OSK | DMG

DMG & Partners Research
HEALTHCARE

Melissa Yeap
+65 6232 3897
melissa.yeap@dmgaps.com.sg

Terence Wong
+65 6232 3896
terence.wong@dmgaps.com.sg

CONSUMER

Raffles Medical is a healthcare provider which operates medical clinics, imaging centers and medical laboratories.

Stock Profile/Statistics

Bloomberg Ticker	RFMD SP
STI	3,182.1
Issued Share Capital (m)	525.4
Market Capitalisation (S$m)	1,161.0
52 week H | L Price (S$)	2.37| 1.32
Average Volume ('000)	376.8
YTD Returns (%)	52.4
Net gearing (%)	Net cash
Altman Z-Score	8.1
ROCE/WACC	2.0
Beta (x)	0.7
Book Value/share (S¢)	54.9

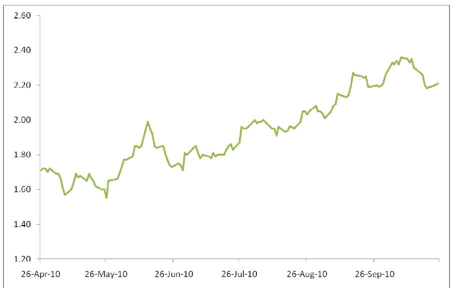
Major Shareholders (%)

Raffles Medical Holdings Pte	39.3
Loo Choon Yong	10.2

Share Performance (%)

Month	Absolute	Relative
1m	0.9%	-2.0%
3m	20.8%	13.7%
6m	32.3%	25.9%
12m	61.3%	44.1%

6-month Share Price Performance



3QFY10 Results Review

Private Circulation Only

RAFFLES MEDICAL GROUP

BUY	
Price	S$2.21
Previous	S$2.09
Target	S$2.40

Results in-line, expansion on track

3Q10 results in-line. Raffles Medical registered 3Q10 PATMI of S$10.7m (+12.9% YoY, +1.1% QoQ) on the back of a 9.8% YoY increase in revenue. The results are in line with ours and consensus estimates. YTD PATMI stands at S$30.5m, making up 70% of our full year forecasts. We have updated our WACC assumptions and arrived at a revised TP of S$2.40 (previously S$2.09), implying a P/E of 27x FY11 earnings. We remain positive on the Group as it continues to deliver consistent earnings and re-iterate our BUY call.

Revenue growth of 9.8% YoY driven by all divisions. All divisions contributed to the 9.8% revenue growth in 3Q10. Growth in the hospital services division was driven by the increase in number of patients and also by the complexity of cases involved. Foreign patients, which make up a third of total patients, grew at a rate of more than 20% YoY, outpacing the growth of local patients and management expects the demand from foreign patients to remain sustainable.

Net cash of S$70.9m to fund expansion. The Group is currently sitting on a net cash position of S$70.9m or 13.5 S¢ per share. The cash is expected to be used to fund its hospital expansion. To recap, Raffles Hospital is going to build an additional 102,408 sq ft of space in its existing site. Estimated capex is between S$80m-100m with construction starting sometime in 2QFY11. Construction will take between 18-24 months with expected completion sometime in 2013. Design plans are currently being finalised for submission to the authorities and plans should be finalised by next quarter.

FYE 31 Dec (S$ m)	FY07*	FY08	FY09	FY10F	FY11F
Turnover	168.7	200.8	218.6	239.2	263.3
Net profit	35.9	31.5	37.9	43.5	46.8
% chg YoY	128.24%	-12.03%	20.08%	14.88%	7.54%
Consensus				43.6	51.4
EPS (S¢)	7.4	6.1	7.3	8.3	8.9
DPS (S¢)	2.5	2.5	3.0	3.0	3.0
Div Yield	1.1%	1.1%	1.4%	1.4%	1.4%
ROE (%)	22.90%	14.90%	16.10%	16.20%	15.30%
ROA (%)	19.10%	13.00%	13.90%	14.60%	14.40%
P/E (x)	30.0	36.2	30.3	26.5	24.9
P/B (x)	5.7	5.2	4.6	4.0	3.7

Source: Company and DMG Estimates

DMG & Partners Securities Pte Ltd may have received compensation from the company(s) covered in this report for its corporate finance or its dealing activities; this report is therefore classified as a non-independent report. Please refer to important disclosures at the end of this publication.

Figure 1: Quarterly financial summary

FYE Dec (S$m)	3Q09	2Q10	3Q10	YoY%	QoQ%	Remarks
Revenue	55.4	58.6	60.9	9.8%	3.9%	In-line with ours and consensus estimates
Other operating income	0.1	0.3	0.1			
Inventories and consumables	(6.1)	(6.7)	(7.0)	14.3%	5.3%	
Staff costs	(26.8)	(27.8)	(29.2)	8.7%	4.9%	Staff costs increased due to the recruited of new specialists but the pace of growth was slower than revenue growth.
Other operating expenses	(10.7)	(11.4)	(11.6)			
Operating income	**11.9**	**13.0**	**13.2**	**10.9%**	**1.4%**	
PBT	**11.8**	**12.9**	**13.1**	**11.2%**	**1.4%**	
Tax	(2.3)	(2.3)	(2.4)			
PATMI	**9.5**	**10.6**	**10.7**	**12.9%**	**1.1%**	In-line with ours and consensus estimates.

Source: Company and DMG estimates

FINANCIAL SUMMARY

Year End 31 Dec (S$m)

Income Statement

	2008	2009	2010F	2011F
Revenue	200.8	218.6	239.2	263.3
Other Operating Income	0.5	0.8	0.7	0.5
Inventories and Consumables	(22.7)	(24.5)	(26.8)	(29.7)
Operating Expenses	(139.6)	(139.6)	(149.4)	(160.7)
Operating Income	**39.0**	**45.5**	**52.4**	**57.0**
Finance Costs	(0.6)	(0.4)	(0.4)	(0.4)
Profit Before Taxes	**38.4**	**45.0**	**52.0**	**56.6**
Income Tax Expense	(6.7)	(7.0)	(8.3)	(9.6)
Minority Interest	(0.1)	(0.2)	(0.2)	(0.2)
Net Income	**31.5**	**37.9**	**43.5**	**46.8**

Balance Sheet

	2008	2009	2010F	2011F
Fixed Assets	150.3	146.4	142.0	137.7
Intangibles	0.4	0.4	0.4	0.4
Investment Properties	84.4	85.0	85.0	85.0
Deferred Tax Assets	1.2	0.5	1.5	1.5
Non-Current Assets	**236.2**	**232.3**	**228.8**	**224.6**
Inventories	4.8	5.3	6.4	7.8
Receivables	24.9	24.3	30.4	33.4
Cash and Cash Equivalents	44.5	74.4	111.6	150.5
Current Assets	**74.2**	**104.5**	**148.3**	**191.8**
Total Assets	**310.4**	**336.8**	**377.2**	**416.3**
Share Capital	171.3	172.7	190.7	192.6
Reserves	50.6	77.1	96.4	131.5
Shareholders Fund	**221.9**	**249.8**	**287.1**	**324.2**
Minority Interest	0.3	0.4	0.4	0.4
Shareholders Equity	**222.2**	**250.2**	**287.5**	**324.6**
Deferred Tax Liabilities	0.7	1.4	1.4	1.4
Interest-bearing Liabilities	22.0	20.0	18.0	16.2
Non-Current Liabilities	**22.7**	**21.4**	**19.4**	**17.6**
Trade and Other Payables	51.5	52.0	59.8	63.2
Short-Term Borrowings	4.6	4.5	3.4	2.5
Income Taxes Payable	9.3	8.7	7.0	8.3
Current Liabilities	**65.4**	**65.2**	**70.2**	**74.0**
Total Liabilities	**88.2**	**86.7**	**89.6**	**91.7**
Total Equity and Liabilities	**310.4**	**336.8**	**377.1**	**416.3**

Cash Flow

	2008	2009	2010F	2011F
Profit Before Taxation	38.4	45.0	52.0	56.6
Non-cash Items	8.2	8.2	7.3	6.8
Changes in Working Capital	(1.8)	0.6	0.6	(1.1)
Income Tax Paid	(4.0)	(6.2)	(7.0)	(8.3)
Interest Paid	(0.6)	(0.4)	(0.4)	(0.4)
Net Cash from Operations	**40.1**	**47.2**	**52.4**	**53.7**
Interest Received	0.3	0.2	0.6	0.8
Purchase of Fixed Assets	(6.1)	(3.9)	(3.0)	(3.0)
Others	0.9	0.2	-	-
Net Cash from Investments	**(5.0)**	**(3.5)**	**(2.4)**	**(2.2)**
Dividends Paid	(12.9)	(13.0)	(15.7)	(15.8)
Proceeds from Issue of Shares	1.3	1.3	6.0	6.0
Proceeds from/(Repayment of) Loan	0.9	(2.0)	(3.1)	(2.6)
Others	-	(0.1)	-	-
Net Cash from Financing	**(10.7)**	**(13.7)**	**(12.8)**	**(12.5)**
Net Increase/(Decrease) in Cash	24.4	30.0	37.2	38.9
Exchange Effects on Cash	(0.0)	0.0	0.0	0.0
Cash (beginning)	19.7	44.1	74.1	111.3
Cash (end)	**44.1**	**74.1**	**111.3**	**150.2**

Ratios

	2008	2009	2010F	2011F
Growth & Margin (%)				
Revenue Growth	19.0	8.9	9.4	10.1
Operating Income Growth	38.1	16.6	15.4	8.7
Operating Income Margin	19.4	20.8	21.9	21.6
Pretax Profit Growth	(7.4)	17.5	15.5	8.8
Pretax Profit Margin	19.1	20.6	21.7	21.5
Tax Rate	(17.4)	(15.6)	(16.0)	(17.0)
Net Income Growth	(12.0)	20.1	14.9	7.5
Net Income Margin	15.7	17.3	18.2	17.8

Revenue Breakdown

	2008	2009	2010F	2011F
Healthcare Services	80.7	88.7	97.6	108.2
Hospital Services	119.9	129.8	141.4	154.9
Investment Holdings	0.1	0.2	0.2	0.2
Total	**200.8**	**218.6**	**239.2**	**263.3**

Source: Company and DMG estimates

See important disclosures at the end of this publication

DMG & Partners Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

DISCLAIMERS

This research is issued by DMG & Partners Research Pte Ltd and it is for general distribution only. It does not have any regard to the specific investment objectives, financial situation and particular needs of any specific recipient of this research report. You should independently evaluate particular investments and consult an independent financial adviser before making any investments or entering into any transaction in relation to any securities or investment instruments mentioned in this report.

The information contained herein has been obtained from sources we believed to be reliable but we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness or correctness. Opinions and views expressed in this report are subject to change without notice.

This report does not constitute or form part of any offer or solicitation of any offer to buy or sell any securities.

DMG & Partners Research Pte Ltd is a wholly owned subsidiary of DMG & Partners Securities Pte Ltd, a joint venture between OSK Investment Bank Berhad and Deutsche Asia Pacific Holdings Pte Ltd (a subsidiary of Deutsche Bank Group). DMG & Partners Securities Pte Ltd is a Member of the Singapore Exchange Securities Trading Limited.

DMG & Partners Securities Pte Ltd and their associates, directors, and/or employees may have positions in, and may effect transactions in the securities covered in the report, and may also perform or seek to perform broking and other corporate finance related services for the corporations whose securities are covered in the report.

As of the day before 26 October 2010, DMG & Partners Securities Pte Ltd and its subsidiaries, including DMG & Partners Research Pte Ltd, do not have proprietary positions in the subject companies, except for:

a) Nil
b) Nil

As of the day before 26 October 2010, none of the analysts who covered the stock in this report has an interest in the subject companies covered in this report, except for:

Analyst Company
a) Nil
b) Nil

DMG & Partners Research Pte. Ltd. (Reg. No. 200808705N)

Kuala Lumpur	Hong Kong	Singapore	Jakarta	Shanghai
Malaysia Headquarters OSK Research Sdn. Bhd. 6th Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Malaysia Tel : + (60) 3 9207 7688 Fax : + (60) 3 2175 3202	**Hong Kong Office** OSK Securities Hong Kong Ltd 12th Floor, World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : + (852) 2525 1118 Fax : + (852) 2810 0908	**Singapore Office** DMG & Partners Securities Pte. Ltd. 20 Raffles Place #22-01 Ocean Towers Singapore 048620 Tel : + (65) 6533 1818 Fax : + (65) 6532 6211	**Jakarta Office** PT OSK Nusadana Securities Indonesia Plaza Lippo, 14th Floor, Jl. Jend. Sudirman Kav. 25. Jakarta 12920 Indonesia Tel : + (6221) 520 4599 Fax : + (6221) 520 4598	**Shanghai Office** OSK (China) Investment Advisory Co Ltd Room 6506, Plaza 66 No. 1266 West Nanjing Road Shanghai 200040 China Tel: + (8621) 6288 9611 Fax: + (8621) 6288 9633