CLSA ASIA-PACIFIC MARKETS

Raffles Medical

S$1.83 - BUY

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Singapore
Healthcare

Reuters	RAFG.SI
Bloomberg	RFMD SP

Priced on 23 July 2010
STI @ 2,973.5

12M hi/lo S$2.00/1.05

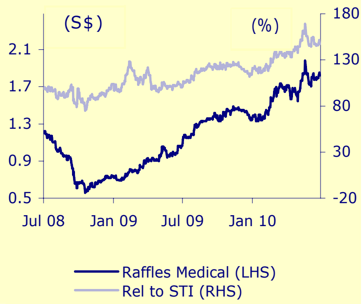
12M price target	S$2.10
±% potential	+15%
Target set on	9 Jul 10
Shares in issue	517.7m
Free float (est.)	50.0%
Market cap	US$700m

3M average daily volume
S$0.9m (US$0.7m)

Major shareholders
Raffles Medical Holdings 39.7%
Dr Loo Choon Yong 10.3%

Stock performance (%)

	1M	3M	12M
Absolute	5.8	9.6	72.6
Relative	1.4	10.1	47.1
Abs (US$)	7.7	9.6	81.5



Source: Bloomberg

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Looking for more space

Results Review

1H10 net profit of S$19.6m was in line with our expectations aided by strong showing in the hospital segment which grew 11.2% YoY. More importantly, Raffles Medical has announced the possible use of its net cash position to fund space expansion at its flagship hospital which will increase GFA by 33%. While this is still in infancy stage and we have yet to incorporate this into our estimates, back of envelope suggests earnings uplift of ~17% when this is completed in 2012. Maintain BUY

2Q10 – results in line

Raffles Medical Group (RMG) reported 2Q10 results in line with our expectations. Revenue for the quarter of S$58.6m grew 8.7% YoY on the back of positive performance from both hospital and healthcare services segments. Hospital and healthcare services grew 11.2% and 3.7% YoY. This led to improvement in operating profit which grew 19% YoY with operating margins lifting from 19.9% to 22.2% YoY. Net profit for 2Q10 of S$10.6m grew 20.3% YoY was also in line with our estimates.

Received outline permission to increase GFA by 33%

Finally, Raffles has decided to use its cash balance towards space expansion at its flagship hospital in Singapore. The company has received the outline planning permission from URA to increase the GFA of its hospital from 307,875sqf to 410,283sqf (33% increase) in order to cater to new medical specialities and facilities. The site with existing plot ratio of 4.2x can be developed up to 5.6x under the Master Plan 2008 with a development premium payable. We understand that the new GFA added will not be used for bed expansion but on specialty services first, for example Urorenal centre.

Going into China, dividend guidance maintained

Strong operating cashflow continues to drive up net cash position from S$59m to S$61.6m sequentially. For the quarter, Raffles Medical has declared a dividend of 1.0¢ and maintains guidance of 3.0¢ for FY10 and going forward. The quarter also saw RMG making expansion into China with the opening of a medical centre in Shanghai.

Maintain BUY

We have not incorporated the increase in GFA pending final approval and details from the authorities. However, back of the envelop suggest a ~10% topline growth from the increase in GFA can result in ~17% increase in net profit. With no change in earnings we continue to rate Raffles medical a BUY with target price of S$2.10.

Financials

Year to 31 Dec	08A	09A	10CL	11CL	12CL
Revenue (S$m)	200.8	218.6	244.3	277.6	298.0
Net profit (S$m)	31.6	37.9	41.4	50.7	52.6
EPS (S¢)	6.1	7.3	8.0	9.8	10.2
CL/consensus(8)(EPS%)	-	-	95	98	90
EPS (% YoY)	(17.0)	20.1	9.2	22.5	3.5
PEx (@S$1.83)	30.0	25.0	22.8	18.6	18.0
Dividend yield (%)	1.4	1.6	1.6	1.6	1.6
FCF yield (%)	3.5	4.5	3.7	6.0	5.4
ROAE (%)	14.9	16.1	15.8	17.3	16.0
Price/book (x)	4.3	3.8	3.4	3.1	2.7
Net gearing (%)	(8)	(20)	(25)	(35)	(42)

Source: CLSA Asia-Pacific Markets

2Q10 results in line

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Figure 1

2Q10 results summary

(S$mn)	2Q09	1Q10	2Q10	QoQ (%)	YoY (%)
Revenue	53.9	56.2	58.6	4.2	8.7
Inventories and consumables used	(6.4)	(6.4)	(6.7)	4.2	3.6
Staff costs	(25.5)	(27.6)	(27.8)	0.6	8.9
Depreciation of PPE	(1.7)	(1.7)	(1.7)	(0.2)	(0.9)
Other operating expenses	(9.3)	(9.4)	(9.7)	3.5	4.0
Op. profit	11.0	11.2	13.0	16.2	18.5
PBT	10.9	11.1	12.9	16.4	19.0
Tax	-2.1	-2.0	-2.3	17.2	13.0
Net profit	8.8	9.1	10.6	16.5	20.3
Operating profit margin	20.4%	19.9%	22.2%	2.3	1.8

Source: CLSA Asia-Pacific Markets

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Figure 2

Quarterly op profit and margins

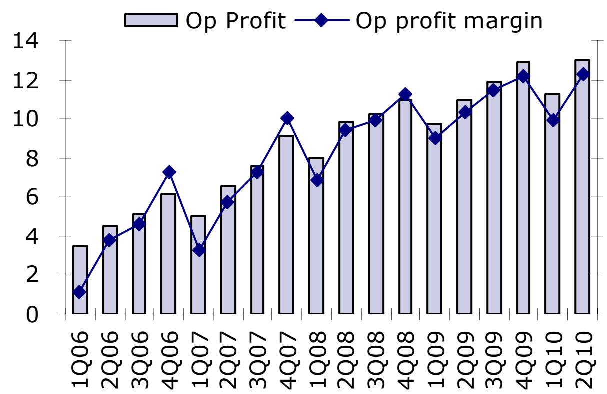
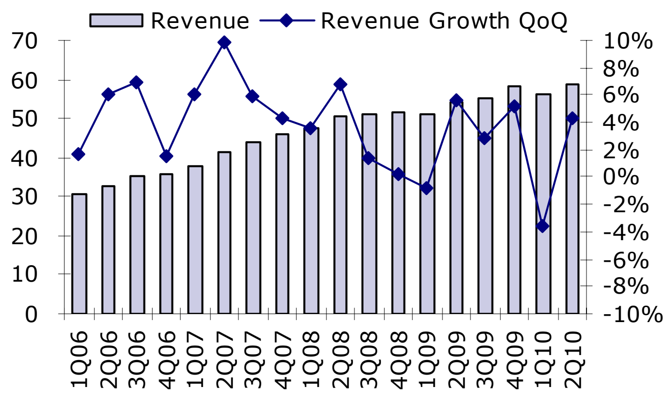


Figure 3

Quarterly revenue and revenue growth



Source: CLSA Asia-Pacific Markets

Going into China, dividend guidance maintained

Strong operating cashflow continues to drive up net cash position from S$59m to S$61.6m sequentially. For the quarter, Raffles Medical has declared a dividend of 1.0¢ and maintains guidance of 3.0¢ for FY10 and going forward. The quarter also saw RMG making expansion into China with the opening of a medical centre occupying about 13,000sqf in Shanghai.

Maintain BUY

We have not incorporated the increase in GFA pending final approval and details from the authorities. However, back of the envelop suggest a ~10% topline growth from the increase in GFA can result in ~17% increase in net profit assuming a further 5% in staff headcount and remaining S$40m capital expenditure requirement funded by debt. With no change in earnings we continue to rate Raffles medical a BUY with target price of S$2.10.

Figure 4

Hospital Revenue Assumptions

	FY06	FY07	FY08	FY09	FY10CL	FY11CL	FY12CL
Total Hospital Revenue S$$m	73.5	99.0	119.9	129.4	142.7	164.8	173.1
Growth YoY (%)	22%	35%	21%	8%	10%	16%	5%
No of Licensed Beds	380	380	380	380	380	380	380
Operational Bed	150	200	200	200	200	220	220
Utilization rate (%)	60%	60%	60%	60%	63%	63%	63%
Occupied beds	90	120	120	120	126	139	139
Days in Year	365	365	365	365	365	365	365
Total Patient days	32,850	43,800	43,800	43,800	45,990	50,589	50,589
Growth YoY (%)	0%	33%	0%	0%	5%	10%	0%
Average Rev per day (S$)	2,238	2,260	2,738	2,955	3,103	3,258	3,421
Growth YoY (%)	22%	1%	21%	8%	5%	5%	5%

Source: CLSA Asia-Pacific Markets

Figure 5

Healthcare Services Assumptions

	FY06	FY07	FY08	FY09	FY10CL	FY11CL	FY12CL
Healthcare services Rev S$m	60.7	69.7	80.7	89.0	101.5	112.6	124.8
Growth YoY (%)	15%	15%	16%	10%	14%	11%	11%
Number of Medical Clinics							
- Singapore	60	65	70	73	77	80	83
- Hong Kong	4	4	4	3	4	4	4
Total Clinics	64	69	74	76	81	84	87
Average Revenue Per clinic (S$)	2,597	2,766	2,990	3,208	3,432	3,673	3,930
Growth YoY (%)	15%	6%	8%	7%	7%	7%	7%

Source: CLSA Asia-Pacific Markets

Summary P&L forecast (S$m)

Year to 31 December	2008A	2009A	2010CL	2011CL	2012CL
Revenue	**201**	**219**	**244**	**278**	**298**
Operating Ebitda	45	51	57	67	69
Operating Ebit	38	44	51	61	62
Interest income	0	0	1	2	3
Interest expense	(1)	0	(1)	(1)	(1)
Other items	0	1	0	0	0
Profit before tax	**38**	**45**	**51**	**62**	**64**
Taxation	(7)	(7)	(9)	(11)	(12)
Minorities and other	0	0	0	0	0
Profit	**32**	**38**	**41**	**51**	**53**

Summary cashflow forecast (S$m)

Operating Ebit	**38**	**44**	**51**	**61**	**62**
Depreciation/amort	7	7	7	7	6
Working capital - trade	(2)	1	(11)	1	(5)
Other operating items	1	0	0	0	0
Operating cashflow	**44**	**53**	**46**	**68**	**64**
Net interest/taxes/other	(4)	(6)	(7)	(7)	(9)
Cashflow	**40**	**46**	**39**	**61**	**55**
Capital expenditure	(6)	(4)	(4)	(4)	(4)
Acq/inv/disposals	1	0	0	0	0
Free Cashflow	**34**	**43**	**35**	**57**	**51**
Ord div paid/Other items	(11)	(11)	(16)	(16)	(16)
Decrease in net debt	23	32	19	41	35

Summary balance sheet forecast (S$m)

Cash & equivalents	45	74	94	135	170
Debtors - trade	25	24	30	34	37
Inventories - trade	5	5	6	6	7
Other current assets	0	1	1	1	1
Fixed assets	150	146	144	141	139
Intangible assets	0	0	0	0	0
Other term assets	86	86	86	86	86
Total assets	**310**	**337**	**360**	**403**	**439**
Short-term debt	5	5	5	5	5
Creditors - trade	52	52	48	53	51
Other current liabs	9	9	10	13	14
Long-term debt/CBs	22	20	20	20	20
Other long-term liabs	1	1	1	1	1
Minorities/other equity	0	0	0	0	0
Shareholder funds	222	250	276	311	348
Total liabs & equity	**310**	**337**	**360**	**403**	**439**

Ratio analysis

Revenue growth (%)	19.0	8.9	11.8	13.6	7.4
Op Ebitda growth (%)	57.5	14.6	11.3	17.4	2.3
Op Ebit growth (%)	57.8	16.4	13.7	19.9	2.8
Op Ebitda margin (%)	22.4	23.5	23.4	24.2	23.1
Op Ebit margin (%)	19.0	20.4	20.7	21.8	20.9
Net profit margin (%)	15.7	17.3	17.0	18.3	17.6
Dividend payout (%)	41.0	40.9	37.5	30.5	29.5
Tax rate (%)	17.4	15.6	18.0	18.0	18.0
Ebitda/net int exp (x)	123.0	223.7	(499.8)	(47.4)	(34.8)
Net debt/equity (%)	(8.0)	(19.9)	(25.1)	(35.4)	(41.8)
Gross debt/equity (%)	12.0	9.8	8.9	7.9	7.0
Net debt/op Ebitda (x)	(0.4)	(1.0)	(1.2)	(1.6)	(2.1)
Gross debt/op Ebitda (x)	0.6	0.5	0.4	0.4	0.4
Return on equity (%)	14.9	16.1	15.8	17.3	16.0
ROCE (%)	18.8	22.4	24.8	29.7	30.9
Return on assets (%)	10.7	11.7	11.9	13.3	12.5

Source: CLSA Asia-Pacific Markets

Recommendation history - Raffles Medical RFMD SP

Date	Rec level	Closing price	Target
09 July 2010	BUY	1.78	2.10
27 April 2010	BUY	1.71	1.97
10 March 2010	BUY	1.40	1.70

Source: CLSA Asia-Pacific Markets

Key to CLSA investment rankings: BUY = Expected to outperform the local market by >10%; **O-PF** = Expected to outperform the local market by 0-10%; **U-PF** = Expected to underperform the local market by 0-10%; **SELL** = Expected to underperform the local market by >10%. Performance is defined as 12-month total return (including dividends).