COMPANY UPDATE

Healthcare ▪ Singapore

Raffles Medical Group

(RFMD SP/RAFG.SI)

In good health as it grows from one to three

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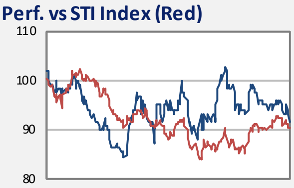
- RFMD annual earnings have stabilised at around S$71mn in the past two years, after growing at 19% CAGR from 1994 to 2018.
- The group is now at an inflexion point as it opens the door to first major overseas expansion. It opened Raffles Hospital (RH) Chongqing in January 2019, while RH Shanghai is expected to complete construction by 4Q19.
- Current valuations have not factored in the growth potential from the two China hospitals, but start-up expenses is expected to weigh on earnings in FY19 and FY20.
- As much as we are excited about RFMD's expansion into the world's second largest healthcare market, investors may need a 2 year investment horizon. There is a 12-month upside catalyst if RH Chongqing is able to perform better-than-expected in the next few quarters.

Not Rated			
Price as of 11 Mar 19 (SGD	1.07	**Performance (Absolute)**	
12M TP ($)	-	1 Month (%)	-3.6
Previous TP ($)	-	3 Month (%)	-5.2
Upside (%)	-	12 Month (%)	-5.9
Trading data		**Perf. vs STI Index (Red)**	
Mkt Cap ($mn)	1,923		
Issued Shares (mn)	1,798		
Vol - 3M Daily avg (mn)	1.0		
Val - 3M Daily avg ($mn)	1.2		
Free Float (%)	47.9%		
Major Shareholders		**Previous Recommendations**	
Dr Loo Choon Yong	51.3%		



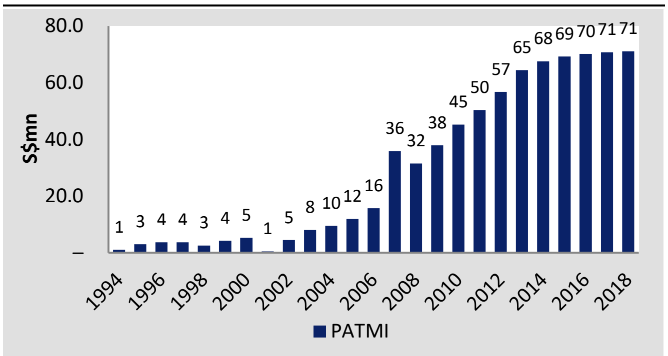
Financials & Key Operating Statistics

YE Dec (S$ m)	2014	2015	2016	2017	2018
Revenue	374.6	410.5	473.6	477.6	489.1
PATMI	67.6	69.3	70.2	70.8	71.1
Core P/E (x)	29.5	28.8	28.4	28.2	28.1
DPS (S Cents)*	5.5	6.0	2.0	2.3	2.5
Div Yield (Y%)	1.6%	1.7%	1.8%	2.0%	2.3%
Net Margin (%)	18.1%	16.8%	14.3%	14.4%	14.5%
ROE (%)	12.6%	11.5%	10.5%	9.6%	8.9%

*Source: Company data, KGI Research *not adjusted for share split*

Stable base after 25 years. PATMI for the group has stabilised at S$71mn in the past two years, after growing at a 19% CAGR since 1994. We think upside for RFMD's Singapore operations are limited, even with the addition of the new Specialist Centre building in early 2018. Increasing costs has been a challenge in Singapore as other countries are now offering viable alternatives at a lower price point. This is further exacerbated by a stronger Sing dollar against regional currencies, in particular the Indonesian Rupiah.

Figure 1: PATMI since 1994



Source: Company data, KGI Research

Replicating success. RFMD will be the only other SGX-listed hospital group other than IHH Healthcare (IHH SP) with hospitals in China. Coincidentally, RFMD's two hospitals are opening in the same year as IHH's Gleneagles hospitals in Chengdu (2019) and Shanghai (2020). China's private healthcare sector has tremendous opportunities given the country's aging population and over-burdened public healthcare system. However, historical track records of private hospitals in China have been less than promising, with many faring below expectations. Hence, RFMD's Chongqing hospital will be a litmus test on RFMD's management team's ability to grow a greenfield private hospital in the world's second largest healthcare market.

Valuation & Action: RFMD is currently at an inflexion point and we believe that it has the track record to successfully operate hospitals in China. It maintains a majority control (70-100%) of the two hospitals, thus giving it more control of the growth strategy and quality of healthcare given to patients.

Call option. Investors would be buying the Singapore hospital and medical services at around 25-30x 2018 P/E, which is in line with industry averages. Meanwhile, its China hospitals are akin to two call options, where you would recognise upside gains when the hospitals succeed, and where we see limited downside risk to the group given that it could always divest these assets in the worst-case scenario.

Patience. As much as we like RFMD's growth prospects, investors may need a 2 year investment horizon before seeing earnings growth. In the next 12 months, a better-than-expected operating performance from its Chongqing hospital could provide a potential re-rating catalyst.

Risks: Execution risks for its China hospitals.

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Rating	Definition
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
BUY	>10% total return over the next 12 months
HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

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