

First look

Raffles Medical (RMG) delivered good 2Q09 results, with 13.8% net profit growth, in line with our above-consensus forecasts. While its operations were affected slightly by the H1N1 virus — with increased operating costs and a 7% decline in local patient volumes at its hospital, we believe its primary care network continues to show resilience with 12% top-line growth. Foreign patient volumes also increased 13% y-y, across a diversified market. We reiterate our BUY rating.

Earnings vs our forecast	ABOVE	IN LINE	BELOW
Likely impact:			
Earnings estimates	UP	NO CHANGE	DOWN
Dividend estimates	UP	NO CHANGE	DOWN
Recommendation	UPGRADE	NO CHANGE	DOWNGRADE
Price target	UP	NO CHANGE	DOWN
Long-term view	STRONGER	CONFIRMED	WEAKER

Steady growth (II)

- RMG posted 2Q09 net profit growth of 13.8% (1H09: 20%), largely in line with our full-year forecast of 14.0% and above consensus forecast of 6.0%. Revenues grew 6.5% y-y, on the back of strong 12.3% growth in its healthcare services segment (which comprises its primary care network and insurance arm). Hospital services revenue growth remains muted at 4.8% y-y.
- According to management, patient load at Raffles Hospital increased 5% y-y, driven by 13% growth in foreign patient volumes across a diversified market. On the other hand, local patient volumes declined 7% likely due to fears of the H1N1 pandemic. Management highlighted that the decline is probably not due to locals switching to subsidised care, as public hospitals too witnessed a similar decline in volumes. Management also guided that patient flows have since recovered this month.
- Having opened three clinics this year, management believes the group will continue to expand its primary care network, with a target of five clinics per year on average. While management is aware of the intensifying competition in this space, it continues to be positive on increasing its patient base in this fragmented market through its integrated approach to healthcare.
- Management also highlighted that its hospital has the potential to increase its capacity by adding two additional floors to its existing building. In the near term, it could relocate its corporate offices to increase bed capacity, if demand rises. We note that it is currently operating 200 beds of the 380 registered beds.
- We reiterate our BUY rating on the stock, with a price target of S\$1.30, which implies 23% potential upside. We peg our price target to 16.4x FY10E P/E, which is within the mean of RMG's historical trading range.

FIRST LOOK

Q209 Results

First Look is the analyst's preliminary interpretation of the results announcement. Our recommendation and earnings estimates are not being changed in this report. Any formal changes to our recommendation or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed in this report.

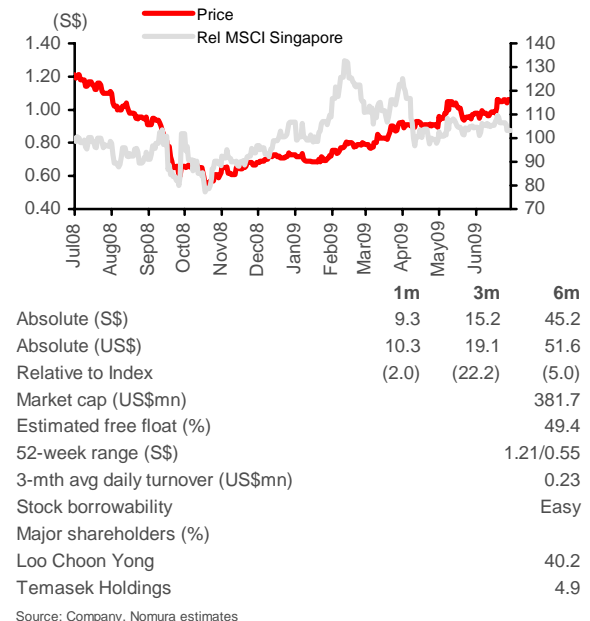
Closing price on 24 Jul	S\$1.06
Price target	S\$1.30

Key financials & valuations

31 Dec (S\$mn)	FY08	FY09F	FY10F	FY11F
Revenue	200.8	220.4	246.3	282.2
Reported net profit	31.3	35.7	42.4	52.1
Normalised net profit	31.3	35.7	42.4	52.1
Normalised EPS (S\$)	0.060	0.067	0.079	0.098
Norm. EPS growth (%)	26.8	12.0	18.8	22.9
Norm. P/E (x)	17.7	15.8	13.3	10.9
EV/EBITDA (x)	11.8	10.2	8.3	6.4
Price/book (x)	2.5	2.3	2.0	1.8
Dividend yield (%)	2.4	2.8	2.8	3.2
ROE (%)	14.8	15.4	16.6	18.2
Net debt/equity (%)		net cash	net cash	net cash
Earnings revisions				
Previous norm. net profit		35.7	42.4	52.1
Change from previous (%)		na	na	na
Previous norm. EPS (S\$)		0.067	0.079	0.098

Source: Company, Nomura estimates

Share price relative to MSCI Singapore



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Exhibit 1. Raffles Medical: 2Q09 results

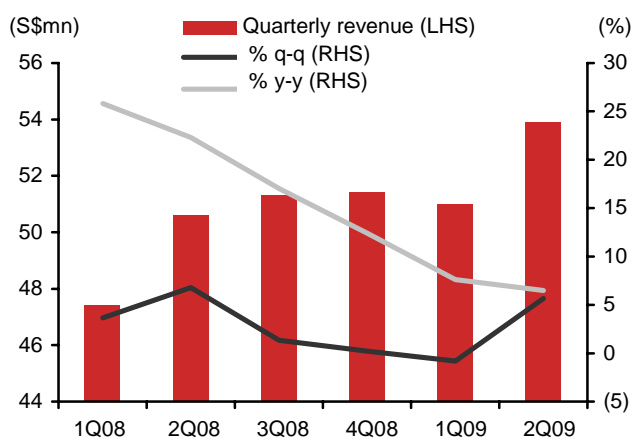
(\$mn)	2Q08	1Q09	2Q09	Chg (y-y %)	Chg (q-q %)	Remarks
Revenue	50.6	51.0	53.9	6.5	5.7	Healthcare segment: 12.3% y-y Hospital segment: 4.8% y-y
EBIT	9.8	9.7	11.0	11.7	13.6	
Net profit	7.7	7.8	8.8	13.8	12.4	1H09: 46% of full-year forecast (1Q is traditionally a weak quarter).
Diluted EPS	1.47	1.49	1.68	13.5	11.1	

Source: Company data, Nomura research

Exhibit 2. Key cost items

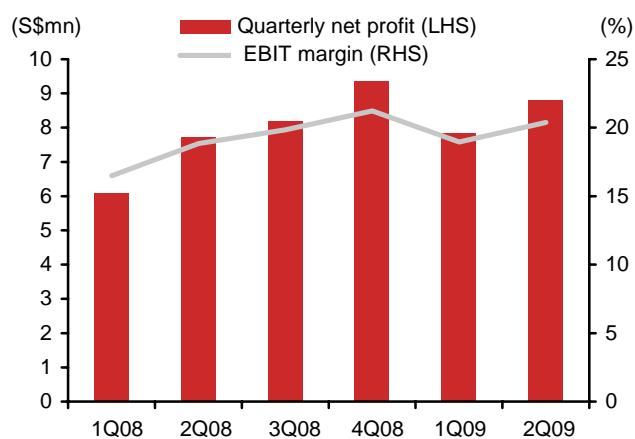
(\$mn)	2008	1Q09	2Q09	Remarks
Inventory & Consumables	(22.7)	(5.4)	(6.4)	
% of revenue	11.3%	10.6%	11.9%	Increased expenses on account of precautionary measures against H1N1 virus.
Staff costs	(98)	(24.9)	(25.5)	
% of revenue	49.0%	48.9%	47.3%	Variable component of 30%; cushioned by Job Credit reimbursement of S\$700,000.
Operating lease expenses	(4.5)	(1.2)	(1.4)	
% of revenue	2.2%	2.4%	2.6%	Slight increase in rental expenses, as the group expands its primary care network amid the recession to lock-in low rentals.
Purchased & contracted services	(12.9)	(3.8)	(4.2)	
% of revenue	6.4%	7.5%	7.8%	Slight increase due to higher insurance claims at its insurance arm.
Other operating expenses	(16.1)	(3.9)	(3.4)	
% of revenue	8.0%	7.7%	6.4%	Reduction in insurance commission expenses paid to brokers.
Allowance for doubtful receivables	(1.3)	(0.3)	(0.3)	
% of revenue	0.63%	0.61%	0.58%	Superior credit quality with most outstanding receivables from MNCs and government agencies.

Source: Company data, Nomura research

Exhibit 3. RMG – quarterly revenue trend

Y-Y revenue growth has slowed in tandem with the economy; q-q growth picked up in 2Q09 from 1Q seasonal effects and continued growth in its defensive primary healthcare.

Source: Company data

Exhibit 4. RMG – quarterly profitability trend

Uptrend in operating margins driven by operating leverage.

Source: Company data

Key risks to our price target: 1) escalation of H1N1 virus which could impede patient flows, as patients may postpone elective procedures to avoid visiting hospitals; 2) regulatory risks in Singapore; and 3) ability to attract and retain medical professionals.

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Issuer	Ticker	Price (as at last close)	Closing Price Date	Rating	Disclosures
Raffles Medical	RFMD SP			Buy	

Previous Ratings

Issuer	Previous Rating	Date of change
Raffles Medical	No Rating	03 Mar 2009

Three-year stock price and rating history

Not Available for Raffles Medical

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- A **"Strong buy"** recommendation indicates that upside is more than 20%.
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Sectors:

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