

# Singapore Company Focus

## Raffles Medical

Bloomberg: RFMD SP | Reuters: RAFG.SI

DBS Group Research . Equity

29 Jul 2008

**BUY S\$1.20** STI : 2,910.36

**Price Target** : 12-month S\$ 1.51 (Prev S\$ 1.74)

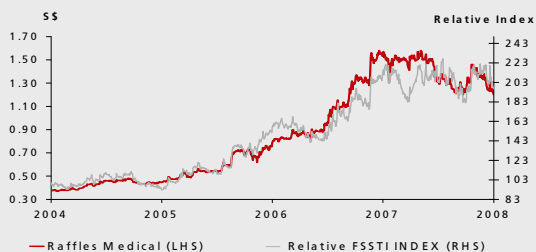
**Reason for Report** : 2Q/1H08 Results

**Potential Catalyst**: Higher revenue intensity per patient, overseas expansion.

### Analyst

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### Price Relative



### Forecasts and Valuation

FY Dec (\$\$ m)	2006A	2007A	2008F	2009F
Turnover	134	169	207	265
EBITDA	24	34	39	50
Pre-tax Profit	20	41	35	44
Net Profit	16	36	28	36
Net Pft (Pre Ex.)	16	23	28	36
EPS (S cts)	3.5	7.0	5.5	7.0
EPS Pre Ex. (S cts)	3.5	4.5	5.5	7.0
EPS Gth Pre Ex (%)	28	29	21	27
Diluted EPS (S cts)	3.4	6.9	5.4	6.9
Net DPS (S cts)	3.3	2.5	3.3	4.2
BV Per Share (S cts)	24.8	39.0	42.0	45.7
PE (X)	34.3	17.2	21.9	17.2
PE Pre Ex. (X)	34.3	26.5	21.9	17.2
P/Cash Flow (X)	29.6	15.8	18.5	14.8
EV/EBITDA (X)	20.5	18.6	15.7	11.6
Net Div Yield (%)	2.7	2.1	2.7	3.5
P/Book Value (X)	4.8	3.1	2.9	2.6
Net Debt/Equity (X)	CASH	0.0	CASH	CASH
ROAE (%)	14.3	22.9	13.6	15.9

**Earnings Rev (%)**:

**Consensus EPS (S cts)**: 5.65 6.9

**ICB Industry** : Health Care

**ICB Sector**: Health Care Equipment & Service

**Principal Business**: Raffles Medical Group Ltd. is a Singapore-based company that is principally engaged in the provision of integrated healthcare services.

## Another quarter of strong growth

**Story**: Raffles Medical's 2Q/1H results were slightly above our expectations. 2Q recurring net profit grew 40% to S\$7.7m from S\$5.5m a year ago. Revenue grew 22% on a 24% and 15% growth in its Hospital and Healthcare divisions, respectively.

**Point**: The strong net profit growth vis-à-vis its topline was a result of its operating leverage. 2Q total operating expenses grew by a slower 16% y-o-y, helped by a smaller growth in inventories and consumables used, staff costs, and drop in operating lease expenses. This is partially offset by a higher depreciation expense. As a result, we witnessed a marked improvement in the Group's operating margin in 2Q to 18.8%, up 4.3ppts from 14.5% a year ago. An interim dividend of 1 Scts was announced.

Foreign patient load continues to account for an estimated one-third of inpatient admissions. We believe the recent drop in Jun tourists' arrivals – amid economic uncertainty – may not be a definite indication that medical tourists is slowing as there is a certain level of stickiness in terms of demand for healthcare services, in our view. Raffles Med has taken measures to diversify its patient base, which has helped to avoid over-reliance on any single market. Its hospital foreign patients are understood to come from over 100 countries.

**Relevance**: Maintain Buy, TP: S\$1.51. We lowered our TP based on a lower target PER. Raffles Med's has traded at c. 15x to above 30x of its trailing EPS. Most recently, it traded at between 22x to 27x on FY08F earnings. Given the cautiousness of the current market, we peg our valuations to 22x PER on FY09F earnings, hence our TP is adjusted to S\$1.51. In our view, we feel that 22x is justified given its growth profile, backed by its potential to scale up its operations, defensive qualities of the healthcare industry, possible benefits arising from the implementation of means-testing in Jan'09, and a growing population.

### At A Glance

Issued Capital (m shrs)	517
Mkt. Cap (S\$m/US\$m)	621 / 456
Major Shareholders	
Raffles Medical (%)	40.0
Loo Choon Yong (%)	9.8
Free Float (%)	50.2
Avg. Daily Vol. ('000)	187

**2Q recurring net profit grew a strong 40%...** Excluding the fair value gains of its hospital and the associated deferred tax charge in 2Q07, recurring net profit for the Group grew by 40.2% to S\$7.7m, from S\$5.5m a year ago. This increase was on the back of a 22% increase in revenue and slower growth in its expenses – staff costs, inventories and consumables, and operating lease expenses but offset by a higher depreciation charge. The growth in revenue was due to higher local and foreign patient loads. Operating margins improved markedly by 4.3 pts to 18.8% in 2Q08 versus 14.5% a year ago.

**On track to meet our full year forecasts...** Raffles Med's 1H revenue and net profit currently accounts for about 47% and 49% of our FY08F revenue and net profit forecasts. Based on historical track record, we noted that 1H usually accounts for about 42% - 46% of its full year profits. We expect its net

profit to at least meet our forecasts on continued growth in its revenue and maintaining its gross margins.

**Interim dividend of 1 Scts.** The Group also announced an interim dividend of 1 Scts, similar to 1H07.

**Foreign patient continues to account for one-third of patient load.** Despite figures released by the Singapore Tourism Board that Jun tourists' arrivals to Singapore dipped 4% y-o-y, management indicated that they have not seen any impact in its foreign patient load. Foreign patient continues to account for about one-third of its inpatient admission. In our opinion, we think the tourists' arrivals may not be a definite indication that foreign patient load is slowing since there is certain "level of stickiness" in terms of medical demand by patients.

### Results Summary and Comments

FY Dec (\$m)	2Q07	2Q08	2Q Chg y-o-y	1H07	1H08	Chg y-o-y	Comments
Sales	41.4	50.6	22%	79.1	98.0	24%	Growth from Hospital (+24.1%) and Healthcare (+15.4%) divisions
Other Operating Income	(0.0)	0.3	na	0.0	0.4		
<i>Inventories and consumables used</i>	(4.9)	(5.8)	18%	(9.6)	(11.5)	20%	
<i>Staff costs</i>	(20.3)	(24.7)	22%	(40.0)	(48.6)	22%	
<i>Depreciation of PPE</i>	(0.9)	(1.6)	85%	(1.8)	(3.2)	81%	Increase largely due to full ownership of hospital, offset by lower operating lease expenses
<i>Operating lease expenses</i>	(2.9)	(1.4)	-52%	(5.7)	(2.5)	-57%	
<i>Other operating expenses</i>	(6.4)	(7.6)	18%	(11.5)	(14.9)	30%	Largely due to insurance claims (IMH)
Total operating expenses	(35.4)	(41.1)	16%	(68.6)	(80.7)	18%	Lower than topline due to operating efficiencies
Operating profit	6.0	9.8	63%	6.0	17.7	193%	
Interest Income	0.5	0.0	-90%	1.0	0.1	-87%	
Interest Expense	(0.0)	(0.2)	558%	(0.0)	(0.3)	544%	Due to higher debt level
Share of Associates' or JV Income	0.4	0.0	-100%	0.6	0.0	nm	
Exceptional Gains/(Losses)	12.5	0.0	-100%	12.5	0.0	nm	Fair gains from the Hospital assets in 2Q07
Pretax Profit	19.4	9.7	-50%	20.0	17.5	-13%	
Tax	(3.6)	(1.9)	-46%	(4.6)	(3.7)	-20%	Deferred tax charge recognised resulting from fair value gains in 2Q07
Minority Interests	0.0	0.0	15%	0.0	0.0	-11%	
Net Profit	15.8	7.7	-51%	19.9	13.9	-31%	Slightly above expectations
Recurring net profit	5.5	7.7	40%	9.6	13.8	44%	
As % of revenue							
<i>Inventories &amp; consumables used</i>	11.9%	11.5%	-0.4%	12.1%	11.7%	-0.4%	
<i>Staff costs</i>	49.0%	48.7%	-0.3%	50.6%	49.6%	-1.0%	
<i>Depreciation of PPE</i>	2.1%	3.2%	1.1%	2.2%	3.3%	1.0%	
<i>Operating lease expenses</i>	6.9%	2.7%	-4.2%	7.2%	2.5%	-4.7%	
<i>Other operating expenses</i>	15.5%	15.0%	-0.5%	14.6%	15.2%	0.7%	
Operating margins	14.5%	18.8%	4.3%	13.3%	17.7%	4.4%	

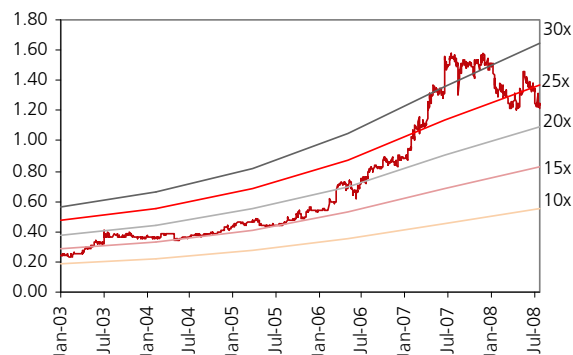
Source: Company, DBS Vickers

**PE valuation band.** We lowered our TP based on a lower target PER versus our previous DCF-derived TP, which equates to 25x on FY09F EPS. Raffles Medical shares have traded in the range of 15x –20x on the years' earning since early 2003 till mid-2006. In 2007, we also witnessed its share price trading above 30x PER possibly on the back of a stronger growth profile and strategic investment by Temasek Holdings and Qatar Investments (each subscribing for 5% of new shares at S\$1.30/share), in our view. Most recently, it traded at between 22x to 27x on FY08F earnings. Given current cautiousness in the market, we think pegging our valuations to 22x on FY09F is reasonable with Raffles Med's projected strong growth profile. Hence, our TP is adjusted to S\$1.51, based on 22x on FY09F earnings, equating to 0.9x PEG. As such, our TP is lowered to S\$1.51 from S\$1.74, which was based on DCF previously.

**Maintain Buy, TP: S\$1.51.** We maintain our positive view of Raffles Medical arising from its strong growth profile, backed by its potential to scale up its operations without significant investments, defensive qualities of the healthcare industry, possible benefits (being a private

healthcare provider) arising from the implementation of means-testing from Jan 2009, and a growing population.

**Raffles Medical PE trading band (trailing)**



Source: Bloomberg, DBS Vickers

**Peers' valuation table**

Company	Curr	Last Px	Mkt cap (US\$)	Hist. PE (x)	PE Curr Yr (x)	PE Nxt Yr (x)	P/B (x)	P/S (x)	Sales (US\$)	Opg Income (US\$)
Raffles Medical Group Ltd*	SGD	1.220	463	**27.5	22.6	17.7	3.1	3.4	90.6	19.3
Parkway Holdings Ltd*	SGD	2.230	1,847	**21.5	22.1	23.7	3.2	2.1	635.6	93.2
Thomson Medical Centre*	SGD	0.605	129	18.4	15.4	13.3	1.9	3.4	38.4	8.4
Pacific Healthcare Hdgs	SGD	0.300	61	14.5	15.0	10.0	1.5	1.1	55.1	5.6
Health Management Int'l	SGD	0.140	49	8.5	na	na	2.1	1.4	31.9	7.7
Healthway Medical Corp Ltd	SGD	0.155	154	11.8	na	na	0.0	2.3	62.0	16.2
Primary Health Care Ltd	AUD	5.090	1,802	12.7	20.2	16.0	1.2	2.3	258.7	80.1
Ramsay Health Care Ltd	AUD	9.660	1,605	17.4	14.6	14.4	2.5	0.8	1,962.7	200.8
Healthscope Ltd	AUD	4.520	1,053	14.9	12.6	12.6	1.3	0.8	1,259.4	119.8
Bangkok Dusit Medical Svc Pcl	THB	35.750	1,298	28.6	24.0	20.1	3.9	2.2	553.5	64.0
Bumrungrad Hospital PCL	THB	36.750	3,920	16.5	22.3	19.9	5.9	3.2	249.3	43.5
Bangkok Chain Hospital PCL	THB	7.550	1,050	13.6	13.2	12.1	2.9	1.9	107.8	21.7
Apollo Hospitals Enterprise Ltd	INR	488.15	677	34.8	26.8	23.3	3.4	2.4	287.3	26.6
					22.4	19.5				

\*\*Note: Excluding exceptionals

Source: Bloomberg, \*DBS Vickers' estimates

## Raffles Medical

## Income Statement (\$\$ m)

FY Dec	2006A	2007A	2008F	2009F
Turnover	134	169	207	265
Other Opng (Exp)/Inc	(115)	(140)	(174)	(221)
<b>Operating Profit</b>	<b>19</b>	<b>28</b>	<b>33</b>	<b>44</b>
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	1	1	0	0
Net Interest (Exp)/Inc	0	0	1	0
Exceptional Gain/(Loss)	0	13	0	0
<b>Pre-tax Profit</b>	<b>20</b>	<b>41</b>	<b>35</b>	<b>44</b>
Tax	(4)	(5)	(6)	(8)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
<b>Net Profit</b>	<b>16</b>	<b>36</b>	<b>28</b>	<b>36</b>
Net Profit before Except.	16	23	28	36
EBITDA	24	34	39	50
Sales Gth (%)	18.9	25.6	22.8	28.0
EBITDA Gth (%)	31.9	42.4	14.8	28.6
Opg Profit Gth (%)	43.3	46.9	18.4	31.2
Net Profit Gth (%)	31.4	128.2	(21.1)	27.1
Effective Tax Rate (%)	21.3	13.3	18.0	18.0

## Balance Sheet (\$\$ m)

FY Dec	2006A	2007A	2008F	2009F
Net Fixed Assets	20	151	151	150
Invts in Associates & JVs	54	0	0	0
Other LT Assets	1	86	86	86
Cash & ST Invts	56	20	40	70
Other Current Assets	20	25	30	38
<b>Total Assets</b>	<b>152</b>	<b>281</b>	<b>307</b>	<b>344</b>
ST Debt	2	25	25	25
Other Current Liab	36	54	65	83
LT Debt	0	0	0	0
Other LT Liabilities	1	1	1	1
Shareholder's Equity	113	201	216	235
Minority Interests	0	0	0	0
<b>Total Cap. &amp; Liab.</b>	<b>152</b>	<b>281</b>	<b>307</b>	<b>344</b>
Non-Cash Wkg. Capital	(16)	(30)	(35)	(44)
Net Cash/(Debt)	54	(6)	15	45

## Cash Flow Statement (\$\$ m)

FY Dec	2006A	2007A	2008F	2009F
Pre-Tax Profit	20	41	35	44
Dep. & Amort.	3	4	5	6
Tax Paid	(2)	(4)	(7)	(6)
Assoc. & JV Inc/(loss)	(1)	(1)	0	0
Chg in Wkg.Cap.	1	13	5	8
Other Operating CF	(1)	(14)	0	0
<b>Net Operating CF</b>	<b>20</b>	<b>40</b>	<b>38</b>	<b>52</b>
Capital Exp.(net)	(2)	(68)	(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	0	15	0	0
<b>Net Investing CF</b>	<b>(2)</b>	<b>(53)</b>	<b>(5)</b>	<b>(5)</b>
Div Paid	(16)	(18)	(13)	(17)
Chg in Gross Debt	0	0	0	0
Capital Issues	5	64	0	0
Other Financing CF	0	(55)	0	0
<b>Net Financing CF</b>	<b>(11)</b>	<b>(9)</b>	<b>(13)</b>	<b>(17)</b>
Net Cashflow	7	(22)	20	30

## Rates &amp; Ratio

FY Dec	2006A	2007A	2008F	2009F
Gross Margins (%)	100.0	100.0	100.0	100.0
Opg Profit Margin (%)	14.3	16.7	16.1	16.5
Net Profit Margin (%)	11.7	21.3	13.7	13.6
ROAE (%)	14.3	22.9	13.6	15.9
ROA (%)	10.8	16.6	9.6	11.0
ROCE (%)	13.7	15.3	13.0	15.9
Div Payout Ratio (%)	95.5	36.0	60.0	60.0
Net Interest Cover (x)	176.2	75.0	NM	NM
Asset Turnover (x)	0.9	0.8	0.7	0.8
Debtors Turn (avg days)	39.5	40.0	39.7	39.0
Creditors Turn (avg days)	89.0	104.2	115.1	113.1
Inventory Turn (avg days)	N/A	N/A	N/A	N/A
Current Ratio (x)	2.0	0.6	0.8	1.0
Quick Ratio (x)	1.9	0.5	0.7	0.9
Net Debt/Equity (X)	CASH	0.0	CASH	CASH
Capex to Debt (%)	113.4	270.3	19.8	19.8
N. Cash/(Debt)PS (S cts)	11.9	(1.1)	2.9	8.6
Opg CFPS (S cts)	4.2	5.2	6.4	8.4
Free CFPS (S cts)	3.9	(5.5)	6.5	9.0

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

FY Dec	3Q2007	4Q2007	1Q2008	2Q2008
Turnover	44	46	47	51
Other Oper. (Exp)/Inc	(36)	(37)	(39)	(41)
<b>Operating Profit</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>10</b>
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	1	0	0	0
Net Interest (Exp)/Inc	0	1	0	0
Exceptional Gain/(Loss)	0	0	0	0
<b>Pre-tax Profit</b>	<b>8</b>	<b>9</b>	<b>8</b>	<b>10</b>
Tax	(2)	1	(2)	(2)
Minority Interest	0	0	0	0
<b>Net Profit</b>	<b>7</b>	<b>9</b>	<b>6</b>	<b>8</b>
Net profit bef Except.	7	9	6	8
EBITDA	9	10	10	11
Sales Gth (%)	5.9	4.3	3.6	6.8
EBITDA Gth (%)	24.2	8.0	(3.0)	20.2
Opg Profit Gth (%)	26.2	9.8	(4.8)	23.4
Net Profit Gth (%)	(58.6)	42.8	(34.7)	26.4
Gross Margins (%)	100.0	100.0	100.0	100.0
Opg Profit Margins (%)	17.3	18.2	16.7	19.3
Net Profit Margins (%)	14.9	20.4	12.9	15.2

## Segmental Breakdown

FY Dec	2006A	2007A	2008F	2009F
<b>Revenues (\$\$ m)</b>				
Healthcare services	61	70	84	104
Hospital services	79	106	131	170
Investment holdings	1	3	3	3
Less: Eliminations	(6)	(10)	(11)	(12)
<b>Total</b>	<b>134</b>	<b>169</b>	<b>207</b>	<b>265</b>
<b>Operating profit (\$\$ m)</b>				
Healthcare services	6	6	8	10
Hospital services	13	20	24	32
Investment holdings	0	2	2	2
<b>Total</b>	<b>19</b>	<b>28</b>	<b>33</b>	<b>44</b>
<b>Operating profit Margins</b>				
Healthcare services	9.9	9.1	9.2	9.2
Hospital services	16.3	18.6	17.9	18.9
Investment holdings	39.9	72.8	72.8	66.2
<b>Total</b>	<b>14.3</b>	<b>16.7</b>	<b>16.1</b>	<b>16.5</b>

Source: Company, DBS Vickers

DBSV recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

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**HOLD** (0-15% total return over the next 12 months for small caps, 0-10% 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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