

# Raffles Medical Group Ltd

Searching for the right remedies

## SINGAPORE | HEALTHCARE | RESULTS

- FY2016 Revenue of S\$473.61 mn was in line with our forecast of S\$486.26 mn
- FY2016 PATMI of S\$70.21 mn missed our forecast by 8.1%. Surprise mainly came from higher-than-expected losses from MCH and higher effective tax rate
- *RafflesMedical* to drive FY17F topline; Expect further margin compression before MCH breakeven while RMG continues to gear up for expansion
- Final dividend of 1.5 Cents; FY2016 dividend of 2.0 Cents (same as FY2015)

Revenue growth driven by increased patient load and higher contributions from all segments, particularly from the newly acquired International SOS (MC Holdings) Pte Ltd and its subsidiaries (collectively known as "MCH"). Excluding MCH, top line would have grown by only 7.5% year-on-year ("yoy"). However, the increased staff costs from MCH remains a drag. Raffles Medical Group Ltd ("RMG") has stepped up its cost management effort and expects to see better results in next few quarters.

### Results at a glance

#### Revenue by Segment

SGD mn	FY16	FY15	y-y(%)	Comments
Healthcare services	210	161	30.8	Higher patient load from expanded <i>RafflesMedical</i> clinic network, and contribution from newly acquired MCH
Hospital services	285	268	6.3	Higher patient load and higher contribution by more specialists
Investment holdings	18	13	38.4	
<b>Revenue</b>	<b>474</b>	<b>411</b>	<b>15.4</b>	Organic and inorganic growth; exclude MCH, FY2016 Revenue +7.5% yoy
EBITDA	95	92	3.4	Higher staff costs and operating expenses (Margin fell 2.3pps to 20.1%)
Operating profits	80	79	1.7	Higher depreciation expenses; exclude MCH, FY2016 Operating profits +4.4% yoy
PBT	83	82	1.6	
Net income, reported	70	69	1.3	
<b>Net income, adj.</b>	<b>69</b>	<b>68</b>	<b>1.3</b>	

Source: Company, Phillip Securities Research (Singapore)

**RafflesMedical to drive growth in FY2017**, contributing c.48% of FY17F revenue (up from c.44% in FY2016). Although *RafflesHospital* has the highest margins, it is expected to grow at a **mid-single digit rate in FY2017 amid challenging macro environment**. Hospital Services growth has slowed to single-digit rate in the past three years due to slower growth in foreign patient load and a stretched space in *RafflesHospital*. Although *RafflesHospital Extension* is on track for completion, we do not expect a significant contribution to FY17F earnings as it is slated to be operational by 4Q FY2017. On the other hand, its expanding network of clinics as well as growing corporate clients will support *RafflesMedical's* double-digit growth rate.

**Positive on MCH's growth potential but cost rationalisation takes time.** MCH has yet to breakeven in FY2016 due to the high integration costs incurred and higher-than-Group level's operating expenses. MCH's staff costs as a percentage of revenue is still at 56% as at end-FY2016, albeit improved from 60% when it was initially acquired. Management reiterated that RMG had only started managing MCH in April 2016 and would require few more quarters before it turns around. RMG has appointed two General Managers to improve operational efficiencies at the Healthcare Services business in IndoChina and to ultimately improve margins there. RMG's expansion plans by leveraging on MCH's network of clinics, particularly the fast-growing clinics in China, could open up RMG's potential customer base to the top 20% of China population, which are considered as the upper income group. The Group intends to add two or three more MCH clinics in China this year.

21 February 2017

### Accumulate (Maintained)

LAST CLOSE PRICE	SGD 1.46
FORECAST DIV	SGD 0.01
TARGET PRICE	SGD 1.60
<b>TOTAL RETURN</b>	<b>10.0%</b>

#### COMPANY DATA

O/S SHARES (MN) :	1,749
MARKET CAP (USD mn / SGD mn) :	18011 / 2553.7
52 - WK HI/LO (SGD) :	168 / 138
3M Average Daily T/O (mn) :	137

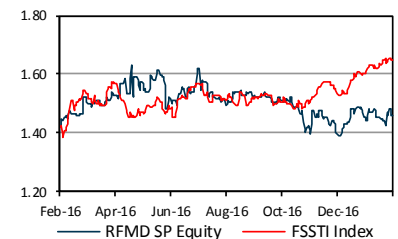
#### MAJOR SHAREHOLDERS (%)

CHOON YONG LOO	48.1%
FIL LIMITED	4.9%
ABERDEEN	4.8%
S&D HOLDINGS PTE LTD	3.3%

#### PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(0.7)	5.3	10.8
STIRETURN	3.4	11.1	23.6

#### PRICE VS. STI



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Dec	FY 15	FY 16	FY 17e	FY 18e
Revenue (SGD mn)	411	474	529	592
EBITDA (SGD mn)	92	95	106	120
NPAT adj. (SGD mn)	68	69	70	82
EPS adj. (Cents)	3.96	3.95	4.00	4.58
PER adj. (x)	34.6	36.2	37.0	32.3
P/BV (x)	3.9	3.8	3.6	3.4
DPS (Cents)	2.00	2.00	2.00	2.00
Div Yield (%)	15%	14%	14%	14%
ROE (%)	11.9%	10.8%	10.3%	11.0%

Source: Company Data, PSR est.

#### VALUATION METHOD

DCF (WACC: 7.0%; terminal g: 3.0%)

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### Strong financial positions to support its expansion plans.

Improved net cash position (increased to S\$81.5 mn from S\$53.8 mn a year ago) and its strong operating cashflows (cashflow from operating activities of S\$78.9 mn in FY2016) will enable the Group to support its investments in MCH, *RafflesHospital Extension*, and partially *RafflesHospital Shanghai*.

The remaining CapEx are estimated at:

- (i) c.S\$94 million for *RafflesHospital Extension*; and
- (ii) c.S\$98 million earmarked for *RafflesHospital Shanghai*.

RMG has a healthy cash position of S\$111.9 million as at 31 December 2016. We expect the Group to partially fund its *RafflesHospital Shanghai* project with debt.

**Investment risks** which could dampened healthcare demand in Singapore:

- (i) slower economic growth and uncertainties in Singapore and the region
- (ii) strong SGD against neighbouring currencies
- (iii) intensifying competition for medical tourism between Singapore, Thailand and Malaysia

**Maintained 'Accumulate'.** We have cut our FY17-18F Revenue by c.6% and adjusted for higher operating costs, which translates to a slightly lower DCF-derived **target price of S\$1.60** (previously S1.62). We expect its *RafflesHospital Extension* and the *RafflesHospital Shanghai* to boost its revenue after its launches in 2017 and 2018, respectively. Expansion of its domestic and regional business operations will keep FY17-18F operating expenses high as RMG continues its recruitment drive to cater to the expansion of its Hospital and Healthcare Services operations in Singapore as well as in Indochina region. We have also cut our FY17-18F dividend as we expect RFMD to reinvest at least half of its earnings into MCH, *RafflesHospital Shanghai* and *RafflesHospital Extension*.

### Details of expansion plans

#### (a) *RafflesHospital Extension*

It will contribute an additional 220,000 square feet or c.72% of gross floor area to *RafflesHospital*. Management shared that half of the space would be used to expand its range of specialist services, healthcare training and clinical research; while the other half would be leased to tenants of complementary or medical-related businesses. If demand arises, the leased area would be reclaimed for growth and expansion in the future years. The Group intends to add c.50 new beds after moving existing specialist centres to the new integrated medical complex. Additional bed capacity would provide room for *RafflesHospital* to grow.

#### (b) *RafflesMedical*

- (i) Continue to nurture and grow its multi-disciplinary medical facilities, i.e. *RafflesMedical Orchard* and *Raffles Holland V*.
- (ii) Further expanding its network of clinics, domestically (new clinics in Hillion Mall and Changi Airport Terminal 4) and abroad (two to three new clinics in China).
- (iii) Continues to grow its portfolio of corporate clients through the *RafflesOne* corporate portfolio package. *RafflesMedical Hong Kong* had secured another significant corporate client, Hong Kong Shanghai Banking (HSBC), in January 2017.

## Income Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
<b>Revenue</b>	375	411	474	529	592
Operating expenses	(288)	(319)	(379)	(423)	(472)
<b>EBITDA</b>	<b>87</b>	<b>92</b>	<b>95</b>	<b>106</b>	<b>120</b>
Depreciation & Amortisation	(10)	(13)	(15)	(20)	(20)
<b>EBIT</b>	<b>77</b>	<b>79</b>	<b>80</b>	<b>85</b>	<b>100</b>
Associates & JVs	0	0	0	0	0
Net Finance (Expense)/Inc	1	1	1	0	1
Other items	3	1	2	2	2
<b>PBT</b>	<b>81</b>	<b>82</b>	<b>83</b>	<b>87</b>	<b>102</b>
Tax	(13)	(13)	(15)	(16)	(18)
<b>PAT</b>	<b>68</b>	<b>69</b>	<b>68</b>	<b>72</b>	<b>83</b>
Minority interest	(0)	0	2	0	(0)
<b>Net Income, reported</b>	<b>68</b>	<b>69</b>	<b>70</b>	<b>72</b>	<b>83</b>
<b>Net Income, adj.</b>	<b>65</b>	<b>68</b>	<b>69</b>	<b>70</b>	<b>82</b>

## Per share data

Y/E Dec, SG cents	FY14	FY15	FY16	FY17e	FY18e
EPS, reported	4.03	4.05	4.04	4.08	4.66
EPS, adj.	3.85	3.96	3.95	4.00	4.58
DPS	1.83	2.00	2.00	2.00	2.00
BVPS	31.83	34.96	38.12	41.29	43.39

## Cash Flows

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
<b>CFO</b>					
PBT	81	82	83	87	102
Adjustments	9	13	15	20	20
WC changes	13	(9)	(6)	6	3
Cash generated from ops	103	85	92	113	125
Taxes paid, others	(10)	(13)	(13)	(16)	(19)
<b>Cashflow from ops</b>	<b>93</b>	<b>73</b>	<b>79</b>	<b>97</b>	<b>106</b>
<b>CFI</b>					
CAPEX, net	(18)	(34)	(14)	(159)	(63)
Acquisition, others	(188)	(144)	(30)	1	1
<b>Cashflow from investing</b>	<b>(206)</b>	<b>(178)</b>	<b>(44)</b>	<b>(158)</b>	<b>(62)</b>
<b>CFF</b>					
Share issuance	8	12	7	7	0
Loans, net of repayments	1	26	(2)	96	(11)
Dividends	(12)	(12)	(14)	(14)	(35)
Others	(0)	15	1	0	0
<b>Cashflow from financing</b>	<b>(3)</b>	<b>41</b>	<b>(8)</b>	<b>89</b>	<b>(47)</b>
Effects of exchange rates	0	0	(0)	0	0
<b>Net change in cash</b>	<b>(116)</b>	<b>(64)</b>	<b>26</b>	<b>28</b>	<b>(3)</b>
<b>CCE, end</b>	<b>150</b>	<b>86</b>	<b>112</b>	<b>140</b>	<b>137</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

\*Forward multiples and yields are based on current market price; historical multiples and yields are based on historical market price.

## Balance Sheet

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
<b>ASSETS</b>					
PPE	228	264	270	409	452
Intangibles	0	32	31	31	31
Investment properties	228	344	371	371	371
Others	3	4	5	5	5
<b>Total non-current assets</b>	<b>459</b>	<b>644</b>	<b>677</b>	<b>816</b>	<b>859</b>
Trade & other receivables	37	75	101	113	127
Cash balance	150	86	112	140	137
Others	9	10	10	11	13
<b>Total current assets</b>	<b>196</b>	<b>171</b>	<b>223</b>	<b>264</b>	<b>276</b>
<b>Total Assets</b>	<b>655</b>	<b>815</b>	<b>901</b>	<b>1,081</b>	<b>1,135</b>
<b>LIABILITIES</b>					
Short-term debt	6	11	13	13	13
Trade and other payables	74	118	145	164	182
Others	24	27	26	26	26
<b>Total current liabilities</b>	<b>105</b>	<b>157</b>	<b>184</b>	<b>203</b>	<b>221</b>
Long-term debt	0	21	17	113	102
Others	10	15	18	18	18
<b>Total non-current liabilities</b>	<b>10</b>	<b>36</b>	<b>35</b>	<b>131</b>	<b>120</b>
<b>EQUITY</b>					
Minority interest	1	19	15	15	16
<b>Shareholder Equity</b>	<b>539</b>	<b>603</b>	<b>666</b>	<b>731</b>	<b>779</b>

## Valuation Ratios

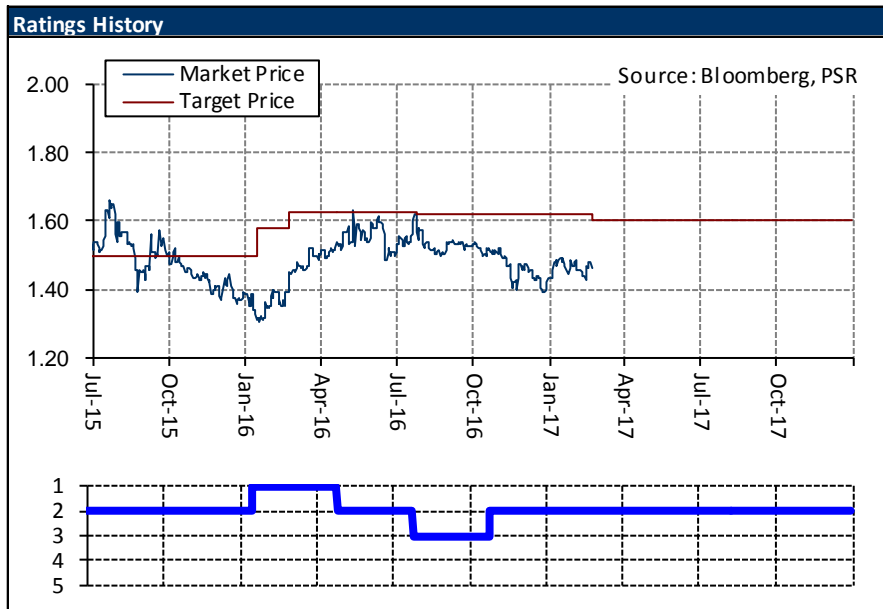
Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
P/E (X), adj.	33.7	34.6	36.2	37.0	32.3
P/B (X)	4.1	3.9	3.8	3.6	3.4
EV/EBITDA (X)	23.6	25.1	25.4	24.4	21.4
Dividend Yield (%)	1.4%	1.5%	1.4%	1.4%	1.4%

## Growth &amp; Margins (%)

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
<b>Growth</b>					
Revenue	9.9%	9.6%	15.4%	11.7%	11.9%
EBITDA	11.1%	5.7%	3.4%	11.2%	13.6%
EBIT	10.4%	2.3%	1.7%	6.2%	16.8%
Net Income, adj.	6.7%	4.9%	1.3%	2.4%	16.0%
<b>Margins</b>					
EBITDA margin	23.2%	22.4%	20.1%	20.0%	20.3%
EBIT margin	20.6%	19.3%	17.0%	16.1%	16.9%
Net Profit Margin	17.3%	16.5%	14.5%	13.3%	13.8%

## Key Ratios

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
ROE (%)	12.8%	11.9%	10.8%	10.3%	11.0%
ROA (%)	10.5%	9.2%	8.0%	7.3%	7.5%
Interest coverage (X)	8.0	6.2	5.5	4.2	4.9
Net gearing (X)	Net cash	Net cash	Net cash	Net cash	Net cash



**PSR Rating System**

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

**Remarks**

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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