Public Letter to the Board of Raffles Medical Group

Nov 28, 2024

Raffles Medical Group Ltd
585 North Bridge Road
Raffles Hospital #11-00
Singapore 188770

Dear Members of the Board:

This letter is prepared by Sakura Research, a minority shareholder in Raffles Medical Group (the "Group" or "RMG"), in support of a shareholder-focused initiative aimed at enhancing value creation at the Group.

Raffles Medical is one of the most important healthcare companies in Singapore, with a rich history as a great Singapore success story. The contents of this 3-part letter outline our concerns regarding recent senior management changes, the absurdly under-appraised prime Singapore properties, the continued lack of financial transparency in the Group's China and insurance operations, and the massive accumulated losses in its Greater China and insurance segments.
These issues have contributed to the Group's declining share price. Based on a Net Tangible Book Value peer (i.e., IHH Healthcare) comparison valuation, and under-appraised prime Singapore properties ripe for mark-to-market fair value gains, we reckon RMG should be trading at a market cap of over S$5 billion, instead of its current market cap of about S$1.6 billion only.

We believe that a comprehensive strategic review is essential to address these challenges, halt the destruction of shareholder value, and pursue profitable growth to unlock long-term value. RMG is at an inflection point. While its performance has lagged, local stock markets have surged. The case for change is clear and compelling, and the path to achieving that change is straightforward: lean into RMG's core competencies and profitable markets while reducing exposure to capital-intensive and loss-making segments. We hope you share our view that now is the right time for the Group to take this important step in its evolution.

We would appreciate the opportunity to meet in person to expand upon the analysis provided above, hear your views on this opportunity, and advance our shared commitment to RMG's success.

Best regards,
Sakura Research
https://www.sakuraresearch.com/

The views expressed herein represent the position of Sakura Research based on publicly available information and are not intended to constitute investment advice or recommendations. This letter is not a solicitation for investment, and readers should conduct their own research and consult with a qualified financial advisor before making any investment decisions.

Sakura Research: Call for Strategic Review at RMG. Part I

Superior revenue-generating prime SG properties at wildly under-appraised values

Executive Summary

RMG's June 2024 net tangible asset value of S$1.012b includes S$316m in cash; and approximately S$624m (61% of NTAV) in prime Singapore real estate assets: S$246m in investment properties, which generate rental income, and approximately S$377m in PPE properties.

RMG shares are currently trading at a 52-week low, with a market cap of S$1.6 billion, while the local stock benchmark (STI) is near its 52-week high. Aggressive share purchases by the Founder/Executive Director, increasing his ownership to more than 55%, have recently caught market's attention, including ours.[1] Our diligence has uncovered interesting facts regarding RMG's Singapore properties.

The Crown Jewel of the Group, Flagship Hospital at Bugis Downtown, consists of 2 buildings with total gross floor area of 530,000 sqft and has a carrying value of **S$402m** as of the end 2023. Peer comparison analysis, particularly with IHH Healthcare (operator of Mount Elizabeth, Gleneagles, and Parkway East hospitals) in Singapore, indicates that Raffles Hospital's buildings are more than three times newer, built more recently with modern construction designs, and benefit from a strategic Downtown location. Additionally, Raffles Hospital boasts superior asset efficiency, with higher revenue yields. Furthermore, land and construction costs in Singapore have risen significantly since the 2010s. As a result, the carrying value of the Crown Jewel should be adjusted to reflect its market value, with an estimated fair value upgrade to S$1,046 million (i.e., S$1,974 per sqft, compared to the carrying value of S$760 per sqft as of the end of 2023).

Investment Properties. From 2018 to 2023, the Group's reported total fair value gains from investment properties has been *around 3% net*, while their generated revenues have risen by about *55% (from S$29.2m in 2018 to S$45.2 in 2023)*. As such, RMG's investment properties rental yield (annual revenues divided by the carrying values) has been increasing steadily from 2018 to 2023, achieving an impressive 18.4% rental yield in 2023 vs. 9.4% in 2018. Meanwhile, the local hospital REIT (Parkway Life REIT) Singapore rental yields have averaged ~6% annually during the same period due to the REIT's regular fair value gains of its properties. Again, the rental yield comparison implies that the Group's investment properties carrying value is about 3x lower than a local peer, supporting our thesis of ridiculous under-appraisal of RMG's Singapore investment properties.

Raffles Holland V Shopping Mall (GFA of 64,706 sqft, with 83% of the asset used as an investment property by the Group) is currently valued at S$94 million on the balance sheet (at S$1,459 per sqft). However, we believe it's fair market value is closer to S$188 million (at S$2,918 per sqft) due to its higher rental yield, strategic location, and excellent connectivity.

RMG also owns 6 HDB shophouses as part of PPE, with a total gross floor area of 987 sqm (10,624 sqft), and total carrying value of $8.265m as of end-2023, instead of our estimate of S$24.7m. During 2023, the Group sold one unit. The sale price was S$518,000, a 200% premium over the book value of S$174,000, again supporting our thesis of ridiculous under-appraisal of RMG's SG properties.

Conclusion

Overall, our study shows that RMG's Singapore properties are clearly and persistently under-appraised. We estimate a pre-tax fair value gain of approximately S$774 million for RMG's Singapore properties (or S$642 million after-tax, reflecting a 63% premium over RMG's net tangible asset value of S$1.012 billion) based on a mark-to-market analysis.

Curiously, RMG has changed its Singapore appraiser in 2021, from Jones Lang LaSalle (*JLL*) to Colliers International. Given the significant under-appraisal of prime Singapore real estate assets since 2018 compared to the local peers and RMG shares at 52wk lows, it is concerning that there has not been a single share buyback to benefit all shareholders since December 2023. However, the largest shareholder/Executive Chairman has been steadily increasing his stake in RMG.

Appraisers should properly value the company's prime real estate assets by employing *a local peer comparison approach, assessing revenue generation capacities, rental yields, and comparable market sales*. Relying solely on **Level-3 fair value assumptions and estimates**, which have been in place well before COVID19, is no longer sufficient. A more accurate and market-reflective valuation is essential to ensure that all shareholders benefit from the true value of the company's prime assets (not just the controlling shareholder/Executive Director Dr. Loo).

RAFFLES MEDICAL GROUP

RMG (the "Group", or the "Firm") is a beloved success story of "two young punk doctors who quit stable jobs to challenge norms in Singapore's medical practice" - Dr. Loo Choon Yong and Dr. Alfred Loh. Today, the Group is a key private healthcare provider in Singapore with an amazing brand value and popularity. Its stock has lagged the wider market this year, dropping about 20% since the start of this year while the local Straits Times Index (STI) has risen about 15%.

It has come to market's attention that the group's Chairman and Co-founder, Dr. Loo, has been actively acquiring shares and increasing his stake to a record 55%.[2] Upon further investigation into the company's balance sheet, we have discovered true gems: the prime and relatively young, undervalued Singapore-based properties owned by RMG. These properties are poised for revaluation due to their more modern buildings, attractive locations, abnormally high rental yields and high revenue generation capacities compared to the local peers, amid the rising construction and land prices in Singapore.

I. Mark-to-Market: Justifications for Fair Value Gains – Raffles Hospital (The Crown Jewel)

The prime property is the flagship Raffles Hospital building, located in the downtown Bugis area. The building has a Gross Floor Area (GFA) of 310,938 sqft and opened in 2001. It was further renovated after 2014 with an investment of approximately S$65 million. Between 2014 and 2017, the Raffles Hospital Specialty (Building Extension) was added on newly acquired land (GFA of 219,426 sqft) at the same Bugis Downtown address. As a result, Raffles Hospital Downtown Bugis with total GFA of 530,363 sqft became the Crown Jewel of the Group. Most of the Bugis properties is used by the Group as property, plant, and equipment (PPE) for its hospital and healthcare services. The remaining 9.3% portion (GFA of 49,365 sqft) of the Raffles Hospital Bugis properties is classified as an Investment Property, generating rental income.[4]

a) Appraisal Value Determination via Private Hospitals Peer Comparison

The firm's local competitor, IHH Healthcare (SGX: Q0F), is a global healthcare services provider, and it is the largest shareholder of Parkway Life REIT. The Parkway REIT's Singapore portfolio is 3 Singapore-based private hospitals (Mount Elizabeth Hospital, Gleneagles, and Parkway East) with a total carrying value of S$1.506B as of the end 2023 (about 30% fair value gains since 2018).[3] While Parkway Life REIT has consistently reported higher appraisal values for its much older Singapore hospitals (compared to the newer Raffles Hospital Bugis buildings), the Group has been decreasing its reported carrying values. For example, competitor Mount Elizabeth Hospital, which opened in 1979, shows a carrying value of *$1,433 per square foot in 2023*, while the Raffles Hospital Building 1, which opened in 2001, has a carrying value of only $551 per sqft as of the end 2023.

Private Hospitals in Singapore	Opening Year (Lease tenure)	Building Age, Yrs (as of 2024)	Total GFA (sqft)	2023 Book value (BV)	2023 BV per sqft	2018 BV	BV change, 2018-2023
Mount Elizabeth H (Parkway Life REIT)	1979 (till 2074)	45	625,803	897,000,000	$ 1,433	718,700,000	25%
Gleneagles H (Parkway Life REIT)	1957 (till 2082)	67	527,464	512,000,000	$ 971	378,500,000	35%
Parkway East H (Parkway Life REIT)	1997 (till 2082)	27	118,338	97,000,000	$ 820	63,200,000	53%
Raffles Hospital (Original Flagship), **Building 1**. A $65m upgrade in 2014	2001 (till 2078)	**23**	310,938	171,316,833	$ 551	188,621,000	-9%
Raffles Hospital Specialty (Extension **Building 2**), 2014-2017	2017 (till 2078)	**7**	219,426	231,618,413	$ 1,056	183,186,187	26%

Table 1: Peer comparison of private hospitals in Singapore vs. the Group's Crown Jewel.

b) Modern Construction & Strategic Location

Raffles Hospital Downtown (310,938 sqft) was originally opened in 2001 using modern building technologies, followed by a redevelopment and renovation in 2014, which involved an investment of approximately S$65m. Additionally, an extension building with GFA of 219,426 sqft for specialty medicine was added between 2014 and 2017 at the same address, after the land was acquired in 2014.

The Bugis Raffles hospital's building age, weighted by square footage, is significantly younger compared to other similar private hospitals in Singapore. For instance, compared to Mount Elizabeth Hospital (opened in 1979) and Gleneagles Hospital (opened in 1957), Raffles Hospital Bugis properties are 3.3 times younger based on a square footage-weighted average. The entire Raffles Hospital Downtown complex also benefits from an excellent location, just a 3-minute walk from Bugis MRT interchange, which connects the Green and Blue lines. This central location further enhances the property's value, making it a prime asset in the heart of Singapore.

c) Superior Asset Efficiency & Revenue Yield of Raffles Hospital vs the local competitor

The Crown Jewel (Raffles Hospital Downtown Bugis) demonstrates a significantly higher revenue-to-asset yield ratio compared to its competitor, IHH Healthcare, in Singapore. In 2023, Raffles generated a revenue-to-assets yield of 92.1%, substantially higher than IHH's 34.5%. This indicates that Raffles Hospital's assets are being used more efficiently to generate revenues (cash flows), which further supports a higher property valuation compared to the local peer. As shown in the Table 2 below, Raffles Group's ability to generate higher sales per unit of non-current assets in Singapore underscores the urgent need for the property's reappraisal (Table 2) [5].

Singapore market: Revenues/Non-Current Assets, yield %	2023	2022	2021	2020
Raffles Medical Group in Singapore market	92.1%	103.0%	96.2%	74.4%
A locally-listed peer, IHH Healthcare in Singapore market	34.5%	33.6%	34.8%	27.2%

Table 2. The Group's Singapore hospitals/clinics generate higher revenue/non-current asset yield compared to a local publicly-listed peer (IHH Healthcare). As such, the Group's carrying values of superior PPE/IP properties are long overdue for mark-to-market with significant fair value gains.

d) Rising Construction, Material, and Land Costs in Singapore

The fair value estimate of *the Crown Jewel (Raffles Hospital Downtown)* should also be revised upwards to reflect the significant increase in construction, material, and land costs since 2014 in Singapore. In 2022, the Group recognized approximately S$10m impairment on its two hospitals in China, citing declining land and construction costs in China (Annual Report 2022, page 148). In the same vein, given the massive increase in land and construction costs in Singapore since the 2010s, the fair value of Raffles Hospital Downtown with a total GFA of 530,363 sqft should be marked up to market accordingly.

- **Land**: Market Approach – based on current market price per square meter.
- **Buildings**: Cost Approach – using the depreciated replacement cost method, adjusted for current market construction costs.

Based on the factors outlined above— local peer private hospital appraisal values, Raffles Hospital's modern construction with newer buildings, strategic location, superior revenue generation efficiency, and the general rising construction and land costs in Singapore —our revised valuation for Raffles Hospital Downtown (the Crown Jewel of the Group) is **S$1,046,672,850**, which is significantly higher (at ~160% premium) than its carrying value of **S$402,935,246** as of the end of 2023.

II. Rental yield comparison of the Group's Investment Properties (IP) and a local competitor

The Group's Investment Properties (with a carrying value of S$246.1m as of the end-2023), which have long been under-appraised, have demonstrated increasing investment holding revenues. Specifically, the annual rental income from the firm's Investment Holdings has *risen by approximately 54%*, from S$29.2 million in 2018 to S$45.2 million in 2023. However, despite this growth in rental income, the firm has reported that the total fair value gain of its Investment Properties has *increased by only 3.3%* net over the same period (the sum of annual fair value gains and losses, from 2018 to 2023) (Table 3).

A comparison of annual rental yields between the firm's Investment Properties and those of a local competitor, Parkway Life REIT, reveals a notable discrepancy. Parkway Life REIT's properties in Singapore have an annual gross rental yield of around 5%–6%, while the firm's Investment Properties have seen a sharp increase in rental yield, rising from 9.4% in 2018 to 18.4% in 2023.[3]

Description/Location	Tenure	Gross Floor Area (sq m)
Units within Raffles Hospital, located at 585 North Bridge Road, Singapore 188770	99 years commencing from 01/03/1979	826.2 (2022: 826.2)
Units within Raffles Specialist Centre, located at 585 North Bridge Road, Singapore 188770	99 years commencing from 01/03/1979	3,760.0 (2022: 5,322.0)
Units within Samsung Hub, located at 3 Church Street Singapore 049483	999 years commencing from 25/01/1827	491.0 (2022: 491.0)
Units within Raffles Holland V, located at 118 Holland Avenue, Singapore 278997	99 years commencing from 18/01/1985	4,981.1 (2022: 4,981.1)

Figure. RMG's main investment properties, with a total book value of S$246.1 million, are sourced from the Group's 2023 annual report (page 166). Due to the under-appraised values of these investment properties, the Group's rental yields are approximately three times higher than those of a local peer, Parkway Life REIT (Singapore properties). A mark-to-market adjustment would generate an estimated fair value gain of approximately S$492 million, based on the superior returns of RMG's investment properties.

The significant jump in rental yields over the past several years further emphasizes the chronic under-appraisal of the carrying value of the Group's Investment Properties.

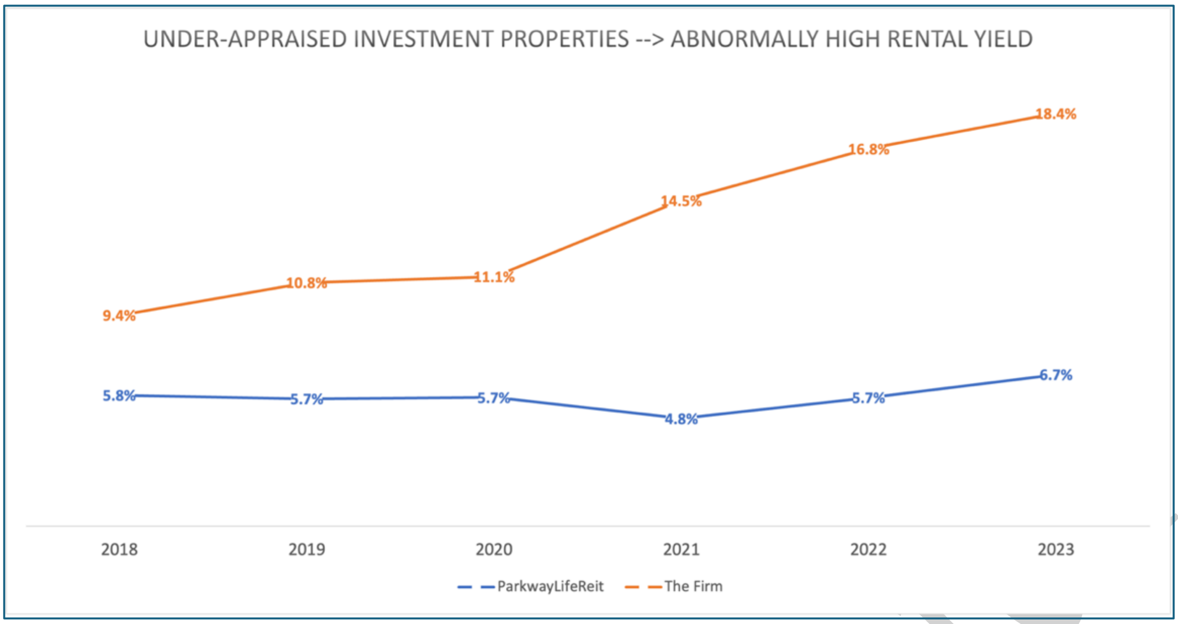
The accounting statements are supposed to reflect economic reality. Given the empirical evidence of abnormally high rental yields (about 3 times higher than the local competitor), it is obvious that the carrying values of RMG's Investment Properties should be adjusted to reflect their market values. *A fair mark-to-market adjustment suggests that the carrying value of the firm's Investment Properties should be increased by 200% (from S$246.1m in June-2024 to S$738m).*

Year	IP Carrying Values	Reported Fair value gain/(loss)	Fair value gain/(loss), %	Investment Holdings revenues	Revenue /assets ratio (rental yield %)
2018	$ 311,160,000	$ 3,395,000	1.1%	29,200,000	9.4%
2019	$ 311,160,000	$ 2,128,000	0.7%	33,700,000	10.8%
2020	$ 294,600,000	-$ 4,502,000	-1.5%	32,700,000	11.1%
2021	$ 274,000,000	$ 414,000	0.2%	39,700,000	14.5%
2022	$ 273,400,000	-$ 600,000	-0.2%	45,900,000	16.8%
2023	$ 246,100,000	$ 7,400,000	3.0%	45,200,000	**18.4%**
Total 2018-2023		***$ 8,235,000***	***3.3%***		

Table 3. Group's investment properties show constantly increasing revenues, in total 54% from 2018 to 2023, while the carrying value has increased by a mere 3.3% over the same period. Carrying values should be marked-to-market with 3 times increase (i.e. 200% premium vs. the Dec-2023 values).

Rental Yields % (Renting & Leasing Revenues / Property carrying values)	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Parkway Life Reit Singapore (Mount Elizabeth, Gleneagles, and Parkway East Hospitals)	5.8%	5.7%	5.7%	4.8%	5.7%	6.7%
RMG's Investment Properties (**IPs**)	9.4%	10.8%	11.1%	14.5%	16.8%	**18.4%**

Table 4. While the competitor is increasing its properties' carrying values annually with stable annual rental yields, the under-appraised Investment Properties of the Group generate increasingly higher rental yields.



III. Mark-to-Market: Other Notable Singapore Real Estate Assets Ripe for Fair Value Gains

a) The Group also owns 6 HDB shophouses with a total gross floor area of 987 sqm (10,624 sqft), and total carrying value of $8.265m as of 2023. The Group's reported carrying values have dropped 15% from $9.675m in 2017. However, the carrying values of these HDB shophouses should be revised upward to S$24.795m (200% premium over the carrying values of Dec-2023).

This point is proven by the Group's recent sales transaction in 2023 (a unit with an area of 112 sqm). This property was carried at a book value of $174k at the end of 2022, while the Group received $518k consideration during the 2023 property sale, that is approximately 200% premium market price vs. its book value! (RMG Annual Report 2023, page 161).

b) Another significant RMG property is a large freehold building located at 25 Tannery Lane in the Kallang district, with GFA of 35,472 sqft. The Group has been gradually reducing the carrying value of this asset since 2018. However, the asset's current market value is estimated at around $38 million, which is substantially higher than its book value of $19 million on the Group's balance sheet.

c) Another key RMG asset is the Raffles Holland V Mall, with a Gross Floor Area (GFA) of 64,706 sqft. The property is primarily held as an investment to generate rental income, while a smaller portion (11,086 sqft) is used by the Group for its clinics under Property, Plant, and Equipment (PPE). Given its strong rental yield, prime location, and excellent connectivity, the fair market value of the mall is closer to S$188 million, equating to approximately S$2,918 per sqft.

Properties (Both PPE and Investment Properties)	**Investment Property (IP), or PPE?**	**(Lease tenure)**	**Total GFA (sqft)**	**2023 Carrying Values (BV)**	**Our Appraisal estimate**	**Our Appraisal ($/sqft)**	**2023 BV $/sqft**
Raffles Hospital Bugis - 2 Buildings **(B1** and **B2)** (The Crown Jewel of the Group)	Mostly PPE (91%)	Till 2078	530,364	$ 402,935,246	$ 1,046,672,850	$ 1,974	$ 760
B1: Raffles Hospital (Original Flagship), Opened 2001, $65m upgrade in 2014	PPE - 302,045 sqft IP - 8,893 sqft	Till 2078	310,938	$ 171,316,833	$ 513,950,499	$ 1,653	$ 551
B2: Raffles Hospital Specialty Med (New Extension Building), 2014-2017	PPE - 178,954 sqft IP - 40,472 sqft	Till 2078	219,426	$ 231,618,413	$ 532,722,351	$ 2,428	$ 1,056
6 HDB shophouses	PPE	Till 2080	10,624	$ 8,265,000	$ 24,795,000	$ 2,334	$ 778
Multi-storey building @ 25 Tannery Lane (Kallang district)	PPE	Freehold	35,472	$ 19,397,000	$ 38,794,000	$ 1,094	$ 547
Raffles Holland V Shopping Mall	IP - 53,616 sqft PPE - 11,090 sqft	Till 2084	64,706	$ 94,396,000	$ 188,792,000	$ 2,918	$ 1,459
Total Values (S$)				**$ 524,993,246**	**$ 1,299,053,850**		

Table 5. The prime real estate assets of the Group in Singapore are ripe for re-evaluation and re-appraisal.

Balance Sheet	SGD (S$)	% of NTAV
Net tangible asset value (NTAV) - June 2024	1,012,395,000	100%
Market cap (Nov 2024)	1,620,000,000	160%
Singapore Investment Properties (June 2024)	246,100,000	24%
Singapore PPEs - properties (estimate)	377,576,360	37%
Singapore PPE and IP properties' Total Carrying Value	623,676,360	61%
SG PPE/IP properties' fair value gain (before-tax)	*$ 774,060,604*	*76.5%*
SG PPE/IP properties' fair value gain (after-tax)	*$ 642,470,301*	*63.5%*

Table 6. Based on a Net Tangible Book Value peer (IHH) comparison valuation, and under-appraised prime Singapore properties ripe for mark-to-market fair value gains, we reckon RMG should be trading at a market cap of over S$5 billion, instead of its current market cap of ~S$1.6 billion only.

Conclusion

In summary, we estimate that the Group's Singapore property values should be marked to market with a total fair value gain of S$774 million. These are empirically proven by publicly-listed local peer's private hospitals, the impressively high rental yields of the Group's Investment properties (3x more than the peer), the higher revenue yield of the Group's Singapore assets (3x more than the peer), and recent property sales by the Group with 200% premium over the carrying value.

To address the raised mis-appraisal issues, it is imperative that the management & BoD hire a **competent independent appraisal firm**—such as **CBRE** or **KF**, who have worked on Parkway Life REIT Singapore hospitals portfolio. This team should properly value the company's prime real estate assets by employing a **peer comparison approach**, assessing **revenue generation capacities**, **rental yields**, and **comparable market sales**. Relying solely on rigid **Level-3 fair value estimates**, which have been in place well before COVID-19, is no longer sufficient. A more accurate and market-reflective valuation is essential to ensure that all shareholders benefit from the true value of RMG assets.

Furthermore, the Group must become transparent with its shareholders regarding its future plans and financial performance in **the Greater China operations and Health Insurance segments**. After addressing the issues in these two segments, we believe RMG should be trading at a market cap of over S$5 billion, based on a Net Tangible Book Value peer comparison valuation (i.e., IHH) and prime Singapore properties mark-to-market fair value gains, rather than its current market cap of ~S$1.6b.

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Sakura Research: Call for Strategic Review at RMG. Part II

Greater China Operations, Pursuit of Sustainable & Profitable Growth amid Succession Planning

EXECUTIVE SUMMARY

Since 2017, RMG has been making investments outside Singapore, primarily in Greater China, where it has built three newly constructed "greenfield" hospitals in Shanghai, Beijing, and Chongqing. China was viewed as a growing economy with a rising number of affluent consumers capable of affording RMG's modern and premium medical services. However, after COVID-19, China's appeal to foreign investors has dramatically diminished due to the endless series of negative developments: a property market collapse, weakened consumer demand, the "common prosperity" campaign, trade wars, an expat exodus, heightened local competition, and regulatory changes.

As of the end of 2023, Greater China accounts for a substantial one-third of RMG's non-current assets, while the Singapore home market constitutes the remaining 66%. Despite this large allocation, the performance of RMG's China segment has been disappointing. Revenue generation from non-current assets has remained low (below 20%), accompanied by significant accumulated EBITDA and net losses. In contrast, IHH Healthcare, a competitor, has seen steady progress in its China operations, with a respectable 45.8% revenue yield by the end of 2023. IHH also achieved EBITDA profitability in China in 2023. Despite this, IHH has been reducing its investment exposure in China since 2020, reallocating capital to more profitable markets such as Singapore, Malaysia, Turkey, and India.

Unlike IHH, RMG has been less transparent about the performance of its China segment, including details on annual EBITDA, net losses, and balance sheet figures. The company has often cited the "growth phase," COVID-19 challenges, and "gestational losses" as reasons for its underperformance. Additionally, RMG has faced instability in senior leadership, including within its China segment, with executives frequently exiting without official announcements. Notably, the China CEO left RMG in August 2024. RMG CFO (Ms Goh Ann), who moved to the China segment as deputy CEO in 2020, resigned less than a year later and returned to Singapore-based property company, CDL. In September 2021, CDL Singapore fully wrote down its ~S$2 billion investment in China to just $1.

It is time to stop the destruction of shareholder equity in China segment and cease throwing good Singapore dollars after bad RMB investments. Growth must be sustainable and profitable, which can be achieved by focusing on RMG's home market of Singapore and RMG's core competencies. It is time to come clean and provide the detailed reporting about RMG's China segment (similar to IHH).

Leadership Flux at Raffles Medical China, Raffles Health Insurance and RMG Group

Goh Ann Nee left CDL and joined RMG as Group CFO in 2016. In 2020, Ms. Goh left RMG, and the Group appointed Ms. Sheila Ng as Group CFO from March 2020. Ms. Goh was then appointed Deputy Managing Director of Raffles China Healthcare Division. **Interestingly, RMG did not announce that she had subsequently left the company.** Why did Ms Goh leave RMG (ref)?

Less than a year later, in January 2021, Ms. Goh reappeared as Chief Transformation Officer in the Executive Chairman's office at her former employer, CDL. She led a special working group at CDL to evaluate options to improve the liquidity of CDL's investee company, Sincere Property Group, in China. In the end, in September 2021, CDL sold its stake in Sincere Property Group for US$1, effectively ending its tumultuous backing of the cash-strapped Chinese developer. In total, CDL had invested about US$1.4 billion into Sincere in China.

Dr. Vincent Chia joined RMG in February 2020 as Deputy Managing Director of Raffles China Healthcare. He was subsequently appointed Managing Director of Raffles China Healthcare in 2022. As recently as RMG Annual Report 2022, Dr. Chia was listed as part of senior management. However, based on his LinkedIn profile, Dr Chia left RMG China in March 2024. **During 2024 AGM or in any SGX announcements, there was no update regarding the leadership changes in China.**

The same lack of communication is evident with the loss-making health insurance business. Ms. Juliet Khew, Deputy Managing Director of Raffles Health Insurance, was listed as part of senior management in the 2023 annual report. **According to her LinkedIn profile, Ms Khew left RMG in August 2024.** Ms. Khew joined RMG as General Manager of Raffles Insurance in February 2020 and remained in that role until February 2022.

Most recently, Group CFO Ms Sheila Ng left RMG on 10 November with immediate effect.

In summary, in the 2023 annual report released earlier this year, there were 10 executives in the senior management. Now RMG website (rafflesmedicalgroup.com/our-group/about-us/management/senior-management/) shows 6 members only, indicating high senior executive turnover at RMG.

RMG in Greater China

In mid-2016, the Group announced that it would spend S$1 billion over the next three years to set up hospitals and clinics in Asia, with about S$600 million to be used to spur growth outside its Singapore base, particularly in China. *"Asia is growing," Dr. Loo said at the time. "Maybe we are talking about slower growth, but it is still a plus compared to Europe and the US. There is great demand in China, and margins would not be inferior."*

Since 2016, RMG has invested significant funds into China (in Chongqing, Beijing, and Shanghai) without providing sufficient transparency regarding profitability or investment quanta. Greater China accounts for approximately one-third of the Group's total non-current assets (at S$340m as of the end of 2023), together with consistent and massive annual losses in this market. As of the end of 2023, RMG Group generated $0.92 in revenue in Singapore, compared to a meager $0.175 in revenue in Greater China for each dollar of non-current assets (Table 1).

Revenue/Non-current Assets	2017	2018	2019	2020	2021	2022	2023
Singapore	63%	63.0%	65%	74%	96%	103%	92%
Greater China	29.9%	17.8%	12.8%	9.4%	12%	14.5%	17.5%
Rest of Asia	289%	344%	224%	183%	193%	267%	197%

Table 1. RMG revenue yields in Greater China are much lower compared to Singapore and Rest of Asia.

Compared to RMG Group, its peer (IHH Healthcare) has consistently improved its revenue generation per invested non-current assets (revenue yields) since 2018 in China, despite the COVID obstacles (Table 2).

Rev per Assets, %	2018	2019	2020	2021	2022	2023
RMG Group – China	17.8%	12.8%	9.4%	12.0%	14.5%	17.5%
IHH Healthcare - China	16.2%	16.5%	17.8%	24.4%	36.2%	45.8%

Table 2. Comparing revenue generation yields of non-current assets in Greater China (RMG vs. IHH Healthcare) From 2018 to 2023, we estimate about S$270m in total net losses (retained negative earnings) vs. the latest non-current asset value of RMG's Greater China of S$340m as of the end 2023.

RMG's China operations have been making consistent losses, even as its asset base in China continues to grow. This suggests that while RMG has been pouring more money (main in the form of equity) into China, these investments are not delivering commensurate returns, especially since EBITDA and net profits are hopelessly negative. The growing asset base doesn't seem to translate into profitability or meaningful increase in revenue/non-current assets yield, which is a major concern.

RMG shareholders require transparency from the Group regarding the balance sheet and profitability metrics for its China hospitals (including market EBITDA and net losses), as well as detailed information about the annual investments made in this market over the past decade. RMG Group continues to withhold EBITDA details and frequently blames COVID-19 for subpar results.
In contrast, its local competitor, IHH Healthcare, has been regularly reporting its Greater China EBITDA results, showing consistent progress despite COVID-19 challenges, including a first-time EBITDA profit of 74.5 million Malaysian Ringgit (about 22 million SGD) in 2023 (Table 3).

RMG should focus on growing its profitable businesses, such as in Singapore. In 2023, RMG generated a respectable S$0.92 revenue per S$1 of its non-current assets in Singapore, compared to IHH Healthcare's S$0.34 revenue per S$1 of non-current assets.

IHH - Greater China	2018	2019	2020	2021	2022	2023	H1, 2024
EBITDA (RM, mill)	-208.7	-175.5	-146.5	-69.6	-60.3	**74.5**	**69**
Net loss (RM, mill)	-426m	-509m	-491m	-597m	-900m	-222m	-138m

Table 3. The peer (IHH Healthcare) generated EBITDA profits in China, in 2023 and H1, 2024.

IHH Healthcare's operations in China appear to be far more efficient than RMG's. RMG may need to urgently reconsider its investment strategy in China, as the large asset base and consistent revenue growth aren't being translated into financial success. This calls for de-risking its operations and possibly scaling down RMG's exposure in China, where the returns on investment have been hugely negative. IHH, meanwhile, seems to be on a more sustainable growth trajectory in China. Furthermore, IHH Healthcare has been decreasing its exposure to China in favour of profitable markets (Malaysia, India).

Greater China hospital and healthcare operations performance comparisons: RMG vs IHH

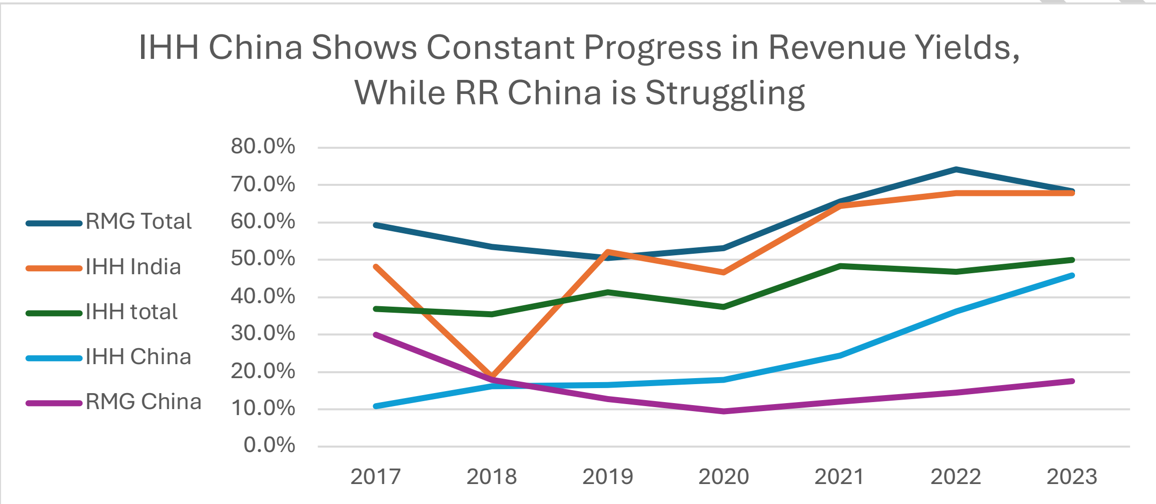

Figure 1. Comparison of Revenue Yields (Rev $/Non-current Assets $ ratio). IHH Healthcare reports consistent Greater China progress in revenue generation per asset, despite the COVID19 obstacles. However, RMG revenues are struggling mightily since 2017, without any hope for net profitability before 2030 at this speed of revenue yield increase.

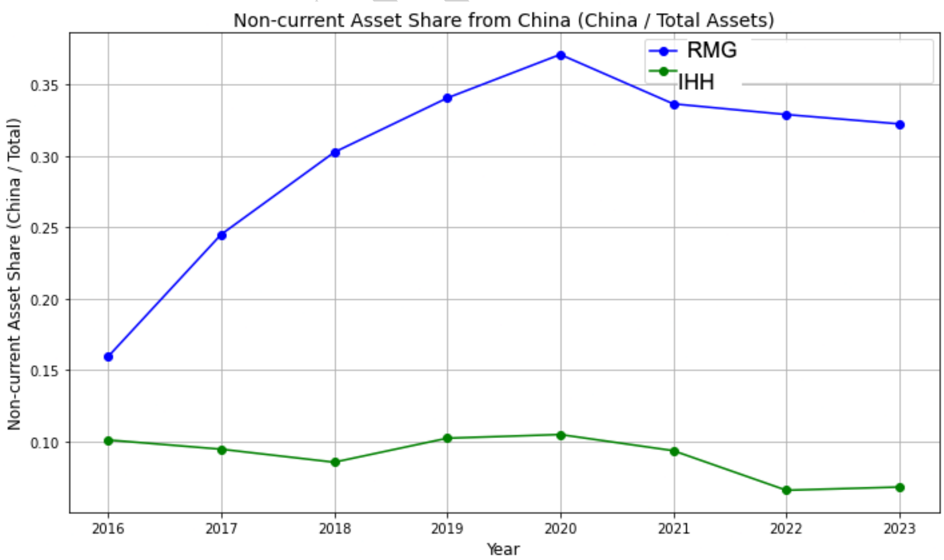

Figure 2. Underperforming RMG China assets account for a massive 1/3 of all RMG's non-current assets. While IHH China generates vastly more revenue per non-current asset compared to RMG China (45.8% vs. 17.5% in 2023), IHH has been decreasing its China exposure to the record lows as ratio of the total non-current assets.

Tackling the continuing annual losses at RMG's Greater China operations and derisking can increase the Group's ROE and ROA; and thus, improve RMG's lagging share performance.

Several factors are contributing to the challenges in Greater China: the ongoing property market collapse, trade wars, the exodus of expatriates post-COVID, intense local competition in healthcare, a depreciating local currency against the SGD, the "common prosperity" initiative, deteriorating local regulations, and weak consumer confidence. As a result, fewer individuals in China can afford the premium services the Group offers. While pandemic-driven revenue growth in Singapore once helped subsidize these Greater China losses, it is now time for an urgent strategic review.

While RMG aims to serve the expat community in China in everything, including in tertiary and specialty medicine, Raffles hospitals in Beijing, Chongqing and Shanghai have no Google Maps pages at all or GM pages with a few reviews!

IHH Group China developments, and Group's profitable growth strategy

IHH China's two main hospitals include the 500-bed Gleneagles Hong Kong and the 450-bed Parkway Shanghai hospital, which has a local equity partner holding 30% equity through Taikang Insurance China. In contrast, RMG Group has invested in hospital operations in China without a local equity partner, aiming to de-risk its investments. IHH opened Gleneagles Chengdu Hospital in 2017, recorded an impairment loss of 166 million RM in 2021, and subsequently realized a gain of 116 million RM from the hospital's disposal in Q1 FY2023.

IHH also opened Gleneagles Hong Kong Hospital in 2017, which became EBITDA-profitable in May 2021, during the height of the COVID-19 pandemic (*while RMG continues to cite COVID19 issues*)! The 450-bed Parkway Shanghai Hospital, which began construction in 2017, became operational in a limited capacity in 2022 and recorded an impairment loss of 353 million RM in 2022.

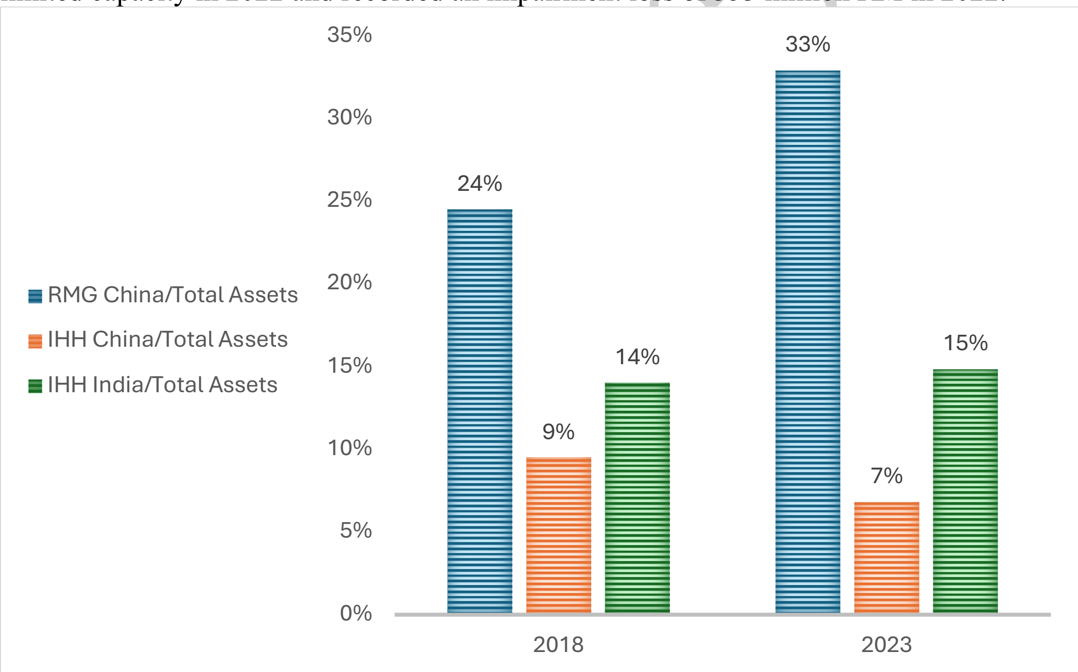

Figure 3. While IHH's China operations are generating higher revenue per non-current asset compared to RMG's China operations, and IHH became EBITDA-positive in China in 2023, IHH is focusing its new investments in regions with meaningful net profits (such as Türkiye). It is time for RMG to also reduce its China risks & losses.

Based on IHH Group CEO Dr Nair-led team's latest strategy, IHH Group will be adding about 3,800 beds – an additional 33% capacity – over the next 5 years, mostly in its profitable markets of IHH India, Malaysia and Türkiye. IHH group has identified "brownfield" expansion as the best option, given its faster ramp up, recruitment of doctors and lower CAPEX of between 30% and 40%. Note that "greenfield" hospital building typically takes around 3-5 years to achieve EBITDA breakeven (compared with between 6 and 18 months for "brownfield" hospital expansion).

Previously, RMG has considered expanding the hospital operations to Malaysia. In December 2004, RMG pulled out of its proposed acquisition of Malaysia's Penang-based Island Hospital Sdn Bhd for *RM 110 million*, as RMG and Island Hospital could not resolve issues related to due diligence, according to Dr Prem Kumar Nair, who was then RMG's General Manager of Business Development.

Twenty years later, in September 2024, under the leadership of IHH Group CEO, Dr Prem Kumar Nair, IHH's indirect unit, Pantai Holdings, signed an agreement to acquire Island Hospital in Penang for an equity consideration of *RM 3.92 billion* in cash. Notably, Penang accounted for half of Malaysia's 2023 revenue from medical tourism, which was valued at US$444 million. (ref).

In summary, RMG can and should learn a lot from the experiences of its competitors, including IHH Healthcare, to generate profitable growth in local and overseas markets, and to cut exposure to loss-making and challenging markets.

Investing in China's Healthcare After COVID19 – Foreign Private Hospitals

In recent years, China's healthcare sector has faced significant difficulties. In an effort to lower medical costs amidst slowing economic growth, the Chinese government has targeted corruption within the healthcare system. By August 2023, over 170 hospital administrators were under investigation, and several Chinese healthcare companies withdrew their IPO plans. The sector has seen a staggering $142 billion in market value wiped out. This crackdown aligns with Xi Jinping's "common prosperity" initiative, which aims to reduce inequality and address the rising cost of living in China (ref.).

Moreover, hospitals in China were once able to mark up pharmaceutical products, allowing them to generate healthy profits. However, the 2020 reform of centralized drug procurement forced thousands of private hospitals into bankruptcy, while government subsidies to public hospitals further disrupted the market.

Thanks to strong revenues and earnings in Singapore, as well as COVID-19-related government support in 2021 and 2022, RMG's financial drain from Greater China was less noticeable. However, with higher interest costs and challenges in the Group's Singapore market (such as high staff turnover and regional competition for medical tourism), RMG must urgently address its Greater China operations to ensure Group's sustainable growth.

It is time to slow and reverse the unchecked destruction of shareholder value caused by funnelling after-tax profit cash generated in Singapore into Greater China solely for the sake of showing growth at all costs.

RMG Management and Board of Director need to conduct an objective strategic review of its China investments and stop throwing good money after bad. Tackling the China drain can help the Group improve its ROE and thus its share performance further, a performance which has been stagnant since 2012! The Group should explore partnerships that can help absorb some of the risks associated with its Greater China investment, such as collaborating with local partners (e.g., China Life Insurance) for an equity stake sale.

Initiatives for Sustainable and Profitable Growth at RMG Group for All Shareholders

- Provide the audited income statement and balance sheet of Greater China operations. Avoid the fate of CDL investments in China's Sincere Property Group.
- As 100% foreign owner of the hospitals in Greater China, carve out these hospitals into a new company. Instead of using after-tax retained SGD earnings from the Group and funnelling them into the hospitals in China, use local borrowings and bank loans in CNY to minimize interest rate risks, to optimize capital structure, and to minimize depreciating CNY currency risks. Carve out these hospitals to minimize regulatory and legal actions against RR Group.
- Focus on improving staff training and retention in Singapore (the key market) while reducing the financial resources drain, management time drain, and talent drain into the bottomless pit of loss-making Greater China operations.
- Invest in regional talent development and talent pipeline, particularly in markets like Malaysia and the Philippines.
- Increase investments in Vietnam, benefiting from manufacturing growth outside China, and in Japan, which offers a stable democracy and attractive yen levels.

- Invest in local marketing and business development offices in Dubai (UAE) and Kazakhstan to tap into high-value customers from the GCC (Gulf Cooperation Council) and CIS (Commonwealth of Independent States).
- Cooperate with other Singapore-based companies for synergies (for example, with Catalist-listed Don Agro for medical tourism. Don Agro has recently acquired cancer treatment-focused Евроонко [Euro-Onco] clinics in Russia).
- Tackle the key person risk: a strategic overview and business streamlining are even more urgent given the looming succession planning issue, as Executive Chairman and majority shareholder Dr. Loo, at 75 years old, is nearing retirement.

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Sakura Research: Call for Strategic Review at RMG. Part III

RHI: Capital-Intensive Operations with High Risk and a History of Losses

The Group's Founder/Executive Director and the majority shareholder, Dr Loo Choon Yong, has been Chairman of Raffles Health Insurance Pte Ltd (RHI) for many years now. In our earlier report, we covered the recent high turnover among the executives of the Group's senior management. The same meagre communication is evident with the loss-making health insurance/reinsurance business arm (RHI). Juliet Khew, Deputy Managing Director of RHI, was listed as part of senior management in Group's 2023 annual report. According to her LinkedIn profile, Ms. Khew left RMG in August 2024. **Based on SGX announcements, there have been no updates regarding leadership changes at Raffles Health Insurance.** Ms. Khew joined the Group as General Manager of RHI in February 2020 and remained in that role until February 2022.

During a recent AGM, RHI's business model was compared to that of Kaiser Permanente, a non-profit organization in the United States, where the Group combines healthcare insurance with integrated medical services to deliver high-quality care. *RHI claims that by offering healthcare insurance and providing access to its own medical facilities, it can pool risks and leverage cost advantages as the owner of those facilities.* Specifically, RHI asserts that it can offer better care to its insured individuals and corporate clients while controlling costs by utilizing its in-house medical services, which are covered under the insurance policies it provides.

However, questions remain about the validity of RHI's claimed cost advantages. RHI's hospitals are positioned as premium healthcare providers with high operational costs, particularly in terms of staffing costs. **Given that RHI has been operating for nearly two decades, can the Group provide empirical evidence to support its claims of cost efficiencies?** A peer comparison analysis, including data on operating margins, staffing costs, and overall efficiency, would help substantiate these assertions. *As shareholders, we do hope RMG management does not intend to operate RHI as a loss-making or barely-profitable non-profit operation, similar to U.S. non-profit Kaiser Permanente.*

Furthermore, we have concerns regarding the capacity and expertise of the RHI insurance team. The insurance business is inherently complex and risky, with numerous factors that can impact performance. There is a growing perception that RMG management may be overextending itself in an attempt to drive revenue growth at all costs for the Group. For instance, RHI has entered into a partnership with Bupa Global, a well-established international insurance administrator. While Bupa receives a share of the premiums collected, it appears that the majority of the claims and loss risks are being shouldered by RHI. This raises concerns about the long-term sustainability of this model and whether RHI has the necessary resources and expertise to effectively manage these risks.

Previously, RMG's insurance revenues were combined with several other revenue streams under the broader category of Healthcare Services, which also included managed care, GP clinic services, and COVID-19 vaccination centers. This made it difficult for shareholders to analyse the performance of the insurance business specifically. However, with the adoption of Singapore Financial Reporting Standards (International) 17 Insurance Contracts (SFRS(I) 17) on January 1, 2023, RMG's insurance business is now more transparent. We can now clearly track the revenues generated by the Insurance Services Division, which grew to a respectable S$144.5 million in 2023, an increase of 25.6% compared to S$115 million in 2022.

However, despite this growth in revenues, operating profits were less than satisfactory. In 2022, RHI generated a profit before tax of approximately S$531,000, with insurance contract liabilities totalling S$72.5 million. *In contrast, in 2023, RHI posted a loss of approximately S$7 million before tax, while insurance contract liabilities increased significantly to S$91.4 million—representing a substantial 19% of the Group's total liabilities.* These results are concerning, especially given that funding costs have risen and 'risk-free' government bond yields are currently above 3-4%.

Given the importance of the Insurance Services Division—accounting for approximately 20% of the Group's total annual revenues in 2023 (total Group Revenue: S$706.9 million)—we encourage the Group to provide shareholders with more detailed insights and transparency into the performance of this segment. The segment has been in operation since 2005, and a deeper understanding of its financial health is crucial for RMG minority investors.
Key performance indicators for the Group’s Insurance segment should include, but not be limited to, the following metrics from 2018 to 2023:

- *Combined Ratio (Medical Loss Ratio + Expense Ratio)*
- *Premium Revenue Growth*
- *Operating Income/(Loss)*
- *Return on Equity (ROE)*
- *Insurance Contract Liabilities*

We believe that transparent reporting on these metrics will help both shareholders and the Board of Directors better assess the financial position and future prospects of the Insurance Services Division. RHI was incorporated in 2004, and two decades is more than enough time for the Group to provide a clear and transparent assessment of its performance relative to the capital invested. If the Group cannot operate the Insurance segment sustainably and profitably to generate attractive risk-adjusted returns, management should consider divesting this capital-intensive, high-risk business.

Raffles Health Insurance	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**Industry Average, Peer comparison**
Combined Ratios (Medical Loss Ratio + Expense Ratio)							
Premium Revenue Growth							
Operating Income/(Loss)					S$531,000 ?	(S$7000,000) ?	N/A
Return on Equity (ROE)							
Insurance contract liabilities					S$72,517,000	S$91,435,000	N/A

Table 1. After nearly two decades of operation, we think that Raffles Health Insurance must become more transparent and honest about the profitability and return on equity (ROE) of its operations.

Raffles Medical Group is at a critical juncture, facing frequent senior management changes, significant ongoing losses in its Greater China investments, and underperformance in its insurance business—issues that are reflected in the Group's declining share price. In light of these challenges, greater transparency in the Group’s financial results and a strategic review of its RHI insurance business have become crucial, particularly as the company faces succession planning concerns and worsening business conditions in China.
The Group’s management must focus on sustainable growth, prioritize its most profitable operations, and concentrate on its core competencies. Achieving double-digit Return on Equity (ROE) growth, in line with industry peers like IHH Healthcare, should be a key strategic target moving forward. *Based on a net tangible book value peer (IHH) comparison valuation and under-appraised prime Singapore properties ripe for mark-to-market fair value gains, we reckon RMG should be trading at a market cap of over S$5 billion, instead of its current market cap of ~S$1.6 billion only.*

Team Sakura Research has great respect for the team at RMG and its long-standing history. We remain fully committed to our research-driven activism and are open to engaging with management & the BoD to help streamline operations, enhance transparency, and maximize shareholder value.

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