

7 November 2023

Consumer Non-cyclical | Healthcare

Raffles Medical (RFMD SP)

Neutral (from Buy)

Weak Earnings Could Persist Beyond 9M23

Target Price (Return): SGD1.15 (7.5%)
 Price (Market Cap): SGD1.07 (USD1,477m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (SGD/USD) 1.30m/0.96m

- **Downgrade to NEUTRAL from BUY with SGD1.15 TP from SGD1.75 as below expectation results could persist beyond 3Q23.** While longer-term growth in China seems promising, we earlier expected the gestation losses from China to be offset by improving Singaporean operations. However, the Singapore weak margins amid higher operating costs, elevated insurance claims, and a lower foreign patient load would likely persist. We cut our FY23-25E profit by 24-25% and see limited near-term rerating catalysts, while relative valuations remain compelling.
- **Disappointing 3Q23 business update.** 9M23 revenue of SGD532.4m (-14.7% YoY) accounted for 67% of our earlier 2023 estimate, while the PAT of SGD72.8m (-25.6% YoY) accounted for 60% of our earlier 2023 estimate. The key disappointments came from: i) Higher operating costs in Singapore, which Raffles Medical was unable to pass on to patients in the form of higher fees and charges; ii) higher insurance claims; iii) weaker than expected volume and margins for the Transitional Care Facility (TCF); and iv) slower than expected ramp up in China hospital operations.
- **Margins in Singapore to remain weak.** The TCF volumes were soft in 3Q23 and, while the contract to operate the TCF has been extended to Feb 2025, the margins are lower than the previous operation of COVID-19 treatment facility (CTF) at the same location. While the availability of nursing staff in Singapore has improved, we expect wage pressure to persist, and moderation in staff cost as a percentage of revenue would only occur once China operations have ramped up. We also expect the elevated insurance claims to persist for a few quarters. The foreign patient load, which has been impacted by relatively strong SGD and competition from regional healthcare players, could remain weak in the near term.
- **China: rationalisation of operations; EBITDA breakeven guidance is retained.** While RFMD noted that revenue from China operations has improved, the ramp-up in revenue was slower than expected. Operations in Beijing remain profitable but the gestation losses from its Shanghai and Chongqing hospitals are likely to persist. It has commenced right-sizing and rationalising the China operations to achieve better operating efficiencies by redeploying some of its medical staff between Chongqing and Shanghai for training purposes and to cater to specialties with higher demand. Management retained its 2-3 years EBITDA breakeven guidance for China, with 2023 treated as year one.
- **Strong balance sheet and compelling valuations.** RFMD has a net cash position of SGD240m and its forward P/E, P/BV, and EV/EBITDA multiples are below those of its regional peers. Our TP includes a 2% ESG premium on the stock's fair value, as RFMD's ESG score of 3.1 is a notch above the country median.

Analyst

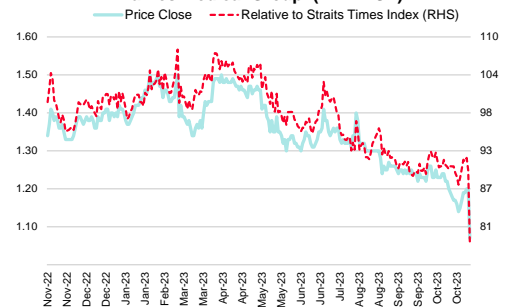
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(23.6)	(14.4)	(18.9)	(27.2)	(20.2)
Relative	(21.4)	(14.6)	(15.5)	(24.6)	(21.8)
52-wk Price low/high (SGD)					1.07 – 1.50

Raffles Medical Group (RFMD SP)



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (SGDm)	724	767	705	693	709
Recurring net profit (SGDm)	71	138	90	92	99
Recurring net profit growth (%)	73.5	93.2	(34.4)	2.3	6.7
Recurring P/E (x)	28.01	14.45	22.42	22.38	20.97
P/B (x)	2.1	2.0	2.0	1.9	1.8
P/CF (x)	12.47	10.15	17.08	16.17	14.78
Dividend Yield (%)	2.6	3.6	2.2	2.3	2.3
EV/EBITDA (x)	10.26	6.57	9.80	9.48	8.66
Return on average equity (%)	9.1	14.5	8.8	8.7	8.9
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	0.05	0.05	0.05
Consumer Non-cyclical	DPS	0.03	0.04	0.02	0.02	0.02
Raffles Medical	BVPS	0.51	0.55	0.53	0.56	0.58
RFMD SP	Return on average equity (%)	9.1	14.5	8.8	8.7	8.9
Neutral						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Recurring P/E (x)	28.01	14.45	22.42	22.38	20.97
	P/B (x)	2.1	2.0	2.0	1.9	1.8
	FCF Yield (%)	5.5	8.6	3.9	4.5	5.1
	Dividend Yield (%)	2.6	3.6	2.2	2.3	2.3
	EV/EBITDA (x)	10.26	6.57	9.80	9.48	8.66
	EV/EBIT (x)	13.59	7.92	13.07	12.69	11.50
	Income statement (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total turnover	724	767	705	693	709
	Gross profit	724	767	705	693	709
	EBITDA	161	236	162	166	176
	Depreciation and amortisation	(39)	(40)	(41)	(42)	(43)
	Operating profit	121	196	122	124	132
	Net interest	(6)	(4)	(1)	(1)	(1)
	Pre-tax profit	116	192	121	123	132
	Taxation	(32)	(48)	(30)	(31)	(33)
	Reported net profit	84	144	90	92	99
	Recurring net profit	71	138	90	92	99
	Cash flow (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	14	(33)	(13)	(8)	(3)
	Cash flow from operations	160	196	119	128	140
	Capex	(50)	(25)	(40)	(35)	(35)
	Cash flow from investing activities	(52)	(23)	(37)	(32)	(32)
	Dividends paid	(52)	(70)	(46)	(47)	(47)
	Cash flow from financing activities	(62)	(202)	(49)	(50)	(50)
	Cash at beginning of period	203	265	253	260	306
	Net change in cash	46	(29)	32	45	58
	Ending balance cash	250	235	285	305	364
	Balance sheet (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	265	253	260	306	364
	Tangible fixed assets	797	739	741	736	730
	Total investments	274	273	273	273	273
	Total assets	1,545	1,533	1,506	1,542	1,595
	Short-term debt	96	10	10	10	10
	Total long-term debt	78	63	63	63	63
	Total liabilities	569	505	458	448	449
	Total equity	977	1,028	1,048	1,094	1,146
	Total liabilities & equity	1,545	1,533	1,506	1,542	1,595
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	27.4	5.9	(8.0)	(1.7)	2.3
	Recurrent EPS growth (%)	71.6	93.8	(35.5)	0.2	6.7
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	22.2	30.8	23.0	24.0	24.8
	Net profit margin (%)	11.6	18.7	12.8	13.3	13.9
	Dividend payout ratio (%)	61.8	49.1	50.6	50.6	47.4
	Capex/sales (%)	6.9	3.2	5.7	5.0	4.9
	Interest cover (x)	19.1	28.5	33.3	34.0	36.2

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-20	Dec-21	Dec-22
Scope 1	na	na	na
Scope 2	na	na	na
Scope 3	na	na	na
Total emissions	na	na	na

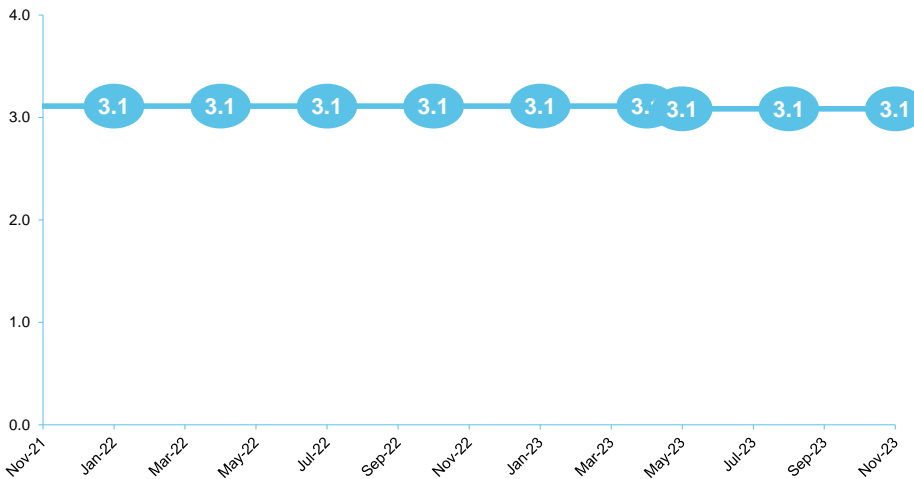
Source: Company data, RHB

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 3 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
2023-05-09	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

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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