

## 3QFY11 results in line with expectations

# First Look

Breaking news, market events and company announcements

October 31, 2011

<b>Rating</b> Remains	<b>Buy</b>
<b>Target price</b> Remains	SGD 2.64
<b>Closing price</b> October 31, 2011	SGD 2.25

### Raffles Medical 3QFY11 results in line with expectations

Raffles Medical posted a 10.3% y-y increase in 3QFY11 profits to S\$11.8mn on the back of a 13.5% y-y rise in 3QFY11 revenues. Revenue growth was driven by higher patient load, higher pricing and increased patient acuity.

On the cost side, the company is experiencing some cost pressures. In particular, staff costs, which make up ~60% of its total cost base, increased by 14.4% y-y in 3QFY11, faster than revenue growth. This is due to an increase in wages and expansion in headcount.

#### What do the results mean?

The results are in line with our expectations and those of consensus. We believe that the company will continue to do well as a rapidly aging population continues to underpin demand for healthcare, while demand from medical tourists remain strong. Its planned expansion will put it in a favourable position to capture the growth in healthcare demand.

#### Any change in guidance?

The company has guided that it will be relocating its admin staff to free up 15,000 sq ft of space for other revenue-generating activities. This extra space is expected to last it for one year and will tie in well with its capacity expansion at Thong Sia building, which is expected to commence operations in 1HFY13.

The company has also guided that the extension of Raffles Hospital will most likely be completed in FY14. We had originally expected this to complete in FY13 and help alleviate potential capacity constraints.

Separately, the company indicated that despite the economic uncertainties, they are still seeing double-digit growth in medical tourists.

#### Likely stock reaction

We believe the market reaction to this set of results will be largely neutral as the results are in line with expectations and those of consensus.

#### Valuations

Raffles Medical continues to trade at reasonable valuations of 19.9/16.1x FY12/13 earnings, while providing a 1.6% dividend yield. We continue to like the company and we maintain our BUY rating.

#### Research analysts

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Fig. 1: Results breakdown

	Q3FY11	Q3FY10	Change	9MFY11	9MFY10	Change
	S\$'000	S\$'000	%	S\$'000	S\$'000	%
<b>Revenue</b>	<b>69,099</b>	<b>60,862</b>	13.5%	<b>200,495</b>	<b>175,634</b>	14.2%
Other operating income	-	-	-	7	161	-95.7%
Inventories and consumables used	(8,332)	(7,007)	18.9%	(23,417)	(20,046)	16.8%
Purchased and contracted services	(5,014)	(4,168)	20.3%	(15,112)	(12,341)	22.5%
Staff costs	(33,363)	(29,158)	14.4%	(96,735)	(84,570)	14.4%
Depreciation of property, plant and equipment	(1,828)	(1,684)	8.6%	(5,674)	(5,070)	11.9%
Operating lease expenses	(1,413)	(1,483)	-4.7%	(4,291)	(4,158)	3.2%
Other operating expenses	(4,694)	(4,260)	10.2%	(13,670)	(12,466)	9.7%
<b>Profit from operating activities</b>	<b>14,455</b>	<b>13,102</b>	10.3%	<b>41,603</b>	<b>37,144</b>	12.0%
Finance income	0	95	-100.0%	174	260	-33.1%
Finance expenses	(76)	(72)	5.6%	(188)	(206)	-8.7%
<b>Profit before income tax</b>	<b>14,379</b>	<b>13,125</b>	9.6%	<b>41,589</b>	<b>37,198</b>	11.8%
Income tax expense	(2,548)	(2,394)	6.4%	(7,513)	(6,743)	11.4%
<b>Profit for the period</b>	<b>11,831</b>	<b>10,731</b>	10.3%	<b>34,076</b>	<b>30,455</b>	11.9%
<b>Attributable to:</b>						
Owners of the company	11,790	10,676	10.4%	33,899	30,308	11.8%
Non-controlling interests	41	55	-25.5%	177	147	20.4%
Profit for the period	11,831	10,731	10.3%	34,076	30,455	11.9%

Source: Company, Nomura research

# Appendix A-1

## Analyst Certification

I, Jit Soon Lim, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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### Mentioned companies

Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Raffles Medical	RFMD SP	SGD 2.25	31-Oct-2011	Buy	Not rated	

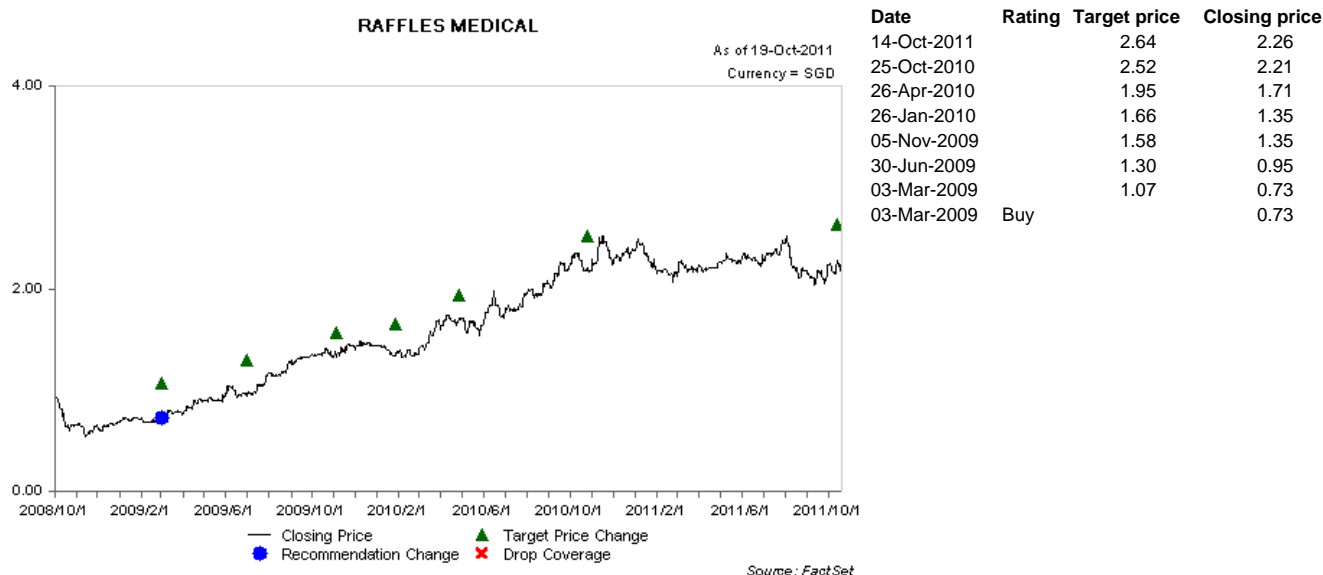
## Previous Rating

Issuer name	Previous Rating	Date of change
Raffles Medical	Not Rated	03-Mar-2009

## Raffles Medical (RFMD SP)

SGD 2.25 (31-Oct-2011) Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** We value Raffles Medical based on 23.3x P/E, a mean relative P/E discount (20%) to Parkway's take-out P/E of 29x. We base our 12-month TP of SGD 2.64 on FY12F EPS of SGD0.113.

**Risks that may impede the achievement of the target price** Key risks to our call: 1) the group's ability to attract and retain medical professionals; and 2) regulatory risks in Singapore; and 3) drop off in number of medical tourists.

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### Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

#### STOCKS

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### Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008

#### STOCKS

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A **'Strong buy'** recommendation indicates that upside is more than 20%. A **'Buy'** recommendation indicates that upside is between 10% and 20%. A **'Neutral'** recommendation indicates that upside or downside is less than 10%. A **'Reduce'** recommendation indicates that downside is between 10% and 20%. A **'Sell'** recommendation indicates that downside is more than 20%.

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