

Raffles Medical Group Ltd

Searching for the right remedies

SINGAPORE | HEALTHCARE | RESULTS

- FY2016 Revenue of S\$473.61 mn was in line with our forecast of S\$486.26 mn
- FY2016 PATMI of S\$70.21 mn missed our forecast by 8.1%. Surprise mainly came from higher-than-expected losses from MCH and higher effective tax rate
- *RafflesMedical* to drive FY17F topline; Expect further margin compression before MCH breakeven while RMG continues to gear up for expansion
- Final dividend of 1.5 Cents; FY2016 dividend of 2.0 Cents (same as FY2015)

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 7.5% year-on-year ("yoy"). However, the increased staff costs from MCH remains a drag. Raffles Medical Group Ltd ("RMG") has stepped up its cost management effort and expects to see better results in next few quarters.

Results at a glance

Revenue by Segment

SGD mn	FY16	FY15	y-y(%)	Comments
Healthcare services	210	161	30.8	Higher patient load from expanded <i>RafflesMedical</i> clinic network, and contribution from newly acquired MCH
Hospital services	285	268	6.3	Higher patient load and higher contribution by more specialists
Investment holdings	18	13	38.4	
Revenue	474	411	15.4	Organic and inorganic growth; exclude MCH, FY2016 Revenue +7.5% yoy
EBITDA	95	92	3.4	Higher staff costs and operating expenses (Margin fell 2.3pps to 20.1%)
Operating profits	80	79	1.7	Higher depreciation expenses; exclude MCH, FY2016 Operating profits +4.4% yoy
PBT	83	82	1.6	
Net income, reported	70	69	1.3	
Net income, adj.	69	68	1.3	

Source: Company, Phillip Securities Research (Singapore)

RafflesMedical to drive growth in FY2017, contributing c.48% of FY17F revenue (up from c.44% in FY2016). Although *RafflesHospital* has the highest margins, it is expected to grow at a **mid-single digit rate in FY2017 amid challenging macro environment**. Hospital Services growth has slowed to single-digit rate in the past three years due to slower growth in foreign patient load and a stretched space in *RafflesHospital*. Although *RafflesHospital Extension* is on track for completion, we do not expect a significant contribution to FY17F earnings as it is slated to be operational by 4Q FY2017. On the other hand, its expanding network of clinics as well as growing corporate clients will support *RafflesMedical's* double-digit growth rate.

Positive on MCH's growth potential but cost rationalisation takes time. MCH has yet to breakeven in FY2016 due to the high integration costs incurred and higher-than-Group level's operating expenses. MCH's staff costs as a percentage of revenue is still at 56% as at end-FY2016, albeit improved from 60% when it was initially acquired. Management reiterated that RMG had only started managing MCH in April 2016 and would require few more quarters before it turns around. RMG has appointed two General Managers to improve operational efficiencies at the Healthcare Services business in IndoChina and to ultimately improve margins there. RMG's expansion plans by leveraging on MCH's network of clinics, particularly the fast-growing clinics in China, could open up RMG's potential customer base to the top 20% of China population, which are considered as the upper income group. The Group intends to add two or three more MCH clinics in China this year.

21 February 2017

Accumulate (Maintained)

LAST CLOSE PRICE	SGD 1.46
FORECAST DIV	SGD 0.01
TARGET PRICE	SGD 1.60
TOTAL RETURN	10.0%

COMPANY DATA

O/S SHARES (MN) :	1,749
MARKET CAP (USD mn / SGD mn) :	18011 / 2553.7
52 - WK HI/LO (SGD) :	168 / 138
3M Average Daily T/O (mn) :	137

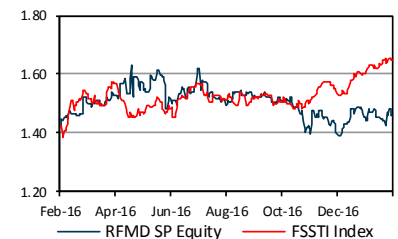
MAJOR SHAREHOLDERS (%)

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	(0.7)	5.3	10.8
STIRETURN	3.4	11.1	23.6

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 15	FY 16	FY 17e	FY 18e
Revenue (SGD mn)	411	474	529	592
EBITDA (SGD mn)	92	95	106	120
NPAT adj. (SGD mn)	68	69	70	82
EPS adj. (Cents)	3.96	3.95	4.00	4.58
PER adj. (x)	34.6	36.2	37.0	32.3
P/BV (x)	3.9	3.8	3.6	3.4
DPS (Cents)	2.00	2.00	2.00	2.00
Div Yield (%)	15%	14%	14%	14%
ROE (%)	11.9%	10.8%	10.3%	11.0%

Source: Company Data, PSR est.

VALUATION METHOD

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

Soh Lin Sin (+65 6212 1847)
sohls@phillip.com.sg

Strong financial positions to support its expansion plans.

Improved net cash position (increased to S\$81.5 mn from S\$53.8 mn a year ago) and its strong operating cashflows (cashflow from operating activities of S\$78.9 mn in FY2016) will enable the Group to support its investments in MCH, *RafflesHospital Extension*, and partially *RafflesHospital Shanghai*.

The remaining CapEx are estimated at:

- (i) c.S\$94 million for *RafflesHospital Extension*; and
- (ii) c.S\$98 million earmarked for *RafflesHospital Shanghai*.

RMG has a healthy cash position of S\$111.9 million as at 31 December 2016. We expect the Group to partially fund its *RafflesHospital Shanghai* project with debt.

Investment risks which could dampened healthcare demand in Singapore:

- (i) slower economic growth and uncertainties in Singapore and the region
- (ii) strong SGD against neighbouring currencies
- (iii) intensifying competition for medical tourism between Singapore, Thailand and Malaysia

Maintained 'Accumulate'. We have cut our FY17-18F Revenue by c.6% and adjusted for higher operating costs, which translates to a slightly lower DCF-derived **target price of S\$1.60** (previously S1.62). We expect its *RafflesHospital Extension* and the *RafflesHospital Shanghai* to boost its revenue after its launches in 2017 and 2018, respectively. Expansion of its domestic and regional business operations will keep FY17-18F operating expenses high as RMG continues its recruitment drive to cater to the expansion of its Hospital and Healthcare Services operations in Singapore as well as in Indochina region. We have also cut our FY17-18F dividend as we expect RFMD to reinvest at least half of its earnings into MCH, *RafflesHospital Shanghai* and *RafflesHospital Extension*.

Details of expansion plans

(a) *RafflesHospital Extension*

It will contribute an additional 220,000 square feet or c.72% of gross floor area to *RafflesHospital*. Management shared that half of the space would be used to expand its range of specialist services, healthcare training and clinical research; while the other half would be leased to tenants of complementary or medical-related businesses. If demand arises, the leased area would be reclaimed for growth and expansion in the future years. The Group intends to add c.50 new beds after moving existing specialist centres to the new integrated medical complex. Additional bed capacity would provide room for *RafflesHospital* to grow.

(b) *RafflesMedical*

- (i) Continue to nurture and grow its multi-disciplinary medical facilities, i.e. *RafflesMedical Orchard* and *Raffles Holland V*.
- (ii) Further expanding its network of clinics, domestically (new clinics in Hillion Mall and Changi Airport Terminal 4) and abroad (two to three new clinics in China).
- (iii) Continues to grow its portfolio of corporate clients through the *RafflesOne* corporate portfolio package. *RafflesMedical Hong Kong* had secured another significant corporate client, Hong Kong Shanghai Banking (HSBC), in January 2017.

Income Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
Revenue	375	411	474	529	592
Operating expenses	(288)	(319)	(379)	(423)	(472)
EBITDA	87	92	95	106	120
Depreciation & Amortisation	(10)	(13)	(15)	(20)	(20)
EBIT	77	79	80	85	100
Associates & JVs	0	0	0	0	0
Net Finance (Expense)/Inc	1	1	1	0	1
Other items	3	1	2	2	2
PBT	81	82	83	87	102
Tax	(13)	(13)	(15)	(16)	(18)
PAT	68	69	68	72	83
Minority interest	(0)	0	2	0	(0)
Net Income, reported	68	69	70	72	83
Net Income, adj.	65	68	69	70	82

Per share data

Y/E Dec, SG cents	FY14	FY15	FY16	FY17e	FY18e
EPS, reported	4.03	4.05	4.04	4.08	4.66
EPS, adj.	3.85	3.96	3.95	4.00	4.58
DPS	1.83	2.00	2.00	2.00	2.00
BVPS	31.83	34.96	38.12	41.29	43.39

Cash Flows

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
PBT	81	82	83	87	102
Adjustments	9	13	15	20	20
WC changes	13	(9)	(6)	6	3
Cash generated from ops	103	85	92	113	125
Taxes paid, others	(10)	(13)	(13)	(16)	(19)
Cashflow from ops	93	73	79	97	106
CFI					
CAPEX, net	(18)	(34)	(14)	(159)	(63)
Acquisition, others	(188)	(144)	(30)	1	1
Cashflow from investing	(206)	(178)	(44)	(158)	(62)
CFF					
Share issuance	8	12	7	7	0
Loans, net of repayments	1	26	(2)	96	(11)
Dividends	(12)	(12)	(14)	(14)	(35)
Others	(0)	15	1	0	0
Cashflow from financing	(3)	41	(8)	89	(47)
Effects of exchange rates	0	0	(0)	0	0
Net change in cash	(116)	(64)	26	28	(3)
CCE, end	150	86	112	140	137

Balance Sheet

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
ASSETS					
PPE	228	264	270	409	452
Intangibles	0	32	31	31	31
Investment properties	228	344	371	371	371
Others	3	4	5	5	5
Total non-current assets	459	644	677	816	859
Trade & other receivables	37	75	101	113	127
Cash balance	150	86	112	140	137
Others	9	10	10	11	13
Total current assets	196	171	223	264	276
Total Assets	655	815	901	1,081	1,135
LIABILITIES					
Short-term debt	6	11	13	13	13
Trade and other payables	74	118	145	164	182
Others	24	27	26	26	26
Total current liabilities	105	157	184	203	221
Long-term debt	0	21	17	113	102
Others	10	15	18	18	18
Total non-current liabilities	10	36	35	131	120
EQUITY					
Minority interest	1	19	15	15	16
Shareholder Equity	539	603	666	731	779

Valuation Ratios

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
P/E (X), adj.	33.7	34.6	36.2	37.0	32.3
P/B (X)	4.1	3.9	3.8	3.6	3.4
EV/EBITDA (X)	23.6	25.1	25.4	24.4	21.4
Dividend Yield (%)	1.4%	1.5%	1.4%	1.4%	1.4%

Growth & Margins (%)

Growth					
Revenue	9.9%	9.6%	15.4%	11.7%	11.9%
EBITDA	11.1%	5.7%	3.4%	11.2%	13.6%
EBIT	10.4%	2.3%	1.7%	6.2%	16.8%
Net Income, adj.	6.7%	4.9%	1.3%	2.4%	16.0%
Margins					
EBITDA margin	23.2%	22.4%	20.1%	20.0%	20.3%
EBIT margin	20.6%	19.3%	17.0%	16.1%	16.9%
Net Profit Margin	17.3%	16.5%	14.5%	13.3%	13.8%

Key Ratios

ROE (%)	12.8%	11.9%	10.8%	10.3%	11.0%
ROA (%)	10.5%	9.2%	8.0%	7.3%	7.5%
Interest coverage (X)	8.0	6.2	5.5	4.2	4.9
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.



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

Contact Information (Singapore Research Team)

Research Operations OfficerMohamed Amiruddin - amiruddin@phillip.com.sg**Consumer | Healthcare**Soh Lin Sin - sohls@phillip.com.sg**Transport | REITs (Industrial)**Richard Leow, CFTe, FRM -
richardleowwt@phillip.com.sg**Banking and Finance**Jeremy Teong - jeremyteongfh@phillip.com.sg**Property | Infrastructure**Peter Ng - peterngmc@phillip.com.sg**REITs (Commercial, Retail, Healthcare) | Property**Dehong Tan - tandh@phillip.com.sg**US Equity**Ho Kang Wei - hokw@phillip.com.sg**Macro**Pei Sai Teng - peist@phillip.com.sg**Technical Analysis**Jeremy Ng - jeremyngch@phillip.com.sg**Oil & Gas | Energy**Chen Guangzhi - chengz@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE**Phillip Securities Pte Ltd**Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg**JAPAN****Phillip Securities Japan, Ltd.**4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp**THAILAND****Phillip Securities (Thailand) Public Co. Ltd**15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th**UNITED STATES****Phillip Futures Inc**141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com**INDIA****PhillipCapital (India) Private Limited**No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in**CAMBODIA****Phillip Bank Plc**Ground Floor of B-Office Centre,#61-64,
Norodom Blvd Corner Street 306,Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh**MALAYSIA****Phillip Capital Management Sdn Bhd**B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my**INDONESIA****PT Phillip Securities Indonesia**ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id**FRANCE****King & Shaxson Capital Limited**3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com**AUSTRALIA****Phillip Capital Limited**Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.phillipcapital.com.au**TURKEY****PhillipCapital Menkul Degerler**Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr**HONG KONG****Phillip Securities (HK) Ltd**11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk**CHINA****Phillip Financial Advisory (Shanghai) Co Ltd**No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn**UNITED KINGDOM****King & Shaxson Capital Limited**6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com**SRI LANKA****Asha Phillip Securities Limited**2nd Floor, Lakshmans Building,
No. 321, Galle Road,
Colombo 03, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net**DUBAI****Phillip Futures DMCC**Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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