

# Raffles Medical Group (RFMD SP)

## In the pink of health

### Our Top Pick in the sector; maintain BUY

RFMD's share price has rallied 19% since the positive 1H22 earnings surprise, largely driven by its healthcare division. The outperformance was due to several factors: i) increased outpatient volumes and GP services; ii) continued operation of the CTFs (until at least end-2022); and iii) strong operational leverage from reduced costs and more efficient staffing (less PCR tests). We retain BUY with DCF-based TP of SGD1.57 (LTG: 2.5%, COE: 8%). RFMD remains our preferred pick in the healthcare sector.

### Group practice model is more cost effective

Historically, c.30% of RFMD's hospital patients are foreigners, mostly nationals from regional countries. It offers health tourism packages and international patient services to take care of their needs. Notably, the hospital Group Practice Model of collaborative care also allows its medical specialists to offer team-based care, which is especially important for patients who have multiple medical conditions and require the care of more than one doctor. As a team, specialists diagnose and treat patients efficiently. As such, costs are kept low by not repeating consultations or examinations unnecessarily.

### Healthcare segment should continue to do well

RFMD has over 7,000 corporate clients and management continues to focus on pursuing growth in this segment. Its clinic network is also part of the government's PHPC scheme. In line with MOH's Protocol 1, low-risk individuals with mild symptoms are advised to see a doctor instead of going to the A&E. The recent easing of indoor mask requirement along with resumption of social and mass gatherings has also made it easier for common illness to spread, especially as Covid-19 has not gone away. We thus remain cautiously optimistic of the group's 2H22 performance.

### China reopening may provide the next catalyst

RFMD has been operating in China since 2010 and provides healthcare in eight cities, including Hong Kong. This is more than half of its current total of 14 cities across Asia. This year, the group will open an in-vitro fertilization/assisted reproductive therapy centre in Hainan. According to Vincent Chia, MD of Raffles China Healthcare, it plans to increase the number of cities to 20 in the next 3-5 years. Despite experiencing sporadic Covid lockdowns in China, we expect its Shanghai and Chongqing hospitals to see gradual recovery in patients load from next year onwards.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	568	724	758	796	835
EBITDA	124	161	188	198	206
Core net profit	66	84	102	107	111
Core EPS (cts)	3.6	4.5	5.5	5.8	6.0
Core EPS growth (%)	10.2	24.0	22.1	4.8	3.8
Net DPS (cts)	2.5	2.8	2.8	2.9	3.0
Core P/E (x)	27.4	30.4	24.9	23.8	22.9
P/BV (x)	2.1	2.7	2.5	2.4	2.3
Net dividend yield (%)	2.5	2.0	2.0	2.1	2.2
ROAE (%)	7.6	9.1	10.3	10.3	10.2
ROAA (%)	4.9	5.7	6.5	6.6	6.6
EV/EBITDA (x)	14.4	15.5	12.9	11.9	11.1
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	100	92	103
MKE vs. Consensus (%)	-	-	2.3	16.6	7.7

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## BUY

Share Price	SGD 1.37
12m Price Target	SGD 1.57 (+15%)
Previous Price Target	SGD 1.57

### Company Description

Raffles Medical owns and operates hospitals and medical clinics in the region

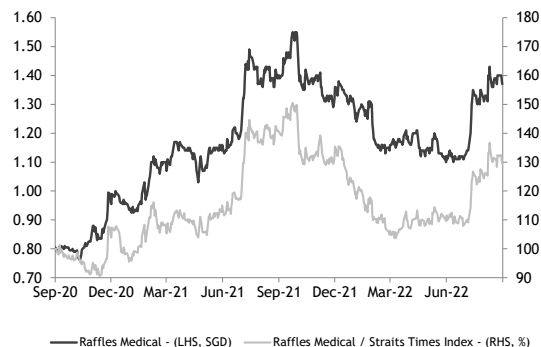
### Statistics

52w high/low (SGD)	1.55/1.10
3m avg turnover (USDm)	2.0
Free float (%)	41.1
Issued shares (m)	1,876
Market capitalisation	SGD2.6B USD1.8B

### Major shareholders:

LOO CHOON YONG	52.5%
S&D Holdings Pte Ltd.	3.3%
The Vanguard Group, Inc.	1.3%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	4	25	(1)
Relative to index (%)	4	18	(8)

Source: FactSet

### Glossary:

CTF - Community Treatment Facilities  
PHPC- Public Health Preparedness Clinic

### Link to sector note:

[Singapore Healthcare - Rebooting medical tourism | POSITIVE](#)

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Tear Sheet Insert

## Value Proposition

- Provides private medical services that fill the gap between cheap-but-slow public services and fast-and-affordable private healthcare.
- Foreign patient volumes and elective procedures could recover in line with easing border restrictions.
- As the market in Singapore becomes saturated, we expect China to be the next long-term growth engine.

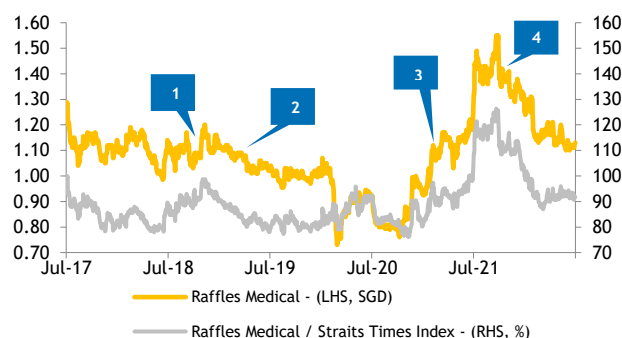
### Strong regional presence



Source: Company

## Price Drivers

### Historical share price trend



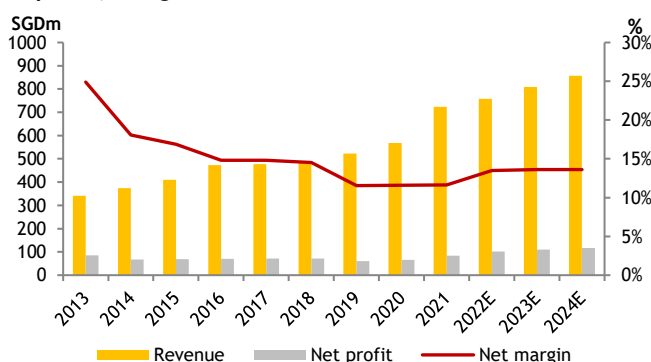
Source: Company, FactSet, Maybank IBG Research

1. Signed a MOU with China Taiping to jointly provide medical / healthcare insurance solutions.
2. Opened Raffles Hospital Chongqing - a 700 bed hospital with GFA of more than 100,000 sqm.
3. Signed MOU with China Life Insurance to provide medical services, and healthcare management/financing.
4. Raffles Hospital Shanghai - a 400 bed tertiary hospital spanning 70,000 sqm officially opened in Pudong Qiatan.

## Financial Metrics

- While FY22E EPS is likely to decline on lower Covid-19 related services, we believe improving local patient load at its clinics should help to offset some of the adverse impact.
- Balance sheet is strong with net cash position, which enables the group to maintain its core payout ratio of c.50%.
- Capex should gradually revert to normalised levels with the completion of its Raffles Hospital Shanghai.

### Net profit, margin and revenue



Source: Company, Maybank IBG

## Swing Factors

### Upside

- Faster-than-expected breakeven of new China hospitals.
- Cyclical recovery of foreign patient volumes.
- Stronger-than-expected EPS growth from higher revenue intensity, market share gains, etc.

### Downside

- Further delay in EBITDA breakeven for Chongqing and Shanghai hospitals in light of China's stringent Covid-19 policy.
- Loss of competitiveness of medical tourism in Singapore.
- Decline in domestic market share due to increased competitive pressures from both private and public hospitals.

Risk Rating & Score <sup>1</sup>	25.5
Score Momentum <sup>2</sup>	-1.5
Last Updated	14 April 2021
Controversy Score <sup>3</sup> (Updated: 05 July 2017)	Low -1

## Business Model & Industry Issues

- As a medical services provider, regulatory compliance and patient safety are among the highest priorities for both RMG and stakeholders. Employees' welfare, access to healthcare, economic performance and customer experience are also important priorities. The lowest priorities include waste and local supplies.
- While RMG sees energy and water usage as of medium significance, whereas stakeholders view these as low priority.
- RMG complies with all relevant laws and regulations and it submits periodic reports to relevant parties. RMG also has procedures to safeguard customer information.
- Raffles Hospital Singapore has been JCI accredited since 2008, and it has various committees to review clinical quality to promote patient safety.

## Material E issues

- Raffles Hospital Singapore received the Green Mark certification in 2019 by the Building & Construction Authority. Among other requirements, Green Mark buildings have to maintain temperature in public areas within 24-26C and relative humidity less than 65%.
- In 2021, the water consumption index improved to 1.18m<sup>3</sup>/GFA (2020: 1.38); the electricity consumption index was comparable at 1.86 kWh/GFA) from 186; and recycling tonnage improved to 78 tons from 42 tons.
- Among practical measures that RMG has taken to be more energy and water efficient are to install smart meters, timers and motion sensors, as well as water-efficient fittings.

## Material S issues

- RMG trains physicians, nurses, allied health and healthcare managers in collaboration with local medical schools, polytechnics and vocational institutions to provide clinical training for undergraduates and postgraduates.
- It observes fair employment practices and also promotes workplace diversity as this is an advantage in catering to its various patient groups.
- As at 2021, RMG had a workforce of 2,766 employees (FY20: 2,631).
- Average training hours per employee fell to 6.5 in 2021 from 16 in 2020.
- Workplace injury rate increased to 19.5 in 2021 from 12.5 in 2020. However, this was due to improved reporting processes.
- Employee turnover rate fell to 22% in 2021 from 28% in 2020.

## Key G metrics and issues

- The board consists of 11 members, of which three are executives, including the founder, chairman and CEO Dr Loo Choon Yong, and one is non-executive and non-independent. The remaining directors are independent (64%).
- The nominating, audit and remuneration committees are chaired by independent directors.
- Two independent directors have served for more than nine years. The board determined that these two directors remain independent.
- Auditor is KPMG LLP, appointed in 2019.
- RMG complies with all relevant statutory and regulatory requirements, and submits periodic reports to relevant government agencies and bodies.
- Raffles Hospital Singapore has been accredited by the JCI since 2008; a testament to its commitment to patient safety and care.
- There are several committees (e.g. medical audit committee, critical care committee etc) that look into the different areas of clinical quality. In addition, the quality committee has oversight of these committees with the aim to improve patient safety.
- RMG has clear policies relating to Personal Data Protection Act, and it has data protection officers to ensure adequate action is taken to protect personal data, including customers'. There was no incident of leak, theft or loss of customer data in 2021.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative parameters (Score: 48)						
	Particulars	Unit	2019	2020	2021	KPJ MK (2021)
E	Scope 1 GHG emissions	m tCO <sub>2</sub> e	N/A	N/A	N/A	N/A
	Scope 2 GHG emissions	m tCO <sub>2</sub> e	N/A	N/A	N/A	110.4
	<b>Total</b>	<b>m tCO<sub>2</sub>e</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>110.4</b>
	Scope 3 GHG emissions	m tCO <sub>2</sub> e	N/A	N/A	N/A	6.8
	<b>Total</b>	<b>m tCO<sub>2</sub>e</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>117.2</b>
	GHG intensity (Scope 1 and 2)	tCO <sub>2</sub> e/t	N/A	N/A	N/A	16.2
	Electricity consumption	kWh/GFA	175	186	125	161.1
	Water consumption	m <sup>3</sup> /GFA	1.38	1.18	0.79	1.26
	General waste (non-hazardous) consumption	ton/GFA	0.013	0.009	0.005	1.56
	Biohazard Waste Index	bins/GFA	0.056	0.098	0.062	0.53
	Paper recycled	tonnes	42	78	48	N/A
	Food waste digested	tonnes	N/A	N/A	30	N/A
	Cases of environmental non-compliance	number	0	0	0	0
	S	% of women in workforce	%	N/A	N/A	N/A
% of women in management roles		%	45%	45%	45%	36%
Average training hours per employee		hours	16	6.5	11.7	34
Employee volunteerism		hours	214	36	544	352
G	CEO/MD salary as % of reported net profit	%	N/A	N/A	N/A	2.6%
	Board salary as % of reported net profit	%	N/A	N/A	N/A	4.0%
	Independent directors on the Board	%	64%	64%	64%	45%
	Female directors on the Board	%	18%	18%	18%	18%

Qualitative Parameters (Score: 64)	
a) is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?	<i>Yes. The Committee is responsible for monitoring and overseeing the group's sustainability efforts and strategy.</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>No</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>Yes</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>No</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>The group is embarking on projects that have significant savings in its cooling towers, such as adopting technology and reducing usage of chemical treatment in cooling tower maintenance. These will help achieve higher efficiency while reducing water consumption.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes</i>

Target (Score: 80)			
Particulars		Target	Achieved
Reduce electricity consumption		10%	33%
Reduce general waste consumption		5%	44%
Reduce water consumption		5%	33%
Reduce food waste digested (tonnes)		30	30
Amount of paper recycled (tonnes)		50	48
<b>Impact</b>			
NA			
<b>Overall score: 60</b>			
As per our ESG matrix, Raffles Medical Group (RFMD SP) has an overall score of 60.			

ESG score	Weights	Scores	Final Score
Quantitative	50%	48	24
Qualitative	25%	64	16
Target	25%	80	20
<b>Total</b>			<b>60</b>

As per our ESG assessment, RFMD has an established framework, internal policies, and tangible mid/long-term targets but needs to make headway in improving its quantitative "E" metrics YoY. Its overall ESG score is 60 which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

Fig 1: DCF valuation

Items (SGDm)	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
Revenue	795.9	834.5	873.6	912.9	952.3	991.7	1030.6	1069.2	1107.4	1144.9
Growth	5%	5%	5%	4%	4%	4%	4%	4%	4%	3%
EBIT	154.0	159.7	168.3	176.3	184.5	192.9	201.0	209.1	217.0	224.7
Growth	5%	4%	5%	5%	5%	5%	4%	4%	4%	4%
Margin	19%	19%	19%	19%	19%	19%	20%	20%	20%	20%
add D&A	43.8	45.8	47.6	49.1	50.5	51.8	53.0	54.3	55.5	56.8
less tax paid & associates	(41.3)	(42.8)	(45.2)	(47.4)	(49.7)	(52.1)	(54.4)	(56.6)	(58.8)	(61.0)
less addition to WC	9.1	4.1	1.3	1.2	1.1	1.0	0.8	0.7	0.6	0.5
less capex	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)
FCFF	135.6	136.8	142.0	149.2	156.4	163.5	170.5	177.5	184.4	191.1
Terminal value										3560.8
PV	125.6	117.3	112.7	109.7	106.4	103.0	99.5	95.9	92.2	1737.8
Total discounted FCF	2700.2									
Less net debt	201.2									
No. of shares outstanding (m)	1,852.4									
TP	1.57									
Implied P/E	27.8									

Source: Maybank IBG Research

Fig 2: DCF assumptions

Items	Comment
WACC (%)	8.0 RMG is net-cash over the long run
Cost of debt (%)	5.0
Cost of equity (%)	8.0
Beta (x)	0.8 Bloomberg: 0.7x. Reduced from 1x to factor in our view of lower China execution risks
Risk free rate (%)	2.5
Market return (%)	9.0
LTG assumption (%)	2.5

Source: Maybank IBG, Bloomberg

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	24.3	27.2	24.9	23.8	22.9
Core P/E (x)	27.4	30.4	24.9	23.8	22.9
P/BV (x)	2.1	2.7	2.5	2.4	2.3
P/NTA (x)	2.1	2.7	2.5	2.4	2.3
Net dividend yield (%)	2.5	2.0	2.0	2.1	2.2
FCF yield (%)	3.3	3.8	4.7	5.1	5.1
EV/EBITDA (x)	14.4	15.5	12.9	11.9	11.1
EV/EBIT (x)	20.2	20.5	16.4	15.3	14.3
<b>INCOME STATEMENT (SGD m)</b>					
Revenue	568.2	723.8	757.9	796.0	834.7
EBITDA	123.9	160.6	187.7	197.8	205.6
Depreciation	(35.5)	(39.3)	(40.7)	(43.8)	(45.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	88.4	121.3	147.1	154.0	159.8
Net interest income / (exp)	(4.0)	(5.7)	(6.3)	(6.6)	(6.9)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	84.4	115.6	140.8	147.4	152.9
Income tax	(19.8)	(31.9)	(39.4)	(41.3)	(42.8)
Minorities	1.2	0.5	0.6	0.7	0.8
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	65.9	84.2	101.9	106.8	110.9
Core net profit	65.9	84.2	101.9	106.8	110.9
<b>BALANCE SHEET (SGD m)</b>					
Cash & Short Term Investments	203.1	265.0	304.2	357.2	415.0
Accounts receivable	113.4	160.7	144.7	152.7	160.8
Inventory	14.6	13.4	12.7	13.9	14.8
Property, Plant & Equip (net)	739.9	797.4	806.7	807.9	802.1
Intangible assets	34.1	31.8	31.8	31.8	31.8
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	299.0	277.0	277.0	277.0	277.0
<b>Total assets</b>	<b>1,404.1</b>	<b>1,545.3</b>	<b>1,577.1</b>	<b>1,640.5</b>	<b>1,701.6</b>
ST interest bearing debt	27.2	96.3	86.7	78.0	70.2
Accounts payable	191.4	253.6	243.9	262.2	275.4
LT interest bearing debt	143.9	77.9	77.9	77.9	77.9
Other liabilities	127.0	141.0	141.0	141.0	141.0
<b>Total Liabilities</b>	<b>489.7</b>	<b>568.7</b>	<b>549.3</b>	<b>559.0</b>	<b>564.4</b>
Shareholders Equity	899.0	960.8	1,011.3	1,064.3	1,119.3
Minority Interest	15.4	15.8	16.4	17.1	17.9
<b>Total shareholder equity</b>	<b>914.4</b>	<b>976.6</b>	<b>1,027.8</b>	<b>1,081.5</b>	<b>1,137.3</b>
<b>Total liabilities and equity</b>	<b>1,404.1</b>	<b>1,545.3</b>	<b>1,577.1</b>	<b>1,640.5</b>	<b>1,701.6</b>
<b>CASH FLOW (SGD m)</b>					
Pretax profit	84.4	115.6	140.8	147.4	152.9
Depreciation & amortisation	35.5	39.3	40.7	43.8	45.8
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	7.7	14.2	7.0	9.2	4.1
Cash taxes paid	(9.7)	(21.7)	(39.4)	(41.3)	(42.8)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	117.9	147.3	149.0	159.1	160.0
Capex	(58.9)	(49.9)	(30.0)	(30.0)	(30.0)
Free cash flow	59.1	97.4	119.0	129.1	130.0
Dividends paid	(19.2)	(37.3)	(51.4)	(53.9)	(55.9)
Equity raised / (purchased)	0.8	5.6	0.0	0.0	0.0
Change in Debt	6.0	3.2	(9.6)	(8.7)	(7.8)
Other invest/financing cash flow	(11.7)	(20.6)	1.2	1.4	1.6
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	34.9	48.3	59.2	68.0	67.9

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	8.8	27.4	4.7	5.0	4.9
EBITDA growth	17.6	29.6	16.9	5.4	3.9
EBIT growth	16.1	37.2	21.2	4.7	3.7
Pretax growth	11.2	36.9	21.8	4.7	3.7
Reported net profit growth	9.3	27.7	21.1	4.8	3.8
Core net profit growth	9.3	27.7	21.1	4.8	3.8
<b>Profitability ratios (%)</b>					
EBITDA margin	21.8	22.2	24.8	24.8	24.6
EBIT margin	15.6	16.8	19.4	19.3	19.1
Pretax profit margin	14.9	16.0	18.6	18.5	18.3
Payout ratio	68.8	62.1	50.0	50.0	50.0
<b>DuPont analysis</b>					
Net profit margin (%)	11.6	11.6	13.5	13.4	13.3
Revenue/Assets (x)	0.4	0.5	0.5	0.5	0.5
Assets/Equity (x)	1.6	1.6	1.6	1.5	1.5
ROAE (%)	7.6	9.1	10.3	10.3	10.2
ROAA (%)	4.9	5.7	6.5	6.6	6.6
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(373.7)	(455.7)	(549.4)	(510.9)	(509.9)
Days receivable outstanding	62.5	68.2	72.5	67.2	67.6
Days inventory outstanding	32.9	35.1	34.4	32.2	32.6
Days payables outstanding	469.2	559.0	656.4	610.3	610.1
Dividend cover (x)	1.5	1.6	2.0	2.0	2.0
Current ratio (x)	1.2	1.1	1.2	1.3	1.4
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.9	2.7	2.9	2.9	3.0
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	22.1	21.2	23.3	23.4	23.2
Debt/EBITDA (x)	1.4	1.1	0.9	0.8	0.7
Capex/revenue (%)	10.4	6.9	4.0	3.8	3.6
Net debt/ (net cash)	(32.1)	(90.8)	(139.6)	(201.3)	(266.9)

Source: Company; Maybank IBG Research

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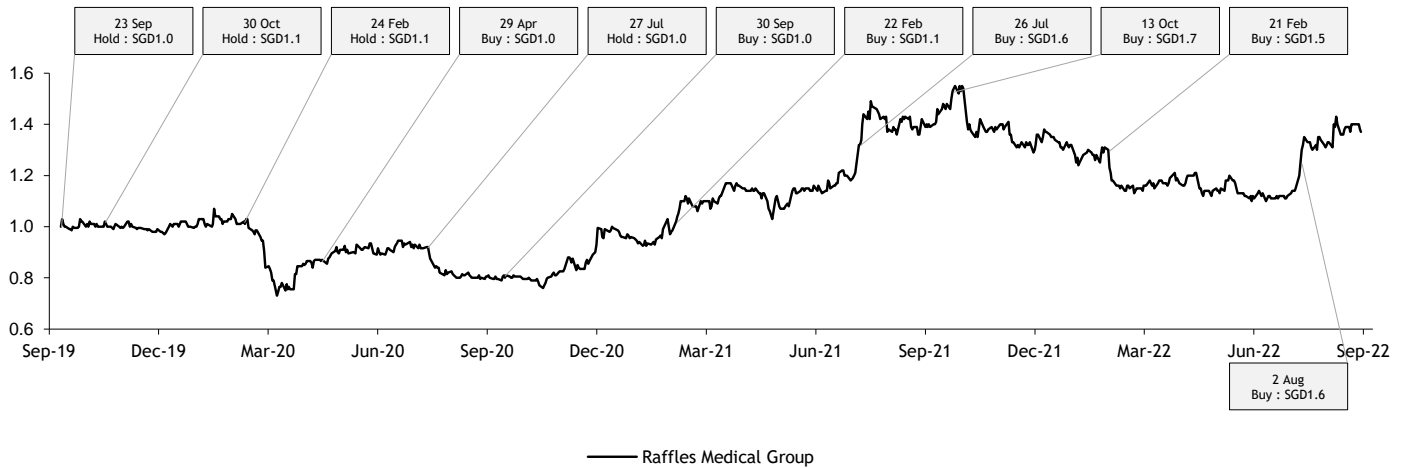
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