

COMPANY UPDATE

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 (S\$'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 (S\$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 (S\$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

BUY

(Maintained)

Share Price	S\$1.25
Target Price	S\$1.70
Upside	+36.4%

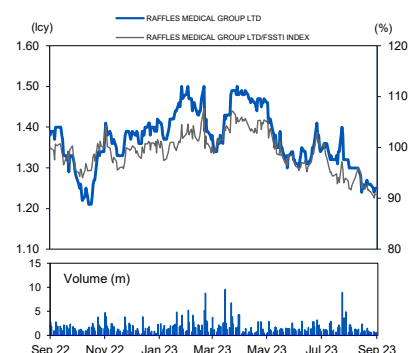
COMPANY DESCRIPTION

Raffles Medical Group Limited 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):	1,861.7			
Market cap (S\$m):	2,327.1			
Market cap (US\$m):	1,705.2			
3-mth avg daily t'over (US\$m):	1.4			
Price Performance (%)				
52-week high/low	S\$1.50/S\$1.21			
1mth	3mth	6mth	1yr	YTD
(5.3)	(5.3)	(8.8)	(8.1)	(10.7)
Major Shareholders	%			
Dr Loo Choon Yong	52.8			
-	-			
-	-			
FY23 NAV/Share (S\$)	0.57			
FY23 Net Cash/Share (S\$)	0.13			

PRICE CHART



Source: Bloomberg

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- 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.

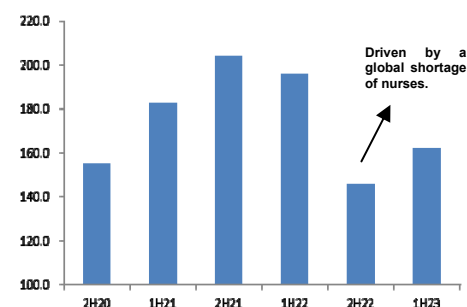
VALUATION/RECOMMENDATION

- 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

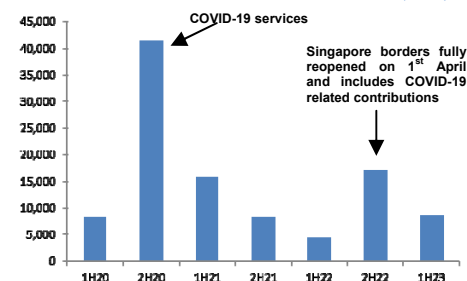
- Ramp-up of Chinese hospitals' operations and winning the upcoming TCF tender.

RFMD'S SEMI-ANNUAL STAFF COSTS (\$m)



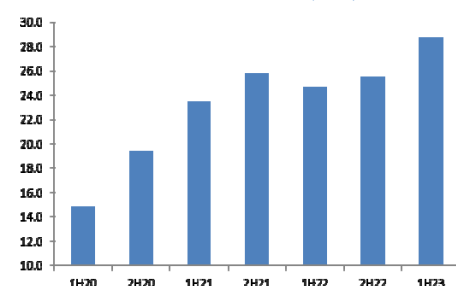
Source: UOB Kay Hian, RFMD

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



Source: UOB Kay Hian, RFMD

RFMD'S REVENUE FROM CHINA (\$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	701.5	690.6	689.8
EBITDA	236.1	182.2	171.3	159.6
Deprec. & amort.	40.2	38.1	37.5	37.5
EBIT	195.8	144.1	133.8	122.2
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(4.1)	1.4	1.9	2.4
Pre-tax profit	191.7	145.5	135.7	124.6
Tax	(48.0)	(36.4)	(33.9)	(31.1)
Minorities	(0.2)	0.0	0.0	0.0
Net profit	143.5	109.1	101.8	93.4
Net profit (adj.)	143.3	108.9	101.6	93.3

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	196.2	143.1	138.5	130.7
Pre-tax profit	191.7	145.5	135.7	124.6
Tax	(48.0)	(36.4)	(33.9)	(31.1)
Deprec. & amort.	40.2	38.1	37.5	37.5
Working capital changes	(32.9)	(4.0)	(0.7)	(0.0)
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)	(31.3)	(33.1)	(32.2)
Dividend payments	(52.0)	(32.7)	(29.9)	(28.0)
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)	1.4	(3.2)	(4.3)
Net cash inflow (outflow)	(10.3)	61.8	55.4	48.4
Beginning cash & cash equivalent	265.0	253.1	314.9	370.3
Changes due to forex impact	(1.5)	0.0	0.0	0.0
Ending cash & cash equivalent	253.1	314.9	370.3	418.7

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	1,012.5	1,024.4	1,036.8	1,049.4
Other LT assets	25.0	25.0	25.0	25.0
Cash/ST investment	253.1	314.9	370.3	418.7
Other current assets	207.1	154.2	127.8	108.1
Total assets	1,497.7	1,518.4	1,559.9	1,601.2
ST debt	9.7	9.7	9.7	9.7
Other current liabilities	316.0	289.2	284.7	284.4
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	1,058.7	1,100.5	1,137.8
Minority interest	15.4	15.4	15.4	15.4
Total liabilities & equity	1,497.7	1,518.4	1,559.9	1,601.2

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	30.8	26.0	24.8	23.1
Pre-tax margin	25.0	20.7	19.7	18.1
Net margin	18.7	15.6	14.7	13.5
ROA	9.4	7.2	6.6	5.9
ROE	14.5	10.5	9.4	8.3
Growth				
Turnover	5.9	(8.5)	(1.6)	(0.1)
EBITDA	47.0	(22.8)	(6.0)	(6.8)
Pre-tax profit	65.9	(24.1)	(6.7)	(8.2)
Net profit	70.5	(24.0)	(6.7)	(8.2)
Net profit (adj.)	70.5	(24.0)	(6.7)	(8.2)
EPS	71.9	(24.0)	(6.7)	(8.2)
Leverage				
Debt to total capital	6.6	6.4	6.1	6.0
Debt to equity	7.2	6.9	6.6	6.4
Net debt/(cash) to equity	(17.7)	(22.8)	(27.0)	(30.4)
Interest cover (x)	57.0	n.a.	n.a.	n.a.

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