

## Raffles Medical

3Q09: Sustained growth despite 1H09 turbulence

3Q09 results were within expectations, driven by improved operating efficiencies and higher patient load. Maintain BUY.

### 3Q09 Results

Year to 31 Dec	3Q08 (\$m)	2Q09 (\$m)	3Q09 (\$m)	yoy % chg	qoq % chg	Remarks
Turnover	51.3	53.9	55.4	8.0	2.8	Combined growth in both business divisions
EBIT	10.2	11.0	11.9	16.3	8.3	Operating efficiency improved and higher patient load
Pre-tax Profit	10.1	10.9	11.8	17.1	8.4	
Tax	(1.9)	(2.1)	(2.3)	23.7	10.8	Tax rate increased 1ppt
Profit After Tax	8.2	8.8	9.5	15.6	7.9	
Net Profit	8.2	8.8	9.5	15.4	7.6	
EPS (cents)	1.6	1.7	1.8	15.4	7.6	
EBIT Margin (%)	19.9	20.4	21.5			Up 1.6ppt

Source: UOB Kay Hian

### Results

Raffles Medical's (RFMD) 3Q09 results were within expectations. Net profit was up 15.4% yoy to S\$9.5m. 9M09 net profit of S\$26.0m accounted for 71% of our full-year estimate but we forecast a stronger 4Q to lift earnings closer to our estimates. Quarterly turnover was a record S\$55.4m for 3Q09, +8% yoy. Revenue from Healthcare Services rose 9.3% yoy while revenue from Hospital Services was up 8.1% yoy. EBIT margin for 3Q09 strengthened to 21.5%, up 1.6ppt yoy. The improvement seen in 3Q09 were a combination of improved operating efficiencies, higher patient load and operating leverage.

### Stock Impact

**Hospital Services driven by higher revenue intensity.** The 8% yoy revenue growth was driven by foreign patient contribution which increased 16% yoy on the back of a 9% yoy volume increase and a 7% rise in billing due to increased revenue intensity. Local patient contribution remained largely unchanged.

**Vaccination boost in anticipation of possible second H1N1 wave.** RFMD is assisting corporates to brace themselves for a potential second wave of H1N1 via the provision of flu-related medical supplies and services such as the anti-viral drug, Tamiflu, and flu-related medical supplies and services.

Also, with the arrival of flu prevention supplies, there is increasing demand from patients for flu vaccinations. Demand for flu vaccinations is also aided by the approaching holiday season as holiday makers seek pre-trip vaccinations. The increased demand for vaccinations and greater health awareness are potentially positive for RFMD's 60-plus clinic network.

## SINGAPORE

### Raffles Medical (RFMD SP)

#### BUY

Current Price: S\$1.35

Target Price: S\$1.76

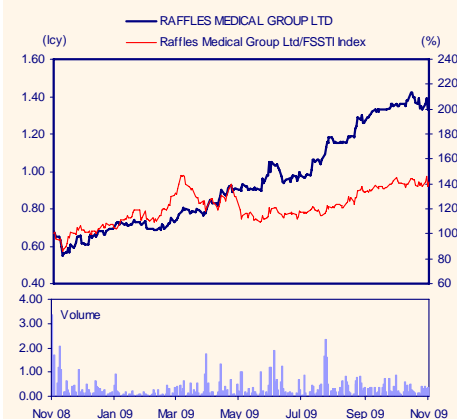
Sector Healthcare  
 52-Wk Avg Daily Vol. ('000) 420  
 Market Cap (S\$m) 701.2  
 (US\$m) 501.9

Major Shareholders (%)  
 Dr Loo Choon Yong 40

FY09 Book NAV/Share (S\$) 0.43  
 FY09 ROE (%) 15.6  
 FY09 Net Debt(Cash)/Share (S\$) (0.07)

Results Due  
 1Q: Apr 2Q: Jul  
 3Q: Oct Final: Feb

### Price Chart



Source: Bloomberg

### Analyst

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Year to 31 Dec	Turnover (\$m)	EBITDA (\$m)	Net Profit (\$m)	EPS (¢)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (¢)	Div Yield (%)
2007	168.7	32.4	35.9	7.4	110.1	18.3	21.6	2.5	1.9
2008	200.8	45.6	31.5	6.1	(16.8)	22.0	14.9	2.5	1.9
2009F	220.7	52.1	36.6	7.1	15.9	19.0	12.6	2.5	1.9
2010F	245.4	60.1	44.1	8.6	20.5	15.8	10.2	2.5	1.9
2011F	282.6	74.8	56.2	10.9	27.4	12.4	9.3	2.5	1.9

Consensus Net Profit – FY09: S\$35.4m  
 – FY10: S\$40.9m

**Earnings Revision**

On balance, the results were credible given the better top-line and EBIT margin yoy growth. With 4Q performance typically the stronger quarter in the year (25.6-27.1% of full-year profit), we are leaving our earnings estimate unchanged. Our FY09 net profit is in line with consensus but our FY10 net profit is 8% above consensus.

**Valuation/Recommendation**

Going forward, growth for RFMD will be driven by its service network development and growth in specialists and competencies. The stock is currently trading at a 15.8x FY10F PE, below the 22.6x FY10F PE of its close peer, Parkway Holdings (PWAY SP). At current price, there is a 30% upside to our target price of S\$1.76, based on DCF valuation (WACC: 8.0%; terminal growth: +1%) Maintain **BUY**.

**Profit & Loss**

Year to 31 Dec (\$m)	2007	2008	2009F	2010F	2011F
Revenue	168.7	200.8	220.7	245.4	282.6
EBIT	28.2	39.0	45.1	53.7	68.4
Pre-tax Profit	41.4	38.4	44.6	53.7	68.5
Net Profit	35.9	31.5	36.6	44.1	56.2
EPS (cts)	7.4	6.1	7.1	8.6	10.9

**Balance Sheet**

Year to 31 Dec (\$m)	2007	2008	2009F	2010F	2011F
Current Assets	44.5	74.2	93.0	118.7	173.6
Total Assets	281.5	310.4	327.4	351.8	405.5
Current Liabilities	79.7	65.4	60.6	73.8	84.1
Long-Term Liabilities	0.7	22.7	20.8	0.9	1.0
Shareholder Funds	200.8	221.9	245.6	276.8	320.1
Total Equity & Liabilities	281.5	310.4	327.4	351.8	405.5

**Cash Flow**

Year to 31 Dec (\$m)	2007	2008	2009F	2010F	2011F
Operating	40.1	40.1	38.1	63.2	66.7
Investing	(52.8)	(5.0)	(5.0)	(5.0)	(5.0)
Financing	(9.2)	(10.7)	(17.5)	(32.9)	(11.9)
Net Cash In/(Out) Flow	(22.0)	24.4	15.6	25.3	49.8
Begin Cash & Cash Equiv.	41.8	19.7	44.1	59.8	85.1
End'g Cash & Cash Equiv.	19.7	44.1	59.8	85.1	134.9

**Peer Comparison**

Company	Share Price (Lcy)	Mkt Cap (US\$m)	Gearing (%)	ROE (%)	PE		P/B	
					Curr (x)	1-Yr Fwd (x)	Curr (x)	1-Yr Fwd (x)
<b>Singapore</b>								
Raffles Medical	1.35	501.9	(8.1)	14.9	19.0	15.8	2.8	2.5
Parkway Holdings	2.53	2,046.9	51.8	8.1	27.5	22.6	2.0	1.9
<b>Average</b>			<b>21.9</b>		<b>19.9</b>	<b>17.2</b>	<b>2.04</b>	<b>1.89</b>
<b>Thailand</b>								
Bankok Dusit Medical Services	24.3	882.9	77.6	12.3	18.4	16.2	2.2	2.0
Bumrungrad Hospital	28.5	621.0	30.5	23.8	17.8	16.4	3.8	3.4
<b>Average</b>			<b>54.0</b>		<b>16.0</b>	<b>14.5</b>	<b>2.6</b>	<b>2.4</b>
<b>Malaysia</b>								
KPJ Healthcare	4.4	271.7	41.7	15.7	10.0	8.7	1.5	1.4

Source: UOB Kay Hian

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