

# Raffles Medical Group

*Good things come in a bundle*

<b>OUTPERFORM</b>	Maintained
<b>S\$2.21</b>	Target: S\$2.64
Mkt.Cap: S\$1,166m/US\$948m	
Hospitals	

RFMD SP / RAFG.SI

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## 1Q11 results briefing

**Growth on track; maintain Outperform.** We came away from RFMD's 1Q11 results briefing encouraged. Dr Loo (Executive Chairman) and his team answered questions candidly on 1Q operating results, healthcare-bill issues (an election topic), and hikes in medical charges etc. The key message we took away was management's relentless pursuit of growth in a steady manner. We are keeping our earnings estimates together with our target price of S\$2.64, set at 23x CY12 P/E, its mid-cycle valuation. With its defensive business that delivers consistent earnings, we maintain Outperform. We continue to expect stock catalysts from the addition of clinics, expansion of medical specialties, medical fee hikes, and higher intensity cases in the hospital segment.

## Takeaways

**Fee hikes gradual but certain in FY11.** The recent results once again showcase the group's: 1) strong operating leverage and balanced growth in its various healthcare divisions. Revenue growth in 1Q11 (+14.7 yoy) was principally spurred by volume, then prices. That led management to hint that medical fees could be raised progressively this year, across the board. This ties in with our assumption of a 5% hike for specialist fees and in-patient bed charges.

**Operating efficiency amplified profit growth.** A closer look at the 1Q11 numbers reveals that topline and bottom-line growth was a lot stronger than reported. The increase in staff costs was actually lower than the 14.6% yoy reported as there were Job Credits back in 1Q10. Stripping them out, staff costs increased a smaller 12.8% yoy. This was very much in line with the group's conservatism in the management of costs, ensuring that cost growth does not outpace topline growth. If the adjustment is made to the bottom line as well, net-profit growth would have been 21.9% yoy instead of the understated 15.6%.

**Grow, grow, grow!** The key message we took away was management's relentless pursuit of growth in a steady manner. A new medical wing on the site of Raffles Hospital and the newly acquired Thong Sia building (opening in mid-FY12) for usage as a medical centre clearly spell the group's need for space as business is expanding. Three new clinics are also slated to open in 2H11 across the island. Dr Loo dropped the biggest hint that space decanting to backroom services and management offices could happen soon in Raffles Hospital, as growth takes precedence over comfort.

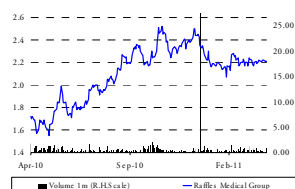
## Valuation and recommendation

**Maintain Outperform.** We are keeping our earnings estimates, together with our target price of S\$2.64, representing 23x CY12 P/E, its mid-cycle valuation. With its defensive business that delivers consistent earnings, we maintain Outperform. We continue to expect stock catalysts from the addition of clinics, expansion of medical specialties, medical fee hikes, and higher intensity cases in the hospital segment.

## 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)	30.3	25.5	22.3	18.9	15.9
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)	4.6	4.0	3.6	3.2	2.8
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)	27.8	26.1	97.1	44.1	32.4
EV/EBITDA (x)	21.0	17.9	14.7	12.7	10.8
% change in EPS estimates			N/A	N/A	N/A
CIMB/Consensus (x)			1.03	1.07	1.08

## Price chart



Source: Bloomberg

Source: Company, CIMB Research, Bloomberg

## Figure 1: Sector comparisons

	Bloomberg	Price	Target	Mkt cap	Core	3-yr EPS	P/BV	ROE	Div		
	ticker	Recom.	price	(US\$ m)	P/E (x)	CAGR	(x)	(%)	yield (%)		
			(Local)		CY2011	CY2012	CY2011	CY2011	CY2011		
Raffles Medical	RFMD SP	O	2.21	2.64	948	22.3	18.9	17.0	3.6	17.1	1.6
Bumrungrad	BH TB	O	39.75	45.10	1,064	18.6	16.4	16.9	4.2	24.2	2.7
<b>Simple average</b>						<b>20.5</b>	<b>17.7</b>	<b>17.0</b>	<b>3.9</b>	<b>20.7</b>	<b>2.2</b>

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.

**UNDERPERFORM:** The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

**TRADING BUY:** The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

**TRADING SELL:** The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

### SECTOR RECOMMENDATIONS

**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

**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.

**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

**TRADING BUY:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

**TRADING SELL:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

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**NEUTRAL:** Expected total returns of between -15% and +15% over the next 12 months.

**UNDERPERFORM:** Expected negative total returns of 15% or more over the next 12 months.

**TRADING BUY:** Expected positive total returns of 15% or more over the next 3 months.

**TRADING SELL:** Expected negative total returns of 15% or more over the next 3 months.

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**TRADING BUY:** 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 better 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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