

27 April 2020

Consumer Non-cyclical | Healthcare

Raffles Medical (RFMD SP)

Neutral (Maintained)

Not a Vaccine To The Pandemic

Target Price (Return): SGD0.93 (6.9%)
 Price: SGD0.87
 Market Cap: USD1,117m
 Avg Daily Turnover (SGD/USD): 2.25m/1.60m

- Maintain NEUTRAL with a new SGD0.93 TP from SGD0.96, 7% upside and 3% yield.** 1Q20 net profit was down 45% YoY to SGD7.5m. We believe Singapore's recent COVID-19 escalation will continue to hit Raffles Medical's 2Q20 operations, as both medical tourism and local patient numbers decline amid border closures and the circuit breaker measures. For its China operations, clinics previously instructed to close have reopened, but we now expect a longer turnaround period for the group's hospital in Chongqing.
- 1Q20 earnings were hurt by COVID-19.** Revenue for the quarter was flat YoY at SGD128m, while EBITDA declined 13% YoY to SGD20.1m. Net profit fell 45% YoY to SGD7.5m. This was largely in line with our expectations, as RFMD's hospital operations were impacted by a declining foreign patient load and elective patients deferring treatments since the start of the pandemic. Some of the group's clinics in China were instructed to close during this period, while Raffles Hospital Chongqing could only operate with a significantly smaller patient load. We believe revenue remained flat, as RFMD could be propped up by an increase in insurance contracts and other services, such as temperature screenings and Emergency Care Collaboration with the Health Ministry.
- Outlook remains cloudy for now.** While China has begun its recovery, the number of COVID-19 cases in Singapore has escalated since end March. As a result, we project 2Q20 earnings to be muted as well. We do not expect a sharp recovery in hospital patient loads, even after the country's circuit breaker measures are expected to be lifted on 2 Jun. This is because foreign patients are likely to continue avoiding COVID-19-affected regions while elective patients may choose to defer treatments for as long as possible.
- Not a vaccine to the pandemic.** We maintain our NEUTRAL stance on the stock, as the group's operations were not spared by COVID-19. We lower our FY20F-22F earnings by 2-5% due to the prolonged impact on Singapore's patient loads. This lowers our DCF-derived TP to SGD0.93.

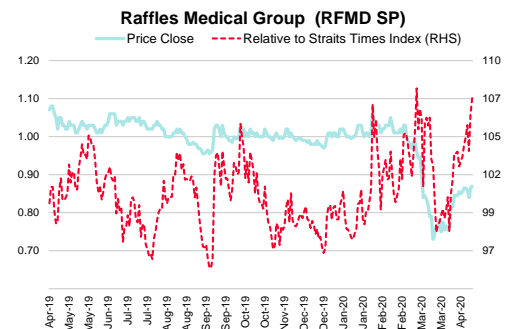
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(13.0)	16.8	(13.9)	(13.0)	(17.9)
Relative	8.9	10.2	8.3	7.5	7.2
52-wk Price low/high (SGD)	0.73 – 1.08				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	489	522	522	562	598
Recurring net profit (SGDm)	68	59	50	59	68
Recurring net profit growth (%)	(4.4)	(13.3)	(14.8)	17.1	16.9
Recurring P/E (x)	22.46	25.92	30.42	25.96	22.21
P/B (x)	1.9	1.8	1.8	1.8	1.7
P/CF (x)	14.49	14.09	15.82	15.46	14.19
Dividend Yield (%)	2.9	2.9	2.9	3.2	3.4
EV/EBITDA (x)	12.05	11.74	12.90	11.17	9.76
Return on average equity (%)	9.3	7.4	5.9	6.9	7.9
Net debt to equity (%)	1.3	1.5	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	0.04	0.03	0.03	0.03	0.04
Consumer Non-cyclical	DPS	0.03	0.03	0.03	0.03	0.03
Raffles Medical	BV/PS	0.46	0.48	0.48	0.49	0.50
RFMD SP	Return on average equity (%)	9.3	7.4	5.9	6.9	7.9
Neutral						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	22.46	25.92	30.42	25.96	22.21
DCF.	P/B (x)	1.9	1.8	1.8	1.8	1.7
	FCF Yield (%)	5.0	0.8	5.0	5.2	5.7
Key drivers	Dividend Yield (%)	2.9	2.9	2.9	3.2	3.4
i. Improved economic outlook to boost healthcare demand;	EV/EBITDA (x)	12.05	11.74	12.90	11.17	9.76
ii. Higher-than-expected contributions from the Chongqing and Shanghai hospitals.	EV/EBIT (x)	14.67	16.25	18.83	15.83	13.30
	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	489	522	522	562	598
Downside risks:	Gross profit	390	411	408	443	474
i. Longer-than-expected gestation periods;	EBITDA	103	105	94	106	118
ii. Prolonged impact from COVID-19.	Depreciation and amortisation	(18)	(29)	(29)	(31)	(31)
Upside risk: Faster-than-expected turnaround of the China hospitals.	Operating profit	84	76	64	75	86
	Net interest	(0)	(0)	(0)	(0)	(0)
	Pre-tax profit	84	76	64	74	86
	Taxation	(13)	(15)	(12)	(13)	(16)
	Reported net profit	71	61	50	59	68
	Recurring net profit	68	59	50	59	68
	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	2	13	14	6	5
	Cash flow from operations	105	108	96	98	107
	Capex	(29)	(96)	(20)	(20)	(20)
	Cash flow from investing activities	(103)	(97)	(35)	(35)	(35)
	Dividends paid	(16)	(18)	(44)	(48)	(52)
	Cash flow from financing activities	20	36	(55)	(51)	(55)
	Cash at beginning of period	98	106	152	158	171
	Net change in cash	22	47	6	13	17
	Ending balance cash	119	152	158	171	188
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	106	152	158	171	188
	Tangible fixed assets	566	686	676	665	654
	Total investments	311	311	326	341	356
	Total assets	1,116	1,285	1,291	1,312	1,337
	Short-term debt	19	9	0	0	0
	Total long-term debt	97	157	157	157	157
	Total liabilities	300	428	428	438	447
	Total equity	817	857	863	874	890
	Total liabilities & equity	1,116	1,285	1,291	1,312	1,337
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	2.4	6.7	(0.1)	7.8	6.4
	Recurrent EPS growth (%)	(4.4)	(13.3)	(14.8)	17.1	16.9
	Gross margin (%)	79.7	78.7	78.2	78.8	79.3
	Operating EBITDA margin (%)	21.0	20.2	18.0	18.8	19.7
	Net profit margin (%)	14.5	11.6	9.6	10.4	11.4
	Dividend payout ratio (%)	61.5	71.9	87.4	82.1	76.6
	Capex/sales (%)	5.8	18.4	3.8	3.6	3.3
	Interest cover (x)	834	312	639	743	860

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-02-25	Neutral	0.96	1.01
2019-10-30	Neutral	1.02	1.02
2019-07-29	Neutral	1.02	1.03
2019-04-29	Neutral	1.02	1.07
2019-02-26	Neutral	1.02	1.11
2018-10-29	Neutral	1.02	1.09

Source: RHB, Bloomberg

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