

Raffles Medical Group Ltd

Sign of stronger pulse



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SINGAPORE | HEALTHCARE | 1Q18 RESULTS

- 1Q18 Revenue/PATMI met 23.5%/23.1% of our full year expectations
- Stronger performance on uptick in private healthcare service demand in 1Q18
- New capacities in Singapore and China to meet growing regional healthcare needs
- Maintained ACCUMULATE with unchanged TP of S\$1.32

Results at a glance

SGD mn	1Q18	1Q17	YoY (%)	Comments
Revenue	120.2	114.9	4.6	Higher contributions from both Clinic (+6.8%) and Hospital (+4.2%)
EBITDA	23.3	21.8	6.9	Higher depreciation due to expansion of medical centres in the new <i>Raffles Specialist Centre</i>
Operating profits	18.9	18.1	4.4	Operating margin remains stable at 15.7%
PBT	18.9	18.3	3.2	Higher net finance expense
PATMI	15.8	15.5	1.7	

Source: Company, PSR

The Positives

- Recovery in Healthcare services, driven by higher local patient load.** Healthcare services (Clinic) turnaround with a strong 6.8% YoY growth in 1Q18, after a contractionary 1Q17 and FY17 at -2.0% and -1.6% respectively. The Public-Private Partnership, namely the PCN Scheme (Primary Care Network) and the Air Borders Screening contract with MOH (Ministry of Health) have lent support in the uplift.

- Hospital services gaining momentum with expanded capacity in RafflesSpecialistCentre.** The new *RafflesSpecialistCentre* commenced operation since 22 Jan-18. The segment registered 4.2% YoY growth as compared to -1.9% in 1Q17. Commendable, Management shared that foreign patient load grew c.2% YoY in 1Q18, despite persistent headwinds in medical tourism, particularly a strong SGD.

With the relocation and expansion of 15 specialist centres to the new *RafflesSpecialistCentre*, *RafflesHospital* is now undergoing refurbishment. By 3Q18, the Group will have expanded bed capacity and outpatient primary care centres to cater for the growing local and foreign demand.

The Negative

- Operating margin likely to remain under pressure.** Recruitment drive for medical staff and hospital management staff for *RafflesHospital Chongqing* have commenced. 3Q18 and 3Q19 will likely to see a greater margin squeeze with *RafflesHospital Chongqing* and *RafflesHospital Shanghai* scheduled to open in 4Q18 and 4Q19 respectively.

We expect staff costs to remain above 50% of Group's revenue in coming years when patient volumes picks up in *RafflesSpecialistCentre*, MCH (MC Holdings) and the two new hospitals in China.

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.

- The public service outsourcing could add another 5% to Healthcare service in FY18e.** These initiatives could expand potential patient pool, as well as increase utilization rate of its existing facilities (i.e. higher productivity and enhanced efficiency).

2 May 2018

Accumulate (Maintained)

LAST CLOSE PRICE	SGD 1.15
FORECAST DIV	SGD 0.02
TARGET PRICE	SGD 1.32
TOTAL RETURN	16.7%

COMPANY DATA

BLOOMBERG CODE	RFMD SP
O/S SHARES (MN)	1772
MARKET CAP (USD mn / SGD mn)	1633.9 / 2037.4
52 - WK HI/LO (SGD)	141 / 103
3M Average Daily T/O (mn)	2.25

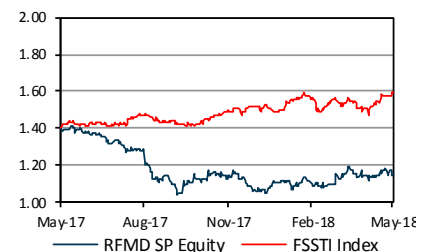
MAJOR SHAREHOLDERS (%)

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	0.0	3.6	(16.6)
STIRETURN	5.9	3.0	17.6

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 16	FY 17	FY 18e	FY 19e
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	30.5	31.3
P/BV (x)	3.8	2.7	2.7	2.6
DPS (Cents)	2.00	2.25	2.25	2.25
Div Yield (%)	1.7%	1.9%	1.9%	1.9%
ROE (%)	10.8%	9.7%	9.2%	8.6%

Source: Company Data, PSR est.

VALUATION METHOD

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

Soh Lin Sin (+65 6212 1847)

Investment Analyst

sohls@phillip.com.sg

- **Enduring short-term pain for long-term gains.** Management expects each new hospital to report operating profit only after three years 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\$280mn, 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 gearing ratio as at end-1Q18 was at 9.5%.

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: (i) Stronger demand from the MOH partnership; and (ii) Better than expected performance in China hospitals

Figure 1: Peers Comparison

Raffles Medical Group is currently trading at 30.5x forward PER, which is a 13.6% discount to its regional peers' average of 35.3x. Its FY18e dividend yield of 1.9% is higher than its regional peers' average of 1.6%.

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	2,037	2,033	30.5	31.3	2.7	2.6	22.3	23.2	1.9	9.2		
Market Cap Weighted Peers' average:					35.3	29.3	3.4	3.2	16.9	15.3	1.6	12.9		
IHH SP	IHH HEALTHCARE B	Dec	16,809	18,364	51.0	40.2	2.1	2.1	19.3	16.6	0.6	4.3		
RHC AU	RAMSAY HEALTH	Jun	12,480	16,177	21.8	19.9	5.2	4.7	11.5	10.7	2.4	24.6		
RYM NZ	RYMAN HEALTHCARE	Mar	4,901	5,827	25.9	22.2	2.9	2.6	24.5	24.3	1.9	10.7		
PRY AU	PRIMARY HEALTH	Jun	1,972	2,777	20.9	19.1	1.1	1.0	9.2	8.8	2.9	5.0		
KPJ MK	KPJ HEALTHCARE	Dec	1,320	1,807	23.1	21.0	2.3	2.1	11.9	10.7	2.1	10.0		
TKMED SP	TALKMED GROUP LT	Dec	913	835	29.0	27.8	11.6	11.2	21.4	20.3	3.0	43.6		
QNM SP	Q&M DENTAL GROUP	Dec	481	532	33.6	30.3	3.9	3.7	27.7	25.6	1.8	14.2		

Source: Bloomberg, 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)	(175)	(154)
Acquisition, others	(144)	(30)	(131)	1	1
Cashflow from investing	(178)	(44)	(141)	(174)	(153)
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)	98	(127)
CCE, end	86	112	98	197	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	545	685
Others	4	5	4	4	4
Total non-current assets	644	677	810	969	1,104
Trade & other receivables	75	101	87	93	103
Cash balance	86	112	98	197	70
Others	10	10	10	11	12
Total current assets	171	223	195	301	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	30.5	31.3
P/B (X)	11.8	3.8	2.7	2.7	2.6
EV/EBITDA (X)	25.1	25.4	21.4	22.3	23.2
Dividend Yield (%)	0.6%	1.7%	1.9%	1.9%	1.9%

Growth & Margins (%)

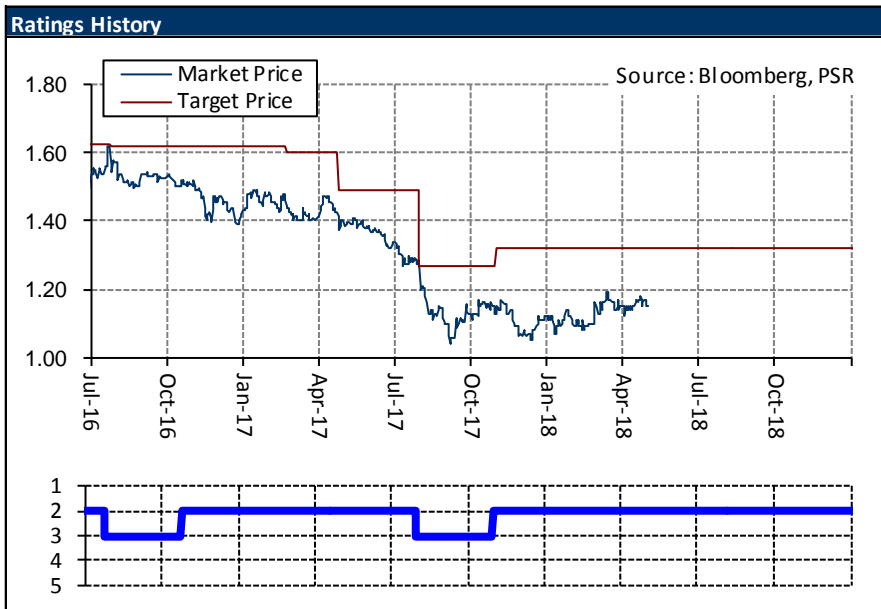
	FY15	FY16	FY17	FY18e	FY19e
Growth					
Revenue	9.6%	15.4%	0.8%	7.0%	10.1%
EBITDA	5.7%	3.4%	-3.2%	5.1%	0.9%
EBIT	2.3%	1.7%	-4.2%	3.8%	-1.2%
Net Income, adj.	4.9%	1.3%	-1.4%	0.9%	-1.1%

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	0.1	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

Head of Research Paul Chew - paulchewk1@phillip.com.sg	Contact Information (Singapore Research Team) Research Associate Alvin Chia - alvinchiawy@phillip.com.sg	Research Operations Officer Mohamed Amiruddin - amiruddin@phillip.com.sg
Consumer Healthcare Soh Lin Sin - sohls@phillip.com.sg	Oil & Gas Energy Chen Guangzhi - chengz@phillip.com.sg	Macro Pei Sai Teng - peist@phillip.com.sg
Transport REITs (Industrial) Richard Leow - richardleowwt@phillip.com.sg	REITs (Commercial, Retail, Healthcare) Property Dehong Tan - tandh@phillip.com.sg	Technical Analysis Jeremy Ng - jeremyngch@phillip.com.sg
REITs (Commercial, Retail, Healthcare) Property Tara Wong - tarawongsi@phillip.com.sg	US Equity Ho Kang Wei - hokw@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, Bangkok,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

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

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 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
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 (DGEX)
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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