COMPANY UPDATE

11 March 2009

SINGAPORE

Raffles Medical Group

Defying the odds

OUTPERFORM	Maintained
S$0.79	@10/03/09
	Target: S$1.04
	Hospitals

RFMD SP / RAFG.SI

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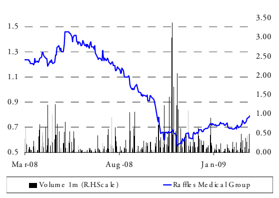
- **Almost recession-proof.** RFMD turned out a stellar performance in FY08 despite the severity of recent economic conditions that saw tourism arrivals falling. The group broke new revenue and profit records, testifying to its defensive name in healthcare and almost recession-proof business.
- **Operating efficiency to continue to drive growth.** EBITDA margins have been expanding despite higher staff costs. This suggests still-strong operating efficiencies. We believe that RFMD will open up its bed capacity to 220 beds by end-FY10 from 200 currently, possibly using up all its available space within three years. With the variable cost portion not rising significantly, the addition of 20 beds should improve efficiency. We do not expect major capex in the next three years, as capacity constraint is not an issue. For FY09-11, higher non-bed-related fee income could spur margin expansion.
- **Higher target price of S$1.04; maintain Outperform.** Our target price has been lifted from S$0.88 to S$1.04, as we roll over to a slightly higher 14x CY10 P/E (based on payout to cost of equity-derived P/E, from 13x CY09 P/E previously). On the back of our renewed confidence in the group, backed by a healthy balance sheet and sustainable earnings, we maintain Outperform.

Financial summary

FYE Dec	2007	2008	2009F	2010F	2011F
Revenue (S$ m)	168.7	200.8	222.8	255.4	292.7
EBITDA (S$ m)	31.7	45.4	46.6	53.5	60.7
EBITDA margins (%)	18.8%	22.6%	20.9%	21.0%	20.7%
Pretax profit (S$ m)	28.9	38.4	39.8	47.0	54.4
Net profit (S$ m)	23.4	31.5	35.0	38.4	44.5
EPS (S cts)	4.5	6.1	6.8	7.4	8.6
EPS growth (%)	46.5%	36.7%	10.9%	9.8%	15.9%
P/E (x)	17.7	12.9	11.7	10.6	9.2
Core EPS (S cts)	6.4	6.1	6.8	7.4	8.6
Core EPS growth (%)	110.0%	(4.7%)	10.9%	9.8%	15.9%
Core P/E (x)	12.3	12.9	11.7	10.6	9.2
FD core EPS (S cts)	6.4	6.1	6.8	7.4	8.6
FD core P/E (x)	12.3	12.9	11.7	10.6	9.2
Gross DPS (S cts)	2.5	2.5	2.5	2.5	2.5
Dividend yield (%)	3.1%	3.2%	3.2%	3.2%	3.2%
P/BV (x)	2.0	1.8	1.7	1.5	1.4
ROE (%)	14.9%	14.9%	15.0%	15.0%	15.6%
Net gearing (%)	2.7%	N/A	N/A	N/A	N/A
Net cash per share (S$)	N/A	0.03	0.06	0.13	0.20
P/FCFE (x)	(1.8)	11.3	20.9	9.1	8.7
EV/EBITDA (x)	13.2	8.6	8.1	6.4	5.0
CIMB/Consensus (x)			1.04	1.05	1.03

Source: Company, CIMB-GK Research, Bloomberg

Price chart



Source: Bloomberg

Market capitalisation & share price info

Market cap	S$409m/US$267m
12-mth price range	S$1.46/S$0.55
3-mth avg daily volume	0.2m
# of shares (m)	518
Est. free float (%)	35.0
Conv. secs (m)	
Conv. price ( )	

Share price perf. (%)	1M	3M	12M
Relative	32.2	46.8	19.2
Absolute	14.5	19.7	(37.6)

Major shareholders	% held
Raffles Medical Holdings	33.6
Dr Loo Choon Yong	9.8
	N/A

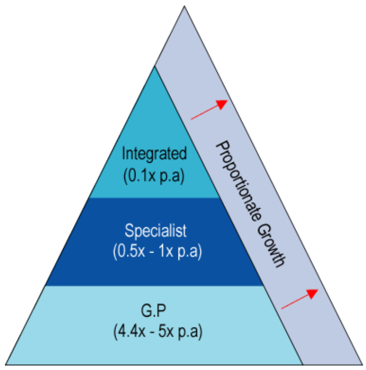
Source: Company, CIMB-GK Research, Bloomberg

A defensive business

Almost recession-proof. FY08 performance was stellar despite the severity of recent economic conditions that saw tourism arrivals falling. The group managed to break new revenue and profit records, testifying to its defensive name in healthcare and almost recession-proof business.

RFMD currently has 65 clinics island-wide. It has the largest network of family medicine and dental clinics, and a database of 1m patients in Singapore alone. Given that visits to GPs in Singapore are 4.4-5x a year per patient and that specialists only see the same patients half to one time a year on average, RFMD is right to position itself with 65 clinics island-wide, as these clinics tend to benefit from the most frequent visits. The family clinics are also able to upstream referrals to its specialist clinics and hospitals.

Figure 1: Average number of visits per patient per year



	Visit per patient
General Practitioners (G.P)	4.4-5x a year
Specialists	1/2 to 1x a year
Intergrated Healthcare services	Once a decade

Source: MOH, Company, CIMB-GK Research,

GPs provide referrals, supporting sustainable growth. RFMD's family clinics ensure steady medical referrals to its specialist clinics, providing recurring earnings for the group. The group intends to develop its family medicine clinic network and establish more satellite medical centres, offering specialist and diagnostic services in Singapore. It is also exploring ways to increase value-added services in these clinics, outside the traditional hospital setting.

For example, RFMD is putting more O&G and paediatric medical practices in these centres that are located in the heartland and high-traffic locations. The group is recruiting more multi-disciplinary specialists with this expansion in mind. The group's Japanese clinics are also seeing more patients from the Japanese community in Singapore and the region. Other departments such as O&G and spinal surgery are reaching the necessary critical mass. RFMD's Chinese Medicine practice in its flagship hospital has enjoyed tremendous success since its introduction in 2006 with acupuncture therapy.

Operating efficiency shows no sign of stalling. While most other healthcare operators manage demand in boom times and resort to cost management in lean times, RFMD has always been disciplined on the cost side since it started its flagship Raffles Hospital. We draw comfort from its last set of results which show EBITDA margins expanding 3.8% pts yoy to 22.6% despite higher staff wages, inventories and consumable expenses. This suggests still-strong operating efficiencies.

Lease savings key to cost management. Back in 2007, the group entered into a sale and purchase agreement with CapitaLand to acquire the remaining 50% of Raffles Hospital for S$66.86m. To fund this purchase, RFMD had placed out 50m new shares to raise net proceeds of S$63m.

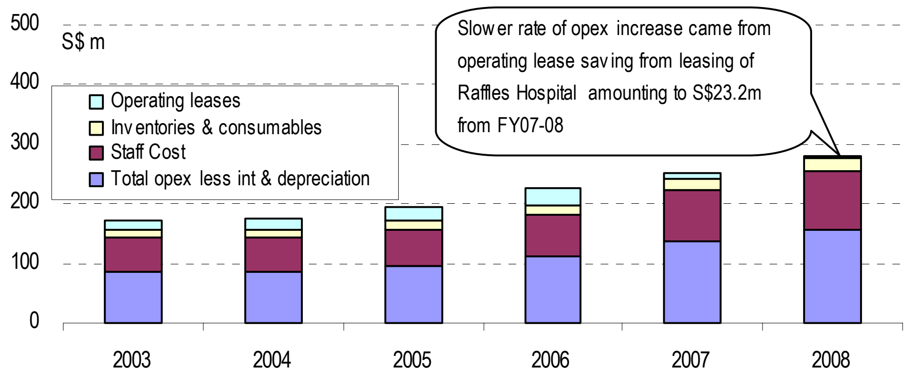
Rental escalation was the motivation behind the group's move, given that the hospital's rental renewal with the old JV was coming due this year. Total rentals saved over FY07-08 amounted to S$23.2m, after full ownership. That purchase also increased the group's flexibility to configure hospital space without the need to obtain consent from the JV partner.

Figure 2: Operating efficiency improves with lease savings

S$ m, FYE Dec	2005	2006	2007	2008
Revenue Growth (%)	11.3%	18.9%	25.6%	19.0%
% increase in total opex less int & depreciation	11.0%	17.3%	21.8%	13.5%
EBITDA	17.1	21.9	31.7	45.4
EBITDA Growth (%)	13.1%	27.7%	45.2%	42.9%
Total operating leases	22.1	27.7	9.8	4.5
Savings from leasing of Raffles Hospital			17.9	5.3

Source: Company, CIMB-GK Research

Figure 3: Cost management is key to operating leverage e.g. removal of rental expense for Raffles Hospital



Source: Company, CIMB-GK Research,

Spare capacity not an issue now. While there are concerns over RFMD's apparent low occupancy rates (given that it only operates 200 beds out of a licensed 320), we beg to differ. We believe that RFMD has the space available in its flagship hospital for more beds or for conversion into space for clinical operations.

We believe that RFMD will open up its bed capacity to 220 beds by end-FY10, possibly using up all its available space within three years. With the variable cost portion not increasing significantly, the addition of 20 beds should improve efficiency. We do not expect any major capex in the next three years, as capacity constraint is not an issue.

Hospital revenue to expand 10-15% in FY09-10. We believe RFMD's ability to bolster margins has not been well appreciated. For FY09-11, higher non-bed-related fee income could drive margin expansion, from 1) recently initiated customer segmentation to derive higher revenue from primary healthcare services; and 2) a channelling of insurance customers to Raffles Hospital, strengthening margins in Hospital Services. Our hospital growth assumptions of 10-15% for FY09-10 capture this higher non-bed medical income potential.

Net cash of S$18m. With prudent debt management, RFMD's borrowing has been brought down. The group had net cash of S$17.9m in FY08, from net debt of S$5.5m in FY07. Operating cash flow remained robust at S$40m.

Figure 4: Segmental breakdown

S$ m, FYE Dec	**2008**	**2009F**	**2010F**	**2011F**
Healthcare Services	81.1	89.2	102.6	112.9
Hospital Services	127.8	143.1	164.6	194.2
Investment Holdings	7.9	7.9	8.3	8.7
Eliminations	(16.0)	(17.4)	(20.0)	(23.0)
Total revenue	**200.8**	**222.8**	**255.4**	**292.7**
Healthcare Services	7.5	8.5	10.1	11.6
Hospital Services	28.1	28.6	34.6	40.8
Investment Holdings	5.6	5.6	5.6	5.6
Total	**41.2**	**42.7**	**50.2**	**58.0**

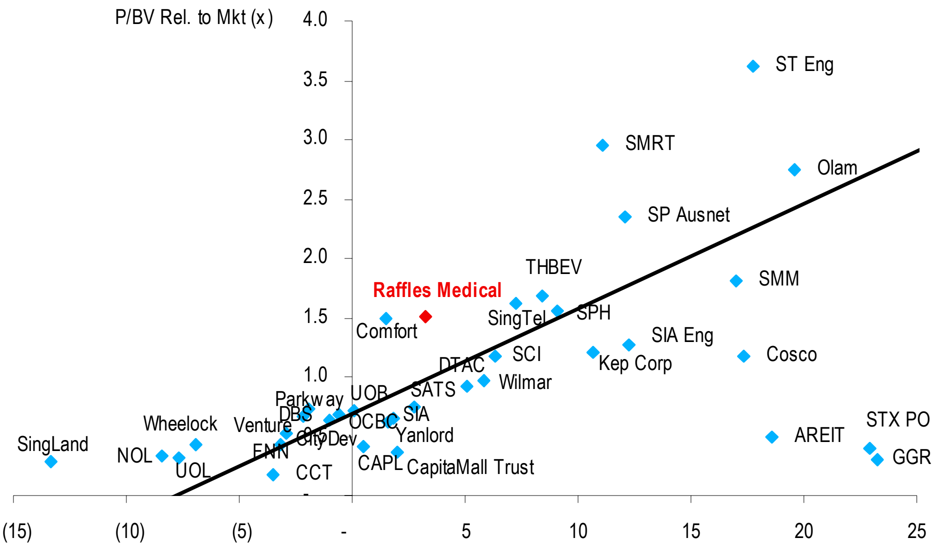
Source: Company, CIMB-GK Research

Valuation and recommendation

Re-rating is possible with healthy earnings. RFMD has outperformed the FSSTI by close to 20% in the last 12 months. Our strategist, Kenneth Ng, believes that the selection of recovery plays in this cycle will be dictated by P/BV and ROEs. We chart the relative P/BV (against the market) of the top 40 FSSTI stocks vs. their ROEs. Our chart suggests that perceived defensive stocks already trade at more expensive P/BV valuations than can be justified by projected ROEs. While this may be rightly so as investors pay a premium for earnings visibility, RFMD does not appear overly expensive, with its defensive business that delivers consistent earnings. Its relative low P/BV and healthy earnings prospects suggest quick re-rating potential in an upturn.

Higher target price of S$1.04; maintain Outperform. Our target price has been lifted from S$0.88 to S$1.04, as we roll over to a slightly higher 14x CY10 P/E (based on payout to cost of equity-derived P/E, from 13x CY09 P/E previously). On the back of our renewed confidence in the group, backed by a healthy balance sheet and sustainable earnings, we maintain Outperform.

Figure 5: P/BV relative to ROEs



Source: CIMB-GK Research

Figure 6: Sector comparisons

	Bloomberg ticker	Recom.	Price (Local)	Target price (Local)	Mkt cap (US$ m)	Core P/E (x) CY2009	Core P/E (x) CY2010	3-yr EPS CAGR (%)	P/BV (x) CY2009	ROE (%) CY2009	Div yield (%) CY2009
Raffles Medical	RFMD SP	O	0.79	1.04	267	11.7	10.6	0.0	1.7	15.0	3.2
Parkway	PWAY SP	O	1.04	2.30	766	10.2	7.2	N/A	0.8	10.7	4.8
Bumrungrad	BH TB	N	19.60	20.50	397	14.0	12.2	3.1	2.7	20.0	3.6
Simple average						**12.0**	**10.0**	**1.5**	**1.7**	**15.2**	**3.9**

O = Outperform, N = Neutral, U = Underperform, TB = Trading Buy and TS = Trading Sell
Source: Company, CIMB-GK Research

Financial tables

PROFIT & LOSS					
(S$ m, FYE Dec)	**2007**	**2008**	**2009F**	**2010F**	**2011F**
Revenue	169	201	223	255	293
Operating expenses	(137)	(155)	(176)	(202)	(232)
EBITDA	32	45	47	54	61
Depreciation & amortisation	(4)	(7)	(7)	(7)	(7)
EBIT	27	39	40	47	54
Net interest & invt income	1	0	0	0	0
Associates' contribution	14	0	0	0	0
Exceptional items	(13)	0	0	0	0
Others	(1)	0	0	0	0
Pretax profit	**29**	**38**	**40**	**47**	**54**
Tax	(5)	(7)	(5)	(8)	(10)
Minority interests	0	0	0	0	0
Net profit	**23**	**32**	**35**	**38**	**45**
Adj. wt. shares (m)	523	517	517	517	517
Unadj. year-end shares (m)	516	517	517	517	517

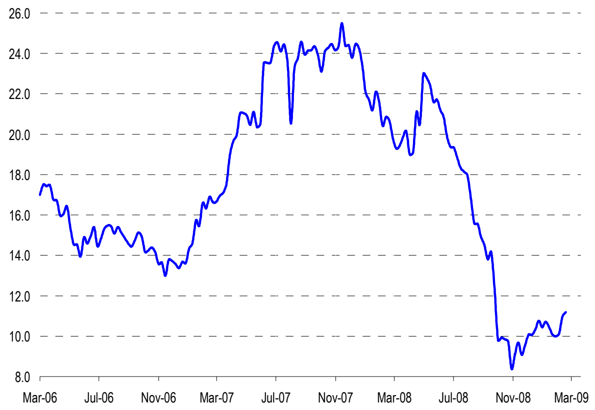
KEY RATIOS					
(FYE Dec)	**2007**	**2008**	**2009F**	**2010F**	**2011F**
Revenue growth (%)	25.6	19.0	11.0	14.6	14.6
EBITDA growth (%)	45.2	42.9	2.6	14.9	13.4
Pretax margins (%)	17.1	19.1	17.8	18.4	18.6
Net profit margins (%)	13.9	15.7	15.7	15.0	15.2
Interest cover (x)	73.1	62.1	89.7	125.1	177.6
Effective tax rates (%)	19.0	17.4	11.7	18.0	18.0
Net dividend payout (%)	55.2	41.0	36.9	33.6	29.0
Debtors turnover (days)	40.0	41.0	42.8	41.1	39.4
Stock turnover (days)	7.8	7.8	8.0	7.3	6.7
Creditors turnover (days)	84.1	90.2	89.0	87.7	87.7

BALANCE SHEET					
(S$ m, end Dec)	**2007**	**2008**	**2009F**	**2010F**	**2011F**
Fixed assets	151	150	148	146	144
Intangible assets	0	0	0	0	0
Other long-term assets	86	86	84	84	84
Total non-current assets	**237**	**236**	**232**	**231**	**229**
Cash and equivalents	20	45	52	84	118
Stocks	4	5	5	5	5
Trade debtors	20	25	27	30	33
Other current assets	1	0	10	15	15
Total current assets	**44**	**74**	**94**	**134**	**171**
Trade creditors	48	52	57	66	75
Short-term borrowings	25	5	0	0	0
Other current liabilities	7	9	5	8	10
Total current liabilities	**80**	**65**	**62**	**74**	**85**
Long-term borrowings	0	22	19	16	13
Other long-term liabilities	1	1	1	5	1
Total long-term liabilities	**1**	**23**	**20**	**21**	**14**
Shareholders' funds	**201**	**222**	**244**	**269**	**301**
Minority interests	0	0	0	0	0
NTA/share (S$)	0.39	0.43	0.47	0.52	0.58

KEY DRIVERS				
(FYE Dec)	**2008**	**2009F**	**2010F**	**2011F**
Beds Opened (Units)	200	220	220	220
Revenue per patient bed (S$)	2,750	2,774	3,181	3,645

CASH FLOW					
(S$ m, FYE Dec)	**2007**	**2008**	**2009F**	**2010F**	**2011F**
Pretax profit	29	38	40	47	54
Depreciation & non–cash adj.	4	7	7	7	7
Working capital changes	14	(2)	3	5	6
Cash tax paid	(4)	(5)	(7)	(5)	(8)
Others	(3)	2	(10)	(1)	(4)
Cash flow from operations	**40**	**40**	**33**	**53**	**55**
Capex	(70)	(6)	(4)	(5)	(5)
Net investments & sale of FA	(137)	2	(1)	0	0
Others	0	0	0	0	0
Cash flow from investing	**(207)**	**(4)**	**(5)**	**(5)**	**(5)**
Debt raised/(repaid)	(60)	1	(8)	(3)	(3)
Equity raised/(repaid)	69	1	0	0	0
Dividends paid	(18)	(13)	(13)	(13)	(13)
Cash interest & others	(1)	(1)	0	0	0
Cash flow from financing	**(10)**	**(11)**	**(21)**	**(16)**	**(16)**
Change in cash	**(176)**	**24**	**7**	**32**	**34**
Change in net cash/(debt)	**(116)**	**23**	**15**	**35**	**37**
Ending net cash/(debt)	**(6)**	**18**	**33**	**68**	**105**

12M - FORWARD FD CORE P/E (X)



Source: Company, CIMB-GK Research, Bloomberg

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RECOMMENDATION FRAMEWORK #1*

STOCK RECOMMENDATIONS	SECTOR RECOMMENDATIONS
OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.	**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.
NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.	**NEUTRAL:** The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.
UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.	**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.
TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.	**TRADING BUY:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.
TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.	**TRADING SELL:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

** This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand and Jakarta Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*

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RECOMMENDATION FRAMEWORK #2 **

STOCK RECOMMENDATIONS	SECTOR RECOMMENDATIONS
OUTPERFORM: Expected positive total returns of 15% or more over the next 12 months.	**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 12 months.
NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.	**NEUTRAL:** The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next 12 months.
UNDERPERFORM: Expected negative total returns of 15% or more over the next 12 months.	**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 12 months.
TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.	**TRADING BUY:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 3 months.
TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.	**TRADING SELL:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 3 months.

*** This framework only applies to stocks listed on the Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*