

COMPANY RESULTS

Raffles Medical Group (RFMD SP)

2023: Weaker Margins in Line With Expectations; Headwinds Persist

RFMD reported sharply lower PATMI of S\$90.2m (-37.1% yoy) but was in line with expectations. The hospital operations reported a robust performance driven by increased patient intake and cost pass-through, offset by the impact of the strong Singapore dollar. Healthcare services segment suffered from lack of COVID-19-related revenue but is likely to stabilise in 2024. RFMD's China operations continue to perform better as patient load ramps up. Maintain HOLD with the same target price of S\$1.15.

2023 RESULTS

Year to Dec (S\$m)	2023	2022	yoy % chg	2H 23	yoy % chg	hoh % chg
Turnover	706.9	822.9	(14.1)	336.2	(18.6)	(9.3)
EBITDA	154.1	235.7	(34.6)	57.8	(55.2)	(39.2)
Operating Profit	115.8	195.5	(40.8)	39.1	(64.2)	(48.9)
PATMI	90.2	143.2	(37.1)	30.3	(63.8)	(49.4)
Margin (%)			ppt chg		ppt chg	ppt chg
EBITDA margin	21.6	28.5	(6.9ppt)	17.2	(14.0ppt)	(8.4ppt)
Operating margin	16.4	23.8	(7.4ppt)	11.6	(14.8ppt)	(9.0ppt)
PATMI margin	13.0	17.4	(4.4ppt)	9.0	(11.2ppt)	(7.1ppt)
Operating Costs			yoy % chg		yoy % chg	hoh % chg
Inventories & Consumables Used	57.9	61.1	5.2	28.9	2.7	0.1
Staff Costs	301.5	332.8	9.4	144.4	(2.1)	8.1
Cost as % of Turnover			ppt chg		ppt chg	ppt chg
Inventories & Consumables Used	8.2	7.4	(0.8ppt)	8.6	(1.4ppt)	(0.8ppt)
Staff Costs	42.7	40.4	(2.3ppt)	42.9	(8.7ppt)	(0.6ppt)

Source: RFMD, UOB Kay Hian

RESULTS

• **Results marginally above expectations; lower dividend declared.** Raffles Medical Group (RFMD) reported lower 2023 revenue and PATMI of S\$706.9m (-14.1% yoy) and S\$90.2m (-37.1% yoy), beating our full-year forecasts by 7% and 5% respectively. 2023 revenue declined as COVID-19-related services tapered off while PATMI was dragged by the absence of higher-margin contributions from COVID-19 activities, higher insurance claims and continued gestation losses from its Chinese operations. As a result, PATMI margin contracted by 4.4ppt yoy. For 4Q23, it was noted that net profit grew 47.3% qoq to S\$18m, on the back of better contributions from the hospital segment. Moving into 2024, we reckon that earnings have bottomed out in 4Q23 and would improve sequentially in 1H24. A total final dividend of 2.4 S cents was declared for 2023 (2022: 3.8 S cents), maintaining a ~50% dividend payout ratio and an annual dividend yield of around 2.4%.

• **Margins likely to remain soft.** 2H23 staff costs have increased (+8.7ppt yoy, +0.6ppt hoh) to 42.7% of turnover, from the shortage of nurses in Singapore, inflationary pressures and higher competition faced from the public healthcare sector. We expect staff costs as a percentage of turnover to normalise to the historical pre-pandemic levels of around 50% moving forward. Together with sustained gestation losses from RFMD's China hospitals and higher insurance claims, margins are likely to continue being pressured, in our view.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	823	707	679	706	733
EBITDA	235	153	144	153	162
Operating profit	195	116	107	114	122
Net profit (rep./act.)	144	92	77	83	89
Net profit (adj.)	143	92	77	82	89
EPS (S\$ cent)	7.7	4.9	4.1	4.4	4.8
PE (x)	13.1	20.5	24.5	22.8	21.2
P/B (x)	1.8	1.8	1.8	1.7	1.6
EV/EBITDA (x)	6.6	10.1	10.7	10.1	9.5
Dividend yield (%)	3.8	2.4	2.0	2.2	2.4
Net margin (%)	17.4	13.0	11.3	11.7	12.1
Net debt/(cash) to equity (%)	(17.8)	(26.6)	(33.2)	(39.5)	(45.8)
Interest cover (x)	57.1	n.a.	n.a.	n.a.	n.a.
ROE (%)	14.6	9.0	7.3	7.6	7.8
Consensus net profit	-	-	85	92	135
UOBKH/Consensus (x)	-	-	0.90	0.89	0.66

Source: RMG, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$1.01
Target Price	S\$1.15
Upside	+14.1%

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):	1,857.0
Market cap (S\$m):	1,875.6
Market cap (US\$m):	1,395.5
3-mth avg daily t'over (US\$m):	0.8

Price Performance (%)

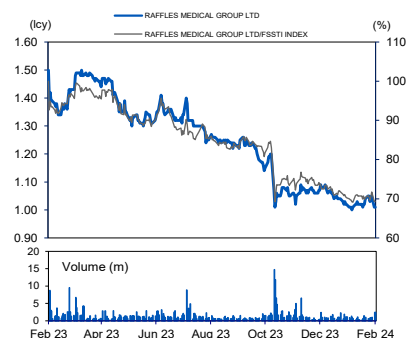
52-week high/low S\$1.50/S\$1.00

1mth	3mth	6mth	1yr	YTD
(1.0)	(3.8)	(19.2)	(31.3)	(6.5)

Major Shareholders

Shareholder	%
Dr Loo Choon Yong	52.8
FY24 NAV/Share (S\$)	0.57
FY24 Net Cash/Share (S\$)	0.19

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Healthcare services: Back to pre-COVID-19 levels.** 2023 core healthcare services revenue and operating profit fell by 37.8% yoy and 59.4% yoy respectively, dragged by the absence of COVID-19 related revenue. Similarly, 2H23 revenue (-48.6% yoy, -32.6% hoh) and operating profit (-92.4% yoy, -87.7% hoh) suffered sharp declines. In our view, we expect 2H23 segmental earnings to be the baseline moving into 2024, given the total absence of COVID-19 revenue in 2H23 (last of COVID-19 revenue was in 1Q23). Also, we note that revenue and operating profit for the segment have reached pre-pandemic levels. Moving forward, we expect the return of work-from-office policies to help support patient footfall to the group's healthcare clinics, and the additional 176 beds for RFMD's transitional care facilities to help support earnings.
- Hospital operations: Strong performance.** Core hospital services revenue for 2023 grew 7.0% yoy while segmental profit surged by 52.2% yoy. This is on the back of increased patients from corporate and insurance companies. Additionally, RFMD has expanded both its workforce and service offerings to support revenue growth, helping to offset any fall in revenue from lesser foreign patients seeking cheaper alternatives in the region due to the strong Singapore dollar. Together with RFMD passing on higher operating costs to its patients, 2023 segmental operating margin increased by 2.9ppt yoy. In line with 2023, 2H23 revenue (+5.9% yoy, +5.7% hoh) and operating profit (+40.8% yoy, +176.7% hoh) have also increased.
- China: Continued drag from gestational costs.** An increase in patient visits to RFMD's China hospitals has lifted hospital segment revenue, with 2H23 revenue from China growing 19.8% yoy and 6.3% hoh. While the ramp-up in operations has led to increased operating/gestation costs, management has initiated measures to improve operational and cost efficiencies to combat weaker margins. Management noted that the three-year EBITDA breakeven timeline for both Raffles Hospital Chongqing and Raffles Hospital Shanghai remains the same at 1Q26 with 2023 taken as the first year.
- Insurance services: Higher claims.** Despite 27.2% higher yoy revenue in 2023, the segment reported a S\$7m operating loss in 2023 (2022: S\$0.5m operating profit). We reckon that this is due to increased claims from a higher number of elective surgeries yoy. Moving forward, we expect this segment to continue reporting operating losses.
- Vietnam: Further expansion.** As a recap, RFMD acquired a majority stake in American International Hospital in Ho Chi Minh, Vietnam. This acquisition is likely to be funded internally by cash (US\$45.6m) and is expected to be completed by 4Q24/1Q25. Management mentioned that they may look to Da Nang for the next phase of expansion, in line with the growing demand for private healthcare in Vietnam. We expect this acquisition to boost RFMD's 2025 net profit by around 2-3%.

EARNINGS REVISION/RISK

- We increase our 2024-25 PATMI estimates by 3-4%** on the back of higher hospital services contributions while adding our 2026 PATMI estimate. We now expect 2024-26 PATMI of S\$76.6m (S\$74.6m previously), S\$82.4m (S\$79.3m previously) and S\$88.5m respectively.

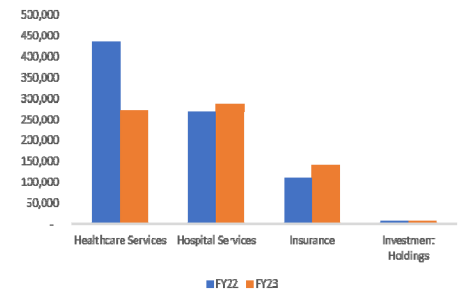
VALUATION/RECOMMENDATION

- We maintain HOLD with the same PE-based target price of S\$1.15**, pegged to 28x PE multiple (29x PE previously), 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 see limited upside potential in share price performance given increasing margin pressure and ongoing gestation losses from the Chinese hospitals. In our view, we reckon that RFMD is fairly valued at current price levels.

SHARE PRICE CATALYST

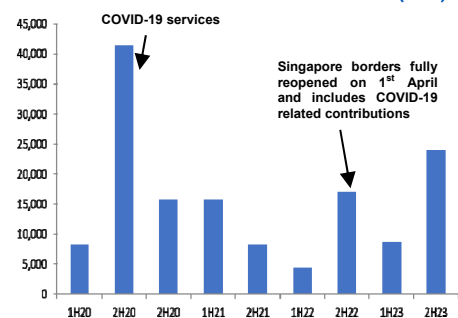
- Ramp-up of Chinese hospitals' operations.
- Earnings-accretive M&As.

SEGMENTAL ANNUAL REVENUE (S\$'000)



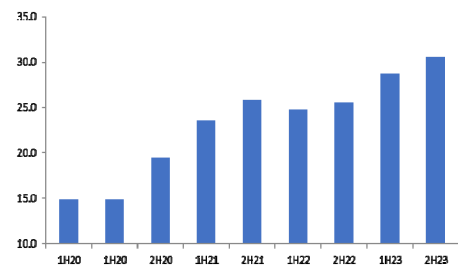
Source: UOB Kay Hian, RFMD

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 P/B



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	706.9	678.6	705.9	733.3
EBITDA	152.8	144.0	152.8	162.2
Deprec. & amort.	37.0	36.9	38.4	39.8
EBIT	115.8	107.1	114.5	122.4
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	3.7	2.6	3.4	4.3
Pre-tax profit	119.4	109.6	117.9	126.7
Tax	(28.3)	(32.9)	(35.4)	(38.0)
Minorities	0.9	0.0	0.0	0.0
Net profit	92.0	76.7	82.5	88.7
Net profit (adj.)	91.9	76.6	82.3	88.5

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	189.3	108.7	125.3	133.0
Pre-tax profit	119.4	109.6	117.9	126.7
Tax	(28.3)	(32.9)	(35.4)	(38.0)
Deprec. & amort.	37.0	36.9	38.4	39.8
Working capital changes	88.9	(4.7)	4.6	4.6
Other operating cashflows	(27.7)	(0.2)	(0.2)	(0.2)
Investing	(12.4)	(12.4)	(12.4)	(12.4)
Capex (growth)	(12.4)	(12.4)	(12.4)	(12.4)
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	(85.5)	(15.1)	(29.1)	(31.1)
Dividend payments	(70.7)	(18.7)	(20.6)	(22.4)
Issue of shares	7.4	0.0	0.0	0.0
Proceeds from borrowings	0.1	0.0	0.0	0.0
Others/interest paid	(22.4)	3.6	(8.5)	(8.7)
Net cash inflow (outflow)	91.4	81.2	83.8	89.4
Beginning cash & cash equivalent	253.1	343.6	424.9	508.6
Changes due to forex impact	(0.9)	0.0	0.0	0.0
Ending cash & cash equivalent	343.6	424.9	508.6	598.0

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	1,014.4	989.9	964.0	936.6
Other LT assets	29.1	29.1	29.1	29.1
Cash/ST investment	343.6	424.9	508.6	598.0
Other current assets	141.1	111.5	111.6	110.2
Total assets	1,528.2	1,555.4	1,613.3	1,673.9
ST debt	16.0	16.0	16.0	16.0
Other current liabilities	363.4	348.8	362.8	376.9
LT debt	54.6	54.6	54.6	54.6
Other LT liabilities	50.3	52.9	55.5	58.3
Shareholders' equity	1,027.7	1,067.0	1,108.2	1,151.9
Minority interest	16.1	16.1	16.1	16.1
Total liabilities & equity	1,528.2	1,555.4	1,613.3	1,673.9

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	21.6	21.2	21.6	22.1
Pre-tax margin	16.9	16.2	16.7	17.3
Net margin	13.0	11.3	11.7	12.1
ROA	6.0	5.0	5.2	5.4
ROE	9.0	7.3	7.6	7.8
Growth				
Turnover	(14.1)	(4.0)	4.0	3.9
EBITDA	(34.9)	(5.8)	6.2	6.2
Pre-tax profit	(37.6)	(8.2)	7.5	7.5
Net profit	(35.9)	(16.6)	7.5	7.5
Net profit (adj.)	(35.9)	(16.6)	7.5	7.5
EPS	(36.2)	(16.6)	7.5	7.5
Leverage				
Debt to total capital	6.3	6.1	5.9	5.7
Debt to equity	6.9	6.6	6.4	6.1
Net debt/(cash) to equity	(26.6)	(33.2)	(39.5)	(45.8)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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