Raffles Medical ---Maintain OUTPERFORM

Forecast revisions on slowing macros

EPS: ▼ TP: ▼

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- We are lowering our earnings forecast for Raffles Medical by 5-9% for FY09-10E, given the less sanguine macro outlook. Singapore's GDP growth is expected to slow to 3.9% YoY and 2.8% YoY in 2008 and 2009, respectively (from 5.5% YoY and 6.3% YoY previously).
- Our downward revisions are largely driven by less optimistic assumptions on medical tourist targets, with Raffles Med's hospital operations vulnerable to decline in patient volumes, and to a lesser extent, we see slower income and job growth, and diminishing demand for the private general healthcare services across its clinic network.
- That said, we remain positive on the underlying fundamentals for the Singapore Heatlhcare Sector over the longer term, and continue to view Raffles Med's group practice model, coupled with its strong balance sheet, as well-positioned to drive both organic earnings growth and inorganic growth opportunities.
- Our new DCF-based valuation is now S$1.65 (down from S$1.80), which still leaves 72% potential upside. There is no change to our rating, which remains at OUTPERFORM.

Bbg/RIC	**RFMD SP / RAFG.SI**	**Price (17 Sep 08, S$)**	**0.96**
Rating (prev. rating)	**O (O)**	**TP (S$) (prev. TP)**	**1.65 (1.80)**
Shares outstanding (mn)	517.46	Est. pot. % chg. to TP	72
Daily trad vol–6m avg (mn)	0.2	52-wk range (S$)	1.58 - 0.95
Daily trad val–6m avg (US$ mn)	0.2	Mkt cap (S$/US$ mn)	496.8/ 346.0
Free float (%)	33.0		
Major shareholders	Dr Loo Choon Yong (40.04%)		

Performance	**1M**	**3M**	**12M**
Absolute	(17.9)	(28.9)	(36.0)
Relative	(6.7)	(12.3)	(8.0)

Year	**12/06A**	**12/07A**	**12/08E**	**12/09E**	**12/10E**
Revenues (S$ mn)	134.2	168.7	205.6	236.5	265.6
EBITDA (S$ mn)	20.9	40.4	42.9	50.3	55.8
Net profit (S$ mn)	14.0	21.5	29.7	35.6	40.8
EPS (S$)	0.03	0.04	0.06	0.07	0.08
- Change from prev. EPS (%)	n.a.	n.a.	0	-5	-9
- Consensus EPS (S$)	n.a.	n.a.	0.06	0.08	0.00
EPS growth (%)	21.9	36.4	38.8	19.9	14.5
P/E (x)	31.3	23.0	16.5	13.8	12.0
Dividend yield (%)	2.8	3.5	4.8	5.8	6.6
EV/EBITDA (x)	21.9	12.4	11.6	9.5	8.2
P/B (x)	3.9	2.5	2.4	2.3	2.2
ROE (%)	12.4	10.7	14.3	16.4	17.9
Net debt/equity (%)	net cash	3	1	net cash	net cash

Note: 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.

Figure 1: Singapore: new growth and inflation forecasts

% YoY	2007	2008F	2009F
Real GDP growth (%)	7.7	3.9	2.8
Growth in real private consumption (%)	4.6	4.7	4.2
Growth in real fixed investment spending (%)	20.2	23.1	13.0
CPI inflation (%, December over December)	4.4	5.4	2.3

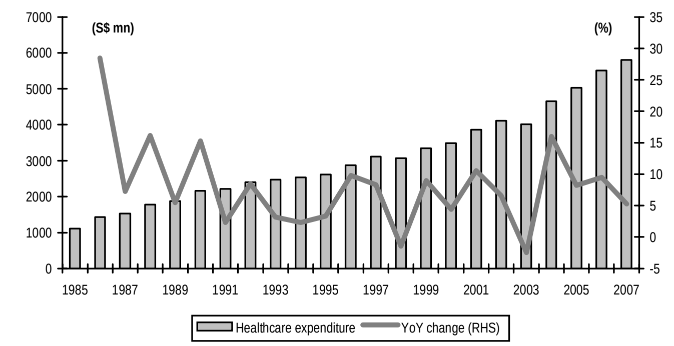
Source: CEIC, Credit Suisse estimates.

Figure 2: Key forecast changes

	FY09E			FY10E		
(S$ mn)	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenue	**238.9**	**247.5**	**-3.5**	**268.8**	**288.0**	**-6.7**
- Healthcare services	85.6	85.6	0.0	89.4	89.4	0.0
- Hospital services	149.7	158.4	-5.4	175.8	195.1	-9.9
EBITDA	50.5	52.5	-3.8	56.1	60.5	-7.3
Op. profit	**45.0**	**47.0**	**-4.2**	**51.4**	**55.8**	**-7.9**
PBT	43.7	45.7	-4.3	50.1	54.6	-8.1
Tax	-7.9	-8.2	-4.3	-9.0	-9.8	-8.1
Net profit	**35.9**	**37.5**	**-4.3**	**41.1**	**44.7**	**-8.1**
EPS (S$)	0.070	0.073	-4.3	0.080	0.087	-8.1

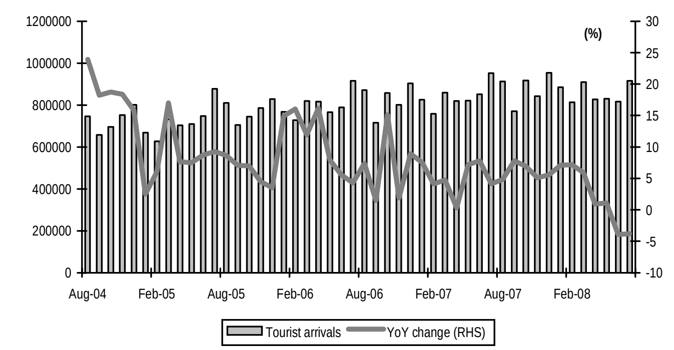
Source: Company data, Credit Suisse estimates.

Figure 3: Total healthcare expenditure and growth



Source: Company data, Credit Suisse estimates.

Figure 4: Tourist arrivals



Source: Company data, Credit Suisse estimates.

Figure 5: Valuation metrics

		CS	Price		EPS chg (%)		TP (%)	Up/dn	EPS		EPS grth (%)		P/E (x)		Div. yld (%)	ROE	P/B
Company	Ticker	Rating	Local	Target	T+1	T+2	Chg	(%)	T+1	T+2	T+1	T+2	T+1	T+2	T+1	(%)	(x)
Raffles Medical	RFMD SP	O	0.96	1.65	0	-5	-8	72	0.1	0.1	39	20	16.3	13.8	4.8	14.3	2.4
Parkway	PWAY SP	O	1.65	3.22	0	-4	-7	95	0.1	0.1	(28)	43	19.5	13.7	2.6	6.1	1.3

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM.
Source: Company data, Credit Suisse estimates.

Companies Mentioned *(Price as of 17 Sep 08)*
Raffles Medical Group (RAFG.SI, S$.96, OUTPERFORM, TP S$1.65)
Parkway Holdings (PARM.SI, S$1.65, OUTPERFORM, TP S$3.22)

Disclosure Appendix

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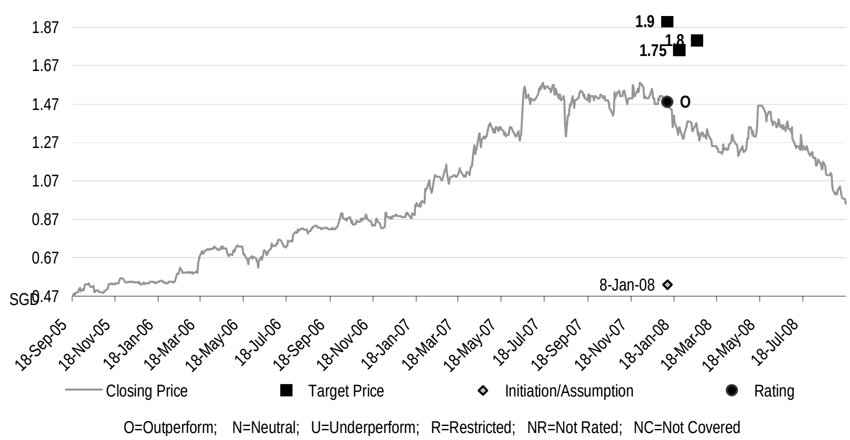
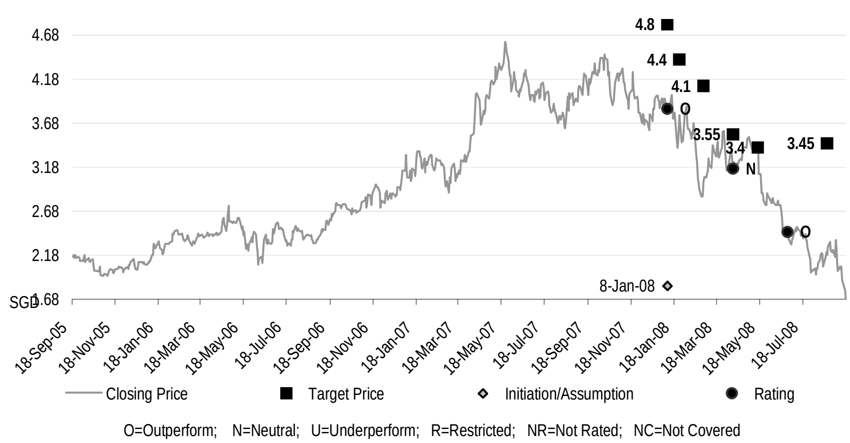
3-Year Price, Target Price and Rating Change History Chart for RAFG.SI

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		



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		



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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$3.22 target price for Parkway is based on a Sum of the parts valuation with a $0.23 marked to market valuation for its 35% 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 stucture and a terminal growth rate of 4%.

Risks: Key risks to our S$3.22 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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