

RAFFLES MEDICAL GROUP LTD

Shanghai hospital expected by mid-2018

15 May 2015

SINGAPORE | HEALTHCARE | RESULTS

- Shanghai hospital expected by mid-2018
- Potentially 7.2 mn wealthy consumers in Shanghai
- Better margins and profitability compared to Singapore operations
- Maintain “**Accumulate**” with **TP of S\$4.49**

What happened

- **RMG to develop an international hospital in Shanghai** – RMG has set up a JV with Shanghai Qihua Investment Co. Ltd. to develop an international hospital in Shanghai. RMG owns 70% of the JV.
- **Mid-2018 opening expected** – The hospital will have 400 beds. It is expected to be completed by mid-2018. It will offer a full range of healthcare services, akin to its hospital in Bugis. RMG will manage the day-to-day operations.
- **Rmb800 mn capex expected** – This comprises land acquisition and development cost. RMG said that a third could be equity (cash) funded, with the remainder from debt.

Positive data points

- **Potential demand > Singapore’s entire population** – According to the Shanghai Bureau Of Statistics, the city has a population of 24 mn. According to McKinsey & Company, China’s four richest cities – Shanghai, Beijing, Guangzhou and Shenzhen – account for ~30% of the nation’s wealthy consumers. This implies a potential 7.2 mn customers willing to pay a premium for healthcare. This figure is larger than Singapore’s entire population (~5.4 mn).
- **Better returns expected** – Management expects better margins and profitability compared to its Singapore operations. This will be led by 1) higher revenue per bed and 2) lower staff costs for local manpower. Management said that certain medical operations in China could cost as much as four times the price in Singapore. While it expects to pay a premium for foreign doctors, local doctors and nurses are expected to be cheaper. The hospital’s foreign:local doctor ratio is expected at 50:50.
- **The strategy is not new** – RMG’s Bugis Hospital started off as a JV with Pidemco Land (now CapitaLand Limited). It achieved positive EBITDA in 11 months from opening. It broke even at the bottom line in eight quarters.

How do we view this

We are positive on the move. Management shared that its Shanghai medical centre has broken even. This implies a demand for premium healthcare services in China. The opening of a hospital is the next step to capture the market in a more meaningful manner.

The move also extends RMG’s pipeline of new openings. It aims to open its clinic at Shaw Centre by Jun-15 with Holland’s medical centre set to open in 1Q16.

Investment Actions

We maintain our **Accumulate** rating with an unchanged **TP of S\$4.49**.

ACCUMULATE (MAINTAIN)

CLOSING PRICE	SGD 4.08
FORECAST DIV	SGD 0.06
TARGET PRICE	SGD 4.49
TOTAL RETURN	11.5%

COMPANY DATA

O/S SHARES (MN):	567
MARKET CAP (USD mn / SGD mn):	1752.3 / 2313.8
52 - WK HI/LO (SGD):	4.11 / 3.48
3M Average Daily T/O (mn):	0.41

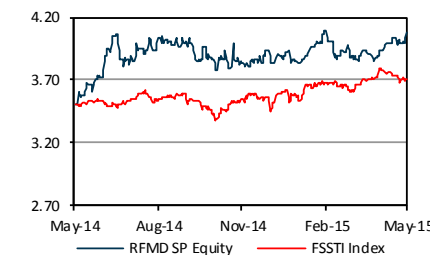
MAJOR SHAREHOLDERS (%)

RAFFLES MEDICAL HOLDINGS	38.5%
CHOON YONG LOO	10.0%
ABERDEEN	6.0%
FIL LIMITED	4.3%
S&D HOLDINGS PTE LTD	3.2%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	5.9	0.5	18.2
STI RETURN	(0.7)	2.3	9.4

PRICE VS. STI



KEY FINANCIALS

SGD MN	FY 13	FY 14	FY 15e	FY 16e
Revenue	341	375	413	460
EBITDA	78	87	95	111
NPAT (adj.)	61	65	71	82
EPS (adj.)	0.11	0.12	0.13	0.14
PER, x (adj.)	28.1	33.7	32.6	28.7
P/BV, x	3.6	4.1	3.8	3.4
DPS (S cts)	5.00	5.50	6.00	6.50
Div Yield, %	16%	14%	15%	16%
ROE, %	14.1%	12.8%	12.9%	13.1%

Source: Company Data, PSR est.

VALUATION METHOD

DCF (WACC: 7.5%; terminal g: 3.0%)

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Financials

Income Statement

Y/E Dec, SGD mn	FY12	FY13	FY14	FY15e	FY16e
Revenue	312	341	375	413	460
Operating expenses	(241)	(263)	(288)	(318)	(349)
EBITDA	70	78	87	95	111
Depreciation & Amortisation	(8)	(8)	(10)	(10)	(12)
EBIT	62	70	77	85	98
Associates & JVs	0	0	0	0	0
Net Finance (Expense)/Inc	0	1	1	1	1
Other items	4	24	3	3	3
PBT	67	95	81	89	102
Tax	(9)	(10)	(13)	(15)	(17)
PAT	57	85	68	74	86
Minority interest	(0)	(0)	(0)	(0)	(0)
Net Income, reported	57	85	68	74	85
Net Income, adj.	53	61	65	71	82

Per share data

Y/E Dec, SG cents	FY12	FY13	FY14	FY15e	FY16e
EPS, reported	10.53	15.43	12.09	13.03	14.72
EPS, adj.	9.80	11.02	11.55	12.50	14.21
DPS	4.50	5.00	5.50	6.00	6.50
BVPS	71.29	85.31	95.50	106.12	118.24

Cash Flows

Y/E Dec, SGD mn	FY12	FY13	FY14	FY15e	FY16e
CFO					
PBT	67	95	81	89	102
Adjustments	6	(14)	9	9	12
WC changes	6	0	13	2	3
Cash generated from ops	79	82	103	100	116
Taxes paid, others	(9)	(10)	(10)	(15)	(17)
Cashflow from ops	70	71	93	85	100
CFI					
CAPEX, net	(10)	(8)	(18)	(145)	(113)
Acquisition, others	(1)	119	(188)	1	1
Cashflow from investing	(10)	111	(206)	(144)	(112)
CFF					
Share issuance	4	6	8	9	10
Loans, net of repayments	(1)	(15)	1	0	0
Dividends	(9)	(10)	(12)	(13)	(13)
Others	(0)	(0)	(0)	0	0
Cashflow from financing	(6)	(19)	(3)	(4)	(3)
Effects of exchange rates	(0)	0	0	0	0
Net change in cash	53	163	(116)	(62)	(16)
CCE, end	102	266	150	88	72

Balance Sheet

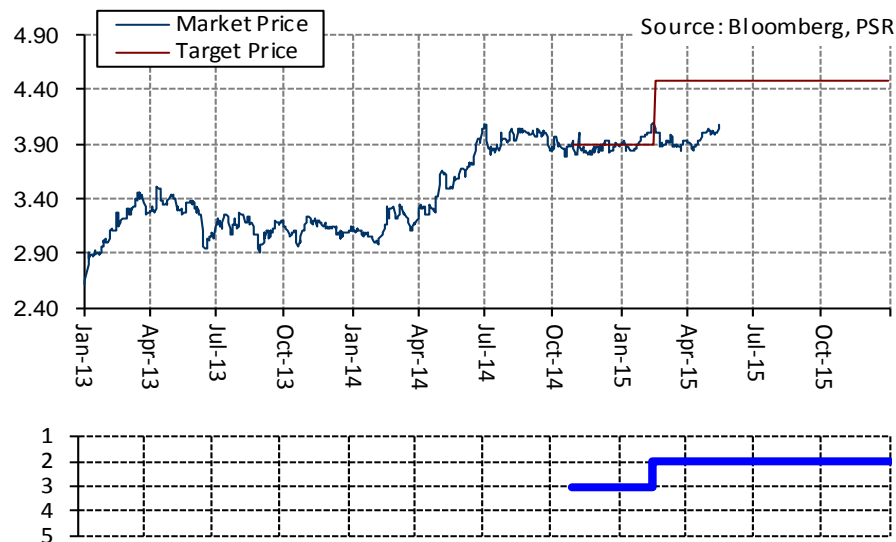
Y/E Dec, SGD mn	FY12	FY13	FY14	FY15e	FY16e
ASSETS					
PPE	154	154	228	363	464
Intangibles	0	0	0	0	0
Investment properties	195	100	228	228	228
Others	0	0	3	3	3
Total non-current assets	349	254	459	594	695
Trade & other receivables	38	44	37	41	45
Cash balance	102	266	150	88	72
Others	5	9	9	11	13
Total current assets	146	319	196	140	130
Total Assets	495	573	655	734	825
LIABILITIES					
Short-term debt	20	5	6	6	6
Trade and other payables	66	73	74	83	91
Others	17	20	24	24	24
Total current liabilities	104	98	105	113	122
Long-term debt	0	0	0	0	0
Others	2	2	10	10	10
Total non-current liabilities	2	2	10	10	10
EQUITY					
Minority interest	1	1	1	2	2
Shareholder Equity	388	473	539	609	691

Valuation Ratios

Y/E Dec, SGD mn	FY12	FY13	FY14	FY15e	FY16e
P/E (X), adj.	26.7	28.1	33.7	32.0	28.2
P/B (X)	3.7	3.6	4.1	3.8	3.4
EV/EBITDA (X)	19.1	18.6	23.6	22.9	19.8
Dividend Yield (%)	1.7%	1.6%	1.4%	1.5%	1.6%
Growth & Margins (%)					
Growth					
Revenue	14.2%	9.4%	9.9%	10.3%	11.2%
EBITDA	8.9%	11.4%	11.1%	9.4%	16.5%
EBIT	8.9%	12.2%	10.4%	10.0%	15.6%
Net Income, adj.	9.7%	14.5%	6.7%	10.0%	15.6%
Margins					
EBITDA margin	22.6%	23.0%	23.2%	23.0%	24.1%
EBIT margin	20.0%	20.5%	20.6%	20.6%	21.4%
Net Profit Margin	17.0%	17.8%	17.3%	17.2%	17.9%
Key Ratios					
ROE (%)	14.6%	14.1%	12.8%	12.9%	13.1%
ROA (%)	11.5%	11.3%	10.5%	10.7%	10.9%
Interest coverage (X)	7.9	8.5	8.0	8.4	7.9
Net gearing (X)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples and yields are based on current market price; historical multiples and yields are based on historical market price.

Ratings History

PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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