

25 February 2020

Consumer Non-cyclical | Healthcare

## Raffles Medical (RFMD SP)

**Neutral** (Maintained)

### Under The Weather; Maintain NEUTRAL

Target Price (Return): SGD0.96 (-6%)  
 Price: SGD1.02  
 Market Cap: USD1,331m  
 Avg Daily Turnover (SGD/USD) 2.10m/1.53m

- **Maintain NEUTRAL, new TP of SGD0.96** from SGD1.02, 6% downside with 2.5% FY20F yield. Raffles Medical's FY19 earnings are largely in line with our estimate. However, we have become more cautious on its near-term outlook, as existing operations are likely to be impacted by the COVID-19 outbreak. The opening of the Shanghai hospital (RHSH) will also be delayed, until the situation in China normalises. We cut FY20-21F earnings by 14%/12%, which results in a lower DCF-derived TP.
- **FY19 core PATMI at SGD58.1m (-14% YoY).** This met 97% of our full-year estimates. Its topline grew 7% YoY, driven by an increase in corporate clients and insurance contracts for the healthcare services segment, as well as the higher patient load in the hospital services division. However core PATMI fell 14% YoY due to the gestation cost stemming from the opening of Raffles Hospital Chongqing (RHCQ).
- **Topline contributions from China operations remain small.** Revenue from Greater China inclusive of clinics, medical centres and RHCQ remained flattish YoY, at SGD40m (8% of total revenue). As such, we believe the topline contribution from RHCQ was negligible in FY19. That said, the EBITDA loss from RHCQ remained within management's guidance, at SGD9.2m. Moving into 2020, we expect stronger revenue contributions from the facility as it received the permit to accept China's social health insurance (YiBao) as partial payments. This should help to improve the affordability of RHCQ, and boost the local patient load.
- **Caught a cold from COVID-19.** Management expects the Singapore business to see revenue declining by c.5% YoY in FY20, as medical tourism declines further due to the COVID-19 outbreak. Meanwhile, local patients are delaying elective treatments until the outbreak has dissipated. Revenue from China is expected to decline by c.10% YoY. We believe this will be partially offset by the increase in insurance contracts, the maturing of RHCQ, as well as the opening of RHSH in 2H20, when the virus outbreak subsides. Management also guided for a larger EBITDA loss of SGD6m (from SGD4-5m) for RHCQ's second year of operation, as a result of the outbreak.
- **Lower earnings forecasts and TP.** We cut FY20-21F earnings by 14% and 12% on the back of lower revenue forecasts and delays in the turnaround of its China hospitals. This, in turn, reduces our TP to SGD0.96.

#### Analyst

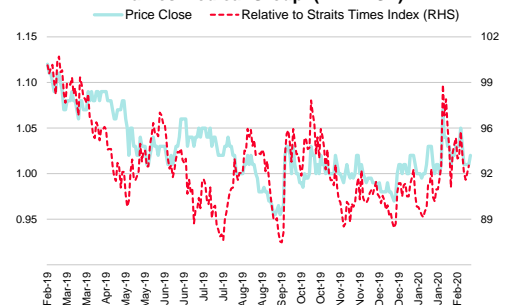
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.0	1.0	2.0	2.5	(8.1)
Relative	3.3	2.7	3.4	0.2	(5.4)
52-wk Price low/high (SGD)				0.96 – 1.12	

#### Raffles Medical Group (RFMD SP)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	489	522	522	563	598
Recurring net profit (SGDm)	68	59	52	60	69
Recurring net profit growth (%)	(4.4)	(13.3)	(10.5)	14.9	15.3
Recurring P/E (x)	26.34	30.39	33.97	29.58	25.66
P/B (x)	2.2	2.1	2.1	2.1	2.0
P/CF (x)	16.99	16.52	18.56	17.63	16.50
Dividend Yield (%)	2.5	2.5	2.5	2.7	2.9
EV/EBITDA (x)	14.61	14.23	15.21	13.39	11.84
Net debt to equity (%)	1.3	1.5	(0.2)	(2.0)	(4.0)

Source: Company data, RHB

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (SGD)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
Regional	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
<b>Raffles Medical</b>	BVPS	0.46	0.48	0.49	0.49	0.50
RFMD SP						
Neutral						
	<b>Valuation metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Recurring P/E (x)	26.34	30.39	33.97	29.58	25.66
	P/B (x)	2.2	2.1	2.1	2.1	2.0
	FCF Yield (%)	4.3	0.7	4.3	4.5	4.9
	Dividend Yield (%)	2.5	2.5	2.5	2.7	2.9
	EV/EBITDA (x)	14.61	14.23	15.21	13.39	11.84
	EV/EBIT (x)	17.78	19.69	21.88	18.84	16.06
	<b>Income statement (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Total turnover	489	522	522	563	598
	Gross profit	390	411	411	445	475
	EBITDA	103	105	97	108	119
	Depreciation and amortisation	(18)	(29)	(29)	(31)	(31)
	Operating profit	84	76	67	76	88
	Net interest	(0)	(0)	(0)	(0)	(0)
	Pre-tax profit	84	76	67	76	87
	Taxation	(13)	(15)	(12)	(14)	(16)
	Reported net profit	71	61	52	60	69
	Recurring net profit	68	59	52	60	69
	<b>Cash flow (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Change in working capital	2	13	12	7	5
	Cash flow from operations	105	108	96	101	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	(55)	(50)	(55)
	Cash at beginning of period	98	106	152	158	174
	Net change in cash	22	47	6	16	18
	Ending balance cash	119	152	158	174	192
	<b>Balance sheet (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Total cash and equivalents	106	152	158	174	192
	Tangible fixed assets	566	686	676	665	654
	Total investments	311	311	326	341	356
	Total assets	1,116	1,285	1,291	1,315	1,341
	Short-term debt	19	9	0	0	0
	Total long-term debt	97	157	157	157	157
	Total liabilities	300	428	425	437	446
	Total equity	817	857	866	878	895
	Total liabilities & equity	1,116	1,285	1,291	1,315	1,341
	<b>Key metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Revenue growth (%)	2.4	6.7	0.1	7.7	6.2
	Recurrent EPS growth (%)	(4.4)	(13.3)	(10.5)	14.9	15.3
	Gross margin (%)	79.7	78.7	78.7	79.0	79.5
	Operating EBITDA margin (%)	21.0	20.2	18.5	19.1	19.9
	Net profit margin (%)	14.5	11.6	10.0	10.7	11.6
	Dividend payout ratio (%)	61.5	71.9	83.3	79.7	75.5
	Capex/sales (%)	5.8	18.4	3.8	3.6	3.3
	Interest cover (x)	834	312	669	761	872

Source: Company data, RHB

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Figure 1: FY19 results summary

FYE Dec (SGDm)	4Q19	3Q19	QoQ (%)	4Q18	YoY (%)	FY19	FY18	YoY (%)	Comments
Revenue	136.3	130.5	4.4	127.7	6.7	522.0	489.1	6.7	Revenue from healthcare services grew 9% YoY, while revenue from hospital services grew by 6% YoY in FY19.
Staff costs	68.6	67.9	1.0	62.0	10.5	266.9	246.2	8.4	Increased, due to higher staff costs related to new doctors and nurses hired for the Chongqing hospital. This was offset by the reduction in medical staff in Singapore.
% of revenue	50.3	52.0		48.6		51.1	50.3		
EBIT	24.2	17.2	40.3	25.9	(6.6)	76.2	84.2	(9.6)	Gestation costs from the Chongqing hospital.
EBIT Margin (%)	17.7	13.2		20.2		14.6	17.2	(15.3)	
Pretax profit	24.3	16.9	43.6	25.9	(6.1)	75.9	84.1	(9.8)	
Pretax Margin (%)	17.9	13.0		20.3		14.5	17.2		
Net Profit attributable	16.6	13.6	21.9	18.5	(10.4)	58.1	67.7	(14.1)	
Net Margin (%)	13.9	10.4		17.5		11.6	14.5		

Source: RHB

Figure 2: DCF assumptions

SGDm	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F
Net income	52.5	60.2	69.4	77.1	84.8	91.6
+ Non-cash charges	29.5	31.1	31.3	35.0	35.0	35.0
+ Fixed capital investment	(35.0)	(35.0)	(35.0)	(35.0)	(35.0)	(35.0)
+ Change in net working capital	11.5	7.4	5.0	5.0	5.0	5.0
+ Change in debt	(8.5)	0.0	0.0	0.0	0.0	0.0
FCFE	49.9	63.8	70.7	82.1	89.8	96.6
Terminal Value						1,937.5
PV	49.9	59.0	60.5	64.9	65.7	1,375.7
Total discounted FCFE	1,675.7					
Value/ Share (SGD)	0.96					

Cost of equity	8.1%
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
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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