

COMPANY UPDATE

Raffles Medical Group (RFMD SP)

China's Reopening A Strong Start To The New Year

RFMD's Chinese hospitals are facing a surge in COVID-19 patients due to the relaxation of China's nationwide restrictions. For its Singapore hospitals, foreign patient levels have recovered close to pre-COVID-19 levels, driven mostly by patients from Indonesia and Southeast Asia. RFMD has also selectively increased prices across some hospital and healthcare services by 3-5%, in a bid to tackle inflationary pressures. Maintain BUY with the same PE-based target price of S\$1.58.

WHATS NEW

- **No more Zero-COVID.** China ended most of its nationwide Zero-COVID policies in a bid to boost its economy and transition into COVID-19 endemicity. After three years of self-isolation and strict lockdowns, China lifted domestic quarantine restrictions as well as relaxed domestic and foreign travel guidelines, whereby inbound travellers are now able to enter the country quarantine-free. However, this has led to a sharp rise in COVID-19 infections where there is little natural immunity within the Chinese population, largely due to the strict restriction previously implemented along with low vaccinate rates. As a result, Chinese hospitals are now overwhelmed with patients seeking treatment for COVID-19 or respiratory symptoms, positive for healthcare service providers such as Raffles Medical Group (RFMD) who have started taking in COVID-19 patients from the outbreak.
- **Mixed bag.** Through channel checks, we understand that RFMD's patients and hospital staff are now able to commute to RFMD's hospitals more freely with the removal of quarantine restrictions, potentially improving patient load. Due to the COVID-19 surge in China, RFMD has started taking in more lower-risk COVID-19 patients to ease the burden on public hospitals. Although the increase in patient load is positive, it is at the expense of higher-margin elective surgeries, which may compress margins for one to two quarters. We opine that the revenue increase from the surge in COVID-19 patient load is able to offset the loss in elective surgery revenue. Currently, around 60-70% of RFMD's hospital staff have contracted COVID-19. As China gradually becomes closer to attaining herd immunity, we reckon that RFMD's unfavourable mix of patients would eventually improve as elective surgery patients start to return.
- **Delayed EBITDA breakeven timeline.** RFMD's Chinese operations were still impacted in 4Q22 as COVID-19 restrictions were only lifted late in the quarter. Hospital staff and patients were unable to commute to RFMD's Chinese hospitals, disrupting operations and depressing patient load. Furthermore, the current unfavourable patient mix that RFMD is facing has compressed margins. Accounting for these factors, we push back our previous EBITDA breakeven level timeline for Raffles Hospital Chongqing to 3Q23 (2Q23 previously) while pushing back our timeline for Raffles Hospital Shanghai to 4Q25 (3Q25 previously).

KEY FINANCIALS

Year to 31 Dec (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	568	724	775	710	703
EBITDA	124	161	233	201	188
Operating profit	88	121	191	162	150
Net profit (rep./act.)	66	84	134	122	113
Net profit (adj.)	64	84	133	122	113
EPS (\$ cent)	3.5	4.5	7.1	6.5	6.1
PE (x)	39.5	30.5	19.2	21.0	22.6
P/B (x)	2.8	2.7	2.4	2.3	2.2
EV/EBITDA (x)	18.5	14.3	9.9	11.4	12.2
Dividend yield (%)	1.8	2.0	1.8	1.8	1.8
Net margin (%)	11.6	11.6	17.2	17.2	16.1
Net debt/(cash) to equity (%)	(3.4)	(9.4)	(17.9)	(23.1)	(27.5)
Interest cover (x)	31.0	28.1	341.7	n.a.	n.a.
ROE (%)	7.6	9.1	13.3	11.3	9.8
Consensus net profit	-	-	109	100	107
UOBKH/Consensus (x)	-	-	1.22	1.22	1.06

Source: RMG, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.37
Target Price	S\$1.58
Upside	+15.5%

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):	1,854.6
Market cap (\$m):	2,540.8
Market cap (US\$m):	1,923.7
3-mth avg daily t'over (US\$m):	1.4

Price Performance (%)

52-week high/low				S\$1.43/S\$1.10
1mth	3mth	6mth	1yr	YTD
(0.7)	10.5	22.3	5.5	(2.1)

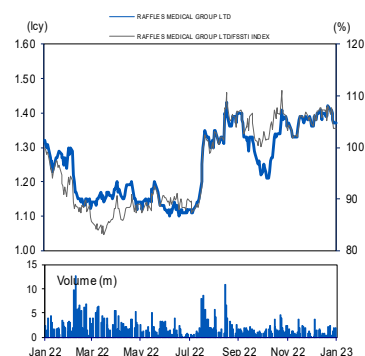
Major Shareholders

Dr Loo Choon Yong	52.8
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FY23 NAV/Share (\$)	0.60
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FY23 Net Cash/Share (\$)	0.14
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PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Foreign patients have returned.** As Singapore has reopened its international borders in 2H22, RFMD's foreign patient levels have recovered close to pre-COVID-19 levels, driven mostly by patients from Indonesia and Southeast Asia. With the return of Chinese tourists, we expect foreign patient levels to surpass pre-COVID-19 levels. Revenue from foreign patients have historically accounted for 25-30% of RFMD's annual hospital segmental revenue. Also, we understand that high-margin domestic elective surgeries have also recovered, given the relaxed COVID-19 restrictions.
- **Higher prices.** To combat stiff competition from the public sector, RFMD has adjusted employee salaries, implemented efficient deployment of manpower along with better cost control to mitigate the impact of rising manpower costs. Also, we understand that RFMD has also selectively increased prices across some hospital and healthcare services by 3-5%, in a bid to tackle inflationary pressures.

EARNINGS REVISION/RISK

- **No changes to our estimates.**

VALUATION/RECOMMENDATION

- **Maintain BUY with the same PE-based target price of S\$1.58**, pegged at the same -1.0SD (24.2x 2023F PE) to RFMD's long-term average mean PE. Due to 9M22 net profit coming in higher than any of its previous yearly profits (and the subsequent record-high full-year 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.

The ongoing recovery in domestic operations has helped to support RFMD's 2022-23 earnings and the tapering COVID-19 revenue. We still remain positive on RFMD's expansion in China in the medium term and expect an inflection point sometime in 2024-25 when RFMD's Chinese hospitals start to exit their gestation periods.

SHARE PRICE CATALYST

- Ramp-up of Chinese hospitals' operations.
- Recovery in foreign patient load.

PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Rec	Price @ 13-Jan-23 (lcy)	Target Price (lcy)	Market Cap (US\$m)	PE			P/B	Yield	ROE
							2021 (x)	2022 (x)	2023 (x)			
IHH Healthcare	IHH MK	RM	BUY	5.99	7.10	12,166	29.7	34.6	31.5	2.1	1.0	6.5
KPJ Healthcare	KPJ MK	RM	BUY	1.01	1.23	1,012	84.9	35.7	27.8	2.0	1.7	6.5
Apollo Hospitals	APHS IN	Rs	NR	4328	n.a.	7,648	58.9	64.0	45.0	9.6	0.2	16.1
Fortis Healthcare	FORH IN	Rs	NR	286.6	n.a.	2,659	39.0	41.5	32.7	3.2	0.0	7.8
Bangkok Chain Hospital	BCH TB	Bt	BUY	21.6	21.20	1,634	7.9	12.3	28.6	3.7	3.0	26.4
Bangkok Dusit Med Service	BDMS TB	Bt	HOLD	30.25	30.50	14,587	60.5	38.8	39.1	5.5	1.6	13.8
Bumrungrad Hospital	BH TB	Bt	HOLD	215	205.00	5,186	140.5	39.2	39.0	8.9	1.6	24.2
Zhejiang Dian Diagnostics	300244 CH	Rmb	NR	26.45	n.a.	2,472	14.1	6.7	8.8	2.0	1.7	30.8
Aier Eye Hospital	300015 CH	Rmb	NR	33.73	n.a.	36,090	77.8	82.1	62.7	15.9	0.4	20.7
Average (Excl RFMD SP)							57.0	39.4	35.0	5.9	1.2	17.0
Raffles Medical	RFMD SP	S\$	BUY	1.37	1.58	1,924	30.4	19.2	21.0	2.4	1.8	13.3

Source: Bloomberg, UOB Kay Hian

HISTORICAL FORWARD PE



Source: Bloomberg, UOB Kay Hian

HISTORICAL FORWARD P/B



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	723.8	774.7	710.1	702.7
EBITDA	160.6	232.8	200.7	187.9
Deprec. & amort.	39.3	42.1	38.6	38.2
EBIT	121.3	190.7	162.1	149.7
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(5.7)	(0.7)	0.1	0.7
Pre-tax profit	115.6	190.0	162.1	150.4
Tax	(31.9)	(57.0)	(40.5)	(37.6)
Minorities	0.5	0.5	0.5	0.5
Net profit	84.2	133.5	122.1	113.3
Net profit (adj.)	84.0	133.3	122.1	113.3

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	1,071.4	1,084.3	1,100.7	1,117.5
Other LT assets	34.8	34.8	34.8	34.8
Cash/ST investment	265.0	361.2	433.5	501.4
Other current assets	174.1	177.3	138.6	120.7
Total assets	1,545.3	1,657.6	1,707.6	1,774.4
ST debt	96.3	96.3	96.3	96.3
Other current liabilities	320.3	342.9	314.3	311.0
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	1,047.4	1,122.6	1,189.0
Minority interest	15.8	15.3	14.8	14.3
Total liabilities & equity	1,545.3	1,657.6	1,707.6	1,774.4

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	160.1	182.4	150.9	149.9
Pre-tax profit	115.6	190.0	162.1	150.4
Tax	(31.9)	(57.0)	(40.5)	(37.6)
Deprec. & amort.	39.3	42.1	38.6	38.2
Working capital changes	14.2	7.3	(9.3)	(1.1)
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)	(30.1)	(23.6)	(27.1)
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)	(6.7)	(0.1)	(3.7)
Net cash inflow (outflow)	61.0	97.3	72.3	67.8
Beginning cash & cash equivalent	202.1	263.9	361.2	433.5
Changes due to forex impact	0.8	0.0	0.0	0.0
Ending cash & cash equivalent	265.0	361.2	433.5	501.4

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	22.2	30.0	28.3	26.7
Pre-tax margin	16.0	24.5	22.8	21.4
Net margin	11.6	17.2	17.2	16.1
ROA	5.7	8.3	7.3	6.5
ROE	9.1	13.3	11.3	9.8
Growth				
Turnover	27.4	7.0	(8.3)	(1.0)
EBITDA	29.6	44.9	(13.8)	(6.4)
Pre-tax profit	36.9	64.4	(14.7)	(7.2)
Net profit	27.7	58.6	(8.5)	(7.2)
Net profit (adj.)	31.8	58.7	(8.4)	(7.2)
EPS	29.8	58.7	(8.4)	(7.2)
Leverage				
Debt to total capital	15.1	14.1	13.3	12.6
Debt to equity	18.1	16.6	15.5	14.7
Net debt/(cash) to equity	(9.4)	(17.9)	(23.1)	(27.5)
Interest cover (x)	28.1	341.7	n.a.	n.a.

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