

**Raffles Medical Group ----- Downgrade to NEUTRAL**

**4Q16 result slightly below expectations; margins under pressure**

EPS: ▼ TP: ▼

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- Raffles medical reported 4Q16 core net profit of S\$21.8 mn (34% QoQ, 3.7% YoY), in line with CS's expectations (full-year 100.2% of CS FY16E), but slightly below consensus (97.9% of street). Final dividend of 1.5c was declared, bringing total dividends for FY16 to 2c, in line with FY15.
- Top-line growth continued to be driven by the Healthcare services division (30.9% YoY). Hospital services delivered 6.8% YoY growth (lowest level since 2008). Management explained that this is due to the slowdown in medical tourism and slower economic growth. For 2017, management expects top-line growth of 10%.
- Margins continue to be under pressure due to staff build-up to support expansion plans and faster growth in lower-margin healthcare services business. Mgmt expects hospital extension to be operational by 4Q. HV mall committed occupancy is 95%.
- Downgrade to NEUTRAL, given limited upside of 10% to our revised TP of S\$1.6 (from S\$1.67). While we are positive on its expansion plans in Singapore and China, we expect margins and ROEs to be under pressure during this investment phase.

Bbg/RIC	RFMD SP / RAFG.SI	Price (20 Feb 17, S\$)	1.46		
Rating (prev. rating)	N (O) TP (prev. TP S\$)		1.60 (1.67)		
Shares outstanding (mn)	1,749.26	Est. pot. % chg. to TP	10		
Daily trad vol - 6m avg (mn)	1.3	52-wk range (S\$)	1.63 - 1.39		
Daily trad val - 6m avg (US\$ mn)	1.4	Mkt cap (S\$/US\$ mn)	2,553.9/ 1,802.0		
Free float (%)	46.9	<b>Performance</b> 1M 3M 12M			
Major shareholders	Dr. Loo (52%)	Absolute (%)	0.3 3.5 5.0		
		Relative (%)	(2.5) (6.2) (11.5)		
<b>Year</b>	<b>12/15A</b>	<b>12/16A</b>	<b>12/17E</b>	<b>12/18E</b>	<b>12/19E</b>
Revenue (\$\$ mn)	410.5	473.6	520.8	618.4	739.7
EBITDA (\$\$ mn)	93.4	96.6	106.1	123.2	140.3
Net profit (\$\$ mn)	69.3	70.4	76.5	89.1	100.9
EPS (CS adj. S\$)	0.04	0.04	0.04	0.05	0.06
- Change from prev. EPS (%)	n.a.	n.a.	(4.7)	(4.8)	
- Consensus EPS (S\$)	n.a.	n.a.	0.05	0.05	0.07
EPS growth (%)	5.2	(0.1)	7.1	14.7	11.6
P/E (x)	36.0	36.0	33.6	29.3	26.3
Dividend yield (%)	1.4	1.4	1.4	1.4	1.4
EV/EBITDA (x)	26.9	25.7	23.8	20.4	17.8
P/B (x)	4.2	3.8	3.5	3.2	2.9
ROE (%)	12.1	11.1	10.9	11.4	11.5
Net debt (cash)/equity (%)	(6.7)	(10.1)	(3.8)	(4.7)	(6.6)

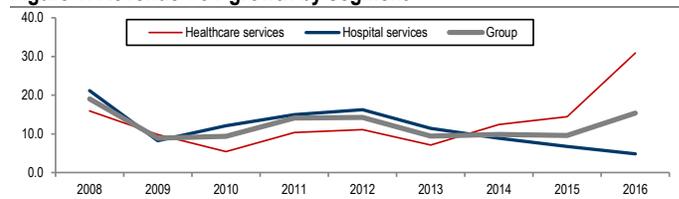
Note 1: ORD/ADR=20.00. Note 2: Raffles Medical Group Limited is a health care provider. Raffles provides general and specialized medical, medical evacuation, medical advisory, and dental treatment services.

[Click here](#) for detailed financials

**Hospital services growth slowed to 6.8% YoY**

Overall top line grew 15.4% YoY with faster growth in Healthcare services (30.9% YoY) vis-à-vis Hospital services, which grew by 6.8% YoY (slowest growth level since 2008). Management explained that this is due to the slowdown in medical tourism (unfavourable currency trends) and slower economic growth (patients further delay elective procedures)—bulk of the 6.8% YoY growth was attributable to patient load growth. Excluding revenue contribution from MCH, top line would have grown by 7.5% YoY and operating profits by 4.4% YoY. For 2017, management expects top line growth of 10%, driven by Healthcare services.

Figure 1: Revenue YoY growth by segment



Source: Company data, Credit Suisse estimates

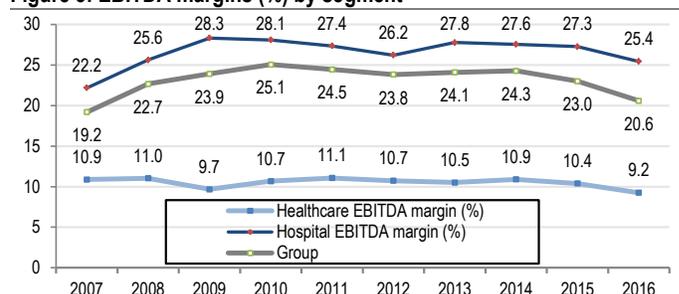
Figure 2: Raffles medical—financial snapshot

(\$\$ mn)	4Q15	3Q16	4Q16	QoQ%	YoY%	FY16	YoY%	% of FY16E
Revenue	114.7	119.3	118.5	-0.6	3.3	473.6	15.4	100.7
Total op income	117.0	119.3	120.0	0.6	2.6	477.1	15.2	100.7
Staff costs	-56.9	-61.4	-58.9	-4.1	3.5	-241.7	18.8	101.5
Oper expenses	-3.5	-3.7	-3.5	-3.9	0.7	-395.2	18.4	105.7
EBITDA	28.8	22.2	28.4	27.8	-1.4	96.6	3.4	96.4
Profit before tax	25.5	18.8	25.1	33.1	-1.6	82.9	1.6	96.2
<b>Core net profit</b>	<b>21.0</b>	<b>16.2</b>	<b>21.8</b>	<b>34.0</b>	<b>3.7</b>	<b>70.2</b>	<b>1.3</b>	<b>100.2</b>
<b>Ratios (%)</b>								
EBITDA margin	25.1	18.7	24.0	5.3	-1.2	20.4	-2.4	
Net margin	18.3	13.6	18.4	4.8	0.1	14.8	-2.1	
ROE	14.6	9.6	12.5	2.9	-2.1	10.4	-1.5	

Source: Company data, Credit Suisse estimates

**Overall group margins close to 2007 lows**

Figure 3: EBITDA margins (%) by segment

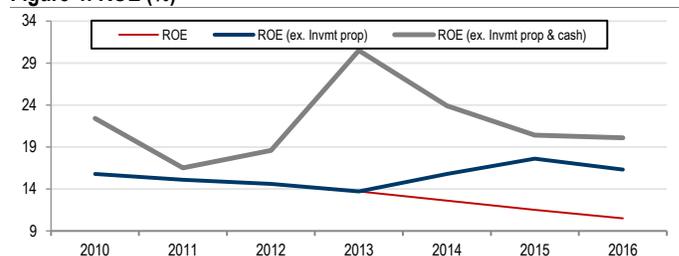


Source: Company data, Credit Suisse estimates

**Downgrade to NEUTRAL**

While ROE excluding investment properties has been relatively resilient, overall ROE has been under pressure as Raffles Medical goes through the investment phase. We reduce 2017-18 net profit estimates by 4.7-4.8% to reflect the higher operating expenses and tax rates, and reduce our target price to S\$1.60 from S\$1.67.

Figure 4: ROE (%)



Source: Company data, Credit Suisse estimates.

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**Companies Mentioned** (Price as of 20-Feb-2017)

**Raffles Medical Group** (RAFG.SI, S\$1.46, NEUTRAL, TP S\$1.6)

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**3-Year Price and Rating History for Raffles Medical Group (RAFG.SI)**

RAFG.SI	Closing Price	Target Price	
Date	(S\$)	(S\$)	Rating
24-Feb-14	1.09	1.07	N
29-Jul-14	1.32	1.13	U
29-May-15	1.50	1.70	O
26-Oct-15	1.46	1.67	
26-Apr-16	1.53	1.67	*

\* Asterisk signifies initiation or assumption of coverage.



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Restricted	2%	

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##### Valuation Methodology and Risks: (12 months) for Raffles Medical Group (RAFG.SI)

**Method:** Our S\$1.6 target price for Raffles Medical is based on a discounted cash flow (DCF) methodology of a weighted average cost of capital (WACC) of 8.3% (a risk-free rate of 3%, an equity risk premium of 6.5% and a beta of 1), a terminal growth rate of 3.0%, and a medium-term growth rate of 15% over 2020-2023. While we are positive on Raffles Medical's expansion plans in Singapore and China, we expect margins and ROEs to be under pressure during this investment phase. We rate the stock NEUTRAL.

**Risk:** Key risks to our S\$1.6 target price and NEUTRAL rating for Raffles Medical include: 1) Delays in execution of expansion plans 2) Macroeconomic slowdown affecting employment and population growth 3) Increasing competition from regional healthcare providers 4) recovery in medical tourism and 5) further announcements on new projects in China.

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