

# Raffles Medical Group

*On track for another record year*

**OUTPERFORM**

Maintained

**S\$0.85**

Target: S\$1.04

Mkt.Cap: S\$438m/US\$292m

Hospitals

RFMD SP / RAFG.SI

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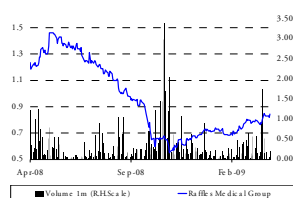
- **Within expectations.** 1Q09 PATMI was up 28% yoy to S\$7.8m, within Street and our expectations. 1Q09 EPS accounts for 22% of our FY09 estimate.
- **1Q09 revenue grew 7.6% yoy to S\$51m.** Underpinning this growth was revenue from Healthcare Services and Hospital Services, which grew 10.8% and 5.2% yoy respectively. Patient load increased in 1Q09, with foreign patients growing 8% yoy, and local patient load staying unchanged. Raffles Hospital's average occupancy was stable, at 50-60% during the period.
- **Margins in good shape.** 1Q09 EBITDA margins expanded 2.2% pts yoy to 22.3% as the group managed to limit operating cost increases to 4.6% yoy. Staff costs rose only 4.1% yoy, partially offset by the Jobs Credit scheme, which yielded savings of about S\$700k. Group EBIT grew 21% yoy to S\$9.6m, suggesting operating efficiencies.
- **Continued to shore up balance sheet.** The group continued to generate strong operating cash flow, up 48% yoy to S\$4.7m in 1Q09. It also had net cash of S\$21.8m in 1Q09 (S\$17.9m in 4Q08), attributable to prudent debt management, which brought down borrowing and interest payment.
- **Expansion soon? A matter of pricing.** As RFMD continues to keep a tight rein on costs, we believe that working capital needs will be manageable, and the coffers could be deployed for expansion. Management appears on the lookout. With the prices of regional healthcare assets/businesses falling in the current environment, we believe the group could seize opportunities in the next 12-month.
- **Maintain target price of S\$1.04 and Outperform.** With its defensive business that delivers consistent earnings, RFMD is on track to meet our 11% earnings growth forecast for FY09. No changes to our estimates. Our target price is unchanged at S\$1.04, still based on 14x CY10 P/E. On the back of its sound fundamentals, healthy operating cash flows, and strong balance sheet, maintain Outperform.

## Results comparison

FYE Dec (\$ m)	1QFY09	1QFY08	yoy % chg	qoq % chg	Prev. FY09F	Comments
Revenue	51.0	47.4	7.6	(0.8)	222.8	In line, Hospital services +10.8% yoy, Hospital services +5.2% yoy
Operating costs	(39.6)	(37.9)	4.6	2.1	(176.2)	In line, costs contained, staff costs up 4% yoy
EBITDA	11.4	9.5	19.6	(9.6)	46.6	Above; higher portion of depreciation
EBITDA margin (%)	22.3	20.1	11.1	(8.9)	20.9	Operating efficiencies continued to drive margins upward
Depn & amort.	(1.8)	(1.6)	11.0	0.1	(6.7)	Depreciation of PPE climbed 11% yoy
EBIT	9.6	7.9	21.3	(11.2)	39.9	In line, 24% of FY09 forecast
Interest expense	(0.1)	(0.2)	(14.6)	(17.3)	(0.4)	In line; S\$3.4m loan repayment
Interest & invt inc	0.1	0.1	(27.8)	(36.6)	0.3	Lowered yoy with conservative investment
Associates' contrib	-	-	-	-	-	
Exceptionals	-	-	-	-	-	
<b>Pretax profit</b>	<b>9.5</b>	<b>7.8</b>	<b>21.6</b>	<b>(11.3)</b>	<b>39.8</b>	Within expectations; strong operational showing
Tax	(1.7)	(1.7)	(1.6)	46.0	(4.7)	In line with higher pretax
Tax rate (%)	17.9	22.1	-	-	11.7	
Minority interests	(0.0)	(0.0)	250.0	(6.7)	(0.1)	
<b>Net profit</b>	<b>7.8</b>	<b>6.1</b>	<b>27.7</b>	<b>(18.3)</b>	<b>35.0</b>	Within consensus
<b>EPS (cts)</b>	<b>1.5</b>	<b>1.2</b>	<b>27.1</b>	<b>(18.5)</b>	<b>6.8</b>	... yoy growth of 27%
Core net profit	7.8	6.1	27.7	(18.3)	35.0	PATMI forms 22.3% of our FY09 estimate
Core EPS (cts)	1.5	1.2	27.1	(18.5)	6.8	

Source: Company, CIMB-GK Research

### Price chart



Source: Bloomberg

### 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)	18.9	13.8	12.5	11.4	9.8
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)	13.2	13.8	12.5	11.4	9.8
Gross DPS (S cts)	2.5	2.5	2.5	2.5	2.5
Dividend yield (%)	2.9%	3.0%	3.0%	3.0%	3.0%
P/BV (x)	2.2	2.0	1.8	1.6	1.5
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)	(1.9)	12.1	22.4	9.8	9.3
EV/EBITDA (x)	14.1	9.2	8.7	6.9	5.5
CIMB/Consensus (x)			1.04	1.03	1.04

Source: Company, CIMB-GK Research, Bloomberg

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### STOCK 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.

**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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## RECOMMENDATION FRAMEWORK #2 \*\*

### STOCK RECOMMENDATIONS

**OUTPERFORM:** Expected positive total returns of 15% or more over the next 12 months.

**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.

### SECTOR RECOMMENDATIONS

**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:** 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.

**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.

**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.

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