

13 October 2022

Consumer Non-cyclical | Healthcare

## Raffles Medical (RFMD SP)

**Buy** (Maintained)

### Takeaways From Management Meeting; Stay BUY

Target Price (Return): SGD1.60 (+28%)  
 Price (Market Cap): SGD1.25 (USD1,613m)  
 ESG score: 3.11 (out of 4)  
 Avg Daily Turnover (SGD/USD) 2.80m/2.00m

- **Maintain BUY, with new SGD1.60 TP from SGD1.65, 28% upside and c.2% yield**, while reducing 2023-2024 earnings by 3% each. We met with management and came back feeling positive about Raffles Medical's long-term growth. Despite COVID-19-related revenue declining and cost headwinds comprising near-term concerns, the revival of its healthcare and hospital business in Singapore remains strong. Its China business growth is highly dependent on the country moving away from the zero-COVID-19 stance. While inorganic growth potential exists, its timing is difficult to estimate.

- **The local healthcare business received a shot in the arm during COVID-19.** The local healthcare business, which largely comprises of over 50 general practitioner (GP) clinics, witnessed a sharp growth in revenue during the COVID-19 years (2021-2022). RFMD indicated that the current patient load at its GP clinics is higher compared to that of the pre-pandemic period (ie 2019). It continues to realign its clinic network with a focus on demographics and demand centres, which means greater focus on suburban clinics as there were fewer corporate customers visiting the central business district GP clinics during the COVID-19 years. While the use of telemedicine was quite prevalent during the pandemic, the group believes the service will continue to complement its GP clinic network and is unlikely to replace current healthcare operations. We expect the healthcare business' elevated PBT margin to gradually taper off beyond 2023 and return to pre-pandemic levels as COVID-19-related revenue completely disappears.

- **China business remains dependent on the Government's COVID-19 policy.** Management maintained that the EBITDA breakeven period for its China operations remains unchanged at 2-3 years, but the year of achieving such a breakeven will depend on how soon China moves away from its zero-COVID policy. While RFMD's China business has seen a steady increase in the number of patient visits, we have revised our view that its Shanghai hospital could see a gradual ramp-up in operations only in 2023 (vs earlier expectations of a ramp-up in 2H22).

- **Strong cash flow generation and well-funded war chest create inorganic growth opportunities.** RFMD has a SGD135m net cash position and we expect the group to generate >SGD100m of free cash flow in each of the forecast years as there is limited need for capex spending. It has also announced the establishment of a SGD1bn multi-currency medium-term notes programme with DBS. This, we believe, could enable it to explore inorganic growth opportunities in China and the ASEAN region.

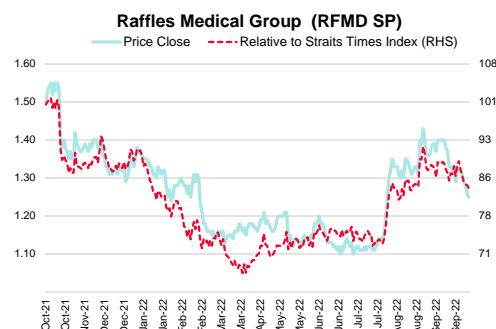
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(8.8)	(10.1)	12.6	6.8	(14.4)
Relative	(8.2)	(5.2)	13.4	14.5	(14.1)
52-wk Price low/high (SGD)				1.10 – 1.55	



Source: Bloomberg

#### Overall ESG Score: 3.11 (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 women. Management's compensation has accounted for 5% of total staff compensation.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (SGDm)	568	724	779	790	834
Recurring net profit (SGDm)	41	71	89	89	95
Recurring net profit growth (%)	(29.6)	73.5	25.0	(0.5)	7.3
Recurring P/E (x)	56.15	32.72	26.74	27.43	25.56
P/B (x)	2.6	2.4	2.4	2.3	2.2
P/CF (x)	17.34	14.57	17.47	14.94	16.07
Dividend Yield (%)	0.8	1.6	2.2	1.8	1.8
EV/EBITDA (x)	16.14	12.35	11.74	12.01	10.96
Return on average equity (%)	7.6	9.1	9.2	8.7	9.0
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (SGD)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Singapore	Recurring EPS	0.02	0.04	0.05	0.05	0.05
Consumer Non-cyclical	DPS	0.01	0.02	0.03	0.02	0.02
<b>Raffles Medical</b>	BVPS	0.48	0.51	0.51	0.54	0.56
RFMD SP	Return on average equity (%)	7.6	9.1	9.2	8.7	9.0
Buy						
	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
<b>Valuation basis</b>	Recurring P/E (x)	56.15	32.72	26.74	27.43	25.56
DCF	P/B (x)	2.6	2.4	2.4	2.3	2.2
	FCF Yield (%)	3.2	4.7	3.8	5.5	5.0
<b>Key drivers</b>	Dividend Yield (%)	0.8	1.6	2.2	1.8	1.8
i. Faster-than-expected ramp-up of the new specialist centre;	EV/EBITDA (x)	16.14	12.35	11.74	12.01	10.96
ii. Better-than-expected ramp-up of new hospitals in China;	EV/EBIT (x)	22.61	16.36	15.59	16.39	14.82
iii. Recovery in foreign patient load.						
<b>Key risks</b>	<b>Income statement (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Delay in:	Total turnover	568	724	779	790	834
i. Its Raffles Shanghai hospital opening (guided for 2Q21); and	Gross profit	568	724	779	790	834
ii. EBITDA breakeven timelines guided (2022 for Raffles Chongqing).	EBITDA	124	161	171	164	173
	Depreciation and amortisation	(35)	(39)	(42)	(44)	(45)
	Operating profit	88	121	129	120	128
	Net interest	(4)	(6)	(5)	(5)	(4)
	Pre-tax profit	84	116	124	115	124
	Taxation	(20)	(32)	(35)	(26)	(28)
	Reported net profit	66	84	90	89	96
	Recurring net profit	41	71	89	89	95
<b>Company Profile</b>	<b>Cash flow (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
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.	Change in working capital	8	14	0	26	7
	Cash flow from operations	133	160	136	163	151
	Capex	(59)	(50)	(45)	(30)	(30)
	Cash flow from investing activities	(62)	(52)	(43)	(28)	(27)
	Dividends paid	(19)	(37)	(52)	(45)	(45)
	Cash flow from financing activities	(21)	(47)	(59)	(52)	(52)
	Cash at beginning of period	152	203	265	299	382
	Net change in cash	50	61	34	83	73
	Ending balance cash	203	265	299	382	455
	<b>Balance sheet (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total cash and equivalents	203	265	299	382	455
	Tangible fixed assets	740	797	803	792	780
	Total investments	295	274	274	274	274
	Total assets	1,404	1,545	1,577	1,649	1,716
	Short-term debt	27	96	96	96	96
	Total long-term debt	144	78	78	78	78
	Total liabilities	490	569	564	592	608
	Total equity	914	977	1,013	1,057	1,108
	Total liabilities & equity	1,404	1,545	1,577	1,649	1,716
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	8.8	27.4	7.6	1.4	5.5
	Recurrent EPS growth (%)	(30.9)	71.6	22.4	(2.5)	7.3
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	21.8	22.2	22.0	20.7	20.7
	Net profit margin (%)	11.6	11.6	11.5	11.3	11.5
	Dividend payout ratio (%)	29.1	44.4	58.4	50.3	46.6
	Capex/sales (%)	10.4	6.9	5.8	3.8	3.6
	Interest cover (x)	17.2	19.1	18.5	17.2	18.3

Source: Company data, RHB

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## Recommendation Chart

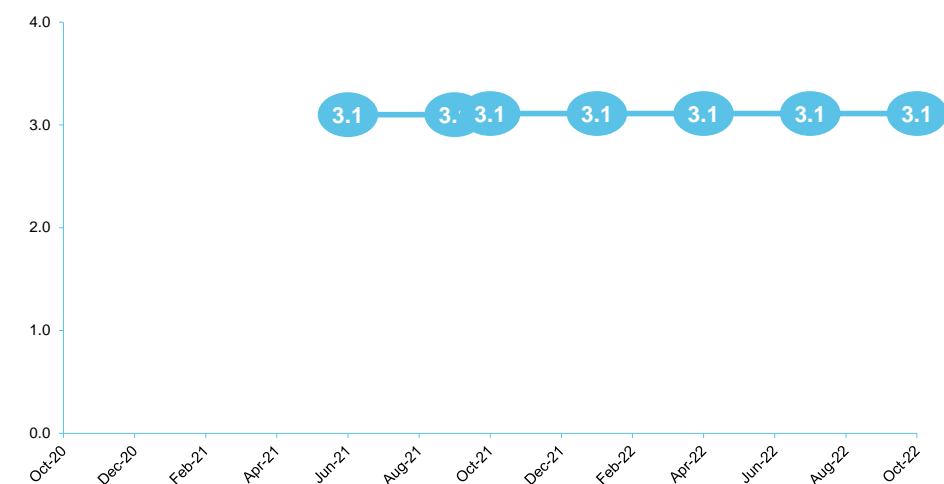


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2019-07-29	Neutral	1.02	1.03
2019-04-29	Neutral	1.02	1.07
2019-02-26	Neutral	1.02	1.11
2018-10-29	Neutral	1.02	1.09

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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