

# Singapore Company Focus

## Raffles Medical

Bloomberg: RFMD SP | Reuters: RAFG.SI

DBS Group Research . Equity

6 Nov 2009

**HOLD S\$1.35** STI : 2,629.35

**Price Target** : 12-month S\$ 1.41 (Prev S\$ 1.06)

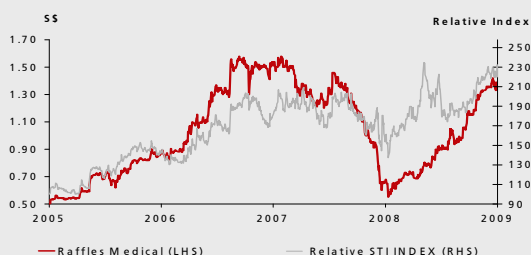
**Reason for Report** : Revised TP; 3Q09 results

**Potential Catalyst**: Acquisitions; special dividends

### Analyst

Andy SIM CFA +65 6398 7969  
andysim@dbsvickers.com

### Price Relative



### Forecasts and Valuation

FY Dec (\$ m)	2008A	2009F	2010F	2011F
Turnover	201	214	235	264
EBITDA	46	51	55	63
Pre-tax Profit	38	43	47	54
Net Profit	32	36	39	45
Net Pft (Pre Ex.)	32	36	39	45
EPS (S cts)	6.1	6.9	7.5	8.6
EPS Pre Ex. (S cts)	6.1	6.9	7.5	8.6
EPS Gth Pre Ex (%)	34	13	9	15
Diluted EPS (S cts)	6.0	6.8	7.4	8.5
Net DPS (S cts)	2.5	3.0	3.0	3.0
BV Per Share (S cts)	42.9	47.1	51.6	57.2
PE (X)	22.2	19.7	18.1	15.7
PE Pre Ex. (X)	22.2	19.7	18.1	15.7
P/Cash Flow (X)	18.3	16.3	14.9	13.1
EV/EBITDA (X)	14.9	12.8	11.3	9.4
Net Div Yield (%)	1.9	2.2	2.2	2.2
P/Book Value (X)	3.1	2.9	2.6	2.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	14.9	15.3	15.2	15.8
<b>Earnings Rev (%)</b> :		2.1	1.9	0.8
<b>Consensus EPS (S cts)</b> :		6.9	8.0	9.4

**ICB Industry** : Health Care

**ICB Sector**: Health Care Equipment & Service

**Principal Business**: Raffles Medical Group Ltd. is a Singapore-based company that is principally engaged in the provision of integrated healthcare services.

*Source of all data: Company, DBS Vickers, Bloomberg*

## No surprises

- **3Q09 net profit (+16% yoy) within expectations**
- **Driven by growth in revenue from Hospital and Healthcare Services, and margin expansion**
- **Strong balance sheet; net cash of \$35m**
- **Maintain Hold, TP: S\$1.41.**

**3Q09 results in line.** Headline net profit of S\$9.5m (+15.6% y-o-y, +8% q-o-q) was within our expectations. This was driven by an 8% y-o-y increase in revenues to S\$55.4m as well as improvement in operating margins (21.4% in 3Q09 vs 19.8% in 3Q08), due to a slower increase in staff costs (helped by Jobs Credit of S\$0.7m) and lower other operating expense.

**Foreign patients up, local flat.** Hospital and Healthcare Services divisions registered revenue growth of 8.1% and 9.3%. Management shared that revenue from foreign patients grew by c.16% yoy, arising from +9% growth in volume and +7% growth in pricing. Indonesians formed the bulk of foreign patients, accounting for 22%, followed by Russians at 7%. The Group had made conscious efforts to diversify their sources of patients. Revenues from local patients was almost flat yoy.

**Net cash of S\$35m (7 Scents per share).** Cash generated from operations for 3Q09 was S\$13.1m and net cash position of the Group grew to S\$35m from S\$27.5m as of Jun'09 and S\$18m as of Dec'08. We expect this to rise further towards our forecast of S\$48m by year's end.

**Maintain Hold, TP raised to S\$1.41.** We raised our TP to S\$1.41 as we raised our peg to 20x, being the average, on FY09/10F earnings (from 16x). We see management delivering very stable growth, but from a valuations viewpoint, we see limited upside from our TP and lack of immediate upside/downside catalyst. Maintain Hold.

### At A Glance

Issued Capital (m shrs)	519
Mkt. Cap (S\$m/US\$m)	701 / 502
Major Shareholders	
Raffles Medical (%)	39.8
Loo Choon Yong (%)	10.2
Free Float (%)	50.0
Avg. Daily Vol.('000)	314

## Results Summary and Comments

FY Dec (\$m)	3Q08	2Q09	3Q09	3Q Chg y-o-y	q-o-q chg %	9M08	9M09	Chg y-o-y	Comments
Sales	51.3	53.9	55.4	8%	3%	149.3	160.3	7%	Topline growth in line with expectations. Growth from Hospital (+8.1%) and Healthcare (+9.3%) divisions. Foreign patients vol grew 9% yoy
Other Operating Income	0.0	0.0	0.1	nm	nm	0.4	0.1	-81%	
<i>Inventories and consumables used</i>	(5.4)	(6.4)	(6.1)	14%	-5%	(16.9)	(18.0)	6%	Higher in 3Q arising from precautions from H1N1
<i>Purchased and contracted services</i>	(3.3)	(4.2)	(3.8)	13%	-10%	(9.9)	(11.7)	19%	Higher insurance claims from growth in insurance premiums
<i>Staff costs</i>	(25.1)	(25.5)	(26.8)	7%	5%	(73.7)	(77.3)	5%	Lower than topline due to operating efficiencies and Jobs Credit (c.\$0.7m/qtr)
<i>Depreciation of PPE</i>	(1.7)	(1.7)	(1.7)	4%	2%	(4.9)	(5.2)	7%	In line with expectations
<i>Operating lease expenses</i>	(1.1)	(1.4)	(1.3)	14%	-5%	(3.6)	(3.9)	9%	
<i>Other operating expenses</i>	(4.5)	(3.8)	(3.9)	-14%	3%	(12.9)	(11.9)	-8%	Lower utilities and commissions
Total operating expenses	(41.1)	(43.0)	(43.6)	6%	2%	(121.8)	(128.0)	5%	Lower than topline due to operating efficiencies
Operating profit	10.2	10.9	11.9	17%	8%	27.9	32.4	16%	Within expectations
Interest Income	0.1	0.0	0.0	-40%	0%	0.2	0.1	-33%	
Interest Expense	(0.2)	(0.1)	(0.1)	-37%	-2%	(0.5)	(0.3)	-30%	Lower debt levels
Pretax Profit	10.1	10.9	11.8	17%	8%	27.6	32.2	17%	
Tax	(1.9)	(2.1)	(2.3)	24%	11%	(5.5)	(6.1)	10%	
Minority Interests	0.0	(0.0)	(0.0)	nm	nm	(0.0)	(0.1)	nm	
Net Profit	8.2	8.8	9.5	15%	8%	22.1	26.0	18%	Within expectations
Margins (%)	3Q08	2Q09	3Q09	Chg ppt yoy	Chg ppt qoq	9M08	9M09	Chg ppt yoy	Comments
EBIT Margin	19.8	20.3	21.4	1.6	1.1	18.7	20.2	1.6	Improved operational efficiencies, helped partially by Jobs Credit 9M in line with our full year forecasts
Pre-tax Margin	19.6	20.2	21.3	1.7	1.1	18.5	20.1	1.6	
Net Margin	16.1	16.3	17.1	1.0	0.8	14.8	16.2	1.5	
Division Revenue growth y-o-y	3Q08	2Q09	3Q09						
Healthcare	16.9%	12.3%	9.3%						
Hospital	17.1%	4.8%	8.1%						
Total	17.0%	6.5%	8.0%						

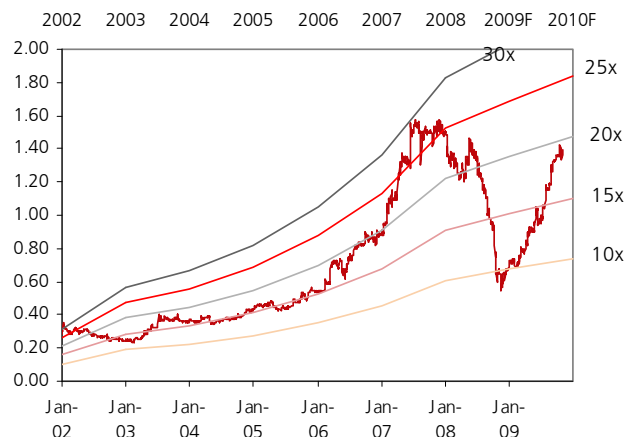
Source: Company, DBS Vickers

Historical PER (x) – Average at c. 20x



Source: Bloomberg, DBSVickers

PE trading bands



Source: Bloomberg, DBSVickers

Peers' valuation table

Company	Curr	Last Px	Mkt cap (US\$)	Hist. PE (x)	PE Curr Yr (x)	PE Nxt Yr (x)	P/B (x)	P/S (x)	Sales (US\$)	Opg Income (US\$)
Raffles Medical Group Ltd	SGD	1.39	515.8	21.0	20.4	18.1	3.1	3.5	102.4	27.6
Parkway Holdings Ltd	SGD	2.41	1,946.1	54.8	26.7	22.0	2.0	2.8	675.3	62.0
Thomson Medical Centre Ltd	SGD	0.63	130.4	14.3	12.5	11.0	1.7	2.7	48.1	8.5
Pacific Healthcare Holdings Ltd	SGD	0.10	20.1	na	na	na	0.6	0.4	57.1	-2.9
Health Management Int'l Ltd	SGD	0.10	34.4	na	na	na	1.6	1.0	35.6	-1.3
Healthway Medical Corp Ltd	SGD	0.13	127.5	13.0	na	na	1.3	1.2	57.8	8.7
Primary Health Care Ltd	AUD	6.00	2,601.1	19.4	14.2	13.0	1.2	1.7	1,197.3	245.2
Ramsay Health Care Ltd	AUD	10.53	1,917.6	20.6	13.6	12.3	2.8	0.6	2,818.2	250.2
Healthscope Ltd	AUD	4.62	1,308.3	15.9	12.9	11.9	1.3	0.7	1,471.3	155.1
Bangkok Dusit Medical Service Pcl	THB	24.40	886.2	21.8	18.5	16.2	2.4	1.4	638.4	76.8
Bumrungrad Hospital PCL	THB	28.50	620.7	17.0	17.8	16.4	4.0	2.4	258.1	43.4
Bangkok Chain Hospital PCL	THB	4.80	238.6	12.2	10.4	9.7	3.0	1.8	126.2	29.2
				<u>22.2</u>	<u>16.3</u>	<u>14.5</u>				
Medcath Corp	USD	8.89	174.6	17.4	12.3	12.7	0.5	0.3	614.0	45.0
Universal Health Services Inc	USD	57.27	2,600.5	12.6	11.9	11.3	1.6	0.5	5,022.4	410.2
Community Health Systems Inc	USD	33.06	3,072.4	13.2	12.6	11.2	1.6	0.3	10,840.1	983.6
LifePoint Hospitals Inc	USD	28.55	1,564.1	11.3	11.7	10.9	0.9	0.5	2,700.8	317.7
Health Management Associates Inc	USD	6.41	1,580.9	14.2	13.3	11.8	3.5	0.3	4,451.6	396.2
Apollo Hospitals Enterprise Ltd	INR	526.20	685.7	30.6	26.4	23.2	2.2	1.9	340.4	35.2

Source: Bloomberg, DBSVickers

## Raffles Medical

## Income Statement (\$\$ m)

FY Dec	2008A	2009F	2010F	2011F
Turnover	201	214	235	264
Other Opnq (Exp)/Inc	(162)	(171)	(188)	(210)
<b>Operatina Profit</b>	<b>39</b>	<b>43</b>	<b>47</b>	<b>54</b>
Other Non Opq (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	(1)	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
<b>Pre-tax Profit</b>	<b>38</b>	<b>43</b>	<b>47</b>	<b>54</b>
Tax	(7)	(7)	(8)	(9)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
<b>Net Profit</b>	<b>32</b>	<b>36</b>	<b>39</b>	<b>45</b>
Net Profit before Except.	32	36	39	45
EBITDA	46	51	55	63
Sales Gth (%)	19.0	6.7	9.7	12.3
EBITDA Gth (%)	36.0	11.3	8.3	13.7
Opg Profit Gth (%)	38.1	11.2	8.2	14.6
Net Profit Gth (%)	(12.0)	12.9	9.0	15.3
Effective Tax Rate (%)	17.4	17.0	17.0	17.0

## Cash Flow Statement (\$\$ m)

FY Dec	2008A	2009F	2010F	2011F
Pre-Tax Profit	38	43	47	54
Dep. & Amort.	7	7	8	9
Tax Paid	(4)	(9)	(7)	(8)
Assoc. & JV Inc/(loss)	0	0	0	0
Chq in Wkq.Cap.	(2)	7	3	4
Other Operating CF	1	0	0	0
<b>Net Operatina CF</b>	<b>40</b>	<b>48</b>	<b>51</b>	<b>59</b>
Capital Exp.(net)	(6)	(5)	(5)	(5)
Other Invts.(net)	0	0	0	0
Invts in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	1	0	0	0
<b>Net Investina CF</b>	<b>(5)</b>	<b>(5)</b>	<b>(5)</b>	<b>(5)</b>
Div Paid	(13)	(13)	(16)	(16)
Chq in Gross Debt	1	(2)	(2)	0
Capital Issues	1	0	0	0
Other Financing CF	0	0	0	0
<b>Net Financia CF</b>	<b>(10)</b>	<b>(15)</b>	<b>(18)</b>	<b>(16)</b>
Net Cashflow	25	29	28	38

## Quarterly / Interim Income Statement (\$\$ m)

FY Dec	4Q2008	1Q2009	2Q2009	3Q2009
Turnover	51	51	54	55
Other Oper. (Exp)/Inc	(41)	(41)	(43)	(44)
<b>Operatina Profit</b>	<b>11</b>	<b>10</b>	<b>11</b>	<b>12</b>
Other Non Opq (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
<b>Pre-tax Profit</b>	<b>11</b>	<b>10</b>	<b>11</b>	<b>12</b>
Tax	(1)	(2)	(2)	(2)
Minority Interest	0	0	0	0
<b>Net Profit</b>	<b>9</b>	<b>8</b>	<b>9</b>	<b>9</b>
Net profit bef Except.	9	8	9	9
EBITDA	13	11	13	14
Sales Gth (%)	0.2	(0.8)	5.7	2.8
EBITDA Gth (%)	5.9	(9.6)	11.4	7.5
Opg Profit Gth (%)	6.4	(11.2)	13.8	8.4
Net Profit Gth (%)	15.1	(17.9)	12.7	7.6
Opg Profit Margins (%)	21.1	18.9	20.3	21.4
Net Profit Margins (%)	18.4	15.3	16.3	17.1

## Balance Sheet (\$\$ m)

FY Dec	2008A	2009F	2010F	2011F
Net Fixed Assets	150	148	145	141
Invts in Associates & JVs	0	0	0	0
Other LT Assets	86	86	86	86
Cash & ST Invts	45	73	101	139
Inventory	5	5	6	7
Debtors	25	27	29	33
Other Current Assets	0	0	0	0
<b>Total Assets</b>	<b>310</b>	<b>339</b>	<b>367</b>	<b>406</b>
ST Debt	5	5	5	5
Other Current Liab	61	69	75	85
LT Debt	22	20	18	18
Other LT Liabilities	1	1	1	1
Shareholder's Equity	222	245	268	297
Minority Interests	0	0	1	1
<b>Total Cap. &amp; Liab.</b>	<b>310</b>	<b>339</b>	<b>367</b>	<b>406</b>
Non-Cash Wkq. Capital	(31)	(36)	(40)	(45)
Net Cash/(Debt)	18	48	78	117

## Rates &amp; Ratio

FY Dec	2008A	2009F	2010F	2011F
Opg Profit Margin (%)	19.4	20.2	19.9	20.4
Net Profit Margin (%)	15.7	16.6	16.5	17.0
ROAE (%)	14.9	15.3	15.2	15.8
ROA (%)	10.7	11.0	11.0	11.6
ROCE (%)	13.5	13.8	13.8	14.6
Div Payout Ratio (%)	41.0	43.7	40.1	34.8
Net Interest Cover (x)	62.6	159.2	NM	NM
Asset Turnover (x)	0.7	0.7	0.7	0.7
Debtors Turn (avg days)	41.0	44.0	43.6	43.1
Creditors Turn (avg days)	(2,714.8)	(2,749.3)	(2,876.5)	(2,954.3)
Inventory Turn (avg days)	(234.0)	(246.5)	(251.7)	(258.5)
Current Ratio (x)	1.1	1.4	1.7	2.0
Quick Ratio (x)	1.1	1.4	1.6	1.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	(0.1)	(0.2)	(0.3)	(0.4)
Capex to Debt (%)	23.1	20.3	22.1	22.1
Z-Score (X)	4.2	4.2	5.9	5.9
N. Cash/(Debt)PS (S cts)	3.5	9.3	15.1	22.5
Opg CFPS (S cts)	8.1	7.9	9.2	10.6
Free CFPS (S cts)	6.6	8.4	8.8	10.4

## Segmental Breakdown / Key Assumptions

FY Dec	2008A	2009F	2010F	2011F
<b>Revenues (\$\$ m)</b>				
Healthcare services	81	89	96	105
Hospital services	128	135	150	172
Investment holdings	8	8	8	8
Less: Eliminations	(16)	(18)	(19)	(21)
<b>Total</b>	<b>201</b>	<b>214</b>	<b>235</b>	<b>264</b>
<b>Operatina profit (\$\$ m)</b>				
Healthcare services	7	8	9	10
Hospital services	28	32	35	41
Investment holdings	3	3	3	3
<b>Total</b>	<b>39</b>	<b>43</b>	<b>47</b>	<b>54</b>
<b>Operatina profit Marains (%)</b>				
Healthcare services	9.2	9.1	9.1	9.1
Hospital services	22.0	23.7	23.1	23.7
Investment holdings	42.6	42.6	42.6	42.6
<b>Total</b>	<b>19.4</b>	<b>20.2</b>	<b>19.9</b>	<b>20.4</b>
<b>Key Assumptions</b>				
Hospital beds (#)	200.0	200.0	225.0	250.0
Avg Utilisation (%)	55.0	57.0	55.0	55.0

Source: Company, DBS Vickers

DBSV recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

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*Share price appreciation + dividends*

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**DBS Vickers Research (Singapore) Pte Ltd** – 8 Cross Street, #02-01 PWC Building, Singapore 048424  
Tel. 65-6533 9688, Fax: 65-6226 8048  
Company Regn. No. 198600295W