

28 September 2022

Consumer Non-cyclical | Healthcare

Raffles Medical (RFMD SP)

Buy (Maintained)

China Reopening Could Offer Upside Risks; BUY

Target Price (Return): SGD1.65 (25.0%)
 Price (Market Cap): SGD1.32 (USD1,704m)
 ESG score: 3.11 (out of 4)
 Avg Daily Turnover (SGD/USD) 2.80m/2.01m

- **Keep BUY and SGD1.65 TP, 25% upside and c.2% yield.** Near-term cost headwinds and rapidly diminishing contribution from COVID-19-related revenues could keep Raffles Medical's Singapore growth in check, despite the ongoing reopening of regional economies allowing more inflow of medical tourists into the country. We expect its China business to drive long-term growth, and believe an earlier as well as rapid reopening of China's borders could provide upside risks to our 2023 estimates. Its valuation is also compelling, as the stock trades below peer average.

- **Near-term cost headwinds expected.** Historically, RFMD's 2H revenue and profit tend to be higher than that of 1H. While we believe 2H22 revenue will be higher than that of 1H22, profits may come in lower amidst higher staff costs and increased operating expenses related to the higher patient load in Singapore. According to the [Philips Future Health Index 2022 report](#), as staff shortages continue, almost one-third (32%) of healthcare leaders in Singapore are placing employee retention at the top of their priority lists. In 2022, 15% of Singaporean healthcare leaders considered staff retention a top priority vs 9% in 2021. Given Raffles Medical's group practice model, where doctors and nurses are employees of the organisation, we believe the wage pressure could be material.

- **China hospitals to see resumption in growth; upside risk of China reopening early and swiftly.** Raffles Medical's China business has seen a steady increase in the number of patient visits. We maintain that its Shanghai hospital should see a gradual ramp-up in operations in 2H22. We believe an earlier-than-expected and swift reopening of the China borders would add upside risk to its China revenues in 2023 and beyond. Nevertheless, for now, in line with management guidance, we maintain that the hospitals in Chongqing and Shanghai could report EBITDA losses of SGD3-4m and c.SGD10m respectively in 2022.

- **Strong net cash balance sheet; more funding coming its way.** Raffles Medical has a SGD135m net cash position. The company also recently announced the establishment of a SGD1bn multi-currency medium-term notes programme, funding from which we believe could enable Raffles Medical to explore acquisition opportunities in the region.

- **Commands an ESG premium; our TP implies a P/E in line with peers.** Based on our in-house rating methodology, we ascribe Raffles Medical an ESG rating of 3.1 (out of 4.0). As this is higher than our median ESG rating of 3.0 for stocks under coverage in Singapore, we ascribe a 2.2% ESG premium to our fair value to arrive at the TP. Our DCF-based TP implies 33x 2023F P/E – largely in line with its regional peer average.

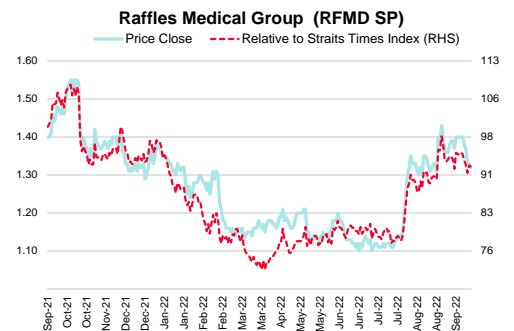
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.7)	(0.8)	16.8	13.8	(5.7)
Relative	(5.0)	1.8	15.9	21.1	(7.8)
52-wk Price low/high (SGD)	1.10 – 1.55				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (SGDm)	568	724	779	808	851
Recurring net profit (SGDm)	41	71	89	91	98
Recurring net profit growth (%)	(29.6)	73.5	25.0	2.5	7.1
Recurring P/E (x)	59.30	34.55	28.23	28.10	26.23
P/B (x)	2.7	2.6	2.6	2.5	2.3
P/CF (x)	18.31	15.39	18.44	15.25	16.67
Dividend Yield (%)	0.8	1.5	2.0	1.7	1.8
EV/EBITDA (x)	17.18	13.17	12.52	12.54	11.47
Return on average equity (%)	7.6	9.1	9.2	9.0	9.2
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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

Financial Exhibits

Asia	Financial summary (SGD)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
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
Raffles Medical	BVPS	0.48	0.51	0.51	0.54	0.56
RFMD SP	Return on average equity (%)	7.6	9.1	9.2	9.0	9.2
Buy						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Valuation basis	Recurring P/E (x)	59.30	34.55	28.23	28.10	26.23
DCF	P/B (x)	2.7	2.6	2.6	2.5	2.3
	FCF Yield (%)	3.0	4.5	3.6	5.4	4.8
	Dividend Yield (%)	0.8	1.5	2.0	1.7	1.8
Key drivers	EV/EBITDA (x)	17.18	13.17	12.52	12.54	11.47
i. Faster-than-expected ramp-up of the new specialist centre;	EV/EBIT (x)	24.07	17.44	16.62	16.98	15.40
ii. Better-than-expected ramp-up of new hospitals in China; and						
iii. Recovery in foreign patient load.						
	Income statement (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Key risks	Total turnover	568	724	779	808	851
Delays in:	Gross profit	568	724	779	808	851
i. Its Raffles Shanghai hospital opening (guided for 2Q21); and	EBITDA	124	161	171	167	176
ii. EBITDA breakeven timelines guided (2022 for Raffles Chongqing).	Depreciation and amortisation	(35)	(39)	(42)	(44)	(45)
	Operating profit	88	121	129	123	131
	Net interest	(4)	(6)	(5)	(5)	(4)
	Pre-tax profit	84	116	124	119	127
	Taxation	(20)	(32)	(35)	(27)	(29)
	Reported net profit	66	84	90	92	98
	Recurring net profit	41	71	89	91	98
Company Profile						
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.						
	Cash flow (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	8	14	0	29	7
	Cash flow from operations	133	160	136	168	154
	Capex	(59)	(50)	(45)	(30)	(30)
	Cash flow from investing activities	(62)	(52)	(43)	(28)	(27)
	Dividends paid	(19)	(37)	(52)	(45)	(46)
	Cash flow from financing activities	(21)	(47)	(59)	(52)	(53)
	Cash at beginning of period	152	203	265	299	388
	Net change in cash	50	61	34	89	74
	Ending balance cash	203	265	299	388	462
	Balance sheet (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	203	265	299	388	462
	Tangible fixed assets	740	797	803	792	780
	Total investments	295	274	274	274	274
	Total assets	1,404	1,545	1,577	1,658	1,727
	Short-term debt	27	96	96	96	96
	Total long-term debt	144	78	78	78	78
	Total liabilities	490	569	564	598	615
	Total equity	914	977	1,013	1,060	1,112
	Total liabilities & equity	1,404	1,545	1,577	1,658	1,727
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	8.8	27.4	7.6	3.7	5.4
	Recurrent EPS growth (%)	(30.9)	71.6	22.4	0.5	7.1
	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	11.4	11.6
	Dividend payout ratio (%)	29.1	44.4	58.4	48.8	46.7
	Capex/sales (%)	10.4	6.9	5.8	3.7	3.5
	Interest cover (x)	17.2	19.1	18.5	17.7	18.8

Source: Company data, RHB

Recommendation Chart

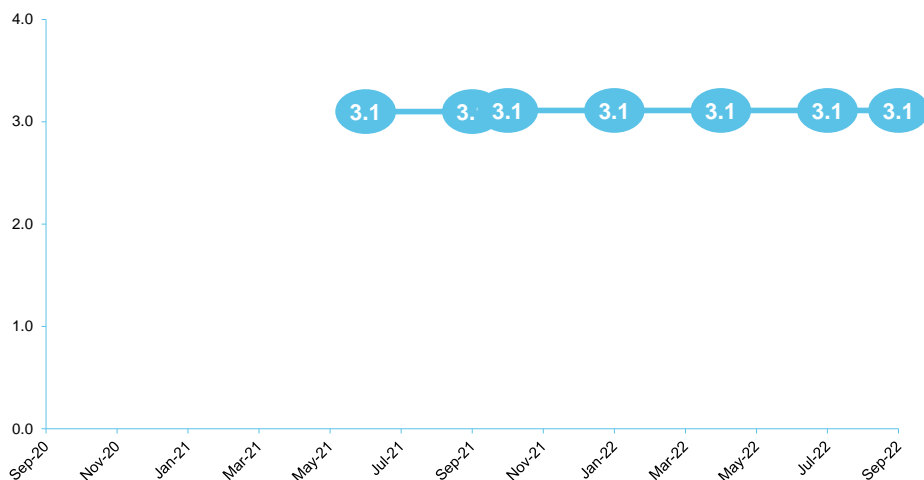


Source: RHB, Bloomberg

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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Analyst	Company
-	-

(2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.



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