

Singapore Company Update

Raffles Medical

Bloomberg: RFMD SP | Reuters: RAFG.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

12 Oct 2021

BUY

Last Traded Price (12 Oct 2021): S\$1.50 (STI : 3,112.05)
Price Target 12-mth: S\$1.81 (21% upside) (Prev S\$1.48)

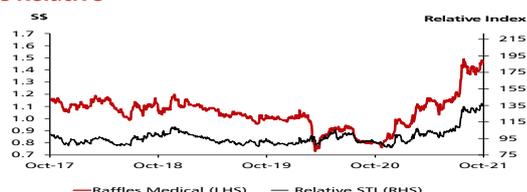
Analyst

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What's New

- Biggest beneficiary of increased demand for PCR tests with pent-up demand for travel
- Recovery of elective procedures and return of medical tourism in "new normal"
- FY22F – FY23F earnings could hit record high despite gestation losses
- Maintain BUY; raised TP to S\$1.81

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2020A	2021F	2022F	2023F
Revenue	568	731	806	919
EBITDA	124	145	151	159
Pre-tax Profit	84.4	99.7	106	114
Net Profit	65.9	79.5	85.4	91.4
Net Pft (Pre Ex.)	65.9	79.5	85.4	91.4
Net Pft Gth (Pre-ex) (%)	9.3	20.6	7.4	7.1
EPS (S cts)	3.60	4.35	4.67	5.00
EPS Pre Ex. (S cts)	3.60	4.35	4.67	5.00
EPS Gth Pre Ex (%)	9	21	7	7
Diluted EPS (S cts)	3.59	4.33	4.65	4.98
Net DPS (S cts)	2.50	2.50	2.00	2.20
BV Per Share (S cts)	49.2	51.0	53.2	56.2
PE (X)	41.6	34.5	32.1	30.0
PE Pre Ex. (X)	41.6	34.5	32.1	30.0
P/Cash Flow (X)	20.6	17.8	20.7	18.7
EV/EBITDA (X)	22.0	18.2	17.0	15.6
Net Div Yield (%)	1.7	1.7	1.3	1.5
P/Book Value (X)	3.0	2.9	2.8	2.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	7.6	8.7	9.0	9.1
Earnings Rev (%):		4	7	12
Consensus EPS (S cts):		4.1	4.1	4.6
Other Broker Recs:		B: 6	S: 0	H: 4

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Testing record-high earnings level

Investment Thesis

Biggest beneficiary of increased demand for PCR tests with pent-up demand for travel. Raffles Medical, as the largest COVID-19 service provider and key PCR test provider at Changi Airport, is the biggest beneficiary of pent-up demand for travel with progressive relaxation of borders.

Recovery of elective procedures and the return of medical tourism in "new normal". Raffles Medical stands to benefit from the recovery of elective procedures and the return of medical tourism into Singapore in "new normal", to offset some tapering of COVID-19 related services.

FY22F-FY23F earnings could hit record high despite gestation losses. We estimate that the company could achieve record-high FY22F-FY23 earnings despite China hospitals' gestation losses, offset by strong COVID-19-related services and recovery of elective procedures and foreign patients.

Valuation:

We have raised our TP to S\$1.81 from S\$1.48 previously, based on sum of parts. We applied the historical mean PE (from 2012) of 34.5x to FY22F earnings, plus S\$0.20 per share for its China hospitals.

Where we differ:

Highest estimates vs consensus. Our FY21F-FY23F earnings estimates are one of the highest vs consensus, as we expect contribution from COVID-19-related services to surprise on the upside.

Key Risks to Our View:

New variants of COVID-19 pandemic slowing down recovery. New waves of the COVID-19 pandemic could slow the recovery of private healthcare demand.

Higher- and longer-than-expected gestation losses from China hospitals may drag earnings growth.

At A Glance

Issued Capital (m shrs)	1,868
Mkt. Cap (S\$m/US\$m)	2,802 / 2,068
Major Shareholders (%)	
Raffles Medical Holdings Pte Ltd	38.5
Loo Choon Yong	13.8
Global Alpha Capital Management Ltd	7.0
Free Float (%)	40.7
3m Avg. Daily Val (US\$m)	3.0
GIC Industry : Health Care / Health Care Equipment & Services	



WHAT'S NEW

Testing record-high earnings level

Pent-up demand for travel drives demand for PCR tests; bodes well for Raffles Medical. Singapore presses ahead to live in “new normal” by taking concerted steps to open more travel lanes. The recent announcement on the expansion of the Vaccinated Travel Lane (“VTL”) scheme from two countries to 11 was welcomed by many Singapore residents. Pent-up demand for travel is real as many rushed to lock in their travel plans after the announcement was made.

Despite doing away with quarantine requirements, travellers will still need to abide with PCR tests pre-departure and upon arrival. As such, we expect demand for PCR test to remain on an upward trend as travel demand remains strong.

Aside from VTL, Singapore has also reduced the number of quarantine days required for inbound arrivals from 14 days or more previously to 7-10 days now, depending on the country's classification. Most inbound travellers from under non-VTL scheme would require at least two PCR tests, aside from inbound travellers from Category 1 countries that require only one PCR test without quarantine (please refer to the table below for details).

Raffles Medical is the first medical provider partner of the Civil Aviation Authority of Singapore (CAAS) to conduct PCR tests for post-arrival travellers under the VTL. As the key medical service provider to conduct PCR at Changi Airport, we expect PCR tests to rise in tandem with visitor arrivals at Changi Airport. Despite the current cap of 3k daily arrivals, we expect reopening to continue with the expansion of VTL to more countries and daily arrival cap will naturally rise concurrently.

As such, we expect demand for PCR tests to continue driving Raffles Medical's earnings growth trajectory, especially in FY22F-FY23F, when we expect more relaxation of travel restrictions to come and more will be willing to put on their travel gear as fears of the pandemic subside.

Local PCR / ART testing requirements expected to continue with extended resurgence of COVID-19 cases.

Given the recent extended resurgence of COVID-19 cases mainly due to the Delta variant, we see continued demand

for PCR / ART testing within the community until the situation normalises, expectedly in 3-6 months, according to PM Lee Hsien Loong. Despite the new protocol requiring less PCR testing, we expect that PCR testing which is reserved for more serious and urgent cases will still be utilised as long as the daily number of COVID-19 cases is still high.

Recovery in elective procedures and the return of medical tourism in “new normal” to offset tapering of COVID-19 related services.

In the medium-term when the situation stabilises, we expect the recovery in elective medical procedures and the return of medical tourism will pick up in the “new normal” that will likely offset the potential tapering of COVID-19 related services.

As Singapore has taken its first few steps to relax its travel borders, we project the trend to continue as the COVID-19 pandemic stabilises in the neighbouring countries. As such, we believe medical tourism could return to Singapore. Similar to travel, there could be pent-up demand for medical tourism in the short term that has been restricted for close to two years now. Raffles Medical stands to be a beneficiary of medical tourism. Foreign patient load had comprised approximately 30% of Raffles Medical's patient load pre-pandemic.

Vaccination centres required for booster dose. Although Raffles Medical has closed two vaccination centres given that Singapore has achieved more than 80% vaccination rate, most of the vaccination centres are still required for the administration of booster doses this year and potentially in the next couple of years if future booster doses are required. We note that Raffles Medical has added two clinics offering vaccination services.

Maintain BUY; raised TP to S\$1.81. Strong contribution from COVID-19-related services could drive FY22F-FY23F earnings to record high. We are maintaining our BUY rating but with a higher TP of S\$1.81. Our new TP is based on a bigger PE multiple of 34.5x, (+1 SD of historical range since 2012) from 30x previously, pegged to FY22F earnings (rolled forward).

We revised our FY21F-FY22F earnings by 4-7% on the back of strong contribution from COVID-19-related services

with the extended resurgence of cases in Singapore in FY21F, and the progressive relaxation of travel borders which will drive demand for PCR tests and the return of medical tourism. As we expect contribution from COVID-19-related services to remain strong in FY22F-FY23F, Raffles Medical could achieve record-high earnings despite gestation losses from its China hospital.

The higher- and / or longer-than-expected gestation losses from China hospitals may drag earnings growth and derail our thesis. Potential new variants of COVID-19 pandemic preventing the return to “new normal” could also slowdown the recovery of private healthcare demand.

Company Background

Raffles Medical is an integrated private healthcare service provider that focuses on Singapore. It owns and operates a network of family medical clinics, a tertiary care hospital, insurance services, and a consumer healthcare division. It was founded in 1976 with two clinics in Singapore, and now serves more than one million patients and over 6,500 corporate clients.

Key Travel Health Control Measures

Travel Health Control Categories	Key Visitor Source Markets	Travel Health Control Measures	No. of PCR tests required in Singapore
Category 1	Hong Kong, Macao Mainland China, Taiwan	<ul style="list-style-type: none"> Take a COVID-19 PCR test upon arrival. Remain in self-isolation until a negative COVID-19 PCR test result is conveyed (within 24 hours). 	1 PCR test
Category 2	40 countries including Australia, Austria, Brunei, Canada, Denmark, Finland, France, Germany, Italy, Japan, Netherlands, NZ, , Republic of Korea, Saudi Arabia, Spain, Sweden, Turkey, UK and US.	<ul style="list-style-type: none"> Take a COVID-19 PCR test 48 hours before departure and upon arrival. Serve a 7-day SHN at a residence, self-sourced hotel or serviced residence. Take a COVID-19 PCR test on Day 7 of SHN. 	2 PCR tests
Categories 3 and 4	<p>Category 3: Estonia, Latvia, Lithuania, Maldives and Slovenia.</p> <p>Category 4: Other countries not in the three categories above.</p>	<ul style="list-style-type: none"> Take a COVID-19 PCR test 48 hours before departure and upon arrival. Serve a 10-day SHN at SHN Dedicated Facility or with approval, at an accommodation of choice (Category 3). Self-administer an Antigen Rapid Test (“ART”) on Days 3 and 7 of their arrival in Singapore. Take a COVID-19 PCR test on Day 10 of SHN. 	2 PCR tests
Vaccinated travel lane (“VTL”)	Brunei, Germany and nine more countries namely Canada, Denmark, France, Italy, Netherlands, Spain, UK, US and Republic of Korea.	<ul style="list-style-type: none"> Take a COVID-19 PCR test upon within 48 hours of departure and arrival. Remain in self-isolation until a negative COVID-19 PCR test result is conveyed (within 24 hours). 	1 PCR test

As at 12 Oct 2021

Source: ICA, DBS Bank

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

Raffles Medical

Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Avg Utilisation (%)	48.0	45.0	43.5	43.5	43.5
Avg rate increase (%)	7.23	(1.8)	(4.5)	1.50	1.00
Avg clinic fee growth (%)	8.88	8.88	0.0	5.00	5.00
Staff costs/ Rev (%)	51.1	51.3	49.3	49.3	51.4
Consumables, svcs/ Rev	21.3	18.6	20.7	22.2	22.5

Segmental Breakdown

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenues (\$m)					
Healthcare services	239	281	368	363	339
Hospital services	306	313	382	455	586
Investment holdings	33.7	32.7	39.1	46.2	54.3
Less: Eliminations	(56.8)	(58.6)	(58.0)	(59.1)	(60.3)
Total	522	568	731	806	919
Operating profit (\$m)					
Healthcare services	13.8	31.5	60.3	50.4	36.5
Hospital services	48.4	49.7	32.1	45.6	65.4
Investment holdings	22.0	11.5	11.7	13.9	16.3
Less: Eliminations	(8.1)	(4.2)	0.0	0.0	0.0
Total	76.2	88.4	104	110	118
Operating profit					
Healthcare services	5.8	11.2	16.4	13.9	10.8
Hospital services	15.8	15.9	8.4	10.0	11.2
Investment holdings	65.3	35.1	30.0	30.0	30.0
Less: Eliminations	14.2	7.2	0.0	0.0	0.0
Total	14.6	15.6	14.2	13.6	12.9

Income Statement (\$m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	522	568	731	806	919
Other Opng (Exp)/Inc	(446)	(480)	(627)	(696)	(801)
Operating Profit	76.2	88.4	104	110	118
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.2)	(4.0)	(4.4)	(4.3)	(3.9)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	75.9	84.4	99.7	106	114
Tax	(15.4)	(19.8)	(23.9)	(24.3)	(26.3)
Minority Interest	(0.3)	1.22	3.74	4.07	3.38
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	60.3	65.9	79.5	85.4	91.4
Net Profit before Except.	60.3	65.9	79.5	85.4	91.4
EBITDA	105	124	145	151	159
Growth					
Revenue Gth (%)	6.7	8.8	28.7	10.2	14.1
EBITDA Gth (%)	2.8	17.6	17.0	4.0	5.6
Opg Profit Gth (%)	(9.6)	16.1	17.7	5.6	7.6
Net Profit Gth (Pre-ex) (%)	(15.2)	9.3	20.6	7.4	7.1
Margins & Ratio					
Opg Profit Margin (%)	14.6	15.6	14.2	13.6	12.9
Net Profit Margin (%)	11.5	11.6	10.9	10.6	9.9
ROAE (%)	7.3	7.6	8.7	9.0	9.1
ROA (%)	5.0	4.9	5.6	5.8	5.9
ROCE (%)	6.0	6.1	6.8	7.1	7.3
Div Payout Ratio (%)	75.8	69.4	57.5	42.8	44.0
Net Interest Cover (x)	312.2	22.1	23.5	25.8	30.5

Source: Company, DBS Bank

Interim Income Statement (\$\$m)

FY Dec	1H2019	2H2019	1H2020	2H2020	1H2021
Revenue	255	267	241	327	344
Other Oper. (Exp)/Inc	(220)	(225)	(217)	(263)	(288)
Operating Profit	34.8	41.4	24.3	64.2	56.1
Other Non Op \bar{g} (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & IV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.1)	(0.1)	(1.8)	(2.2)	(2.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	34.7	41.3	22.5	62.0	53.6
Tax	(6.7)	(8.7)	(6.2)	(13.6)	(14.8)
Minority Interest	0.0	(0.2)	0.95	0.27	0.61
Net Profit	27.9	32.4	17.2	48.7	39.5
Net profit bef Except.	27.9	32.4	17.2	48.7	39.5
EBITDA	48.7	56.8	41.9	82.1	74.5

Growth

Revenue Gth (%)	nm	4.5	(9.5)	35.4	5.2
EBITDA Gth (%)	nm	16.7	(26.3)	96.0	(9.2)
Op \bar{g} Profit Gth (%)	nm	18.9	(41.3)	164.2	(12.6)
Net Profit Gth (%)	nm	16.0	(46.7)	182.1	(18.9)

Margins

Op \bar{g} Profit Margins (%)	13.6	15.5	10.1	19.6	16.3
Net Profit Margins (%)	10.9	12.1	7.1	14.9	11.5

Balance Sheet (\$\$m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	686	740	719	698	677
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	353	333	336	339	343
Cash & ST Invts	152	203	288	352	439
Inventory	10.3	14.6	13.9	15.4	17.5
Debtors	83.9	113	91.4	101	115
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	1,285	1,404	1,449	1,505	1,591
ST Debt	8.54	27.2	27.2	27.2	27.2
Creditor	163	191	205	225	257
Other Current Liab	47.9	61.3	62.6	63.0	65.0
LT Debt	157	144	144	144	144
Other LT Liabilities	52.5	66.0	66.0	66.0	66.0
Shareholder's Equity	841	899	933	972	1,027
Minority Interests	16.0	15.4	11.7	7.60	4.21
Total Cap. & Liab.	1,285	1,404	1,449	1,505	1,591
Non-Cash Wkg. Capital	(116)	(125)	(162)	(172)	(190)
Net Cash/(Debt)	(13.3)	32.1	117	181	267
Debtors Turn (avg days)	58.4	63.4	51.1	43.5	42.8
Creditors Turn (avg days)	(1,866.9)	(1,819.7)	(1,766.3)	(1,916.1)	(2,148.3)
Inventory Turn (avg days)	(122.0)	(127.7)	(127.3)	(130.6)	(146.4)
Asset Turnover (x)	0.4	0.4	0.5	0.5	0.6
Current Ratio (x)	1.1	1.2	1.3	1.5	1.6
Quick Ratio (x)	1.1	1.1	1.3	1.4	1.6
Net Debt/Equity (X)	0.0	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.0	CASH	CASH	CASH	CASH
Capex to Debt (%)	59.6	36.4	8.8	8.8	8.8
Z-Score (X)	3.3	3.1	3.1	3.1	3.1

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	60.5	64.7	99.7	106	114
Dep. & Amort.	29.3	35.5	40.9	40.9	41.0
Tax Paid	(12.5)	(9.7)	(22.6)	(23.9)	(24.3)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	18.8	7.70	35.8	10.1	15.4
Other Operating CF	15.1	35.0	0.0	0.0	0.0
Net Operating CF	111	133	154	133	146
Capital Exp.(net)	(98.4)	(62.3)	(15.0)	(15.0)	(15.0)
Other Invt.(net)	(0.1)	(1.2)	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	1.61	1.27	(8.2)	(8.2)	(8.2)
Net Investing CF	(96.9)	(62.2)	(23.2)	(23.2)	(23.2)
Div Paid	(18.0)	(19.2)	(45.7)	(45.7)	(36.6)
Chg in Gross Debt	49.6	(9.0)	0.0	0.0	0.0
Capital Issues	0.98	0.78	0.0	0.0	0.0
Other Financing CF	(1.1)	6.52	0.0	0.0	0.0
Net Financing CF	31.6	(20.9)	(45.7)	(45.7)	(36.6)
Currency Adjustments	0.02	1.21	0.0	0.0	0.0
Chg in Cash	45.8	51.3	84.9	63.9	86.7
Opg CFPS (S cts)	5.05	6.86	6.45	6.71	7.17
Free CFPS (S cts)	0.70	3.88	7.59	6.44	7.19

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	07 Jun 21	1.14	1.40	BUY
2:	27 Jul 21	1.32	1.48	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Rachel TAN

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

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FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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