

ASEAN: Healthcare Services: Hospitals

Pricing in too much, too soon; initiating on four hospitals

Industry context

We initiate coverage on the ASEAN hospital sector with a Neutral view. We have a Neutral rating on three stocks—Raffles Medical (RAFG.SI), Bumrungrad Hospital (BH.BK) and Bangkok Dusit Medical Services (BGH.BK)—and a Sell rating on Parkway Holdings (PARM.SI). Although this is a long-term, high-growth sector fuelled by favorable demographic and structural trends, we believe investors are pricing in too much, too soon.

With most stocks trading at (or above) average industry multiples (EV/EBITDA of 11x-12x), current valuations are reasonable but not compelling. On average, we expect the sector to enjoy net profit growth of 20% pa (lower than 25%-30% achieved in the past given the low base effect).

Although there may be significant room for operational and financial improvement at acquired hospitals, we are more inclined to view this as a gradual process over time.

On a 12-month investment horizon, we believe investors have already priced in higher ROE on the back of strong revenue growth and EBITDA margin improvement and we see few catalysts for a positive re-rating. We see little likelihood of significant outperformance from current levels. However, we acknowledge that, especially in long-gestation stocks such as hospitals, the price vs. return decision depends on an investor's time horizon.

Risks

Upside risks: A significant earnings-accretive investment or an asset securitization exercise. Downside risk: Overpaying for acquisitions, if any.

Best buy idea

We do not rate any stock Buy. However, we would see Raffles as being reasonably attractive at about S\$1.

Best sell idea

We rate Parkway Sell. Although we like Parkway from a fundamental perspective, we believe that current valuations of 17X 2007E EV/EBITDA and 30X 2007E P/E are not justified and see little likelihood of further outperformance.

Parkway Holdings (PARM.SI, Sell)

| Key Data | Current | | | |
|------------------------------|---------------|--------|--------|--------|
| Price (S\$) | 3.24 | | | |
| 12-month target price (S\$) | 2.82 | | | |
| Market cap (S\$ mn /US\$ mn) | 2,486 / 1,621 | | | |
| | 12/05 | 12/06E | 12/07E | 12/08E |
| EPS growth (%) | 22.2 | -3.3 | 29.1 | 18.0 |
| P/E (X) | 37.9 | 39.2 | 30.4 | 25.7 |
| EV/EBITDA (X) | 12.6 | 12.2 | 17.4 | 15.0 |

Raffles Medical Group (RAFG.SI, Neutral)

| Key Data | Current | | | |
|------------------------------|-----------|--------|--------|--------|
| Price (S\$) | 1.13 | | | |
| 12-month target price (S\$) | 1.08 | | | |
| Market cap (S\$ mn /US\$ mn) | 468 / 305 | | | |
| | 12/05 | 12/06E | 12/07E | 12/08E |
| EPS growth (%) | 23.8 | 22.9 | 40.4 | 25.4 |
| P/E (X) | 37.6 | 30.6 | 21.8 | 17.4 |
| EV/EBITDA (X) | 12.8 | 14.6 | 15.0 | 11.9 |

Bumrungrad Hospital (BH.BK, Neutral)

| Key Data | Current | | | |
|-----------------------------|--------------|--------|--------|--------|
| Price (Bt) | 36.25 | | | |
| 12-month target price (Bt) | 36.75 | | | |
| Market cap (Bt mn /US\$ mn) | 26,384 / 753 | | | |
| | 12/05 | 12/06E | 12/07E | 12/08E |
| EPS growth (%) | 6.2 | 7.1 | 8.6 | 13.4 |
| P/E (X) | 25.1 | 23.4 | 21.5 | 19.0 |
| EV/EBITDA (X) | 9.8 | 13.3 | 12.2 | 10.4 |

Bangkok Dusit Medical (BGH.BK, Neutral)

| Key Data | Current | | | |
|-----------------------------|----------------|--------|--------|--------|
| Price (Bt) | 34.75 | | | |
| 12-month target price (Bt) | 34.00 | | | |
| Market cap (Bt mn /US\$ mn) | 41,041 / 1,171 | | | |
| | 12/05 | 12/06E | 12/07E | 12/08E |
| EPS growth (%) | 0.4 | 57.8 | 35.0 | 18.4 |
| P/E (X) | 48.6 | 30.8 | 22.8 | 19.3 |
| EV/EBITDA (X) | 13.3 | 12.4 | 11.6 | 9.9 |

Source: Company data, Goldman Sachs Research estimates

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EXPECTED NEWS FLOW/EVENTS

| DATE | EVENT | COMMENT |
|--------------------|--|--|
| Mid February 2007 | 4Q2006 results announcement—Raffles Medical, Bumrungrad Hospital and Bangkok Dusit Medical Services | Unlikely to surprise the market. We expect Raffles to declare a dividend of S\$0.015 per share. |
| Late February 2007 | 4Q2006 results announcement—Parkway | Unlikely to surprise the market. We may see a revision in consensus numbers for Parkway to adjust for the change in accounting treatment of Pantai to proportionate consolidation. We expect Parkway to declare a dividend of S\$0.05 per share. |
| March 2007 | Dividend announcement—Bumrungrad Hospital and Bangkok Dusit Medical Services | Unlikely to surprise the market. We expect Bumrungrad Hospital and Bangkok Dusit Medical Services to declare dividends of Bt0.50 per share and Bt0.45 per share, respectively. |
| 2H2007 | Medishield changes in Singapore to reduce the deductible | We expect this to boost patient volume as it will reduce the co-payment amount. |
| 3Q2007 | Special dividend announcement, related to the utilization of Section 44A (S44A) tax credits by Parkway | Unlikely to surprise the market. In an exercise similar to that carried out in 2006, we may see a rights issue in conjunction with a special dividend payment of S\$0.10 per share (based on our estimates). |

Source: Company data, Goldman Sachs Research estimates

The prices in the body of this report are based on the market close of February 1, 2007.

Overview: Valuations reasonable, but not compelling

Long-term demographic trends, structural changes in the insurance industry and growing medical tourism are all positive, long-term growth drivers for the ASEAN hospital sector. However, with most stocks trading at (or above) average industry multiples, we believe current valuations are reasonable but not compelling in light of net profit growth of about 20% (lower than 25%-30% achieved in the past given the low base effect). We believe investors are pricing in too much, too soon.

We are initiating coverage on the ASEAN hospital sector with a Neutral rating. We have a Neutral rating on three stocks—Raffles Medical (Raffles), Bumrungrad Hospital (BH) and Bangkok Dusit Medical Services (BGH)—and a Sell rating on Parkway Holdings (Parkway) (see Exhibit 1).

Our stock call on Thai hospitals is also predicated on our view that the Thai equity market is unattractive given the higher risk premium post recent events (New Year's Eve bombings, revisions to the Foreign Business Act). We prefer Singapore hospitals for their more sophisticated medical capabilities and ability to expand their geographical catchment

area by 'importing' foreign patients and 'exporting' their medical expertise. Parkway is a prime example of this, but we believe that current valuations of 17X 2007E EV/EBITDA and 30X 2007E P/E are not justified and see little likelihood of further outperformance over the next 12 months.

Exhibit 1: ASEAN hospital sector summary

| | Parkway | Raffles | BH | BGH |
|---|---|---------------|--|-------------------------------|
| Reuters ticker | PARM.SI | RAFG.SI | BH.BK | BGH.BK |
| Bloomberg ticker | PWAY SP | RFMD SP | BH TB | BGH TB |
| GS rating | Sell | Neutral | Neutral | Neutral |
| 12-mo target price | S\$2.82 | S\$1.08 | Bt36.75 | Bt34.00 |
| Potential upside/(downside) | -13% | -4% | 1% | -2% |
| Market cap (US\$ mn) | 1,621 | 305 | 753 | 1,171 |
| Absolute price performance (%) | | | | |
| 3-mo | 17 | 18 | -5 | 19 |
| 6-mo | 30 | 28 | 5 | 16 |
| 12-mo | 40 | 88 | 13 | 42 |
| Price performance relative to index (%) (a) | | | | |
| 3-mo | 1 | 2 | 6 | 32 |
| 6-mo | 0 | -1 | 10 | 21 |
| 12-mo | 8 | 45 | 31 | 65 |
| No. of hospitals | | | | |
| Owned and managed (b) | Singapore (3) Malaysia (9) Brunei (1) | Singapore (1) | Thailand (1) Philippines (1) Dubai (1) | Thailand (17) Cambodia (1) |
| Joint ventures or investments or associate stakes | Malaysia (1) India (1) | | | Thailand (3) |
| No. of licensed beds for owned and managed hospitals only (c) | 2,463 | 380 | 812 | 3,482 |

(a) Index being the STI for Parkway and Raffles, and SET for BH and BGH.

(b) For BH, includes the Bumrungrad Hospital Dubai (BH Dubai) which is under construction.

(c) Refers to the total number of licensed beds irrespective of the company's effective stake in the hospitals. For BH, number of licensed beds excludes BH Dubai.

Source: Company data, Goldman Sachs Research estimates.

Exhibit 2: Most stocks are trading at average industry EV/EBITDA multiple of 11X-12X

Valuations of ASEAN hospitals

| Ticker | GS rating | Curr | Price 1-Feb | Market cap (US\$mn) | Average daily trading volume (US\$ mn) | EPS growth (%) | | | EV/EBITDA (X) | | | P/E (X) | | | ROE (%) | | Dividend yield (%) |
|-------------------------------|-----------|---------|-------------|---------------------|--|----------------|-----------|-----------|---------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|--------------------|
| | | | | | | 6-mos | 2006E | 2007E | 2008E | 2006E | 2007E | 2008E | 2006E | 2007E | 2008E | 2007E | |
| Parkway Holdings | PWAY SP | Sell | SGD | 3.24 | 1,621 | 2.2 | -3 | 29 | 18 | 15.3 | 17.0 | 14.6 | 39.2 | 30.4 | 25.7 | 20.7 | 5.6 |
| Bangkok Dusit Medical Service | BGH TB | Neutral | THB | 34.75 | 1,171 | 0.8 | 58 | 35 | 18 | 13.9 | 11.2 | 9.8 | 30.8 | 22.8 | 19.3 | 18.0 | 1.4 |
| Bumrungrad Hospital | BH TB | Neutral | THB | 36.25 | 753 | 1.1 | 7 | 9 | 13 | 14.1 | 12.0 | 10.4 | 23.4 | 21.5 | 19.0 | 34.8 | 2.1 |
| Raffles Medical Group | RFMD SP | Neutral | SGD | 1.13 | 305 | 0.2 | 23 | 40 | 25 | 14.6 | 15.0 | 11.9 | 30.6 | 21.8 | 17.4 | 20.4 | 3.7 |
| Bangkok Chain Hospital | KH TB | NC | THB | 7.80 | 211 | 0.4 | 62 | 17 | 13 | 8.9 | 7.7 | 7.0 | 18.6 | 15.9 | 14.1 | 15.5 | 3.9 |
| KPJ Healthcare | KPJ MK | NC | MYR | 2.24 | 131 | 0.2 | 25 | 9 | 10 | 6.2 | 6.6 | 6.0 | 10.4 | 9.6 | 8.7 | 9.7 | 3.9 |
| Thomson Medical Centre | THOM SP | NC | SGD | 0.54 | 102 | 0.1 | 12 | 5 | 28 | 12.3 | 11.1 | 10.3 | 21.7 | 20.6 | 16.0 | NA | 3.0 |
| Average | | | | | | 27 | 28 | 18 | 14.8 | 13.2 | 11.4 | 30.1 | 23.4 | 19.8 | 18.8 | 3.5 | |
| Average (ex-Parkway) | | | | | | 37 | 26 | 19 | 14.0 | 11.4 | 9.9 | 26.0 | 20.6 | 17.3 | 18.4 | 2.2 | |

Source: Company data, I/B/E/S, Bloomberg, Goldman Sachs Research estimates.

Industry overview: Hub-and-spoke strategy to capture demand

Expanding the geographical catchment area

Although demographic trends (e.g., population growth, aging) continue to drive demand for private healthcare services, at tertiary and quaternary care levels, it is no longer dependent on home country demographics as healthcare is increasingly becoming a tradable service.

To varying degrees, each of the hospital operators we cover is adopting a hub-and-spoke strategy, leveraging its network of clinics/medical centers/hospitals/ representative offices to bring in patients from around the country and overseas.

Medical tourism demand driven by quality and cost factors

Singapore, Malaysia and Thailand are all targeting the medical tourist dollar. The Indonesian medical tourist is a common phenomenon in Singapore and some Malaysian hospitals, but hospitals are now increasingly looking to tap new sources of medical tourists, e.g., from the Middle East, Russia. The Singapore Medicine initiative, for instance, is targeting about 1 mn medical tourists annually in Singapore by 2012, generating revenue of about S\$3 bn in 2012.

Although Malaysia and Thailand have an advantage over Singapore from a cost perspective (treatment can be 30%-50% cheaper), Singapore has focused on offering more sophisticated and reliable medical services to attract higher yielding and less price-sensitive patients. To increase revenue intensity, hospitals are also increasingly setting up more centers of excellence, focusing on specialist services such as for cancer, heart disease etc.

In addition, more stringent US visa requirements post-September 11 have led to an influx of Middle East patients, particularly into Thailand and Singapore. In a 2004 study, the National Arab-US Chamber of Commerce estimated that the US was losing US\$500 mn annually from medical tourists from the Middle East as a result of tighter visa requirements. We see potential for Malaysia to develop as a medical tourist hub for Muslim patients given the cultural and religious similarities.

We expect Thailand to continue as a popular destination, especially for the casual medical tourist who would like to combine a holiday in Thailand with seeking medical treatment.

Acquisition economics: Network, scale and differentiation

Over the years, hospitals have expanded their network by way of acquisitions. Price considerations aside, the decision to acquire has also been driven by: (1) expectations of a relatively shorter payback period (a greenfield hospital typically has a 3-5 year gestation period); (2) a lack of suitable land sites; and (3) the convenience of leveraging an existing staff and patient base.

Besides acting as a source of patient referrals, having a network of hospitals allows economies of scale, for instance, the bulk purchase of pharmaceuticals and medical equipment, more efficient utilization of expensive medical equipment, back room consolidation, sharing of staff etc.

In addition, with a bigger pool of hospitals, selected hospitals can be structured to cater to specific groups of patients, thereby allowing some measure of price differentiation.

Changes in the insurance industry to boost volume

For private hospital operators in ASEAN, payment tends to be in cash and/or via insurance. We expect a pick-up in private insurance in the region with rising employment and disposable income especially in countries without a healthcare safety net and overburdened government healthcare systems, e.g., Malaysia.

Specific to Singapore, we expect a boost in volume as a result of greater liberalization of the national medical savings (Medisave) and insurance (Medishield) schemes. In January 2007, the in-patient daily withdrawal limit (i.e., the maximum amount that can be utilized from Medisave for in-patient treatment each day) was raised from S\$400 to S\$450. We estimate that at S\$450 a day, Medisave will be sufficient to cover about 40%-45% of the average daily private hospital bill. Medisave has also been expanded to cover a wider range of out-patient treatment (e.g., MRI and CT scans for cancer treatment; chronic illnesses such as stroke, hypertension, diabetes), thereby encouraging more frequent visits to the doctor as a portion of the bill can now be paid via Medisave. We expect further changes—e.g., in 2H2007, we expect the Medishield deductible to be lowered, thereby reducing co-payment amounts.

We have yet to see an influx of patients referred by insurers in countries with high medical costs, (e.g., UK, US); but as insurers in these countries look to cut costs, we could see more of such referrals to ASEAN hospitals, thereby boosting patient volume.

Parkway Holdings (Sell) – Significant outperformance unlikely

Investment summary

We are initiating coverage on Parkway with a Sell rating and a 12-month target price of S\$2.82 based on SOTP valuation, implying 13% potential downside.

The stock has moved largely in line with the STI and we believe that it has been supported by: (1) expectations of an asset securitization exercise, given the buoyant Singapore property market; and (2) ample liquidity in the Singapore stock market (note that Parkway is a constituent of the STI (0.9%) and MSCI Singapore (1%)). We see little likelihood of further outperformance.

Exhibit 3: Parkway has moved largely in line with the STI



Source: Company data, Datastream, Goldman Sachs Research estimates.

Although we like Parkway from a fundamental perspective, we believe that current valuations of 17X 2007E EV/EBITDA and 30X 2007E P/E are unjustified.

Little likelihood of a REIT within the next 12 months

We believe there is little likelihood of a REIT within the next 12 months for the following reasons:

- Management has indicated that Parkway is unlikely to embark on a REIT unless there is a good use of funds. We interpret this to mean a significant investment, perhaps, in a greenfield hospital in Singapore or more hospital acquisitions overseas. Although we do not completely discount the possibility of either, from an acquisition perspective, we believe it has become increasingly difficult for Parkway to find attractively-priced, strategic targets.

- The current bullish Singapore property market conditions are accommodative of an asset securitization exercise, but Parkway's management has indicated that this will not be the determinant of when, if at all, it carries out an asset securitization exercise.
- The demand by REITs for increasing yields and consequently rents may not necessarily work in Parkway's favor (i.e., the REIT exercise could potentially be earnings dilutive).
- The securitization of Parkway's hospital assets has long been expected by the market but has yet to be executed. We believe that the management has already explored this option, but has shelved these plans until such time as a significant funding need arises.

Value of Parkway's property assets already priced in

We estimate that an asset securitization exercise, involving the Gleneagles and Mt. Elizabeth hospitals but without subsequent reinvestment of funds, could potentially add another S\$0.20 to our target price of S\$2.82, bringing the (hypothetical) value per share to S\$3.02 (see Exhibit 7). This would still be about 7% below the current share price of S\$3.24.

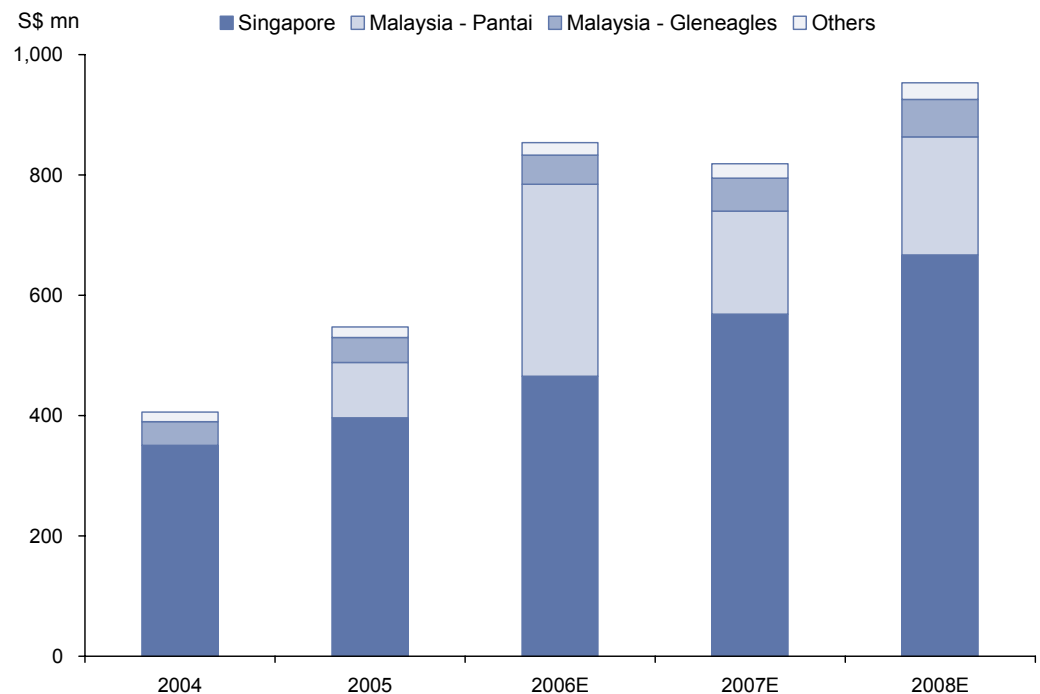
Positives already priced in, shares likely to trade flat over the next 12 months

We expect to see signs of ROE and EBITDA margin improvement as a result of volume growth, higher patient yields and better cost management, but we believe these positives are already reflected in the current share price. We see few catalysts for the stock to re-rate further and believe that Parkway is unlikely to significantly outperform the STI.

Earnings drivers

Singapore and Malaysian hospitals drive growth

Parkway's Singapore operations continue to be the main revenue contributor (about 70% of revenue), followed by Pantai (about 21%) and Gleneagles (about 7%) in Malaysia, based on our 2007 estimates. Parkway's Singapore operations are also the most profitable, enjoying an estimated net profit margin of 12% in 2007E. As a comparison, we estimate net profit margins at Pantai to be only about 7% in 2007E. We estimate that Pantai will account for about 15% of Parkway's 2007E net profit (i.e., about S\$12 mn).

Exhibit 4: Revenue breakdown, 2004-2008E (S\$mn)

Source: Company data, Goldman Sachs Research estimates.

Revenue intensity, rather than volume, drives growth at its Singapore hospitals

We continue to expect revenue to be driven largely by increasing revenue intensity as opposed to volume growth. Over the past 2 years (2004-2006E), we estimate that in-patient admissions at its Singapore hospitals have fallen by about 1% pa but revenue growth has been about 17% pa as Parkway's focus on more complex, higher intensity procedures has been successful in attracting: (1) higher yielding patients; and (2) less-price sensitive patients.

Earnings are sensitive to volume growth and we estimate that a 5% increase in volume could translate to a 15% increase in net profit. Parkway currently has an overall occupancy rate of about 60% at its Singapore hospitals, which still leaves room for volume growth.

Pantai: Strong demand, operational improvement will take time

We see strong demand driving volume growth of about 15% over 2007E-2008E. Over time, we see scope for EBITDA margin improvement arising from improving revenue intensity and economies of scale. For comparison purposes, Pantai's hospital business currently has EBITDA margins of 14% vs. the estimated 21% EBITDA margins enjoyed by the Gleneagles hospitals in Malaysia—we expect this gap to narrow gradually.

Foreigners currently make up about 5% of Pantai's in-patients and we expect this to grow as the addition of the Pantai network will allow the management greater flexibility in targeting different segments of the medical tourism market. For instance, Parkway will be able to offer more price-conscious patients a cheaper treatment package in Malaysia vis-à-vis Singapore.

We also highlight two other points with respect to Pantai, namely:

- With Khazanah as Parkway's partner (Khazanah: 60%, Parkway: 40%) in Pantai, we believe that the risk of Pantai losing its lucrative government concessions has been reduced.
- Pantai, which was previously consolidated, will be proportionately consolidated beginning 4Q2006. It is pertinent to note that this change will make yoy comparisons less meaningful above the net profit line.

Good growth potential of other overseas investments

We have little financial information on Parkway's other overseas investments, but see potential for strong growth as these investments are in highly populated cities (Kolkata, Shanghai) with rising disposable income. We see Parkway's investment in Vietnam (an aesthetic center) and Shanghai (an ambulatory center) as: (1) opportunities to test the market before embarking upon more substantial capital investment; and (2) acting as a source of patient referrals to Parkway or Pantai hospitals. Excluding its Malaysian investments, we estimate that Parkway's other overseas investments contribute less than 5% to net profit and we do not expect this to change significantly over the next two years given start-up losses in Vietnam and Shanghai.

More special dividends from S44A tax credits likely

We estimate that Parkway would be able to pay out about S\$75 mn (S\$0.10 per share) in special dividends from available S44A tax credits. We believe that, similar to the exercise carried out in late 2006, there is a possibility of a rights issue in conjunction with the special dividend payment.

Valuation

We assume there is no asset securitization exercise

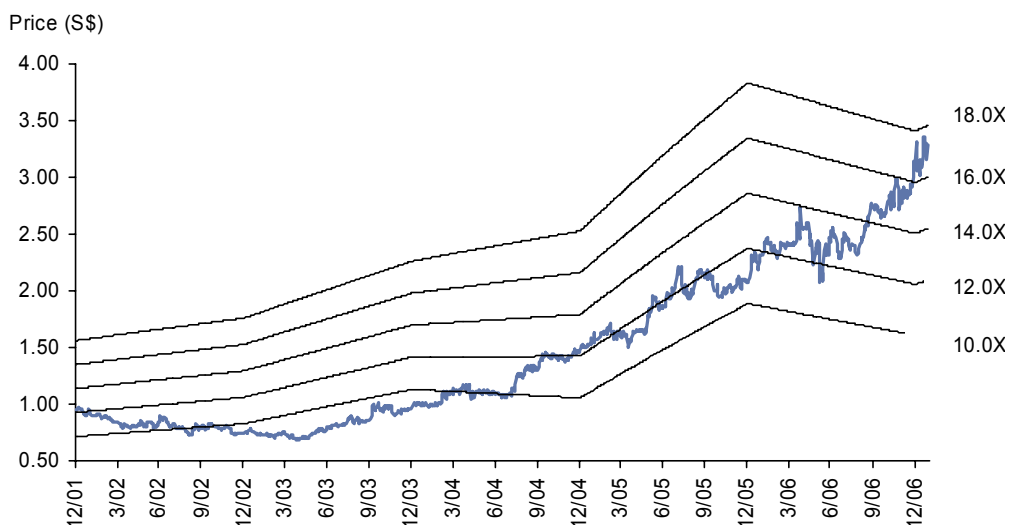
We have adopted a DCF-based SOTP methodology to arrive at our 12-month target price of S\$2.82 (see Exhibit 4) assuming that there is no asset securitization exercise within the next 12 months. Our target price translates to a 2007E EV/EBITDA multiple of 16X, which is above its historical average of 12X.

Exhibit 5: We assume no asset securitization exercise will be carried out SOTP valuation

| | Value (S\$ mn) | Value per share (S\$) | Breakdown (%) | Methodology |
|--|-------------------|-----------------------------|------------------|--------------|
| Hospital business | 2,423 | 3.16 | 112% | DCF (a) |
| Auric Pacific (21.9% stake) | 33 | 0.04 | 2% | Market value |
| ECM Libra (2.8% stake) | 17 | 0.02 | 1% | Market value |
| POS Malaysia (1% stake) | 26 | 0.03 | 1% | Market value |
| Associates and other investments | 23 | 0.03 | 1% | Book value |
| Enterprise value | 2,523 | 3.29 | | |
| Net cash / (debt) | (438) | (0.57) | -20% | |
| Equity value | 2,085 | 2.72 | | |
| Special dividends from S44 tax credits | 75 | 0.10 | 3% | GS estimates |
| Total value | 2,160 | 2.82 | | |

(a) Singapore: WACC of 6%, LT growth 1.5%. Malaysia: WACC of 9.2%, LT growth 2%.

Source: Company data, Bloomberg, Goldman Sachs Research estimates.

Exhibit 6: Parkway's 12-month forward EV/EBITDA

Source: Company data, Bloomberg, Goldman Sachs Research estimates.

We assume there is an asset securitization exercise, but no reinvestment of funds

We have also conducted a scenario analysis assuming an asset securitization exercise of the Gleneagles and Mt. Elizabeth hospitals without subsequent reinvestment of funds, and arrived at a value per share of S\$3.02 (see Exhibit 7), about 7% below the current share price of S\$3.24. It should be noted that we estimate the value of the Gleneagles and Mt. Elizabeth hospitals to be worth S\$766 mn to a REIT.

Exhibit 7: We assume an asset securitization exercise without reinvestment of funds
SOTP valuation

| | Value | Value per | Breakdown | Methodology |
|--|--------------|-------------|-----------|--------------|
| | (S\$ mn) | share | (%) | |
| | | (S\$) | | |
| Hospital business | 1,815 | 2.37 | 78% | DCF (a) |
| Auric Pacific (21.9% stake) | 33 | 0.04 | 1% | Market value |
| ECM Libra (2.8% stake) | 17 | 0.02 | 1% | Market value |
| POS Malaysia (1% stake) | 26 | 0.03 | 1% | Market value |
| Associates and other investments | 23 | 0.03 | 1% | Book value |
| Enterprise value | 1,914 | 2.49 | | |
| Net cash / (debt) | 327 | 0.43 | 14% | (b), (c) |
| Equity value | 2,241 | 2.92 | | |
| Special dividends from S44 tax credits | 75 | 0.10 | 3% | GS estimates |
| Total value | 2,316 | 3.02 | | |

(a) Singapore: WACC of 6.5%, LT growth 1.5%. Malaysia: WACC of 9.2%, LT growth 2%

(b) Net cash as a result of proceeds from disposal of the Gleneagles and Mt. Elizabeth hospitals of S\$766 mn. This translates to about S\$2,000 per sq ft based on net lettable/saleable area of 385,348 sq ft

(c) Assumptions for the valuation of Gleneagles and Mt. Elizabeth hospitals by the REIT

- Cash available for distribution amounts to about S\$35 mn pa

- Singapore: Capitalization rate of 6%, LT growth 1.5%

Source: Company data, Bloomberg, Goldman Sachs Research estimates.

Reinvestment assumptions are the swing factor

We re-run our scenario analysis assuming a similar asset securitization exercise, but this time with the subsequent reinvestment of funds. We assume that Parkway invests in a S\$1.1 bn project, funded by debt (40%, i.e., S\$306 mn) and the proceeds of the asset

securitization exercise (60%, i.e., S\$766 mn) at an IRR of 8%. We have made the simplifying assumption that the project is in Singapore and accordingly discount it at a WACC of 5.7%. Under this scenario, we arrive at a value per share of S\$4.69 (see Exhibit 8), about 45% higher than the current share price of S\$3.24.

We illustrate this to demonstrate that reinvestment is a key risk to our investment thesis. In Parkway's case, especially, we believe the price vs. return decision depends on an investor's time horizon.

Exhibit 8: An asset securitization exercise with reinvestment of funds could imply a value of S\$4.69 per share

SOTP valuation

| | Value per | | Breakdown | Methodology |
|--|-------------------|----------------|-----------|--------------|
| | Value (S\$ mn) | share (S\$) | | |
| Hospital business | 4,162 | 5.42 | 116% | DCF (a) |
| Auric Pacific (21.9% stake) | 33 | 0.04 | 1% | Market value |
| ECM Libra (2.8% stake) | 17 | 0.02 | 0% | Market value |
| POS Malaysia (1% stake) | 26 | 0.03 | 1% | Market value |
| Associates and other investments | 29 | 0.04 | 1% | Book value |
| Enterprise value | 4,267 | 5.56 | | |
| Net cash / (debt) | (744) | (0.97) | -21% | (b), (c) |
| Equity value | 3,522 | 4.59 | | |
| Special dividends from S44 tax credits | 75 | 0.10 | 2% | GS estimates |
| Total value | 3,597 | 4.69 | | |

(a) Singapore: WACC of 5.7%, LT growth 1.5%. Malaysia: WACC of 9.2%, LT growth 2%. Note that post the new investment, Parkway will have a debt-to-capital ratio of 51% (previously 56%)

(b) Net debt position as the proceeds from disposal of the Gleneagles and Mt. Elizabeth hospitals (S\$766 mn) is reinvested and Parkway takes on additional debt of S\$306 mn

(c) Assumptions for the valuation of Gleneagles and Mt. Elizabeth hospitals by the REIT

- Cash available for distribution amounts to about S\$35 mn pa

- Singapore: Capitalization rate of 6.0%, LT growth 1.5%

Source: Company data, Bloomberg, Goldman Sachs Research estimates.

Risks to our view

Upside risks

- A significant, earnings-accretive investment. We cannot rule out the possibility of a greenfield hospital in Singapore, for example, the government has indicated that it may put up one or two sites for sale to private hospital operators
- Better-than-expected performance of Pantai and other overseas investments

Downside risks

- Higher-than-expected staff costs
- Inability to attract or retain specialists, which adversely affects volume growth
- Overpaying for acquisitions, if any
- Higher-than-expected start-up losses in new clinics or medical centers

Company profile

Parkway owns and manages three hospitals (Gleneagles, Mt. Elizabeth, East Shore) and has a chain of about 39 clinics in Singapore. In Malaysia, 40%-owned subsidiary Pantai (which has been de-listed) owns 8 hospitals located in Kuala Lumpur, Penang, Malacca, Johor and Perak. Pantai also holds lucrative government concessions to conduct the medical examination of foreign workers and also for government healthcare support

services. It should be noted that Parkway's stake in Pantai, after the completion of the general offer in December 2006, is capped at 40%. Please see Exhibit 9 for Parkway's other investments overseas.

Exhibit 9: Summary of key businesses

| | Location | Stake (%) | Remarks |
|---|--------------------|-----------|---|
| Gleneagles Hospital | Singapore | 100 | |
| Mt. Elizabeth Hospital | Singapore | 100 | |
| East Shore Hospital | Singapore | 100 | |
| Gleneagles Medical Centre, Penang | Malaysia | 70 | |
| Gleneagles Intan Medical Centre, Kuala Lumpur | Malaysia | 30 | |
| Pantai Holdings | Malaysia | 40 | Pantai has a network of eight hospitals located in Kuala Lumpur, Penang, Malacca, Perak and Johor |
| Gleneagles JPMC | Brunei | 75 | |
| Apollo Gleneagles Hospital, Kolkata | India | 50 | JV with Apollo Hospitals |
| Apollo Gleneagles PET-CT | India | 50 | JV with Apollo Hospitals |
| Shanghai Gleneagles | China | 50 | JV with Shanghai Huashan for ambulatory center in Shanghai |
| Parkway Shenton | Singapore, Vietnam | 100 | Includes aesthetic center in Ho Chi Minh City |
| Shenton Family Medical Clinic | Singapore | 50 | |
| Medi-Rad Associates | Singapore | 100 | Radiology clinics |
| Parkway Laboratory Services | Singapore | 100 | Laboratory services |
| Gleneagles CRC | Singapore | 100 | Clinical research services |
| Fomema | Malaysia | 40 | Held via Pantai. Concessionaire for foreign workers health screening until 2012. |
| Pantai Medivest | Malaysia | 40 | Held via Pantai. Concessionaire for government health support services until 2011. |
| Pantai Supreme | Malaysia | 20 | Held via Pantai. Holds the rights to provide health screening for public transport workers who are vocational license holders |

Note: Parkway's stake in Pantai after the completion of the general offer is capped at 40%.

Source: Company data, Goldman Sachs Research estimates.

History of shareholders

In 1999, Symphony Capital Partners Asia bought a 19.6% stake from the founding Tan and Ang families for S\$292 mn, leaving the families with a combined shareholding of 12%. Two years later, CapitaLand—then the second largest shareholder of Parkway—sold its entire 16.7% stake to the Tan, Ang and Ho families for S\$120 mn (S\$0.99 per share). In May 2005, Newbridge acquired a 26% stake from the Tan and Ang families for S\$312 mn (S\$1.685 per share), marking the exit of the founders. As Parkway's major shareholder, Newbridge indicated that Parkway is a long-term investment and it sees many opportunities to expand this business regionally, through organic growth and acquisitions (Source: Business Times, May 27, 2005).

Exhibit 10: Parkway summary financials
 December fiscal year end, 2005-2008E (\$\$mn)

| Profit model | 2005 | 2006E | 2007E | 2008E | Balance sheet | 2005 | 2006E | 2007E | 2008E |
|---|----------------|----------------|----------------|---------------|-------------------------------------|----------------|----------------|----------------|----------------|
| Total revenue | 547.4 | 853.5 | 818.6 | 953.2 | Cash & equivalents | 106.0 | 51.9 | 28.5 | 25.7 |
| Cost of goods sold | (176.8) | (359.5) | (286.5) | (333.6) | Accounts receivables | 75.4 | 93.9 | 98.2 | 104.8 |
| SG&A | (218.7) | (276.1) | (337.1) | (389.8) | Inventory | 16.9 | 25.6 | 28.7 | 33.4 |
| R&D | 0.0 | 0.0 | 0.0 | 0.0 | Other current assets | 38.4 | 60.5 | 32.5 | 53.1 |
| Other operating profit / (expenses) | (56.3) | (90.5) | (77.8) | (90.6) | Total current assets | 236.8 | 232.0 | 187.9 | 217.1 |
| EBITDA | 133.3 | 186.7 | 167.8 | 195.4 | Total investments | 83.4 | 69.0 | 72.8 | 76.8 |
| Depreciation & amortization | (37.7) | (59.4) | (50.5) | (56.2) | Intangible assets | 180.9 | 167.2 | 167.2 | 167.2 |
| EBIT | 95.6 | 127.3 | 117.3 | 139.2 | Net fixed assets | 765.8 | 651.0 | 649.2 | 649.8 |
| Interest income | 3.0 | 4.2 | 2.2 | 1.5 | Other long term assets | 35.5 | 0.0 | 0.0 | 0.0 |
| Finance charges | (10.1) | (19.8) | (15.0) | (16.2) | Total assets | 1,304.2 | 1,119.1 | 1,077.1 | 1,110.8 |
| Associate income | 1.1 | 3.4 | 3.7 | 4.1 | Accounts payables | 112.6 | 116.5 | 117.1 | 121.4 |
| Others | (0.2) | (9.2) | 4.6 | 4.8 | Short-term loans | 47.5 | 130.4 | 0.0 | 205.0 |
| Pretax profits | 89.4 | 105.9 | 112.8 | 133.3 | Other current liabilities | 67.2 | 72.2 | 69.7 | 81.9 |
| Income tax | (22.0) | (29.5) | (28.8) | (34.3) | Total current liabilities | 227.3 | 319.0 | 186.7 | 408.4 |
| Minorities | (5.4) | (13.1) | (2.1) | (2.4) | Long-term loans | 394.6 | 287.4 | 466.8 | 261.8 |
| Net income pre preferred dividends | 62.0 | 63.4 | 81.9 | 96.6 | Other long term liabilities | 35.5 | 35.0 | 0.0 | 0.0 |
| Preferred dividends | 0.0 | 0.0 | 0.0 | 0.0 | Total long term liabilities | 430.2 | 322.4 | 466.8 | 261.8 |
| Net profits | 62.0 | 63.4 | 81.9 | 96.6 | Total liabilities | 657.4 | 641.4 | 653.5 | 670.1 |
| Post tax exceptionals | 0.0 | 0.0 | 0.0 | 0.0 | Share capital & share premium | 295.8 | 364.4 | 364.4 | 364.4 |
| Net income | 62.0 | 63.4 | 81.9 | 96.6 | Other reserves | (20.5) | (13.9) | (13.9) | (13.9) |
| EPS (weighted average) | 0.09 | 0.08 | 0.11 | 0.13 | Total common equity | 415.5 | 423.5 | 367.1 | 381.9 |
| EPS (post-exceptionals) | 0.09 | 0.08 | 0.11 | 0.13 | Minority interests | 231.2 | 54.3 | 56.4 | 58.8 |
| EPS (fully diluted) | 0.09 | 0.08 | 0.11 | 0.13 | Total liabilities and equity | 1,304.2 | 1,119.1 | 1,077.1 | 1,110.8 |
| DPS | 0.08 | 0.17 | 0.18 | 0.11 | BVPS | 0.57 | 0.55 | 0.48 | 0.50 |
| Dividend payout ratio (%) | 93.6 | 206.1 | 168.8 | 84.7 | | | | | |
| Free cash flow yield (%) | 1.5 | 5.5 | 0.6 | 2.3 | | | | | |
| Growth and margins | | | | | Ratios | | | | |
| Sales growth (%) | 34.9 | 55.9 | (4.1) | 16.4 | ROE (%) | 14.7 | 15.1 | 20.7 | 25.8 |
| EBITDA growth (%) | 30.8 | 40.1 | (10.1) | 16.4 | ROA (%) | 5.5 | 5.2 | 7.5 | 8.8 |
| EBIT growth (%) | 37.8 | 33.3 | (7.9) | 18.7 | ROACE (%) | 9.0 | 9.6 | 11.0 | 12.6 |
| Net income growth (%) | 22.8 | 2.3 | 29.1 | 18.0 | Inventory days | 27.9 | 21.6 | 34.6 | 33.9 |
| EPS growth (%) | 22.2 | (3.3) | 29.1 | 18.0 | Receivables days | 36.1 | 36.2 | 42.8 | 38.9 |
| Gross margin (%) | 67.7 | 57.9 | 65.0 | 65.0 | Payables days | 173.6 | 116.3 | 148.8 | 130.5 |
| EBIT margin (%) | 17.5 | 14.9 | 14.3 | 14.6 | Net debt / equity (%) | 52.0 | 76.6 | 103.5 | 100.1 |
| EBITDA margin (%) | 24.4 | 21.9 | 20.5 | 20.5 | Interest cover - EBIT (X) | 13.6 | 8.2 | 9.1 | 9.5 |
| Net margin (%) | 11.3 | 7.4 | 10.0 | 10.1 | | | | | |
| Cash flow analysis | | | | | VALUATION | | | | |
| Net income pre preferred dividends | 62.0 | 63.4 | 81.9 | 96.6 | P/E (analyst) (X) | 37.9 | 39.2 | 30.4 | 25.7 |
| DD&A add back | 37.7 | 59.4 | 50.5 | 56.2 | P/B (X) | 5.7 | 5.9 | 6.8 | 6.5 |
| Minority interests add back | 5.4 | 13.1 | 2.1 | 2.4 | EV/EBITDA (X) | 12.6 | 12.2 | 17.4 | 15.0 |
| Net (inc)/dec working capital | (0.9) | (27.1) | (7.4) | (11.3) | Dividend yield (%) | 2.5 | 5.3 | 5.6 | 3.3 |
| Others | 15.6 | 17.2 | (4.4) | 1.9 | | | | | |
| Net cash flow from operations | 119.8 | 125.9 | 122.8 | 145.8 | | | | | |
| Capital expenditures | (37.0) | (60.3) | (48.8) | (56.8) | | | | | |
| Net (inc)/dec investments | (100.3) | (6.7) | 0.0 | 0.0 | | | | | |
| Net (inc)/dec other assets | 0.0 | 0.0 | 0.0 | 0.0 | | | | | |
| Others | 13.9 | (6.6) | 6.8 | 6.2 | | | | | |
| Net cash flows from investments | (123.4) | (73.7) | (42.0) | (50.6) | | | | | |
| Dividends | (62.5) | (130.6) | (138.2) | (81.9) | | | | | |
| Debt drawdown (repayments) | (40.0) | (24.4) | 49.0 | 0.0 | | | | | |
| Common stock issuance | 9.8 | 68.6 | 0.0 | 0.0 | | | | | |
| Others | 6.1 | (19.8) | (15.0) | (16.2) | | | | | |
| Net cash flows from financing | (86.5) | (106.3) | (104.1) | (98.0) | | | | | |
| Net inc/(dec) in cash | (90.1) | (54.1) | (23.4) | (2.8) | | | | | |

Note: Last actual year may include reported and estimated data

Source: Company data, Goldman Sachs Research estimates.

Raffles Medical (Neutral) – Room for growth with minimal capex

Investment summary

We are initiating coverage on Raffles with a Neutral rating and a 12-month target price of S\$1.08 based on SOTP valuation.

Scalability of operations drive ROE and EBITDA margin enhancement

With an occupancy rate of about 60% and capacity to spare (only 150 out of its 380 licensed beds are operational), Raffles is well positioned to cope with rising patient volume as new beds can be added quickly and with minimal capex. We forecast EBITDA margins to improve to 17% in 2007E from 15% in 2006E and ROE to rise to 20% in 2007E from 15% in 2006E.

Valuable network of clinics capture volume and enhance cost efficiency

The clinics are a relatively lower-yielding but high-volume business, which: (1) enable Raffles to treat more common, less severe cases in a cost-efficient manner; and (2) act as an important source of patient referrals to the hospital. With the largest network of clinics in Singapore, we believe that Raffles is best positioned to benefit from an increase in out-patient visits as a result of changes to Medisave and Medishield (as a larger portion of the bill can now be paid via these schemes).

Insurance arm is potentially valuable

Although its insurance business is insignificant at the moment, it could potentially be valuable if Raffles is able to achieve sufficient scale. We see Raffles as having a natural edge in the pricing and assessment of health risks. However, we point out that this business will take a few years to develop and, at the moment, it serves more as an ancillary service provided by Raffles.

Though we like Raffles, we believe that investors should wait for a more attractive entry point. We see it as being reasonably attractive at about S\$1 (13X 2007E EV/EBITDA). Although 13X EV/EBITDA is at the upper end of its historical trading range (10X-13X), we point out that the stock has been trading around this level since July 2006. Going forward, we believe that 13X EV/EBITDA could be the lower end of its trading range as investors are now conscious of Raffles' strong earnings growth (2-year net profit CAGR of 33% over 2006E-2008E).

Earnings drivers

Volume, more so than revenue intensity, drives growth

Given Raffles' philosophy of providing medical care at reasonable cost, we expect revenue to grow largely from a pick-up in volume driven by: (1) Indonesian patients seeking medical treatment in Singapore; (2) new sources of medical tourists (e.g., the Middle East, Russia); (3) changes to Medisave and Medishield which encourage more frequent visits to the doctor; (4) the recruitment of more specialists to attract higher-yielding patients; and (5) the segmentation of clinics to cater to specific groups (e.g., the Japanese and traditional Chinese medicine clinics). We also see the opportunity for Raffles to capture more of the patient's bill as the doctor's fees accrue to the hospital rather than the doctor (as is usually the case), who is a salaried employee.

Room for physical expansion

We see room for capacity additions in the short and long term. Besides opening currently unutilized wards, for example, the management could move its corporate office to a nearby building to make way for new beds or more medical suites. Over the longer term, we see scope for extension given that there is vacant land adjoining the existing premises and the government has indicated that it may put up one or two sites for sale to private hospital operators.

More efficient capital management

Steady ROE improvement (2004: 10%, 2007E: 20%) over the years has stemmed from margin improvement rather than capital structure changes. This is reflected in Raffles' high ROIC of 20%—one of the highest within our ASEAN hospital coverage. At present, Raffles pays out about 80% of net profits as dividends, although this could change if it were to make a significant investment. We see scope for further ROE improvement as gearing is still low (it is net cash).

Valuation

We have adopted a SOTP methodology to arrive at our 12-month target price of S\$1.08, which translates into a 2007E EV/EBITDA multiple of 14X. Although this is above Raffles' historical trading range of 10X-13X and the sector average of 11X, we believe this premium is justifiable in light of its growth potential. It should be noted that within the confines of its existing premises, Raffles is able to more than double the number of available beds (from the current 150 beds to 380 beds) with minimal capex.

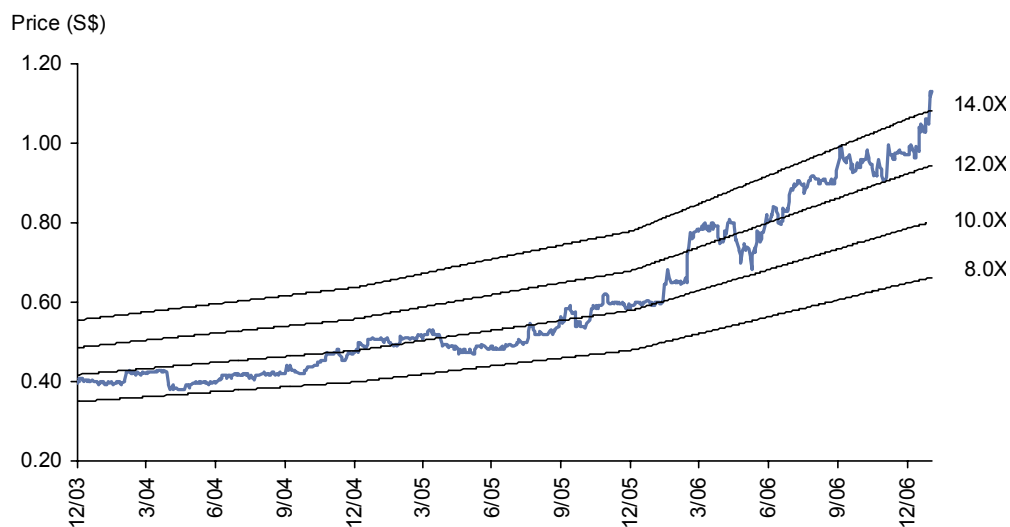
Exhibit 11: SOTP valuation

| | Value (S\$ mn) | Value per share (S\$) | Breakdown (%) | Methodology |
|----------------------------------|-------------------|-----------------------------|------------------|------------------------------|
| Hospital and clinics | 341 | 0.83 | 76% | Based on 12X 2007E EV/EBITDA |
| Associates and other investments | 69 | 0.17 | 15% | Book value |
| Enterprise value | 411 | 0.99 | | |
| Net cash / (debt) | 37 | 0.09 | 8% | |
| Equity value | 448 | 1.08 | | |

Source: Company data, Goldman Sachs Research estimates.

Exhibit 12: Raffles is currently trading at 15X EV/EBITDA

Raffles' 12-month forward EV/EBITDA



Source: Company data, Datastream, Goldman Sachs Research estimates.

Risks to our view**Downside risks**

- Failure to execute planned capacity expansion
- Competition among hospitals within the region results in lower-than-expected volume growth
- Higher-than-expected staff costs
- Inability to attract or retain specialists, which adversely affects volume growth
- Overpaying for acquisitions, if any
- Higher-than-expected start-up losses in new clinics or medical centers

Company profile

Raffles is the second-largest listed private hospital operator in Singapore, after Parkway. Besides its strategically located Raffles Hospital, it has the largest clinic network in Singapore with about 60 clinics treating about 1 mn patients annually and more than 5,000 corporate clients. Overseas, Raffles has two clinics in Hong Kong and has converted its Jakarta representative office into a medical center. Management's plans for regional expansion include: (1) setting up medical centers in Indonesia and China to provide out-patient services or even day surgery, as well as to act as a source of referrals; (2) acquiring hospitals in Malaysia; and (3) setting up a greenfield hospital in Shanghai and/or Beijing. Currently, about 34% of its patients are foreigners, mainly Indonesians, and the management hopes that this figure will rise to 50% within 3-4 years.

Its major shareholder is Dr. Loo Choon Yong—co-founder of Raffles and the current chairman—with a 57% stake.

Exhibit 13: Raffles Medical summary financials

December fiscal year end, 2005-2008E (\$\$mn)

| Profit model | 2005 | 2006E | 2007E | 2008E | Balance sheet | 2005 | 2006E | 2007E | 2008E |
|---|--------------|---------------|---------------|---------------|-------------------------------------|--------------|--------------|--------------|--------------|
| Total revenue | 112.9 | 135.1 | 168.9 | 211.1 | Cash & equivalents | 35.1 | 35.3 | 42.8 | 53.6 |
| Cost of goods sold | (13.7) | (17.6) | (22.0) | (27.4) | Accounts receivables | 12.3 | 14.7 | 18.4 | 22.9 |
| SG&A | (64.6) | (73.5) | (90.2) | (114.3) | Inventory | 2.9 | 3.5 | 4.4 | 5.5 |
| R&D | 0.0 | 0.0 | 0.0 | 0.0 | Other current assets | 13.0 | 14.3 | 14.3 | 14.3 |
| Other operating profit / (expenses) | (21.9) | (27.0) | (32.2) | (38.4) | Total current assets | 63.3 | 67.7 | 79.9 | 96.3 |
| EBITDA | 15.8 | 20.6 | 28.5 | 35.0 | Total investments | 53.0 | 54.0 | 55.1 | 56.3 |
| Depreciation & amortization | (3.1) | (3.6) | (3.9) | (4.1) | Intangible assets | 0.3 | 0.2 | 0.2 | 0.2 |
| EBIT | 12.7 | 17.1 | 24.5 | 30.9 | Net fixed assets | 21.4 | 20.3 | 19.4 | 17.3 |
| Interest income | 0.8 | 1.2 | 1.4 | 1.7 | Other long term assets | 0.1 | 0.0 | 0.0 | 0.0 |
| Finance charges | (0.1) | (0.1) | (0.1) | (0.1) | Total assets | 138.9 | 142.3 | 154.6 | 170.1 |
| Associate income | 1.4 | 1.0 | 1.1 | 1.2 | Accounts payables | 24.4 | 28.7 | 35.1 | 43.9 |
| Others | (0.0) | 0.0 | 0.0 | 0.0 | Short-term loans | 2.3 | 2.3 | 2.3 | 2.3 |
| Pretax profits | 14.8 | 19.2 | 26.9 | 33.7 | Other current liabilities | 3.8 | 7.2 | 8.7 | 10.1 |
| Income tax | (2.8) | (3.8) | (5.4) | (6.7) | Total current liabilities | 30.5 | 38.3 | 46.2 | 56.3 |
| Minorities | (0.1) | (0.1) | (0.1) | (0.1) | Long-term loans | 0.0 | 0.0 | 0.0 | 0.0 |
| Net income pre preferred dividends | 12.0 | 15.3 | 21.4 | 26.9 | Other long term liabilities | 0.7 | 0.7 | 0.7 | 0.7 |
| Preferred dividends | 0.0 | 0.0 | 0.0 | 0.0 | Total long term liabilities | 0.7 | 0.7 | 0.7 | 0.7 |
| Net profits | 12.0 | 15.3 | 21.4 | 26.9 | Total liabilities | 31.2 | 39.0 | 46.9 | 57.0 |
| Post tax exceptionals | 0.0 | 0.0 | 0.0 | 0.0 | Share capital & share premium | 40.0 | 100.7 | 100.7 | 100.7 |
| Net income | 12.0 | 15.3 | 21.4 | 26.9 | Other reserves | 57.3 | 2.3 | 6.6 | 11.9 |
| EPS (weighted average) | 0.03 | 0.04 | 0.05 | 0.07 | Total common equity | 107.5 | 103.0 | 107.3 | 112.6 |
| EPS (post-exceptionals) | 0.03 | 0.04 | 0.05 | 0.07 | Minority interests | 0.2 | 0.3 | 0.4 | 0.5 |
| EPS (fully diluted) | 0.03 | 0.04 | 0.05 | 0.06 | Total liabilities and equity | 138.9 | 142.3 | 154.6 | 170.1 |
| DPS | 0.02 | 0.04 | 0.04 | 0.05 | BVPS | 0.27 | 0.25 | 0.26 | 0.27 |
| Dividend payout ratio (%) | 66.7 | 108.2 | 80.0 | 80.0 | | | | | |
| Free cash flow yield (%) | 4.1 | 5.1 | 4.9 | 6.5 | | | | | |
| Growth and margins | | | | | Ratios | | | | |
| Sales growth (%) | 11.3 | 19.7 | 25.0 | 25.0 | ROE (%) | 11.5 | 14.5 | 20.4 | 24.5 |
| EBITDA growth (%) | 18.2 | 30.9 | 37.9 | 23.2 | ROA (%) | 9.0 | 10.9 | 14.4 | 16.6 |
| EBIT growth (%) | 22.9 | 34.2 | 44.0 | 25.9 | ROACE (%) | 15.8 | 19.9 | 29.8 | 39.9 |
| Net income growth (%) | 26.1 | 27.6 | 40.5 | 25.4 | Inventory days | 73.3 | 67.2 | 65.8 | 65.9 |
| EPS growth (%) | 23.8 | 22.9 | 40.4 | 25.4 | Receivables days | 37.6 | 36.4 | 35.7 | 35.7 |
| Gross margin (%) | 87.9 | 87.0 | 87.0 | 87.0 | Payables days | 617.0 | 552.1 | 530.9 | 525.4 |
| EBIT margin (%) | 11.3 | 12.6 | 14.5 | 14.6 | Net debt / equity (%) | Net cash | Net cash | Net cash | Net cash |
| EBITDA margin (%) | 14.0 | 15.3 | 16.8 | 16.6 | Interest cover - EBIT (X) | NM | NM | NM | NM |
| Net margin (%) | 10.6 | 11.3 | 12.7 | 12.7 | | | | | |
| Cash flow analysis | 2005 | 2006E | 2007E | 2008E | VALUATION | 2005 | 2006E | 2007E | 2008E |
| Net income pre preferred dividends | 12.0 | 15.3 | 21.4 | 26.9 | P/E (analyst) (X) | 37.6 | 30.6 | 21.8 | 17.4 |
| DD&A add back | 3.1 | 3.6 | 3.9 | 4.1 | P/B (X) | 4.2 | 4.5 | 4.4 | 4.1 |
| Minority interests add back | 0.1 | 0.1 | 0.1 | 0.1 | EV/EBITDA (X) | 12.8 | 14.6 | 15.0 | 11.9 |
| Net (inc)/dec working capital | 0.9 | 1.4 | 1.8 | 3.0 | Dividend yield (%) | 1.8 | 3.5 | 3.7 | 4.6 |
| Others | (0.4) | (1.0) | (0.8) | (1.4) | | | | | |
| Net cash flow from operations | 15.6 | 19.3 | 26.5 | 32.7 | | | | | |
| Capital expenditures | (5.8) | (2.5) | (3.0) | (2.0) | | | | | |
| Net (inc)/dec investments | (0.7) | (0.7) | (0.7) | (0.7) | | | | | |
| Net (inc)/dec other assets | 0.0 | 0.0 | 0.0 | 0.0 | | | | | |
| Others | (1.5) | 0.7 | 2.1 | 2.4 | | | | | |
| Net cash flows from investments | (7.9) | (2.5) | (1.6) | (0.3) | | | | | |
| Dividends | (8.0) | (16.5) | (17.2) | (21.5) | | | | | |
| Debt drawdown (repayments) | 0.0 | 0.0 | 0.0 | 0.0 | | | | | |
| Common stock issuance | 3.0 | 0.0 | 0.0 | 0.0 | | | | | |
| Others | 0.2 | (0.1) | (0.1) | (0.1) | | | | | |
| Net cash flows from financing | (4.7) | (16.6) | (17.3) | (21.6) | | | | | |
| Net inc/(dec) in cash | 2.9 | 0.1 | 7.6 | 10.8 | | | | | |

Note: Last actual year may include reported and estimated data

Source: Company data, Goldman Sachs Research estimates.

Bumrungrad Hospital (Neutral) – Capacity constrains growth

Investment summary

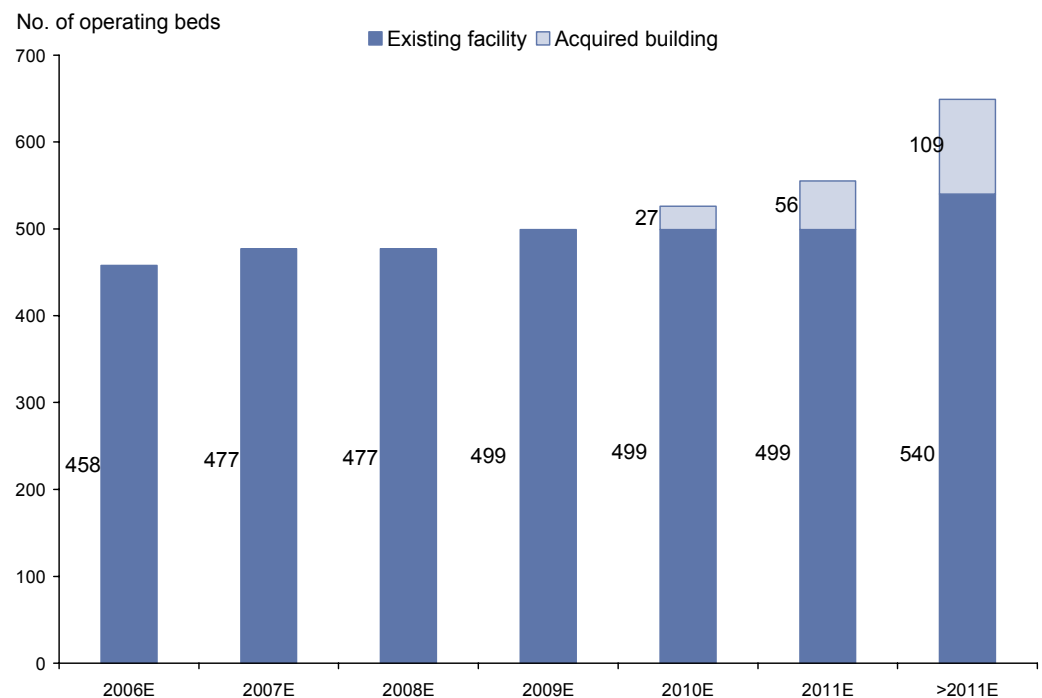
We are initiating coverage on Bumrungrad Hospital (BH) with a Neutral rating and a 12-month target price of Bt36.75 based on SOTP valuation. BH is a well-managed, highly-profitable hospital, but we see growth slowing because of capacity constraints.

We believe that BH is fairly priced at current levels (12X 2007E EV/EBITDA) and see little potential upside. At an EV/EBITDA of 12X, BH is trading in line with the sector's EV/EBITDA trading range of 11X-12X.

Revenue growth slows as a result of capacity constraints

Revenue has grown at a CAGR of about 20% over the past five years (2001-2006E). Going forward, we expect growth to slow to about 15% pa over 2006E-2008E as BH is currently operating close to full capacity. Although capacity additions are in the pipeline, this amounts to only 19 beds in 2007E and 22 beds in 2009E. The planned acquisition and renovation of a nearby building will add 109 beds, but this will only come onstream in stages beginning 2010E.

Exhibit 14: Number of planned operational beds



Source: Company data.

We believe there will still be some growth, however, as we expect: (1) more out-patient visits with the establishment of the new Bumrungrad International clinic; (2) better management of in-patient and out-patient mix; (3) modest price increases; and (4) an improving case mix. However, we believe that improving revenue intensity will be more of a challenge for BH, than, say, the Singapore hospitals, as BH is perceived as being less sophisticated (i.e., offering fewer specialized medical services).

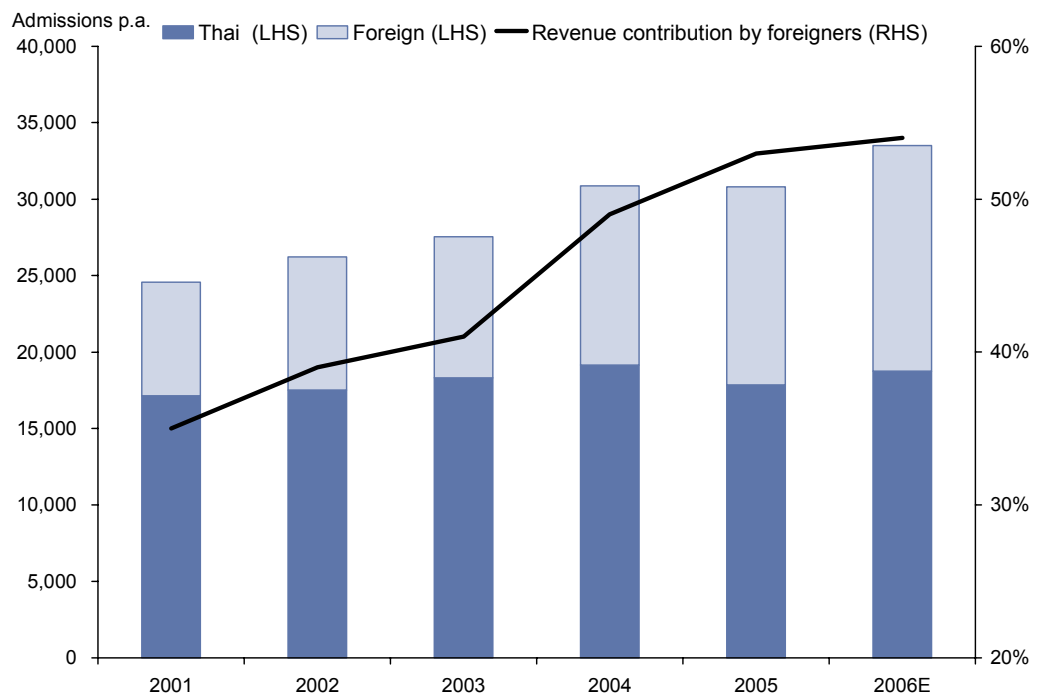
In terms of an entry point, we would see BH as being reasonably attractive at about Bt33 (11X 2007E EV/EBITDA). We note that since January 2006, BH has traded above 11X EV/EBITDA and we see support for the stock at this level. Net profit growth of about 11% pa (2-year CAGR over 2006E-2008E) is decent but below the sector average of 20%.

Earnings drivers

Foreigners account for more than half of BH’s revenue

Despite accounting for only about 40% of patient volume, we estimate that foreigners make up about 55% of BH’s revenue, given typically higher patient yields. There is no data breakdown between expatriates and tourists, and as such, we are unable to assess if short-term fluctuations in tourist arrivals (e.g., if there are more violent attacks) would impact earnings significantly.

Exhibit 15: Foreign in-patient admissions have registered a CAGR of 15% (2001-2006E)



Source: Company data, Goldman Sachs Research estimates.

Volume constrained, reliant on efficient management and greater revenue intensity

Given capacity constraints, we believe that the management will try to maximize the use of the existing facility and the Bumrungrad International clinic (e.g., by improving bed turnover, encouraging day surgery). The Bumrungrad International clinic will also house a new heart center, one of the management’s initiatives to improve revenue intensity.

Heavy capex, but debt remains at manageable levels

The planned additional capacity will require capex of about Bt2.3 bn, spread over 2007E-2011E, and funded by a mixture of debt and internal cash. We expect BH’s net debt-to-equity ratio to rise to 43% in 2007E from 23% in 2006E and fall thereafter.

Valuation

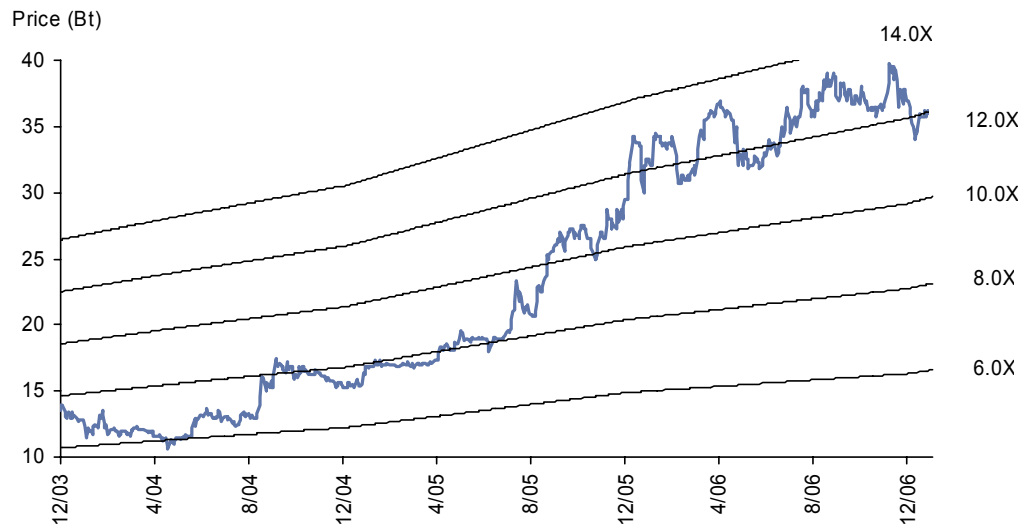
We have adopted a SOTP methodology to arrive at our 12-month target price of Bt36.75. Our target price translates into a 2007E EV/EBITDA multiple of 12X, still within the sector's 11X-12X range.

Exhibit 16: SOTP valuation

| | Value (Bt mn) | Value per share (Bt) | Breakdown (%) | Methodology |
|----------------------------------|------------------|----------------------------|------------------|------------------------------|
| Hospital business | 25,776 | 35.41 | 97% | Based on 11X 2007E EV/EBITDA |
| Associates and other investments | 805 | 1.11 | 3% | Book value |
| Enterprise value | 26,581 | 36.52 | | |
| Net cash / (debt) | 115 | 0.16 | 0% | |
| Equity value | 26,696 | 36.68 | | |

Source: Company data, Goldman Sachs Research estimates.

Exhibit 17: BH is currently trading at 12X EV/EBITDA BH's 12-month forward EV/EBITDA



Source: Company data, Datastream, Goldman Sachs Research estimates.

Risks to our view

Upside risks

- Better-than-expected execution of the management's strategies to improve revenue intensity

Downside risks

- Failure to execute its strategy for Asian Hospital (AHI) in the Philippines, in terms of capacity expansion (from 258 beds to over 400 beds) and continuous operational improvement
- Delays or cost overruns in the construction of the 250-bed Bumrungrad Hospital Dubai (BH Dubai) which is scheduled to open in 2008
- A decline in the number of expatriates as a result of government policies that are perceived as being restrictive to foreigners or foreign businesses

- More violent attacks, which hinder medical tourists' travel to Thailand

Company profile

BH operates the 554-bed Bumrungrad International Hospital in Bangkok, the only hospital in Thailand to be accredited by the Joint Commission on International Accreditation. Together with some of its shareholders (Bangkok Bank, Istithmar and Temasek Holdings), BH has also invested in AHI and BH Dubai via Bumrungrad International Company (BIL). BH is expected to have a 14% effective stake in AHI and a 15% effective stake in BH Dubai post-new capital raising at BIL level (which is currently being carried out).

Exhibit 18: Bumrungrad Hospital summary financials
 December fiscal year end, 2005-2008E (Bt mn)

| Profit model | 2005 | 2006E | 2007E | 2008E | Balance sheet | 2005 | 2006E | 2007E | 2008E |
|---|-----------------|-----------------|-----------------|------------------|-------------------------------------|----------------|----------------|----------------|----------------|
| Total revenue | 6,646.5 | 7,859.5 | 9,086.7 | 10,391.9 | Cash & equivalents | 773.4 | 826.5 | 499.1 | 233.7 |
| Cost of goods sold | (4,145.6) | (4,873.7) | (5,595.6) | (6,343.9) | Accounts receivables | 339.5 | 393.0 | 454.3 | 519.6 |
| SG&A | (1,273.8) | (1,568.5) | (1,912.6) | (2,251.0) | Inventory | 149.9 | 157.2 | 181.7 | 207.8 |
| R&D | 0.0 | 0.0 | 0.0 | 0.0 | Other current assets | 71.0 | 356.3 | 393.1 | 432.3 |
| Other operating profit / (expenses) | 144.6 | 197.1 | 215.1 | 234.2 | Total current assets | 1,333.7 | 1,732.9 | 1,528.3 | 1,393.4 |
| EBITDA | 1,663.5 | 2,004.0 | 2,343.3 | 2,723.5 | Total investments | 483.5 | 523.1 | 805.2 | 890.8 |
| Depreciation & amortization | (291.8) | (389.6) | (549.6) | (692.2) | Intangible assets | 624.2 | 590.0 | 590.0 | 590.0 |
| EBIT | 1,371.7 | 1,614.4 | 1,793.7 | 2,031.3 | Net fixed assets | 3,269.7 | 3,880.1 | 5,330.5 | 5,938.3 |
| Interest income | 8.4 | 15.9 | 11.5 | 6.4 | Other long term assets | 16.5 | 0.0 | 0.0 | 0.0 |
| Finance charges | (106.9) | (110.5) | (121.7) | (128.3) | Total assets | 5,727.5 | 6,726.1 | 8,254.0 | 8,812.4 |
| Associate income | 3.2 | 15.9 | 17.6 | 19.4 | Accounts payables | 484.4 | 536.1 | 615.5 | 697.8 |
| Others | (11.4) | 17.0 | 0.0 | 0.0 | Short-term loans | 328.5 | 328.5 | 453.5 | 453.5 |
| Pretax profits | 1,265.0 | 1,552.7 | 1,701.1 | 1,928.7 | Other current liabilities | 767.9 | 989.2 | 1,105.5 | 1,258.7 |
| Income tax | (217.9) | (434.8) | (476.3) | (540.0) | Total current liabilities | 1,580.8 | 1,853.8 | 2,174.5 | 2,410.0 |
| Minorities | 5.7 | 10.0 | 0.0 | 0.0 | Long-term loans | 1,451.0 | 1,322.5 | 1,869.0 | 1,415.5 |
| Net income pre preferred dividends | 1,052.7 | 1,128.0 | 1,224.8 | 1,388.7 | Other long term liabilities | 0.0 | 0.0 | 0.0 | 0.0 |
| Preferred dividends | 0.0 | 0.0 | 0.0 | 0.0 | Total long term liabilities | 1,451.0 | 1,322.5 | 1,869.0 | 1,415.5 |
| Net profits | 1,052.7 | 1,128.0 | 1,224.8 | 1,388.7 | Total liabilities | 3,031.7 | 3,176.3 | 4,043.4 | 3,825.5 |
| Post tax exceptionals | 0.0 | 0.0 | 0.0 | 0.0 | Share capital & share premium | 1,015.6 | 1,015.5 | 1,015.5 | 1,015.5 |
| Net income | 1,052.7 | 1,128.0 | 1,224.8 | 1,388.7 | Other reserves | 388.2 | 357.3 | 357.3 | 357.3 |
| EPS (weighted average) | 1.45 | 1.55 | 1.68 | 1.91 | Total common equity | 2,615.2 | 3,185.9 | 3,846.7 | 4,623.0 |
| EPS (post-exceptionals) | 1.45 | 1.55 | 1.68 | 1.91 | Minority interests | 80.6 | 363.9 | 363.9 | 363.9 |
| EPS (fully diluted) | 1.21 | 1.30 | 1.41 | 1.60 | Total liabilities and equity | 5,727.5 | 6,726.1 | 8,254.0 | 8,812.4 |
| DPS | 0.70 | 0.72 | 0.77 | 0.84 | BVPS | 3.59 | 4.38 | 5.29 | 6.35 |
| Dividend payout ratio (%) | 48.5 | 46.7 | 46.0 | 44.1 | | | | | |
| Free cash flow yield (%) | 1.3 | 1.7 | (3.0) | 2.3 | | | | | |
| Growth and margins | | | | | Ratios | | | | |
| Sales growth (%) | 16.9 | 18.2 | 15.6 | 14.4 | ROE (%) | 45.0 | 38.9 | 34.8 | 32.8 |
| EBITDA growth (%) | 23.2 | 20.5 | 16.9 | 16.2 | ROA (%) | 19.6 | 18.1 | 16.4 | 16.3 |
| EBIT growth (%) | 23.6 | 17.7 | 11.1 | 13.2 | ROACE (%) | 34.6 | 29.4 | 25.1 | 23.3 |
| Net income growth (%) | 12.6 | 7.1 | 8.6 | 13.4 | Inventory days | 11.2 | 11.5 | 11.1 | 11.2 |
| EPS growth (%) | 6.2 | 7.1 | 8.6 | 13.4 | Receivables days | 15.8 | 17.0 | 17.0 | 17.1 |
| Gross margin (%) | 37.6 | 38.0 | 38.4 | 39.0 | Payables days | 39.5 | 38.2 | 37.6 | 37.8 |
| EBIT margin (%) | 20.6 | 20.5 | 19.7 | 19.5 | Net debt / equity (%) | 37.3 | 23.2 | 43.3 | 32.8 |
| EBITDA margin (%) | 25.0 | 25.5 | 25.8 | 26.2 | Interest cover - EBIT (X) | 13.9 | 17.1 | 16.3 | 16.7 |
| Net margin (%) | 15.8 | 14.4 | 13.5 | 13.4 | | | | | |
| Cash flow analysis | 2005 | 2006E | 2007E | 2008E | VALUATION | 2005 | 2006E | 2007E | 2008E |
| Net income pre preferred dividends | 1,052.7 | 1,128.0 | 1,224.8 | 1,388.7 | P/E (analyst) (X) | 25.1 | 23.4 | 21.5 | 19.0 |
| DD&A add back | 291.8 | 389.6 | 549.6 | 692.2 | P/B (X) | 10.1 | 8.3 | 6.9 | 5.7 |
| Minority interests add back | (5.7) | (10.0) | 0.0 | 0.0 | EV/EBITDA (X) | 9.8 | 13.3 | 12.2 | 10.4 |
| Net (inc)/dec working capital | 3.3 | 25.2 | 31.4 | 41.3 | Dividend yield (%) | 1.9 | 2.0 | 2.1 | 2.3 |
| Others | 170.5 | 295.6 | 134.1 | 166.3 | | | | | |
| Net cash flow from operations | 1512.7 | 1828.3 | 1939.9 | 2288.6 | | | | | |
| Capital expenditures | (653.1) | (1,000.0) | (2,000.0) | (1,300.0) | | | | | |
| Net (inc)/dec investments | (5.1) | (25.8) | (264.6) | (66.1) | | | | | |
| Net (inc)/dec other assets | 0.0 | 0.0 | 0.0 | 0.0 | | | | | |
| Others | (576.8) | 15.9 | 11.5 | 6.4 | | | | | |
| Net cash flows from investments | (1235.0) | (1009.9) | (2253.0) | (1359.8) | | | | | |
| Dividends | (511.0) | (526.4) | (564.0) | (612.4) | | | | | |
| Debt drawdown (repayments) | (328.5) | (128.5) | 671.5 | (453.5) | | | | | |
| Common stock issuance | 0.0 | 0.0 | 0.0 | 0.0 | | | | | |
| Others | (17.5) | (110.5) | (121.7) | (128.3) | | | | | |
| Net cash flows from financing | (857.1) | (765.4) | (14.2) | (1,194.2) | | | | | |
| Net inc/(dec) in cash | (579.3) | 53.1 | (327.3) | (265.5) | | | | | |

Note: Last actual year may include reported and estimated data

Source: Company data, Goldman Sachs Research estimates.

Bangkok Dusit Medical Services (Neutral) – Gradual turnaround

Investment summary

We are initiating coverage on Bangkok Dusit Medical Services (BGH) with a Neutral rating and a 12-month target price of Bt34 based on SOTP valuation.

Turnaround at acquired hospitals to take time

BGH has, via acquisitions, grown to be the largest private hospital operator in Thailand, with a network of about 17 hospitals spread across the country. Although this acquisition strategy has allowed BGH to expand its network rapidly in a relatively short period of time, we remain cautious as we believe that operational synergies and EBITDA margin improvement will be gradual over time.

In terms of an entry point, we would see BGH as being reasonably attractive at about Bt30 (10X 2007E EV/EBITDA). We note that since September 2005, BGH has traded above 10X EV/EBITDA and we see support for the stock at this level. We expect BGH to enjoy 2-year net profit CAGR of about 26% over 2006E-2008E, but given execution risks with respect to its acquired hospitals as well as dilution risk, we believe that 10X EV/EBITDA is a reasonable entry point; this is below the sector's trading range of 11X-12X.

Earnings drivers

Network allows wider geographical reach, differentiation of hospitals and economies of scale

We see scope for volume growth as BGH expands its franchise outside the relatively more competitive Bangkok market to target tourists as well as residents in the mid-to-high income bracket (e.g., in the tourist haven of Phuket and industrialized Rayong). These upcountry hospitals also serve as a source of patient referrals to its hospitals in Bangkok, leveraging the infrastructure there and allowing more efficient utilization of expensive medical equipment. We believe other economies of scale can also be achieved, for example, bulk purchase of pharmaceuticals and medical equipment.

In an effort to improve patient yields, BGH has also: (1) set up various centers of excellence in Bangkok (e.g., the Bangkok Heart Hospital, the Bangkok Cancer Hospital); and (2) structured its hospitals to cater to different groups of patients, e.g., Samitivej Sukhumvit caters mainly to patients in the high income bracket.

Margin improvement will take time, overall occupancy rates still low

While occupancy rates at its flagship Bangkok Hospital are at about 70%, overall, BGH has an occupancy rate of about 50% given low capacity utilization at other hospitals. As some of these underutilized hospitals will act as a drag on EBITDA margins, we only expect gradual improvement in the EBITDA margin to 24% in 2007E from 23% in 2006E, despite higher volume and improving patient yield.

Potential dilution from outstanding Bt5 bn convertible bonds

If fully exercised, the convertible bonds (CB) would result in EPS dilution of about 10%. As the CB is out-of-the-money, we have not adjusted for this potential dilution in our estimates. The initial conversion price has been set at Bt36.30 (4% above current share price) and 131.2 mn shares have been reserved for the potential conversion. In case not all CBs are converted as of July 12, 2011 (maturity date), the management reserves the right to offer these reserved shares by way of private placement.

Valuation

We have adopted a SOTP methodology to arrive at our 12-month target price of Bt34. Our target price translates into a 2007E EV/EBITDA multiple of 11X, which is in line with BGH's historical EV/EBITDA trading range of 10X-12X.

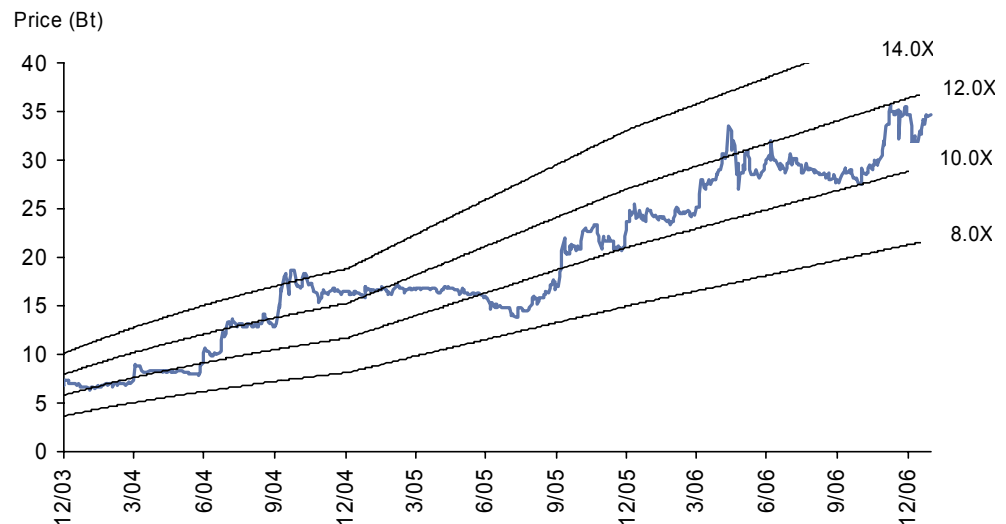
Exhibit 19: SOTP valuation

| | Value (Bt mn) | Value per share (Bt) | Breakdown (%) | Methodology |
|-----------------------------------|------------------|----------------------------|------------------|------------------------------|
| Hospital business | 44,138 | 37.37 | 110% | Based on 11X 2007E EV/EBITDA |
| Ramkhamhaeng Hospital (19% stake) | 1,021 | 0.86 | 3% | Market value |
| Associates and other investments | 1,055 | 0.89 | 3% | Book value |
| Enterprise value | 46,214 | 39.13 | | |
| Net cash / (debt) | (6,173) | (5.23) | -15% | |
| Equity value | 40,041 | 33.90 | | |

Source: Company data, Bloomberg, Goldman Sachs Research estimates.

Exhibit 20: BGH is currently trading at 11X EV/EBITDA

BGH's 12-month forward EV/EBITDA



Source: Company data, Datastream, Goldman Sachs Research estimates.

Risks to our view

Downside risks

- Share overhang from the CB issue
- Better-than-expected operational and EBITDA margin improvement at acquired hospitals
- Overpaying for acquisitions, if any
- Future acquisitions, if any, could be equity-financed, resulting in shareholder's dilution. Note that BGH has had a history of raising equity capital to fund its expansion in the past
- Failure to execute its expansion plans in Cambodia, including delays or cost overruns in the construction of its Phnom Penh medical center

- Higher-than-expected start-up losses in its Cambodian operations
- A decline in the number of expatriates, as a result of government policies that are restrictive to foreigners or foreign businesses
- More violent attacks, which hinder medical tourists' travel to Thailand

Company profile

BGH is the largest private hospital operator in Thailand with a network of about 17 hospitals and about 3,482 licensed beds. In Cambodia, BGH has recently opened a 30-bed hospital in Siem Reap and is planning to open a medical center in Phnom Penh.

Given that it already has a footprint in Bangkok and in several key provinces, the management has indicated that it does not foresee BGH making many more acquisitions. We believe that future acquisitions, if any, would be small and in locations where BGH does not yet have a presence (e.g., Chiangmai).

Exhibit 21: List of BGH's hospitals

| | Location | Stake (%) |
|--|---------------------|-----------|
| Bangkok Medical Centre: | | |
| Bangkok Hospital | Bangkok | 100 |
| Bangkok Heart Hospital | Bangkok | 100 |
| Bangkok Cancer Hospital (Wattanasoth) Hospital | Bangkok | 100 |
| Bangkok International Hospital | Bangkok | 100 |
| Samitivej: | | |
| Samitivej Sukhumvit Hospital | Bangkok | 93 |
| Samitivej Srinakarin Hospital | Bangkok | 93 |
| Samitivej Sriracha Hospital | East Thailand | 56 |
| BNH Medical Centre | Bangkok | 88 |
| Bangkok Prapradang Hospital | Bangkok | 79 |
| Bangkok Pattaya Hospital | East Thailand | 97 |
| Bangkok Rayong Hospital | East Thailand | 100 |
| Wattanavej Hospital (aka Bangkok Chanthaburi Hospital) | East Thailand | 100 |
| Bangkok Trat Hospital | East Thailand | 100 |
| Bangkok Ratchasima Hospital | Northeast Thailand | 89 |
| Bangkok Phuket Hospital | South Thailand | 100 |
| Bangkok Hatyai Hospital | South Thailand | 99 |
| Bangkok Samui Hospital | South Thailand | 100 |
| Ramkhamhaeng Hospital | Bangkok | 19 |
| Phyathai Hospital | Bangkok | 16 |
| Ake Udorn Hospital | Northeast Thailand | 10 |
| Royal Angkor International hospital | Siem Reap, Cambodia | 80 |

Source: Company data, Goldman Sachs Research estimates.

Exhibit 22: Bangkok Dusit Medical Services summary financials

December fiscal year ends, 2005-2008E (Bt mn)

| Profit model | 2005 | 2006E | 2007E | 2008E | Balance sheet | 2005 | 2006E | 2007E | 2008E |
|---|-----------------|-----------------|------------------|------------------|-------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Total revenue | 10,253.8 | 15,717.7 | 19,009.5 | 21,779.7 | Cash & equivalents | 549.6 | 974.0 | 344.0 | 1,076.6 |
| Cost of goods sold | (5,934.6) | (8,801.9) | (10,645.3) | (12,196.6) | Accounts receivables | 564.4 | 943.1 | 1,140.6 | 1,306.8 |
| SG&A | (3,422.2) | (4,872.5) | (5,702.9) | (6,533.9) | Inventory | 160.9 | 314.4 | 380.2 | 435.6 |
| R&D | 0.0 | 0.0 | 0.0 | 0.0 | Other current assets | 185.2 | 626.6 | 626.6 | 626.6 |
| Other operating profit / (expenses) | 109.4 | 203.6 | 247.1 | 283.1 | Total current assets | 1,460.1 | 2,858.0 | 2,491.4 | 3,445.6 |
| EBITDA | 2,070.9 | 3,567.0 | 4,458.4 | 5,066.1 | Total investments | 1,236.6 | 1,802.2 | 1,849.2 | 1,896.1 |
| Depreciation & amortization | (1,064.6) | (1,320.1) | (1,549.9) | (1,733.8) | Intangible assets | 943.5 | 1,437.4 | 1,352.9 | 1,268.5 |
| EBIT | 1,006.3 | 2,246.9 | 2,908.5 | 3,332.3 | Net fixed assets | 13,453.6 | 17,253.6 | 18,189.1 | 18,444.3 |
| Interest income | 4.6 | 24.1 | 21.0 | 19.0 | Other long term assets | 583.5 | 438.9 | 438.9 | 438.9 |
| Finance charges | (275.6) | (534.0) | (564.7) | (523.8) | Total assets | 17,677.2 | 23,790.1 | 24,321.5 | 25,493.4 |
| Associate income | 159.0 | 36.7 | 48.0 | 48.0 | Accounts payables | 640.9 | 968.2 | 1,064.5 | 1,219.7 |
| Others | 172.9 | 128.8 | 100.0 | 100.0 | Short-term loans | 1,142.1 | 1,150.0 | 810.4 | 1,550.4 |
| Pretax profits | 1,067.3 | 1,902.6 | 2,512.8 | 2,975.5 | Other current liabilities | 1,054.6 | 1,450.5 | 1,733.8 | 1,851.7 |
| Income tax | (208.0) | (494.7) | (653.3) | (773.6) | Total current liabilities | 2,837.6 | 3,568.7 | 3,608.7 | 4,621.7 |
| Minorities | (27.2) | (75.0) | (60.7) | (71.8) | Long-term loans | 5,994.9 | 10,075.1 | 9,469.1 | 8,061.2 |
| Net income pre preferred dividends | 832.1 | 1,332.9 | 1,798.8 | 2,130.1 | Other long term liabilities | 427.3 | 176.6 | 53.3 | 53.3 |
| Preferred dividends | 0.0 | 0.0 | 0.0 | 0.0 | Total long term liabilities | 6,422.1 | 10,251.7 | 9,522.5 | 8,114.5 |
| Net profits | 832.1 | 1,332.9 | 1,798.8 | 2,130.1 | Total liabilities | 9,259.7 | 13,820.4 | 13,131.2 | 12,736.3 |
| Post tax exceptionals | 0.0 | 0.0 | 0.0 | 0.0 | Share capital & share premium | 5,486.0 | 5,743.2 | 5,743.2 | 5,743.2 |
| Net income | 832.1 | 1,332.9 | 1,798.8 | 2,130.1 | Other reserves | 1,336.8 | 1,864.1 | 1,864.1 | 1,864.1 |
| EPS (weighted average) | 0.72 | 1.13 | 1.52 | 1.80 | Total common equity | 7,889.6 | 9,416.5 | 10,624.7 | 12,164.3 |
| EPS (post-exceptionals) | 0.72 | 1.13 | 1.52 | 1.80 | Minority interests | 527.9 | 553.3 | 565.6 | 592.9 |
| EPS (fully diluted) | 0.72 | 1.13 | 1.52 | 1.80 | Total liabilities and equity | 17,677.2 | 23,790.1 | 24,321.5 | 25,493.4 |
| DPS | 0.50 | 0.50 | 0.50 | 0.50 | BVPS | 6.78 | 7.97 | 9.00 | 10.30 |
| Dividend payout ratio (%) | 69.9 | 44.3 | 32.8 | 27.7 | | | | | |
| Free cash flow yield (%) | (3.4) | (3.7) | 1.0 | 4.1 | | | | | |
| Growth and margins | | | | | Ratios | | | | |
| Sales growth (%) | 94.4 | 53.3 | 20.9 | 14.6 | ROE (%) | 10.8 | 15.4 | 18.0 | 18.7 |
| EBITDA growth (%) | 119.6 | 72.2 | 25.0 | 13.6 | ROA (%) | 5.2 | 6.4 | 7.5 | 8.6 |
| EBIT growth (%) | 87.0 | 123.3 | 29.4 | 14.6 | ROACE (%) | 8.0 | 10.1 | 10.9 | 12.1 |
| Net income growth (%) | 33.5 | 60.2 | 35.0 | 18.4 | Inventory days | 8.5 | 9.9 | 11.9 | 12.2 |
| EPS growth (%) | 0.4 | 57.8 | 35.0 | 18.4 | Receivables days | 17.9 | 17.5 | 20.0 | 20.5 |
| Gross margin (%) | 42.1 | 44.0 | 44.0 | 44.0 | Payables days | 34.5 | 33.4 | 34.8 | 34.2 |
| EBIT margin (%) | 9.8 | 14.3 | 15.3 | 15.3 | Net debt / equity (%) | 78.3 | 102.8 | 88.8 | 66.9 |
| EBITDA margin (%) | 20.2 | 22.7 | 23.5 | 23.3 | Interest cover - EBIT (X) | 3.7 | 4.4 | 5.3 | 6.6 |
| Net margin (%) | 8.1 | 8.5 | 9.5 | 9.8 | | | | | |
| Cash flow analysis | 2005 | 2006E | 2007E | 2008E | VALUATION | 2005 | 2006E | 2007E | 2008E |
| Net income pre preferred dividends | 832.1 | 1,332.9 | 1,798.8 | 2,130.1 | P/E (analyst) (X) | 48.6 | 30.8 | 22.8 | 19.3 |
| DD&A add back | 1,064.6 | 1,320.1 | 1,549.9 | 1,733.8 | P/B (X) | 5.1 | 4.4 | 3.9 | 3.4 |
| Minority interests add back | 27.2 | 75.0 | 60.7 | 71.8 | EV/EBITDA (X) | 13.3 | 12.4 | 11.6 | 9.9 |
| Net (inc)/dec working capital | 31.7 | (204.8) | (167.0) | (66.5) | Dividend yield (%) | 1.4 | 1.4 | 1.4 | 1.4 |
| Others | (183.7) | 214.3 | 738.8 | 661.6 | | | | | |
| Net cash flow from operations | 1771.8 | 2737.4 | 3981.1 | 4530.8 | | | | | |
| Capital expenditures | (2,728.3) | (2,820.0) | (2,485.5) | (1,989.0) | | | | | |
| Net (inc)/dec investments | (224.4) | (1,222.1) | (47.0) | (47.0) | | | | | |
| Net (inc)/dec other assets | 0.0 | 0.0 | 0.0 | 0.0 | | | | | |
| Others | 308.8 | (1,252.3) | 22.1 | 20.1 | | | | | |
| Net cash flows from investments | (2643.8) | (5294.3) | (2510.4) | (2015.9) | | | | | |
| Dividends | (581.7) | (590.5) | (590.5) | (590.5) | | | | | |
| Debt drawdown (repayments) | 1,612.8 | 4,088.2 | (945.6) | (667.9) | | | | | |
| Common stock issuance | 0.0 | 17.6 | 0.0 | 0.0 | | | | | |
| Others | (663.0) | (534.0) | (564.7) | (523.8) | | | | | |
| Net cash flows from financing | 368.0 | 2,981.3 | (2,100.8) | (1,782.3) | | | | | |
| Net inc/(dec) in cash | (503.9) | 424.4 | (630.0) | 732.6 | | | | | |

Note: Last actual year may include reported and estimated data

Source: Company data, Goldman Sachs Research estimates.

Reg AC

I, Christina Hee, CFA, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Investment profile

The Goldman Sachs Investment Profile provides investment context for a security by comparing key attributes of that security to its peer group and market. The four key attributes depicted are: growth, returns, multiple and volatility. Growth, returns and multiple are indexed based on composites of several methodologies to determine the stocks percentile ranking within the region's coverage universe.

The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

Quantum

Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

Disclosures

Coverage group(s) of stocks by primary analyst(s)

Christina Hee, CFA: ASEAN.

ASEAN: Astra Agro Lestari, Astra International, Bangkok Expressway, Big C Supercenter, C.P. Seven-Eleven, ComfortDelGro, Golden Hope Plantation, Gudang Garam, Holcim Indonesia, Hyflux, Indocement Tunggul Prakarsa, IOI Corporation, Jardine Cycle & Carriage, Keppel Corp, KS Energy Services, Kuala Lumpur Kepong, Labroy Marine, London Sumatra Indonesia, Mitra Adiperkasa, PLUS Expressways Berhad, PPB Oil Palms Bhd, PT Indofood, Ramayana Lestari Sentosa, SBS Transit, SembCorp Industries, SembCorp Marine, Semen Gresik (Persero), Siam Cement, Siam City Cement, Sinomem Technology, SMRT Corporation, Wilmar International.

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There are no company-specific disclosures for: Bangkok Dusit Medical Services (Bt36.00), Bumrungrad Hospital (Bt37.00), Parkway Holdings (S\$3.30) and Raffles Medical Group (S\$1.18)

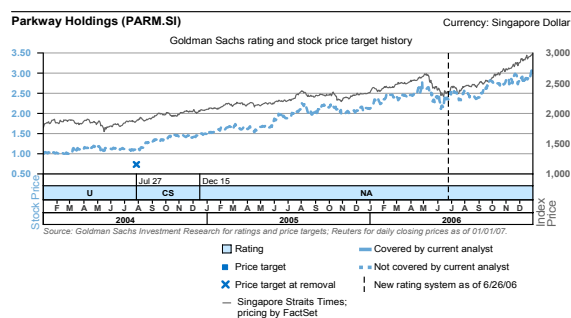
Distribution of ratings/investment banking relationships

Goldman Sachs Investment Research global coverage universe

| | Rating Distribution | | | Investment Banking Relationships | | |
|--------|---------------------|------|------|----------------------------------|------|------|
| | Buy | Hold | Sell | Buy | Hold | Sell |
| Global | 26% | 60% | 14% | 47% | 39% | 36% |

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Price target and rating history chart(s)



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