

Singapore Company Focus

Raffles Medical

Bloomberg: RFMD SP | Reuters: RAFG.SI

DBS Group Research . Equity

27 Jul 2010

BUY S\$1.87 STI : 2,966.99

Price Target : 12-month S\$ 2.10 (Prev S\$ 1.91)

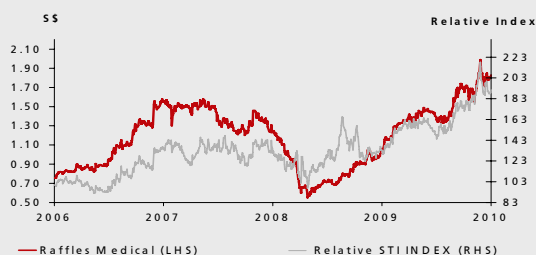
Reason for Report : Company announcement/TP revision

Potential Catalyst: Execution of expansion plans

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (\$ m)	2009A	2010F	2011F	2012F
Turnover	219	256	296	322
EBITDA	52	62	75	79
Pre-tax Profit	45	55	67	71
Net Profit	38	45	55	59
Net Pft (Pre Ex.)	38	45	55	59
EPS (S cts)	7.3	8.7	10.7	11.3
EPS Pre Ex. (S cts)	7.3	8.7	10.7	11.3
EPS Gth Pre Ex (%)	20	20	22	6
Diluted EPS (S cts)	7.2	8.6	10.5	11.1
Net DPS (S cts)	3.0	3.5	4.0	4.5
BV Per Share (S cts)	48.0	53.8	60.9	68.2
PE (X)	25.7	21.4	17.6	16.5
PE Pre Ex. (X)	25.7	21.4	17.6	16.5
P/Cash Flow (X)	21.7	18.4	15.3	14.5
EV/EBITDA (X)	17.7	14.1	11.8	11.0
Net Div Yield (%)	1.6	1.9	2.1	2.4
P/Book Value (X)	3.9	3.5	3.1	2.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	16.1	17.2	18.6	17.5

Earnings Rev (%)

Consensus EPS (S cts): 8.4 9.9 11.0

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

Upsizing Raffles Hospital

- **2Q10 net profit +20%, within expectations**
- **Approval to increase Raffles Hospital GFA by 33%, positioning for long term growth**
- **S\$3.95 GO for Parkway could shift funds to Raffles Med as the next healthcare play**
- **Maintain Buy, TP raised to S\$2.10**

2Q10 net profit +20% yoy, within expectations. Revenue was up by 8.7% yoy to S\$58.6m, driven mainly by Hospital division's 11.2% growth. As a result of operating leverage, operating expenses grew by a smaller 7% and EBIT margins improved to 22%, from 20.3% in 2Q09 and 19.8% in 1Q10. Operating profit grew 18%, while net profit increased 20% to S\$10.6m. 1H10 forms 44% of FY10F, similar to previous years. Interim div of 1 Scts declared.

Upsizing Raffles Hospital by 33%. The Group has received outline permission from the URA to increase the gross floor area (GFA) of Raffles Hospital by 102,408 sq ft or c.33% of current GFA. The total cost of development is estimated to be c. S\$80m - S\$100m (<S\$1k psf GFA) to be funded by internal resources, and should take 18 - 24 months. The space will be used to expand existing and add new services. We see this as positive for the Group over the long term, as it provides opportunities for growth and enables it to leverage on its existing facilities, vis-à-vis a new hospital in a separate location.

A medical center in Shanghai. Separately, the Group has started to manage a medical center in Shanghai, China, and the initial response is said to be encouraging. *RafflesMedical Shanghai* will provide professional medical and dental care to expatriates and the local population.

Maintain Buy, TP raised to S\$2.10. We raised our TP for Raffles Medical to S\$2.10 based on 20x FY11F earnings, from blended FY10F/11F. With its growth profile, Raffles Med's PE is projected to decline to c.17.6x by FY11F. We believe the GO for Parkway could further shift investors' funds and interest to Raffles Med as the next healthcare play.

At A Glance

Issued Capital (m shrs)	524
Mkt. Cap (S\$m/US\$m)	980 / 721
Major Shareholders	
Raffles Medical (%)	39.9
Loo Choon Yong (%)	10.2
Free Float (%)	50.0
Avg. Daily Vol.('000)	524

Results commentary

2Q10 net profit +20% yoy, within expectations. Revenue was up by 8.7% yoy to S\$58.6m, driven mainly by Hospital division's topline growth of 11.2%. As a result of operating leverage, operating expenses grew by a smaller 7% and EBIT margins improved to 22%, from 20.3% in 2Q09 and 19.8% in 1Q10. Operating profit grew by 18%, while net profit increased by 20% to S\$10.6m. 1H10 forms 44% of our full year estimates, similar to previous years.

1 Scents interim dividend declared, similar to prior years. Book closure is on 19 Aug, and dividends will be paid on 3 Sep'10.

Upsizing Raffles Hospital

Increasing GFA at hospital by 33%,... The Group has received outline permission from the Urban Redevelopment Authority (URA) to increase the gross floor area (GFA) of Raffles Hospital by **102,408 sq ft or c.33%**, from 307,875 sq ft to 410,283 sq ft. The additional area would be used to expand existing services and develop new facilities and services at hospital.

...Estimated to cost S\$80m-100m. Estimated development cost, including development premium, is **around S\$80m - S\$100m**, funded by internal resources, and should take **18 – 24 months** to complete. We estimate that the development premium works out to around S\$27.6m, assuming that there is no lease top-up (99-year lease expires in 2078, remaining 68 years). The estimated total cost of development would still work out to less S\$1,000 psf GFA.

Expansion of new services. Management is looking to expand existing and add new services with the new space. The Group's *UroRenal Centre* combines urology and nephrology and is looking at the provision of radiation oncology services, which is currently outsourced.

Growth looks to be still focused on Singapore. With this, our view is that management is still looking to focus its strategy on growing its Singapore operations, given its base, as well as the positive prospects here. We understand that planning has been ongoing for some time, and the decision is a calculated one, given management's conservative stance.

Positive for the Group over the long term. We believe addition of GFA for its hospital is positive for the Group over the long term. This provides opportunities for growth over the longer term, with opportunities to leverage on its services, vis-à-vis a new hospital in a separate location.

Furthermore, the hospital is well located, eventually to be served by the Downtown Line Stage 1 MRT line, when it is completed in 2013.

Overseas - A toe-hold into China. The Group has started to manage a medical center in Shanghai, China. The medical center, *RafflesMedical Shanghai*, will provide professional medical and dental care to expatriates and the local population. The services rendered would be pediatrics, obstetrics & gynecology (O&G), Japanese clinic, dental, health screening, etc. While this looks to be a small step, it signals a foray into another foreign market, outside of Singapore.

Valuation

1H10 tracking our forecast well. 1H10 currently forms 44% of our FY10F forecasts, similar to prior years. We are leaving our estimates unchanged, and believe that the Group will continue to report growth in 2H.

New GO for Parkway dwarfs Raffles Medical's valuation. In the latest development on the battle for Parkway Holdings, **Khazanah** has just revised its partial offer to launch a general offer (GO) for the shares it does not own **at S\$3.95/share**. This triumphs Fortis' S\$3.80/share GO **by 15 Scents or c.4%**. At **S\$3.95 offer price**, it values Parkway at c.4.5bn or **34.8x and 32.4x on our FY10F and FY11F** (ex. Novena medical suites contribution). This exercise would cost Khazanah **S\$3.4bn**, assuming it acquires all the shares it does not own. Fortis has announced that it will divest its entire stake in acceptance of Khazanah's offer.

Maintain Buy, TP raised to S\$2.10. We raised our TP for Raffles Medical to S\$2.10 as we peg our valuation to 20x on FY11F earnings, from blended FY10F/11F EPS. At current price, Raffles Medical is trading at its average PE multiple of 20x. At this point, we believe downside should be limited as we believe there could be (i) a shifting of investors' funds into alternatives like Raffles Medical, post-the GO for Parkway; and (ii) strong operating performance of Raffles Medical. With its growth profile, Raffles Medical PE is projected to decline to c.17.6x by FY11F.

The next preferred listed healthcare play? With the latest development (hospital expansion and small overseas foray), we see Raffles Medical ramping up. With the possibility of an eventual de-listing of Parkway, given its attractive general offer price, we see Raffles Medical building up progressively and taken as a proxy play for healthcare in Singapore.

Results Summary and Comments

FY Dec (\$m)	2Q09	1Q10	2Q10	2Q Chg y-o-y	q-o-q chg %	1H09	1H10	Chg y-o-y	Comments
Sales	53.9	56.2	58.6	9%	4%	104.9	114.8	9%	Growth from Hospital (+11.2%) and Healthcare (+3.7%) divisions.
Other Operating Income	0.0	0.0	0.2	nm	nm	0.0	0.2	nm	
<i>Inventories and consumables used</i>	(6.4)	(6.4)	(6.7)	4%	4%	(11.9)	(13.0)	10%	
<i>Purchased and contracted services</i>	(4.2)	(3.8)	(4.3)	4%	13%	(8.0)	(8.2)	2%	
<i>Staff costs</i>	(25.5)	(27.6)	(27.8)	9%	1%	(50.4)	(55.4)	10%	Increased due to topline growth, coupled with reduction in Jobs Credit vs 2Q09
<i>Depreciation of PPE</i>	(1.7)	(1.7)	(1.7)	-1%	0%	(3.4)	(3.4)	-2%	
<i>Operating lease expenses</i>	(1.4)	(1.3)	(1.3)	-3%	1%	(2.6)	(2.7)	2%	
<i>Other operating expenses</i>	(3.8)	(4.2)	(4.0)	7%	-4%	(8.0)	(8.2)	2%	
Total operating expenses	(43.0)	(45.1)	(45.8)	7%	2%	(84.4)	(90.9)	8%	Lower than topline due to operating efficiencies
Operating profit	10.9	11.1	12.9	18%	16%	20.6	24.0	17%	Within expectations
Interest Income	0.0	0.1	0.1	200%	50%	0.1	0.2	94%	
Interest Expense	(0.1)	(0.1)	(0.1)	-38%	-11%	(0.2)	(0.1)	-42%	Lower interest rates and loan quantum
Pretax Profit	10.9	11.1	12.9	19%	16%	20.4	24.1	18%	
Tax	(2.1)	(2.0)	(2.3)	13%	17%	(3.8)	(4.3)	15%	
Minority Interests	(0.0)	(0.1)	(0.0)	68%	-33%	(0.1)	(0.1)	44%	
Net Profit	8.8	9.1	10.6	20%	16%	16.6	19.6	19%	Within expectations, forming 44% of our full year estimates, similar to prior years

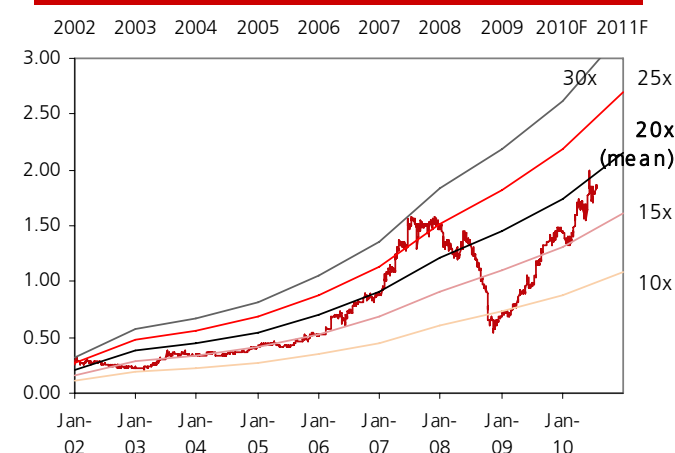
Source: Company, DBSVickers

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



Source: Bloomberg, DBSVickers

Raffles Medical PE bands (x)



Source: Bloomberg, DBSVickers

Raffles Medical

Income Statement (\$\$ m)

FY Dec	2009A	2010F	2011F	2012F
Turnover	219	256	296	322
Other Opng (Exp)/Inc	(173)	(201)	(229)	(251)
Operating Profit	45	55	67	71
Other Non Opng (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	55	67	71
Tax	(7)	(9)	(11)	(12)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
Net Profit	38	45	55	59
Net Profit before Except.	38	45	55	59
EBITDA	52	62	75	79
Sales Gth (%)	8.9	17.2	15.5	8.8
EBITDA Gth (%)	15.1	19.6	19.9	6.0
Opg Profit Gth (%)	16.9	21.5	21.4	6.1
Net Profit Gth (%)	20.1	20.0	21.9	6.1
Effective Tax Rate (%)	15.6	17.0	17.0	17.0

Cash Flow Statement (\$\$ m)

FY Dec	2009A	2010F	2011F	2012F
Pre-Tax Profit	45	55	67	71
Dep. & Amort.	7	7	8	8
Tax Paid	(6)	(9)	(9)	(11)
Assoc. & JV Inc/(loss)	0	0	0	0
Chg in Wkg.Cap.	1	7	5	3
Other Operating CF	1	0	0	0
Net Operating CF	47	60	70	71
Capital Exp.(net)	(4)	(5)	(55)	(35)
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	2	0	0	0
Net Investing CF	(2)	(5)	(55)	(35)
Div Paid	(13)	(16)	(18)	(21)
Chg in Gross Debt	(4)	(2)	(2)	(2)
Capital Issues	1	0	0	0
Other Financing CF	0	0	0	0
Net Financial CF	(15)	(18)	(20)	(23)
Net Cashflow	30	38	(5)	13

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

FY Dec	3Q2009	4Q2009	1Q2010	2Q2010
Turnover	55	58	56	59
Other Oper. (Exp)/Inc	(44)	(45)	(45)	(46)
Operating Profit	12	13	11	13
Other Non Opng (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	12	13	11	13
Tax	(2)	(1)	(2)	(2)
Minority Interest	0	0	0	0
Net Profit	9	12	9	11
Net profit bef Except.	9	12	9	11
EBITDA	14	15	13	15
Sales Gth (%)	2.8	5.2	(3.6)	4.2
EBITDA Gth (%)	7.5	7.0	(11.9)	13.9
Opg Profit Gth (%)	8.4	8.3	(13.4)	16.0
Net Profit Gth (%)	7.6	25.4	(23.5)	16.5
Opg Profit Margins (%)	21.4	22.0	19.8	22.0
Net Profit Margins (%)	17.1	20.3	16.1	18.0

Balance Sheet (\$\$ m)

FY Dec	2009A	2010F	2011F	2012F
Net Fixed Assets	146	144	191	218
Invt in Associates & JVs	0	0	0	0
Other LT Assets	86	86	86	86
Cash & ST Invt	75	113	108	121
Inventory	5	6	7	8
Debtors	24	28	33	36
Other Current Assets	0	0	0	0
Total Assets	337	378	425	468
ST Debt	5	5	5	5
Other Current Liab	61	73	85	93
LT Debt	20	18	16	14
Other LT Liabilities	1	1	1	1
Shareholder's Equity	250	280	317	355
Minority Interests	0	1	1	1
Total Cap. & Liab.	337	378	425	468
Non-Cash Wkg. Capital	(31)	(39)	(45)	(49)
Net Cash/(Debt)	50	90	87	103

Rates & Ratio

FY Dec	2009A	2010F	2011F	2012F
Opg Profit Margin (%)	20.7	21.5	22.6	22.0
Net Profit Margin (%)	17.3	17.7	18.7	18.3
ROAE (%)	16.1	17.2	18.6	17.5
ROA (%)	11.7	12.7	13.8	13.2
ROCE (%)	14.5	15.7	17.2	16.4
Div Payout Ratio (%)	41.2	40.0	37.5	39.8
Net Interest Cover (x)	196.9	1,403.4	NM	NM
Asset Turnover (x)	0.7	0.7	0.7	0.7
Debtors Turn (avg days)	41.1	37.6	37.8	38.9
Creditors Turn (avg days)	118.0	113.6	118.3	(3,326.7)
Inventory Turn (avg days)	104.1	100.2	100.4	(332.7)
Current Ratio (x)	1.6	1.9	1.6	1.7
Quick Ratio (x)	1.5	1.8	1.6	1.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	(0.2)	(0.3)	(0.3)	(0.3)
Capex to Debt (%)	15.0	22.2	268.0	189.0
Z-Score (X)	4.2	6.3	7.1	6.8
N. Cash/(Debt)PS (S cts)	9.7	17.4	16.8	19.8
Opg CFPS (S cts)	9.0	10.3	12.6	13.1
Free CFPS (S cts)	8.4	10.7	2.9	7.0

Segmental Breakdown / Key Assumptions

FY Dec	2009A	2010F	2011F	2012F
Revenues (\$\$ m)				
Healthcare services	89	100	111	121
Hospital services	138	167	197	215
Investment holdings	8	8	8	8
Less: Eliminations	(17)	(18)	(20)	(22)
Others	N/A	N/A	N/A	N/A
Total	218	256	296	322
Operating profit (\$\$ m)				
Healthcare services	7	8	9	10
Hospital services	34	43	53	56
Investment holdings	4	4	4	4
Less: Eliminations	N/A	N/A	N/A	N/A
Others	N/A	N/A	N/A	N/A
Total	45	55	67	71
Operating profit Margins (%)				
Healthcare services	7.8	8.0	8.5	8.5
Hospital services	24.7	25.6	26.9	26.2
Investment holdings	54.4	54.4	54.4	54.4
Less: Eliminations	0.0	0.0	0.0	0.0
Others	N/A	N/A	N/A	N/A
Total	20.7	21.5	22.6	22.0
Key Assumptions				
Hospital beds (#)	200.0	210.0	220.0	225.0
Avg Utilisation (%)	57.0	62.0	66.0	65.0

Source: Company, DBS Vickers

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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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