Raffles Medical Group

Addition, extension, expansion

OUTPERFORM	Maintained
S$2.14	Target: S$2.64
	Mkt.Cap: S$1,127m/US$885m
	Hospitals

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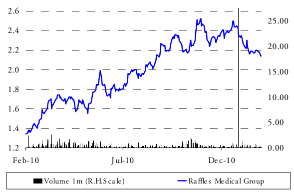
- **Spot on; maintain Outperform.** We were spot on in our FY10 core EPS forecast, although results beat Street expectations. 4Q10 PATMI of S$12.2m (+6.7% yoy) lifted FY10 PATMI to S$42.5m (+13.5% yoy). Revaluation gains for investment property in FY10 amounted to S$3.0m. Nevertheless, we reduce our FY11-12 EPS estimates by 0.2-3.4% to capture expansion expenses offset by boosted earnings from new medical centre, while introducing FY13 estimates. Our target price stays at S$2.64, still at 23x CY12 P/E, its mid-cycle valuation. With its defensive business that delivers consistent earnings, we maintain Outperform. We expect stock catalysts from the addition of clinics, expansion of medical specialties, higher foreign-patient growth, and higher intensity cases within the hospital segment.
- **Record revenue; operating efficiencies again in play.** FY10 growth was powered by all divisions (Healthcare Services +6.1% yoy; Hospital +12.1% yoy). Hospital growth was spurred by volume, prices and the number of intensity cases. A wider range of medical specialties, continued improvements in operating efficiency, higher patient loads and the recruitment of more specialist consultants contributed to improved operating profit of S$53.0m (+17% yoy). A dividend of 2.5cts was declared (FY10 DPS 3.5cts).
- **Making use of huge cash reserves to drive ROE.** The last time RFMD utilised its balance sheet was in 2007 when it bought its half stake in Raffles Hospital. Net cash reached S$85m at end-FY10, and its coffers will be used for the purchase of a freehold commercial block, Thong Sia Building (42,668 sf), in Orchard Road for use as a specialist medical centre with a price tag of S$92m (S$2,158psf). To be completed by end-Apr 11, the purchase works out to 1x P/BV, with positive carry for future operating efficiencies. FY11 capex could amount to S$132m, considering capacity expansion at flagship Raffles Hospital as well. Financing will come from internal funds and borrowings, not difficult considering the group's robust free cash flows from operations.

Results comparison

FYE Dec (S$ m)	4QFY10	4QFY09	yoy % chg	qoq % chg	4QFY10 Cum	4QFY09 Cum	yoy % chg	Prev. FY10F	Comments
Revenue	63.5	58.3	*9.0*	*4.3*	239.1	218.6	*9.4*	261.8	Below, Healthcare services +6% yoy, Hospital +12% yoy
Operating costs	(45.6)	(43.8)	*4.3*	*(0.9)*	(179.2)	(166.5)	*7.6*	(203.8)	Inventories & consumables +8.6% yoy, staff cost +10.4% yoy
EBITDA	17.8	14.5	*22.9*	*20.5*	60.0	52.1	*15.0*	57.9	Above with better revenue and cost management
EBITDA margin (%)	28.1	24.9	*12.8*	*15.5*	25.1	23.8	*5.2*	22.1	Margin climbed yoy due to operating efficiency
Depn & amort.	(1.9)	(1.6)	14.9	9.2	(7.0)	(6.8)	2.1	(6.8)	In-line; Depreciation on PPE very subdue
EBIT	16.0	12.9	*23.9*	*22.0*	53.0	45.3	*17.0*	51.1	In-line, 4Q10 accounted for 31.3% of FY10 forecast
Interest expense	(0.0)	(0.1)	*(59.3)*	*(54.2)*	(0.2)	(0.4)	*(41.7)*	(0.4)	Lower
Interest & invt inc	(0.1)	0.0	*high*	*(157.9)*	0.4	0.2	*103.3*	0.3	Winthin expectation
Exceptionals	2.8	0.4	-	-	2.8	0.4	-	-	Revaluation gain (S$3m) and other E.I
Pretax profit	15.9	12.8	*24.0*	*21.1*	53.1	45.0	*17.9*	51.0	In-line; FY10 PBT +18% yoy with reval elements
Tax	**(0.9)**	**(0.9)**	*(6.2)*	*(63.6)*	**(7.6)**	**(7.0)**	*8.6*	**(8.7)**	Lower than expected
Tax rate (%)	5.5	7.2	-	-	14.3	15.6	-	17.0	
Minority interests	(0.1)	(0.0)	*66.7*	*27.3*	(0.2)	(0.2)	*43.7*	(0.2)	
Net profit	15.0	11.9	*26.2*	*40.1*	45.3	37.9	*19.5*	42.1	4Q10 PATMI yoy growth of 26.2%
EPS (cts)	2.9	2.3	*25.0*	*40.4*	8.7	7.3	*18.6*	8.0	FY10 PATMI yoy growth of 19.5%
Core net profit	**12.2**	**11.4**	*6.7*	*14.0*	**42.5**	**37.4**	*13.5*	**42.1**	Core net profit +13.5% yoy
Core EPS (cts)	**2.3**	**2.2**	***5.7***	***14.3***	**8.1**	**7.2**	***12.5***	**8.1**	Core EPS spot on with our estimate

Source: *Company, CIMB Research*

Price chart



Source: Bloomberg

Financial summary

FYE Dec	2009	2010	2011F	2012F	2013F
Revenue (S$ m)	218.6	239.1	295.1	354.1	417.1
EBITDA (S$ m)	52.1	60.0	78.1	89.5	103.2
EBITDA margins (%)	23.8%	25.1%	26.5%	25.3%	24.7%
Pretax profit (S$ m)	45.0	53.1	63.6	75.0	88.8
Net profit (S$ m)	37.9	45.3	51.9	61.3	72.6
EPS (S cts)	7.3	8.7	9.9	11.7	13.9
EPS growth (%)	19.6%	18.5%	14.7%	18.0%	18.4%
P/E (x)	29.3	24.7	21.6	18.3	15.4
Gross DPS (S cts)	3.0	3.5	3.5	3.5	3.5
Dividend yield (%)	1.4%	1.6%	1.6%	1.6%	1.6%
P/BV (x)	4.4	3.9	3.5	3.1	2.7
ROE (%)	16.1%	16.9%	17.1%	17.9%	18.6%
Net cash per share (S$)	0.10	0.16	0.02	0.04	0.08
P/FCFE (x)	26.9	25.3	94.0	42.7	31.4
EV/EBITDA (x)	20.4	17.3	14.2	12.3	10.5
% change in EPS estimates			(3.4%)	(0.2%)	N/A
CIMB/Consensus (x)			1.01	1.04	N/A

Source: Company, CIMB Research, Bloomberg

Figure 1: Sector comparisons

	Bloomberg ticker	Recom.	Price (Local)	Target price (Local)	Mkt cap (US$ m)	Core P/E (x) CY2011	Core P/E (x) CY2012	3-yr EPS CAGR (%)	P/BV (x) CY2011	ROE (%) CY2011	Div yield (%) CY2011
Raffles Medical	RFMD SP	O	2.14	2.64	885	21.6	18.3	17.0	3.5	17.1	1.6
Bumrungrad	BH TB	O	36.25	44.50	864	17.5	15.1	11.6	3.9	23.5	2.9
Simple average						**19.5**	**16.7**	**14.3**	**3.7**	**20.4**	**2.2**

O = Outperform, N = Neutral, U = Underperform, TB = Trading Buy and TS = Trading Sell
Source: Company, CIMB Research

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NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.	**NEUTRAL:** The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.
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TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.	**TRADING SELL:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 3 months.

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