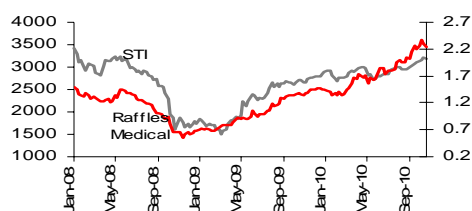


29 April 2011

Maintain

**BUY**

Previous Rating: BUY

**Current Price: S\$2.24**  
**Fair Value: S\$2.50**


## Raffles Medical Group

### Healthy start to a new year

**Record first quarter results.** Raffles Medical Group (RMG) reaffirmed its strong track record after posting another set of healthy results. For 1Q11, revenue grew 14.7% YoY and 1.5% QoQ to S\$64.4m, forming 23.3% of our full-year estimates. Core net profit was up 15.6% YoY, but fell 12.4% QoQ to S\$10.5m, and this met 21.8% of our FY11 forecasts. We note however that 1Q tends to be a seasonally weaker quarter. Both RMG's Hospital Services and Healthcare Services divisions contributed positively to its growth, with revenue increasing 15.0% and 14.4% YoY, respectively. This was attributed to a higher patient load, the offering of a wider range of medical specialties and improved operating efficiencies. Management also highlighted that growth of its foreign patients remains strong; and it intends to further widen its range of sub-specialties to cater to its diverse patient needs.

**Operating leverage to drive growth ahead.** We expect operating leverage to continue its key role in RMG's bottomline growth. While having a higher operating leverage also equates to greater risk, we believe that this is not as pertinent an issue for RMG, given the defensive nature of its earnings and rising trend of demand for quality private healthcare services.

**Outlook remains robust.** Singapore's economy remains buoyant, with GDP growth expected to come in at the upper end of the government's 4-6% forecast (after registering a 8.5% YoY growth in 1Q11), while regional economies also continued to do well. This should lend support to the take-up of private healthcare services, which augurs well for RMG. The group also completed the S\$92.1m purchase (~S\$2158 psf) of the seven storey podium/commercial block of Thong Sia Building near Orchard Road on 15 Apr 2011, which would be established into a new Specialist Medical Centre. Operations are estimated to commence around mid-2012. This would be synergistic to RMG's hospital operations due to its group practice model (doctors are employees of the RMG); hence patients would only be referred to Raffles Hospital. A formal application would also be submitted to URA for the additional 102,408 sf expansion of its hospital by 3Q11. Total costs are estimated to be ~S\$100m, with the extension ready in 2013. Funding is expected to come from internal resources and bank borrowings.

**Maintain BUY.** Taking into account the latest set of results, we fine-tune our assumptions and raise our earnings estimates for FY11 and FY12 by 3.7% and 2.1% respectively. This translates into a higher fair value estimate of S\$2.50 (previously S\$2.45), still based on 24x blended FY11/12F EPS. Maintain BUY.

Reuters Code	RAFG.SI
ISIN Code	R01
Bloomberg Code	RFMDSP
Issued Capital (m)	528
Mkt Cap (S\$m / US\$m)	1,182 / 928
Major Shareholders	
Raffles Medical Holdings Pte Ltd	39.2%
Free Float (%)	46.7%
Daily Vol 3-mth ('000)	376
52 Wk Range	1.500 - 2.520

(S\$ m)	FY09	FY10	FY11F	FY12F
Revenue	218.6	239.1	276.4	319.3
EBIT	45.5	53.0	58.9	71.0
P/NTA (x)	4.7	4.1	3.7	3.2
EPS (cts)	7.3	8.7	9.5	11.3
PER (x)	30.7	25.9	23.7	19.7

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**Raffles Medical's Key Financial Data**

<b>Raffles Medical Results</b> Year Ended 31 Dec (S\$ m)	<b>1Q10</b> <b>(S\$m)</b>	<b>1Q11</b> <b>(S\$m)</b>	<b>% Chg</b> <b>(YoY)</b>	<b>4Q10</b> <b>(S\$m)</b>	<b>% Chg</b> <b>(QoQ)</b>
<b>Revenue</b>	<b>56.2</b>	<b>64.4</b>	<b>14.7%</b>	<b>63.5</b>	<b>1.5%</b>
Other operating income	0.0	0.0	nm	3.3	nm
Inventories and consumables used	-6.4	-7.4	16.4%	-6.6	13.1%
Purchased and contracted services	-3.8	-4.8	25.7%	-5.1	-6.2%
Staff costs	-27.6	-31.7	14.6%	-31.2	1.5%
Depreciation of PPE	-1.7	-1.9	10.8%	-1.9	0.7%
Operating lease expenses	-1.3	-1.4	6.9%	-1.4	-0.4%
Other operating expenses	-4.2	-4.4	4.6%	-4.8	-8.0%
<b>Profit from operating activities (EBIT)</b>	<b>11.1</b>	<b>12.8</b>	<b>15.2%</b>	<b>15.8</b>	<b>-19.0%</b>
Finance income	0.1	0.1	106.1%	0.1	28.3%
Finance expenses	-0.1	0.0	-40.8%	0.0	27.3%
Share of profits in a jointly-controlled entity	0.0	0.0	nm	0.0	nm
<b>Profit before income tax</b>	<b>11.1</b>	<b>12.9</b>	<b>16.1%</b>	<b>15.9</b>	<b>-18.8%</b>
Income tax expense	-2.0	-2.4	17.5%	-0.9	170.1%
<b>Profit for the year</b>	<b>9.1</b>	<b>10.6</b>	<b>15.7%</b>	<b>15.0</b>	<b>-29.7%</b>
<i>Attributable to:</i>					
<b>Owners of the company (net profit)</b>	<b>9.1</b>	<b>10.5</b>	<b>15.6%</b>	<b>15.0</b>	<b>-29.9%</b>
Minority interest	0.1	0.1	45.5%	0.1	14.3%
<b>Profit for the year</b>	<b>9.1</b>	<b>10.6</b>	<b>15.7%</b>	<b>15.0</b>	<b>-29.7%</b>

## Raffles Medical Group's Key Financial Data

EARNINGS FORECAST					BALANCE SHEET				
Year Ended 31 Dec (\$m)	FY09	FY10	FY11F	FY12F	As at 31 Dec (\$m)	FY09	FY10	FY11F	FY12F
Revenue	218.6	239.1	276.4	319.3	Bank and cash balances	74.4	107.1	30.7	44.6
EBITDA	52.3	59.9	66.2	79.8	Other current assets	30.1	31.1	36.8	42.5
Depreciation and amortisation	-6.9	-6.9	-7.4	-8.9	Property, plant, and equipment	146.4	144.3	268.9	310.0
EBIT	45.5	53.0	58.9	71.0	Total assets	336.8	371.8	425.7	486.6
Net interests	-0.4	-0.2	-0.4	-0.5	Debt	24.5	22.6	29.5	34.8
Share of results of JVs, net	0.0	0.0	0.0	0.0	Current liabilities excluding debt	60.7	60.5	73.2	84.6
Profit before tax	45.0	53.1	59.0	70.7	Total liabilities	86.7	84.8	104.4	121.1
Income tax expense	-7.0	-7.6	-8.8	-10.6	Shareholders equity	249.8	286.4	320.5	364.5
Minority interests	-0.2	-0.2	-0.2	-0.3	Minority interests	0.4	0.5	0.8	1.1
Profit attributable to shareholders	37.9	45.3	49.9	59.8	Total equity and liabilities	336.8	371.8	425.7	486.6
CASH FLOW					KEY RATES & RATIOS				
Year Ended 31 Dec (\$m)	FY09	FY10	FY11F	FY12F		FY09	FY10	FY11F	FY12F
Op profit before working cap. chg.	53.3	58.9	66.3	79.9	EPS (SG cents)	7.3	8.7	9.5	11.3
Working cap, taxes and int	-6.0	-9.7	-2.4	-5.6	NTA per share (SG cents)	48.0	54.4	60.8	69.1
Net cash from operations	47.2	49.2	63.9	74.3	EBIT margin (%)	20.8	22.2	21.3	22.2
Purchase of PP&E	-3.9	-5.5	-132.0	-50.0	Net profit margin (%)	17.1	18.9	18.1	18.7
Other investing flows	0.4	2.1	0.5	0.2	PER (x)	30.7	25.9	23.7	19.7
Investing cash flow	-3.5	-3.4	-131.5	-49.8	Price/NTA (x)	4.7	4.1	3.7	3.2
Financing cash flow	-13.7	-12.8	-8.9	-10.5	EV/EBITDA (x)	21.6	18.3	17.8	14.7
Net cash flow	30.0	33.1	-76.4	13.9	Dividend yield (%)	1.3	1.6	1.3	1.3
Cash at beginning of year	44.1	74.1	107.1	30.7	ROE (%)	16.1	16.9	16.4	17.5
Cash at end of year	74.4	107.1	30.7	44.6	Net gearing (%)	net cash	net cash	net cash	net cash

Source: Company data, OIR estimates

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Head of Research

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