

27 February 2024

Consumer Non-cyclical | Healthcare

Raffles Medical (RFMD SP)

Neutral (Maintained)

Waiting For China Business To Breakeven

Target Price (Return): SGD1.06 (+5%)
 Price (Market Cap): SGD1.01 (USD1,396m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (SGD/USD) 1.06m/0.79m

- **Keep NEUTRAL, with new SGD1.06 TP from SGD1.15, 5% upside.** We cut our 2024F–2025F earnings by 7-8% following weak 2H23 results. Although revenue and reported PATMI were in line, recurring PATMI was lower. Longer term growth should be driven by China operations. Lower gestation losses from China and some improvement in Singapore operations will likely support 2024 growth. Still, risks from higher-than-estimated operating costs, likely weak foreign patient load, and continuing losses from the insurance business persist. We await clarity on sequential earnings improvement in the coming quarters.

- **In-line reported numbers for 2023.** Revenue of SGD706.9m (-14% YoY) was in line with our estimate. Reported PATMI of SGD90.2m (-42% YoY) also met our estimate while recurring PATMI of SGD74.5m (-46% YoY) missed. The hospital services division saw a sharp improvement in PBT for the 2023 and 2H23 periods amidst improved patient load in Singapore and the ramping up of operations in China, leading to YoY lower gestational losses. Raffles Medical continues to focus on growing and consolidating its three hospitals in China. Revenue for the China region grew 18% YoY to SGD59.3m from SGD50.2m in 2022. Healthcare services continued to see a decline in PBT due to a lack of revenue from COVID-19 activities. Maintaining a 50% payout ratio, the group announced a final ordinary DPS of 2.4 SG cents.

- **Growth outlook filled with risks.** RMFD has added 176 more beds dedicated to the transitional care facilities (TCF) programme. This should help improve the scale of its operations, while improved profit and (hopefully) margin should be visible in its healthcare services business in 2024. We continue to expect wage pressure to persist – the group plans to add more specialists, family physicians, nurses, and allied health professionals as it looks to grow its operations. We also expect the losses in its insurance business to taper off gradually as elevated insurance claims could persist for a few quarters. The weak foreign patient load, probably due to a relatively strong SGD and competition from regional healthcare players, may not return to pre-pandemic levels and could remain weak in the near term.

- **Unchanged valuation basis; new 0% ESG premium/discount.** We continue to value RFMD based on an average value derived from the use of P/E, P/BV, EV/EBITDA, and DCF valuation methods. The reduction in our TP is reflective of our lower earnings estimates and the new 0% ESG premium/discount. RFMD's ESG score of 3.1 is now in line with the country's median ESG score (earlier 3.0). Therefore, we have removed the 2% valuation premium that was earlier ascribed to our fair value for RFMD.

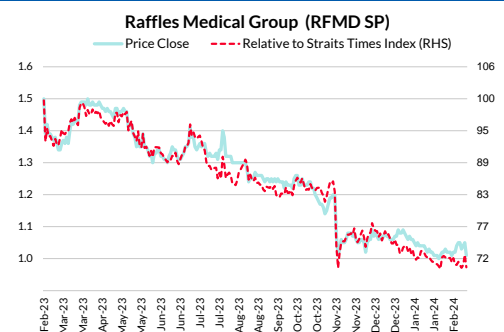
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(6.5)	(1.0)	(3.8)	(19.2)	(31.3)
Relative	(4.4)	(1.4)	(6.3)	(18.6)	(27.9)
52-wk Price low/high (SGD)	1.00 – 1.50				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23F	Dec-24F	Dec-25F	Dec-26F
Total turnover (SGDm)	823	707	760	838	933
Recurring net profit (SGDm)	137	75	84	91	97
Recurring net profit growth (%)	91.3	(45.7)	12.8	8.0	6.9
Recurring P/E (x)	13.69	25.68	23.25	21.52	20.13
P/B (x)	1.8	1.9	1.8	1.8	1.7
P/CF (x)	9.58	10.11	na	14.93	14.23
Dividend Yield (%)	2.8	3.6	2.3	2.2	2.4
EV/EBITDA (x)	6.11	9.23	10.44	9.18	8.34
Return on average equity (%)	14.5	8.8	8.0	8.3	8.5
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 3.1 (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.

Financial Exhibits

Asia	Financial summary (SGD)	Dec-22	Dec-23F	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS	0.07	0.04	0.04	0.05	0.05
Consumer Non-cyclical	DPS	0.03	0.04	0.02	0.02	0.02
Raffles Medical	BVPS	0.55	0.53	0.55	0.58	0.60
RFMD SP	Return on average equity (%)	14.5	8.8	8.0	8.3	8.5
Neutral						
	Valuation metrics	Dec-22	Dec-23F	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	13.69	25.68	23.25	21.52	20.13
Blended valuation of P/E, P/BV, EV/EBITDA & DCF	P/B (x)	1.8	1.9	1.8	1.8	1.7
	FCF Yield (%)	9.1	8.8	(1.6)	5.2	5.5
	Dividend Yield (%)	2.8	3.6	2.3	2.2	2.4
	EV/EBITDA (x)	6.11	9.23	10.44	9.18	8.34
	EV/EBIT (x)	7.37	12.28	14.42	12.41	11.18
Key drivers						
i. Faster-than-expected ramp-up of the new specialist centre;						
ii. Better-than-expected ramp-up of new hospitals in China;						
iii. Recovery in foreign patient load.						
Key risks						
Delays in:						
i. Its Raffles Shanghai hospital opening; and						
ii. EBITDA breakeven timelines guided for China operations.						
Company Profile						
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.						
	Income statement (SGDm)	Dec-22	Dec-23F	Dec-24F	Dec-25F	Dec-26F
	Total turnover	823	707	760	838	933
	Gross profit	823	707	760	838	933
	EBITDA	236	154	146	159	167
	Depreciation and amortisation	(40)	(38)	(40)	(41)	(43)
	Operating profit	195	116	106	118	125
	Net interest	(4)	4	8	5	6
	Pre-tax profit	191	119	113	122	131
	Taxation	(48)	(28)	(28)	(31)	(33)
	Reported net profit	143	90	84	91	97
	Recurring net profit	137	75	84	91	97
	Cash flow (SGDm)	Dec-22	Dec-23F	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(32)	89	(118)	3	3
	Cash flow from operations	196	189	(1)	131	137
	Capex	(25)	(20)	(30)	(30)	(30)
	Cash flow from investing activities	(23)	(12)	(18)	(23)	(22)
	Dividends paid	(52)	(71)	(45)	(43)	(46)
	Cash flow from financing activities	(184)	(86)	(49)	(45)	(48)
	Cash at beginning of period	265	253	344	276	339
	Net change in cash	(10)	91	(68)	63	68
	Ending balance cash	253	344	276	339	407
	Balance sheet (SGDm)	Dec-22	Dec-23F	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	253	344	276	339	407
	Tangible fixed assets	739	768	760	751	741
	Total investments	273	246	246	246	246
	Total assets	1,532	1,528	1,543	1,614	1,693
	Short-term debt	10	16	16	16	16
	Total long-term debt	63	55	55	55	55
	Total liabilities	504	484	459	480	507
	Total equity	1,028	1,044	1,084	1,133	1,186
	Total liabilities & equity	1,532	1,528	1,543	1,614	1,693
	Key metrics	Dec-22	Dec-23F	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	13.7	(14.1)	7.5	10.2	11.4
	Recurrent EPS growth (%)	91.9	(46.7)	10.4	8.0	6.9
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	28.6	21.8	19.2	19.0	17.9
	Net profit margin (%)	17.4	12.8	11.1	10.9	10.4
	Dividend payout ratio (%)	36.3	78.4	52.9	47.0	47.5
	Capex/sales (%)	3.0	2.8	3.9	3.6	3.2
	Interest cover (x)	28.5	19.0	24.9	55.5	58.7

Source: Company data, RHB

Figure 1: Raffles Medical 2H23 and 2023 financial results

	unit	1H22	2H22	1H23	2H23	HoH %	YoY %	2022	2023	YoY %	Est. 2023	Reported over est.
Income statement												
Revenue	SGDm	409.7	413.2	370.9	336.1	-9%	-19%	822.9	706.9	-14%	705.2	100%
Other operating income	SGDm	6.9	1.1	8.5	8.2	-3%	661%	8.0	16.7	110%	5.3	316%
Inventories and consumables	SGDm	(31.4)	(29.7)	(29.0)	(28.9)	0%	-3%	(61.1)	(57.9)	-5%	(77.6)	75%
Purchased & contracted service	SGDm	(45.7)	14.7	(63.0)	30.4	-148%	106%	(31.0)	(32.7)	5%	(59.9)	55%
Staff costs	SGDm	(196.1)	(136.7)	(162.2)	(139.3)	-14%	2%	(332.8)	(301.5)	-9%	(342.0)	88%
Depreciation of PP&E	SGDm	(19.3)	(17.9)	(17.7)	(17.8)	0%	-1%	(37.2)	(35.5)	-5%	(38.4)	93%
Amortisation of intangible asset	SGDm	(1.4)	(0.6)	(1.3)	(0.3)	-80%	-56%	(1.9)	(1.5)	-21%	(2.2)	70%
Operating lease expenses	SGDm	(0.8)	(0.7)	(0.9)	(0.7)	-23%	-5%	(1.6)	(1.6)	2%	(5.3)	30%
Other operating expenses	SGDm	(28.8)	(37.2)	(27.4)	(13.0)	-53%	-65%	(66.0)	(40.4)	-39%	(63.5)	64%
Operating Profit	SGDm	86.2	109.2	76.7	39.1	-49%	-64%	195.5	115.8	-41%	121.6	95%
Finance income	SGDm	0.6	2.2	4.5	5.2	15%	142%	2.7	9.8	256%	2.5	386%
Finance expense	SGDm	(3.5)	(3.4)	(2.8)	(3.3)	19%	-2%	(6.9)	(6.1)	-11%	(3.7)	166%
Share of JV/Associate	SGDm	-	-	-	-	0%	0%	-	-	0%	-	0%
Profit before tax	SGDm	83.3	108.0	78.4	41.0	-48%	-62%	191.3	119.4	-38%	120.5	99%
Income tax	SGDm	(23.5)	(24.4)	(18.0)	(10.3)	-43%	-58%	(47.9)	(28.3)	-41%	(30.1)	94%
Profit after tax	SGDm	59.8	83.6	60.4	30.7	-49%	-63%	143.4	91.1	-36%	90.4	101%
Minority Interest	SGDm	(0.3)	0.1	(0.6)	(0.4)	-34%	-456%	(0.2)	(0.9)	405%	(0.1)	804%
PATMI	SGDm	59.5	83.7	59.9	30.3	-49%	-64%	143.2	90.2	-37%	90.3	100%
Pre tax significant income/(exp.)	SGDm	6.0	(0.1)	8.2	7.4	-9%	-6491%	5.9	15.6	163%	-	0%
PAT (recurring)	SGDm	53.8	83.7	52.2	23.3	-55%	-72%	137.5	75.5	-45%	90.4	84%
PATMI (recurring)	SGDm	53.5	83.8	51.7	22.9	-56%	-73%	137.3	74.5	-46%	90.3	83%
Depreciation & amortisation	SGDm	20.6	19.6	19.0	19.2	1%	-2%	40.2	38.2	-5%	40.6	94%
EBITDA	SGDm	106.8	122.3	95.7	50.1	-48%	-59%	229.1	145.8	-36%	162.2	90%
Margins												
Operating margin	%	21.0%	26.4%	20.7%	11.6%			23.8%	16.4%		17.2%	
EBITDA margin	%	26.1%	29.6%	25.8%	14.9%			27.8%	20.6%		23.0%	
Net margin	%	14.5%	20.3%	16.1%	9.0%			17.4%	12.8%		12.8%	
Segment revenue												
Healthcare services	SGDm	223.7	212.3	161.9	109.2	-33%	-49%	436.0	271.1	-38%	429.4	63%
Hospital services	SGDm	129.1	139.6	139.8	147.8	6%	6%	268.6	287.6	7%	268.6	107%
Insurance services	SGDm	53.3	57.8	65.6	75.7	15%	31%	111.1	141.3	27%	-	0%
Investment holdings	SGDm	3.6	3.5	3.5	3.4	-4%	-3%	7.2	6.9	-3%	7.2	97%
Segment PBT												
Healthcare services	SGDm	68.4	97.3	59.9	7.4	-88%	-92%	165.8	67.3	-59%	-	
Hospital services	SGDm	4.4	17.0	8.7	23.9	177%	41%	21.4	32.6	52%	-	
Insurance services	SGDm	0.3	0.2	(1.3)	(5.8)	362%	na	0.5	(7.0)	na	-	
Investment holdings	SGDm	14.5	(4.1)	14.3	19.9	39%	-589%	10.5	34.1	226%	-	

Note: As we did not have a separate segment forecast for insurance services in 2023, our 2023 healthcare services revenue forecast includes the estimates for insurance services as well.

Source: Company data, RHB

Emissions And ESG

Trend analysis

Raffles Medical does not report Scope 1, 2, and 3 emissions data yet. However, during 2020–2022, it has reported improvements in the electricity consumption index (MWh/GFA), water consumption index (m3/GFA) and paper consumption (in tonnes). The electricity consumption index declined from 0.19 in 2020 to 0.18 in 2022.

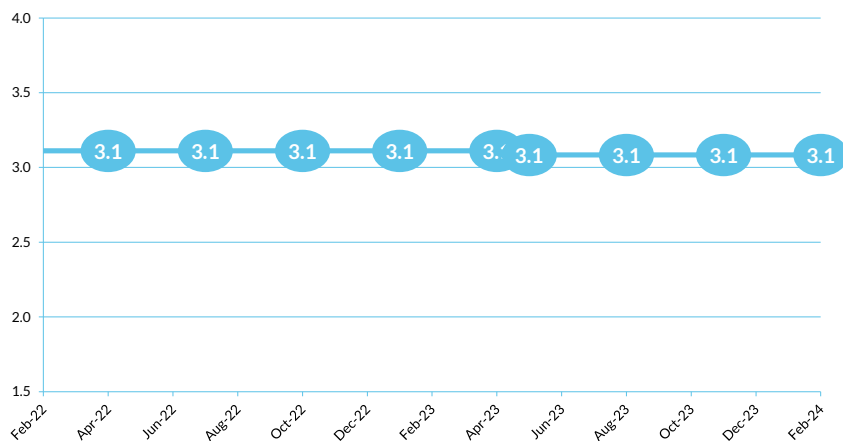
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23F
Scope 1	na	na	na
Scope 2	na	na	na
Scope 3	na	na	na
Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

- Raffles Medical aims to reduce the electricity consumption index by 10%, the water consumption index by 10%, and the waste index by 5% in tandem with GFA in the next three years.
- It also plans to increase its recycling capacity to include plastic, metal, and food waste.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-11-07	Neutral	1.15	1.01
2023-05-09	Buy	1.75	1.46
2023-02-27	Buy	1.70	1.50
2022-11-01	Buy	1.65	1.34
2022-10-13	Buy	1.60	1.24
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

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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