

### COMPANY RESULTS

#### Raffles Medical Group (RFMD SP)

2016: Earnings In Line With Expectations; BUY On Long-term Growth

**RMG's 2016 net profit of S\$70.2m (+1.3% yoy) is in line with our expectation. Earnings growth was lacklustre as cost pressure remained elevated due to the newly-consolidated MCH and a ramp-up in staff recruitment to cater to business expansion. We cut our 2017-18 earnings estimates by up to 6% to account for elevated cost and higher effective tax rate assumptions. While near-term growth remains challenging, investors should position for longer-term upside as RMG expands overseas further. Maintain BUY with a lower target price of S\$1.66.**

#### 2016 RESULTS

Year to 31 Dec (\$m)	2016	2015	yoy% Chg
Turnover	473.6	410.5	15.4
Operating Profit	81.9	80.6	1.7
Pre-tax Profit	82.9	81.6	1.6
Tax	(15.0)	(12.6)	19.1
Profit after Tax	67.9	69.0	(1.6)
Minority Interests	(2.3)	(0.3)	770.8
Net Profit	70.2	69.3	1.3
EPS (cents)	4.0	4.1	(0.3)
Staff Costs	241.7	203.5	18.8
Margin (%)	2016	2015	ppt chg
Operating margin	17.3	19.6	(2.3)
Cost as % of Turnover	2016	2015	ppt chg
Inventories & Consumables Used	10.8	10.8	0.0
Purchased/Contracted Services	8.5	9.0	(0.4)
Staff Costs	51.0	49.6	1.5

Source: RMG, UOB Kay Hian

#### RESULTS

- **2016 net profit in line with expectation.** Raffles Medical Group's (RMG) 2016 net profit of S\$70.2m implies growth of only 1.3% yoy as the growth in turnover of 15.4% was outpaced by elevated costs. Earnings were also impacted by a higher effective tax rate of 18.1% (vs 2015: 15.4%) as the group expands its geographical operations. Nevertheless, 2016 net profit was in line with our expectation, accounting for 96% of our full-year estimate.
- **Revenue bolstered by positive contributions from all segments.** RMG achieved revenue growth of 15.4% yoy to S\$473.6m. The group saw positive contributions from healthcare services (+30.8% yoy) and hospital services (+6.3% yoy). The strong revenue growth was driven by higher patient load from the expanding Raffles Medical clinic network, contributions from more specialist consultants, as well as full-year contribution from MCH, which we estimate contributed 6.8% of 2016 revenue.

#### KEY FINANCIALS

Year to 31 Dec (\$m)	2015	2016	2017F	2018F	2019F
Net turnover	411	474	541	621	767
EBITDA	93	97	103	112	117
Operating profit	81	82	87	92	93
Net profit (rep./act.)	69	70	80	95	105
Net profit (adj.)	68	69	80	95	105
EPS (cent)	4.0	4.0	4.6	5.5	6.0
PE (x)	36.8	36.9	31.8	26.6	24.1
P/B (x)	4.2	3.8	3.6	3.3	3.1
EV/EBITDA (x)	27.4	26.5	24.8	22.8	21.9
Dividend yield (%)	1.4	1.4	1.4	1.5	1.5
Net margin (%)	16.9	14.8	14.7	15.4	13.7
Net debt/(cash) to equity (%)	(8.9)	(12.2)	(2.1)	(8.2)	(18.8)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	12.1	11.1	11.6	12.9	13.1
Consensus net profit	-	-	81	93	130
UOBKH/Consensus (x)	-	-	0.99	1.03	0.81

Source: RMG, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	S\$1.46
Target Price	S\$1.66
Upside	+13.7%
Previous	S\$1.70

#### 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):	1,749.1
Market cap (S\$m):	2,553.7
Market cap (US\$m):	1,799.8
3-mth avg daily t'over (US\$m):	1.4

#### Price Performance (%)

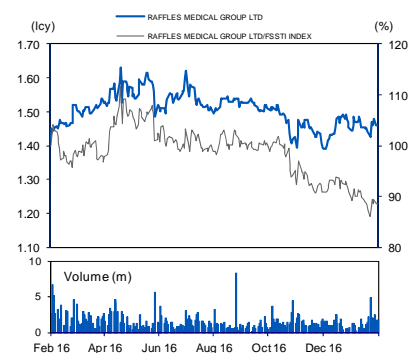
52-week high/low	S\$1.63/S\$1.39			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
0.3	2.8	(3.6)	5.0	2.1
				%

#### Major Shareholders

Dr Loo Choon Yong	51.5
-------------------	------

FY17 NAV/Share (S\$)	0.41
FY17 Net Cash/Share (S\$)	0.01

#### PRICE CHART



Source: Bloomberg

#### ANALYSTS

**Andrew Chow, CFA**  
 +65 6590 6633  
 andrewchow@uobkayhian.com

**Thai Wei Ying**  
 +65 6590 6624  
 weiying@uobkayhian.com

- Elevated costs expected to continue in 2017.** Costs remained elevated in 2016 as key cost items such as staff costs (+18.8% yoy) and inventories/consumables (+15.7% yoy) offset revenue performance. This had 2016 operating margin slipping 2.3ppt to 17.3%. Staff costs as a percentage of turnover rose to 51% in 2016 compared to 49.6% in 2015, due to staff recruitment on expanded business operations and the new medical centre in Raffles Holland Village. We believe the elevated staff costs were also attributed to the higher cost structure of MCH, which we believe should have seen a staff cost/turnover of about 56%. Excluding MCH, RMG's operating profit in 2016 would have grown by 4.4% instead of 1.7%.
- Strong cash flow generation raises net cash.** The group's net cash increased from S\$54m (as at Dec 15) to S\$82m as at Dec 16 due to its strong cash generation, with solid 2016 operating cash flow of S\$78.9m underpinning the rise in its warchest. The group declared a final dividend of 1.5 S cents/share, which brought total DPS to 2.0 S cents.

### ESSENTIALS

- Raffles Hospital extension to be completed by 2H17.** Raffles Hospital is progressing as planned, and will contribute an additional 220,000 sf of GFA to Raffles Hospital. The integrated medical complex will provide support to the existing hospital's range of specialist services, healthcare training and clinical research as well as open opportunities for growth and expansion for the future. Management highlighted that they intend to utilise 50% for internal use. We expect completion in 4Q17 and for the extension to contribute meaningfully only in 2018.
- Raffles Hospital Shanghai.** The target completion for the 400-bed Shanghai hospital remains on track for end-18. We understand management is exploring opportunities in other areas such as Shenzhen and Beijing, though nothing is concrete currently.

### EARNINGS REVISION/RISK

- Introduce 2019 estimates; adjust 2017-18 earnings forecasts down by 5-6% to factor in:** a) a higher effective tax rate assumption of 18% (from 17%), and b) higher cost assumptions, specifically to account for the increased staff costs as well as higher inventories/consumables as the group expands its capacity. Based on our new estimates, we forecast a 3-year EPS CAGR of 15.2% (2017-19F).

### VALUATION/RECOMMENDATION

- Maintain BUY on long-term growth due to new capacity.** While near-term earnings growth is likely to be lacklustre as costs are being incurred ahead of new expansion, we remain positive and maintain BUY with a lower DCF-based target price of S\$1.66 (previously S\$1.70). At our target price, the implied 2017F PE is 36.1x. This is more than its +1SD to mean PE of 32.6x, which is not cheap but deserved, as its 2017-19F ROE of 11.6-13.1% compares with its long-term average ROE of 11.5% since 1998. Also, we think the new capacities in China and Singapore will provide RMG a growth runway for the next 5-10 years.

### SHARE PRICE CATALYST

- Potential catalysts, in our view, include:** a) accretive new investments in China or M&As, b) earnings synergies from MCH and c) better-than-expected performance from Raffles Medical Centre Orchard and Raffles Holland V.

### PEER COMPARISON

Company	Ticker	Trading	Rec	Price @	Target	Market	PE	Yield	ROE	P/B	
		Curr		20 Feb 17	Price	Cap	2017	2018	2017	2017	
		(lcy)		(lcy)	(lcy)	(US\$m)	(x)	(x)	(%)	(%)	
Raffles Medical	RFMD SP	S\$	BUY	1.46	1.66	1,794	31.8	26.6	1.4	11.6	
IHH Healthcare	IHH SP	S\$	HOLD	1.97	2.03	1,374	42.9	35.4	0.5	5.0	
Healthway Medical	HMED SP	S\$	NR	0.04	n.a.	71	n.a.	n.a.	n.a.	n.a.	
Health Mgmt Int	HMI SP	S\$	NR	0.62	n.a.	259	45.6	25.8	0.8	13.0	
Singapore Medical	SMG SP	S\$	NR	0.56	n.a.	109	27.8	20.6	n.a.	25.5	
Bangkok Dusit Med Service	BDMS TB	Bt	BUY	21.10	31.20	9,331	37.8	24.5	1.5	16.3	
Bumrungrad Hospital	BH TB	Bt	BUY	182.00	210.00	3,786	36.9	29.9	1.5	25.4	
KPJ Healthcare	KPJ MK	RM	HOLD	4.00	4.07	941	33.3	27.5	1.8	9.3	
<b>Average (Excl RFMD SP, SMG SP)</b>							<b>49.7</b>	<b>35.6</b>	<b>27.3</b>	<b>1.2</b>	<b>15.8</b>

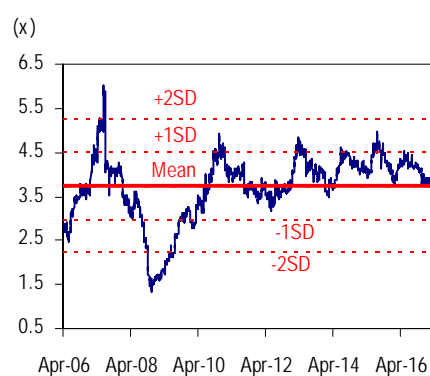
Source: Bloomberg, UOB Kay Hian

### HISTORICAL PE



Source: Bloomberg

### HISTORICAL P/B



Source: Bloomberg

### PROFIT & LOSS

Year to 31 Dec (\$Sm)	2016	2017F	2018F	2019F
<b>Net turnover</b>	<b>473.6</b>	<b>541.2</b>	<b>620.5</b>	<b>766.9</b>
EBITDA	96.6	103.2	112.1	116.8
Deprec. & amort.	14.7	16.5	19.8	24.2
EBIT	81.9	86.7	92.3	92.7
Total other non-operating income	n.a.	11.3	24.7	36.2
Associate contributions	0.0	1.0	1.0	1.0
Net interest income/(expense)	1.0	0.7	0.7	0.7
<b>Pre-tax profit</b>	<b>82.9</b>	<b>99.7</b>	<b>118.7</b>	<b>130.6</b>
Tax	(15.0)	(17.9)	(21.4)	(23.5)
Minorities	2.3	(2.0)	(2.0)	(2.0)
<b>Net profit</b>	<b>70.2</b>	<b>79.7</b>	<b>95.3</b>	<b>105.1</b>
Net profit (adj.)	68.7	79.7	95.3	105.1

### BALANCE SHEET

Year to 31 Dec (\$Sm)	2016	2017F	2018F	2019F
<b>Fixed assets</b>	<b>641.5</b>	<b>762.9</b>	<b>784.2</b>	<b>778.7</b>
Other LT assets	35.8	37.6	39.5	40.5
Cash/ST investment	111.9	45.6	93.6	187.8
Other current assets	111.4	127.3	146.0	180.4
<b>Total assets</b>	<b>900.6</b>	<b>973.4</b>	<b>1,063.3</b>	<b>1,187.3</b>
ST debt	13.5	13.5	13.5	13.5
Other current liabilities	170.8	195.1	223.7	276.5
LT debt	16.9	16.9	16.9	16.9
Other LT liabilities	17.6	19.4	21.3	23.5
Shareholders' equity	666.4	711.0	768.4	835.5
Minority interest	15.5	17.5	19.5	21.5
<b>Total liabilities &amp; equity</b>	<b>900.6</b>	<b>973.4</b>	<b>1,063.3</b>	<b>1,187.3</b>

### CASH FLOW

Year to 31 Dec (\$Sm)	2016	2017F	2018F	2019F
<b>Operating</b>	<b>78.9</b>	<b>102.8</b>	<b>119.5</b>	<b>135.7</b>
Pre-tax profit	67.9	99.7	118.7	130.6
Tax	(12.7)	(17.9)	(21.4)	(23.5)
Deprec. & amort.	14.7	14.7	14.7	14.7
Working capital changes	(6.0)	6.4	7.5	13.9
Other operating cashflows	14.9	0.0	0.0	0.0
<b>Investing</b>	<b>(44.4)</b>	<b>(140.0)</b>	<b>(40.0)</b>	<b>(10.0)</b>
Capex (growth)	(14.5)	(140.0)	(40.0)	(10.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(29.9)	0.0	0.0	0.0
<b>Financing</b>	<b>(8.5)</b>	<b>(29.1)</b>	<b>(31.5)</b>	<b>(31.5)</b>
Dividend payments	(14.1)	(29.1)	(31.5)	(31.5)
Issue of shares	7.1	0.0	0.0	0.0
Proceeds from borrowings	(2.1)	0.0	0.0	0.0
Others/interest paid	0.6	0.0	0.0	0.0
<b>Net cash inflow (outflow)</b>	<b>26.0</b>	<b>(66.3)</b>	<b>48.0</b>	<b>94.1</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>86.1</b>	<b>111.9</b>	<b>45.6</b>	<b>93.6</b>
Changes due to forex impact	(0.2)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>111.9</b>	<b>45.6</b>	<b>93.6</b>	<b>187.8</b>

### KEY METRICS

Year to 31 Dec (%)	2016	2017F	2018F	2019F
<b>Profitability</b>				
EBITDA margin	20.4	19.1	18.1	15.2
Pre-tax margin	17.5	18.4	19.1	17.0
Net margin	14.8	14.7	15.4	13.7
ROA	8.2	8.5	9.4	9.3
ROE	11.1	11.6	12.9	13.1
<b>Growth</b>				
Turnover	15.4	14.3	14.7	23.6
EBITDA	3.4	6.8	8.6	4.2
Pre-tax profit	1.6	20.2	19.1	10.0
Net profit	1.3	13.6	19.6	10.2
Net profit (adj.)	1.3	16.1	19.6	10.2
EPS	(0.3)	16.1	19.6	10.2
<b>Leverage</b>				
Debt to total capital	4.3	4.0	3.7	3.4
Debt to equity	4.6	4.3	4.0	3.6
Net debt/(cash) to equity	(12.2)	(2.1)	(8.2)	(18.8)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

## Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

**IMPORTANT DISCLOSURES FOR U.S. PERSONS**

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Securities, which is regulated by Financial Services Authority of Indonesia (OJK). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2017, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W