

31 August 2022

Consumer Non-cyclical | Healthcare

Raffles Medical (RFMD SP)

Buy (Maintained)

Looking Forward To China's Growth; Keep BUY

Target Price (Return): SGD1.65 (+18%)
 Price (Market Cap): SGD1.40 (USD1,859m)
 ESG score: 3.11 (out of 4)
 Avg Daily Turnover (SGD/USD) 2.59m/1.74m

- **Keep BUY and SGD1.65 TP, 18% upside and c.2% yield.** While we remain cognisant of rising costs and believe the current profit margin may not be sustainable, we expect Raffles Medical's China business to drive long-term earnings growth. In the near term, while COVID-19 related revenue could decline, a normalised healthcare business, higher foreign patient load in Singapore and YoY higher revenue from China should enable it to book sequential revenue growth. Its valuation also remains compelling (trading below peer average of 2FY P/E of 32.4x).

- **With near term growth resumption, RFMD is looking to expand its presence in China.** In its latest results briefing, management indicated that the number of patient visits at its China operations has been steadily rising, with numbers for its hospital in Chongqing doubling in the past year. A similar view was shared by Dr Vincent Chia, managing director of Raffles China Healthcare, a subsidiary of RFMD in the following [news article](#). Referring to its China operations he said: "Things are starting to look slightly more relaxed, but in a very coordinated fashion". Dr Chia also mentioned that the company plans to increase the number of cities it serves to 20 in the next 3-5 years. In China, it currently provides healthcare service in eight cities, including Hong Kong. The company has already received approval to open a centre for assisted reproductive therapy and in vitro fertilisation in Hainan, China. In this facility, it intends to invest SGD10m, and it expects to begin providing services in 1Q23.

- **China operations on track with guided initial losses.** We maintain that its Shanghai hospital, whose operations began in late 4Q21 but were interrupted in 1H22 due to lockdowns related to COVID-19, should see a gradual resumption in patient inflows during 2H22F. For the hospitals in Chongqing and Shanghai, RFMD has maintained its 2022 EBITDA loss guidance of SGD3-4m and c.SGD10m.

- **Looking to shore up funding to assist acquisitions.** In addition to a SGD135m net cash position, RFMD has announced the establishment of a SGD1bn multi-currency medium-term notes programme, which will enable it to raise additional funding. We believe this could enable the company to explore acquisition opportunities in markets in which it operates. As per [news reports](#), ByteDance has recently acquired one of China's largest private hospital chains for about USD1.5bn. We believe growth opportunities could exist in China, which is working towards its "Healthy China 2030" blueprint that was announced in 2016.

- **ESG premium.** Our TP, which includes a 2.2% ESG premium, implies 33x 2023F P/E – in line with its regional peer average.

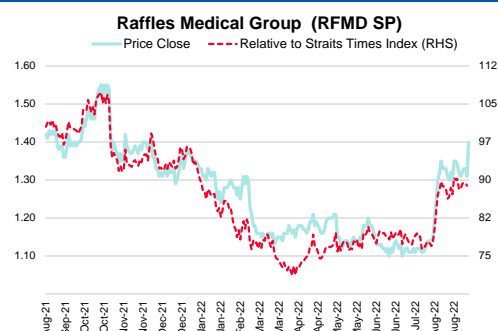
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.2	21.7	22.8	20.7	(1.4)
Relative	(1.0)	21.4	23.3	21.3	(5.3)
52-wk Price low/high (SGD)	1.10 – 1.55				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (SGDm)	568	724	779	808	851
Recurring net profit (SGDm)	41	71	89	91	98
Recurring net profit growth (%)	(29.6)	73.5	25.0	2.5	7.1
Recurring P/E (x)	62.89	36.64	29.95	29.80	27.82
P/B (x)	2.9	2.7	2.7	2.6	2.5
P/CF (x)	19.42	16.32	19.56	16.18	17.68
Dividend Yield (%)	0.7	1.4	1.9	1.6	1.7
EV/EBITDA (x)	18.37	14.10	13.41	13.47	12.36
Return on average equity (%)	7.6	9.1	9.2	9.0	9.2
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 3.11 (out of 4)

E: GOOD

RFMD has invested in a food waste digester at its Singapore hospital to reduce food waste disposal. The Raffles Specialist Centre in Singapore is a Platinum Green Mark-verified building, recognising its commitment to environmental sustainability. To reduce electricity consumption, it will be implementing Internet of Things sensors in critical systems that consume high energy.

S: GOOD

The Asian Medical Foundation, RFMD's philanthropic arm, identifies support needs of voluntary welfare organisations through employee volunteer initiatives. It continues to provide clinical training to staff, and internships to students from various educational institutions.

G: EXCELLENT

Has not had any material data security or privacy issues over the past few years. The Board of Directors has 11 members, of which seven (63%) are independent and two (c.20%) are female. Management's compensation has accounted for 5% of total staff compensation.

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Financial Exhibits

Asia	Financial summary (SGD)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Singapore	Recurring EPS	0.02	0.04	0.05	0.05	0.05
Consumer Non-cyclical	DPS	0.01	0.02	0.03	0.02	0.02
Raffles Medical	BVPS	0.48	0.51	0.51	0.54	0.56
RFMD SP	Return on average equity (%)	7.6	9.1	9.2	9.0	9.2
Buy						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Valuation basis	Recurring P/E (x)	62.89	36.64	29.95	29.80	27.82
DCF	P/B (x)	2.9	2.7	2.7	2.6	2.5
	FCF Yield (%)	2.9	4.2	3.4	5.1	4.6
	Dividend Yield (%)	0.7	1.4	1.9	1.6	1.7
Key drivers	EV/EBITDA (x)	18.37	14.10	13.41	13.47	12.36
i. Faster-than-expected ramp-up of the new specialist centre;	EV/EBIT (x)	25.74	18.67	17.81	18.24	16.59
ii. Better-than-expected ramp-up of new hospitals in China; and						
iii. Recovery in foreign patient load.						
Key risks	Income statement (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Delays in:	Total turnover	568	724	779	808	851
i. Its Raffles Shanghai hospital opening (guided for 2Q21); and	Gross profit	568	724	779	808	851
ii. EBITDA breakeven timelines guided (2022 for Raffles Chongqing).	EBITDA	124	161	171	167	176
	Depreciation and amortisation	(35)	(39)	(42)	(44)	(45)
	Operating profit	88	121	129	123	131
	Net interest	(4)	(6)	(5)	(5)	(4)
	Pre-tax profit	84	116	124	119	127
	Taxation	(20)	(32)	(35)	(27)	(29)
	Reported net profit	66	84	90	92	98
	Recurring net profit	41	71	89	91	98
Company Profile	Cash flow (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Raffles Medical 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	8	14	0	29	7
	Cash flow from operations	133	160	136	168	154
	Capex	(59)	(50)	(45)	(30)	(30)
	Cash flow from investing activities	(62)	(52)	(43)	(28)	(27)
	Dividends paid	(19)	(37)	(52)	(45)	(46)
	Cash flow from financing activities	(21)	(47)	(59)	(52)	(53)
	Cash at beginning of period	152	203	265	299	388
	Net change in cash	50	61	34	89	74
	Ending balance cash	203	265	299	388	462
	Balance sheet (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	203	265	299	388	462
	Tangible fixed assets	740	797	803	792	780
	Total investments	295	274	274	274	274
	Total assets	1,404	1,545	1,577	1,658	1,727
	Short-term debt	27	96	96	96	96
	Total long-term debt	144	78	78	78	78
	Total liabilities	490	569	564	598	615
	Total equity	914	977	1,013	1,060	1,112
	Total liabilities & equity	1,404	1,545	1,577	1,658	1,727
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	8.8	27.4	7.6	3.7	5.4
	Recurrent EPS growth (%)	(30.9)	71.6	22.4	0.5	7.1
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	21.8	22.2	22.0	20.7	20.7
	Net profit margin (%)	11.6	11.6	11.5	11.4	11.6
	Dividend payout ratio (%)	29.1	44.4	58.4	48.8	46.7
	Capex/sales (%)	10.4	6.9	5.8	3.7	3.5
	Interest cover (x)	17.2	19.1	18.5	17.7	18.8

Source: Company data, RHB

Recommendation Chart

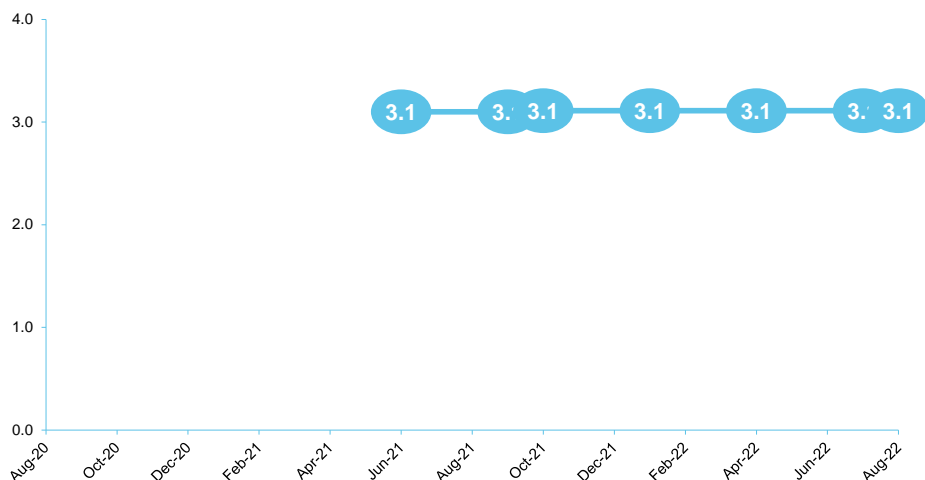


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-08-01	Buy	1.65	1.20
2022-06-19	Buy	1.50	1.12
2022-02-22	Buy	1.55	1.23
2021-10-11	Buy	1.65	1.46
2021-07-27	Buy	1.45	1.32
2021-07-08	Buy	1.35	1.17
2021-04-07	Buy	1.29	1.17
2020-07-27	Neutral	0.91	0.92
2020-04-27	Neutral	0.93	0.87
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

ESG Rating History



Source: RHB

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Analyst	Company
-	-

(2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.



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