


Company Note

Singapore

REDUCE (no change)

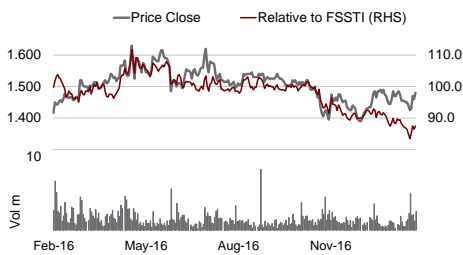
Consensus ratings*: Buy 7 Hold 4 Sell 2

Current price: S\$1.48
 Target price:  S\$1.36
 Previous target: S\$1.46
 Up/downside: -8.3%
 CIMB / Consensus: -15.1%

Reuters: RAFG.SI
 Bloomberg: RFMD SP
 Market cap: US\$1,828m
 S\$2,589m
 Average daily turnover: US\$1.34m
 S\$1.92m
 Current shares o/s: 1,748m
 Free float: 48.0%
 *Source: Bloomberg

Key changes in this note

- FY17F EPS decreased by 12%.
- FY18F EPS decreased by 8%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-0.7	5.3	9.4
Relative (%)	-3.8	-5.2	-9.5

Major shareholders	% held
Loo Choon Yong	48.1
FIL	4.9
Aberdeen	4.8

Analyst(s)



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Raffles Medical Group

Post analyst briefing update: Margins could yet worsen

- We think it is still too premature to start turning positive on RFMD. Both 4Q16 topline and bottomline were weak, and costs could yet intensify.
- Weak medical tourism, limited domestic growth and expansion costs are hitting the group's hospital segment. Hospital saw its first ever PBT decline in FY16 (-3% yoy).
- Losses at ISOS are also widening and route to profitability could take longer than expected.
- We cut our EPS on slower sales growth and lower margins. Accordingly, our SOP-based TP falls to S\$1.36. Maintain Reduce.

Topline missed amid weak demand

4Q16 topline growth was weak amid slowing demand. As 4Q is typically its strongest quarter, the 1% qoq sales decline in 4Q16 was especially poor. Management attributed the weakness to medical tourism (declining Indonesian patients) and an uncertain macro environment which would have led patients to either postpone procedures or switch to the public sector. We do not expect demand to recover soon and lower our FY17F hospital revenue growth forecast to 5% (prev. 8%).

Still seeing a drop in Indo patients

The miss in medical tourism mostly came from Indonesian patients (single-digit decline). Indo patients now form less than 20% of RFMD's total foreign patients (prev. 20%). Even as management cited growth from other markets (Malaysia, Vietnam, Myanmar and China), the tone was that medical tourism growth (if any) will likely be subdued. Key deterrents include 1) a strong S\$, 2) rising private healthcare costs, and 3) competition from regional hospitals.

Hospital extension likely to be accompanied by higher costs

Common investor concerns include the timing of its Singapore hospital extension (scheduled completion: 2H17) amidst slowing demand and associated cost pressures. However, management guided that it operates a demand-led model and will ramp up in phases according to demand; cost concerns are, therefore, manageable. However, we remain cautious and note that margins are already being squeezed. FY16 hospital PBT was down 2.8% yoy even as revenue grew 4.8% yoy.

Where does ISOS fit in?

Widening losses at 55%-owned ISOS have not helped the group's cost pressures. We understand the drag is mostly at the manpower level. Staff cost/revenue was 60+% upon acquisition but has been brought down to c.56%. Using RFMD's existing operations as a benchmark, we think an optimal level will be 50%. Management highlighted that it has taken an active role in managing this business and has a new management for ISOS. However, we still expect transition costs and view a turnaround in FY17 as unlikely.

Not yet time for a turnaround, maintain Reduce

Overall, we cut our FY17-18F EPS by 8-12% on the back of slower hospital segment growth and continued margin pressure. Accordingly, our SOP-based TP falls to S\$1.36. With valuations still rich at 26.7x CY17F EV/EBITDA and accompanied only by a 5% EPS CAGR over FY17-18F, we keep our Reduce rating. The stock continues to trade above peers (23x CY17F EV/EBITDA) and its historical 5-year mean (also 23x). Upside risks to our call could come from further greenfield hospital plans in China.

Financial Summary	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue (S\$m)	410.5	473.6	509.6	570.5	618.2
Operating EBITDA (S\$m)	89.7	93.1	98.4	111.8	121.2
Net Profit (S\$m)	69.29	70.21	70.73	78.64	85.39
Core EPS (S\$)	0.040	0.040	0.040	0.045	0.049
Core EPS Growth	2.9%	(0.3%)	2.4%	11.2%	8.6%
FD Core P/E (x)	37.30	37.42	36.58	32.90	30.30
DPS (S\$)	0.020	0.020	0.020	0.020	0.020
Dividend Yield	1.35%	1.35%	1.35%	1.35%	1.35%
EV/EBITDA (x)	27.84	26.92	26.66	23.95	21.62
P/FCFE (x)	NA	77.9	45.1	214.5	27.5
Net Gearing	(8.6%)	(12.0%)	1.3%	4.0%	(3.2%)
P/BV (x)	4.23	3.88	3.68	3.47	3.25
ROE	11.9%	10.8%	10.3%	10.9%	11.1%
% Change In Core EPS Estimates			(11.7%)	(8.4%)	
CIMB/consensus EPS (x)			0.88	0.87	0.78

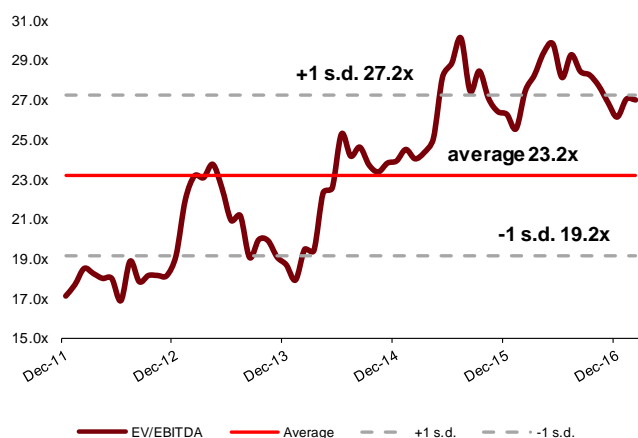
SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 1: RFMD's SOP valuation

	Basis	EBITDA	Multiple	Value
Core Singapore business				
Enterprise value	End-CY18 EBITDA	112	21.0	2,348
Net Debt/(Cash)	End CY17			55
Minority interests	End CY17			15
Equity value (S\$ m)	MVE = EV - Net debt - MI			2,277
Shanghai New Bund Hospital				
Equity value for Shanghai New Bund Hospital (RMB m)	DCF			610
RFMD's portion (S\$ m)	70% share			94
Shares outstanding (m)				1,748
Implied per share value (S\$)				1.36

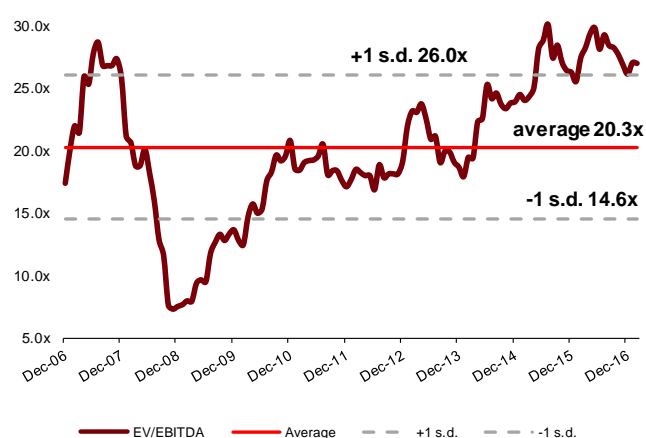
SOURCES: CIMB

Figure 2: RFMD's 5-year historical forward EV/EBITDA trading band



SOURCES: CIMB, BLOOMBERG

Figure 3: RFMD's 10-year historical forward EV/EBITDA trading band



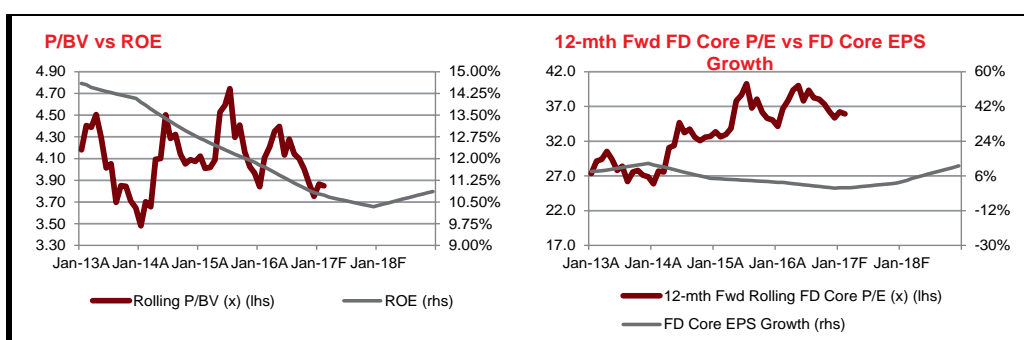
SOURCES: CIMB, BLOOMBERG

Figure 4: Peer comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	EV/EBITDA (x) CY17F	EV/EBITDA (x) CY18F	2-year EPS CAGR (%)	P/E (x) CY17F	Recurring ROE (%) CY17F	Dividend Yield (%) CY17F
Raffles Medical Group	RFMD SP	Reduce	1.48	1.36	1,828	26.9	24.0	5.3%	36.6	10.2%	1.4%
ASEAN hospitals											
IHH Healthcare Bhd	IHH MK	Add	6.20	7.11	11,461	20.2	18.3	20.8%	42.5	5.1%	0.5%
Bangkok Chain Hospital	BCH TB	Add	14.20	15.60	1,012	20.7	18.8	12.6%	41.5	17.1%	1.2%
Bangkok Dusit Med Service	BDMS TB	Add	20.80	24.50	9,206	23.9	21.5	12.6%	33.5	15.6%	1.3%
Bumrungrad Hospital	BH TB	Reduce	183.5	171.0	3,820	23.2	21.6	4.4%	36.0	23.8%	1.4%
Chularat Hospital	CHG TB	Reduce	2.76	2.53	867	30.6	27.1	12.9%	44.7	20.9%	1.5%
KPJ Healthcare	KPJ MK	Hold	4.04	4.40	951	12.2	11.2	10.8%	27.1	10.7%	1.9%
Siloam International Hospitals	SILO IJ	Not rated	13,500	NA	1,315	22.0	17.9	45.0%	112.4	5.4%	0.1%
Mitra Keluarga Karyasehat	MIKA IJ	Add	2,410	3,170	2,630	31.1	24.0	20.8%	42.4	22.3%	1.5%
Simple average						23.0	20.0	17.5%	47.5	15.1%	1.2%
Chinese hospitals/healthcare											
Phoenix Healthcare Group	1515 HK	Hold	10.14	13.40	1,694	15.7	na	na	19.6	16.7%	1.0%
iKang Healthcare Group Inc	KANG US	Not rated	17.52	NA	1,190	na	na	na	na	na	na
Aier Eye Hospital Group Co Ltd	300015	Not rated	31.18	NA	4,566	25.5	19.5	31.7%	39.9	21.9%	0.9%
Topchoice Medical Investment C	600763	Not rated	29.40	NA	1,371	25.9	20.6	26.3%	38.5	19.5%	0.0%
Simple average						22.4	20.0	29.0%	32.6	19.4%	0.6%
Simple average (ex RFMD)						22.7	20.0	23.2%	40.1	17.2%	0.9%

SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(S\$m)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Net Revenues	410.5	473.6	509.6	570.5	618.2
Gross Profit	410.5	473.6	509.6	570.5	618.2
Operating EBITDA	89.7	93.1	98.4	111.8	121.2
Depreciation And Amortisation	(12.8)	(14.7)	(15.1)	(19.1)	(20.4)
Operating EBIT	76.9	78.4	83.3	92.7	100.8
Financial Income/(Expense)	1.0	1.0	0.9	0.9	0.9
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	3.7	3.5	0.0	0.0	0.0
Profit Before Tax (pre-EI)	81.6	82.9	84.2	93.6	101.7
Exceptional Items					
Pre-tax Profit	81.6	82.9	84.2	93.6	101.7
Taxation	(12.6)	(15.0)	(13.5)	(15.0)	(16.3)
Exceptional Income - post-tax					
Profit After Tax	69.0	67.9	70.7	78.6	85.4
Minority Interests	0.3	2.3	0.0	0.0	0.0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	69.3	70.2	70.7	78.6	85.4
Recurring Net Profit	67.8	68.7	70.7	78.6	85.4
Fully Diluted Recurring Net Profit	67.8	68.7	70.7	78.6	85.4

Cash Flow

(S\$m)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
EBITDA	89.7	93.1	98.4	111.8	121.2
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(8.8)	(6.0)	0.4	4.0	3.2
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	4.4	4.8	0.0	0.0	0.0
Net Interest (Paid)/Received	0.0	(0.4)	0.9	0.9	0.9
Tax Paid	(12.5)	(12.7)	(13.5)	(15.0)	(16.3)
Cashflow From Operations	72.8	78.9	86.2	101.8	109.0
Capex	(34.7)	(14.5)	(88.0)	(54.0)	(15.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(143.5)	(29.9)	(53.8)	(35.7)	0.0
Cash Flow From Investing	(178.2)	(44.4)	(141.8)	(89.7)	(15.0)
Debt Raised/(repaid)	27.0	(1.5)	113.0	0.0	0.0
Proceeds From Issue Of Shares	25.8	7.1	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid	(11.7)	(14.1)	(35.0)	(35.0)	(35.0)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	41.1	(8.5)	78.0	(35.0)	(35.0)
Total Cash Generated	(64.2)	26.0	22.4	(22.9)	59.0
Free Cashflow To Equity	(78.4)	33.0	57.4	12.1	94.0
Free Cashflow To Firm	(105.3)	34.6	(55.5)	12.2	94.1

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd

Balance Sheet

(S\$m)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Cash And Equivalents	86.1	111.9	134.3	111.4	170.4
Total Debtors	75.0	101.4	55.9	62.5	67.8
Inventories	9.6	10.0	12.3	13.8	14.9
Total Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Current Assets	170.6	223.3	202.4	187.6	253.0
Fixed Assets	264.3	270.1	343.0	377.9	372.5
Total Investments	343.9	371.5	435.5	504.5	504.5
Intangible Assets	32.1	30.7	30.7	30.7	30.7
Total Other Non-Current Assets	4.0	5.1	5.1	5.1	5.1
Total Non-current Assets	644.3	677.3	814.3	918.2	912.8
Short-term Debt	11.4	13.5	13.5	13.5	13.5
Current Portion of Long-Term Debt					
Total Creditors	118.5	144.7	101.8	114.0	123.5
Other Current Liabilities	25.3	25.9	25.9	25.9	25.9
Total Current Liabilities	155.2	184.0	141.1	153.3	162.8
Total Long-term Debt	20.9	16.9	129.9	129.9	129.9
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	10.5	12.8	12.8	12.8	12.8
Total Non-current Liabilities	31.4	29.7	142.7	142.7	142.7
Total Provisions	4.7	4.9	4.9	4.9	4.9
Total Liabilities	191.2	218.6	288.7	300.9	310.4
Shareholders' Equity	603.1	666.4	702.2	745.8	796.3
Minority Interests	18.9	15.5	25.7	59.0	59.0
Total Equity	622.0	681.8	727.8	804.8	855.2

Key Ratios

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue Growth	9.6%	15.4%	7.6%	11.9%	8.4%
Operating EBITDA Growth	4.6%	3.8%	5.7%	13.7%	8.4%
Operating EBITDA Margin	21.8%	19.7%	19.3%	19.6%	19.6%
Net Cash Per Share (S\$)	0.031	0.047	(0.005)	(0.018)	0.015
BVPS (S\$)	0.35	0.38	0.40	0.43	0.46
Gross Interest Cover	809	509	833	927	1,008
Effective Tax Rate	15.4%	18.1%	16.0%	16.0%	16.0%
Net Dividend Payout Ratio	49.8%	49.8%	49.4%	44.5%	40.9%
Accounts Receivables Days	49.77	68.16	56.31	37.87	38.46
Inventory Days	N/A	N/A	N/A	N/A	N/A
Accounts Payables Days	N/A	N/A	N/A	N/A	N/A
ROIC (%)	35.8%	27.0%	28.0%	24.1%	23.9%
ROCE (%)	12.9%	11.6%	10.6%	10.2%	10.4%
Return On Average Assets	9.28%	7.83%	7.30%	7.34%	7.45%

Key Drivers

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
No. Of Patient Admissions (m P.a.)	N/A	N/A	N/A	N/A	N/A
Revenue Per Patient Bed (S\$)	N/A	N/A	N/A	N/A	N/A
Occupancy Rate Of Beds (%)	N/A	N/A	N/A	N/A	N/A
Average Length Of Stay (days)	N/A	N/A	N/A	N/A	N/A
Beds Opened (units)	N/A	N/A	N/A	N/A	N/A
Bed Turnover A Year (x)	N/A	N/A	N/A	N/A	N/A
% of fgn patients to patient load	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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Score Range:	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
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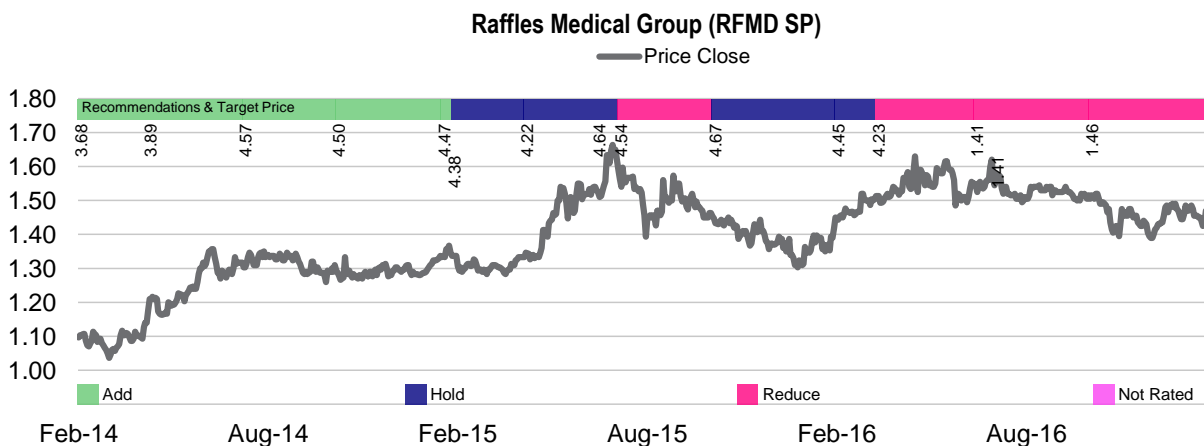
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1626 companies under coverage for quarter ended on 31 December 2016		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.4%	5.4%
Hold	29.6%	1.4%
Reduce	11.6%	0.4%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016.

AAV – Very Good, n/a, **ADVANC** – Very Good, Certified, **AEONTS** – Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Very Good, Declared, **AOT** – Excellent, Declared, **AP** – Very Good, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – not available, Declared, **BGP** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, Declared, **BEC** – Good, n/a, **BH** – Good, Declared, **BIGC** – Excellent, Declared, **BJC** – Good, n/a, **BLA** – Very Good, Certified, **BPP** – not available, n/a, **BTS** – Excellent, Certified, **CBG** – Good, n/a, **CCET** – not available, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** – Excellent, Certified, **DELTA** – Excellent, Declared, **DEMCO** – Excellent, Certified, **DTAC** – Excellent, Certified, **EA** – Very Good, Declared, **ECL** – Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Good, n/a, **GFPT** – Excellent, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** – Excellent, n/a, **GUNKUL** – Very Good, Declared, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Declared, **ICHI** – Very Good, Declared, **INTUCH** – Excellent, Certified, **ITD** – Good, n/a, **IVL** – Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KGI** – Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Declared, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Very Good, n/a, **LPN** – Excellent, Declared, **M** – Very Good, Declared, **MAJOR** – Good, n/a, **MAKRO** – Good, Declared, **MALEE** – Very Good, Declared, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Declared, **MEGA** – Very Good, Declared, **MINT** – Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Very Good, Declared, **PSH** – not available, n/a, **PSL** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Declared, **RATCH** – Excellent, Certified, **ROBINS** – Very Good, Declared, **RS** – Very Good, n/a, **SAMART** – Excellent, n/a, **SAPPE** – Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Good, n/a, **SC** – Excellent, Declared, **SCB** – Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Good, Declared, **SCCC** – Excellent, Declared, **SIM** – Excellent, n/a, **SIRI** – Good, n/a, **SPALI** – Excellent, Declared, **SPRC** – Very Good, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, Declared, **TCAP** – Excellent, Certified, **THAI** – Very Good, Declared, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Very Good, Certified, **TICON** – Very Good, Declared, **TISCO** – Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Good, n/a, **TMB** – Excellent, Certified, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – not available, n/a, **TRUE** – Very Good, Declared, **TTW** – Very Good, Declared, **TU** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

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- Companies that have declared their intention to join CAC, and

- Companies certified by CAC

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Hold The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

Reduce The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Definition:

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Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.

Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

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Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.

Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.