

Raffles Medical Group Ltd

Expenses coping well to softer conditions



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SINGAPORE | HEALTHCARE | 2Q18 RESULTS

8 August 2018

- 2Q18 PATMI was within expectations, but revenue trending below our estimates
- Cost is coping well with the softer revenue growth as margins expanded
- Clinic revenues rising but offset by softer hospital revenues
- Maintain ACCUMULATE with unchanged TP of S\$1.32. Our earnings forecast is unchanged.

Results at a glance

SGD mn	2Q18	2Q17	YoY (%)	Comments
Revenue	120.2	120.1	0.1	Higher contributions from both clinic (+5.4%) and hospital (-2.3%)
EBITDA	24.5	23.3	5.2	Higher gross margins and lower staff cost
Operating profits	20.3	19.6	3.5	Depreciation rose 26% YoY.
PBT	20.28	19.8	2.4	
PATMI	16.9	16.8	0.8	

Source: Company, PSR

The Positives

- Cost contracted to improve margins.** Staff cost managed to contract 2% YoY in 2Q18 despite the expansion in facilities. The decline was due to the variability in staff compensation and further cost restructuring at MC Holdings.
- Raffles Specialist Centre expansion is beginning to fill up.** The new Raffles Specialist Centre (Raffles Hospital) commenced operation since 22 Jan-18. More wards are beginning to open and with improved patient facilities and aesthetics. Recall that 15 specialist centres relocated or expanded to this new expansion. Retail space of around 25,000 sft has been substantially leased out.

The Negative

- Pressure from public hospitals and medical tourism.** Public hospitals account for 80% of the total beds. They have the critical mass of subsidised patients to offer more competitive price, if necessary. The private hospitals are clearly losing some patients to the public hospitals as industry data has reflected this year. On foreign patients, the stronger Singapore dollar relative to regional counties make options in Bangkok, Kuala Lumpur and Penang more attractive. The more price sensitive customer base will look for a cheaper alternative. With a stagnant local population, foreign patients especially with their higher intensity of care, is an important source of patient flow for any hospital. At Raffles, foreign patients account for around 30% of total inpatients.

Outlook

Expect some front-loading of staff cost as Chongqing hospital opens in 4Q18. There will be the typical gap up in fixed cost (staff and depreciation) before beds start to fill up. In the first year, 120 doctors will be employed to cater to the major disciplines. Shanghai hospital will open in 2H19.

Maintain ACCUMULATE with unchanged TP of S\$1.32

The insatiable demand for international standard healthcare by the Chinese middle class will bring Raffles Medical into a new and exciting phase of growth. The track record, reputation and preparation by the company makes this a compelling opportunity.

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
OS SHARES (MN) :	1,772
MARKET CAP (USD mn / SGD mn) :	1533.9 / 2037.4
52 - WK HILO (SGD) :	1.41 / 1.03
3M Average Daily T/O (mn) :	2.25

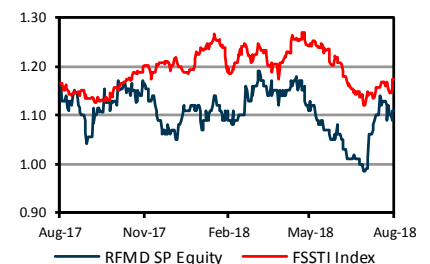
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	0.0	3.6	(16.0)
STI RETURN	5.9	3.0	17.6

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY16	FY17	FY18e	FY19e
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	29.0	29.7
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%)

Phillip Research Team (+65 6212 1850)

research@phillip.com.sg

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)
CFF					
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	29.0	29.7
P/B (X)	11.8	3.8	2.7	2.5	2.5
EV/EBITDA (X)	25.1	25.4	21.4	21.5	22.4
Dividend Yield (%)	0.6%	1.8%	2.0%	2.0%	2.0%
Growth & Margins (%)					
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					
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					
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



Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Marketing & Operations

Mohamed Amiruddin – amiruddin@phillip.com.sg

Banking and Finance

Tin Min Ying – tinmy@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi – chengz@phillip.com.sg

Telco | Technology

Alvin Chia – alvinchiawy@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 – tarawongsj@phillip.com.sg

US Equity

Ho Kang Wei – hokw@phillip.com.sg

China/HK Equity

Zheng Jieyuan – zhengjy@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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