

Raffles Medical Group

Patient load and profile improving

OUTPERFORM	Maintained
S\$1.33	Target: S\$1.63
Mkt.Cap: S\$691m/US\$495m	
Hospitals	

RFMD SP / RAFG.SI

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- Maintain Outperform; 3Q09 in line.** RFMD delivered another boringly good set of results, but we are not complaining. 3Q09 PATMI was up 15.4% yoy to S\$9.5m, within consensus and our expectations. 3Q09 and 9M09 EPS accounts for 27% and 74% of our FY09 estimate respectively. We raise our FY10-11 estimates by 6.8-18.3% to reflect higher revenue and margin assumptions going forward. Our target price rises from S\$1.19 to S\$1.63 following our earnings upgrade and a rollover to end-CY10, still based on 16x P/E. We maintain our Outperform rating in view of its defensive business and consistent earnings. We expect catalysts to include the addition of clinics, expansion of medical specialties, higher foreign-patient catchments and possible capital-management surprises.
- Pleasant surprise in patient profile.** Interestingly, Russian patients (7% of foreign patient load) have overtaken Malaysians (5%) as the second biggest group of foreign customers, behind Indonesians' 22%. This partly explained the increase in foreign patient volume (+9% yoy). Likewise, revenue intensity from this load climbed 7% yoy in 3Q09. Local patient volume also turned around, and is likely to improve further.
- 3Q09 revenue grew 8% yoy to S\$55.4m.** Underpinning the growth was revenue from the Healthcare Services and Hospital segments, which grew 9.3% and 8.1% yoy respectively. Average occupancy was stable, at around 60%.
- Showcasing its hallmark operating efficiencies.** Operating profit increased to S\$11.9m (+16.3% yoy) in 3Q09, attributable to improved patient admissions and operating leverage. 3Q09 EBITDA margins expanded 1.3% pts yoy and 0.9% pt qoq to 24.4%. Staff costs rose only 6.9% yoy. EBIT grew 15.9% yoy to S\$11.8m,
- Balance sheet was healthy with a net cash position of S\$34.8m,** up from S\$27.5m in 2Q09, not surprising given strong operating cash flow of S\$13.1m, despite the opening of two new clinics recently (Sixth Avenue and Centrepoint). Within its flagship hospitals, space rationalisation to make room for more beds will dictate capex usage.

Results comparison

FYE Dec (\$\$ m)	3QFY09	3QFY08	yoy % chg	qoq % chg	3QFY09 Cum	3QFY08 Cum	yoy % chg	Prev. FY09F	Comments
Revenue	55.4	51.3	8.0	2.8	160.3	149.3	7.4	222.8	In line, Healthcare services +9.3% yoy, Hospital +8.1% yoy
Operating costs	(41.9)	(39.4)	6.2	1.5	(122.7)	(116.5)	5.3	(176.2)	In line, costs contained well, staff cost up 6.9% yoy
EBITDA	13.5	11.9	14.1	6.9	37.6	32.8	14.6	46.6	Slightly higher with better revenue and subdued cost
EBITDA margin (%)	24.4	23.1	5.7	4.0	23.4	22.0	6.7	20.9	Margin climbed yoy & qoq due to operating efficiency
Depn & amort.	(1.8)	(1.7)	3.2	1.7	(5.2)	(4.9)	6.1	(6.7)	Depreciation on PPE climbed 4.3% yoy
EBIT	11.8	10.2	15.9	7.7	32.4	27.9	16.1	39.9	In line, 3Q09 accounted for 29.6% of FY09F
Interest expense	(0.1)	(0.2)	(37.3)	(2.0)	(0.3)	(0.5)	(29.6)	(0.4)	In line
Interest & invt inc	0.1	0.1	83.6	206.1	0.2	0.2	-	0.3	Flattish; in line with conservative investment
Associates' contrib	-	-	-	-	-	-	-	-	
Exceptionals	-	-	-	-	-	-	-	-	
Pretax profit	11.8	10.1	17.1	8.4	32.2	27.6	16.8	39.8	Within expectation; strong operational showing
Tax	(2.3)	(1.9)	23.7	10.8	(6.1)	(5.5)	10.2	(4.7)	
Tax rate (%)	19.5	18.5	-	-	18.9	20.0	-	11.7	
Minority interests	(0.0)	(0.0)	73.1	104.5	(0.1)	(0.1)	60.3	(0.1)	
Net profit	9.5	8.2	15.4	7.6	26.0	22.0	18.3	35.0	3Q09 net profit forms 27.0% of our FY09 estimates
EPS (cts)	1.8	1.6	15.2	7.6	5.0	4.3	17.9	6.8	
Core net profit	9.5	8.2	15.4	7.6	26.0	22.0	18.3	35.0	9M09 net profit forms 74% of our FY09 estimates
Core EPS (cts)	1.8	1.6	15.2	7.6	5.0	4.3	17.9	6.8	... 3Q EPS yoy growth of 15.2%

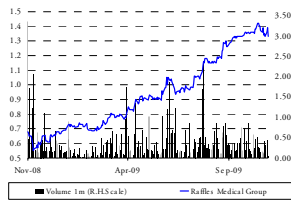
Source: Company, CIMB-GK Research

Please read carefully the important disclosures at the end of this publication.

Financial summary

FYE Dec	2007	2008	2009F	2010F	2011F
Revenue (S\$ m)	168.7	200.8	222.8	259.4	311.2
EBITDA (S\$ m)	31.7	45.4	46.6	56.7	70.5
EBITDA margins (%)	18.8%	22.6%	20.9%	21.9%	22.7%
Pretax profit (S\$ m)	28.9	38.4	39.8	50.1	64.4
Net profit (S\$ m)	23.4	31.5	35.0	41.0	52.7
EPS (S cts)	4.5	6.1	6.8	7.9	10.2
EPS growth (%)	46.5%	36.7%	10.9%	17.2%	28.4%
P/E (x)	29.8	21.8	19.6	16.8	13.1
Core EPS (S cts)	6.4	6.1	6.8	7.9	10.2
Core EPS growth (%)	110.0%	(4.7%)	10.9%	17.2%	28.4%
Core P/E (x)	20.8	21.8	19.6	16.8	13.1
FD core EPS (S cts)	6.4	6.1	6.8	7.9	10.2
FD core P/E (x)	20.8	21.8	19.6	16.8	13.1
Gross DPS (S cts)	2.5	2.5	2.5	2.5	2.5
Dividend yield (%)	1.9%	1.9%	1.9%	1.9%	1.9%
P/BV (x)	3.4	3.1	2.8	2.5	2.2
ROE (%)	14.9%	14.9%	15.0%	15.9%	18.0%
Net gearing (%)	2.7%	N/A	N/A	N/A	N/A
Net cash per share (S\$)	N/A	0.03	0.06	0.14	0.24
P/FCFE (x)	(3.1)	19.1	35.2	13.9	11.2
EV/EBITDA (x)	22.1	14.8	14.1	10.9	8.0
% change in EPS estimates			N/A	6.8%	18.3%
CIMB/Consensus (x)			0.98	1.04	1.14

Price chart



Source: Bloomberg

Source: Company, CIMB-GK Research, Bloomberg

Figure 1: Sector comparisons

	Bloomberg		Price	Target		Core	3-yr EPS	P/BV	ROE	Div	
	ticker	Recom.	(Local)	price	Mkt cap	P/E (x)	CAGR	(x)	(%)	yield (%)	
				(Local)	(US\$ m)	CY2009	CY2010	CY2009	CY2009	CY2009	
Raffles Medical	RFMD SP	O	1.33	1.63	495	19.6	16.8	18.6	2.8	15.0	1.9
Parkway	PWAY SP	O	2.45	2.10	1,984	26.9	20.8	1.5	2.0	8.0	1.4
Bumrungrad	BH TB	O	28.50	34.80	622	16.7	15.4	7.9	3.8	24.1	3.0
Simple average						21.0	17.7	8.8	2.9	15.7	2.1

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

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NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

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.

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 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.

SECTOR RECOMMENDATIONS

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 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.

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 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 industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

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NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.

UNDERPERFORM: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.

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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: 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.

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