

Raffles Medical----- **Maintain OUTPERFORM**
Interims in line: Resilience in curative services
 EPS: ◀▶ TP: ◀▶

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- 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.

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

(\$\$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.

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	Absolute	5.6 19.0 (32.9)		
	(40.0%)	Relative	(12.6) 6.4 7.5		
Year	12/07A	12/08A	12/09E	12/10E	12/11E
Revenues (\$\$ mn)	168.7	200.8	215.1	232.0	258.3
EBITDA (\$\$ mn)	32.4	45.6	46.8	51.5	56.0
Net profit (\$\$ mn)	22.3	31.6	34.9	39.4	44.0
EPS (\$\$)	0.04	0.06	0.07	0.08	0.09
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (\$\$)	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

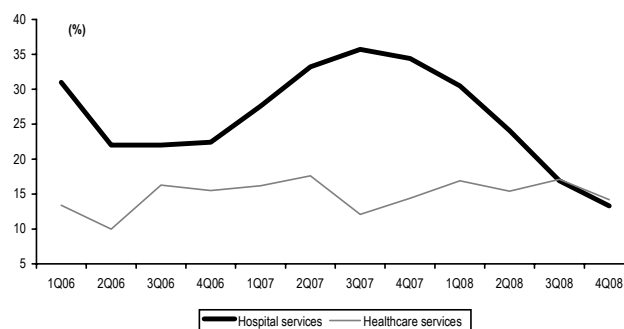
Note 1: Raffles Medical Group (RMG) is a leading medical group and the largest private group practice in Singapore, owning and operating a fully integrated healthcare system comprising hospital, clinics, insurance and consumer healthcare. Note 2: .

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

Figure 2: Revenue growth by business (YoY change)



Source: Company data, Credit Suisse estimates.

Figure 3: Key forecast changes

(\$\$mn)	FY09E			FY10E		
	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 (\$\$)	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 Rating	Price		EPS chg (%)		TP (%)	Up/dn (%)	EPS		EPS grth (%)		P/E (x)		Div. yld (%)	ROE (%)	P/B (X)
			Local	Target	T+1	T+2			T+1	T+2	T+1	T+2	T+1	T+2			
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

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Companies Mentioned (Price as of 15 Apr 09)

Raffles Medical Group (RAFG.SI, S\$.85, OUTPERFORM, TP S\$1.65)

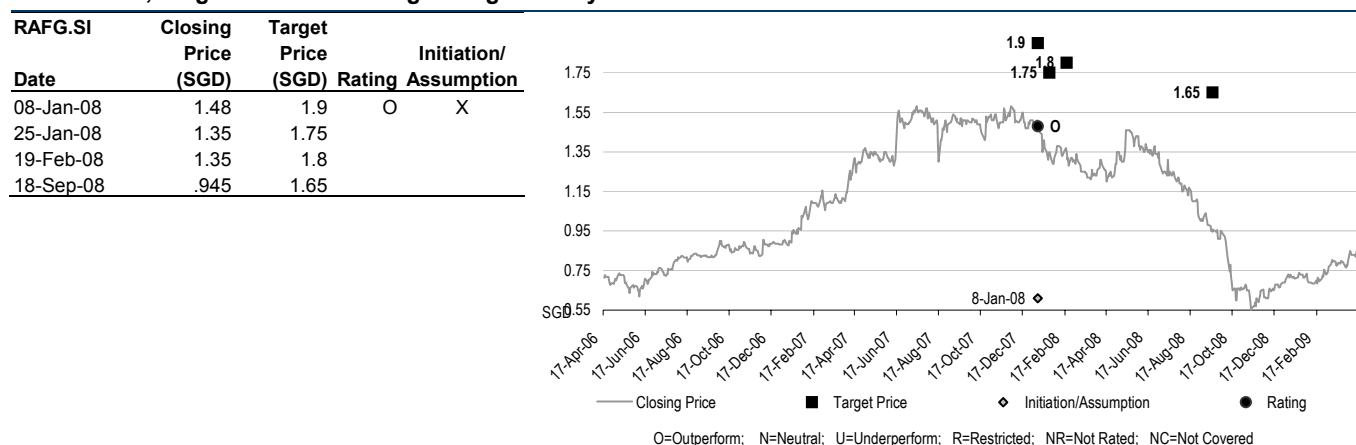
Parkway Holdings (PARM.SI, S\$1.23, OUTPERFORM [V], TP S\$2.85)

Disclosure Appendix

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


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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

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