

Raffles Medical Group Ltd

New capacity to fuel growth



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SINGAPORE | HEALTHCARE | FY17 RESULTS

- FY17 Revenue/Adjusted PATMI were in line with our full year expectations
- Beneficiary of MOH's initiatives with new capacity to meet growing demand
- Declared higher final dividend of 1.75 cents (Full year dividend of 2.25 cents, +12.5% YoY)
- Maintained ACCUMULATE with unchanged TP of S\$1.32

Revenue by Segment

SGD mn	4Q17	4Q16	YoY (%)	FY17	FY16	YoY (%)	Comments
Healthcare services				207	210	-1.6	Lower renewal of international healthcare plans for expatriates
Hospital services	*No quarterly data available			292	285	2.3	Higher local patient load
Investment holdings				21	18	21.1	Higher income from the fully leased space at <i>Raffles Holland V</i>
Revenue	123	119	3.8	478	474	0.8	As above
EBITDA	25	27	-7.0	92	95	-3.2	Higher staff costs (Staff costs +0.8pp to 51.8% of FY17 Revenue) FY17 EBITDA Margin -0.8pp to 19.3%
Operating profits	21	25	-14.7	77	80	-4.2	
PBT	24	25	-2.3	81	83	-2.5	
PATMI, reported	22	22	2.1	71	70	0.8	Lower effective tax rate in FY17 due to utilisation of tax losses and higher tax incentives claimed
PATMI, adjusted	19	22	-12.2	68	69	-1.4	Ex. changes in fair value of investment properties of S\$3.1mn in FY17 and S\$1.5mn in FY16
DPS (cents)	1.75	1.50	16.7	2.25	2.00	12.5	Higher payout ratio at 56% vs FY16's 50%

Source: Company, PSR

The Positive

- Higher local patient load and rental income mitigated weaker healthcare services segment.** Its insurance business (contributing <10% of Healthcare services Revenue) was hit by lower renewal of international healthcare plans for expatriates, particularly from the financial sector. Strong local demand underpinned growth amidst plateaued foreign patient volume growth.

Raffles Holland V is now fully leased with around 4.7% net rental yield. Note that it only recorded one quarter of rental income in FY17 (upon the end of one-year rental-free provision); we would see a higher rental income in FY18 due to a full year contribution from **Raffles Holland V**.

- Expanded capacity in RafflesHospital and RafflesSpecialistCentre to cater for the growing local and foreign demand.** The new **RafflesSpecialistCentre** (*RafflesHospital's* extension) has commenced operation since 22 Jan-18.

Various specialist centres and the radiology centre have been relocated to the new building from **RafflesHospital**. Meanwhile, **RafflesHospital** is undergoing construction to open up new wards to increase bed capacity, as well as to refurbish the podium for new commercial outlets. The construction is slated for completion by end May-18.

The Negative

- Staff costs to remain elevated** as the Group gears up for the two new hospitals in China. We expect staff costs to stay above 50% of Group's revenue in coming years until patient volume picks up in **RafflesSpecialistCentre**, MCH (MC Holdings) and the two new hospitals in China.

27 February 2018

Accumulate (Maintained)

LAST CLOSE PRICE	SGD 1.11
FORECAST DIV	SGD 0.02
TARGET PRICE	SGD 1.32
TOTAL RETURN	20.9%

COMPANY DATA

BLOOMBERG CODE	RFMD SP
O/S SHARES (MN)	1,771
MARKET CAP (USD mn / SGD mn)	1492.2 / 1965.8
52 - WK HI/LO (SGD)	1.48 / 1.03
3M Average Daily T/O (mn)	2.20

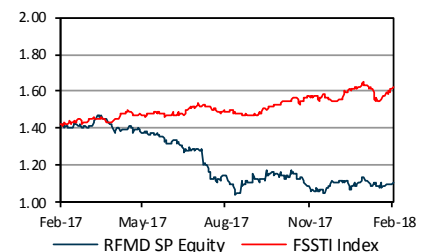
MAJOR SHAREHOLDERS (%)

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	1Y R
COMPANY	(3.5)	0.9	(22.4)
STIRETURN	(15)	3.6	16.2

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 16	FY 17	FY 18 e	FY 19 e
Revenue (SGD mn)	474	478	511	563
EBITDA (SGD mn)	95	92	97	98
NPAT adj. (SGD mn)	69	68	68	68
EPS adj. (Cents)	3.95	3.84	3.83	3.74
PER adj. (x)	36.2	29.1	28.7	29.4
P/BV (x)	3.8	2.7	2.5	2.5
DPS (Cents)	2.00	2.25	2.25	2.25
Div Yield (%)	18%	2.0%	2.0%	2.0%
ROE (%)	10.8%	9.7%	9.2%	8.6%

Source: Company Data, PSR est.

VALUATION METHOD

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

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Outlook

Outlook remains positive despite medium-term margin pressures from higher staff costs and start-up costs from the gestation of its two new China hospitals.

- **New growth avenues from public service outsourcing could add another 5% to Healthcare service.** Following the Emergency Care Collaboration since Jun-15, the Group has recently deepened the partnership with the MOH (Ministry of Health) via (a) a 5-year term PCN Scheme (Primary Care Network), and (b) the Air Borders Screening contract. The PCN Scheme will be supported via three partnership clusters around Singapore (43 clinics island wide); while the Air Borders Screening would provide temperature screening and infectious disease surveillance at Changi and Seletar Airports by tapping onto its existing and exclusive medical service. These initiatives could expand potential patient pool, as well as increase utilization rate of its existing facilities (i.e. higher productivity and enhanced efficiency).
- **Expansion on-track with strongest start-up losses incurring in FY19-20.** Its two China hospital projects are on-track to commence operations: *RafflesHospital Chongqing* (4Q18) and *RafflesHospital Shanghai* (4Q19). Management has earmarked three years before each hospital to break even and guided estimated start-up losses of S\$2.5mn, S\$11.25mn, S\$12.5mn and S\$3.75mn in FY18 to FY21 respectively. The Group generates c.S\$100mn of EBITDA a year.
- **Remaining CapEx (capital expenditure) of S\$300mn, to be spread across FY18-19.** We expect the Group to partially fund the two China hospitals with RMB-denominated debt. Management guided to cap gearing ratio at 50%, which implies much headroom for loans as the end-FY17 gearing ratio was at 10.8%.

Maintained ACCUMULATE with unchanged TP of S\$1.32

We remain 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.

Potential re-rating catalysts:

- Stronger demand from the MOH partnership
- Better than expected performance in China hospitals

Figure 2: Peers Comparison

Raffles Medical Group is currently trading at 28.7x forward PER, which is a 36.4% discount to its regional peers' average of 45.1x. Its FY18e dividend yield of 2.0% is 33.3% higher than its regional peers' average.

Comparables

BB Ticker	Company	FYE	Mkt Cap (\$m)	Ent Val (\$m)	P/E		P/B		EV/EBITDA		Div Yield		ROE	
					FY17/18e	FY18/19e	FY17/18e	FY18/19e	FY17/18e	FY18/19e	FY17/18e	FY17/18e		
RFMD SP	RAFFLES MEDICAL	Dec	1,966	1,943	28.7	29.4	2.5	2.5	21.5	21.9	2.0	9.2		
Market Cap Weighted Peers' average:					45.1	34.1	3.6	3.3	17.9	16.3	1.5	12.7		
IHH SP	IHH HEALTHCARE B	Dec	16,809	18,588	73.8	50.9	2.2	2.1	22.7	19.3	0.6	3.3		
RHC AU	RAMSAY HEALTH	Jun	14,107	17,555	23.6	21.5	5.5	4.9	11.9	11.1	2.2	23.9		
RYM NZ	RYMAN HEALTHCARE	Mar	5,164	6,090	29.0	25.1	2.9	2.7	22.4	23.5	1.9	10.7		
PRY AU	PRIMARY HEALTH	Jun	2,117	2,921	21.6	19.8	1.1	1.1	9.4	9.0	2.8	5.0		
KPJ MK	KPJ HEALTHCARE	Dec	1,315	1,752	27.2	23.7	2.4	2.3	13.0	11.5	1.8	9.2		
TKMED SP	TALKMED GROUP LT	Dec	907	836	23.8	23.0	11.5	10.3	19.9	18.9	3.0	46.7		
QNM SP	Q&M DENTAL GROUP	Dec	505	558	35.3	31.8	4.2	4.0	28.8	27.1	1.4	12.3		

Source: Bloomberg, PSR

A Sneak Preview on the new *RafflesSpecialistCentre*

Figure 3: Conveniently located next to the Bugis MRT station



Figure 4: Services currently available

Raffles Specialist Centre Directory	
	SURGERY CENTRE UROLOGY CENTRE BREAST CENTRE 13
12	ORTHOPAEDIC CENTRE REHABILITATION CENTRE
	RADIOLOGY 11
10	CANCER CENTRE HEART CENTRE
	INTERNAL MEDICINE CENTRE DIABETES & ENDOCRINE CENTRE NEUROSCIENCE CENTRE 9
8	COUNSELLING CENTRE ENT CENTRE CHILDREN CENTRE

www.raffleahospital.com RafflesSpecialistCentre

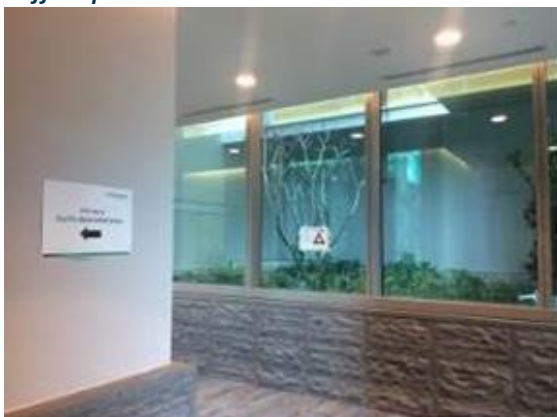
Figure 5: Commercial space ready to be leased at Level 2 &3



Figure 6: Children Centre shifted from *RafflesHospital* with expanded capacity



Figure 7: Link bridge on Level 8, connecting *RafflesHospital* and *RafflesSpecialistCentre*



Source: PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	411	474	478	511	563
Operating expenses	(319)	(379)	(386)	(414)	(465)
EBITDA	92	95	92	97	98
Depreciation & Amortisation	(13)	(15)	(15)	(17)	(18)
EBIT	79	80	77	80	79
Associates & JVs	0	0	0	0	0
Net Finance (Expense)/Inc	1	1	1	0	0
Other items	1	2	3	1	2
PBT	82	83	81	82	81
Tax	(13)	(15)	(12)	(14)	(14)
PAT	69	68	69	68	67
Minority interest	0	2	2	2	2
Net Income, reported	69	70	71	70	69
Net Income, adj.	68	69	68	68	68

Per share data

Y/E Dec, SG cents	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	1.35	4.04	4.02	3.92	3.82
EPS, adj.	1.32	3.95	3.84	3.83	3.74
DPS	0.67	2.00	2.25	2.25	2.25
BVPS	11.65	38.12	41.45	43.72	44.73

Cash Flows

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
PBT	82	83	81	82	81
Adjustments	13	15	14	17	18
WC changes	(9)	(6)	3	4	6
Cash generated from ops	85	92	97	102	105
Taxes paid, others	(13)	(13)	(15)	(15)	(14)
Cashflow from ops	73	79	83	87	90
CFI					
CAPEX, net	(34)	(14)	(10)	(217)	(112)
Acquisition, others	(144)	(30)	(131)	1	1
Cashflow from investing	(178)	(44)	(141)	(216)	(111)
CFE					
Share issuance	12	7	5	4	0
Loans, net of repayments	26	(2)	49	205	(24)
Dividends	(12)	(14)	(14)	(23)	(40)
Others	15	1	4	0	0
Cashflow from financing	41	(8)	45	186	(65)
Effects of exchange rates	0	(0)	(0)	0	0
Net change in cash	(64)	26	(14)	56	(85)
CCE, end	86	112	98	155	70

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	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	264	270	384	383	378
Intangibles	32	31	37	37	37
Investment properties	344	371	385	587	685
Others	4	5	4	4	4
Total non-current assets	644	677	810	1,011	1,104
Trade & other receivables	75	101	87	93	103
Cash balance	86	112	98	155	70
Others	10	10	10	11	12
Total current assets	171	223	195	259	185
Total Assets	815	901	1,006	1,270	1,289
LIABILITIES					
Short-term debt	11	13	41	41	41
Trade and other payables	118	145	126	137	154
Others	27	26	27	27	27
Total current liabilities	157	184	194	205	222
Long-term debt	21	17	38	243	219
Others	15	18	22	22	22
Total non-current liabilities	36	35	60	265	240
EQUITY					
Minority interest	19	15	18	15	13
Shareholder Equity	603	666	734	785	813

Valuation Ratios

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	103.7	36.2	29.1	28.7	29.4
P/B (X)	11.8	3.8	2.7	2.5	2.5
EV/EBITDA (X)	25.1	25.4	21.4	21.5	21.9
Dividend Yield (%)	0.6%	1.8%	2.0%	2.0%	2.0%

Growth & Margins (%)

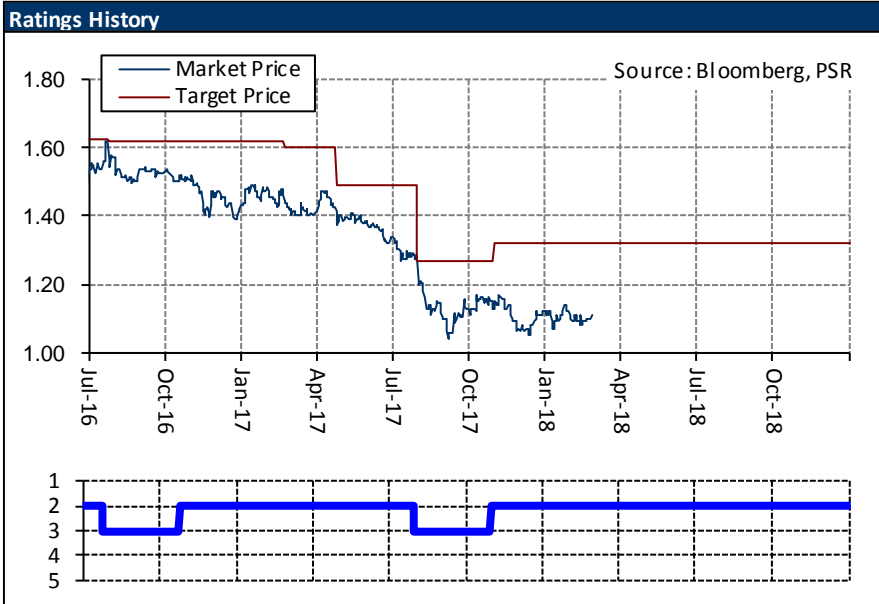
	FY15	FY16	FY17	FY18e	FY19e
Growth					
Revenue	9.6%	15.4%	0.8%	7.0%	10.1%
EBITDA	5.7%	3.4%	-3.2%	5.1%	0.9%
EBIT	2.3%	1.7%	-4.2%	3.8%	-1.2%
Net Income, adj.	4.9%	1.3%	-1.4%	0.9%	-1.1%

Margins

	FY15	FY16	FY17	FY18e	FY19e
EBITDA margin	22.4%	20.1%	19.3%	18.9%	17.3%
EBIT margin	19.3%	17.0%	16.1%	15.6%	14.0%
Net Profit Margin	16.5%	14.5%	14.2%	13.4%	12.0%

Key Ratios

	FY15	FY16	FY17	FY18e	FY19e
ROE (%)	11.9%	10.8%	9.7%	9.2%	8.6%
ROA (%)	9.2%	8.0%	7.1%	6.1%	5.4%
Interest coverage (X)	6.2	5.5	5.1	4.8	4.3
Net gearing (X)	Net cash	Net cash	Net cash	0.2	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

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