

Raffles Medical -----Maintain NEUTRAL

3Q11 in line—healthy fundamentals

EPS: ◀▶ TP: ◀▶

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- Raffles Medical delivered 3Q11 results in line with our estimates, with revenue up 14% YoY and net profit up 10% YoY to S\$11.8 mn. The 9MTD revenue and net profit achieved 75% and 69% of our full-year forecasts, respectively.
- Revenue from the hospital was up 14% YoY, while healthcare services grew 8% YoY. Operating margins during the quarter were 20.9%, down from 21.5% a year ago. We believe that operating efficiency gains were likely dampened by start-up costs in China, & recruitment in line with growth plans (staff costs up 14% YoY).
- The planned Specialist Medical Centre at Thong Sia Building is now expected to commence operations in 1H13 (previously from 2H12), while construction for the additional hospital capacity at its flagship hospital is likely to commence in 2H12, and be complete in late-2014. Meanwhile, rationalisation in corporate office functions added 15k sq ft, & raised hospital capacity by about 5%.
- We remain positive on Raffles Medical's fundamentals (defensive growth profile), but see limited upside to valuation at 20x FY12 P/E. Maintain NEUTRAL.

Results in line

Raffles Medical delivered 3Q11 results in line with our estimates, with revenue up 14% YoY and net profit up 10% YoY to S\$11.8 mn. The 9MTD revenue and net profit achieved 75% and 69% of our full-year forecasts, respectively. We are expecting a stronger 4Q, in line with seasonality.

Operating efficiency gains offset by start-up costs

Revenue from the hospital was up 14% YoY, while healthcare services grew 8% YoY. Operating margins during the quarter were 20.9%, down from 21.5% a year ago. We believe operating efficiency gains were likely dampened by start-up costs in China, and recruitment was in line with growth plans (staff costs up 14% YoY).

Bbg/RIC	RFMD SP / RAFG.SI	Price (31 Oct 11, S\$)	2.25		
Rating (prev. rating)	N (N)	TP (prev. TP S\$)	2.35 (2.35)		
Shares outstanding (mn)	533.91	Est. pot. % chg. to TP	4		
Daily trad vol - 6m avg (mn)	0.35	52-wk range (S\$)	2.53 - 2.04		
Daily trad val - 6m avg (US\$ mn)	0.6	Mkt cap (S\$/US\$ mn)	1,201.3/ 961.0		
Free float (%)	33.0	Performance			
Major shareholders	Dr Loo Choon Yong	Absolute (%)	1M	3M	12M
	(40.0%)	Relative (%)	0.4	(9.6)	3.2
			(6.3)	0.5	12.3
Year	12/09A	12/10A	12/11E	12/12E	12/13E
Revenue (S\$ mn)	218.6	239.1	266.6	312.9	351.2
EBITDA (S\$ mn)	52.3	59.9	67.1	84.3	97.3
Net profit (S\$ mn)	37.9	45.3	49.2	58.6	66.6
EPS (S\$)	0.07	0.09	0.10	0.11	0.13
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (S\$)	n.a.	n.a.	0.10	0.11	0.13
EPS growth (%)	19.8	17.8	13.0	19.0	13.6
P/E (x)	31.1	26.4	23.4	19.6	17.3
Dividend yield (%)	1.3	1.6	1.7	2.0	2.3
EV/EBITDA (x)	22.0	18.6	17.9	14.5	12.7
P/B (x)	4.7	4.1	3.7	3.3	2.9
ROE (%)	16.1	16.9	16.3	17.3	17.5
Net debt(cash)/equity (%)	(19.9)	(29.5)	0.7	6.5	9.2

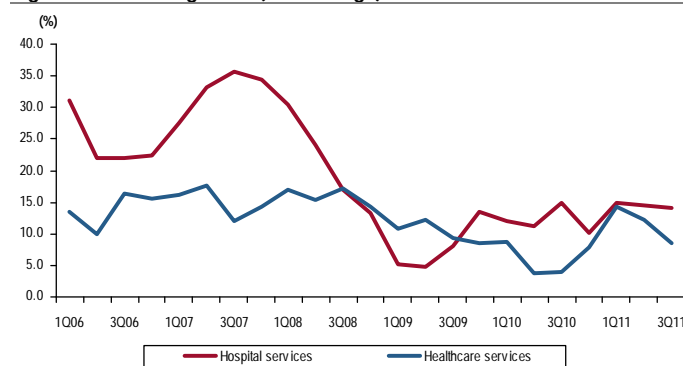
Note 1: Raffles Medical Group Ltd is a Singapore-based company. The principal activities of the company are those relating to the operation of medical clinics and other general medical services. The company operates in three segments: healthcare services, hospital services and investment holdings.

Figure 1: Results summary

(S\$ mn)	3Q11	3Q10	YoY (%)	FY11E (old)	% of FY11E
Revenue	69.1	60.9	13.5	266.6	75.2
EBITDA	16.3	14.8	10.1	67.1	70.4
Op. profit	14.5	13.1	10.3	60.6	69.0
Net profit	11.8	10.7	10.4	49.5	68.5
EPS (S\$)	2.21	2.04	8.3	9.6	60.3
EBITDA margin (%)	23.6	24.3	-	25.2	-
Op margin (%)	20.9	21.5	-	22.7	-
Net margin (%)	17.1	17.5	-	18.6	-

Source: Company data, Credit Suisse estimates

Figure 2: Revenue growth (YoY change)

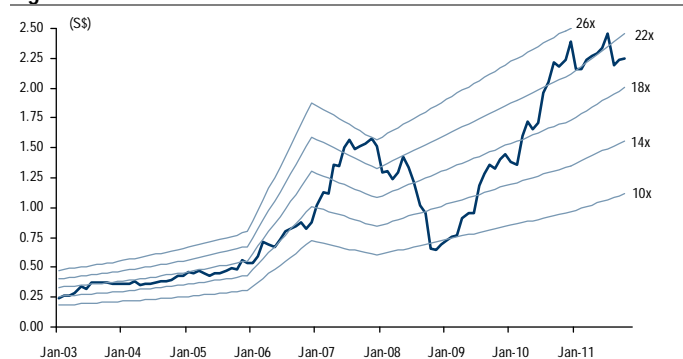


Source: Company data, Credit Suisse estimates

Expansion plans underway, to contribute from FY13

The planned Specialist Medical Centre at Thong Sia Building is now expected to commence operations in 1H13 (previously from 2H12), while construction for the additional hospital capacity at its flagship hospital is likely to commence in 2H12, and completed in late-2014. Meanwhile, rationalisation in corporate office functions have added 15,000 sq ft, and raised hospital capacity by about 5%.

Figure 3: Raffles Medical—P/E band chart



Source: Bloomberg, Credit Suisse estimates

Companies Mentioned (Price as of 31 Oct 11)
 Raffles Medical Group (RAFG.SI, S\$2.25, NEUTRAL, TP S\$2.35)

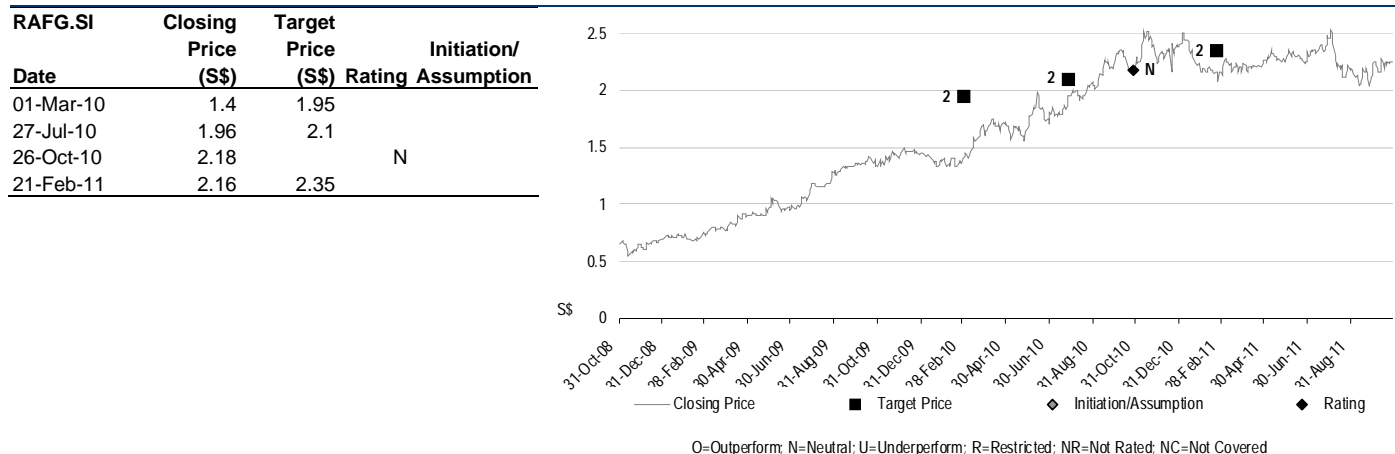
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3-Year Price, Target Price and Rating Change History Chart for RAFG.SI



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

Method: Our S\$2.35 target price for Raffles Medical is based on a discounted cash flow (DCF) methodology of a weighted average cost of capital (WACC) of 10% (a risk-free rate of 3.5%, an equity risk premium of 6.5% and a beta of 1), a terminal growth rate of 2%, and a medium-term growth rate of 6% over 2010-2030.

Risks: Key risks to our S\$2.35 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

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