

25 July 2022

Consumer Non-cyclical | Healthcare

Raffles Medical (RFMD SP)

Buy (Maintained)

Sound Long Term Growth & Reasonable Valuation; Keep BUY

Target Price (Return): SGD1.50 (33.9%)
 Price (Market Cap): SGD1.12 (USD1,494m)
 ESG score: 3.11 (out of 4)
 Avg Daily Turnover (SGD/USD) 1.84m/1.33m

- **Reiterate BUY and SGD1.50 TP, 34% upside with c.2% yield.** We recognise that investors are concerned about Raffles Medical's (RFMD) flattish 2022 profit growth amidst lower contribution from COVID-19 related revenue in Singapore, rising inflation, and slower than earlier guided growth in its China business. However, we remain optimistic on RFMD's Singapore operations gradually reverting to normal, which will help offset some decline in COVID-19 related revenue and eventually drive growth in 2023 and beyond. China, which accounts for c.7% of RFMD's revenue, should also see higher revenue beyond 2023. At current share price, RFMD's valuation looks compelling.

- **Normalisation of Singapore operations.** We expect RFMD's Singapore hospital business to witness higher occupancy and billings, driven by the return of domestic patients undergoing elective treatments that were deferred during the COVID-19 pandemic as well as from the return of some foreign patients to Singapore. This, in addition to normalised business operations for Singapore healthcare clinics, would help RFMD offset the drop in COVID-19 related revenues in the near term and support growth in 2023 and beyond.

- **China's zero COVID-19 policy has hurt private healthcare players.** As per [news report](#), the diversion of resources into China's zero-COVID-19 approach has forced multiple private hospitals to suspend services they relied upon for revenue. We believe China's zero COVID-19 policy impacted RFMD's China operations as well. RFMD's Chongqing hospital was expected to see an EBITDA breakeven by end 2022, which we believe could now be delayed by a year. RFMD was supposed to see meaningful revenue contribution from its Shanghai hospital in 2022. However, we now believe this higher revenue contribution will now be delayed into 2023. We currently maintain that the Shanghai hospital will achieve an EBITDA breakeven by end-2024, as per the original estimate. We believe RFMD's China hospitals have a strong long-term growth outlook as private hospitals accounted for only c.15% of total patient visits in 2020. This percentage, we believe, has the potential to grow further in coming years. For RFMD, China operations accounted for c.7% of its revenue in 2021.

- **Strong balance position and compelling relative valuation.** While RFMD's focus will be on ramping up China operations, once the country gradually relaxes its stringent COVID-19 related restrictions, the company's SGD91m net cash position should enable it to look at inorganic growth opportunities within the region. Our TP, which includes a 2% ESG premium is based on a fair value of SGD1.48. RFMD's 2023F P/E and EV/EBITDA are below its peers' average ([Figure 1](#))

Analyst

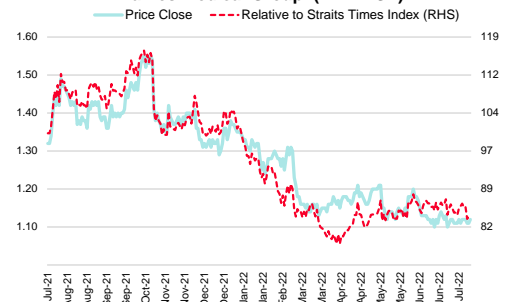
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(18.3)	1.8	(4.3)	(15.2)	(6.7)
Relative	(20.1)	(1.0)	1.1	(11.7)	(7.4)
52-wk Price low/high (SGD)	1.10 – 1.55				

Raffles Medical Group (RFMD SP)



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 female. 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	693	717	768
Recurring net profit (SGDm)	41	71	69	81	95
Recurring net profit growth (%)	(29.6)	73.5	(2.9)	17.7	16.8
Recurring P/E (x)	50.31	29.32	30.84	26.75	22.89
P/B (x)	2.3	2.2	2.2	2.1	2.0
P/CF (x)	15.53	13.06	21.81	17.88	15.50
Dividend Yield (%)	0.9	1.8	2.4	1.6	1.9
EV/EBITDA (x)	14.20	10.84	13.06	11.50	9.88
Return on average equity (%)	7.6	9.1	7.2	8.2	9.1
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (SGD)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Singapore	Recurring EPS	0.02	0.04	0.04	0.04	0.05
Consumer Non-cyclical	DPS	0.01	0.02	0.03	0.02	0.02
Raffles Medical	BVPS	0.48	0.51	0.50	0.53	0.55
RFMD SP	Return on average equity (%)	7.6	9.1	7.2	8.2	9.1
Buy						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Valuation basis	Recurring P/E (x)	50.31	29.32	30.84	26.75	22.89
DCF	P/B (x)	2.3	2.2	2.2	2.1	2.0
	FCF Yield (%)	3.6	5.3	2.9	4.2	5.1
	Dividend Yield (%)	0.9	1.8	2.4	1.6	1.9
Key drivers	EV/EBITDA (x)	14.20	10.84	13.06	11.50	9.88
i. Faster-than-expected ramp-up of the new specialist centre;	EV/EBIT (x)	19.90	14.36	18.84	16.00	13.31
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	693	717	768
Delays in:	Gross profit	568	724	693	717	768
i. Its Raffles Shanghai hospital opening (guided for 2Q21); and	EBITDA	124	161	137	154	173
ii. EBITDA breakeven timelines guided (2022 for Raffles Chongqing).	Depreciation and amortisation	(35)	(39)	(42)	(43)	(45)
	Operating profit	88	121	95	111	128
	Net interest	(4)	(6)	(5)	(5)	(5)
	Pre-tax profit	84	116	90	106	124
	Taxation	(20)	(32)	(21)	(24)	(28)
	Reported net profit	66	84	70	82	96
	Recurring net profit	41	71	69	81	95
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	(18)	(8)	(4)
	Cash flow from operations	133	160	98	122	141
	Capex	(59)	(50)	(35)	(30)	(30)
	Cash flow from investing activities	(62)	(52)	(33)	(28)	(28)
	Dividends paid	(19)	(37)	(52)	(35)	(41)
	Cash flow from financing activities	(21)	(47)	(59)	(42)	(48)
	Cash at beginning of period	152	203	265	271	323
	Net change in cash	50	61	6	52	65
	Ending balance cash	203	265	271	323	388
	Balance sheet (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	203	265	271	323	388
	Tangible fixed assets	740	797	793	783	771
	Total investments	295	274	274	274	274
	Total assets	1,404	1,545	1,520	1,564	1,625
	Short-term debt	27	96	96	96	96
	Total long-term debt	144	78	78	78	78
	Total liabilities	490	569	526	524	531
	Total equity	914	977	994	1,040	1,094
	Total liabilities & equity	1,404	1,545	1,520	1,564	1,625
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	8.8	27.4	(4.2)	3.4	7.1
	Recurrent EPS growth (%)	(30.9)	71.6	(4.9)	15.3	16.8
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	21.8	22.2	19.8	21.5	22.5
	Net profit margin (%)	11.6	11.6	10.0	11.4	12.5
	Dividend payout ratio (%)	29.1	44.4	75.1	42.6	42.9
	Capex/sales (%)	10.4	6.9	5.0	4.2	3.9
	Interest cover (x)	17.2	19.1	13.6	15.9	18.4

Source: Company data, RHB

Figure 1: Relative valuation

Company name	BBG ticker	M Cap (USD m)	Last year	P/E			EV/EBITDA			P/BV			D Yield 1FY	ROE 1FY
				Last	1FY	2FY	Last	1FY	2FY	Last	1FY	2FY		
ASEAN healthcare														
IHH Healthcare	IHH MK	12,812	Dec-21	37.7	34.8	30.4	16.5	15.4	14.4	2.38	2.29	2.16	1.1%	6.8%
Bangkok Dusit Medical	BDMS TB	11,713	Dec-21	58.7	41.2	37.9	27.0	21.9	20.5	4.92	4.93	4.65	1.5%	12.1%
Bumrungrad Hospital	BH TB	3,873	Dec-21	150.3	47.3	36.6	57.5	29.8	24.0	8.21	7.95	7.33	1.6%	16.9%
Bangkok Chain Hospital	BCH TB	1,368	Dec-21	9.5	12.4	24.7	6.2	7.9	13.1	4.54	3.58	3.45	3.7%	27.1%
Chularat Hospital	CHG TB	1,123	Dec-21	13.2	16.3	30.7	8.9	11.2	18.0	6.84	5.19	4.97	3.8%	30.8%
Singapore Medical Group	SMG SP	109	Dec-21	11.1	8.2	7.8	7.1	5.7	5.6	-	-	-	0.0%	10.4%
Siloam Hospital	SILO IJ	862	Dec-21	20.2	12.1	9.5	5.4	6.5	5.7	2.02	1.95	1.84	2.0%	8.1%
Weighted average		31,860		56.4	36.4	33.0	24.3	18.8	17.6	4.27	4.10	3.86	1.5%	11.8%
Raffles Medical	RFMD SP	1,495	Dec-21	29.3	30.2	25.6	13.6	14.8	13.1	2.18	2.14	2.04	1.7%	7.1%

Note: Prices are as at 22 July 2022

Source: Bloomberg, RHB

Recommendation Chart

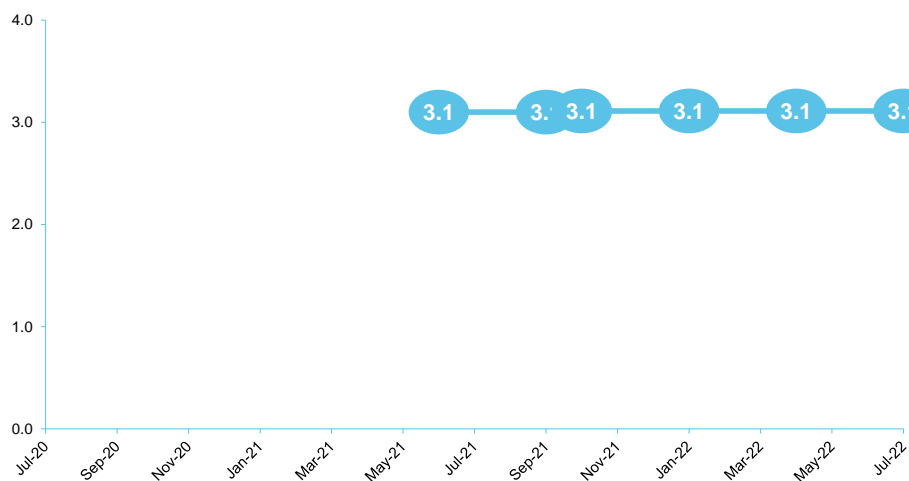


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2018-08-06	Neutral	1.02	1.09

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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