

Raffles Medical ----- Maintain NEUTRAL

2011 in line — expansion on track, expect seasonally stronger 2H

EPS: ◀▶ TP: ◀▶

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- Raffles Medical's 2Q11 results were in line with our estimates. Revenue grew 14% YoY, while earnings jumped 10% YoY to S\$11.6 mn, with 6MTD revenue and net profit achieving 49% and 45% of our full-year FY11E estimates, respectively.
- Operating profit margins improved QoQ to 21.5% (from 20.1% in 1Q11), led by 15% YoY revenue growth at its hospital, while the healthcare segment grew 12% YoY. Management declared a S\$1.0 interim dividend, similar to the previous year.
- The acquisition of the commercial section of Thong Sia Building, announced in Feb this year, was completed on 15 Apr 2011. Management expects to spend an additional S\$10-15 mn on renovation. The planned Specialist Medical Centre is due to begin partial operations in 2H12 and will be fully operational in 2013.
- Despite the strengthening SGD, management commented that there has been no visible impact on foreign patient visitors. We have kept our forecasts intact, and expect a seasonally stronger 2H. Raffles Medical is currently trading at 22x P/E. We maintain NEUTRAL rating with S\$2.35 target price.

Bbg/RIC	RFMD SP / RAFG.SI	Price (25 Jul 11, S\$)	2.35		
Rating (prev. rating)	N (M)TP (prev. TP S\$)	2.35 (2.35)			
Shares outstanding (mn)	533.41	Est. pot. % chg. to TP	-		
Daily trad vol - 6m avg (mn)	0.3	52-wk range (S\$)	2.52 - 1.87		
Daily trad val - 6m avg (US\$ mn)	0.6	Mkt cap (S\$/US\$ mn)	1,253.5/ 1,037.7		
Free float (%)	33.0	Performance			
Major shareholders	Dr Loo Choon Yong	1M	3M		
		12M			
		Absolute (%)	4.0		
		Relative (%)	0.6		
			6.3		
			28.4		
			21.8		
			21.8		
Year	12/09A	12/10A	12/11E	12/12E	12/13E
Revenue (S\$ mn)	218.6	239.1	266.6	312.9	351.2
EBITDA (S\$ mn)	52.3	59.9	67.1	84.3	97.3
Net profit (S\$ mn)	37.9	45.3	49.2	58.6	66.6
EPS (S\$)	0.07	0.09	0.10	0.11	0.13
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (S\$)	n.a.	n.a.	0.10	0.11	0.13
EPS growth (%)	19.8	17.8	13.0	19.0	13.6
P/E (x)	32.5	27.6	24.4	20.5	18.1
Dividend yield (%)	1.3	1.5	1.6	1.9	2.2
EV/EBITDA (x)	23.0	19.5	18.7	15.1	13.3
P/B (x)	4.9	4.3	3.9	3.4	3.1
ROE (%)	16.1	16.9	16.3	17.3	17.5
Net debt(cash)/equity (%)	(19.9)	(29.5)	0.7	6.5	9.2

Note 1: Raffles Medical Group Ltd is a Singapore-based company. Its principal activities are those relating to the operation of medical clinics and other general medical services. The company operates in three segments: healthcare services, hospital services and investment holdings.

Growth driven by increasing number of patients and prices
Raffles Medical announced its 2Q11 results in line with our estimates. Revenue grew 14% YoY, while earnings jumped 10% YoY to S\$11.6 mn due to strong patient numbers and rising healthcare service costs. Excluding impact from the jobs credit scheme and losses from its Shanghai operations, Raffles Medical would have registered 17.1% YoY growth in net profit.

Management highlighted that current prices for certain healthcare services provided are comparable to the public healthcare providers. We expect any potential price revisions to further drive Raffles Medical's financial performance.

Figure 1: Results summary

(\$\$ mn)	2Q11	2Q10	YoY (%)	FY11E (old)	% of FY11E
Revenue	67.0	58.6	14.3	266.6	49.3
EBITDA	16.3	14.7	10.9	67.1	46.2
Op. profit	14.4	13.0	10.4	60.6	45.1
PBT	14.3	12.9	10.4	60.3	45.1
PAT	11.6	10.6	10.1	49.5	44.7
Net Profit	11.6	10.6	10.1	49.5	44.7
EPS (S\$)	2.20	2.02	8.9	9.6	43.5
EBITDA margin (%)	24.3	25.1	-	25.2	-
Op margin (%)	21.5	22.2	-	22.7	-
Net margin (%)	17.4	18.0	-	18.6	-

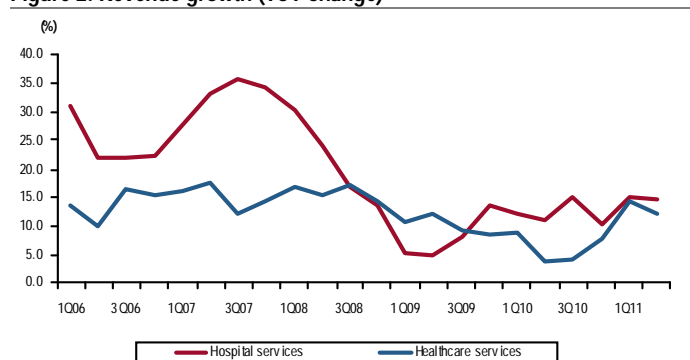
Source: Company data, Credit Suisse estimates

Update on expansion plans

Raffles Medical announced the S\$92.1 mn acquisition of Thong Sia Building in February this year, management expect to spend an additional S\$10-15 mn on its renovation. The planned Specialist Medical Centre is due to begin partial operations in 2H12 and be fully operational in 2013.

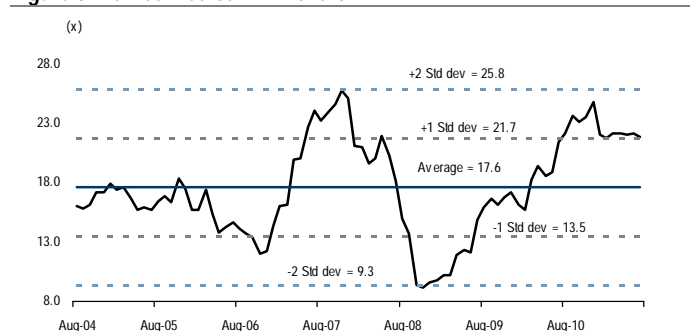
Raffles Medical Shanghai, a medical centre for which Raffles Medical assumed management control in June 2010, is gradually gaining traction with local patients; management hope to breakeven within two years.

Figure 2: Revenue growth (YoY change)



Source: Company data, Credit Suisse estimates

Figure 3: Raffles Medical – PE chart



Source: BLOOMBERG, Credit Suisse estimates

Companies Mentioned (Price as of 25 Jul 11)

Raffles Medical Group (RAFG.SI, S\$2.34, NEUTRAL, TP S\$2.35)

Disclosure Appendix

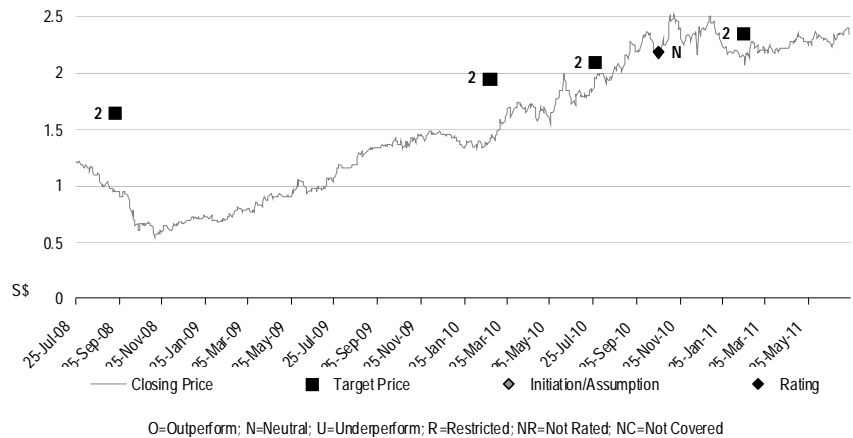
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3-Year Price, Target Price and Rating Change History Chart for RAFG.SI

RAFG.SI	Closing Price	Target Price	Initiation/Assumption
Date	(S\$)	(S\$)	Rating
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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