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Singapore Health Care

Reuters RAFG.SI
Bloomberg RFMD SP

Priced on 8 March 2010

STI @ 2,834.6

12M hi/lo S\$1.50/0.76

12M price target S\$1.70

±% potential +21%

Target set on

Shares in issue 517.7m

Free float (est.) 50.0%

Market cap US\$521m

3M average daily volume

S\$0.6m (US\$0.4m)

Major shareholders

Raffles Medical Holdings 39.7%
Dr Loo Choon Yong 10.3%

Stock performance (%)

	1M	3M	12M
Absolute	4.4	(5.4)	83.1
Relative	(0.7)	(6.3)	(2.3)
Abs (US\$)	6.1	(5.8)	102.8



— Raffles Medical (LHS)
— Rel to STI (RHS)

Source: Bloomberg

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Room to fill

Patient load in Singapore is set to grow with the revival of demand seen in medical tourism and robust fundamentals supporting Singapore healthcare sector. Rising income, narrowing costs differential, along with shortage of beds in public hospitals, are key catalysts driving higher patient load for private healthcare players. Raffles Medical is well positioned to capitalise on this with its flexible operations and expanding network of clinics. Valuations are attractive in view of earnings growth with possible special dividend in the near term. We initiate Raffles Medical with a BUY and an EV/EBITDA based target price of S\$1.70.

Medical Tourism on the cusp of revival

The medical tourism industry is on the cusp of a demand revival. Improving macro conditions in the region is signalling a return of demand, as evidenced by the pick up in foreign patients in Singapore. With comparatively lower healthcare cost and high quality healthcare service, Singapore is well positioned to increase its market share in the medical tourism arena. This will benefit Raffles which has close to 100% of earnings exposure from Singapore.

Singapore – Catalysts abound

Rising disposable incomes, population growth outpacing bed growth and stretched utilization rates at public hospitals will underpin patient load growth for private hospitals. Tweaks to the subsidy system and liberalisation of Medisave are additional catalysts. These will drive admissions into the private hospitals benefitting Raffles hospital while the addition of four new clinics in Singapore and another in Hong Kong will expand its clinic network. We forecast 10.0% and 14.4% rev growth for hospital and healthcare services.

Solid balance sheet and operations

Armed with a strong balance sheet (S\$50m net cash), we believe Raffles is able to grow bed capacity to meet rising demand for beds in Singapore. We estimate capacity to grow by 10% in FY11. In addition, Raffles could also fund possible Greenfield projects in Hong Kong (not factored in our estimates). Furthermore, prospects of a special dividend going forward look promising with its FCF yield of ~6%. High operating leverage will also benefit with incremental patient loads at its flagship Raffles hospital.

Valuations attractive

Raffles Medical currently trades at FY11 EV/EBITDA of 10x, while regional peers trade at average valuations of 11.8x EV/EBITDA. We value Raffles Medical at 12x FY11 EV/EBITDA at S\$1.70 with 21% upside. Catalysts include higher patient load, increased utilization rate and better revenue intensity. We initiate Raffles Medical with a BUY rec with S\$1.70 target price.

Financials

Year to 31 Dec	08A	09A	10CL	11CL	12CL
Revenue (S\$m)	200.8	218.6	244.3	277.6	298.0
Net profit (S\$m)	31.6	37.9	41.4	50.7	52.6
EPS (S¢)	6.1	7.3	8.0	9.8	10.2
CL/consensus(7)(EPS%)	-	-	102	103	101
EPS (% YoY)	(17.0)	20.1	9.2	22.5	3.5
PEX (@S\$1.41)	23.1	19.2	17.6	14.4	13.9
Dividend yield (%)	1.8	2.1	2.1	2.1	2.1
FCF yield (%)	4.6	5.8	4.8	7.8	7.0
ROAE (%)	14.9	16.1	15.8	17.3	16.0
Price/book (x)	3.3	2.9	2.7	2.4	2.1
Net gearing (%)	(8)	(20)	(25)	(35)	(42)

Source: CLSA Asia-Pacific Markets

Medical tourism demand revival

Fundamental drivers remain intact with possible growth from elective surgeries

Treatment costs in Asia is a fifth of the US

Operations in Singapore cost only a fraction of that in the United States

Medical Tourism on the cusp of revival

The medical tourism industry is on the cusp of a demand revival. Improving macro conditions in the region is signalling a return of demand, as evidenced by the pick up in foreign patients in Singapore. With the availability of comparatively low cost and high quality healthcare service, Singapore is well positioned to increase its market share of this growing pie. We believe the development of this long term structural theme will benefit Raffles Medical Group (RMG) as it offers the most direct exposure to Singapore’s domestic healthcare sector with close to 100% of earnings exposure from Singapore.

We believe the demand for medical tourism is staged for a strong revival driven by the recovering regional economies supporting demand for non-elective surgeries. More importantly, this should see resurgence in demand for previously shelved elective surgeries. The ongoing drivers of relatively cheaper healthcare costs and high quality of healthcare delivery underpinning medical tourism remain intact in our view.

Healthcare costs still relatively affordable in Singapore

Healthcare cost remains affordable in Singapore relative to developed nations and is one of the key factors in attracting foreign patients. A comparison of treatment costs between some Asian countries and the United States highlights the costs savings in the region where treatment costs are less than a fifth for similar treatments in the US.

Figure 1

Treatment cost comparison between the US and Asian countries

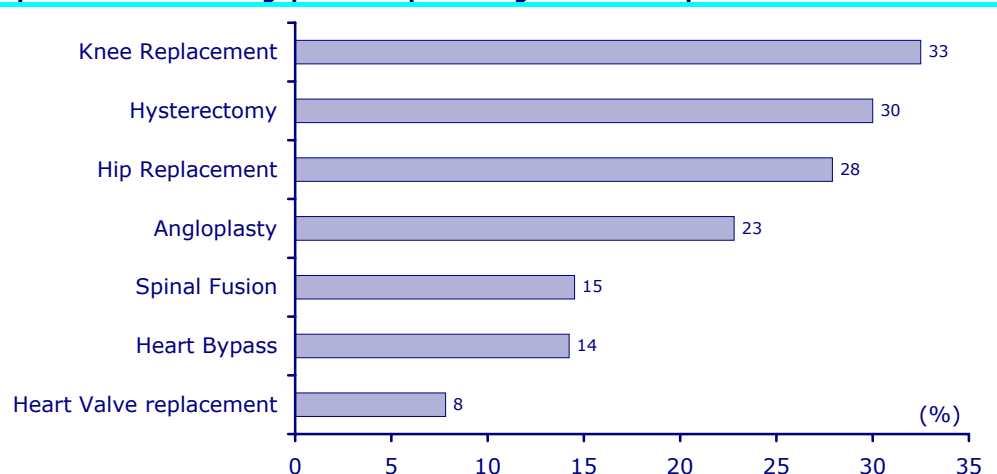
(US\$)	US	India	Thailand	Singapore	Malaysia	Asia Avg	Asia as a % of US costs
Heart bypass	130,000	10,000	11,000	18,500	9,000	12,125	9
Heart valve replacement	160,000	9,000	10,000	12,500	9,000	10,125	6
Angioplasty	57,000	11,000	13,000	13,000	11,000	12,000	21
Hip replacement	43,000	9,000	12,000	12,000	10,000	10,750	25
Hysterectomy	20,000	3,000	4,500	6,000	3,000	4,125	21
Knee replacement	40,000	8,500	10,000	13,000	8,000	9,875	25
Spinal fusion	62,000	5,500	7,000	9,000	6,000	6,875	11

Source: Patients beyond borders – SG

While healthcare costs in Singapore is higher than its neighbours, the costs savings is also significant for major operations like Heart Bypass and Heart Valve replacement at less than 15% for similar treatments in the US.

Figure 2

Operation costs in Singapore as a percentage of similar operations done in the US



Source: Patients beyond borders – SG

Singapore's healthcare infrastructure has both hardware and software to match

Singapore's list of 15 hospitals accredited with JCI status accounts for close to a quarter of all accredited institutions in Asia

Singapore has one of the lowest number of population per healthcare staff

Quality of Singapore healthcare – premium to peers

Singapore's healthcare quality is also far superior to its neighbours. Singapore's healthcare infrastructure is equipped with an advanced hardware and software system supporting its healthcare system. The strong healthcare infrastructure endorsed by the Joint Commission International (JCI) is complemented by government's concerted focus in medical research and development cementing the citystate's leading status as a world class leading healthcare infrastructure while an adequate supply of internationally qualified doctors and nurses provides the software necessary for a state of the art healthcare delivery system in Singapore.

The Joint Commission International (JCI) is a joint collaboration effort with World Health Organisation to standardise the level of healthcare service across different providers and borders with strict guidelines to be met before an accreditation is awarded. Currently, there are 15 accredited hospitals in Singapore with the JCI accounting for 25% of all accredited institutions in Asia, which is a testament to the quality of healthcare system in Singapore.

Figure 3

JCI accredited hospitals in Singapore as of June 2009

Hospitals	Date Accredited
1 Alexandra Hospital	Jul 05
2 Changi General Hospital	Jun 05
3 Institute of Mental Health/Woodbridge Hospital	Jul 05
4 John Hopkins Singapore International Medical Centre	Aug 04
5 KK Women's and Children's Hospital	Dec 05
6 National Healthcare Group Polyclinics	Aug 08
7 National Heart Centre of Singapore	Oct 05
8 National Skin Centre	Nov 07
9 National University Hospital	Aug 04
10 EastShore Hospital – Parkway	Nov 07
11 Gleneagles Hospital – Parkway	May 06
12 Mount Elizabeth Hospital – Parkway	Jun 06
13 Raffles Hospital Private Limited	Dec 08
14 Singapore General Hospital	Jul 05
15 Tan Tock Seng Hospital	Aug 05

Source: Joint Commission International website

Unlike its peers, Singapore is adequately staffed with qualified doctors and nurses. To cope with the rising population driven by higher immigration over the past five years, the government has also relaxed regulations to attract qualified doctors and nurses to practice in Singapore. Hence, despite the robust population growth witnessed, Singapore still enjoys one of the lowest number of population to healthcare staff ratio in Asia and comparable to developed nations.

Figure 4

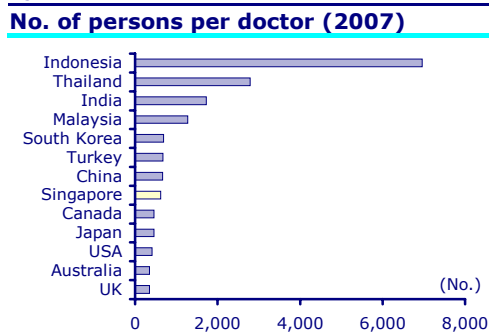
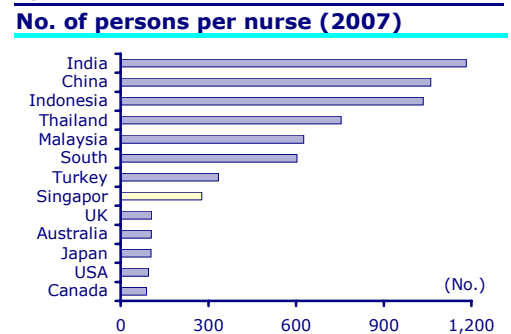


Figure 5



Source: Euromonitor

Foreign patient load has returned since 2Q09

Raffles Medical is a beneficiary of this trend

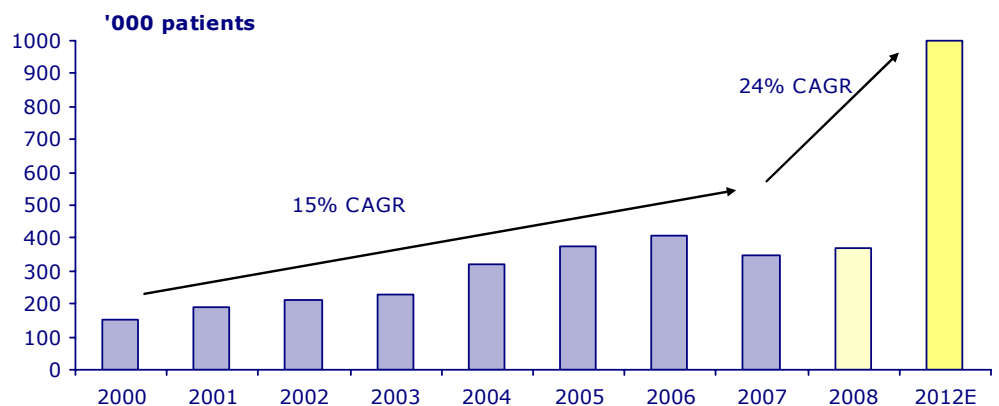
Rising income, tight bed supply and narrowing costs differential will support local patient admissions

As a result of Singapore’s quality of healthcare and comparatively lower costs compared to developed nations as discussed above, foreign patient loads have seen improving trends among healthcare operators as regional economies improve. Anecdotally, healthcare operators have seen foreign patients load improving since 2Q09 particularly among the Indonesian patients segment.

Against this backdrop, we believe Raffles Medical is a key beneficiary of this rising foreign patient load trend which currently accounts for one-third of Raffles Medical Group’s total patients. Out of this, Indonesian patients remain one of the key segments contributing up to 20% of total foreign patients visiting Raffles Medical. Other significant markets include Malaysia, Vietnam, Russia, Brunei, Bangladesh and Papua New Guinea.

Figure 6

Foreign patients trend in Singapore



Source: CLSA Asia-Pacific Markets, Ministry of health

With close to 100% of earnings derived from its flagship hospital in Singapore, we believe the rise of Singapore as a medical tourist hotspot bodes well for Raffles Medical with meaningful contribution to earnings. But the revival of medical tourism is not the only key structural change that will benefit Raffles Medical.

Singapore – catalysts abound

Besides the return of medical tourism, robust underlying fundamentals in the Singapore healthcare sector will bolster a rise in local patient load. With rising disposable incomes, population growth outpacing the growth in bed supply along with stretched utilization bed rates seen among the public hospitals and further tweaks to the government subsidy system as well as liberalisation of the Medisave fund are the key industry catalysts. We believe these factors will buoy local patient admissions for Raffles Medical Group.

Population growth versus bed growth

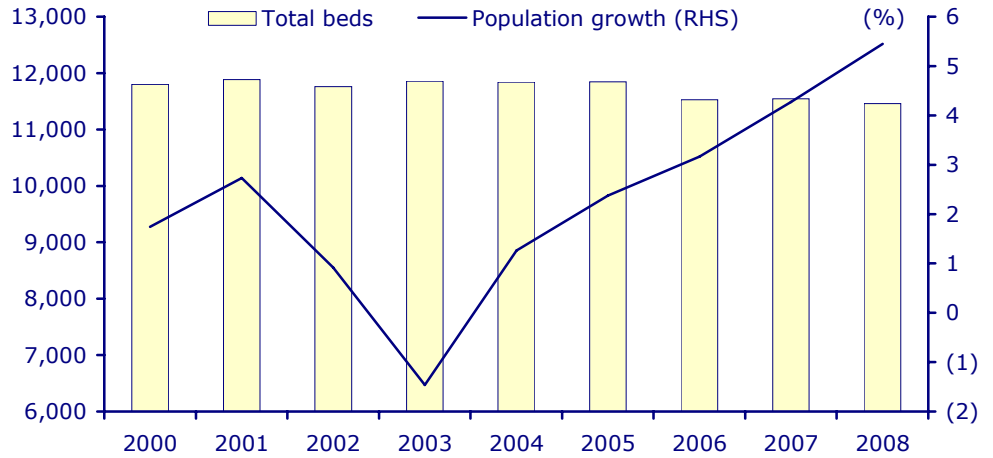
Beyond rising disposable incomes, tight beds supply is also beneficial for private healthcare operators. Government’s liberal immigration policies have led to population growing 3.3% CAGR since 2003. However, bed supply in the citystate have maintained relatively stable over the same period compounding to the tight bed supply situation.

Singapore's population growth has been on an upward trend since 2003 with no significant growth in the number of inpatient beds

New bed supply totals 1,826 beds over the next 5 yrs

Figure 7

Total beds versus population growth



Source: MOH, Singstats

While new bed supply of about 1,826 beds has been planned by both the public and private sectors, we believe the bed supply increase is adequate and not excessive.

Figure 8

Supply of hospitals

	Estimated number of beds	Estimated completion date	Owner
Khoo Teck Puat Hospital	556	2010	Public hospital
Jurong General Hospital	700	2015	Public hospital
Farrer Park Hospital	220	2010	Singapore Healthpartners Pte Ltd
Novena Hospital	350	2012	Parkway Group
Total	1,826		

Source: Various news source and company data

Factoring in the new bed supply, Singapore's bed to population ratio is still healthy and in line with developing nations but below developed peers. Currently Singapore has 24 beds per 10,000 residents, which is lower than other developed nations and Asian countries with aging populations (Japan has 141 beds per 10,000 people). Post new supply, Singapore will have only 27 beds per 10,000 residents, suggesting that the hospital bed supply remains limited and not excessive in our view.

Even with new supply, hospital bed per capita is still lower than developed peers

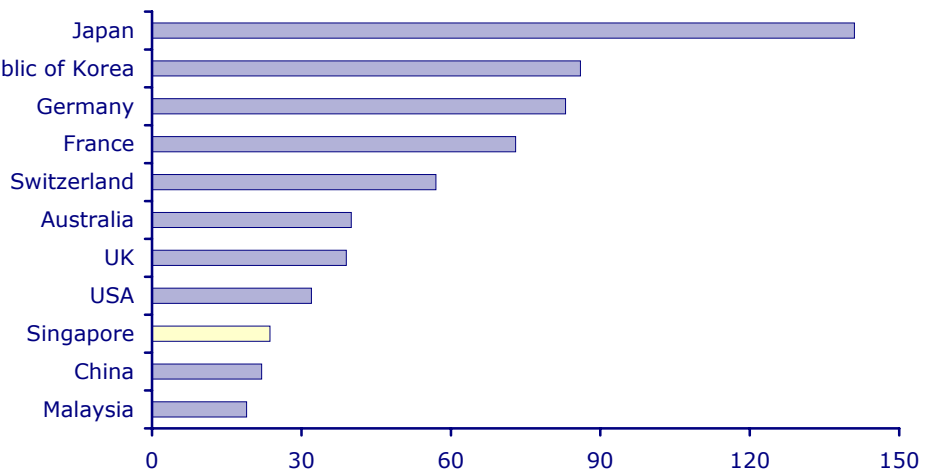
Capacity situation between public and private hospitals is diverse

... as public hospitals approach near capacity utilisation

Narrowing cost differential could see spillover demand into private hospitals

Figure 9

Hospital beds per 10,000 population



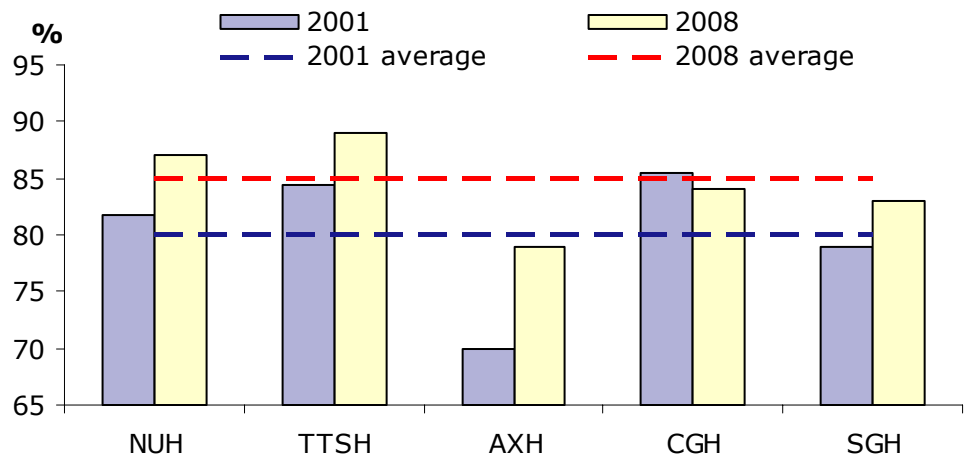
Source: WHO, Singstats

Public hospitals operating at stretched utilization rates

Capacity situation between the private and public sector is very different despite the low bed supply situation. Surprisingly, utilization rate is still healthy at 60-70% for private healthcare operators compared to public hospitals. This suggests room for capacity growth among the private players as public hospitals operate at stretched capacity. Presently, some public hospitals are operating at near 90% utilization rate versus the optimum of 70% - 80%.

Figure 10

Private hospital utilization rates



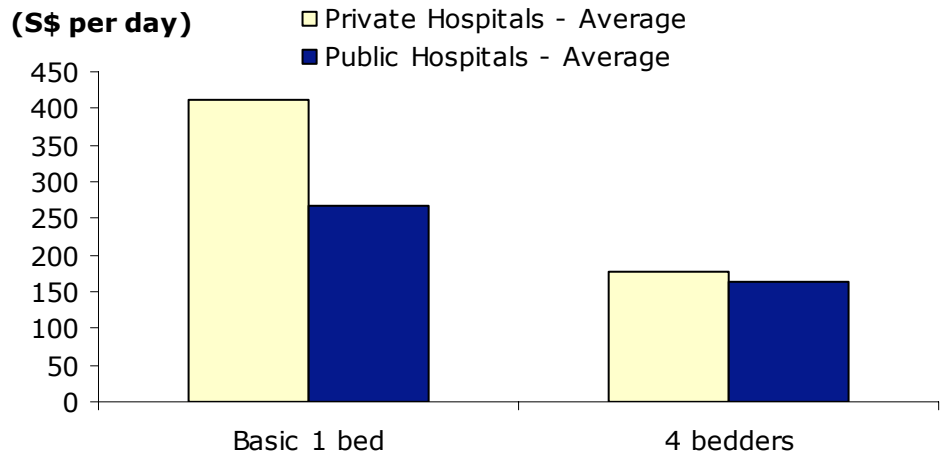
Note: National University Hospital (NUH); Tan Tock Seng Hospital (TTSH); Alexandra Hospital (AXH); Changi General Hospital (CGH); Singapore General Hospital (SGH). Source: Singhealth, National Health Group, Annual Reports

Finetuning of healthcare subsidy narrowing cost differential

Private hospitals could also see spillover demand from public hospitals as government further finetune the healthcare subsidy system through means testing and further liberalise the use of Medisave for a wider range of medical treatments thus narrowing the cost differential between private and public healthcare costs. A comparison between bed rates at private and public hospitals revealed that Class A wards are 54% higher on average for private hospitals but narrows to 8% for Class B wards.

Figure 11

Bed rates between private and public hospitals



Source: Ministry of Health, Company data

The factors discussed above, including rising disposable incomes, rising population and tight bed supply along with the asymmetrical utilization rates between both the public and private hospitals and narrowing costs differential will buoy local patient loads in Singapore benefitting Raffles Medical Group in our view.

Figure 12

Average daily room rates by ward class (\$)

Class wards	A	B1
Private hospital		
Gleneagles Singapore (S\$)	460	200
Mount Elizabeth (S\$)	460	200
EastShore (S\$)	362	135
Raffles Medical (S\$)	408	188
Thomson Medical (S\$)	430	195
Mount Alvernia (S\$)	350	145
Average	412	177
Public hospital		
SGH (S\$)	275	165
NUH (S\$)	260	164
Average	268	165
% Difference	54	8

Source: Respective hospital websites

Solid balance sheet and operations

Armed with a strong balance sheet (S\$50m net cash), we believe Raffles is able to grow bed capacity to meet rising demand for beds in Singapore. We estimate capacity to grow by 10% in FY11. In addition, Raffles could also fund possible Greenfield projects in Hong Kong (not factored in our estimates). Furthermore, prospects of a special dividend going forward look promising with its FCF yield of ~6%. High operating leverage will also benefit with incremental patient loads at its flagship Raffles hospital. We forecast hospital and healthcare services revenue to see 10.0% and 14.4% revenue growth respectively.

Hospital segment

We believe the return of patient load is key catalyst for Raffles Medical Group. Operating margins for the group has seen an upward trend since the

Class A wards are 54% higher on average and narrows to 8% for Class B wards

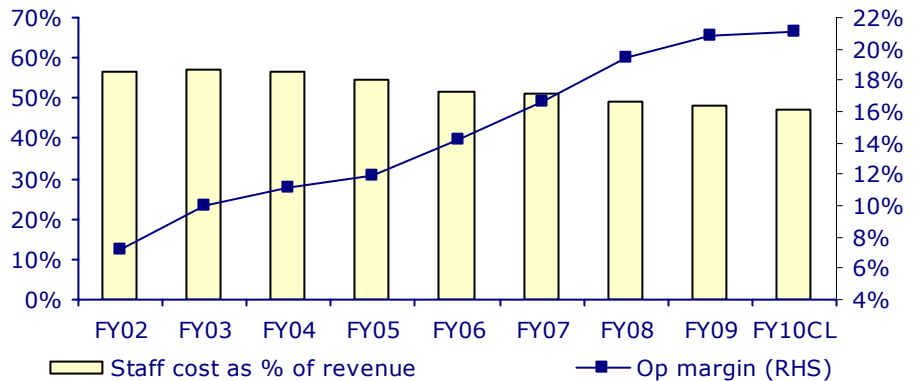
Raffles is well positioned to tap on rising demand with excess capacity. Special dividend is also on the cards

Hospital margins on uptrend since 2003

acquisition of its flagship hospital and currently in the range of 21%. Going forward, we believe there is upside once patient volume returns. Specifically, foreign patient load could surprise on this front. Staff cost while expected to grow with the reinstatement of variable bonuses should still be lower than revenue growth from our estimates.

Figure 13

Staff cost as percentage of Revenue versus operating margin



Source: CLSA Asia-Pacific Markets

Licensed with 380 beds, Raffles Medical is operating only 200 beds at the moment. To cope with rising demand, the group can reallocate space for new beds without incurring significant capex as we have seen in the past where bed count was increased from 150 to 200 in 2007. From our estimates, Raffles Medical can easily add 20 to 50 beds by reassigning specific functions to other area in the hospital.

Figure 14

Hospital Revenue Assumptions

	FY06	FY07	FY08	FY09	FY10CL	FY11CL	FY12CL
Total Hospital Revenue S\$m	73.5	99.0	119.9	129.4	142.7	164.8	173.1
Growth YoY (%)	22%	35%	21%	8%	10%	16%	5%
No of Licensed Beds	380	380	380	380	380	380	380
Operational Bed	150	200	200	200	200	220	220
Utilization rate (%)	60%	60%	60%	60%	63%	63%	63%
Occupied beds	90	120	120	120	126	139	139
Days in Year	365	365	365	365	365	365	365
Total Patient days	32,850	43,800	43,800	43,800	45,990	50,589	50,589
Growth YoY (%)	0%	33%	0%	0%	5%	10%	0%
Average Rev per day (S\$)	2,238	2,260	2,738	2,955	3,103	3,258	3,421
Growth YoY (%)	22%	1%	21%	8%	5%	5%	5%

Source: CLSA Asia-Pacific Markets

Our forecast for hospital revenue segment estimates revenue to see 10% growth in 2010 driven by higher occupancy with an increase of 5% in average revenue per day due to higher revenue intensity on the back of more complex surgeries generated from foreign patient segment. We also further expect bed supply crunch going into 2011 and expect Raffles Medical to ramp up capacity by 10% or additional 20 beds to cope with rising demand in 2011.

Raffles Medical can easily cope with rising demand by increasing beds with little capex requirement

Forecast 10% revenue growth from hospital segment

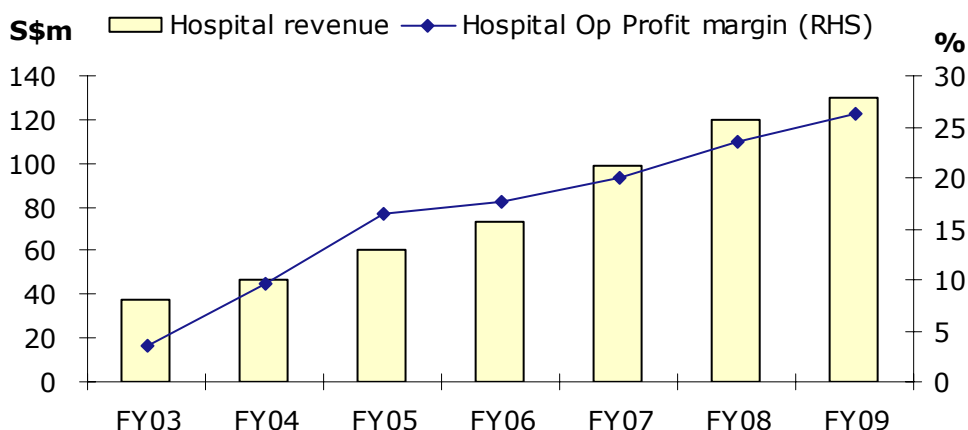
Hospital operating margins trend has been positive

Looking to expand 4 more clinics in Singapore and 1 in Hong Kong for 2010

Healthcare services revenue to see double digit growth driven by higher revenue intensity and new clinics

Figure 15

Hospital revenue and operating profit margin



Source: CLSA Asia-Pacific Markets

Healthcare services

With a network of 73 clinics islandwide, Raffles Medical has established itself as the leading integrated provider of tertiary healthcare in Singapore. Given Raffles' positioning in the corporate segment, we anticipate this segment will see respectable growth as corporate spending cycle resumes. Raffles Medical's stated aim to add 5 clinics per year is also achievable in our view at least in the next 2-3 years. For this year, Raffles is looking to set up 4 more clinics in Singapore alone and another in Hong Kong. The 4 clinics in Singapore are located in Changi Airport, Mapletree Business City, NTUC Life building and the upcoming Nex shopping centre in Hougang. The expansion of its medical clinic network will should result in higher patient referrals to its hospital driving revenue growth.

In our model, we have assumed revenue growth from this segment to continue to see double digit growth for the next three years driven by higher revenue intensity at 7% growth in average revenue per clinic going forward. We have conservatively assumed 3 new medical clinics to be opened each year in Singapore going forward.

Figure 16

Healthcare Services Assumptions

	FY06	FY07	FY08	FY09	FY10CL	FY11CL	FY12CL
Healthcare services Rev S\$m	60.7	69.7	80.7	89.0	101.5	112.6	124.8
Growth YoY (%)	15%	15%	16%	10%	14%	11%	11%
Number of Medical Clinics							
- Singapore	60	65	70	73	77	80	83
- Hong Kong	4	4	4	3	4	4	4
Total Clinics	64	69	74	76	81	84	87
Average Revenue Per clinic (S\$)	2,597	2,766	2,990	3,208	3,432	3,673	3,930
Growth YoY (%)	15%	6%	8%	7%	7%	7%	7%

Source: CLSA Asia-Pacific Markets

Possible special dividend with strong net cash position

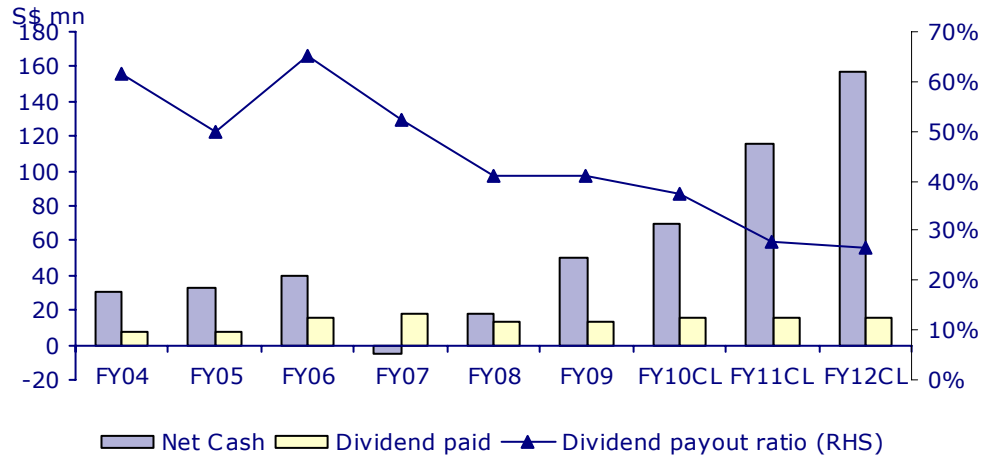
Raffles Medical's strong net cash position of S\$50m provides ample opportunities for a special dividend going forward in our view. Management has also raised dividend from 2.5¢ annually from FY07-FY08 to 3.0¢ in FY09.

Possible special dividend in the near horizon

We believe this is sustainable as Raffles Medical generate historical average FCF yield of ~6%, higher than the average 3% historical dividend yield.

Figure 17

Dividend payout and Net Cash position



Source: CLSA Asia-Pacific Markets

Hong Kong Greenfield projects could provide new revenue base for Raffles

Raffles Medical has is participating in the latest tender for 4 greenfield hospital projects in Hong Kong. Under the "expression of interest" invitation by the Hong Kong government, healthcare operators are invited to develop and operate 4 greenfield projects in Hong Kong, we believe Raffles could be deploying its cash for this purpose. Note that this is a non obligatory invitation and details are still fuzzy at the moment. While winning such a deal could provide a wider revenue base and lower concentration risk, key concerns include overpaying for the project tender, execution risk of the greenfield projects and viability of the Group Practice model in Hong Kong which Raffles currently adopts.

Figure 18

Group Practice Model overview

Pros	Cons
Doctors	
No capital raising needed to start practice	No ownership of own practice
No marketing required, do not have to find their own patients	Private practitioners have greater control over practice, career direction and interest
Business aspect left to group, able to focus on practice	As a paid employee, there is a limitation to upside in remuneration
Able to exchange information, share expertise and handle more complex cases	
Able to upgrade knowledge consistently	
Can take breaks/holidays or upgrading courses without fear of income loss	
Operator	
Totally integrated, extends along the whole value chain	Difficult for a newcomer to start a group practice
Able to choose their employees	May have problems attracting top specialists who want to start own practice
Greater control over costs	
Economies of scale with operating and enhanced presence	
Covers available in the absence of doctors	
Quality of healthcare, audit of every inpatient case	

Source: CLSA Asia-Pacific Markets

TP of S\$ 1.70 based on FY11 EV/EBITDA of 12x

Valuations attractive

Raffles Medical currently trades at FY11 EV/EBITDA of 10x, while regional peers trade at average valuations of 11.8x EV/EBITDA. We value Raffles Medical at 12x FY11 EV/EBITDA at S\$1.70 with 21% upside. Catalysts include higher patient load, increased utilization rate and better revenue intensity. We initiate Raffles Medical with a BUY recommendation with S\$1.70 target price.

Figure 19

Peer Valuations

Company Name	Target Rec	Price (LCY)	Mkt cap in US\$m	ADTO US\$m	PE (x) 10	PE (x) 11	EV/EB ITDA		PB (x) 10	Div Yield (%)	ROE (%)	
							(x) 10	(x) 11				
Raffles Medical Group	BUY	1.70	1.41	525	0.4	17.6	14.4	12.5	10.0	2.7	2.1	15.8
Parkway Holdings	BUY	3.40	3.00	2,426	4.2	19.5	19.6	16.3	15.2	2.1	0.0	10.5
Bangkok Dusit	NR	NR	25.25	938	0.6	15.7	13.6	7.2	6.6	2.1	3.2	13.3
Apollo Hospitals	BUY	667.0	714.4	972	0.4	33.5	29.1	17.0	14.2	2.9	1.2	7.9
Bumrungrad Hospital	NR	NR	30.75	685	0.5	17.0	15.5	9.5	8.7	4.0	3.1	22.7
KPJ Healthcare	NR	NR	2.59	409	1.6	12.1	12.1	8.6	8.0	2.2	3.9	14.2
Bangkok Chain Hospital	NR	NR	5.30	270	0.3	12.6	11.7	6.6	5.9	3.0	4.5	21.9
Thomson Medical	NR	NR	0.68	141	0.1	13.5	11.6	8.1	7.2	1.8	4.0	12.7
Weighted average (Ex Raffles Medical Group)				6,365		20.0	18.6	13.0	11.8	2.5	1.7	12.8

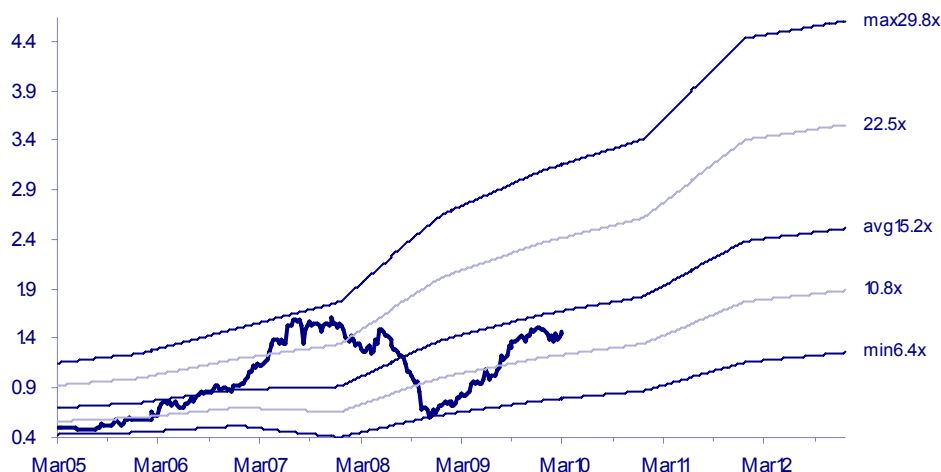
Source: CLSA Asia-Pacific Markets, Bloomberg

Trailing EV/EBITDA at 15x

Bolstered by a high free cashflow yield of around 6%, we have assumed a dividend payout of 3.0¢ going forward implying a yield support of around 2.1% for the next three years barring any acquisition.

Figure 20

Raffles Medical trailing EV/EBITDA Band



Source: CLSA Asia-Pacific Markets

Relative to its bigger peer, Parkway, Raffles is now trading at a discount of 30% on an EV/EBITDA basis versus the 5year historical average at parity. We believe this discount will narrow given the recovering fundamentals seen in the sector.

Raffles Medical is now trading at 30% discount to Parkway on trailing EV/EBITDA

More susceptible to downside risk from government's regulatory reforms

A more significant impact of wage inflation

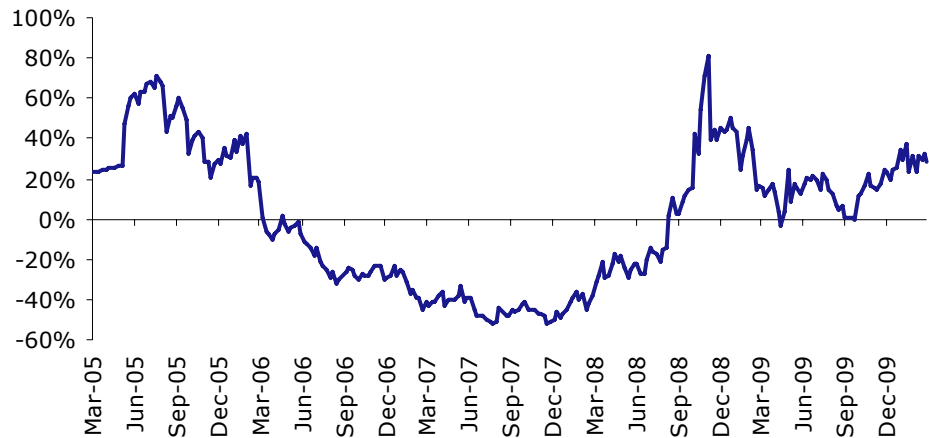
Potential shrinkage in customer base from increased unemployment

Raffles might overpay for Greenfield site

Medisave initiative may result in loss of Class B1 and B2 patients for Raffles

Figure 21

Raffles Medical discount to Parkway on historical EV/EBITDA



Source: CLSA Asia-Pacific Markets

Key Risks:

Regulatory changes in local landscape

Healthcare in Singapore remains a key government concern in an aging landscape. Any policy reforms introduced or increase in public hospital/polyclinics supply could pose a risk to private healthcare operators.

However, regulatory risk is low in the near term given government's prudent control on fiscal healthcare spending. In addition, initiatives to promote Singapore as a medical tourism and bio-medical hub should further benefit private healthcare operators.

Increase in staff costs

Any upward pressure of salaries would have a disproportionately larger impact on Raffles Medical's earnings as compared to Parkway, given doctors and nurses are all employed under the company's Group Practice Model.

Corporate slowdown

Raffles Medical's healthcare division could face larger than expected potential headwind risk given its large corporate client base. Higher unemployment rates could possibly shrink Raffle's customer pool as insurance coverage terminates with the cessation of employment.

Execution risk and overpaying for Hong Kong hospital

Raffles might overpay for the Hong Kong hospital Greenfield projects in view of limited expansion opportunities into foreign markets. Execution of Greenfield could also pose risk to Raffles Medical Group in our view

Better than expected take up of the Malaysia Medisave scheme

While still at the initial stage, the approved use of Medisave into Malaysia hospital might see the loss of sandwiched segment of patients particularly the Class B1 and B2 wards.

Summary P&L forecast (\$m)

Year to 31 December	2008A	2009A	2010CL	2011CL	2012CL
Revenue	201	219	244	278	298
Operating Ebitda	45	51	57	67	69
Operating Ebit	38	44	51	61	62
Interest income	0	0	1	2	3
Interest expense	(1)	0	(1)	(1)	(1)
Other items	0	1	0	0	0
Profit before tax	38	45	51	62	64
Taxation	(7)	(7)	(9)	(11)	(12)
Minorities and other	0	0	0	0	0
Profit	32	38	41	51	53

Summary cashflow forecast (\$m)

Operating Ebit	38	44	51	61	62
Depreciation/amort	7	7	7	7	6
Working capital - trade	(2)	1	(11)	1	(5)
Other operating items	1	0	0	0	0
Operating cashflow	44	53	46	68	64
Net interest/taxes/other	(4)	(6)	(7)	(7)	(9)
Cashflow	40	46	39	61	55
Capital expenditure	(6)	(4)	(4)	(4)	(4)
Acq/inv/disposals	1	0	0	0	0
Free Cashflow	34	43	35	57	51
Ord div paid/Other items	(11)	(11)	(16)	(16)	(16)
Decrease in net debt	23	32	19	41	35

Summary balance sheet forecast (\$m)

Cash & equivalents	45	74	94	135	170
Debtors - trade	25	24	30	34	37
Inventories - trade	5	5	6	6	7
Other current assets	0	1	1	1	1
Fixed assets	150	146	144	141	139
Intangible assets	0	0	0	0	0
Other term assets	86	86	86	86	86
Total assets	310	337	360	403	439
Short-term debt	5	5	5	5	5
Creditors - trade	52	52	48	53	51
Other current liabs	9	9	10	13	14
Long-term debt/CBs	22	20	20	20	20
Other long-term liabs	1	1	1	1	1
Minorities/other equity	0	0	0	0	0
Shareholder funds	222	250	276	311	348
Total liabs & equity	310	337	360	403	439

Ratio analysis

Revenue growth (%)	19.0	8.9	11.8	13.6	7.4
Op Ebitda growth (%)	57.5	14.6	11.3	17.4	2.3
Op Ebit growth (%)	57.8	16.4	13.7	19.9	2.8
Op Ebitda margin (%)	22.4	23.5	23.4	24.2	23.1
Op Ebit margin (%)	19.0	20.4	20.7	21.8	20.9
Net profit margin (%)	15.7	17.3	17.0	18.3	17.6
Dividend payout (%)	41.0	40.9	37.5	30.5	29.5
Tax rate (%)	17.4	15.6	18.0	18.0	18.0
Ebitda/net int exp (x)	123.0	223.7	(499.8)	(47.4)	(34.8)
Net debt/equity (%)	(8.0)	(19.9)	(25.1)	(35.4)	(41.8)
Gross debt/equity (%)	12.0	9.8	8.9	7.9	7.0
Net debt/op Ebitda (x)	(0.4)	(1.0)	(1.2)	(1.6)	(2.1)
Gross debt/op Ebitda (x)	0.6	0.5	0.4	0.4	0.4
Return on equity (%)	14.9	16.1	15.8	17.3	16.0
ROCE (%)	18.8	22.4	24.8	29.7	30.9
Return on assets (%)	10.7	11.7	11.9	13.3	12.5

Source: CLSA Asia-Pacific Markets

Key to CLSA investment rankings: **BUY** = Expected to outperform the local market by >10%; **O-PF** = Expected to outperform the local market by 0-10%; **U-PF** = Expected to underperform the local market by 0-10%; **SELL** = Expected to underperform the local market by >10%. Performance is defined as 12-month total return (including dividends).

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Note: In the interests of timeliness, this document has not been edited.

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