

Raffles Medical Group Ltd

Huge earnings beat from foreign patients and electives



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SINGAPORE | HEALTHCARE | 1H22 RESULTS

3 August 2022

- 1H22 revenue/PATMI beat our estimates at 60%/95% of our FY22e forecast. 1H22 PATMI rose 51% YoY to \$60mn. Earnings beat came from the recovery in foreign patients, return of elective treatments and more resilient COVID-19 related revenue.
- Revenue in China rose 5%, driven by Chongqing hospital, while Shanghai was negatively impacted by a two-month lock-down in 1H22. Raffles has also received approval to set up an In-Vitro Fertilisation centre in Hainan, to be operational in 1Q23.
- We raised our FY22e earnings earning by 60% to S\$100mn. The uncertainty and lack of visibility in COVID-19-related services will cause the largest swing in our forecast. The major earnings drivers in 2H22 will be foreign patients, elective surgeries from local patients, increased visits at the GP clinics and higher prices. Weakness will come from lower COVID-19 testing and vaccination and fewer patients in COVID-19 treatment facility (CTF). With the increased earnings, our DCF is raised from S\$1.27 to S\$1.46. We also raised our discount rate to 7.5% from higher risk-free assumptions. Our recommendation is raised from NEUTRAL to BUY.

BUY (Upgraded)

LAST CLOSE PRICE	SGD 1.230
FORECAST DIV	SGD 0.033
TARGET PRICE	SGD 1.460
TOTAL RETURN	21.4%

COMPANY DATA

BLOOMBERG CODE	RFMD SP
O/S SHARES (MN)	1,852
MARKET CAP (USDmn/SGDmn)	1653.1 / 2278.5
52 - WK HI/LO (SGD)	1.57 / 1.09
3M Average Daily T/O (mn)	1.72

MAJOR SHAREHOLDERS

Raffles Medical Holdings Pte Ltd	42.3%
Loo Choon Yong	10.8%
Global Alpha Capital	8.0%

Results at a glance

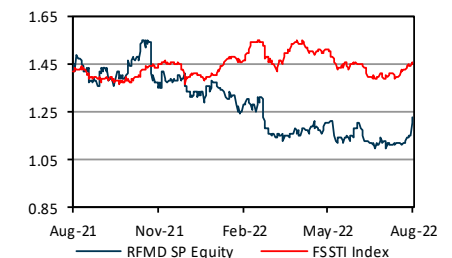
SGD mn	1H22	1H21	YoY (%)	Comments
Healthcare services	249.6	204.5	22.0	
Hospital services	129.1	135.9	(5.0)	Decline in COVID-19 PCR tests.
Investment holdings	3.6	3.3	9.1	
Revenue	382.3	343.8	11.2	
EBITDA	107.0	74.5	43.5	Consumables down 23% or S\$9mn.
Operating profit	86.4	56.1	54.1	Govt. grants of S\$6.0mn (1H21: S\$6.5mn).
Profit Before Tax	83.5	53.6	55.8	
PATMI	59.7	39.4	51.3	
Revenue				
- Singapore	349.6	313.8	11.4	
- China	24.7	23.5	5.2	

Source: Company, PSR

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	6.2	2.4	(14.6)
STI RETURN	4.7	(2.5)	6.3

PRICE VS. STI



Source: Bloomberg, PSR

The Positives

+ Resilient revenue despite less COVID related revenue. Revenue expanded 11% YoY despite the decline in PCR testing services. Growth in 1H22 was driven by (i) higher foreign patients, now 60% of pre-pandemic levels; (ii) return of elective treatments especially from elderly patients that had avoided hospitals during the pandemic; (iii) more GP clinic visits from more unmasked events and greater brand awareness. The number of GP visits exceeds pre-pandemic levels; (iv) COVID-19 related revenue was resilient with vaccinations still underway and higher patient load at the CTFs.

+ Surge in operating margins. Operating margins surged 6% bps to 22.6%. Staff cost rose a slower 7% YoY and purchasing cost was down 23%. We believe the margin pick-up was due to higher revenue intensity from foreign patients.

+ Growth in China despite lockdown. Revenue in China rose 5% supported by Chongqing hospital volumes. Raffles hospitals in China are gaining more recognition, especially from the targeted upper middle income households. The Shanghai hospital was opened but lockdown affected the flow of patients and staff availability.

KEY FINANCIALS

Y/E Dec	FY20	FY21	FY22e	FY23e
Revenue (SGD mn)	568	724	752	726
EBITDA (SGD mn)	124	161	184	170
NPAT adj. (SGD mn)	65.9	84.2	100.2	91.3
EPS adj. (Cents)	3.59	4.52	5.35	4.90
PER adj. (x)	34.2	27.2	23.0	25.1
P/BV (x)	2.5	2.4	2.3	2.2
DPS (Cents)	2.50	3.10	3.30	3.30
Div Yield	2.0%	2.5%	2.7%	2.7%
ROE	7.6%	9.1%	10.2%	9.0%

Source: Company, PSR

VALUATION METHOD

DCF (WACC: 7.5%; terminal g: 4.0%)

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+ Surge in operating cash flow. 1H22 free cash flow jumped S\$80mn YoY to S123mn, due to higher profits, a decline in receivables and lower CAPEX. Net cash improved by S\$100mn YoY to S\$134mn as of June 2022.

The Negative

- Nil.

Outlook

We expect 2H22 revenue to be resilient, supported by foreign patient admissions, return of elective treatments, price increases and increased visits to GP clinics. The revenue drag will come from lower COVID-19 related services such as vaccination, testing and CTF. We believe losses in China will persist as Shanghai operations ramp up capacity and cost.

Upgrade to BUY with a higher TP of S\$1.46 (prev. S\$1.27)

We raised our FY22e earnings by 60%, with an 18% increase in revenue and a 5% point increase in margins. Our WACC was also nudged up by 0.4% points to 7.5% to account for the higher risk-free rate.

Financials

Income Statement

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
Revenue	522.0	568.2	723.8	752.1	725.9
Operating expenses	(416.6)	(444.3)	(563.2)	(567.8)	(556.2)
Other operating income	3.1	31.6	13.8	11.0	9.0
EBITDA	105.4	123.9	160.6	184.3	169.7
Depreciation & Amortisation	(29.3)	(35.5)	(39.3)	(42.4)	(42.2)
EBIT	76.2	88.4	121.3	141.9	127.5
Associates & JVs	0.0	0.0	0.0	0.0	0.0
Net Finance (Expense)/Inc	(0.2)	(4.0)	(5.7)	(4.1)	(3.7)
PBT	75.9	84.4	115.6	137.8	123.8
Tax	(15.4)	(19.8)	(31.9)	(37.2)	(32.2)
PAT	60.5	64.7	83.7	100.6	91.6
Minority interest	(0.2)	1.2	0.5	(0.4)	(0.4)
PATMI	60.3	65.9	84.2	100.2	91.3
Net Income, adj.	60.3	65.9	84.2	100.2	91.3

Per share data

Y/E Dec, SG cents	FY19	FY20	FY21	FY22e	FY23e
EPS, reported	1.11	3.53	4.50	5.37	4.92
EPS, adj.	1.11	3.59	4.52	5.35	4.90
DPS	0.83	2.50	3.10	3.30	3.30
BVPS	15.33	48.88	51.04	53.87	55.47

Cash Flows

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
CFO					
PBT	75.9	84.4	115.6	137.8	123.8
Adjustments	28.9	50.7	52.1	46.5	45.9
WC changes	18.8	7.7	14.2	3.5	1.8
Cash generated from ops	123.6	142.9	181.9	187.8	171.5
Taxes paid, others	(12.5)	(9.7)	(21.7)	(37.2)	(32.2)
Cashflow from ops	111.1	133.1	160.1	150.6	139.3
CFI					
CAPEX, net	(96.1)	(58.9)	(49.9)	(43.6)	(42.3)
Acquisition, others	(0.8)	(3.3)	(2.3)	0.1	0.0
Cashflow from investing	(96.9)	(62.2)	(52.2)	(43.6)	(42.2)
CFF					
Share issuance	1.0	0.8	2.4	0.0	0.0
Loans, net of repayments	49.6	2.6	(0.5)	(13.0)	(11.0)
Dividends	(18.0)	(19.2)	(37.3)	(58.4)	(61.4)
Others	(1.1)	(5.0)	(11.4)	(5.3)	(5.0)
Cashflow from financing	31.5	(20.9)	(46.9)	(76.7)	(77.4)
Effects of exchange rates	(1.1)	1.2	0.8	0.0	0.0
Net change in cash	44.8	51.3	61.9	30.3	19.7
CCE, end	150.7	202.1	263.9	294.2	313.9

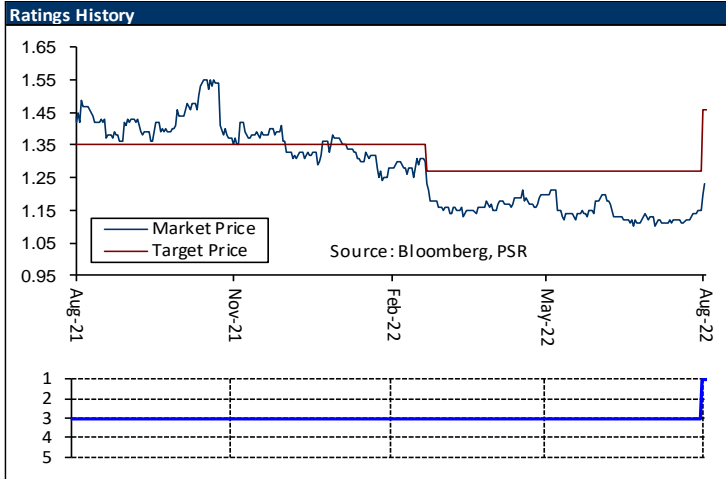
Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
PPE	685.6	739.9	797.4	794.2	789.8
Intangibles	37.5	34.1	31.8	31.4	31.0
Investment properties	311.2	294.6	274.0	280.0	286.0
Others	4.6	4.4	3.0	3.0	3.0
Total non-current assets	1,038.8	1,073.0	1,106.2	1,108.6	1,109.8
Trade & other receivables	83.9	113.4	160.7	133.9	129.3
Cash balance	151.8	203.1	265.0	295.3	315.0
Others	10.2	14.6	13.4	13.1	14.0
Total current assets	246.0	331.1	439.1	442.4	458.3
Total Assets	1,284.8	1,404.1	1,545.3	1,550.9	1,568.1
LIABILITIES					
Short-term debt	8.5	27.2	96.3	83.3	72.3
Trade and other payables	162.5	191.4	253.6	230.0	228.0
Others	47.9	61.3	66.7	66.7	66.7
Total current liabilities	219.0	279.9	416.6	380.0	367.0
Long-term debt	156.6	143.9	77.9	77.9	77.9
Others	52.5	66.0	74.1	74.1	74.1
Total non-current liabilities	209.0	209.8	152.1	152.1	152.1
Total Liabilities	428.0	489.7	568.7	532.1	519.1
EQUITY					
Minority interest	16.0	15.4	15.8	16.2	16.6
Shareholder Equity	840.9	899.0	960.8	1,002.6	1,032.5
Total Equity	856.9	914.4	976.6	1,018.9	1,049.1

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/E (X), adj.	111.0	34.2	27.2	23.0	25.1
P/B (X)	8.0	2.5	2.4	2.3	2.2
EV/EBITDA (X)	25.8	21.6	16.3	13.9	15.0
Dividend Yield	0.7%	2.0%	2.5%	2.7%	2.7%
Growth & Margins					
Growth					
Revenue	6.7%	8.8%	27.4%	3.9%	-3.5%
EBITDA	7.1%	17.6%	29.6%	14.7%	-7.9%
EBIT	-4.9%	16.1%	37.2%	17.0%	-10.1%
Net Income, adj.	-9.6%	9.3%	27.7%	19.0%	-8.9%
Margins					
EBITDA margin	20.2%	21.8%	22.2%	24.5%	23.4%
EBIT margin	14.6%	15.6%	16.8%	18.9%	17.6%
Net Profit Margin	11.5%	11.6%	11.6%	13.3%	12.6%
Key Ratios					
ROE	7.3%	7.6%	9.1%	10.2%	9.0%
ROA	5.0%	4.9%	5.7%	6.5%	5.9%
Interest coverage (X)	2.6	2.5	3.1	3.3	3.0
Net gearing (X)	0.0	Net cash	Net cash	Net cash	Net cash



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

Remarks
 We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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