

# Raffles Medical Group (RFMD SP)

## Tracking expectations

# HOLD

Share Price SGD 1.03  
 12m Price Target SGD 1.05 (+2%)  
 Previous Price Target SGD 1.05

### No surprises in 2Q19; maintain HOLD

RMG's 2Q19 PATMI was in line with our and street expectations, falling 15.6% YoY due to gestation losses at Raffles Hospital Chongqing (RHCQ). Excluding this, PATMI would have been flattish. Raffles Hospital Shanghai (RHSH) is on track to open in early 2020E. Our forecasts are unchanged. Maintain HOLD and DCF-TP of SGD1.05 (WACC: 9%, LTG: 3%). Stronger than expected growth of China hospitals could be a catalyst, while longer than expected gestation period is a risk, in our view.

### Domestic patients key driver of Singapore ops

Revenue grew 5.6% YoY, as the healthcare services division, which grew 7.4% YoY, benefitted from increased insurance contracts and corporate clients. Hospital services expanded 3.4% YoY on a combination of patient growth and rising revenue intensity. Management attributed volume growth to domestic patients, while foreign patient volume was "maintained".

### RHCQ - start-up loss well contained

RHCQ's 1H19 EBITDA loss was around SGD4m (2Q19: SGD2.3m), in line with RMG's full year guidance of SGD8-10m. RMG is beefing up marketing efforts to attract domestic patients. RMG noted that operating costs at RHCQ were significantly lower than expected. As such, RMG sees more scope to adapt pricing to optimise volume over the longer run. Operational bed-count is unchanged at 150, and outpatients make the bulk of total load.

### Risks

We believe RMG's China hospitals are beneficiaries of a demographically aging but increasingly affluent population. A risk to our view is if RMG is unable to sufficiently scale patient volumes as this could i) lengthen the breakeven period, of which management has guided to be three years per hospital, at the EBITDA level; and/or ii) result in valuation derating as consensus lowers growth expectations. According to an interview with SCMP, Chairman Dr. Loo believes China contributions could be similar or larger than RMG's Singapore revenue in 10 years ([link](#)).

FYE Dec (SGD m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	478	489	539	597	631
EBITDA	94	103	100	111	123
Core net profit	71	71	61	61	71
Core EPS (cts)	4.0	4.1	3.5	3.5	4.0
Core EPS growth (%)	(0.5)	2.4	(15.6)	(0.4)	15.8
Net DPS (cts)	2.3	1.8	1.9	2.0	2.0
Core P/E (x)	27.9	26.7	29.7	29.8	25.7
P/BV (x)	2.7	2.4	2.2	2.1	2.0
Net dividend yield (%)	2.0	1.6	1.8	1.9	1.9
ROAE (%)	10.1	9.3	7.5	7.2	8.1
ROAA (%)	7.4	6.7	5.2	5.0	5.6
EV/EBITDA (x)	20.9	18.8	18.8	16.7	14.7
Net gearing (%) (incl perps)	net cash	1.3	4.5	2.5	net cash
Consensus net profit	-	-	59	61	71
MKE vs. Consensus (%)	-	-	3.0	0.7	0.0

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### Company Description

Raffles Medical owns operates medical hospitals and clinics

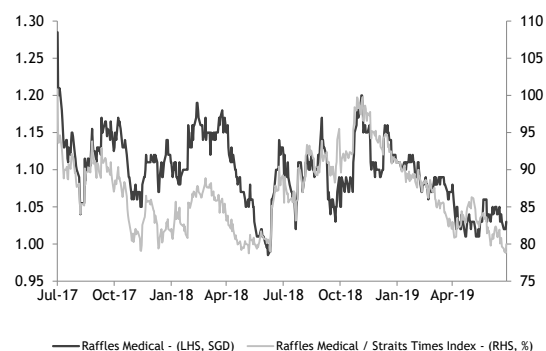
### Statistics

52w high/low (SGD)	1.20/1.01
3m avg turnover (USDm)	0.9
Free float (%)	45.7
Issued shares (m)	1,828
Market capitalisation	SGD1.9B
	USD1.4B

### Major shareholders:

LOO CHOON YONG	48.9%
Aberdeen Standard Investments (Asia) Ltd	6.0%
S&D Holdings Pte Ltd.	3.2%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(4)	(8)
Relative to index (%)	(3)	(4)	(9)

Source: FactSet

Fig 1: P&amp;L Summary

FYE Dec	2Q19 (SGD m)	2Q18 (SGD m)	1Q19 (SGD m)	YoY Chg (%)	QoQ Chg (%)	FYE SGD m	1H19 as % of FYE
Revenue	127.0	120.2	128.3	5.6	-1.0	538.7	47
Other op income	0.3	0.2	0.7	53.1	-49.6	5.1	20
Inventories and consumables used	(14.4)	(13.4)	(15.4)	7.5	-6.3	(74.3)	40
Purchased and contracted services	(12.2)	(10.3)	(13.2)	19.0	-7.7	(53.9)	nm
Staff costs	(64.4)	(60.2)	(66.0)	7.0	-2.5	(272.1)	48
Depreciation	(7.3)	(4.7)	(6.5)	56.5	12.3	(26.2)	53
Operating lease expenses	(1.3)	(3.3)	(1.7)	-59.1	-23.8	(9.0)	34
Other op expenses	(9.9)	(8.3)	(8.9)	19.3	11.0	(35.0)	54
EBIT	17.7	20.3	17.1	-12.7	3.4	73.4	47
EBITDA	25.0	25.0	23.6	0.3	5.8	99.6	49
Finance income	0.4	0.3	0.4	52.9	5.8	1.0	nm
Finance costs	(0.5)	(0.3)	(0.5)	79.4	-2.4	(2.2)	42
Pretax Profit	17.6	20.3	17.0	-13.0	3.6	72.2	48
Income tax expenses	(3.4)	(3.5)	(3.3)	-0.3	4.6	(11.5)	58
Net profit	14.2	16.8	13.7	-15.7	3.4	60.6	46
Non-controlling interests	(0.1)	(0.1)	0.1	nm	-175.6	(0.5)	nm
PATMI	14.2	16.9	13.6	-15.6	4.4	61.1	46
Core PATMI	14.2	16.9	13.6	-15.6	4.4	61.1	46
Core EPS (SGDcts)	0.79	0.95	0.76	-16.8	3.9	3.47	45
					Change (ppt)		
EBITDA margin	19.7%	20.8%	18.4%	-1.1	1.3		
EBIT margin	13.9%	16.9%	13.3%	-2.9	0.6		
Core net margin	11.2%	14.1%	10.6%	-2.8	0.6		

Source: Maybank Kim Eng

## Value Proposition

- Provides private medical services that fill the gap between cheap-but-slow public services and fast-and-affordable private healthcare.
- Foreign patient load under pressure from strong SGD vs. regional currencies.
- As growth prospects in Singapore mature, China is expected to be the next long-term growth driver.

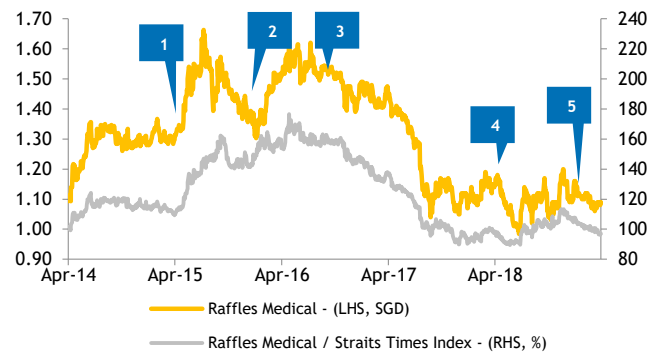
### Affordable pricing of RMG vs peers (2018)

Procedures (SGD)	Mt Nov*	Mt E*	Gleneagles*	Raffles	Mount Alv
Colonoscopy Delivery (Normal)	3,412	2,964	3,027	2,621	2,900
Delivery (C section)	10,659	10,691	11,960	9,203	9,384
Complex gastroscopy (same day)	16,906	17,629	18,096	17,373	13,319
Cataract surgery (one side)	3,351	2,880	3,238	3,300	3,114
	9,243	9,349	8,699	9,496	5,610

Bills size based on 75<sup>th</sup> percentile and below. \*indicates IHH hospitals  
Source: Ministry of Health

## Price Drivers

### Historical share price trend



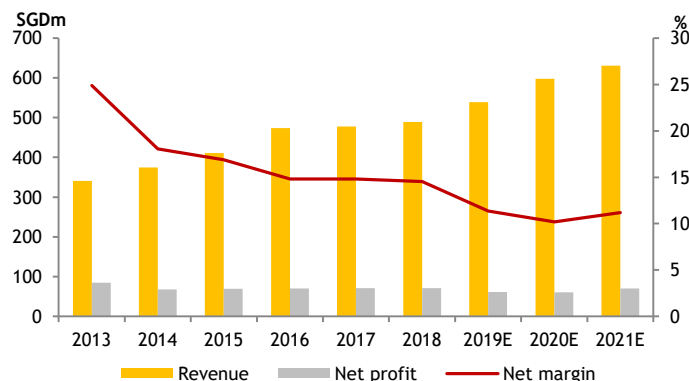
Source: Company, FactSet, Maybank Kim Eng

- Formed JV with Shanghai LuJiaZui Group to develop a 400-bed hospital in Shanghai.
- 3Q15 earnings up only 1% due to high start-up costs and softer revenue.
- 1Q16 net profit rose only 1% despite 23% rise in revenue, due to hirings and rising staff costs.
- Flat 1Q17 earnings, partially due to softer than expected foreign patient demand.
- Opened Raffles Hospital Chongqing; reaffirms completion of Raffles Hospital Shanghai in 4Q19.

## Financial Metrics

- Revenue CAGR of 9% in FY18-21E, largely driven by contributions from new China hospitals.
- EPS may decline 16% YoY in FY19E, be flat in FY20E, before a 16% YoY rebound in FY21E, primarily due to start-up gestation at new China hospitals.
- We expect SGD90m of capex in FY19E, for the construction of Raffles Hospital Shanghai, to be completed in 4Q19.

### Net profit, margin and revenue



Source: Company, Maybank Kim Eng

## Swing Factors

### Upside

- Faster-than-expected breakeven of new China hospitals.
- Cyclical recovery of foreign patient volumes.
- Stronger-than-expected domestic patient load from market share gains, etc.

### Downside

- Execution risks for Chongqing and Shanghai hospitals, its maiden hospital expansion forays.
- Structural decline of medical tourism in Singapore.
- Market share loss in Singapore due to increased competitive pressures from both private and public hospitals.

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FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Key Metrics</b>					
P/E (reported) (x)	31.9	26.8	29.7	29.8	25.7
Core P/E (x)	27.9	26.7	29.7	29.8	25.7
P/BV (x)	2.7	2.4	2.2	2.1	2.0
P/NTA (x)	2.7	2.4	2.2	2.1	2.0
Net dividend yield (%)	2.0	1.6	1.8	1.9	1.9
FCF yield (%)	nm	nm	nm	3.2	3.9
EV/EBITDA (x)	20.9	18.8	18.8	16.7	14.7
EV/EBIT (x)	24.6	22.9	25.5	23.7	20.6
<b>INCOME STATEMENT (SGD m)</b>					
Revenue	477.6	489.1	538.7	597.4	630.6
EBITDA	94.5	102.5	99.6	110.7	123.4
Depreciation	(14.4)	(18.3)	(26.2)	(32.7)	(35.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	80.1	84.2	73.4	78.0	88.0
Net interest income / (exp)	0.7	(0.1)	(1.2)	(1.2)	(1.2)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	80.8	84.1	72.2	76.8	86.8
Income tax	(12.2)	(13.3)	(11.5)	(12.3)	(13.9)
Minorities	2.1	0.3	0.5	(3.6)	(2.4)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	70.8	71.1	61.1	60.9	70.5
Core net profit	70.8	71.1	61.1	60.9	70.5
<b>BALANCE SHEET (SGD m)</b>					
Cash & Short Term Investments	98.3	105.5	128.2	144.5	175.6
Accounts receivable	87.3	83.2	93.3	104.5	110.9
Inventory	10.0	9.3	12.0	13.9	14.2
Property, Plant & Equip (net)	384.0	565.7	629.5	626.8	624.4
Intangible assets	36.8	37.3	37.3	37.3	37.3
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	389.6	315.2	315.2	315.2	315.2
<b>Total assets</b>	<b>1,005.9</b>	<b>1,116.3</b>	<b>1,215.6</b>	<b>1,242.3</b>	<b>1,277.8</b>
ST interest bearing debt	41.2	19.3	19.3	19.3	19.3
Accounts payable	126.3	136.8	144.7	149.3	151.9
LT interest bearing debt	38.0	97.2	147.2	147.2	147.2
Other liabilities	49.0	46.0	60.0	60.0	60.0
<b>Total Liabilities</b>	<b>254.2</b>	<b>299.7</b>	<b>370.8</b>	<b>375.4</b>	<b>378.0</b>
Shareholders Equity	734.1	800.5	828.2	853.8	889.1
Minority Interest	17.6	16.1	16.6	13.0	10.6
<b>Total shareholder equity</b>	<b>751.6</b>	<b>816.6</b>	<b>844.8</b>	<b>866.9</b>	<b>899.7</b>
<b>Total liabilities and equity</b>	<b>1,005.9</b>	<b>1,116.3</b>	<b>1,215.6</b>	<b>1,242.3</b>	<b>1,277.8</b>
<b>CASH FLOW (SGD m)</b>					
Pretax profit	80.8	84.1	72.2	76.8	86.8
Depreciation & amortisation	14.4	18.3	26.2	32.7	35.4
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(1.5)	15.0	(4.9)	(8.5)	(4.1)
Cash taxes paid	(14.0)	(12.7)	(11.5)	(12.3)	(13.9)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	79.8	104.7	81.9	88.7	104.2
Capex	(128.3)	(200.0)	(90.0)	(30.0)	(33.0)
Free cash flow	(48.6)	(95.3)	(8.1)	58.7	71.2
Dividends paid	(14.4)	(15.6)	(33.5)	(35.2)	(35.2)
Equity raised / (purchased)	26.0	25.1	0.0	0.0	0.0
Change in Debt	48.8	37.3	50.0	0.0	0.0
Other invest/financing cash flow	(25.5)	55.7	14.3	(7.2)	(4.9)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(13.6)	7.2	22.7	16.3	31.1

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	0.8	2.4	10.1	10.9	5.6
EBITDA growth	(2.0)	8.5	(2.9)	11.2	11.5
EBIT growth	(2.3)	5.2	(12.9)	6.3	12.9
Pretax growth	(2.5)	4.1	(14.2)	6.4	13.1
Reported net profit growth	0.8	0.4	(14.0)	(0.4)	15.8
Core net profit growth	0.8	0.4	(14.0)	(0.4)	15.8
<b>Profitability ratios (%)</b>					
EBITDA margin	19.8	21.0	18.5	18.5	19.6
EBIT margin	16.8	17.2	13.6	13.1	14.0
Pretax profit margin	16.9	17.2	13.4	12.9	13.8
Payout ratio	56.0	43.7	54.7	57.8	50.0
<b>DuPont analysis</b>					
Net profit margin (%)	14.8	14.5	11.3	10.2	11.2
Revenue/Assets (x)	0.5	0.4	0.4	0.5	0.5
Assets/Equity (x)	1.4	1.4	1.5	1.5	1.4
ROAE (%)	10.1	9.3	7.5	7.2	8.1
ROAA (%)	7.4	6.7	5.2	5.0	5.6
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(411.6)	(378.3)	(306.2)	(264.7)	(261.9)
Days receivable outstanding	71.1	62.7	59.0	59.6	61.5
Days inventory outstanding	38.4	34.9	29.9	31.4	33.4
Days payables outstanding	521.1	475.9	395.1	355.8	356.8
Dividend cover (x)	1.8	2.3	1.8	1.7	2.0
Current ratio (x)	1.0	1.1	1.2	1.3	1.5
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	4.0	3.7	3.3	3.3	3.4
Net gearing (%) (incl perps)	net cash	1.3	4.5	2.5	net cash
Net gearing (%) (excl. perps)	net cash	1.3	4.5	2.5	net cash
Net interest cover (x)	na	nm	60.8	64.6	72.9
Debt/EBITDA (x)	0.8	1.1	1.7	1.5	1.3
Capex/revenue (%)	26.9	40.9	16.7	5.0	5.2
Net debt/ (net cash)	(19.1)	11.0	38.3	22.0	(9.1)

Source: Company; Maybank

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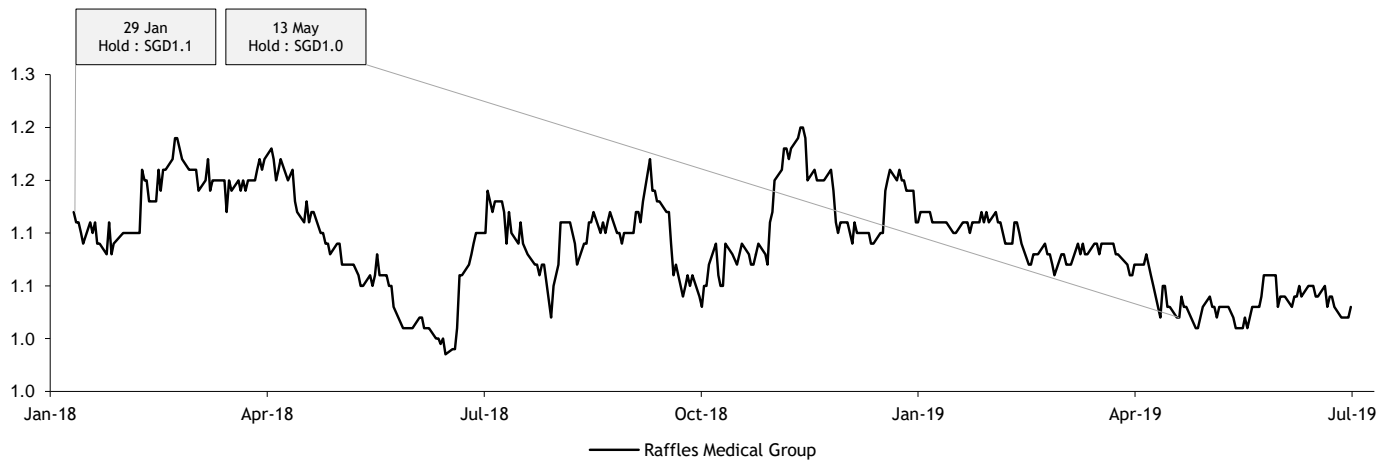
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