

# Raffles Medical Group

*Another outstanding quarter*
**OUTPERFORM** Maintained

**S\$2.21** Target: S\$2.64

Mkt.Cap: S\$1,166m/US\$948m

Hospitals

RFMD SP / RAFG.SI

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- Spot-on again; maintain Outperform.** 1Q11 core EPS is slightly above Street expectations but spot-on with our forecast, at 20.2% of our FY11 estimate (first quarter typically makes up 20%). We are keeping our estimates, having already captured expansion expenses that should be offset by enhanced earnings from its new medical centre in 2H11. Our target price stays at S\$2.64, or 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, higher foreign-patient growth, and higher intensity cases in the hospital segment.
- Record revenue with improvement in operating efficiency.** Quarterly revenue broke another record in 1Q11 (+14.7% yoy to S\$64.4m). All divisions contributed, with revenue from Healthcare up 14.4% yoy and Hospital Services up 15.0% yoy. A rising patient load, wider range of medical specialties and improved operating efficiencies also contributed to improved EBIT of S\$12.8m, +15.2% yoy.
- Balance sheet still robust.** Net cash was S\$71m at end-1Q11 (S\$85m at end-4Q10) as the group utilised cash for the purchase of a freehold commercial block, Thong Sia Building (42,668 sf), in Orchard Road for use as a specialist medical centre (cost S\$92m or S\$2,158psf). However, net asset value climbed to 56.6 Scts per share from 54.5 Scts at end-4Q10.
- Making use of huge cash reserves to drive healthcare franchise.** Management said the group will be establishing a Specialist Medical Centre at the above-mentioned property with operations expected to commence in 2012. Raffles Hospital expects to submit its formal application to the URA for additional 102,408 sq expansion by 3Q11. FY11 capex (S\$132m) would be financed by internal funds and borrowings, not difficult considering the robust free cash flows from its operations.

## Results comparison

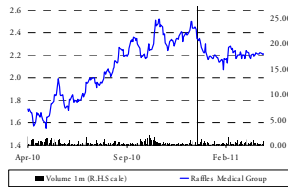
FYE Dec (\$ m)	1QFY11	1QFY10	yoy %	4QFY10	qoq %	Prev.	
			chg		chg	FY11F	Comments
Revenue	64.4	56.2	14.7	63.5	1.5	295.1	In-line, Healthcare services +14.4% yoy, Hospital +15.0% yoy
Operating costs	(49.7)	(43.4)	14.7	(45.6)	9.0	(216.9)	Inventories & consumables +16.4% yoy, staff cost +14.6% yoy
EBITDA	14.7	12.8	14.5	17.8	(17.6)	78.1	In-line, with better revenue and cost management
EBITDA margin (%)	22.8	22.8	(0.2)	28.1	(18.9)	26.5	Margin stable with wider range of medical specialties and operating efficiency
Depn & amort.	(1.9)	(1.7)	10.0	(1.9)	1.0	(13.9)	In-line; Depreciation on PPE very subdued
EBIT	12.8	11.1	15.2	16.0	(19.8)	64.2	In-line, 1Q11 accounted for 20% of FY11 forecast
Interest expense	(0.0)	(0.1)	(40.8)	(0.0)	27.3	(1.0)	Lower before capex funding that is more evident in 2H11
Interest & invt inc	0.1	0.1	106.1	(0.1)	(347.3)	0.3	Within expectation
Exceptionals	-	-	-	2.8	-	-	4Q10 has an element of revaluation gain (S\$3m) and other E.I
Pretax profit	12.9	11.1	16.1	15.9	(18.8)	63.6	In-line; 1Q11 PBT +20.3% of FY11 forecast
Tax	(2.4)	(2.0)	17.5	(0.9)	170.1	(11.4)	In-line with expectation
Tax rate (%)	18.2	18.0	-	5.5	-	18.0	
Minority interests	(0.1)	(0.1)	45.5	(0.1)	14.3	(0.2)	
Net profit	10.5	9.1	15.6	15.0	(29.9)	51.9	Within expectation
EPS (cts)	2.0	1.7	14.2	2.9	(30.4)	9.9	1Q11 EPS forms 20% of FY11 estimate
<b>Core net profit</b>	<b>10.5</b>	<b>9.1</b>	<b>15.6</b>	<b>12.2</b>	<b>(13.9)</b>	<b>51.9</b>	1Q11 PATMI yoy growth of 15.6%
<b>Core EPS (cts)</b>	<b>2.0</b>	<b>1.7</b>	<b>14.2</b>	<b>2.3</b>	<b>(14.4)</b>	<b>9.9</b>	Core EPS spot on with our estimate

Source: Company, CIMB Research

## 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		Core	3-yr EPS	P/BV	ROE	Div	
	ticker	Recom.	(Local)	price	Mkt cap	P/E (x)	CAGR	(x)	(%)	yield (%)	
				(Local)	(US\$ m)	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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**OUTPERFORM:** The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

**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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### STOCK RECOMMENDATIONS

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

**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.

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