

Raffles Medical -----Maintain OUTPERFORM

Strong 4Q09 – healthy fundamentals

EPS: ▲ TP: ▲

Su Tye Chua / Research Analyst / 65 6212 3014 / sutye.chua@credit-suisse.com

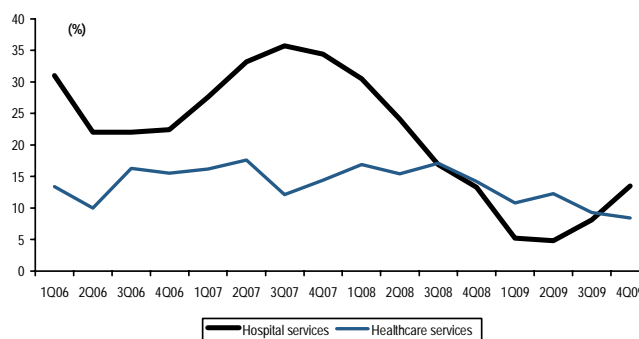
- Raffles Medical reported strong results for its December-quarter. 4Q09 revenues were up 13% YoY, while net profit jumped 24% YoY. FY09 results, with revenue at S\$218.6 mn (+9% YoY) and net profit at S\$37.9 mn (+20% YoY) were 8% ahead of our estimates.
- The hospital and healthcare operations achieved 8% and 10% YoY sales growth, respectively, in FY09. We estimate the hospital grew 14% YoY in 4Q09 (was 8% YoY in 3Q09), reaffirming the underlying recovery in patient volumes (locals and foreigners).
- In line with the strong performance, management declared a final 2 cts/share dividend (total = 3 cts, or up 20% YoY), implying 42% payout. Raffles Med continued to generate strong operating cash flow, and ended the quarter with S\$49.9 mn net cash in the balance sheet.
- With healthcare sector fundamentals improving, we see Raffles Med as well-leveraged to rising private healthcare demand in Singapore, and continue to favour its steady earnings profile. We have raised forecasts by 8-11%, rolled over our DCF-based target price to S\$1.95 (from S\$1.65), and reiterate our OUTPERFORM rating.

Figure 1: Results summary

(\$\$ mn)	FY09	FY08	YoY (%)	4Q09	YoY (%)	FY09E (old)	% of FY09E
Revenue	218.6	200.8	8.9	58.3	13.3	220.1	99.3
EBITDA	52.3	45.6	14.8	14.6	15.4	46.8	111.8
Op. profit	45.5	39.0	16.6	12.9	18.3	42.8	106.1
Net profit	37.9	31.6	19.9	11.9	24.3	34.9	108.4
EBITDA margin (%)	23.9	22.7	-	25.1	-	21.3	-
Op. margin (%)	20.8	19.4	-	5.9	-	19.6	-
Net margin (%)	17.3	15.7	-	20.3	-	15.9	-

Source: Company data, Credit Suisse estimates

Figure 2: Revenue growth by business (YoY change)



Source: Company data, Credit Suisse estimates

Bbg/RIC	RFMD SP / RAFG.SI	Price (26 Feb 10, \$)	1.36		
Rating (prev. rating)	O (O)	TP (Prev. TP \$)	1.95 (1.65)		
Shares outstanding (mn)	520.33	Est. pot. % chg. to TP	43		
Daily trad vol - 6m avg (mn)	0.4	52-wk range (\$)	1.49 - 0.72		
Daily trad val - 6m avg (US\$ mn)	0.3	Mkt cap (\$/US\$ mn)	707.7/ 502.3		
Free float (%)	33.0	Performance	1M 3M 12M		
Major shareholders	Dr Loo Choon Yong	Absolute (%)	1.5 (5.6) 87.6		
		Relative (%)	3.8 (4.1) 10.3		
Year	12/08A	12/09A	12/10E	12/11E	12/12E
Revenues (\$\$ mn)	200.8	218.6	238.0	264.4	292.9
EBITDA (\$\$ mn)	45.6	52.3	55.3	62.8	70.4
Net profit (\$\$ mn)	31.6	37.9	42.4	48.9	56.1
EPS (\$\$)	0.06	0.07	0.08	0.10	0.11
- Change from prev. EPS (%)	n.a.	n.a.	8	11	
- Consensus EPS (\$\$)	n.a.	n.a.	0.08	0.10	0
EPS growth (%)	36.0	18.4	14.8	15.2	14.8
P/E (x)	22.3	18.8	16.4	14.2	12.4
Dividend yield (%)	1.8	2.2	2.4	2.8	3.2
EV/EBITDA (x)	15.1	12.6	11.3	9.3	7.7
P/B (x)	3.2	2.8	2.5	2.3	2.0
ROE (%)	14.2	15.1	15.2	15.7	16.1
Net debt (net cash)/equity (%)	(8.1)	(19.9)	(30.4)	(38.8)	(46.6)

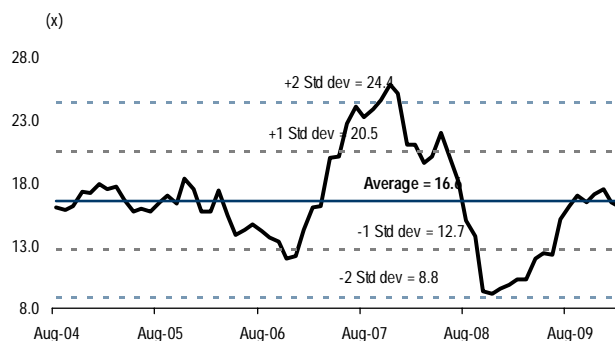
Note1: Raffles Medical Group (RMG) is a leading medical group and the largest private group practice in Singapore, owning and operating a fully integrated healthcare system comprising hospital, clinics, insurance and consumer healthcare. Note2:..

Figure 3: Key earnings change

(\$\$ mn)	FY10E			FY11E		
	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenue	238.0	238.0	0.0	264.4	264.4	0.0
EBITDA	55.3	51.6	7.2	62.8	56.1	12.1
Op. profit	50.8	48.2	5.4	58.5	53.8	8.6
PBT	50.4	47.6	6.0	58.1	53.2	9.2
Net profit	42.6	39.5	7.8	49.0	44.1	11.1
EPS (\$\$)	0.083	0.077	7.6	0.095	0.086	10.9

Source: Company data, Credit Suisse estimates

Figure 4: Forward P/E



Source: Company data, Credit Suisse estimates

Valuation metrics

Company	Ticker	CS Rating	Price		Year T	EPS Chg(%)		TP (%) Chg	Up/dn (%)	EPS		EPS grth (%)		P/E (x)		Div. yld (%) T+1	ROE (%) T+1	P/B (x) T+1
			Local	Target		T+1	T+2			T+1	T+2	T+1	T+2	T+1	T+2			
Parkway	PWAY SP	O	2.81	3.75	12/09	0	0	0	33	0.1	0.2	42	28	18.8	14.7	0.4	10.4	2.0
Raffles Medical	RFMD SP	O	1.36	1.95	12/09	8	11	18	43	0.1	0.1	15	15	16.4	14.2	2.4	15.2	2.5

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM

Source: Company data, Credit Suisse estimates

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Companies Mentioned (Price as of 26 Feb 10)

Raffles Medical Group (RAFG.SI, S\$1.36, OUTPERFORM, TP S\$1.95)
 Parkway Holdings (PARM.SI, S\$2.81, OUTPERFORM [V], TP S\$3.75)

Disclosure Appendix

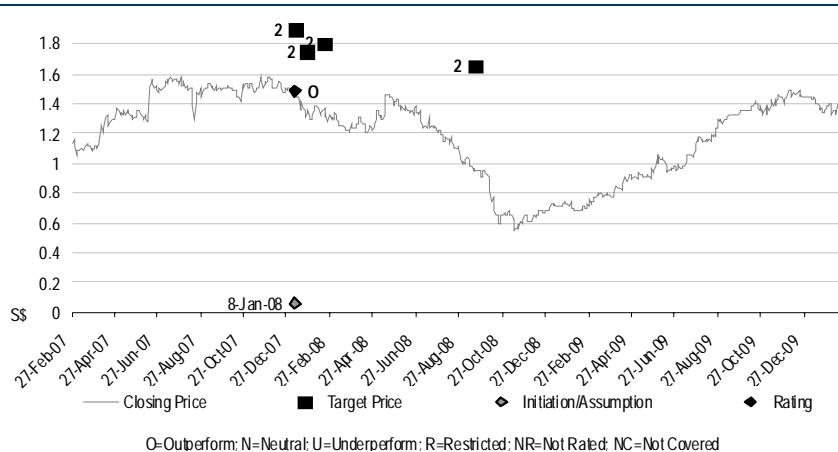
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3-Year Price, Target Price and Rating Change History Chart for RAFG.SI

RAFG.SI	Closing Price	Target Price	Initiation/
Date	(S\$)	(S\$)	Rating Assumption
08-Jan-08	1.48	1.9	O X
25-Jan-08	1.35	1.75	
19-Feb-08	1.35	1.8	
18-Sep-08	.945	1.65	



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Price Target: (12 months) for (RAFG.SI)

Method: Our S\$1.95 target price for Raffles Medical is based on a discounted cash flow (DCF) methodology of a weighted average cost of capital (WACC) of 10% (a risk-free rate of 3.5%, an equity risk premium of 6.5% and a beta of 1), a terminal growth rate of 2%, and a medium-term growth rate of 6% over 2010-2030.

Risks: Key risks to our S\$ 1.95 target price for Raffles Medical include: 1) Regulatory changes driven by government policies 2) Macroeconomic slowdown affecting employment and population growth 3) Increasing competition from regional healthcare providers 4) Risk of a pandemic outbreak 5) Inability to attract talent and Increased labour costs

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