

COMPANY RESULTS

Raffles Medical Group (RFMD SP)

1H19: In Line; Costs Well Managed in Chongqing But Awaiting Further Ramp-up

RMG reported 2Q19 net profit of S\$14.3m (-15.6% yoy), with 1H19 net profit of S\$27.9m (-14.7% yoy) in line with our expectations. The Chongqing hospital's contribution is still marginal to date, although operating costs look to be lower than expected. On the local front, the new Raffles Specialist extension continues to bring in tenants, albeit at a slower pace than expected. Maintain BUY with a revised DCF-based target price of S\$1.27.

1H19 RESULTS

Year to Dec (S\$m)	1H19	1H18	yoy % chg	2Q19	2Q18	yoy % chg
Turnover	255.3	240.4	6.2	127.0	120.2	5.6
Operating Profit	34.8	39.2	(11.1)	17.7	20.3	(12.7)
Pre-tax Profit	34.7	39.1	(11.4)	17.6	20.3	(13.0)
Tax	(6.7)	(6.8)	(1.5)	(3.5)	(3.5)	(0.3)
Profit after Tax	27.9	32.3	(13.5)	14.2	16.8	(15.7)
Minority Interests	0.0	(0.4)	n.m	(0.1)	(0.1)	(11.9)
Net Profit	27.9	32.7	(14.7)	14.3	16.9	(15.6)
Staff Costs	(130.5)	(123.6)	5.5	(64.4)	(60.2)	7.0
Margin (%)			ppt chg			ppt chg
Operating margin	13.6	16.3	(2.7ppt)	13.9	16.9	(3.0ppt)
Cost as % of Turnover			ppt chg			ppt chg
Inventories & Consumables Used	11.7	11.5	0.2ppt	11.3	11.2	0.1ppt
Purchased/Contracted Services	10.0	8.1	1.9ppt	9.6	8.5	1.1ppt
Staff Costs	51.1	51.4	(0.3ppt)	50.7	50.1	0.6ppt

Source: RMG, UOB Kay Hian

RESULTS

- 1H19 results in line with our expectations, Raffles Chongqing losses still well contained.** Raffles Medical Group's (RMG) 1H19 net profit accounted for 48.0%/45.8% of our/consensus full-year forecast. 2Q19 net profit of S\$14.3m was down 15.6% yoy, largely impacted by Raffles Chongqing gestation costs. The group's gestation loss for its Chongqing hospital is within expectations, with EBITDA loss of S\$2.3m in 2Q19. Net profit after tax would have grown by 0.4%, excluding the losses for Raffles Chongqing. An interim dividend of 0.5 S cent/share was declared for 1H19, unchanged vs 1H18.
- Cost management well maintained, but still marginal contribution from Chongqing hospital.** 2Q19 revenue was up (+5.6% yoy). Revenue for Healthcare services division increased by 7.4%, while the revenue of Hospital Services division increased by 3.4% yoy. The increase in revenue from Healthcare Services division was a result of winning more insurance contracts and corporate clients, while the revenue increment from hospital services came mainly from its Singapore hospital, with marginal contribution from Raffles Chongqing. However, the group showed effective cost control, with staff costs/turnover ratio rising only 0.6ppt in 2Q19 and was down 0.3ppt in 1H19. Overall, operating margins for 2Q19 was up slightly on a qoq basis, to 13.9% (from 13.3% in 1Q19).

KEY FINANCIALS

Year to 31 Dec (S\$m)	2017	2018	2019F	2020F	2021F
Net turnover	478	489	563	738	946
EBITDA	95	103	98	117	124
Operating Profit	80	84	71	76	83
Net profit (rep./act.)	71	71	57	62	70
Net profit (adj)	71	69	57	62	70
EPS (S\$ cent)	4.0	3.8	3.2	3.5	3.9
P/E (x)	25.6	26.8	32.3	29.5	26.5
P/BV (x)	2.5	2.3	2.3	2.2	2.2
EV/EBITDA (x)	20.3	18.8	19.7	16.5	15.6
Dividend yield (%)	2.2	2.4	2.4	2.4	2.4
Net margin (%)	14.8	14.5	10.1	8.5	7.3
Net debt/(cash) to equity (%)	(2.6)	1.3	4.1	(5.1)	(15.0)
Interest cover (x)	n.a.	1,014.9	42.2	142.4	n.a.
ROE (%)	10.1	9.3	7.1	7.6	8.2
Consensus net profit	-	-	61	61	71
UOBKH/Consensus (x)	-	-	0.94	1.03	0.99

Source: RMG, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.03
Target Price	S\$1.27
Upside	+23.3%
(Previous TP)	S\$1.30

COMPANY DESCRIPTION

Raffles Medical Group is a health care provider. The company operates medical clinics, imaging centres, and medical laboratories. Raffles provides general and specialised medical, medical evacuation, medical advisory and dental treatment services.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	RFMD SP
Shares issued (m):	1,827.9
Market cap (S\$m):	1,882.7
Market cap (US\$m):	1,373.3
3-mth avg daily t'over (US\$m):	0.9

Price Performance (%)

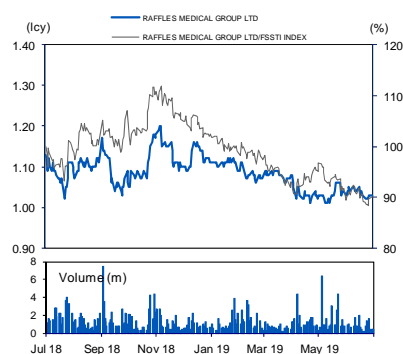
52-week high/low	S\$1.21/S\$0.985			
1mth	3mth	6mth	1yr	YTD
(1.0)	(3.7)	(7.2)	(8.8)	(6.4)

Major Shareholders

Dr Loo Choon Yong	51.5
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FY19 NAV/Share (S\$)	0.45
FY19 Net Debt/Share (S\$)	0.02

PRICE CHART



Source: Bloomberg

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ESSENTIALS

- Chongqing hospital still in its marketing phase.** Raffles Chongqing is continuing its outreach efforts to corporate and private patients whilst having some promotional pricing in the interim. The group aims to price medical services in Raffles Chongqing similar to private foreign hospitals while higher than local hospitals. Management commented that operating costs for the first six months were significantly lower than anticipated, which is a positive, although we are cautious on the low revenue contribution by the hospital to date.
- Steady local operations.** The group has largely maintained its foreign patient load in spite of competition in the region. According to management, the number of beds is up to 250 in Raffles Hospital Singapore. The new Raffles Specialist extension is continuing to bring in tenants for its commercial space and the retail outlets, albeit at a slower pace than we had expected.

EARNINGS REVISION/RISK

- We trim 2019-21 earnings by up to 2.0%,** factoring in slower-than-expected tenant leases for Raffles Specialist extension.

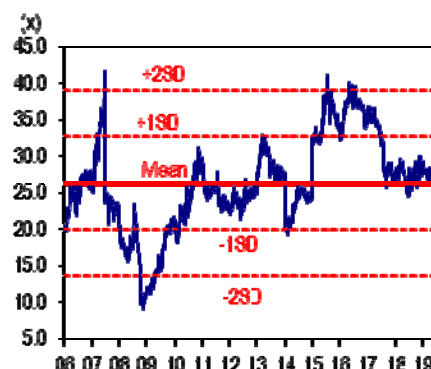
VALUATION/RECOMMENDATION

- Maintain BUY with a revised target price of S\$1.27.** This is DCF-based (WACC of 6.1% and terminal growth of 2.5%). While near-term outlook may appear weaker due to operating losses expected at its China hospitals, the group's prospects remain healthy in the longer term if it executes well overseas to bring in higher levels of sustainable patient load.

SHARE PRICE CATALYST

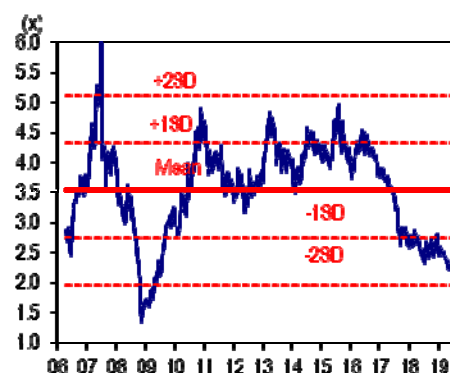
- Potential catalysts, in our view, include: a) faster-than-expected ramp-up of new specialist extension, b) execution in the launch of its new hospitals in China.

HISTORICAL PE



Source: Bloomberg

HISTORICAL P/B



Source: Bloomberg

PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Rec	Price @ 29 Jul 19 (lcy)	Target Price (lcy)	Market Cap (US\$m)	PE			Yield 2019 (%)	ROE 2019 (%)	PB (x)
							2017 (x)	2018 (x)	2019 (x)			
Raffles Medical	RFMD SP	S\$	BUY	1.03	1.27	1,373	25.6	26.8	32.3	2.4	7.6	2.3
IHH Healthcare	IHH MK	RM	BUY	5.75	6.30	12,030	82.9	68.3	51.2	0.3	3.0	2.1
Healthway Medical	HMED SP	S\$	NR	0.03	n.a.	96	n.a.	n.a.	n.a.	n.a.	n.a.	0.7
Health Mgmt Int	HMI SP	S\$	ACCEPT OFFER	0.72	0.73	437	67.7	30.0	27.4	0.7	25.8	6.8
Singapore Medical	SMG SP	S\$	BUY	0.39	0.62	136	19.3	14.2	13.4	2.6	9.2	1.4
Bangkok Dusit Med Service	BDMS TB	Bt	BUY	28.0	29.50	12,714	48.4	38.7	35.6	1.4	15.2	5.0
Bumrungrad Hospital	BH TB	Bt	BUY	169.50	200.00	4,004	31.2	27.7	23.8	2.1	25.5	6.3
KPJ Healthcare	KPJ MK	RM	BUY	0.94	1.22	977	25.4	25.8	24.5	1.9	10.1	2.4
Average (Excl RFMD SP, SMG SP)							51.1	38.1	32.5	1.3	15.9	3.9

Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2018	2019F	2020F	2021F
Net turnover	489.1	563.1	738.0	946.0
EBITDA	102.5	98.3	116.9	124.1
Deprec. & amort.	18.3	27.0	41.4	41.4
EBIT	84.2	71.2	75.5	82.7
Associate contributions	0.0	0.0	1.0	1.0
Net interest income/(expense)	(0.1)	(2.3)	(0.8)	0.7
Pre-tax profit	84.1	68.9	75.7	84.4
Tax	(13.3)	(11.7)	(12.9)	(14.3)
Minorities	0.3	(0.2)	(0.4)	(0.5)
Net profit	71.1	57.0	62.4	69.5
Net profit (adj.)	68.5	57.0	62.4	69.5

CASH FLOW

Year to 31 Dec (\$m)	2018	2019F	2020F	2021F
Operating	91.5	93.0	125.0	136.1
Pre-tax profit	84.1	68.9	75.7	84.4
Tax	(12.7)	(11.7)	(12.9)	(14.3)
Deprec. & amort.	18.3	27.0	41.4	41.4
Working capital changes	5.1	8.8	20.8	24.7
Other operating cashflows	(3.3)	0.0	0.0	0.0
Investing	(102.7)	(100.0)	(35.0)	(35.0)
Capex (growth)	(101.0)	(100.0)	(35.0)	(35.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	0.1	0.0	0.0	0.0
Others	(1.8)	0.0	0.0	0.0
Financing	20.1	2.2	(64.6)	(54.6)
Dividend payments	(15.6)	(15.6)	(15.6)	(15.6)
Issue of shares	0.8	0.0	1.0	1.0
Proceeds from borrowings	37.2	17.8	(50.0)	(40.0)
Others/interest paid	(2.3)	0.0	0.0	0.0
Net cash inflow (outflow)	8.9	(4.8)	25.4	46.5
Beginning cash & cash equivalent	98.3	106.0	101.2	126.5
Changes due to forex impact	(1.2)	0.0	0.0	0.0
Ending cash & cash equivalent	106.0	101.2	126.5	173.0

BALANCE SHEET

Year to 31 Dec (\$m)	2018	2019F	2020F	2021F
Fixed assets	876.9	932.8	904.0	876.6
Other LT assets	40.9	41.5	42.3	43.1
Cash/ST investment	106.0	101.2	126.5	173.0
Other current assets	92.5	106.5	139.6	179.0
Total assets	1,116.3	1,182.0	1,212.5	1,271.7
ST debt	19.3	19.3	19.3	19.3
Other current liabilities	167.0	192.3	252.0	323.0
LT debt	97.2	115.0	65.0	25.0
Other LT liabilities	16.1	26.3	28.9	31.8
Shareholders' equity	800.5	812.8	830.5	855.3
Minority interest	16.1	16.3	16.7	17.2
Total liabilities & equity	1,116.3	1,182.0	1,212.5	1,271.7

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	21.0	17.4	15.8	13.1
Pre-tax margin	17.2	12.2	10.3	8.9
Net margin	14.5	10.1	8.5	7.3
ROA	6.7	5.0	5.2	5.6
ROE	9.3	7.1	7.6	8.2
Growth				
Turnover	2.4	15.1	31.0	28.2
EBITDA	7.8	(4.1)	19.0	6.2
Pre-tax profit	4.1	(18.1)	9.9	11.5
Net profit	0.4	(19.8)	9.5	11.4
Net profit (adj.)	(3.2)	(16.8)	9.5	11.4
EPS	(4.5)	(16.8)	9.3	11.4
Leverage				
Debt to total capital	12.5	13.9	9.1	4.8
Debt to equity	14.6	16.5	10.2	5.2
Net debt/(cash) to equity	1.3	4.1	(5.1)	(15.0)
Interest cover (x)	n.a.	42.2	142.4	n.a.

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