

1 August 2023

Consumer Non-cyclical | Healthcare

Raffles Medical (RFMD SP)

Buy (Maintained)

In Line 1H23 Results; Reiterate BUY

Target Price (Return): SGD1.75 (25.0%)
 Price (Market Cap): SGD1.40 (USD1,958m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (SGD/USD) 1.81m/1.23m

- **BUY with SGD1.75 TP, 25% upside and c.3% FY23F yield.** Raffles Medical's 1H23 profit was in line with our estimates. Operationally, the business is gradually returning to its pre-COVID-19 state and margins are normalising. The Changi Expo transitional care facility (TCF) contract has been extended for a few months as the re-tendering process is still ongoing. We maintain that continuing to operate the current TCF and likely winning new TCF operations will be positive in the near term and the gradual ramp-up of the China business should drive longer-term revenue growth. Its valuation remains compelling compared to that of regional peers.

- **1H23 results were in line with expectations.** 1H23 profit of SGD60m (+1% YoY) accounted for 49% of our estimate. Revenue fell 9% YoY to SGD371m as the healthcare business saw a decline in revenue, consistent with the reduction in COVID-19 related activities. Due to the adoption of SFRS (I) 17, the insurance business is now reported as a separate segment, which gives greater clarity and visibility to the healthcare business earnings and margins, from which it has been carved out. Hospital revenue of SGD140m (+8% YoY) was supported by the return of some foreign patients and a gradual return of business activities in its China hospitals. Revenue from China grew 16% YoY to SGD29m.

- **Takeaways from analyst briefing.** While local patient load in Singapore has normalised, foreign patient load has only returned to 70-80% of the pre-COVID-19 level. The low level of foreign patient load is due to a lower number of patients from China and a stronger SGD, which could be dissuading the return of some cost-sensitive patients. The decline in workforce costs due to the reduction of COVID-19 related activities is now well accounted for, implying that margins are normalising. RFMD's contract to operate the Expo TCF has been extended for a few months as the tendering process is still ongoing. It will not only participate in the retendering process for the current TCF but will also bid for any other TCF facilities that gets offered by the Government for management. The reopening of China initially brought a high patient load to hospitals, but operations have normalised. RFMD maintains that its Chinese hospitals are on track to break even within 2-3 years from the first year of operations.

- **Inorganic growth opportunities and compelling valuation.** We keep our earnings estimates unchanged. In addition to a SGD208m net cash position, RFMD has a SGD1.0bn multi-currency medium-term notes programme, which will enable it to undertake earnings-accretive acquisitions if an opportunity presents itself in Indonesia, Vietnam, China, or Thailand. Our TP, which includes a 2% ESG premium, implies a 26x 2024F P/E, which is still below its regional peer average (Figure 2).

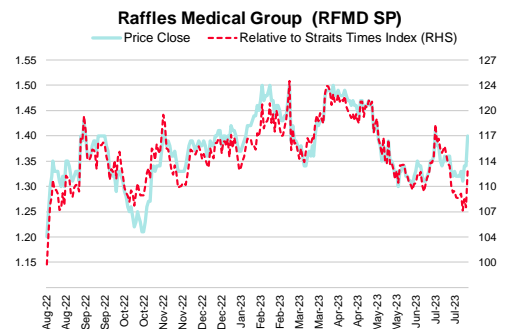
Analyst

Shekhar Jaiswal
 +65 6320 0806
shekhar.jaiswal@rhbgroup.com



Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|-------------|-------|-------|-------|------|
| Absolute | 0.0 | 2.9 | (4.8) | (3.5) | 21.7 |
| Relative | (3.8) | (2.3) | (8.0) | (3.7) | 16.6 |
| 52-wk Price low/high (SGD) | 1.20 – 1.50 | | | | |



Source: Bloomberg

| Forecasts and Valuation | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
|---------------------------------|----------|----------|----------|----------|----------|
| Total turnover (SGDm) | 724 | 767 | 790 | 838 | 911 |
| Recurring net profit (SGDm) | 71 | 138 | 121 | 124 | 130 |
| Recurring net profit growth (%) | 73.5 | 93.2 | (12.0) | 2.0 | 5.0 |
| Recurring P/E (x) | 36.64 | 18.91 | 21.86 | 21.88 | 20.84 |
| P/B (x) | 2.7 | 2.6 | 2.5 | 2.4 | 2.3 |
| P/CF (x) | 16.32 | 13.28 | 14.82 | 15.45 | 14.65 |
| Dividend Yield (%) | 1.4 | 2.0 | 2.6 | 2.3 | 2.3 |
| EV/EBITDA (x) | 14.10 | 9.17 | 10.60 | 10.23 | 9.41 |
| Return on average equity (%) | 9.1 | 14.5 | 11.6 | 11.3 | 11.2 |
| 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-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
|---|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Singapore | Recurring EPS | 0.04 | 0.07 | 0.06 | 0.06 | 0.07 |
| Consumer Non-cyclical | DPS | 0.02 | 0.03 | 0.04 | 0.03 | 0.03 |
| Raffles Medical | BVPS | 0.51 | 0.55 | 0.55 | 0.58 | 0.62 |
| RFMD SP | Return on average equity (%) | 9.1 | 14.5 | 11.6 | 11.3 | 11.2 |
| Buy | | | | | | |
| | Valuation metrics | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
| Valuation basis | Recurring P/E (x) | 36.64 | 18.91 | 21.86 | 21.88 | 20.84 |
| DCF | P/B (x) | 2.7 | 2.6 | 2.5 | 2.4 | 2.3 |
| | FCF Yield (%) | 4.2 | 6.6 | 5.2 | 5.2 | 5.5 |
| Key drivers | Dividend Yield (%) | 1.4 | 2.0 | 2.6 | 2.3 | 2.3 |
| i. Faster-than-expected ramp-up of the new specialist centre; | EV/EBITDA (x) | 14.10 | 9.17 | 10.60 | 10.23 | 9.41 |
| ii. Better-than-expected ramp-up of new hospitals in China; and | EV/EBIT (x) | 18.67 | 11.06 | 13.24 | 12.84 | 11.78 |
| iii. Recovery in foreign patient load. | | | | | | |
| | Income statement (SGDm) | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
| Key risks | Total turnover | 724 | 767 | 790 | 838 | 911 |
| Delays in: | Gross profit | 724 | 767 | 790 | 838 | 911 |
| i. Its Raffles Shanghai hospital opening; and | EBITDA | 161 | 236 | 203 | 207 | 216 |
| ii. EBITDA breakeven timelines guided for China operations. | Depreciation and amortisation | (39) | (40) | (41) | (42) | (43) |
| | Operating profit | 121 | 196 | 163 | 165 | 173 |
| | Net interest | (6) | (4) | (1) | (0) | 0 |
| | Pre-tax profit | 116 | 192 | 162 | 165 | 173 |
| | Taxation | (32) | (48) | (40) | (41) | (43) |
| Company Profile | Reported net profit | 84 | 144 | 121 | 124 | 130 |
| 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. | Recurring net profit | 71 | 138 | 121 | 124 | 130 |
| | Cash flow (SGDm) | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
| | Change in working capital | 14 | (33) | 16 | 9 | 12 |
| | Cash flow from operations | 160 | 196 | 179 | 175 | 185 |
| | Capex | (50) | (25) | (40) | (35) | (35) |
| | Cash flow from investing activities | (52) | (23) | (37) | (32) | (31) |
| | Dividends paid | (37) | (52) | (70) | (61) | (63) |
| | Cash flow from financing activities | (47) | (184) | (74) | (65) | (66) |
| | Cash at beginning of period | 203 | 265 | 253 | 320 | 399 |
| | Net change in cash | 61 | (10) | 67 | 78 | 88 |
| | Ending balance cash | 265 | 253 | 320 | 399 | 486 |
| | Balance sheet (SGDm) | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
| | Total cash and equivalents | 265 | 253 | 320 | 399 | 486 |
| | Tangible fixed assets | 797 | 739 | 741 | 736 | 730 |
| | Total investments | 274 | 273 | 273 | 273 | 273 |
| | Total assets | 1,545 | 1,498 | 1,550 | 1,633 | 1,730 |
| | Short-term debt | 96 | 10 | 10 | 10 | 10 |
| | Total long-term debt | 78 | 63 | 63 | 63 | 63 |
| | Total liabilities | 569 | 467 | 469 | 490 | 519 |
| | Total equity | 977 | 1,030 | 1,081 | 1,144 | 1,211 |
| | Total liabilities & equity | 1,545 | 1,498 | 1,550 | 1,633 | 1,730 |
| | Key metrics | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
| | Revenue growth (%) | 27.4 | 5.9 | 3.0 | 6.1 | 8.7 |
| | Recurrent EPS growth (%) | 71.6 | 93.8 | (13.5) | (0.1) | 5.0 |
| | Gross margin (%) | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| | Operating EBITDA margin (%) | 22.2 | 30.8 | 25.8 | 24.8 | 23.8 |
| | Net profit margin (%) | 11.6 | 18.7 | 15.3 | 14.7 | 14.2 |
| | Dividend payout ratio (%) | 44.4 | 36.2 | 58.2 | 49.6 | 48.2 |
| | Capex/sales (%) | 6.9 | 3.2 | 5.1 | 4.2 | 3.8 |
| | Interest cover (x) | 19.1 | 28.5 | 44.6 | 45.3 | 47.3 |

Source: Company data, RHB

1 August 2023

Consumer Non-cyclical | Healthcare

Figure 1: RFMD's 1H23 results review

| | unit | 2H21 | 1H22 | 2H22 | 1H23 | HoH % | YoY % | Estimate 2023 | Reported over est. |
|-----------------------------------|-------------|--------------|--------------|--------------|--------------|-------------|-------------|---------------|--------------------|
| Income statement | | | | | | | | | |
| Revenue | SGDm | 380.0 | 409.7 | 356.8 | 370.9 | 4% | -9% | 789.8 | 47% |
| Operating Profit | SGDm | 65.2 | 86.2 | 109.6 | 76.7 | -30% | -11% | 162.8 | 47% |
| Finance income | SGDm | 0.3 | 0.6 | 2.2 | 4.5 | 110% | 683% | 2.5 | 179% |
| Finance expense | SGDm | (3.5) | (3.5) | (3.4) | (2.8) | -19% | -20% | (3.7) | 76% |
| Share of JV/Associate | SGDm | - | - | - | - | 0% | 0% | - | 0% |
| Profit before tax | SGDm | 62.0 | 83.3 | 108.4 | 78.4 | -28% | -6% | 161.7 | 49% |
| Income tax | SGDm | (17.1) | (23.5) | (24.5) | (18.0) | -27% | -23% | (40.4) | 45% |
| Profit after tax | SGDm | 44.9 | 59.8 | 83.9 | 60.4 | -28% | 1% | 121.3 | 50% |
| Minority Interest | SGDm | (0.2) | (0.3) | 0.1 | (0.6) | -639% | 95% | (0.2) | 361% |
| PATMI | SGDm | 44.7 | 59.5 | 84.0 | 59.9 | -29% | 1% | 121.1 | 49% |
| Pre tax significant income/(exp.) | SGDm | 5.9 | 6.0 | (0.1) | 8.2 | -7158% | 36% | - | 0% |
| PAT (recurring) | SGDm | 39.0 | 53.8 | 84.0 | 52.2 | -38% | -3% | 121.3 | 43% |
| PATMI (recurring) | SGDm | 38.8 | 53.5 | 84.1 | 51.7 | -39% | -3% | 121.1 | 43% |
| Depreciation & amortisation | SGDm | 20.8 | 20.6 | 19.6 | 19.0 | -3% | -8% | 40.6 | 47% |
| EBITDA | SGDm | 74.1 | 106.8 | 122.7 | 95.7 | -22% | -10% | 203.4 | 47% |
| Margins | | | | | | | | | |
| Operating margin | % | 17.2% | 21.0% | 30.7% | 20.7% | | | 20.6% | |
| EBITDA margin | % | 19.5% | 26.1% | 34.4% | 25.8% | | | 25.8% | |
| Net margin | % | 11.8% | 14.5% | 23.5% | 16.1% | | | 15.3% | |

Source: Company data, RHB

Figure 2: Peer comparison

| Company name | BBG ticker | M Cap (USD m) | Last year | P/E | | | EV/EBITDA | | | P/BV | | | D Yield 1FY | ROE 1FY |
|-------------------------|------------|---------------|-----------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| | | | | Last | 1FY | 2FY | Last | 1FY | 2FY | Last | 1FY | 2FY | | |
| ASEAN healthcare | | | | | | | | | | | | | | |
| IHH Healthcare | IHH MK | 11,626 | Dec-22 | 35.6 | 31.8 | 28.2 | 15.1 | 13.7 | 12.9 | 2.05 | 1.91 | 1.83 | 1.9% | 6.4% |
| KPJ Healthcare | KPJ MK | 1,114 | Dec-22 | 35.9 | 23.0 | 20.5 | 13.3 | 11.0 | 10.3 | 2.27 | 2.12 | 1.97 | 2.3% | 9.7% |
| Bangkok Dusit Medical | BDMS TB | 13,360 | Dec-22 | 37.9 | 34.2 | 31.7 | 21.0 | 19.9 | 18.5 | 5.17 | 4.94 | 4.69 | 1.9% | 14.7% |
| Bumrungrad Hospital | BH TB | 5,020 | Dec-22 | 37.3 | 30.7 | 28.4 | 26.0 | 21.3 | 20.0 | 8.95 | 7.71 | 6.84 | 1.8% | 26.6% |
| Bangkok Chain Hospital | BCH TB | 1,298 | Dec-22 | 12.0 | 29.2 | 25.2 | 7.6 | 14.9 | 13.5 | 3.02 | 3.36 | 3.12 | 1.6% | 11.6% |
| Chularat Hospital | CHG TB | 933 | Dec-22 | 10.9 | 27.4 | 24.6 | 7.6 | 16.0 | 14.5 | 3.88 | 4.13 | 3.87 | 2.8% | 15.9% |
| Siloam Hospital | SILO IJ | 1,682 | Dec-22 | 43.5 | 24.1 | 20.4 | 14.6 | 10.1 | 8.9 | 3.76 | 3.27 | 2.93 | 1.1% | 13.7% |
| Weighted average | | 35,032 | | 35.6 | 31.7 | 28.7 | 18.4 | 17.0 | 15.8 | 4.40 | 4.08 | 3.80 | 1.9% | 13.3% |
| Raffles Medical | RFMD SP | 1,958 | Dec-22 | 18.9 | 21.1 | 20.8 | 10.7 | 12.1 | 11.9 | 2.56 | 2.44 | 2.31 | 2.4% | 11.7% |

Source: Bloomberg, RHB

Recommendation Chart

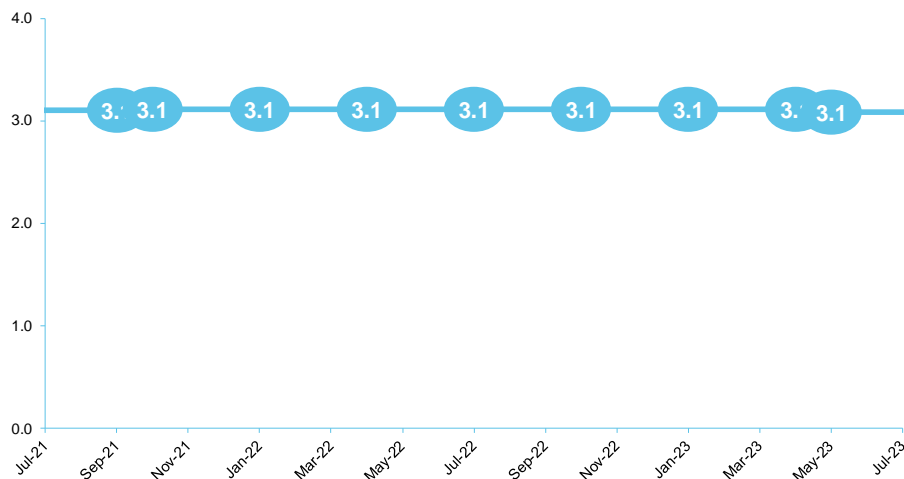


Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 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 |
| 2019-10-30 | Neutral | 1.02 | 1.02 |

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

RHB Guide to Investment Ratings

| | |
|---------------------|--|
| Buy: | Share price may exceed 10% over the next 12 months |
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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470