CREDIT SUISSE

16 April 2009
Asian Daily

Raffles Medical-- Maintain OUTPERFORM

Interims in line: Resilience in curative services **EPS: ◄► TP: ◄►**

Su Tye Chua / Research Analyst / 6212 3014 / sutye.chua@credit-suisse.com

- Raffles Medical this morning reported 1Q09 results, with revenues up 8% YoY, and earnings jumping 28% YoY to S$7.8 mn. The results were in line with our forecasts, with revenue and net profit achieving 24% and 22% of our full-year estimates respectively.
- An improvement in both the healthcare (+11% YoY) and hospital operations (+5% YoY), reaffirms firm underlying demand across the sector, and its relative resilience against macro uncertainties, although as flagged, growth momentum has slowed at the flagship Raffles Hospital, as indicated by declining tourist numbers.
- Operating margins were 19% in 1Q09, down from 21% in 4Q08 on seasonality, and 17% in 1Q08, reflecting continued operational efficiency gains. Raffles Med's balance sheet remained strong at S$21.8 mn net cash.
- We made minor adjustments to our model, but keep our earnings estimates, and our S$1.65 DCF-based TP intact. We share management's optimism on the growth outlook for curative healthcare services, given strong underlying fundamentals for private healthcare demand. Reiterate OUTPERFORM.

Bbg/RIC	**RFMD SP / RAFG.SI**	**Price (15 Apr 09, S$)**			**0.85**
Rating (prev. rating)	**O (O)**	**TP (S$) (prev. TP)**			**1.65 (1.65)**
Shares outstanding (mn)	518.35	Est. pot. % chg. to TP			95
Daily trad vol–6m avg (mn)	0.4	52-wk range (S$)			1.46 - 0.55
Daily trad val–6m avg (US$ mn)	0.2	Mkt cap (S$/US$ mn)			438.0/ 292.0
Free float (%)	33.0	**Performance**	**1M**	**3M**	**12M**
Major shareholders	Dr Loo Choon Yong (40.0%)	Absolute	5.6	19.0	(32.9)
		Relative	(12.6)	6.4	7.5

Year	12/07A	12/08A	12/09E	12/10E	12/11E
Revenues (S$ mn)	168.7	200.8	215.1	232.0	258.3
EBITDA (S$ mn)	32.4	45.6	46.8	51.5	56.0
Net profit (S$ mn)	22.3	31.6	34.9	39.4	44.0
EPS (S$)	0.04	0.06	0.07	0.08	0.09
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (S$)	n.a.	n.a.	0.06	0.07	0.08
EPS growth (%)	46.4	36.0	11.8	12.9	11.8
P/E (x)	18.8	13.9	12.4	11.0	9.8
Dividend yield (%)	3.0	3.0	3.0	3.6	4.1
EV/EBITDA (x)	13.7	9.2	8.4	7.0	5.8
P/B (x)	2.2	2.0	1.8	1.6	1.5
ROE (%)	11.1	14.2	14.3	14.5	14.6
Net debt/equity (%)	3	net cash	net cash	net cash	net cash

Note 1: Raffles Medical Group (RMG) is a leading medical group and the largest private group practice in Singapore, owning and operating a fully integrated healthcare system comprising hospital, clinics, insurance and consumer healthcare.. Note 2: .

Other snippets from the briefing

Management disclosed that total patient volumes at its Raffles Hospital increased by 5% YoY, driven by an 8% YoY improvement in foreign patient load, which contributed a-third of total patient volumes, and almost 40% of revenues, a similar mix compared to previous quarters. Consequently, local patient volumes stayed flat.

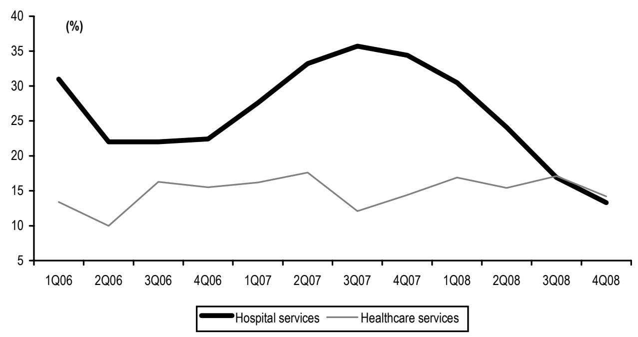
We find it noteworthy that the Raffles Hospital, as well as its doctors and other healthcare staff (included as part of its Group Practice model) have received the Joint Commission International (JCI) accreditation in Dec-08, thus joining the more than 120-strong network of JCI-accredited institutions globally, which also includes another 13 based in Singapore. This qualification, which assesses the quality of systems, processes and clinical outcomes of healthcare organisations through rigorous inspection, with re-accreditation inspections every three years, thus endorses the hospital's healthcare standards.

Figure 1: **Results summary comparison**

(S$mn)	1Q09	1Q08	YoY (%)	FY09E (old)	% of FY09E
Revenue	**51.0**	**47.4**	**7.6**	**210.2**	**24.3**
EBITDA	11.4	9.6	19.3	46.7	24.4
Op profit	**9.7**	**8.0**	**20.9**	**42.7**	**22.7**
PBT	9.5	7.8	21.6	42.0	22.7
Tax	-1.7	-1.7	-1.6	-7.1	23.9
Net profit	**7.8**	**6.1**	**27.7**	**34.9**	**22.3**
EPS (Sct)	1.50	1.18	27.1	6.80	22.1
EBITDA margin (%)	22.4	20.2	-	22.2	-
Op margin (%)	19.0	16.9	-	20.3	-
Net margin (%)	15.3	12.9	-	16.6	-

Source: Company data, Credit Suisse estimates.

Figure 2: **Revenue growth by business (YoY change)**



Source: Company data, Credit Suisse estimates.

Figure 3: **Key forecast changes**

	FY09E			FY10E		
(S$mn)	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenue	**215.1**	**210.2**	**2.3**	**232.0**	**232.6**	**-0.2**
EBITDA	46.8	46.7	0.2	51.5	51.5	0.0
Op. profit	42.8	42.7	0.2	48.2	48.2	-0.1
PBT	42.1	42.0	0.2	47.5	47.5	-0.1
Tax	-7.2	-7.1	0.2	-8.1	-8.1	-0.1
Net profit	35.0	34.9	0.2	39.4	39.4	-0.1
EPS (S$)	0.068	0.068	0.2	0.077	0.077	-0.1

Source: Company data, Credit Suisse estimates.

Figure 1: **Valuation Metrics**

Company	Ticker	CS	Price		EPS chg (%)		TP (%)	Up/dn	EPS		EPS grth (%)		P/E (x)		Div. yld (%)	ROE	P/B
		Rating	Local	Target	T+1	T+2	Chg	(%)	T+1	T+2	T+1	T+2	T+1	T+2	T+1	(%)	(X)
Raffles Medical	RFMD SP	O	0.85	1.65	0	0	0	95	0.1	0.1	12	13	12.4	11.0	3.0	14.3	1.8
Parkway	PWAY SP	O	1.23	2.85	0	0	0	132	0.1	0.1	1	25	13.7	11.0	2.6	7.4	1.0

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM
Source: Company data, Credit Suisse estimates

Companies Mentioned ***(Price as of 15 Apr 09)***
Raffles Medical Group (RAFG.SI, S$.85, OUTPERFORM, TP S$1.65)
Parkway Holdings (PARM.SI, S$1.23, OUTPERFORM [V], TP S$2.85)

Disclosure Appendix

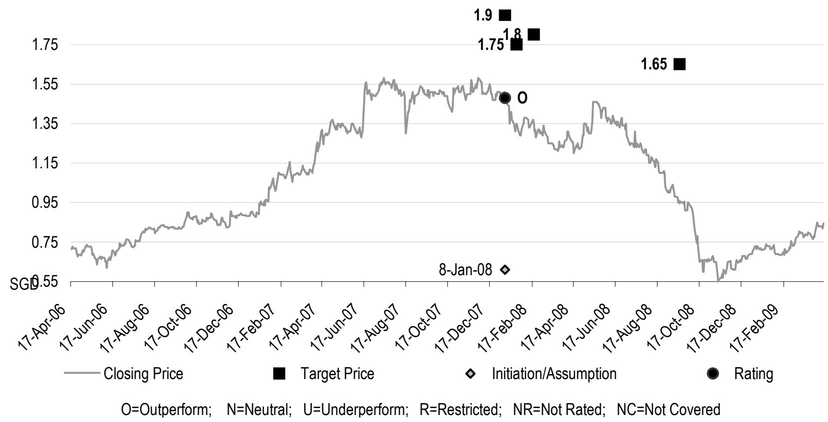
Important Global Disclosures

I, Su Tye Chua, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for RAFG.SI

RAFG.SI Date	Closing Price (SGD)	Target Price (SGD)	Rating	Initiation/ Assumption
08-Jan-08	1.48	1.9	O	X
25-Jan-08	1.35	1.75		
19-Feb-08	1.35	1.8		
18-Sep-08	.945	1.65		



The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

Analysts' stock ratings are defined as follows***:

Outperform (O): The stock's total return is expected to exceed the industry average* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral (N): The stock's total return is expected to be in line with the industry average* (range of ±10%) over the next 12 months.

Underperform (U):** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

**The industry average refers to the average total return of the relevant country or regional index (except with respect to Europe, where stock ratings are relative to the analyst's industry coverage universe).*

***In an effort to achieve a more balanced distribution of stock ratings, the Firm has requested that analysts maintain at least 15% of their rated coverage universe as Underperform. This guideline is subject to change depending on several factors, including general market conditions.*

****For Australian and New Zealand stocks a 7.5% threshold replaces the 10% level in all three rating definitions, with a required equity return overlay applied.*

Restricted (R): In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

Volatility Indicator [V]: A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe* versus the relevant broad market benchmark**:

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.
Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.
**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*
***The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

Credit Suisse's distribution of stock ratings (and banking clients) is:

	Global Ratings Distribution	
Outperform/Buy*	37%	(57% banking clients)
Neutral/Hold*	44%	(56% banking clients)

Underperform/Sell*	18%	(48% banking clients)
Restricted	2%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

See the Companies Mentioned section for full company names.
Price Target: (12 months) for (RAFG.SI)
Method: Our S$1.65 target price for Raffles Medical is based on a discounted cash flow (DCF) methodology of a weighted average cost of capital (WACC) of 10.5% (a risk-free rate of 3.5%, an equity risk premium of 7.0% and a beta of 1), a terminal growth rate of 3%, and a medium-term growth rate of 6% over 2007-2030.
Risks: Key risks to our S$ 1.65 target price for Raffles Medical include: 1) Regulatory changes driven by government policies 2) Macroeconomic slowdown affecting employment and population growth 3) Increasing competition from regional healthcare providers 4) Risk of a pandemic outbreak 5) Inability to attract talent and Increased labour costs

See the Companies Mentioned section for full company names.
Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (RAFG.SI) within the next 3 months.

Important Regional Disclosures

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (RAFG.SI) within the past 12 months.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.
Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.
For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit http://www.csfb.com/legal_terms/canada_research_policy.shtml.

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at anytime after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:
The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.
- Su Tye Chua, non-U.S. analyst, is a research analyst employed by Credit Suisse Singapore Branch.

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at www.credit-suisse.com/researchdisclosures or call +1 (877) 291-2683.
Disclaimers continue on next page.

Disclaimers

ASIA/PACIFIC: +852 2101-6000 **EUROPE: +44 (20) 7888-8888** **UNITED STATES OF AMERICA: +1 (212) 325-2000**