div Yield (%)	0.0	1.7	2.0	0.9
P/Book Value (X)	6.0	2.0	1.5	1.3
Net Debt/Equity (X)	0.5	CASH	CASH	CASH
ROAE (%)	1.8	103.7	35.1	12.2
Other Broker Recs:		B: 0	S: 0	H: 0

GIC Industry : Health Care
GIC Sector: Health Care Equipment & Services
Principal Business: Medtecs International is a medical supplies manufacturer mainly producing gowns and masks

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Health is wealth

- Initiate coverage with BUY and TP of S$1.30
- Attractive valuation at 6.8x blended FY21/22F P/E with FY21F cash holdings at c.35% market cap
- Margins to remain high post-pandemic led by higher sales of self-branded products
- M&A or new dividend policy may be in the works due to large cash holdings

Transition to self-branded product sales to mitigate lower post-pandemic demand. Personal protective equipment (PPE) demand and average sales price (ASP) are undoubtedly expected to decline as the COVID-19 situation improves. However, we expect Medtecs International Corporation (MED) ASPs and sales volumes to remain at 90% and 60% above pre-COVID levels, boosted by a higher proportion of sales of self-branded products and new customer relationships formed during the pandemic. As such, FY22F earnings are expected to be 28.6x times that of FY19.

Compelling value at 6.8x blended FY21/22F P/E. We believe that MED trades at an attractive value, with cash holdings possibly forming c.35% of its market capitalisation by end-FY21. In addition, MED trades at a discount from multiple valuation angles. The Group is valued below both its 5-year mean forward price/earnings (P/E) of 10.8x and 2-year pre-COVID mean P/E of 19.2x. The stock also trades at a discount to the five-year peer average forward P/E of c.16x.

Large cash pile hints at M&A activity or dividend policy. We estimate that MED could generate a cash pile of well over US$100m by end-FY21F which could catalyse the Group's merger and acquisition (M&A) efforts in a post-pandemic world. Alternatively, it could reinstate its previous dividend policy of paying between c.25% - 50% of earnings. However, we have assumed a conservative 10% payout ratio from FY21F which represents c.2% FY21F yield or a DPS of 1.89 Scts.

Valuation:

Initiate with BUY and target price (TP) of S$1.30 based on 9.5x blended FY21/22F earnings. Our scenario analysis also values MED at a range of S$0.80 – S$1.66.

Key Risks to Our View:

Quicker than expected vaccine distribution progress, low levels of post-pandemic stockpiling, higher raw material prices.

At A Glance

Issued Capital (m shrs)	549
Mkt. Cap (Sm/USm)	497 / 380
Major Shareholders (%)	
Yang Ker-Cheng	4.5
Free Float (%)	95.5
3m Avg. Daily Val (US$m)	18.0

Live more, Bank less

ed: KK/ sa: JC, PY, CS

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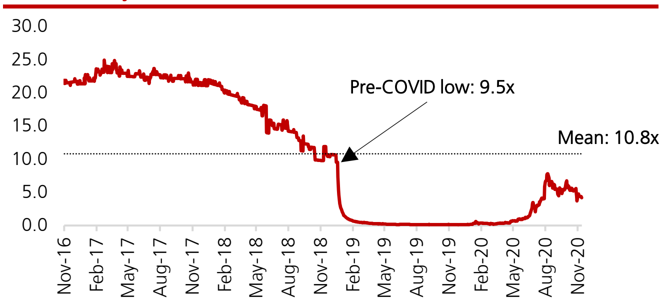
Investment Summary

Initiate with BUY and TP of S$1.30 representing 40% upside. MED offers compelling value at 6.8x blended FY21/22F P/E. Post-pandemic, the Group could sustain gross margins of c.33% led by a higher share of Medtecs-branded product sales. Sales volumes are also expected to be c.60% higher in FY22F compared to FY19 supported by new customers acquired during the pandemic. MED's extensive customer relationships and ability to cross sell products through its Hospital Services segment could also provide a steady stream of revenue in the post-pandemic world. In the medium-term, investors may also look forward to M&A activity or a sustained dividend policy given the Group's large cash pile of over US$100m generated by FY21F.

Attractive valuation at 6.8x blended FY21/22F P/E or 2.7x FY21F cash holdings. We believe our base case valuation of S$1.30 per share or 9.5x blended FY21/22F P/E is conservative from multiple angles. The multiple of 9.5x was based on MED's lowest pre-COVID P/E in the past 5 years. In addition, MED could hold c.35% or c.50% of its current market capitalisation in cash by FY21F and FY22F. At 9.5x P/E, it is still valued below both the 5-year average forward P/E of 10.8x and the pre-COVID 2-year mean P/E of 19.2x. Our valuation also represents a discount to the five-year peer average forward P/E of c.16x that includes other PPE producers such as Riverstone (c.12x), Top Glove (c.18x) and Hartalega (c.28x).

Still, given the volatile COVID-19 situation, our bear case values MED at S$0.80, assuming countries stockpile 2 months' worth of PPE and c.22% gross margin for FY22F (vs 3 months and c.33% gross margin in our base case).

Medtecs 5-year forward P/E



Source: Bloomberg Finance L.P., DBS Bank

Medtecs future earnings to be sustained by post-pandemic PPE stockpiling. Our base case estimates put post-COVID gown factory utilisation at 83.4% and 53.4% for FY21F and FY22F, driven by international stockpiling of PPE. Specifically, we believe that COVID-19 has heightened the awareness and importance of PPE stockpiling. We expect most countries could establish a reasonable stockpile of 90 days of PPE, creating medium-term demand for gowns and masks after COVID-19.

In the longer-term, we forecast expiring PPE products to give a permanent boost to PPE demand as governments replenish their stockpiles of PPE. We also conservatively forecast MED to retain half of their new customers acquired during the pandemic as customers may be reluctant to change suppliers due to quality and certification concerns. Overall, we think MED's may generate earnings of US$77.9m and US$33.2m for FY21F and FY22F respectively.

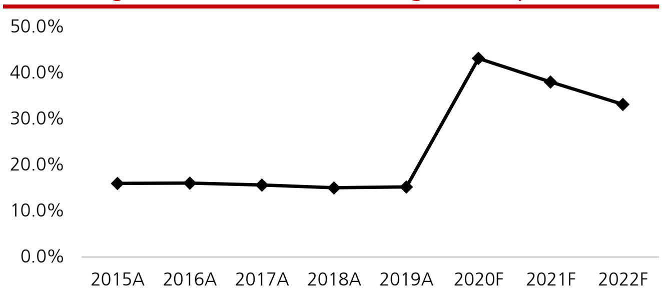
Medtecs' base case situation

	Driver	Base (TP: S$1.30)
FY19	Factory Utilisation*	57.5%
	Gross Margins	15.3%
FY20F	Factory Utilisation*	c.95.0%
	Gross Margins	43.2%
FY21F	Factory Utilisation*	83.4%
	ASP Change (y-o-y)	-20.0%
	Gross Margins	38.0%
FY22F	Factory Utilisation*	53.4%
	ASP Change (y-o-y)	-12.5%
	Gross Margins	33.0%

**while factory utilisation is lower in FY22F compared to FY19, total forecasted production volume is still higher due to an estimated c.75% rise in production capacity in FY20*
Source: DBS Bank

Transition to self-branded product sales to boost post-pandemic margins. We estimate that MED's ASPs could be c.90% higher in FY22F compared to FY19. As a result, MED's gross margins could hover at c.33% post-COVID, significantly above pre-COVID levels of c.15%. The higher ASPs are expected to be driven by increasing self-branded product sales which have enabled the Group to record higher gross margins as it maintains a similar cost base. Over 68% of 9M20 sales was attributed to Medtecs-branded products, compared to just 3% in FY19, indicating that new customers are largely purchasing Medtecs' branded products.

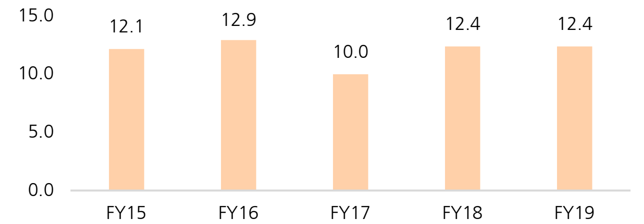
Gross margins to decline, but remain higher than pre-COVID



Source: Company, DBS Bank

Synergistic Hospital Services segment offers stability. MED provides linen leasing, laundry and logistics support services to 24 hospitals in Taiwan and 32 hospitals in the Philippines. While the business has low margins, MED's Manufacturing segment benefits from the business. Its products can be directly pushed to these hospitals, providing a ready customer base for MED's Manufacturing segment to tap into.

APAC manufacturing revenue stable through the years (US$m)



Source: Company, DBS Bank

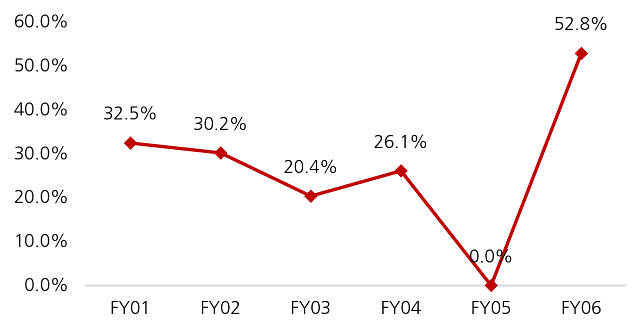
Steady customer relationships a bedrock for Manufacturing segment. MED has been a long-time supplier for customers such as Premier Inc. and the governments of Taiwan and Singapore. We believe this relationship bodes well for the Group, enabling MED to remain a choice supplier even after COVID-19. The Group had sacrificed higher sales of Medtecs-branded products to meet the needs of these customers during COVID-19. 47% of 9M20 manufacturing revenue was attributed to previous customers, translating to an estimated c.150% rise in sales generated from these groups of customers. Additionally, we believe there is a level of stickiness in the relationship between MED and its larger customers who may be resistant to seeking alternative PPE producers given the need for quality assessments.

Key customer relationships

Source: Company

Sizable cash pile leaves room for dividend and M&A. With a forecasted cash pile of over US$100m in FY21F, MED may pursue M&A opportunities to strengthen its business. The Group was reported to be exploring plans to increase productivity potentially through M&A and may venture into other areas including lab testing or research and development. Alternatively, MED may introduce a new sustained dividend policy. The Group paid an interim dividend of 0.01166 Scts per share in September, the first time since 2007. From 2001 to 2006, MED's payout ratio averaged at around c.25%. While its business has changed significantly since then, the period from 2002 to 2004 overlaps with the SARS outbreak and could provide an indicator for future dividend policy. As such, we have assumed a conservative 10% payout ratio going forward for MED with FY21F dividend possibly coming in at 1.89 Scts depending on PPE demand.

Medtecs payout ratio between FY01 – FY06



Source: Company, DBS Bank

Post-pandemic strategy – A curated approach. MED has been careful not to layout large sums on capital expenditure as the Group is aware of the unsustainable nature of current demand. Most of MED's output has been met by increasing round-the-clock shift workers, converting idle plants into additional production bases and boosting efficiency. Going forward, we believe MED will study the viability of establishing new manufacturing bases with a possible focus on Europe. Some countries may turn inward to domestic producers for important medical supplies and MED may expand accordingly to meet these needs. In addition, MED is looking to further develop its self-branded (CoverU) line of PPE through brand franchising which we think has been well received given the high proportion of 9M20 self-brand sales of 68%.

Stock visibility and liquidity set for further boost. MED's inclusion in the MSCI Singapore Small Cap Index and application to transfer to the SGX Mainboard could increase stock visibility and liquidity. Generally, institutional investors are more likely to invest in stocks on the Mainboard compared to those on Catalist. Investment by institutions into MED could instil confidence in the stock and boost its share price further.

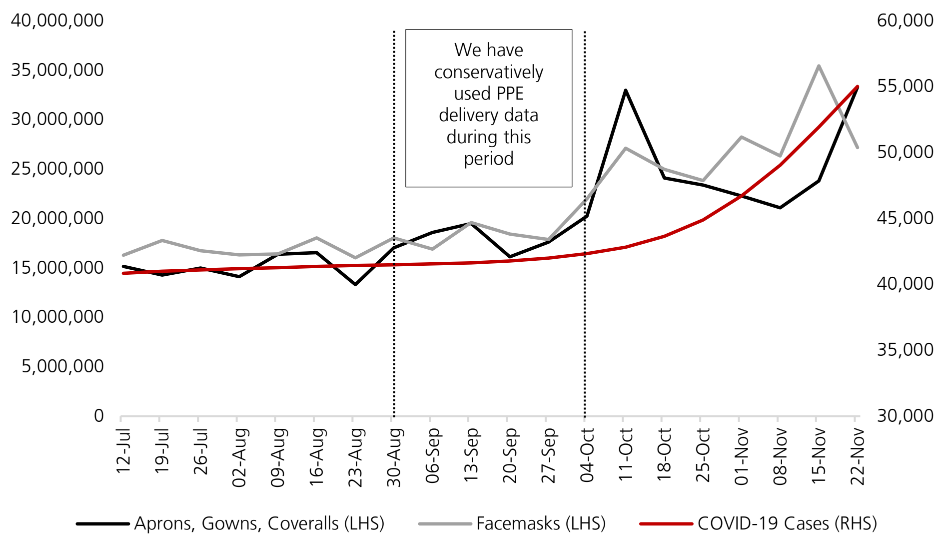
Wildcard: Higher pandemic risks as climate warms. According to a World Bank blog, climate change was cited as a possible risk that could increase the chances of a pandemic. Amongst the possible risks mentioned were; 1) changing weather patterns allowing temperature sensitive diseases to penetrate more regions, 2) increased human-to-animal interaction driven by loss of wildlife habitat with an estimated 75% of new infectious diseases transmitted from animals to humans, 3) viral mutations enabled by pathogens adapting to warmer temperatures.

Estimating post-COVID PPE demand: England – a case study

Using PPE distribution data in England obtained from Gov.uk, **we estimate that post-COVID annual demand for gowns and masks could remain at c.25% and c.5% of COVID-19 demand** driven by stockpiling efforts and expiry of PPE. This compares to pre-COVID annual demand for gowns and masks at 19.5% and 2.3% of COVID-19 demand which already utilised c.55% of MED's factories. We then assumed the post-COVID figures applied to MED's customer base and have adjusted MED's factory utilisation accordingly. More details under Valuation.

Assumptions: The UK was reporting a shortage in PPE in mid-2020 but we assume that this was resolved by September 2020. As such, we assume PPE distribution and supply from 31 August 2020 to 4 October 2020 to be sufficient and representative of consumption during a pandemic. We also assume that gown demand manifests as apron demand as there were reports of medical staff being told to use aprons instead of gowns due to a shortage. Lastly, we assume all PPE having a shelf life of 3 years.

Weekly COVID-19 cases vs PPE deliveries in England



Source: Bloomberg Finance L.P., Gov.uk, DBS Bank

To calculate additional PPE stockpiling post-COVID-19 assuming 3-month stockpile

PPE Item	(A) Qty Consumed (31 Aug – 4 Oct)	(B) Annualised Qty Consumed (A ÷ 35d x 365d)	(C) Est. Qty of 3-month Stockpile (B ÷ 365d x 90d)	(D) Pre-COVID Stockpile	(E) Est. Additional Stockpiling due to COVID (C – D)
Coveralls, Gowns, Aprons	92.1m	960.4m	236.8m	104.6m	132.2m
Masks	94.8m	989.1m	243.9m	162.6m	87.6m

Source: Gov.uk, DBS Bank

We will be focusing on Coveralls, Gowns, Aprons (CGA) as this product type has the highest contribution to MED's revenue. From Gov.uk, we found that 92.1m units were delivered in England to the relevant parties over 35 days between 31 August – 4 October. Based on this figure, we calculated that a 3-month stockpile would require 236.8m units. This is 132.2m units more than the pre-COVID stockpile of 104.6m units

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To calculate post-COVID PPE consumption as a percentage of PPE consumption during COVID-19

PPE Item	(A) Pre-COVID Annual Consumption	(B) Est. Additional Stockpiling due to COVID	(C) Est. Post-COVID Annual Consumption (A + (B ÷ 3))*	(D) Cumulative COVID Consumption (adjusted)**	(E) Est. % of COVID-19 Consumption (C ÷ D)
Coveralls, Gowns, Aprons	162.4m	132.2m	206.5m	830.9m	24.8%
Masks	21.9m	87.6m	51.1m	951.2m	5.4%

**most PPE we found had a shelf life of three years before requiring replacement.*

***adjusted for expected PPE consumption till end-2020, 724.4m Coveralls, Gowns, Aprons and 829.3m Masks were cumulatively consumed as of 22 Nov as a result of COVID-19.*

Source: Gov.uk, DBS Bank

From Gov.uk, we also found that the pre-COVID annual consumption of CGAs stood at 162.4m units. Next, we estimated post-COVID annual CGA consumption by dividing the 132.2m units calculated earlier by 3 before adding it to the pre-COVID annual consumption. We assume that the CGAs have a shelf life of three years and that orders for CGA stockpiling would be spread evenly across the three years. Overall, we estimate that post-COVID annual consumption of CGAs for England could be at 206.5m units or 24.8% of COVID-19 consumption.

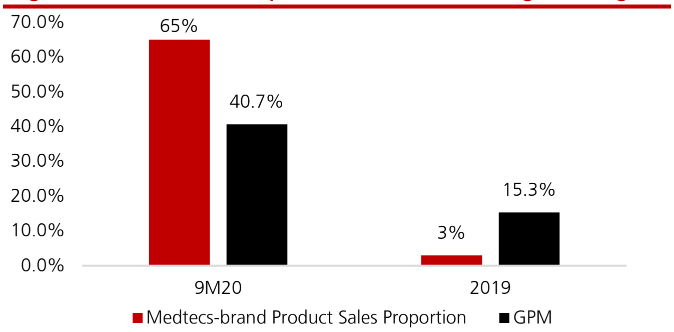
Limitations: The PPE demand-supply situation in England may not be representative of MED's geographic customer base. However, we note that many of MED's customers stem from Europe (Germany, Netherlands, UK, Italy) and share similar characteristics such as a high-income. In addition, given the scale of the UK healthcare system, which is largely public funded, the UK may potentially have a more robust pre-COVID stockpile which would make our estimates even more conservative.

PPE deliveries may not be representative of PPE purchases. To elaborate, the UK may have purchased more gowns than what was being delivered and used to have more breathing room for potential surges in demand. Still, given the global shortage we believe that deliveries may be a good proxy to PPE purchases.

Post-COVID Key Earnings Drivers

Transition away from ODM model to raise ASPs. MED's transition away from an original design manufacturing (ODM) business model is expected to be a key driving factor behind MED's larger earnings post-COVID. We estimate that ASPs generated from the sales of own branded products could be over double that of sales of non-branded products. As such, while PPE product ASPs in the market are expected to normalise in future, ASPs recorded by MED's, while lower than in FY20, are estimated to still remain c.90% higher compared to the pre-COVID period.

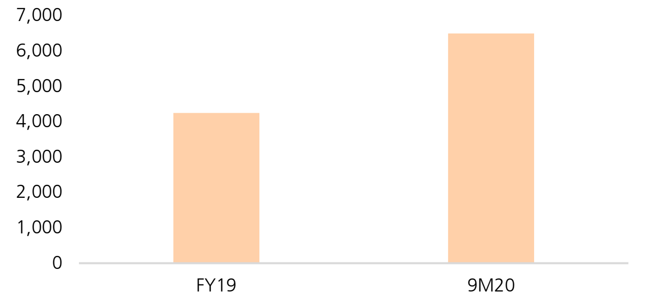
Higher Medtecs-branded product volumes drive higher margins



Source: Company, DBS Bank

Production increase matched by post-pandemic permanent boost in demand. We estimate that FY20 production capacity has risen by c.75% compared to FY19. This was done through a c.50% increase in production staff, conversion of idle plants and investments in equipment and machinery that provided a 10% - 45% improvement in efficiency. While we have forecasted factory utilisation to normalise from FY20F's 95.0% to 53.4% in FY22F, MED's FY22F gown production volume is still expected to remain c.60% higher than in FY19. The extra gown volume is expected to meet PPE stockpiling demands of pre-COVID customers and an assumed 50% of newly acquired customers (as we conservatively assume MED's may lose half of its newly acquired customers).

Medtecs production staff has risen 52.8% due to COVID-19



Source: Company, DBS Bank

Pre-COVID (FY19) vs Post-COVID (FY22) – Income Statement

US$m	FY19A	FY22F	% change	Comments
Sales	69.0	155.6	125.6%	c.125% rise in sales mainly due to c.90% higher gown ASPs (due to higher sales share of own-brand products) and c.60% higher gown sales volume. Gown sales are estimated to make up c.70% of FY22F revenue.
Cost of Sales	(58.4)	(104.2)	78.3%	c.78% increase in cost of sales due to increased gown production of c.60% and slightly higher raw material costs
Gross Profit	**10.5**	**51.4**	**388.2%**	Higher gross profit due to combination of higher ASPs and production volume. Gross margins estimated to hover at 33.0% in FY22F vs 15.3% in FY19.
Other Operating Income	0.8	0.8	0.0%	No change
Other Operating Expenses	(7.5)	(13.6)	81.6%	c.81% increase in other operating expenses largely attributed to c.60% higher gown sales volume and lower economies of scale
EBIT	**3.8**	**38.5**	**916.1%**	Higher EBIT due to combination of higher ASPs and production volume
Net Interest Expense	(2.3)	(0.0)	-98.9%	Large decline in finance costs as cash pile built up during pandemic used to pay off debt
Pretax Profit	**1.5**	**38.5**	**2439.7%**	Higher pre-tax profit due to combination of higher ASPs, higher gown sales volume and lower net interest expense
Tax	(0.4)	(5.3)	1411.6%	Pegged at effective tax rate in 3Q20
Net Profit	**1.2**	**33.2**	**2759.0%**	Higher net profit due to combination of higher ASPs, higher gown sales volume and lower net interest expense

Source: Company, DBS Bank

Valuation

Share price of S$1.30 based on FY21/22F blended P/E of 9.5x. We took a conservative multiple of 9.5x based on MED's lowest pre-COVID forward P/E between November 2016 and December 2018. In valuing MED, we utilised 3 scenarios with different assumptions for demand for PPE and gross margins.

Base case (TP: S$1.30): Our base case assumes that PPE demand for FY21F will begin tapering down in August with FY21F gross margins at c.38% as ASPs normalise. For FY22F, we assume gross margins of c.33% with factory utilisation at 53.4%. As illustrated in our study of post-COVID PPE demand, we assume that international governments will undertake PPE stockpiling worth 3 months of supplies. Based on such a situation, MED is likely to record FY21F and FY22F earnings of US$77.9m and US$33.2m respectively.

Bear case (TP: S$0.80): We assume PPE demand for FY21F to decline from May with FY21F gross margins at c.33% due to steeper ASP decline. In FY22F, gross margins of c.22% were assumed with post-COVID factory utilisation at 46.6% based on global PPE stockpiling efforts worth 2 months of supplies. We estimate that MED could record FY21F and FY22F earnings of US$53.9m and US$14.8m in a bear case.

Bull case (TP: S$1.66): PPE demand for FY21F is assumed to only begin declining in October with FY21F gross margins at c.41%. FY22F post-COVID factory utilisation is forecast to sustain at 60.2% with gross margins at c.37%. Such a blue-sky scenario could reap MED FY21F and FY22F earnings of US$97.1m and US$45.0m respectively.

Our base case valuation still prices MED below its mean. MED is still valued below both its 5-year average forward PE of 10.8x. Compared to its peers, our price also represents a discount to the five-year forward PE of other PPE producers such as Riverstone (c.12x), Top Glove (c.18x) and Hartalega (c.28x).

Main earnings driver: MED's future earnings to be sustained by post-pandemic PPE stockpiling. Our base case estimates put post-COVID demand for gowns and masks at c.25% and c.5% of demand during pandemic levels, driven by international stockpiling of PPE. We believe that COVID-19 has heightened the awareness and importance of PPE stockpiling and expect most countries that MED serves to stockpile a reasonable 90 days of PPE, creating medium-term demand for gowns and masks after COVID-19. Notably, MED's customers are largely from high income nations such as the UK, Germany and the US which we think possess the capability to stockpile.

In the longer-term, expiring PPE products may give a permanent boost to PPE demand as governments replenish their stockpiles of PPE. We observe that PPE shelf lives have a range of between 2 – 5 years and think that countries are likely to spread their replenishment needs evenly over the years.

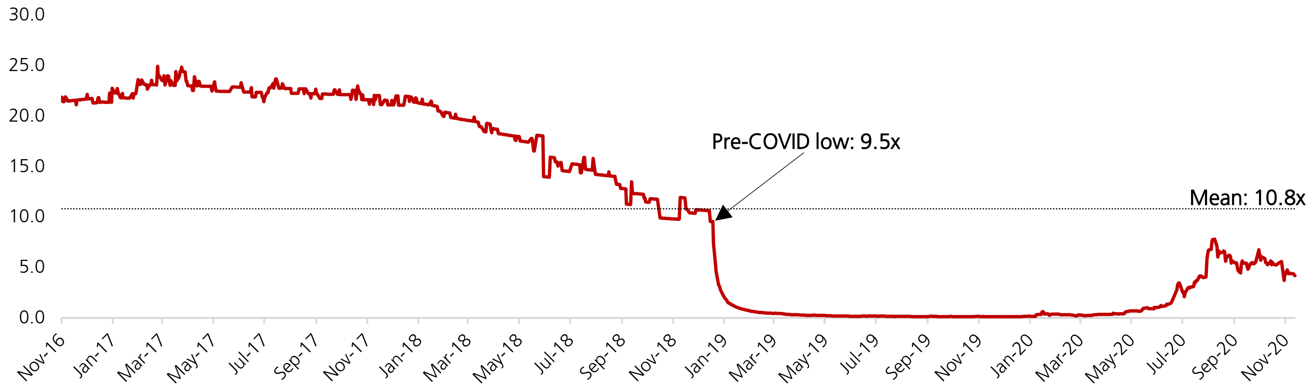
Incorporating the above gown and mask estimates for MED, we think MED's may utilise c.83% and c.53% of their factory capacity in FY21F and FY22F in our base case.

Key assumptions table

	Driver	Bear (TP: S$0.80)	Base (TP: S$1.30)	Bull (TP: S$1.66)
FY19	Factory Utilisation*		57.5%	
	Gross Margins		15.3%	
FY20F	Factory Utilisation*		c.95.0%	
	Gross Margins		43.2%	
FY21F	Beginning month of PPE demand decline	May	August	October
	Factory Utilisation*	73.8%	83.4%	89.5%
	ASP Change (y-o-y)	-25.0%	-20.0%	-15.0%
	Gross Margins	33.4%	38.0%	40.8%
FY22F	Sustainable PPE demand as % of COVID demand	21.7%	24.9%	28.0%
	Factory Utilisation*	46.6%	53.4%	60.2%
	ASP Change (y-o-y)	-15.0%	-12.5%	-10.0%
	Gross Margins	22.2%	33.0%	36.7%

**we believe gown factory capacity has increased by an estimated c.75% from FY20F due to capacity expansion measures including staff number and shift expansion and investment in new machinery*
Source: DBS Bank

Medtecs 5-year forward P/E



Source: Bloomberg Finance L.P., DBS Bank

Key Risks

Pace of COVID-19 vaccine distribution to determine near-term PPE demand. In November 2020, both Pfizer-BioNTech and Moderna reported over 90% efficacies for their COVID-19 vaccines with deliveries expected to start by end-2020. Based on current projections, Pfizer-BioNTech expects to produce c.50m vaccine doses in 2020 and up to 1.3bn doses in 2021. Similarly, Moderna expects to produce c.20m vaccine doses in 2020 and up to 1bn doses in 2021. Undoubtedly, current PPE demand is unsustainable and will taper off as the COVID-19 situation improves. Demand for PPE used mainly by healthcare providers (such as gowns) could also face an accelerated decline as healthcare providers are likely the first in line for vaccinations.

That said, healthcare providers may continue their use of PPE post-vaccination given the less than 100% efficacy of the vaccines. Vaccine distribution to the general population could also face delays as both vaccines require storage at cold temperatures. Such cold chain logistics chains may not be widely developed, making distribution and vaccination difficult.

Key vaccines and their temperature requirements*

Vaccine	Progress	Temp req. (°C)
Pfizer-BioNTech	Final results from Phase 3 trial shows 95% efficacy	-70
Moderna	Interim data from Phase 3 trial shows 94.5% efficacy	-20
Novavax	Phase 3 results expected by start of 2021	c.5
AstraZeneca-Oxford University	Interim data from Phase 3 trials shows 62% - 90% efficacy	c.5
CureVac / Arcturus Therapeutics-DukeNUS / Sanofi-GSK	Undergoing Phase 2 trials	Refrigerator temp/NA/NA

**list is not exhaustive*

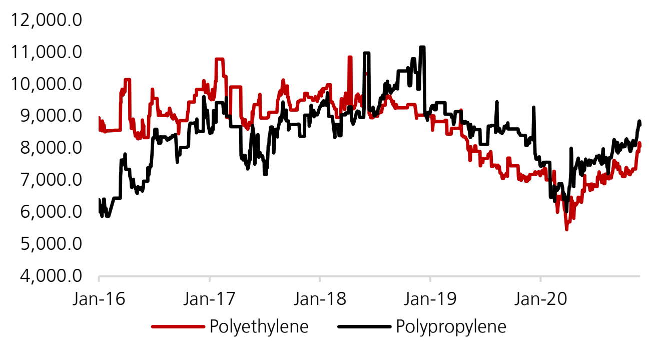
Source: Various Sources, DBS Bank

Keen competition as PPE trade turns attractive. Higher ASPs led by a shortage in PPE have attracted new entrants to the trade. For example, raw materials suppliers such as ExxonMobil are looking to forward integration to produce PPE while incumbents such as 3M and Honeywell are looking to invest to ramp up production. Concurrently, counterfeit and uncertified PPE have also appeared on the market. Post-COVID, the PPE market may be faced with an oversupply which could contribute to a fall in ASPs.

Loss of market share to domestic suppliers. Globally, we observe that a shift towards domestic production of PPE may be taking place. While this may be viable in the short-term, purchases from domestic suppliers may not sustain given the tight public finances (post-COVID) and competitive pricing of MED's products. It may be easy to justify paying higher prices for domestic PPE production amid shortages. However, when PPE is more readily available, stockpiling efforts could rely on more cost competitive sources such as MED. In addition, MED's may establish production facilities overseas to qualify as a domestic supplier as evident in its new expansion in the US.

Higher raw material costs may compress margins. The surge in PPE demand has put upward pressure on raw material prices. Medtecs gowns are mostly made using polypropylene (PP) and polyethylene (PE). Both PE and PP prices bottomed in March 2020 and have since headed higher steadily. Nevertheless, in the medium term, PP and PE prices are likely to normalise post-pandemic as demand for PPE tapers off.

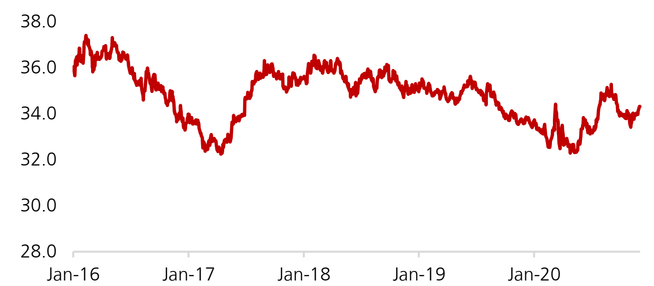
PP and PE prices bottomed in March (CNY/MT)



Source: Bloomberg Finance L.P., DBS Bank

FX risks. MED's revenues are mainly generated from Europe and Asia Pacific (APAC) with the majority of its trade receivables denominated in New Taiwan dollars. MED is exposed to fluctuations in foreign exchange (forex) rates amidst global uncertainties underpinned by the COVID-19 pandemic and US-China trade war.

EURTWD 5-Year Historical



Source: Bloomberg Finance L.P., DBS Bank

SWOT Analysis

Strengths	Weaknesses
• Extensive and reliable relationships built with customers could support post-pandemic PPE demand. • Competitive pricing of products due to cost-effective manufacturing bases in Cambodia and the Philippines. • International Standard Organisation (ISO) certified factories and use by reputable customers (such as in National Health Service (NHS) hospitals) establishes credibility of products.	• Future performance significantly dependent on external factors beyond company's control.
Opportunities	**Threats**
• National stockpiling initiatives and short PPE shelf life to drive sustainable PPE demand. • Inclusion in MSCI Singapore Small Cap Index and potential Mainboard transfer could improve stock visibility and liquidity • Sizable cash pile generated from COVID-19 sales could incentivise M&A activity.	• Keen competition faced as PPE production is ramped up globally. • Post-pandemic PPE demand likely to be a fraction of COVID-19 PPE demand.

Source: DBS Bank

Critical Factors

Vaccine development progress. Clearly, new vaccine developments can impact MED's share price. This is evident when the stock dived c.35% after Pfizer and BioNTech announced positive results for their vaccines. Conversely, a negative vaccine development (e.g. low effectiveness or serious side effects) of key vaccine candidates could drive MED's share price as it would mean prolonged high demand for PPE.

Going forward, we believe the market has largely priced in the high effectiveness of the Pfizer-BioNTech and Moderna vaccines. The next key developments could be positive phase 3 vaccine results for more easily distributed vaccines, vaccine production expansion or significant upgrade in cold chain logistics capabilities.

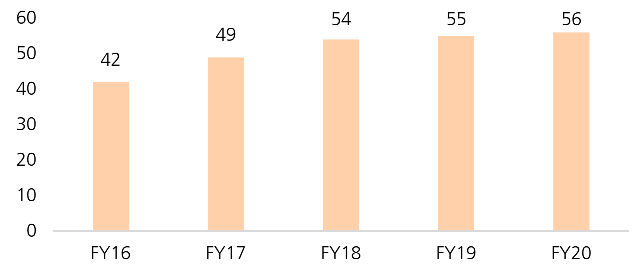
Key vaccines and development progress*

Vaccine	Progress
Pfizer-BioNTech	Final results from Phase 3 trial shows 95% efficacy
Moderna	Interim data from Phase 3 trial shows 94.5% efficacy
Novavax	Phase 3 results expected by start of 2021
AstraZeneca-Oxford University	Interim data from Phase 3 trials shows 62% - 90% efficacy
CureVac / Arcturus Therapeutics-DukeNUS / Sanofi-GSK	Undergoing Phase 2 trials

**list is not exhaustive*
Source: DBS Bank

Number of hospitals served. As of April 2020, MED's Hospital Services segment served 24 and 32 hospitals in Taiwan and the Philippines respectively. While Hospital Services has shrunk in significance relative to the Manufacturing and Trading & Distribution segments, we believe there is some cross-selling of products to the hospitals serviced. As such, this could mean a larger impact on revenue and earnings if MED successfully acquires new hospital customers under the Hospital Services segment.

Number of hospitals served by Medtecs



Source: Company, DBS Bank

Planned government stockpiles. We envisage that PPE stockpile plans announced by countries with MED's customers could move the company's share price. Post-COVID-19, we believe most countries would seek to stockpile essential PPE to avoid shortages seen during COVID-19. As stockpiling efforts would be the main driver of PPE demand, we believe the number of months of PPE supply that each country plans to stockpile could impact MED's future share price.

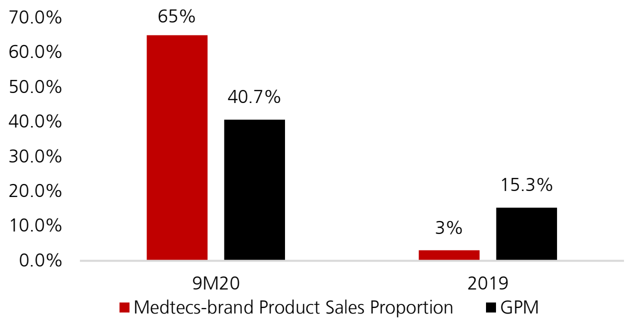
List of countries with Medtecs operations/customers*

Region	Countries	Revenue Share
Europe	UK	35%
	Netherlands	
	Germany	
	Italy	
North America	US	15%
	Canada	
Asia Pacific	Singapore	50%
	Taiwan	
	Japan	
	Philippines	
	Australia	

**list is not exhaustive*
Source: DBS Bank

Proportion of Medtecs-branded product sales. A higher sales proportion of Medtecs-branded products is likely to signal improved profit margins. Indeed, sales proportion of Medtecs-branded products has risen to 65% for 9M20 compared to 3% in 2019. Gross profit margins have also risen in tandem to 40.7% for 9M20 versus 15.3% in 2019. The improved margins are in part due to the shortage of PPE globally but are also due to better ASPs as MED shifts away from an Original Design Manufacturer (ODM) model.

Higher Medtecs-branded product volumes drive higher margins



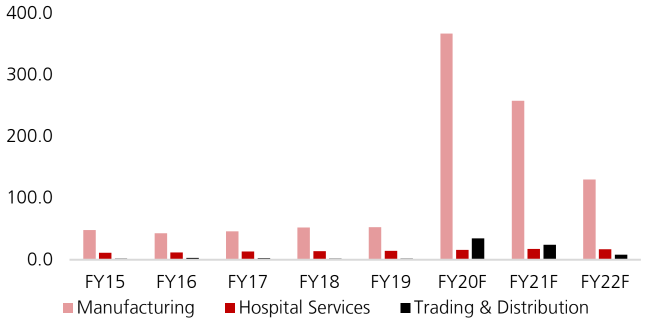
Source: Company, DBS Bank

Financials

Manufacturing segment leading growth. MED's 9M20 revenue has grown c.316% from FY19 to S$287m, underpinned by a c.383% growth in the Manufacturing segment due to increased demand for gowns and masks. The strong growth in revenue was helped by two other developments: (i) development of the Trading & Distribution segment through the leveraging of e-commerce platforms such as Alibaba, Amazon and Lazada to source for raw materials and distribute their products, (ii) rise in ASPs as a result of higher proportion of own brand product sales of 68%.

For FY21F and FY22F, we forecast that MED will record sales of US$300m and US$156m in our base case largely attributed to ASP and sales volume declines.

Revenue breakdown by segment (US$m)

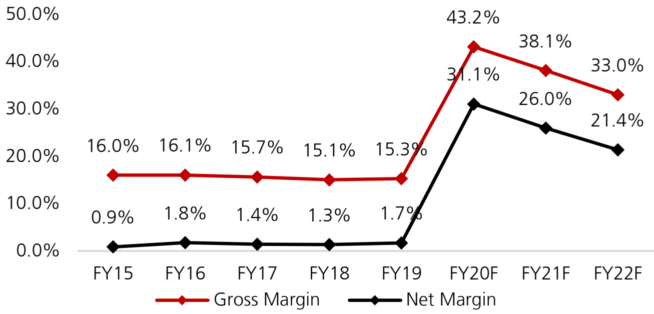


Source: Company, DBS Bank

Margin growth boosted by higher ASPs. 9M20 gross profit margin and net income margin stood at 40.7% and 29.5% respectively, representing a 2.7x and 17.4x increase from FY19. Medtecs enjoyed higher average selling prices for their products due to a global shortage of PPE and an increase in the proportion of sales contributed by Medtecs-branded products from 3% in FY19 to 65% for 9M20.

Moving forward, we do not expect ASPs to be sustained at the current levels and could decrease 20% y-o-y in FY21F. That said, ASPs are expected to still be c.90% higher than pre-COVID levels due to a larger proportion of sales contributed by Medtecs-branded products. FY21F earnings and net margins are expected to come in at US$77.9m and 26.0%.

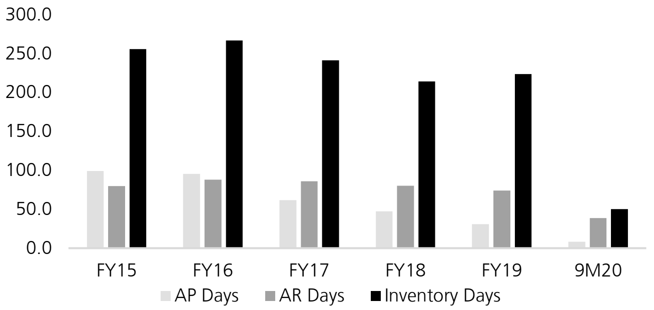
Medtecs margins have soared as ASPs rise



Source: Company, DBS Bank

Improved cash conversion cycle (CCC). MED's cash conversion cycle decreased to 81 days for 9M20 from 267 days in FY19 largely led by an improvement in inventory turnover days to 50 for 9M20 from 224 in FY19. Account receivable days also improved to 39 days for 9M20 from 74 days in FY19, likely due to stronger bargaining power for MED as a result of the global PPE shortage. Similarly, account payable days decreased from 31 days in FY19 to 8 days in 9M20 possibly due to a shortage of raw materials used for PPE which strengthened the bargaining power of suppliers.

Improved performance accompanied by shorter CCC



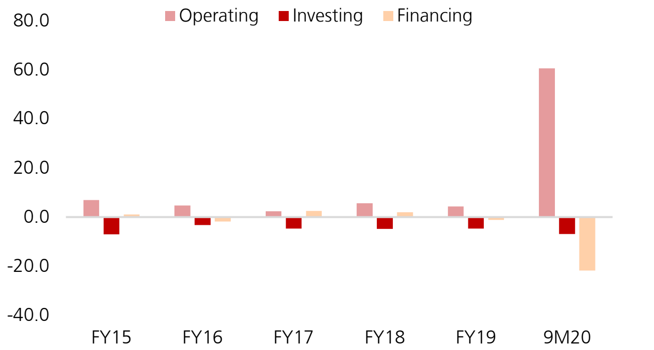
Source: Company, DBS Bank

Medtecs was in a net cash position as at 9M20. The influx of strong operating cash flows stemming from PPE demand has enabled MED to turn net cash as at 9M20. This was a strong improvement from a net-debt equity of 0.62x in FY19. Going forward, with operating cash flows likely to remain above pre-COVID levels, we expect MED to gradually repay all its borrowings and sustain its net cash position.

Higher capex in 9M20 to increase production capacity. Cash used in investing activities increased to US$7.0m for 9M20 from US$4.6m in FY19 as investments were made in plant, machineries and new equipment in Philippines and Cambodia to ramp up production. Cash generated from operating activities soared to US$60.6m with US$21.8m used for financing activities such as the repayment of debt.

In the future, we believe MED is likely to repay its debt and continue expanding capacity in the geographies of its key customers with a focus on Europe. Notably, in October MED announced that a subsidiary had been established in the US to manufacture masks for the domestic market. However, capital expenditure (capex) is not expected to increase unreasonably with MED's management aware of the temporary nature of current demand.

Pandemic generated cash used on capex and debt (US$m)



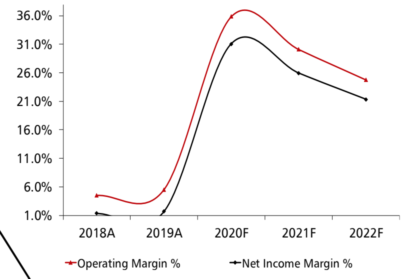
Source: Company, DBS Bank

Segmental Breakdown

FY Dec	2017A	2018A	2019A	2020F	2021F	2022F
Revenues (US$m)						
Manufacturing	45.9	52.2	52.9	367	258	130
Hospital Services	13.4	14.0	14.3	16.0	17.5	16.9
Distribution and others	2.59	2.13	1.80	34.8	24.5	8.40
Total	61.8	68.3	69.0	418	300	156

Source: Company, DBS Bank

Margins Trend



Lower revenue as PPE demand and ASPs decline

Income Statement (US$m)

FY Dec	2017A	2018A	2019A	2020F	2021F	2022F
Revenue	61.8	68.3	69.0	418	300	156
Cost of Goods Sold	(52.2)	(58.0)	(58.5)	(238)	(186)	(104)
Gross Profit	**9.68**	**10.3**	**10.5**	**180**	**114**	**51.4**
Other Opng (Exp)/Inc	(7.0)	(7.2)	(6.7)	(30.4)	(24.0)	(12.9)
Operating Profit	**2.71**	**3.07**	**3.79**	**150**	**90.4**	**38.6**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(1.8)	(1.9)	(2.3)	(1.6)	(0.1)	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**0.95**	**1.19**	**1.52**	**148**	**90.3**	**38.5**
Tax	(0.1)	(0.3)	(0.4)	(18.5)	(12.4)	(5.3)
Minority Interest	0.01	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	**0.88**	**0.91**	**1.16**	**130**	**77.9**	**33.2**
Net Profit before Except.	0.88	0.91	1.16	130	77.9	33.2
EBITDA	2.71	8.03	9.61	159	99.6	47.7
Growth						
Revenue Gth (%)	7.3	10.5	1.0	506.2	(28.2)	(48.2)
EBITDA Gth (%)	(17.3)	196.3	19.7	1,556.7	(37.4)	(52.1)
Opg Profit Gth (%)	(17.3)	13.4	23.5	3,853.4	(39.7)	(57.4)
Net Profit Gth (Pre-ex)	(13.5)	3.5	27.1	11,080.7	(40.0)	(57.4)
Margins & Ratio						
Gross Margins (%)	15.7	15.1	15.3	43.2	38.1	33.0
Opg Profit Margin (%)	4.4	4.5	5.5	35.9	30.1	24.8
Net Profit Margin (%)	1.4	1.3	1.7	31.1	26.0	21.4
ROAE (%)	1.4	1.5	1.8	103.7	35.1	12.2
ROA (%)	0.8	0.8	1.0	81.0	32.6	11.6
ROCE (%)	(0.9)	(1.0)	(1.0)	82.8	33.5	11.9
Div Payout Ratio (%)	0.0	0.0	0.0	4.9	10.0	10.0
Net Interest Cover (x)	1.5	1.6	1.7	96.1	908.1	1,531.4

Margins to decline as PPE ASPs normalise

Source: Company, DBS Bank

Interim Income Statement (US$m)

FY Dec	2H2017	1H2018	2H2018	1H2019	2H2019	1H2020
Revenue	29.6	33.0	35.3	33.2	35.8	163
Cost of Goods Sold	(25.2)	(28.0)	(30.1)	(27.9)	(30.6)	(111)
Gross Profit	**4.42**	**5.01**	**5.27**	**5.30**	**5.23**	**51.4**
Other Oper. (Exp)/Inc	(3.3)	(3.6)	(3.7)	(3.7)	(3.0)	(7.6)
Operating Profit	**1.09**	**1.45**	**1.62**	**1.56**	**2.23**	**43.9**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.9)	(1.0)	(0.9)	(1.1)	(1.2)	(1.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**0.19**	**0.46**	**0.72**	**0.49**	**1.03**	**42.9**
Tax	0.15	(0.1)	(0.2)	(0.1)	(0.3)	(4.0)
Minority Interest	0.01	0.0	0.0	0.0	0.0	0.0
Net Profit	**0.34**	**0.35**	**0.56**	**0.39**	**0.78**	**38.9**
Net Profit bef Except.	0.34	0.35	0.56	0.39	0.78	38.9
EBITDA	1.09	1.45	1.62	1.56	2.23	48.1
Growth						
Revenue Gth (%)	(8.2)	11.4	7.2	(6.2)	8.0	353.9
EBITDA Gth (%)	(33.1)	33.9	11.3	(3.4)	42.6	2,056.4
Opg Profit Gth (%)	(33.1)	33.9	11.3	(3.4)	42.6	1,866.2
Net Profit Gth (%)	(37.1)	3.5	58.9	(31.4)	101.8	4,905.1
Margins						
Gross Margins (%)	14.9	15.2	14.9	16.0	14.6	31.6
Opg Profit Margins (%)	3.7	4.4	4.6	4.7	6.2	27.0
Net Profit Margins (%)	1.2	1.1	1.6	1.2	2.2	23.9

Source: Company, DBS Bank

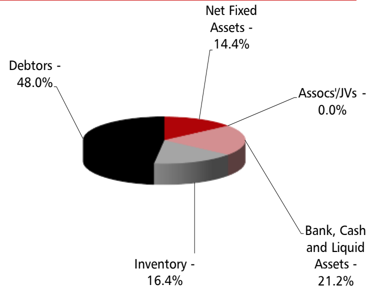
Balance Sheet (US$m)

FY Dec	2017A	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	23.1	21.6	19.2	22.4	22.4	22.4
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0	0.0
Other LT Assets	15.4	16.8	22.1	20.4	13.9	5.93
Cash & ST Invts	4.39	8.78	8.00	37.9	142	203
Inventory	34.3	33.9	37.8	25.4	25.4	28.6
Debtors	15.3	14.7	13.3	74.5	53.5	27.7
Other Current Assets	17.0	17.1	16.1	23.5	16.9	8.75
Total Assets	**110**	**113**	**117**	**204**	**274**	**297**
ST Debt	33.9	34.9	36.7	3.75	3.75	0.0
Creditor	8.12	6.80	3.84	5.86	7.63	5.71
Other Current Liab	2.10	1.10	0.90	0.0	0.0	0.0
LT Debt	1.63	5.91	5.87	0.62	0.62	0.62
Other LT Liabilities	0.92	0.83	4.74	5.72	4.11	2.13
Shareholder's Equity	61.9	62.3	63.6	187	257	287
Minority Interests	1.01	1.02	1.02	1.02	1.02	1.02
Total Cap. & Liab.	**110**	**113**	**117**	**204**	**274**	**297**
Non-Cash Wkg. Capital	56.4	57.8	62.6	118	88.1	59.3
Net Cash/(Debt)	(31.1)	(32.0)	(34.5)	33.5	138	203
Debtors Turn (avg days)	85.9	80.2	74.3	38.3	77.8	95.2
Creditors Turn (avg days)	61.2	51.3	36.9	7.7	13.9	25.6
Inventory Turn (avg days)	241.7	234.4	248.6	50.5	52.5	103.6
Asset Turnover (x)	0.6	0.6	0.6	2.6	1.3	0.5
Current Ratio (x)	1.6	1.7	1.8	16.8	20.9	47.0
Quick Ratio (x)	0.4	0.5	0.5	11.7	17.2	40.4
Net Debt/Equity (X)	0.5	0.5	0.5	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.5	0.5	0.5	CASH	CASH	CASH
Capex to Debt (%)	8.4	10.1	9.9	206.1	132.0	934.6

Pandemic generated cash used to repay debt

Source: Company, DBS Bank

Asset Breakdown

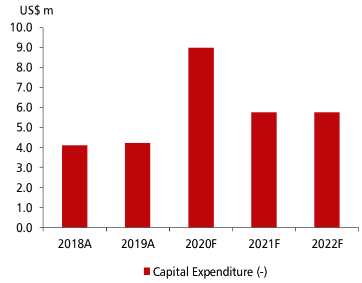


Cash Flow Statement (US$m)

FY Dec	2017A	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	0.95	1.19	1.52	148	90.3	38.5
Dep. & Amort.	4.80	4.95	5.81	9.13	9.13	9.13
Tax Paid	(0.3)	(0.7)	(0.6)	(18.5)	(12.4)	(5.3)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(4.7)	(2.2)	(4.9)	(55.0)	29.4	28.8
Other Operating CF	1.62	2.37	2.52	0.0	0.0	0.0
Net Operating CF	**2.37**	**5.63**	**4.37**	**84.1**	**116**	**71.2**
Capital Exp.(net)	(3.0)	(4.1)	(4.2)	(9.0)	(5.8)	(5.8)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(1.7)	(0.7)	(0.4)	(0.7)	1.53	2.63
Net Investing CF	**(4.7)**	**(4.8)**	**(4.7)**	**(9.7)**	**(4.2)**	**(3.1)**
Div Paid	0.0	0.0	0.0	(6.4)	(7.8)	(3.3)
Chg in Gross Debt	4.63	3.82	1.72	(38.2)	0.0	(3.8)
Capital Issues	0.0	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(2.2)	(1.9)	(2.9)	0.0	0.0	0.0
Net Financing CF	**2.45**	**1.97**	**(1.2)**	**(44.6)**	**(7.8)**	**(7.1)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0	0.0
Chg in Cash	0.15	2.79	(1.5)	29.9	104	61.0
Opg CFPS (S cts)	1.71	1.91	2.26	33.8	21.2	10.3
Free CFPS (S cts)	(0.2)	0.37	0.04	18.3	26.9	15.9

Source: Company, DBS Bank

Capital Expenditure

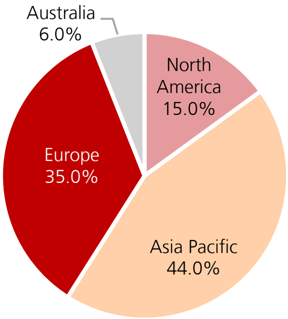


AR to rise due to large COVID-19 sales

Company Background

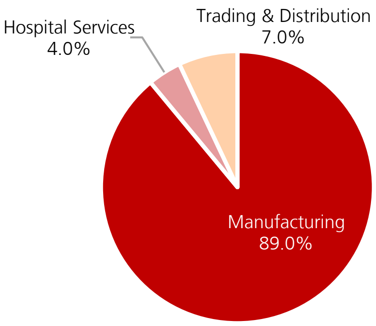
Medtecs International Corporation (MED) is a leading personal protective equipment (PPE) and hospital service provider based in Taiwan. The Group was listed on the SGX in 1999 and employs over 7,500 employees worldwide with key business interests in Europe and Asia Pacific. MED has three business segments - Manufacturing, Hospital Services and Trading & Distribution. In recent months, the Manufacturing segment has grown to 89% of Medtec's total revenue (FY19: 77%) as PPE demand surged following the outbreak of COVID-19.

Medtecs 9M20 revenue split by geography



Source: Company, DBS Bank

Medtecs 9M20 revenue split by business segment



Source: Company, DBS Bank

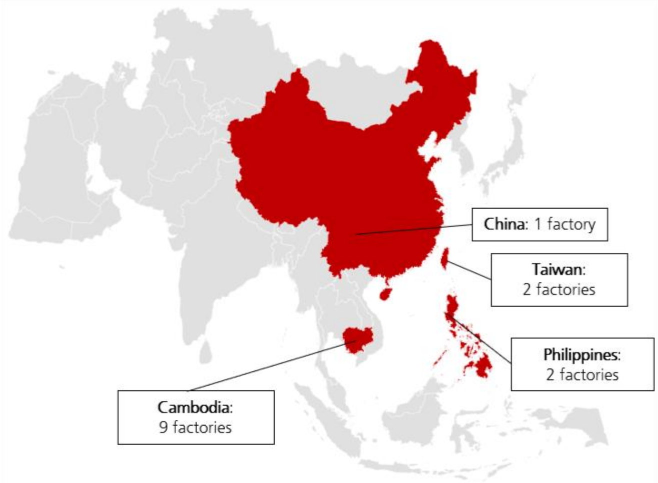
Manufacturing segment produces medical consumables. A wide range of medical consumables including surgical masks, PPE and bed linens are produced or sub-contracted by MED before being supplied to large distributors or directly to hospitals. The COVID-19 pandemic has driven two major changes in manufacturing. Firstly, MED is seeing a large rise in sales volume, driven by medical consumable needs as a result of the pandemic. Secondly, sales of MED's own label (e.g. CoverU) has risen from 3% in 2019 to 68% of the Group's total sales for 9M20. MED has 14 factories across Asia with over 100 production lines.

Medtecs production capacity by product (as at 3Q20)

Product	Production capacity (pcs/month)
Medical Masks	80.0
PE Gown	8.0
Ultrasonic Isolation Gown	4.0
Isolation Gown (with tape)	4.0
Coverall (with tape)	2.0
Workwear	0.5

Source: Company, DBS Bank

Medtecs factories are mostly located in Cambodia

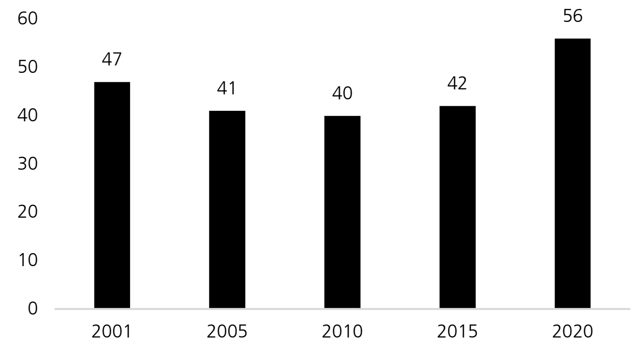


Source: Company, DBS Bank

The Trading & Distribution segment primarily deals with the e-commerce and pharmaceutical store channels. The segment primarily markets Medtecs-branded products and has grown its contribution to MED's revenue from 2% in FY19 to 7% as of 9M20. MED's products can be found in over 3,400 pharmaceutical stores, 6,000 convenience stores and 2,000 chainstores in Taiwan and the Philippines. The segment also sells through e-commerce platforms such as Alibaba, Amazon and Lazada.

Hospital Services segment provides hospitals in Philippines and Taiwan with non-core hospital services. The segment fulfils non-core hospital functions such as laundry services, lease of linen and logistics support (3L services). MED is currently the dominant provider for such services in Taiwan and now provides 3L services to 56 hospitals in Taiwan and the Philippines.

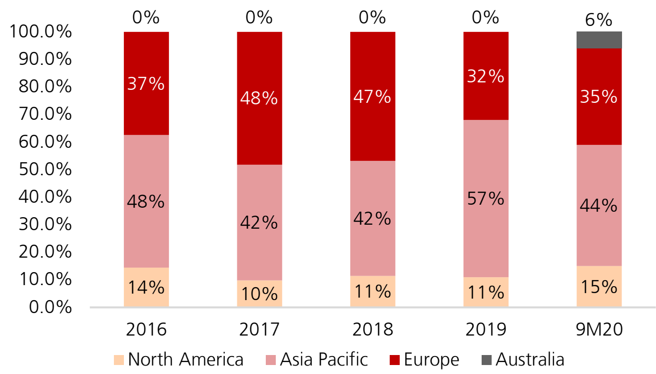
Number of hospitals supported by Medtecs 3L services



Source: Company, DBS Bank

COVID-19 has improved MED's geographical diversity but increased Manufacturing's share of revenue. Prior to COVID-19, contributions from the Manufacturing and Hospital Services segments were stable at c.75% and c.21% respectively. However, the Manufacturing business has surged as COVID-19 boosted demand for medical consumables. As a result, the Manufacturing segment now contributes c.89% of MED's total business (as of 9M20). That said, MED has diversified its revenue with Australia now contributing 6% of MED's 9M20 revenue.

Australia now contributes 6% of Medtecs 9M20 revenue



Source: Company, DBS Bank

Management

Board of Directors shuffle. MED's board shrank in 2020 due to the resignations of Mr Wilfrido Candelaria Rodriguez (Executive Director) and Mr Xia Junwei (Non-Executive Director). Nevertheless, Mr Wilfrido remains MED's Chief Financial Officer (CFO).

Familial relationships. Mr William Yang is the son of Mr Clement Yang and took over from his father in 2018. Ms Wan Chien Yang, daughter of Mr Clement Yang, was recently appointed non-executive director of Medtecs USA.

Key Management Team

Name & Position	Experience
Mr Clement Yang Ker-Cheng *Founder and Executive Chairman*	Mr Clement Yang Ker Cheng serves as the Chairman of Medtecs International, where he oversees the overall management strategic planning, product development and marketing of the Group. He is the founder of Medtecs International. Mr Clement Yang has more than 30 years of experience in the textile manufacturing industry. Most of those years were devoted to the development of medical consumables for the healthcare industry. Prior to the founding of Medtecs International, Mr Clement Yang served as Senior Vice President of the Fu-I Industrial Group of companies, and Chief Executive Officer of Shentex Corporation. Mr Clement Yang currently serves as Chairman of the Cambodia and Philippines committees of the Chinese Philippines Business Council.
Mr William Yang Weiyuan *Chief Executive Officer and Executive Director*	Mr William Yang Weiyuan took on the role of Chief Executive Officer, replacing Mr Clement Yang on 2 May 2018. He is responsible for the day-to-day operations of Medtecs International. Mr Yang has more than 10 years of experience in the textile industry. Prior to his current appointment, Mr Yang served as the General Manager of Shanghai Greenway Medical Apparatus Co., Ltd. and Medtecs (Taiwan) Corporation where he took on an active role in the marketing, production, human resources and finance departments. Mr. William Yang graduated from New York Institute of Technology with a Degree in Electrical and Computer Engineering.
Mr Wilfrido Candelaria Rodriguez *Chief Financial Officer*	Mr Wilfrido Candelaria Rodriguez was appointed the company's Chief Financial Officer on 10 December 2008. Mr. Rodriguez has accumulated more than 20 years of accounting and finance experience across various companies in the textile and healthcare industries. Prior to his current role, Mr Rodriguez served as Vice President for internal audit at Medtecs International. He was also the Chief Financial Officer of Ester Corp. between 1994 until 1996. Mr Rodriguez holds a Bachelor of Science Degree in Business Administration from the University of the East, Philippines. He is also a Certified Public Accountant in the Philippines.

Source: Company, DBS Bank

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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