Raffles Medical Group Ltd

Near-term pain extended by COVID-19

SINGAPORE | HEALTHCARE | 1H20 RESULTS

- 1H20 revenue was below initial estimates by 9% due to impact from COVID-19 resulting in slower business momentum.
- Decline in Hospital Services (-5.4% YoY) partially offset by better Healthcare Services (+6.8% YoY) due to the Group's support of the government's COVID-19 initiatives in Singapore.
- Halt in hospital and clinic operations in China during 1H20 as a result of the COVID-19 outbreak expected to set the Group's breakeven timeline back by up to a year.
- **We maintain our NEUTRAL recommendation with a lower TP of S$0.94 (prev S$0.99).** We revise our FY20e earnings downwards by 25% taking into account pressure from slowing business momentum observed in 1H20.

Results at a glance

SGD mn	1H20	1H19	YoY (%)	Comments
Revenue	**241.4**	**255.3**	**(5.4)**	Revenue from Hospital Services fell 5.4% YoY due to business restrictions during COVID-19 outbreak in China and Singapore in 1H20. However, healthcare services grew 6.8% as the Group assisted government's efforts to combat COVID-19 in Singapore.
EBITDA	41.9	48.7	(14.0)	Higher costs incurred on purchased services, staff costs and personal protection equipment to support Group's COVID-19 initiatives.
Operating profit	24.3	34.8	(30.2)	
Profit Before Tax	22.5	34.7	(35.2)	Higher finance expenses incurred to develop *RafflesHospital Chongqing.*
PATMI	**16.3**	**27.9**	**(41.6)**	
PATMI (Excl. China)	31.2	32.3	(3.7)	

Source: Company, PSR

The Positives

+ Healthcare Services saw revenue grow 6.8% YoY from S$116.6mn to S$124.6mn in 1H20 as the Group rendered services to assist the government's effort to tackle the COVID-19 pandemic, providing an alternative sources of income. These included providing air-border screening at Changi Airport, swabbing of foreign workers at the dormitories, as well as providing medical services to COVID-19 patients at the Changi Exhibition Centre-Community Care Facility.

The Negatives

- Hospital Services fell 5.4% YoY from S$148.1mn to S$126.6mn on business disruptions across China and Singapore. Initial outbreak of COVID-19 in China saw operations in China affected in 1Q20. This was followed by the 2-month Circuit Breaker in Singapore with non-essential activities (including services such as dental and health-screening) mandated to cease, hurting the Group's business momentum in 1H20. As a result, Group revenue declined from S$255.3mn to S$241.4mn (-5.4% YoY) in 1H20.

- Operating margin was lower (1H20: 10.0% vs. 1H19: 13.6%) due to higher staff costs (+4.8% YoY) and purchased and contracted services (+24.0%). To support manpower demands from COVID-19-related projects with the government, the Group incurred higher outsourced recruitment agency costs as well as salaries from hiring of temporary staff. The increased costs were partially offset by government grants such as the Job Support Scheme (JSS), higher wage credit and property tax rebates. Nevertheless, operating profit fell 30.2% YoY to S$24.3mn (1H19: S$34.8mn).

29 July 2020

NEUTRAL (Maintained)

LAST CLOSE PRICE	SGD 0.920
FORECAST DIV	SGD 0.025
TARGET PRICE	SGD 0.940
TOTAL RETURN	**4.9%**

COMPANY DATA

BLOOMBERG CODE	RFMD SP
O/S SHARES (MN) :	1,829
MARKET CAP (USD mn / SGD mn) :	1220.8 / 1682.8
52 - WK HI/LO (SGD) :	1.10 / 0.73
3M Average Daily T/O (mn) :	1.06

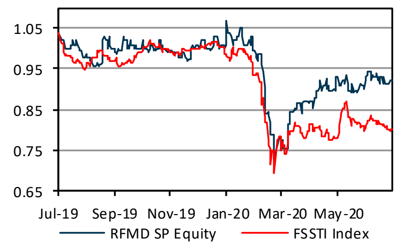
MAJOR SHAREHOLDERS (%)

RAFFLES MEDICAL GROUP HOLDINGS	38.4%
LOO CHOON YONG	10.0%
STANDARD LIFE ABERDEEN PLC	4.9%
S&D HOLDINGS PTE LTD	3.3%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	1.1	5.7	(10.2)
STI RETURN	(0.7)	2.7	(20.0)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY18	FY19	FY20e	FY21e
Revenue (SGD mn)	489	522	479	570
EBITDA (SGD mn)	96	105	68	90
NPAT adj. (SGD mn)	67	60	40	59
EPS adj. (Cents)	3.77	3.30	2.18	3.20
PER adj. (x)	24.4	27.9	42.2	28.8
P/BV (x)	2.1	2.0	2.0	2.0
DPS (Cents)	2.50	2.50	2.50	3.00
Div Yield	2.7%	2.7%	2.7%	3.3%
ROE	8.8%	7.3%	5.1%	6.9%

Source: Company Data, PSR est.

VALUATION METHOD

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

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Outlook

Gradual return to normalcy observed across operating geographies. Raffles Medical has started to observe return of patient load in 3Q20 to pre-COVID-19 levels as both China and Singapore started to ease restrictions on businesses. As cross-border travel begins to ease, Hospital Services is likely to recover, as foreign patients make up 20 to 30% of revenue in Singapore. Margins will also revert to previous levels as contribution from in-patient services pick up.

Setback to operations in China

RafflesHospitalChongqing (RHCQ) was slated to breakeven in FY21. However, the hospital saw less patient load in 1H20 with travel restrictions. As a result, the Group expects breakeven to be delayed by up to a year, prolonging gestations period and cost. *RafflesHospitalShanghai* is currently in the final stages of out-fitting and is expected to begin operations at end-FY20. However, this is barring further delays should the COVID-19 situation take a turn for the worse.

Maintain NEUTRAL with revised TP of S$0.94 (previous TP S$0.99).

We revise our FY20e earnings estimate downwards by 25% after considering the slowing business momentum in 1H20. However, we expect business to recover by FY21. The current shift in business dynamics does not represent the nature of the Group's business in a steady-state environment as Hospital Services segment was depressed from business restrictions during the pandemic. We expect business momentum from Hospital Services segment to return gradually with healthier margins moving forward.

Nevertheless, the Group has maintained strong cash position and distributed 0.5 cents in interim dividends for 1H20, steady from a year ago. The Group is expected to remain profitable for the remaining of FY20.

Financials

Income Statement

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
Revenue	478	489	522	479	570
Operating expenses	-386	-393	-417	-411	-480
EBITDA	**92**	**96**	**105**	**68**	**90**
Depreciation & Amortisation	-15	-18	-29	-19	-19
EBIT	**77**	**78**	**76**	**48**	**71**
Associates & JVs	0	0	0	0	0
Net Finance (Expense)/Inc	1	-0	-0	-0	0
Other items	3	6	-2	3	0
PBT	**81**	**84**	**73**	**51**	**71**
Tax	-12	-13	-15	-8	-11
PAT	**69**	**71**	**58**	**43**	**60**
Minority interest	2	0	-0	-0	-0
Net Income, reported	**71**	**71**	**58**	**43**	**59**
Net Income, adj.	**68**	**67**	**60**	**40**	**59**

Balance Sheet

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
ASSETS					
PPE	384	566	686	678	672
Intangibles	37	37	37	37	37
Investment properties	385	311	311	327	342
Others	4	4	5	5	5
Total non-current assets	**810**	**918**	**1,039**	**1,046**	**1,056**
Trade & other receivables	87	83	84	77	92
Cash balance	98	106	152	146	144
Others	10	9	10	10	12
Total current assets	**195**	**199**	**246**	**233**	**248**
Total Assets	**1,006**	**1,116**	**1,285**	**1,280**	**1,304**
LIABILITIES					
Short-term debt	41	19	9	9	9
Trade and other payables	126	137	163	157	182
Others	27	30	48	37	37
Total current liabilities	**194**	**186**	**219**	**203**	**228**
Long-term debt	38	97	157	141	127
Others	22	16	52	28	28
Total non-current liabilities	**60**	**113**	**209**	**169**	**155**
Total Liabilities	**254**	**300**	**428**	**371**	**382**
EQUITY					
Minority interest	18	16	16	16	16
Shareholder Equity	734	800	841	858	871
Total Equity	**752**	**817**	**857**	**874**	**888**

Per share data

Y/E Dec, SG cents	FY17	FY18	FY19	FY20e	FY21e
EPS, reported	1.34	3.98	3.18	2.34	3.20
EPS, adj.	1.28	3.77	3.30	2.18	3.20
DPS	0.75	2.50	2.50	2.50	3.00
BVPS	13.82	44.54	46.19	46.44	46.54

Cash Flows

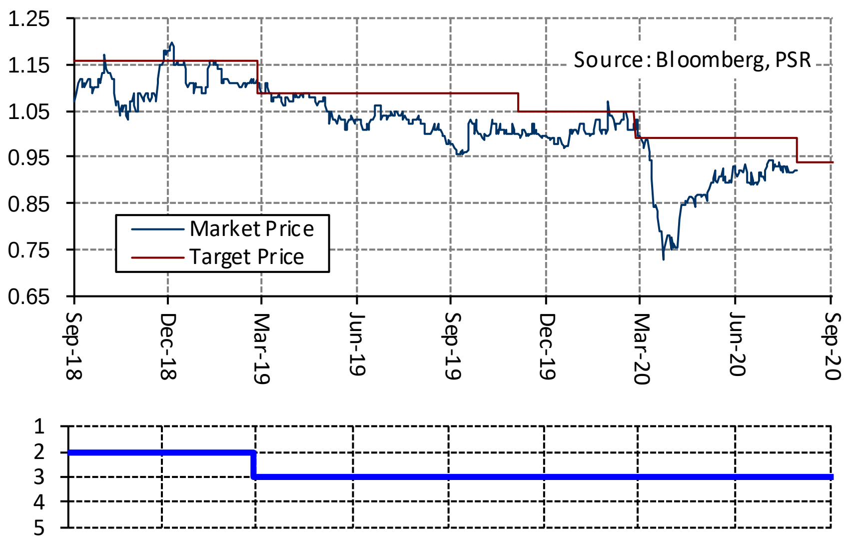
Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
CFO					
PBT	81	84	73	51	71
Adjustments	14	17	32	19	19
WC changes	3	5	19	2	9
Cash generated from ops	97	106	124	72	99
Taxes paid, others	-15	-15	-12	-10	-13
Cashflow from ops	**83**	**92**	**111**	**62**	**86**
CFI					
CAPEX, net	-10	-28	-96	-27	-29
Acquisition, others	-131	-74	-1	2	2
Cashflow from investing	**-141**	**-103**	**-97**	**-25**	**-27**
CFF					
Share issuance	5	1	1	1	0
Loans, net of repayments	49	37	50	-16	-14
Dividends	-14	-16	-18	-27	-46
Others	4	-2	-1	0	0
Cashflow from financing	**45**	**20**	**32**	**-42**	**-60**
Effects of exchange rates	-0	-1	-1	0	0
Net change in cash	**-14**	**8**	**45**	**-5**	**-2**
CCE, end	**98**	**106**	**151**	**146**	**144**

Valuation Ratios

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
P/E (X), adj.	71.8	24.4	27.9	42.2	28.8
P/B (X)	6.7	2.1	2.0	2.0	2.0
EV/EBITDA (X)	17.5	17.3	16.2	25.0	18.6
Dividend Yield	0.8%	2.7%	2.7%	2.7%	3.3%
Growth & Margins					
Growth					
Revenue	0.8%	2.4%	6.7%	-8.3%	19.0%
EBITDA	-3.2%	4.4%	9.1%	-35.6%	33.3%
EBIT	-4.2%	1.0%	-2.9%	-36.0%	46.5%
Net Income, adj.	-1.4%	-0.7%	-11.2%	-33.0%	48.7%
Margins					
EBITDA margin	19.3%	19.6%	20.1%	14.1%	15.8%
EBIT margin	16.1%	15.9%	14.5%	10.1%	12.4%
Net Profit Margin	14.2%	13.7%	11.4%	8.3%	10.4%
Key Ratios					
ROE	9.7%	8.8%	7.3%	5.1%	6.9%
ROA	7.1%	6.3%	5.0%	3.4%	4.6%
Interest coverage (X)	5.1	4.3	2.6	2.5	3.7
Net gearing (X)	Net cash	0.0	Net cash	0.0	Net cash

Source: Company, Phillip Securities Research (Singapore) Estimates

Ratings History



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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