

Raffles Medical Group Ltd

Competition will cap upside



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SINGAPORE | HEALTHCARE | 1H24 RESULTS

1 August 2024

- 1H24 revenue and PATMI were within expectations at 57% / 52% of our FY24e estimates respectively. 1H24 PATMI declined 49% YoY to S\$30.9mn.
- 1H24 EBITDA margins collapsed 9% points YoY to 16.6% due to higher losses at the insurance operations, continued losses in China, lower margins from transitional care facilities, and lower government grants.
- We maintain our FY24e PATMI and NEUTRAL recommendation. Our DCF target price of S\$0.96 is unchanged. We expect earnings to normalise back to pre-pandemic levels until its China hospitals can achieve scale. We believe the Singapore hospital operations are facing multiple competitive pressures. Volumes from domestic patients are under pressure from insurers diverting patients to public hospitals. Meanwhile, competition for foreign patients grows in the face of lower-priced alternatives in Thailand and Malaysia. The ability to scale up into higher margin complex cases may come under pressure from its largest private competitor with its larger number of specialists.

NEUTRAL (Maintained)

LAST CLOSE PRICE	SGD 0.955
FORECAST DIV	SGD 0.035
TARGET PRICE	SGD 0.960
TOTAL RETURN	4.2%

COMPANY DATA

BLOOMBERG CODE	RFMD SP
O/S SHARES (MN)	1,854
MARKET CAP (USDmn/SGDmn)	1319.5 / 1770.9
52 - WK HI/LO (SGD)	1.40 / 0.95
3M Average Daily T/O (mn)	2.36

MAJOR SHAREHOLDERS

Raffles Medical Holdings Pte Ltd	42.3%
Loo Choon Yong	12.8%
Global Alpha Capital	9.1%

Results at a glance

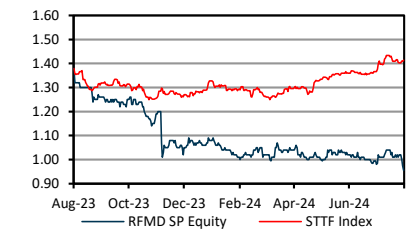
SGD mn	1H24	1H23	YoY (%)	Comments
Healthcare services	134.5	161.9	(17.0)	
Hospital services	143.2	139.8	2.4	
Insurance service	84.4	65.6	28.6	
Investment holdings	3.6	3.4	5.8	
Revenue	365.7	370.8	(1.4)	
EBITDA	60.6	95.0	(36.3)	
Operating profit	41.3	76.6	(46.1)	
Profit Before Tax	43.4	78.4	(44.6)	
PATMI	30.6	59.8	(48.8)	
Adj. PATMI	31.2	60.6	(48.4)	Excluding impairments.
Revenue				
- Singapore	327.5	333.9	(1.9)	
- China	30.5	28.8	5.9	

Source: Company, PSR

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(2.0)	(0.2)	(25.5)
STTF	3.2	5.7	7.3

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (\$\$ mn)	FY22	FY23	FY24e	FY25e
Revenue	823	707	693	738
EBITDA	235	153	109	101
NPAT adj.	161.5	83.2	58.8	51.8
EPS adj. (Cents)	8.68	4.48	3.16	2.79
PER adj. (x)	11.0	21.3	30.2	34.2
P/BV (x)	1.7	1.7	1.7	1.7
DPS (Cents)	3.80	2.40	3.50	4.00
Div Yield	4.0%	2.5%	3.7%	4.2%
ROE	16.4%	8.2%	5.7%	5.0%

Source: Company, PSR

VALUATION METHOD

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

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The Positive

+ Improving revenue in China. 1H24 revenue in China grew 6% YoY to S\$30.5mn. A majority of patients are locals except for Beijing Hospital. The gestation losses are coming down in China (amount not disclosed) and it is applying for universal healthcare insurance to be used in its hospitals. There is an opportunity to turn China hospitals into hubs for foreign patients from Central Asia or Russia, from where there are direct flights and better connectivity.

The Negative

- Margin collapse. 1H24 EBITDA margins collapsed 9% points YoY to 16.6%. The margin declined from lower government grants (1H24: S\$1.6mn, 1H23: S\$8.2mn), widening insurance losses (1H24: -\$6.5mn, 1H23: S\$1.3mn), continued losses in China and weaker margins from transitional care facilities.

Outlook

We believe Raffles Medical is under competitive pressure over its ability to attract volumes and raise prices. Volume growth domestically faces pressure from insurers diverting patients to public hospitals under the integrated shield plans. Meanwhile, foreign patients have lower-priced alternatives in Malaysia and Thailand. The ability to raise revenue intensity and undertake more complex cases faces challenges from its largest private competitor.

Maintain our NEUTRAL recommendation and TP of S\$0.96

We maintain FY24e PATMI but raise revenue by 7% due to higher insurance revenue.

Financials

Income Statement

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
Revenue	723.8	822.9	706.9	692.8	737.6
Operating expenses	(563.2)	(588.3)	(554.1)	(583.9)	(636.6)
Other operating income	13.8	8.0	16.7	5.0	6.0
EBITDA	160.6	234.6	152.8	108.9	101.1
Depreciation & Amortisation	(39.3)	(40.2)	(38.2)	(39.3)	(38.4)
EBIT	121.3	194.4	114.5	69.6	62.7
Associates & JVs	0.0	0.0	0.0	0.0	0.0
Net Finance (Expense)/Inc	(5.7)	(4.1)	3.7	8.2	5.0
PBT	115.6	191.3	119.4	77.8	67.6
Tax	(31.9)	(47.9)	(28.3)	(18.7)	(15.6)
PAT	83.7	143.4	91.1	59.2	52.1
Minority interest	0.5	(0.2)	(0.9)	(0.4)	(0.3)
PATMI	84.2	143.2	90.2	58.8	51.8
Net Income, adj.	89.4	161.5	83.2	58.8	51.8

Per share data

Y/E Dec, SG cents	FY21	FY22	FY23	FY24e	FY25e
EPS, reported	4.52	7.70	4.91	3.19	2.80
EPS, adj.	4.83	8.68	4.48	3.16	2.79
DPS	2.80	3.80	2.40	3.50	4.00
BVPS	51.43	54.59	55.34	56.11	55.40

Cash Flows

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
CFO					
PBT	115.6	191.3	119.4	77.8	67.6
Adjustments	52.1	66.5	30.4	31.1	33.4
WC changes	14.2	(32.5)	88.9	26.1	12.1
Cash generated from ops	181.9	225.4	238.8	135.0	113.1
Taxes paid, others	(21.7)	(29.1)	(49.5)	(18.7)	(15.6)
Cashflow from ops	160.1	196.2	189.3	116.3	97.6
CFI					
CAPEX, net	(49.9)	(24.9)	(20.0)	(20.8)	(22.1)
Acquisition, others	(2.3)	2.0	7.6	11.0	7.5
Cashflow from investing	(52.2)	(22.8)	(12.4)	(9.8)	(14.6)
CFF					
Share issuance	2.4	(18.3)	1.7	0.0	0.0
Loans, net of repayments	(0.5)	(94.4)	0.1	(5.0)	(5.0)
Dividends	(37.3)	(52.0)	(70.7)	(44.6)	(65.0)
Others	(11.4)	(19.0)	(16.6)	(3.3)	(3.0)
Cashflow from financing	(46.9)	(183.7)	(85.5)	(52.9)	(73.0)
Effects of exchange rates	0.8	0.0	(0.0)	0.0	0.0
Net change in cash	61.9	(10.3)	91.4	53.7	9.9
CCE, end	263.9	253.6	345.0	398.6	408.6

Balance Sheet

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
PPE	797.4	739.1	768.3	751.7	737.2
Intangibles	31.8	20.3	18.8	17.4	16.2
Investment properties	274.0	273.4	246.1	246.1	246.1
Others	3.0	4.7	10.3	10.3	10.3
Total non-current assets	1,106.2	1,037.4	1,043.5	1,025.5	1,009.8
Trade & other receivables	160.7	190.7	80.3	75.9	70.7
Cash balance	265.0	253.1	343.6	397.3	407.2
Others	13.4	50.5	60.8	59.0	59.8
Total current assets	439.1	494.3	484.7	532.2	537.7
Total Assets	1,545.3	1,531.8	1,528.2	1,557.7	1,547.5
LIABILITIES					
Short-term debt	96.3	9.7	16.0	11.0	6.0
Trade and other payables	253.6	208.8	210.7	230.6	238.3
Others	66.7	144.6	152.7	152.7	152.7
Total current liabilities	416.6	363.0	379.4	394.3	397.0
Long-term debt	77.9	63.4	54.6	54.6	54.6
Others	74.1	77.7	50.3	50.3	50.3
Total non-current liabilities	152.1	141.1	105.0	105.0	105.0
Total Liabilities	568.7	504.0	484.4	499.3	502.0
EQUITY					
Minority interest	15.8	15.4	16.1	16.5	16.8
Shareholder Equity	960.8	1,012.4	1,027.7	1,041.9	1,028.8
Total Equity	976.6	1,027.8	1,043.9	1,058.4	1,045.5

Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (X), adj.	19.8	11.0	21.3	30.2	34.2
P/B (X)	1.9	1.7	1.7	1.7	1.7
EV/EBITDA (X)	10.5	6.8	9.9	13.3	14.2
Dividend Yield	2.9%	4.0%	2.5%	3.7%	4.2%

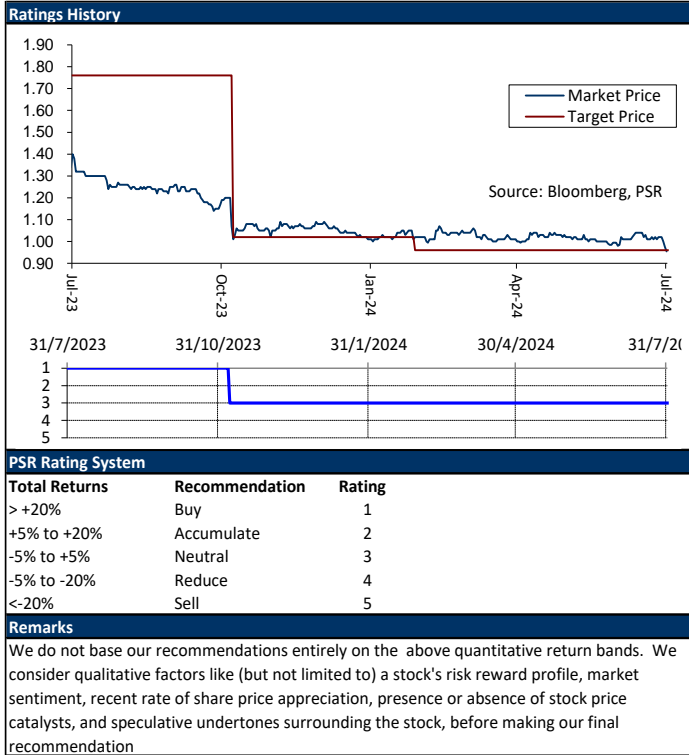
Growth & Margins

	FY21	FY22	FY23	FY24e	FY25e
Growth					
Revenue	27.4%	13.7%	-14.1%	-2.0%	6.5%
EBITDA	29.6%	46.0%	-34.9%	-28.7%	-7.2%
EBIT	37.2%	60.2%	-41.1%	-39.2%	-10.0%
Net Income, adj.	35.7%	80.6%	-48.5%	-29.3%	-11.8%
Margins					
EBITDA margin	22.2%	28.5%	21.6%	15.7%	13.7%
EBIT margin	16.8%	23.6%	16.2%	10.0%	8.5%
Net Profit Margin	12.4%	19.6%	11.8%	8.5%	7.0%

Key Ratios

	FY21	FY22	FY23	FY24e	FY25e
ROE	9.6%	16.4%	8.2%	5.7%	5.0%
ROA	6.1%	10.5%	5.4%	3.8%	3.3%
Interest coverage (X)	3.1	4.8	3.0	1.8	1.6
Net gearing (X)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company, Phillip Securities Research (Singapore) Estimates Note #SFRS 17 Insurance Contract accounting adopted from FY22 onwards.



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