

COMPANY RESULTS

Raffles Medical Group (RFMD SP)

2021: Above Expectations As COVID-19-related Earnings Peak

RFMD reported a record-high PATMI of S\$84.2m in 2021, up 27.7% yoy and beating our expectations, driven by a full-year's revenue contribution from PCR swab tests and vaccinations centres. Patient loads in China are improving as operations ramp up. Looking forward, RFMD is set to face a sharp decline in COVID-19-related revenue. We remain positive on RFMD's medium to long-term outlook but do not see any near-term catalysts. Downgrade to HOLD with a lower DCF-based target price of S\$1.34.

2021 RESULTS

Year to Dec (S\$m)	2021	2020	yoy% Chg	2H21	yoy% Chg	hoh% Chg
Turnover	723.8	568.2	27.4	380.0	16.3	10.5
Operating Profit	121.3	88.4	37.2	65.2	1.7	16.4
Pre-tax Profit	115.6	84.4	36.9	62.0	n.m	15.7
Tax	(31.9)	(19.8)	(61.2)	(17.1)	(25.9)	(16.0)
Profit after Tax	83.7	64.7	29.5	44.9	(7.2)	15.5
Minority Interests	(0.5)	(1.2)	n.m	0.2	n.m	n.m
Net Profit (PATMI)	84.2	65.9	27.7	44.7	(8.1)	13.8
Staff Costs	(387.0)	(291.7)	(32.7)	(204.1)	(31.7)	(11.6)
Margin (%)			ppt Chg		ppt Chg	ppt Chg
Operating margin	16.8	15.6	1.2	17.2	(2.5)	0.9
Cost as % of Turnover			ppt Chg		ppt Chg	ppt Chg
Inventories & Consumables Used	11.3	12.7	1.4	10.9	2.6	1.0
Staff Costs	53.5	51.3	(2.1)	53.7	(6.3)	(0.5)

Source: RFMD, UOB Kay Hian

RESULTS

- 2021 earnings beat expectations.** Raffles Medical Group (RFMD) announced robust 2021 revenue and PATMI of S\$723.8m (+27.4% yoy) and S\$84.2m (+27.7% yoy), forming 99.6% and 116.2% of our full-year forecasts respectively. The strong yoy growths in top- and bottom lines were largely driven by increased revenue from COVID-19-related services. 2021 staff costs increased 32.7% yoy, in tandem with revenue growth, as manpower demand surged due to higher polymerase chain reaction (PCR) testing volumes and vaccination centres.
- Increased final dividend and improved balance sheet.** A total final dividend of 2.8 S cents was declared for 2021, higher than 2.5 S cents in 2020, implying a full-year payout ratio of 62% of 2021 earnings. Due to strong operating cashflow, RFMD now boasts a healthy net cash position of S\$66.9m (net debt of S\$1.8m) and a lower gross debt/EBITDA ratio of 1.23x (1.65x) as compared to last year.
- COVID-19 services to taper off.** As Singapore transitions to endemic living, close to 94% of Singapore's population is fully vaccinated with 66% already having received their booster shots. Also, Singapore's government is slowly phasing out PCR tests in preference of antigen rapid tests (ART) as the Omicron variant appears to be milder than the previous variants. RFMD expects service levels of its vaccination centres and PCR swab tests to start tapering off from 1Q22 and significantly phased out by 3Q/4Q22.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	568	724	646	628	711
EBITDA	124	161	136	128	142
Operating profit	88	121	101	93	103
Net profit (rep./act.)	66	84	72	67	75
Net profit (adj.)	64	84	72	67	75
EPS (S\$ cent)	3.5	4.5	3.9	3.6	4.0
PE (x)	37.5	28.9	33.6	36.1	32.6
P/B (x)	2.7	2.5	2.5	2.4	2.3
EV/EBITDA (x)	18.9	14.6	17.2	18.3	16.5
Dividend yield (%)	1.9	2.2	1.9	1.9	1.9
Net margin (%)	11.6	11.6	11.2	10.7	10.5
Net debt/(cash) to equity (%)	(3.4)	(9.4)	(10.9)	(12.4)	(15.7)
Interest cover (x)	31.0	28.1	91.5	97.3	152.0
ROE (%)	7.6	9.1	7.4	6.8	7.3

Source: RFMD, Bloomberg, UOB Kay Hian

HOLD

(Downgraded)

Share Price	S\$1.30
Target Price	S\$1.34
Upside	+3.2%
(Previous TP:	S\$1.66)

COMPANY DESCRIPTION

Raffles Medical Group is a health care provider. The company operates medical clinics, imaging centres, and medical laboratories. Raffles provides general and specialised medical, medical evacuation, medical advisory and dental treatment services.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	RFMD SP
Shares issued (m):	1,869.6
Market cap (S\$m):	2,430.4
Market cap (US\$m):	1,806.7
3-mth avg daily t'over (US\$m):	1.9

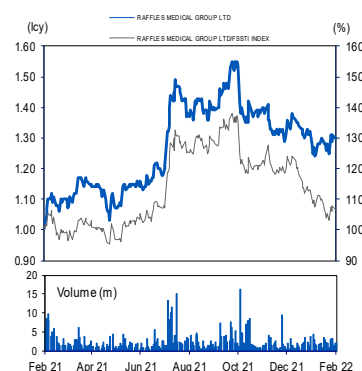
Price Performance (%)

52-week high/low	S\$1.55/S\$1.02
1mth	(1.5)
3mth	(5.8)
6mth	(5.8)
1yr	32.0
YTD	(5.1)

Major Shareholders

	%
Dr Loo Choon Yong	52.4
-	-
-	-
FY22 NAV/Share (S\$)	0.53
FY22 Net Debt/Share (S\$)	0.06

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Healthcare services: All good things must come to an end.** Continuing from 2020, healthcare services continued its outperformance, driven by COVID-19-related services. Excluding inter-segment revenue, 2021 revenue from healthcare services surged 59.5% yoy while profit before tax grew 149.2% yoy, driven by a full-year contribution of PCR swab tests and vaccination centres. However, we expect COVID-19-related revenue to drop considerably in 2022 (-53.7% yoy) as vaccination and PCR test demand dwindle. A revival in demand may come from a new lethal COVID-19 variant or a new multi-variant vaccine.
- Removal of on-arrival PCR tests.** Singapore has removed the requirement for on-arrival PCR testing (S\$125) for VTL travellers starting 22 Feb 22, switching to the inexpensive supervised ARTs (S\$25) instead. Although RFMD does provide these ART services at its clinics, we expect its 2022 earnings to see a large impact as VTL travellers make up 80-90% of monthly international travellers and volumes for the exclusive higher-margin on-arrival PCR tests will fall sharply. Although domestic Omicron outbreaks have supported local PCR test volumes, we reckon this will not be enough to stem the large decline in on-arrival PCR test volumes.
- Hospital operations: Domestic recovery in progress.** Excluding inter-segment revenue, hospital services revenue softened slightly by 3.5% yoy due to the absence of higher-billing foreign medical tourists. Although a 2H21 recovery in local patient load helped recover back some lost utilisation, 2021 overall patient load fell as Singapore's international borders remained closed, specifically to RFMD's key market Indonesia where most of RFMD's foreign tourists come from. RFMD expects some permanent foreign patient loss as foreign patients start acclimatising to their local providers. We expect this segment to recover gradually as Singapore recently announced new additional VTLs in Feb 22, including Indonesia.
- China hospitals: Next core revenue driver.** Geographical revenue from China grew 43.7% yoy in 2021, which we reckon came largely from the Chinese hospitals. Management noted that the Chongqing Hospital saw an improvement in patient load in 2021, and expects EBITDA to breakeven in 2023, its fourth year of operations. For the Shanghai hospital, a delay in getting relevant operating licenses had resulted in its EBITDA breakdown guidance being delayed to end-24. Also, the newly converted Beijing Hospital has begun accepting patients. Once the COVID-19 pandemic blows over, we opine that China's ageing population and rising healthcare spending would provide favourable tailwinds for secular revenue growth.

EARNINGS REVISION/RISK

- Cut our 2022 and 2023 earnings forecasts by 6.6% and 16.4% respectively and add our 2024 earnings estimates,** on the back of a loss in on-arrival PCR testing volumes and COVID-19 related revenue. We expect 2022-24 PATMI of S\$72.5m (S\$77.6m previously), S\$67.3m (S\$80.5m previously) and S\$74.6m respectively.

VALUATION/RECOMMENDATION

- Downgrade to HOLD with a lower DCF-based target price of S\$1.34 (previously S\$1.66).** The lower target base is due to us rolling over our 10-year DCF forecasts to 2022 and lower free cash flow estimates for 2022 and 2023. We have decreased our WACC slightly from 6.0% to 5.8% given better clarity into RFMD's China operations.
- We had originally viewed that RFMD's COVID-19-related revenue would help support RFMD's 2022 earnings, before hitting an inflection point in 2023-24 when RFMD's Chinese hospitals start to exit their gestation periods. However, Singapore's government has been steadfast in its transition to endemic living, significantly affecting RFMD's short-term outlook. Although we remain positive on RFMD's medium-term China expansion, we opine that lower COVID-19 related revenue would depress near-term share price performance and that there are no near-term catalysts to justify a higher target price. Thus, we think RFMD is fairly valued at current price levels.

SHARE PRICE CATALYST

- Ramp-up of Chinese hospitals operations and recovery in foreign patient load.

HISTORICAL PE



Source: UOB Kay Hian, Bloomberg

HISTORICAL P/B



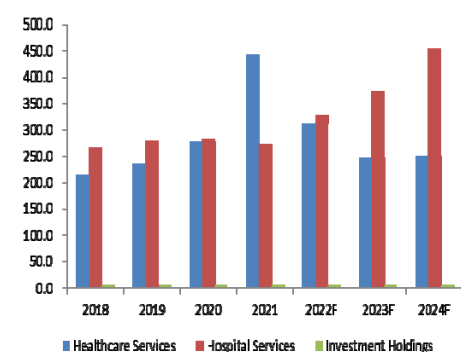
Source: UOB Kay Hian, Bloomberg

CHINA'S TOTAL NUMBER OF HOSPITAL ADMISSIONS ('0000)



Source: UOB Kay Hian, China's Department of Planning, Development and Information Technology
 *Data for 2021 has not been released.

RFMD'S SEGMENTAL HISTORICAL REVENUE AND FORECASTS (\$M)



Source: UOB Kay Hian, RFMD

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	723.8	645.7	628.1	711.4
EBITDA	160.6	136.0	127.6	141.8
Deprec. & amort.	39.3	35.1	34.1	38.7
EBIT	121.3	100.9	93.5	103.2
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(5.7)	(1.5)	(1.3)	(0.9)
Pre-tax profit	115.6	99.4	92.2	102.2
Tax	(31.9)	(27.4)	(25.4)	(28.2)
Minorities	0.5	0.5	0.5	0.5
Net profit	84.2	72.5	67.3	74.6
Net profit (adj.)	84.0	72.3	67.3	74.6

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	160.1	95.8	98.4	124.7
Pre-tax profit	115.6	99.4	92.2	102.2
Tax	(31.9)	(27.4)	(25.4)	(28.2)
Deprec. & amort.	39.3	35.1	34.1	38.7
Working capital changes	14.2	(11.2)	(2.5)	12.0
Other operating cashflows	22.9	0.0	0.0	0.0
Investing	(52.2)	(55.0)	(55.0)	(55.0)
Capex (growth)	(52.2)	(55.0)	(55.0)	(55.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	(46.9)	(22.6)	(26.3)	(32.4)
Dividend payments	(37.3)	(23.5)	(23.5)	(23.5)
Issue of shares	5.6	0.0	0.0	0.0
Proceeds from borrowings	(0.5)	0.0	0.0	0.0
Others/interest paid	(14.6)	0.8	(2.9)	(8.9)
Net cash inflow (outflow)	61.0	18.2	17.0	37.3
Beginning cash & cash equivalent	202.1	263.9	282.1	299.2
Changes due to forex impact	0.8	0.0	0.0	0.0
Ending cash & cash equivalent	265.0	282.1	299.2	336.5

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	1,071.4	1,091.3	1,112.2	1,128.5
Other LT assets	34.8	34.8	34.8	34.8
Cash/ST investment	265.0	282.1	299.2	336.5
Other current assets	174.1	131.3	109.3	123.8
Total assets	1,545.3	1,539.5	1,555.5	1,623.6
ST debt	96.3	96.3	96.3	96.3
Other current liabilities	320.3	285.7	278.0	314.8
LT debt	77.9	77.9	77.9	77.9
Other LT liabilities	74.1	77.8	81.7	85.8
Shareholders' equity	960.8	986.4	1,006.7	1,034.4
Minority interest	15.8	15.3	14.8	14.3
Total liabilities & equity	1,545.3	1,539.5	1,555.5	1,623.6

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	22.2	21.1	20.3	19.9
Pre-tax margin	16.0	15.4	14.7	14.4
Net margin	11.6	11.2	10.7	10.5
ROA	5.7	4.7	4.3	4.7
ROE	9.1	7.4	6.8	7.3
Growth				
Turnover	27.4	(10.8)	(2.7)	13.3
EBITDA	29.6	(15.4)	(6.1)	11.1
Pre-tax profit	36.9	(14.0)	(7.3)	10.9
Net profit	27.7	(13.9)	(7.2)	10.8
Net profit (adj.)	31.8	(13.9)	(7.0)	10.8
EPS	29.8	(13.9)	(7.0)	10.8
Leverage				
Debt to total capital	15.1	14.8	14.6	14.2
Debt to equity	18.1	17.7	17.3	16.8
Net debt/(cash) to equity	(9.4)	(10.9)	(12.4)	(15.7)
Interest cover (x)	28.1	91.5	97.3	152.0

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