

2 May 2018

Consumer Non-cyclical | Healthcare

Raffles Medical Group

Not Ripe Yet

Raffles Medical's 1Q18 PATMI is in line with our expectation. We note that its share price has run up, after its 4Q17 results. Downgrade to SELL (from Neutral), with an unchanged SGD1.02 TP offering a 11% downside, as we think headwinds still lie ahead. Although 2H is seasonally stronger than 1H, we think it would be offset by higher costs when its hospital in Chongqing, China commences operations. We also expect to see a dip in earnings in FY19 when Raffles Medical Shanghai opens, while its Chongqing hospital would still be in a ramping-up phase.

1Q18 revenue grew 4.6% YoY, fuelling a bottomline growth of 1.7% YoY. Revenue from Raffles Medical Group's (Raffles Medical) hospital services segment grew 4.2% YoY, as its patient load improved. According to its executive chairman, Dr Loo Choon Yong, the foreign patient load increased by about 2% YoY while the local patient load increased by a high single-digit percentage. Spare capacity from the new hospital extension also enabled it to have more room to take on more patients. Its healthcare services segment grew 6.8% YoY on the back of new contracts from government agencies.

However, we expect full-year revenue growth to remain modest, at about 5% YoY, as we think Singapore is still structurally challenging for healthcare players – as the SGD remains strong, compared to regional currencies.

Tenants still not filling space yet. Only 10% of the space in the new Raffles Hospital extension has been committed. We note that this is the same number as communicated in the company's last briefing. We maintain the view that the bulk of the rental income would only come in FY19.

Headwinds still lie ahead. Previously, management guided for each China hospital to incur an EBITDA loss of SGD8-10m in the first year (ie 12 months) of operations and a SGD4-5m EBITDA loss in the second year. We think FY19 would see a double blow in earnings, as its Chongqing facility would still be in a ramping-up phase while its Shanghai is scheduled to open.

Previously, management indicated that 100 beds in the Chongqing hospital would be allocated to the public at subsidised prices. However, there seems to be a delay or about-face in this plan, due to the difficulty in implementation. The group is still in talks with local authorities to work out the issues. We believe the 100 beds opened to the public could help to cover some fixed operational costs. Without these 100 beds, the group would have to find other alternatives to better utilise the space.

Too early to go in. We think Raffles Medical's valuation is still expensive at this point, given the potential start-up losses from its China hospitals that are to come in 2H18 and FY19. Downgrade to SELL, with a DCF-derived TP SGD1.02.

Sell (from Neutral)

Target Price: SGD1.02
Price: SGD1.15
Market Cap: USD1,536m
Bloomberg Ticker: RFMD SP

Share Data

Avg Daily Turnover (SGD/USD) 2.49m/1.89m
52-wk Price low/high (SGD) 1.04 - 1.41
Free Float (%) 48
Shares outstanding (m) 565
Estimated Return -11%

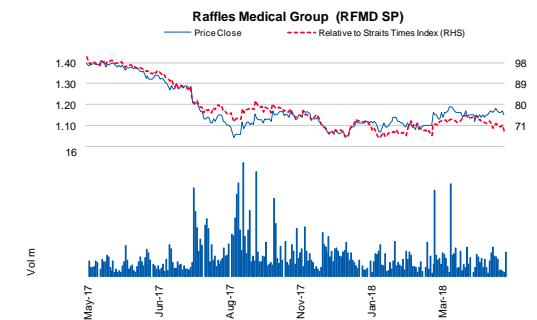
Shareholders (%)

Raffles Medical Holdings Pte Ltd 38.5
Loo Choon Yong 10.0
Aberdeen Asset Management 5.0

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.7	0.0	3.6	2.2	(17.9)
Relative	(3.5)	(5.4)	1.8	(4.8)	(31.7)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	474	478	503	561	618
Reported net profit (SGDm)	70.0	70.8	67.3	61.0	65.1
Recurring net profit (SGDm)	68.5	70.8	67.3	61.0	65.1
Recurring net profit growth (%)	1.0	3.3	(5.0)	(9.3)	6.8
Recurring EPS (SGD)	0.04	0.04	0.04	0.03	0.04
DPS (SGD)	0.02	0.02	0.02	0.02	0.02
Recurring P/E (x)	29.3	28.4	29.9	32.9	30.9
P/B (x)	3.01	2.74	2.64	2.56	2.48
P/CF (x)	24.9	23.4	18.2	19.7	20.0
Dividend Yield (%)	1.7	2.0	2.0	2.0	2.0
EV/EBITDA (x)	16.3	17.1	15.7	15.3	13.9
Return on average equity (%)	11.0	10.1	9.0	7.9	8.2
Net debt to equity (%)	netcash	netcash	11.4	21.6	17.2
Our vs consensus EPS (adjusted)					

Source: Company data, RHB

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Financial Exhibits

Financial model updated on : 2018-05-01.

Asia	Financial summary	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Singapore	Recurring EPS (SGD)	0.04	0.04	0.04	0.03	0.04
Consumer Non-cyclical	EPS (SGD)	0.04	0.04	0.04	0.03	0.04
Raffles Medical Group	DPS (SGD)	0.02	0.02	0.02	0.02	0.02
Bloomberg RFMD SP	BVPS (SGD)	0.38	0.42	0.44	0.45	0.46
Sell	Weighted avg adjusted shares (m)	1,747	1,747	1,747	1,747	1,747
Valuation basis	Valuation metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
DCF	Recurring P/E (x)	29.3	28.4	29.9	32.9	30.9
	P/E (x)	28.7	28.4	29.9	32.9	30.9
Key drivers	P/B (x)	3.01	2.74	2.64	2.56	2.48
i. Improved economic outlook to boost healthcare demand;	FCF Yield (%)	3.3	3.8	4.5	4.1	4.0
ii. Higher-than-expected contributions from Chongqing Hospital and Shanghai Hospital	Dividend Yield (%)	1.7	2.0	2.0	2.0	2.0
	EV/EBITDA (x)	16.3	17.1	15.7	15.3	13.9
	EV/EBIT (x)	19.2	20.3	19.0	19.1	18.0
Key risks	Income statement (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Longer-than-expected gestation periods	Total turnover	474	478	503	561	618
	Gross profit	382	384	407	459	513
	EBITDA	96	95	100	100	107
	Depreciation and amortisation	(15)	(15)	(17)	(20)	(24)
	Operating profit	82	80	83	80	82
	Net interest	1	1	(3)	(9)	(9)
	Pre-tax profit	83	81	80	71	73
	Taxation	(15)	(12)	(14)	(13)	(13)
	Minority interests	2	2	2	3	5
	Recurring net profit	69	71	67	61	65
Company Profile	Cash flow (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Raffles Medical Group owns and operates medical clinics in Singapore. The company operates through three segments:	Change in working capital	(5)	3	35	24	16
i. Healthcare services;	Cash flow from operations	81	86	110	102	100
ii. Hospital services;	Capex	(14)	(10)	(20)	(20)	(20)
iii. Investment holdings.	Cash flow from investing activities	(44)	(141)	(181)	(150)	(35)
	Dividends paid	(14)	(14)	(39)	(39)	(39)
	Cash flow from financing activities	(8)	41	83	14	(34)
	Cash at beginning of period	86	112	98	111	77
	Net change in cash	28	(14)	13	(35)	31
	Ending balance cash	114	97	111	77	108
It owns and operates a network of family medicine clinics, a tertiary care private hospital, and an educational healthcare institute. The company was founded in 1976 and is based in Singapore.	Balance sheet (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Total cash and equivalents	112	98	111	77	108
	Tangible fixed assets	270	384	387	387	382
	Intangible assets	31	37	37	37	37
	Total investments	371	385	545	675	690
	Total other assets	5	4	5	5	5
	Total assets	901	1,006	1,172	1,273	1,318
	Short-term debt	13	41	50	50	50
	Total long-term debt	17	38	150	200	200
	Other liabilities	18	22	15	15	15
	Total liabilities	219	254	392	472	491
	Shareholders' equity	666	734	762	784	809
	Minority interests	15	18	18	18	18
	Total equity	682	752	780	801	827
	Net debt	(81)	(19)	89	173	142
	Total liabilities & equity	901	1,006	1,172	1,273	1,318
	Key metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Revenue growth (%)	15.4	0.8	5.3	11.5	10.2
	Recurrent EPS growth (%)	(67.1)	3.3	(5.0)	(9.3)	6.8
	Gross margin (%)	80.6	80.4	80.9	81.9	82.9
	Operating EBITDA margin (%)	20.4	19.9	19.9	17.8	17.3
	Net profit margin (%)	14.8	14.8	13.4	10.9	10.5
	Dividend payout ratio (%)	49.9	55.5	58.4	64.4	60.4
	Capex/sales (%)	3.1	2.1	4.0	3.6	3.2
	Interest cover (x)	(83.1)	(109.4)	27.5	8.9	9.1

Source: Company data, RHB

Figure 1: 1Q18 results summary

FYE Dec (SGDm)	1Q18	4Q17	QoQ (%)	1Q17	YoY (%)	Comments
Revenue	120.2	123.0	(2.3)	114.9	4.6	Increase in revenue stemmed from its hospital and healthcare services segment.
Staff costs	61.6	62.1	(0.8)	61.0	1.0	Cost control improved.
<i>% of revenue</i>	<i>51.2</i>	<i>50.5</i>		<i>53.1</i>		
EBIT	18.9	24.0	(21.4)	18.1	4.4	
<i>EBIT Margin (%)</i>	<i>15.7</i>	<i>19.5</i>		<i>15.7</i>		
Pretax profit	18.9	24.3	(22.3)	18.3	3.2	
<i>Pretax Margin (%)</i>	<i>15.7</i>	<i>19.7</i>		<i>15.9</i>		
Net Profit attributable	15.8	22.1	(28.4)	15.5	1.7	
<i>Net Margin (%)</i>	<i>12.9</i>	<i>17.6</i>		<i>13.0</i>		

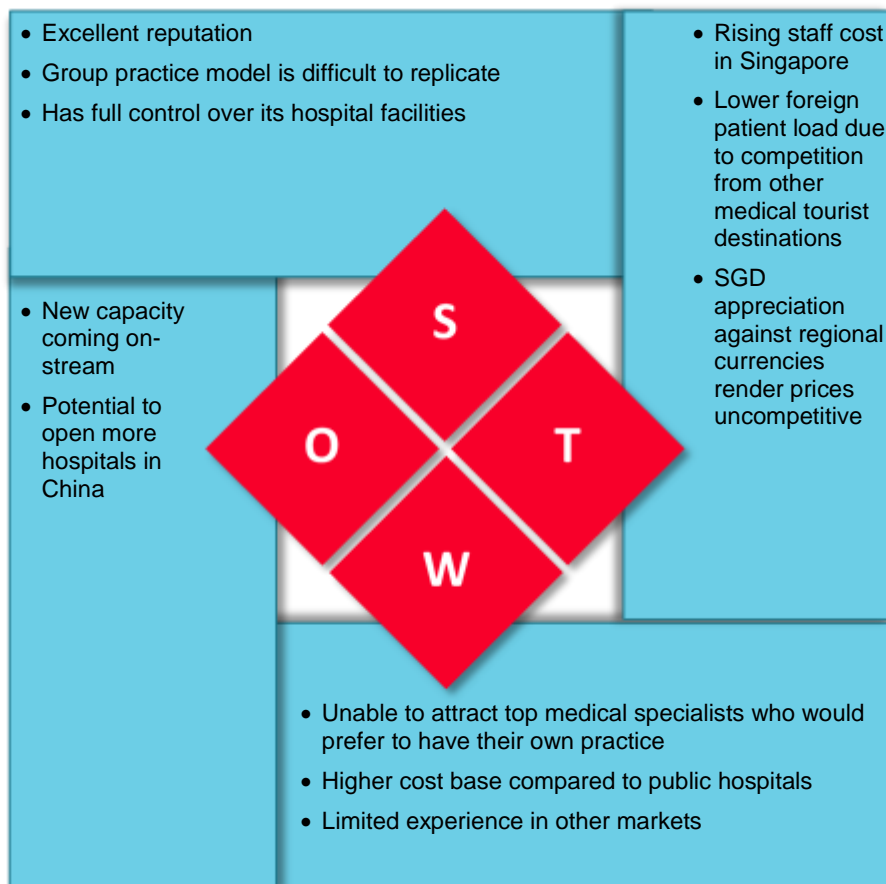
Source: RHB

Figure 2: DCF assumptions

SGDm	FY18F	FY19F	FY20F	FY21F	FY22F	FY23F
Net income	67.3	61.0	65.1	68.9	77.5	86.1
+ Non-cash charges	17.3	20.1	24.4	32.0	32.0	32.0
+ Fixed capital investment	(180.9)	(150.0)	(35.0)	(30.0)	(30.0)	(30.0)
+ Change in net working capital	34.6	23.7	16.0	20.0	10.0	5.0
+ Change in debt	120.8	50.0	0.0	(5.0)	(5.0)	(5.0)
FCFE	59.0	4.8	70.4	85.9	84.5	88.1
Terminal Value						2,307.7
PV	54.9	3.8	52.8	60.0	54.9	1,556.7
Total discounted FCFE	1,783.2					
Value/ Share (SGD)	1.02					
Cost of equity	7.5%					
Risk-free rate	2.8%					
Beta	0.75					
Market return	9.0%					
Terminal growth	3.5%					

Source: RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-02-26	Neutral	1.02	1.10
2017-10-31	Neutral	1.10	1.13
2017-08-01	Sell	1.10	1.21
2017-04-25	Neutral	1.49	1.39
2017-04-04	Buy	1.72	1.45
2017-02-20	Buy	1.72	1.46
2016-10-24	Buy	1.76	1.51
2016-07-26	Buy	1.70	1.55
2016-02-23	Buy	1.70	1.45
2015-10-27	Buy	1.80	1.45

Source: RHB, Bloomberg

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