

Standard Chartered: Raffles Medical – Q4/FY2009 ahead of expectations; good earnings execution continues

Raffles Medical (RFMD SP; **OUTPERFORM**; last close S\$1.36, fair value S\$1.53/sh)

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Key points

- FY 2009 net profit of S\$37.9m (+20% YoY) is 8% above our estimate of S\$35.2m.
- Final DPS of 2.0 S cents declared, putting full year payout at 3.0 S cents.
- Overall top-line growth of 9% YoY was broad-based, driven by increases in both healthcare service revenue (+10% YoY) and hospital revenue (+8% YoY).
- Q4 was an exceptionally strong quarter (revenue +13% YoY), with management citing a pick-up in both domestic and foreign patient loads as a result of improving consumer sentiment and H1N1 concerns dissipating.
- The bulk of bottom-line growth, however, was a result of better operating leverage for the hospital segment. Attributable profit growth for this segment was impressive at 21% YoY, along with a 2.8 percentage point improvement in margins. We expect this trend to continue given still low occupancy rates of 50-60% currently. Raffles Hospital also achieved Joint Commission International (JCI) accreditation in early 2009.
- Key contracts with government agencies and corporate were renewed during the year and should underpin stable revenues for the healthcare service segment going forward.
- Balance sheet remains solid, with net cash position now amounting to S\$50m (S\$0.10 per share). We expect dividend payouts to be raised in 2010E in the absence of any major acquisitions.
- We like Raffles as a pure play on the domestic healthcare sector in Singapore, which is currently benefitting from positive fundamentals driven by government support and public policy reforms to shift healthcare spending towards the private sector.
- Current valuations remain undemanding in our view. The shares trade at 18x FY2010E PER, at a 19% discount to Parkway (PWAY SP; **OUTPERFORM**; last close S\$2.81, fair value S\$3.66), while offering the strongest balance sheet in the sector. We maintain our **OUTPERFORM** recommendation and fair value of S\$1.53, based on 20x FY2010 PE.

Results summary

FYE Dec (S\$m)	FY2009	FY2008	% chg YoY
Revenue	218.6	200.8	8.9
EBIT	45.5	39	16.6
Net profit	37.9	31.5	20.1

Segmental revenue (S\$m)	FY2009	FY2008	% chg YoY
Healthcare services	88.7	80.7	9.8
Hospital services	129.8	119.9	8.2
Others	0.2	0.1	62.4
Total	218.6	200.8	

Source: Company

Disclosures Appendix

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Research Recommendation

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12 Months Recommendation History

Security Name	Date	Recommendation
Raffles Medical Group		NO CHANGE

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