

Raffles Medical Group Ltd

Leveraging on Asia giant for growth

SINGAPORE | HEALTHCARE | 1Q17 RESULTS

- 1Q17 Revenue/PATMI met 22% of our FY17 full year forecasts. Revenue from both hospitals and clinics were softer than expected.
- We expect revenue from clinics to support FY17F top-line growth following new contribution from *RafflesMedical Orchard* and MCH. We expect both to breakeven by end-FY17
- Staff costs continue to drag profitability while RMG gears up for expansion
- Two new hospitals in China with aggregate bed capacity of 1,100 slated for completion by end-2018

SGD mn	1Q17	1Q16	y-y(%)	Comments
Revenue	115	117	(1.7)	Lower contribution from both Clinic (-2.0%) and Hospital (-1.9%)
EBITDA	22	22	(2.6)	Higher staff costs (Staff costs as percentage of Revenue increased 0.4 percentage point)
Operating profits	18	19	(3.4)	Higher depreciation and amortisation Lower wage credit received (-61.3%); Exclude wage credit received, Operating profits +3.8%
PBT	18	19	(3.5)	
PATMI	16	16	0.1	

Source: Company, Phillip Securities Research (Singapore)

Losing price-competitiveness on macro headwinds

Local patient load (more than two-thirds of its total patient volume) grew at single-digit rate despite some losses of price sensitive patients to public healthcare. Growth of foreign patient load declined at single-digit rate due to stronger SGD against regional currencies. Patient volume from Indonesia contracted but partially offset by higher patient load from China, Vietnam and Cambodia.

Management is still cautiously optimistic of a c.10% FY17F top-line growth supported by growing multidisciplinary medical centres and MCH

Raffles Holland V (opened in June-16) has broken even in 1Q17. *Raffles Holland V*, which is now near full occupancy, is expected to contribute more significantly to the Group's profit in coming quarters. Meanwhile, *RafflesMedical Orchard* and MCH ("MC Holdings") are targeted to breakeven by end-FY2017.

Persistent staff costs pressure on ongoing recruitment drive

The Group's staff costs as a percentage of revenue was 53.1% in 1Q17 as compared to 51.0% in FY2016. Staff costs will continue to drag profitability until patient volume picks up in MCH and the two new hospitals in China, providing operating leverage.

Two new hospitals in China slated for completion by end-FY2018; Tapping on China's growing healthcare market

RafflesHospital Shanghai (400-bed capacity) and the recently announced *RafflesHospital Chongqing* (700-bed capacity) are expected to start operations with 200 private beds each. Medical clinics in its vicinity, including the MCH clinics in Shanghai, Beijing, Nanjing, Tianjin, Dalian, and Shenzhen, will feed into the two new China hospitals. The Group has also shared earlier of its intention to add two to three new clinics in China. A slowdown in China could lead to a longer time to breakeven for the new hospitals and clinics.

Maintained 'Accumulate'. We adjusted our forecasts to include the higher operating expenses and CapEx ("Capital Expenditures") for *RafflesHospital Chongqing*, which translates to a lower DCF-derived **target price of S\$1.49** (previously S1.60). Better-than-expected margins from its China hospitals could lead to re-rating.

25 April 2017

Accumulate (Maintained)

LAST CLOSE PRICE	SGD 1.42
FORECAST DIV	SGD 0.02
TARGET PRICE	SGD 1.49
TOTAL RETURN	6.7%

COMPANY DATA

O/S SHARES (MN) :	1752
MARKET CAP (USD mn / SGD mn) :	1779.8 / 2478.4
52 - WK HI/LO (SGD) :	168 / 138
3M Average Daily T/O (mn) :	185

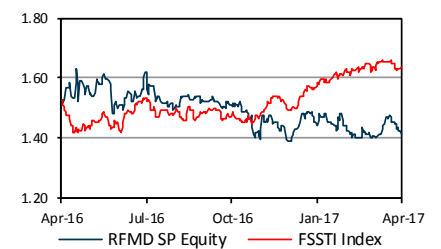
MAJOR SHAREHOLDERS (%)

CHOON YONG LOO	48.0%
FIL LIMITED	4.9%
ABERDEEN	4.8%
S&D HOLDINGS PTE LTD	3.3%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	14	(2.1)	(5.5)
STIRETURN	(0.6)	4.8	10.3

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	119
NPAT adj. (SGD mn)	68	69	71	78
EPS adj. (Cents)	3.96	3.95	4.02	4.35
PER adj. (x)	34.6	36.2	35.5	32.8
P/BV (x)	3.9	3.8	3.5	3.3
DPS (Cents)	2.00	2.00	2.00	2.00
Div Yield (%)	14%	14%	14%	14%
ROE (%)	119%	10.8%	10.3%	10.5%

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

Going into net debt position by end-FY2017

The additional CapEx arising from its new hospital in Chongqing will turn the Group's net cash position of S\$89.4mn in 1Q17 to a net debt position by end-FY2017. The remaining CapEx are estimated at:

- (i) c.S\$94 mn for *RafflesHospital Extension* in FY2017; and
- (ii) c.S\$98 mn for *RafflesHospital Shanghai* and c.RMB1 bn (or c.S\$202 mn*) for *RafflesHospital Chongqing* to be spread across FY2017-18.

*SGD1 = RMB4.95

The Group will take on RMB-denominated loans to fund the CapEx of its two China hospitals. These loans will be naturally hedged by the revenue from its China operations somewhat. The S\$119 mn cash and cash equivalent (as at end-1Q17), and a c.S\$80 mn cash flow from operating activities, should support its dividend payout and CapEx.

RafflesHospital Chongqing

- **Background.** Pursuant to the Group's Memorandum of Understanding ("MOU") with Chongqing Liangjiang New Area Administrative Committee in 27 Feb 2017, it has acquired a piece of land with estimated land area of 28,000 square metres together with an in-construction building thereon, located in the New North District of the Liangjiang New Area in Chongqing. The construction of a 700-bed international tertiary general hospital is targeted to be completed by 2Q18.
- **The project enables RMG to tap growth in the western region of China.** Chongqing has a population of 33 million people. It is the third government-to-government project between Singapore and China (after 1994 Suzhou Industrial Park and the 2008 Tianjin Eco-City), and an important node along the new "Silk Road Economic Belt".
- **Opening of *RafflesHospital Chongqing* is strategically timed to ride on the Belt and Road Initiative.** There is no clear timeframe for Silk Road initiatives, but the government has marked 2020 as an important deadline. Hence, with the new *RafflesHospital Chongqing* will have a year's head start to ramp up its operation.
- **Lower Operating margin for brand building and market penetration.** What sets *RafflesHospital Chongqing* apart from *RafflesHospital Shanghai* is not only of its larger scale, but also the 100 public beds it will house to service *yibao* patients (i.e. to accept China's national health insurance). Management shared that it will be a training platform for the Group's specialists to pass on knowledge and technical skills to local practitioners and medical staffs. Although the 100-bed public segment is expected to operate under a different brand name to prevent dilution of brand equity as a premium healthcare provider, we perceived it as a strategic move to build trust in a community with no private hospital presence. Management shared that *RafflesHospital Chongqing* will be the only international hospital in Chongqing.

Financials

Income Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
Revenue	375	411	474	529	592
Operating expenses	(288)	(319)	(379)	(423)	(473)
EBITDA	87	92	95	106	119
Depreciation & Amortisation	(10)	(13)	(15)	(20)	(24)
EBIT	77	79	80	85	95
Associates & JVs	0	0	0	0	0
Net Finance (Expense)/Inc	1	1	1	(0)	(0)
Other items	3	1	2	2	1
PBT	81	82	83	87	96
Tax	(13)	(13)	(15)	(16)	(17)
PAT	68	69	68	71	79
Minority interest	(0)	0	2	1	0
Net Income, reported	68	69	70	72	79
Net Income, adj.	65	68	69	71	78

Per share data

Y/E Dec, SG cents	FY14	FY15	FY16	FY17e	FY18e
EPS, reported	4.03	4.05	4.04	4.10	4.43
EPS, adj.	3.85	3.96	3.95	4.02	4.35
DPS	1.83	2.00	2.00	2.00	2.00
BVPS	31.83	34.96	38.12	41.30	43.18

Cash Flows

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
PBT	81	82	83	87	96
Adjustments	9	13	15	20	24
WC changes	13	(9)	(6)	6	5
Cash generated from ops	103	85	92	113	126
Taxes paid, others	(10)	(13)	(13)	(17)	(19)
Cashflow from ops	93	73	79	96	107
CFI					
CAPEX, net	(18)	(34)	(14)	(259)	(163)
Acquisition, others	(188)	(144)	(30)	1	1
Cashflow from investing	(206)	(178)	(44)	(258)	(162)
CFE					
Share issuance	8	12	7	7	0
Loans, net of repayments	1	26	(2)	236	(25)
Dividends	(12)	(12)	(14)	(14)	(35)
Others	(0)	15	1	0	0
Cashflow from financing	(3)	41	(8)	229	(61)
Effects of exchange rates	0	0	(0)	0	0
Net change in cash	(116)	(64)	26	68	(116)
CCE, end	150	86	112	179	64

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	FY14	FY15	FY16	FY17e	FY18e
ASSETS					
PPE	228	264	270	509	648
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	916	1,055
Trade & other receivables	37	75	101	113	127
Cash balance	150	86	112	179	64
Others	9	10	10	11	13
Total current assets	196	171	223	304	203
Total Assets	655	815	901	1,220	1,258
LIABILITIES					
Short-term debt	6	11	13	13	13
Trade and other payables	74	118	145	164	184
Others	24	27	26	26	26
Total current liabilities	105	157	184	203	223
Long-term debt	0	21	17	253	228
Others	10	15	18	18	18
Total non-current liabilities	10	36	35	271	246
EQUITY					
Minority interest	1	19	15	14	14
Shareholder Equity	539	603	666	732	775

Valuation Ratios

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
P/E (X), adj.	33.7	34.6	36.2	35.5	32.8
P/B (X)	4.1	3.9	3.8	3.5	3.3
EV/EBITDA (X)	23.6	25.1	25.4	24.4	22.4
Dividend Yield (%)	1.3%	1.4%	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%	12.8%
EBIT	10.4%	2.3%	1.7%	6.2%	11.1%
Net Income, adj.	6.7%	4.9%	1.3%	2.9%	9.7%
Margins					
EBITDA margin	23.2%	22.4%	20.1%	20.0%	20.1%
EBIT margin	20.6%	19.3%	17.0%	16.1%	16.0%
Net Profit Margin	17.3%	16.5%	14.5%	13.4%	13.1%
Key Ratios					
ROE (%)	12.8%	11.9%	10.8%	10.3%	10.5%
ROA (%)	10.5%	9.2%	8.0%	6.8%	6.4%
Interest coverage (X)	8.0	6.2	5.5	4.2	3.9
Net gearing (X)	Net cash	Net cash	Net cash	0.1	0.23



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)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Operations Officer

Mohamed Amiruddin - amiruddin@phillip.com.sg

Consumer | Healthcare

Soh Lin Sin - sohls@phillip.com.sg

Property | Infrastructure

Peter Ng - peterngmc@phillip.com.sg

Macro

Pei Sai Teng - peist@phillip.com.sg

Transport | REITs (Industrial)

Richard Leow, CFTe, FRM -
richardleowwt@phillip.com.sg

REITs (Commercial, Retail, Healthcare) | Property

Dehong Tan - tandh@phillip.com.sg

Technical Analysis

Jeremy Ng - jeremyngch@phillip.com.sg

Banking and Finance

Jeremy Teong - jeremyteongfh@phillip.com.sg

US Equity

Ho Kang Wei - hokw@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

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

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

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

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

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

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

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

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

UNITED STATES

Phillip Capital 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

AUSTRALIA

Phillip Capital Limited

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.phillipcapital.com.au

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

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

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

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

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

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