

28 July 2020

Consumer Non-cyclical | Healthcare

Raffles Medical (RFMD SP)

Neutral (Maintained)

Waiting For a Vaccine; Still NEUTRAL

Target Price (Return): SGD0.91 (-1%)
 Price: SGD0.92
 Market Cap: USD1,208m
 Avg Daily Turnover (SGD/USD) 0.89m/0.63m

- **NEUTRAL, new SGD0.91 TP, 1% downside with c.3% FY20F yield.** Raffles Medical's 1H20 results are in line. 1H20 PATMI plunged 38% YoY to SGD17.2m on a 5% YoY decline in revenue, increase in lower-margin services, and operational deleverage. While the group has seen a resumption in the local patient load in June and July, we do not expect its foreign patient load to recover to pre-COVID levels in the near term, based on the current pandemic situation. As a result, we cut FY20-22F earnings by 13%, 13%, and 6%. This lowers our DCF-derived TP to SGD0.91.
- **1H20 results infected by COVID-19.** Revenue from the hospital services fell 15% YoY, as the COVID-19 pandemic put a halt to foreign patients entering Singapore to seek treatment, while locals also deferred elective procedures. The 2-month circuit breaker in Singapore further ceased non-urgent consultation and affected 2Q20 revenue. In China, its Chongqing hospital (RHCQ) also saw significantly lower patient loads, due to extensive lockdown and movement restrictions during 1Q20.
- **Some treatments.** The decline in hospital services was partially offset by an increase in subsidised patients under the Emergency Care Collaboration (ECC) with the Ministry of Health, although this yielded lower margins. The group also actively sought more COVID-19-related projects – like swabbing foreign workers, temperature screening, and implemented telemedicine – during this period to mitigate the decline from hospital services. As a result, revenue from its healthcare services was boosted by 7% YoY and brought the overall decline in revenue to 5% YoY.
- **1H20 PATMI plunged 38% YoY to SGD17.2m.** We note that the drop would have been sharper (-93% YoY) if not for the government grant amounting to SGD15.2m. As the hospital services segment generated higher margins than healthcare services, the sharp decline in its hospital services revenue led to major operational deleverage. In addition, the group incurred higher expenditure on contracted services and personal protective equipment to support COVID-19-related projects. Depreciation and finance cost also increased due to the progressive opening of RHCQ.
- **A bumpy route to recovery.** According to management, the group has seen an encouraging resumption of local patient load in both its Singapore and China hospitals to close to pre-COVID levels in June and July. However, we think that foreign patient load, which accounts for c.25-30% of hospital services revenue, is unlikely to recover so soon, given the spread of the global pandemic. In particular, Indonesia – historically the biggest group of medical tourists in Singapore – is still seeing high numbers of new COVID-19 cases daily, and is unlikely to reopen borders in the near term. The possibility of a second wave of infections would also curtail movements and discourage medical tourism in the meantime.

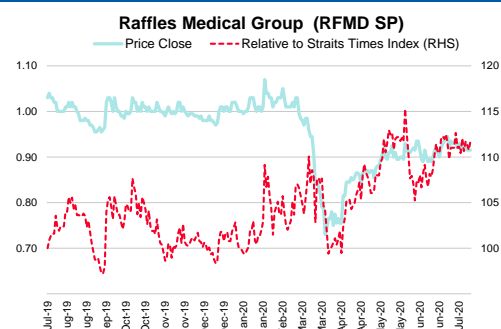
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(8.5)	0.0	5.2	(9.4)	(10.3)
Relative	11.5	1.9	2.8	10.9	13.1
52-wk Price low/high (SGD)				0.73 – 1.07	



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	489	522	503	544	582
Recurring net profit (SGDm)	68	59	43	51	64
Recurring net profit growth (%)	(4.4)	(13.3)	(26.1)	17.9	25.9
Recurring P/E (x)	23.63	27.26	36.89	31.29	24.86
P/B (x)	2.0	1.9	1.9	1.9	1.9
P/CF (x)	15.24	14.82	16.45	18.52	14.81
Dividend Yield (%)	2.7	2.7	2.7	3.0	3.3
EV/EBITDA (x)	12.82	12.49	14.41	12.42	10.38
Return on average equity (%)	9.3	7.4	5.2	6.1	7.6
Net debt to equity (%)	1.3	1.5	net cash	net cash	net cash

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	0.04	0.03	0.02	0.03	0.04
Consumer Non-cyclical	DPS	0.03	0.03	0.03	0.03	0.03
Raffles Medical	BVPS	0.46	0.48	0.48	0.48	0.49
RFMD SP	Return on average equity (%)	9.3	7.4	5.2	6.1	7.6
Neutral						
Valuation basis	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
DCF	Recurring P/E (x)	23.63	27.26	36.89	31.29	24.86
	P/B (x)	2.0	1.9	1.9	1.9	1.9
	FCF Yield (%)	4.8	0.7	4.8	4.1	5.5
	Dividend Yield (%)	2.7	2.7	2.7	3.0	3.3
Key drivers	EV/EBITDA (x)	12.82	12.49	14.41	12.42	10.38
i. Resumption of medical tourism;	EV/EBIT (x)	15.60	17.29	22.83	19.27	15.13
ii. Higher-than-expected contributions from Chongqing Hospital and Shanghai Hospital						
Key risks	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Longer-than-expected gestation periods for China hospitals;	Total turnover	489	522	503	544	582
ii. Second wave of COVID-19 and lockdowns being implemented again.	Gross profit	390	411	388	431	465
	EBITDA	103	105	89	102	119
	Depreciation and amortisation	(18)	(29)	(33)	(36)	(37)
	Operating profit	84	76	56	66	82
	Net interest	(0)	(0)	(0)	(0)	(0)
	Pre-tax profit	84	76	56	66	81
	Taxation	(13)	(15)	(10)	(12)	(15)
	Reported net profit	71	61	43	51	64
	Recurring net profit	68	59	43	51	64
Company Profile	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Raffles Medical Group owns and operates medical clinics in Singapore. The company operates through three segments: healthcare services, hospital services, and investment holdings. It owns and operates a network of family medicine clinics, a tertiary care private hospital, and an educational healthcare institute. The company was founded in 1976, and is based in Singapore.	Change in working capital	2	13	18	(4)	4
	Cash flow from operations	105	108	97	86	108
	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	(35)	(51)	(55)
	Cash at beginning of period	98	106	152	179	180
	Net change in cash	22	47	27	1	18
	Ending balance cash	119	152	179	180	198
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	106	152	179	180	198
	Tangible fixed assets	566	686	673	656	639
	Total investments	311	311	326	341	356
	Total assets	1,116	1,285	1,305	1,309	1,329
	Short-term debt	19	9	20	20	20
	Total long-term debt	97	157	157	157	157
	Total liabilities	300	428	449	450	457
	Total equity	817	857	857	860	871
	Total liabilities & equity	1,116	1,285	1,305	1,309	1,329
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	2.4	6.7	(3.6)	8.2	7.0
	Recurrent EPS growth (%)	(4.4)	(13.3)	(26.1)	17.9	25.9
	Gross margin (%)	79.7	78.7	77.1	79.2	79.8
	Operating EBITDA margin (%)	21.0	20.2	17.7	18.8	20.5
	Net profit margin (%)	14.5	11.6	8.6	9.4	11.0
	Dividend payout ratio (%)	61.5	71.9	100.8	94.0	81.5
	Capex/sales (%)	5.8	18.4	4.0	3.7	3.4
	Interest cover (x)	834	312	170	199	247

Source: Company data, RHB

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Figure 1: 1H20 results summary

FYE Dec (SGD m)	1H20	1H19	YoY (%)	Comments
Revenue	241.4	255.3	(5.4)	Revenue from healthcare services grew 7% YoY while revenue from hospital services grew by 5% YoY.
Staff costs	136.7	130.4	4.9	Staff costs remained relatively stable on an absolute basis.
% of revenue	56.6	51.1		
EBIT	24.3	34.8	(30.2)	Decline in EBIT was due to an increase in contracted services to support COVID-19-related projects, higher personal protection equipment costs, higher staff costs and depreciation related to the progressive opening of RHCQ. This was partially offset by a government grant of SGD15.2m, given to support its business during the COVID-19 pandemic.
EBIT Margin (%)	10.1	13.6		
Pretax profit	22.4	34.7	(35.5)	
Pretax Margin (%)	9.3	13.6		
Net Profit attributable	17.2	27.9	(38.2)	
Net Margin (%)	6.7	10.9		

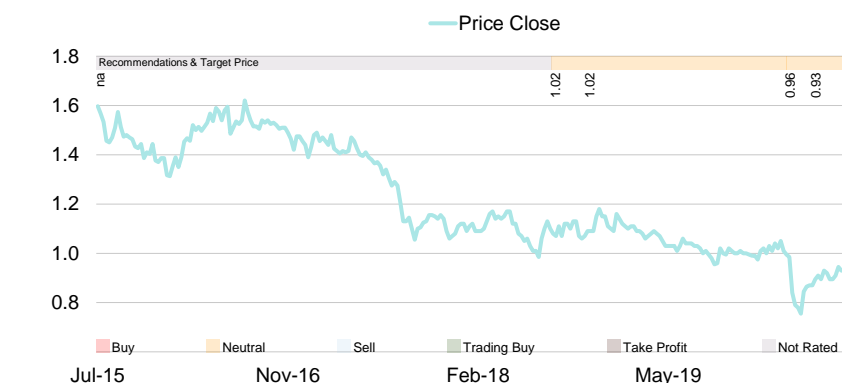
Source: RHB

Figure 2: DCF valuation

SGDm	FY21F	FY22F	FY23F	FY24F	FY25F
Net income	51.1	64.3	71.4	78.5	84.8
+ Non-cash charges	36.3	37.4	35.0	35.0	35.0
+ Fixed capital investment	(35.0)	(35.0)	(35.0)	(35.0)	(35.0)
+ Change in net working capital	(3.8)	3.7	3.7	3.7	3.7
+ Change in debt	0.0	0.0	0.0	0.0	0.0
FCFE	48.6	70.5	75.1	82.3	88.5
Terminal Value					1,751.2
PV	48.6	65.1	64.2	64.9	1,341.9
Total discounted FCFE	1,584.7				
Value/ Share (SGD)	0.91				
Cost of equity	8.2%				
Risk-free rate	1.8%				
Beta	0.9				
Market return	9.0%				
Terminal growth	3.0%				

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-04-27	Neutral	0.93	0.87
2020-02-25	Neutral	0.96	1.01
2019-10-30	Neutral	1.02	1.02

Source: RHB, Bloomberg

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