

28 November 2007

Singapore Hospitals

SECTOR RECOMMENDATION

OVERWEIGHT

CHANGE IN SECTOR RECOMMENDATION

n/a

COMPANIES FEATURED	BLOOMBERG CODE	PRICE	RECOMMENDATION	FAIR VALUE	UPSIDE/(DOWNSIDE) POTENTIAL
Parkway Holdings	PWAY SP	S\$3.94	OUTPERFORM	S\$5.30	+35%
Raffles Medical Group	RFMD SP	S\$1.55	OUTPERFORM	S\$1.90	+23%
Thomson Medical Centre	THOM SP	S\$0.67	OUTPERFORM	S\$0.86	+28%
Pacific Healthcare	PACH SP	S\$0.395	UNRATED	n/a	n/a
Health Management Int'l	HMI SP	S\$0.185	UNRATED	n/a	n/a

SECTOR ANALYST

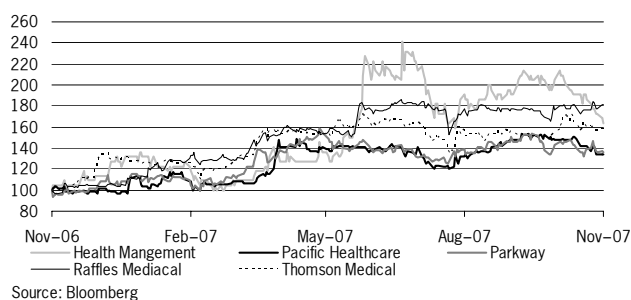
Desmond.Lee@cazenove.com
Tel +65 6395 7688

We initiate coverage on the Singapore healthcare service providers with an OVERWEIGHT rating. We believe that the sector is poised for a prolonged period of robust earnings growth, driven by: 1) ongoing liberalization of Singapore's compulsory medical savings and insurance schemes, 2) increased spending by medical tourists, 3) migration of patients from the public sector, and 4) favourable demographics in Asia. **Specifically, we like the Singapore hospitals** due to their dominant market positions, strong pricing power and proactive international expansion strategies. The development of the hospital REIT sector in Asia is positive for hospital owners and should drive a re-rating of sector valuations over the longer term.

Parkway is our top pick in the sector given its superior scale and dominance. Its core markets in Singapore and Malaysia should continue to see strong organic growth, whilst its operations in India and China are fast gaining traction. Following the successful listing of its S\$770m hospital REIT in August 2007, Parkway has also transformed itself into a leaner outfit, armed with a stronger balance sheet. The increased financial flexibility could see the pace of new investments / acquisitions pick up over the next 12 months. Further monetisation of its hospital portfolio could unlock more value for shareholders over the long term. **We also like Raffles Medical and Thomson Medical as pure plays on the domestic private healthcare spending boom.** We believe **Raffles is an attractive M&A target** in light of its enviable position as 1) an owner of excess bed capacity, and 2) the largest private GP clinic operator. We view the introduction of strong strategic shareholders (Qatar Investment Authority / Temasek) as a prelude to significant moves into overseas markets. **Thomson's well executed niche strategy** should result in market share gains and higher average bed rates.

Key sector risks include the possibility of an economic downturn, execution risk in foreign markets and domestic supply side risks.

Sector performance



Sector (%)	-1 mth	-3 mth	-12 mth
Parkway Holdings	-5	0	+36
Raffles Medical Group	+3	+6	+81
Thomson Medical Centre	0	+2	+55
Pacific Healthcare	-9	+3	+34
Health Management Int'l	-18	-10	+68

	Parkway	Raffles Medical	Thomson Medical
2006 EPS (S cents)	9.0	3.5	2.3
2007E EPS (S cents)	11.7	4.5	3.3
2008E EPS (S cents)	16.2	5.5	3.6
2007E EPS Growth (%)	+29.5	+28.9	+40.1
2008E EPS Growth (%)	+38.9	+21.8	+11.2
2006 PER (x)	43.7	44.5	28.8
2007E PER (x)	33.8	34.5	20.6
2008E PER (x)	24.3	28.3	18.5
2009E PER (x)	19.3	22.2	15.9
2006 EV/EBITDA (x)	15.7	35.7	15.6
2007E EV/EBITDA (x)	15.0	25.0	12.9
2008E EV/EBITDA (x)	13.3	17.2	11.4
2006 Yield (%)	4.5	2.3	2.6
2007E Yield (%)	6.1	2.6	3.7
2008E Yield (%)	3.7	2.9	4.1
2006 ROE (%)	16.0	14.3	9.1
2007E ROE (%)	13.7	14.2	11.1
2008E ROE (%)	14.0	14.6	11.3
2006 P/B (x)	6.9	6.2	2.5
2007E P/B (x)	3.4	3.9	2.1
2008E P/B (x)	3.4	4.1	2.1

Source: Company, Cazenove

SALES

London +44 (0)20 7588 2828
Singapore +65 6227 1511

Hong Kong +852 2526 4211

New York +1 212 376 1225

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1.0

Investment summary

We initiate coverage on the Singapore healthcare service providers with an OVERWEIGHT rating. Specifically, we have OUTPERFORM recommendations on Parkway Holdings (Parkway), Raffles Medical Group (Raffles) and Thomson Medical Centre (Thomson). We also met with two other SGX-listed healthcare providers, Health Management International (HMI) and Pacific Healthcare. Our company visit notes are included in this report.

Demand side drivers are aligning for a healthcare spending boom. We believe that the sector is poised for a prolonged period of robust earnings growth, underpinned by the following factors:

- **Acceleration in total healthcare spending** driven by 1) ongoing liberalisation in Singapore's compulsory medical savings scheme, *Medisave*, 2) rising healthcare insurance coverage, and 3) an enlarged foreign population base.
- **Policy reforms to boost private sector.** Over the last few years, private hospitals have steadily increased their share of total admissions and healthcare spending. Private sector share could see a significant jump over the next 2–3 years, with the implementation of means testing in public hospitals. We expect future policy reforms to be consistent with the government's objective of gradually shifting the responsibility of healthcare provision to the private sector.
- **Further strides in the medical tourism segment.** Singapore's success as a regional hub for medical tourism is set to continue, underpinned by the country's established reputation as a medical centre of excellence. The government targets 1m foreign patients pa by 2012 (implies 15% CAGR in foreign patient volumes) and in our view, could potentially invigorate the segment with the introduction of friendly publicly-funded policies.

Supply inelasticity to boost average daily bed rates. Healthcare spending levels in Singapore have breached pre-Asian financial crisis levels. Total hospital bed capacity, however, has remained stagnant over the last seven years. With no new operational capacity expected before 2011, this sets the stage for existing capacity owners like Parkway and Raffles to raise average daily hospital rates for the foreseeable future.

Hospital REITS could drive a sector re-rating. We view the development of the hospital REIT sector in Singapore over the last twelve months as hugely positive; Parkway is an obvious beneficiary following the successful listing of Parkway Life REIT. On a sector wide scale, REITs offer all asset-heavy healthcare service providers with an attractive avenue to 1) unlock value from their real estate assets, and 2) recycle their capital to fund further growth opportunities.

M&A activity to intensify. Consolidation looks set to be a recurring sector theme as the established healthcare groups seek to export their brands and explore the merits of cross-border supply/referrals. We believe Asian-based healthcare service providers rank highly as attractive buy-out targets for private equity firms, given their solid growth prospects and inherent ability to generate strong cash flow. From this perspective, we view Raffles as a likely M&A target, given its 1) simple shareholding structure, 2) underutilised but high quality hospital assets, and 3) extensive network of outpatient clinics, a potential feed for referrals.

Be selective on the second-tier players. We expect the smaller operators like Thomson and Pacific Healthcare to benefit from the positive industry dynamics, though growth could be constrained somewhat by their relatively less-established brand names, narrow spectrum of services on offer and limited capital resources. Of the two, we prefer Thomson given the company's established track record of solidifying its market share position consistently. In our view, a sensible strategy for these smaller players would entail the adoption of a niche strategy targeting specialized fields. Geographically, Thomson is fast emerging as a significant player in Vietnam, whilst HMI remains a leveraged play on Malaysia's private healthcare sector and the success of the Iskandar Development Region (IDR).

Valuations. Sector valuations, whilst rich relative to the broader market, are reasonable, in our view, underpinned by strong growth prospects, solid fundamentals and high quality earnings.

2.0 Valuation

2.1 Key assumptions

In our view, the rapid development of the Singapore hospital REIT sector over the last twelve months has positive implications for sector-wide valuations.

- Our view is that the Singapore private hospital operators would, at some point in time, look to unlock surpluses from their real estate assets as the demand and ultimately, prices paid for these high quality healthcare-related assets continue to rise. The establishment of two acquisition-hungry Singapore-based REITs over the last twelve months has started to facilitate this process, with Parkway and Pacific Healthcare having already divested some of their assets to these two REITs.
- On this basis, the use of a pure earnings based methodology i.e. PER, EV/EBITDA to value the sector would be inappropriate, as this approach fails to take into account the prevailing market values of healthcare assets. A buoyant real estate market in Singapore, coupled with successive years of strong growth in the sector, suggests that the market values for most of these assets are substantially higher than their book values.

2.2 Fair values

- **We use a sum of the parts (SOTP) approach to value the Singapore hospitals.** Amongst the three hospitals, we believe that Parkway offers the lowest valuation risk. The establishment of ParkwayLife REIT has materialised and we expect Parkway, as the sponsor, to actively use the REIT as a convenient vehicle for asset monetisation. **Our fair values do not factor in potential upside risk from the reinvestment of asset securitisation proceeds.**

Fig 2.1 Fair value summary

	Parkway Holdings	Raffles Medical	Thomson Medical
Current share price (S\$)	3.94	1.55	0.67
Fair value (S\$)	5.30	1.90	0.86
Potential upside (%)	35	23	28

Source: Cazenove

- **Parkway Holdings. Our SOTP-based fair value for Parkway is S\$5.30.** We value Parkway's core operations at 28x FY2008E/FY2009E PER. A fair multiple premium for Parkway is justified, in our view, given the group's more established brand name and dominance in key markets.

Fig 2.2 SOTP valuation for Parkway Holdings

	Net profit (S\$m)	Fair value (S\$m)	Comments
Value of Hospital Business	141.6	3,965.6	Based on 28x FY2008E/2009E PER
Add: 22% stake in Auric Pacific		37.8	Marked to market @ S\$1.37 per share
Add: Other financial assets		20.6	At book value
Enterprise Value		4,024.1	
Add: Net cash (debt)		60.8	As at Q3 2007
Equity value		4,084.9	
Number of shares (m)		768.0	
Fair value per share (S\$)		5.30	

Source: Cazenove, Company

- **Raffles Medical. Our SOTP-based fair value for Raffles is S\$1.90.** We value Raffles' core operations at 25x FY2008E/FY2009E PER or S\$1.58/share and real estate assets at S\$0.34/share.

Fig 2.3 SOTP valuation for Raffles Medical

	Net profit (S\$m)	Fair value (S\$m)	Comments
Value of existing core healthcare business	32.4	808.7	Based on 25x FY2008E/2009E PER
Add: Value of Raffles Hospital		172.0	20% discount to last appraised value
Enterprise value		980.7	
Add: Net cash (debt)		-12.5	As at Q3 2007
Equity value		968.1	
Number of shares (m)		513.5	
Fair value per share (S\$)		1.90	

Source: Cazenove, Company

- **Thomson Medical. Our SOTP-based fair value for Thomson is S\$0.86.** We value Thomson's existing domestic operations at 18x FY2008E/FY2009E PER or S\$0.71/share and real estate assets at S\$0.13/share.

Fig 2.4 SOTP valuation for Thomson Medical Centre

	Net profit (S\$m)	Fair value (S\$m)	Comments
Value of existing core healthcare business	11.5	207.3	Based on 18x FY2008E PER
Add: Value of freehold land (TMC)		37.2	20% discount to last appraised value
Enterprise value		244.5	
Add: Net cash (debt)		6.7	As at end FY2007
Equity value		251.1	
Number of shares (m)		292.0	
Fair value per share (S\$)		0.86	

Source: Cazenove, Company

Singapore Hospitals

2.3 Peer valuations

As a point of reference, we include a peer comparison table of publicly-listed healthcare service providers in the Asia-Pacific region, having market capitalization in excess of US\$40m.

Fig 2.5 Peer group valuation multiples for listed Asian hospitals

Ticker	Name	Market cap (US\$m)	PER FY2006 (x)	PER FY2007E (x)	PER FY2008E (x)	EV / Trailing 12M EBITDA	PBR (x)	Dividend yield FY2007E (%)
Singapore								
PWAY	Parkway Holdings	2,014	43.7	33.8	24.3	15.7	6.9	6.1
RFMD	Raffles Medical Group	526	44.5	34.5	28.3	35.7	6.2	2.6
THOM	Thomson Medical Centre	132	28.8	20.6	18.5	12.9	2.1	3.7
PACH	Pacific Healthcare Holdings	72	23.3	18.0	14.1	10.3	2.3	1.8
HMI	Health Management Int'l	41	46.3	8.8	n/a	9.5	2.2	n/a
Malaysia								
KPJ	KPJ Healthcare	192	15.8	13.0	11.1	8.3	1.5	3.7
TMCL	TMC Life Sciences	61	21.5	20.4	19.3	13.3	3.9	0.9
Thailand								
BGH	Bangkok Dusit Medical Services	1,239	42.2	29.9	23.2	12.9	3.6	1.7
BH	Bumrungrad Hospital	934	26.0	25.9	21.9	15.2	8.2	2.0
KH	Bangkok Chain Hospital	236	18.1	16.8	14.4	9.2	2.9	3.6
SVH	Samitivej	183	21.7	n/a	n/a	8.5	2.2	n/a
RAM	Ramkhamhaeng Hospital	208	18.9	n/a	n/a	15.8	5.2	n/a
VIBHA	Vibhavadi Medical Center	58	22.6	27.3	25.0	n/a	1.5	n/a
NTV	Nonthavej Hospital	57	11.8	12.5	11.3	7.6	2.5	n/a
India								
APHS	Apollo Hospitals Enterprise	615	27.2	31.4	27.0	17.6	3.3	1.6
FORH	Fortis Healthcare	447	n/a	n/a	n/a	45.9	3.9	n/a
IPMC	Indraprastha Medical Corp	91	24.9	n/a	n/a	10.2	3.2	n/a
Australia								
RHC	Ramsay Health Care	1,596	20.4	17.9	15.5	10.4	2.9	3.1
PRY	Primary Health Care	1,459	26.2	23.1	19.3	17.8	3.7	4.2
HSP	Healthscope	1,129	15.5	16.9	14.4	11.7	1.6	3.5
New Zealand								
WFD	Wakefield Health	86	30.7	16.9	14.7	10.0	1.7	2.4

Source: Bloomberg, I/B/E/S estimates, Cazenove

3.0

Ongoing development of healthcare REITs to unlock value in the sector

In our view, the rapid development of healthcare REITs in Singapore seen over the last 12 months has created a huge source of demand for good quality healthcare assets in the region. This bodes well for asset-heavy hospital-based providers looking to unlock surpluses from their real estate assets and recycle the released capital into higher return investments. On a sector wide scale, this could potentially drive a structural re-rating in valuations, underpinned by higher dividend payouts and higher ROEs.

As of now, there are two newly established healthcare REITs listed on the SGX. Given their small asset bases (relative to the other conventional S-REITs), young listing histories, and good gearing potential, we believe that both REITs are at the very early stages of executing on their respective acquisition-led strategies.

3.1 Recently listed healthcare REITs

Fig 3.1 Share price performance of FIRST REIT

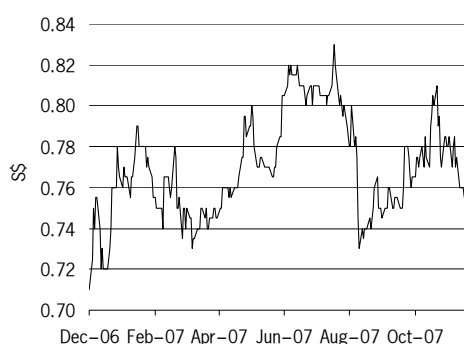
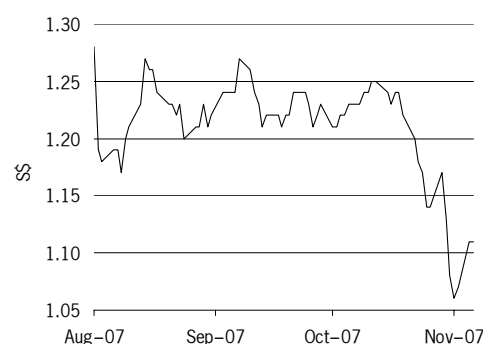


Fig 3.2 Share price performance of Pway Life REIT



Source: Bloomberg

- In December 2006, the market witnessed the listing of the first Singapore-based healthcare REIT, First REIT (FIRST SP; N/R). Sponsored by Indonesia's Lippo Group, First REIT has gone on an active acquisition trail since its IPO, acquiring a total of three nursing homes and one psychiatric hospital in Singapore. First REIT has also entered into agreements to acquire three more hospitals in China.

Fig 3.3 SGX-listed healthcare REITs

REIT	Sponsor	Current portfolio	Comments
First REIT	Lippo Group	4 hospitals in Indonesia 3 nursing homes in Singapore 1 psychiatric hospital in Singapore	Targets to grow portfolio from S\$308m currently to S\$1bn by end-2011. Has entered into agreements to acquire three more hospitals in China.
Parkway Life REIT	Parkway Holdings	3 hospitals in Singapore	Has first right of refusal to acquire Parkway's remaining interests in 12 other hospitals.

Source: Company

- In August 2007, Parkway successfully listed its own REIT, ParkwayLife REIT (PLIFE SP; N/R) on the SGX, with an initial portfolio of three Singapore hospitals. Parkway retains a 35.5% shareholding interest in the REIT and has granted the REIT managers first rights of refusal to acquire the group's remaining interests in 14 healthcare facilities. ParkwayLife REIT has identified private and public healthcare facilities in Singapore as an important component of the REIT's acquisition universe.

Fig 3.4 Acquisition activity relating to Singapore-listed healthcare REITs

11-Dec-06	First REIT lists on the SGX with an initial portfolio of four hospitals in Indonesia.
11-Apr-07	First REIT completes acquisition of two nursing homes in Singapore from Pacific Healthcare for S\$23.3m.
11-Jun-07	First REIT completes acquisition of one nursing home in Singapore for S\$12.8m.
23-Jul-07	First REIT completes acquisition of one psychiatric hospital from Pacific Healthcare for S\$14.9m.
20-Aug-07	First REIT enters into MOU to invest in 500-bed hospital in Jiangsu Province.
23-Aug-07	Parkway Life REIT lists on the SGX with an initial portfolio of three hospitals in Singapore.
12-Sep-07	First REIT enters into conditional agreement to invest in 200-bed Shanghai Woman and Child Healthcare Hospital and Hengshan Urology Hospital.
15-Oct-07	First REIT enters into MOU to acquire 100% of Wuxi New District Phoenix Hospital, in Jiangsu Province.

Source: Company announcements

3.2 The beneficiaries

Typically, healthcare REITs seek to grow their distributions to unit holders via embarking on yield-accretive acquisitions. In our view, the existence of two acquisition-hungry REITs on the SGX, coupled with **the potential establishment of more healthcare REITs in Asia would increase the competition, and consequently, the prices paid for high-quality healthcare assets.**

- On this basis, we expect most of the Singapore-based healthcare providers to undertake asset light initiatives through REITs. Pacific Healthcare and Parkway are two companies that have already jumped on the REIT bandwagon, following asset divestments to First REIT and ParkwayLife REIT respectively.
- The case for healthcare providers to divest their chunky assets to REITs remains unchanged. With REITs, healthcare providers are able to 1) enhance their ROEs, 2) extract surpluses from the current market values of their fixed assets and 3) fund their growth aspirations at an inexpensive rate. Shareholders could stand to benefit from special dividend payouts should management decide to deploy part or all of the excess capital back to shareholders.

The scope and quantum for value enhancement would, however, differ considerably between healthcare providers. **In our view, the major beneficiaries would be:**

- **Larger healthcare providers that possess the scale to establish their own REITs.** These players stand to reap the additional benefits of supplementing their existing income streams with REIT management fees, whilst also retaining control over their properties. On this basis, **Parkway stands out as a clear winner given its unmatched dominance and scale.** We believe that the successful establishment of ParkwayLife REIT will provide Parkway with a convenient vehicle for monetising its remaining portfolio of 14 healthcare facilities and allow the company to recycle the released capital into meaningful acquisitions. **We believe that a player like HMI, which already owns two hospitals in Malaysia, will seek to replicate Parkway's model over the longer term, as it continues to add healthcare facilities to its network.**
- **Healthcare providers that own severely undervalued real estate assets relative to their market capitalizations.** These players would stand to benefit substantially from a sale and leaseback arrangement with a REIT. On this basis, **Raffles and Thomson, which each own a sizeable hospital, possess significant scope to enhance shareholder value via an asset securitisation exercise.** Our recent company visits suggest, however, that most of the smaller operators are hesitant to unleash total control of their flagship facilities to a third party. **In our view, this could strengthen the case for smaller players to pool their assets, with the intention of establishing their own REIT.**

4.0
M&A activity in the sector to remain buoyant

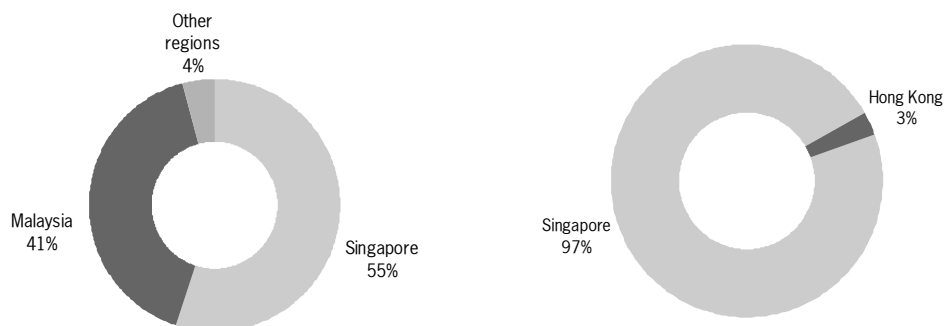
We expect M&A to be a recurring theme for the sector. Going forward, the relaxation of foreign participation rules in several healthcare industries across Asia should help to underpin robust M&A activity in the region. For example, China has gradually reduced provincial reimbursements to public hospitals and will allow private (both local and foreign) investors to invest in the healthcare industry. Similarly, the Vietnamese government has begun to encourage foreign investors to participate in the construction of new healthcare facilities in the country, by according preferential tax rates to these investors for the next 15 years. The Singapore government, eager to attract world renowned healthcare institutions, is expected to open up the bidding for future medical land sites to foreign parties.

4.1
 As acquirers

As acquirers. In our view, the Singapore-based private healthcare providers have proven themselves to be successful brand exporters to emerging countries like China, India, Malaysia and Vietnam. **The trend of acquiring assets abroad and diverting investments outside Singapore is likely to continue, as local healthcare players seek ways to remove the market size limitations posed by operating solely in a small country like Singapore.**

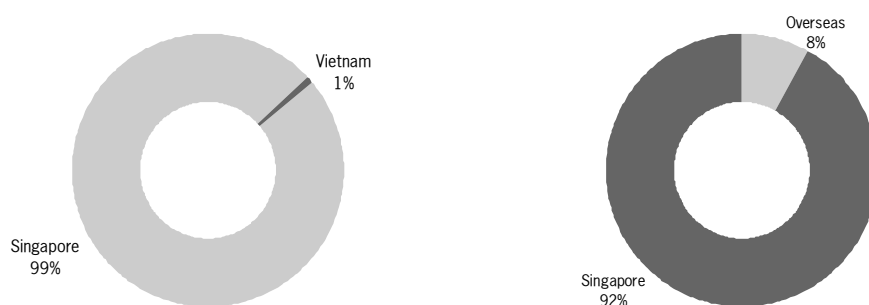
- International expansion strategies have taken either one of two forms: 1) acquisitions of existing healthcare operations, and 2) greenfield ventures / investments with strong local partners. Examples include Parkway's acquisition of Pantai in Malaysia for the former and Thomson's collaboration with Protrade Corporation in Vietnam (to construct the Han Puch Women's and Children's Hospital) for the latter. To date, Raffles has yet to execute on the international front, but this could potentially change following the introduction of new strategic shareholders.

Fig 4.1 2006 geographical revenue split: Parkway **Fig 4.2** 2006 geographical revenue split: Raffles



Source: Company, Cazenove

Fig 4.3 2007 geographical revenue split: Thomson **Fig 4.4** 2006 geographical revenue split: PacHealth



Source: Company Cazenove

- We believe that Singapore healthcare providers are now well-positioned to sow the seeds of their recent successful forays into the international space e.g. favourable overseas demographics, less competition, potential for cross-border referrals, as positive earnings streams from these international investments start flowing in over the next few years. **On this front, we expect Parkway to offer the most upside given its already established footprint outside Singapore. We also expect the company to be the most aggressive in M&A execution, underpinned by its financial strength (boosted by the recent monetisation of its Singapore hospitals) and driven by its obligations as a sponsor of ParkwayLife REIT.**
- Private healthcare operators in Singapore have, as a result of the demanding competitive environment in the country, amassed valuable knowledge, experience and capability in delivering high-quality healthcare services efficiently. As such, we believe that Singapore healthcare providers should thrive within foreign healthcare systems, especially in countries where good quality healthcare services are excessively expensive and inaccessible to the middle class e.g. China, Indonesia.

Fig 4.5 Recent acquisitions made by Southeast Asian hospital groups

Company	Date	Entity Acquired	Stake	Price	Remarks
Parkway	Sep-05	Pantai	31%	RM279m	Pantai is the largest private hospital operator in Malaysia.
	May-07	World Link Group	60%	US\$44m	World Link is a leading private outpatient clinic operator in Shanghai.
Thomson	n/a	Han Phuch Hospital	n/a	n/a	Thomson has an option to acquire a 25% stake in the hospital.
					Thomson has also secured an exclusivity agreement to develop two more hospitals in Vietnam.
HMI	May-07	Regency	100%	RM18.5m	Regency is a new 218-bed hospital in Johor.
					HMI's effective stake stands at 61% currently.
Bumrungrad	Jun-07	Asia Renal Care	100%	US\$75m	Asia Renal Care is Asia's largest private provider of dialysis services.
					Bumrungrad's effective stake stands at 31.5% currently.

Source: Company, Cazenove

4.2

As targets

Being acquired. We also believe that the Singapore listed healthcare providers are targets themselves, from 1) private equity groups, 2) strategic shareholders, and 3) large and established hospital groups.

- Recent examples include Newbridge Capital's purchase of Parkway (26% stake), Temasek's purchase of Raffles in June 2007 (5% stake), and Bumrungrad's acquisition of Singapore-based Asia Renal Care in June 2007. In recent years, government-linked Middle Eastern investors have also been active in the sector, acquiring stakes in (e.g. Istithmar's 6% purchase of Bumrungrad) or forming JVs (e.g. Kuwait Finance House's tie-up with Pacific Healthcare) with listed healthcare groups in the region.
- In our view, the current environment also helps facilitate merger activity amongst existing players. For instance, Temasek, being a substantial shareholder in both Raffles and Bumrungrad could spur cooperation between both parties. The desire of the smaller players to securitize their assets, and yet retain some level of control over their facilities (e.g. Raffles and Thomson) could see some of these players pooling together to establish their own REIT, in our view.
- **We rate Raffles Medical as the most likely M&A target** given the company's reasonable valuations, simple shareholding structure and its domestic market leadership in the primary outpatient care segment. Raffles' outpatient network is the largest in the country and could, in our view, provide an outside buyer with a wide feeder network of patients for potential synergistic benefits.

Fig 4.6 Recent acquisitions of Southeast Asian healthcare providers made by strategic shareholders

Company	Date	Strategic acquirer	Stake	Remarks
Parkway	May-05	Newbridge Capital	26%	Purchased from the founding Tan & Ang families.
Raffles Medical	Jun-07	Temasek	5%	Placed out 50m new shares in June 2007 at S\$1.30.
		Qatar Investment Authority	5%	Still 50.5% owned by founder Loo Choon Yong.
Bumrungrad	Jan-06	Temasek	6%	Vendor sale from Bangkok Bank at Bt25 per share.
		Istithmar	6%	
Pacific Healthcare	n/a	Nil	n/a	Has formed a JV with Kuwait Finance House.
				27% owned by founder William Chong.
Thomson Medical	n/a	Nil	n/a	39% owned by the founding Cheng family.
HMI	n/a	Nil	n/a	38% owned by Chin family.

Source: Company, Cazenove

5.0

Healthcare financing reforms to level the playing field for private healthcare providers

5.1
Liberalisation of the national medical savings scheme

Since January 2007, the Ministry of Health (MOH) has introduced a host of changes to the government-administered compulsory medical savings scheme, *Medisave*, effectively lowering the cash outlay (or co-payment amount) required for most forms of medical treatments.

Fig 5.1 Increase in *Medisave* withdrawal limits

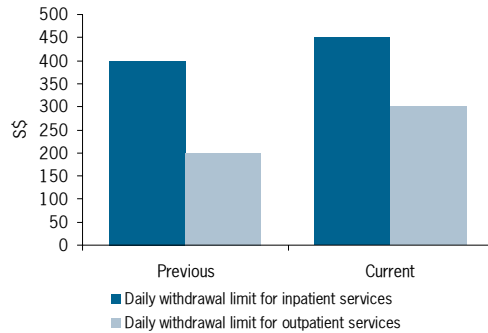
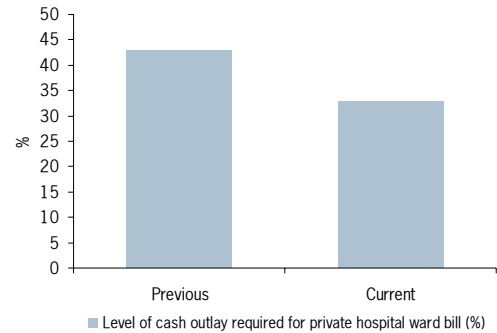


Fig 5.2 % of cash outlay for pte hospital ward bill



Source: Central Provident Fund, Ministry of Health

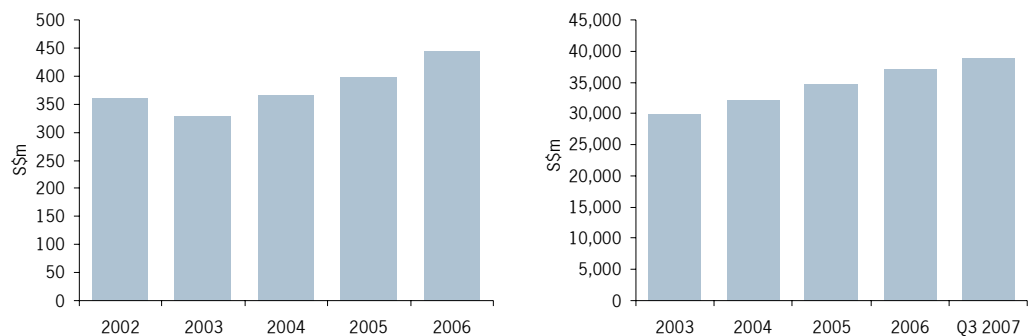
liberalisation of *Medisave* to reduce the cash outlay for private healthcare services

Some of these changes include:

- **Central Provident Fund (CPF) withdrawal limits.** Raising the daily withdrawal limits for both inpatient and outpatient services by 12% (from S\$400 to S\$450 per inpatient day) and 50% (from S\$200 to S\$300 per day surgery case) respectively, with effect from May 2007.
- **Inpatient treatment.** According to the MOH, the new inpatient daily limit will cover 66% of a private hospital ward bill, up from 57% previously. Given that more than 90% of all subsidised hospital bills were already fully covered under the prior existing withdrawal limits, we expect the changes to increase the affordability of private treatments and lead to an upsurge in spending at private hospitals.
- **Outpatient treatment.** The new outpatient daily limit is expected to reduce the cash outlay for an additional 30,000 day surgery episodes.
- Along with the above changes, the government has also increased the annual withdrawal limit for inpatient psychiatric bills by 43% (from S\$3,500 to S\$5,000).
- **New chronic diseases.** Since January 2007, the government has extended the use of *Medisave* funds to the outpatient treatment of four chronic diseases, namely diabetes, high blood pressure, lipid disorder and stroke. In aggregate, these four chronic diseases affect about 1 million Singaporeans (or 25% of the total population). These additions will complement the existing list of approved outpatient treatments (which include renal dialysis, chemotherapy and radiotherapy).
- **Diagnostic scans.** By the end of 2007, the use of *Medisave* funds will also be extended to diagnostic scans including MRI, CT and PET scans for outpatient cancer treatment. Previously, the use of *Medisave* funds for such scans was limited only to inpatients.

Over the last four years, prior increases in the daily withdrawal limit have led to corresponding increases in the level of total withdrawals (four-year CAGR of 5.3%) of compulsory medical savings and consequently, encouraged total spending on healthcare services. We expect this recent round of liberalisation measures to be no different.

Fig 5.3 Annual withdrawals under *Medisave* scheme **Fig 5.4** Total balances of all *Medisave* accounts

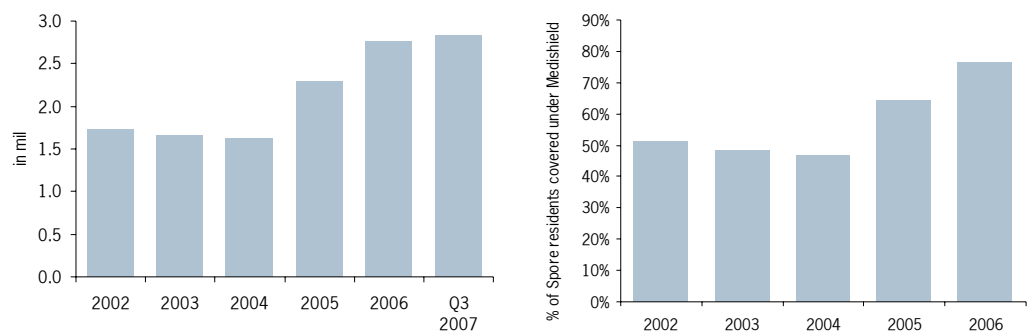


Source: Central Provident Fund

5.2
Rising healthcare insurance coverage

Close to 80% of Singaporeans are now covered under *Medishield*, a nationwide illness insurance scheme administered by the government. Including third-party private healthcare insurance underwritten outside the *Medishield* scheme, actual healthcare insurance coverage is at an even higher level. For instance, most non-residents (20% of the total population) are insured under private group medical insurance schemes purchased either by individuals or employers.

Fig 5.5 No. of individuals covered under *Medishield* **Fig 5.6** Level of healthcare insurance coverage



Source: Central Provident Fund, Singstat

rising private healthcare insurance coverage to benefit the private sector

Since 2005, healthcare insurance coverage in Singapore has increased steadily, attributed largely to government-led reforms of the *Medishield* scheme in 2005. During an 18-month period from end 2004, total coverage / participation under the *Medishield* scheme rose 3.5%. More significantly, the number of enhanced healthcare plans underwritten under the scheme grew 9.3% over the same period, indicating a shifting bias amongst Singaporeans for premium medical treatment at private hospitals. We estimate that enhanced plans now account for c. 57% of all *Medisave*-approved healthcare insurance plans (totalling 2.84m currently).

With coverage levels expected to hit new highs in 2007, demand growth for big-ticket medical services should continue to remain strong over the long term, in tandem with the gradual ageing of the current cohort of well-insured individuals. Some of the 2005 reforms included:

- **Extending participation in the scheme to all private insurers.** This has led to greater competition, lower premiums and more innovative healthcare plans. Aggressive marketing by the private insurers has also contributed to a surge in participation.
- The number of individuals opting for premium healthcare plans (i.e. for treatment in private hospitals) has also increased as a result of greater private sector participation and the higher financial viability of these plans.
- **Reducing the minimum co-insurance requirement** from 15% to 10%, while raising claim limits across the board. This has reduced the effective co-payment level from 60% to 30% for

large hospital bills. The MOH has indicated that it intends to further reduce the co-payment, in particular, the deductibles of Medisave-approved private insurance plans in 2007.

- Raising the *Medishield* maximum coverage age from 80 to 85 from January 2006.
- **Automatic insurance for babies and children.** From December 2007, all new-born babies in Singapore will be automatically insured under the *Medishield* scheme within two to three months of birth. This initiative will be extended to school-going children from 2008. We expect these changes alone to boost healthcare insurance coverage in Singapore by as much as 10 ppt within the next 24 months.

6.0

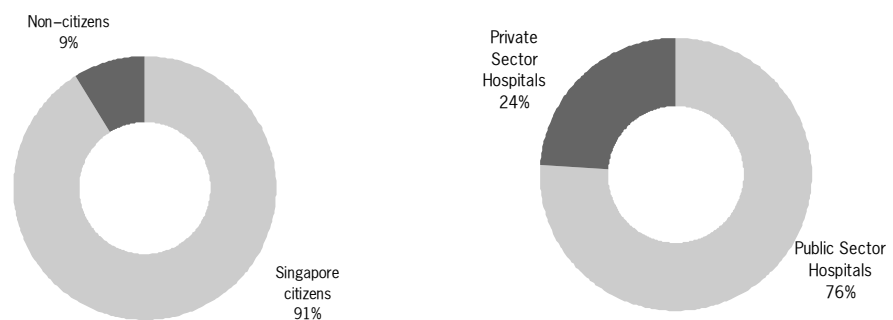
Tightening of public healthcare subsidy rules to drive patient flow towards private sector

6.1
Tightening of public
subsidy eligibility
rules

Healthcare subsidies in Singapore are accessible to all residents (both citizens and permanent residents) that choose to seek treatment at a public healthcare facility. The level of subsidy, however, varies according to a patient's age, his citizenship status and the type of medical care received. **Under the current regime, approximately 3.6m individuals are entitled to subsidy levels ranging from 25% to 80% of the cost of treatment received.**

Fig 6.1 % of subsidised admissions by residency

Fig 6.2 Hospital admissions – public vs private



Source: National University of Singapore

Recent policy statements indicate that the government would like to reduce the current pool of individuals who are eligible for high subsidy levels. This means that over the longer term, the government could gradually introduce new restrictive policies that help to facilitate a more precise allocation of healthcare subsidies towards only the deserving (i.e. citizens only) and the needy (i.e. the poor and elderly). The tightening of healthcare subsidy eligibility rules would ultimately impact non-citizens and the middle to high-income groups, and level the playing field for the private sector, in our view.

stricter subsidy rules to
lead to migration of
patients to the private
sector

Impending policy reforms likely to be implemented within the next 12 months include:

- Lower hospital subsidies for non-citizens.** From October 2007, the government will cut existing hospital subsidy rates for permanent residents by 10 ppt over the next two years. The revised subsidy policy will apply to inpatient services, day surgery and specialist outpatient clinics (SOCs) in public hospitals and national centres. In addition, non-residents will be ineligible for all forms of healthcare subsidies from October 2007. Non-residents currently account for c. 9% (20,000) of total subsidised inpatient admissions and 7% (7,000) of total subsidised day surgery episodes.

Fig 6.3 Changes to subsidy levels for permanent residents

	Singapore citizens	Permanent residents	
		Oct-07	Oct-08
Class B1	20%	15%	10%
Class B2	65%	60%	55%
Class C	80%	75%	70%
Day Surgery	65%	60%	55%
Specialist outpatient treatment	50%	45%	40%

Source: National University of Singapore

- Implementation of means testing.** Public hospitals in Singapore adopt a graded hospital ward system, whereby patients receive a subsidy level linked to the class of inpatient accommodation they choose. Going forward, the government intends to move to a system whereby hospital subsidy levels are linked to an individual's income level. In April 2007,

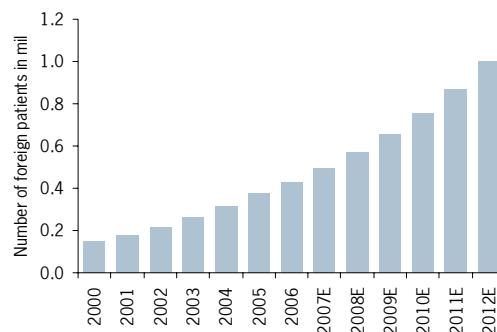
Singapore's Minister for Health, in an interview with reporters, was quoted as saying that the implementation of means testing in public hospitals could materialise as soon as early 2008. A study carried out in 2002 revealed that close to 40% of patients that were in the top percentile by household incomes had opted to stay in subsidized wards. A subsequent study in 2004 found that c. 9% of Class C (maximum subsidy) patients belonged to the top 20th percentile of income earners. **According to our estimates, full implementation of means testing could result in a significant migration of at least 20,000 admissions from public hospitals into private hospitals (+10% market share gain for the private sector).**

- **Portability of public healthcare subsidies.** The government is in the process of reviewing the feasibility of extending the use of healthcare subsidies across the entire healthcare system (both public and private healthcare facilities). The adoption of such a move would massively transform the competitive landscape to the benefit of the private sector, in our view.

7.0 Medical tourism

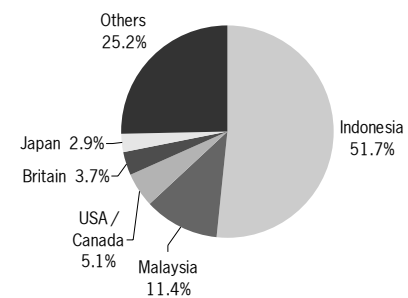
The medical tourism market has emerged as an important source of revenue contribution for Singapore's private healthcare providers. Foreigners now account for approximately 51%, 35% and 15% of total patient loads at Parkway's three Singapore hospitals, Raffles Hospital and Thomson Medical Centre respectively.

Fig 7.1 Singapore's foreign patient load trend



Source: Ministry of Health

Fig 7.2 Singapore's foreign patient mix in 2006



7.1 Growth potential

foreign patient volumes to be underpinned by rising consumption power in the region, contribution from new foreign markets and strong support from the government

- Since 2000, foreign patient volumes have grown at a CAGR of 20%, reaching approximately 450,000 in 2006.
- We expect the strong growth trend in foreign patient volumes to continue, with actual growth rates likely to exceed the government's targets. The Singapore government is targetting to attract 1m foreign patients per annum by 2012 (translating to a CAGR of 15% over the next five years) and has established *Singapore Medicine*, a multi-agency, publicly funded initiative, to enhance the country's position as a leading medical hub in Asia.
- Neighbouring nations like Indonesia and Malaysia continue to be important foreign patient markets for Singapore. Thus, we believe that the rising consumption power of these countries should continue to underpin the growing influx of foreign patients from these geographies.
- Compared to about seven years ago, Singapore's current foreign patient mix is now more diversified. Foreign patients outside Southeast Asia now account for 37% of the total mix, as opposed to c.30% in 2000. Contribution from non-traditional markets should continue to increase, given that most of the major healthcare groups in Singapore have been proactive at establishing physical presences e.g. marketing offices abroad to tap into new markets like the Middle East and Eastern Europe.
- According to Abacus International, Asia's medical travel industry is estimated at US\$500m in 2006. This is expected to grow to US\$4bn in 2012 (translating to a CAGR of 41% over the next five years). Already, Asian healthcare providers like Parkway and Bumrungrad have started to explore potential alliances with foreign-based healthcare insurers and medical travel agencies to tap into the medical tourism market. In April 2007, Bumrungrad Hospital became the first Thai hospital to form an alliance with major US health insurer BlueCross in South Carolina to promote the hospital as an alternative low-cost treatment option to its 1.3m members.
- To put things into perspective, Thailand's Bumrungrad Hospital treated 400,000 foreign patients in 2005, more than the 374,000 foreign patients that visited all of Singapore's 29 hospitals in the same year. On this basis, we believe STB's target is realistic and achievable.

Fig 7.3 Average prices for select surgical procedures across select countries

in US\$	United States	Mexico	Costa Rica	India	Thailand	Singapore
Angioplasty	\$33,000	\$13,125	\$14,500	\$7,800	\$9,200	\$12,500
Heart Bypass	\$37,000	\$14,400	\$13,600	\$6,650	\$11,000	\$13,500
Hip Replacement	\$45,000	\$9,400	\$13,000	\$6,500	\$8,000	\$9,000
Knee Replacement	\$21,000	\$10,500	\$9,500	\$6,500	\$8,500	\$10,000
Laparoscopic hysterectomy	\$19,000	\$4,275	\$6,500	\$2,238	\$4,500	\$4,500
Laparoscopic prostatectomy	\$27,500	\$16,800	\$11,500	\$5,900	\$9,500	\$16,000

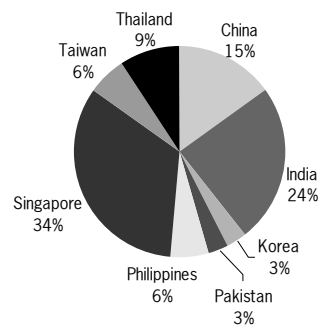
Source: PlanetHospital

7.2 Singapore's premium positioning

Singapore has a strong competitive positioning in the high-value, less price sensitive segment of the foreign patient market

- Despite the threat of lower cost competition from private operators in Thailand, Malaysia and India, we expect Singapore to maintain its position as a leading medical hub in Asia. We believe that the Singapore healthcare providers will continue to command substantial price premiums, underpinned by their ability to deliver consistently high quality levels, high success rates, strong focus on complex specialisations and a superior transportation cum medical infrastructure.
- Singapore's competitive positioning as a premium medical services hub is enhanced by the presence of a booming biomedical industry, and existing collaborations with world-renowned institutions like John Hopkins University (National Healthcare Group), Memorial Sloan Kettering Cancer (Raffles Hospital). In 2006, Memphis-based The West Clinic established a cancer centre in Singapore, its first outside the US.
- Singapore has the largest number of Joint Commissions International (JCI) accredited hospitals in the world outside the US, and accounts for one-third of all JCI accredited healthcare facilities in Asia. JCI is widely regarded in the global healthcare industry as the gold standard in international hospital accreditation.
- Excluding the Middle East, there are 33 Asian hospitals that have received JCI accreditation to date. Gleneagles Hospital and Mt Elizabeth Hospital, both owned by Parkway, are the only two private hospitals in Singapore to have received JCI accreditation.

Fig 7.4 Geographical breakdown of JCI accredited facilities in Asia excl Middle East



Source: Joint Commissions International

- Singapore's attraction as a 'complete' medical tourist destination could also be bolstered by the growth of the tourism sector and rising international profile following the completion of the two integrated resorts and successful bids to host international events, eg Formula One Grand Prix.

8.0
Macroeconomic backdrop continues to remain positive

8.1
Macroeconomic setting

The macroeconomic backdrop supports an expansion in healthcare-related spending, underpinned by an ageing population, higher disposable incomes and a rising rate of major disease incidence.

- **Ageing population.** Individuals aged 65 years and above now account for 8.5% of the total resident population, up from 7.3% five years ago. This group also accounts for c. 42% of total utilised bed capacity in the country.

Fig 8.1 % of population aged 65 and above

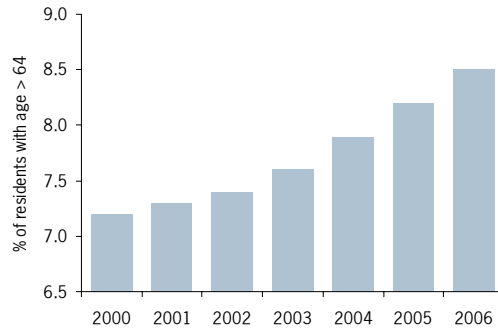
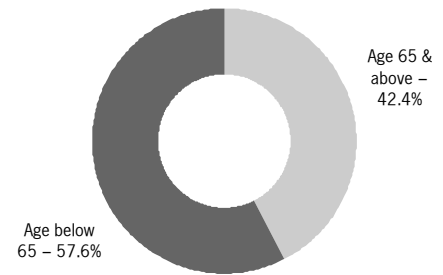


Fig 8.2 % of bed capacity occupied by the elderly



Source: Singstat, Ministry of Health

growth in Singapore's foreign population base to benefit private operators to a higher degree

- **Continued population growth underpinned by a growing non-resident foreign population base.** In early 2007, the Ministry of National Development (MND) revised the long-term population parameter for Singapore to 6.5m people, which translates to a 45% increase from the current population size of 4.5 million. As population increases going forward are likely to be driven by an influx of non-residents not eligible for healthcare subsidies (non-resident population growth outpaced resident population growth for 12 out of the last 16 years), we expect the private healthcare providers to capture the bulk of incremental healthcare spending.

- **Higher incomes.** Per capita incomes in Singapore have been on a rising trend since 2002, growing at a CAGR of 9% over the last four years.

Fig 8.3 Singapore's population growth trend

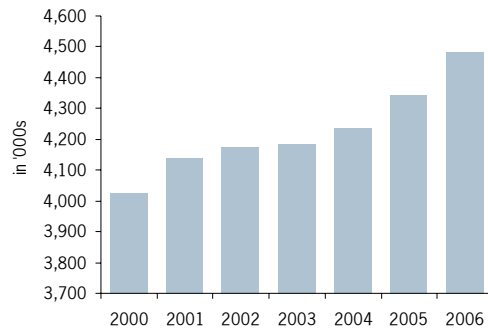
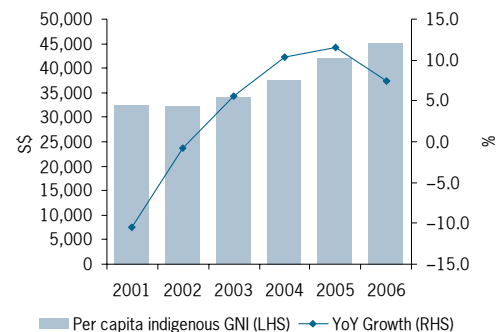


Fig 8.4 Per capita gross national income



Source: Singstat, Ministry of National Development, Cazenove

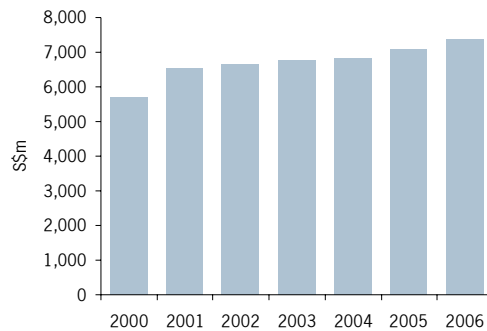
9.0 Sector overview and risks

9.1 Market size

robust organic growth in healthcare services set to continue

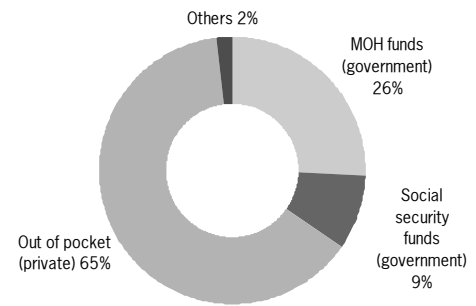
The size of Singapore's healthcare services industry has been growing steadily over the last few years, and is worth more than S\$6bn a year currently. Over the last five years, the level of private healthcare expenditure has been growing at a robust CAGR of 8.5%, outpacing growth in total healthcare expenditure. Going forward, private healthcare expenditure, which already accounts for a substantial 65% of the total pie, should continue to drive overall growth in the industry as a result of the factors discussed in the preceding sections.

Fig 9.1 Total healthcare expenditure trend



Source: Ministry of Health

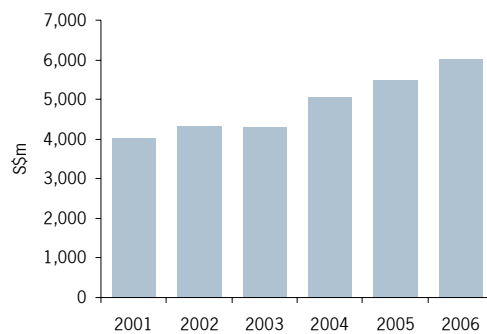
Fig 9.2 Sources of healthcare financing



9.2 Major players

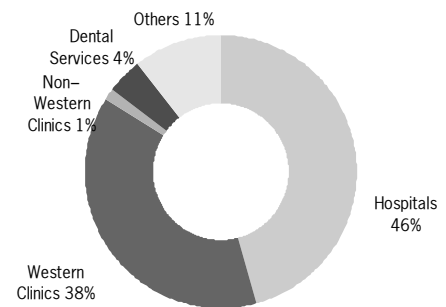
There are a total of 3,600 healthcare establishments in Singapore, with hospital-based establishments and outpatient clinics accounting for 46% and 39% of total receipts respectively. Within the private sector, the leading players are the integrated healthcare groups like Parkway, Raffles, Thomson and Pacific Healthcare, all of which are publicly listed entities.

Fig 9.3 Private healthcare expenditure trend



Source: Ministry of Health, Singstat

Fig 9.4 Segmental split of total receipts



9.3 Industry structure

In total value terms, the healthcare services industry is fairly fragmented, with only a handful of integrated healthcare groups commanding meaningful market shares in excess of 1%. To a large extent, most of the fragmentation takes place at the non-hospital based segments due to low barriers to entry and low public sector participation in these segments. **We estimate that about 40% of total receipts in the industry are generated by privately-owned establishments, most of which are independent clinics operated by sole proprietors.**

Fig 9.5 Market share of total industry receipts

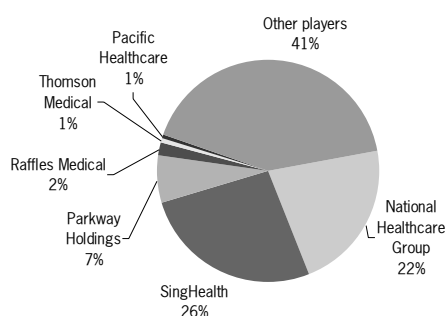
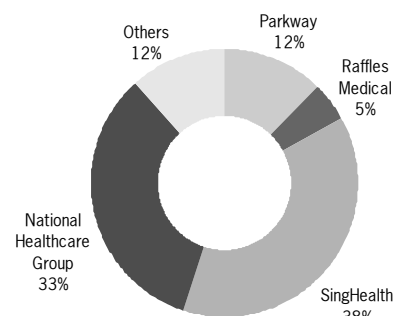


Fig 9.6 Estimated share of bed capacity – Spore



Source: Ministry of Health, Singstat, Cazenove

9.4
Market segments

Inpatient segment. The hospital segment, which primarily delivers tertiary-type care, is fairly consolidated, comprising of only 29 establishments. The public sector, via its two integrated healthcare clusters, National Healthcare Group (NHG) and SingHealth, is the dominant player in this segment, and accounts for a 76% share of total bed capacity in the country (excluding extended care hospitals). **Parkway is the leading private hospital operator in the country, accounting for 52% of total bed capacity in the private sector.**

- Out of the 16 private hospitals in Singapore, there are **only five hospitals that provide tertiary acute services across the broad spectrum of medical specialisations.** Three of these hospitals (Gleneagles Hospital, Mount Elizabeth Hospital, East Shore Hospital) are operated by Parkway. Raffles Hospital is wholly owned and operated by Raffles Medical while Mount Alvernia Hospital is privately held.

Fig 9.7 Key tertiary hospitals in Singapore

Hospitals	Controlling entity	No. of licensed beds
Public		
Alexandra Hospital	National Healthcare Group	400
Changi General Hospital	SingHealth	776
KK Women's & Children's Hospital	SingHealth	830
National University Hospital	National Healthcare Group	928
Singapore General Hospital	SingHealth	1,516
Tan Tock Seng Hospital	National Healthcare Group	1,400
Private		
Raffles Hospital	Raffles Medical Group	380
Gleneagles Hospital	Parkway Holdings	380
Mount Elizabeth Hospital	Parkway Holdings	505
East Shore Hospital	Parkway Holdings	123
Thomson Medical Centre	Thomson Medical Centre	190
Mount Alvernia Hospital	Privately-held	303

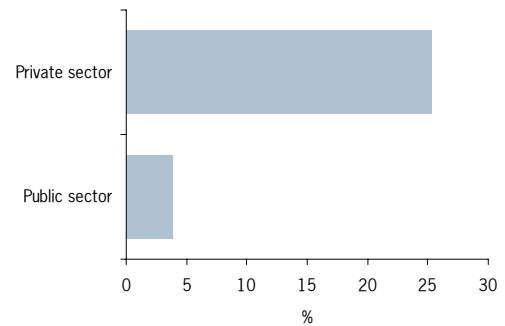
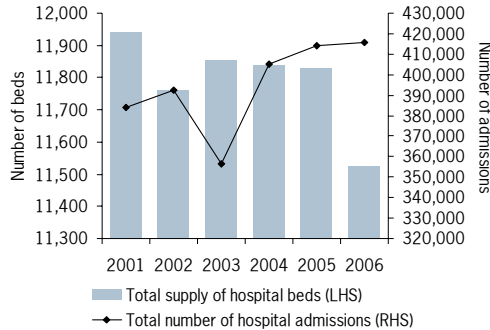
Source: Company annual reports

Outpatient segment. This segment is fragmented, comprising more than 90% of total healthcare establishments in the country, but accounting for only 43% of total receipts. These establishments typically take the form of small-scale outpatient clinics delivering both primary and specialist healthcare services. Even though most of these clinics still exist as independent sole proprietorships, there has been a trend, in recent years, of consolidation in this space, as demonstrated by the increasing prominence of Pacific Healthcare and Healthway Medical Group. **The leading private player in this segment is Raffles, which operates the largest network of clinics in Singapore.**

Against a backdrop of growing demand and tight bed capacity, we expect the hospital-based providers to benefit from increasing average bed rates in the short to medium term.

Fig 9.8 Bed capacity vs total admissions

Fig 9.9 Hosp. admissions growth – 2006 vs 2001



Source: Ministry of Health

hospital-based providers set to benefit from higher bed rates

In Singapore, medical fees / rates within private healthcare facilities are unregulated and subject to the free market forces of demand and supply. In particular, average bed rates look set to increase over the short to medium term as a result of a growing demand–supply imbalance in bed capacity.

- **No new meaningful supply of private hospital beds since 2001.** Since 2001, the supply of hospital beds in Singapore has been on a flat to declining trend.
 - Total bed capacity in Singapore is estimated at c. 11,500 hospital beds currently, a reduction of c. 3% from five years ago.
 - Excluding extended healthcare facilities, the total number of hospital beds licensed for acute care stands at 8,200 hospital beds currently, unchanged from five years ago.
 - Similarly, the private sector, which accounts for 24% of all acute–care hospital beds, has seen no meaningful increase in bed capacity since the completion of Raffles Medical's flagship hospital in 2001. The lack of new capacity additions during the last few years can be attributed to consecutive economic shocks in 1997 (Asian economic crisis), 2001 (9/11) and 2003 (SARS), which dampened the demand for private healthcare services.
- **Private hospital admissions reaching new highs.** Demand for inpatient care, on the other hand, has been on a rising trend.
 - Relative to 2001, total hospital admissions are up 8%. Most of the increased admissions, however, have taken place at private hospitals. In fact, total hospital admissions in private sector hospitals have risen 25% since 2001.
 - Our recent meetings with several of the key private operators indicate that bed utilisation rates at most private hospitals are at record highs, leading some players to implement space optimisation strategies in order to free up additional bed space.
 - For instance, Parkway and Thomson have relocated some of their support and corporate functions off–site to add new beds to their existing facilities.
 - Raffles Hospital appears to be the private hospital least constrained by the tightening bed capacity situation, with management indicating that there are at least two empty floors available for new bed additions. As such, we believe that Raffles would be best positioned in the sector to drive its growth using a two–pronged strategy, ie increased volumes and higher bed rates.

Fig 9.10 Daily bed rate charges

Hospital	Type	Operator	Daily bed rate for basic single-bed room (S\$)	Range of daily bed rates (S\$)
Gleneagles Hospital	Private	Parkway Holdings	407	179 – 4,419
Mount Elizabeth Hospital	Private	Parkway Holdings	439	187 – 7,560
East Shore Hospital	Private	Parkway Holdings	362	135 – 410
Raffles Hospital	Private	Raffles Medical	368	110 – 2,000
Thomson Medical Centre	Private	Thomson Medical	380	110 – 728
Mount Alvernia Hospital	Private	Privately held	332	118 – 728
Singapore General Hospital	Public	SingHealth	268	26 – 300
Tan Tock Seng Hospital	Public	National Healthcare Group	264	27 – 438
National University Hospital	Public	National Healthcare Group	250	27 – 250

Source: Company websites

9.6
Land use

Our view of rising bed rates for the private sector is underpinned by the fact that there is a lengthy three-year time lag for any new hospital to be constructed. We do not expect any meaningful new bed capacity to come on-stream until 2011.

Fig 9.11 Expected oncoming supply of new hospital beds

Type	Location	Number of beds	Expected year of completion	Comments	
Private					
Race Course Road / Rangoon Road site	Private	Little India	<100	2011	Launched for tender in July 2007 and awarded to winning bidder Singapore HealthPartners, which is linked to the Berjaya Group. Mixed development comprising a maximum of 369,582 sq ft of hospital space.
Novena site	Private	Novena	200	2011	Launched for tender in Oct 2007. Located within the Novena medical hub.
One-north site	Private	Buona Vista	200	2011	Located within the One-North biomedical hub and the National University Hospital.
Land site in Northern region of Singapore	Private	Woodlands	200–300	2012 – 2015	Located within close proximity to the Malaysian border to serve Malaysian patients.
Public					
Khoo Teck Puat Hospital	Public	Yishun	550	2010 / 2011	To replace lost capacity from closure of Alexandra Hospital.
Woodlands Hospital	Public	Woodlands	300–500	2020	
Land site in Western region of Singapore	Public	Jurong	n/a	n/a	No details available as planning remains at very preliminary stage.

Source: MOH, URA, Cazenove

no new bed capacity until 2011

As of H2 2007, the government has launched two of four potential major land sites reserved for private hospitals and day surgery centres. In aggregate, both of these sites are expected to add 400 more beds to private capacity. In addition, the government has indicated that a possible third site could be released in the Northern part of the island to cater to private operators wanting to target medical tourists from Malaysia.

- **Out of these sites, we view the Novena site as the most attractive given the site's central and strategic location.** Situated next to the Novena MRT station, the new hospital will form part of a growing medical cluster in the area, comprising of the 1,400-bed Tan Tock Seng Hospital, National Skin Centre, John Hopkins International Medical Centre, National Neuroscience Institute, Thomson Medical Centre, Renci Hospital and Far East Organization's Novena Medical Center.

outcome of upcoming land tenders to determine the competitive landscape in the private sector

9.7
Risks

- Based on details provided by the URA, the new hospital in Novena will have a total GFA of 72,350 sq m. Launched for sale by public tender on 29 October 2007, the successful bidder for this site will be known in February 2008. We estimate a winning bid for the site to be in the region of S\$300m–S\$400m.
- Given that the government could allow international investors to bid for the new hospital sites, we expect competition for these sites to be keen. **Amongst the local players, we expect Parkway to bid aggressively for the Novena site given its strong balance sheet.** The One–North site, located within Singapore’s main biomedical hub in Buona Vista would appeal to foreign research–based institutions, in our view.

Due to the highly specialized / regulated nature of the industry, the healthcare services sector is **more susceptible to supply side risks**, as opposed to demand side risks, in our view.

Supply side risks. The government, via several agencies like the Ministry of Health, Singapore Medical Council, Singapore Dental Association and Singapore Nursing Board, licenses and regulates all medical establishments and healthcare professionals in the country. As such, private operators are vulnerable to public policy planning errors given that the amount of medical infrastructure in the system is influenced largely by government agencies.

- **Medical establishments.** The construction of new healthcare facilities requires licensing approval from the Ministry of Health, as well as land use planning approval from the Urban Redevelopment Authority (URA). In general, it takes approximately three years for a new hospital to be operational. This lengthy time lag could potentially limit the government’s ability to respond to inpatient capacity shortages brought about either by unexpected demand shocks or miscalculated planning projections.
- **Medical personnel.** Medical professionals are fairly mobile to move between the public and private sectors. Nonetheless, the government influences the supply of medical personnel in the country by setting strict eligibility criteria for each segment of the medical profession. Similarly, the supply of doctors and nurses is inelastic given the lengthy training periods and strong global demand for these highly specialized professions. Since the start of the year, the government has introduced measures to boost the supply of medical personnel in the country:
 - **Expanding the pool of recognised medical schools.** In recent years, the government has eased the medical degree requirements for doctors by adding more foreign medical schools to the pool of recognised medical schools. This has resulted in an increase of foreign–trained doctors, from a total of 85 in 2003 to 180 in 2006. With effect from October 2007, the number of recognised foreign medical schools degrees was raised further to 159 (from 140). This followed the addition of 70 schools (or a 100% increase from a year ago) in April 2007. The government has also increased the intake of doctors from the local universities.
 - **Recruiting more foreign–trained doctors.** Since January 2007, the government has embarked on a coordinated overseas recruitment effort (involving the two public healthcare clusters and the major regulatory bodies) to attract international medical graduates to Singapore. It is also in the process of devising schemes to attract medical specialists in specific fields like renal physicians, neurologists and cancer specialists from abroad.
 - **Boosting the supply of allied health professionals.** In addition, the government is targeting to increase the supply of medical support staff like nurses, physiotherapists, speech therapists and clinicians in the country through overseas recruitment programs, aggressive marketing and scholarships. Most recently, the government outlined its intention of recruiting mid–career workers to work in hospitals, whilst keeping overall wages in the allied health profession competitive relative to global standards.

Demand side risks. Given their significant exposure to the medical tourist segment, the sector is susceptible to: 1) events that could discourage travel into the country e.g. SARS, terrorist attacks, 2) a regional economic slowdown, and 3) events that would cause a currency devaluation in the neighbouring countries, especially Indonesia and Malaysia.

Parkway Holdings

STOCK RECOMMENDATION

OUTPERFORM

SECTOR

Healthcare Services

12 MONTH RANGE

S\$4.66 – 2.72

NEXT RESULTS DUE

26 February 2008 (FY)

LAST RESULTS

13 November 2007 (Q3)

ANALYST

Desmond.Lee@cazenove.com

Tel +65 6395 7688

We initiate coverage of Parkway Holdings (Parkway) with an OUTPERFORM recommendation. Our fair value estimate of S\$5.30 implies upside of 35%.

With a network of 16 specialist healthcare facilities around Asia, Parkway is the largest healthcare group in the Asia Pacific region. It is the dominant private hospital operator in Singapore and Malaysia, with a growing presence in China and India.

Asset light strategy to accelerate the pace of acquisitions.

The successful monetisation of Parkway's three Singapore hospitals via its recently established REIT has transformed the company into a leaner and financially stronger outfit. We expect the REIT proceeds to be recycled towards the acquisition of the Novena hospital site in Singapore, as well as greenfields/acquisitions in China, India and Vietnam. The recent US\$42m acquisition of World Link Group in Shanghai should help to accelerate growth in China, in our view.

Dominant in Singapore, set to grow in Malaysia.

Parkway's Singapore-based operations are well-positioned to benefit from a continued upsurge in private healthcare spending in the country, underpinned by favourable macro/policy changes and the continued rise of medical tourism. In Malaysia, we expect Parkway to leverage on its alliance with Khazanah to drive double-digit earnings growth for Pantai.

Premium valuations justified. The shares are trading at 24x FY2008E PER and 19x FY2009 PER, at a 10% discount to the regional sector average. A valuation premium is justified in our view, after taking into account Parkway's dominance, more established regional footprint and the prospect of further revaluations of the group's remaining hospital portfolio. **We rate Parkway as our top pick in the sector.**

PRICE

S\$3.94

REUTERS CODE

PARM.SI

BLOOMBERG CODE

PWAY SP

MARKET CAPITALISATION

S\$3,025m (US\$2,101m)

PRINCIPAL LISTING

SGX

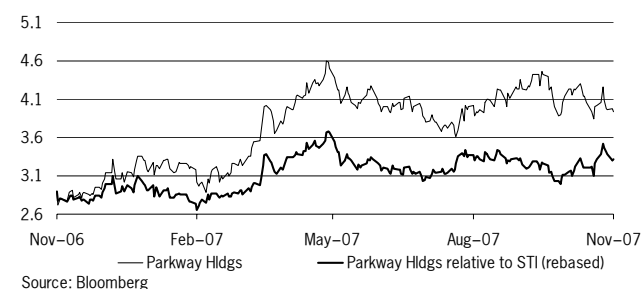
CHANGE IN STOCK RECOMMENDATION

n/a

CHANGE IN EPS ESTIMATES

n/a

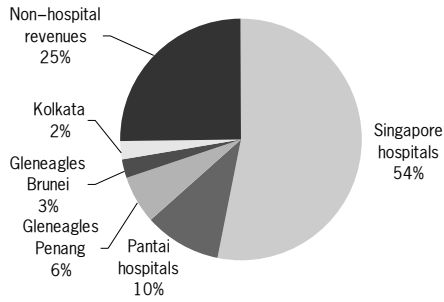
Share price performance



Share price (%)	-1 mth	-3 mth	-12 mth	
Ordinary shares	-5	0	+36	
Relative to sector	-	-	-	
Relative to STI index	+6	-1	+14	
Average daily volume shares			1.6m	
STI index			3,372	
Year end: December	2006	2007E	2008E	2009E
Turnover (S\$m)	868.0	878.5	1042.5	1237.9
Earnings – reported (S\$m)	55.3	291.5	125.0	158.3
Earnings – excl excep. (S\$m)	67.0	89.7	125.0	158.3
EBITDA (S\$m)	190.8	199.5	223.8	274.7
Tax (%)	27.2	27.2	27.2	27.2
EPS – excl exceptional (S cents)	9.0	11.7	16.2	20.5
Growth (%)	+4.9	+29.5	+38.9	+26.3
DPS-net (S cents)	17.9	23.9	14.6	18.4
Growth (%)	+113.2	+33.4	-39.0	+26.3
Div payout-net (%)	117.7	90.0	90.0	90.0
EV/EBITDA (x)	15.7	15.0	13.3	10.9
PER (x)	43.7	33.8	24.3	19.3
Yield – Net (%)	4.5	6.1	3.7	4.7
PBR (x)	6.9	3.4	3.4	3.3
EBIT margin (%)	15.0	15.0	16.6	17.8
EV/sales (x)	3.4	3.4	2.9	2.4
Market cap:sales (x)	3.5	3.4	2.9	2.4
NAV per share (S\$)	0.57	1.16	1.17	1.19
ROE (%)	16.0	13.7	14.0	17.4
ROCE (%)	13.0	13.3	15.5	18.5
Interest cover (x)	5.6	10.0	16.4	16.7
Net debt/equity (%)	83.0	net cash	net cash	net cash

Source: Company, Cazenove

Fig 1 Revenue split by hospitals FY2007E



Source: Cazenove

Fig 2 EBITDA split by hospitals FY2007E

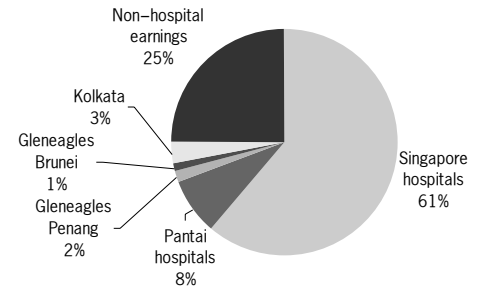
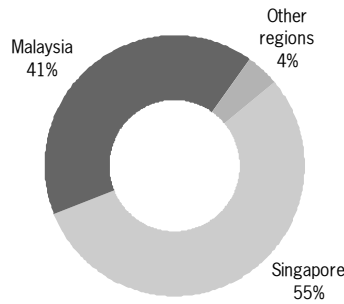


Fig 3 Revenue split by geography FY2006



Source: Company, Cazenove

Fig 4 EBITDA margins by segment FY2007E

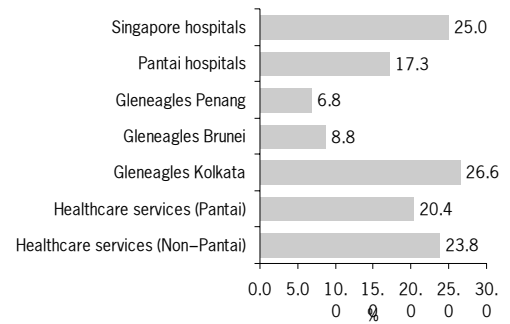
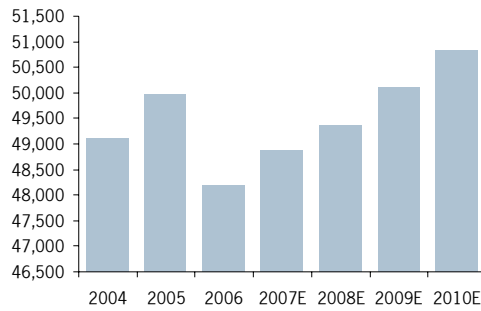


Fig 5 No. of inpatient admissions – P'way Spore



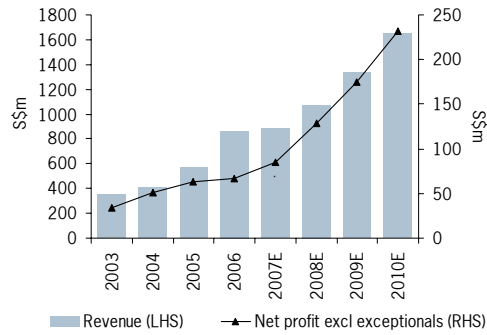
Source: Company, Cazenove

Fig 6 No. of day cases – P'way Spore



Financial review

Fig 7 Revenue and recurring net profit trend



Source: Company, Cazenove

Fig 8 Margin trend

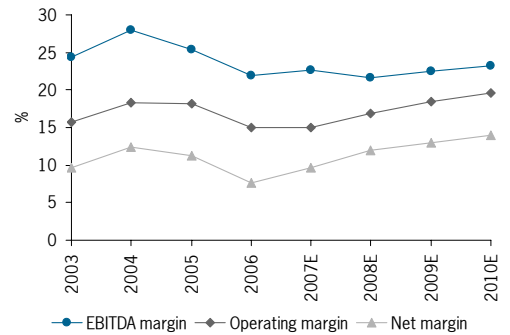
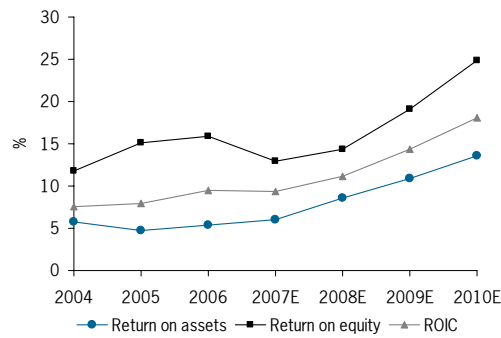
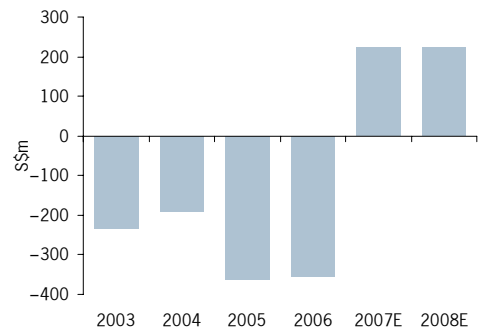


Fig 9 Returns



Source: Company, Cazenove

Fig 10 Net cash balance



Hospital network

Fig 11 List of hospitals owned by Parkway

	No. of licensed beds	Stake (%)
Singapore		
Mount Elizabeth Hospital	505	100
Gleneagles Hospital	380	100
East Shore Hospital	123	100
Brunei		
Gleneagles JPMC Cardiac Centre	20	75
China		
Shanghai Gleneagles Intl Medical and Surgical Centre	n/a	50
India		
Apollo Gleneagles Hospital, Kolkata	325	50
Malaysia		
Gleneagles Intan, Kuala Lumpur	330	30
Gleneagles Penang	212	70
Pantai, Kuala Lumpur	328*	40
Pantai Cheras, Kuala Lumpur	139	40
Pantai Klang, Klang	69	40
Hospital Pantai, Ipoh	121	40
Hospital Pantai Mutiara, Penang	180	40
Hospital Pantai Ayer Keroh, Melaka	250	40
Hospital Pantai Indah, Kuala Lumpur	86	40
Hospital Pantai Batu Pahat, Johor	50	40
Total number of licensed beds	2,463	
<i>*To be increased to 600 beds in 2010</i>		
Potential new hospitals in the pipeline		
Mumbai, India	600	50%
Novena site, Singapore	>300	100%

Source: Company

Profit and loss accounts

Year end: December	2005	2006	2007E	2008E	2009E
Sales (S\$m)	563.6	868.0	878.5	1042.5	1237.9
EBIT (S\$m)	102.7	130.5	131.6	173.3	220.4
EBITDA (S\$m)	143.4	190.8	199.5	223.8	274.7
Share of ass. / JV contributions (S\$m)	0.2	3.6	5.7	14.7	16.2
Finance costs (S\$m)	-12.1	-23.5	-13.1	-10.6	-13.2
Exceptionals (S\$m)	-1.4	-11.7	201.8	0.0	0.0
PBT (S\$m)	89.4	98.9	326.0	177.4	223.4
Earnings – ex-exceptional (S\$m)	63.3	67.0	89.7	125.0	158.3
Earnings – reported (S\$m)	62.0	55.3	291.5	125.0	158.3
EPS – excl exceptional (Scts)	0.086	0.09	0.12	0.16	0.20
EPS – reported (Scts)	0.08	0.07	0.38	0.16	0.20
DPS –net (Scts)	0.08	0.18	0.24	0.15	0.18
Interest cover x	8.5	5.6	10.0	16.4	16.7
Dividend cover x	1.0	0.4	1.6	1.1	1.1
Sales growth %	+38.2	+54.0	+1.2	+18.7	+18.7
EBIT growth %	+23.8	+27.0	+0.8	+31.7	+27.2
EPS – excl exceptional growth %	+24.8	+4.9	+29.5	+38.9	+26.3
EPS growth %	+20.0	-11.5	+409.5	-57.2	+26.3
DPS–net growth %	+16.7	+113.2	+33.4	-39.0	+26.3

Source: Company, Cazenove

Cash flow statements

Year end: December	2005	2006	2007E	2008E	2009E
	S\$m	S\$m	S\$m	S\$m	S\$m
EBITDA	143.4	190.8	199.5	223.8	274.7
Working capital	-3.6	-26.9	-80.7	-7.8	-37.4
Other	-17.2	-25.7	146.9	-44.1	-57.7
Operating cash flow	122.5	138.1	265.7	172.0	179.5
Net capex	-41.5	-66.3	369.8	-55.8	-53.9
Disposals / (acquisitions)	3.6	3.6	0.0	0.0	0.0
Investments/Other Investing	4.1	8.3	-231.7	0.0	0.0
Investing cash flow	-33.8	-54.3	138.2	-55.8	-53.9
Dividends paid	-58.0	-127.0	-183.7	-112.5	-142.4
Net borrowings	-36.6	34.2	-272.0	50.0	50.0
Equity funding	3.7	69.1	0.0	0.0	0.0
Other financing	-10.6	32.9	0.0	0.0	0.0
Financing cash flow	-101.5	9.1	-455.7	-62.5	-92.4
Net change in cash/ST investment	-105.6	-13.7	311.4	53.6	33.2

Source: Company, Cazenove

Management

Chairman	Richard Seow
Chief Executive Officer	Dr Lim Cheok Peng
Chief Operating Officer	Daniel James Snyder
Chief Financial Officer	Molly Foo

Shareholder information (date) (%)

Newbridge	23.9
Cobalt	7.4
Fidelity	5.0

Market information

Estimated free float %	68.6
Main listing(s)	Singapore
Average daily volume (3 months)	1,506,446

Financial calendar

Financial year end	December
Quarterly accounts	Yes
Reports & accounts	March
AGM	April

Source: Company, Bloomberg

Balance sheets

Year end: December	2005	2006	2007E	2008E	2009E
	S\$m	S\$m	S\$m	S\$m	S\$m
FAs – tangible	804.1	670.4	261.2	278.1	289.4
FAs – intangible	180.9	152.9	141.3	129.7	118.1
LT investments	114.3	88.5	320.2	320.2	320.2
Other LT Assets	1.8	97.9	97.9	97.9	97.9
Total LT Assets	1101.2	1009.7	820.6	825.9	825.6
Inventories	17.4	16.4	24.8	32.6	70.1
Receivables	77.5	86.7	87.8	104.1	123.6
Cash & equivalents	114.3	99.7	405.4	459.1	492.2
Other current assets	33.7	19.0	19.0	19.0	19.0
Total current assets	242.9	221.7	536.9	614.8	705.0
Total assets	1344.0	1231.4	1357.6	1440.7	1530.6
Payables	115.1	104.3	88.1	104.6	124.2
Borrowings	475.5	454.7	182.7	232.7	282.7
Other liabilities	106.7	237.3	182.1	182.1	182.1
Minority interest	231.2	11.2	15.2	19.4	23.8
Shareholders' funds	415.5	423.9	889.4	901.9	917.7
Capital employed	1122.3	889.9	1087.3	1154.0	1224.3

Source: Company, Cazenove

Key ratios

Year end: June	2005	2006	2007E	2008E	2009E
EBITDA margin (%)	25.4	22.0	22.7	21.5	22.2
EBIT margin (%)	18.2	15.0	15.0	16.6	17.8
Net margin (%)	11.0	6.4	33.2	12.0	12.8
Op cash/EBIT (x)	1.2	1.1	2.0	1.0	0.8
Depn/capex (x)	0.9	0.7	-0.1	0.7	0.8
Quick ratio (x)	1.0	0.7	3.2	3.3	3.3
Normalised ROE (%)	15.1	16.0	13.7	14.0	17.4
Normalised ROCE (%)	10.6	13.0	13.3	15.5	18.5
Net debt/equity (%)	56.8	83.0	net cash	net cash	net cash
Working cap/sales (%)	16.8	11.9	12.8	13.1	15.7
Receivables days	49.5	36.0	36.0	36.0	36.0
Inventories turnover (x)	32.3	53.0	35.5	32.0	17.6
Asset turnover (x)	0.4	0.7	0.6	0.7	0.8
EV/sales (x)	5.3	3.4	3.4	2.9	2.4
PER (x)	46.9	53.0	10.4	24.3	19.3
EV/EBIT (x)	29.1	22.9	22.7	17.2	13.6
EV/EBITDA (x)	20.8	15.7	15.0	13.3	10.9

Source: Company, Cazenove

Raffles Medical Group

STOCK RECOMMENDATION

OUTPERFORM

SECTOR

Healthcare Services

12 MONTH RANGE

S\$1.61 – 0.82

NEXT RESULTS DUE

12 February 2008 (FY)

LAST RESULTS

29 October 2007 (Q3)

ANALYST

Desmond.Lee@cazenove.com

Tel +65 6395 7688

We initiate coverage of Raffles Medical Group (Raffles) with an OUTPERFORM recommendation. Our fair value estimate of S\$1.90 per share implies upside of 23%.

With close to 100% of its assets based in Singapore, **Raffles is a pure direct play on Singapore's booming private healthcare services sector.** We believe the sector is set to enjoy a prolonged period of robust earnings growth, driven by positive policy changes, accelerating population growth and a growing influx of medical tourists into the country.

Compelling M&A angle. We believe that Raffles stands out as a compelling acquisition target, in light of the company's range of high-quality, underutilised healthcare assets, strong cash flow and simple shareholding structure. Being the **largest private outpatient clinic operator in the country**, the company offers a potential buyer with a sizeable yet affluent patient referral base. In our view, the recent introduction of strategic government-linked shareholders should accelerate the pace of Raffles' own move into high-growth overseas markets.

Robust earnings growth with minimal capex. We expect Raffles to post **robust EPS CAGR of 25% over the next three years**, underpinned by a broad-based increase in patient loads across all segments (i.e. domestic, foreign, outpatient and inpatient). Unlike its peers, **Raffles is in an enviable position of possessing excess bed capacity** and is best positioned to drive its growth via both higher patient volumes and an industry wide increase in average bed rates. Raffles' alliance with the new Novena Medical Centre is another plus, and could drive referrals into Raffles Hospital higher.

PRICE

S\$1.55

REUTERS CODE

RAFG.SI

BLOOMBERG CODE

RFMD SP

MARKET CAPITALISATION

S\$796m (US\$553m)

PRINCIPAL LISTING

SGX

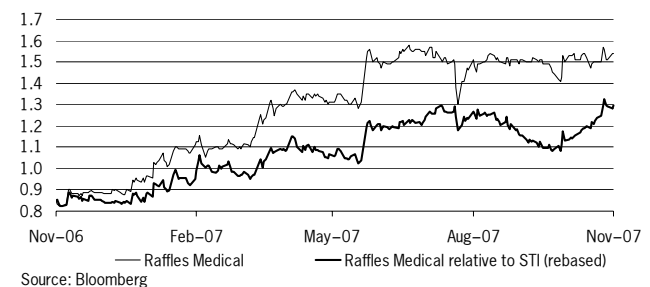
CHANGE IN STOCK RECOMMENDATION

n/a

CHANGE IN EPS ESTIMATES

n/a

Share price performance

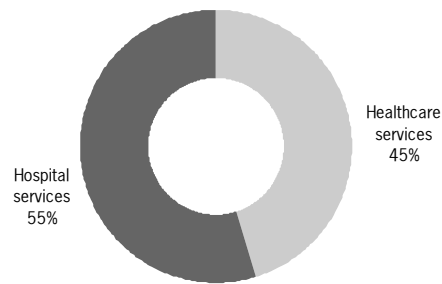


Share price (%)	-1 mth	-3 mth	-12 mth	
Ordinary shares	+3	+6	+81	
Relative to sector	-	-	-	
Relative to STI index	+15	+5	+53	
Average daily volume shares			502,000	
STI index			3,371	
Year end: December	2006	2007E	2008E	2009E
Turnover (S\$m)	134.2	165.4	199.8	240.1
Earnings – reported (S\$m)	15.7	34.2	28.2	36.5
Earnings – excl exceptionals (S\$m)	15.7	21.7	28.2	36.5
EBITDA (S\$m)	22.6	32.4	46.9	57.8
Tax (%)	21.3	15.0	21.3	21.3
EPS – excl exceptionals (S cents)	3.5	4.5	5.5	7.0
Growth (%)	+28.4	+28.9	+21.8	+27.8
DPS-net (S cents)	3.6	4.0	4.5	5.7
Growth (%)	+43.1	+10.4	+11.7	+26.8
Div payout-net (%)	104.9	65.0	90.0	90.0
EV/EBITDA (x)	35.7	25.0	17.2	14.0
PER (x)	44.5	34.5	28.3	22.2
Yield – Net (%)	2.3	2.6	2.9	3.6
PBR (x)	6.2	3.9	4.1	4.1
EBIT margin (%)	14.3	16.7	19.2	20.4
EV/sales (x)	6.0	4.9	4.0	3.4
Market cap:sales (x)	5.9	4.8	4.0	3.3
NAV per share (S\$)	0.25	0.40	0.38	0.38
ROE (%)	14.3	14.2	14.6	18.6
ROCE (%)	17.1	16.2	16.9	21.2
Interest cover (x)	176.2	38.1	15.0	19.1
Net debt/equity (%)	Cash	12.5	6.6	0.3

Source: Company, Cazenove

Operational and financial review

Fig 1 Revenue split by segment FY2006



Source: Company, Cazenove

Fig 2 EBIT split by segment FY2006

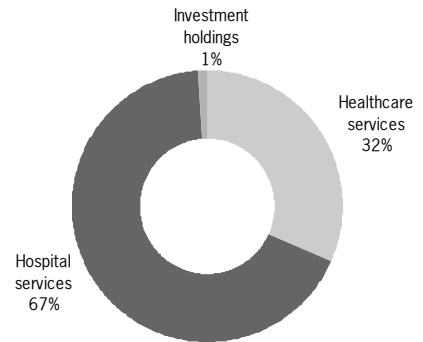
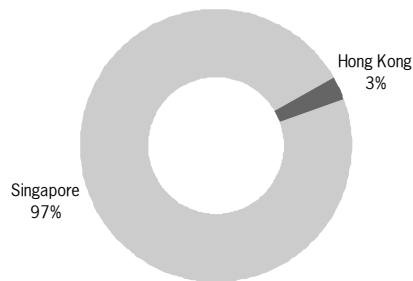


Fig 3 Revenue split by geography FY2006



Source: Company, Cazenove

Fig 4 EBIT margins by segment FY2006

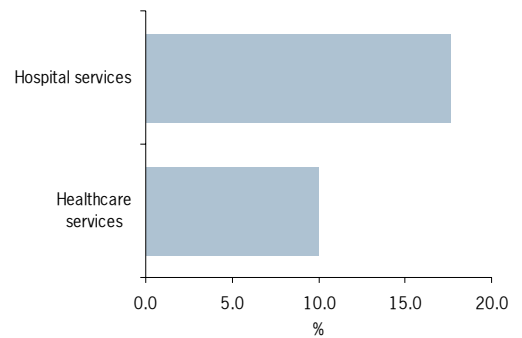
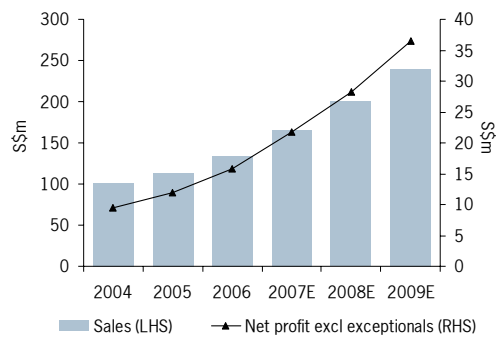


Fig 5 Revenue and net profit trend



Source: Company, Cazenove

Fig 6 Normalised margin trend

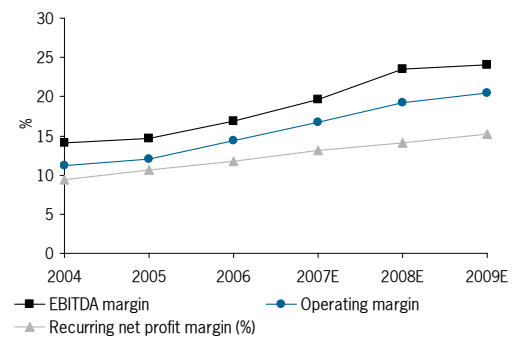
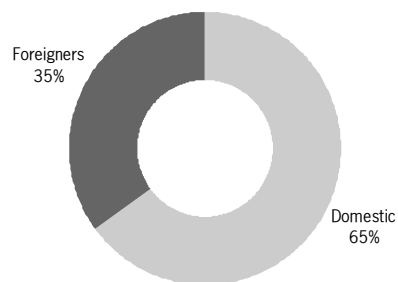
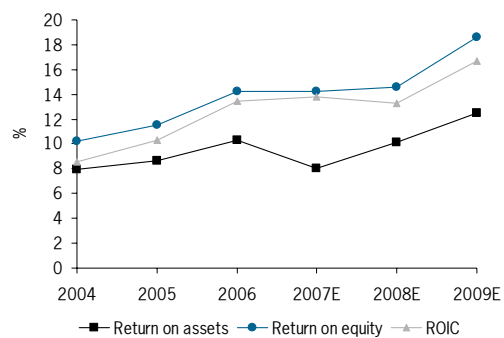


Fig 7 Patient mix



Source: Company, Cazenove

Fig 8 Normalised returns



Profit and loss accounts

Year end: December	2005	2006	2007E	2008E	2009E
Sales (S\$m)	112.9	134.2	165.4	199.8	240.1
EBIT (S\$m)	13.5	19.2	27.6	38.5	49.0
EBITDA (S\$m)	16.6	22.6	32.4	46.9	57.8
Finance costs (S\$m)	-0.1	-0.1	-0.7	-2.6	-2.6
Share of JV profits (S\$m)	1.4	0.9	0.9	0.0	0.0
Exceptionals – revaluation gain on	0.0	0.0	12.5	0.0	0.0
PBT (S\$m)	14.8	20.0	40.3	35.9	46.5
Effective tax rate (%)	18.6	21.3	15.0	21.3	21.3
Minority interest (S\$m)	-0.1	-0.1	-0.1	-0.1	-0.1
Earnings – reported (S\$m)	12.0	15.7	34.2	28.2	36.5
EPS (S\$)	0.027	0.035	0.071	0.055	0.070
EPS – excl exceptionals (S\$)	0.027	0.035	0.045	0.055	0.070
DPS –net (S\$)	0.03	0.04	0.04	0.04	0.06
Interest cover (x)	166.7	176.2	38.1	15.0	19.1
Dividend cover (x)	1.1	1.0	1.8	1.2	1.2
Sales growth (%)	+11.3	+18.9	+23.2	+20.8	+20.2
EBIT growth (%)	+20.0	+42.3	+43.8	+39.2	+27.5
EPS excl exceptionals growth (%)	+24.0	+28.4	+28.9	+21.8	+27.8
DPS–net growth (%)	+40.4	+43.1	+10.4	+11.7	+26.8

Source: Company, Cazenove

Cash flow statements

Year end: December	2005	2006	2007E	2008E	2009E
	S\$m	S\$m	S\$m	S\$m	S\$m
EBITDA	16.6	22.6	32.4	46.9	57.8
Working capital	0.9	0.7	1.3	2.3	2.7
Other	-1.9	-3.7	6.6	-10.3	-12.5
Operating cash flow	15.6	19.7	40.3	38.9	48.0
Capex	-5.8	-2.3	-217.0	-2.4	-2.9
Disposals / (acquisitions)	0.6	0.0	0.0	0.0	0.0
Investments/Other Investing	-2.8	0.4	68.2	0.0	0.0
Investing cash flow	-7.9	-1.9	-148.8	-2.4	-2.9
Dividends paid	-8.0	-15.5	-22.2	-25.4	-32.9
Net borrowings	0.0	0.0	32.0	0.0	0.0
Equity funding	3.0	4.8	66.9	0.0	0.0
Other financing	0.0	0.0	0.0	0.0	0.0
Financing cash flow	-5.0	-10.7	76.6	-25.4	-32.9
Net change in cash/ST investment	2.7	7.1	-31.9	11.2	12.2

Source: Company, Cazenove

Management

Executive Chairman	Dr Loo Choon Yong
Medical Director, Raffles Clinics	Dr Wilson Wong
Medical Director, Raffles Hospital	Prof Walter Tan
Group Financial Controller	Mrs Kimmy Goh

Shareholder information (date) (%)

Dr Loo Choon Yong	50.5
Temasek	4.9
Qatar Investment Authority	4.9

Market information

Estimated free float %	39.8
Main listing(s)	Singapore
Average daily volume (3 months)	285,246

Financial calendar

Financial year end	December
Quarterly accounts	Yes
Reports & accounts	March
AGM	April

Source: Company, Bloomberg

Balance sheets

Year end: December	2005	2006	2007E	2008E	2009E
	S\$m	S\$m	S\$m	S\$m	S\$m
FAs – tangible	21.4	20.2	232.5	226.5	220.6
Jointly–controlled entity	53.0	54.0	0.0	0.0	0.0
Other LT Assets	1.2	1.3	1.3	1.3	1.3
Total LT Assets	75.6	75.5	233.7	227.7	221.9
Inventories	2.9	3.4	4.1	4.9	5.9
Receivables	12.3	16.8	20.7	24.9	30.0
Cash & equivalents	48.1	56.2	10.1	21.3	33.5
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	63.3	76.4	34.8	51.1	69.4
Total assets	138.9	151.8	268.6	278.9	291.3
Payables	24.4	30.0	35.8	43.3	52.0
Borrowings	2.3	2.0	34.0	34.0	34.0
Other liabilities	4.5	6.7	6.7	6.7	6.7
Minority interest	0.2	0.3	0.3	0.4	0.4
Shareholders' funds	107.5	112.9	191.7	194.5	198.2
Capital employed	110.1	115.1	226.0	228.9	232.6

Source: Company, Cazenove

Key ratios

Year end: December	2005	2006	2007E	2008E	2009E
EBITDA margin (%)	14.7	16.9	19.6	23.5	24.1
EBIT margin (%)	12.0	14.3	16.7	19.2	20.4
Net margin (%)	10.6	11.7	20.7	14.1	15.2
Op cash/EBIT (x)	1.2	1.0	1.5	1.0	1.0
Depn/capex (x)	0.5	1.5	0.0	3.5	3.0
Quick ratio (x)	2.0	1.9	0.4	0.6	0.7
ROE (%)	11.5	14.3	14.2	14.6	18.6
ROCE (%)	12.7	17.1	16.2	16.9	21.2
Net debt/equity (%)	Cash	Cash	12.5	6.6	0.3
Working cap/sales (%)	13.5	15.0	15.0	15.0	15.0
Receivables days	39	45	45	45	45
Inventories turnover (x)	38.4	39.2	40.4	40.4	40.4
Asset turnover (x)	0.8	0.9	0.6	0.7	0.8
EV/sales (x)	7.2	6.0	4.9	4.0	3.4
PER (x)	57.1	44.5	21.9	28.3	22.2
EV/EBIT (x)	57.1	44.5	34.5	28.3	22.2
EV/EBITDA (x)	59.9	42.1	29.3	21.0	16.5

Source: Company, Cazenove

Thomson Medical Centre

STOCK RECOMMENDATION

OUTPERFORM

SECTOR

Healthcare Services

12 MONTH RANGE

S\$0.76 – 0.42

NEXT RESULTS DUE

10 April 2008 (H1)

LAST RESULTS

30 October 2007 (FY)

ANALYST

Desmond.Lee@cazenove.com

Tel +65 6395 7688

PRICE

S\$0.67

REUTERS CODE

THOM.SI

BLOOMBERG CODE

THOM SP

MARKET CAPITALISATION

S\$196m (US\$136m)

PRINCIPAL LISTING

SGX

CHANGE IN STOCK RECOMMENDATION

n/a

CHANGE IN EPS ESTIMATES

No

We initiate coverage of Thomson Medical Centre (Thomson) with an OUTPERFORM call. Our fair value estimate of S\$0.86 per share implies upside of 28%.

Thomson is a well established, niche healthcare player specializing in Obstetric & Gynaecology (O&G)/Paediatric services. The company accounts for c.20% of national birth deliveries in Singapore and more than 30% of all birth deliveries carried out by the private sector.

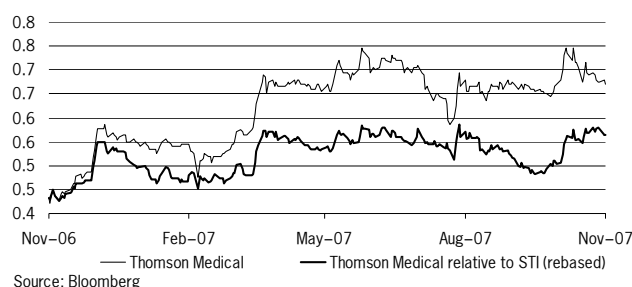
Major beneficiary of recent policy changes. Thomson's growth prospects are promising, in our view, underpinned by 1) government measures to reverse the declining birth rate trend, 2) the raising of the CPF medical savings daily withdrawal limit, and 3) the impending implementation of means testing at public hospitals. We believe that the latter two changes are likely to lead to a natural outflow of public sector patients to private operators. We see ample scope for Thomson to drive its margins higher via an increase in bed rates, underpinned by the rollout of its refurbished wards and the strong demand for premium beds.

Overseas expansion strategy is gaining traction.

Thomson's entry into the booming healthcare market of Vietnam could materialize in a significant way should the company exercise its option to purchase a 25% equity stake in Hanh Phuc Hospital in H2 2009. With the potential development of two additional greenfield hospitals in the pipeline, Thomson's network in Vietnam could extend to three hospitals over the longer term. We would not rule out a separate listing of Thomson's Vietnam operations in the future.

Valuations. Thomson is the cheapest private hospital operator in Singapore, trading at 19x FY2008E PER. Potential catalysts include successful earnings execution, new acquisitions and a favourable outcome in future land tenders for medical space in Singapore.

Share price performance



Share price (%)	-1 mth	-3 mth	-12 mth	
Ordinary shares	0	+2	+55	
Relative to sector	-	-	-	
Relative to STI index	+12	+1	+31	
Average daily volume shares			293,000	
STI index			3,372	
Year end: August	2006	2007	2008E	2009E
Turnover (S\$m)	46.5	52.4	57.8	64.7
Earnings – reported (S\$m)	6.8	9.5	10.6	12.4
EBITDA (S\$m)	12.1	14.6	16.5	19.1
Tax (%)	22.0	16.4	18.0	18.0
EPS – (S cents)	2.3	3.3	3.6	4.2
Growth (%)	+15.3	+40.1	+11.2	+16.6
DPS – net (S cents)	1.7	2.5	2.7	3.2
Growth (%)	+72.2	+44.9	+9.0	+17.0
Div payout – net (%)	67.5	76.7	75.0	75.0
EV/EBITDA (x)	15.6	12.9	11.4	9.9
PER (x)	28.8	20.6	18.5	15.9
Yield – Net (%)	2.6	3.7	4.1	4.8
PBR (x)	2.5	2.1	2.1	2.0
EBIT margin (%)	20.1	22.5	23.2	24.2
EV/sales (x)	4.1	3.6	3.3	2.9
Market cap:sales (x)	4.2	3.7	3.4	3.0
NAV per share (S\$)	0.27	0.32	0.33	0.33
ROE (%)	9.1	11.1	11.3	12.8
ROCE (%)	11.0	12.4	13.1	14.8
Interest cover (x)	21.5	27.5	28.5	30.2
Net debt/equity (%)	Cash	Cash	Cash	Cash

Source: Company, Cazenove

Operational review

Fig 1 Revenue split FY2007

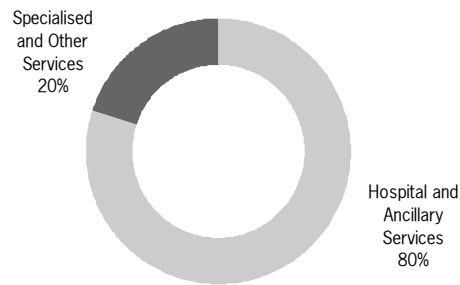
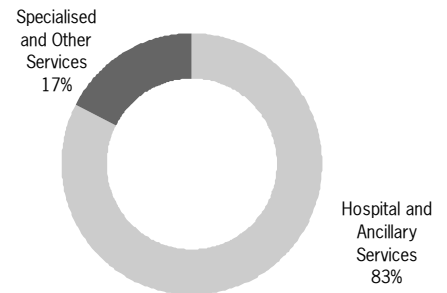


Fig 2 EBIT split FY2007



Source: Company, Cazenove

Fig 3 Revenue split by geography FY2007

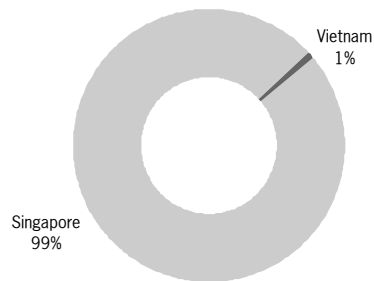
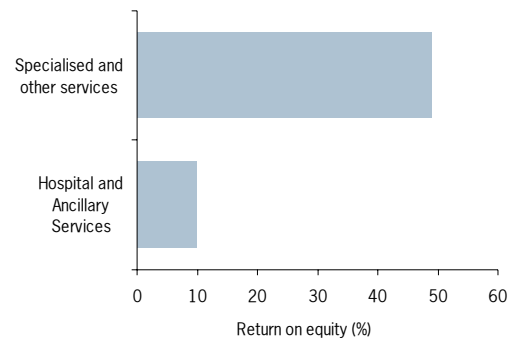


Fig 4 EBIT margins by segment FY2007



Source: Company, Cazenove

Fig 5 Number of admissions and deliveries

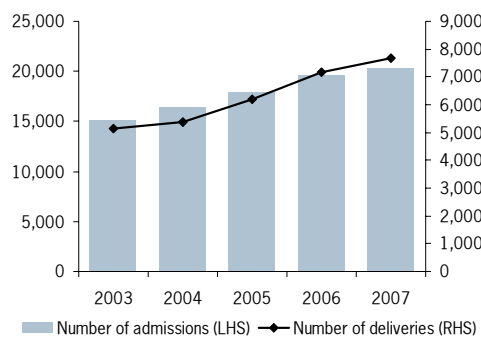
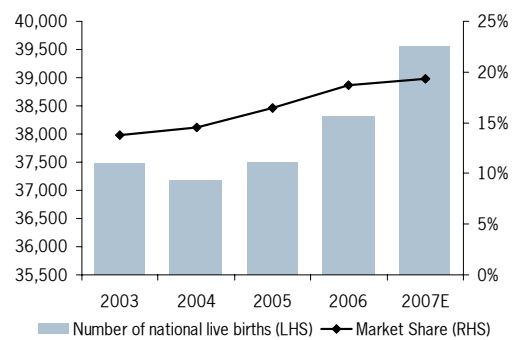


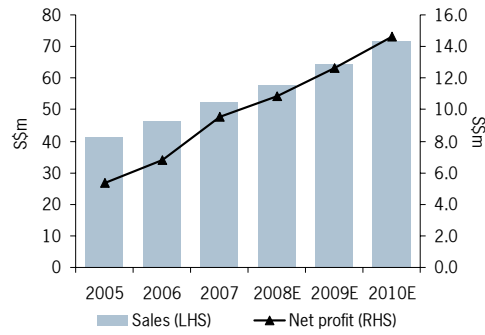
Fig 6 Thomson's market share trend of deliveries



Source: Company, Cazenove

Financial review

Fig 7 Revenue and net profit trend



Source: Company, Cazenove

Fig 8 Margin trend

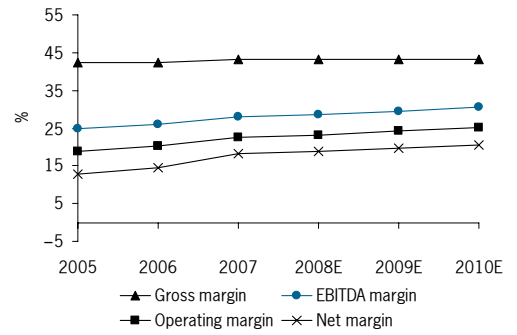
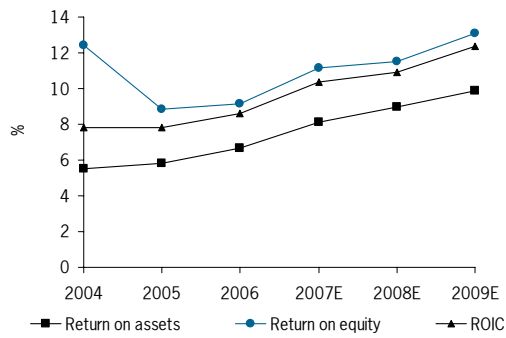
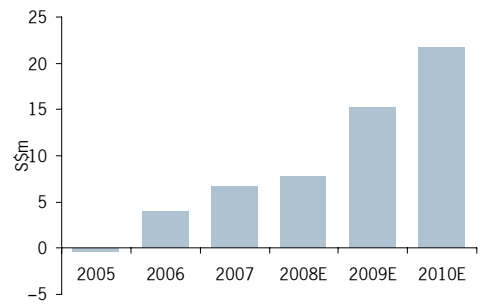


Fig 9 Returns



Source: Company, Cazenove

Fig 10 Net cash balance



Profit and loss accounts

Year end: August	2005	2006	2007	2008E	2009E
Sales (S\$m)	41.2	46.5	52.4	57.8	64.7
Gross profit (S\$m)	17.4	19.7	22.6	25.0	28.0
Administrative exp (S\$m)	-6.0	-6.6	-7.5	-8.1	-8.4
Other operating expenses	-4.2	-4.5	-4.9	-4.5	-4.9
Other oper inc / (exp) (S\$m)	0.6	0.8	1.5	1.0	1.0
EBIT (S\$m)	7.8	9.4	11.8	13.4	15.7
Net interest income / (exp) (S\$m)	-0.9	-0.4	-0.4	-0.5	-0.5
Contributions from associate/JVs	-0.4	-0.2	0.0	0.0	0.0
PBT (S\$m)	6.6	8.7	11.4	12.9	15.1
Tax (%)	18.8	22.0	16.4	18.0	18.0
Earnings – reported (S\$m)	5.3	6.8	9.5	10.6	12.4
EPS (S\$)	0.020	0.023	0.033	0.036	0.042
DPS –net (S\$)	0.010	0.017	0.025	0.027	0.032
Interest cover x	9.0	21.5	27.5	28.5	30.2
Dividend cover x	2.0	1.3	1.3	1.3	1.3
Sales growth %	+31.5	+13.0	+12.6	+10.4	+11.9
EBIT growth %	+30.5	+20.1	+25.9	+13.7	+16.8
EPS growth %	+8.9	+15.3	+40.1	+11.2	+16.6
DPS–net growth %	na	+72.2	+44.9	+9.0	+17.0

Source: Company, Cazenove

Cash flow statements

Year end: August	2005	2006	2007	2008E	2009E
	S\$m	S\$m	S\$m	S\$m	S\$m
EBITDA	10.3	12.1	14.6	16.5	19.1
Working capital	0.8	1.1	1.3	0.8	3.2
Other	-1.4	-1.6	-2.3	-2.8	-3.2
Operating cash flow	9.7	11.5	13.6	14.5	19.0
Capex	-1.5	-3.3	-5.2	-5.5	-2.5
Disposals / (acquisitions)	0.1	0.0	0.1	0.0	0.0
Investments/Other Investing	0.0	0.2	1.3	0.0	0.0
Investing cash flow	-1.5	-3.1	-3.8	-5.5	-2.5
Dividends paid	0.0	-4.0	-7.6	-8.0	-9.3
Net borrowings	-18.8	-1.6	-1.5	0.0	0.0
Equity funding	13.7	0.0	0.0	0.0	0.0
Other financing	0.0	0.1	0.4	0.0	0.0
Financing cash flow	-5.1	-5.4	-8.7	-8.0	-9.3
Net change in cash/ST investment	3.1	3.1	1.1	1.1	7.2

Source: Company, Cazenove

Management

Executive Chairman	Dr Cheng Wei Chen
Executive Deputy Chairman	Dr Cheng Li Chang
CEO	Yeo Hwee Tiong
COO	Dr Kok Mun Foong
CFO	Francis Tan

Shareholder information (date) (%)

Cheng family	38.6
Dr Hari N Harilela	17.4

Market information

Estimated free float %	44.0
Main listing(s)	Singapore
Average daily volume (3 months)	207,831

Financial calendar

Financial year end	August
Quarterly accounts	No
Reports & accounts	November
AGM	December

Source: Company, Bloomberg

Balance sheets

Year end: August	2005	2006	2007	2008E	2009E
	S\$m	S\$m	S\$m	S\$m	S\$m
FAs – tangible	77.1	82.8	97.5	99.8	98.9
LT investments	0.1	0.0	0.0	0.0	0.0
Other LT Assets	0.6	0.1	0.1	0.1	0.1
Total LT Assets	77.7	82.9	97.6	100.0	99.0
Inventories	0.8	0.8	0.9	1.0	1.4
Receivables	2.0	3.7	2.9	3.2	4.3
Cash & equivalents	11.0	14.1	15.3	16.4	23.6
Other current assets	1.7	0.3	0.0	0.0	0.0
Total current assets	15.4	18.9	19.1	20.5	29.3
Total assets	93.2	101.9	116.7	120.5	128.3
Payables	8.4	9.1	11.5	12.7	17.5
Borrowings	11.3	10.1	8.6	8.6	8.6
Other liabilities	2.9	4.2	3.7	3.7	3.7
Minority interest	0.0	0.1	0.1	0.1	0.1
Shareholders' funds	70.5	78.3	92.6	95.3	98.4
Capital employed	81.8	88.6	101.4	104.0	107.1

Source: Company, Cazenove

Key ratios

Year end: August	2005	2006	2007	2008E	2009E
Gross profit margin (%)	42.3	42.3	43.2	43.2	43.2
EBITDA margin (%)	25.0	26.0	27.9	28.6	29.5
EBIT margin (%)	18.9	20.1	22.5	23.2	24.2
Net margin (%)	12.9	14.6	18.2	18.4	19.2
Op cash/EBIT (x)	1.2	1.2	1.2	1.1	1.2
Depn/capex (x)	1.7	0.8	0.5	0.6	1.4
Quick ratio (x)	1.3	1.4	1.2	1.2	1.3
ROE (%)	8.9	9.1	11.1	11.3	12.8
ROCE (%)	9.6	11.0	12.4	13.1	14.8
Net debt/equity (%)	0.5	Cash	Cash	Cash	Cash
Working cap/sales (%)	6.7	9.7	7.2	7.2	8.8
Receivables days	17	28	20	20	20
Inventories turnover (x)	50.2	54.9	58.6	58.6	58.6
Asset turnover (x)	0.4	0.5	0.4	0.5	0.6
EV/sales (x)	4.6	4.1	3.6	3.3	2.9
PER (x)	33.2	28.8	20.6	18.5	15.9
EV/EBIT (x)	24.3	20.2	16.0	14.1	12.1
EV/EBITDA (x)	18.4	15.6	12.9	11.4	9.9

Source: Company, Cazenove

Pacific Healthcare

STOCK RECOMMENDATION

NO RECOMMENDATION

SECTOR

Healthcare Services

12 MONTH RANGE

S\$0.465 – 0.28

NEXT RESULTS DUE

28 February 2008 (FY)

LAST RESULTS

7 August 2007 (H1)

ANALYST

Desmond.Lee@cazenove.com

Tel +65 6395 7688

Formed in 2001, Pacific Healthcare (PACH) is the **largest non hospital-based healthcare service provider listed on the SGX.**

PACH has a network of over 40 clinics and facilities across Singapore, and it is one of a small number of Singapore-based healthcare groups to focus entirely on the outpatient specialist services segment. The company is well-regarded in the fields of cosmetic surgery/dentistry and aesthetic medicine, two areas that are set to experience organic double-digit growth rates.

Asset-light business model. Unlike its hospital-based peers, PACH derives the bulk of earnings (c. 76%) from outpatient specialist services, a segment that is asset light (most clinics are leased), highly scaleable (no investment required for inpatient capacity) and generates high ROEs. In early 2007, PACH entered into a sale and leaseback agreement with SGX-listed First REIT for two nursing homes and a psychiatric hospital, monetising c.S\$12m in the process.

Embarking on an aggressive growth strategy. In February 2007, the company signed a JV agreement with Kuwait Finance House (KFC) to establish new medical centres across the region. PACH has since leveraged on this partnership to secure a minority stake in Srinivasa Cardiology Centre, a leading cardiac group in India. On its own, PACH has also extended its presence in China (two centres), India and Vietnam.

Cheapest Singapore healthcare play on a historical PER basis. The shares currently trade on 23X FY2006 PER, translating to a 45% discount to the sector average. The proposed S\$455m reverse takeover of Singapore-based Healthway Medical by Vantage Corporation (VANT SP: N/R) last month values Healthway at 31X FY2006 PER, or at a 35% premium to PACH.

PRICE

S\$0.395

REUTERS CODE

PAHH.SI

BLOOMBERG CODE

PACH SP

MARKET CAPITALISATION

S\$111m (US\$77m)

PRINCIPAL LISTING

SGX

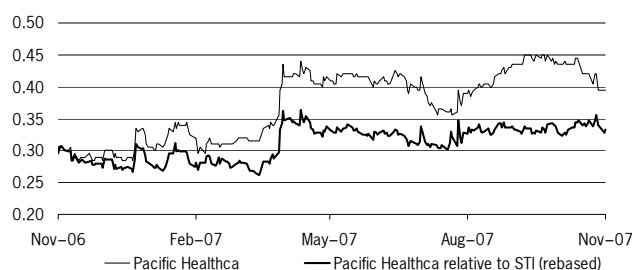
CHANGE IN STOCK RECOMMENDATION

n/a

CHANGE IN EPS ESTIMATES

n/a

Share price performance



Source: Bloomberg

Share price (%)	-1 mth	-3 mth	-12 mth	
Ordinary shares	-9	+3	+34	
Relative to sector	-	-	-	
Relative to STI index	+2	+1	+13	
Average daily volume shares			1.1m	
STI index			3,372	
Year end: December	2003	2004	2005	2006
Turnover (S\$m)	36.0	42.2	48.8	64.4
Earnings – reported (S\$m)	4.1	4.4	4.6	4.0
EBITDA (S\$m)	7.5	8.0	8.9	11.5
Tax (%)	25.0	23.2	17.5	16.9
EPS – (S cents)	2.18	2.34	2.37	1.69
Growth (%)	+22.2	+4.5	+3.1	-28.6
DPS – net (S cents)	na	na	0.48	0.49
Growth (%)	na	na	na	+2.1
EV/EBITDA (x)	15.9	14.9	13.3	10.3
PER (x)	18.1	16.9	16.7	23.3
Yield – (%)	0.0	0.0	1.2	1.2
PBR (x)	na	3.5	2.0	2.3
EBIT margin (%)	14.8	13.6	14.2	13.1
EV/sales (x)	3.3	2.8	2.4	1.8
Market cap:sales (x)	3.1	2.6	2.3	1.7
NAV per share (S\$)	na	0.11	0.20	0.17
ROE (%)	na	20.9	15.3	10.0
ROCE (%)	na	12.9	12.5	12.1
Interest cover (x)	13.8	8.8	4.3	4.4
Net debt/equity (%)	na	87.7	20.8	38.7

Source: Company, Bloomberg

Operational and financial review

Fig 1 Revenue breakdown by segment FY2006

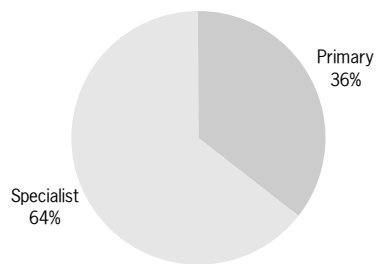
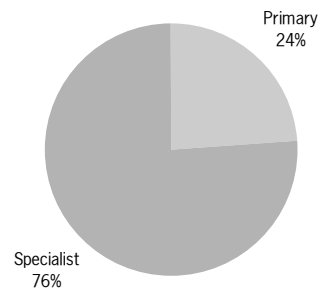


Fig 2 Profit breakdown by segment FY2006



Source: Company, Cazenove

Fig 3 Segmental operating margins FY2006

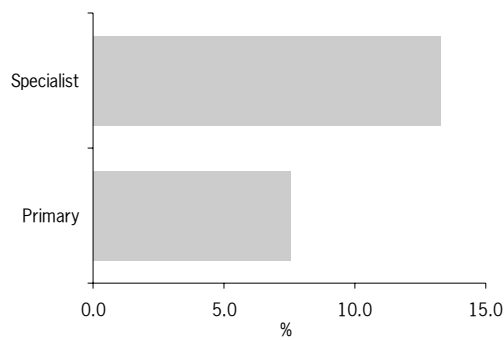
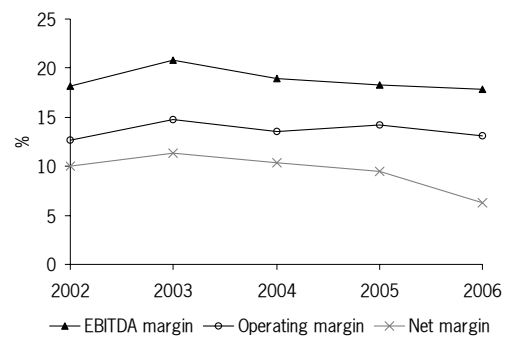


Fig 4 Margin trend



Source: Company, Cazenove

Fig 5 Revenue and net profit trend

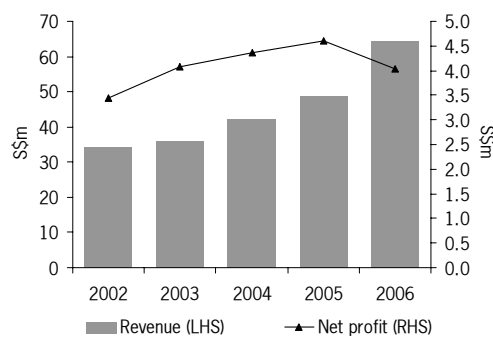
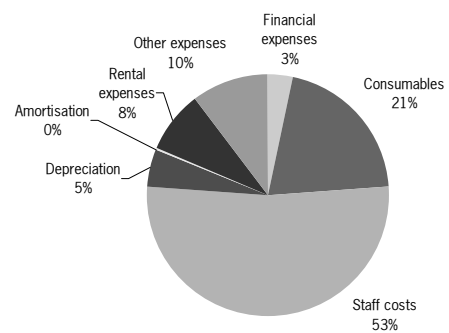


Fig 6 Cost breakdown



Source: Company, Cazenove

Pacific Healthcare

Profit and loss accounts

Year end: December	2003	2004	2005	2006
Sales (S\$m)	36.0	42.2	48.8	64.4
Raw materials / consumables (S\$m)	(6.7)	(8.4)	(10.1)	(12.5)
Staff costs	(16.3)	(19.8)	(22.7)	(31.6)
Depreciation and Amortisation	(2.2)	(2.3)	(2.2)	(3.3)
Other inc / (exp) (S\$m)	(5.5)	(6.0)	(6.9)	(8.6)
EBIT (S\$m)	5.3	5.7	7.0	8.4
Net interest income / (exp) (S\$m)	(0.4)	(0.6)	(1.6)	(1.9)
PBT (S\$m)	5.7	5.7	5.6	5.8
Tax (%)	25.0	23.2	17.5	16.9
Earnings – reported (S\$m)	4.1	4.4	4.6	4.0
EPS (S cents)	2.2	2.3	2.4	1.7
DPS –net (S cents)	na	na	0.5	0.5
Interest cover (x)	13.8	8.8	4.3	4.4
Dividend cover (x)	na	na	4.9	3.5
Sales growth %	+5.0	+17.2	+15.7	+32.0
EBIT growth %	+22.7	+7.5	+21.5	+21.3
EPS growth %	+22.2	+4.5	+3.1	(28.6)
DPS–net growth %	na	na	na	+2.1

Source: Company, Bloomberg

Cash flow statements

Year end: December	2004	2005	2006
	S\$m	S\$m	S\$m
EBITDA	8.0	8.9	11.5
Working capital	0.6	(0.4)	(3.9)
Other	(1.4)	(2.0)	(3.5)
Operating cash flow	7.1	6.6	4.1
Capex	(3.0)	(1.3)	(4.9)
Fixed asset disposals / Decrease in invts	0.3	0.7	3.8
Increase in invts / Other investing	0.8	(5.1)	(6.2)
Investing cash flow	(2.0)	(5.7)	(7.3)
Dividends paid	(4.8)	(0.2)	(1.2)
Net borrowings	0.6	(9.0)	6.1
Equity funding	0.0	15.1	0.0
Other financing	(4.2)	(1.2)	(1.3)
Financing cash flow	(8.4)	4.7	3.6
Exchange rate effects	0.0	-0.2	-0.1
Net change in cash/ST investment	(3.3)	5.4	0.3

Source: Company, Bloomberg

Management

CEO / Exec Dir	Dr William Chong
Financial Controller	Foo Lily
COO / Exec Dir	Dr Sandra Chu
Exec Dir	Dr Martin Huang

Shareholder information (date) (%)

Dr William Chong	27.2
Pequot Capital Management	12.0

Market information

Estimated free float %	60.0
Main listing(s)	Singapore
Average daily volume (3 months)	362,938

Financial calendar

Financial year end	December
Quarterly accounts	No
Reports & accounts	March
AGM	April

Source: Company, Bloomberg

Balance sheets

Year end: December	2004	2005	2006
	S\$m	S\$m	S\$m
FAs – tangible	12.6	15.1	18.8
FAs – intangible	14.0	26.9	26.7
Investments in associates	9.5	8.6	1.0
Other LT assets	1.8	4.0	3.3
Total LT assets	37.9	54.5	49.8
Inventories	2.0	2.1	2.0
Receivables	4.3	11.0	27.8
Cash & equivalents	4.0	10.1	9.8
Other current assets	7.6	0.0	0.0
Total current assets	17.9	23.1	39.7
Total assets	55.8	77.6	89.5
Payables	3.5	7.3	12.8
Borrowings	22.4	18.2	25.9
Other liabilities	8.0	3.7	4.2
Minority interest	1.0	9.4	4.9
Shareholders' funds	21.0	39.1	41.6
Capital employed	44.4	66.6	72.5

Source: Company, Bloomberg

Key ratios

Year end: December	2003	2004	2005	2006
EBITDA margin (%)	20.8	18.9	18.3	17.8
EBIT margin (%)	14.8	13.6	14.2	13.1
Net margin (%)	11.3	10.4	9.4	6.3
Op cash/EBIT (x)	na	1.2	0.9	0.5
Depn/capex (x)	na	0.5	1.5	0.6
Quick ratio (x)	na	0.8	1.1	1.5
ROE (%)	na	20.9	15.3	10.0
ROCE (%)	na	12.9	12.5	12.1
Net debt/equity (%)	na	87.7	20.8	38.7
Working cap/sales (%)	na	24.7	11.7	26.6
Receivables days	na	36.5	80.8	155.6
Inventories turnover (x)	na	21.4	23.6	31.5
Asset turnover (x)	na	0.8	0.6	0.7
EV/sales (x)	3.3	2.8	2.4	1.8
PER (x)	18.1	16.9	16.7	23.3
EV/EBIT (x)	22.3	20.7	17.1	14.1
EV/EBITDA (x)	15.9	14.9	13.3	10.3

Source: Company, Bloomberg

Capital history – ordinary shares

Number of shares (m)	280.8
Nominal value (S\$)	0.02
Last issue/buyback	Feb–07

Seasonality %	Sales	PBIT
H1	60.0	53.1
H2	40.0	46.9

Geographical split (%)	Sales	PBIT
Specialist	64.4	76.1
Primary	35.6	23.9

Geographical split (%)	Sales
Singapore	92.3
International	7.7

Source: Company

Health Management Int'l

STOCK RECOMMENDATION

NO RECOMMENDATION

SECTOR

Healthcare Services

12 MONTH RANGE

HK\$0.285 – 0.105

NEXT RESULTS DUE

12 February 2008 (H1)

LAST RESULTS

24 August 2007 (FY)

ANALYST

Desmond.Lee@cazenove.com

Tel +65 6395 7688

Headquartered in Singapore, Health Management International (HMI) is a **direct play on Malaysia's private healthcare sector**, with c.90% of the company's asset base located in Malaysia.

HMI owns controlling stakes in **two specialist tertiary hospitals in Malaysia**, with shareholdings of 49% and 61% in **Mahkota Medical Centre** (Mahkota) in Malacca and **Regency Specialist Hospital** (Regency) in Johor respectively.

Strong market position in Malacca. One of the three leading private hospitals in the state of Malacca, the 228-bed Mahkota Medical Centre is also one of Malaysia's most profitable hospitals, serving c.20% of all medical tourist traffic to the country. Mahkota's foreign patient profile consists mostly of price-sensitive Indonesian patients from the island of Sumatra, a segment that has posted a revenue CAGR of 30% for the company over the last four years.

An emerging force in Johor. Scheduled to be operational by end-2007, the 218-bed Regency Specialist Hospital will be the largest private hospital in the state of Johor. Growth prospects for Regency are bright, underpinned by 1) a sector wide shortage of beds, 2) an overstretched public healthcare system and 3) the facility's close proximity to two potentially huge markets: the Iskandar Development Region and Singapore.

Aiming to replicate Parkway's REIT strategy. HMI is unlikely to consider a divestment of its real estate assets to a third-party healthcare REIT but instead, is targeting to establish its own REIT over the longer term.

Cheapest hospital-based provider. HMI is the cheapest private hospital operator listed in Singapore and Malaysia. The stock is trading at 9x FY2007 PER, at a steep discount to the Singapore/Malaysia hospital average.

PRICE

S\$0.185

REUTERS CODE

HMIH.SI

BLOOMBERG CODE

HMI SP

MARKET CAPITALISATION

S\$64m (US\$44m)

PRINCIPAL LISTING

SGX

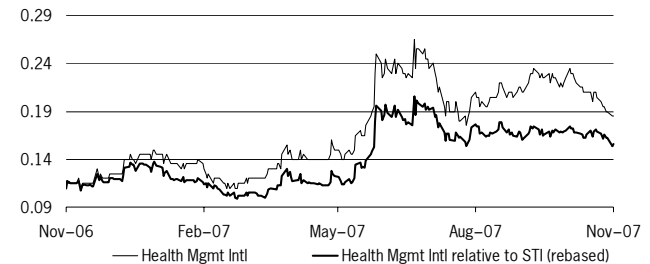
CHANGE IN STOCK RECOMMENDATION

n/a

CHANGE IN EPS ESTIMATES

n/a

Share price performance



Source: Bloomberg

Share price (%)	-1 mth	-3 mth	-12 mth	
Ordinary shares	-18	-10	+68	
Relative to sector	-	-	-	
Relative to STI index	-8	-11	+42	
Average daily volume shares			2m	
STI index			3,372	
Year end: June	2004	2005	2006	2007
Turnover (S\$m)	34.0	39.3	40.6	43.6
Earnings – reported (S\$m)	0.8	-5.8	1.3	7.2
Earnings – ex-exceptional (S\$m)	-4.7	0.5	-1.2	4.7
EBITDA (S\$m)	5.2	8.8	6.4	12.3
EPS – (S cents)	0.3	-2.0	0.4	2.1
Growth (%)	0.0	nm	nm	+425.0
DPS – net (S cents)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	22.5	13.3	18.3	9.5
PER (x)	61.7	nm	46.3	8.8
Yield – Net (%)	0.0	0.0	0.0	0.0
PBR (x)	2.5	3.6	3.1	2.2
EBIT margin (%)	3.2	14.6	11.1	24.2
EV/sales (x)	3.4	3.0	2.9	2.7
Market cap:sales (x)	1.9	1.6	1.6	1.5
NAV per share (S cents)	7.3	5.2	5.9	8.3
ROE (%)	4.1	-32.3	7.3	29.4
ROCE (%)	1.7	9.1	7.0	14.2
Interest cover (x)	0.7	4.8	3.9	8.1
Net debt/equity (%)	74.6	57.8	Cash	75.2

Source: Company, Bloomberg

Health Management Int'l

Profit and loss accounts

Year end: June	2003	2004	2005	2006	2007
Sales (S\$m)	32.8	34.0	39.3	40.6	43.6
EBIT (S\$m)	-2.3	1.1	5.8	4.5	10.6
Finance cost (S\$m)	-1.9	-1.5	-1.2	-1.2	-1.3
Exceptionals (S\$m)	9.7	5.4	-6.3	2.4	2.5
PBT (S\$m)	5.4	5.0	-1.8	5.9	11.5
Tax (S\$m)	-2.8	-0.2	7.7	-4.1	-7.7
Minority interest (S\$m)	-4.6	-4.2	-3.8	-4.3	-3.5
Net earnings – reported (S\$m)	0.6	0.8	-5.8	1.3	7.2
Net earnings – ex-exceptional (S\$m)	-9.1	-4.7	0.5	-1.2	4.7
EPS (S cents)	0.30	0.30	-2.00	0.40	2.10
DPS –net (S cents)	0.00	0.00	0.00	0.00	0.00
Interest cover (x)	na	0.7	4.8	3.9	8.1
Dividend cover (x)	na	na	na	na	na
Sales growth (%)	-3.0	+3.6	+15.4	+3.4	+7.4
EBIT growth (%)	+22.6	-148.2	+422.7	-21.9	+135.0
EPS growth (%)	nm	+0.0	nm	nm	+425.0
DPS–net growth (%)	na	na	na	na	na

Source: Company, Bloomberg

Cash flow statements

Year end: June	2003	2004	2005	2006	2007
	S\$m	S\$m	S\$m	S\$m	S\$m
EBITDA	1.8	5.2	8.8	6.4	12.3
Working capital	-2.3	2.2	1.5	-1.3	-21.7
Other	-1.8	-1.5	-1.5	0.7	-3.0
Operating cash flow	-2.3	5.8	8.7	5.8	-12.4
Capex	-0.7	-0.4	-0.8	-0.9	-1.9
Disposals / (acquisitions)	0.0	0.3	0.1	0.3	0.1
Other Investing	1.6	-0.9	-0.9	0.0	-5.5
Investing cash flow	0.9	-1.0	-1.7	-0.7	-7.4
Dividends paid	0.0	0.0	0.0	0.0	0.0
Net borrowings	0.9	-5.7	0.2	-2.1	5.7
Equity funding	0.0	4.3	0.0	5.1	0.0
Other financing	2.4	-2.4	0.0	-0.2	1.1
Financing cash flow	3.2	-3.8	0.1	2.8	6.8
Net change in cash/ST investment	1.8	1.1	7.2	7.9	-13.0

Source: Company, Bloomberg

Management

Exec Chairman / Managing Director	Gan See Khem
Exec Director	Chin Koy Nam
CEO, Mahkota Medical Centre	Lim Poon Thoo

Shareholder information (date) (%)

Gan See Khem & family	38.0
Dr Cheah Way Mun	3.5

Market information

Estimated free float %	62.0
Main listing(s)	Singapore
Average daily volume (3 months)	787,385

Financial calendar

Financial year end	June
Quarterly accounts	No
Reports & accounts	September
AGM	October

Source: Company, Bloomberg

Balance sheets

Year end: June	2003	2004	2005	2006	2007
	S\$m	S\$m	S\$m	S\$m	S\$m
FAs – tangible	45.2	16.7	9.3	31.4	34.6
Other LT Assets	2.4	3.3	49.0	1.1	6.0
Total LT Assets	47.6	19.9	58.3	32.5	40.6
Inventories	1.5	1.4	1.3	1.1	0.9
Receivables	21.1	49.8	3.5	26.5	43.8
Cash & equivalents	1.1	1.6	8.7	15.7	0.6
Other current assets	2.0	1.5	1.6	1.7	5.1
Total current assets	25.7	54.3	15.2	45.0	50.3
Total assets	73.2	74.3	73.5	77.5	90.9
Payables	8.6	9.2	10.9	8.4	6.9
Borrowings	23.6	17.2	17.3	14.7	22.1
Other liabilities	2.6	0.6	0.8	1.9	2.0
Minority interest	22.3	26.4	29.8	32.2	31.3
Shareholders' funds	16.0	20.9	14.8	20.3	28.6
Capital employed	62.0	64.6	61.9	67.1	82.0

Source: Company, Bloomberg

Key ratios

Year end: June	2003	2004	2005	2006	2007
EBITDA margin (%)	5.6	15.2	22.3	15.7	28.1
EBIT margin (%)	-6.9	3.2	14.6	11.1	24.2
Net margin (%)	1.9	2.2	-14.7	3.2	16.5
Op cash/EBIT (x)	1.0	5.3	1.5	1.3	-1.2
Depn/capex (x)	5.2	9.6	3.2	1.9	0.9
Quick ratio (x)	1.2	3.6	0.8	3.1	3.8
ROE (%)	3.8	4.1	-32.3	7.3	29.4
ROCE (%)	-3.8	1.7	9.1	7.0	14.2
Net debt/equity (%)	140.7	74.6	57.8	Cash	75.2
Working cap/sales (%)	95.1	177.3	40.0	88.8	118.3
Receivables days	231	526	32	235	362
Inventories turnover (x)	21.6	24.0	29.5	36.6	50.7
Asset turnover (x)	0.4	0.5	0.5	0.5	0.5
EV/sales (x)	3.5	3.4	3.0	2.9	2.7
PER (x)	61.7	61.7	-9.3	46.3	8.8
EV/EBIT (x)	nm	105.8	20.2	25.9	11.0
EV/EBITDA (x)	63.3	22.5	13.3	18.3	9.5

Source: Company, Bloomberg

APPENDIX

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Desmond Lee.

RESEARCH RECOMMENDATIONS

STOCK RECOMMENDATION DEFINITIONS

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IN-LINE – the total return on the security is not expected to outperform or underperform the relevant market index by 5% or more over the next six months.

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Our ratings are under constant review.

RECOMMENDATION HISTORY

12 months recommendation changes for Parkway Holdings Ltd;
No changes in recommendation over the last 12 months.

12 months recommendation changes for Raffles Medical Group Ltd;
No changes in recommendation over the last 12 months.

12 months recommendation changes for Thomson Medical Centre Ltd;
No changes in recommendation over the last 12 months.

The registered address of JPMorgan Cazenove Limited is 20 Moorgate, London EC2R 6DA

Telephone +44 (0)20 7155 5000 Facsimile +44 (0)20 7155 9800

Research e-mail: caznet@cazenove.com Research web site: www.caznet.com

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Cazenove & Co. (Singapore) Pte. Limited, 9 Raffles Place #52-01, Republic Plaza, Singapore 048619

Telephone +65 6227 1511 Facsimile +65 6227 2011 Company Registration No.: 199000557R

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