

# Raffles Medical Group Ltd

Growth story with hurdles



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## SINGAPORE | HEALTHCARE | 3Q17 RESULTS

31 October 2017

- 9M17 Revenue and PATMI met 72%/73% of our full year FY2017 expectations
- Expansion projects on-track to commence: *RafflesHospital Extension* (4Q17), *RafflesHospital Chongqing* (4Q18) and *RafflesHospital Shanghai* (4Q19)
- Both MCH and Shaw Centre have broken even in 3Q17
- We upgraded to Accumulate with higher TP of S\$1.32 (previously S\$1.27)

### Results at a glance

SGD mn	3Q17	3Q16	YoY (%)	Comments
Revenue	120	119	0.3	Lower contribution from Clinic (-4.2%) offsets stronger demand from Hospital (+3.1%)
EBITDA	22	22	(1.2)	Higher staff costs due to salary adjustment; (Staff costs at 52.4% of Revenue; +0.9 pp YoY)
Operating profits	18	19	(0.9)	
PBT	19	19	(1.4)	
PATMI	16	16	1.0	Lower effective tax rate due to utilisation of tax losses and tax incentive

Source: Company, PSR

### The Positives

- Local patients continued to underpin growth.** Higher local patient load drove Hospital division growth. Its General Practitioner Clinics also registered growth but this was offset by the lower renewal of international healthcare plans for expatriates, particularly from the financial sector.
- MCH and Shaw Centre to generate Operating Profit in FY18.** Both MCH (MC Holdings) and *RafflesMedical* Centre Orchard (Shaw Centre) have broken even in 3Q17. MCH is still undergoing integration process; while Shaw Centre has started contributing to Operating Profit in 3Q17.

### The Negatives

- Staff costs remained a drag.** 3Q17 staff costs was higher by 1.6% YoY due to annual salary adjustment. We expect staff costs to stay above 50% of Group's revenue in coming years until patient volume picks up in *RafflesHospital Extension*, MCH and the two new hospitals in China.

### Outlook

- More revenue streams from additional capacity.** Its three expansion projects are on-track to commence operations: *RafflesHospital Extension* (4Q17); *RafflesHospital Chongqing* (4Q18) and *RafflesHospital Shanghai* (4Q19).
- Estimated start-losses to hit 10-13% of EBITDA p.a. in FY2019-20.** The Group generates c.S\$100mn of EBITDA a year. We have also earmarked three years before each hospital will break even. Nonetheless, we are upbeat on the potential growth that these new hospitals in China would bring to the Group: (i) Diversification with a higher contribution for overseas operation; and (ii) Tapping into China's growth.
- Remaining CapEx (capital expenditure) of S\$362mn, to be spread across 4Q17 to FY2019.** We expect the Group to partially fund the two China hospitals with debt. Management guided to cap gearing ratio at 50%, which implies much headroom for loans as the 3Q17 gearing ratio was at 10.5%.

### Upgraded to 'Accumulate' with a higher TP of S\$1.32 (previously \$1.27)

We adjusted for the (i) the turnaround in MCH and Shaw Centre; and (ii) the estimated start-up costs in FY2018-21. Better than expected performance in China hospitals would be a re-rating catalyst.

### Accumulate (Upgraded)

LAST CLOSE PRICE	SGD 1.13
FORECAST DIV	SGD 0.02
TARGET PRICE	SGD 1.32
<b>TOTAL RETURN</b>	<b>19.1%</b>

### COMPANY DATA

BLOOMBERG CODE	RFMD SP
O/S SHARES (MN):	1771
MARKET CAP (USD mn / SGD mn):	14615 / 1992.1
52 - WK HI/LO (SGD):	153 / 103
3M Average Daily T/O (mn):	4.26

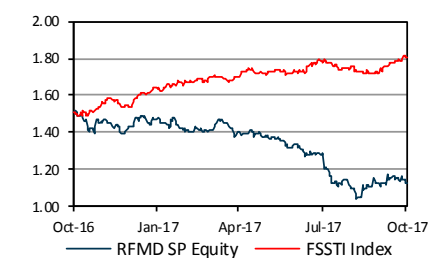
### MAJOR SHAREHOLDERS (%)

CHOON YONG LOO	48.0%
STANDARD LIFE ABERDEEN PLC	6.2%
FIL LIMITED	3.7%
S&D HOLDINGS PTE LTD	3.3%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	2.2	(10.1)	(22.9)
STIRETURN	4.7	2.2	23.7

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec	FY 15	FY 16	FY 17e	FY 18e
Revenue (SGD mn)	411	474	476	508
EBITDA (SGD mn)	92	95	93	100
NPAT adj. (SGD mn)	68	69	66	67
EPS adj. (Cents)	3.96	3.95	3.75	3.73
PER adj. (x)	34.6	36.2	30.6	30.8
P/BV (x)	3.9	3.8	2.8	2.7
DPS (Cents)	2.00	2.00	2.00	2.00
Div Yield (%)	17%	17%	17%	17%
ROE (%)	119%	10.8%	9.7%	9.1%

Source: Company Data, PSR est.

### VALUATION METHOD

DCF (WACC: 6.6%; terminal g: 3.0%)

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## Figure 2: Peers Comparison

Raffles Medical Group is currently trading at 30.6x forward PER, which is a 16% discount to its regional peers' average of 36.5x. Its FY17e dividend yield of 1.7% is on par with its regional peers' average.

## Comparables

BB Ticker	Company	FYE	Mkt Cap (\$m)	Ent Val (\$m)	P/E		P/B		EV/EBITDA		Div Yield		ROE	
					FY16/17e	FY17/18e	FY16/17e	FY17/18e	FY16/17e	FY17/18e	FY16/17e	FY16/17e	FY16/17e	FY16/17e
RFMD SP	RAFFLES MEDICAL	Dec	1,992	1,969	30.6	30.5	2.8	2.7	22.3	22.4	1.7	9.7		
<b>Market Cap Weighted Peers' average:</b>					<b>36.5</b>	<b>30.2</b>	<b>3.7</b>	<b>3.4</b>	<b>16.9</b>	<b>15.0</b>	<b>1.7</b>	<b>13.6</b>		
IHH SP	IHH HEALTHCARE B	Dec	14,913	16,697	55.7	43.3	2.0	2.0	21.0	17.8	0.6	3.9		
RHC AU	RAMSAY HEALTH	Jun	14,271	17,719	23.6	21.5	5.5	4.9	11.9	11.1	2.2	23.8		
RYM NZ	RYMAN HEALTHCARE	Mar	4,270	5,091	25.1	21.7	2.5	2.3	22.2	20.0	2.2	10.4		
PRY AU	PRIMARY HEALTH	Jun	1,869	2,699	18.1	16.4	0.9	0.9	8.1	7.8	3.4	5.2		
KPJ MK	KPJ HEALTHCARE	Dec	1,425	1,859	28.4	25.6	2.9	2.7	14.1	12.8	2.3	9.5		
TKMED SP	TALKMED GROUP LT	Dec	933	865	28.4	28.4	14.2	11.8	20.1	19.3	4.2	50.7		
QNM SP	Q&M DENTAL GROUP	Dec	529	578	33.3	33.3	4.4	4.2	23.1	21.9	1.7	13.3		

Source: Bloomberg, PSR

## Financials

### Income Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
<b>Revenue</b>	375	411	474	476	508
Operating expenses	(288)	(319)	(379)	(383)	(408)
<b>EBITDA</b>	<b>87</b>	<b>92</b>	<b>95</b>	<b>93</b>	<b>100</b>
Depreciation & Amortisation	(10)	(13)	(15)	(16)	(21)
<b>EBIT</b>	<b>77</b>	<b>79</b>	<b>80</b>	<b>76</b>	<b>78</b>
Associates & JVs	0	0	0	0	0
Net Finance (Expense)/Inc	1	1	1	1	0
Other items	3	1	2	2	2
<b>PBT</b>	<b>81</b>	<b>82</b>	<b>83</b>	<b>79</b>	<b>80</b>
Tax	(13)	(13)	(15)	(13)	(14)
<b>PAT</b>	<b>68</b>	<b>69</b>	<b>68</b>	<b>65</b>	<b>66</b>
Minority interest	(0)	0	2	2	2
<b>Net Income, reported</b>	<b>68</b>	<b>69</b>	<b>70</b>	<b>68</b>	<b>68</b>
<b>Net Income, adj.</b>	<b>65</b>	<b>68</b>	<b>69</b>	<b>66</b>	<b>67</b>

### Per share data

Y/E Dec, SG cents	FY14	FY15	FY16	FY17e	FY18e
EPS, reported	4.03	4.05	4.04	3.84	3.81
EPS, adj.	3.85	3.96	3.95	3.75	3.73
DPS	1.83	2.00	2.00	2.00	2.00
BVPS	31.83	34.96	38.12	41.04	42.31

### Cash Flows

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
PBT	81	82	83	79	80
Adjustments	9	13	15	15	21
WC changes	13	(9)	(6)	2	4
Cash generated from ops	103	85	92	96	105
Taxes paid, others	(10)	(13)	(13)	(14)	(15)
<b>Cashflow from ops</b>	<b>93</b>	<b>73</b>	<b>79</b>	<b>83</b>	<b>90</b>
CFI					
CAPEX, net	(18)	(34)	(14)	(183)	(232)
Acquisition, others	(188)	(144)	(30)	1	1
<b>Cashflow from investing</b>	<b>(206)</b>	<b>(178)</b>	<b>(44)</b>	<b>(182)</b>	<b>(231)</b>
CFE					
Share issuance	8	12	7	7	0
Loans, net of repayments	1	26	(2)	39	203
Dividends	(12)	(12)	(14)	(14)	(35)
Others	(0)	15	1	0	0
<b>Cashflow from financing</b>	<b>(3)</b>	<b>41</b>	<b>(8)</b>	<b>32</b>	<b>167</b>
Effects of exchange rates	0	0	(0)	0	0
<b>Net change in cash</b>	<b>(116)</b>	<b>(64)</b>	<b>26</b>	<b>(67)</b>	<b>27</b>
<b>CCE, end</b>	<b>150</b>	<b>86</b>	<b>112</b>	<b>45</b>	<b>72</b>

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
<b>ASSETS</b>					
PPE	228	264	270	268	263
Intangibles	0	32	31	31	31
Investment properties	228	344	371	540	756
Others	3	4	5	5	5
<b>Total non-current assets</b>	<b>459</b>	<b>644</b>	<b>677</b>	<b>844</b>	<b>1,055</b>
Trade & other receivables	37	75	101	102	109
Cash balance	150	86	112	45	72
Others	9	10	10	10	11
<b>Total current assets</b>	<b>196</b>	<b>171</b>	<b>223</b>	<b>157</b>	<b>191</b>
<b>Total Assets</b>	<b>655</b>	<b>815</b>	<b>901</b>	<b>1,001</b>	<b>1,246</b>
<b>LIABILITIES</b>					
Short-term debt	6	11	13	13	13
Trade and other payables	74	118	145	147	159
Others	24	27	26	26	26
<b>Total current liabilities</b>	<b>105</b>	<b>157</b>	<b>184</b>	<b>187</b>	<b>198</b>
Long-term debt	0	21	17	56	259
Others	10	15	18	18	18
<b>Total non-current liabilities</b>	<b>10</b>	<b>36</b>	<b>35</b>	<b>74</b>	<b>277</b>
<b>EQUITY</b>					
Minority interest	1	19	15	13	11
<b>Shareholder Equity</b>	<b>539</b>	<b>603</b>	<b>666</b>	<b>727</b>	<b>760</b>

### Valuation Ratios

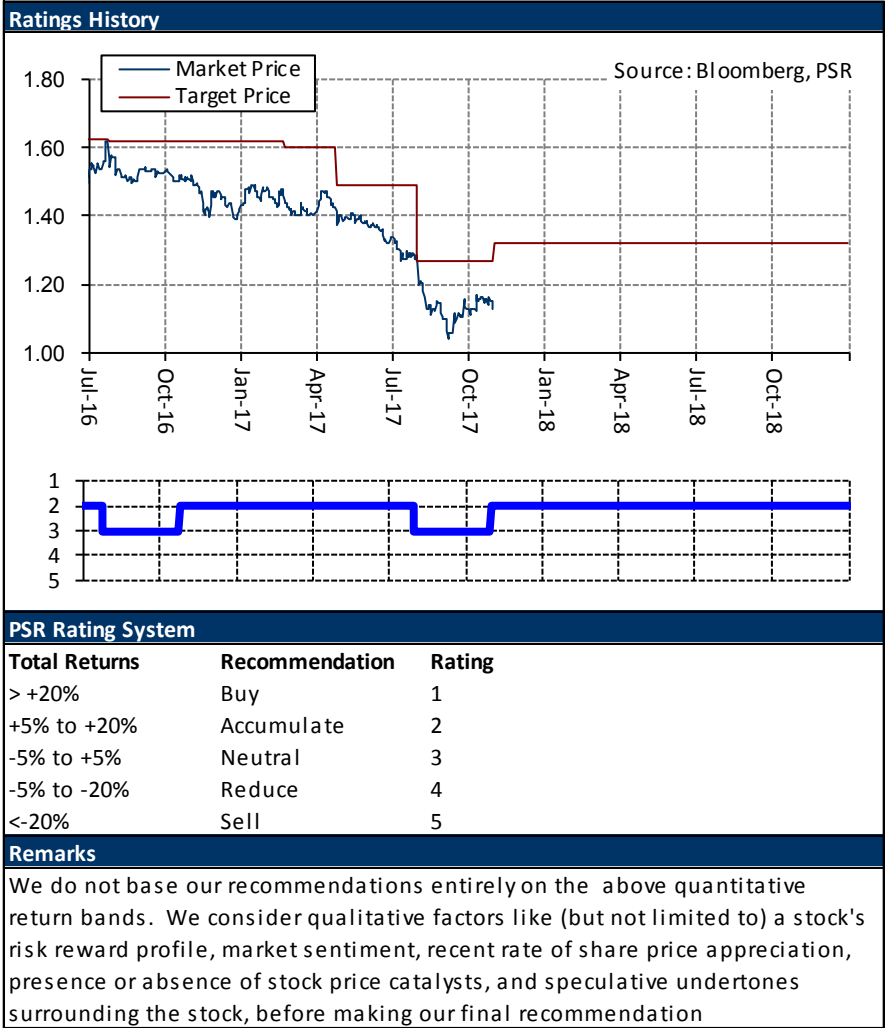
Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
P/E (X), adj.	33.7	34.6	36.2	30.6	30.8
P/B (X)	4.1	3.9	3.8	2.8	2.7
EV/EBITDA (X)	23.6	25.1	25.4	22.3	22.4
Dividend Yield (%)	1.6%	1.7%	1.7%	1.7%	1.7%

### Growth & Margins (%)

<b>Growth</b>					
Revenue	9.9%	9.6%	15.4%	0.4%	6.8%
EBITDA	11.1%	5.7%	3.4%	-2.7%	7.8%
EBIT	10.4%	2.3%	1.7%	-5.1%	2.8%
Net Income, adj.	6.7%	4.9%	1.3%	-3.9%	0.7%
<b>Margins</b>					
EBITDA margin	23.2%	22.4%	20.1%	19.5%	19.6%
EBIT margin	20.6%	19.3%	17.0%	16.1%	15.4%
Net Profit Margin	17.3%	16.5%	14.5%	13.9%	13.1%

### Key Ratios

ROE (%)	12.8%	11.9%	10.8%	9.7%	9.1%
ROA (%)	10.5%	9.2%	8.0%	7.1%	6.1%
Interest coverage (X)	8.0	6.2	5.5	4.7	3.7
Net gearing (X)	Net cash	Net cash	Net cash	0.0	0.26



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