Raffles Medical

S$1.71 - BUY

Yew Kiang Wong
yew.kiang.wong@clsa.com
(65) 64167885

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Singapore
Health Care

Reuters	RAFG.SI
Bloomberg	RFMD SP

Priced on 26 April 2010
STI @ 3,002.6

12M hi/lo S$1.75/0.86

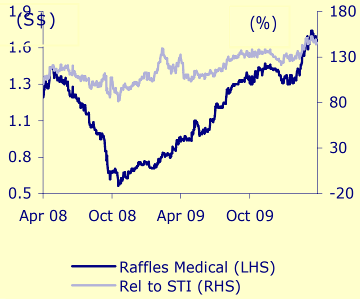
12M price target	S$1.97
±% potential	+15%
Target set on	27 Apr 10
Shares in issue	517.7m
Free float (est.)	50.0%
Market cap	US$653m

3M average daily volume
S$1.0m (US$0.7m)

Major shareholders
Raffles Medical Holdings 39.7%
Dr Loo Choon Yong 10.3%

Stock performance (%)

	1M	3M	12M
Absolute	1.8	26.7	85.9
Relative	(1.5)	15.6	14.7
Abs (US$)	4.4	30.0	102.6



Source: Bloomberg

www.clsa.com

Clean bill of health

Results Review

Raffles Medical reported results in line with our expectations with revenue growth of 10.2% YoY driven by strong showing in both its hospital (+12%YoY) and healthcare segment (+8.8%YoY). Volume growth was the key driver here with foreign patient load growing 24% YoY originating from a well diversified base. We have raised our target price to S$1.97 by pegging our earnings to 14x FY11CL EV/Ebitda which is in line with historical discount of 10% to its larger peer, Parkway.

Kicked off the year with results in line

Raffles Medical reported results in line with our expectations. Revenue for the quarter of S$56.2m grew 10.2% YoY on the back of strong performance from both hospital and healthcare services segments. Staff costs grew at 10.8% YoY, a much faster pace than topline growth due to the cessation of government's concessions announced in the 2009 stimulus package. Despite this, operating profit margin saw marginal improvement of 1 ppt from 19.0% in 1Q09 to 19.9% for 1Q10. The typically weak first quarter saw net profit of S$9.1m coming in line with our estimates arriving at 22% of our forecast.

Volume driven growth

Operations for the group were strong. Hospital services saw revenue growing 12% YoY driven largely by higher patient load where foreign patient volume grew 24% YoY while local patient growth saw single digit growth year on year. Raffles's well diversified international patient base includes Indonesia, Malaysia, Vietnam, Russia, Brunei, Bangladesh and Papua New Guinea. Higher revenue intensity also lifted healthcare services revenue by 8.8% YoY.

Expanding to meet rising demand

To cope with rising demand, Raffles has increased headcount of doctors and specialists by ~5-10% which has been factored into our numbers. Similarly, the group also commenced operations of a new medical clinic in Changi Business Park in Feb 2010 with another three more clinics slated to be opened for the remaining year which is also reflected in our assumptions.

Maintain BUY, Target price raised to S$1.97

Raffles Medical's share price performance has gone up 21% since our initiation in Mar 2010, outperforming the Singapore market by 15% on a relative basis. We are raising our target price to S$1.97 pegging to 14x FY11 EV/EBITDA from 12x earlier. Our 14x multiple is premised on the EV/Ebitda historical discount of 10% against its larger peer Parkway currently trading at FY11CL 15.5x. We maintain our Buy recommendation for Raffles Medical with a target price of S$1.97 offering 15% upside.

Financials

Year to 31 Dec	08A	09A	10CL	11CL	12CL
Revenue (S$m)	200.8	218.6	244.3	277.6	298.0
Net profit (S$m)	31.6	37.9	41.4	50.7	52.6
EPS (S¢)	6.1	7.3	8.0	9.8	10.2
CL/consensus(8)(EPS%)	-	-	98	100	92
EPS (% YoY)	(17.0)	20.1	9.2	22.5	3.5
PEx (@S$1.71)	28.0	23.3	21.3	17.4	16.8
Dividend yield (%)	1.5	1.8	1.8	1.8	1.8
FCF yield (%)	3.8	4.8	4.0	6.4	5.8
ROAE (%)	14.9	16.1	15.8	17.3	16.0
Price/book (x)	4.0	3.5	3.2	2.9	2.5
Net gearing (%)	(8)	(20)	(25)	(35)	(42)

Source: CLSA Asia-Pacific Markets

Kicked off the year with results in line

Raffles Medical Group (RMG) reported results in line with our expectations. Revenue for the quarter of S$56.2m grew 10.2% YoY on the back of strong performance from both hospital and healthcare services segments. Staff costs grew at 10.8% YoY, a much faster pace than topline growth due to the cessation of government's concessions announced in the 2009 stimulus package. Despite this, operating profit margin saw marginal improvement of 1 ppt from 19.0% in 1Q09 to 19.9% for 1Q10. The typically weak first quarter saw net profit of S$9.1m coming in line with our estimates arriving at 22% of our full year forecast.

Figure 1

Quarterly op profit and margins

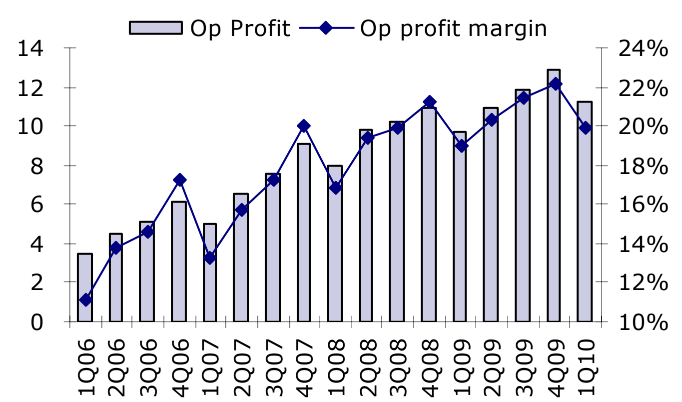
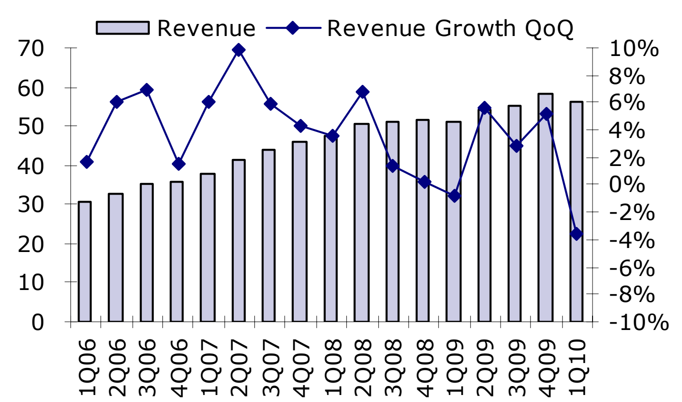


Figure 2

Quarterly revenue and revenue growth



Source: CLSA Asia-Pacific Markets

While the group's net cash position grew from S$49.9m in preceding quarter to S$59m as at 31 Mar 2010, no dividend has been announced for the quarter. We believe Raffles plans to deploy this cash for future acquisitions or expansion via new developments in China or Hong Kong.

Figure 3

1Q10 results summary

(S$mn)	1Q09	4Q09	1Q10	QoQ (%)	YoY (%)
Revenue	51.0	58.3	56.2	(3.6)	10.2
Inventories and consumables used	(5.4)	(6.5)	(6.4)	(2.3)	17.7
Staff costs	(24.9)	(27.6)	(27.6)	0.1	10.8
Depreciation of PPE	(1.7)	(1.7)	(1.7)	(0.8)	(2.5)
Other operating expenses	(9.3)	(10.1)	(9.4)	(7.4)	0.6
Op. profit	9.7	12.9	11.2	(13.3)	15.8
PBT	9.5	12.8	11.1	(13.3)	16.6
Tax	-1.7	-0.9	-2.0	115.5	17.3
Net profit	7.8	11.9	9.1	(23.5)	16.4
Operating profit margin	19.0%	22.1%	19.9%	(2.2)	1.0

Source: CLSA Asia-Pacific Markets

Volume driven growth

Operations for the group were strong. Hospital services saw revenue growing 12% YoY driven largely by higher patient load where foreign patient volume grew 24% YoY while local patient growth saw single digit growth year on year. Raffle's well diversified international patient base includes Indonesia, Malaysia, Vietnam, Russia, Brunei, Bangladesh and Papua New Guinea. Currently, foreign patient still account for about one third of total patient volume. Higher revenue intensity also lifted healthcare services revenue by 8.8% YoY.

Expanding to meet rising demand

To cope with rising demand, Raffles has increased headcount of doctors and specialists by ~5-10% which has been factored into our numbers. Similarly, the group also commenced operations of a new medical clinic in Changi Business Park in Feb 2010 with another three more clinics slated to be opened for the remaining year which is also reflected in our assumptions.

Raffles Medical can easily cope with rising demand by increasing beds with little capex requirement

Figure 4

Hospital Revenue Assumptions

	FY06	FY07	FY08	FY09	FY10CL	FY11CL	FY12CL
Total Hospital Revenue S$$m	73.5	99.0	119.9	129.4	142.7	164.8	173.1
Growth YoY (%)	22%	35%	21%	8%	10%	16%	5%
No of Licensed Beds	380	380	380	380	380	380	380
Operational Bed	150	200	200	200	200	220	220
Utilization rate (%)	60%	60%	60%	60%	63%	63%	63%
Occupied beds	90	120	120	120	126	139	139
Days in Year	365	365	365	365	365	365	365
Total Patient days	32,850	43,800	43,800	43,800	45,990	50,589	50,589
Growth YoY (%)	0%	33%	0%	0%	5%	10%	0%
Average Rev per day (S$)	2,238	2,260	2,738	2,955	3,103	3,258	3,421
Growth YoY (%)	22%	1%	21%	8%	5%	5%	5%

Source: CLSA Asia-Pacific Markets

Figure 5

Healthcare Services Assumptions

	FY06	FY07	FY08	FY09	FY10CL	FY11CL	FY12CL
Healthcare services Rev S$m	60.7	69.7	80.7	89.0	101.5	112.6	124.8
Growth YoY (%)	15%	15%	16%	10%	14%	11%	11%
Number of Medical Clinics							
- Singapore	60	65	70	73	77	80	83
- Hong Kong	4	4	4	3	4	4	4
Total Clinics	64	69	74	76	81	84	87
Average Revenue Per clinic (S$)	2,597	2,766	2,990	3,208	3,432	3,673	3,930
Growth YoY (%)	15%	6%	8%	7%	7%	7%	7%

Source: CLSA Asia-Pacific Markets

Maintain BUY, Target price raised to S$1.97

Raffles Medical's share price performance has gone up 21% since our initiation in Mar 2010, outperforming the Singapore market by 15% on a relative basis. We are raising our target price to S$1.97 pegging to 14x FY11 EV/EBITDA from 12x earlier. Our 14x multiple is premised on the EV/Ebitda historical discount of 10% against its larger peer Parkway currently trading at FY11CL 15.5x. We maintain our Buy recommendation for Raffles Medical with a target price of S$1.97 offering 15% upside.

Figure 6

Parkway premium over Raffles Medical on EV/EBITDA

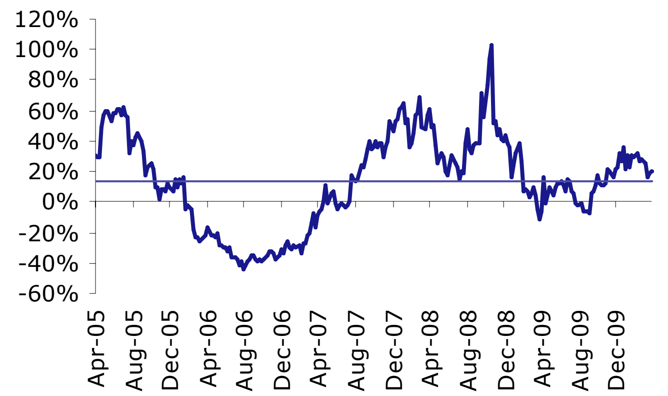
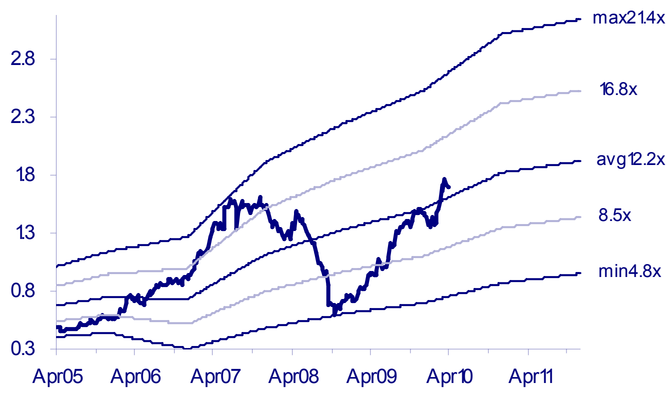


Figure 7

RFMD EV/EBITDA band



Source: CLSA Asia-Pacific Markets

Figure 8

Peer valuations

	Rec	Target Price	Price (LCY)	Mkt cap in US$m	Ave 3mth trading value US$m	PE (x) 10	PE (x) 11	EV/EBITDA (x) 10	EV/EBITDA (x) 11	PB (x) 10	Div Yield (%)	ROE (%)
Raffles Medical Group	BUY	1.97	1.71	653	1.0	21.3	17.4	15.2	12.8	3.2	1.8	16.0
Parkway Holdings	U-PF	3.43	3.33	2,754	6.8	21.6	18.9	16.7	15.5	2.3	0.0	11.1
Bangkok Dusit	NR	NR	24.90	938	22.9	15.7	13.6	7.2	6.7	2.1	3.3	13.3
Apollo Hospitals	BUY	667.0	764.75	1,064	50.6	30.7	22.9	18.3	15.1	3.1	1.3	7.6
Bumrungrad Hospital	NR	NR	29.75	672	11.2	16.6	15.1	9.4	8.5	4.0	3.1	23.0
KPJ Healthcare	NR	NR	2.97	494	3.6	13.6	12.9	9.8	9.0	2.5	3.7	13.6
Bangkok Chain Hospital	NR	NR	5.05	260	6.6	12.1	11.0	6.3	5.6	2.9	4.7	22.6
Thomson Medical	NR	NR	0.71	151	0.1	14.4	12.8	8.5	7.7	1.8	3.8	12.6
Mkt Cap wgt ave ex Raffles Medical				**6,986**		**20.5**	**17.4**	**13.6**	**12.3**	**2.6**	**1.6**	**12.8**

Source: CLSA Asia-Pacific Markets , Bloomberg

Summary P&L forecast (S$m)

Year to 31 December	2008A	2009A	2010CL	2011CL	2012CL
Revenue	**201**	**219**	**244**	**278**	**298**
Operating Ebitda	45	51	57	67	69
Operating Ebit	38	44	51	61	62
Interest income	0	0	1	2	3
Interest expense	(1)	0	(1)	(1)	(1)
Other items	0	1	0	0	0
Profit before tax	**38**	**45**	**51**	**62**	**64**
Taxation	(7)	(7)	(9)	(11)	(12)
Minorities and other	0	0	0	0	0
Profit	**32**	**38**	**41**	**51**	**53**

Summary cashflow forecast (S$m)

Operating Ebit	**38**	**44**	**51**	**61**	**62**
Depreciation/amort	7	7	7	7	6
Working capital - trade	(2)	1	(11)	1	(5)
Other operating items	1	0	0	0	0
Operating cashflow	**44**	**53**	**46**	**68**	**64**
Net interest/taxes/other	(4)	(6)	(7)	(7)	(9)
Cashflow	**40**	**46**	**39**	**61**	**55**
Capital expenditure	(6)	(4)	(4)	(4)	(4)
Acq/inv/disposals	1	0	0	0	0
Free Cashflow	**34**	**43**	**35**	**57**	**51**
Ord div paid/Other items	(11)	(11)	(16)	(16)	(16)
Decrease in net debt	23	32	19	41	35

Summary balance sheet forecast (S$m)

Cash & equivalents	45	74	94	135	170
Debtors - trade	25	24	30	34	37
Inventories - trade	5	5	6	6	7
Other current assets	0	1	1	1	1
Fixed assets	150	146	144	141	139
Intangible assets	0	0	0	0	0
Other term assets	86	86	86	86	86
Total assets	**310**	**337**	**360**	**403**	**439**
Short-term debt	5	5	5	5	5
Creditors - trade	52	52	48	53	51
Other current liabs	9	9	10	13	14
Long-term debt/CBs	22	20	20	20	20
Other long-term liabs	1	1	1	1	1
Minorities/other equity	0	0	0	0	0
Shareholder funds	222	250	276	311	348
Total liabs & equity	**310**	**337**	**360**	**403**	**439**

Ratio anRevenue growth (%)alysis	19.0
7.4	57.5
Op Ebit growth11.32.3 (%)2.8	57.8
Op Ebitda m13.7argin23.1 (%)	22.4
Op E23.4bit m20.9argin (20.7%)	13.6
Net pro17.6fit mar17.0gin (29.5%)	8.917.4
Dividend37.5 pay18.0out (%)18.0	41.014.619.9
Tax rate(34.8) (%)(499.8)(41.8)	17.416.424.2
Ebitda/net int7.0 exp(25.1) (x)(2.1)	123.023.521.8
Net debt/eq8.9uity0.4 (%)(1.2)12.016.0	(8.0)20.418.3

Gross0.4(0.4)30.9 17.3debt/equi15.8ty0.612.5 40.9(%24.8)14.9	30.5
Net deb15.6t/o11.9p18.8 Ebitda223.7 (47.4)(x)10.7(19.9)	18.0
Gro(35.4)ss debt/op9.8 E7.9bitda (x)(1.0)	
Retur(1.6)n on equity0.50.4 (%)	
ROCE16.117.3 (%)	

Source: CLSA Asia-Pacific Markets Return on assets (%)22.429.7

11.713.3

Recommendation history - Raffles Medical RFMD SP

Date	Rec level	Closing price	Target
27 April 2010	BUY	1.71	1.97
10 March 2010	BUY	1.40	1.70

Source: CLSA Asia-Pacific Markets

Key to CLSA investment rankings: BUY = Expected to outperform the local market by >10%; **O-PF** = Expected to outperform the local market by 0-10%; **U-PF** = Expected to underperform the local market by 0-10%; **SELL** = Expected to underperform the local market by >10%. Performance is defined as 12-month total return (including dividends).