

**Raffles Medical----- Maintain OUTPERFORM**

**Interims in line - Pandemic resilient**

EPS: ◀▶ TP: ◀▶

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- Raffles Medical delivered results for its Jun quarter, which arrived in line with our estimates. Revenues were up 7% YoY, while earnings jumped 14% YoY to S\$8.8 mn. Management declared a S1 ct interim dividend, similar to the previous year.
- The 12% YoY revenue growth in the healthcare segment, and 5% YoY improvement in its hospital operations, suggests underlying demand across the sector remains relatively resilient to macro uncertainties, including the H1N1 pandemic. Operating margins were at 20% during the quarter, up from 19% in 1Q09 and a year ago, due to some extent of operational efficiency gains.
- The results did not yield surprises, and with the first six months having met 49% and 47% of our full-year revenue and earnings estimates respectively, we have kept our forecast largely intact.
- Resilient margins, strong free cashflows, and a growing cash hoard (S\$27.5 mn net cash at end Jun-09), continue to reinforce our positive view on the stock, which currently trades at about one std deviation below its five-year mean. We see 56% upside to our DCF-based S\$1.65 TP, and maintain OUTPERFORM.

volumes likely saw double-digit declines during SARS).

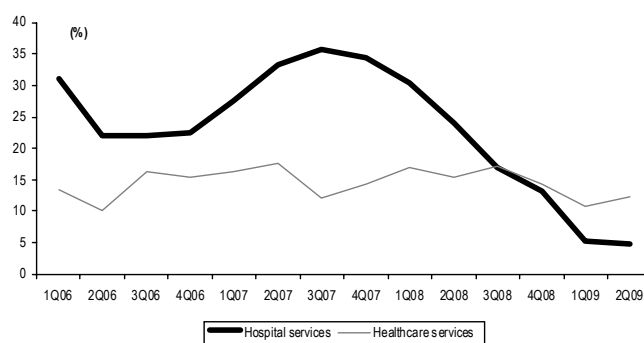
Raffles Medical opened three new clinics (in Tampines 1, Sembawang and Centrepoint) during the Jun-quarter, and have signed leases for a new branch at the Changi Business Park, which is slated to open in Oct-09. Management targets to open new clinics in five locations this year. This should raise its GP network to 70 by end-FY09.

**Figure 1: Results summary**

(\$mn)	2Q09	2Q08	YoY (%)	FY09E (old)	% of FY09E
Revenue	53.9	50.6	6.5	215.1	48.8
EBITDA	12.7	11.5	10.7	46.8	51.5
Op. profit	11.0	9.8	11.7	42.8	48.3
Tax	-2.1	-1.9	7.8	-7.2	52.9
Net profit	8.8	7.7	13.8	35.0	47.4
EPS (Sct)	1.69	1.49	13.4	6.82	46.9
Op margin (%)	20.4	19.4	-	19.9	-
Net margin (%)	16.3	15.2	-	16.3	-

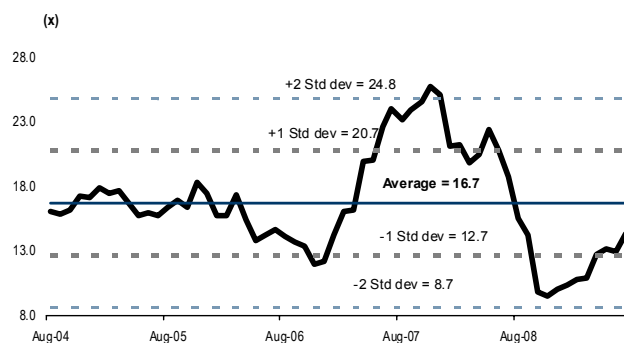
Source: Company data, Credit Suisse estimates.

**Figure 2: Revenue growth by businesses (YoY change)**



Source: Company data, Credit Suisse estimates.

**Figure 3: P/E chart**



Source: Bloomberg, Company data, Credit Suisse estimates.

Bbg/RIC	RFMD SP / RAFG.SI	Price (24 Jul 09, S\$)	1.06		
Rating (prev. rating)	O (O)	TP (Prev. TP S\$)	1.65 (1.65)		
Shares outstanding (mn)	518.52	Est. pot. % chg. to TP	56		
Daily trad vol - 6m avg (mn)	0.35	52-wk range (S\$)	1.24 - 0.55		
Daily trad val - 6m avg (US\$ mn)	0.2	Mkt cap (S\$/US\$ mn)	549.6/ 381.7		
Free float (%)	33.0	Performance	1M 3M 12M		
Major shareholders	Dr Loo Choon Yong (40.0%)	Absolute (%)	9.3 15.2 (14.5)		
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)	23.6	17.4	15.5	13.8	12.3
Dividend yield (%)	2.4	2.4	2.4	2.9	3.2
EV/EBITDA (x)	17.1	11.7	10.8	9.2	7.8
P/B (x)	2.7	2.5	2.2	2.0	1.8
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 its Raffles Hospital increased 5% YoY, driven by a 13% YoY improvement in foreign patient load (compared to 8% YoY in 1Q09), which contributed one-third of total patient volumes, and almost 40% of revenues, a similar mix compared with previous quarters. However, local patient volumes declined by 7% YoY (was flat YoY in 1Q09), as patients stayed away due to the H1N1 outbreak (we believe patient

**Valuation Metrics**

Company	Ticker	CS Rating	Price		Year	EPS Chg (%)			TP (%)	Up/dn Chg (%)	EPS		EPS grth (%)		P/E (x)		Div. yld (%)	ROE (%)	P/B (x)
			Local	Target		T	T+1	T+2			T+1	T+2	T+1	T+2	T+1	T+2			
Raffles Medical	RFMD SP	O	1.06	1.65	12/08	0	0	0	56	0.1	0.1	12	13	15.5	13.8	2.4	14.3	2.2	
Parkway	PWAY SP	O	1.87	2.85	12/08	0	0	0	52	0.1	0.1	1	25	20.8	16.7	1.7	7.4	1.6	

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

Source: Company data, Credit Suisse estimates

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**Companies Mentioned (Price as of 24 Jul 09)**

Raffles Medical Group (RAFG.SI, S\$1.06, OUTPERFORM, TP S\$1.65)

Parkway Holdings (PARM.SI, S\$1.87, OUTPERFORM [V], TP S\$2.85)

**Disclosure Appendix**

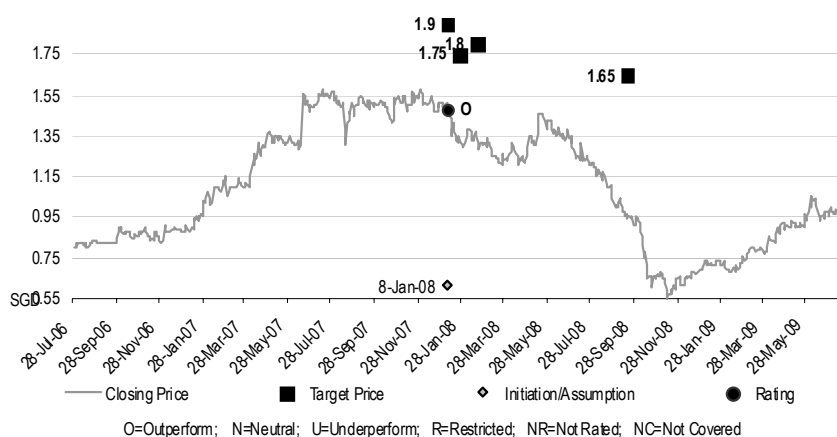
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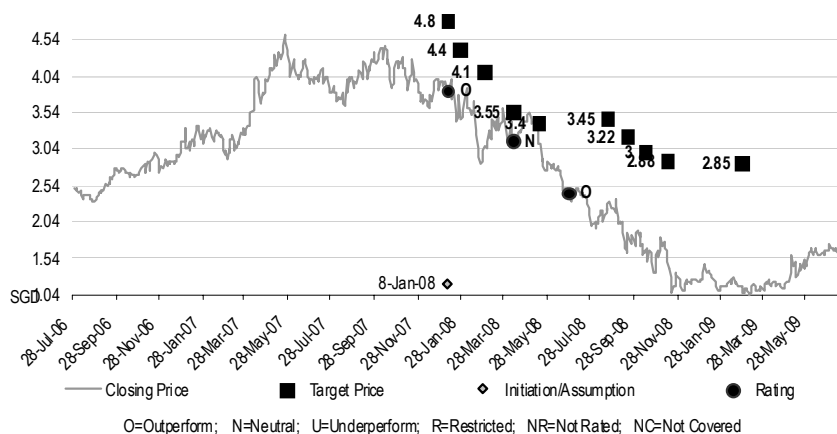
**3-Year Price, Target Price and Rating Change History Chart for RAFG.SI**

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		



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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\$2.85 target price for Parkway is based on a Sum of the parts valuation with a \$0.15 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\$2.85 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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