

Raffles Medical----- Maintain OUTPERFORM
Stronger-than-expected results – curative services the remedy
EPS: ▼ TP: ◀▶

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- An increase in patient load and broader medical specialties helped Raffles Medical deliver strong 4Q/FY08 results, with revenues up 12%/19% YoY and core earnings up 35%/35% YoY. The full-year results were 8% ahead of consensus and 6% ahead of our estimates.
- Hospital services (+21% YoY for FY08) at 60% of total revenue and 72% of earnings, witnessed a slowing growth momentum in 4Q (low-teens compared with previous ten-quarter average of 28% YoY). Healthcare services continued to show steady improvement during the quarter and for the full year (+15-20%/16% YoY).
- Management was upbeat on the growth outlook, given resilient demand for curative services against macro uncertainties, and will look to expand headcount in anticipation of rising needs. We have cut 2009/10E EPS estimates by 2-3% on less optimistic hospital patient volume growth assumptions, but maintain our target price of S\$1.65.
- With strong underlying fundamentals for the Singapore Healthcare sector, Raffles Medical's group practice model, coupled with its strong balance sheet, is well-positioned to drive both organic earnings growth, and inorganic growth opportunities. We maintain our OUTPERFORM rating.

with earnings arriving 6%/8% ahead of our and consensus estimates. Operating margins in 4Q08 were 21%, up from 20% in the previous quarter, and 19.4% for the full-year (up from 16.7% in FY07), reflecting steady, operational efficiency gains at its flagship hospital.

Hospital services revenue grew 21% YoY, and continued to drive both growth and earnings for Raffles Medical, at 60% of total revenue and 72% of operating profits, on the back of stronger patient volumes and operating efficiencies. However, while operating margins at the hospital also improved (from 20% in FY07) to 23.5% in FY08, we believe that the growth momentum has slowed in 4Q (YoY growth was likely low-teens as compared with an average of 28% YoY over the previous ten quarters), which reflects some extent of vulnerability to the weaker medical travel market, despite Raffles Medical's continued focus on curative services, and diversification of foreign patient base.

Healthcare services showed a steady 16% YoY improvement, largely driven by strong underlying growth in GP services, and contribution from the insurance arm (through its tie-up with Bupa).

Raffles Medical declared a final dividend of S1.5 cents, and including the S1 cent interim (both similar to the previous year), brings the full-year payout to about 42% of earnings. Management reiterated the firm's dividend policy, of a minimum of S2.5 cents per share.

Management estimates S\$2.5-3.0 mn in aggregate cost savings from the recent job credit initiative in the government budget and a reduction in the corporate tax rate (from 18%) to 17%.

Bbg/RIC	RFMD SP / RAFG.SI	Price (23 Feb 09, S\$)		0.71
Rating (prev. rating)	O (O)	TP (S\$) (prev. TP)	1.65 (1.65)	
Shares outstanding (mn)	517.89	Est. pot. % chg. to TP	134	
Daily trad vol-6m avg (mn)	0.4	52-wk range (S\$)	1.46 - 0.55	
Daily trad val-6m avg (US\$ mn)	0.2	Mkt cap (S\$/US\$ mn)	365.1/ 238.5	
Free float (%)	33.0	Performance	1M	3M
Major shareholders	Dr Loo Choon Yong	Absolute	(1.4)	23.7 (46.2)
	(40.0%)	Relative	6.5	25.2 2.1
Year	12/07A	12/08A	12/09E	12/10E
Revenues (S\$ mn)	168.7	200.8	210.2	232.6
EBITDA (S\$ mn)	32.4	45.6	46.7	51.5
Net profit (S\$ mn)	22.3	31.6	34.8	39.4
EPS (S\$)	0.04	0.06	0.07	0.08
- Change from prev. EPS (%)	n.a.	n.a.	-2	-3
- Consensus EPS (S\$)	n.a.	n.a.	0.06	0.07
EPS growth (%)	46.4	36.0	11.5	13.1
P/E (x)	15.7	11.6	10.4	9.2
Dividend yield (%)	3.5	3.5	3.5	4.4
EV/EBITDA (x)	11.4	7.6	6.9	5.6
P/B (x)	1.8	1.7	1.5	1.3
ROE (%)	11.1	14.2	14.2	14.5
Net debt/equity (%)	3	net cash	net cash	net cash

Note 1: Raffles Medical Group (RMG) is a leading medical group and the largest private group practice in Singapore, owning and operating a fully integrated healthcare system comprising hospital, clinics, insurance and consumer healthcare.

Results better than expected

Raffles Medical's 4Q/FY08 results were strong. Revenues were up 12%/19% YoY, and excluding the S\$12.5 mn fair value gain in investment property in FY07, core earnings jumped 35%/35% YoY,

Figure 1: Results summary comparison

(\$mn)	FY08	FY07	YoY (%)	FY08E (old)	% of FY08E
Revenue	200.8	168.7	19.0	205.6	97.6
EBITDA	45.6	32.4	40.6	42.9	106.3
Op. profit	39.0	28.2	38.1	37.5	103.8
PBT	38.4	41.4	-7.4	36.3	105.7
Tax	-6.7	-5.5	21.7	-6.5	102.4
Net profit	31.6	35.9	-11.7	29.8	106.4
EPS (Sct)	6.10	7.36	-17.1	5.80	105.2
EBITDA margin (%)	22.7	19.2	-	20.9	-
Op margin (%)	19.4	16.7	-	18.7	-
Net margin (%)	15.8	21.3	-	14.5	-

Source: Company data, Credit Suisse estimates

Figure 2: Key earnings change

(\$ mn)	FY09E			FY10E		
	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenue	210.2	236.5	-11.1	232.6	265.6	-12.4
EBITDA	46.7	50.3	-7.1	51.5	55.8	-7.6
Op. profit	42.7	44.8	-4.6	48.2	51.1	-5.6
PBT	42.0	43.5	-3.4	47.5	49.8	-4.6
Tax	-7.1	-7.8	-8.8	-8.1	-9.0	-9.9
Net profit	34.9	35.7	-2.2	39.4	40.8	-3.4
EPS (S\$)	0.068	0.070	-2.2	0.077	0.080	-3.4

Source: Company data, Credit Suisse estimates

Valuation metrics

Company	Ticker	CS rating	Price		EPS chg (%)		TP (%) Chg	Up/dn (%)	EPS		EPS grth (%)		P/E (x)		Div. yld (%)	ROE (%)	P/B (x)
			Local	Target	T+1	T+2			T+1	T+2	T+1	T+2	T+1	T+2			
Parkway	PWAY SP	O	1.16	2.88	0	0	0	148	0.1	0.1	(32)	18	14.4	12.2	3.5	5.9	0.9
Raffles Medical	RFMD SP	O	0.71	1.65	(2)	(3)	0	134	0.1	0.1	12	13	10.1	8.8	3.5	14.2	1.5

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM

Source: Company data, Credit Suisse estimates

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Companies Mentioned (Price as of 23 Feb 09)

Raffles Medical Group (RAFG.SI, S\$.71, OUTPERFORM, TP S\$1.65)

Parkway Holdings (PARM.SI, S\$1.16, OUTPERFORM [V], TP S\$2.88)

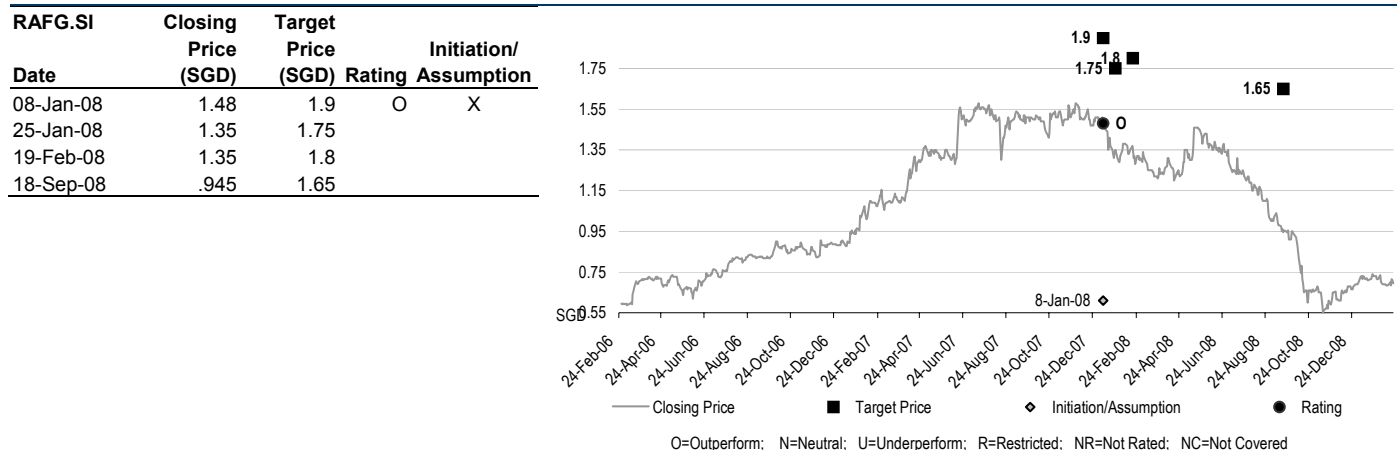
Disclosure Appendix

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3-Year Price, Target Price and Rating Change History Chart for RAFG.SI



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Method: Our S\$1.65 target price for Raffles Medical is based on a discounted cash flow (DCF) methodology of a weighted average cost of capital (WACC) of 10.5% (a risk-free rate of 3.5%, an equity risk premium of 7.0% and a beta of 1), a terminal growth rate of 3%, and a medium-term growth rate of 6% over 2007-2030.

Risks: Key risks to our S\$ 1.65 target price for Raffles Medical include: 1) Regulatory changes driven by government policies 2) Macroeconomic slowdown affecting employment and population growth 3) Increasing competition from regional healthcare providers 4) Risk of a pandemic outbreak 5) Inability to attract talent and Increased labour costs

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