

## MARKET NEWS

US stocks were mixed on Thursday, as gains in the utilities, real estate and consumer discretionary sectors led shares higher and losses in the information technology, materials and industrials sectors led shares lower. At the close of the NYSE, the DJIA rose 0.17% while the S&P 500 index was down 0.32%, and the NASDAQ Composite index fell 0.89%. Falling stocks outnumbered advancing ones on the NYSE by 1,862 to 1,041 and 107 ended unchanged; on the Nasdaq Stock Exchange, 2,865 declined and 1,407 advanced, while 165 ended unchanged. (Source: WSJ, Bloomberg)

During the last trading session, the FSSTI index rose 3.71pt to 3,226.59. Among the top active stocks were Seatrium (+0.7%), Yangzijiang Shipbuilding (+1.8%), Rex International (+0.6%), Thai Beverage (+2.6%) and UMS (+1.6%). The FTSE ST Mid Cap index fell 0.04% while the FTSE ST Small Cap Index was up 0.14%. The broader market saw 265 gainers and 277 losers with total trading value of S\$754.3m.

## WHAT'S IN THE PACK

### Singapore Company Update:

**Raffles Medical Group - Margins to compress; no updates on TCF tender.**

(RFMD SP/BUY/S\$1.25/Target:S\$1.70)

With RFMD's reclassification of its healthcare services and insurance services segments, we still see healthy segmental margins, driven by cost savings and the TCF. However, we expect increasing manpower costs to ...

### Singapore Technical Analysis:

**Thai Beverage (THBEV SP) - Trading BUY**

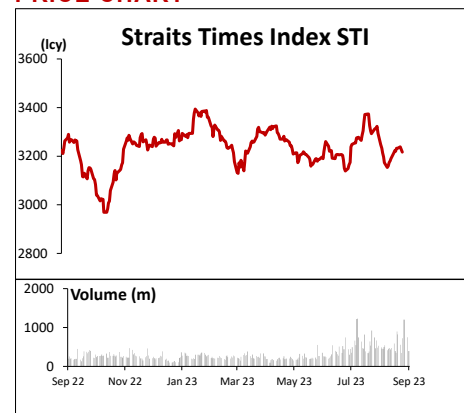
Price rebounded from the middle Bollinger band, which is also the 20-day moving average. The 20MA is rising, hinting at potential upside ahead...

**Top Glove Corp (TOPG SP) - Trading BUY**

Price rebounded from its previous low support zone. It moved and closed above its 20MA. The RSI is rising above its neutral level, hinting at potential upside ahead...

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## PRICE CHART



## KEY INDICES

	Prev Close	1M %	YTD %
DJIA	34484.3	(2.8)	4.0
S&P 500	4447.1	(1.6)	15.8
FTSE 100	7441.7	(1.5)	(0.1)
AS30	7374.9	(1.9)	2.1
CSI 300	3758.5	(5.6)	(2.9)
FSSTI	3226.6	(2.6)	(0.8)
HSCEI	6314.7	(4.1)	(5.8)
HSI	18202.1	(5.1)	(8.0)
JCI	6954.8	1.3	1.5
KLCI	1460.1	0.6	(2.4)
KOSPI	2548.3	(1.0)	13.9
Nikkei 225	32991.1	1.9	26.4
SET	1550.4	2.1	(7.1)
TWSE	16619.1	(1.5)	17.6
BDI	1141	(0.3)	(24.7)
CPO (RM/mt)	3806	(0.5)	(6.0)
Brent Crude (US\$/bbl)	90	6.0	5.3

Source: Bloomberg

## TOP VOLUME

Company	Price (\$)	Chg (%)	Volume ('000s)
Seatrium	0.14	0.7	131,383
Thai Beverage	0.59	2.6	47,377
Yangzijiang Shipbuilding	1.71	1.8	23,412
Golden Agri-Resources	0.24	(4.0)	20,443
Genting Singapore	0.88	(0.6)	20,049

## TOP GAINERS

Company	Price (\$)	Chg (%)	Volume ('000s)
Top Glove Corp	0.25	8.7	16,561
Sinarmas Land	0.20	4.2	40
StarHub	1.08	2.9	2,770
Thai Beverage	0.59	2.6	47,377
IFAST Corp	5.82	2.5	707

## TOP LOSERS

Company	Price (\$)	Chg (%)	Volume ('000s)
Golden Agri-Resources	0.24	(4.0)	20,443
Yanlord Land Group	0.68	(2.9)	754
Nio Inc	10.42	(2.7)	119
SBS Transit	2.54	(2.3)	93
PropNex	0.91	(2.2)	297

## TRADERS' CORNER



### Thai Beverage (THBEV SP)

Trading buy range: S\$0.585-0.590

Last price: S\$0.590

Target price: S\$0.635

Protective stop: S\$0.565

**Price rebounded from the middle Bollinger band, which is also the 20-day moving average. The 20MA is rising, hinting at potential upside ahead. The RSI is rising above its neutral level. These could increase chances of the stock price moving higher.**

The potential upside target is S\$0.635. Stop-loss could be placed at S\$0.565.

Approximate timeframe on average: 1-2 weeks (initiate this trade idea if the stock hits the entry price range within three trading days)

Our institutional research has a fundamental BUY and target price of S\$0.83.



### Top Glove Corp (TOPG SP)

Trading buy range: S\$0.245-0.250

Last price: S\$0.250

Target price: S\$0.325

Protective stop: S\$0.220

**Price rebounded from its previous low support zone. It moved and closed above its 20MA. The RSI is rising above its neutral level, hinting at potential upside ahead. These could increase chances of the stock price moving higher.**

The potential upside target is S\$0.325. Stop-loss could be placed at S\$0.22.

Approximate timeframe on average: 1-2 weeks (initiate this trade idea if the stock hits the entry price range within three trading days)

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## FROM THE REGIONAL MORNING NOTES...

**Raffles Medical Group (RFMD SP)**

Margins To Compress; No Updates On TCF Tender

With RFMD's reclassification of its healthcare services and insurance services segments, we still see healthy segmental margins, driven by cost savings and the TCF. However, we expect increasing manpower costs to drag margins for 2H23. The result for the TCF tender in the west of Singapore has not been announced but we see potential upside to our earnings estimates if RFMD wins any of the three upcoming TCF tenders. Maintain BUY with an unchanged target price of S\$1.70.

**WHAT'S NEW**
**HEALTHCARE SERVICES SEGMENTAL BREAKDOWN (\$'000)**

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	1H23
Total Revenue	206,872	203,342	215,875	234,910	278,119	443,553	490,730	234,288
Operating Profit	14,455	6,539	12,513	13,812	31,492	78,478	166,664	58,687
Operating Margin	7.0%	3.2%	5.8%	5.9%	11.3%	17.7%	34.0%	25.0%
Insurance Revenue	82,749	81,337	86,350	93,964	93,748	98,158	100,209	67,022
Insurance Profit*	-	-	-	-	-	-	-	(1,253)
Operating Margin excluding Insurance	11.6%	5.4%	9.7%	9.8%	17.1%	22.7%	42.7%	35.8%
Non COVID Revenue	124,123	122,005	129,525	140,946	134,371	145,395	150,521	82,266
Non COVID Profit	14,455	6,539	12,513	13,812	13,168	14,248	14,750	8,062
Non COVID Margin	11.6%	5.4%	9.7%	9.8%	9.8%	9.8%	9.8%	9.8%
COVID revenue	-	-	-	-	50,000	200,000	240,000	85,000
COVID profit	-	-	-	-	18,324	64,230	151,914	51,878
Operating margin	-	-	-	-	36.6%	32.1%	63.3%	61.0%
Total (\$m)	-293.0	-301.6	-303.4	-324.5	-364.0	-469.0	-402.9	-191.2
Inventories & Consumables Used	-51.2	-54.1	-57.2	-57.6	-72.3	-82.0	-61.1	-29.0
Staff Costs	-241.7	-247.6	-246.2	-266.9	-291.7	-387.0	-341.7	-162.2
Staff costs % to revenue	-51.0%	-51.8%	-50.3%	-51.1%	-51.3%	-53.5%	-44.6%	-43.7%

Source: Bloomberg, UOB Kay Hian \*Segmental information not provided. Assuming breakeven.

- **Healthy margins.** Given the reclassification of Raffles Medical Group's (RFMD) insurance services business, we revisit our healthcare services segment estimates to calculate RFMD's 1H23 transitional care facility (TCF) contribution. The healthcare services segment (excluding insurance) commands healthy margins of 35.8% which we reckon is largely due to the TCF, given the absence of vaccination and PRC test revenue, and cost efficiency from lower manpower costs. From our estimates, the TCF has exceptionally high margins of 61.0%. We reckon that this is primarily driven by cost efficiency as 1H23 staff cost as a percentage of revenue is currently at a historical low of 43.7%. Assuming staff cost accounts for 50% of revenue, we add back ~S\$20m of wage costs which would imply normalised TCF margins of around 30%.

**KEY FINANCIALS**

Year to 31 Dec (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	724	767	701	691	690
EBITDA	161	236	182	171	160
Operating profit	121	196	144	134	122
Net profit (rep./act.)	84	144	109	102	93
Net profit (adj.)	84	143	109	102	93
EPS (S\$ cent)	4.5	7.7	5.9	5.5	5.0
PE (x)	27.8	16.2	21.3	22.8	24.8
P/B (x)	2.4	2.3	2.2	2.1	2.0
EV/EBITDA (x)	13.1	8.9	11.5	12.3	13.2
Dividend yield (%)	2.2	3.0	2.8	2.6	2.4
Net margin (%)	11.6	18.7	15.6	14.7	13.5
Net debt/(cash) to equity (%)	(9.4)	(17.7)	(22.8)	(27.0)	(30.4)
Interest cover (x)	28.1	57.0	n.a.	n.a.	n.a.
ROE (%)	9.1	14.5	10.5	9.4	8.3
Consensus net profit	-	-	120	122	122
UOBKH/Consensus (x)	-	-	0.91	0.84	0.77

Source: Raffles Medical Group, Bloomberg, UOB Kay Hian

## Retail Market Monitor

Friday, 08 September 2023

- **Higher manpower costs and insurance loss.** Despite 1H23 staff costs dropping 17.3% yoy, staff costs increased by 11.4% hoh (see chart overleaf) with staff costs as a percentage of turnover increasing by 2.9ppt hoh to 43.7%. This is within our expectations as we had expected elevated domestic inflationary pressures, a shortage of nurses in Singapore, and stiff competition from the public healthcare sector to increase RFMD's staff costs. In our view, we expect staff costs as a percentage of turnover to normalise back to the historical average of around 50%, which would likely lower margins for the healthcare services segment moving forward. Also, with the return of domestic patients to RFMD's hospitals/clinics, we expect higher operating loss from insurance services to drag overall margins.
- **Upcoming TCF tenders to boost earnings.** We understand that the group's current TCF in Changi was initially set to operate till end-3Q23 but has been given an extension till end-4Q23, albeit possibly at lower margins. Also, the results for the upcoming TCF tender in the west of Singapore have not been announced which we expect to be some time in the next 1-2 months. The group also plans to participate in any new upcoming TCF tenders with two new TCFs in central Singapore set to open by end-23. The three new TCFs have a combined bed capacity of 340 beds as compared with RFMD's current 200 beds in Changi. We have not added the three TCF tenders into our forecasts. Given RFMD's track record, we expect RFMD to win at least one TCF tender. Based on our estimates, winning one TCF tender would increase our 2024 net profit forecast by around 8%.

### 1H23 RESULTS

Year to Dec (\$m)	1H23	1H22	yoy% chg	2H22	hoh% chg
Turnover	370.8	409.7	(9.5)	356.8	3.9
EBITDA	95.7	106.8	(10.4)	129.3	(26.0)
Operating Profit	76.7	86.2	(11.1)	109.6	(30.1)
PATMI	59.9	59.5	0.5	83.8	(28.6)
Margin (%)			ppt chg		ppt chg
EBITDA margin	25.8	26.1	(0.3ppts)	36.2	(10.4ppts)
Operating margin	20.7	21.0	(0.3ppts)	28.5	(7.9ppts)
PATMI margin	16.1	14.5	1.6ppts	30.7	(10.1ppts)
Operating Costs			yoy% chg		hoh% chg
Inventories & Consumables Used	29.0	31.4	7.6	29.7	2.5
Staff Costs	162.2	196.1	17.3	145.6	(11.4)
Cost as % of Turnover			ppt chg		ppt chg
Inventories & Consumables Used	7.8	7.7	(0.2ppts)	8.3	0.5ppts
Staff Costs	43.7	47.9	4.1ppts	40.8	(2.9ppts)

Source: RFMD, UOB Kay Hian

### STOCK IMPACT

- **Expect profit to fall further.** Despite 1H23 PATMI holding steady yoy, this was largely due to higher interest income (+S\$4m yoy) which supported PATMI. Assuming the same interest income as 1H22, 1H23 core PATMI would have dropped ~6% yoy to ~S\$56m, in line with the yoy drops in revenue and operating profit. Furthermore, operating margins were supported by cost efficiency and lower manpower costs. As we expect manpower costs to creep up as mentioned above, we foresee operating margins falling in 2H23 along with higher losses from the insurance services segment, eroding overall profitability. This would be partially offset by improved contributions from the hospital services segment with the gradual return of higher-billing foreign patients and domestic elective surgeries. Thus, we expect 2H23 PATMI to drop 41.5% yoy and 18.0% hoh to S\$49m.

### EARNINGS REVISION/RISK

- We make no changes to our earnings estimates.

### VALUATION/RECOMMENDATION

- **Maintain BUY with the same PE-based target price of S\$1.70**, pegged at 29x 2023F PE to RFMD's long-term average mean PE. We have become more bullish on RFMD's expansion in China in the medium term, expecting an inflection point sometime in 2024-25. Also, assuming RFMD wins one/two/three TCF tenders, our target price would increase to S\$1.83/S\$1.96/S\$2.09 respectively.

### SHARE PRICE CATALYST

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

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