

Raffles Medical Group

Room for operating growth

- FY07 result was above consensus:** Raffles Medical Group (RMG) reported strong revenue growth of 25.6% Y/Y to S\$168.7MM supported by double-digit revenue increases from its healthcare and hospital services. Stripping out the exceptional gain from its revaluation of Raffles Hospital building of S\$12.5MM, net profit for the company would have come in at S\$23.4MM, an increase of 48.7% Y/Y. The earnings ex-exceptional gains for FY07 was EPS of 4.8 S cents, versus our estimate of 4.5 S cents and was above consensus of 4.3 S cents by 11.6%.
- Hospital services remain the key growth driver:** Revenue from healthcare services rose 14.8% Y/Y to S\$59.7MM while hospital services grew 34.6% Y/Y to S\$114.9MM with operating profit and margins rising by S\$19.8MM and 20.0%, respectively. We believe that Raffles Medical Clinics and Hospital continue to benefit from increased patient load, a wider range of medical specialties and improved operating efficiencies.
- Continued operating efficiencies and evidence of margin expansion:** We believe that the strong Singapore economy and the growth of Singapore as a medical hub in the region have benefited RMG. Raffles Hospital continues to attract more patients, foreign as well as local, and the increased patient load further enhances its operating efficiencies and margins.
- Maintain OW:** We reiterate our Dec-08 PT of S\$2.10 based on our DCF valuation with a WACC of 6.4% and terminal growth of 2%. Key risks to our PT lie in RMG's ability to fill the hospital's planned expanded bed capacity, as well as stronger regional competition.

Reuters: RAFG.SI, Bloomberg: RFMD SP
S\$ in millions, year-end December

	FY07	FY08E	FY09E	FY10E
Revenue	168.7	199.7	237.5	283.0
Net profit	35.9	30.7	37.5	45.4
*Recurring net profit	23.4	30.7	37.5	45.4
*EPS (S cents)	4.8	6.0	7.3	8.8
DPS (S cents) - Net	2.5	2.8	3.0	3.3
Sales growth (%)	25.6%	18.4%	18.9%	19.1%
*Net profit growth (%)	48.7%	31.3%	22.2%	21.2%
*EPS growth (%)	39.3%	23.5%	22.2%	21.2%
*ROE (%)	11.6%	14.1%	15.7%	17.0%
P/E (x)	28.4	23.0	18.8	15.5
NAV per share (S¢)	39.0	42.2	46.5	52.0
Net div yield (%)	1.8%	2.0%	2.2%	2.4%

Source: Company reports, JPMorgan estimates. *Based on weighted shares outstanding.

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Overweight

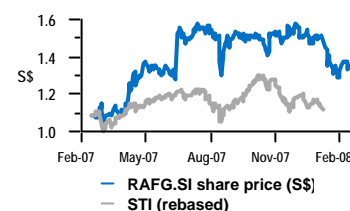
S\$1.37

18 February 2008
Price Target: S\$2.10

Singapore
Hospitals

James Sekchuan Tan^{AC}
(65) 6882-2367
james.s.tan@jpmorgan.com

Price Performance



	YTD	-1M	-3M	-12M
Absolute	-10.6%	0.0%	-10.0%	23.7%
Relative	-6.6%	6.0%	3.5%	20.9%

Source: RIMES, Reuters.

Company data

52-week range	S\$1.02 - 1.61
Market cap (S\$MM)	706
Market cap (US\$MM)	500
Shares outstanding (MM)	515
Avg daily Volume (MM)	0.2
Avg daily value (S\$MM)	0.3
Avg daily value (US\$MM)	0.2
FSSTI	3,083
Exchange rate	S\$1.412/US\$

Source: Bloomberg.

Result highlights

Table 1: Raffles Medical results summary

\$S in millions, year-end Dec.	4Q06	4Q07	% Y/Y	FY06	FY07	% Y/Y	Comments
Sales	35.5	45.7	28.7%	134.2	168.7	25.6%	Hospital services is key performer
Cost of Goods Sold	(22.9)	(31.0)	35.2%	(89.2)	(109.5)	22.7%	Cost increases with higher complex surgeries being performed
Gross Profit	12.6	14.7	16.8%	45.0	59.1	31.4%	
Other Operating Income	0.6	0.3	-56.8%	1.9	2.1	13.6%	
Other Operating Expenses	(7.1)	(5.9)	-17.3%	(27.7)	(33.0)	19.4%	
EBIT	5.7	10.9	90.9%	19.2	28.2	46.9%	Higher EBIT margins due to increased operating efficiencies
Non-Operating Income	0.0	0.0	nm	0.0	0.0	nm	
Interest Income	0.4	(0.2)	-148.7%	0.0	1.6	nm	Higher interest rates on its floating commercial notes
Interest Expense	(0.0)	(0.3)	nm	(0.1)	(0.4)	245.0%	
Share of Associates' or JV Income	0.2	(0.0)	-120.0%	0.9	1.1	14.7%	
Exceptional Gains/(Losses)	0.0	0.0	nm	0.0	12.5	nm	Revaluation gain from Raffles Hospital from its increased stake
Pretax Profit	6.3	8.8	39.9%	20.0	41.4	106.7%	
Tax	(1.3)	0.7	-149.9%	(4.3)	(5.5)	28.5%	
Minority Interests	(0.0)	(0.0)	-64.7%	(0.1)	(0.1)	0.0%	
Net Profit	4.9	9.4	91.1%	15.7	35.9	128.2%	Net profit slightly above our expectations
Margins (%)			Chg ppt			Chg ppt	
Gross Margin	35.5	37.0	1.5	33.5	35.1	1.5	
SGA % Sales	20.0	19.8	-0.2	20.6	19.6	-1.0	Operating room leverage
EBITDA Margin	0.0	0.0	0.0	0.0	0.0	0.0	
EBIT Margin	16.1	23.9	7.8	14.3	16.7	2.4	EBIT margins improved by 2.4ppts
Pre-tax Margin	17.7	19.3	1.5	14.9	24.6	9.6	
Net Margin	13.7	20.6	7.0	11.7	21.3	9.6	
Depr % of sales	0.0	0.0	0.0	0.0	0.0	0.0	
Effective Tax Rate %	20.9	18.0	-2.9	21.3	13.3	-8.1	

Source: Company reports, JPMorgan estimates.

Raffles Hospital continues to achieve higher operating margins due to more optimal usage of its licensed beds and current space at Raffles Hospital; this should translate into better operating efficiency and margins in FY08-10E

Table 2: Key assumptions - Raffles Hospital

Raffles Hospital	FY05	FY06	FY07	FY08E	FY09E	FY10E
No. of beds - Licensed	380	380	380	380	380	380
No. of beds - Operational	150	150	200	200	250	300
Average occupancy (%)	60%	60%	50%	60%	55%	55%
Average length of stay (days)	2.80	3.00	3.00	3.00	3.00	3.00
Operating revenue	60.2	73.5	99.0	114.9	135.7	167.7
Y/y increase	29.5%	22.1%	34.6%	16.1%	18.1%	23.6%
Operating costs	(50.3)	(60.6)	(79.2)	(90.3)	(105.5)	(129.9)
EBIT	9.9	12.9	19.8	24.6	30.2	37.7
EBIT margins (%)	16.5%	17.6%	20.0%	21.4%	22.3%	22.5%
EBITDA	11.7	15.0	22.1	26.9	32.5	40.1
EBITDA margins (%)	19.4%	20.3%	22.3%	23.4%	24.0%	23.9%

Source: Company reports, JPMorgan estimates.

Average revenue per clinic and patient volumes have increased to help achieve an operating revenue increase of 14.8% Y/Y to S\$69.7MM

Table 3: Key assumptions - Raffles Medical Clinics

Raffles Medical Clinics	FY05	FY06	FY07	FY08E	FY09E	FY10E
Total number of clinics	64	64	69	76	82	85
-- Singapore	60	60	65	70	75	77
-- Hong Kong	4	4	4	6	7	8
-- Others	-	-	-	-	-	-
Average revenue per clinic per day (S\$)	2,252.0	2,597.4	2,765.9	3,056.6	3,402.2	3,715.8
Growth in revenue per clinic per day	-10.1%	15.3%	6.5%	10.5%	11.3%	9.2%
Operating revenue	52.6	60.7	69.7	84.8	101.8	115.3
Y/y increase	-4.2%	15.3%	14.8%	21.7%	20.1%	13.2%
Operating costs	(49.3)	(54.6)	(63.3)	(73.8)	(88.1)	(99.4)
EBIT	3.3	6.1	6.4	11.0	13.7	15.9
EBIT margin (%)	6.3%	10.0%	9.1%	13.0%	13.5%	13.8%
EBITDA	4.5	7.2	7.5	12.2	14.9	17.0
EBITDA margin (%)	8.5%	11.9%	10.7%	14.3%	14.6%	14.8%

Source: Company reports, JPMorgan estimates.

Based on our price target, the stock should trade on 47x and 35x FY07-08E P/E multiples

Valuation and recommendation

We maintain our December 2008 price target of S\$2.10

Our price target of S\$2.10 is based on our DCF valuation on a WACC of 6.4% and terminal growth rate to 2%.

Share price catalysts

We believe that the key drivers will be: 1) results to continue to show higher operating leverage as hospital bed utilization and average bill rate/day increases; 2) announcement of its expansion into China via a medical center/hospital; and 3) possible M&A opportunities in Malaysia through direct purchase of hospital(s).

Key risks to our price target

Key risks to our price target are: 1) regulation of healthcare costs and tariffs by the government; 2) increased regional competition; 3) loss of key specialists; and 4) a health pandemic.

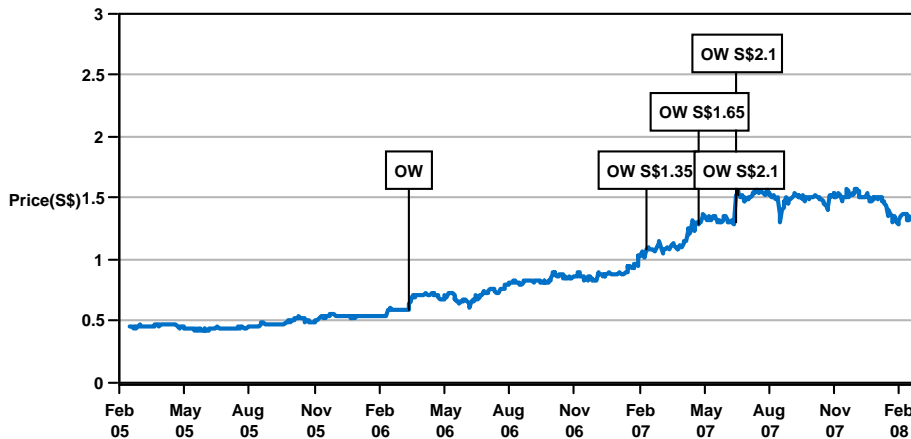
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Raffles Medical Group (RAFG.SI) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
15-Mar-06	OW	0.59	-
12-Feb-07	OW	1.08	1.35
26-Apr-07	OW	1.29	1.65
18-Jun-07	OW	1.31	2.10
19-Jun-07	OW	1.52	2.10

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
 Initiated coverage Mar 15, 2006. This chart shows JPMorgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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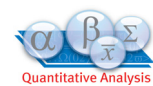
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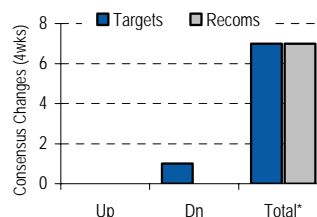
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All Data As Of 18-Feb-08

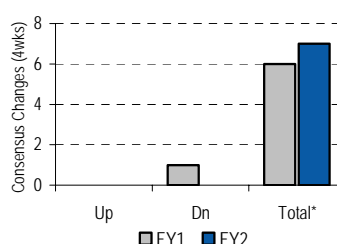
Q-Snapshot: Raffles Medical Group Ltd.



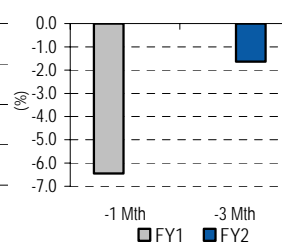
Targets & Recommendations



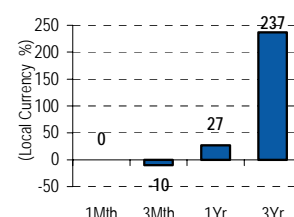
EPS Revisions



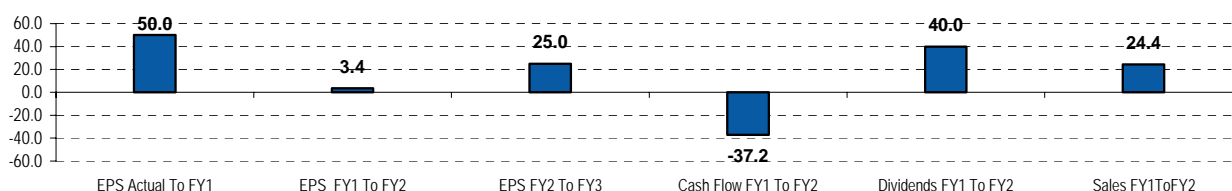
EPS Momentum (%)



Historical Total Return (%)



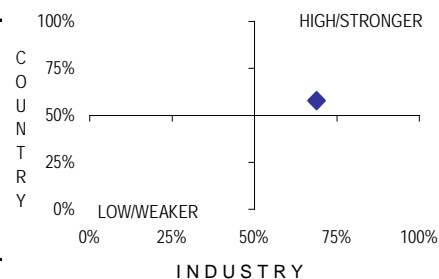
Consensus Growth Outlook (%)



Quant Return Drivers (A Score >50% indicates company ranks 'above average')

Score 0% (worst) to 100% (best)	vs Country Peers	vs (regional) IBES Industry Peers
Valuations: P/E Vs Market (12mth fwd EPS)	30%	6%
Valuations: P/E Vs Sector (12mth fwd EPS)	41%	41%
Valuations: EPS Growth (forecast)	68%	89%
Momentum: 12 Month Price Momentum	77%	89%
Momentum: 1 Month Price Reversion	33%	39%
Quality: Return On Equity (forecast)	39%	76%
Quality: Earnings Risk (Variation in Consensus)	18%	13%
Earnings&Sentiment: Earnings Momentum	48%	30%
Earnings&Sentiment: Change in Recoms	88%	87%
Earnings&Sentiment: Net Revisions Fy2 EPS	65%	52%

JPMorgan Composite Q-Score



COMPOSITE Q-SCORE** (0% To 100%)

Code	Name	Country	USD MCAP	ADV	PE FY1	Q-Score**
4555-JP	Sawai Pharmaceutical Co. Ltd.	Japan	676	6.41	41.7	23%
RYM-NZ	Ryman Healthcare Ltd.	New Zealand	653	1.04	16.0	65%
874-HK	Guangzhou Pharmaceutical H HKD	Hong Kong	624	0.86	16.8	96%
2877-HK	China Shineway Pharmaceutical Group Ltd.	Hong Kong	530	0.14	10.4	77%
PXS-AU	Pharmaxis Ltd.	Australia	518	1.19	-22.0	2%
R01-SG	Raffles Medical Group Ltd.	Singapore	490	0.24	23.3	69%
500680-IN	Pfizer Ltd.	India	469	0.25	15.1	69%
1093-HK	China Pharmaceutical Group Ltd.	Hong Kong	434	1.75	7.7	83%
API-AU	Australian Pharmaceutical Industries Ltd.	Australia	405	0.60	23.2	33%
4694-JP	BML Inc.	Japan	403	1.04	18.4	48%
1177-HK	Sino Biopharmaceutical Ltd.	Hong Kong	392	0.18	15.3	84%

Country Peers (Closest by Size, Consensus. ADV = average daily value traded in US\$m over the last 3 mths)

Code	Name	Industry	USD MCAP	ADV	PE FY1	Q-Score**
PWLR-SG	Parkway Life Real Estate Investment Trust	Real Estate Investment Trusts	513	1.00	40.3	73%
P75-SG	Epure International Ltd.	Environmental Services	510	0.85	23.4	65%
AV5-SG	Chemoil Energy Ltd.	Oil Refining/Marketing	504	0.67	14.4	76%
P34-SG	Petra Foods Ltd.	Food: Specialty/Candy	496	0.18	16.9	20%
H30-SG	Hong Fok Corp. Ltd.	Real Estate Development	492	0.17	26.8	22%
R01-SG	Raffles Medical Group Ltd.	Hospital/Nursing Management	490	0.24	23.3	58%
D06-SG	Datacraft Asia Ltd.	Computer Communications	490	0.69	13.9	65%
P11-SG	Pacific Andes Holdings Ltd.	Food: Meat/Fish/Dairy	476	0.63	7.0	58%
P39-SG	Pine Agritech Ltd.	Food: Specialty/Candy	466	1.29	7.3	8%
B22-SG	Bio-Treat Technology Ltd.	Industrial Specialties	465	1.45	9.6	61%
G86-SG	China Milk Products Group Ltd.	Agricultural Commodities/Milling	464	4.11	7.9	28%

Source: Factset, Thomson and JPMorgan Quantitative Research. For an explanation of the Q-Snapshot, please visit <http://jpmorgan.hk.acrobat.com/qsnapshot/>
Q-Snapshots are a product of JPMorgan's Global Quantitative Analysis team and provide quantitative metrics summarized in an overall company 'Q-Score.'

Q-Snapshots are based on consensus data and should not be considered as having a direct relationship with the JPMorgan analysts' recommendation.

* Total number of target prices, recommendations or EPS forecasts that make up consensus. ** The Composite Q-Score is calculated by weighting and combining the 10 Quant return drivers shown. The higher the Q-Score the higher the one month expected return. On a 14 Year back-test the stocks with the highest Q-Scores have been shown (on average) to significantly outperform those stocks with the lowest Q-Scores in this universe.

Raffles Medical Group: Summary of financials

S\$ in millions, year-end December

Profit and loss statement					Cash flow statement				
	FY07	FY08E	FY09E	FY10E		FY07	FY08E	FY09E	FY10E
Revenues	168.7	199.7	237.5	283.0	Net Income	35.9	30.7	37.5	45.4
% change Y/Y	25.6%	18.4%	18.9%	19.1%	Depreciation & amortisation	4.2	3.7	3.7	3.7
Gross margin (%)	37.6%	36.1%	36.1%	36.1%	Other non-cash items	-8.8	6.8	8.3	10.1
EBITDA	32.4	41.4	49.7	59.4	Change in working capital	13.3	5.1	6.2	7.4
% change Y/Y	43.6%	27.5%	20.1%	19.5%	Cash flow from operations	44.6	46.2	55.6	66.6
EBITDA margin (%)	19.2%	20.7%	20.9%	21.0%	Capex	-4.3	-5.0	-5.0	-5.0
EBIT	28.2	37.7	46.0	55.7	Disposal/ (purchase)	17.4	0.0	0.0	0.0
% change Y/Y	46.9%	33.6%	22.1%	21.1%	Cash flow from investing	13.1	-5.0	-5.0	-5.0
EBIT margin (%)	16.7%	18.9%	19.4%	19.7%	Equity raised/(repaid)	69.0	0.0	0.0	0.0
Net interest	-0.4	-1.3	-1.3	-1.3	Debt raised/(repaid)	-60.4	0.0	0.0	0.0
Associate	1.1	1.1	1.1	1.1	Other	0.0	0.0	0.0	1.0
Exceptional gains/ (losses)	12.5	0.0	0.0	0.0	Dividends	-17.8	-14.2	-15.5	-16.7
Earnings before tax	41.4	37.5	45.8	55.5	Cash flow from financing	-9.2	-14.2	-15.5	-15.7
Tax	-5.5	-6.7	-8.2	-10.0	Net changes in cash	48.5	27.0	35.2	45.8
as % of EBT	-13.3%	-18.0%	-18.0%	-18.0%	Beginning cash	41.9	19.8	40.1	67.0
Net income	35.9	30.7	37.5	45.4	Ending cash	19.8	40.1	67.0	101.9
Net profit ex exceptional	23.4	30.7	37.5	45.4	DPS (S cts)	2.5	2.8	3.0	3.3
% change Y/Y	128.2%	-14.4%	22.2%	21.2%	Free cash flows	40.3	41.2	50.6	61.6
*Weighted shares	484.5	515.1	515.1	515.1	*FCF per share (S\$)	0.08	0.08	0.10	0.12
*EPS (S cents)	4.8	6.0	7.3	8.8	*Net cash per share (S\$)	-0.01	0.03	0.08	0.15
Balance Sheet					Ratio Analysis				
	FY07	FY08E	FY09E	FY10E		FY07	FY08E	FY09E	FY10E
Cash and Cash Equivalents	19.7	40.0	66.9	101.8	Gross Margin (%)	37.6%	36.1%	36.1%	36.1%
Accounts receivable	20.2	24.0	28.5	33.9	EBIT Margin (%)	19.2%	20.7%	20.9%	21.0%
Inventories	3.8	3.8	3.8	3.8	Net profit margin (%)	21.3%	15.4%	15.8%	16.1%
Others	0.7	0.7	0.7	0.7	COGS/sales (%)	62.4%	63.9%	63.9%	63.9%
Current assets	44.5	68.5	99.9	140.2	SG&A/sales (%)	18.3%	15.4%	15.2%	15.1%
LT investments	84.4	84.4	84.4	84.4	*Sales per share growth (%)	17.7%	18.4%	18.9%	19.1%
Net fixed assets	150.8	152.1	153.5	154.8	Sales growth (%)	25.6%	18.4%	18.9%	19.1%
Intangible assets	1.8	1.8	1.8	1.8	EBIT growth (%)	46.9%	33.6%	22.1%	21.1%
Total Assets	281.5	306.8	339.6	381.3	*Net profit growth (%)	48.7%	31.3%	22.2%	21.2%
ST bank loans	25.3	25.3	25.3	25.3	*EPS growth (%)	39.3%	23.5%	22.2%	21.2%
Payables	47.7	56.5	67.2	80.1	Interest Coverage (x)	75.0	29.0	35.4	42.9
Others	6.7	6.7	6.7	6.7	Inventory Turnover (x)	22.6	27.1	32.2	38.4
Total current liabilities	79.7	88.5	99.2	112.0	Sales/Assets (%)	379.2%	291.6%	237.6%	201.8%
Long term debt	0.0	0.0	0.0	0.0	Assets/Equity (%)	140.2%	141.2%	141.9%	142.2%
Other liabilities	1.0	1.0	1.1	1.2	*ROE (%)	11.6%	14.1%	15.7%	17.0%
Total liabilities	80.7	89.5	100.2	113.2	*ROCE (%)	9.2%	11.4%	12.6%	13.7%
Shareholders' equity	200.8	217.3	239.4	268.1	Net Gearing (%)	Net cash	Net cash	Net cash	Net cash
Total liabilities and equity	281.5	306.8	339.6	381.3	Price to Book (x)	3.5	3.2	2.9	2.6
BVPS (S\$)	0.39	0.42	0.46	0.52	FCF yield	6.1%	5.8%	7.2%	8.7%

Source: Company reports, JPMorgan estimates. *Based on weighted shares outstanding.