

Singapore

ADD (no change)

Consensus ratings*: Buy 5 Hold 3 Sell 1

Current price:	S\$1.20
Target price:	S\$1.50
Previous target:	S\$1.27
Up/downside:	25.3%
CGS-CIMB / Consensus:	9.2%
Reuters:	RAFG.SI
Bloomberg:	RFMD SP
Market cap:	US\$1,614m
	S\$2,223m
Average daily turnover:	US\$1.34m
	S\$1.86m
Current shares o/s:	1,868m
Free float:	48.0%

*Source: Bloomberg

Key changes in this note

- Increased FY22F EPS by 43.0%.
- Increased FY23F EPS by 27.5%.
- Increased FY24F EPS by 40.5%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	6.2	0	-16.7
Relative (%)	1.6	3.5	-19

Major shareholders

	% held
Loo Choon Yong	48.0
Standard Life Aberdeen	5.3
FIL Limited	3.5

Analyst(s)



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Raffles Medical Group

Healthcare demand stronger than ever

- 1H22 revenue/earnings exceeded estimates at 59.3%/55.9% and 81.5%/75.5% of our and consensus' FY22F estimates.
- We increased our EPS forecasts for FY22-24F by 43.0%/27.5%/40.5% on higher local patient volumes and returning foreign patients.
- Reiterate Add with a higher TP of S\$1.50, pegged at 16x FY23F EV/EBITDA, 0.5 s.d. below its 5-year mean, with a discount for gestating China assets.

Singapore operations firing on all cylinders

RFMD's revenue grew by 11.2% yoy to S\$382.3m in 1H22, underpinned by Singapore operations which made up 91.5% of total revenue. Net of inter-segment sales, healthcare services revenue grew by 22.0% yoy, offsetting the 5.1% decline in hospital services. Healthcare services include outpatient services in GP and specialist clinics, whose visits were noted by management to have surpassed pre-Covid-19 levels. Ongoing management of joint testing and vaccination centres (JTVCs), and community treatment facilities (CTFs) also contribute to the segment. The decline in hospital services revenue was a result of lower Covid-19 testing services, although the impact was partially offset by returning foreign patients, which reached 60% of pre-Covid levels.

EBITDA margin expanded on operating leverage

RFMD's EBITDA margin expanded by 6.7% pts yoy, as revenue growth outpaced staff costs (+7.2% yoy) and a decline in inventories and consumables expenses by 23.0% yoy due to lower contribution from Covid-19 testing. Management shared that the margin expansion was a result of better staffing allocation instead of cost pass-through, and it believes margins can be maintained moving forward without price adjustments, assuming revenue momentum sustains and inflationary pressures ease.

Not holding back in China

RFMD's hospitals in China continued operations throughout 1H22, although sporadic lockdowns across cities have resulted in staffing constraints. Despite losses for its Chongqing and Shanghai hospitals, RFMD continues to establish its reputation in China, assisting the government in community vaccination programmes and Covid-19 testing operations. In addition, RFMD has received approval to set up an In-Vitro Fertilisation (IVF)/Assisted Reproductive Therapy (ART) centre at Le Cheng, Hainan, which could help RFMD to further establish its OBGYN specialty in China.

Reiterate Add with a higher TP of S\$1.50 on earnings upgrade

The exceptional earnings despite expectations of tapering Covid-19-related contributions were a result of stronger local demand for healthcare and recovering contributions from foreign patients, in line with the pace of border reopening. New businesses could also arise from management of Covid-19-related facilities that are re-purposed for non-Covid usage. Re-rating catalyst: China assets in the gestation period reaching breakeven earlier than expected. Downside risk: premature closure of CTF operations.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (S\$m)	568.2	723.8	729.4	723.3	758.3
Operating EBITDA (S\$m)	123.9	160.6	177.4	167.8	188.0
Net Profit (S\$m)	65.9	84.2	94.1	88.5	103.0
Core EPS (S\$)	0.023	0.039	0.050	0.047	0.055
Core EPS Growth	(29.1%)	71.2%	29.7%	(6.0%)	16.4%
FD Core P/E (x)	52.34	30.85	23.82	25.34	21.78
DPS (S\$)	0.025	0.028	0.028	0.028	0.038
Dividend Yield	2.08%	2.33%	2.33%	2.33%	3.17%
EV/EBITDA (x)	18.19	13.64	12.25	12.62	10.97
P/FCFE (x)	29.73	21.67	31.00	20.55	17.64
Net Gearing	0.2%	(6.8%)	(8.5%)	(13.6%)	(18.3%)
P/BV (x)	2.49	2.33	2.24	2.16	2.09
ROE	4.87%	7.81%	9.59%	8.67%	9.76%
% Change In Core EPS Estimates			43.0%	27.5%	40.5%
CGS-CIMB/Consensus EPS (x)			1.33	1.16	1.20

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Healthcare demand stronger than ever

Tracing Covid-19-related services ►

We believe that the stellar 1H22 results were in part due to some Covid-19-related services that have remained, especially the management of JVTCs and CTFs. RFMD is operating two of six JVTCs, which we believe will remain operational, at least for the rest of the year, given the lean operations and limited facilities remaining for citizens who continue to seek Covid-19 vaccinations and testing services. We think that CTFs will also remain an integral part of the post-Covid world.

As such, we adjusted our estimated contribution from Covid-19-related services upwards by S\$10m in FY22F, from S\$70m to S\$80m, but halved it to S\$40m in FY23-24F as we think that more resources could be diverted away from Covid-19 moving forward.

Potential glimpse of RFMD's China strategy ►

Although the zero-Covid stance in China has hampered the ramp-up of patient loads, especially in gestating hospitals in Chongqing and Shanghai, management has shared that Covid-19-related services undertaken by the company have helped build its reputation through word-of-mouth. Management shared that the number of patients in Chongqing has doubled, while Shanghai is tracking with its guidance for EBITDA losses of c.S\$10m for its first year of operations.

Furthermore, we view its plans to expand into Obstetrics and Gynaecology (OBGYN) as a way to establish a specialty within China, and could help better build RFMD's brand in China given the better perception of specialty hospitals vs. a general hospital. Based on our understanding from management, Le Cheng in Hainan is a dedicated city in China identified by the government as a destination for domestic medical tourism. RFMD will be pursuing an asset-light model for the IVF/ART project, with guided capex of S\$10m, and will lease PPE from the government, including a dedicated space to conduct business. The centre is expected to begin operations in 1Q23 and reach EBITDA breakeven in three years.

Figure 1: Earnings revision

S\$m	New			Old			% Change		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Revenue	729.4	723.3	758.3	644.4	676.8	710.3	13%	7%	7%
Operating expenses	593.8	596.3	611.1	554.6	579.3	605.7	7%	3%	1%
EBITDA	169.4	164.8	185.0	129.5	136.2	143.1	31%	21%	29%
EBITDA (%)	23.2%	22.8%	24.4%	20.1%	20.1%	20.1%	3.1%pt	2.7%pt	4.3%pt
Core net profit	94.1	88.5	103.0	65.8	69.4	73.3	43%	27%	41%
Core EPS	5.0	4.7	5.5	3.5	3.7	3.9	43%	27%	41%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Peers comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
						CY22F	CY23F		CY22F	CY23F	CY22F	CY23F	CY22F	CY23F	CY22F	CY23F
Regional Hospitals																
IHH Healthcare Bhd	IHH MK	Add	6.50	8.12	12,852	36.4	31.1	5.8%	2.2	2.1	7.0%	7.7%	15.1	13.8	1.0%	1.1%
KPJ Healthcare	KPJ MK	Hold	0.88	0.99	853	31.2	29.2	33.2%	1.7	1.7	5.7%	5.8%	8.4	8.4	1.6%	1.7%
Bangkok Chain Hospital	BCH TB	Add	20.20	24.50	1,393	13.8	17.4	-24.7%	3.4	3.1	26.8%	18.7%	8.4	10.4	3.6%	2.9%
Bumrungrad Hospital	BH TB	Add	184.50	206.00	4,054	48.1	41.9	38.3%	8.3	7.8	18.2%	19.2%	30.3	28.0	1.7%	1.7%
Bangkok Dusit Med Service	BDMS TB	Hold	27.00	27.00	11,862	38.8	39.0	11.7%	5.0	4.9	13.5%	12.6%	20.5	21.0	2.0%	2.0%
Chularat Hospital	CHG TB	Add	3.74	4.03	1,137	17.3	23.6	-27.3%	6.2	5.9	34.1%	25.7%	12.1	16.9	4.5%	3.3%
Praram 9 Hospital	PR9 TB	Hold	16.70	14.00	363	34.3	35.3	15.2%	2.9	2.8	8.9%	8.1%	14.5	14.8	1.2%	1.1%
Ramkhamhaeng Hospital	RAM TB	Reduce	54.25	48.00	1,800	23.4	34.8	-22.5%	3.4	3.3	15.5%	9.7%	19.6	18.8	1.3%	1.4%
Medikaloka Hermina	HEAL IJ	Hold	1435	1200	1,440	26.4	23.6	3.2%	5.5	4.7	23.2%	22.0%	13.2	11.3	1.1%	1.1%
Mitra Keluarga Karyasehat	MIKA IJ	Hold	2500	2300	2,395	33.7	30.0	2.3%	6.2	5.6	19.4%	19.7%	20.5	18.3	1.7%	1.5%
Simple average						27.8	28.0	4.0%	4.1	3.8	16.6%	14.5%	14.8	14.7	3.3%	3.1%

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

*As of 1 Aug 22

Figure 3: Results comparison

FYE Dec (S\$m)	1H22	1H21	yoy % chg	2H21	hoh % chg	Prev. FY22F	Comments
Revenue	382.3	343.8	11.2%	380.0	0.6%	644.4	11.2% revenue growth in 1H21 was supported by healthcare services (+22% yoy) from higher patient visits which surged past pre-Covid levels, offsetting weakness of healthcare services (-5.1%) from lower Covid-19 testing revenues.
Other operating income	6.9	7.4	-7.1%	6.4	6.6%	3.0	S\$6.04m of government grants was recorded in 1H22.
Inventories and consumables	(31.4)	(40.8)	-23.0%	(41.2)	-23.9%	(79.8)	Decline due to lower intensity of Covid-19 testing which required additional equipment such as reagents and other diagnostics equipment.
Purchased and contracted services	(29.7)	(30.4)	-2.2%	(30.9)	-3.8%	(68.9)	
Staff costs	(196.1)	(182.9)	7.2%	(204.1)	-3.9%	(322.9)	Better staffing allocation supported better operating leverage.
Depreciation	(20.6)	(18.5)	11.6%	(20.8)	-1.1%	(42.7)	
Operating lease expenses	(0.8)	(0.9)	-6.6%	(0.9)	-4.2%	(3.1)	
Other operating expenses	(24.1)	(21.8)	11.0%	(23.3)	3.8%	(40.2)	
EBITDA	100.1	67.1	49.1%	79.6	25.7%	129.5	
EBITDA margin (%)	26.2%	19.5%	6.7%pt	21.0%	5.2%pt	20.1%	
Exceptionals	6.0	6.5	-7.3%	5.1	-7.3%	0.0	See other operating income.
Pretax profit	83.5	53.6	55.8%	62.0	34.7%	85.3	
Net profit	60.0	39.4	52.0%	44.7	34.1%	65.8	
Core net profit	53.6	32.9	62.9%	39.7	35.2%	65.8	Beat expectations; 81.5%/75.5% of our/consensus' full year estimates on revenue growth and margins expansion.



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: Raffles Medical Group 12-mth Fwd EV/EBITDA (x)


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

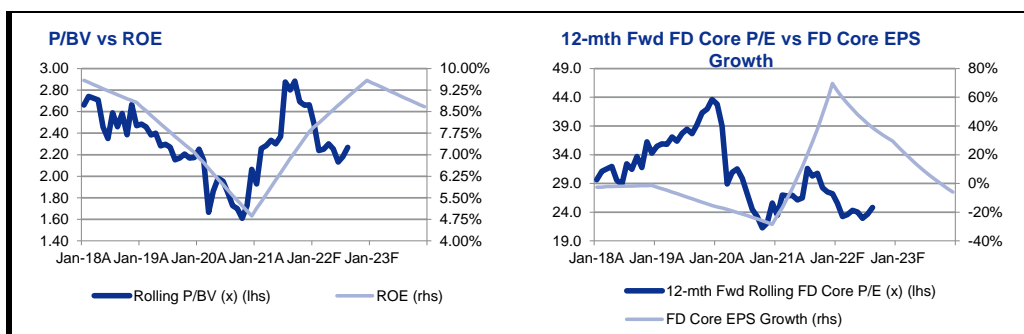
Figure 5: RFMD 12-mth Fwd Rolling FD Core P/E (x)


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Refinitiv ESG Scores	
	
ESG in a nutshell	
<p>RFMD scored a C for Refinitiv's combined ESG score in 2019. The score was weighed C, C+ and D+ across the Environmental (E), Social (S) and Governance (G) pillars, respectively, with 81% of weightage squared between the S and G pillars. The G pillar score, penalised due to board composition and board attendance, may be unwarranted, given the leadership role the founders play. Within the highly regulated healthcare industry in Singapore, RFMD is held to strict operating standards. Amidst the Covid-19 pandemic, RFMD supported the government's Covid-19 initiatives by providing quality healthcare services.</p>	
<p>Keep your eye on</p> <p>Social – high staff turnover rates and injury rate, which improved in 2020 as reported in the latest sustainability report. Training expenditure per employee has also decreased over the years, which impacted the Social pillar. However, this was a result of digitalising training courses, which has resulted in cost savings.</p>	<p>Implications</p> <p>The implications of high turnover and injury rates could be reflected in higher staff costs and hospital capacity issues. As such, we have not considered the further impact on valuations.</p>
<p>ESG highlights</p> <p>When ranked against four other global peers by Refinitiv, we observe that scores are heavily skewed to European peers while RFMD sits in the middle, above Asian and US peers, which could be the result of underlying structural differences between healthcare systems across the world as well as government healthcare policies.</p>	<p>Implications</p> <p>Improvements in ESG ranking could lead to lower discount rates for the counter. However, we have not factored this into our valuations.</p>
<p>Trends</p> <p>Both the Environmental and Governance pillars saw yoy improvements in 2019, albeit gradually. This could be due to the non-collection of certain data and may not fully represent the company's ESG efforts.</p>	<p>Implications</p> <p>RFMD operates in a resource-intensive industry, which could continue to weigh on ESG scores. We believe this is an issue also faced by its peers and have not factored in any valuation discounts as a result.</p>

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS



Profit & Loss

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	599.8	737.6	737.4	726.3	761.3
Gross Profit	599.8	737.6	737.4	726.3	761.3
Operating EBITDA	123.9	160.6	177.4	167.8	188.0
Depreciation And Amortisation	(35.5)	(39.3)	(41.9)	(40.9)	(40.8)
Operating EBIT	88.4	121.3	135.5	127.0	147.2
Financial Income/(Expense)	(4.0)	(5.7)	(5.5)	(4.8)	(5.1)
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	84.4	115.6	130.0	122.2	142.1
Exceptional Items					
Pre-tax Profit	84.4	115.6	130.0	122.2	142.1
Taxation	(19.8)	(31.9)	(35.8)	(33.7)	(39.2)
Exceptional Income - post-tax					
Profit After Tax	64.7	83.7	94.1	88.5	103.0
Minority Interests	1.2	0.5	0.0	0.0	0.0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	65.9	84.2	94.1	88.5	103.0
Recurring Net Profit	42.3	72.6	94.1	88.5	103.0
Fully Diluted Recurring Net Profit	42.3	72.6	94.1	88.5	103.0

Cash Flow

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	123.9	160.6	177.4	167.8	188.0
Cash Flow from Inv. & Assoc.					
Change In Working Capital	7.7	14.2	(47.0)	(0.3)	1.4
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	11.2	7.1	0.0	0.0	1.0
Net Interest (Paid)/Received	0.0	0.0	(5.5)	(4.8)	(5.1)
Tax Paid	(9.7)	(21.7)	(35.8)	(33.7)	(39.2)
Cashflow From Operations	133.1	160.1	89.0	129.1	146.1
Capex	(58.9)	(49.9)	(20.0)	(20.0)	(19.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(3.3)	(2.3)	3.3	0.0	0.0
Cash Flow From Investing	(62.2)	(52.2)	(16.7)	(20.0)	(19.0)
Debt Raised/(repaid)	3.6	(4.6)	0.0	0.0	0.0
Proceeds From Issue Of Shares	0.8	5.6	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid	(19.2)	(37.3)	(52.3)	(52.3)	(71.0)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(14.9)	(36.3)	(52.3)	(52.3)	(71.0)
Total Cash Generated	56.1	71.6	20.0	56.8	56.1
Free Cashflow To Equity	74.5	103.3	72.3	109.1	127.1
Free Cashflow To Firm	76.1	114.3	79.5	115.5	133.8

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	203	265	285	342	398
Total Debtors	113	161	117	116	121
Inventories	15	13	12	12	13
Total Other Current Assets	0	0	0	0	0
Total Current Assets	331	439	414	469	532
Fixed Assets	740	797	775	755	733
Total Investments	295	274	274	274	274
Intangible Assets	34	32	32	32	32
Total Other Non-Current Assets	4	3	3	3	3
Total Non-current Assets	1,073	1,106	1,084	1,063	1,042
Short-term Debt	39	107	107	107	107
Current Portion of Long-Term Debt					
Total Creditors	191	254	161	160	167
Other Current Liabilities	50	57	57	57	57
Total Current Liabilities	280	417	324	323	331
Total Long-term Debt	166	92	92	92	92
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	36	50	50	50	50
Total Non-current Liabilities	202	142	142	142	142
Total Provisions	8	10	10	10	10
Total Liabilities	490	569	476	475	483
Shareholders' Equity	899	961	1,003	1,039	1,071
Minority Interests	15	16	19	19	19
Total Equity	914	977	1,022	1,058	1,090

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	8.8%	27.4%	0.8%	(0.8%)	4.8%
Operating EBITDA Growth	17.6%	29.6%	10.5%	(5.4%)	12.0%
Operating EBITDA Margin	21.8%	22.2%	24.3%	23.2%	24.8%
Net Cash Per Share (S\$)	(0.00)	0.04	0.05	0.08	0.11
BVPS (S\$)	0.48	0.51	0.54	0.56	0.57
Gross Interest Cover	17.16	19.09	18.97	19.85	22.13
Effective Tax Rate	23.4%	27.6%	27.6%	27.6%	27.6%
Net Dividend Payout Ratio	70.7%	62.1%	55.6%	59.1%	69.0%
Accounts Receivables Days	63.56	69.13	69.44	58.68	57.24
Inventory Days	N/A	N/A	N/A	N/A	N/A
Accounts Payables Days	N/A	N/A	N/A	N/A	N/A
ROIC (%)	11.8%	15.1%	16.2%	14.6%	17.4%
ROCE (%)	8.2%	10.5%	11.4%	10.3%	11.6%
Return On Average Assets	5.06%	6.00%	6.49%	6.10%	6.90%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
RMG's inpatient admission volume	15,937.5	16,734.3	17,571.0	18,449.6	19,372.1
Revenue per patient bed (S\$)	10,716.3	10,769.9	10,899.1	11,029.9	11,162.3

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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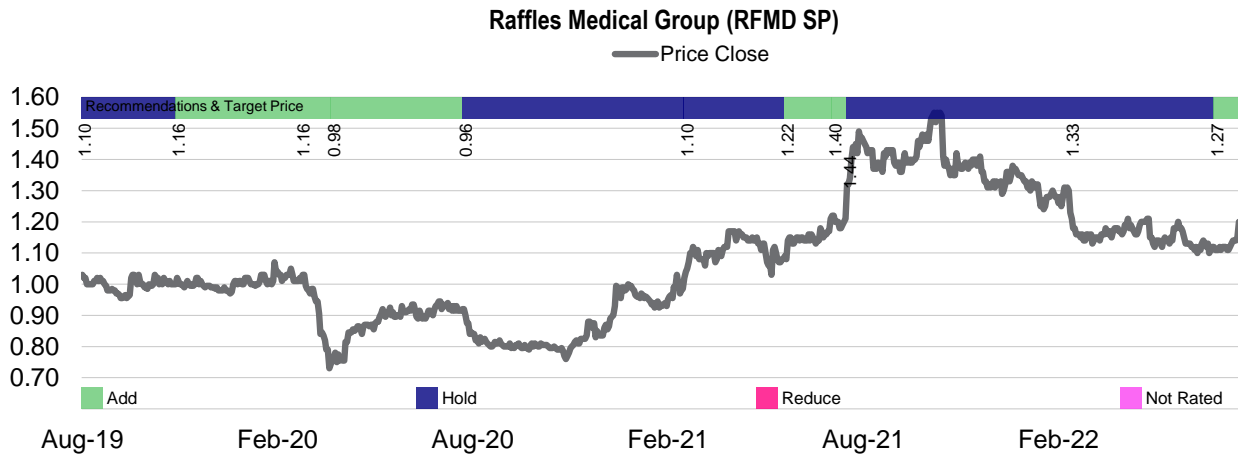
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	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)



Recommendation Framework

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Add The stock's total return is expected to exceed 10% over the next 12 months.

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