



COMPANY UPDATE
Raffles Medical Group (RAFG.SI)

Neutral

In-line 1Q07 results, maintain Neutral, raise target price to S\$1.37

What's changed

Raffles reported 1Q07 net profit of S\$ 4 mn (+41% yoy, -17 % qoq), in line with our and consensus estimates.

Implications

Higher volume and revenue intensity resulted in the hospital division reporting 28% yoy revenue growth. Raffles now has 175 operational beds (2006: 150 beds, 2007E: 200 beds) and will soon begin converting existing office space to clinics/medical suites as it expands its specialist services. Raffles is looking to recruit more specialists and could see the number of full time/sessional specialists rise by some 10%-20% in 2008.

On the healthcare services front, revenue growth was 16% yoy. Recent Medisave revisions have yet to make a significant impact on volumes but management expects this to build up gradually. Management is also planning to: (1) expand the size (i.e., floor space) of existing clinics; (2) add c.5 new clinics to its network; and (3) expand the range of services at its clinics. Management has a same-store-sales growth target of 10%-20% for its clinics.

In 1Q07, Raffles' insurance arm was still loss making although according to management, the loss had narrowed from a year ago. Management expects this division to break even this year.

Valuation

We raise our 12-month SOTP-based target price to S\$1.37 (previously S\$1.13, prior to the 10% bonus issue on April 30) as we rollover to using 2008E (previously 2007E) estimates as the basis for our valuation.

Key risks

Execution risks, inability to attract or retain specialists, overpaying for acquisitions (if any).

INVESTMENT LIST MEMBERSHIP

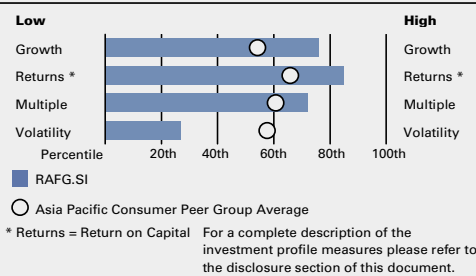
Neutral

Coverage View: Neutral

Singapore:
 Healthcare Services

Christina Hee, CFA
 +65-6889-2462 | christina.hee@gs.com Goldman Sachs (Singapore) Pte

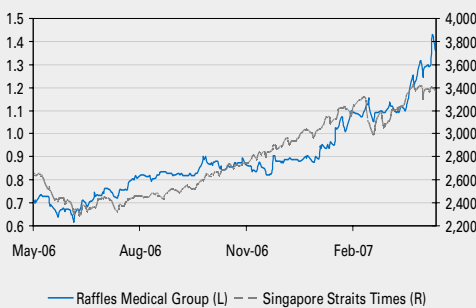
Investment Profile: Raffles Medical Group



| Key data | Current |
|-------------------------------|---------------|
| Price (S\$) | 1.43 |
| 12 month price target (S\$) | 1.37 |
| Market cap (S\$ mn / US\$ mn) | 661.8 / 437.6 |
| Foreign ownership (%) | -- |

| | 12/06 | 12/07E | 12/08E | 12/09E |
|---------------------------|-------|--------|--------|--------|
| EPS (S\$) | 0.04 | 0.05 | 0.07 | 0.08 |
| EPS growth (%) | 28.5 | 39.6 | 34.2 | 22.5 |
| EPS (diluted) (S\$) | 0.03 | 0.05 | 0.07 | 0.08 |
| EPS (basic, pre-ex) (S\$) | 0.04 | 0.05 | 0.07 | 0.08 |
| P/E (X) | 40.7 | 29.1 | 21.7 | 17.7 |
| P/B (X) | 5.7 | 5.5 | 5.2 | 4.9 |
| EV/EBITDA (X) | 14.0 | 21.0 | 15.5 | 12.6 |
| Dividend yield (%) | 2.4 | 2.4 | 3.4 | 4.6 |
| ROE (%) | 14.3 | 19.5 | 24.6 | 28.5 |

Price performance chart



| Share price performance (%) | 3 month | 6 month | 12 month |
|---------------------------------|---------|---------|----------|
| Absolute | 48.4 | 67.3 | 111.1 |
| Rel. to Singapore Straits Times | 34.8 | 34.4 | 61.6 |

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 4/30/2007 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 |
|---|---------------|---------------|---------------|---------------|---------------------------------------|--------------|---------------|---------------|---------------|
| Total revenue | 134.2 | 167.6 | 209.2 | 250.0 | Cash & equivalents | 41.9 | 51.4 | 63.9 | 74.6 |
| Cost of goods sold | (16.6) | (20.7) | (25.8) | (30.9) | Accounts receivable | 16.8 | 20.9 | 26.1 | 31.2 |
| SG&A | (72.7) | (88.2) | (108.9) | (130.2) | Inventory | 3.4 | 4.3 | 5.3 | 6.4 |
| R&D | -- | -- | -- | -- | Other current assets | 14.3 | 14.3 | 14.3 | 14.3 |
| Other operating profit/(expense) | (27.5) | (33.1) | (39.6) | (46.2) | Total current assets | 76.4 | 90.8 | 109.6 | 126.5 |
| EBITDA | 20.9 | 29.2 | 38.6 | 46.9 | Net PP&E | 20.2 | 19.6 | 17.8 | 16.7 |
| Depreciation & amortization | (3.4) | (3.6) | (3.8) | (4.1) | Net intangibles | 0.2 | 0.2 | 0.2 | 0.2 |
| EBIT | 17.5 | 25.6 | 34.8 | 42.8 | Total investments | 54.0 | 55.0 | 56.2 | 57.4 |
| Interest income | 1.7 | 1.9 | 2.3 | 2.8 | Other long-term assets | 1.1 | 0.9 | 0.9 | 0.9 |
| Interest expense | (0.1) | (0.1) | (0.1) | (0.1) | Total assets | 151.8 | 166.5 | 184.6 | 201.7 |
| Income/(loss) from uncons. subs. | 0.9 | 1.0 | 1.1 | 1.3 | Accounts payable | 30.0 | 36.5 | 44.8 | 53.3 |
| Others | 0.1 | 0.0 | 0.0 | 0.0 | Short-term debt | 2.0 | 2.0 | 2.0 | 2.0 |
| Pretax profits | 20.1 | 28.5 | 38.2 | 46.7 | Other current liabilities | 5.9 | 7.4 | 9.3 | 11.0 |
| Income tax | (4.3) | (5.7) | (7.6) | (9.3) | Total current liabilities | 37.9 | 45.8 | 56.1 | 66.3 |
| Minorities | (0.1) | (0.1) | (0.1) | (0.1) | Long-term debt | 0.0 | 0.0 | 0.0 | 0.0 |
| Net income pre-preferred dividends | 15.8 | 22.7 | 30.5 | 37.3 | 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 income (pre-exceptionals) | 15.8 | 22.7 | 30.5 | 37.3 | Total liabilities | 38.7 | 46.6 | 56.9 | 67.0 |
| Post-tax exceptionals | 0.0 | 0.0 | 0.0 | 0.0 | Common stock & premium | 101.1 | 101.1 | 101.1 | 101.1 |
| Net income | 15.8 | 22.7 | 30.5 | 37.3 | Other common equity | 11.8 | 18.8 | 26.5 | 33.4 |
| EPS (basic, pre-except) (\$\$) | 0.04 | 0.05 | 0.07 | 0.08 | Total common equity | 112.9 | 119.8 | 127.6 | 134.4 |
| EPS (basic, post-except) (\$\$) | 0.04 | 0.05 | 0.07 | 0.08 | Minority interest | 0.3 | 0.3 | 0.4 | 0.4 |
| EPS (diluted, post-except) (\$\$) | 0.03 | 0.05 | 0.07 | 0.08 | Total liabilities & equity | 151.8 | 166.7 | 184.8 | 201.9 |
| DPS (\$\$) | 0.03 | 0.03 | 0.05 | 0.07 | BVPS (\$\$) | 0.25 | 0.26 | 0.28 | 0.29 |
| Dividend payout ratio (%) | 98.3 | 69.4 | 74.5 | 81.6 | | | | | |
| Free cash flow yield (%) | 4.8 | 3.5 | 5.0 | 5.9 | | | | | |
| Growth & margins (%) | 12/06 | 12/07E | 12/08E | 12/09E | Ratios | 12/06 | 12/07E | 12/08E | 12/09E |
| Sales growth | 18.9 | 24.8 | 24.8 | 19.5 | ROE (%) | 14.3 | 19.5 | 24.6 | 28.5 |
| EBITDA growth | 32.4 | 40.1 | 32.1 | 21.5 | ROA (%) | 10.8 | 14.3 | 17.4 | 19.3 |
| EBIT growth | 37.7 | 46.6 | 35.8 | 23.0 | ROACE (%) | 19.7 | 29.6 | 42.0 | 54.9 |
| Net income growth | 31.9 | 44.0 | 34.2 | 22.5 | Inventory days | 70.1 | 67.9 | 67.9 | 69.2 |
| EPS growth | 28.5 | 39.6 | 34.2 | 22.5 | Receivables days | 39.5 | 41.0 | 41.0 | 41.8 |
| Gross margin | 87.7 | 87.7 | 87.7 | 87.7 | Payable days | 598.9 | 586.4 | 574.4 | 579.7 |
| EBITDA margin | 15.5 | 17.4 | 18.5 | 18.8 | Net debt/equity (%) | (35.4) | (41.2) | (48.5) | (54.0) |
| EBIT margin | 13.0 | 15.3 | 16.6 | 17.1 | Interest cover - EBIT (X) | NM | NM | NM | NM |
| Cash flow statement (\$\$ mn) | 12/06 | 12/07E | 12/08E | 12/09E | Valuation | 12/06 | 12/07E | 12/08E | 12/09E |
| Net income pre-preferred dividends | 15.8 | 22.7 | 30.5 | 37.3 | P/E (analyst) (X) | 40.7 | 29.1 | 21.7 | 17.7 |
| D&A add-back | 3.4 | 3.6 | 3.8 | 4.1 | P/B (X) | 5.7 | 5.5 | 5.2 | 4.9 |
| Minorities interests add-back | 0.1 | 0.1 | 0.1 | 0.1 | EV/EBITDA (X) | 14.0 | 21.0 | 15.5 | 12.6 |
| Net inc/(dec) working capital | 0.6 | 1.5 | 2.1 | 2.3 | Dividend yield (%) | 2.4 | 2.4 | 3.4 | 4.6 |
| Other operating cash flow | (0.2) | (1.4) | (1.4) | (2.2) | | | | | |
| Cash flow from operations | 19.7 | 26.4 | 35.0 | 41.6 | | | | | |
| Capital expenditures | (2.3) | (3.0) | (2.0) | (3.0) | | | | | |
| Acquisitions | (0.7) | (0.7) | (0.7) | (0.7) | | | | | |
| Divestitures | 0.0 | 0.0 | 0.0 | 0.0 | | | | | |
| Others | 1.1 | 2.6 | 3.0 | 3.5 | | | | | |
| Cash flow from investments | (1.9) | (1.1) | 0.3 | (0.2) | | | | | |
| Dividends paid (common & pref) | (15.5) | (15.8) | (22.7) | (30.5) | | | | | |
| Inc/(dec) in debt | 0.0 | 0.0 | 0.0 | 0.0 | | | | | |
| Common stock issuance (repurchase) | 4.8 | 0.0 | 0.0 | 0.0 | | | | | |
| Other financing cash flows | (0.3) | (0.1) | (0.1) | (0.1) | | | | | |
| Cash flow from financing | (11.0) | (15.9) | (22.8) | (30.6) | | | | | |
| Total cash flow | 6.8 | 9.4 | 12.5 | 10.8 | | | | | |

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

Analyst Contributors

Christina Hee, CFA

christina.hee@gs.com

Financial highlights

Exhibit 1: Summary of Raffles' 1Q07 results

| S\$ mn | 1Q2007 | 1Q2006 | YoY growth | 4Q2006 | QoQ growth |
|-----------------------------------|--------|--------|------------|--------|------------|
| Revenue | 37.7 | 30.9 | 22% | 35.5 | 6% |
| Total operating income/(expenses) | (33.2) | (27.9) | 19% | (30.0) | 11% |
| EBITDA | 5.3 | 3.9 | 37% | 6.4 | -17% |
| Depreciation and amortisation | (0.8) | (0.8) | 0% | (0.9) | -5% |
| EBIT | 4.5 | 3.1 | 47% | 5.6 | -19% |
| Operating profit margin (%) | 12% | 10% | | 16% | |
| EBITDA margin (%) | 14% | 13% | | 18% | |
| Non-operating income/(expenses) | 0.6 | 0.7 | -6% | 0.8 | -17% |
| Profit before tax | 5.1 | 3.7 | 37% | 6.3 | -19% |
| Taxation | (1.0) | (0.8) | 20% | (1.3) | -23% |
| Minority interests | (0.0) | 0.0 | -333% | (0.1) | -64% |
| Net profit | 4.1 | 2.9 | 41% | 5.0 | -17% |
| Net profit margin (%) | 11% | 9% | | 14% | |

Source: Company data.

Exhibit 2: SOTP valuation

| | Value (S\$ mn) | Value per share (S\$) | Breakdown (%) | Methodology |
|----------------------------------|-------------------|-----------------------------|------------------|------------------------------|
| Hospital and clinics | 502 | 1.08 | 79% | Based on 13X 2008E EV/EBITDA |
| Associates and other investments | 70 | 0.15 | 11% | Book value |
| Enterprise value | 572 | 1.24 | | |
| Net cash / (debt) | 62 | 0.13 | 10% | |
| Equity value | 634 | 1.37 | | |

Source: Company data, Goldman Sachs Research estimates.

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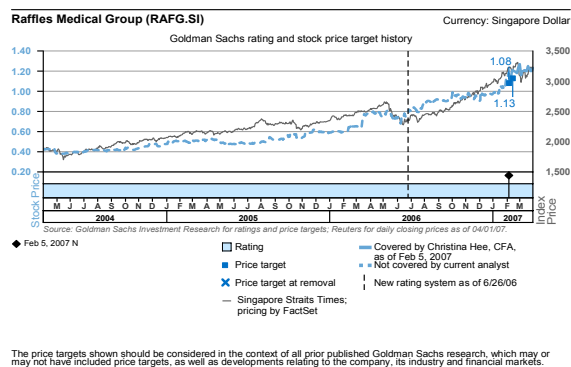
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Goldman Sachs Investment Research global coverage universe

| | Rating Distribution | | | Investment Banking Relationships | | |
|--------|---------------------|------|------|----------------------------------|------|------|
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Price target and rating history chart(s)



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