

Raffles Medical Group – Singapore

Concrete expansion plan in Singapore; premier healthcare play

What's New

- Raffles Medical Group (RMG) has slightly underperformed the FSSTI, falling 6.7% ytd vs the market's -5.9%. We highlight its concrete expansion plans and reiterate BUY for its solid outlook, strong earnings and execution track record. More details can be found in our blue top reported dated 22 Mar 11.

Stock Impact

- Premier healthcare exposure in Singapore.** RMG is on our BUY list for its robust business model, three-year EPS CAGR of 13% and reasonable valuations. RMG is an excellent proxy to the rising demand for private healthcare in Singapore and the region. Our DCF-based target price of S\$2.81 implies a 26% price upside.
- Concrete expansion plans in Singapore.** RMG recently acquired seven floors of commercial space (with floor area of 42,668sf) in Thong Sia Building in Orchard Road to convert it into a specialist medical centre. The centre will further improve customer service as well as help raise RMG's market share of foreign patients given its strategic location in Orchard Road. Total cost to renovate and fit out the medical centre is estimated at S\$10m, and full contributions should come on stream from 2013 onwards.
- Still on lookout for regional opportunities.** Despite its recent investment in Singapore, RMG continues to be on the lookout for opportunities, particularly in China and ASEAN. Meanwhile, its medium-term growth visibility has improved with its recent investment in Orchard Road and the expansion of its flagship hospital's capacity by 33%.
- Benefitting from robust growth in Singapore's tourism sector.** Visitor arrivals to Singapore surged 16% yoy to 1,055,000 in Jan 11. We forecast visitor arrivals to grow 10% yoy to 12.8m in 2011 as Singapore gears up for the next round of major tourist attractions. We believe the strong prospects for hospitality bode well for private healthcare providers such as RMG. In addition, the group's latest foray in setting up a specialist centre in Orchard Road will position RMG to tap on the strong tourist arrivals. Currently, about one-third of its patients are from overseas. Of its foreign patients, Indonesians account for 20-25%, while Malaysians and Russians account for 5-7% each.

Key Financials

Year to 31 Dec (\$m)	2009	2010	2011F	2012F	2013F
Net turnover	218.6	239.1	260.4	289.4	314.2
EBITDA	52.3	60.3	67.7	76.3	86.3
Operating profit	45.5	53.3	61.3	69.9	79.9
Net profit (rep./act.)	37.9	45.3	50.9	58.0	66.1
Net profit (adj.)	37.9	45.3	50.9	58.0	66.1
EPS (\$ cent)	7.2	8.5	9.6	10.9	12.4
P/E (x)	30.9	26.2	23.3	20.5	17.9
P/BV (x)	4.6	4.0	3.6	3.2	2.8
EV/EBITDA (x)	22.2	19.3	17.1	15.2	13.5
Dividend yield (%)	1.3	1.6	1.6	1.6	1.6
Net margin (%)	17.3	18.9	19.5	20.0	21.0
Net debt/(cash) to equity (%)	(20.0)	(29.5)	(4.5)	(6.4)	(8.5)
Interest cover (x)	127.7	252.2	n.a.	n.a.	n.a.
ROE (%)	16.1	16.9	16.8	17.1	17.3
Consensus net profit	-	-	50.2	57.8	68.4
UOBKH/Consensus (x)	-	-	1.01	1.00	0.97

Source: Raffles Medical Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Company Update

Share Price	S\$2.23
Target Price	S\$2.81
Upside	+26.2%

Company Description

Raffles Medical Group is a health care provider. It operates medical clinics, imaging centres and medical laboratories. RMG also provides general and specialised medical evacuation, medical advisory and dental treatment services.

Stock Data

GICS sector	Health Care
Bloomberg ticker:	RFMD SP
Shares issued (m):	526.8
Market cap (S\$m):	1,174.7
Market cap (US\$m):	929.6
3-mth avg daily t'over (US\$m):	1.4

Price Performance (%)

52-week high/low	S\$2.52/S\$1.55			
1mth	3mth	6mth	1yr	YTD
3.2	(7.1)	(0.9)	41.1	(6.7)

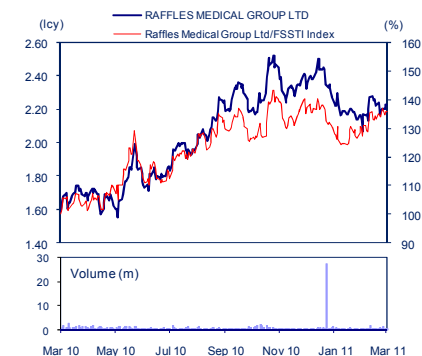
Major Shareholders

	%
Dr Loo Choon Yong	53.0

FY11 NAV/Share (S\$) 0.62

FY11 Net Cash/Share (S\$) 0.03

Price Chart



Source: Bloomberg

Analyst

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- **Free cash flow to fund growth.** The group's operating cash flow remains strong, with an operating cash flow of S\$59m in 2010. Its net cash balance rose to S\$85m as at Dec 10. This will partially fund its acquisition of seven floors of commercial space in Thong Sia Building as well as the expansion of its current hospital. Although its capex will remain high over 2011-13, we believe funding is not a problem given its estimated strong free cash flow of about S\$40m p.a. Other than expansion capex, RMG's maintenance capex is about S\$5m annually. Looking ahead, management is comfortable with raising net gearing up to 25% to fund expansions or acquisitions.

Earnings Revision/Risk

- We maintain our earnings estimates, which project a 3-year EPS CAGR of 13%. Potential risks include delays in the expansion of its hospital, retaining quality doctors and a global double dip in economic growth, affecting demand for private healthcare.

Valuation/Recommendation

- **Premier healthcare exposure in Singapore.** RMG remains on our BUY list with a target price of S\$2.81, based on DCF valuation which factors in a long-term growth of 4.0%. Our target price implies 28.9x 2011F PE, which is more than 1SD to its mean PE of 20.6x (2003-present). We think the premium is deserved given the scarcity premium after the de-listing of Parkway and Thomson Medical as well as its strong operating cash flow.

Share Price Catalyst

- Better-than-expected earnings growth in 2011-12, clarity and updates on its China expansion plans, and M&A newsflow in the sector, which could further re-rate healthcare companies.

Profit & Loss

Year to 31 Dec (\$m)	2010	2011F	2012F	2013F
Net turnover	239.1	260.4	289.4	314.2
EBITDA	60.3	67.7	76.3	86.3
Deprec. & amort.	6.9	6.4	6.4	6.4
EBIT	53.3	61.3	69.9	79.9
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(0.2)	0.7	0.7	0.7
Pre-tax profit	53.1	62.0	70.7	80.6
Tax	(7.6)	(11.2)	(12.7)	(14.5)
Minorities	(0.2)	0.0	0.0	0.0
Net profit	45.3	50.9	58.0	66.1
Net profit (adj.)	45.3	50.9	58.0	66.1

Balance Sheet

Year to 31 Dec (\$m)	2010	2011F	2012F	2013F
Fixed assets	232.3	338.0	372.8	412.5
Other LT assets	1.2	1.3	1.4	1.5
Cash/ST investment	107.1	46.4	55.1	66.6
Other current assets	31.1	33.9	37.7	40.9
Total assets	371.8	419.6	467.0	521.6
ST debt	4.6	2.0	2.0	2.0
Other current liabilities	60.5	65.9	73.3	79.5
LT debt	18.0	30.0	30.0	30.0
Other LT liabilities	1.7	1.9	2.0	2.2
Shareholders' equity	286.4	319.3	359.2	407.3
Minority interest	0.5	0.5	0.5	0.5
Total liabilities & equity	371.8	419.6	467.0	521.6

Cash Flow

Year to 31 Dec (\$m)	2010	2011F	2012F	2013F
Operating	49.2	59.0	66.8	74.6
Pre-tax profit	53.1	62.0	70.7	80.6
Tax	(6.9)	(11.2)	(12.7)	(14.5)
Deprec. & amort.	6.9	6.4	6.4	6.4
Working capital changes	(2.5)	1.8	2.4	2.1
Other operating cashflows	(1.4)	0.0	0.0	0.0
Investing	(3.4)	(132.1)	(40.0)	(45.0)
Capex (growth)	(5.5)	(132.1)	(40.0)	(45.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	1.7	0.0	0.0	0.0
Others	0.4	0.0	0.0	0.0
Financing	(12.8)	12.0	(18.0)	(18.0)
Dividend payments	(15.8)	(18.0)	(18.0)	(18.0)
Issue of shares	4.3	0.0	0.0	0.0
Proceeds from borrowings	(1.4)	30.0	0.0	0.0
Others/interest paid	0.0	0.0	0.0	0.0
Net cash inflow (outflow)	33.1	(61.1)	8.7	11.6
Beginning cash & cash equivalent	74.4	107.4	46.4	55.1
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	107.4	46.4	55.1	66.6

Key Metrics

Year to 31 Dec (%)	2010	2011F	2012F	2013F
Profitability				
EBITDA margin	25.2	26.0	26.4	27.5
Pre-tax margin	22.2	23.8	24.4	25.7
Net margin	18.9	19.5	20.0	21.0
ROA	12.8	12.9	13.1	13.4
ROE	16.9	16.8	17.1	17.3
Growth				
Turnover	9.4	8.9	11.1	8.6
EBITDA	15.1	12.3	12.8	13.0
Pre-tax profit	17.9	16.8	13.9	14.1
Net profit	19.5	12.4	13.9	14.1
Net profit (adj.)	19.5	12.4	13.9	14.1
EPS	17.8	12.4	13.9	14.1
Leverage				
Debt to total capital	7.9	10.0	8.9	7.8
Debt to equity	7.9	10.0	8.9	7.9
Net debt/(cash) to equity	(29.5)	(4.5)	(6.4)	(8.5)
Interest cover (x)	252.2	n.a.	n.a.	n.a.

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