

COMPANY RESULTS

Raffles Medical Group (RFMD SP)

1H24: Results Slightly Below Expectations, Margins Remain Soft

RFMD reported a sharply lower 1H24 PATMI of S\$30.6m (-48.8% yoy), slightly below our expectations. The healthcare services segment outperformed as patient load improved. The hospital services segment posted a strong performance, but this was offset by the strong Singapore dollar and stiff regional competition. RFMD's China operations continue to perform. With a lack of any near-term catalysts, we opine that RFMD remains fairly valued at current price levels. Maintain HOLD with a lower target price of S\$1.01.

1H24 RESULTS

Year to Dec (S\$m)	1H24	1H23	yoy% Chg	2H23	hoh% Chg
Turnover	365.7	370.8	(1.4)	336.2	8.8
EBITDA	61.3	95.7	(35.9)	57.8	5.1
Operating Profit	41.3	76.6	(46.1)	39.1	5.8
PATMI	30.6	59.9	(48.8)	30.3	1.1
Margin (%)			ppt Chg		ppt Chg
EBITDA margin	16.6	25.6	(9.0ppts)	17.2	(0.6ppts)
Operating margin	11.3	20.7	(9.3ppts)	11.6	(0.3ppts)
PATMI margin	8.4	16.1	(7.8ppts)	9.0	(0.6ppts)
Operating Costs			yoy% Chg		hoh% Chg
Inventories & Consumables Used	29.7	29.0	(2.5)	28.9	(2.6)
Staff Costs	154.3	157.1	1.8	144.4	(6.9)
Cost as % of Turnover			ppt Chg		ppt Chg
Inventories & Consumables Used	8.1	7.8	(0.3ppts)	8.6	0.5ppts
Staff Costs	42.2	42.4	0.2ppts	42.9	0.7ppts

Source: RFMD, UOB Kay Hian

RESULTS

- Results slightly below expectations.** For 1H24, Raffles Medical Group (RFMD) reported lower yoy revenue (-1.4% yoy) due to the absence of COVID-19-related revenue but higher revenue on a sequential basis (+8.8% hoh), driven by better revenue contributions from the hospital services and insurance segments. 1H24 overall revenue formed 54% of our full-year forecast and was slightly above expectation. However, 1H24 net profit was a miss (-48.8% yoy, +1.1% hoh), forming just 40% of our full-year forecast. The underperformance was due to lower margins from higher operating expenses and lower-than-expected other operating income (-S\$6m yoy). The lower other operating income was largely due to lower Wage Credit payout and Jobs Growth Incentive grant received in 1H24. Assuming a similar yoy operating income as 1H23, 1H24 net profit would have formed around 46% of our full-year forecasts and been more in line with our expectations.
- Softer but stabilising margins.** 1H24 EBITDA (-9.0ppt yoy, -0.6ppt hoh) and PATMI (-7.8ppt yoy, -0.6ppt hoh) margins were softer due to the absence of higher-margin COVID-19 revenue, increased insurance expenses and operating expenses. 1H24 staff costs was largely stable (+0.2ppt yoy, +0.7ppt hoh) at 42% of turnover. However, driven by the ongoing shortage of nurses in Singapore, we expect staff costs as a percentage of turnover to normalise closer to the historical pre-pandemic level of 50% moving forward.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	823	707	750	796	836
EBITDA	235	153	127	137	148
Operating profit	195	116	89	97	106
Net profit (rep./act.)	144	92	67	74	80
Net profit (adj.)	143	92	67	73	80
EPS (S\$ cent)	7.7	4.9	3.6	3.9	4.3
PE (x)	12.9	20.3	27.8	25.3	23.2
P/B (x)	1.8	1.8	1.8	1.7	1.6
EV/EBITDA (x)	6.5	10.0	12.0	11.1	10.3
Dividend yield (%)	3.8	2.4	1.8	2.0	2.2
Net margin (%)	17.4	13.0	8.9	9.2	9.6
Net debt/(cash) to equity (%)	(17.8)	(26.6)	(32.4)	(38.4)	(44.5)
Interest cover (x)	57.1	n.a.	n.a.	n.a.	n.a.
ROE (%)	14.6	9.0	6.4	6.8	7.2
Consensus net profit	-	-	74	80	89
UOBKH/Consensus (x)	-	-	0.90	0.92	0.90

Source: RMG, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$1.00
Target Price	S\$1.01
Upside	+0.8%
(Previous TP)	S\$1.15

COMPANY DESCRIPTION

Raffles Medical Group Limited 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):	1,854.3
Market cap (S\$m):	1,854.3
Market cap (US\$m):	1,379.8
3-mth avg daily t'over (US\$m):	1.6

Price Performance (%)

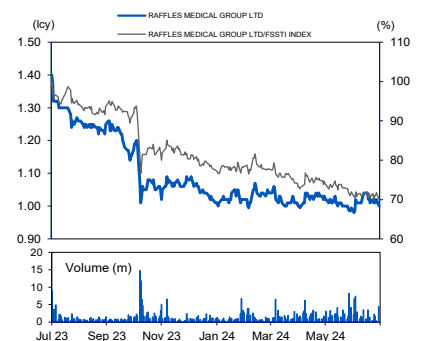
52-week high/low S\$1.40/S\$0.980

1mth	3mth	6mth	1yr	YTD
0.5	(1.0)	(1.0)	(25.4)	(7.4)

Major Shareholders

	%
Dr Loo Choon Yong	53.8
-	-
FY24 NAV/Share (S\$)	0.57
FY24 Net Cash/Share (S\$)	0.18

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Healthcare services: Strong sequential performance and improved outlook.** 1H24 healthcare services revenue and operating profit fell by 17.0% yoy and 53.9% yoy respectively, dragged by the absence of COVID-19-related revenue. However, on a sequential basis, both 1H24 revenue (+23.2% hoh) and operating profit (+273.9% hoh) surged. As mentioned in our previous update, we reckon that this was due to the return of work-from-office policies and rising COVID-19 cases in 1H24, which increased patient footfall at RFMD's clinics. In our view, we reckon that segmental earnings have bottomed out in 2H23/1H24 and are expected to continue improving going into 2H24.
- Hospital operations: Strong performance despite headwinds.** 1H24 hospital services revenue grew 2.4% yoy while segmental profit surged by 65.0% yoy. This is on the back of higher-intensity patient billing while also passing on rising operating costs to patients via price increases. 1H24 segmental operating margins were 3.8ppt higher yoy at 10%. Management noted that the group expects to implement price increases in 2H24 to help offset the rising operating costs and protect segmental margins. Also, foreign patient levels have yet to recover back to pre-pandemic levels, dragged by a strong Singapore dollar against regional currencies coupled with stiff regional competition, specifically from Malaysia. In our view, we expect the hospital services segment to continue its upward momentum moving into 2H24, but with a gradual recovery given that the Singapore dollar is expected to stay at current levels till Oct 24.
- China: Still in gestation stages.** Similar to 2H23, 1H24 revenue from China grew 5.9% yoy, driven by an increase in patient visits to RFMD's three China hospitals. Management noted that there was no increase in gestation costs, and the group has initiated measures to improve cost efficiencies as business ramps up. There was no change or update to the three-year EBITDA breakeven timeline for both Raffles Hospital Chongqing and Raffles Hospital Shanghai, which remains at 1Q26.
- Insurance services: Higher claims.** Despite revenue increasing 28.6% yoy in 1H24, segmental operating loss fell to S\$6.4m (1H23: S\$1.3m operating loss), dragged by increased claims and a higher loss ratio. Along with the new adopted accounting standards since 2023 whereby insurance expenses are frontloaded and not expensed over the life of each contract, management noted that the group expects this segment to continue reporting operating losses for the next 2-3 years.
- Vietnam: Further expansion.** As a recap, RFMD acquired a majority stake in American International Hospital (AIH) 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, pending regulatory approval. Management mentioned that they have already commenced management operations and that AIH is profitable. We expect this acquisition to boost RFMD's 2025 net profit by 2-3%.

EARNINGS REVISION/RISK

- We slash our 2024-26 PATMI estimates by 9-13%** on the back of lower other operating income and overall margin assumptions. We now expect 2024-26 PATMI of S\$67.0m (S\$76.6m previously), S\$73.4m (S\$82.3m previously) and S\$80.4m (S\$88.5m previously) respectively.

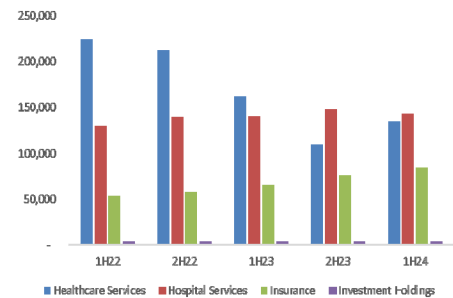
VALUATION/RECOMMENDATION

- We maintain HOLD with a lower PE-based target price of S\$1.01 (S\$1.15 previously),** pegged to the same 28x 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 see limited upside potential for share price performance given the ongoing margin pressure and stiff regional competition. Due to the lack of any near-term catalysts, we opine that RFMD is fairly valued at current price levels.

SHARE PRICE CATALYST

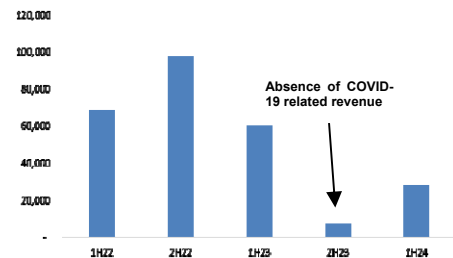
- Ramp-up of Chinese hospitals' operations and earnings-accretive M&As.**

SEGMENTAL ANNUAL REVENUE (S\$'000)



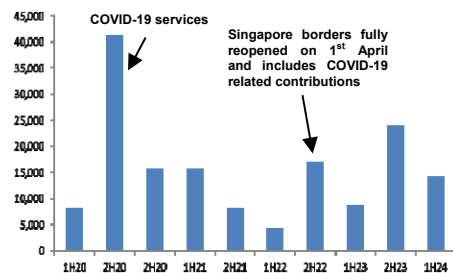
Source: UOB Kay Hian, RFMD

HEALTHCARE SERVICES SEMI-ANNUAL EBIT (S\$'000)



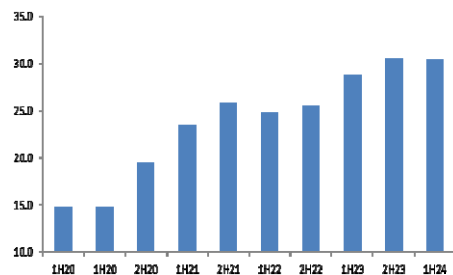
Source: UOB Kay Hian, RFMD

HOSPITAL SERVICES SEMI-ANNUAL EBIT (S\$'000)



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

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	706.9	749.9	796.1	836.3
EBITDA	152.8	127.0	137.3	148.0
Deprec. & amort.	37.0	37.5	39.8	41.8
EBIT	115.8	89.5	97.5	106.2
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	3.7	2.4	3.2	4.1
Pre-tax profit	119.4	91.9	100.7	110.3
Tax	(28.3)	(24.8)	(27.2)	(29.8)
Minorities	0.9	0.0	0.0	0.0
Net profit	92.0	67.1	73.5	80.5
Net profit (adj.)	91.9	67.0	73.4	80.4

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	1,014.4	989.3	961.9	932.5
Other LT assets	29.1	29.1	29.1	29.1
Cash/ST investment	343.6	414.2	491.6	576.5
Other current assets	141.1	153.5	166.3	174.4
Total assets	1,528.2	1,586.2	1,649.0	1,712.6
ST debt	16.0	16.0	16.0	16.0
Other current liabilities	363.4	385.5	409.2	429.9
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	1,061.1	1,097.5	1,137.7
Minority interest	16.1	16.1	16.1	16.1
Total liabilities & equity	1,528.2	1,586.2	1,649.0	1,712.6

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	189.3	111.6	120.9	128.9
Pre-tax profit	119.4	91.9	100.7	110.3
Tax	(28.3)	(24.8)	(27.2)	(29.8)
Deprec. & amort.	37.0	37.5	39.8	41.8
Working capital changes	88.9	7.2	7.7	6.7
Other operating cashflows	(27.7)	(0.1)	(0.1)	(0.1)
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)	(28.6)	(31.1)	(31.5)
Dividend payments	(70.7)	(16.8)	(18.5)	(20.1)
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)	(11.8)	(12.6)	(11.5)
Net cash inflow (outflow)	91.4	70.6	77.4	84.9
Beginning cash & cash equivalent	253.1	343.6	414.2	491.6
Changes due to forex impact	(0.9)	0.0	0.0	0.0
Ending cash & cash equivalent	343.6	414.2	491.6	576.5

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	21.6	16.9	17.2	17.7
Pre-tax margin	16.9	12.3	12.7	13.2
Net margin	13.0	8.9	9.2	9.6
ROA	6.0	4.3	4.5	4.8
ROE	9.0	6.4	6.8	7.2
Growth				
Turnover	(14.1)	6.1	6.2	5.1
EBITDA	(34.9)	(16.9)	8.1	7.8
Pre-tax profit	(37.6)	(23.1)	9.6	9.5
Net profit	(35.9)	(27.1)	9.6	9.5
Net profit (adj.)	(35.9)	(27.1)	9.6	9.5
EPS	(36.2)	(27.1)	9.6	9.5
Leverage				
Debt to total capital	6.3	6.2	6.0	5.8
Debt to equity	6.9	6.7	6.4	6.2
Net debt/(cash) to equity	(26.6)	(32.4)	(38.4)	(44.5)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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