

Raffles Medical -----Maintain NEUTRAL

1Q11 in line – expansion underway

EPS: ◀▶ TP: ◀▶

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- Raffles Medical delivered strong 1Q11 results, in line with our estimates. Revenue grew 15% YoY and earnings rose 16% YoY to S\$10.5 mn, with revenue and net profit achieving 24% and 21% of our full-year FY11 estimates, respectively.
- The 14% YoY growth in healthcare and 15% YoY improvement in its hospital operations reaffirm the firm underlying demand across the sector, driven by macro recovery, as well as strong growth momentum at the flagship Raffles Hospital.
- Raffles Medical completed its S\$92 mn purchase of Thong Sia Building at 30 Bideford Road on 15 April. There are plans to establish a specialist medical centre, an extension of its group practice operations. In the near term, management will target to decant operations at the hospital, as part of the company's capacity expansion plans towards 2H11.
- We have kept forecasts intact. Valuation at 23x P/E remains unattractive versus history and regional peers (both at 18x P/E). With new capacities likely contributing from 2013, and limited near-term catalysts, we maintain a NEUTRAL rating at our S\$2.35 target price.

Bbg/RIC	RFMD SP / RAFG.SI	Price (20 Apr 11, S\$)	2.21		
Rating (prev. rating)	N (N)TP (Prev. TP S\$)		2.35 (2.35)		
Shares outstanding (mn)	524.89	Est. pot. % chg. to TP	6		
Daily trad vol - 6m avg (mn)	0.65	2-wk range (S\$)	2.52 - 1.55		
Daily trad val - 6m avg (US\$ mn)	1.2	Mkt cap (S\$/US\$ mn)	1,160.0/ 933.1		
Free float (%)	33.0	Performance			
Major shareholders	Dr Loo Choon Yong (40.0%)	Absolute (%)	1M	3M	12M
		Relative (%)	0.5 (6.8)	(3.9) (2.7)	30.0 22.4
Year	12/09A	12/10A	12/11E	12/12E	12/13E
Revenues (\$ mn)	218.6	239.1	266.6	312.9	351.2
EBITDA (\$ mn)	52.3	59.9	67.1	84.3	97.3
Net profit (\$ mn)	37.9	45.3	49.2	58.6	66.6
EPS (\$)	0.07	0.09	0.10	0.11	0.13
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (\$)	n.a.	n.a.	0.10	0.11	0
EPS growth (%)	19.8	17.8	13.0	19.0	13.6
P/E (x)	30.6	26.0	23.0	19.3	17.0
Dividend yield (%)	1.4	1.6	1.7	2.1	2.4
EV/EBITDA (x)	21.2	18.0	17.3	14.0	12.3
P/B (x)	4.6	4.1	3.6	3.2	2.9
ROE (%)	16.1	16.9	16.3	17.3	17.5
Net debt (net cash)/equity (%)	(19.9)	(29.5)	0.7	6.5	9.2

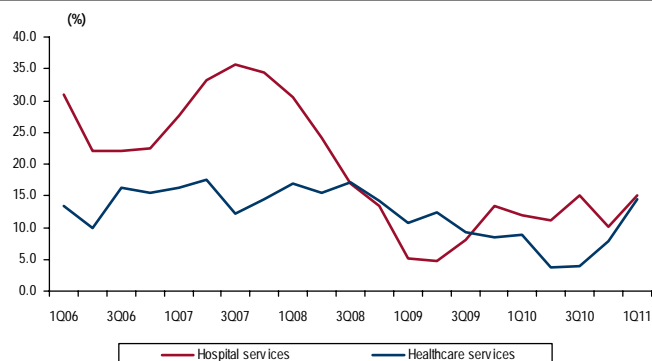
Note 1: Raffles Medical Group (RMG) is a leading medical group and the largest private group practice in Singapore, owning and operating a fully integrated healthcare system comprising hospital, clinics, insurance and consumer healthcare.

Figure 1: Results summary

(\$ mn)	1Q11	1Q10	YoY (%)	FY11E (old)	% of FY11E
Revenue	64.4	56.2	14.7	266.6	24.2
EBITDA	14.7	12.9	14.0	67.1	21.9
Op. profit	13.0	11.2	15.7	60.6	21.4
PBT	12.9	11.1	16.1	60.3	21.4
Net Profit	10.5	9.1	15.6	49.5	21.2
EPS (Sct)	1.99	1.74	14.4	9.62	20.7
Op margin (%)	20.1	19.9	-	22.7	-
Net margin (%)	16.3	16.1	-	18.6	-

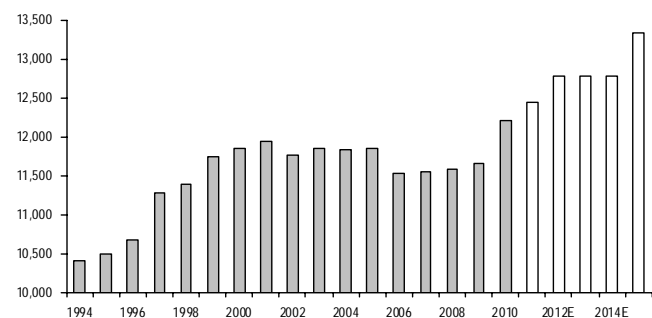
Source: Company data, Credit Suisse estimates.

Figure 2: Business segment YoY growth (%)



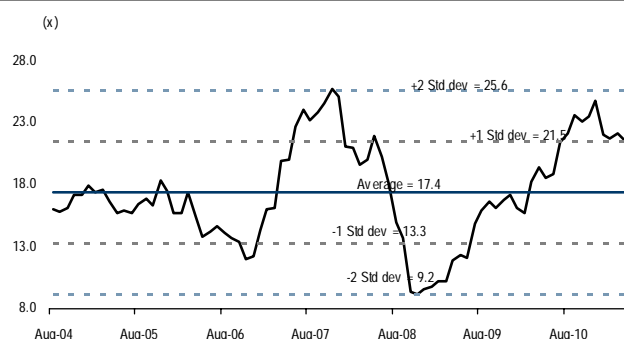
Source: Company data, Credit Suisse estimates.

Figure 3: Total hospital beds in Singapore



Source: Company data, Credit Suisse estimates.

Figure 4: Raffles Medical – PE chart



Source: Company data, Credit Suisse estimates.

Companies Mentioned (Price as of 27 Apr 11)

Raffles Medical Group (RAFG.SI, S\$2.21, NEUTRAL, TP S\$2.35)

Disclosure Appendix

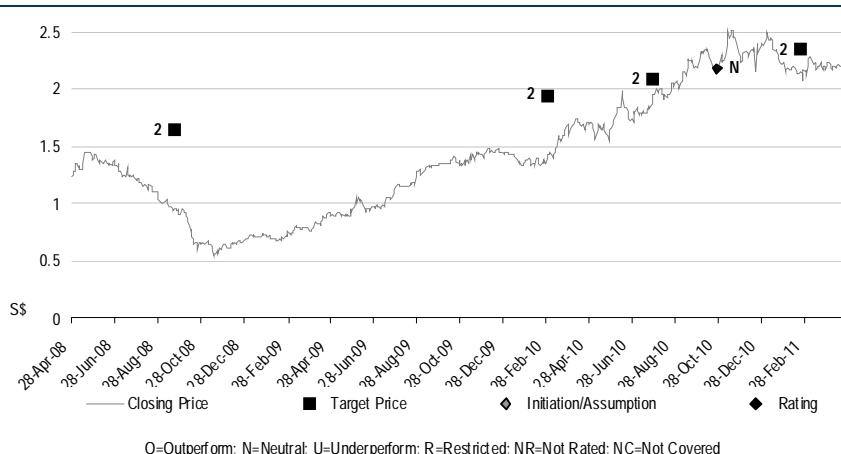
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3-Year Price, Target Price and Rating Change History Chart for RAFG.SI

RAFG.SI	Closing Price	Target Price	Initiation/
Date	(S\$)	(S\$)	Rating Assumption
18-Sep-08	.945	1.65	
01-Mar-10	1.4	1.95	
27-Jul-10	1.96	2.1	
26-Oct-10	2.18		N
21-Feb-11	2.16	2.35	



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

Method: Our S\$2.35 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\$2.35 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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