

# Singapore Company Focus

## Raffles Medical

Bloomberg: RFMD SP | Reuters: RAFG.SI

DBS Group Research . Equity

18 Feb 2008

**BUY S\$1.37** FSSTI : 3,083.34

**Price Target** : 12-month S\$ 1.74 (Prev S\$ 1.80)

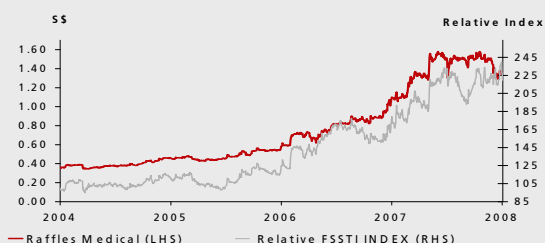
**Reason for Report** : FY07 Results

**Potential Catalyst**: Higher revenue per patient per day, international expansion.

### Analyst

Andy Sim CFA +65 6398 7969  
andysim@dbsvickers.com

### Price Relative



### Forecasts and Valuation

FY Dec (S\$m)	2007	2008F	2009F	2010F
Sales	168.7	207.1	265.1	338.1
EBITDA	30.7	38.6	49.6	63.5
Net Profit	35.9	28.2	35.9	46.9
EPS - Basic (S Cents)	7.0	5.5	7.0	9.1
EPS - FD (S cts)	6.9	5.4	6.9	9.0
EPS Gth (%)	99.5	-21.5	27.6	30.3
BVps (S\$)	0.39	0.42	0.45	0.48
DPS (S cts)	2.5	4.4	5.6	7.3
P/Sales (x)	3.4	3.4	2.7	2.1
EV/EBITDA (x)	30.5	25.2	19.5	14.7
P/E (x)	20.0	25.4	19.9	15.3
P/BV (x)	3.5	3.3	3.1	2.9
Div Yield (%)	1.8	3.2	4.1	5.3
ROE (%)	22.9	13.5	16.1	19.6
Net Gearing (%)	2.82	Cash	Cash	Cash
Net Cash Per Share	0.04	0.08	0.12	0.19
Ex-cash PER	19.83	24.53	18.55	13.54

Earnings Rev (%)	-	5.3	5.3	-
Consensus EPS (S cts)	6.5	6.0	7.3	8.0

**Sector** : Health Care

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

### A good set of results

**Story**: Raffles Medical FY07 results were good with Hospital division's operating profit up by 53% to S\$19.8m. The Group's net profit was slightly above our expectations (+7%) due to a lower effective tax rate than our forecasts. This was largely due to a tax write back on its revaluation gain recognised in 2Q.

**Point**: Revenue grew 25.6% to S\$168.7m, from S\$134.2m, mainly driven by its Hospital division which grew by 34% y-o-y to S\$99m. This was a result of its increased patient load, wider range of medical specialties and improved operating efficiencies. Net profit surged 129% y-o-y to S\$35.9m. This was aided by a one-time gain of S\$12.5m from the 50% share in Raffles Hospital Properties Pte Ltd upon revaluation of the Raffles Hospital building. Excluding this, net profit would have been around S\$23.4m, up by 48%. The Group also announced a final dividend of 1.5 Scts, bringing it to a total of 2.5 Scts for FY07.

**Relevance**: We see the Group's Hospital division gaining more traction, and believe that they still have operating leverage there as they continue to increase its beds without significant investments. Its hospital has a licence to operate up to 380 beds, while operational beds, according to management, currently stands at only 200. Utilisation stands at around 40% - 60%. Its Healthcare division should also continue to grow on the back of robust employment in Singapore, with its wide network of over 60 clinics. We have adjusted our FY08-09F forecasts up slightly by 5-6%, largely as a result of lower interest expense arising from a net cash position in FY08F (instead of a 17% net gearing assumed previously). However, our TP is lowered to S\$1.74 (from S\$1.80) as a result of a higher WACC of 7.2% (instead of 6.1% previously, due to net cash position rather than a 17% net D/E position assumed previously). Maintain BUY.

### At A Glance

Issued Capital (m shrs)	515
Mkt. Cap (S\$m/US\$m)	696 / 493
Major Shareholders	
Raffles Medical (%)	40.1
Loo Choon Yong (%)	9.8
Free Float (%)	50.1
Avg. Daily Vol. ('000)	182

**Results Summary and Comments**

FY Dec (\$m)	4Q06	4Q07	Chg y-o-y	FY06	FY07	Chg y-o-y	Comments
<b>Sales</b>	<b>35.5</b>	<b>45.7</b>	29%	<b>134.2</b>	<b>168.7</b>	26%	Growth from Hospital (+34.3%) and Healthcare (+14.4%) divisions
Cost of Services							
Gross Profit	35.5	45.7	29%	134.2	168.7	26%	
Other Operating Income	(0.4)	(0.5)	37%	0.0	0.3		
<i>Inventories and consumables used</i>	(3.6)	(5.0)	41%	(16.6)	(19.4)	17%	
<i>Staff costs</i>	(18.5)	(24.5)	32%	(69.3)	(85.9)	24%	
<i>Depreciation of PPE</i>	(0.9)	(1.5)	77%	(3.4)	(4.2)	25%	
<i>Other operating expenses</i>	(7.1)	(5.9)	-17%	(27.7)	(33.0)	19%	Largely due to insurance claims (IMH)
Total operating expenses	(30.0)	(36.9)	23%	(116.9)	(142.6)	22%	Lower than topline due to operating efficiencies
Operating profit	5.1	8.3	63%	17.4	26.4	52%	
Non-Operating Income	0.0	0.0		0.0	0.0		
Interest Income	0.5	0.1	-78%	1.7	1.8	7%	
Interest Expense	0.4	0.4	8%	(0.1)	(0.4)	245%	Due to higher debt level
Share of Associates' or JV Income	0.3	(0.1)	-121%	1.1	1.1	1%	
Exceptional Gains/(Losses)	0.0	0.0		0.0	12.5	nm	Exceptional gains from the Hospital assets in 2Q
Pretax Profit	6.3	8.8	40%	20.0	41.4	107%	
Tax	(1.3)	0.7	-149%	(4.3)	(5.5)	29%	Higher tax in tandem with higher PBT offset; tax slightly write-back in 4Q on earlier tax on revaluation
Minority Interests	(0.1)	(0.1)	nm	(0.1)	(0.1)	13%	
Net Profit	4.9	9.4	91%	15.7	35.9	128%	Slightly above expectations

Source: Company, DBS Vickers

**Company Focus**
**Income Statement (\$\$ m)**

FY Dec	2007	2008F	2009F	2010F
Turnover	168.7	207.1	265.1	338.1
<b>Operating Profit</b>	<b>26.4</b>	<b>33.4</b>	<b>43.8</b>	<b>57.2</b>
Associates & JV Inc	1.08	0.00	0.00	0.00
Interest Expense	(0.4)	(0.7)	(1.3)	(1.3)
Interest Income	1.8	1.7	1.4	1.3
Exceptional Gain/(Loss)	12.5	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>41.4</b>	<b>34.4</b>	<b>43.9</b>	<b>57.2</b>
Tax	(5.5)	(6.2)	(7.9)	(10.3)
Minority Interest	(0.1)	(0.0)	(0.1)	(0.1)
Preference Dividend	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>35.9</b>	<b>28.2</b>	<b>35.9</b>	<b>46.9</b>
Net Profit before Except.	23.4	28.2	35.9	46.9
EBITDA	30.7	38.6	49.6	63.5
Sales Gth (%)	26	23	28	28
EBITDA Gth (%)	46.5	25.7	28.6	28.1
Opg Profit Gth (%)	50.7	26.5	31.3	30.5
Net Profit Gth (%)	128.2	-21.5	27.6	30.3

**Balance Sheet (\$\$ m)**

FY Dec	2007	2008F	2009F	2010F
Cash	19.7	40.1	64.2	96.3
Other Current Assets	24.8	30.2	38.4	48.9
Net Fixed Assets	150.8	150.7	150.0	148.7
Intangibles	0.31	0.26	0.20	0.15
LT Invmnt	0.0	0.0	0.0	0.0
Other LT Assets	1.5	1.5	1.5	1.5
Investment Property	84.4	84.4	84.4	84.4
<b>Total Assets</b>	<b>281.5</b>	<b>307.1</b>	<b>338.7</b>	<b>379.9</b>
OD & ST Debt	25.3	25.3	25.3	25.3
Other ST Liabilities	54.4	64.7	82.9	105.9
Non Current Liabilities	0.7	0.7	0.7	0.7
<b>Total Liabilities</b>	<b>80.4</b>	<b>90.8</b>	<b>108.9</b>	<b>131.9</b>
Total Equity	200.8	216.1	229.5	247.6
Minority Interest	0.2	0.3	0.3	0.4
Total Shareholders' Equity	201.0	216.3	229.8	248.0
<b>Total Liabilities and Equity</b>	<b>281.5</b>	<b>307.1</b>	<b>338.7</b>	<b>379.9</b>

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

FY Dec	2008F	2009F	2010F	
Pre-tax Profit	41.4	34.4	43.9	57.2
Tax Paid	(4.2)	(6.7)	(6.2)	(7.9)
Depreciation &	4.27	5.16	5.74	6.31
Associates & JVs Inc	(1.1)	0.0	0.0	0.0
Other Non-Cash	(13.7)	0.0	0.0	0.0
Changes in Non-Cash Work	13.3	5.4	8.1	10.2
Cash From Operations	40.1	38.3	51.6	65.9
Net Change in Capex	(68.3)	(5.0)	(5.0)	(5.0)
Other Investing Activities	15.5	0.0	0.0	0.0
Cash from Investing	(52.8)	(5.0)	(5.0)	(5.0)
Dividends Paid	(17.8)	(12.9)	(22.5)	(28.8)
Net Change in Gross Debt	(0.2)	0.0	0.0	0.0
Capital Issues	63.9	0.0	0.0	0.0
Other Financing Activities	(55.39)	0.0	0.0	0.0
Cash from Financing	(9.4)	(12.9)	(22.5)	(28.8)
Net Changes in Cash	(22.2)	20.4	24.1	32.1

**Segmental Breakdown**

FY Dec	2007	2008F	2009F	2010F
<b>Revenues</b>				
Healthcare services	69.7	84.1	104.4	120.2
Hospital services	106.3	131.4	170.0	228.1
Investment holdings	2.9	2.9	3.2	3.5
Less: Eliminations	(10.3)	(11.3)	(12.4)	(13.7)
<b>Total</b>	<b>168.7</b>	<b>207.1</b>	<b>265.1</b>	<b>338.1</b>
<b>Operating profit</b>				
Healthcare services	6.35	7.74	9.60	11.05
Hospital services	19.78	23.56	32.13	44.04
Investment holdings	2.09	2.09	2.09	2.09
<b>Total</b>	<b>28.22</b>	<b>33.39</b>	<b>43.82</b>	<b>57.19</b>
<b>Operating profit Margins</b>				
Healthcare services	9.1%	9.2%	9.2%	9.2%
Hospital services	18.6%	17.9%	18.9%	19.3%
<b>Total</b>	<b>16.7%</b>	<b>16.1%</b>	<b>16.5%</b>	<b>16.9%</b>

Source: Company, DBS Vickers

DBSV recommendations are based on 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** (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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**DBS Vickers Research (Singapore) Pte Ltd** – 8 Cross Street, #02-01 PWC Building, Singapore 048424  
 Tel. 65-6533 9688, Fax: 65-6226 8048  
 Company Regn. No. 198600295W