

Raffles Medical Group

Potential capital-management surprises

OUTPERFORM

Maintained

S\$1.06

Target: S\$1.19

Mkt.Cap: S\$550m/US\$382m

Hospitals

RFMD SP / RAFG.SI

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- **Another stellar quarter.** 2Q09 PATMI was up 14% yoy to S\$8.8m, within Street and our expectations. 2Q09 EPS accounts for 25% of our FY09 estimate.
- **2Q09 revenue grew 6.5% yoy to S\$54m.** Underpinning this growth was revenue from Healthcare Services and Hospital Services, which grew 12.3% and 4.8% yoy respectively. Hospital volume was up 5% yoy, driven by a 13% yoy increase in foreign patients, partially offset by a 7% yoy decline in local patient volume. Raffles Hospital's average occupancy was stable, at 50-60%.
- **No stalling of operating efficiencies.** RFMD has always been disciplined on the cost side. The group managed to limit operating cost increases to 5.2% yoy, below the topline increase. 2Q09 EBITDA margins expanded 0.9% pt yoy and 3.4% pts qoq to 23.5%. Staff costs rose only 3.4% yoy. Group EBIT grew 12% yoy to S\$10.9m, suggesting intact operating efficiencies.
- **Balance sheet beefed up.** The group continued to generate strong operating cash flow, up 33% yoy to S\$13.9m in 2Q09. It also had net cash of S\$27.5m (S\$21.8m in 1Q09), despite the opening of three new clinics recently.
- **Possible capital-management surprises.** Management plans to open five new clinics every year. At the same time, it is in the planning stage of decanting space within its flagship hospital to make room for more beds. We believe there are ample organic growth opportunities in Singapore, which are not taxing for the group's balance sheet, and possibly paving the way for capital-management surprises.
- **Maintain Outperform; target price raised to S\$1.19 (from S\$1.04).** With its defensive business that delivers consistent earnings, RFMD is on track to meet our 11% earnings growth forecast for FY09. No changes to our estimates. However, our target price has been raised to S\$1.19, now based on 16x CY10 P/E (from S\$1.04, 14x CY10 P/E) to reflect a recovery in sector multiples led by Singapore peers. On the back of its sound fundamentals, healthy operating cash flows, and strong balance sheet, maintain Outperform.

Results comparison

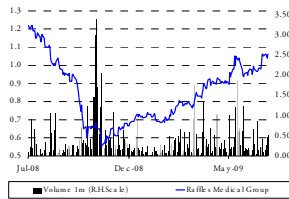
FYE Dec (\$ m)	2QFY09	2QFY08	yoy % chg	qoq % chg	2QFY09 Cum	2QFY08 Cum	yoy % chg	Prev. FY09F	Comments
Revenue	53.9	50.6	6.5	13.7	109.9	98.0	12.1	222.8	In line, Healthcare +12.3% yoy, Hospital +4.8% yoy
Operating costs	(41.2)	(39.2)	5.2	8.8	(85.9)	(77.1)	11.4	(176.2)	In line, costs contained, staff cost up 3.4% yoy
EBITDA	12.7	11.4	10.8	33.3	24.0	20.9	14.8	46.6	In line with higher revenue and manageable cost
EBITDA margin (%)	23.5	22.6	4.1	17.2	21.9	21.4	2.4	20.9	Margins continued to climbed due to operating efficiency
Depn & amort.	(1.7)	(1.6)	4.4	9.0	(3.5)	(3.2)	7.6	(6.7)	Depreciation on PPE climbed 4.5% yoy
EBIT	10.9	9.8	11.9	38.1	20.6	17.7	16.1	39.9	In line, 2Q09 forms 27% of FY09F
Interest expense	(0.1)	(0.2)	(36.1)	(33.1)	(0.2)	(0.3)	(25.6)	(0.4)	In line
Interest & invt inc	0.0	0.0	(32.7)	(54.2)	0.1	0.1	(29.8)	0.3	Lowered yoy with conservative investment
Exceptionals	-	-	-	-	-	1.0	-	-	
Pretax profit	10.9	9.7	12.5	38.6	20.4	17.5	16.5	39.8	Within expectation; strong operational showing
Tax	(2.1)	(1.9)	7.8	19.8	(3.8)	(3.7)	3.4	(4.7)	In line with higher pre-tax
Tax rate (%)	19.1	19.9	-	-	18.5	20.9	-	11.7	
Minority interests	(0.0)	(0.0)	(26.7)	83.3	(0.1)	(0.0)	52.4	(0.1)	
Net profit	8.8	7.7	13.8	43.9	16.6	13.8	19.9	35.0	Within consensus
EPS (cts)	1.7	1.5	13.5	43.1	3.2	2.7	19.6	6.8	
Core net profit	8.8	7.7	13.8	43.9	16.6	13.8	19.9	35.0	2Q09 core profit forms 25.1% of our FY09 estimates
Core EPS (cts)	1.7	1.5	13.5	43.1	3.2	2.7	19.5	6.8	1H09 core profit forms 47.2% of our FY09 estimates

Source: Company, CIMB-GK Research

Financial summary

FYE Dec	2007	2008	2009F	2010F	2011F
Revenue (S\$ m)	168.7	200.8	222.8	255.4	292.7
EBITDA (S\$ m)	31.7	45.4	46.6	53.5	60.7
EBITDA margins (%)	18.8%	22.6%	20.9%	21.0%	20.7%
Pretax profit (S\$ m)	28.9	38.4	39.8	47.0	54.4
Net profit (S\$ m)	23.4	31.5	35.0	38.4	44.5
EPS (S cts)	4.5	6.1	6.8	7.4	8.6
EPS growth (%)	46.5%	36.7%	10.9%	9.8%	15.9%
P/E (x)	23.7	17.4	15.7	14.3	12.3
Core EPS (S cts)	6.4	6.1	6.8	7.4	8.6
Core EPS growth (%)	110.0%	(4.7%)	10.9%	9.8%	15.9%
Core P/E (x)	16.6	17.4	15.7	14.3	12.3
FD core EPS (S cts)	6.4	6.1	6.8	7.4	8.6
FD core P/E (x)	16.6	17.4	15.7	14.3	12.3
Gross DPS (S cts)	2.5	2.5	2.5	2.5	2.5
Dividend yield (%)	2.3%	2.4%	2.4%	2.4%	2.4%
P/BV (x)	2.7	2.5	2.2	2.0	1.8
ROE (%)	14.9%	14.9%	15.0%	15.0%	15.6%
Net gearing (%)	2.7%	N/A	N/A	N/A	N/A
Net cash per share (S\$)	N/A	0.03	0.06	0.13	0.20
P/FCFE (x)	(2.4)	15.2	28.1	12.2	11.7
EV/EBITDA (x)	17.6	11.7	11.1	9.0	7.3
% change in EPS estimates			N/A	N/A	N/A
CIMB/Consensus (x)			1.01	1.00	0.99

Price chart



Source: Bloomberg

Source: Company, CIMB-GK Research, Bloomberg

Figure 1: Sector comparisons

	Bloomberg		Price	Target	Mkt cap	Core	3-yr EPS	P/BV	ROE	Div
	ticker	Recom.	(Local)	price	(US\$ m)	P/E (x)	CAGR	(x)	(%)	yield (%)
				(Local)		CY2009	(%)	CY2009	CY2009	CY2009
Raffles Medical	RFMD SP	O	1.06	1.19	382	15.7	12.1	2.2	15.0	2.4
Parkway	PWAY SP	O	1.87	2.00	1,468	21.3	0.3	1.5	7.2	1.6
Bumrungrad	BH TB	O	25.75	31.00	552	15.1	7.9	3.4	24.1	3.3
Simple average						17.2	5.7	2.4	15.4	2.5

O = Outperform, N = Neutral, U = Underperform, TB = Trading Buy and TS = Trading Sell
Source: Company, CIMB-GK Research

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OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

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STOCK RECOMMENDATIONS

OUTPERFORM: Expected positive total returns of 15% or more over the next 12 months.

NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.

UNDERPERFORM: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 3 months.

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