

30 July 2024

Consumer Non-cyclical | Healthcare

## Raffles Medical (RFMD SP)

## Neutral (Maintained)

### 1H24 Numbers Below Expectations

Target Price (Return): SGD1.00 (-0.5%)  
 Price (Market Cap): SGD1.00 (USD1,379m)  
 ESG score: 3.1 (out of 4)  
 Avg Daily Turnover (SGD/USD) 2.13m/1.55m

- **NEUTRAL, TP drops to SGD1 from SGD1.06, 1% downside with c.2% yield.** Raffles Medical's 1H24 recurring profit came in below our and consensus estimates, due to higher costs. While longer-term growth remains driven by overseas operations (China and, likely, Vietnam), we see limited rerating catalysts in the near term. Instead, we note potential earning headwinds from higher operating costs, lower numbers of foreign patients, and sustained losses in its insurance business. We cut FY24-26F earnings by 11-13% and roll forward our valuation basis to blended FY24-25F estimates.
- **1H24 disappointed.** RFMD's 1H24 revenue of SGD365.7m (+9% HoH, -1% YoY) accounts for 48% of our full-year projection. With the exception of healthcare services, all businesses reported YoY revenue growth. 1H24 recurring PATMI came in at SGD29.1m (+27% HoH, -44% YoY), at only 35% of our full-year forecast. The earnings disappointment stemmed largely from lower other operating income and higher finance expenses.
- **Healthcare services business outlook.** 1H24 revenue came in at SGD134.5m (+23% HoH, -17% YoY), accounting for 49% of our 2024F. Profit before tax (PBT) amounted to SGD27.6m (+274% HoH, -54% YoY). The YoY decline in revenue was due to a lack of COVID-19-related business. RFMD will continue to operate the transitional care facility (TCF) at Changi Expo until Feb 2025. However, the contract to operate 176 beds dedicated to the TCF programme at its hospital will last for five years. The TCF contract margins are expected to be lower, and RFMD believes the contribution from this TCF business could be volatile, depending on the timing and bed utilisation.
- **Hospital services upside depends on China and Vietnam.** RFMD is still seeing below-pre-pandemic foreign patient loads in Singapore. In addition, management noted that 1H tends to be seasonally weaker due to Lunar New Year celebrations in Singapore and China, which leads to a lower number of elective surgeries done. We see a ramp up in segment revenue driven by Chinese hospital operations, which are expected to see EBITDA break even earliest by the end of 2025. Although the acquisition of a majority stake in the Vietnam hospital is still pending regulatory approval, RFMD began managing the hospital operations in Jan 2024. Management noted that the contribution from hospital management fees is negligible.
- **Insurance losses to continue.** RFMD expects a strong ramp-up in its insurance business in the coming year. Management guided that if the current business situation prevails, the insurance business could report losses for 2-3 years.
- **ESG.** Our TP has a 0% ESG premium/discount to the fair value, as RFMD's ESG score is in line with our median ESG score for Singapore.

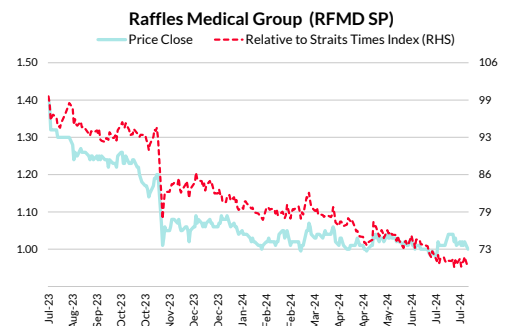
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.4)	0.5	(1.0)	(1.0)	(25.4)
Relative	(13.7)	(2.8)	(5.9)	(10.7)	(27.6)
52-wk Price low/high (SGD)	0.98 - 1.40				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (SGDm)	823	707	739	798	875
Recurring net profit (SGDm)	137	75	73	80	87
Recurring net profit growth (%)	91.3	(45.7)	(1.5)	9.2	8.3
Recurring P/E (x)	13.56	25.42	26.37	24.14	22.29
P/B (x)	1.8	1.9	1.8	1.8	1.7
P/CF (x)	9.48	10.01	na	16.26	15.37
Dividend Yield (%)	2.8	3.7	2.3	1.9	2.1
EV/EBITDA (x)	6.03	9.11	11.64	10.15	9.18
Return on average equity (%)	14.5	8.8	7.0	7.4	7.7
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 – a recognition of 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-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS	0.07	0.04	0.04	0.04	0.04
Consumer Non-cyclical	DPS	0.03	0.04	0.02	0.02	0.02
<b>Raffles Medical</b>	BVPS	0.55	0.53	0.55	0.57	0.59
RFMD SP	Return on average equity (%)	14.5	8.8	7.0	7.4	7.7
Neutral						
	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Valuation basis</b>	Recurring P/E (x)	13.56	25.42	26.37	24.14	22.29
Blend P/E, P/BV, EV/EBITDA and DCF	P/B (x)	1.8	1.9	1.8	1.8	1.7
	FCF Yield (%)	9.2	8.9	(2.2)	4.6	5.0
	Dividend Yield (%)	2.8	3.7	2.3	1.9	2.1
<b>Key drivers</b>	EV/EBITDA (x)	6.03	9.11	11.64	10.15	9.18
i. Faster-than-expected ramp-up of the new specialist centre;	EV/EBIT (x)	7.27	12.12	16.61	14.08	12.58
ii. Better-than-expected ramp-up of new hospitals in China;						
iii. Recovery in foreign patient load.						
	<b>Income statement (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Key risks</b>	Total turnover	823	707	739	798	875
Delays in:	Gross profit	823	707	739	798	875
i. Its Raffles Shanghai hospital opening;	EBITDA	236	154	130	144	152
ii. EBITDA-breakeven timelines guided for China operations.	Depreciation and amortisation	(40)	(38)	(39)	(40)	(41)
	Operating profit	195	116	91	104	111
	Net interest	(4)	4	8	4	6
	Pre-tax profit	191	119	99	108	117
	Taxation	(48)	(28)	(25)	(27)	(29)
	Reported net profit	143	90	73	80	87
	Recurring net profit	137	75	73	80	87
<b>Company Profile</b>						
Raffles Medical Group owns and operates medical clinics in Singapore. The company runs 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.						
	<b>Cash flow (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Change in working capital	(32)	89	(118)	2	3
	Cash flow from operations	196	189	(13)	119	126
	Capex	(25)	(20)	(30)	(30)	(30)
	Cash flow from investing activities	(23)	(12)	(18)	(23)	(22)
	Dividends paid	(52)	(71)	(45)	(37)	(41)
	Cash flow from financing activities	(184)	(86)	(49)	(39)	(43)
	Cash at beginning of period	265	253	344	264	320
	Net change in cash	(10)	91	(80)	56	61
	Ending balance cash	253	344	264	320	381
	<b>Balance sheet (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total cash and equivalents	253	344	264	320	381
	Tangible fixed assets	739	768	762	754	745
	Total investments	273	246	246	246	246
	Total assets	1,532	1,528	1,527	1,588	1,657
	Short-term debt	10	16	16	16	16
	Total long-term debt	63	55	55	55	55
	Total liabilities	504	484	454	471	492
	Total equity	1,028	1,044	1,074	1,117	1,164
	Total liabilities & equity	1,532	1,528	1,527	1,588	1,657
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Revenue growth (%)	13.7	(14.1)	4.5	8.0	9.6
	Recurrent EPS growth (%)	91.9	(46.7)	(3.6)	9.2	8.3
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	28.6	21.8	17.6	18.0	17.4
	Net profit margin (%)	17.4	12.8	9.9	10.1	9.9
	Dividend payout ratio (%)	36.3	78.4	60.6	46.5	46.9
	Capex/sales (%)	3.0	2.8	4.1	3.8	3.4
	Interest cover (x)	28.5	19.0	21.5	48.9	52.4

Source: Company data, RHB

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Figure 1: Raffles Medical 1H24 financial results

	unit	2H22	1H23	2H23	1H24	HoH%	YoY%	Est. 2024	Reported over est.
<b>Income statement</b>									
Revenue	SGDm	413.2	370.8	336.2	365.7	9%	-1%	759.9	48%
Other operating income	SGDm	1.1	8.5	8.2	2.2	-73%	-74%	5.7	39%
Inventories and consumables	SGDm	(29.7)	(29.0)	(28.9)	(29.7)	3%	3%	(64.6)	46%
Purchased & contracted service	SGDm	14.7	(15.3)	(17.4)	(17.4)	0%	13%	(38.0)	46%
Staff costs	SGDm	(136.7)	(157.1)	(144.4)	(154.3)	7%	-2%	(326.7)	47%
Depreciation of PP&E	SGDm	(17.9)	(17.5)	(18.0)	(18.5)	3%	5%	(37.9)	49%
Amortisation of intangible asset	SGDm	(0.6)	(0.9)	(0.7)	(0.8)	19%	-11%	(2.3)	34%
Operating lease expenses	SGDm	(0.7)	(0.8)	(0.8)	(0.9)	14%	16%	(2.7)	34%
Other operating expenses	SGDm	(37.2)	(19.9)	(20.5)	(22.7)	11%	14%	(45.6)	50%
<b>Operating Profit</b>	<b>SGDm</b>	<b>109.2</b>	<b>76.6</b>	<b>39.1</b>	<b>41.3</b>	<b>5%</b>	<b>-46%</b>	<b>105.6</b>	<b>39%</b>
Finance income	SGDm	2.2	4.5	5.2	5.3	1%	17%	12.0	44%
Finance expense	SGDm	(3.4)	(2.7)	(3.4)	(3.2)	-6%	16%	(4.2)	75%
Share of JV/Associate	SGDm	-	-	-	-	0%	0%	-	0%
<b>Profit before tax</b>	<b>SGDm</b>	<b>108.0</b>	<b>78.4</b>	<b>41.0</b>	<b>43.4</b>	<b>6%</b>	<b>-45%</b>	<b>113.3</b>	<b>38%</b>
Income tax	SGDm	(24.4)	(18.0)	(10.3)	(12.5)	21%	-31%	(28.3)	44%
<b>Profit after tax</b>	<b>SGDm</b>	<b>83.6</b>	<b>60.4</b>	<b>30.7</b>	<b>30.9</b>	<b>1%</b>	<b>-49%</b>	<b>85.0</b>	<b>36%</b>
Minority Interest	SGDm	0.1	(0.6)	(0.4)	(0.3)	-24%	-49%	(0.9)	33%
<b>PATMI</b>	<b>SGDm</b>	<b>83.7</b>	<b>59.9</b>	<b>30.3</b>	<b>30.6</b>	<b>1%</b>	<b>-49%</b>	<b>84.1</b>	<b>36%</b>
Pre tax significant income/(exp.)	SGDm	(0.1)	8.2	7.4	1.6	-79%	-81%	-	0%
<b>PAT (recurring)</b>	<b>SGDm</b>	<b>83.7</b>	<b>52.2</b>	<b>23.3</b>	<b>29.3</b>	<b>26%</b>	<b>-44%</b>	<b>85.0</b>	<b>35%</b>
<b>PATMI (recurring)</b>	<b>SGDm</b>	<b>83.8</b>	<b>51.7</b>	<b>22.9</b>	<b>29.1</b>	<b>27%</b>	<b>-44%</b>	<b>84.1</b>	<b>35%</b>
Depreciation & amortisation	SGDm	19.6	19.0	19.2	19.9	3%	5%	40.2	49%
<b>EBITDA</b>	<b>SGDm</b>	<b>122.3</b>	<b>95.6</b>	<b>50.2</b>	<b>61.2</b>	<b>22%</b>	<b>-36%</b>	<b>145.8</b>	<b>42%</b>
<b>Margins</b>									
Operating margin	%	26.4%	20.7%	11.6%	11.3%			13.9%	
EBITDA margin	%	29.6%	25.8%	14.9%	16.7%			19.2%	
Net margin	%	20.3%	16.1%	9.0%	8.4%			11.1%	
<b>Segment revenue</b>									
Healthcare services	SGDm	212.3	161.9	109.2	134.5	23%	-17%	274.1	49%
Hospital services	SGDm	139.6	139.8	147.8	143.2	-3%	2%	316.3	45%
Insurance services	SGDm	57.8	65.6	75.7	84.4	11%	29%	162.5	52%
Investment holdings	SGDm	3.5	3.5	3.4	3.6	7%	3%	6.9	52%
<b>Segment PBT</b>									
Healthcare services	SGDm	97.3	59.9	7.4	27.6	274%	-54%	-	
Hospital services	SGDm	17.0	8.7	23.9	14.3	-40%	65%	-	
Insurance services	SGDm	0.2	(1.3)	(5.8)	(6.4)	11%	415%	-	
Investment holdings	SGDm	(4.1)	14.3	19.9	11.8	-41%	-17%	-	

Source: Company data, RHB

## Emissions And ESG

### Trend analysis

Raffles Medical reported Scope 1 and 2 emissions data for the first time in 2023, making it the baseline year. It is working towards tracking Scope 3 emissions data. While it had earlier reported improvements in the electricity consumption index (MWh/GFA), water consumption index (m3/GFA), and paper consumption (in tonnes), we noticed a deterioration in electricity consumption intensity and water consumption intensity in 2023 over 2022.

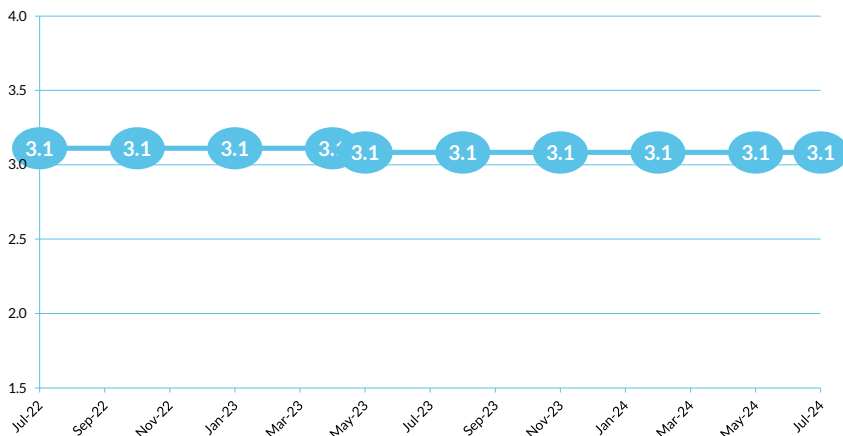
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	na	na	1,645
Scope 2	na	na	17,489
Scope 3	na	na	-
Total emissions	na	na	19,134

Source: Company data, RHB

## Latest ESG-Related Developments

- Raffles Medical aims to reduce its Scope 1 and Scope 2 emissions by 5% in the medium term (ie during 2031 and 2040) and cut it down by 10% in the long term (ie beyond 2040).
- It is also aiming for a 5% reduction in energy consumption intensity, 5% reduction in water consumption intensity and 5% reduction in waste generation intensity by 2035.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-06-04	Neutral	1.06	1.02
2024-02-26	Neutral	1.06	1.01
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

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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