

Raffles Medical Group (RFMD SP)

Consumer Non-cyclical - Healthcare

Market Cap: USD1,811m

Buy (Maintained)

Target Price: **SGD5.40**

Price: **SGD4.39**

Transition Period To The Next Growth Phase

Macro ◆◆
 Risks ◆
 Growth ◆◆
 Value ◆◆

3Q15 results were in line with expectations, with net profit coming in at SGD15.7m (+1% YoY). Maintain BUY with a revised DCF-derived TP of SGD5.40 (23% upside). Profit growth was subdued by weaker economic conditions, as well as start-up costs for expansion projects. We believe the company is in a transition period to the next growth phase.

- ◆ **Soft quarter amid economic slowdown.** 3Q15 revenue was up 7.4% YoY, driven by hospital services, which grew 11.7% YoY. A slight decline in foreign patient load was offset by higher revenue intensity and volumes. On the other hand, the healthcare services (clinics) segment had one of its weakest quarters, recording just 3.5% YoY growth as corporates become more cost-conscious. A spike in staff cost in 1H15 appeared to have moderated somewhat, although overall profit was still dragged down by higher operating expenses, with the opening of a new medical centre at Shaw Centre in 3Q15.
- ◆ **Expansion plans on track.** Holland Village development remains on track for opening in 1Q16, and management shared that there is already a strong tenant line-up (for non-clinical space). The project will be bottomline-positive from the start, due to rental collection from unutilised space. Raffles Hospital remains on track for 1H17 opening, while Shanghai Hospital project will have ground-breaking next month.
- ◆ **Increasing presence in China.** Raffles Medical Group formed a joint venture (JV) (SGD34m investment) with International SOS, which will involve taking over and rebranding 10 clinics operating in China, Vietnam and Cambodia next year, before further expansion. The group's strategy of targeting gateway cities in China will increase its direct presence in the country. In addition, the group recently opened a medical centre in Osaka city, Japan, which is a regional gateway city with increasing business and tourism linkages with Korea and China.
- ◆ **Maintain BUY.** We keep our earnings estimates mostly unchanged and maintain our BUY call, with a slightly lower DCF-derived TP of SGD5.40 (from SGD5.50). While earnings growth this year is likely to be subdued, we believe the company is in a transition phase with a giant leap to potentially greater profitability after FY17, when its major expansion plans are completed.

| Forecasts and Valuations | Dec-13 | Dec-14 | Dec-15F | Dec-16F | Dec-17F | |
|-------------------------------------|--------|----------|----------|----------|---------|------|
| Total turnover (SGDm) | 341 | 375 | 404 | 459 | 534 | |
| Reported net profit (SGDm) | 84.9 | 67.6 | 66.9 | 74.8 | 93.0 | |
| Recurring net profit (SGDm) | 60.6 | 64.6 | 66.9 | 74.8 | 93.0 | |
| Recurring net profit growth (%) | 14.4 | 6.6 | 3.5 | 11.9 | 24.3 | |
| Recurring EPS (SGD) | 0.11 | 0.12 | 0.12 | 0.13 | 0.16 | |
| DPS (SGD) | 0.05 | 0.06 | 0.06 | 0.07 | 0.08 | |
| Recurring P/E (x) | 39.9 | 38.0 | 37.4 | 33.7 | 27.1 | |
| P/B (x) | 5.15 | 4.56 | 4.36 | 4.09 | 3.78 | |
| P/CF (x) | 33.9 | 26.3 | 28.8 | 26.2 | 21.6 | |
| Dividend Yield (%) | 1.1 | 1.3 | 1.3 | 1.5 | 1.7 | |
| EV/EBITDA (x) | 20.1 | 23.2 | 23.4 | 19.6 | 15.5 | |
| Return on average equity (%) | 19.7 | 13.3 | 11.9 | 12.5 | 14.5 | |
| Net debt to equity (%) | | net cash | net cash | net cash | 25.4 | 32.4 |
| Our vs consensus EPS (adjusted) (%) | | | (12.4) | (14.3) | (11.1) | |

Source: Company data, RHB



Source: Bloomberg

| | |
|----------------------------------|-------------|
| Avg Turnover (SGD/USD) | 2.27m/1.62m |
| Cons. Upside (%) | -7.3 |
| Upside (%) | 23.1 |
| 52-wk Price low/high (SGD) | 3.80 - 4.99 |
| Free float (%) | 48 |
| Share outstanding (m) | 574 |
| Shareholders (%) | |
| Raffles Medical Holdings Pte Ltd | 38.5 |
| Loo Choon Yong | 10.0 |
| Aberdeen Asset Management | 5.0 |

| Share Performance (%) | | | | | |
|-----------------------|------|--------|--------|------|------|
| | YTD | 1m | 3m | 6m | 12m |
| Absolute | 12.9 | (3.3) | (11.3) | 9.8 | 13.4 |
| Relative | 21.7 | (11.6) | (2.8) | 22.5 | 18.2 |

James Koh +65 6232 3839

james.koh@rhbgroup.com

Figure 1: 3Q15 results summary

| FYE Dec (SGDm) | 3Q14 | 2Q15 | 3Q15 | QoQ (%) | YoY (%) | Comments |
|-------------------------------|-------------|-------------|--------------|--------------|------------|---|
| Revenue | 94.5 | 99.3 | 101.5 | 2.3 | 7.4 | Hospital services up 11.7% YoY, Healthcare up 3.5% YoY |
| EBIT | 18.2 | 19.2 | 18.5 | (3.4) | 2.0 | Weighed down by higher expenses and start-up at new Shaw Centre |
| <i>EBIT Margin (%)</i> | 19.2 | 19.3 | 18.2 | | | |
| Interest income | | | | | | |
| Pretax profit | 18.4 | 19.5 | 18.8 | (3.4) | 2.0 | |
| <i>Pretax Margin (%)</i> | 19.5 | 19.6 | 18.5 | | | |
| Tax | (2.9) | (3.4) | (3.1) | (7.8) | 8.1 | |
| <i>Effective tax rate (%)</i> | (15.6) | (17.3) | (16.5) | | | |
| Minority interest | (0.1) | (0.1) | (0.0) | (46.7) | (40.3) | |
| Net Profit | 15.5 | 16.0 | 15.7 | (2.3) | 1.0 | |
| <i>Net Margin (%)</i> | 16.4 | 16.1 | 15.4 | | | |

Source: RHB

Figure 2: DCF assumptions

| SGD m | FY15F | FY16F | FY17F | FY18F | FY19F | FY20F | FY21F | FY22F |
|---------------------------------|---------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|
| Net income | 66.9 | 74.8 | 93.0 | 106.9 | 128.3 | 153.9 | 179.3 | 206.2 |
| + Depreciation | 12.5 | 12.8 | 13.1 | 15.0 | 20.0 | 20.0 | 20.0 | 20.0 |
| + Fixed capital investment | (163.5) | (251.0) | (133.3) | (15.0) | (20.0) | (20.0) | (20.0) | (20.0) |
| + Change in net working capital | (3.8) | 2.1 | 2.9 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| + Change in debt | 22.6 | 173.0 | 65.0 | (40.0) | (40.0) | (40.0) | (40.0) | 0.0 |
| FCFE | (65.2) | 11.8 | 40.7 | 69.9 | 91.3 | 116.9 | 142.3 | 209.2 |
| Terminal Value | | | | | | | | 4,843.2 |
| PV | (60.7) | 10.2 | 32.8 | 52.4 | 63.7 | 76.0 | 86.1 | 2,843.5 |
| Total discounted FCFE | 3,104.0 | | | | | | | |
| Value/ Share (SGD) | 5.40 | | | | | | | |
| Cost of equity | 7.5% | | | | | | | |
| Risk-free rate | 2.8% | | | | | | | |
| Beta | 0.75 | | | | | | | |
| Market return | 9.0% | | | | | | | |
| Terminal growth | 3.0% | | | | | | | |

Source: RHB

Financial Exhibits

| Profit & Loss (SGDm) | Dec-13 | Dec-14 | Dec-15F | Dec-16F | Dec-17F |
|--|---------------|---------------|----------------|----------------|----------------|
| Total turnover | 341 | 375 | 404 | 459 | 534 |
| Cost of sales | (63) | (74) | (77) | (85) | (96) |
| Gross profit | 278 | 300 | 327 | 374 | 438 |
| Gen & admin expenses | (170) | (182) | (202) | (227) | (262) |
| Other operating costs | (14) | (38) | (46) | (51) | (55) |
| Operating profit | 94 | 80 | 79 | 96 | 121 |
| Operating EBITDA | 103 | 90 | 92 | 109 | 134 |
| Depreciation of fixed assets | (8) | (10) | (13) | (13) | (13) |
| Operating EBIT | 94 | 80 | 79 | 96 | 121 |
| Interest expense | 1 | 1 | 1 | (6) | (8) |
| Pre-tax profit | 95 | 81 | 80 | 90 | 112 |
| Taxation | (10) | (13) | (13) | (15) | (18) |
| Minority interests | (0) | (0) | (0) | (1) | (1) |
| Profit after tax & minorities | 85 | 68 | 67 | 75 | 93 |
| Reported net profit | 85 | 68 | 67 | 75 | 93 |
| Recurring net profit | 61 | 65 | 67 | 75 | 93 |

Source: Company data, RHB

| Cash flow (SGDm) | Dec-13 | Dec-14 | Dec-15F | Dec-16F | Dec-17F |
|--|---------------|---------------|----------------|----------------|----------------|
| Operating profit | 94 | 80 | 79 | 96 | 121 |
| Depreciation & amortisation | 8 | 10 | 13 | 13 | 13 |
| Change in working capital | 0 | 12 | (4) | 2 | 3 |
| Other operating cash flow | (33) | (9) | (2) | (9) | (11) |
| Operating cash flow | 70 | 93 | 86 | 102 | 125 |
| Interest paid | 1 | 1 | 1 | (6) | (8) |
| Cash flow from operations | 71 | 93 | 87 | 96 | 117 |
| Capex | (8) | (18) | (69) | (20) | (20) |
| Other new investments | (1) | (189) | (107) | (230) | (113) |
| Other investing cash flow | 120 | 1 | 12 | (1) | - |
| Cash flow from investing activities | 111 | (206) | (163) | (251) | (133) |
| Dividends paid | (10) | (12) | (32) | (37) | (43) |
| Increase in debt | (15) | 1 | 23 | 173 | 65 |
| Other financing cash flow | 6 | 8 | (0) | (1) | (1) |
| Cash flow from financing activities | (19) | (3) | (9) | 135 | 21 |
| Cash at beginning of period | 102 | 266 | 150 | 64 | 45 |
| Total cash generated | 163 | (116) | (86) | (20) | 5 |
| Forex effects | 0 | 0 | - | - | - |
| Implied cash at end of period | 266 | 150 | 64 | 45 | 49 |

Source: Company data, RHB

Financial Exhibits

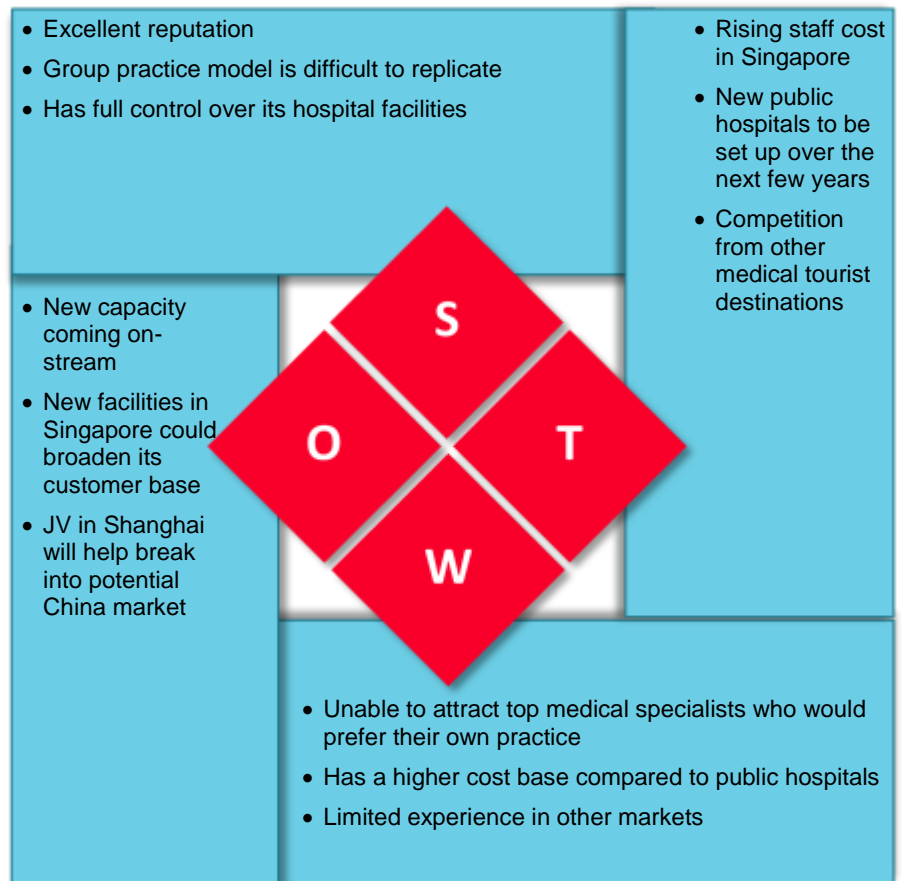
| Balance Sheet (SGDm) | Dec-13 | Dec-14 | Dec-15F | Dec-16F | Dec-17F |
|---------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Total cash and equivalents | 266 | 150 | 64 | 45 | 49 |
| Inventories | 9 | 9 | 9 | 10 | 11 |
| Accounts receivable | 44 | 37 | 44 | 50 | 59 |
| Total current assets | 319 | 196 | 117 | 105 | 119 |
| Total investments | 100 | 228 | 335 | 565 | 678 |
| Tangible fixed assets | 154 | 228 | 285 | 292 | 299 |
| Intangible assets | 0 | 0 | 0 | 0 | 0 |
| Total other assets | - | 3 | 4 | 5 | 5 |
| Total non-current assets | 254 | 459 | 624 | 862 | 982 |
| Total assets | 573 | 655 | 741 | 967 | 1,101 |
| Short-term debt | 5 | 6 | 7 | 30 | 20 |
| Accounts payable | 82 | 74 | 78 | 87 | 100 |
| Other current liabilities | 10 | 19 | 30 | 35 | 40 |
| Total current liabilities | 98 | 100 | 115 | 152 | 160 |
| Total long-term debt | - | 3 | 25 | 175 | 250 |
| Other liabilities | 2 | 7 | 7 | 8 | 10 |
| Total non-current liabilities | 2 | 10 | 32 | 183 | 260 |
| Total liabilities | 100 | 110 | 147 | 335 | 420 |
| Other reserves | 473 | 544 | 579 | 616 | 666 |
| Shareholders' equity | 473 | 544 | 579 | 616 | 666 |
| Minority interests | 1 | 1 | 15 | 15 | 15 |
| Other equity | (0) | (0) | - | - | - |
| Total equity | 474 | 545 | 594 | 631 | 681 |
| Total liabilities & equity | 573 | 655 | 741 | 967 | 1,101 |

Source: Company data, RHB

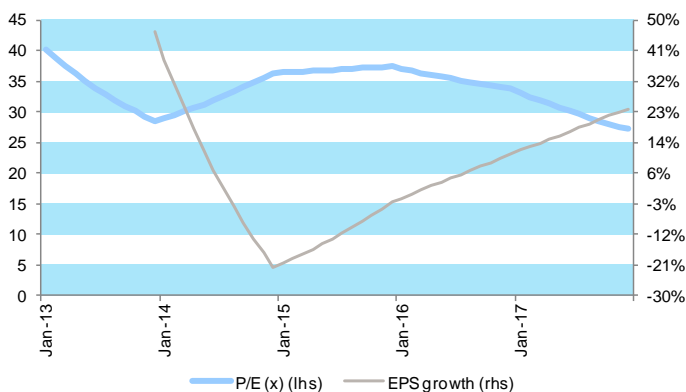
| Key Ratios (SGD) | Dec-13 | Dec-14 | Dec-15F | Dec-16F | Dec-17F |
|-------------------------------|---------------|---------------|----------------|----------------|----------------|
| Revenue growth (%) | 9.4 | 9.9 | 7.9 | 13.6 | 16.3 |
| Operating profit growth (%) | 42.2 | (14.8) | (1.4) | 21.4 | 25.5 |
| Net profit growth (%) | 49.3 | (20.4) | (1.1) | 11.9 | 24.3 |
| EPS growth (%) | 46.5 | (21.7) | (2.9) | 10.9 | 24.3 |
| BVPS growth (%) | 19.7 | 12.9 | 4.6 | 6.5 | 8.1 |
| Operating margin (%) | 27.7 | 21.4 | 19.6 | 20.9 | 22.6 |
| Net profit margin (%) | 24.9 | 18.0 | 16.5 | 16.3 | 17.4 |
| Return on average assets (%) | 15.9 | 11.0 | 9.6 | 8.8 | 9.0 |
| Return on average equity (%) | 19.7 | 13.3 | 11.9 | 12.5 | 14.5 |
| Net debt to equity (%) | (55.1) | (25.8) | (5.4) | 25.4 | 32.4 |
| DPS | 0.05 | 0.06 | 0.06 | 0.07 | 0.08 |
| Recurrent cash flow per share | 0.13 | 0.17 | 0.15 | 0.17 | 0.20 |

Source: Company data, RHB

SWOT Analysis

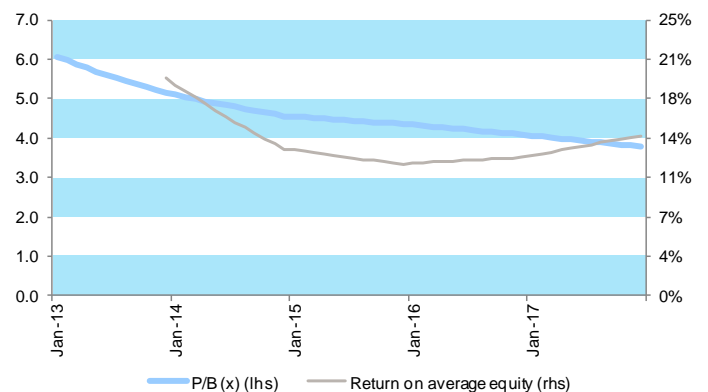


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Raffles Medical Group Ltd owns and operates medical clinics in Singapore. The company operates through three segments: healthcare services, hospital services, and investment holdings. It owns and operates a network of family medicine clinics, a tertiary care private hospital, and an educational healthcare institute. The company was founded in 1976 and is based in Singapore.

Recommendation Chart



Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2015-07-27 | Buy | 5.50 | 4.86 |
| 2015-07-01 | Buy | 5.60 | 4.55 |
| 2015-05-15 | Buy | 4.70 | 4.24 |
| 2015-04-28 | Buy | 4.70 | 4.00 |
| 2015-02-17 | Neutral | 4.00 | 4.01 |
| 2014-10-28 | Neutral | 4.05 | 3.88 |
| 2014-02-25 | Buy | 3.67 | 3.32 |
| 2013-10-29 | Neutral | 3.20 | 3.16 |
| 2013-07-23 | Neutral | 3.30 | 3.17 |
| 2013-04-29 | Neutral | 3.30 | 3.44 |

Source : RHB, Bloomberg

RHB Guide to Investment Ratings

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Kuala Lumpur

RHB Research Institute Sdn Bhd
Level 11, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur
Malaysia
Tel : +(60) 3 9280 2185
Fax : +(60) 3 9284 8693

Hong Kong

RHB OSK Securities Hong Kong Ltd.
12th Floor
World-Wide House
19 Des Voeux Road
Central, Hong Kong
Tel : +(852) 2525 1118
Fax : +(852) 2810 0908

Singapore

**RHB Research Institute Singapore
Pte Ltd (formerly known as DMG & Partners Research
Pte Ltd)**
10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +(65) 6533 1818
Fax : +(65) 6532 6211

Jakarta

PT RHB OSK Securities Indonesia
Wisma Mulia, 20th Floor
Jl. Jend. Gatot Subroto No. 42
Jakarta 12710, Indonesia
Tel : +(6221) 2783 0888
Fax : +(6221) 2783 0777

Shanghai

RHB OSK (China) Investment Advisory Co. Ltd.
Suite 4005, CITIC Square
1168 Nanjing West Road
Shanghai 20041
China
Tel : +(8621) 6288 9611
Fax : +(8621) 6288 9633

Phnom Penh

RHB OSK Indochina Securities Limited
No. 1-3, Street 271
Sangkat Toeuk Thla, Khan Sen Sok
Phnom Penh
Cambodia
Tel: +(855) 23 969 161
Fax: +(855) 23 969 171

Bangkok

RHB OSK Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +(66) 2 862 9999
Fax : +(66) 2 862 9799