



## COMPANY UPDATE

**Raffles Medical Group (RAFG.SI)**

Neutral

**In-line 3Q07 results, we see further revenue growth, new TP S\$1.65****What's changed**

Raffles reported 3Q07 net profit of S\$6.6 mn (+61% yoy, -58% qoq), largely in line with our expectation of S\$7 mn and ahead of consensus of S\$6 mn.

**Implications**

We expect revenue growth (3Q07: 25% yoy) to further improve in 2008, given the full effect of price increases of c.5-10% (in 2H07), the opening of specialist clinics in 2Q07, as well as the opening of more operational beds (+25 beds in 4Q07) and five GP clinics in 2007. Management has indicated that volume growth remains strong and that the number of foreign patients continues to grow, although no specific details were given. EBITDA margin also continues to trend upward (3Q07: 17.5%, 2Q07: 16.7%, 3Q06: 15.8%) given operating leverage benefits. We lower our 2007E net profit estimate by 7% to take into account the tax effect arising from the revaluation surplus on the hospital building, i.e., instead of an extraordinary gain of S\$12.5 mn in 2007E, we now assume an extraordinary gain of only S\$10.3 mn. While there should be no capital gains tax (this is merely a revaluation gain), we understand that the company's auditors have advised that a provision for tax be made.

**Valuation**

We revise up our net profit estimates by 2% over 2008E-2009E to take into account the abovementioned revenue effects. As a result, we also revise our 12-month target price to S\$1.65 (DCF-based) from S\$1.50 (SOTP-based, with the hospital business valued on DCF and associates or other investments valued on book value). Note that Raffles no longer has any associates or other investments (previously valued at book value), hence what remains is its core hospital business which we continue to value on a DCF basis based on a WACC of 6.7%. We maintain our Neutral rating.

**Key risks**

Failure to execute planned capacity expansion (-ve), overpaying for acquisitions (if any) (-ve), possible REIT exercise (+ve).

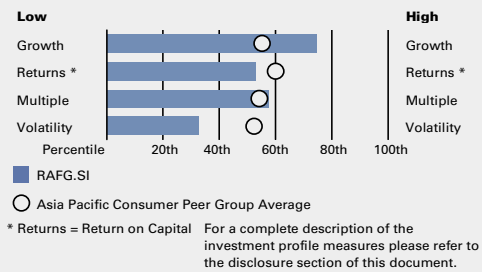
**INVESTMENT LIST MEMBERSHIP**

Neutral

**Coverage View: Neutral**

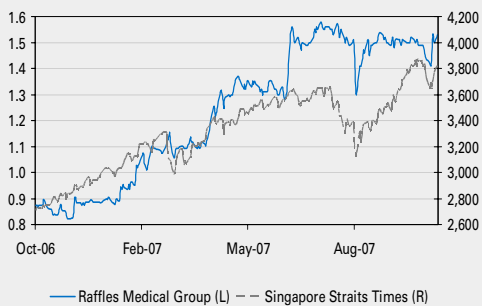
Singapore:  
Healthcare Services

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**Investment Profile: Raffles Medical Group**

Key data	Current
Price (S\$)	1.53
12 month price target (S\$)	1.65
Market cap (S\$ mn / US\$ mn)	788.0 / 542.1
Foreign ownership (%)	--

	12/06	12/07E	12/08E	12/09E
EPS (S\$)	0.04	0.04	0.06	0.08
EPS growth (%)	28.5	23.4	46.7	25.2
EPS (diluted) (S\$)	0.03	0.06	0.06	0.08
EPS (basic pre-ex) (S\$)	0.04	0.04	0.06	0.08
P/E (X)	43.5	35.3	24.1	19.2
P/B (X)	6.2	4.0	3.9	3.6
EV/EBITDA (X)	14.0	25.8	15.9	12.8
Dividend yield (%)	2.3	1.6	3.3	3.3
ROE (%)	14.3	21.0	16.3	19.3

**Price performance chart**

Share price performance (%)	3 month	6 month	12 month
Absolute	0.0	17.7	79.1
Rel. to Singapore Straits Times	(8.6)	4.7	28.0

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 10/29/2007 close.

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# Raffles Medical Group: Summary financials

Profit model (\$\$ mn)	12/06	12/07E	12/08E	12/09E	Balance sheet (\$\$ mn)	12/06	12/07E	12/08E	12/09E
<b>Total revenue</b>	<b>134.2</b>	<b>167.0</b>	<b>212.5</b>	<b>253.6</b>	Cash & equivalents	41.9	15.6	31.7	56.3
Cost of goods sold	(16.6)	(20.6)	(26.2)	(31.3)	Accounts receivable	16.8	18.4	23.4	27.9
SG&A	(72.7)	(89.3)	(113.4)	(134.6)	Inventory	3.4	4.3	5.4	6.5
R&D	--	--	--	--	Other current assets	14.3	3.3	3.3	3.3
Other operating profit/(expense)	(27.5)	(30.5)	(31.3)	(36.6)	<b>Total current assets</b>	<b>76.4</b>	<b>41.5</b>	<b>63.7</b>	<b>93.9</b>
<b>EBITDA</b>	<b>20.9</b>	<b>31.4</b>	<b>49.9</b>	<b>59.8</b>	Net PP&E	20.2	233.7	229.1	224.5
Depreciation & amortization	(3.4)	(4.7)	(8.3)	(8.7)	Net intangibles	0.2	0.2	0.2	0.2
<b>EBIT</b>	<b>17.5</b>	<b>26.7</b>	<b>41.6</b>	<b>51.1</b>	Total investments	54.0	0.0	0.0	0.0
Interest income	1.7	1.2	0.9	1.8	Other long-term assets	1.1	3.0	3.0	3.0
Interest expense	(0.1)	(0.4)	(1.5)	(1.5)	<b>Total assets</b>	<b>151.8</b>	<b>278.4</b>	<b>296.0</b>	<b>321.6</b>
Income/(loss) from uncons. subs.	0.9	0.6	0.0	0.0	Accounts payable	30.0	36.5	44.4	52.7
Others	0.1	0.0	0.0	0.0	Short-term debt	2.0	36.0	36.0	36.0
<b>Pretax profits</b>	<b>20.1</b>	<b>28.0</b>	<b>41.0</b>	<b>51.3</b>	Other current liabilities	5.9	7.3	9.9	11.9
Income tax	(4.3)	(5.6)	(8.2)	(10.3)	<b>Total current liabilities</b>	<b>37.9</b>	<b>79.8</b>	<b>90.3</b>	<b>100.6</b>
Minorities	(0.1)	(0.1)	(0.1)	(0.1)	Long-term debt	0.0	0.0	0.0	0.0
<b>Net income pre-preferred dividends</b>	<b>15.8</b>	<b>22.3</b>	<b>32.8</b>	<b>41.0</b>	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
<b>Net income (pre-exceptionals)</b>	<b>15.8</b>	<b>22.3</b>	<b>32.8</b>	<b>41.0</b>	<b>Total liabilities</b>	<b>38.7</b>	<b>80.5</b>	<b>91.0</b>	<b>101.3</b>
Post-tax exceptionals	0.0	10.3	0.0	0.0	Common stock & premium	101.1	166.1	166.1	166.1
<b>Net income</b>	<b>15.8</b>	<b>32.6</b>	<b>32.8</b>	<b>41.0</b>	Other common equity	11.8	31.5	38.5	53.8
EPS (basic, pre-except) (\$\$)	0.04	0.04	0.06	0.08	<b>Total common equity</b>	<b>112.9</b>	<b>197.6</b>	<b>204.6</b>	<b>219.8</b>
EPS (basic, post-except) (\$\$)	0.04	0.06	0.06	0.08	Minority interest	0.3	0.3	0.4	0.4
EPS (diluted, post-except) (\$\$)	0.03	0.06	0.06	0.08	<b>Total liabilities &amp; equity</b>	<b>151.8</b>	<b>278.4</b>	<b>296.0</b>	<b>321.6</b>
DPS (\$\$)	0.03	0.03	0.05	0.05	<b>BVPS (\$\$)</b>	<b>0.25</b>	<b>0.38</b>	<b>0.40</b>	<b>0.43</b>
Dividend payout ratio (%)	98.3	39.5	78.6	62.8					
Free cash flow yield (%)	4.8	3.3	4.9	6.0					
<b>Growth &amp; margins (%)</b>	<b>12/06</b>	<b>12/07E</b>	<b>12/08E</b>	<b>12/09E</b>	<b>Ratios</b>	<b>12/06</b>	<b>12/07E</b>	<b>12/08E</b>	<b>12/09E</b>
Sales growth	18.9	24.4	27.2	19.4	ROE (%)	14.3	21.0	16.3	19.3
EBITDA growth	32.4	50.3	59.0	19.9	ROA (%)	10.8	15.1	11.4	13.3
EBIT growth	37.7	52.6	55.9	22.8	ROACE (%)	19.7	15.0	15.6	20.0
Net income growth	31.9	106.7	0.5	25.2	Inventory days	70.1	68.0	67.3	69.3
EPS growth	28.5	80.0	0.5	25.2	Receivables days	39.5	38.4	35.9	36.9
Gross margin	87.7	87.7	87.7	87.7	Payable days	598.9	588.4	562.8	565.7
EBITDA margin	15.5	18.8	23.5	23.6	Net debt/equity (%)	(35.4)	10.3	2.1	(9.2)
EBIT margin	13.0	16.0	19.6	20.1	Interest cover - EBIT (X)	NM	NM	71.2	NM
<b>Cash flow statement (\$\$ mn)</b>	<b>12/06</b>	<b>12/07E</b>	<b>12/08E</b>	<b>12/09E</b>	<b>Valuation</b>	<b>12/06</b>	<b>12/07E</b>	<b>12/08E</b>	<b>12/09E</b>
Net income pre-preferred dividends	15.8	22.3	32.8	41.0	P/E (analyst) (X)	43.5	35.3	24.1	19.2
D&A add-back	3.4	4.7	8.3	8.7	P/B (X)	6.2	4.0	3.9	3.6
Minorities interests add-back	0.1	0.1	0.1	0.1	EV/EBITDA (X)	14.0	25.8	15.9	12.8
Net inc/(dec) working capital	0.6	4.0	1.8	2.7	Dividend yield (%)	2.3	1.6	3.3	3.3
Other operating cash flow	(0.2)	0.0	3.2	1.8					
<b>Cash flow from operations</b>	<b>19.7</b>	<b>31.1</b>	<b>46.0</b>	<b>54.2</b>					
Capital expenditures	(2.3)	(3.2)	(3.7)	(4.1)					
Acquisitions	(0.7)	(0.7)	(0.7)	(0.7)					
Divestitures	0.0	0.0	0.0	0.0					
Others	1.1	(53.3)	1.6	2.5					
<b>Cash flow from investments</b>	<b>(1.9)</b>	<b>(57.1)</b>	<b>(2.7)</b>	<b>(2.3)</b>					
Dividends paid (common & pref)	(15.5)	(12.9)	(25.8)	(25.8)					
Inc/(dec) in debt	0.0	(50.0)	0.0	0.0					
Common stock issuance (repurchase)	4.8	65.0	0.0	0.0					
Other financing cash flows	(0.3)	(2.4)	(1.5)	(1.5)					
<b>Cash flow from financing</b>	<b>(11.0)</b>	<b>(0.3)</b>	<b>(27.3)</b>	<b>(27.3)</b>					
<b>Total cash flow</b>	<b>6.8</b>	<b>(26.3)</b>	<b>16.1</b>	<b>24.6</b>					

Note: Last actual year may include reported and estimated data.  
Source: Company data, Goldman Sachs Research estimates.

## Analyst Contributors

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**Exhibit 1: Summary of Raffles' 3Q07 results**

<b>S\$ mn</b>	<b>3Q2007</b>	<b>3Q2006</b>	<b>YoY growth</b>	<b>2Q2007</b>	<b>QoQ growth</b>
Revenue	43.8	35.0	25%	41.4	6%
Total operating income/(expenses)	(37.1)	(30.3)	22%	(35.4)	5%
EBITDA	7.7	5.5	38%	6.9	11%
Depreciation and amortisation	(0.9)	(0.9)	8%	(0.9)	5%
EBIT	6.7	4.7	44%	6.0	11%
Operating profit margin (%)	15%	13%		15%	
EBITDA margin (%)	17%	16%		17%	
Non-operating income/(expenses)	1.4	0.5	162%	13.3	-90%
Profit before tax	8.1	5.2	56%	19.4	-58%
Taxation	(1.6)	(1.1)	40%	(3.6)	-56%
Minority interests	0.0	(0.0)	-163%	(0.0)	-119%
Net profit	6.6	4.1	61%	15.8	-58%
Net profit margin (%)	15%	12%		38%	

Source: Company data.

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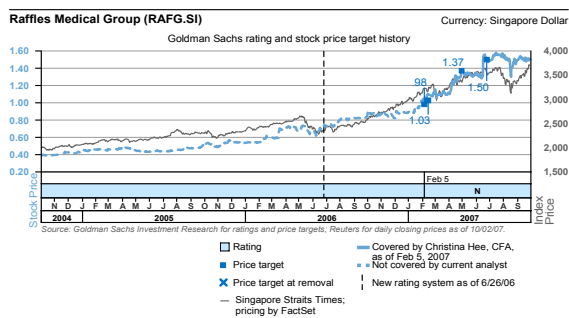
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