



5 November 2009

Raffles Medical Group

Reuters: **RAFG.SI** Bloomberg: **RFMD SP** Exchange: **SES** Ticker: **RAFG**

3Q09 results show a healthy growth

James TanResearch Analyst
(+65) 6423 5139
james-s.tan@db.com

Return of private care to increase healthcare demand

We have raised our earnings by 18-23% in FY09-11E to factor the recovery in healthcare demand buoyed by the economic recovery in 2010. 3Q09 results show that the operating margin improvement was better than we expected given its YoY margin improvement. Based on our revised earnings, we have raised our target price to S\$1.30. We maintain our Hold recommendation as the stock is already trading at a premium to regional healthcare peers.

Strong 3Q09 earnings; above expectations and in line with consensus

The company's 3Q09 revenue rose 8.0% YoY to S\$55.4m with earnings rising 15.6% YoY to S\$9.5m underpinned by an increase in operating efficiencies, higher patient load and higher operating leverage. Revenue from the healthcare and hospital divisions grew 9.3% YoY and 8.1% YoY, respectively. Operating profit rose 16.3% YoY to S\$11.9m due to continued cost management, savings from job credit and improved bulk purchasing of medical consumables.

Room to increase its hospital capacity; balance sheet strength to increase

Currently, the company utilizes only 200 of its 380 licensed bed capacity at Raffles Hospital. This leaves room for it to expand as demand for health care returns. RMG is in a net cash position and has the balance sheet to acquire more health care assets in Singapore and in key regions such as China and South East Asia.

Target price of S\$1.30 implies a PE of 16.1x FY10E

Our DCF-derived target price of S\$1.30 is based on a COE of 9.1% and a terminal growth rate of 2.0% from 1.0%. Downside risks include inflationary pressure, lack of medical staff and lower patient inflows. Upside risks include greater operating leverage, overseas acquisition, and growing foreign patient base. (See page 4).

Forecasts and ratios

Year End Dec 31	2007A	2008A	2009E	2010E	2011E
Sales (SGDm)	168.7	200.7	216.5	252.2	292.5
EBITDA (SGDm)	30.6	45.3	51.7	58.7	68.3
Reported NPAT (SGDm)	35.9	31.5	36.8	42.1	49.2
Reported EPS FD(SGD)	0.07	0.06	0.07	0.08	0.09
DB EPS FD(SGD)	0.04	0.06	0.07	0.08	0.09
OLD DB EPS FD(SGD)	0.04	0.06	0.06	0.07	0.08
% Change	0.0%	0.0%	18.2%	20.5%	23.3%
DB EPS growth (%)	-	38.8	16.9	14.4	17.0
PER (x)	31.1	18.5	19.2	16.8	14.4
EV/EBITDA (x)	20.1	10.6	11.2	9.6	7.9
DPS (net) (SGD)	0.03	0.02	0.03	0.03	0.04
Yield (net) (%)	2.6	2.2	2.1	2.4	2.9

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items² Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Forecast Change

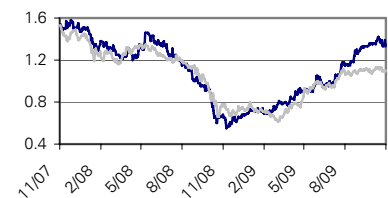
Hold

Price at 5 Nov 2009 (SGD)	1.35
Price target - 12mth (SGD)	1.30
52-week range (SGD)	1.42 - 0.55
Straits Times Index	2,649

Key changes

Price target	0.68 to 1.30	↑	91.2%
Sales (FYE)	211 to 216	↑	2.4%
Op prof margin (FYE)	18.0 to 20.6	↑	14.6%
Net profit (FYE)	31.1 to 36.8	↑	18.2%
Net profit (FYE)	31.1 to 37.2	↑	19.6%

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-0.7	17.4	98.5
Straits Times Index	2.5	1.6	41.7

Stock data

Market cap (SGDm)	708
Market cap (USDm)	507
Shares outstanding (m)	524.1
Major shareholders	Dr Loo Choon Yong (40%)
Free float (%)	50
Avg daily value traded (USDm)	0.3

Key indicators (FY1)

ROE (%)	15.7
Net debt/equity (%)	-17.2
Book value/share (SGD)	0.47
Price/book (x)	2.9
Net interest cover (x)	255.4
Operating profit margin (%)	20.6

Deutsche Bank AG/Hong Kong

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Model updated:05 November 2009

Running the numbers**Asia****ASEAN Singapore****Health Care****Raffles Medical Group**

Reuters: RAFG.SI

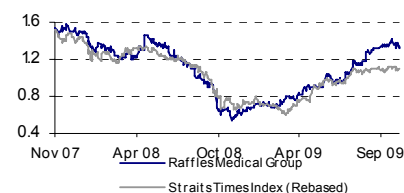
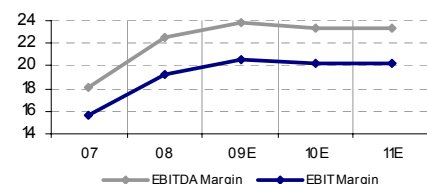
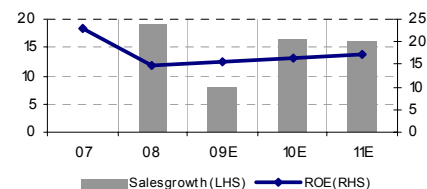
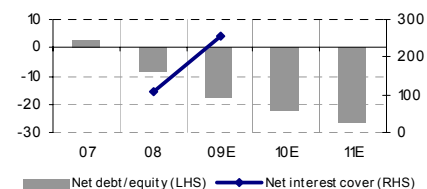
Bloomberg: RFMD SP

Hold

Price (5 Nov 09)	SGD 1.35
Target price	SGD 1.30
52-week Range	SGD 0.55 - 1.42
Market Cap (m)	SGDm 708 USDm 507

Company Profile

Raffles Medical Group is an integrated healthcare organization in Singapore. It has a 380-bed tertiary hospital in Singapore, providing its patients with a full complement of specialist and emergency services combined with advanced medical technology.

Price Performance**Margin Trends****Growth & Profitability****Solvency**

James Tan

+65 6423 5139

james-s.tan@db.com

Fiscal year end 31-Dec

Financial Summary

	2007	2008	2009E	2010E	2011E
DB EPS (SGD)	0.04	0.06	0.07	0.08	0.09
Reported EPS (SGD)	0.07	0.06	0.07	0.08	0.09
DPS (SGD)	0.03	0.02	0.03	0.03	0.04
BVPS (SGD)	0.4	0.4	0.5	0.5	0.6
Weighted average shares (m)	515	524	524	524	524
Average market cap (SGDm)	693	583	708	708	708
Enterprise value (SGDm)	614	481	581	564	541

Valuation Metrics

P/E (DB) (x)	31.1	18.5	19.2	16.8	14.4
P/E (Reported) (x)	19.3	18.5	19.2	16.8	14.4
P/BV (x)	3.87	1.63	2.88	2.59	2.32
FCF Yield (%)	5.2	5.8	5.3	4.6	5.6
Dividend Yield (%)	2.6	2.2	2.1	2.4	2.9
EV/Sales (x)	3.6	2.4	2.7	2.2	1.9
EV/EBITDA (x)	20.1	10.6	11.2	9.6	7.9
EV/EBIT (x)	23.3	12.4	13.0	11.1	9.1

Income Statement (SGDm)

Sales revenue	169	201	216	252	292
Gross profit	51	67	72	84	97
EBITDA	31	45	52	59	68
Depreciation	4	7	7	8	9
Amortisation	0	0	0	0	0
EBIT	26	39	45	51	59
Net interest income/(expense)	1	0	0	0	0
Associates/affiliates	0	0	0	0	0
Exceptionals/extraordinaries	14	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	41	38	44	51	60
Income tax expense	5	7	8	9	10
Minorities	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0
Net profit	36	31	37	42	49
DB adjustments (including dilution)	-14	0	0	0	0
DB Net profit	22	31	37	42	49

Cash Flow (SGDm)

Cash flow from operations	40	40	44	40	50
Net Capex	-4	-6	-7	-8	-10
Free cash flow	36	34	37	32	40
Equity raised/(bought back)	69	1	0	0	0
Dividends paid	-18	-13	-13	-15	-17
Net inc/(dec) in borrowings	-60	1	0	0	0
Other investing/financing cash flows	-49	1	0	0	0
Net cash flow	-22	24	25	17	22
Change in working capital	-23	-22	-24	-13	-3

Balance Sheet (SGDm)

Cash and other liquid assets	20	45	69	86	109
Tangible fixed assets	151	150	150	150	151
Goodwill/intangible assets	0	0	0	0	0
Associates/investments	85	85	85	85	85
Other assets	26	31	33	40	48
Total assets	281	310	337	361	393
Interest bearing debt	25	27	27	27	27
Other liabilities	55	62	64	61	60
Total liabilities	80	88	90	88	87
Shareholders' equity	201	222	246	273	305
Minorities	0	0	0	1	1
Total shareholders' equity	201	222	246	273	306
Net debt	6	-18	-42	-60	-82

Key Company Metrics

Sales growth (%)	nm	19.0	7.9	16.5	16.0
DB EPS growth (%)	na	38.8	16.9	14.4	17.0
EBITDA Margin (%)	18.2	22.5	23.9	23.3	23.4
EBIT Margin (%)	15.7	19.3	20.6	20.2	20.3
Payout ratio (%)	49.5	41.1	41.0	41.0	41.0
ROE (%)	22.9	14.9	15.7	16.2	17.0
Capex/sales (%)	2.5	3.1	3.0	3.2	3.4
Capex/depreciation (x)	1.0	0.9	0.9	1.0	1.1
Net debt/equity (%)	2.7	-8.0	-17.2	-21.9	-26.9
Net interest cover (x)	nm	105.8	255.4	nm	nm

Source: Company data, Deutsche Bank estimates

9M09 result highlights

Results summary

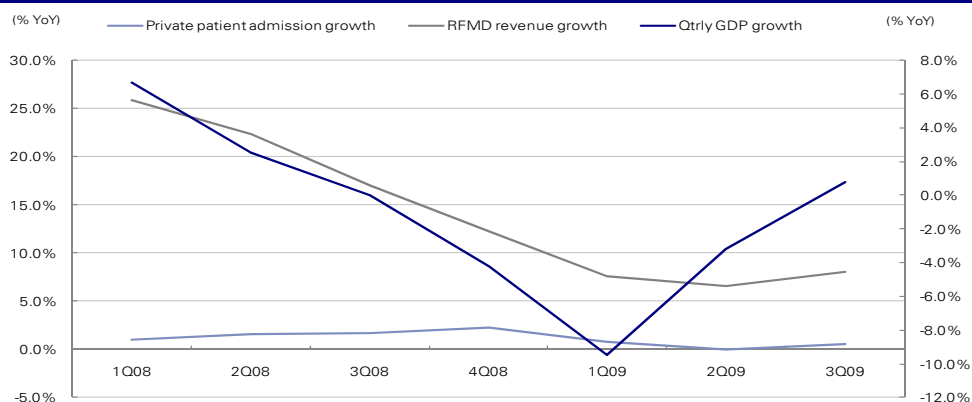
Figure 1: Quarterly results breakdown

FYE DEC SGDm	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	QoQ	YoY
Sales	47.4	50.6	51.3	51.3	51.0	53.9	55.4	2.8%	8.0%
Cost of Services	-34.4	-35.1	-35.1	-35.1	-35.9	-37.8	-37.9	0.2%	7.9%
Gross Profit	13.0	15.5	16.2	16.2	15.1	16.1	17.5	8.8%	8.2%
Other Operating Income	0.1	0.3	0.1	-0.3	0.1	0.0	0.0	2.8%	-38.3%
Lease expenses	-1.1	-1.4	-1.1	-0.8	-1.2	-1.4	-1.3	-5.4%	14.0%
Other Operating Expenses	-4.3	-4.3	-4.3	-4.3	-4.3	-3.8	-3.9	2.8%	-11.0%
EBIT	7.9	9.8	10.2	10.8	9.6	11.0	11.9	8.0%	16.0%
Interest Expense	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-2.0%	-37.3%
Pretax Profit	7.8	9.7	10.1	10.8	9.5	10.9	11.8	8.4%	17.1%
Tax	-1.7	-1.9	-1.9	-1.2	-1.7	-2.1	-2.3	10.8%	23.7%
Minority Interests	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	nm	nm
Net Profit	6.1	7.7	8.2	9.4	7.8	8.8	9.5	7.1%	14.7%

Source: Company data

Raffles Medical Group reported an 8.0% YoY rise in its revenue to S\$55.4m in 3Q09 with earnings rising 15.6% YoY to S\$9.5m. Revenue from the healthcare and hospital divisions grew 9.3% YoY and 8.1% YoY, respectively. Operating profit rose 16.3% YoY to S\$11.9m due to continued cost management, savings from job credit, and improved bulk purchasing of medical consumables.

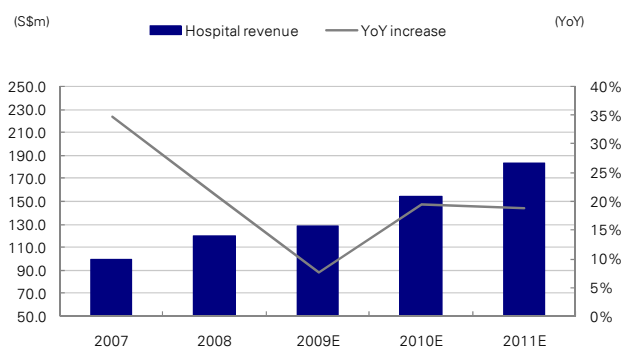
Figure 2: Private patient admissions and RFMD's revenue to GDP growth: 1Q08-3Q09



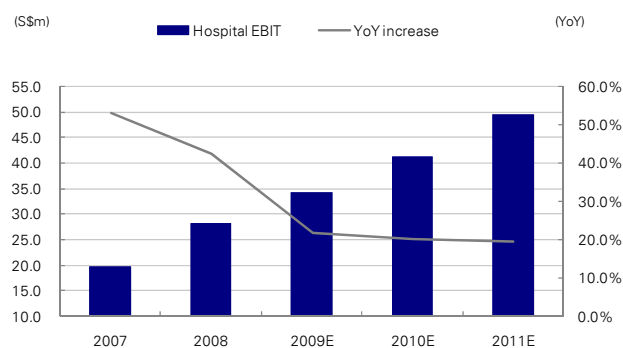
Source: Singstats, Company data

Although the economy has shown signs of stabilization, management is aware that the real economy remains fragile and downside risks remain. The company will focus on value driven healthcare services and cost-effective measures. Deutsche Bank economists forecast GDP to decline by -1.2% in FY09E and see a return to growth of 8.5% YoY in FY10E. This should help to drive the return in growth in private patient admission as it is closely correlated to GDP.

Raffles hospital division

Figure 3: RFMD hospital revenue FY07-11E


Source: Deutsche Bank, Company data

Figure 4: RFMD hospital EBIT FY07-11E


Source: Deutsche Bank, Company data

Raffles Medical has managed to achieve growth in foreign patients in 9M09 despite the slowdown in the economy as its hospital focuses on tertiary care, which is more resilient to an economic slowdown. With the lead up to economic recovery in 2010, we believe we could witness the return of medical tourists and an increase in the pent-up demand in the domestic health care industry. Raffles Medical can benefit from the increase in medical tourism, which accounts for 30% of in-patient admissions.

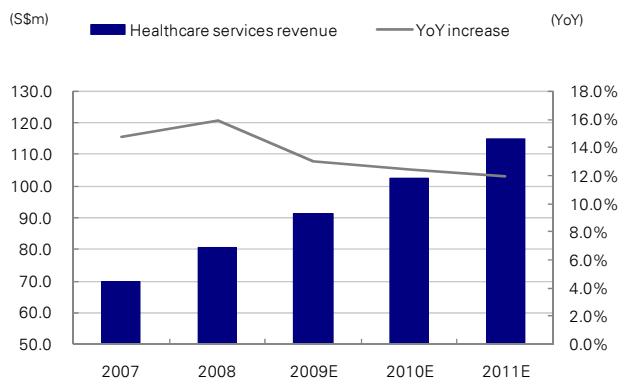
Figure 5: Key assumptions for hospital division

Raffles Hospital	2007	2008	2009E	2010E	2011E
No. of beds - Licensed	380	380	380	380	380
No. of beds - Operational	200	200	200	200	200
Average occupancy (%)	55%	60%	58%	63%	68%
Average length of stay (days)	3.00	3.00	2.80	2.80	2.80
Average billing/day (S\$)	2,465	2,738	2,957	3,253	3,578
Growth in average billing/day	28.5%	11.1%	8.0%	10.0%	10.0%
Hospital revenue	99.0	119.9	125.2	149.6	177.6
YoY increase	34.6%	21.2%	4.4%	19.5%	18.7%
Operating costs	(79.2)	(91.8)	(91.4)	(110.3)	(130.9)
EBIT	19.8	28.1	33.8	39.3	46.7
EBIT margins (%)	20.0%	23.5%	27.0%	26.3%	26.3%

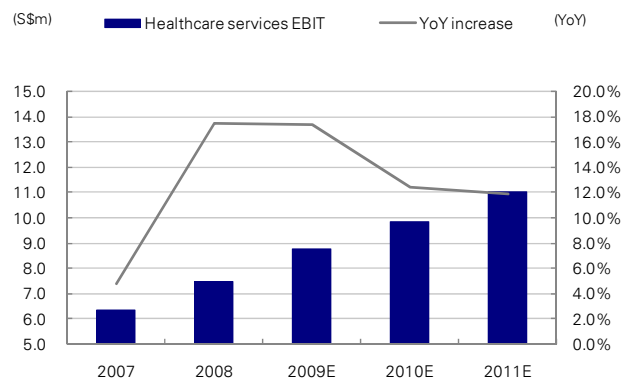
Source: Deutsche Bank, Company data

We have raised our average billing per day to 10% for Raffles' hospital division in FY09E onwards on rising medical costs. Historically, we have seen that the average growth in average billing per day at Raffles' hospital division increases by around 18%. We have raised our EBIT margin forecast from 23.5% to 27.0% in FY09E as the company has been able to gain additional operating efficiencies and leverage at its hospital operations, as well as the benefit of S\$2.0m from Jobs Credit. We expect EBIT margins to taper down to 26.3% as a result of the one off cost savings from Job Credit.

H1N1 pandemic increasing demand for health care services

Figure 6: RFMD health care services revenue FY07-11E


Source: Deutsche Bank, Company data

Figure 7: RFMD health care services EBIT FY07-11E


Source: Deutsche Bank, Company data

We have raised our revenue expectations on the back of the increase in demand for health care services due to an increase in patient visits at its Raffles Medical's GP clinics for flu vaccinations and antiviral drug Tamiflu. The pandemic caused by H1N1 is having a positive spillover effect and could see a higher demand for H1N1 vaccinations. We believe that this trend could lead to more demand for healthcare services. An increase in complex H1N1 cases could add further demand for hospital services. RMG should benefit from this trend as it has one of the largest clinic networks in Singapore.

Figure 8: Key assumptions for healthcare services

Raffles Medical Clinics	2007	2008	2009E	2010E	2011E
Total number of clinics	65	66	71	76	81
– Singapore	61	62	67	72	77
– Hong Kong	4	4	4	4	4
– Others	-	-	-	-	-
Average revenue per clinic per day (S\$)	2,936.1	3,352.0	3,520.9	3,698.1	3,884.1
Growth in revenue per clinic per day	13.0%	14.2%	5.0%	5.0%	5.0%
Operating revenue	69.7	80.7	91.2	102.6	114.8
YoY increase	14.8%	15.9%	13.0%	12.4%	11.9%
Operating costs	(63.3)	(73.3)	(82.5)	(93.1)	(104.3)
EBIT	6.4	7.5	8.8	9.4	10.6
EBIT margin (%)	9.1%	9.2%	9.6%	9.2%	9.2%

Source: Deutsche Bank, Company data

The company has also increased its clinics in Singapore from 62 to 66 in 9M09 and is planning to open five new clinics every year. We have raised our EBIT margin estimate for FY09E by 0.4ppt to 9.6% on the back of operating efficiencies at its clinics and cost saving from Jobs Credit.

Changes to our estimates

Figure 9: Changes to our estimates in FY09-11E

FYE Dec (S\$m)	2009E	2010E	2011E
Turnover			
New	216.5	252.2	292.5
Old	211.4	236.5	261.6
Change	2.4%	6.6%	11.8%
Gross profit			
New	64.9	75.7	87.7
Old	63.4	71.0	78.5
Change	2.4%	6.6%	11.8%
Operating profit			
New	44.7	50.9	59.4
Old	38.1	42.6	48.5
Change	17.3%	19.4%	22.5%
Net profit			
New	36.8	42.1	49.2
Old	31.1	34.9	39.9
Change	18.2%	20.5%	23.3%

Source: Deutsche Bank

We have raised our revenue assumptions by 2-12% in FY09-11E on the back of higher occupancy rates and average bill per day. We have raised our average billing per day to 10% for its hospital division in FY09E and beyond and raised our margins in FY09-11E for its hospital and health care operations as the company has been able to gain additional operating efficiencies and leverage at its hospital operations. Based on our revised assumptions, we raised our earnings by 18-23% for FY09-11E.

Valuation

We have raised our target price to S\$1.30 from S\$0.68 previously, based on our earnings revisions. In addition, we have also raised our medium-term growth forecasts for the company to grow at a CAGR of 10.7% instead of 1.0%. Our target price is derived from DCF valuation as cash flow from the company's operations is relatively stable. Based on Deutsche Bank's revised cost of capital assumptions for Singapore, we have revised our cost of equity from 9.0% to 9.1% using an equity risk premium of 4.7% from 4.8% with a risk-free rate of 2.8% from 2.6%. We have used the CoE as the discounting factor because the company is in a net cash position. We raise our terminal growth rate to 2.0% from 1.0% (discounted from Singapore's long-term inflation rate of 3%), and our beta of 1.3. Our target price implies P/E of 18.5x for FY09E and 16.1x for FY10E.

Risks

Upside risks: achieving a greater operating leverage at its hospitals, increase in its foreign patient base and M&A activities. Downside risks: rising operating costs and lack of medical professionals and a decline in foreign patient admissions which could negatively impact RMG's profitability.

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Raffles Medical Group	RAFG.SI	1.35 (SGD) 5 Nov 09	NA

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

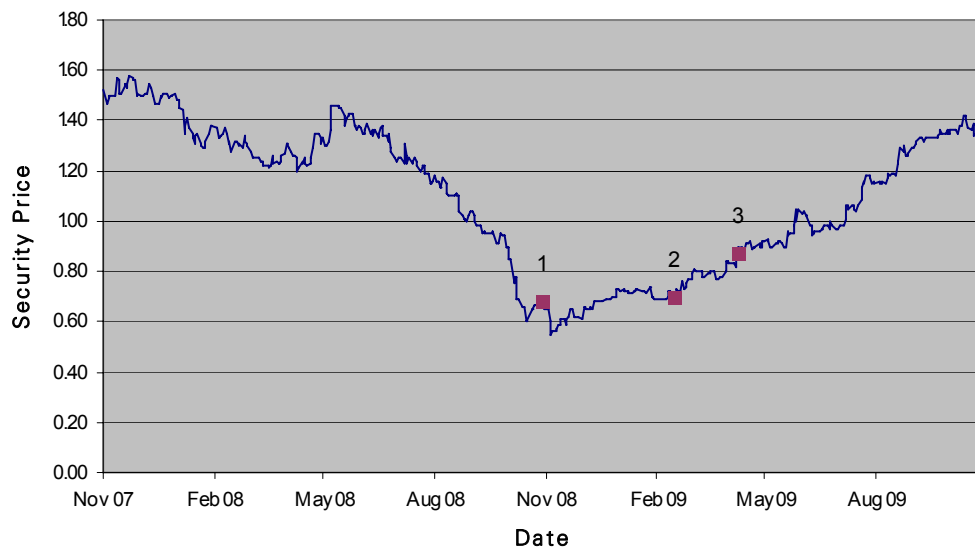
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Historical recommendations and target price: Raffles Medical Group (RAFG.SI)

(as of 11/5/2009)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure as of September 9, 2002

1.	5/11/2008:	Hold, Target Price Change SGD0.60	3.	16/4/2009:	Hold, Target Price Change SGD0.68
2.	23/2/2009:	Hold, Target Price Change SGD0.62			

Equity rating key Equity rating dispersion and banking relationships

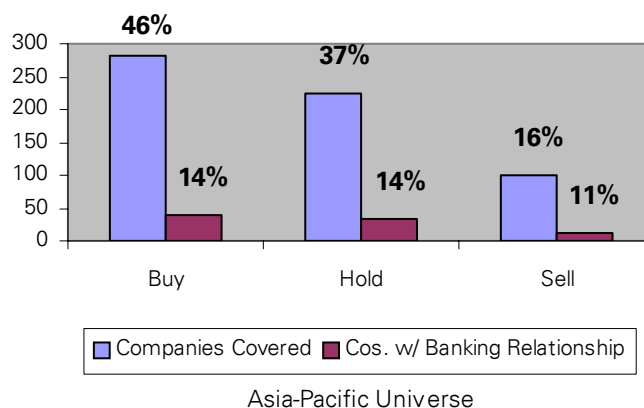
Buy: Based on a current 12- month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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1. Newly issued research recommendations and target prices always supersede previously published research.
2. Ratings definitions prior to 27 January, 2007 were:
 - Buy: Expected total return (including dividends) of 10% or more over a 12-month period
 - Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period
 - Sell: Expected total return (including dividends) of -10% or worse over a 12-month period



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Deutsche Bank AG

Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG

Level 55
Cheung Kong Center
2 Queen's Road Central
Hong Kong
tel: (852) 2203 8888

Deutsche Equities India Pte Ltd

DB House, Ground Floor
Hazarimal Somani Marg
Fort, Mumbai 400 001
India
Tel: (91) 22 5658 4600

Deutsche Securities Inc.

2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6701

Deutsche Bank (Malaysia) Berhad

Level 18-20
Menara IMC
8 Jalan Sultan Ismail
Kuala Lumpur 50250
Malaysia
Tel: (60) 3 2053 6760

In association with Deutsche Regis Partners, Inc.

Level 23, Tower One
Ayala Triangle, Ayala Avenue
Makati City, Philippines
Tel: (63) 2 894 6600

Deutsche Securities Korea Co.

17th Floor, YoungPoong Bldg.,
33 SeoRin-Dong,
Chongro-Ku, Seoul (110-752)
Republic of Korea
Tel: (82) 2 316 8888

Deutsche Bank AG Singapore

One Raffles Quay
South Tower
Singapore 048583
Tel: (65) 6423 8001

Deutsche Securities Asia Ltd

Taiwan Branch
Level 6
296 Jen-Ai Road, Sec 4
Taipei 106
Taiwan
Tel: (886) 2 2192 2888

In association with TISCO Securities Co., Ltd

TISCO Tower
48/8 North Sathorn Road
Bangkok 10500
Thailand
Tel: (66) 2 633 6470

In association with PT Deutsche Verdhana Indonesia

Deutsche Bank Building,
6th Floor, Jl. Imam Bonjol No.80,
Central Jakarta,
Indonesia
Tel: (62 21) 318 9541

International locations

Deutsche Bank Securities Inc.

60 Wall Street
New York, NY 10005
United States of America
Tel: (1) 212 250 2500

Deutsche Bank AG London

1 Great Winchester Street
London EC2N 2EQ
United Kingdom
Tel: (44) 20 7545 8000

Deutsche Bank AG

Große Gallusstraße 10-14
60272 Frankfurt am Main
Germany
Tel: (49) 69 910 00

Deutsche Bank AG

Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG

Level 55
Cheung Kong Center
2 Queen's Road Central
Hong Kong
Tel: (852) 2203 8888

Deutsche Securities Inc.

2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6701

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