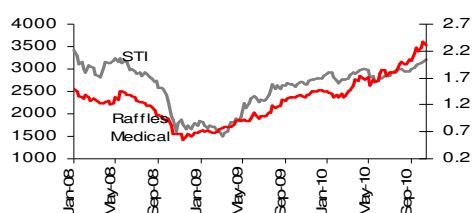


26 October 2010

Maintain

HOLD

Previous Rating: HOLD

Current Price: S\$2.21
Fair Value: S\$2.35


Reuters Code	RAFG.SI
ISIN Code	R01
Bloomberg Code	RFMD SP
Issued Capital (m)	525
Mkt Cap (S\$m / US\$m)	1,161 / 897
Major Shareholders	
Raffles Medical Holdings Pte Ltd	39.4%
Free Float (%)	46.5%
Daily Vol 3-mth ('000)	389
52 Wk Range	1.320 - 2.370

(\$ m)	FY08	FY09	FY10F	FY11F
Revenue	200.8	218.6	244.6	278.2
EBIT	39.0	45.5	53.3	61.3
P/NTA (x)	5.2	4.6	4.1	3.7
EPS (cts)	6.1	7.3	8.5	9.8
PER (x)	36.2	30.3	25.9	22.5

Wong Teck Ching (Andy)

(65) 6531 9817

e-mail: AndyWong@ocbc-research.com

Raffles Medical Group

Maintaining its steady growth

3Q10 results within expectations. Raffles Medical Group (RMG) reported its 3Q10 results with revenue increasing 9.8% YoY and 3.9% QoQ to a record S\$60.9m. Net profit increased 13.0% YoY and 1.2% QoQ to S\$10.7m. Both revenue and earnings were in line with our expectations. EBIT margin and net profit margin also held relatively steady at 21.7% (vs. 21.5% in 3Q09 and 22.2% in 2Q10) and 17.6% (vs. 17.1% in 3Q09 and 18.0% in 2Q10) respectively. For 9M10, revenue increased 9.5% to S\$175.6m, meeting 71.3% of our FY10 revenue forecast (71.2% of consensus), while net profit jumped 16.5% to S\$30.4m, meeting 69.1% of our full-year earnings figure (69.4% of consensus). We further note that RMG's earnings have traditionally been better in the fourth quarter.

Improving profit from operating activities. RMG's operating profit increased 10.9% YoY to S\$13.2m in 3Q10. This was attributed to a wider range of medical specialties, continued improving operating efficiencies, higher patient load and the recruitment of more specialist consultants. While RMG is already offering almost the full spectrum of medical specialties, management highlights that growth opportunities are still available. This will be driven by focusing on the depth of specialties moving forward. These factors have resulted in an improvement in RMG's net cash position, which stands at S\$70.9m currently vis-à-vis S\$61.6m in 2Q10.

Management's expectations and outlook. Management remains optimistic on both the growth of the local healthcare market given the aging population and foreign patient demand for quality healthcare services. Hospital services' revenue increased by 15.0% YoY in 3Q10, with volume growth contributing approximately half of this increase. Raffles Hospital is also seeing a rising number of multiple trauma cases from overseas, which has increased the group's revenue intensity given the complexity of such cases. The impending expansion of Raffles Hospital is also expected to improve operating margins and future growth will continue to be driven by operating leverage.

Maintain HOLD. We have fine-tuned our assumptions in accordance to RMG's 3Q10 results, bumping up our earnings estimates for FY10 and FY11 slightly; this in turn raises our fair value estimate from S\$2.32 to S\$2.35 (based on 24x FY11F EPS). While we believe that continued operating efficiencies, dependancy on operating leverage and increased patient loads will remain as key catalysts for RMG's future growth, current market valuations have already factored much of these positives in. Hence we maintain our **HOLD** rating on RMG.

Raffles Medical's Key Financial Data

Raffles Medical Results Year Ended 31 Dec (S\$ m)	3Q09 (S\$m)	3Q10 (S\$m)	% Chg (YoY)	2Q10 (S\$m)	% Chg (QoQ)
Revenue	55.4	60.9	9.8%	58.6	3.9%
Other operating income	0.1	0.1	-5.9%	0.3	-63.5%
Inventories and consumables used	-6.1	-7.0	14.3%	-6.7	5.3%
Purchased and contracted services	-3.8	-4.2	10.9%	-4.3	-3.9%
Staff costs	-26.8	-29.2	8.7%	-27.8	4.9%
Depreciation of PPE	-1.7	-1.7	-3.1%	-1.7	-0.4%
Operating lease expenses	-1.3	-1.5	13.6%	-1.3	10.4%
Other operating expenses	-3.9	-4.3	10.2%	-4.0	6.2%
Profit from operating activities (EBIT)	11.9	13.2	10.9%	13.0	1.4%
Finance expenses	-0.1	-0.1	-27.3%	-0.1	14.3%
Share of profits in a jointly-controlled entity	0.0	0.0	nm	0.0	nm
Profit before income tax	11.8	13.1	11.2%	12.9	1.4%
Income tax expense	-2.3	-2.4	4.0%	-2.3	2.0%
Profit for the year	9.5	10.7	13.0%	10.6	1.2%
<i>Attributable to:</i>					
Owners of the company (net profit)	9.5	10.7	12.9%	10.6	1.1%
Minority interest	0.0	0.1	22.2%	0.0	48.6%
Profit for the year	9.5	10.7	13.0%	10.6	1.2%

Raffles Medical Group's Key Financial Data

EARNINGS FORECAST					BALANCE SHEET				
Year Ended 31 Dec (\$m)	FY08	FY09	FY10F	FY11F	As at 31 Dec (\$m)	FY08	FY09	FY10F	FY11F
Revenue	200.8	218.6	244.6	278.2	Bank and cash balances	44.5	74.4	106.5	101.7
EBITDA	45.6	52.3	60.3	70.4	Other current assets	29.7	30.1	35.3	39.5
Depreciation and amortisation	-6.6	-6.9	-7.0	-9.1	Property, plant, and equipment	150.3	146.4	144.5	185.3
EBIT	39.0	45.5	53.3	61.3	Total assets	310.4	336.8	372.3	412.9
Net interests	-0.6	-0.4	-0.4	-0.4	Debt	26.6	24.5	23.0	21.7
Share of results of JVs, net	0.0	0.0	0.0	0.0	Current liabilities excluding debt	60.8	60.7	66.0	72.3
Profit before tax	38.4	45.0	52.9	60.9	Total liabilities	88.2	86.7	90.5	95.5
Income tax expense	-6.7	-7.0	-8.2	-9.4	Shareholders equity	221.9	249.8	281.3	316.7
Minority interests	-0.1	-0.2	-0.2	-0.2	Minority interests	0.3	0.4	0.6	0.8
Profit attributable to shareholders	31.5	37.9	44.5	51.2	Total equity and liabilities	310.4	336.8	372.3	412.9

CASH FLOW					KEY RATES & RATIOS				
Year Ended 31 Dec (\$m)	FY08	FY09	FY10F	FY11F		FY08	FY09	FY10F	FY11F
Op profit before working cap. chg.	46.5	53.3	60.3	70.4	EPS (SG cents)	6.1	7.3	8.5	9.8
Working cap, taxes and int	-6.4	-6.0	-8.7	-8.1	NTA per share (SG cents)	42.8	48.0	53.6	59.8
Net cash from operations	40.1	47.2	51.7	62.3	EBIT margin (%)	19.4	20.8	21.8	22.0
Purchase of PP&E	-6.1	-3.9	-5.0	-50.0	Net profit margin (%)	15.7	17.1	18.2	18.4
Other investing flows	1.2	0.4	0.0	0.0	PER (x)	36.2	30.3	25.9	22.5
Investing cash flow	-5.0	-3.5	-5.0	-50.0	Price/NTA (x)	5.2	4.6	4.1	3.7
Financing cash flow	-10.7	-13.7	-14.5	-17.2	EV/EBITDA (x)	25.0	21.2	17.8	15.3
Net cash flow	24.4	30.0	32.2	-4.9	Dividend yield (%)	1.1	1.4	1.4	1.4
Cash at beginning of year	19.7	44.5	74.4	106.5	ROE (%)	14.9	16.1	16.8	17.1
Cash at end of year	44.5	74.4	106.5	101.7	Net gearing (%)	net cash	net cash	net cash	net cash

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

The analyst/analysts who wrote this report holds NIL shares in the above security.

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- However, OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon. OIR's Buy = More than 10% upside from the current price; Hold = Trade within +/- 10% from the current price; Sell = More than 10% downside from the current price.

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For OCBC Investment Research Pte Ltd



Carmen Lee
Head of Research

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