

Raffles Medical Group – Singapore

3Q11: Results within expectations; delivering as promised

3Q11 Results

Year to 31 Dec	3Q11 (S\$m)	3Q10 (S\$m)	yoy % chg	9M11 (S\$m)	9M10 (S\$m)	yoy % chg
Turnover	69.1	60.9	13.5	200.5	175.6	14.2
EBITDA	16.3	14.8	10.1	47.3	42.2	12.0
Operating Profit	14.5	13.1	10.3	41.6	37.1	12.0
Pre-tax Profit	14.4	13.1	9.6	41.6	37.2	11.8
Tax	(2.5)	(2.4)	6.4	(7.5)	(6.7)	11.4
Profit after Tax	11.8	10.7	10.3	34.1	30.5	11.9
Minority Interests	0.0	0.1	(25.5)	0.2	0.1	20.4
Net Profit	11.8	10.7	10.4	33.9	30.3	11.8
EPS (cents)	2.2	2.0	9.0	6.3	5.7	10.5
EBITDA margin (%)	23.6	24.3	(0.7)ppt	23.6	24.0	(0.4)ppt
Inventories & Consumables Used	(8.3)	(7.0)	18.9	(23.4)	(20.0)	16.8
Purchased/Contracted Services	(5.0)	(4.2)	20.3	(15.1)	(12.3)	22.5

Source: Raffles Medical Group, UOB Kay Hian

Results

- Delivering steady growth.** Raffles Medical Group's (RMG) 3Q11 results were broadly in line with our and market expectations. 9M net profit of S\$33.9m (+11.8% yoy) accounted for 67% of our full-year forecast. However, we expect a seasonally stronger 4Q to lift earnings closer to our full-year forecast. In FY09-10, 4Q net profits accounted for 31-32% of the full-year estimates. This is due to seasonally stronger factors such as higher volume of elective surgeries and healthcare services such as health check-ups before the year-end.
- Stronger all around.** 3Q11 revenue improved 13.5%, driven by higher revenue from hospital services (+14.1% yoy) and healthcare services (+8.4% yoy). Hospital services saw strong growth due to a combination of higher volume (estimated at 4% yoy) and pricing (10% yoy).

Key Financials

Year to 31 Dec (S\$m)	2009	2010	2011F	2012F	2013F
Net turnover	219	239	260	289	314
EBITDA	52	60	68	76	86
Operating profit	45	53	61	70	80
Net profit (rep./act.)	38	45	51	58	66
Net profit (adj.)	38	45	51	58	66
EPS (S\$ cent)	7.2	8.5	9.6	10.9	12.4
PE (x)	31.1	26.4	23.5	20.6	18.1
P/B (x)	4.6	4.0	3.6	3.2	2.8
EV/EBITDA (x)	22.7	19.7	17.5	15.6	13.8
Dividend yield (%)	1.3	1.6	1.6	1.6	1.6
Net margin (%)	17.3	18.9	19.5	20.0	21.0
Net debt/(cash) to equity (%)	(20.0)	(29.5)	(4.5)	(6.4)	(8.5)
Interest cover (x)	127.7	252.2	n.a.	n.a.	n.a.
ROE (%)	16.1	16.9	16.8	17.1	17.3
Consensus net profit	-	-	50	58	68
UOBKH/Consensus (x)	-	-	1.01	1.01	0.97

Source: Raffles Medical Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Company Results

Share Price	S\$2.25
Target Price	S\$2.81
Upside	+25.0%
(Previous TP	S\$2.81)

Company Description

Raffles Medical Group Limited is a health care provider. The company operates medical clinics, imaging centers, and medical laboratories. Raffles provides general and specialised medical, medical evacuation, medical advisory, and dental treatment services.

Stock Data

GICS sector	Health Care
Bloomberg ticker:	RFMD SP
Shares issued (m):	533.9
Market cap (S\$m):	1,201.3
Market cap (US\$m):	962.0
3-mth avg daily t'over (US\$m):	0.7

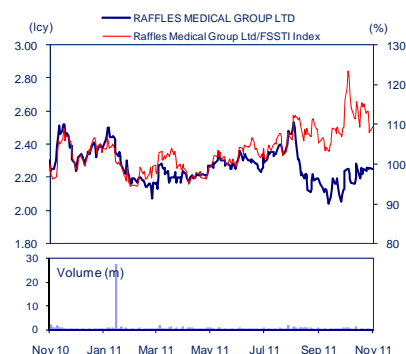
Price Performance (%)

52-week high/low	S\$2.53/S\$2.04			
1mth	3mth	6mth	1yr	YTD
0.4	(8.5)	(0.9)	3.2	(5.9)

Major Shareholders

	%
Dr Loo Choon Yong	53.0
FY11 NAV/Share (S\$)	0.62
FY11 Net Cash/Share (S\$)	0.03

Price Chart



Source: Bloomberg

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- **Slight slippage in margins.** 9M11 EBITDA margins slipped 0.4ppt to 23.6% due to losses at its Shanghai medical centre and higher staff cost. The latter is attributable to new hires for the normal expansion of its specialist services and in preparation for its Thong Sia Specialist Medical Centre, which is due to commence operations in 1H13.

Stock Impact

- **Visible expansion plans in Singapore.** Construction for the planned expansion of its existing hospital (by 102,408 sq ft) will commence in 2H12 and will take 18-24 months. For near-term requirements, RMG will relocate its backroom staff and will pave the way for 15,000sq ft for additional space. Management expects operations at Thong Sia Medical Centre to commence by 1H13. Thong Sia Medical Centre is projected to cater to 50,000-75,000 patients p.a.. For its healthcare division, RMG currently has 74 clinics in Singapore and plans to expand this by 5 clinics annually.
- **Internally funded growth.** The group's operating cash flow remains strong, with an annual operating cash flow of more than S\$60m generated. Even after factoring in the expenditure of S\$92m for the acquisition of Thong Sia and its refurbishment costs (of S\$10-15m), we estimate its gross debt to equity ratio to remain below 10% in FY12F.
- **Beneficiary of PCPS?** RMG could also be a potential beneficiary of a recent government initiative to expand the Primary Care Partnership Scheme (PCPS), which is essentially a subsidy for qualifying patients to seek private healthcare services for chronic medical diseases.

Earnings Revision/Risk

- **No changes in our forecast.** We project a 3-year EPS CAGR of 13.5%, which looks conservative given the group's solid track record of achieving 22% CAGR in net profit since 2000.
- **Potential risks**, in our view, include: a) a global double dip in economic growth affecting demand for private healthcare, b) outbreak of a contagious disease, and c) hiring and retaining quality doctors.

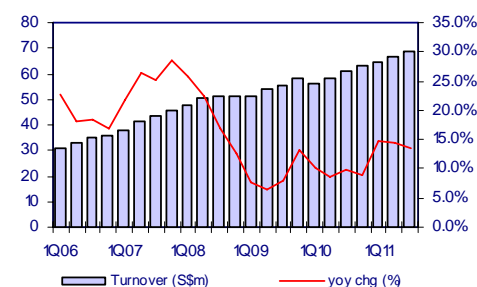
Valuation/Recommendation

- RMG remains on our BUY list with an unchanged target price of S\$2.81/share. This is based on a DCF valuation which factors in a long-term growth of 4.0%.

Share Price Catalyst

- Potential catalysts include: a) better-than-expected earnings growth in FY12F, b) new listings of private healthcare companies at premium valuation which could establish a new benchmark, and c) M&A newsflow in the sector, which could further re-rate healthcare companies.

Quarterly Revenue Trend



Source: Raffles Medical Group, UOB Kay Hian

Raffles Medical Historical PE Band



Source: Bloomberg, UOB Kay Hian

Peer Comparison

Company	Ticker	Price @ 31 Oct 11	Market Cap (US\$m)	PE			2011 Yield (%)	2011 ROE (%)	PB (x)	Net Gearing (%)
				2010 (x)	2011 (x)	2012 (x)				
Raffles Medical	RFMD SP	2.25	962	26.0	23.6	20.7	1.6	16.8	3.8	1.0
Healthway Medical	HMED SP	0.087	146	56.9	n.a.	n.a.	n.a.	n.a.	0.9	6.0
Health Management Intl	HMI SP	0.096	44	n.a.	71.5	n.a.	0.0	2.4	1.6	58.8
Singapore Medical Group	SMG SP	0.12	14	7.5	n.a.	n.a.	n.a.	n.a.	4.7	(43.6)
Bangkok Dusit Med Service	BGH TB	68.50	3,444	36.4	25.5	22.1	1.7	17.9	3.7	46.8
Bumrungrad Hospital Pub Co	BH TB	39.75	942	23.0	20.3	18.8	2.5	24.4	4.6	50.1

Source: Bloomberg, UOB Kay Hian

Profit & Loss

Year to 31 Dec (\$m)	2010	2011F	2012F	2013F
Net turnover	239	260	289	314
EBITDA	60	68	76	86
Deprec. & amort.	7	6	6	6
EBIT	53	61	70	80
Associate contributions	0	0	0	0
Net interest income/(expense)	0	1	1	1
Pre-tax profit	53	62	71	81
Tax	(8)	(11)	(13)	(15)
Minorities	0	0	0	0
Net profit	45	51	58	66
Net profit (adj.)	45	51	58	66

Balance Sheet

Year to 31 Dec (\$m)	2010	2011F	2012F	2013F
Fixed assets	232	338	373	413
Other LT assets	1	1	1	2
Cash/ST investment	107	46	55	67
Other current assets	31	34	38	41
Total assets	372	420	467	522
ST debt	5	2	2	2
Other current liabilities	61	66	73	80
LT debt	18	30	30	30
Other LT liabilities	2	2	2	2
Shareholders' equity	286	319	359	407
Minority interest	1	1	1	1
Total liabilities & equity	372	420	467	522

Cash Flow

Year to 31 Dec (\$m)	2010	2011F	2012F	2013F
Operating	49	59	67	75
Pre-tax profit	53	62	71	81
Tax	(7)	(11)	(13)	(15)
Deprec. & amort.	7	6	6	6
Working capital changes	(3)	2	2	2
Other operating cashflows	(1)	0	0	0
Investing	(3)	(132)	(40)	(45)
Capex (growth)	(5)	(132)	(40)	(45)
Investments	0	0	0	0
Proceeds from sale of assets	2	0	0	0
Others	0	0	0	0
Financing	(13)	12	(18)	(18)
Dividend payments	(16)	(18)	(18)	(18)
Issue of shares	4	0	0	0
Proceeds from borrowings	(1)	30	0	0
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	33	(61)	9	12
Beginning cash & cash equivalent	74	107	46	55
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	107	46	55	67

Key Metrics

Year to 31 Dec (%)	2010	2011F	2012F	2013F
Profitability				
EBITDA margin	25.2	26.0	26.4	27.5
Pre-tax margin	22.2	23.8	24.4	25.7
Net margin	18.9	19.5	20.0	21.0
ROA	12.8	12.9	13.1	13.4
ROE	16.9	16.8	17.1	17.3
Growth				
Turnover	9.4	8.9	11.1	8.6
EBITDA	15.1	12.3	12.8	13.0
Pre-tax profit	17.9	16.8	13.9	14.1
Net profit	19.5	12.4	13.9	14.1
Net profit (adj.)	19.5	12.4	13.9	14.1
EPS	17.8	12.4	13.9	14.1
Leverage				
Debt to total capital	7.3	9.1	8.2	7.3
Debt to equity	7.9	10.0	8.9	7.9
Net debt/(cash) to equity	(29.5)	(4.5)	(6.4)	(8.5)
Interest cover (x)	252.2	n.a.	n.a.	n.a.

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