

## COMPANY RESULTS

### Raffles Medical Group (RFMD SP)

3Q23: Weaker Performance As Margin Pressure Builds

**RFMD's 3Q23 net profit fell to S\$12.4m (-67.4% yoy) on the absence of COVID-19 related revenue, higher insurance claims and rising costs, missing our expectations. While its TCF at the Expo has been extended, we note that margins have been eroded due to competitive bidding. We expect margins to contract further as a result of gestation losses from its China operations, higher insurance claims and elevated operating costs. Downgrade to HOLD with a lower PE-based target price of S\$1.15.**

#### 3Q23 RESULTS

Year to 31 Dec (S\$m)	3Q23	3Q22	yoy % chg	9M23	9M22	yoy % chg	Comments
Revenue	161.6	214.2	(24.6)	532.4	623.9	(14.7)	No COVID-19 related revenue.
Net Profit After Tax	12.4	38.0	(67.4)	72.8	97.9	(25.6)	Rising costs and insurance claims.
Margin (%)	3Q23	3Q22	ppt chg	9M23	9M22	ppt chg	
PAT Margin	7.7	17.7	(10.0ppt)	13.4	15.7	(2.3ppt)	

Source: RMG, UOB Kay Hian

#### RESULTS

- 3Q23 earnings missed expectations.** Raffles Medical Group's (RFMD) 9M23 revenue (-14.7% yoy) and net profit (-25.6% yoy) formed 78.1% and 68.8% of our full-year forecasts respectively, with net profit below our expectations. 9M23 was dragged by a weak 3Q23 whereby quarterly revenue (-24.6% yoy) and net profit (-67.4% yoy) moderated sharply yoy. As mentioned in our previous update, the yoy decline in top- and bottom line performance was mainly due to the absence of COVID-19-related revenue from the healthcare services segment, higher insurance claims and increased inflationary cost pressures. This led to a fall in profitability and significant margin erosion with 3Q23 net margin contracting 10.0ppt yoy to 7.7%. The rate of margin erosion was much larger than our expectations, leading to the net profit miss against our full-year estimates.
- Falling margins.** Moving forward, we expect overall revenue to soften further in 4Q23 as we estimate that there is S\$10m-15m of embedded COVID-19-related revenue left. Also, we expect rising operating costs such as manpower costs/utilities, coupled with gestation losses from RFMD's China hospitals and higher insurance claims to continue to drag margins going into 2024. Management noted that the ongoing domestic nursing shortage has started to improve since 1H23. However, in our view, stiff competition from Australia and New Zealand would likely continue to pressure manpower costs. As a recap, we expect 1H23 staff costs as a percentage of turnover of 43.7% to normalise back to the historical average of 50%.
- TCF operations extended.** RFMD's 3Q23 business update confirmed the extension of RFMD's current transitional care facility (TCF) at the Expo to Feb 25. Given that the extension was through a competitive tender, we note that margins for the TCF extension are lower than before.

#### KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	724	767	661	601	650
EBITDA	161	236	150	131	140
Operating profit	121	196	114	98	104
Net profit (rep./act.)	84	144	86	75	79
Net profit (adj.)	84	143	86	75	79
EPS (S\$ cent)	4.5	7.7	4.6	4.0	4.3
PE (x)	23.8	13.8	23.0	26.6	25.0
P/B (x)	2.1	2.0	1.9	1.9	1.8
EV/EBITDA (x)	11.1	7.6	12.0	13.7	12.8
Dividend yield (%)	2.6	3.6	3.3	3.0	2.8
Net margin (%)	11.6	18.7	13.0	12.5	12.2
Net debt/(cash) to equity (%)	(9.4)	(17.7)	(21.0)	(23.0)	(25.5)
Interest cover (x)	28.1	57.0	n.a.	n.a.	n.a.
ROE (%)	9.1	14.5	8.4	7.2	7.5
Consensus net profit	-	-	120	120	122
UOBKH/Consensus (x)	-	-	0.72	0.62	0.65

Source: RMG, Bloomberg, UOB Kay Hian

## HOLD

(Downgraded)

Share Price	S\$1.07
Target Price	S\$1.15
Upside	+7.3%
(Previous TP)	S\$1.47

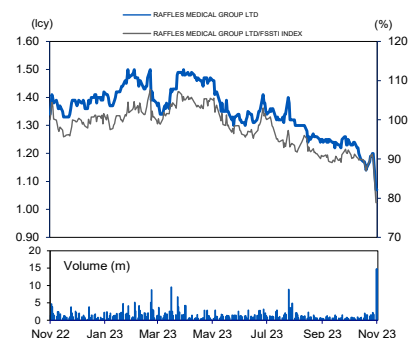
#### COMPANY DESCRIPTION

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):	1,992.8			
Market cap (US\$m):	1,477.1			
3-mth avg daily t'over (US\$m):	0.9			
<b>Price Performance (%)</b>				
52-week high/low		S\$1.50/S\$1.07		
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(14.4)	(18.9)	(27.2)	(20.1)	(23.6)
<b>Major Shareholders</b>				<b>%</b>
Dr Loo Choon Yong				52.8
FY23 NAV/Share (S\$)				0.56
FY23 Net Cash/Share (S\$)				0.12

#### PRICE CHART



Source: Bloomberg

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## STOCK IMPACT

- Healthcare services: Strong and profitable.** Although no segmental information was provided, it was noted that the drops in RFMD's top- and bottom lines were largely due to absence of COVID-19-related revenue from the healthcare services segment. Excluding COVID-19-related revenue, management noted that core operations remained robust with higher patient footfall at its healthcare clinics.
- Hospital services (domestic): Sluggish recovery.** 3Q23 overall hospital services revenue grew yoy, driven by higher patient visits to RFMD's domestic and Chinese hospitals. However, due to the strong Singapore dollar as compared to regional currencies, we understand that foreign patient visits have not returned back to pre-pandemic levels. In addition to increased medical bills, elevated hotel and transport expenses have likely deferred some of RFMD's higher-billing foreign patients to cheaper alternatives such as Malaysia and Thailand, leading to permanent demand loss and lower margins for the segment. Nonetheless, we maintain our expectations that the hospital segment would face a slow and gradual recovery instead of a V-shaped recovery. Potential upside may come from a weaker Singapore dollar in 2024.
- China: Gestational costs persist.** With the removal of China's COVID-19 restrictions earlier this year, patient visits to RFMD's China hospitals have increased. While this has lifted hospital segment revenue, Raffles Hospital Chongqing and Raffles Hospital Shanghai continued to incur gestation losses, both of which we reckon are significant contributors to the fall in overall 3Q23 margins. To recap, the EBITDA breakeven timeline for both its Chinese hospitals had been pushed back to 1Q26 due to then-existing COVID-19 restrictions in China. With a ramp-up in operations, we opine that this has led to increased operating/gestation costs. However, to combat falling margins, management has since initiated measures to improve the cost efficiency of their operations.
- Vietnam: New exciting market.** RFMD's acquisition of a majority stake in American International Hospital in Ho Chi Minh, Vietnam is expected to be completed by 4Q24/1Q25. The valuation of the hospital is US\$45.6m and the acquisition is likely to be funded internally by cash. RFMD has about S\$240m in cash as of end-9M23. RFMD has also entered into a management services agreement to manage AIH operations. Given the growing demand for private healthcare in Vietnam, we expect additional acquisitions in the medium-long term. Management also mentioned that they are looking at potential regional opportunities such as in Indochina.

## EARNINGS REVISION/RISK

- We slash our 2023-25 net profit estimates**, on the back of lower overall margins assumptions. We lower our 2023-25 net profit forecasts to S\$86.1m (S\$105.8m previously), S\$74.6m (S\$94.2m previously) and S\$79.3m (S\$93.1m previously) respectively.

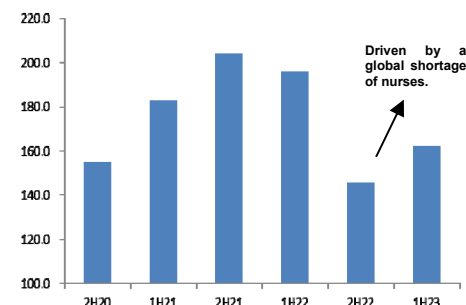
## VALUATION/RECOMMENDATION

- We downgrade to HOLD (BUY previously) with a lower PE-based target price of S\$1.15 (S\$1.47 previously)**, pegged to the same 29x PE multiple, RFMD's long-term average mean PE, to 2024F PATMI estimates. 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 sometime in 2025. Given an ongoing short-term normalisation in earnings and margins, we see limited upside potential in share price performance and reckon that RFMD is fairly valued at current price levels.

## SHARE PRICE CATALYST

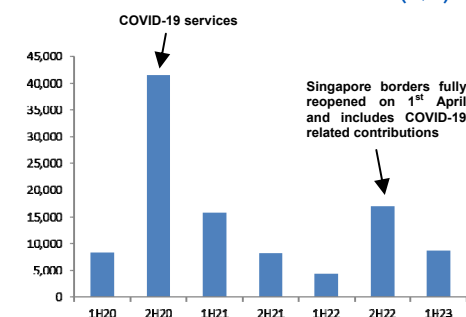
- Ramp-up of Chinese hospitals' operations.
- Recovery in foreign patient load.
- Earnings-accretive M&As.

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



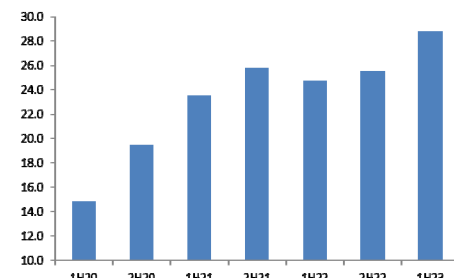
Source: UOB Kay Hian, RFMD

## 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

**PROFIT & LOSS**

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	766.5	661.5	600.6	649.8
EBITDA	236.1	149.8	131.0	139.6
Deprec. & amort.	40.2	35.9	32.6	35.3
EBIT	195.8	113.9	98.4	104.3
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(4.1)	1.1	1.4	1.7
Pre-tax profit	191.7	115.0	99.7	106.0
Tax	(48.0)	(28.7)	(24.9)	(26.5)
Minorities	(0.2)	0.0	0.0	0.0
Net profit	143.5	86.2	74.8	79.5
Net profit (adj.)	143.3	86.1	74.6	79.3

**CASH FLOW**

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	196.2	115.6	103.6	117.6
Pre-tax profit	191.7	115.0	99.7	106.0
Tax	(48.0)	(28.7)	(24.9)	(26.5)
Deprec. & amort.	40.2	35.9	32.6	35.3
Working capital changes	(32.9)	(6.4)	(3.7)	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)	(28.1)	(29.0)	(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)	4.6	0.8	(8.3)
Net cash inflow (outflow)	(10.3)	37.5	24.5	31.4
Beginning cash & cash equivalent	265.0	253.1	290.7	315.2
Changes due to forex impact	(1.5)	0.0	0.0	0.0
Ending cash & cash equivalent	253.1	290.7	315.2	346.5

**BALANCE SHEET**

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	1,012.5	1,026.5	1,043.9	1,058.6
Other LT assets	25.0	25.0	25.0	25.0
Cash/ST investment	253.1	290.7	315.2	346.5
Other current assets	207.1	136.9	88.9	90.8
Total assets	1,497.7	1,479.1	1,473.0	1,520.9
ST debt	9.7	9.7	9.7	9.7
Other current liabilities	316.0	272.7	247.6	267.9
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	1,035.8	1,050.7	1,074.1
Minority interest	15.4	15.4	15.4	15.4
Total liabilities & equity	1,497.7	1,479.1	1,473.0	1,520.9

**KEY METRICS**

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	30.8	22.6	21.8	21.5
Pre-tax margin	25.0	17.4	16.6	16.3
Net margin	18.7	13.0	12.5	12.2
ROA	9.4	5.8	5.1	5.3
ROE	14.5	8.4	7.2	7.5
Growth				
Turnover	5.9	(13.7)	(9.2)	8.2
EBITDA	47.0	(36.5)	(12.6)	6.6
Pre-tax profit	65.9	(40.0)	(13.3)	6.3
Net profit	70.5	(39.9)	(13.3)	6.3
Net profit (adj.)	70.5	(39.9)	(13.3)	6.3
EPS	71.9	(39.9)	(13.3)	6.3
Leverage				
Debt to total capital	6.6	6.5	6.4	6.3
Debt to equity	7.2	7.1	7.0	6.8
Net debt/(cash) to equity	(17.7)	(21.0)	(23.0)	(25.5)
Interest cover (x)	57.0	n.a.	n.a.	n.a.

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