

Raffles Medical Group Ltd

Margins still at record levels



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SINGAPORE | HEALTHCARE | 1H23 RESULTS

2 August 2023

- 1H23 revenue and PATMI were within expectation at 49%/42% of our estimates. The jump in healthcare services earnings was higher than expected. PATMI was up a modest 0.5% YoY to S\$59mn.
- Revenue for healthcare service was lower due to the absence of COVID-19-related services at the clinics. Hospital revenue is boosted by the return of foreign patients and transitional care facilities. Operating margins remain at record levels of around 21% despite losses in China.
- We maintain our FY23e forecast and BUY recommendation. Our DCF target price of S\$1.76 is unchanged. We expect 2H23e earnings will be supported by price increases and a higher volume of foreign patients. However, the reduced contribution of COVID-19 services and lower margins from transitional care facilities (TCF) will place pressure on group margins.

BUY (Maintained)

LAST CLOSE PRICE	SGD 1.360
FORECAST DIV	SGD 0.040
TARGET PRICE	SGD 1.760
TOTAL RETURN	32.4%

COMPANY DATA

BLOOMBERG CODE	RFMD SP
O/S SHARES (MN)	1,860
MARKET CAP (USDmn/SGDmn)	1894.9 / 2530.2
52 - WK HI/LO (SGD)	1.52 / 1.20
3M Average Daily T/O (mn)	1.41

MAJOR SHAREHOLDERS

Raffles Medical Holdings Pte Ltd	42.1%
Loo Choon Yong	10.8%
Global Alpha Capital	9.1%

Results at a glance

SGD mn	1H23	1H22	YoY (%)	Comments
Healthcare services	161.9	223.7	(27.6)	Decline in COVID-19 related services.
Hospital services	139.8	129.1	8.3	Return of foreign patients.
Insurance service	65.6	53.3	23.0	
Investment holdings	3.5	3.6	(2.7)	
Revenue	370.9	409.7	(9.5)	
EBITDA	95.7	106.8	(10.4)	
Operating profit	76.7	86.2	(11.1)	
Profit Before Tax	78.4	83.3	(5.9)	
- Healthcare services	59.9	68.4	(12.4)	
- Hospital services	8.7	4.4	96.5	Higher margin foreign patients.
- Insurance services	(1.3)	0.3	n.m.	
- Investment holdings	14.3	14.5	(1.8)	
PATMI	59.9	59.5	0.5	
Revenue				
- Singapore	333.9	377.1	(11.5)	
- China	28.8	24.7	16.2	

Source: Company, PSR

The Positives

+ Resilient hospital services revenue and margins. Hospital services enjoyed growth from increased foreign patients, which are 70-80% of pre-pandemic level. Patients from Vietnam and China have not returned to pre-pandemic levels. Operating margins in 1H23 was 20.7%, higher than pre-pandemic levels of around 16%. The company managed to lower staff costs by S\$34mn or 17% YoY by reducing part-time workers. Meanwhile, 1H23 PBT margin is also supported by S\$4.6mn improvement in net finance income.

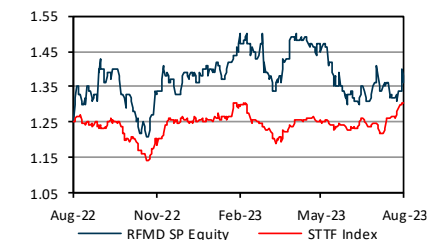
+ Healthy FCF* with lower capex cycle. 1H23 FCF remains strong at S\$111mn (1H22: S\$117mn), driving up net cash to S\$230mn (1H22: S\$135mn). Annualised capex is trending towards S\$30mn. This compares to S\$45mn p.a. over the past three years.

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	1.5	(3.6)	18.1
STTF	4.8	4.1	8.2

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)	28.2	15.6	17.8	17.6
P/BV (x)	2.6	2.5	2.3	2.2
DPS (Cents)	2.80	3.80	4.00	4.10
Div Yield	2.1%	2.8%	2.9%	3.0%
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

+ China is still a drag. Despite revenue growth of 16% YoY in 1H23, China continues to experience operating losses. The losses are estimated at between S\$12mn and \$14mn. The next few years are the investment phase to build brand awareness of the hospital amongst the locals. We believe locals still prefer government hospitals for their perceived pool of more experienced doctors.

Outlook

We expect 2H23 to be stable supported by the inflow of foreign patients and higher prices. Meanwhile, headwinds will stem from loss of COVID-19 PCR tests and lower margins for TCFs. Insurance will also continue suffering losses as claims rebound with the increase of more insured patients. During the pandemic, patients generally avoided the hospital if the illness was less serious.

Maintain BUY with unchanged TP of S\$1.76

Our FY23e earnings and DCF target price of S\$1.76 is unchanged. We expect muted earnings growth post-pandemic until China builds up scale and operating leverage. The current shortfall of public hospital beds will provide additional revenue from the management of the Changi TCF.

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 & Amortisatio	(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

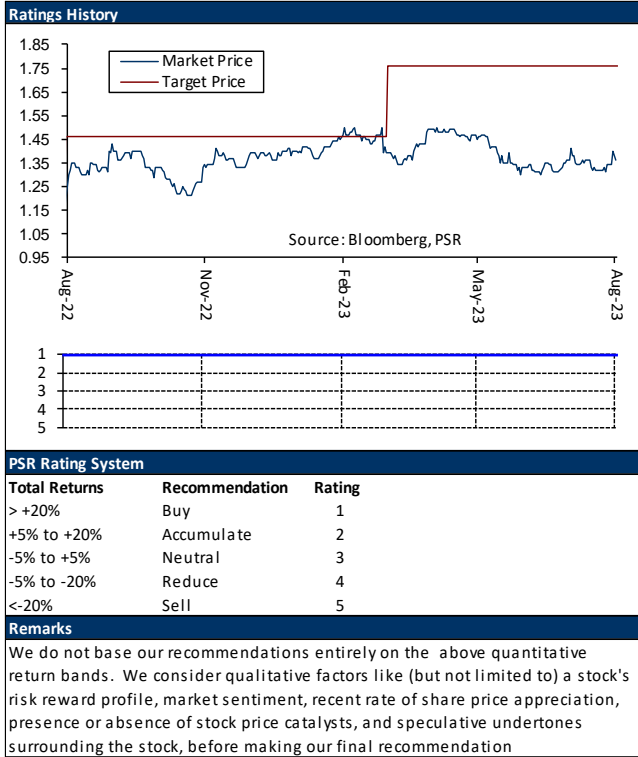
Source: Company, Phillip Securities Research (Singapore) Estimates

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.	37.8	28.2	15.6	17.8	17.6
P/B (X)	2.8	2.6	2.5	2.3	2.2
EV/EBITDA (X)	26.2	19.8	13.1	12.8	12.4
Dividend Yield	1.8%	2.1%	2.8%	2.9%	3.0%
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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