

COMPANY UPDATE

Raffles Medical Group (RFMD SP)

Attractive Valuation Arising From Recent Share Price Weakness

We summarise the following key takeaways from RFMD's 34th AGM: a) 2022 profit margins expanded due to strong performance from the Healthcare Services segment; b) RFMD is facing a global shortage of healthcare workers; c) TCFs will continue to contribute in the near term; and d) increased contributions are expected as China operations pick up steam. With tailwinds and currently trading at attractive valuations, we maintain BUY. Target price: S\$1.90.

WHAT'S NEW

- Raffles Medical Group (RFMD) released the minutes of its 34th AGM which answered several questions from its shareholders. We highlight some important points below.
- Outperformance from Healthcare Services.** Despite tapering COVID-19-related activities, RFMD noted that the increase in 2022 profit margin for the Healthcare Services segment was led by better operating leverage due to higher volume of operations in 2022. However, the group expects margins to taper off to historical norms moving forward. This is in line with our expectations. RFMD had an exceptionally high margin of 63.1% in 2022 due to annual cost savings of S\$67m yoy. With domestic inflationary pressures and a shortage of nurses in Singapore, we expect staff costs to inch back up to the historical average of 50% from 45%.
- Coping with inflationary pressure.** Facing a global shortage in healthcare personnel coupled with salary inflation, RFMD believes that the group will face inflationary cost push moving forward. This is in line with expectations and we believe the implemented price increases in 2022 will help to mitigate the expected increases in manpower costs. Also, in our view, with the tapering of some lower-margin COVID-19 services, better operating leverage and cost efficiencies, a more favourable revenue mix may help soften the decline in margins.
- TCFs still as important.** Shareholders raised queries about the growth prospects of RFMD's transitional care facilities (TCF), with the group stating that TCFs continue to assist the government in freeing up space in public hospitals given the ongoing bed crunch. With the Singapore government's renewed focus on TCFs, RFMD mentioned that TCFs could continue to play an important part in Singapore's healthcare system but also shared that TCFs were not a targeted growth area. This was expected as, from our standpoint, TCFs still face a regulatory risk whereby the government may deem them redundant. However, as mentioned in our last update, Singapore's health minister mentioned that TCFs would be retained and become "a medium- or even long-term feature of our healthcare system", making the redundancy of TCFs unlikely. Although COVID-19 has become endemic in Singapore, TCFs still function as step-down care facilities which play a vital part in the domestic healthcare system. Furthermore, with an upcoming TCF tender in the west, winning the tender to operate a second TCF would help boost RFMD's 2023-24 net profit significantly, given that the current TCF contributes around 35% of 2022 operating profit based on our calculations.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	724	767	745	712	707
EBITDA	161	236	219	187	170
Operating profit	121	196	178	148	131
Net profit (rep./act.)	84	144	135	113	101
Net profit (adj.)	84	143	135	113	101
EPS (S\$ cent)	4.5	7.7	7.3	6.1	5.4
PE (x)	29.6	17.2	18.2	21.8	24.4
P/B (x)	2.6	2.4	2.3	2.2	2.1
EV/EBITDA (x)	13.8	9.4	10.1	11.9	13.1
Dividend yield (%)	2.1	2.9	2.6	2.3	1.9
Net margin (%)	11.6	18.7	18.2	15.9	14.3
Net debt/(cash) to equity (%)	(9.4)	(17.7)	(24.8)	(29.7)	(33.5)
Interest cover (x)	28.1	57.0	n.a.	n.a.	n.a.
ROE (%)	9.1	14.5	12.9	10.2	8.6
Consensus net profit	-	-	125	129	132
UOBKH/Consensus (x)	-	-	1.08	0.88	0.77

Source: RMG, Bloomberg, UOB KayHian

BUY

(Maintained)

Share Price	S\$1.33
Target Price	S\$1.90
Upside	+42.7%

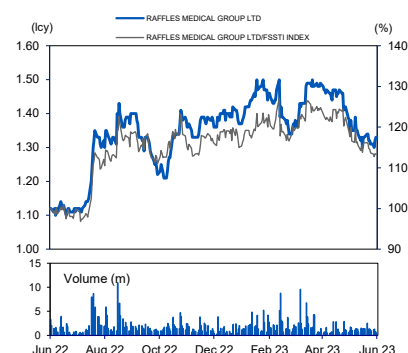
COMPANY DESCRIPTION

Raffles Medical Group is a health care provider. The company operates medical clinics, imaging centres, and medical laboratories. Raffles provides general and specialised medical, medical evacuation, medical advisory and dental treatment services.

STOCK DATA

GICS sector	Health Care			
Bloomberg ticker:	RFMD SP			
Shares issued (m):	1,860.2			
Market cap (S\$m):	2,474.1			
Market cap (US\$m):	1,842.8			
3-mth avg daily t'over (US\$m):	1.6			
Price Performance (%)				
52-week high/low	S\$1.50/S\$1.10			
1mth	3mth	6mth	1yr	YTD
(4.3)	(2.9)	(3.6)	17.7	(5.0)
Major Shareholders				
				%
Dr Loo Choon Yong				52.8
-				-
-				-
FY23 NAV/Share (S\$)				0.59
FY23 Net Cash/Share (S\$)				0.15

PRICE CHART



Source: Bloomberg

ANALYST(S)

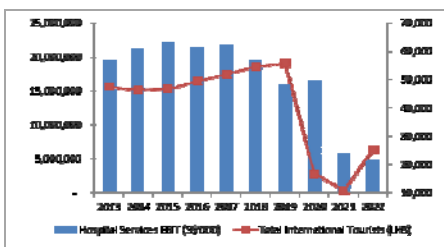
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- Chinese operations set to improve...** Within expectations, RFMD mentioned that Raffles Hospital Chongqing and Shanghai are expected to perform better in 2023, driven by the removal of China's zero-COVID policy. A positive surprise came in the form of Raffles Hospital Beijing becoming profitable in 1H23. Moving forward, we expect a ramp-up in contributions from RFMD's Chinese hospitals as patient loads recover. However, due to China's zero-COVID restrictions, we push back our EBITDA breakeven level timeline for Raffles Hospital Chongqing to 1Q24 (3Q23 previously) and Raffles Hospital Shanghai to 1Q26 (4Q25 previously) respectively.
- ...with increased domestic penetration.** RFMD revealed more information on its patient profile - it is mostly serving the expatriate market in the cities that it currently operates in. The group also shared that its Chinese hospitals have been gaining traction among the local Chinese, specifically at Raffles Hospital Chongqing where patients are able to use the government-provided basic health insurance to pay controlled hospital prices. This also implies that margins would be compressed with greater contributions from the lower-margin local Chinese patients. We reckon that Raffles Hospital Beijing and Shanghai would command higher billing intensity and better margins given their respective favourable geographic locations amongst expatriates.

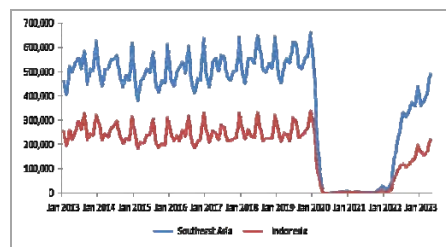
STOCK IMPACT

HOSPITAL EBIT VS SG'S INTERNATIONAL ARRIVALS



Source: Bloomberg

RECOVERY IN TOURISM FROM INDONESIA AND SEA



Source: Bloomberg

- Return of foreign patients.** We expect RFMD's hospital services segment to benefit from the return of foreign patients. Looking at 2H22 results, hospital services EBIT grew 106.8% yoy and 286.2% hoh as Singapore reopened its borders. Historically, foreign patients from Southeast Asia (with the majority from Indonesia) form the main bulk (>50%) of RFMD's foreign patient load. We expect 1H23 hospital services segmental earnings to surge given the sharp hoh recovery in 1H23 Southeast Asian tourist arrivals, which currently stand at 88% of pre-pandemic (2019) levels. Assuming a full recovery back to pre-pandemic levels, we estimate that 2022 annual operating profit would have grown by around 15%.
- Upcoming TCF tender announcement.** As mentioned in our previous update, we expect the results of the upcoming TCF tender to be announced in early-3Q23. As a recap, we estimate that RFMD's current TCF contributes around 35% of RFMD's 2022 annual operating profit. Assuming that RFMD wins the second TCF tender, this would raise our 2023 annual operating profit estimates by 20-25% based on our estimates and also dependent on how fast the TCF is set up after the tender. We have not incorporated contributions from a second TCF win into our estimates.

EARNINGS REVISION/RISK

- We make immaterial changes to our 2024-25 PATMI estimates while leaving our 2023 PATMI estimate unchanged.

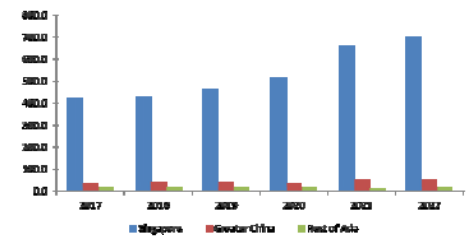
VALUATION/RECOMMENDATION

- Maintain BUY with an unchanged PE-based target price of S\$1.90**, pegged to an unchanged 26x 2023F PE, -0.5SD to RFMD's long-term average mean PE. Backed by favourable tailwinds, we like RFMD for its cheap 2023F PE valuation (18.2x) compared to regional peers (35.4x).

SHARE PRICE CATALYST

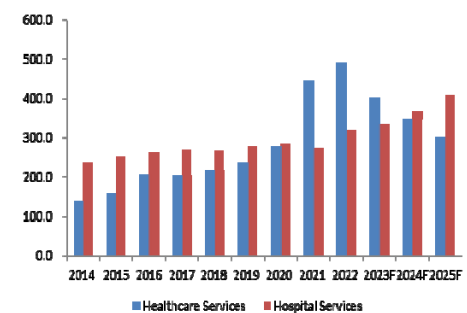
- Ramp-up of Chinese hospitals' operations; winning the upcoming TCF tender.

ANNUAL REVENUE BY GEOGRAPHY (\$'M)



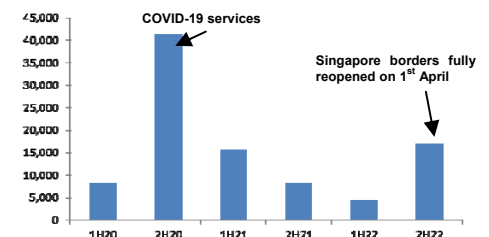
Source: UOB Kay Hian, RFMD

SEGMENTAL ANNUAL REVENUE (\$'M)



Source: UOB Kay Hian, RFMD

HOSPITAL SERVICES' SEMI-ANNUAL EBIT (\$'M)



Source: UOB Kay Hian, RFMD

HISTORICAL FORWARD PE



Source: Bloomberg, UOB Kay Hian

HISTORICAL FORWARD P/B



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	766.5	745.3	712.0	707.4
EBITDA	236.1	218.8	186.7	169.5
Deprec. & amort.	40.2	40.5	38.7	38.4
EBIT	195.8	178.3	148.1	131.1
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(4.1)	1.7	2.4	3.0
Pre-tax profit	191.7	180.0	150.4	134.1
Tax	(48.0)	(45.0)	(37.6)	(33.5)
Minorities	(0.2)	0.5	0.5	0.5
Net profit	143.5	135.5	113.3	101.1
Net profit (adj.)	143.3	135.3	113.1	100.9

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	196.2	173.9	149.3	138.5
Pre-tax profit	191.7	180.0	150.4	134.1
Tax	(48.0)	(45.0)	(37.6)	(33.5)
Deprec. & amort.	40.2	40.5	38.7	38.4
Working capital changes	(32.9)	(1.3)	(2.0)	(0.3)
Other operating cashflows	45.2	(0.2)	(0.2)	(0.2)
Investing	(22.8)	(50.0)	(50.0)	(50.0)
Capex (growth)	(22.8)	(50.0)	(50.0)	(50.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	(183.7)	(34.9)	(29.4)	(27.3)
Dividend payments	(52.0)	(32.7)	(28.0)	(23.3)
Issue of shares	6.0	0.0	0.0	0.0
Proceeds from borrowings	(94.4)	0.0	0.0	0.0
Others/interest paid	(43.3)	(2.2)	(1.4)	(3.9)
Net cash inflow (outflow)	(10.3)	89.1	69.9	61.3
Beginning cash & cash equivalent	265.0	253.1	342.2	412.1
Changes due to forex impact	(1.5)	0.0	0.0	0.0
Ending cash & cash equivalent	253.1	342.2	412.1	473.4

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	1,012.5	1,022.0	1,033.3	1,044.9
Other LT assets	25.0	25.0	25.0	25.0
Cash/ST investment	253.1	342.2	412.1	473.4
Other current assets	207.1	173.1	138.9	122.3
Total assets	1,497.7	1,562.3	1,609.3	1,665.4
ST debt	9.7	9.7	9.7	9.7
Other current liabilities	316.0	307.3	293.5	291.7
LT debt	63.4	63.4	63.4	63.4
Other LT liabilities	78.2	82.1	86.2	90.6
Shareholders' equity	1,015.1	1,085.0	1,142.1	1,196.3
Minority interest	15.4	14.9	14.4	13.9
Total liabilities & equity	1,497.7	1,562.3	1,609.3	1,665.4

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	30.8	29.4	26.2	24.0
Pre-tax margin	25.0	24.2	21.1	19.0
Net margin	18.7	18.2	15.9	14.3
ROA	9.4	8.9	7.1	6.2
ROE	14.5	12.9	10.2	8.6
Growth				
Turnover	5.9	(2.8)	(4.5)	(0.6)
EBITDA	47.0	(7.3)	(14.7)	(9.2)
Pre-tax profit	65.9	(6.1)	(16.4)	(10.9)
Net profit	70.5	(5.6)	(16.4)	(10.8)
Net profit (adj.)	70.5	(5.6)	(16.4)	(10.8)
EPS	71.9	(5.6)	(16.4)	(10.8)
Leverage				
Debt to total capital	6.6	6.2	5.9	5.7
Debt to equity	7.2	6.7	6.4	6.1
Net debt/(cash) to equity	(17.7)	(24.8)	(29.7)	(33.5)
Interest cover (x)	57.0	n.a.	n.a.	n.a.

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