Singapore Company Focus

Raffles Medical

Bloomberg: RFMD SP | Reuters: RAFG.SI

DBS Group Research . Equity

1 Mar 2010

BUYS$1.36 STI : 2,750.86

(Upgrade from Hold)

Price Target : 12-month S$ 1.75 (Prev S$ 1.41)

Reason for Report : Upgrade recommendation/earnings

Potential Catalyst: Special dividends/acquisitions or better than expected growth

Analyst

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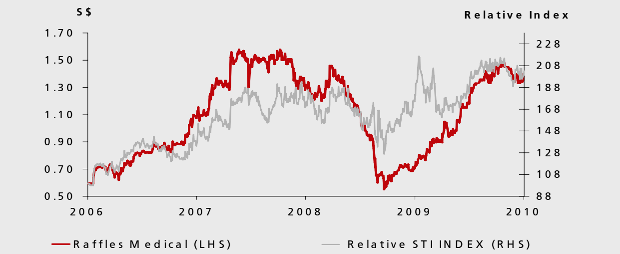
Price Relative



Forecasts and Valuation

FY Dec (S$ m)	2008A	2009A	2010F	2011F
Turnover	201	219	256	296
EBITDA	45	52	62	75
Pre-tax Profit	38	45	55	67
Net Profit	32	38	45	55
Net Pft (Pre Ex.)	32	38	45	55
EPS (S cts)	6.1	7.3	8.7	10.7
EPS Pre Ex. (S cts)	6.1	7.3	8.7	10.7
EPS Gth Pre Ex (%)	34	20	20	22
Diluted EPS (S cts)	6.0	7.2	8.6	10.5
Net DPS (S cts)	2.5	3.0	3.5	4.0
BV Per Share (S cts)	42.9	48.0	53.8	60.9
PE (X)	22.3	18.7	15.6	12.8
PE Pre Ex. (X)	22.3	18.7	15.6	12.8
P/Cash Flow (X)	18.4	15.8	13.4	11.1
EV/EBITDA (X)	15.1	12.6	9.9	7.6
Net Div Yield (%)	1.8	2.2	2.6	2.9
P/Book Value (X)	3.2	2.8	2.5	2.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	14.9	16.1	17.2	18.6
Earnings Rev (%):			17.1	23.8
Consensus EPS (S cts):			8.0	9.4

ICB Industry : Health Care

ICB Sector: Health Care Equipment & Servic

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

Strong pick up in patient load

- **4Q net profit exceeded our expectation on pick up in patient load and margins expansion**
- **Potential special dividends on high net cash level (c.S$90m/17.3Scents) by FYE10F**
- **Raise earnings by 17%/24%; CAGR of 21%**
- **Upgrade to Buy, TP raised to S$1.75 (33% upside)**

Strong 4Q, net profits up 25%. 4Q revenue increased 13% yoy to S$58.3m driven by both Hospital and Healthcare services division, 8% above our expectations. 4Q EBIT margins expanded by 1.1ppt yoy and 1.6ppt qoq on slower growth in staff costs (+12%), other operating expenses (+3%) and lower depreciation (-3%). Consequently, net profit grew a strong 25% yoy to S$11.9m, above streets' estimates (S$10.3m) and ours (S$9.6m). Net profit for FY09 ended at S$37.9m, a strong 20% growth in a year of recession. A 2 Scts final dividend was proposed, bringing FY09 total dividend to 3 Scts (FY08: 2.5 Scts).

Higher patient load, 4 new clinics in FY10. Management attributed revenue growth to a pick up in patient load as the economy climbs out of recession and fears of H1N1 fade. 4Q growth was stronger than expected and management projects momentum to continue. 4 new clinics will be opened in FY10F, adding to its existing network of 71 clinics in Singapore.

$50m net cash in kitty. The Group has cash holding of S$74.4m or S$50m (9.6 Scts/share) on a net cash basis. We project that the net cash will balloon further to S$90m (17.3 Scents/share) by end FY10. If the funds are not deployed, there is a high potential for special dividends, in our view. Assuming it retains S$50m net cash, this would avail up to S$40m for dividend distribution, equating to c.7.7 Scts/share.

Strong growth ahead; Upgrade to Buy, TP: S$1.75. The growth trend should continue, and with operating leverage, we raised earnings by 17%/24% for FY10F/FY11F. TP raised to S$1.75 pegged at 20x (historical mean) on FY10F EPS. Buy for its: (i) proven track record; (ii) improving operations; and, (iii) strong growth (15.6x PE, PEG 0.75x<1x). Catalyst could come from acquisitions or special dividends given its high cash level.

At A Glance

Issued Capital (m shrs)	520
Mkt. Cap (Sm/USm)	708 / 503
Major Shareholders	
Raffles Medical (%)	39.7
Loo Choon Yong (%)	10.3
Free Float (%)	50.0
Avg. Daily Vol.('000)	364

Results Summary and Comments

FY Dec (S$m)	4Q08	3Q09	4Q09	4Q Chg y-o-y	q-o-q chg %	FY08	FY09	Chg y-o-y	Comments
Sales	51.4	55.4	58.3	13%	5%	200.8	218.6	9%	4Q topline growth from Hospital (+7.9%) and Healthcare (+10.2%) divisions.
Other Operating Income	(0.1)	0.1	0.5	-555%	682%	0.2	0.6	154%	Revaluation gain of $600k on investment properties
Inventories and consumables used	*(5.8)*	*(6.1)*	*(6.5)*	*13%*	*7%*	*(22.7)*	*(24.5)*	*8%*	In line with higher revenue
Purchased and contracted services	*(3.0)*	*(3.8)*	*(4.3)*	*43%*	*14%*	*(12.9)*	*(16.0)*	*25%*	Higher insurance claims from growth in larger insurance policies underwritten
Staff costs	*(24.6)*	*(26.8)*	*(27.6)*	*12%*	*3%*	*(98.3)*	*(104.9)*	*7%*	Slower growth due to operating efficiencies and Jobs Credit (c.S$0.7m/qtr)
Depreciation of PPE	*(1.8)*	*(1.7)*	*(1.7)*	*-3%*	*-2%*	*(6.6)*	*(6.9)*	*4%*	Lower than expected
Operating lease expenses	*(0.8)*	*(1.3)*	*(1.2)*	*44%*	*-8%*	*(4.5)*	*(5.1)*	*15%*	
Other operating expenses	*(4.5)*	*(3.9)*	*(4.6)*	*3%*	*20%*	*(17.4)*	*(16.5)*	*-5%*	Lower utilities and commissions
Total operating expenses	(40.5)	(43.6)	(46.0)	14%	5%	(162.3)	(173.9)	7%	
Operating profit	10.8	11.9	12.8	19%	8%	38.7	45.3	17%	Within expectations
Interest Income	0.1	0.0	0.1	-24%	88%	0.3	0.2	-30%	
Interest Expense	(0.2)	(0.1)	(0.1)	-48%	-18%	(0.6)	(0.4)	-34%	Lower interest rates
Pretax Profit	10.8	11.8	12.8	19%	9%	38.4	45.0	17%	
Tax	(1.2)	(2.3)	(0.9)	-21%	-60%	(6.7)	(7.0)	5%	Lower effective rate due to cut in tax rate and adjustment for overprovision in prior yrs (nett S$179k)
Minority Interests	(0.1)	(0.0)	(0.0)	-57%	-7%	(0.1)	(0.2)	34%	
Net Profit	9.5	9.5	11.9	25%	25%	31.5	37.9	20%	6% above our expectations of S$35.6m. If excluding fair value gain on investment properties, will be 4.8% above

Margins (%)	4Q08	3Q09	4Q09	Chg ppt yoy	Chg ppt qoq	FY08	FY09	Chg ppt yoy
EBIT Margin	21.1	21.4	22.0	1.6	1.1	19.3	20.7	1.4
Pre-tax Margin	20.9	21.3	22.0	1.7	1.1	19.1	20.6	1.5
Net Margin	18.4	17.1	20.3	1.0	0.8	15.7	17.3	1.6

Source: Company, DBS Vickers

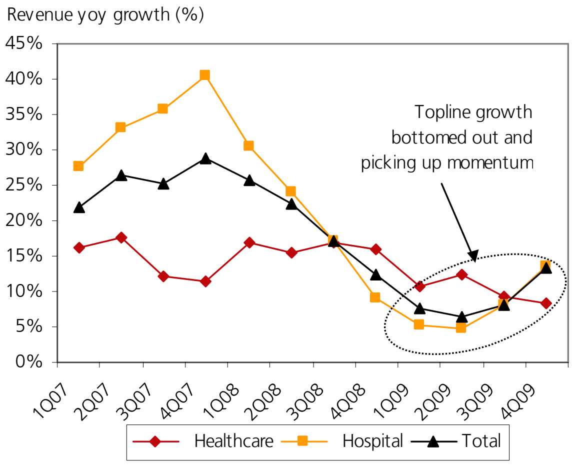
Results comments

4Q09: A strong finish to a tough year. 4Q performance surprised us on the upside. Revenue increased 13% yoy to S$58.3m driven by both Hospital and Healthcare services division. This was 8% above our expectation of S$53.9m. On the back of improved operating efficiencies, EBIT margins expanded by 1.1ppt yoy in 4Q and 1.6ppt qoq (vs 3Q09). Consequently, net profit grew a strong 25% yoy to S$11.9m (outperforming consensus' mean expectations of S$10.3m and our expectation of S$9.6m).

The better than expected performance came from the surprisingly strong growth in Hospital division's topline, which we estimate to grow by c.13.5% yoy, up from the single-digit growth in first 3Qs of FY09.

FY09 net profit 6% above our expectation. As a result, FY09 net profit was marginally above consensus' expectations and 6% above our expectation of S$35.6m. Staff costs (+7% yoy) and depreciation (+4% yoy) increased slower vis-à-vis topline growth of 9% yoy, while other operating expenses dipped by 5%, helping EBIT margins to expand by 1.4ppt.

Revenue (Total/Segments) growth yoy (%)



Source: Company, DBSVickers

Increased patients load, and continue picking up. Management attributed the growth in topline to a pick up in patient load during the year, as the economy climbs out of recession and fears of H1N1 fade. Apparently, the pick up in 4Q was stronger than management had expected and we should continue to see robust growth.

Foreign patients continue to account for about one-third of the patient load, with Indonesians forming the bulk (22% of foreign patients). Management emphasized that it has adopted the strategy to diversify their foreign patient mix, which hails from a total of over 100 countries.

4 more clinics planned. Going forward, the Group will open 4 more clinics in FY10 – at Changi Business Park, Mapletree Business Park, Serangoon and Marina Boulevard – bringing total clinics in Singapore to 75.

2 Scts final dividend. A final dividend of 2 Scts was proposed, bringing FY09 total dividend to 3 Scts (FY08: 2.5Scts).

Net cash of S$50m, increasing to S$90m in FY10F. Balance sheet remained very strong, with total cash holding of S$74.4m or S$50m (9.6Scts/share) on a net cash basis. We project that net cash will balloon further to S$90m (17.3 Scts/share), assuming no major investment or acquisition.

Potential for special dividends in FY10F? As such, we believe if the funds were not deployed, it would present a high potential for special dividends. Assuming the Group retained a net cash of S$50m, this would avail up to S$40m for normal and special dividend distribution, equating to c.7.7 Scts/share.

Valuation

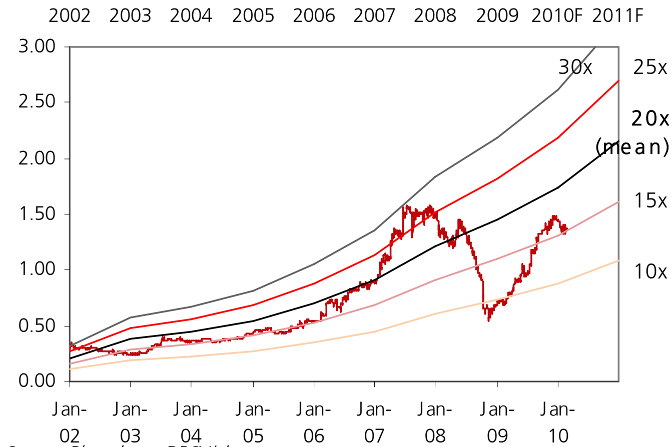
Revise earnings up by 17%/24%, on strong growth momentum. We believe the topline growth trend should continue, and coupled with operating leverage of the Group, we revise up our earnings by 17% for FY10F and 24% for FY11F.

Upgrade to Buy, TP: S$1.75. Along with the earnings revision, we raise our TP to S$1.75 (from S$1.41) as we continue to peg our valuations to 20x on FY10F earnings, its historical trading mean. With earnings CAGR (FY09-11F) of 21%, it is still currently trading at a PEG of only 0.75x. We believe investors should accumulate on this counter given its: (i) proven track record; (ii) improving operations; and, (iii) undemanding valuation on the back of a strong growth (15.6x PE, <1x PEG). Catalyst could come from acquisitions or special dividends given its high cash level.

Raffles Medical historical PE (x) – Mean & Std dev.

Source: Bloomberg, DBSVickers

Raffles Medical PE bands (x)



Source: Bloomberg, DBSVickers

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	1.36	503	18.7	15.6	12.8	3.0	3.2	19.2	17.3	110.6	27.5
Parkway Holdings Ltd	SGD	2.81	2,259	26.7	24.7*	23.0*	2.2	3.2	10.9	12.1	696.4	76.1
Thomson Medical Centre Ltd	SGD	0.68	141	15.5	13.6	11.7	1.8	2.9	19.9	19.0	47.9	9.5
Pacific Healthcare Holdings Ltd	SGD	0.12	23	na	na	na	0.7	0.4	-5.1	-14.8	56.9	-2.9
Health Management Int'l Ltd	SGD	0.12	39	na	na	na	1.9	1.1	-3.6	-7.1	35.5	-1.3
Healthway Medical Corp Ltd	SGD	0.15	177	16.6	12.5	15.0	1.7	1.5	15.0	11.8	57.5	8.7
Primary Health Care Ltd	AUD	4.39	1,887	10.3	12.3	11.1	0.9	1.4	20.5	8.2	1,185.6	242.8
Ramsay Health Care Ltd	AUD	12.66	2,283	19.7	15.3	13.9	2.7	0.7	8.9	3.4	2,790.7	247.8
Healthscope Ltd	AUD	4.26	1,195	14.2	12.6	11.9	1.1	0.7	10.5	4.4	1,457.0	153.6
KPJ Healthcare Bhd	MYR	2.41	374	0.4	12.2	10.7	2.0	0.9	9.6	7.0	425.8	40.8
Bangkok Dusit Medical Svcs PCL	THB	24.60	905	17.3	15.8	13.7	2.1	1.4	11.7	7.9	658.6	77.2
Bumrungrad Hospital PCL	THB	31.00	684	18.1	17.3	16.1	4.1	2.5	16.0	13.7	274.6	43.9
Bangkok Chain Hospital PCL	THB	5.40	272	4.6	11.7	10.6	3.1	2.2	23.4	14.4	141.4	33.0
				16.8	**15.1**	**13.3**						

**Note: Parkway Holdings prospective PE excluding contribution of medical suites*

Source: Bloomberg, DBSVickers' estimates

Income Statement (S$ m)

FY Dec	2008A	2009A	2010F	2011F
Turnover	201	219	256	296
Other Opng (Exp)/Inc	(162)	(173)	(201)	(229)
Operating Profit	39	45	55	67
Other Non Opg (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	38	45	55	67
Tax	(7)	(7)	(9)	(11)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
Net Profit	32	38	45	55
Net Profit before Except.	32	38	45	55
EBITDA	45	52	62	75
Sales Gth (%)	19.0	8.9	17.2	15.5
EBITDA Gth (%)	35.2	15.1	19.6	19.9
Opg Profit Gth (%)	37.2	16.9	21.5	21.4
Net Profit Gth (%)	(12.0)	20.1	20.0	21.9
Effective Tax Rate (%)	17.4	15.6	17.0	17.0

Cash Flow Statement (S$ m)

FY Dec	2008A	2009A	2010F	2011F
Pre-Tax Profit	38	45	55	67
Dep. & Amort.	7	7	7	8
Tax Paid	(4)	(6)	(9)	(9)
Assoc. & JV Inc/(loss)	0	0	0	0
Chg in Wkg.Cap.	(2)	1	7	5
Other Operating CF	1	1	0	0
Net Operating CF	40	47	60	70
Capital Exp.(net)	(6)	(4)	(5)	(5)
Other Invts.(net)	0	0	0	0
Invts in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	1	2	0	0
Net Investing CF	(5)	(2)	(5)	(5)
Div Paid	(13)	(13)	(16)	(18)
Chg in Gross Debt	1	(4)	(2)	(2)
Capital Issues	1	1	0	0
Other Financing CF	0	0	0	0
Net Financing CF	(10)	(15)	(18)	(20)
Net Cashflow	25	30	38	45

Quarterly / Interim Income Statement (S$ m)

FY Dec	1Q2009	2Q2009	3Q2009	4Q2009
Turnover	51	54	55	58
Other Oper. (Exp)/Inc	(41)	(43)	(44)	(45)
Operating Profit	10	11	12	13
Other Non Opg (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	10	11	12	13
Tax	(2)	(2)	(2)	(1)
Minority Interest	0	0	0	0
Net Profit	8	9	9	12
Net profit bef Except.	8	9	9	12
EBITDA	11	13	14	15
Sales Gth (%)	(0.8)	5.7	2.8	5.2
EBITDA Gth (%)	(9.6)	11.4	7.5	7.0
Opg Profit Gth (%)	(11.2)	13.8	8.4	8.3
Net Profit Gth (%)	(17.9)	12.7	7.6	25.4
Opg Profit Margins (%)	18.9	20.3	21.4	22.0
Net Profit Margins (%)	15.3	16.3	17.1	20.3

Balance Sheet (S$ m)

FY Dec	2008A	2009A	2010F	2011F
Net Fixed Assets	150	146	144	141
Invts in Associates & JVs	0	0	0	0
Other LT Assets	86	86	86	86
Cash & ST Invts	45	75	113	158
Inventory	5	5	6	7
Debtors	25	24	28	33
Other Current Assets	0	0	0	0
Total Assets	310	337	378	425
ST Debt	5	5	5	5
Other Current Liab	61	61	73	85
LT Debt	22	20	18	16
Other LT Liabilities	1	1	1	1
Shareholder's Equity	222	250	280	317
Minority Interests	0	0	1	1
Total Cap. & Liab.	310	337	378	425
Non-Cash Wkg. Capital	(31)	(31)	(39)	(45)
Net Cash/(Debt)	18	50	90	137

Rates & Ratio

FY Dec	2008A	2009A	2010F	2011F
Opg Profit Margin (%)	19.3	20.7	21.5	22.6
Net Profit Margin (%)	15.7	17.3	17.7	18.7
ROAE (%)	14.9	16.1	17.2	18.6
ROA (%)	10.7	11.7	12.7	13.8
ROCE (%)	13.4	14.5	15.7	17.2
Div Payout Ratio (%)	41.0	41.2	40.0	37.5
Net Interest Cover (x)	106.1	196.9	1,403.4	NM
Asset Turnover (x)	0.7	0.7	0.7	0.7
Debtors Turn (avg days)	41.0	41.1	37.6	37.8
Creditors Turn (avg days)	nm	nm	nm	nm
Inventory Turn (avg days)	nm	nm	nm	nm
Current Ratio (x)	1.1	1.6	1.9	2.2
Quick Ratio (x)	1.1	1.5	1.8	2.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	(0.1)	(0.2)	(0.3)	(0.4)
Capex to Debt (%)	23.1	15.0	22.2	24.4
Z-Score (X)	4.2	4.2	6.1	6.0
N. Cash/(Debt)PS (S cts)	3.5	9.7	17.4	26.4
Opg CFPS (S cts)	8.1	9.0	10.3	12.6
Free CFPS (S cts)	6.6	8.4	10.7	12.6

Segmental Breakdown / Key Assumptions

FY Dec	2008A	2009A	2010F	2011F
Revenues (S$ m)				
Healthcare services	81	89	100	111
Hospital services	128	138	167	197
Investment holdings	8	8	8	8
Less: Eliminations	(16)	(17)	(18)	(20)
Total	201	218	256	296
Operating profit (S$ m)				
Healthcare services	7	7	8	9
Hospital services	28	34	41	51
Investment holdings	3	6	6	6
Total	39	47	55	67
Operating profit Margins (%)				
Healthcare services	9.2	7.8	8.0	8.5
Hospital services	22.0	24.7	24.6	26.0
Investment holdings	42.6	76.8	76.8	76.8
Total	19.4	21.5	21.5	22.6
Key Assumptions				
Hospital beds (#)	200.0	200.0	210.0	220.0
Avg Utilisation (%)	55.0	57.0	62.0	66.0

Source: Company, DBS Vickers

DBSV recommendations are based 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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