

Singapore Healthcare

Raffles Medical

Bloomberg: RFMD SP | Reuters: RAFG.SI

BUY S\$0.66 STI : 1,821.70

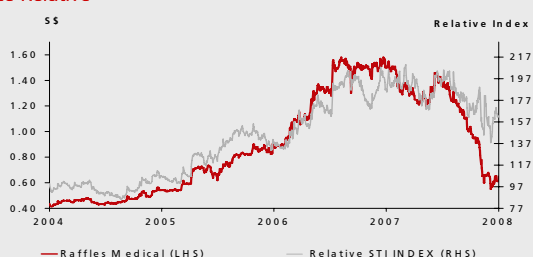
Price Target : 12-month S\$ 0.76

Potential Catalyst: Admissions, acquisitions

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (\$\$ m)	2007A	2008F	2009F	2010F
Turnover	169	202	224	249
EBITDA	34	42	48	53
Pre-tax Profit	41	35	40	45
Net Profit	36	29	33	37
Net Pft (Pre Ex.)	23	29	33	37
EPS (S cts)	7.0	5.5	6.4	7.2
EPS Pre Ex. (S cts)	4.5	5.5	6.4	7.2
EPS Gth Pre Ex (%)	29	22	15	13
Diluted EPS (S cts)	6.9	5.5	6.3	7.1
Net DPS (S cts)	2.5	2.5	3.0	3.5
BV Per Share (S cts)	39.0	42.0	45.9	50.2
PE (X)	9.5	11.9	10.3	9.1
PE Pre Ex. (X)	14.6	11.9	10.3	9.1
P/Cash Flow (X)	8.7	9.6	8.4	7.5
EV/EBITDA (X)	10.3	7.7	6.2	5.0
Net Div Yield (%)	3.8	3.8	4.5	5.3
P/Book Value (X)	1.7	1.6	1.4	1.3
Net Debt/Equity (X)	0.0	CASH	CASH	CASH
ROAE (%)	22.9	13.7	14.6	15.0

Consensus EPS (S cts): 5.7 6.0 6.6

ICB Industry : Health Care

ICB Sector: Health Care Equipment & Servic

Principal Business: Raffles Medical Group Ltd. is a Singapore-based company that is principally engaged in the provision of integrated healthcare services.

Steady is the way to go

While admissions are expected to slow in 2009, we still expect Raffles Med to return growth on both its Healthcare and Hospital divisions due to higher revenue intensity and outpatient services. We also expect operating margins to improve on management's tighter rein on costs. Its healthy balance sheet will see it through this period of uncertainty. It is trading at its historical low valuation of c. 10x. Maintain Buy.

Steady ship in 2009. While faced with a year of uncertainty in 2009, we believe Raffles Med will emerge relatively unscathed. We reiterate our Buy recommendation.

Slower admissions factored in. While admissions could slow in the face of economic uncertainty, we have already taken this into account in our earlier report on 31 Oct, when we trimmed FY09F earnings by 6.6%. We see improvement in its operating margins from FY08, as we believe management will keep a tighter rein on costs.

Healthy balance sheet and net cash position. As of 9M08, the Group is in a net cash position of more than S\$9m. Based on our estimates, this should increase to c.S\$16m by the end of 2008.

Reiterate Buy on low valuations. We still like Raffles Medical, given that it is trading at historical low PE (c. 10x) and has healthy cashflow and balance sheet. We have factored in assumptions of slower admissions growth but due to its operating leverage, we still expect a CAGR growth of c. 14% from FY08F – FY10F. Maintain Buy on valuation grounds (at historical low PE of 10x), no significant capex needs and its net cash position. TP remains at S\$0.76, 12x on FY09F earnings.

At A Glance

Issued Capital (m shrs)	518
Mkt. Cap (S\$m/US\$m)	342 / 228
Major Shareholders	
Raffles Medical (%)	39.9
Loo Choon Yong (%)	10.2
Free Float (%)	49.9
Avg. Daily Vol.('000)	484

Industry Focus

Raffles Medical

Income Statement (\$\$ m)

FY Dec	2007A	2008F	2009F	2010F
Turnover	169	202	224	249
Other Opng (Exp)/Inc	(140)	(167)	(183)	(204)
Operating Profit	28	35	40	45
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	1	0	0	0
Net Interest (Exp)/Inc	0	0	0	0
Exceptional Gain/(Loss)	13	0	0	0
Pre-tax Profit	41	35	40	45
Tax	(5)	(6)	(7)	(8)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
Net Profit	36	29	33	37
Net Profit before Except.	23	29	33	37
EBITDA	34	42	48	53
Sales Gth (%)	25.6	19.8	10.6	11.5
EBITDA Gth (%)	42.4	25.2	13.9	11.5
Opg Profit Gth (%)	46.9	25.2	14.7	12.0
Net Profit Gth (%)	128.2	(20.3)	15.4	12.9
Effective Tax Rate (%)	13.3	18.0	18.0	18.0

Cash Flow Statement (\$\$ m)

FY Dec	2007A	2008F	2009F	2010F
Pre-Tax Profit	41	35	40	45
Dep. & Amort.	4	7	7	8
Tax Paid	(4)	(7)	(6)	(7)
Assoc. & JV Inc/(loss)	(1)	0	0	0
Chg in Wkg.Cap.	13	5	3	4
Other Operating CF	(14)	0	0	0
Net Operating CF	40	40	44	50
Capital Exp.(net)	(68)	(5)	(5)	(5)
Other Invts.(net)	0	0	0	0
Invts in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	15	0	0	0
Net Investing CF	(53)	(5)	(5)	(5)
Div Paid	(18)	(13)	(13)	(15)
Chg in Gross Debt	0	0	(2)	(2)
Capital Issues	64	0	0	0
Other Financing CF	(55)	0	0	0
Net Financing CF	(9)	(13)	(15)	(17)
Net Cashflow	(22)	22	25	27

Quarterly / Interim Income Statement (\$\$ m)

FY Dec	4Q2007	1Q2008	2Q2008	3Q2008
Turnover	46	47	51	51
Other Oper. (Exp)/Inc	(37)	(39)	(41)	(41)
Operating Profit	9	8	10	10
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	9	8	10	10
Tax	1	(2)	(2)	(2)
Minority Interest	0	0	0	0
Net Profit	9	6	8	8
Net profit bef Except.	9	6	8	8
EBITDA	11	10	11	12
Sales Gth (%)	4.3	3.6	6.8	1.3
EBITDA Gth (%)	26.7	(9.9)	20.2	3.9
Opg Profit Gth (%)	32.7	(12.6)	23.4	4.0
Net Profit Gth (%)	42.8	(34.7)	26.4	6.8
Gross Margins (%)	100.0	100.0	100.0	100.0
Opg Profit Margins (%)	19.8	16.7	19.3	19.8
Net Profit Margins (%)	20.4	12.9	15.2	16.1

Balance Sheet (\$\$ m)

FY Dec	2007A	2008F	2009F	2010F
Net Fixed Assets	151	149	147	144
Invts in Associates & JVs	0	0	0	0
Other LT Assets	86	86	86	86
Cash & ST Invts	20	41	66	93
Inventory	4	5	5	6
Debtors	20	24	27	30
Other Current Assets	1	1	1	1
Total Assets	281	306	331	359
ST Debt	25	3	3	3
Other Current Liab	54	63	71	79
LT Debt	0	22	20	18
Other LT Liabilities	1	1	1	1
Shareholder's Equity	201	216	237	258
Minority Interests	0	0	0	0
Total Cap. & Liab.	281	306	331	359
Non-Cash Wkg. Capital	(30)	(34)	(38)	(42)
Net Cash/(Debt)	(6)	16	43	72

Rates & Ratio

FY Dec	2007A	2008F	2009F	2010F
Opg Profit Margin (%)	16.7	17.5	18.1	18.2
Net Profit Margin (%)	21.3	14.1	14.8	14.9
ROAE (%)	22.9	13.7	14.6	15.0
ROA (%)	16.6	9.7	10.3	10.8
ROCE (%)	14.3	12.3	13.2	13.7
Div Payout Ratio (%)	36.0	45.1	46.8	48.4
Net Interest Cover (x)	75.0	88.0	212.6	NM
Asset Turnover (x)	0.8	0.7	0.7	0.7
Debtors Turn (avg days)	40.0	40.2	41.7	41.5
Creditors Turn (avg days)	nm	nm	nm	nm
Inventory Turn (avg days)	(308.8)	(227.0)	(237.2)	(241.8)
Current Ratio (x)	0.6	1.1	1.3	1.6
Quick Ratio (x)	0.5	1.0	1.3	1.5
Net Debt/Equity (X)	0.0	CASH	CASH	CASH
Capex to Debt (%)	270.3	19.8	21.5	23.5
N. Cash/(Debt)PS (S cts)	(1.1)	3.1	8.3	14.0
Opg CFPS (S cts)	5.2	6.8	8.0	9.0
Free CFPS (S cts)	(5.5)	6.7	7.7	8.7

Segmental Breakdown

FY Dec	2007A	2008F	2009F	2010F
Revenues (\$\$ m)				
Healthcare services	70	80	86	94
Hospital services	106	131	147	166
Investment holdings	3	3	3	3
Less: Eliminations	(10)	(11)	(12)	(14)
Total	169	202	224	249
Operating profit (\$\$ m)				
Healthcare services	6	7	8	9
Hospital services	20	26	31	35
Investment holdings	2	2	2	2
Total	28	35	40	45
Operating profit Margins				
Healthcare services	9.1	9.1	9.1	9.1
Hospital services	18.6	19.9	20.8	20.9
Investment holdings	72.8	72.8	72.8	72.8
Total	16.7	17.5	18.1	18.2

Source: Company, DBS Vickers

DBSV recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (0-15% total return over the next 12 months for small caps, 0-10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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