

Raffles Medical----- Maintain OUTPERFORM

3Q09 in line - Hospital growth momentum improves

EPS: ◀▶ TP: ◀▶

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- Raffles Medical delivered 3Q09 results which were in line with our estimates. Revenues grew 8% YoY, while earnings jumped 15% YoY to S\$9.5 mn, with 9MTD revenue and net profit achieving 73% and 74% of our full-year estimates, respectively.
- Operating margins during the quarter were 21%, up from 20% in the previous quarter and a year ago, largely due to operational efficiency gains at its flagship hospital, while strong operating cashflows increased the cash hoard to S\$34.8 mn at end Sep-09.
- The 9% YoY revenue growth in the healthcare segment, as well as 8% YoY improvement in its hospital operations (from 5% YoY in 2Q09), reaffirms firm underlying demand across the sector, and augurs well for Parkway's interims, to be announced on 12 Nov.
- The results and analysts' briefing did not yield surprises, so we are maintaining our forecasts and DCF-based TP of S\$1.65. We continue to favour Raffles Medical for its steady earnings growth profile, against a backdrop of rising private healthcare demand over the longer term, and reiterate OUTPERFORM.

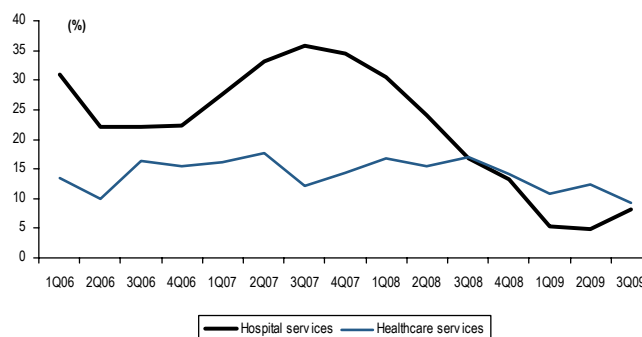
22%, followed by Russia (7%), and Malaysia (5%).

Figure 1: Results summary

(\$mn)	2Q09	2Q08	YoY (%)	FY09E (old)	% of FY09E
Revenue	55.4	51.3	8.0	220.1	72.8
EBITDA	13.6	11.9	14.6	46.8	80.6
Op. profit	11.9	10.2	16.3	42.8	76.0
PBT	11.8	10.1	17.1	42.2	76.4
Tax	-2.3	-1.9	23.7	-7.2	84.9
Net profit	9.5	8.2	15.4	35.0	74.4
EPS (Sct)	1.82	1.58	15.2	6.83	73.5
EBITDA margin (%)	24.6	23.2	-	21.3	-
Op margin (%)	21.5	19.9	-	19.5	-
Net margin (%)	17.1	16.0	-	15.9	-

Source: Company data, Credit Suisse estimates.

Figure 2: Revenue growth by business (YoY change)



Source: Company data, Credit Suisse estimates.

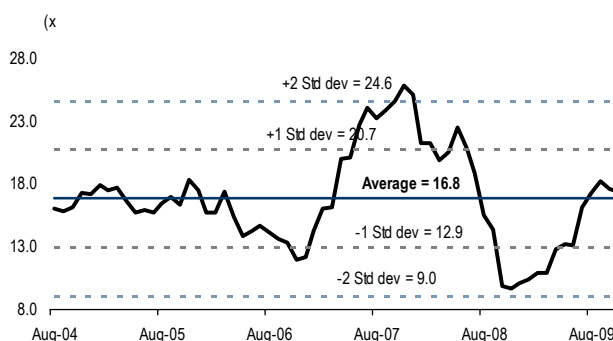
Bbg/RIC	RFMD SP / RAFG.SI	Price (04 Nov 09, S\$)	1.33		
Rating (prev. rating)	O (O)	TP (Prev. TP S\$)	1.65 (1.65)		
Shares outstanding (mn)	519.43	Est. pot. % chg. to TP	24		
Daily trad vol - 6m avg (mn)	0.35	52-wk range (S\$)	1.42 - 0.55		
Daily trad val - 6m avg (US\$ mn)	0.2	Mkt cap (S\$/US\$ mn)	690.8/ 495.0		
Free float (%)	33.0	Performance	1M 3M 12M		
Major shareholders	Dr Loo Choon Yong	Absolute (%)	(1.5) 13.7 98.5		
	(40.0%)				
Year	12/07A	12/08A	12/09E	12/10E	12/11E
Revenues (\$ mn)	168.7	200.8	220.1	238.0	264.4
EBITDA (\$ mn)	32.4	45.6	46.8	51.6	56.1
Net profit (\$ mn)	22.3	31.6	34.9	39.4	44.1
EPS (\$)	0.04	0.06	0.07	0.08	0.09
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (\$)	n.a.	n.a.	0.07	0.08	0.09
EPS growth (%)	46.4	36.0	11.8	12.9	11.8
P/E (x)	29.6	21.8	19.5	17.3	15.5
Dividend yield (%)	1.9	1.9	1.9	2.3	2.6
EV/EBITDA (x)	21.5	14.8	13.8	11.9	10.3
P/B (x)	3.4	3.1	2.8	2.5	2.3
ROE (%)	11.1	14.2	14.3	14.5	14.6

Note 1: Raffles Medical Group (RMG) is a leading medical group and the largest private group practice in Singapore, owning and operating a fully integrated healthcare system comprising hospital, clinics, insurance and consumer healthcare. Note 2:...

Other snippets

During the briefing, management disclosed that total patient volumes at the Raffles Hospital increased 9% YoY (was 5% YoY in 2Q09), driven by a 16% YoY improvement in foreign patient load (compared with 13% YoY in 2Q09, and 8% YoY in 1Q09). However, local patient volumes were flat, (volumes declined 7% YoY in 2Q09), as patients stayed away due to the H1N1 outbreak. Indonesian patients continued to be the largest source of Raffles Medical's foreign patient load at

Figure 3: Forward P/E



Source: Company data, Credit Suisse estimates.

Valuation Metrics

Company	Ticker	CS	Price		Year	EPS Chg (%)			TP (%)	Up/dn (%)	EPS		EPS grth (%)		P/E (x)		Div. yld (%)	ROE (%)	P/B (x)
			Rating	Local		Target	T	T+1			T+2	Chg	T+1	T+2	T+1	T+2			
Raffles Medical	RFMD SP	O	1.33	1.65	12/08	0	0	0	24	0.1	0.1	12	13	19.5	17.3	1.9	14.3	2.8	
Parkway	PWAY SP	O	2.45	3.10	12/08	0	0	0	27	0.1	0.1	7	54	25.7	16.7	1.3	7.8	2.0	

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM

Source: Company data, Credit Suisse estimates

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Companies Mentioned (Price as of 04 Nov 09)

Raffles Medical Group (RAFG.SI, S\$1.33, OUTPERFORM, TP S\$1.65)
 Parkway Holdings (PARM.SI, S\$2.45, OUTPERFORM [V], TP S\$3.10)

Disclosure Appendix

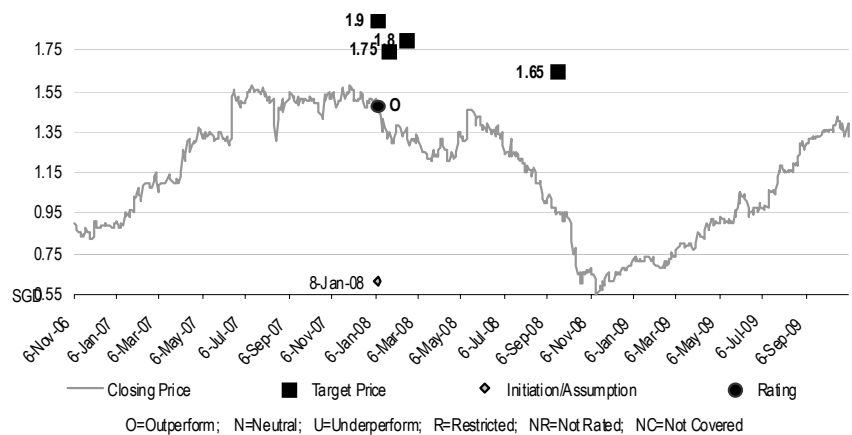
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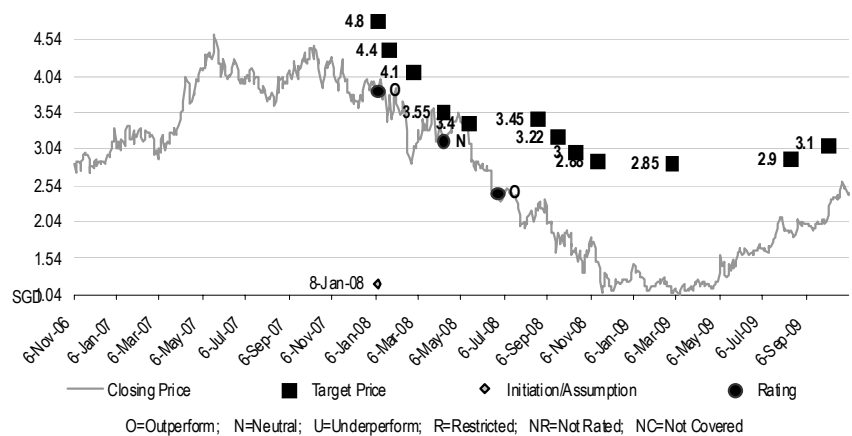
3-Year Price, Target Price and Rating Change History Chart for RAFG.SI

RAFG.SI Date	Closing Price (SGD)	Target Price (SGD)	Rating	Initiation/ Assumption
08-Jan-08	1.48	1.9	O	X
25-Jan-08	1.35	1.75		
19-Feb-08	1.35	1.8		
18-Sep-08	.945	1.65		



3-Year Price, Target Price and Rating Change History Chart for PARM.SI

PARM.SI Date	Closing Price (SGD)	Target Price (SGD)	Rating	Initiation/ Assumption
08-Jan-08	3.84	4.8	O	X
25-Jan-08	3.77	4.4		
28-Feb-08	3.01	4.1		
10-Apr-08	3.16	3.55	N	
15-May-08	3.43	3.4		
26-Jun-08	2.44		O	
21-Aug-08	2.18	3.45		
18-Sep-08	1.62	3.22		
13-Oct-08	1.63	3		
13-Nov-08	1.48	2.88		
27-Feb-09	1.05	2.85		
14-Aug-09	1.91	2.9		
05-Oct-09	2.03	3.1		



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Price Target: (12 months) for (RAFG.SI)

Method: Our S\$1.65 target price for Raffles Medical is based on a discounted cash flow (DCF) methodology of a weighted average cost of capital (WACC) of 10.5% (a risk-free rate of 3.5%, an equity risk premium of 7.0% and a beta of 1), a terminal growth rate of 3%, and a medium-term growth rate of 6% over 2007-2030.

Risks: Key risks to our S\$ 1.65 target price for Raffles Medical include: 1) Regulatory changes driven by government policies 2) Macroeconomic slowdown affecting employment and population growth 3) Increasing competition from regional healthcare providers 4) Risk of a pandemic outbreak 5) Inability to attract talent and Increased labour costs

Price Target: (12 months) for (PARM.SI)

Method: Our S\$3.10 target price for Parkway is based on a Sum of the parts valuation with a \$0.19 marked to market valuation for its 37% stake in Parkway Life REIT, and a discounted cash flow (DCF) valuation, with a weighted average cost of capital (WACC) of 10.5% (a 3.5% risk-free rate, a 7.0% equity risk premium and a beta of 1), a terminal growth rate of 4%, and a medium-term growth rate of 8% over 2007 to 2030 for its hospital business, a DCF valuation for its Novena Hospital based on WACC of 8.0% on 75% debt structure and a terminal growth rate of 4%.

Risks: Key risks to our S\$3.10 target price for Parkway include: 1) regulatory changes driven by government policies 2) a potential macroeconomic slowdown, which would affect employment and population growth, 3) increased competition from regional healthcare providers, 4) risk of a pandemic outbreak, 5) execution risks.

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