

28 September 2023

Consumer Non-cyclical | Healthcare

Raffles Medical (RFMD SP)

Buy (Maintained)

Will Continue To Operate Changi TCF; BUY

Target Price (Return): SGD1.75 (+42%)
 Price (Market Cap): SGD1.23 (USD1,675m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (SGD/USD) 1.69m/1.27m

- **BUY, SGD1.75 TP, 42% upside with c.3% FY24F yield.** Raffles Medical has been awarded the contract to continue providing medical services at Connect@Changi as a transitional care facility (TCF) or COVID-19 treatment facility (CTF) until Feb 2025. We are upbeat on this win, as it will continue to underpin strong revenue from RFMD's Singapore unit while its China hospital ramps up operations and heads towards a breakeven point (in 2-3 years). RFMD's 1-year forward P/E and FY24E implied P/E based on our TP remains well below the regional peer average.
- **TCF contact extension.** According to the GeBIZ website, on 20 Sep, RFMD was awarded the contract for the provision of medical services at Connect@Changi as a TCF or CTF at Hall 9, and at Hall 10 as a CTF. There were nine bidders for the open tender, and RFMD had the lowest bid value of SGD151,392 (Figure 2). The contract period begins on 20 Sep 2023 and ends on 9 Feb 2025. The bid was broken down into one-off costs related to setting up the TCF and/or CTF, a monthly retainer fee for maintaining the CTF in standby mode, and providing medical treatment services on a per-bed per-day basis for a minimum occupant quantity (MOQ), and per patient per day for patient load above the MOQ (Figure 3 and 4). We note that each bidder had placed a bid for different levels of MOQ.
- **Revenue potential.** Assuming only the MOQ levels are utilised both at the TCF and CTF, this win may bring a total revenue of c.SGD23.3m over the contract period. Assuming that only the MOQ level of the TCF facility is utilised, the revenue for the same period would be c.SGD11.3m (Figure 1). We estimate that the revenue would be at the very least somewhere between these figures. Our current forecasts already factor in the growth in its Singapore revenue in 2024-2025F, backed by a higher number of medical tourists and the continuation of the current TCF/CTF services.
- **The China unit, a long-term growth driver, can explore M&A options.** RFMD maintains that its China hospitals are on track to break even within 2-3 years from the first year of operations. It is managing hospitals in Shanghai, Chongqing and Beijing, and recently opened a centre for assisted reproductive therapy and *in vitro* fertilisation in Hainan. This facility could benefit from the recent relaxation of China's one-child policy. Our earnings projections remain unchanged. RFMD has a SGD1bn multi-currency medium-term notes programme on top of a SGD208m net cash position – which will allow it to make earnings-accretive acquisitions if a chance arises in Indonesia, Vietnam, China, or Thailand. Our TP includes a 2% ESG premium on the stock's intrinsic value, as RFMD's ESG score of 3.1 out of 4 is a notch above the country medium.

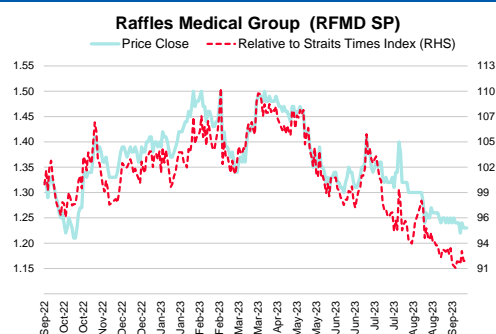
Analyst

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



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(12.2)	(1.6)	(7.5)	(14.0)	(6.8)
Relative	(11.1)	(2.4)	(7.8)	(13.3)	(8.4)
52-wk Price low/high (SGD)				1.21 – 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)	32.19	16.62	19.21	19.23	18.31
P/B (x)	2.4	2.2	2.2	2.1	2.0
P/CF (x)	14.34	11.67	13.02	13.58	12.87
Dividend Yield (%)	1.6	2.3	3.0	2.6	2.6
EV/EBITDA (x)	12.12	7.83	9.02	8.65	7.89
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 IoT 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

It 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 women. Management's compensation has accounted for 5% of total staff compensation.

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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
	Recurring P/E (x)	32.19	16.62	19.21	19.23	18.31
	P/B (x)	2.4	2.2	2.2	2.1	2.0
	FCF Yield (%)	4.8	7.5	6.0	5.9	6.3
	Dividend Yield (%)	1.6	2.3	3.0	2.6	2.6
	EV/EBITDA (x)	12.12	7.83	9.02	8.65	7.89
	EV/EBIT (x)	16.05	9.44	11.27	10.85	9.88
	Income statement (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total turnover	724	767	790	838	911
	Gross profit	724	767	790	838	911
	EBITDA	161	236	203	207	216
	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)
	Reported net profit	84	144	121	124	130
	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

Figure 1: Raffles Medical's estimated revenue over the contract period

	Unit	Quantity	Unit price	Value	Est. revenue
Clinical Service Provision for Hall 9 - TCF					
Medical treatment services					
Minimum occupant quantity (MOQ)	Per bed per day	40	468	18,720	9,509,760
Above MOQ - per patient per day	Per patient per day	1	488	488	-
One time set up cost					
TCF/CTF	Per lot	1	1	1	1
Clinical Service Provision for Hall 9 - CTF					
Medical treatment services					
Minimum occupant quantity (MOQ)	Per bed per day	40	296	11,840	6,014,720
Above MOQ - per patient per day	Per patient per day	1	250	250	-
One time set up cost					
TCF/CTF	Per lot	1	1	1	1
Clinical Service Provision for Hall 10 - CTF					
Monthly retainer fee					
To maintain CTF on standby mode	Per month	1	108,000	108,000	1,836,000
Medical treatment services					
Minimum occupant quantity (MOQ)	Per bed per day	40	296	11,840	6,014,720
Above MOQ - per patient per day	Per patient per day	1	250	250	-
One time set up cost					
One time set up cost for the CTF Standby Mode	Per lot	1	1	1	1
One time set up cost for Fully Operational CTF	Per lot	1	1	1	1
Total tendered amount				151,392	
Total estimated revenue (assuming TCF & CTF are at MOQ)					23,375,204
Total estimated revenue (assuming only TCF is at MOQ)					11,345,764

Source: GeBIZ, RHB

Figure 2: Tendered amounts submitted by various tenderers (SGD)

Tenderers	Tender bid amount (SGD)
Crawford Hospital	328,785
FLIC Medical	985,980
Fullerton Healthcare	432,161
Healthway Medical	640,391
Parkway Shenton	1,289,884
Ping An Medical	832,562
Raffles Medical (SGD)	151,392
Starmed Specialist	391,300
Thomson Medical	402,320

Source: GeBIZ

Figure 3: Bid rates for various medical treatment services submitted by various tenderers (SGD)

		Crawford Hospital	FLIC Medical	Fullerton Healthcare	Healthway Medical	Parkway Shenton	Ping An Medical	Raffles Medical	Starmed Specialist	Thomson Medical
Clinical Service Provision for Hall 9 (Transitional care facility)										
MOQ	Per bed per day	560	490	502	499	72,500*	180	468	500	330
Above MOQ	Per patient per day	515	450	497	499	500	264	488	500	330
Clinical Service Provision for Hall 9 (COVID-19 Treatment Facility)										
MOQ	Per bed per day	560	620	356	495	72,500*	414	296	400	400
Above MOQ	Per patient per day	515	600	352	495	500	414	250	400	400
Clinical Service Provision for Hall 10 (COVID-19 Treatment Facility)										
MOQ	Per bed per day	560	1,000	350	495	52,000*	513	296	400	400
Above MOQ	Per patient per day	515	550	350	495	500	513	250	400	400

Note: For MOQ = Minimum occupant quantity, * = Parkway Shenton's bid did not include a MOQ, instead it included an absolute amount.

Source: GeBIZ

Figure 4: Bid rates for one-off costs and monthly retainers submitted by various tenderers (SGD)

		Crawford Hospital	FLIC Medical	Fullerton Healthcare	Healthway Medical	Parkway Shenton	Ping An Medical	Raffles Medical	Starmed Specialist	Thomson Medical
Clinical Service Provision for Hall 9 (Transitional care facility)										
One time set up cost	Per lot	1	300,040	100,000	240,000	1,069,846	264	1	50,000	80,000
Clinical Service Provision for Hall 9 (COVID-19 Treatment Facility)										
One time set up cost	Per lot	1	na	1	1	0	350,000	1	25,000	120,000
Clinical Service Provision for Hall 10 (COVID-19 Treatment Facility)										
Monthly retainer fee to maintain CTF on standby mode	Per month	1	200,000	100,000	10,000	0	70,000	108,000	188,000	60
One time set up cost for the CTF Standby Mode	Per lot	1	300,040	1	240,000	0	60,000	1	25,000	100,000
One time set up cost for Fully Operational CTF	Per lot	1	-	100,000	1	21,538	350,000	1	50,000	100,000

Note: TCF = Transitional care facility, CTF = COVID-19 Treatment Facility

Source: GeBIZ

Recommendation Chart

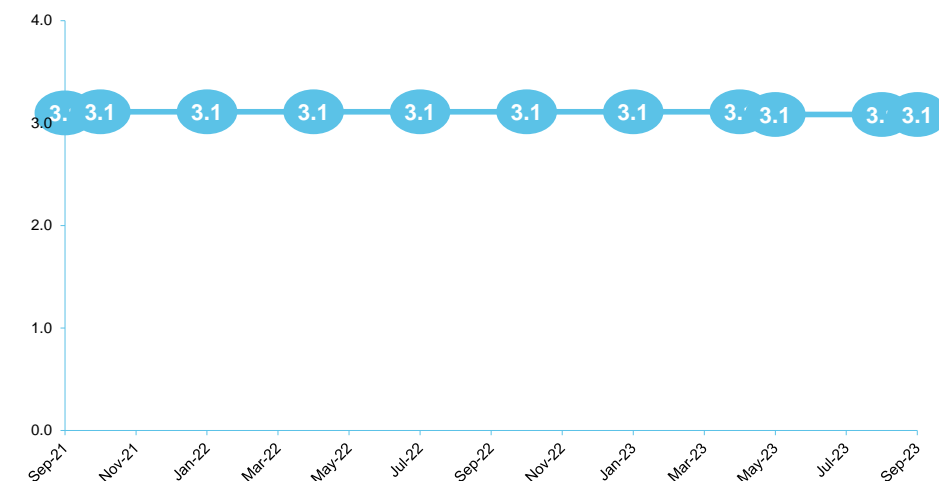


Source: RHB, Bloomberg

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

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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