

Raffles Medical Group Ltd

Policies, immunity debt, tourism helped



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SINGAPORE | HEALTHCARE | 2H22 RESULTS

6 March 2023

- FY22 revenue was within expectation, but PATMI was a massive beat. FY22 revenue and PATMI were 102%/143% of our estimates. The jump in healthcare services earnings was higher than expected.
- The drop in COVID-19-related revenue was offset by higher margin foreign patients, more elective surgeries, increased GP clinic visitations and additional bed capacity in Changi under the Transitional Care Facilities (TCF).
- The re-opening of borders and relaxation of social restrictions triggered the return of medical tourists. There was a wave of other infections raising the volumes at GP clinics and TCFs. We expect the TCF to be operational until public hospital capacity is meaningfully increased. Our BUY recommendation is maintained. FY23e earnings forecast is increased by 50% to S\$142mn and our DCF target price raised to S\$1.76 (prev. S\$1.46) with a higher discount rate to 8.0% (prev. 7.6%) as the risk-free rate was lifted.

Results at a glance

SGD mn	2H22	2H21	YoY (%)	Comments
Healthcare services	241.2	239.0	0.9	Higher patient visitations.
Hospital services	139.6	137.6	1.4	Less COVID-19 PCR and vaccinations.
Investment holdings	3.5	3.4	3.2	
Revenue	384.2	380.0	1.1	
EBITDA	129.1	86.1	49.9	
Operating profit	109.5	65.2	67.8	
Profit Before Tax	108.2	62.0	74.6	
- Healthcare services	97.8	43.7	123.5	
- Hospital services	17.0	8.2	106.8	Higher margin foreign patients.
- Investment holdings	(4.1)	15.8	n.m.	
PATMI	83.8	44.7	87.5	
DPS (cents)	3.80	2.80	35.7	
Revenue				
- Singapore	350.1	346.7	1.0	
- China	25.5	25.8	(1.1)	COVID-19 disruption.

Source: Company, PSR

The Positives

+ Spike in healthcare services earnings. 2H22 PBT for healthcare services more than doubled to S\$97.8mn. The jump was due to higher GP visits as re-opening saw a jump in non-COVID infections. In addition, patients with COVID-19 symptoms preferred GP visits rather than hospitals. Increased volumes boosted operating leverage for the business.

+ Return of foreign patients. With borders re-opening, revenue from foreign patients has returned to close to pre-pandemic levels. Such patients have higher revenue intensity and better margins. We expect the return of foreign patients to continue into 1H23. We believe foreign patient revenue has surged back to around 20% of revenue. This is below the estimated 25-30% pre-pandemic.

+ Jump in FCF*. In line with the record earnings, FCF rose 51% to a record S\$183mn for FY22. Capital expenditure should normalise to S\$30mn-35mn after the major ramp-up of the past 3 years for the new hospitals in China. Net cash has doubled from S\$90.7mn to S\$180mn. FY22 dividend was increased by 36% to 3.8 cents.

*Free cash flow = Operating cash-flow less Capex less Lease payments

BUY (Maintained)

LAST CLOSE PRICE	SGD 1.390
FORECAST DIV	SGD 0.040
TARGET PRICE	SGD 1.760
TOTAL RETURN	29.5%

COMPANY DATA

BLOOMBERG CODE	RFMD SP
O/S SHARES (MN):	1,858
MARKET CAP (USDmn/SGDmn):	1918.9 / 2582.1
52 - WK HI/LO (SGD):	1.52 / 1.09
3M Average Daily T/O (mn):	1.75

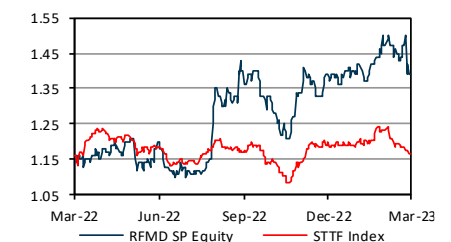
MAJOR SHAREHOLDERS

Raffles Medical Holdings Pte Ltd	42.2%
Loo Choon Yong	10.8%
Global Alpha Capital	9.1%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(5.4)	0.0	23.8
STTF	(4.0)	(0.5)	2.7

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY21	FY22	FY23e	FY24e
Revenue (SGD mn)	724	767	760	771
EBITDA (SGD mn)	161	236	232	233
NPAT adj. (SGD mn)	89.4	161.8	142.0	143.3
EPS adj. (Cents)	4.83	8.69	7.66	7.73
PER adj. (x)	28.8	16.0	18.1	18.0
P/BV (x)	2.7	2.5	2.4	2.2
DPS (Cents)	2.80	3.80	4.00	4.10
Div Yield	2.0%	2.7%	2.9%	2.9%
ROE	9.6%	16.4%	13.5%	12.8%

Source: Company, PSR

VALUATION METHOD

DCF (WACC: 8.0%; terminal g: 3.0%)

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The Negative

+ Losses in China hospitals. EBITDA losses in China were larger than expected due to the lockdown. There was vaccination work, but revenue was low. The decline in foreigners was another negative, especially for the Beijing hospital. We expect S\$10mn EBITDA loss per hospital for Chongqing and Shanghai.

Outlook

We expect modest revenue growth in FY23e. After the surge in cases post-re-opening, we expect some normalisation. Foreign patients will still be a boost to 1H23 revenue. We believe the Changi TCF will be extended until FY24e for Raffles Medical. There remains a lack of bed capacity as reflected by the government's plans to increase bed capacity by 1,900 over the next 5 years. The latest capacity addition only begins in late-2023 with the progressive commencement of Woodlands Health Campus. Public hospital capacity is now supported by the three TCFs with beds totalling around 400. TCFs can help to free up capacity by admitting medically stable patients from public hospitals. Ageing population also results in longer stays.

Figure 1: TCF provides additional bed capacity for Raffles Medical

<u>Name</u>	<u>Operated by</u>	<u>Beds (est.)</u>
1. Sengkang Community Hospital	Thomson Medical Centre	164
2. Changi General Hospital (EXPO Hall 10)	Raffles Medical Group	200
3. Crawford Hospital	Fortis	36

Source: MOH, PSR

Maintain BUY with a higher TP of S\$1.76 (prev. S\$1.46)

FY23 earnings are increased by 50% to S\$142mn. Our DCF target price was raised to S\$1.76 with a higher discount rate to 8.0% (prev. 7.6%) as the risk-free rate was lifted and terminal growth lowered to 3% (prev. 4%).

Financials

Income Statement

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
Revenue	568.2	723.8	766.5	760.1	770.6
Operating expenses	(444.3)	(563.2)	(530.5)	(528.3)	(538.1)
Other operating income	31.6	13.8	8.0	9.0	9.0
EBITDA	123.9	160.6	236.1	231.8	232.5
Depreciation & Amortisation	(35.5)	(39.3)	(40.2)	(39.7)	(39.1)
EBIT	88.4	121.3	195.8	192.0	193.4
Associates & JVs	0.0	0.0	0.0	0.0	0.0
Net Finance (Expense)/Inc	(4.0)	(5.7)	(4.1)	0.7	1.1
PBT	84.4	115.6	191.7	192.7	194.5
Tax	(19.8)	(31.9)	(48.0)	(50.1)	(50.6)
PAT	64.7	83.7	143.7	142.6	143.9
Minority interest	1.2	0.5	(0.2)	(0.6)	(0.6)
PATMI	65.9	84.2	143.5	142.0	143.3
Net Income, adj.	65.9	89.4	161.8	142.0	143.3

Per share data

Y/E Dec, SG cents	FY20	FY21	FY22	FY23e	FY24e
EPS, reported	3.53	4.52	7.72	7.69	7.76
EPS, adj.	3.59	4.83	8.69	7.66	7.73
DPS	2.50	2.80	3.80	4.00	4.10
BVPS	48.88	51.43	54.73	58.59	62.32

Cash Flows

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
CFO					
PBT	84.4	115.6	191.7	192.7	194.5
Adjustments	50.7	52.1	66.5	39.0	38.1
WC changes	7.7	14.2	(32.9)	42.6	3.3
Cash generated from ops	142.9	181.9	225.4	274.4	235.8
Taxes paid, others	(9.7)	(21.7)	(29.1)	(50.1)	(50.6)
Cashflow from ops	133.1	160.1	196.2	224.2	185.2
CFI					
CAPEX, net	(58.9)	(49.9)	(24.9)	(28.9)	(29.3)
Acquisition, others	(3.3)	(2.3)	2.0	2.2	2.2
Cashflow from investing	(62.2)	(52.2)	(22.8)	(26.6)	(27.0)
CFF					
Share issuance	0.8	2.4	(18.3)	0.0	0.0
Loans, net of repayments	2.6	(0.5)	(94.4)	(11.0)	(11.0)
Dividends	(19.2)	(37.3)	(52.0)	(70.5)	(74.2)
Others	(5.0)	(11.4)	(19.0)	(2.0)	(1.7)
Cashflow from financing	(20.9)	(46.9)	(183.7)	(83.5)	(86.9)
Effects of exchange rates	1.2	0.8	(1.5)	0.0	0.0
Net change in cash	51.3	61.9	(11.9)	114.1	71.3
CCE, end	202.1	263.9	252.1	366.1	437.5

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
PPE	739.9	797.4	739.1	730.3	722.3
Intangibles	34.1	31.8	20.3	18.7	17.3
Investment properties	294.6	274.0	273.4	273.4	273.4
Others	4.4	3.0	4.7	4.7	4.7
Total non-current assets	1,073.0	1,106.2	1,037.4	1,027.1	1,017.7
Trade & other receivables	113.4	160.7	194.0	156.2	158.3
Cash balance	203.1	265.0	253.1	367.2	438.5
Others	14.6	13.4	13.1	14.1	13.3
Total current assets	331.1	439.1	460.3	537.4	610.2
Total Assets	1,404.1	1,545.3	1,497.7	1,564.5	1,627.9

LIABILITIES

Short-term debt	27.2	96.3	9.7	(1.3)	(12.3)
Trade and other payables	191.4	253.6	223.8	229.5	234.1
Others	61.3	66.7	92.3	92.3	92.3
Total current liabilities	279.9	416.6	325.7	320.4	314.1
Long-term debt	143.9	77.9	63.4	63.4	63.4
Others	66.0	74.1	78.2	78.2	78.2
Total non-current liabilities	209.8	152.1	141.6	141.6	141.6
Total Liabilities	489.7	568.7	467.3	462.0	455.7

EQUITY

Minority interest	15.4	15.8	15.4	15.9	16.5
Shareholder Equity	899.0	960.8	1,015.1	1,086.6	1,155.8
Total Equity	914.4	976.6	1,030.4	1,102.5	1,172.3

Valuation Ratios

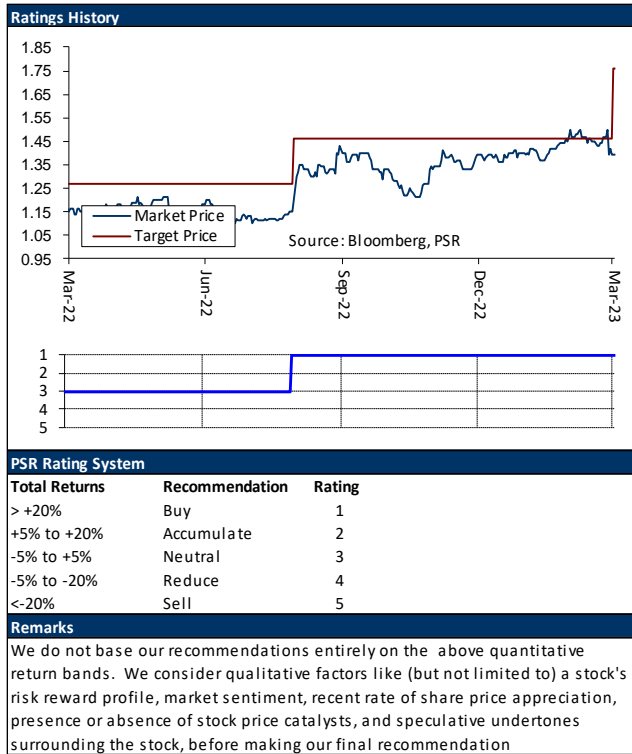
Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E (X), adj.	38.7	28.8	16.0	18.1	18.0
P/B (X)	2.8	2.7	2.5	2.4	2.2
EV/EBITDA (X)	26.1	19.8	13.1	12.8	12.4
Dividend Yield	1.8%	2.0%	2.7%	2.9%	2.9%

Growth & Margins

Growth					
Revenue	8.8%	27.4%	5.9%	-0.8%	1.4%
EBITDA	17.6%	29.6%	47.0%	-1.8%	0.3%
EBIT	16.1%	37.2%	61.4%	-1.9%	0.7%
Net Income, adj.	9.3%	35.7%	80.9%	-12.2%	0.9%
Margins					
EBITDA margin	21.8%	22.2%	30.8%	30.5%	30.2%
EBIT margin	15.6%	16.8%	25.5%	25.3%	25.1%
Net Profit Margin	11.6%	12.4%	21.1%	18.7%	18.6%

Key Ratios

ROE	7.6%	9.6%	16.4%	13.5%	12.8%
ROA	4.9%	6.1%	10.6%	9.3%	9.0%
Interest coverage (X)	2.5	3.1	4.9	4.8	4.9
Net gearing (X)	Net cash	Net cash	Net cash	Net cash	Net cash



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