

Raffles Medical Group Ltd

China's gestation costs within expectations



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SINGAPORE | HEALTHCARE | 2Q19 RESULTS

30 July 2019

- 2Q Revenue and PATMI were in line with our estimates.
- PATMI plunged 16.3% YoY due to gestation costs from *RafflesHospital Chongqing*. Excluding China net earnings would have risen 9.3% YoY.
- RafflesHospital Chongqing's* 2Q EBITDA loss of \$2.3mn was within expectations.
- Interim ordinary dividend maintained at 0.5 Singapore cents per ordinary share.
- We keep our NEUTRAL recommendation with an unchanged TP of S\$1.09.** Earnings will be under pressure from the gestations costs for *RafflesHospital Chongqing* in 2019 and *RafflesHospital Shanghai* in 2020.

Results at a glance

SGD mn	2Q19	2Q18	YoY (%)	1Q19	QoQ(%)	Comments
Revenue	127.0	120.2	5.6	128.3	(1.0)	Higher contribution from clinics (+7.4% YoY) and hospital services (+3.4% YoY).
EBITDA	25.0	25.0	0.3	23.6	5.8	Staff costs rose 0.6pp to 50.7% of revenue (2Q18: 50.1% of revenue). EBITDA margin fell 1pp to 18.4% due to <i>RafflesHospital Chongqing's</i> 2Q EBITDA loss of \$2.3mn.
EBITDA (Excl China)	27.3	25.0	9.3	23.6	15.4	Excluding <i>RafflesHospital Chongqing's</i> gestation costs, EBITDA margin rose 0.7pp to 21.5%.
Operating profits	17.7	20.3	(12.7)	17.1	3.4	Operating margin fell to 13.9% (2Q18: 16.9%)
PBT	17.6	20.3	(13.0)	17.0	3.6	
PATMI	14.1	16.9	(16.3)	13.6	3.5	Gestation costs from <i>RafflesHospital Chongqing</i> was within expectations.
PATMI (Excl China)	18.5	16.9	9.3	13.6	35.3	

Source: Company, PSR

The Positives

- Healthcare services (e.g. GP clinics) underpinned revenue growth.** 2Q healthcare services revenue grew 7.4% YoY, boosted by the Group's expansion of its insurance and corporate client base.
- Hospital services gaining momentum with expanded facilities.** 2Q hospital services revenue grew 3.4% YoY due to the growth in patient volume, mainly from local patients while foreign patient load growth remained flat.
- Staff costs well managed.** Despite ramping up operations in China, staff costs remained well contained at 50.7% of revenue, in line with the Group's 5-year historical average of 50.6%. The Group expects to spend more on marketing in China during the ramp-up period to attract more corporate customers. In addition, operating costs in China were lower than expected, giving scope for price discounts or greater margins.

The Negative

- Margins to remain under pressure.** Excluding *RafflesHospital Chongqing's* EBITDA loss of \$2.3mn, EBITDA margin would have risen to 21.5% instead of decreasing 1pp to 18.4%. However, 1H EBITDA loss from *RafflesHospital Chongqing* totalled \$4.1mn, at the lower end of management's EBITDA loss guidance of S\$8-10mn in the first year.

NEUTRAL (Maintained)

LAST CLOSE PRICE	SGD 1.040
FORECAST DIV	SGD 0.025
TARGET PRICE	SGD 1.090
TOTAL RETURN	7.2%

COMPANY DATA

BLOOMBERG CODE	RFMD SP
O/S SHARES (MN) :	1828
MARKET CAP (USD mn / SGD mn) :	1387.6 / 1901
52 - WK HVLO (SGD) :	120 / 100
3M Average Daily T/O (mn) :	1.7

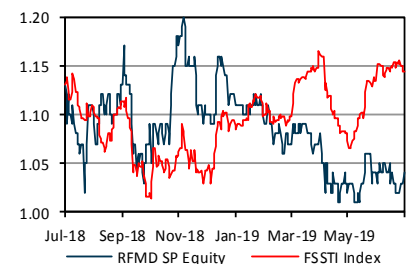
MAJOR SHAREHOLDERS (%)

RAFFLES MEDICAL GROUP HOLDINGS	38.4%
LOO CHOON YONG	10.0%
STANDARD LIFE ABERDEEN PLC	4.9%
S&D HOLDINGS PTE LTD	3.3%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(10)	(19)	(6.6)
STIRETURN	11	0.0	4.7

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 17	FY 18	FY 19e	FY 20e
Revenue (SGD mn)	478	489	517	571
EBITDA (SGD mn)	92	96	85	91
NPAT adj. (SGD mn)	68	67	56	60
EPS adj. (Cents)	3.84	3.77	3.10	3.28
PER adj. (x)	27.1	27.6	33.6	31.7
P/BV (x)	2.5	2.3	2.3	2.3
DPS (Cents)	2.25	2.50	2.50	2.50
Div Yield	2.2%	2.4%	2.4%	2.4%
ROE	9.7%	8.8%	7.2%	7.5%

Source: Company Data, PSR est.

VALUATION METHOD

DCF (WACC: 6.6%; terminal g: 3.0%)

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Updates

China – Chongqing and Shanghai hospitals

Management maintained EBITDA loss guidance for both hospitals of S\$8-10mn in the first year and S\$4-5mn in the second year before breaking even in the third year of operation.

RafflesHospital Chongqing commenced operations since 2 January 2019 and is currently operating 24/7 and staffed by a team of multi-disciplinary international and local doctors. The hospital started with 150 beds with the potential to be a 700-bed hospital. It is located in the New North District of the Liangjiang New Area.

RafflesHospital Shanghai should commence operations in January 2020. It will be a 400-bed tertiary hospital located between Shanghai Pudong International Airport and Shanghai Hongqiao International Airport in the heart of Pudong New Bund, a free trade zone.

Maintain Neutral with an unchanged TP of S\$1.09

The Group's bet on China is to leverage on the massive population size and rising affluence of its people. However, the key risks to our forecasts are longer than expected gestation period and margin pressures if the Group is unable to scale patient volumes in China. With proper and delicate execution, the China venture could bring long-term growth prospects for the Group.

Potential re-rating catalysts: (i) Stronger demand from the MOH partnership; (ii) Shorter than expected gestation period in China hospitals; (iii) higher investment-holding revenue growth with the remaining 80% of vacant spaces leased out.

Figure 1: Peer Comparison

Comparables

BB Ticker	Company	FYE	Mkt Cap Ent Val		P/E		P/B		EV/EBITDA		Div Yield	ROE
			(\$m)	(\$m)	FY18/19e	FY19/20e	FY18/19e	FY19/20e	FY18/19e	FY19/20e	FY18/19e	FY18/19e
RFMD SP	RAFFLES MEDICAL	Dec	1,901	1,960	33.6	31.7	2.3	2.3	22.1	20.6	2.4	7.2
Market Cap Weighted Peers' average:					33.8	28.9	3.3	3.1	18.0	16.1	1.5	12.1
IHH SP	IHH HEALTHCARE B	Dec	16,495	20,650	46.8	38.0	2.1	2.0	20.0	17.9	0.5	4.4
RHC AU	RAMSAY HEALTH	Jun	13,904	19,441	25.3	23.2	5.6	5.0	13.1	11.9	2.1	22.7
RYM NZ	RYMAN HEALTHCARE	Mar	5,837	7,059	24.6	21.8	2.7	2.5	27.7	24.5	2.0	11.4
HLS AU	HEALIUS LTD	Jun	1,730	2,357	18.6	17.1	0.9	0.9	9.4	8.6	3.0	4.8
KPJ MK	KPJ HEALTHCARE	Dec	1,337	2,122	22.8	20.8	2.1	2.0	12.3	11.4	2.0	9.6

Source: Bloomberg, PSR

Data extracted: 30/7/2019

Financials

Income Statement

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Revenue	474	478	489	517	571
Operating expenses	-379	-386	-393	-432	-480
EBITDA	95	92	96	85	91
Depreciation & Amortisation	-15	-15	-18	-18	-19
EBIT	80	77	78	67	72
Associates & JVs	0	0	0	0	0
Net Finance (Expense)/Inc	1	1	-0	-0	0
Other items	2	3	6	3	3
PBT	83	81	84	70	75
Tax	-15	-12	-13	-11	-12
PAT	68	69	71	59	63
Minority interest	2	2	0	0	0
Net Income, reported	70	71	71	59	63
Net Income, adj.	69	68	67	56	60

Per share data

Y/E Dec, SG cents	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	1.35	4.02	3.98	3.27	3.45
EPS, adj.	1.32	3.84	3.77	3.10	3.28
DPS	0.67	2.25	2.50	2.50	2.50
BVPS	12.71	41.45	44.54	45.69	45.98

Cash Flows

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
PBT	83	81	84	70	75
Adjustments	15	14	17	18	19
WC changes	-6	3	5	9	6
Cash generated from ops	92	97	106	98	100
Taxes paid, others	-13	-15	-15	-12	-13
Cashflow from ops	79	83	92	86	87
CFI					
CAPEX, net	-14	-10	-28	-36	-29
Acquisition, others	-30	-131	-74	1	1
Cashflow from investing	-44	-141	-103	-35	-28
CFF					
Share issuance	7	5	1	1	0
Loans, net of repayments	-2	49	37	-10	-9
Dividends	-14	-14	-16	-28	-46
Others	1	4	-2	0	0
Cashflow from financing	-8	45	20	-37	-54
Effects of exchange rates	-0	-0	-1	0	0
Net change in cash	26	-14	8	13	5
CCE, end	112	98	106	119	124

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
PPE	270	384	566	568	562
Intangibles	31	37	37	37	37
Investment properties	371	385	311	327	342
Others	5	4	4	4	4
Total non-current assets	677	810	918	935	945
Trade & other receivables	101	87	83	88	97
Cash balance	112	98	106	119	124
Others	10	10	9	10	12
Total current assets	223	195	199	218	233
Total Assets	901	1,006	1,116	1,153	1,178
LIABILITIES					
Short-term debt	13	41	19	19	19
Trade and other payables	145	126	137	152	169
Others	26	27	30	30	30
Total current liabilities	184	194	186	202	218
Long-term debt	17	38	97	87	79
Others	18	22	16	16	16
Total non-current liabilities	35	60	113	104	95
Total Liabilities	219	254	300	305	313
EQUITY					
Minority interest	15	18	16	16	16
Shareholder Equity	666	734	800	832	849
Total Equity	682	752	817	848	865

Valuation Ratios

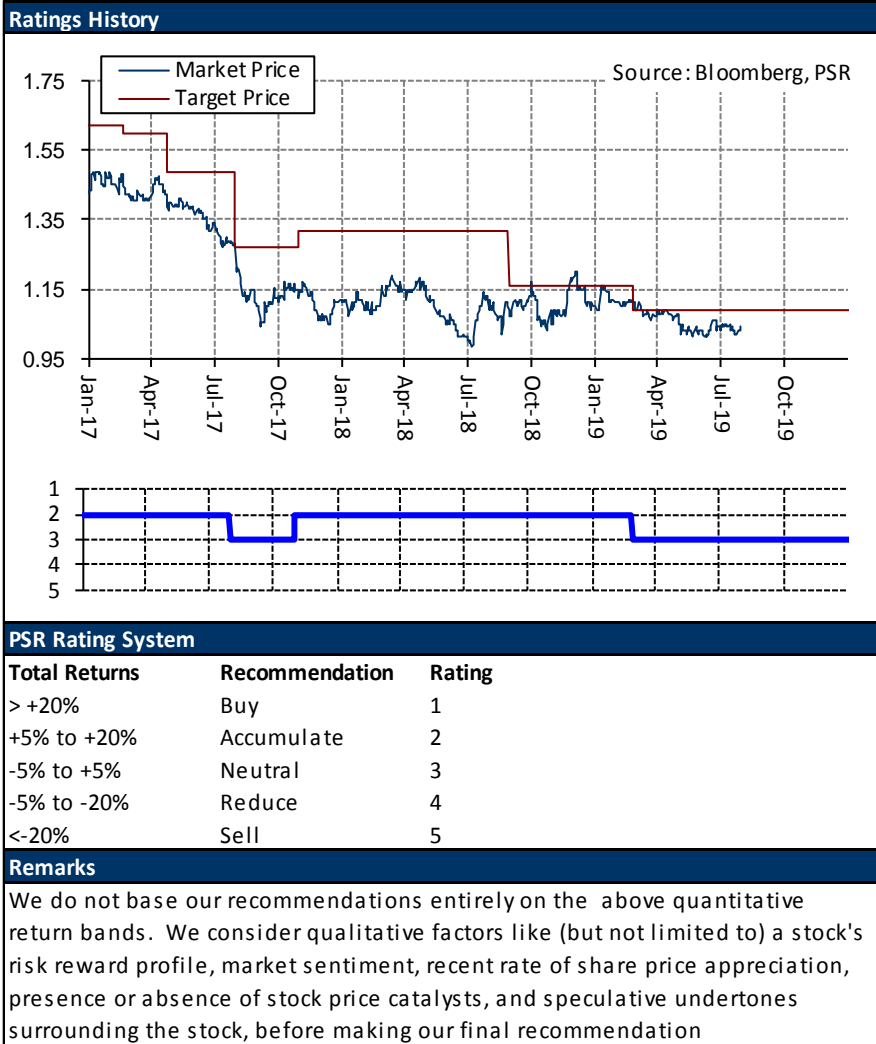
Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (X), adj.	78.9	27.1	27.6	33.6	31.7
P/B (X)	8.2	2.5	2.3	2.3	2.3
EV/EBITDA (X)	18.3	19.8	19.6	22.1	20.6
Dividend Yield	0.6%	2.2%	2.4%	2.4%	2.4%

Growth & Margins

	FY16	FY17	FY18	FY19e	FY20e
Growth					
Revenue	15.4%	0.8%	2.4%	5.7%	10.4%
EBITDA	3.4%	-3.2%	4.4%	-11.1%	6.5%
EBIT	1.7%	-4.2%	1.0%	-13.9%	7.2%
Net Income, adj.	1.3%	-1.4%	-0.7%	-16.6%	7.4%
Margins					
EBITDA margin	20.1%	19.3%	19.6%	16.5%	15.9%
EBIT margin	17.0%	16.1%	15.9%	13.0%	12.6%
Net Profit Margin	14.5%	14.2%	13.7%	10.8%	10.5%

Key Ratios

	FY16	FY17	FY18	FY19e	FY20e
ROE	10.8%	9.7%	8.8%	7.2%	7.5%
ROA	8.0%	7.1%	6.3%	5.2%	5.4%
Interest coverage (X)	5.5	5.1	4.3	3.6	3.7
Net gearing (X)	Net cash	Net cash	Net cash	Net cash	Net cash



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