



# RAFFLES MEDICAL | BUY

MARKET CAP: USD 1.4B

AVG DAILY TURNOVER: USD 1.0M

30 Apr 2019  
Company Update

## OFF THE BLOCKS IN CHINA

- **\$S1.8m EBITDA loss in Chongqing**
- **Early days still**
- **FV of \$S1.25**

### Results in-line

Raffles Medical Group's 1Q19 results were within our expectations. Revenue grew 6.7% YoY to \$S129.3m. The group's Healthcare services division saw revenue grew 8.9% YoY, aided by increased contribution from an increase in premium from existing and new clients, the Primary Care Network Scheme and projects. On the Hospital Services front, revenue grew 3.2% YoY as 1Q19 saw higher utilisation of inpatient capacities. Foreign patient volume growth continued to be challenging, as management noted competition from regional peers as well as an unfavourable SGD against regional currencies. PATMI fell 13.7% YoY to \$S13.6m, which constitutes 22.5% of our full-year forecast (1Q18: 22.3% of FY18 PATMI). Excluding Raffles Hospital Chongqing, PAT would have grown 2.1% YoY instead of a decrease of 11.2% YoY. The implied EBITDA loss from Chongqing came up to \$S1.8m. As a recap, management has guided for EBITDA losses of ~\$S8m for the 1st year of hospital operations in Chongqing.

### 1Q volumes in China affected by seasonality

Management shared that Raffles Hospital Chongqing has seen ~500 patients and a few dozen surgery procedures in 1Q19. Pricing is comparable to other private hospitals, but certain promotions and discounts are being given out in a bid to drive initial volumes. For EBITDA losses in subsequent quarters, we note that management does not expect a significant step-up beyond the \$S1.8m mark which was registered in 1Q19. Staff count seems roughly unchanged from the previous quarter (~200 staff), as management continues to exercise cost discipline, given the nascent stage of operations. Raffles Hospital Chongqing currently offers practices such as paediatrics, O&G and internal medicine, but is looking to provide other services including cardiology and IVF in the days ahead. We understand that management is currently working with a number of international insurance companies, MNCs and state-owned enterprises to build up its patient stream. As for the group's Shanghai hospital, construction seems to be on track with completion scheduled for end-2019, with operations likely to commence after the Chinese New Year festivities in 2020. We maintain our FV estimate of \$S1.25 for now.

### Key financial highlights

Year Ended Dec 31 (\$m)	FY17	FY18	FY19F	FY20F
Revenue	477.6	489.1	553.6	643.3
EBITDA	95.1	102.5	100.1	103.6
Operating profit	80.1	84.2	73.4	73.1
PATMI	70.8	71.1	60.6	60.1
EPS (SG cents)	4.0	3.8	3.4	3.4
Cons. EPS (S cents)	na	na	3.2	3.3
Net profit margin (%)	14.8	14.5	10.9	9.3
PER (x)	26.6	26.9	33.0	33.3
ROE (%)	10.1	9.3	7.4	7.1
Price/NAV (x)	2.6	2.4	2.3	2.2

## BUY (maintain)

Fair value	\$S1.25
add: 12m dividend forecast	\$S0.03
versus: Current price	\$S1.07
<b>12m total return forecast</b>	<b>19%</b>

### Analyst(s)

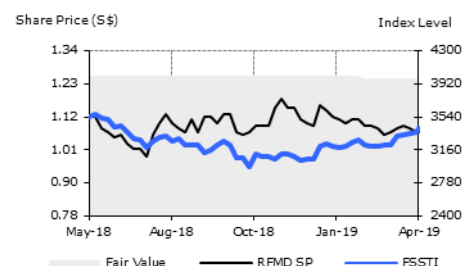
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### Key information

Market cap. (m)	\$S1,924 / USD1,413
Avg daily turnover (m)	\$S1 / USD1
Avg daily vol. (m)	1.4
52-wk range (\$)	0.98 - 1.2
Free float (%)	47.9
Shares o/s. (m)	1,798.4
Exchange	SGX
BBRG ticker	RFMD SP
Reuters ticker	RAFG.SI
SGX code	BSL
GICS Sector	Healthcare
GICS Industry	Healthcare Providers
Top shareholder	Raffles Medical Holdings Pte Ltd - 38.2%

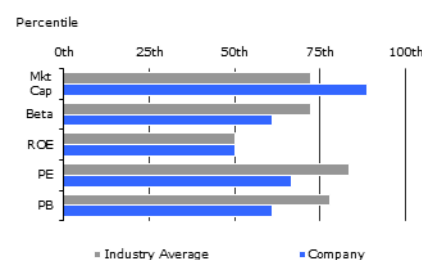
Relative total return	1m	3m	12m
Company (%)	0	-4	-5
STI-adjusted (%)	-6	-12	-3

### Price performance chart



Sources: Bloomberg, OIR estimates

### Industry-relative metrics



Note: Industry universe defined as companies under identical GICS classification listed on the same exchange.  
Sources: Bloomberg, OIR estimates



**Exhibit 1: Quarterly financial highlights**

	1Q18	1Q19	% YoY	4Q18	% QoQ
	(\$m)	(\$m)	(YoY)	(\$m)	(QoQ)
<b>Revenue</b>	<b>120.2</b>	<b>128.3</b>	<b>6.7%</b>	<b>127.7</b>	<b>0.5%</b>
Other operating income	1.3	0.7	-46.9%	2.5	-72.4%
Inventories and consumables used	-14.3	-15.4	7.4%	-15.0	2.4%
Purchased and contracted services	-9.2	-13.2	43.1%	-12.1	9.5%
Staff costs	-63.4	-66.0	4.2%	-60.2	9.6%
Depreciation of PPE	-4.0	-6.2	54.0%	-4.2	48.2%
Amortisation	-0.4	-0.3	-3.9%	-0.3	11.2%
Operating lease expenses	-3.4	-1.7	-48.5%	-3.3	-46.9%
Other operating expenses	-7.9	-8.9	13.5%	-9.2	-3.1%
<b>Profit from operating activities (EBIT)</b>	<b>18.9</b>	<b>17.1</b>	<b>-9.4%</b>	<b>17.1</b>	<b>0.0%</b>
Finance income	0.2	0.4	142.0%	0.4	-13.0%
Finance expenses	-0.2	-0.5	143.5%	-0.4	20.5%
<b>Profit before income tax</b>	<b>18.9</b>	<b>17.0</b>	<b>-9.7%</b>	<b>17.0</b>	<b>0.0%</b>
Income tax expense	-3.4	-3.3	-2.8%	-3.6	-8.3%
Profit for the quarter	15.5	13.7	-11.2%	13.7	0.0%
Attributable to:					
<b>Owners of the company</b>	<b>15.8</b>	<b>13.6</b>	<b>-13.7%</b>	<b>21.9</b>	<b>-37.8%</b>
Minority interest	-0.3	0.1	N.M.	0.4	-79.1%
<b>Profit for the quarter</b>	<b>15.5</b>	<b>13.7</b>	<b>-11.2%</b>	<b>13.7</b>	<b>0.0%</b>

Source: Company financials, OIR

**Company financial highlights**

Income statement

Year Ended Dec 31 (S\$m)	FY17	FY18	FY19F	FY20F
Revenue	477.6	489.1	553.6	643.3
EBITDA	95.1	102.5	100.1	103.6
Depreciation and amortisation	-15.0	-18.3	-26.7	-30.5
Operating profit	80.1	84.2	73.4	73.1
Net interests	0.7	-0.1	-0.6	-0.9
Share of results of JVs, net	0.0	0.0	0.0	0.0
Profit before tax	80.8	84.1	72.7	72.1
Income tax expense	-12.2	-13.3	-12.4	-12.3
PAT	68.7	70.8	60.4	59.9
PATMI	70.8	71.1	60.6	60.1

Balance sheet

As at Dec 31 (S\$m)	FY17	FY18	FY19F	FY20F
Bank and cash balances	98.3	106.0	120.0	127.6
Other current assets	97.2	92.5	98.2	100.7
PPE & Inv properties	769.5	876.9	955.1	1,033.4
Total assets	1,005.9	1,116.3	1,214.2	1,302.6
Debt	99.0	127.9	188.6	238.6
Current liabilities excluding debt	150.3	167.0	174.1	178.2
Total liabilities	254.2	299.7	367.4	421.6
Shareholders equity	734.1	800.5	828.1	862.0
Minority interests	17.6	16.1	18.7	19.0
Total equity and liabilities	1,005.9	1,116.3	1,214.2	1,302.6

Cash flow statement

Year Ended Dec 31 (S\$m)	FY17	FY18	FY19F	FY20F
Op profit before working cap. chg.	94.6	101.1	109.5	122.5
Working cap, taxes and int	-11.3	-12.3	-14.4	-16.6
Net cash from operations	82.7	91.5	97.2	106.3
Purchase of PPE	-10.0	-28.6	-50.0	-50.0
Other investing flows	-130.7	-74.1	-48.9	-49.3
Investing cash flow	-140.7	-102.7	-98.9	-99.3
Financing cash flow	44.7	20.1	15.8	0.6
Net cash flow	-13.2	8.9	14.0	7.6
Cash at beginning of year	111.9	98.3	106.0	120.0
Cash at end of year	98.3	106.0	120.0	127.6

Key rates & ratios

	FY17	FY18	FY19F	FY20F
EPS (SG cents)	4.0	3.8	3.4	3.4
NTA per share (SG cents)	39.4	42.5	44.0	45.9
EBIT margin (%)	16.8	17.2	13.3	11.4
Net profit margin (%)	14.8	14.5	10.9	9.3
PER (x)	26.6	26.9	33.0	33.3
Price/NTA (x)	2.7	2.5	2.4	2.3
Price/NAV (x)	2.6	2.4	2.3	2.2
Dividend yield (%)	2.1	2.3	2.3	2.6
ROE (%)	10.1	9.3	7.4	7.1
Net gearing (%)	0.0	0.0	8.3%	12.9%

Sources: Company, OIR forecasts

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