

Singapore Company Focus

Raffles Medical

Bloomberg: RFMD SP | Reuters: RAFG.SI

DBS Group Research . Equity

27 Apr 2010

BUY S\$1.71 STI : 3,002.62

Price Target : 12-month S\$ 1.91 (Prev. S\$1.75)

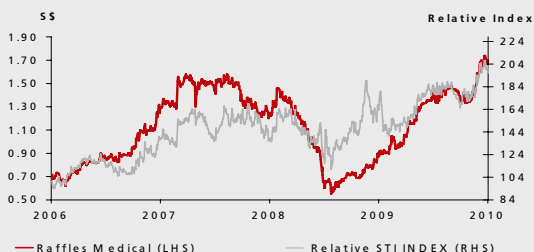
Reason for Report : Raise TP

Potential Catalyst: Acquisitions, special dividends

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (\$ m)	2008A	2009A	2010F	2011F
Turnover	201	219	256	296
EBITDA	45	52	62	75
Pre-tax Profit	38	45	55	67
Net Profit	32	38	45	55
Net Pft (Pre Ex.)	32	38	45	55
EPS (S cts)	6.1	7.3	8.7	10.7
EPS Pre Ex. (S cts)	6.1	7.3	8.7	10.7
EPS Gth Pre Ex (%)	34	20	20	22
Diluted EPS (S cts)	6.0	7.2	8.6	10.5
Net DPS (S cts)	2.5	3.0	3.5	4.0
BV Per Share (S cts)	42.9	48.0	53.8	60.9
PE (X)	28.1	23.5	19.6	16.0
PE Pre Ex. (X)	28.1	23.5	19.6	16.0
P/Cash Flow (X)	23.2	19.8	16.8	14.0
EV/EBITDA (X)	19.1	16.1	12.8	10.0
Net Div Yield (%)	1.5	1.8	2.0	2.3
P/Book Value (X)	4.0	3.6	3.2	2.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	14.9	16.1	17.2	18.6

Earnings Rev (%):

Consensus EPS (S cts):

ICB Industry : Health Care

ICB Sector: Health Care Equipment & Servic

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

Source of all data: Company, DBS Vickers, Bloomberg

In pink of health

- **1Q10 net profit up 16.4% yoy to S\$9.1m; within expectations**
- **Counter is up by 21% since our upgrade on 1 Mar and has outperformed STI by c.14%**
- **Projected earnings growth will bring PE back down to 15.7x by FYE11F**
- **Maintain Buy; TP raised to S\$1.91 based on 20x on blended FY10/11F earnings**

1Q10 within expectations. 1Q10 earnings was up by +16.4% yoy to S\$9.07m, and forms 20% of our full year estimates, similar to historical trend. Topline grew by 10.2% to S\$56.2m, driven by both its Hospital division (+12%) and Healthcare division (+8.8%). EBIT margins improved by 0.9ppt to 19.8%, from 18.9% in 1Q09, as a result of improved operating efficiencies. Net cash position grew to S\$59m, and we forecast that it will reach S\$90m (17.3Scents) by FYE10F, which could be deployed for acquisitions or (a portion) could be paid out as special dividends.

Added new staff specialists. Staff cost grew by 10.8% yoy, marginally higher than topline growth with the reduction in Jobs Credit and as the Group added c.20 specialists since 1Q09. Management, however, does not expect staff cost trend to continue to outstrip revenue growth in subsequent quarters. New staff specialists, for instance, (such as in paediatrics, cardiology, oncology, urology, etc) were recruited in 1Q10 to further expand on its healthcare offerings and should aid in revenue contribution in subsequent quarters.

Maintain recommendation, TP raised to S\$1.91. Share price has performed well since our upgrade on 1 Mar, up +21% and outperforming STI by c.14% on its proven track record, strong 4Q09 results, and Fortis Healthcare's purchase of a substantial stake in Parkway which drew attention to medical counters in Singapore. We maintain our Buy recommendation with a raised TP of S\$1.91 as we roll our valuations to blended FY10/11F earnings (from FY10F), still based on 20x (historical average). While PE valuations for FY10F look to be near its historical average, the robust earnings growth will bring it back down to 15.7x by FY11F.

At A Glance

Issued Capital (m shrs)	522
Mkt. Cap (S\$m/US\$m)	892 / 653
Major Shareholders	
Raffles Medical (%)	39.9
Loo Choon Yong (%)	10.2
Free Float (%)	49.9
Avg. Daily Vol.('000)	630

Raffles Medical

Results Summary and Comments

FY Dec (\$m)	1Q09	4Q09	1Q10	1Q Chg y-o-y	q-o-q chg %	Comments
Sales	51.0	58.3	56.2	10%	-4%	1Q topline growth strong at c.10% yoy driven by Hospital (+12%) and Healthcare (+8.8%) divisions. 1Q saw foreign patients growing by 24% yoy given the improving economy.
Other Operating Income	0.0	0.5	0.0	na	nm	4Q09 includes a gain on revaluation property recognised.
<i>Inventories and consumables used</i>	(5.4)	(6.5)	(6.4)	18%	-2%	Increased sales of medical supplies and services
<i>Purchased and contracted services</i>	(3.8)	(4.3)	(3.8)	1%	-11%	
<i>Staff costs</i>	(24.9)	(27.6)	(27.6)	11%	0%	Increase was marginally higher than topline growth on reduction in Jobs Credit vs 1Q09 and addition of c.20 specialists since 1Q09
<i>Depreciation of PPE</i>	(1.7)	(1.7)	(1.7)	-3%	-1%	
<i>Operating lease expenses</i>	(1.2)	(1.2)	(1.3)	7%	11%	
<i>Other operating expenses</i>	(4.3)	(4.6)	(4.2)	-1%	-9%	Lower utilities and commissions
Total operating expenses	(41.4)	(46.0)	(45.1)	9%	-2%	Lower than topline due to operating efficiencies
Operating profit	9.6	12.8	11.1	16%	-13%	Within expectations; 1Q seasonally the slowest quarter due to shorter quarter and CNY
Interest Income	0.1	0.1	0.1	27%	6%	
Interest Expense	(0.1)	(0.1)	(0.1)	-45%	-12%	Lower interest rates and debt levels
Pretax Profit	9.5	12.8	11.1	17%	-13%	
Tax	(1.7)	(0.9)	(2.0)	17%	116%	4Q09 includes an adjustment for overprovision in prior yrs (nett S\$179k)
Minority Interests	(0.0)	(0.0)	(0.1)	31%	31%	
Net Profit	7.8	11.9	9.1	16%	-24%	Within expectations, forming 20% of our full year estimates

Margins (%)	1Q09	4Q09	1Q10	Chg ppt (1Q10 / 1Q09)	Chg ppt (1Q10 / 4Q09)
EBITDA Margin	22.3	25.0	22.8	0.6	-2.2
EBIT Margin	18.9	22.0	19.8	0.9	-2.2
Pre-tax Margin	18.7	22.0	19.8	1.1	-2.2
Net Margin	15.3	20.3	16.1	0.9	-4.2
Effective Tax Rate %	18	7	18	0.1	10.8

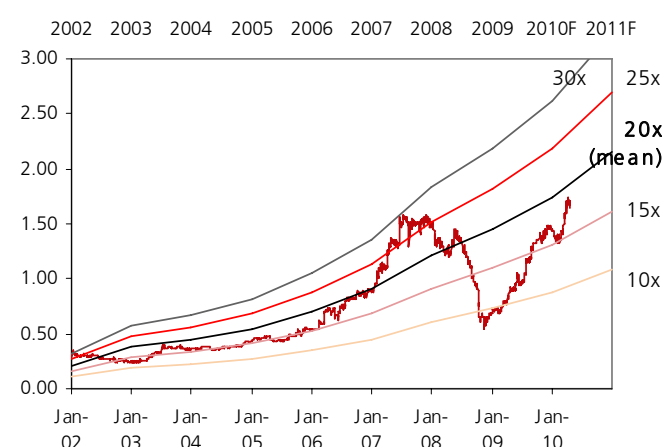
Source: Company, DBS Vickers

Raffles Medical historical PE (x) – Mean & Std dev.



Source: Bloomberg, DBSVickers

Raffles Medical PE bands (x)



Source: Bloomberg, DBSVickers

Income Statement (\$\$ m)

FY Dec	2008A	2009A	2010F	2011F
Turnover	201	219	256	296
Other Opng (Exp)/Inc	(162)	(173)	(201)	(229)
Operating Profit	39	45	55	67
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	38	45	55	67
Tax	(7)	(7)	(9)	(11)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
Net Profit	32	38	45	55
Net Profit before Except.	32	38	45	55
EBITDA	45	52	62	75
Sales Gth (%)	19.0	8.9	17.2	15.5
EBITDA Gth (%)	35.2	15.1	19.6	19.9
Opg Profit Gth (%)	37.2	16.9	21.5	21.4
Net Profit Gth (%)	(12.0)	20.1	20.0	21.9
Effective Tax Rate (%)	17.4	15.6	17.0	17.0

Cash Flow Statement (\$\$ m)

FY Dec	2008A	2009A	2010F	2011F
Pre-Tax Profit	38	45	55	67
Dep. & Amort.	7	7	7	8
Tax Paid	(4)	(6)	(9)	(9)
Assoc. & JV Inc/(loss)	0	0	0	0
Chg in Wkq.Cap.	(2)	1	7	5
Other Operating CF	1	1	0	0
Net Operating CF	40	47	60	70
Capital Exp.(net)	(6)	(4)	(5)	(5)
Other Invt.(net)	0	0	0	0
Invt in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	1	2	0	0
Net Investing CF	(5)	(2)	(5)	(5)
Div Paid	(13)	(13)	(16)	(18)
Chg in Gross Debt	1	(4)	(2)	(2)
Capital Issues	1	1	0	0
Other Financing CF	0	0	0	0
Net Financing CF	(10)	(15)	(18)	(20)
Net Cashflow	25	30	38	45

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

FY Dec	2Q2009	3Q2009	4Q2009	1Q2010
Turnover	54	55	58	56
Other Oper. (Exp)/Inc	(43)	(44)	(45)	(45)
Operating Profit	11	12	13	11
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	11	12	13	11
Tax	(2)	(2)	(1)	(2)
Minority Interest	0	0	0	0
Net Profit	9	9	12	9
Net profit bef Except.	9	9	12	9
EBITDA	13	14	15	13
Sales Gth (%)	5.7	2.8	5.2	(3.6)
EBITDA Gth (%)	11.4	7.5	7.0	(11.9)
Opg Profit Gth (%)	13.8	8.4	8.3	(13.4)
Net Profit Gth (%)	12.7	7.6	25.4	(23.5)
Opg Profit Margins (%)	20.3	21.4	22.0	19.8
Net Profit Margins (%)	16.3	17.1	20.3	16.1

Balance Sheet (\$\$ m)

FY Dec	2008A	2009A	2010F	2011F
Net Fixed Assets	150	146	144	141
Invt in Associates & JVs	0	0	0	0
Other LT Assets	86	86	86	86
Cash & ST Invt	45	75	113	158
Inventory	5	5	6	7
Debtors	25	24	28	33
Other Current Assets	0	0	0	0
Total Assets	310	337	378	425
ST Debt	5	5	5	5
Other Current Liab	61	61	73	85
LT Debt	22	20	18	16
Other LT Liabilities	1	1	1	1
Shareholder's Equity	222	250	280	317
Minority Interests	0	0	1	1
Total Cap. & Liab.	310	337	378	425
Non-Cash Wkq. Capital	(31)	(31)	(39)	(45)
Net Cash/(Debt)	18	50	90	137

Rates & Ratio

FY Dec	2008A	2009A	2010F	2011F
Opg Profit Margin (%)	19.3	20.7	21.5	22.6
Net Profit Margin (%)	15.7	17.3	17.7	18.7
ROAE (%)	14.9	16.1	17.2	18.6
ROA (%)	10.7	11.7	12.7	13.8
ROCE (%)	13.4	14.5	15.7	17.2
Div Payout Ratio (%)	41.0	41.2	40.0	37.5
Net Interest Cover (x)	106.1	196.9	1,403.4	NM
Asset Turnover (x)	0.7	0.7	0.7	0.7
Debtors Turn (avg days)	41.0	41.1	37.6	37.8
Creditors Turn (avg days)	121.5	118.0	113.6	118.3
Inventory Turn (avg days)	97.5	104.1	100.2	100.4
Current Ratio (x)	1.1	1.6	1.9	2.2
Quick Ratio (x)	1.1	1.5	1.8	2.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	(0.1)	(0.2)	(0.3)	(0.4)
Capex to Debt (%)	23.1	15.0	22.2	24.4
Z-Score (X)	4.2	4.2	6.3	6.4
N. Cash/(Debt)PS (S cts)	3.5	9.7	17.4	26.4
Opg CFPS (S cts)	8.1	9.0	10.3	12.6
Free CFPS (S cts)	6.6	8.4	10.7	12.6

Segmental Breakdown / Key Assumptions

FY Dec	2008A	2009A	2010F	2011F
Revenues (\$\$ m)				
Healthcare services	81	89	100	111
Hospital services	128	138	167	197
Investment holdings	8	8	8	8
Less: Eliminations	(16)	(17)	(18)	(20)
Total	201	218	256	296
Operating profit (\$\$ m)				
Healthcare services	7	7	8	9
Hospital services	28	34	43	53
Investment holdings	3	4	4	4
Total	39	45	55	67
Operating profit Margins (%)				
Healthcare services	9.2	7.8	8.0	8.5
Hospital services	22.0	24.7	25.6	26.9
Investment holdings	42.6	54.4	54.4	54.4
Total	19.4	20.7	21.5	22.6
Key Assumptions				
Hospital beds (#)	200.0	200.0	210.0	220.0
Avg Utilisation (%)	55.0	57.0	62.0	66.0

Source: Company, DBS Vickers

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

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

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