

Raffles Medical Group Ltd

New medical centres gaining traction; MCH continues to lag

SINGAPORE | HEALTHCARE | RESULTS

- 9M16 Revenue/PATMI came in at 77.1%/ 63.7% of our FY16 forecasts respectively
- RafflesMedical Centre Orchard and Raffles Holland V to breakeven in coming quarters
- Staff costs compressed operating margin, and may not revert in near term as RMG gears up for its expanding business operations

Results at a glance

SGD mn	3Q16	3Q15	y-y(%)	Comments
Revenue	119.3	101.5	17.5	Growth in both Healthcare Services (+39.7%) and Hospital Services (+6.0%)
EBITDA	22.3	21.7	2.7	Higher staff costs
Operating profits	18.6	18.5	0.3	Higher depreciation expenses
PBT	18.8	18.8	0.2	
Net income, reported	16.2	15.6	4.0	
Net income, adj.	16.2	15.6	4.0	

Source: Company, Phillip Securities Research (Singapore)

Higher revenue but offset by higher staff costs; Operating margin decreased from 18.2% in 3Q15 to 15.6% in 3Q16. Revenue growth driven by increased patient load and higher contributions from all segments, particularly from the newly acquired International SOS (MC Holdings) Pte Ltd and its subsidiaries (collectively known as "MCH"). Excluding MCH, top line would have grown by only 7.9% year-on-year ("yoy").

Staff costs remains the largest cost component; still hovering above 50% of revenue. With MCH, staff cost % of revenue is at 51.5% in 3Q16, as compared to 50.4% in 2Q16. Without MCH, staff cost % of revenue is at 50.1% in 3Q16, as compared to 49.6% in 2Q16. The higher staff costs were due to (i) the reopening of RafflesMedical in Compass One Mall in Sep 2016 after the mall was closed for nearly a year for renovation works; and staff recruitment for the new medical centre in Raffles Holland V. We think the cost rationalisation in MCH could take some time, while RMG continues to recruit to cater for the expanding business operations.

MCH yet to breakeven but Management is confident that it should start contributing next year, on the back of increasing patient load and its repositioning strategy. On the other hand, RafflesMedical Orchard (Shaw Centre) and RafflesMedical Holland V continued to gain traction. In fact, **RafflesMedical Holland V is performing better than expected, that it may breakeven within a year** (compared to the initial one-year target). As of 24 October 2016, c.95% of the space has been committed. The remaining units are under negotiation, and Management is optimistic to see full occupancy rate by end-2016. Meanwhile, **RafflesMedical Orchard is on track to breakeven by end-2016.**

Double-whammy from stronger SGD and sluggish macroeconomic backdrop. Management shared that foreign patient numbers, particularly from Indonesia, Malaysia and Russian, have stopped growing. However, the new patient inflow from IndoChina and China helped to mitigate somewhat. On the other hand, its pool of local and corporate clients, particularly the expats and financial institutions, may be affected amid Singapore's economic slowdown. Nonetheless, we expect RMG to continue to grow, domestically and regionally, as it launches its RafflesHospital Extension and the Shanghai New Bund International Hospital in 2017 and 2018, respectively.

We maintained TP of \$1.62 based on discounted cash flow (DCF) methodology, but upgraded our call from 'Neutral' to 'Accumulate' as current price weakness offers entry point.

25 October 2016

Accumulate (Upgrade)

CLOSING PRICE	SGD 1.51
FORECAST DIV	SGD 0.02
TARGET PRICE	SGD 1.62
TOTAL RETURN	9.1%

COMPANY DATA

O/S SHARES (MN) :	1747
MARKET CAP (USD mn / SGD mn) :	1889.1/ 2629.7
52 - WK HI/LO (SGD) :	168 / 129
3M Average Daily T/O (mn) :	130

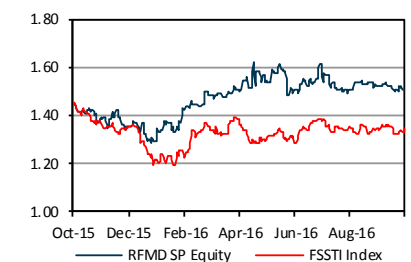
MAJOR SHAREHOLDERS (%)

CHOON YONG LOO	48.1%
FIL LIMITED	4.9%
ABERDEEN	4.8%
S&D HOLDINGS PTE LTD	3.3%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(1.0)	(5.3)	5.5
STIRETURN	(0.6)	(2.1)	(2.8)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD M N	FY 14	FY 15	FY 16 e	FY 17 e
Revenue	375	411	486	561
EBITDA	87	92	100	115
NPAT (adj.)	65	68	73	81
EPS (adj.)	0.04	0.04	0.04	0.05
PER, x (adj.)	32.8	34.1	35.8	32.9
P/B V, x	4.0	3.9	3.5	3.4
DPS (S cts)	1.83	2.00	2.17	2.33
Div Yield, %	1.5%	1.5%	1.4%	1.5%
ROE, %	12.8%	11.9%	11.3%	10.9%

Source: Company Data, PSR est.

VALUATION METHOD

DCF (WACC: 7.0%; terminal g: 3.0%)

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Financials

Income Statement

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16e	FY17e
Revenue	341	375	411	486	561
Operating expenses	(263)	(288)	(319)	(387)	(446)
EBITDA	78	87	92	100	115
Depreciation & Amortisation	(8)	(10)	(13)	(15)	(21)
EBIT	70	77	79	84	94
Associates & JVs	0	0	0	0	0
Net Finance (Expense)/Inc	1	1	1	1	1
Other items	24	3	1	3	3
PBT	95	81	82	88	98
Tax	(10)	(13)	(13)	(14)	(15)
PAT	85	68	69	75	83
Minority interest	(0)	(0)	0	2	2
Net Income, reported	85	68	69	76	84
Net Income, adj.	61	65	68	73	81

Per share data

Y/E Dec, SG cents	FY13	FY14	FY15	FY16e	FY17e
EPS, reported	5.14	4.03	4.05	4.39	4.76
EPS, adj.	3.67	3.85	3.96	4.21	4.59
DPS	1.67	1.83	2.00	2.17	2.33
BVPS	28.44	31.83	34.96	42.72	44.49

Cash Flows

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16e	FY17e
CFO					
PBT	95	81	82	88	98
Adjustments	(14)	9	13	14	20
WC changes	0	13	(9)	10	8
Cash generated from ops	82	103	85	112	126
Taxes paid, others	(10)	(10)	(13)	(14)	(15)
Cashflow from ops	71	93	73	98	110
CFI					
CAPEX, net	(8)	(18)	(34)	(143)	(86)
Acquisition, others	119	(188)	(144)	1	1
Cashflow from investing	111	(206)	(178)	(142)	(85)
CCF					
Share issuance	6	8	12	41	0
Loans, net of repayments	(15)	1	26	(2)	(2)
Dividends	(10)	(12)	(12)	30	(38)
Others	(0)	(0)	15	0	0
Cashflow from financing	(19)	(3)	41	69	(40)
Effects of exchange rates	0	0	0	0	0
Net change in cash	163	(116)	(64)	26	(15)
CCE, end	266	150	86	112	97

Source: Company, Phillip Securities Research (Singapore) Estimates

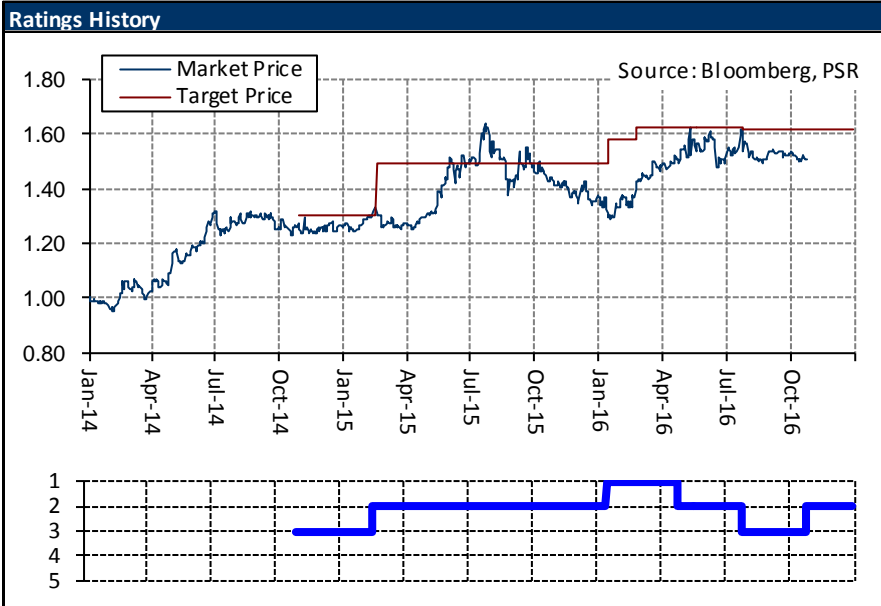
*Forward multiples and yields are based on current market price; historical multiples and yields are based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16e	FY17e
ASSETS					
PPE	154	228	264	392	457
Intangibles	0	0	32	32	32
Investment properties	100	228	344	344	344
Others	0	3	4	4	4
Total non-current assets	254	459	644	772	837
Trade & other receivables	44	37	75	89	102
Cash balance	266	150	86	112	97
Others	9	9	10	12	14
Total current assets	319	196	171	213	213
Total Assets	573	655	815	984	1,050
LIABILITIES					
Short-term debt	5	6	11	11	11
Trade and other payables	73	74	118	144	168
Others	20	24	27	27	27
Total current liabilities	98	105	157	183	206
Long-term debt	0	0	21	19	17
Others	2	10	15	15	15
Total non-current liabilities	2	10	36	34	32
EQUITY					
Minority interest	1	1	19	17	15
Shareholder Equity	473	539	603	751	797

Valuation Ratios

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16e	FY17e
P/E (X), adj.	27.0	32.8	34.1	35.8	32.9
P/B (X)	3.5	4.0	3.9	3.5	3.4
EV/EBITDA (X)	17.7	22.9	24.8	25.7	22.4
Dividend Yield (%)	1.7%	1.5%	1.5%	1.4%	1.5%
Growth & Margins (%)					
Growth					
Revenue	9.4%	9.9%	9.6%	18.4%	15.3%
EBITDA	11.4%	11.1%	5.7%	8.3%	15.3%
EBIT	12.2%	10.4%	2.3%	6.7%	11.2%
Net Income, adj.	14.5%	6.7%	4.9%	8.2%	10.9%
Margins					
EBITDA margin	23.0%	23.2%	22.4%	20.5%	20.5%
EBIT margin	20.5%	20.6%	19.3%	17.4%	16.7%
Net Profit Margin	17.8%	17.3%	16.5%	15.1%	14.5%
Key Ratios					
ROE (%)	14.1%	12.8%	11.9%	11.3%	10.9%
ROA (%)	11.3%	10.5%	9.2%	8.5%	8.3%
Interest coverage (X)	8.5	8.0	6.2	5.6	4.5
Net gearing (X)	Net cash	Net cash	Net cash	Net cash	Net cash



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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