

Raffles Medical Group (RFMD SP)

Margins normalising

1H23 earnings in line; no change to our forecasts

RFMD's 1H23 net profit of SGD59.9m (+0.5% YoY) was in line with our and street expectations at c.50%/48% of MIBG/consensus' full year estimates. No change to our FY23-25E EPS forecasts as we anticipate a similar run-rate in 2H on the back of margin normalisation. Retain BUY and a DCF-based TP of SGD1.65 (LTG: 3%, COE: 8%). RFMD is our preferred pick in the healthcare sector. Re-rating catalysts include: better margins, new TCF tender wins and sooner-than-expected breakeven of its China operations.

Continued tapering of Covid-19 related activities

1H23 turnover fell 9.5% YoY to SGD370.9m, mainly due to fewer Covid-19 related activities especially PCR/Diagnostics revenues. That said, the return of foreign patients (currently at 70-80% of pre-Covid levels) seeking high-end medical treatments in Singapore saw external revenue (excl. inter-segment) from its Hospital Services division rise 8.3% YoY to SGD139.8m. Healthcare Services' revenue (which includes contribution from Covid-19 activities a year ago) declined 27.6% YoY to SGD161.9m for 1H23, while Insurance services grew 23% YoY to SGD65.6m.

Expects margins to normalise going forward

For 1H23, EBITDA margin narrowed 0.3ppt to 25.8% in view of the tight demand for permanent nurses in Singapore but this was partially mitigated by the tapering of Covid-19 related costs. Meanwhile, turnover from its China operations have recovered nicely by 16.2% YoY to SGD28.8m in 1H23. Management updated that normal activities have resumed in the country although it noted that its Shanghai hospital seems to be doing better than Chongqing given a larger pool of expatriates there.

Making strong balance sheet work harder

Balance sheet remains solid with net cash position of SGD230m as at end-Jun 2023. Looking ahead, RFMD remains keen on exploring new business opportunities regionally, as well as improving the operational leverage of its existing businesses. As part of its regular capital management review, the group does not rule out potential share buy-backs and/or a higher payout ratio notwithstanding its existing dividend policy of distributing 50% of core PATMI to shareholders.

FYE Dec (SGD m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	724	767	740	749	763
EBITDA	161	236	206	213	223
Core net profit	84	144	120	126	132
Core EPS (cts)	4.5	7.6	6.4	6.7	7.0
Core EPS growth (%)	24.0	69.6	(16.2)	4.6	5.0
Net DPS (cts)	2.8	3.8	3.2	3.3	3.5
Core P/E (x)	30.4	18.3	20.9	20.0	19.0
P/BV (x)	2.7	2.6	2.3	2.2	2.1
Net dividend yield (%)	2.0	2.7	2.4	2.5	2.6
ROAE (%)	9.1	14.5	11.5	11.4	11.3
ROAA (%)	5.7	9.4	7.8	7.8	7.9
EV/EBITDA (x)	15.5	10.4	11.4	10.6	9.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	121	118	122
MIBG vs. Consensus (%)	-	-	(0.7)	6.8	8.7

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BUY

Share Price	SGD 1.34
12m Price Target	SGD 1.65 (+23%)
Previous Price Target	SGD 1.65

Company Description

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

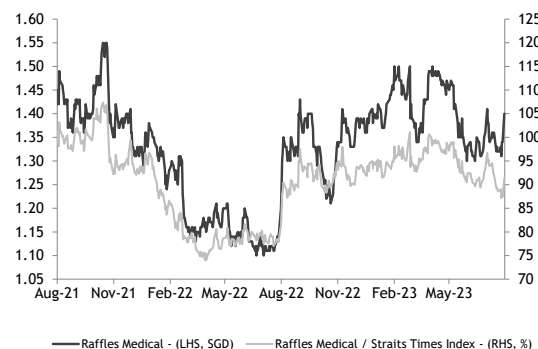
Statistics

52w high/low (SGD)	1.50/1.20
3m avg turnover (USDm)	1.3
Free float (%)	43.8
Issued shares (m)	1,880
Market capitalisation	SGD2.5B
	USD1.9B

Major shareholders:

LOO CHOON YONG	49.9%
S&D Holdings Pte Ltd.	3.3%
Global Alpha Capital Management Ltd.	1.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(9)	17
Relative to index (%)	(6)	(12)	11

Source: FactSet

Abbreviations:

TCF: Transitional Care Facilities

ESG@MAYBANK IBG
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 borders restrictions.
- As the market in Singapore becomes saturated, we expect China to be the next long-term growth engine.

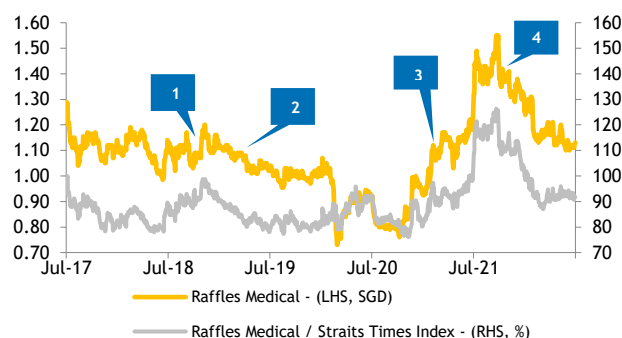
Strong regional presence



Source: Company

Price Drivers

Historical share price trend



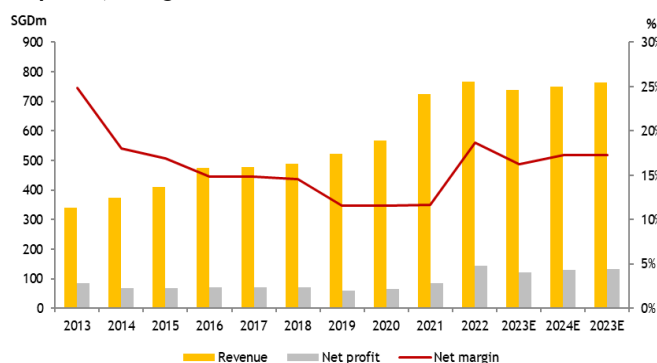
Source: Company, FactSet, Maybank IBG Research

1. Signed an 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 FY23E EPS may decline due to lower Covid-19-related services, we believe improving local and foreign patient volumes 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 Research

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 due to slowdown in China's recovery.
- 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 ¹	25.5
Score Momentum ²	-1.5
Last Updated	14 April 2023
Controversy Score ³ (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 2022, the water consumption index improved to 1.01m³/GFA (2021: 1.03); the electricity consumption index slightly increased to 0.18 MWh/GFA) from 0.16; and paper recycling tonnage improved to 83 tons from 48 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 2022, RMG had a workforce of 2,678 permanent employees (FY21: 2,763).
- Average training hours per employee jumped to 19.3 in 2022 from 11.7 in 2021.
- Customer Satisfaction Index for its Raffles Hospital and Raffles Medical clinics remains relatively stable at 82% and 66% respectively.
- However, staff turnover rate rose to 36% in 2022 from 32% in 2021 due to the tight labour market.

Key G metrics and issues

- The board consists of 10 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 (60%).
- 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 2022.

¹**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. ²**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. ³**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: 32)						
	Particulars	Unit	2020	2021	2022	KPJ MK (2022)
E	Scope 1 GHG emissions	m tCO ₂ e	N/A	N/A	N/A	N/A
	Scope 2 GHG emissions	m tCO ₂ e	N/A	N/A	N/A	110.4
	Total	m tCO₂e	N/A	N/A	N/A	110.4
	Scope 3 GHG emissions	m tCO ₂ e	N/A	N/A	N/A	6.8
	Total	m tCO₂e	N/A	N/A	N/A	117.2
	GHG intensity (Scope 1 and 2)	tCO ₂ e/t	N/A	N/A	N/A	16.2
	Electricity consumption	MWh/GFA	0.19	0.16	0.18	0.16
	Water consumption	m ³ /GFA	1.18	1.03	1.01	1.26
	General waste (non-hazardous) consumption	ton/GFA	0.009	0.005	0.003	1.56
	Biohazard Waste Index	ton/GFA	0.024	0.020	0.014	0.53
	Paper recycled	tonnes	78	48	83	N/A
	Food waste digested	tonnes	N/A	30	48	N/A
Cases of environmental non-compliance	number	0	0	0	0	
S	% of women in workforce	%	N/A	N/A	N/A	78%
	% of women in senior management	%	27%	27%	27%	36%
	Average training hours per employee	hours	6.5	11.7	19.3	34
	Employee volunteerism	hours	36	544	7176	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	%	3.0%	2.4%	1.7%	4.0%
	Independent directors on the Board	%	64%	64%	60%	45%
	Female directors on the Board	%	18%	18%	20%	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
Impact			
NA			
Overall score: 52			
As per our ESG matrix, Raffles Medical Group (RFMD SP) has an overall score of 52.			

ESG score	Weights	Scores	Final Score
Quantitative	50%	32	16
Qualitative	25%	64	16
Target	25%	80	20
Total			52

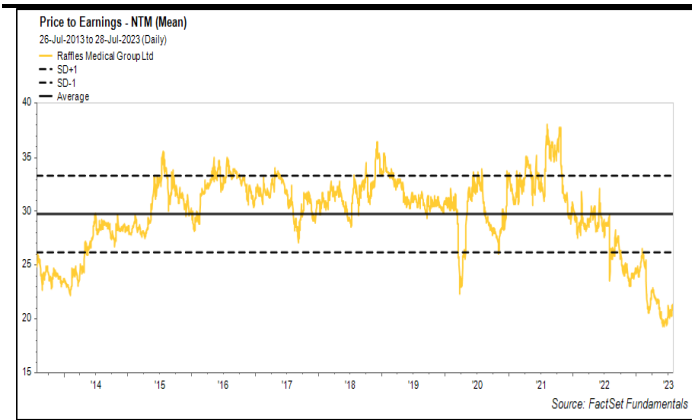
As per our ESG assessment, RFMD has an established framework, internal policies, and tangible mid/long-term targets but needs to make headway in improving its quantitative "E" metrics YoY. The group's overall ESG score is 52, which makes its ESG rating slightly above average, in our view (average ESG rating = 50; refer to our ESG Assessment Scoring).

Fig 1: Peer comparisons

Company	BBG Code	MIBG Rec	MKE TP (LC)	Price (LC)	FYE mm/dd	Mcap USDm	P/E (x)				/EBITDA (x)		Div yield (%) FY1	ROE (%) FY1
							Act	FY1	FY2	FY3	FY1	FY1		
Raffles Med	RMFD SP	Buy	1.65	1.34	12	1,895	36.9	29.7	17.5	20.9	15.4	2.1	9.1	
Singapore listed peers														
Q&M Dental	QNM SP	NR	0.37	0.31	12	225	17.9	15.5	12.4	10.3	-	3.2	17.0	
Thomson Medical	TMC SP	NR	-	0.06	06	1,191	30.0	-	-	-	-	-	-	
IHH Healthcare	IHH MK	-	-	5.89	12	11,389	35.7	31.0	28.0	25.6	12.9	1.0	5.9	
Average							30.1	25.4	19.3	19.0	14.1	2.1	10.7	
APAC ex- China peers														
KPJ	KPJ MK	Hold	1.20	1.13	12	1,123	29.3	23.5	19.5	17.1	8.5	2.6	-	
BDMS	BDMS TB	NR	-	28.75	12	13,406	36.4	34.1	31.5	29.1	19.4	1.9	15.0	
BCH	BCH TB	NR	-	18.10	12	1,324	14.8	31.0	26.5	23.7	15.0	1.7	11.7	
Bumrungrad Hosp	BH TB	NR	-	216.00	12	5,037	38.0	31.6	29.4	27.7	20.7	1.9	24.4	
Chularat Hosp	CHG TB	NR	4.40	2.92	12	942	11.6	27.5	24.8	21.9	15.5	2.6	15.5	
Fortis Healthcare	FORH IN	NR	-	334.85	03	3,073	49.1	38.6	31.5	26.5	19.9	0.1	8.5	
Apollo Hosp	APHS IN	NR	-	5,344	03	9,341	93.8	67.2	47.8	35.5	29.5	0.3	15.8	
PT Mitra Keluarga	MIKA IJ	NR	-	2,890	12	2,728	40.8	39.3	33.0	29.0	24.9	1.2	17.4	
PT Siloam Int'l	SILO IJ	NR	-	1,960	12	1,689	36.5	26.1	22.1	18.9	10.1	1.1	12.7	
Average							50.1	41.0	33.0	28.0	19.2	1.4	14.1	
China peers														
China Resouces Med	1515 HK	NR	-	6.44	12	1,071	51.4	12.9	11.0	10.6	6.1	2.9	8.7	
Aier Eye Hosp.	300015 CH	NR	-	20.27	12	26,394	75.3	51.7	39.9	31.2	30.0	0.6	18.1	
Topchoice Med	600763 CH	NR	-	117.38	12	5,254	68.6	52.7	40.9	32.4	32.4	0.2	17.9	
Average							73.4	50.6	39.2	30.7	29.6	0.6	17.8	

Source: Bloomberg, FactSet, Maybank IBG Research

Fig 2: Forward 12-moth P/E band



Source: FctSet

Fig 3 Forward 12-month P/B band



Source FactSet

Fig 4: DCF aluation

Items (SGDm)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Revenue	739.7	749.5	763.1	778.6	796.1	815.8	837.6	861.9	888.7	918.2
Growth	-4%	1%	2%	2%	2%	2%	3%	3%	3%	3%
EBIT	164.3	170.9	178.5	182.0	186.4	191.7	197.8	204.8	212.6	221.3
Growth	-16%	4%	4%	2%	2%	3%	3%	4%	4%	4%
Margin	22%	23%	23%	23%	23%	24%	24%	24%	24%	24%
add D&A	41.2	42.5	44.1	45.4	46.6	47.6	48.6	49.5	50.5	51.5
less tax paid & associates	(40.2)	(42.0)	(44.1)	(45.2)	(46.5)	(48.0)	(49.8)	(51.7)	(53.9)	(56.3)
less addition to WC	11.3	(0.5)	(0.7)	(0.8)	(0.9)	(1.1)	(1.2)	(1.4)	(1.6)	(1.9)
less capex	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)
FCFF	146.6	140.9	147.8	151.5	155.6	160.2	165.4	171.2	177.6	184.7
Terminal value										3922.2
PV	135.9	121.1	117.8	112.0	106.6	101.8	97.4	93.5	90.0	1928.9
Total discounted FCF	2905.1									
Less net debt	187.5									
No. of shares outstanding (m)	1,877.3									
TP	1.65									
Implied P/E	26.9									

Source: Maybank IBG Rsearch

Fig 5: 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)	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 (%)	3.0

Source: Maybank IBG Rsearch, Bloomberg

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	27.2	16.4	20.9	20.0	19.0
Core P/E (x)	30.4	18.3	20.9	20.0	19.0
P/BV (x)	2.7	2.6	2.3	2.2	2.1
P/NTA (x)	2.7	2.6	2.3	2.2	2.1
Net dividend yield (%)	2.0	2.7	2.4	2.5	2.6
FCF yield (%)	3.8	5.5	5.7	5.5	5.8
EV/EBITDA (x)	15.5	10.4	11.4	10.6	9.8
EV/EBIT (x)	20.5	12.6	14.3	13.3	12.2
INCOME STATEMENT (SGD m)					
Revenue	723.8	766.5	739.7	749.5	763.1
EBITDA	160.6	236.1	205.5	213.4	222.6
Depreciation	(39.3)	(40.2)	(41.2)	(42.5)	(44.1)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	121.3	195.8	164.3	170.9	178.5
Net interest income / (exp)	(5.7)	(4.1)	(4.0)	(3.2)	(2.3)
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	115.6	191.7	160.4	167.8	176.2
Income tax	(31.9)	(48.0)	(40.2)	(42.0)	(44.1)
Minorities	0.5	(0.2)	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	84.2	143.5	120.2	125.7	132.1
Core net profit	84.2	143.5	120.2	125.7	132.1
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	265.0	253.1	259.6	333.3	418.4
Accounts receivable	160.7	194.0	186.5	189.3	193.1
Inventory	13.4	13.1	13.4	13.6	13.8
Property, Plant & Equip (net)	797.4	739.1	810.0	805.5	793.4
Intangible assets	31.8	20.3	20.3	20.3	20.3
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	277.0	278.1	278.1	278.1	278.1
Total assets	1,545.3	1,497.7	1,567.9	1,640.0	1,717.1
ST interest bearing debt	96.3	9.7	8.7	7.8	7.0
Accounts payable	253.6	223.8	227.9	230.3	233.6
LT interest bearing debt	77.9	63.4	63.4	63.4	63.4
Other liabilities	141.0	170.0	177.0	185.0	194.0
Total Liabilities	568.7	467.3	477.4	486.6	497.7
Shareholders Equity	960.8	1,015.1	1,075.2	1,138.0	1,204.1
Minority Interest	15.8	15.4	15.4	15.4	15.4
Total shareholder equity	976.6	1,030.4	1,090.5	1,153.4	1,219.4
Total liabilities and equity	1,545.3	1,497.7	1,567.9	1,640.0	1,717.1
CASH FLOW (SGD m)					
Pretax profit	115.6	191.7	160.4	167.8	176.2
Depreciation & amortisation	39.3	40.2	41.2	42.5	44.1
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	14.2	(32.9)	11.3	(0.5)	(0.7)
Cash taxes paid	(21.7)	(29.1)	(40.2)	(42.0)	(44.1)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	147.3	169.9	172.6	167.8	175.5
Capex	(49.9)	(24.9)	(30.0)	(30.0)	(30.0)
Free cash flow	97.4	145.1	142.6	137.8	145.5
Dividends paid	(37.3)	(52.0)	(60.1)	(62.9)	(66.0)
Equity raised / (purchased)	5.6	6.0	0.0	0.0	0.0
Change in Debt	3.2	(101.2)	(1.0)	(0.9)	(0.8)
Other invest/financing cash flow	(20.6)	(34.5)	7.0	0.0	8.5
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	48.3	(36.6)	88.6	74.0	87.1

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	27.4	5.9	(3.5)	1.3	1.8
EBITDA growth	29.6	47.0	(12.9)	3.8	4.3
EBIT growth	37.2	61.4	(16.1)	4.0	4.5
Pretax growth	36.9	65.9	(16.3)	4.6	5.0
Reported net profit growth	27.7	70.5	(16.2)	4.6	5.0
Core net profit growth	27.7	70.5	(16.2)	4.6	5.0
Profitability ratios (%)					
EBITDA margin	22.2	30.8	27.8	28.5	29.2
EBIT margin	16.8	25.5	22.2	22.8	23.4
Pretax profit margin	16.0	25.0	21.7	22.4	23.1
Payout ratio	62.1	49.7	50.0	50.0	50.0
DuPont analysis					
Net profit margin (%)	11.6	18.7	16.3	16.8	17.3
Revenue/Assets (x)	0.5	0.5	0.5	0.5	0.4
Assets/Equity (x)	1.6	1.5	1.5	1.4	1.4
ROAE (%)	9.1	14.5	11.5	11.4	11.3
ROAA (%)	5.7	9.4	7.8	7.8	7.9
Liquidity & Efficiency					
Cash conversion cycle	(455.7)	(558.0)	(498.6)	(501.4)	(498.2)
Days receivable outstanding	68.2	83.3	92.6	90.3	90.2
Days inventory outstanding	35.1	37.7	36.8	37.0	36.9
Days payables outstanding	559.0	678.9	628.0	628.7	625.3
Dividend cover (x)	1.6	2.0	2.0	2.0	2.0
Current ratio (x)	1.1	1.4	1.4	1.6	1.9
Leverage & Expense Analysis					
Asset/Liability (x)	2.7	3.2	3.3	3.4	3.5
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)	21.2	47.3	41.4	54.2	76.4
Debt/EBITDA (x)	1.1	0.3	0.4	0.3	0.3
Capex/revenue (%)	6.9	3.2	4.1	4.0	3.9
Net debt/ (net cash)	(90.8)	(180.1)	(187.5)	(262.1)	(348.0)

Source: Company; Maybank IBG Research

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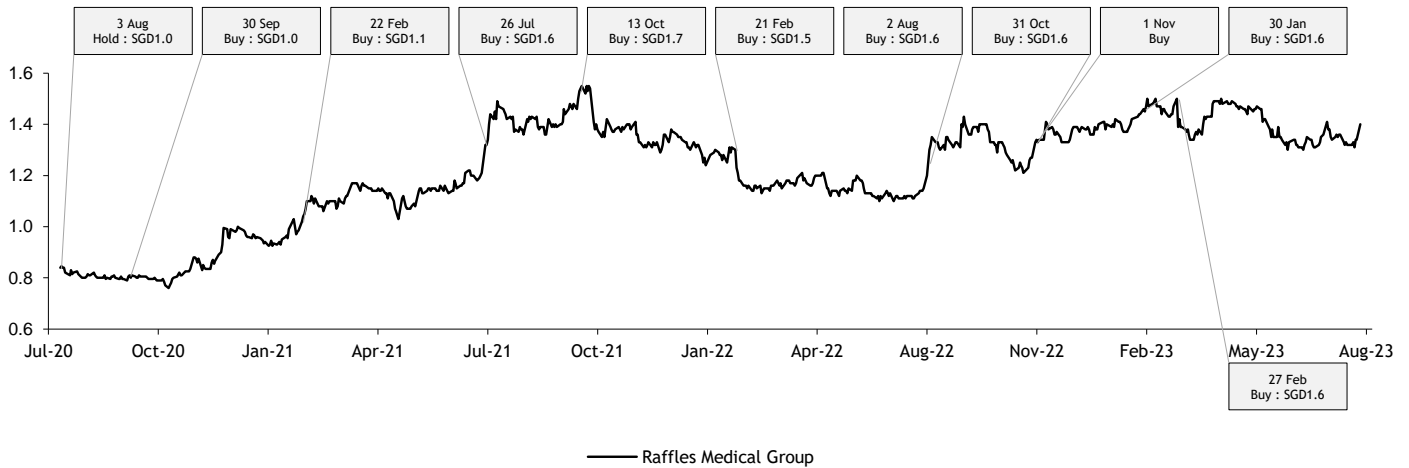
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