

# 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

22 Feb 2022

### BUY

Last Traded Price (21 Feb 2022): S\$1.30 (STI : 3,436.36)  
Price Target 12-mth: S\$1.63 (25% upside) (Prev S\$1.81)

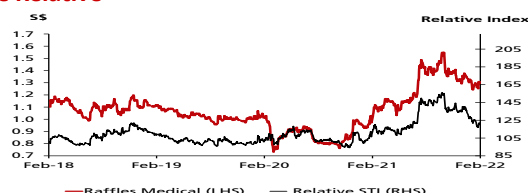
#### Analyst

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#### What's New

- FY21 saw one of Raffles' best-ever results, with contributions from COVID-19-related services
- Key positives: i) Continued to adapt to support COVID-19 initiatives, ii) both healthcare and hospital revenue are above pre-COVID levels (2019), iii) FY21 dividend is higher than the previous commitment
- Key negatives: i) Hospital volume is c.10% below pre-COVID levels, ii) China gestation losses prolonged
- Maintain BUY; lowered TP to S\$1.63

#### Price Relative



#### Forecasts and Valuation

FY Dec (S\$m)	2020A	2021A	2022F	2023F
Revenue	568	724	776	880
EBITDA	124	162	146	152
Pre-tax Profit	84.4	116	100	107
Net Profit	65.9	84.2	81.9	85.4
Net Pft (Pre Ex.)	65.9	84.2	81.9	85.4
Net Pft Gth (Pre-ex) (%)	9.3	27.7	(2.7)	4.3
EPS (S cts)	3.60	4.60	4.48	4.67
EPS Pre Ex. (S cts)	3.60	4.60	4.48	4.67
EPS Gth Pre Ex (%)	9	28	(3)	4
Diluted EPS (S cts)	3.59	4.59	4.46	4.65
Net DPS (S cts)	2.50	2.80	2.50	2.50
BV Per Share (S cts)	49.2	52.6	54.2	56.4
PE (X)	36.1	28.2	29.0	27.8
PE Pre Ex. (X)	36.1	28.2	29.0	27.8
P/Cash Flow (X)	17.8	14.8	17.2	17.1
EV/EBITDA (X)	19.0	14.2	15.3	14.2
Net Div Yield (%)	1.9	2.2	1.9	1.9
P/Book Value (X)	2.6	2.5	2.4	2.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	7.6	9.1	8.4	8.4
Earnings Rev (%):			(4)	(7)
Consensus EPS (S cts):			4.0	4.4
Other Broker Recs:		B: 5	S: 1	H: 4

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

### Restoring normalcy

#### Investment Thesis

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 in Singapore in the "new normal", to offset some tapering of COVID-19-related services.

Raffles Medical adapts and changes to support the government's COVID-19 initiatives. Raffles Medical, as the largest COVID-19 service provider, will continue to support the government's COVID-19 initiatives in the community or at Changi Airport.

FY22F-FY23F earnings may stay elevated despite gestation losses. Given the company's record high FY21 results, we expect earnings to stay elevated, despite China hospitals' gestation losses, with some pent-up demand coming in from postponed elective procedures and foreign patients.

#### Valuation:

We lower our TP to S\$1.63 from S\$1.81 previously, based on a sum-of-the-parts model. We applied the historical +0.5SD PE (from 2012) of 32x to FY22F earnings, plus S\$0.20 per share for its hospitals in China.

#### Where we differ:

Higher forward estimates vs. consensus. Our FY21F-FY23F earnings estimates are one of the highest vs. the consensus, as we expect earnings should stay elevated, given the recovery of elective procedures and the return of medical tourism, while we await positive contribution from Raffles Hospital Chongqing.

#### Key Risks to Our View:

New variants of COVID-19 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 hospitals in China may drag earnings growth.

#### At A Glance

Issued Capital (m shrs)	1,870
Mkt. Cap (S\$m/US\$m)	2,430 / 1,806
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)	1.9
GIC Industry : Health Care / Health Care Equipment & Services	



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## Raffles Medical

### WHAT'S NEW

#### Restoring normalcy

Raffles recorded one of its best results in FY21, with strong contributions from COVID-19-related services and recovery getting closer to or above that of pre-COVID levels.

- Raffles Medical's FY21 PAT grew 30% y-o-y to S\$84m, above our estimates, recording one of its best results. The strong results were led by contributions from COVID-19-related services, partially offset by lower government grants such as the Job Support Scheme (JSS) and property tax rebate.
- 2H21 PAT fell 8% y-o-y to S\$45m (+14% h-o-h), mainly due to lower government grants such as the JSS.
- 2H21 revenue grew 16% y-o-y to S\$380m led by growth in healthcare services (+61.3% y-o-y), but hospitals services fell 6% y-o-y.
- More importantly, we note that healthcare services is double that of pre-COVID (2H19 revenue), while hospital services is c.10% above pre-COVID levels.
- Similar trends observed: 2H21 EBITDA +5% y-o-y to S\$86m, 52% above pre-COVID levels (2H19 EBITDA).
- 2H21 EBITDA margin is at 23%, slightly higher compared to 1H21 and 2H19, possibly due to higher margins from COVID-19-related services.
- 2H21 revenue from Singapore and Greater China grew 16% y-o-y and 33% y-o-y, respectively, while revenue from the rest of Asia fell 10% y-o-y.
- Raffles Medical declared a 2.8 Scts final dividend per share (1.8 Scts core + 1.0 Scts special) above its previous commitment of at least 2.5 Scts dividend per share.

**Key business updates: Continued support on COVID-19 initiatives in both Singapore and China; management is cautiously optimistic about the return of foreign patients; Raffles Hospital Shanghai opened in July21.**

- In Singapore, Raffles Medical continues to support the government's COVID-19 initiatives. The continued support includes it having i) pivoted to providing booster shots and paediatric vaccinations, ii) extensive community PCR testing during the Delta wave, iii) air border screening and pre-departure testing for travellers, iv) operating community treatment facilities for COVID-19 patients, and v) stepping up to take in additional patients needing emergency care to support public hospitals under the Emergency Care Collaboration when the need arises.

- Given some relaxation of travel border restrictions, Raffles is cautiously optimistic that foreign patients will be able to resume seeking treatment in Singapore.
- In China, Raffles continues to participate in the government's COVID-19 vaccination and community testing efforts, given the continued sporadic COVID-19 clusters.
- Raffles Hospital Shanghai opened in July2021.

#### Key highlights post briefing:

- Raffles Medical continues to adapt to the changing nature of the pandemic. In spite of progressively moving towards "living" with COVID-19, Raffles Medical would continue to support the government should new waves or new needs arise.
- Despite testing protocols having been reduced to more ART vs. PCR, Raffles Medical continues to be one of the healthcare service providers to conduct supervised ART. It has 16 clinics that are registered with the MOH to conduct supervised ART and continue to manage community treatment facilities as well as air border screening.
- Singapore's hospital volumes are still c.10% below pre-COVID levels, as foreign patients are yet to fully return. Although, some serious cases have received special approval for treatment in Singapore. Management looks forward to the return of foreign patients as travel border restrictions progressively ease.
- Raffles Hospital Chongqing's EBITDA losses is still within the guidance of S\$6m to S\$8m. Management expects the hospital could achieve breakeven by end-FY22 or early FY23 – the timeline was partially delayed by the pandemic.
- Raffles Hospital Shanghai opened with 100-200 operation beds. Management expects FY22 to be its first full year of its guided gestation period, despite opening in Jul 21.
- Management may consider some price adjustments in line with inflationary pressure.

**Maintain BUY; lower TP to S\$1.63.** We maintain our BUY rating but lower our TP to S\$1.63. We lower our FY22F-FY23F earnings by 4% to 7% to factor in a slight delay in the opening of Raffles Hospital Shanghai and slightly lower

## Raffles Medical

COVID-19-related services contribution, given the recent change in COVID-19 protocols. Given the slower two-year CAGR earnings growth, we lower our PE multiple to 32x.

We remain positive about Raffles Medical and believe that it is poised to benefit from the recovery of elective procedures and the return of medical tourism as restrictions on travel borders progressively ease, which we believe will offset some tapering of COVID-19-related services. As such, we expect earnings will stay elevated at these levels.

While the pandemic has delayed Raffles Hospital Chongqing's breakeven, we expect stronger earnings growth could return when Raffles Hospital Chongqing starts to contribute positively (on EBITDA), which would offset some gestation losses from Raffles Hospital Shanghai.

As Raffles Medical has been one of the key private healthcare providers to support the government in its COVID-19 initiatives, we do not expect all is lost, given the change in testing protocols. We believe Raffles Medical will adapt to the changing needs of the pandemic.

### 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 summary of results

S\$m	2H2021	2H2020	% y-o-y	1H2021	% h-o-h	FY2021	FY2020	% y-o-y
Revenue	380.0	326.8	16.3%	343.8	10.5%	723.8	568.2	27.4%
EBITDA	86.1	82.1	4.9%	74.5	15.6%	160.6	123.9	29.6%
PAT	44.8	48.6	-8.0%	39.4	13.5%	83.7	64.7	29.5%
PATAMI	44.7	48.6	-8.1%	39.4	13.4%	84.2	65.9	n/a

Source: Company, DBS Bank

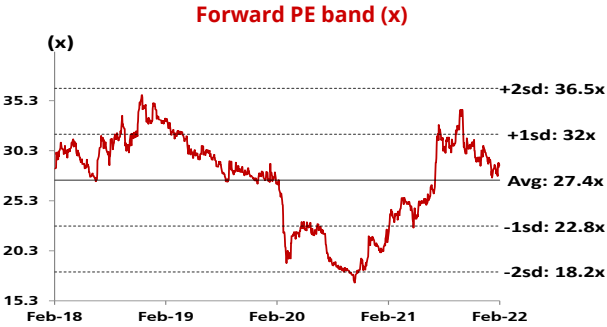
### Interim Income Statement (S\$m)

FY Dec	2H2020	1H2021	2H2021	% chg y-o-y	% chg h-o-h
Revenue	327	344	380	16.3	10.5
Other Oper. (Exp)/Inc	(263)	(288)	(315)	19.8	9.4
<b>Operating Profit</b>	<b>64</b>	<b>56</b>	<b>65</b>	<b>1.7</b>	<b>16.4</b>
Other Non Opg (Exp)/Inc	-	-	-	nm	nm
Associates & JV Inc	-	-	-	nm	nm
Net Interest (Exp)/Inc	(2)	(2)	(3)	(48.9)	(31.5)
Exceptional Gain/(Loss)	-	-	-	nm	nm
<b>Pre-tax Profit</b>	<b>62</b>	<b>54</b>	<b>62</b>	<b>0.0</b>	<b>15.7</b>
Tax	(14)	(15)	(17)	25.9	16.0
Minority Interest	-	1	-	-	(124.8)
<b>Net Profit</b>	<b>49</b>	<b>39</b>	<b>45</b>	<b>(8.1)</b>	<b>13.4</b>
Net profit bef Except.	49	39	45	(8.1)	13.4
EBITDA	82	75	86	4.9	15.5
<b>Margins (%)</b>					
Opg Profit Margins	19.6	16.3	17.2		
Net Profit Margins	14.9	11.5	11.8		

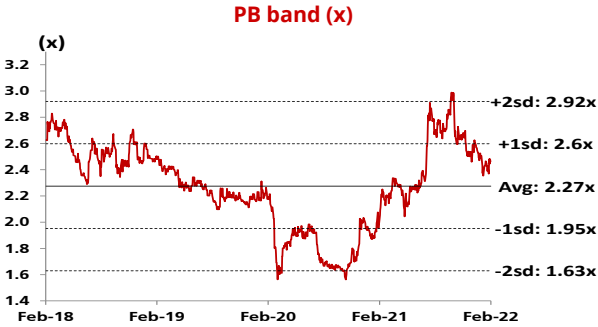
Source of all data: Company, DBS Bank

Raffles Medical

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	2021A	2022F	2023F
Avg Utilisation (%)	48.0	45.0	45.0	43.5	43.5
Avg rate increase (%)	7.23	9.03	(9.2)	2.00	1.00
Avg clinic fee growth (%)	8.88	8.88	8.88	0.0	3.00
Staff costs/ Rev (%)	51.1	51.3	53.5	49.7	52.0
Consumables, svcs/ Rev	21.3	23.9	19.8	22.2	22.5

### Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
<b>Revenues (\$m)</b>					
Healthcare services	239	281	459	314	279
Hospital services	306	313	346	474	605
Investment holdings	33.7	32.7	39.7	46.8	54.9
Less: Eliminations	(56.8)	(58.6)	(121)	(58.6)	(59.8)
<b>Total</b>	<b>522</b>	<b>568</b>	<b>724</b>	<b>776</b>	<b>880</b>
<b>Operating profit (\$m)</b>					
Healthcare services	13.8	31.5	78.5	36.1	22.4
Hospital services	48.4	49.7	24.0	54.4	71.9
Investment holdings	22.0	11.5	23.5	14.1	16.5
Less: Eliminations	(8.1)	(4.2)	(4.7)	0.0	0.0
<b>Total</b>	<b>76.2</b>	<b>88.4</b>	<b>121</b>	<b>105</b>	<b>111</b>
<b>Operating profit</b>					
Healthcare services	5.8	11.2	17.1	11.5	8.0
Hospital services	15.8	15.9	6.9	11.5	11.9
Investment holdings	65.3	35.1	59.3	30.0	30.0
Less: Eliminations	14.2	7.2	3.9	0.0	0.0
<b>Total</b>	<b>14.6</b>	<b>15.6</b>	<b>16.8</b>	<b>13.5</b>	<b>12.6</b>

### Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	522	568	724	776	880
Other Opng (Exp)/Inc	(446)	(480)	(602)	(672)	(769)
<b>Operating Profit</b>	<b>76.2</b>	<b>88.4</b>	<b>121</b>	<b>105</b>	<b>111</b>
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)	(5.7)	(4.5)	(4.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>75.9</b>	<b>84.4</b>	<b>116</b>	<b>100</b>	<b>107</b>
Tax	(15.4)	(19.8)	(31.9)	(23.0)	(24.5)
Minority Interest	(0.3)	1.22	0.46	4.79	3.38
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>60.3</b>	<b>65.9</b>	<b>84.2</b>	<b>81.9</b>	<b>85.4</b>
Net Profit before Except.	60.3	65.9	84.2	81.9	85.4
EBITDA	105	124	162	146	152
<b>Growth</b>					
Revenue Gth (%)	6.7	8.8	27.4	7.2	13.4
EBITDA Gth (%)	2.8	17.6	30.9	(10.3)	4.2
Opg Profit Gth (%)	(9.6)	16.1	37.2	(13.8)	5.8
Net Profit Gth (Pre-ex) (%)	(15.2)	9.3	27.7	(2.7)	4.3
<b>Margins &amp; Ratio</b>					
Opg Profit Margin (%)	14.6	15.6	16.8	13.5	12.6
Net Profit Margin (%)	11.5	11.6	11.6	10.5	9.7
ROAE (%)	7.3	7.6	9.1	8.4	8.4
ROA (%)	5.0	4.9	5.7	5.3	5.5
ROCE (%)	6.0	6.1	7.4	6.5	6.7
Div Payout Ratio (%)	75.8	69.4	60.8	55.8	53.5
Net Interest Cover (x)	312.2	22.1	21.2	23.2	26.8

Source: Company, DBS Bank

## Raffles Medical

### Interim Income Statement (\$\$m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	267	241	327	344	380
Other Oper. (Exp)/Inc	(225)	(217)	(263)	(288)	(315)
<b>Operating Profit</b>	<b>41.4</b>	<b>24.3</b>	<b>64.2</b>	<b>56.1</b>	<b>65.2</b>
Other Non Opq (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	(0.1)	(1.8)	(2.2)	(2.5)	(3.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>41.3</b>	<b>22.5</b>	<b>62.0</b>	<b>53.6</b>	<b>62.0</b>
Tax	(8.7)	(6.2)	(13.6)	(14.8)	(17.1)
Minority Interest	(0.2)	0.95	0.27	0.61	(0.2)
<b>Net Profit</b>	<b>32.4</b>	<b>17.2</b>	<b>48.7</b>	<b>39.5</b>	<b>44.7</b>
Net profit bef Except.	32.4	17.2	48.7	39.5	44.7
EBITDA	56.8	41.9	82.1	74.5	86.1

### Growth

Revenue Gth (%)	4.5	(9.5)	35.4	5.2	10.5
EBITDA Gth (%)	16.7	(26.3)	96.0	(9.2)	15.5
Opq Profit Gth (%)	18.9	(41.3)	164.2	(12.6)	16.4
Net Profit Gth (%)	16.0	(46.7)	182.1	(18.9)	13.4

### Margins

Opq Profit Margins (%)	15.5	10.1	19.6	16.3	17.2
Net Profit Margins (%)	12.1	7.1	14.9	11.5	11.8

### Balance Sheet (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	686	740	797	776	755
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	353	333	309	312	315
Cash & ST Invt	152	203	265	328	398
Inventory	10.3	14.6	13.4	14.8	16.8
Debtors	83.9	113	161	97.0	110
Other Current Assets	0.0	0.0	0.0	0.0	0.0
<b>Total Assets</b>	<b>1,285</b>	<b>1,404</b>	<b>1,545</b>	<b>1,529</b>	<b>1,595</b>
ST Debt	8.54	27.2	96.3	96.3	96.3
Creditor	163	191	254	217	246
Other Current Liab	47.9	61.3	66.8	60.7	62.2
LT Debt	157	144	77.9	77.9	77.9
Other LT Liabilities	52.5	66.0	74.1	74.1	74.1
Shareholder's Equity	841	899	961	991	1,031
Minority Interests	16.0	15.4	15.8	11.0	7.66
<b>Total Cap. &amp; Liab.</b>	<b>1,285</b>	<b>1,404</b>	<b>1,545</b>	<b>1,529</b>	<b>1,595</b>
Non-Cash Wkg. Capital	(116)	(125)	(146)	(166)	(181)
Net Cash/(Debt)	(13.3)	32.1	90.8	154	224
Debtors Turn (avg days)	58.4	63.4	69.1	60.6	42.9
Creditors Turn (avg days)	(1,866.9)	(1,819.7)	(1,985.2)	(2,098.0)	(2,062.8)
Inventory Turn (avg days)	(122.0)	(127.7)	(124.8)	(125.5)	(140.5)
Asset Turnover (x)	0.4	0.4	0.5	0.5	0.6
Current Ratio (x)	1.1	1.2	1.1	1.2	1.3
Quick Ratio (x)	1.1	1.1	1.0	1.1	1.3
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	28.7	8.6	8.6
Z-Score (X)	3.3	3.1	3.1	3.1	3.1

Source: Company, DBS Bank

## Raffles Medical

### Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	60.5	64.7	83.7	100	107
Dep. & Amort.	29.3	35.5	39.3	40.9	41.0
Tax Paid	(12.5)	(9.7)	(21.7)	(29.1)	(23.0)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg. Cap.	18.8	7.70	14.2	25.8	14.1
Other Operating CF	15.1	35.0	44.6	0.0	0.0
<b>Net Operating CF</b>	<b>111</b>	<b>133</b>	<b>160</b>	<b>138</b>	<b>139</b>
Capital Exp. (net)	(98.4)	(62.3)	(50.0)	(15.0)	(15.0)
Other Invt. (net)	(0.1)	(1.2)	(2.9)	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	0.63	(8.2)	(8.2)
<b>Net Investing CF</b>	<b>(96.9)</b>	<b>(62.2)</b>	<b>(52.2)</b>	<b>(23.2)</b>	<b>(23.2)</b>
Div Paid	(18.0)	(19.2)	(37.4)	(51.2)	(45.7)
Chg in Gross Debt	49.6	(9.0)	(0.5)	0.0	0.0
Capital Issues	0.98	0.78	5.60	0.0	0.0
Other Financing CF	(1.1)	6.52	(14.6)	0.0	0.0
<b>Net Financing CF</b>	<b>31.6</b>	<b>(20.9)</b>	<b>(46.9)</b>	<b>(51.2)</b>	<b>(45.7)</b>
Currency Adjustments	0.02	1.21	0.83	0.0	0.0
Chg in Cash	45.8	51.3	61.9	63.4	69.7
Opg CFPS (S cts)	5.05	6.86	7.98	6.13	6.81
Free CFPS (S cts)	0.70	3.88	6.03	6.72	6.76

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
3:	12 Oct 21	1.50	1.81	BUY

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

Source: DBS Bank

Analyst: Rachel TAN

DBS Bank recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

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

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**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

Completed Date: 22 Feb 2022 06:38:57 (SGT)  
Dissemination Date: 22 Feb 2022 07:32:09 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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