

COMPANY UPDATE

Raffles Medical Group (RFMD SP)

Entering Vietnam; Inflection Point Remains To Be Seen

RFMD announced its expansion into Vietnam through a majority stake acquisition in a hospital. Its Changi TCF has also been extended till Feb 25. However, the reveal of TCF unit prices was lower than expected. Moving forward, the healthcare services segment is expected to face lower margins while a persistently strong Singapore dollar would drag the hospital services segment's recovery. Maintain BUY but with a lower target price of S\$1.47.

WHAT'S NEW

- Regional expansion...** Raffles Medical Group (RFMD) announced that it is acquiring a majority stake in a hospital named American International Hospital (AIH) in Ho Chi Minh, Vietnam. The hospital was founded in 2018, has 120 beds and staff of about 500 including 60 doctors. This is in line with our expectations that RFMD would expand regionally given its growing cash war chest and limited domestic growth potential. It was noted that the valuation of the hospital was at US\$45.6m and would be funded internally by cash. RFMD had about S\$300m in cash as at end-1H23. It would also enter into a management services agreement to manage AIH operations.
- ...to benefit RFMD to a slight extent.** Not much financial details were given about the transaction in the press release. However, looking at a recent comparable transaction, Thomson Medical Group recently acquired the 200-bedder FV Hospital in Vietnam at around S\$440m valuation, ~16.8x EV/EBITDA and S\$26m EBITDA. Given AIH's valuation of US\$45.6m and an EV/EBITDA multiple assumption of around 13x, we assume AIH has an EBITDA of S\$5m-6m. Furthermore, the management services agreement to manage AIH operations would bring in higher revenue and higher quality earnings for RFMD. Assuming a 70% stake and annual EBITDA of S\$3m-5m from the service agreement, we estimate this would boost RFMD's 2024 net profit estimate by at most 4-5%. Additional potential upside may come from the service agreement.
- Extension granted.** It was recently announced on GEBIZ, Singapore government's tendering website, that RFMD's Changi Transitional Care Facility (TCF) had been granted an extension. This TCF is now set to operate till Feb 25, in line with our earlier expectations that the Changi TCF would be extended. There were a total of nine applicants including current TCF operators Thomson Medical and Crawford Hospital. Based on the details released, RFMD had the lowest overall bid of S\$151,392, less than half of the second-lowest overall bid. This is largely due to the absence of one-off set-up costs and RFMD having the lowest bid for COVID-19 treatment services by a large margin. We opine that this is due to existing economies of scale and expertise that RFMD currently has running the existing TCF.

KEY FINANCIALS

Year to 31 Dec (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	724	767	681	641	690
EBITDA	161	236	177	159	160
Operating profit	121	196	140	124	122
Net profit (rep./act.)	84	144	106	94	93
Net profit (adj.)	84	143	106	94	93
EPS (S\$ cent)	4.5	7.7	5.7	5.1	5.0
PE (x)	26.2	15.3	20.7	23.2	23.5
P/B (x)	2.3	2.2	2.1	2.0	1.9
EV/EBITDA (x)	12.3	8.4	11.2	12.4	12.4
Dividend yield (%)	2.4	3.2	3.0	2.7	2.5
Net margin (%)	11.6	18.7	15.6	14.7	13.5
Net debt/(cash) to equity (%)	(9.4)	(17.7)	(22.6)	(26.0)	(29.4)
Interest cover (x)	28.1	57.0	n.a.	n.a.	n.a.
ROE (%)	9.1	14.5	10.2	8.8	8.4
Consensus net profit	-	-	120	122	122
UOBKH/Consensus (x)	-	-	0.88	0.77	0.77

Source: RMG, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.18
Target Price	S\$1.47
Upside	+24.9%
(Previous TP)	S\$1.70)

COMPANY DESCRIPTION

Raffles Medical Group Limited is a health care provider. The Company operates medical clinics, imaging centers, and medical laboratories. Raffles provides general and specialized medical, medical evacuation, medical advisory, and dental treatment services.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	RFMD SP
Shares issued (m):	1,862.4
Market cap (S\$m):	2,197.6
Market cap (US\$m):	1,601.2
3-mth avg daily t'over (US\$m):	1.0

Price Performance (%)

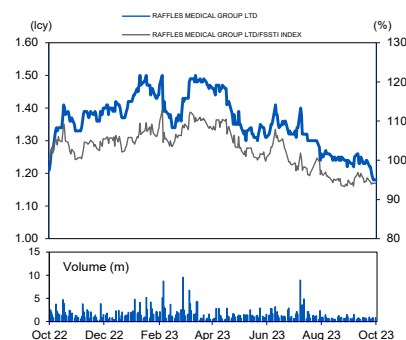
52-week high/low S\$1.50/S\$1.18

1mth	3mth	6mth	1yr	YTD
(4.8)	(10.6)	(19.2)	(4.1)	(15.7)

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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STOCK IMPACT

- Details revealed.** The unit price per bed for the TCF has been revealed for the first time. For a minimum occupancy quantity (MOQ) of 40 beds, the price was S\$468/bed/day. Any incremental capacity above MOQ was at S\$488/bed/day. As the TCF has around 200 beds, this implies annual revenue of S\$30m-35m (beds x unit price x 365 days) on a stable 90% occupancy. A recent domestic COVID-19 wave coupled with an ongoing hospital bed crunch is expected to help support occupancy levels. Despite the TCF contract extension being generally positive for RFMD, this is still starkly lower than our previous annual TCF revenue estimates of S\$110m-120m, as compared with S\$30m-35m mentioned earlier.
- Change to revenue mix assumptions.** From RFMD's 1H23 results, we initially estimated that RFMD had around S\$85m of COVID-19-related revenue in 1H23, of which S\$55m was from the TCF given the absence of vaccination and PCR test revenue. Based on the new information, excluding an estimated semi-annual TCF revenue of around S\$15m, we estimate that there was about S\$50m of COVID-19-related (excluding TCF) revenue in 1H23, S\$20m more than our initially expected S\$30m. However, we expect this source of revenue to taper off completely in 2H23. We also reckon that 1H23 core clinic revenue is likely better than previously estimated. From the 1H23 results, we had already pencilled in close to 15% yoy growth from pre-COVID-19 levels (2019) at S\$82m. However, we now estimate that 1H23 core clinic revenue is 35-40% higher than 2019 levels at around S\$95m-100m, driven by higher patient footfall at RFMD's clinics.
- Triple whammy.** Overall, we see downside risks to our 2023-25 revenue and earnings estimates due to a combination of higher-than-expected COVID-19-related revenue, lower TCF contributions, and increased contributions from the lower-margin core clinic segment. Also, a persistently strong Singapore dollar against regional currencies is expected to drag RFMD's hospital services segment's recovery in 2H23. We now expect 2H23 PATMI to fall 45.2% yoy and 23.2% hoh respectively (-41.5% yoy and -18.0% hoh previously) to S\$46m. Potential upside may come from the three upcoming TCF tenders. Based on an average 133 beds per TCF and similar terms to the current TCF, we estimate that winning one TCF tender would lift our 2024 PATMI forecast by 3-4%.

HEALTHCARE SERVICES SEGMENTAL BREAKDOWN (S\$'000)

	FY17	FY18	FY19	FY20	FY21	FY22	1H23
Total Revenue	203,342	215,875	234,910	278,119	443,553	490,730	234,288
Insurance Revenue	81,337	86,350	93,964	93,748	98,158	100,209	67,022
Core Clinic Revenue	122,005	129,525	140,946	134,371	145,395	150,521	97,266
COVID-19 Revenue*	-	-	-	40,000	170,000	210,000	50,000
TCF Revenue	-	-	-	10,000	30,000	30,000	15,000

Source: Bloomberg, UOB Kay Hian *Expected to taper off in 2H23.

EARNINGS REVISION/RISK

- Downward revisions to our 2023-25 PATMI forecasts.** We now expect 2023-25 PATMI of S\$105.8m (S\$108.9m previously), S\$94.2m (S\$101.6m previously) and S\$93.1m (S\$93.3m previously) respectively. Given the lack of clarity, we have not added the AIH stake acquisition and management agreement into our estimates.

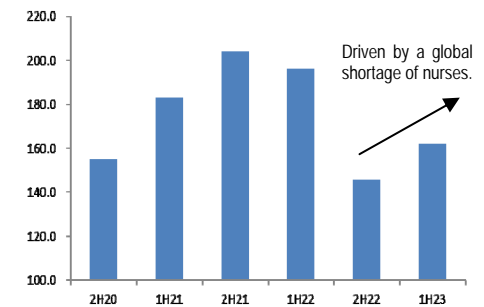
VALUATION/RECOMMENDATION

- Maintain BUY but with a lower PE-based target price of S\$1.47 (S\$1.70 previously),** pegged to the same 29x PE multiple, RFMD's long-term average mean PE, to 2024F PATMI estimates (2023F previously). Although we are bullish on RFMD's expansion in China/Vietnam and potential new acquisitions in the medium to long term, we only expect an inflection point in late-24 or 2025. Thus, given an upcoming short-term normalisation in earnings, we have rolled over our PE multiple to 2024F. RFMD currently trades (21x) at a discount to regional peers (31x).

SHARE PRICE CATALYST

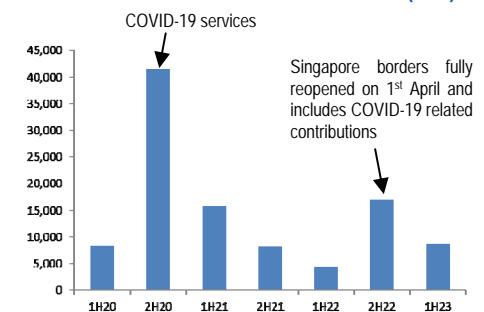
- Ramp-up of Chinese hospitals' operations and winning upcoming TCF tenders.**

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



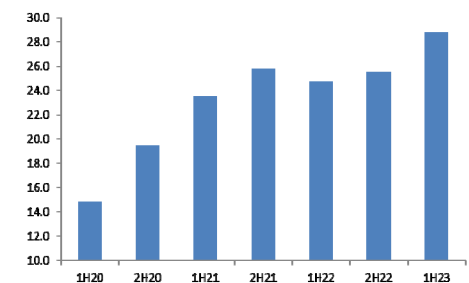
Source: UOB Kay Hian, RFMD

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



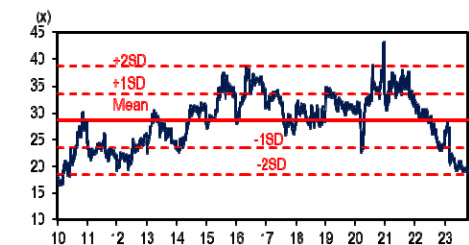
Source: UOB Kay Hian, RFMD

RFMD'S REVENUE FROM CHINA (S\$M)



Source: UOB Kay Hian, RFMD

HISTORICAL FORWARD PE



Source: Bloomberg, UOB Kay Hian

HISTORICAL FORWARD PE



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	766.5	681.5	640.6	689.8
EBITDA	236.1	177.0	158.8	159.6
Deprec. & amort.	40.2	37.0	34.8	37.5
EBIT	195.8	140.0	124.0	122.2
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(4.1)	1.3	1.8	2.3
Pre-tax profit	191.7	141.4	125.8	124.4
Tax	(48.0)	(35.3)	(31.4)	(31.1)
Minorities	(0.2)	0.0	0.0	0.0
Net profit	143.5	106.0	94.3	93.3
Net profit (adj.)	143.3	105.8	94.2	93.1

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	1,012.5	1,025.4	1,040.6	1,053.2
Other LT assets	25.0	25.0	25.0	25.0
Cash/ST investment	253.1	311.1	356.9	404.2
Other current assets	207.1	145.5	106.2	108.1
Total assets	1,497.7	1,507.0	1,528.7	1,590.5
ST debt	9.7	9.7	9.7	9.7
Other current liabilities	316.0	281.0	264.1	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	1,055.5	1,090.0	1,127.1
Minority interest	15.4	15.4	15.4	15.4
Total liabilities & equity	1,497.7	1,507.0	1,528.7	1,590.5

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	196.2	137.6	126.5	133.6
Pre-tax profit	191.7	141.4	125.8	124.4
Tax	(48.0)	(35.3)	(31.4)	(31.1)
Deprec. & amort.	40.2	37.0	34.8	37.5
Working capital changes	(32.9)	(5.2)	(2.5)	3.0
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)	(29.7)	(30.7)	(36.3)
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)	3.0	(0.8)	(8.3)
Net cash inflow (outflow)	(10.3)	57.9	45.8	47.3
Beginning cash & cash equivalent	265.0	253.1	311.1	356.9
Changes due to forex impact	(1.5)	0.0	0.0	0.0
Ending cash & cash equivalent	253.1	311.1	356.9	404.2

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Growth				
Turnover	5.9	(11.1)	(6.0)	7.7
EBITDA	47.0	(25.0)	(10.3)	0.5
Pre-tax profit	65.9	(26.3)	(11.0)	(1.1)
Net profit	70.5	(26.1)	(11.0)	(1.1)
Net profit (adj.)	70.5	(26.1)	(11.0)	(1.1)
EPS	71.9	(26.1)	(11.0)	(1.1)
Profitability				
EBITDA margin	30.8	26.0	24.8	23.1
Pre-tax margin	25.0	20.7	19.6	18.0
Net margin	18.7	15.6	14.7	13.5
ROA	9.4	7.1	6.2	6.0
ROE	14.5	10.2	8.8	8.4
Leverage				
Debt to total capital	6.6	6.4	6.2	6.0
Debt to equity	7.2	6.9	6.7	6.5
Net debt/(cash) to equity	(17.7)	(22.6)	(26.0)	(29.4)
Interest cover (x)	57.0	n.a.	n.a.	n.a.

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