



BUY

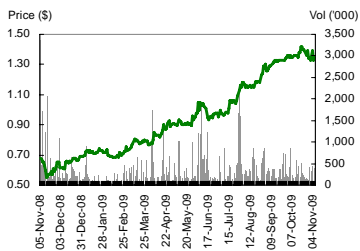
3Q09 Results

Analyst

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Price \$1.35
Target \$1.83
ST Index 2,629.35

Historical Chart



Performance	1m	3m	6m
Absolute (%)	0.0	16.4	50.8
Relative (%)	-0.7	15.1	25.0

Stock Information

Ticker code	RAFG.SI RFMD.SP
Market cap (US\$m)	502.5
52-week high (S\$)	1.42
52-week low (S\$)	0.55
Shares issued (m)	519.4
6m avg d.vol (US\$m)	0.1
Free float (%)	55.7
Major shareholders (%)	
Dr Loo Choon Yong	(40.0)

Key Indicators

ROE (%)	14.3
Net gearing (%)	Net cash
NTA (S\$)	0.45
Interest cover (x)	62.6

Raffles Medical Group

Ahead with greater optimism

Defensive business model yields great results

RMG posted a strong set of Q309 results, with revenue up 8% and profit up 15% yoy to \$9.5m. Excellent organic growth was achieved for 9M09, even during the worst global recession in its history coupled with the negative effects of the H1N1 pandemic. This marks its business model as truly defensive.

Local hospital patient load witnessing a turnaround

Both the healthcare services segment (clinics) and hospital segment continued to grow, though the latter was negatively affected by the above effects. The management shared that the recession affected local patient load, as there was a marked shift from private hospitals to public hospitals. However, we believe this is witnessing a turnaround, with local patient load flat for 3Q09 compared to last quarter's 7% decline.

Foreign patients load continues to grow

The H1N1 pandemic also had a negative effect on foreign patient load due to the stringent measures imposed by Singapore. Nevertheless, we estimate foreign patient load was up about 15% for the year so far. With a diverse group of foreign patients, Russians (7%) have now overtaken Malaysians as the 2nd largest group, behind the Indonesians (22%)

The worst is behind us

With the worst of the recession behind us and the H1N1 panic subsiding around Aug 09, we firmly believe RMG will show further improvements in the next few quarters. For 9M09, revenue was up 7% while net profit was up 18%, accounting for 70.3% of our forecast. Generating strong cash flow, net cash position grows further to \$35m.

Maintain BUY, increase target price to \$1.83

We keep our forecasts intact as we expect FY09 to be another record year. We have made adjustments to our DCF assumptions on greater optimism in the long run. Our increased target price of \$1.83 implies FY10F PER. Potential catalysts include favourable overseas ventures, new medical specialties and cash distribution.

Year End Dec	2007	2008	2009F	2010F	2011F
Sales (S\$ m)	168.7	200.8	214.0	238.4	266.0
Pre-tax (S\$ m)	41.4	38.4	44.7	51.1	59.1
Net profit (S\$ m)	35.9	31.5	37.0	42.3	49.0
EPS (cts)	7.0	6.1	7.1	8.2	9.4
EPS growth (%)	83.7	(12.4)	17.3	14.2	15.8
PER (x)	16.2	18.5	15.7	13.8	11.9
EV/EBITDA (x)	17.6	12.0	9.9	8.3	6.8
Yield (%)	2.3	2.3	2.3	2.3	2.3

SEE APPENDIX I FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Figure 1 : 3Q09 Results

YE Dec (\$\$ m)	3Q08	3Q09	yoy growth
Sales	51.3	55.4	8.0%
Other operating income	0.1	0.1	83.6%
Inventories & consumables	(5.4)	(6.1)	13.5%
Purchased & services	(3.3)	(3.8)	12.6%
Staff costs	(25.1)	(26.8)	6.9%
Depreciation	(1.7)	(1.7)	4.3%
Operating lease	(1.1)	(1.3)	14.0%
Other operating expenses	(4.5)	(3.9)	-14.2%
Operating profit	10.2	11.9	16.3%
Financing costs	(0.2)	(0.1)	-37.3%
Pretax income	10.1	11.8	17.1%
Income taxes	(1.9)	(2.3)	23.7%
Minority interest	(0.0)	(0.0)	73.1%
Net income	8.2	9.5	15.4%

Segmental revenue	3Q09 vs 3Q08 growth
Healthcare Services	9.3%
Hospital Services	8.1%

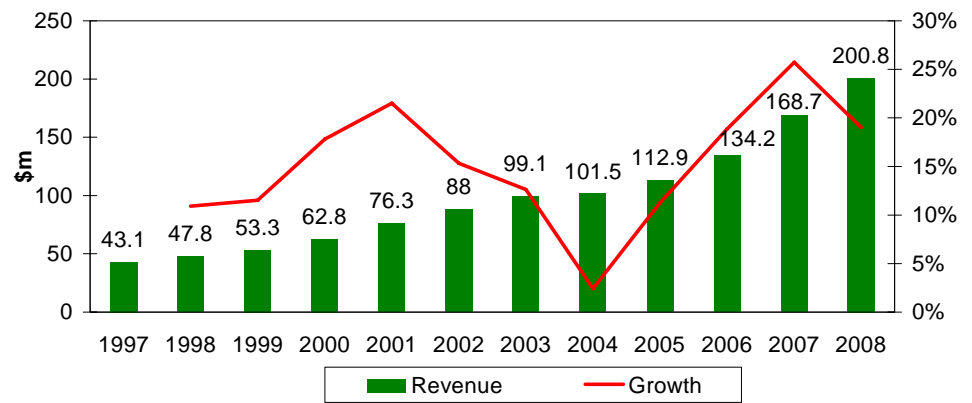
Source : Company, Kim Eng Research

Figure 2 : FCFE Valuation

(\$\$ m)	FY09	FY10	FY11	FY12	FY13
FCFE	20.2	34.3	37.8	39.9	41.5
Terminal Value					1126.0
PV	18.9	30.1	31.1	30.7	840.3
Total discounted FCFE	951.2				
Value/ Share	1.83				
Cost of equity	6.8%				
Risk-free rate	2.5%				
Beta	0.66				
Market risk premium	9.0%				
Terminal growth	3.0%				

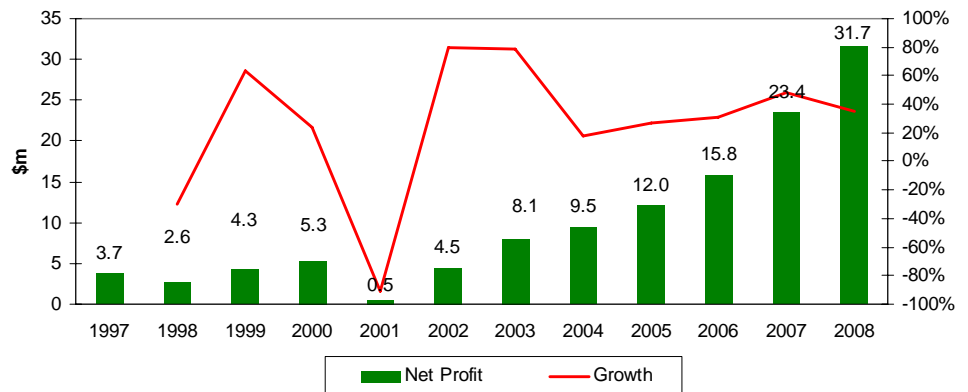
Source : Company, Kim Eng estimates

Figure 3: Historical Revenue and Growth



Source : Company, Kim Eng estimates

Figure 4: Historical Net Profit and Growth



*Excludes fair value gain of property of \$12.5m in 2007

** Growth rate for 2002 was scaled down for graph comparison purposes

Source: Company, Kim Eng Research

Profit and loss

YE Dec (S\$ m)	2007	2008	2009F	2010F	2011F
Sales	168.7	200.8	214.0	238.4	266.0
Consumables & services	(31.3)	(35.5)	(36.4)	(40.5)	(45.2)
Staff costs	(85.9)	(98.3)	(102.7)	(112.0)	(125.0)
Depreciation	(4.2)	(6.6)	(7.3)	(7.5)	(7.7)
Operating lease	(9.8)	(4.5)	(4.5)	(4.5)	(4.5)
Other op expenses (net)	(9.3)	(16.9)	(17.6)	(22.0)	(23.8)
Operating profit	28.2	39.0	45.5	51.8	59.8
Financing costs	(0.4)	(0.6)	(0.8)	(0.7)	(0.6)
Share of joint entity	13.6	0.0	0.0	0.0	0.0
Pretax income	41.4	38.4	44.7	51.1	59.1
Income taxes	(5.5)	(6.7)	(7.6)	(8.7)	(10.1)
Minority interest	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Net profit attributable	35.9	31.5	37.0	42.3	49.0
Net profit (normalized)	23.4	31.5	37.0	42.3	49.0
EPS (SG cents)	0.0	0.0	0.0	0.0	0.0
EBITDA	32.5	45.6	52.9	59.3	67.5

Source: Company data, Kim Eng estimates

Cashflow

YE Dec (S\$ m)	2007	2008	2009F	2010F	2011F
Operating cash flow	40.1	40.1	39.5	48.7	53.2
Pretax profit	41.4	38.4	44.7	51.1	59.1
Depreciation & amortization	4.3	6.7	7.4	7.5	7.7
Change in working capital	13.3	(1.8)	(4.4)	(0.2)	(3.5)
Others	(18.9)	(3.1)	(8.3)	(9.6)	(10.2)
Investment cash flow	(52.8)	(5.0)	(4.5)	(4.5)	(4.5)
Net capex	(4.3)	(6.1)	(5.0)	(5.0)	(5.0)
Acquisition of sub	(64.0)	0.0	0.0	0.0	0.0
Others	15.5	1.2	0.5	0.5	0.5
Financing cash flow	(9.2)	(10.7)	(19.7)	(15.0)	(15.0)
Dividends	(17.8)	(12.9)	(12.9)	(12.9)	(12.9)
Net change in debt	(60.3)	0.9	(6.6)	(2.0)	(2.0)
Issue of shares	69.0	1.3	0.0	0.0	0.0
Others	(0.1)	0.0	0.0	0.0	0.0
Net cash flow	(22.0)	24.4	15.3	29.2	33.6

Source: Company data, Kim Eng estimates

Balance Sheet

YE Dec (S\$ m)	2007	2008	2009F	2010F	2011F
Total assets	281.5	310.4	324.9	355.1	390.1
Current assets	44.5	74.2	91.0	123.8	161.4
Cash	19.7	44.5	59.8	89.0	122.6
Inventories	3.8	4.8	4.8	5.4	6.0
Receivables	20.2	24.9	26.4	29.4	32.8
Others	0.7	0.0	0.0	0.0	0.0
Long term assets	237.0	236.2	233.9	231.4	228.7
Plant and equipment	150.8	150.3	147.9	145.4	142.7
Intangibles	0.3	0.3	0.2	0.2	0.2
Investment properties	84.4	84.4	84.4	84.4	84.4
Others	1.5	1.3	1.3	1.3	1.3
Total liabilities	80.4	88.2	78.6	79.4	78.3
Current liabilities	79.7	65.4	57.8	60.7	61.6
Payables	47.7	51.5	48.7	52.0	52.5
ST borrowings	25.3	4.6	0.0	0.0	0.0
Others	6.7	9.3	9.1	8.7	9.0
Long-term liabilities	0.7	22.7	20.7	18.7	16.7
LT borrowings	0.0	22.0	20.0	18.0	16.0
Others	0.7	0.7	0.7	0.7	0.7
Shareholder's equity	200.8	221.9	246.0	275.4	311.4
Paid-in capital	170.0	171.3	171.3	171.3	171.3
Reserve	30.8	50.6	74.7	104.0	140.1
Minority interests	0.2	0.3	0.3	0.3	0.3

Source: Company data, Kim Eng estimates

Key ratios

YE Dec (S\$ m)	2007	2008	2009F	2010F	2011F
Growth (% YoY)					
Sales	25.6	19.0	6.6	11.4	11.6
Operating Profit	46.9	38.1	16.9	13.8	15.4
EBITDA	43.5	40.5	15.9	12.1	13.8
Net Profit	48.7	35.0	17.4	14.2	15.8
EPS	83.7	(12.4)	17.4	14.2	15.8
Profitability (%)					
Gross margin	Na	Na	Na	Na	Na
Operating margin	16.7	19.4	21.3	21.7	22.5
EBITDA margin	19.3	22.7	24.7	24.9	25.4
Net profit margin	21.3	15.7	17.3	17.7	18.4
ROA	12.8	10.2	11.4	11.9	12.6
ROE	17.9	14.3	15.1	15.4	15.8
Stability					
Gross debt/equity (%)	12.6	12.0	8.1	6.5	5.1
Net debt/equity (%)	2.7	(8.1)	(16.2)	(25.8)	(34.2)
Int. coverage (X)	75.0	62.6	56.9	72.0	93.4
Int. & ST debt coverage (X)	1.1	7.4	56.9	72.0	93.4
Cash flow int. coverage (X)	(58.4)	39.1	19.1	40.5	52.5
Cash flow int. & ST debt (X)	(0.9)	4.7	19.1	40.5	52.5
Current ratio (X)	0.6	1.1	1.6	2.0	2.6
Quick ratio (X)	0.5	1.1	1.5	2.0	2.5
Net debt/(cash) (\$ m)	5.5	(17.9)	(39.8)	(71.0)	(106.6)
Per share data (SG cent)					
EPS	7.0	6.1	7.2	8.2	9.5
CFPS	(4.1)	4.6	2.9	5.5	6.3
BVPS	38.9	42.9	47.5	53.2	60.1
SPS	31.7	37.6	40.1	44.6	49.8
EBITDA/share	6.1	8.5	9.9	11.1	12.6
DPS	2.5	2.5	2.5	2.5	2.5

Source: Company data, Kim Eng estimates

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Recommendation definitions

Our recommendation is based on the following expected price performance within 12 months:

+15% and above: BUY

-15% to +15%: HOLD

-15% or worse: SELL

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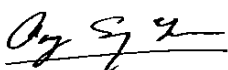
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