

Singapore Company Focus

Raffles Medical

Bloomberg: RFMD SP | Reuters: RAFG.SI

DBS Group Research . Equity

22 Feb 2011

HOLD S\$2.16 STI : 3,070.60

Price Target : 12-month S\$ 2.32 (Prev S\$ 2.40)

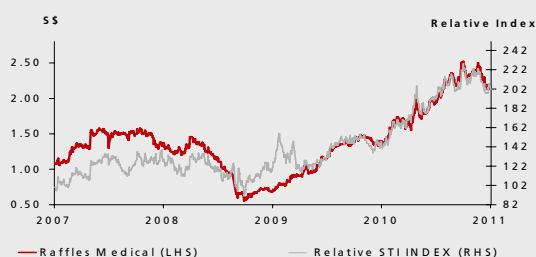
Reason for Report : Company announcement/ Results

Potential Catalyst: Better than expected operations; acquisitions

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (\$\$ m)	2009A	2010A	2011F	2012F
Turnover	219	239	267	290
EBITDA	52	60	70	75
Pre-tax Profit	45	53	63	67
Net Profit	38	45	52	55
Net Pft (Pre Ex.)	38	45	52	55
EPS (S cts)	7.3	8.6	9.8	10.5
EPS Pre Ex. (S cts)	7.3	8.6	9.8	10.5
EPS Gth Pre Ex (%)	20	18	14	7
Diluted EPS (S cts)	7.2	8.5	9.7	10.3
Net DPS (S cts)	3.0	3.5	4.0	4.5
BV Per Share (S cts)	48.0	54.5	60.8	67.3
PE (X)	29.6	25.1	22.0	20.6
PE Pre Ex. (X)	29.6	25.1	22.0	20.6
P/Cash Flow (X)	25.1	21.7	19.0	17.8
EV/EBITDA (X)	20.5	17.5	16.1	15.2
Net Div Yield (%)	1.4	1.6	1.9	2.1
P/Book Value (X)	4.5	4.0	3.6	3.2
Net Debt/Equity (X)	CASH	CASH	CASH	0.0
ROAE (%)	16.1	16.9	17.0	16.4

Earnings Rev (%) :	(3.5)	(2.7)
Consensus EPS (S cts) :	9.6	1.1
Other Broker Recs :	B: 6	S: 1
		H: 3

ICB Industry : Health Care

ICB Sector: Health Care Equipment & Service

Principal Business: Raffles Medical Group Ltd. is a Singapore-based company that is principally engaged in the provision of integrated healthcare services.

Source of all data: Company, DBS Vickers, Bloomberg

Setting up a Specialist Centre

- **FY10 net profit of S\$45m in line**
- **Setting up Specialist Medical Centre at newly purchased Thong Sia for S\$93m.**
- **Increasing capacity with new property and upgrade at Raffles Hospital will underpin long-term earnings.**
- **Maintain Hold, TP adjusted slightly to S\$2.32 as we trimmed forecasts by c.3%**

FY10 within expectations. FY10 ended with S\$45.3m net profit (+19.5% yoy) on S\$239.1m topline (+9.4% yoy). Hospital and healthcare revenues grew by 12.1% yoy and 6.1% yoy respectively. Fair value gains on investment properties of S\$3m lifted earnings in FY10 (FY09: S\$0.6m). Excluding these, net profit growth would have been c.13% yoy. EBIT margins (ex. fair value gains) improved marginally to 20.9% in FY10, from 20.4% in FY09. A final dividend of 2.5 cts was proposed, on top of 1 cts paid in the interim (FY09: 3.0 cts)

Setting up Specialist Medical Centre with property purchased in Orchard Road (\$2,157 psf). The Group has successfully tendered for a 7-storey freehold commercial/podium block for \$93.08m (S\$2,157 psf) at Bideford Road with a strata floor area of 42,668 sq ft. This is slated for a Specialist Medical Centre with clinics and a 24-hour Emergency Care Centre, acting as another "feeder" for Raffles Hospital. Management estimates S\$10m capex for refurbishment and equipment. This together with planned floor area expansion at Raffles Hospital would add c.50% more space by 2013, suggesting management's bullish stance on the Singapore market.

Maintain Hold, TP adjusted slightly to S\$2.32. We trimmed our forecasts marginally by c.3% as we scaled back our topline growth assumptions. Current valuation is fair at c.22x FY11F PE, which is marginally above its historical average of c.21x. Our TP is pegged to 24x on FY11F earnings, which is +0.5 s.d. above its average valuation.

At A Glance

Issued Capital (m shrs)	526
Mkt. Cap (S\$m/US\$m)	1,137 / 892
Major Shareholders	
Raffles Medical (%)	39.3
Choon Yong Loo (%)	10.2
Free Float (%)	50.5
Avg. Daily Vol. ('000)	1,212

Results Summary and Comments

FY Dec (\$m)	4Q09	3Q10	4Q10	4Q Chg y-o-y	q-o-q chg %	FY09	FY10	Chg y-o-y	Comments
Sales	58.3	60.9	63.5	9%	4%	218.6	239.1	9.4%	Growth from Hospital (+12%) and Healthcare (+6%) divisions.
Other Operating Income	0.5	0.4	2.9	438%	536%	0.6	3.5	479%	4Q/FY10 includes \$3m in fair value gains of investment property (FY09: \$0.6m)
<i>Inventories and cons used</i>	(6.5)	(7.0)	(6.6)	1%	-6%	(24.5)	(26.6)	8.6%	
<i>Purchased and contracted svcs</i>	(4.3)	(4.6)	(4.7)	9%	2%	(16.0)	(17.5)	9.0%	
<i>Staff costs</i>	(27.6)	(29.2)	(31.2)	13%	7%	(104.9)	(115.8)	10.4%	Increased due to topline growth, coupled with absence of full Jobs Credit vs FY09. Ex. Jobs Credit, staff cost up 7.5% in FY10.
<i>Depreciation of PPE</i>	(1.7)	(1.7)	(1.9)	9%	11%	(6.9)	(6.9)	0.6%	
<i>Operating lease expenses</i>	(1.2)	(1.5)	(1.4)	19%	-4%	(5.1)	(5.6)	8.9%	
<i>Other operating expenses</i>	(4.6)	(4.3)	(4.8)	3%	12%	(16.5)	(17.2)	4.5%	
Total operating expenses	(46.0)	(48.2)	(50.5)	10%	5%	(173.9)	(189.6)	9.0%	In line with topline growth
Operating profit	12.8	13.1	15.8	23%	21%	45.3	53.0	17.0%	Within expectations
Interest Income	0.1	0.1	0.1	71%	12%	0.2	0.4	103.3%	
Interest Expense	(0.1)	(0.1)	(0.0)	-59%	-54%	(0.4)	(0.2)	-41.7%	Lower loan quantum
Pretax Profit	12.8	13.1	15.9	24%	21%	45.0	53.1	17.9%	
Tax	(0.9)	(2.4)	(0.9)	-6%	-64%	(7.0)	(7.6)	8.6%	
Minority Interests	(0.0)	(0.1)	(0.1)	67%	27%	(0.2)	(0.2)	43.7%	
Net Profit	11.9	10.7	15.0	26%	40%	37.9	45.3	19.5%	Within expectations
Less: fair value gains	(0.6)	-	(3.0)	nm	nm	(0.6)	(3.0)	nm	
Net Profit (ex. fair value gains)	11.3	10.7	12.0	6%	12%	37.3	42.3	13.4%	Ex. fair value gains on investment properties

Source: Company, DBS Vickers

Results Summary

FY10 within expectations. Raffles Medical ended FY10 with S\$45.3m net profit (+19.5% yoy) on a S\$239.1m topline (+9.4% yoy). Revenue was driven by higher patient load and a wider range of medical specialties. Hospital revenue grew 12.1% yoy, while Healthcare revenue expanded by 6.1% yoy, lifted by increased foreign patient load. The Group also recognized a fair value gain on investment properties of S\$3m in FY10 (FY09: S\$0.6m). Excluding these, net profit growth would have been c.13% yoy.

EBIT margins improved marginally to 20.9%. Excluding the fair value gains, EBIT margins improved marginally to

20.9%, from 20.4% in FY09. Improved operating efficiencies helped sustained margins despite rising costs.

Net cash position of S\$85m. The Group generated a free cash flow of S\$44m in FY10. Net cash strengthened further to S\$85m, from FY09's S\$50m.

2.5cts final dividend proposed. A final dividend of 2.5cts was proposed, capping payout of 3.5cts for FY10 (FY09: 3.0cts). This equates to a payout of 41%, similar to FY09's 42%. A scrip dividend scheme has been proposed and will be submitted for shareholders' approval in due course.

Setting up a Specialist Medical Centre at Thong Sia building purchased at S\$93.08m

The Group has successfully tendered for a 7-storey freehold commercial/podium block for \$93.08m, located at Bideford Road (just off Orchard Road). The strata floor area of the property is 42,668 sq ft, equating to an average of S\$2,157 psf. An extensive specialist medical centre will be established providing a wide array of services such as 24-hour Emergency Care, Health Screening, Radiology & Imaging, Medical Laboratory, Fertility, Cancer, Dental, and clinics for O&G, Cardiology, General Surgery, Orthopedic Surgery, Ophthalmology, ENT, dermatology and Medical Aesthetics. Management estimates a refurbishment capex of S\$5m and another S\$5m for equipment, etc.

In a nutshell, the medical centre will supplement its current medical services and also act as a “feeder” for Raffles Hospital.

The purchase comes with existing tenancies, which will expire in 2012 and 2013. Management has yet to discuss with the tenants on the outcome, given that tender has just been completed. But, management indicated that the tenancies would be evaluated and conversion of the expiring leases into its own use will be carried out

progressively and only if it makes economic sense in the interim period prior to the full lease expiry in 2013.

Aggressive expansion in Singapore; increase total floor area by c.50% around 2013. Management continues to see Singapore as a key market to drive growth on the back of the city-state’s offering of premium healthcare services. Recall that the Group is looking to increase GFA at its Raffles Hospital by c.103k sq ft (c.33%), at an estimated cost of S\$80-100m. Along with the acquisition of Thong Sia Building, the group would effectively increase Hospital division’s floor area by c.50% when both are completed, estimated around 2013.

Valuation

Maintain Hold, TP trimmed marginally to S\$2.30. We trimmed our forecasts marginally by c.3% as we scaled back our topline growth assumptions, from its Healthcare and Hospital divisions. We maintain our Hold recommendation. The counter is trading at c.22x FY11F PE, which is above its historical trading average of c.21x. Our TP is pegged to 24x on FY11F earnings, which is +0.5 s.d. above its average valuation.

Peers’ valuation table

Company	Curr	Last Px	Mkt cap (US\$m)	Hist. PE (x)	PE Curr Yr (x)	PE Nxt Yr (x)	P/B (x)	P/S (x)	Opg Margin %	Net Margin %	Sales (US\$)	Opg Income (US\$)
Raffles Medical Group Ltd	SGD	2.16	891	25.1	22.0	20.6	4.0	4.7	20.7	18.9	146.8	35.5
Health Management Int’l Ltd	SGD	0.12	54	na	na	na	2.2	0.9	3.6	-2.2	45.9	1.6
Healthway Medical Corp Ltd	SGD	0.15	212	14.3	48.3	18.1	1.5	2.2	18.5	15.5	77.2	14.3
Primary Health Care Ltd	AUD	3.44	1,724	21.6	14.7	12.6	0.7	1.3	19.3	10.3	1,299.8	250.6
Ramsay Health Care Ltd	AUD	17.45	3,562	23.5	17.4	15.6	3.6	1.0	9.2	4.4	3,378.6	309.6
KPJ Healthcare Bhd	MYR	3.81	706	17.5	15.9	14.5	2.8	1.3	9.2	7.6	479.5	44.3
Bangkok Dusit Medical Svcs PCL	THB	53.25	2,172	29.3	29.1	23.5	4.3	2.8	11.7	7.9	712.0	83.5
Bumrungrad Hospital PCL	THB	35.25	840	21.1	21.6	18.9	4.5	2.7	16.0	13.7	296.9	47.5
Bangkok Chain Hospital PCL	THB	6.60	359	5.5	16.9	15.7	3.7	2.4	23.4	14.4	152.9	35.7
				24.1	20.3	17.5						

Raffles Medical

Income Statement (\$\$ m)

FY Dec	2009A	2010A	2011F	2012F
Turnover	219	239	267	290
Other Opng (Exp)/Inc	(173)	(186)	(205)	(223)
Operating Profit	45	53	62	67
Other Non Opq (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	45	53	63	67
Tax	(7)	(8)	(11)	(11)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
Net Profit	38	45	52	55
Net Profit before Except.	38	45	52	55
EBITDA	52	60	70	75
Sales Gth (%)	8.9	9.4	11.8	8.3
EBITDA Gth (%)	15.1	14.8	17.3	7.2
Opg Profit Gth (%)	16.9	17.0	17.5	7.6
Net Profit Gth (%)	20.1	19.5	14.1	6.9
Effective Tax Rate (%)	15.6	14.3	17.0	17.0

Cash Flow Statement (\$\$ m)

FY Dec	2009A	2010A	2011F	2012F
Pre-Tax Profit	45	53	63	67
Dep. & Amort.	7	7	8	8
Tax Paid	(6)	(7)	(10)	(11)
Assoc. & JV Inc/(loss)	0	0	0	0
Chq in Wkq.Cap.	1	(3)	11	3
Other Operating CF	1	(1)	0	0
Net Operating CF	47	49	72	67
Capital Exp.(net)	(4)	(4)	(135)	(55)
Other Invt.(net)	0	0	0	0
Invt in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	0	0	0	0
Net Investing CF	(4)	(3)	(135)	(55)
Div Paid	(13)	(16)	(18)	(21)
Chq in Gross Debt	(2)	(2)	(2)	(2)
Capital Issues	1	4	0	0
Other Financing CF	0	0	0	0
Net Financing CF	(14)	(13)	(20)	(23)
Currency Adjustments	0	0	0	0
Chq in Cash	30	33	(84)	(11)

Quarterly / Interim Income Statement (\$\$ m)

FY Dec	1Q2010	2Q2010	3Q2010	4Q2010
Turnover	56	59	61	63
Other Oper. (Exp)/Inc	(45)	(46)	(48)	(48)
Operating Profit	11	13	13	16
Other Non Opq (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	11	13	13	16
Tax	(2)	(2)	(2)	(1)
Minority Interest	0	0	0	0
Net Profit	9	11	11	15
Net profit bef Except.	9	11	11	15
EBITDA	13	15	15	18
Sales Gth (%)	(3.6)	4.2	3.9	4.3
EBITDA Gth (%)	(11.9)	13.9	1.3	19.5
Opg Profit Gth (%)	(13.4)	16.0	1.5	20.8
Net Profit Gth (%)	(23.5)	16.5	1.1	40.1
Opg Profit Margins (%)	19.8	22.0	21.5	24.9
Net Profit Margins (%)	16.1	18.0	17.5	23.6

Balance Sheet (\$\$ m)

FY Dec	2009A	2010A	2011F	2012F
Net Fixed Assets	146	144	271	318
Invt in Associates & JVs	0	0	0	0
Other LT Assets	86	89	89	89
Cash & ST Invt	75	107	23	13
Inventory	5	5	7	7
Debtors	24	26	30	32
Other Current Assets	0	0	0	0
Total Assets	337	372	420	459
ST Debt	5	5	5	5
Other Current Liab	61	61	77	84
LT Debt	20	18	16	14
Other LT Liabilities	1	2	2	2
Shareholder's Equity	250	286	320	354
Minority Interests	0	1	1	1
Total Cap. & Liab.	337	372	420	459
Non-Cash Wkq. Capital	(31)	(29)	(41)	(44)
Net Cash/(Debt)	50	85	3	(6)

Rates & Ratio

FY Dec	2009A	2010A	2011F	2012F
Opq Profit Margin (%)	20.7	22.2	23.3	23.1
Net Profit Margin (%)	17.3	18.9	19.3	19.1
ROAE (%)	16.1	16.9	17.0	16.4
ROA (%)	11.7	12.8	13.0	12.6
ROCE (%)	14.5	15.5	15.8	15.5
Div Payout Ratio (%)	41.2	40.7	40.7	42.9
Net Interest Cover (x)	196.9	NM	NM	802.4
Asset Turnover (x)	0.7	0.7	0.7	0.7
Debtors Turn (avg days)	41.1	38.4	38.1	39.0
Creditors Turn (avg days)	118.0	106.9	112.5	122.6
Inventory Turn (avg days)	104.1	96.3	99.5	107.4
Current Ratio (x)	1.6	2.1	0.7	0.6
Quick Ratio (x)	1.5	2.0	0.6	0.5
Net Debt/Equity (X)	CASH	CASH	CASH	0.0
Net Debt/Equity ex MI (X)	(0.2)	(0.3)	0.0	0.0
Capex to Debt (%)	15.0	16.8	656.1	296.1
Z-Score (X)	4.2	6.3	8.8	8.2
N. Cash/(Debt)PS (S cts)	9.7	16.1	0.5	(1.1)
Opg CFPS (S cts)	9.0	9.8	11.6	12.3
Free CFPS (S cts)	8.4	8.6	(12.0)	2.3

Segmental Breakdown / Key Assumptions

FY Dec	2009A	2010A	2011F	2012F
Revenues (\$\$ m)				
Healthcare services	89	95	100	104
Hospital services	138	155	179	199
Investment holdings	8	8	8	8
Less: Eliminations	(17)	(18)	(20)	(22)
Total	218	239	267	290
Operating profit (\$\$ m)				
Healthcare services	7	8	9	9
Hospital services	34	39	47	52
Investment holdings	4	6	6	6
Total	45	53	62	67
Operating profit Margins (%)				
Healthcare services	7.8	8.7	8.5	8.5
Hospital services	24.7	24.9	26.5	26.0
Investment holdings	54.4	78.2	78.2	78.2
Total	20.7	22.2	23.3	23.1
Key Assumptions				
Hospital beds (#)	200.0	200.0	210.0	220.0
Avg Utilisation (%)	57.0	60.0	62.0	62.0

Source: Company, DBS Vickers

DBSV recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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