

COMPANY RESULTS

Raffles Medical Group (RFMD SP)

1H22: Outperformance Led By COVID-19 Revenue

RFMD reported 1H22 PATMI of S\$59.7m (+51.3% yoy), exceeding our expectations. Outperformance was led by the healthcare services segment, backed by higher clinic visitation rates and contributions from COVID-19 revenue. Domestically, hospital patient loads are improving as foreign patients start to return while elective surgeries have ramped up. In China, continuous lockdowns have impacted operations, especially in Shanghai. Upgrade to BUY with a higher PE-based target price of S\$1.42.

1H22 RESULTS

Year to 31 Dec (\$m)	1H22	1H21	yoy % chg	hoh % chg	Comments
Revenue	382.3	343.8	11.2	0.6	Led by healthcare services.
EBITDA	107.0	74.5	43.5	24.3	
Operating Profit	86.4	56.1	54.1	32.4	Better product-mix.
Profit After Tax	60.0	38.8	54.4	33.6	
PATMI	59.7	39.4	51.3	33.0	
Staff Costs	(196.1)	(182.9)	(7.2)	3.9	
Margin (%)			ppt Chg	ppt Chg	
Operating Margin	22.6	16.3	6.3ppt	5.4ppt	
PATMI Margin	15.6	11.5	4.1ppt	3.8ppt	
Cost as % of Turnover			ppt Chg	ppt Chg	
Inventories & Consumables Used	8.2	11.9	3.7ppt	2.6ppt	Lesser PPE and masks used.
Purchased/Contracted Services	7.8	8.8	1.1ppt	0.4ppt	
Staff Costs	51.3	53.2	1.9ppt	2.4ppt	

Source: RMG, UOB Kay Hian

RESULTS

- **1H22 results exceeded our expectations.** For 1H22, Raffles Medical Group's (RFMD) revenue (+11.2% yoy, +0.6% hoh) and PATMI (+51.3% yoy, +33.0% hoh) exceeded our expectations, forming 59.2% and 82.3% of our full-year forecasts respectively. The strong outperformance was largely led by robust revenue growth and margin expansion in the healthcare services segment. 1H22 operating margin expanded (+6.3ppt yoy, +5.4ppt hoh) due to a better product-mix from lesser PCR testing revenue and better cost efficiency from staff reallocation/lesser consumables used. As a result, PATMI margin also expanded (+4.1ppt yoy, +3.8ppt hoh). Moving forward, with higher utilities and manpower costs, we reckon that RFMD may increase prices to support margins.
- **Mixed segmental performance.** Excluding intersegment revenue, 1H22 healthcare services revenue grew (+22.0% yoy, +4.4% hoh) while hospital services revenue was down (-5.0% yoy, -6.1% hoh). The increase in healthcare services revenue was a result of better COVID-19 revenue contributions and robust growth in medical clinic revenue. Revenue from hospital services softened due to the removal of PCR testing revenue, mitigated by the return of foreign patients. Revenue from China dropped by 4.0% hoh due to strict lockdowns in key cities such as Shanghai. However, on a yoy basis, RFMD's Chinese revenue grew by 5.2%.

KEY FINANCIALS

Year to 31 Dec (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	568	724	733	685	658
EBITDA	124	161	195	153	136
Operating profit	88	121	156	116	100
Net profit (rep./act.)	66	84	109	87	75
Net profit (adj.)	64	84	109	87	75
EPS (S\$ cent)	3.5	4.5	5.8	4.7	4.0
PE (x)	34.6	26.7	20.7	25.7	29.7
P/B (x)	2.5	2.3	2.2	2.1	2.1
EV/EBITDA (x)	16.8	13.0	10.7	13.6	15.3
Dividend yield (%)	2.1	2.3	2.1	2.1	2.1
Net margin (%)	11.6	11.6	14.8	12.7	11.5
Net debt/(cash) to equity (%)	(3.4)	(9.4)	(15.3)	(18.2)	(20.1)
Interest cover (x)	31.0	28.1	196.9	250.5	388.9
ROE (%)	7.6	9.1	11.0	8.4	7.0
Consensus net profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: RMG, Bloomberg, UOB Kay Hian

BUY

(Upgraded)

Share Price	S\$1.20
Target Price	S\$1.42
Upside	+18.6%
(Previous TP:	S\$1.34)

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):	1,852.4
Market cap (\$m):	2,222.9
Market cap (US\$m):	1,614.8
3-mth avg daily t'over (US\$m):	1.4

Price Performance (%)

52-week high/low		S\$1.54/S\$1.10		
1mth	3mth	6mth	1yr	YTD
6.2	0.8	(5.5)	(16.0)	(11.7)

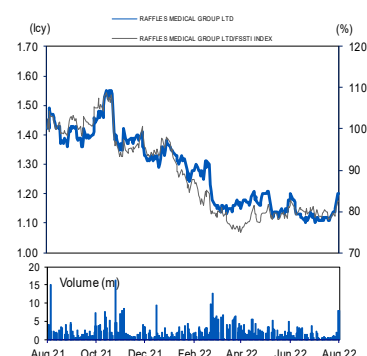
Major Shareholders

Dr Loo Choon Yong	52.8
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FY22 NAV/Share (\$)	0.55
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FY22 Net Cash/Share (\$)	0.08
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PRICE CHART



Source: Bloomberg

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- Healthcare services: Star performer.** Exceeding expectations, 1H22 healthcare services revenue formed 80.2% of our 2022 full-year segmental forecast, led by stronger-than-expected COVID-19 revenue from the Community Treatment Facilities (CTF) and higher outpatient clinic revenue. With relaxed social distancing measures, visitation rates at RFMD's clinics have already crossed pre-pandemic levels, further boosted by positive COVID-19 patients seeking medical attention. RFMD currently operates two out of six vaccination centres and all four of the CTFs in Singapore. As Singapore experienced a COVID-19 wave in 1H22, RFMD saw improved COVID-19 revenue contribution from these services. Based on our estimates, 1H22 COVID-19 revenue was at S\$110m-S\$120m. However, moving forward, management has noted that COVID-19 revenue from these services is expected to taper off as COVID-19 cases dwindle.
- Hospital services: Recovery on track.** 1H22 hospital services revenue formed 39.4% of our 2022 full-year segmental forecast, in line with expectations. As noted by management, RFMD's hospitals have experienced an increase in foreign patient load, currently at 60% of pre-pandemic levels. It is expected to improve further as Singapore's international borders were only reopened in May 22. Domestic patient load has also improved as more patients returned to perform delayed elective surgeries. We expect this segment to recover steadily with the return of higher-billing foreign patients and a ramp up in elective surgeries in 2H22. It was noted that the Emergency Care Collaboration Scheme has been extended for another 4-5 years.
- China: Affected by zero-COVID policy.** RFMD's Chinese operations were impacted as several areas went through stringent lockdowns, with Raffles Hospital Shanghai being the most impacted. Hospital staff and patients were unable to commute to the hospital, affecting operations and patient load, leading to around S\$5m EBITDA loss in 1H22 for Raffles Hospital Shanghai. However, Raffles Hospital Chongqing managed to come out relatively unscathed as patient load doubled in 1H22, posting about S\$1.5m EBITDA loss in 1H22 despite sporadic lockdowns. We maintain our previous EBITDA breakeven level timeline for Chongqing at end-2H22 while pushing back our timeline for Raffles Hospital Shanghai to early-1H25.

EARNINGS REVISION/RISK

- We increase our 2022-24 earnings estimates**, after factoring in higher revenue and margin assumptions for the healthcare services segment. For 2022-24, we increase our PATMI estimates from S\$108.7m (S\$72.5m previously), S\$87.2m (S\$67.3m previously) and S\$75.4m (S\$74.6m previously) respectively. We expect earnings to trend downwards starting 2023 as COVID-19 revenue tapers off.

VALUATION/RECOMMENDATION

- Upgrade to BUY with a higher PE-based target price of S\$1.42 (previously S\$1.34).** We have changed our methodology from DCF to a PE valuation, pegged at -1.0SD (24.5x) of RFMD's long-term average mean PE, due to uncertainty over RFMD's Chinese operations. Due to expected record-high earnings in 2022, we have taken a conservative approach and pegged our PE multiple to -1.0SD instead of its mean to account for normalisation of earnings in 2023-24.
- Although Singapore's government has been swift in its transition to endemic living, RFMD's COVID-19 revenue has been resilient, backed by sporadic COVID-19 waves in 1H22. With an ongoing recovery in domestic operations, this would help support RFMD's 2022-23 earnings and the tapering COVID-19 revenue, before hitting an inflection point in 2024-25 when RFMD's Chinese hospitals start to exit their gestation periods. We still remain positive on RFMD's medium-term China expansion and think that there is upside at current price levels.

SHARE PRICE CATALYST

- Ramp-up of Chinese hospitals' operations.
- Relaxation in China's zero-COVID policy.
- Recovery in foreign patient load.

HISTORICAL PE



Source: Bloomberg, UOB Kay Hian

HISTORICAL P/B



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	723.8	733.3	684.6	657.8
EBITDA	160.6	195.4	153.4	136.0
Deprec. & amort.	39.3	39.8	37.2	35.7
EBIT	121.3	155.6	116.2	100.2
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(5.7)	(1.0)	(0.6)	(0.3)
Pre-tax profit	115.6	154.6	115.6	99.9
Tax	(31.9)	(46.4)	(28.9)	(25.0)
Minorities	0.5	0.5	0.5	0.5
Net profit	84.2	108.7	87.2	75.4
Net profit (adj.)	84.0	108.5	87.2	75.4

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	1,071.4	1,086.5	1,104.3	1,123.6
Other LT assets	34.8	34.8	34.8	34.8
Cash/ST investment	265.0	330.6	368.0	393.8
Other current assets	174.1	162.6	129.5	104.7
Total assets	1,545.3	1,614.5	1,636.6	1,656.9
ST debt	96.3	96.3	96.3	96.3
Other current liabilities	320.3	324.5	303.0	291.1
LT debt	77.9	77.9	77.9	77.9
Other LT liabilities	74.1	77.8	81.7	85.8
Shareholders' equity	960.8	1,022.6	1,062.9	1,091.4
Minority interest	15.8	15.3	14.8	14.3
Total liabilities & equity	1,545.3	1,614.5	1,636.6	1,656.9

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	160.1	149.4	116.9	106.8
Pre-tax profit	115.6	154.6	115.6	99.9
Tax	(31.9)	(46.4)	(28.9)	(25.0)
Deprec. & amort.	39.3	39.8	37.2	35.7
Working capital changes	14.2	1.4	(7.0)	(3.9)
Other operating cashflows	22.9	0.0	0.0	0.0
Investing	(52.2)	(55.0)	(55.0)	(55.0)
Capex (growth)	(52.2)	(55.0)	(55.0)	(55.0)
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	(46.9)	(27.7)	(24.5)	(26.0)
Dividend payments	(37.3)	(23.5)	(23.5)	(23.5)
Issue of shares	5.6	0.0	0.0	0.0
Proceeds from borrowings	(0.5)	0.0	0.0	0.0
Others/interest paid	(14.6)	(4.3)	(1.1)	(2.5)
Net cash inflow (outflow)	61.0	66.7	37.4	25.8
Beginning cash & cash equivalent	202.1	263.9	330.6	368.0
Changes due to forex impact	0.8	0.0	0.0	0.0
Ending cash & cash equivalent	265.0	330.6	368.0	393.8

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	22.2	26.6	22.4	20.7
Pre-tax margin	16.0	21.1	16.9	15.2
Net margin	11.6	14.8	12.7	11.5
ROA	5.7	6.9	5.4	4.6
ROE	9.1	11.0	8.4	7.0
Growth				
Turnover	27.4	1.3	(6.6)	(3.9)
EBITDA	29.6	21.6	(21.5)	(11.4)
Pre-tax profit	36.9	33.7	(25.2)	(13.6)
Net profit	27.7	29.1	(19.8)	(13.5)
Net profit (adj.)	31.8	29.2	(19.6)	(13.5)
EPS	29.8	29.2	(19.6)	(13.5)
Leverage				
Debt to total capital	15.1	14.4	13.9	13.6
Debt to equity	18.1	17.0	16.4	16.0
Net debt/(cash) to equity	(9.4)	(15.3)	(18.2)	(20.1)
Interest cover (x)	28.1	196.9	250.5	388.9

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