

31 October 2017

Consumer Non-cyclical | Healthcare

Raffles Medical Group

Neutral (from Sell)

Uninspiring Set Of Results

Raffles Medical recorded another flat quarter. 3Q17 PATMI came in at SGD16.4m (+1% YoY). However, given that its share price has dropped 18% since the poor set of results last quarter, we upgrade our recommendation to NEUTRAL (from Sell) with an unchanged DCF-derived TP of SGD1.10 (4% downside). The Singapore healthcare market is rather matured. As such, the timeline to the turnaround of the new Chinese hospitals is the key swing factor to its future earnings.

Muted outlook in Singapore. Hospital services grew 3.1% in 3Q17 mainly led by the growth in local patient load. According to management, foreign patients remained relatively stagnant. However, the overall revenue growth was partially offset by a revenue decrease of 4.2% in healthcare services due to a lower renewal of international insurance plan for expatriates.

Given the lacklustre growth in hospital services revenue over the past nine months, we are not particularly excited with the Raffles Medical Hospital extension coming on stream in December this year.

More information on Chinese hospitals. Management finally gave more colour on the upcoming Chinese hospitals during its analyst briefing. It expects each hospital to make an EBITDA loss of SGD8-10m in the first year, SGD4-5m EBITDA loss in the second year, followed by an EBITDA breakeven in the third year.

Chongqing hospital is set to open in 4Q18F with approximately 300 operational beds. Of which, 100 beds would be catered to the public at subsidised prices. The Shanghai hospital is expected to open in 4Q19.

Not exciting yet. Our TP remained unchanged at SGD1.10 but we upgrade our recommendation to NEUTRAL as valuation of the stock has come off. We think earnings would be rather unexciting over the next 2-3 years due to the high start-up costs and ramp-up phase for the new Chinese hospitals. Key risk lies in the execution of the Chinese hospitals as well as the receptiveness of Mainland Chinese to the Raffles hospital's brand name.

Target Price:	SGD1.10
Price:	SGD1.15
Market Cap:	USD1,485m
Bloomberg Ticker:	RFMD SP

Share Data

Avg Daily Turnover (SGD/USD)	4.60m/3.39m
52-wk Price low/high (SGD)	1.04 - 1.52
Free Float (%)	48
Shares outstanding (m)	565
Estimated Return	-4%

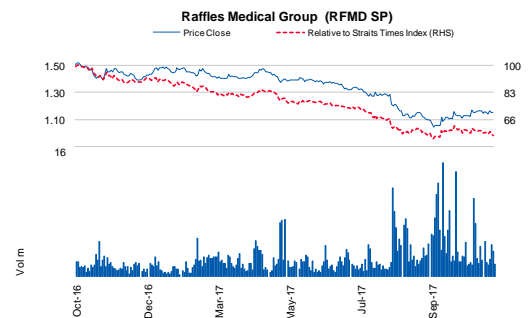
Shareholders (%)

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	(19.6)	2.2	(10.5)	(17.0)	(24.1)
Relative	(37.2)	(2.4)	(11.4)	(23.8)	(43.8)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (SGDm)	411	474	477	504	567
Reported net profit (SGDm)	69.3	70.2	72.6	69.4	70.9
Recurring net profit (SGDm)	67.8	68.7	72.6	69.4	70.9
Recurring net profit growth (%)	5.0	1.2	5.7	(4.4)	2.2
Recurring EPS (SGD)	0.12	0.04	0.04	0.04	0.04
DPS (SGD)	0.06	0.02	0.02	0.02	0.02
Recurring P/E (x)	9.7	29.3	27.7	28.9	28.3
P/B (x)	1.10	3.01	2.85	2.72	2.59
P/CF (x)	8.9	24.8	19.9	20.7	18.2
Dividend Yield (%)	5.2	1.7	1.7	1.7	1.7
EV/EBITDA (x)	3.0	16.3	15.1	15.0	14.3
Return on average equity (%)	12.1	11.1	10.6	9.6	9.4
Net debt to equity (%)	net cash	net cash	net cash	0.5	net cash
Our vs consensus EPS (adjusted) (%)			3.9	10.4	12.8

Source: Company data, RHB

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Financial Exhibits

Financial model updated on : 2017-10-30

Asia	Financial summary	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Singapore	Recurring EPS (SGD)	0.12	0.04	0.04	0.04	0.04
Consumer Non-cyclical	EPS (SGD)	0.12	0.04	0.04	0.04	0.04
Raffles Medical Group	DPS (SGD)	0.06	0.02	0.02	0.02	0.02
Bloomberg RFMD SP	BVPS (SGD)	1.05	0.38	0.40	0.42	0.44
Neutral	Weighted avg adjusted shares (m)	570	1,747	1,747	1,747	1,747
Valuation basis	Valuation metrics	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
DCF	Recurring P/E (x)	9.7	29.3	27.7	28.9	28.3
	P/E (x)	9.4	28.6	27.7	28.9	28.3
	P/B (x)	1.10	3.01	2.85	2.72	2.59
	FCF Yield (%)	6.0	3.3	4.0	3.8	4.5
	Dividend Yield (%)	5.2	1.7	1.7	1.7	1.7
	EV/EBITDA (x)	3.0	16.3	15.1	15.0	14.3
	EV/EBIT (x)	3.5	19.2	17.8	17.7	16.9
Key drivers	Income statement (SGDm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
i. Improved economic outlook to boost healthcare demand;	Total turnover	411	474	477	504	567
ii. Higher than expected contributions from Chongqing Hospital and Shanghai Hospital	Gross profit	329	382	388	412	470
	EBITDA	93	97	101	99	100
	Depreciation and amortisation	(13)	(15)	(15)	(15)	(16)
	Operating profit	81	82	86	84	84
	Net interest	1	1	0	(0)	(1)
	Pre-tax profit	82	83	86	83	83
	Taxation	(13)	(15)	(15)	(15)	(15)
	Minority interests	0	2	2	1	3
	Recurring net profit	68	69	73	69	71
Key risks	Cash flow (SGDm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Longer-than-expected gestation periods	Change in working capital	(10)	(5)	18	13	26
	Cash flow from operations	74	81	101	97	110
	Capex	(35)	(14)	(20)	(20)	(20)
	Cash flow from investing activities	(178)	(44)	(133)	(83)	(70)
	Dividends paid	(12)	(14)	(35)	(35)	(35)
	Cash flow from financing activities	28	(8)	(8)	(34)	(12)
	Cash at beginning of period	150	86	112	71	51
	Net change in cash	(77)	28	(41)	(20)	28
	Ending balance cash	74	114	71	51	79
Company Profile	Balance sheet (SGDm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Raffles Medical Group owns and operates medical clinics in Singapore. The company operates through three segments: Healthcare Services, Hospital Services, and Investment Holdings. 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.	Total cash and equivalents	86	112	71	51	79
	Tangible fixed assets	264	270	275	280	284
	Intangible assets	32	31	31	31	31
	Total investments	344	371	485	548	598
	Total other assets	4	5	5	5	5
	Total assets	815	901	949	1,000	1,089
	Short-term debt	11	13	15	15	15
	Total long-term debt	21	17	40	40	60
	Other liabilities	15	18	15	15	15
	Total liabilities	193	219	229	246	299
	Shareholders' equity	603	666	704	739	775
	Minority interests	19	15	15	15	15
	Total equity	622	682	719	754	790
	Net debt	(54)	(81)	(16)	4	(4)
	Total liabilities & equity	815	901	949	1,000	1,089
	Key metrics	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	Revenue growth (%)	9.6	15.4	0.8	5.6	12.6
	Recurrent EPS growth (%)	3.0	(67.0)	5.7	(4.4)	2.2
	Gross margin (%)	80.2	80.6	81.2	81.8	82.8
	Operating EBITDA margin (%)	22.8	20.4	21.1	19.6	17.5
	Net profit margin (%)	16.9	14.8	15.2	13.8	12.5
	Dividend payout ratio (%)	49.8	49.8	48.1	50.3	49.3
	Capex/sales (%)	8.4	3.1	4.2	4.0	3.5
	Interest cover (x)	(80.4)	(83.3)	(252.2)	835.4	167.9

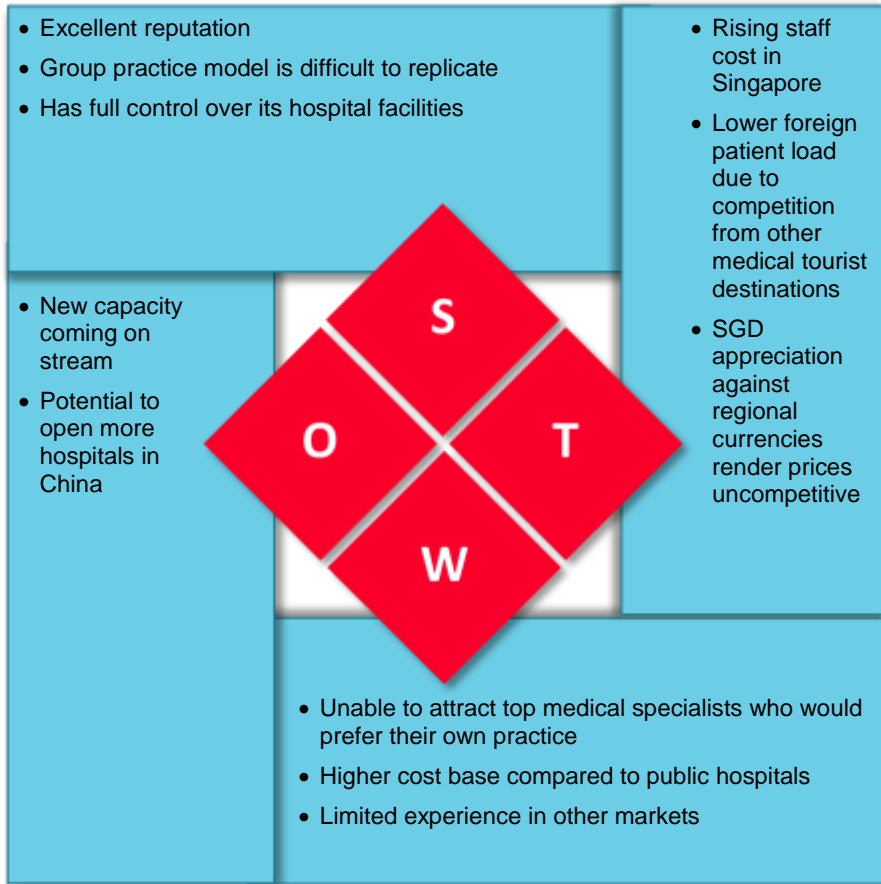
Source: Company data, RHB

Figure 1: 3Q17 results summary

FYE Dec (SGD m)	3Q17	2Q17	QoQ (%)	3Q16	YoY (%)	Comments
Revenue	119.6	120.1	(0.4)	119.3	0.3	Hospital services grew by 3% YoY while healthcare services declined by 4% YoY.
Staff costs	62.6	61.9	1.2	61.4	2.1	Staff cost as a percentage of revenue as salary increments were made in 3Q.
<i>% of revenue</i>	<i>52.4</i>	<i>51.5</i>		<i>51.5</i>		
EBIT	18.4	19.6	(6.1)	18.6	(0.9)	
<i>EBIT margin (%)</i>	<i>15.4</i>	<i>16.3</i>		<i>15.6</i>		
Pretax profit	18.5	19.8	(6.7)	18.8	(1.9)	
<i>Pretax margin (%)</i>	<i>15.4</i>	<i>16.5</i>		<i>15.8</i>		
Net profit attributable	16.4	16.8	(2.2)	16.2	1.0	
<i>Net margin (%)</i>	<i>13.3</i>	<i>13.5</i>		<i>13.2</i>		

Source: Company data

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2015-07-27	Buy	1.83	1.62
2015-07-01	Buy	1.87	1.52

Source: RHB, Bloomberg

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