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31 July 2007

**Singapore
Miscellaneous**

Reuters RAFG.SI
Bloomberg RFMD SP

Priced on 30 July 2007

STI @ 3,526.3

12M hi/lo S\$1.61/0.79

12M price target S\$1.67

±% potential +6%

Target set on 31 Jul 07

Shares in issue 513.5m

Free float (est.) 43.9%

Market cap US\$533m

3M average daily volume

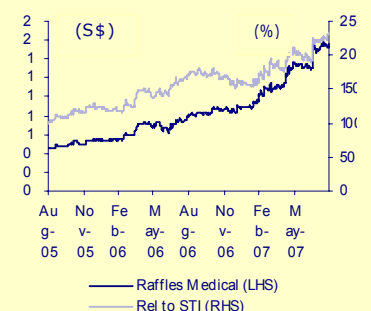
S\$1.0m (US\$0.7m)

Major shareholders

Raffles Medical Holdings 44.7%
Loo Choon Yong 11.5%

Stock performance (%)

	1M	3M	12M
Absolute	4.7	15.4	98.5
Relative	5.3	10.0	36.8
Abs (US\$)	5.8	15.8	107.3



Source: Bloomberg

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Riding the wave

Things are looking rosy for Raffles Med. 2Q07 results released yesterday were nothing short of spectacular, even if a 315% YoY surge in net profit was boosted by a one-off revaluation gain. Excluding that, net profit from its core business increased by 45%. Revenues continue to be driven by increased patient load, while operating efficiencies led to improved margins. We have reviewed our numbers, and have upgraded FY08-09 earnings by ~30% to factor in strong growth. New TP of S\$1.67. O-PF.

Strong topline growth

Revenues were up 26% YoY, mainly driven by a 33% growth in the Hospitals segment. The increase can be attributed to a number of factors – increased patient load; more beds (150 to 175 during 2Q07) and a slight increase in fees to offset rising operating costs. In the Healthcare Services segment, revenues increased 17% due to more insurance premiums and contributions from 2 new GP clinics.

Increased operating efficiencies / One-off gain

Operating profit grew by 44% due to increased operating efficiencies, staff costs, the main expense, continued to increase due to rising wages and additional headcount, but at a slower pace than revenues. A one-off gain of S\$12.5m was recognised for fair value gain on Raffles Hospital during the acquisition of the 50% stake from CapitaLand. Excluding that, and the corresponding deferred tax impact of S\$2.25m, net profit was still up a very strong 45%.

Recent developments

More recently, Raffles Med has decanted the admin area to make way for revenue generating operations – the new Raffles Aesthetics clinic, and a larger Raffles Eye clinic. There are plans to open another 25 beds by the end of this year, bringing total to 200. In terms of regional expansion, its international division is actively seeking out opportunities, though we think it's likely the company will consider building a medical centre in Beijing or Shanghai to capitalise on the strong demand for quality healthcare there.

Upgrade earnings

We have upgraded FY08-09 earnings in excess of 30% to factor in higher than expected topline growth and improved operating efficiencies. Post acquisition of the 50% stake in the flagship hospital, we think rental savings will outweigh increased depreciation costs. Maintaining our same valuation metric of 23x FY08 PE, our new target price is S\$1.67. O-PF.

Financials

Year to 31 Dec	05A	06A	07CL	08CL	09CL
Revenue (S\$m)	112.9	134.3	168.7	207.5	249.0
Rev forecast change (%)			3.7	6.3	6.3
Net profit (S\$m)	12.0	15.7	33.3	37.3	49.6
NP forecast change (%)			5.2	12.0	16.0
EPS (S¢)	3.0	3.9	7.2	7.2	9.6
CL/consensus(4)(EPS%)	-	-	148	117	124
EPS (% YoY)	24.5	28.2	85.3	0.1	32.1
PEX (@S\$1.57)	51.6	40.3	21.7	21.7	16.4
Dividend yield (%)	1.8	2.6	2.9	3.5	4.1
ROAE (%)	11.50	14.20	21.90	19.00	23.80
Net gearing (%)	(32.6)	(37.1)	(54.9)	(56.8)	(60.2)

Source: CLSA Asia-Pacific Markets

Recommendation history - Raffles Medical RFMD SP

Date	Rec level	Closing price	Target
31 July 2007	O-PF	1.57	1.67
29 June 2007	O-PF	1.47	1.49
08 May 2007	O-PF	1.32	1.41

Source: CLSA Asia-Pacific Markets

Key to CLSA investment rankings: **BUY** = Expected to outperform the local market by >10%; **O-PF** = Expected to outperform the local market by 0-10%; **U-PF** = Expected to underperform the local market by 0-10%; **SELL** = Expected to underperform the local market by >10%. Performance is defined as 12-month total return (including dividends).

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Note: In the interests of timeliness, this document has not been edited.

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