

Singapore Company Focus

Raffles Medical

Bloomberg: RFMD SP | Reuters: RAFG.SI

DBS Group Research . Equity

17 Apr 2009

HOLD S\$0.87 STI : 1,891.75

Price Target : 12-month S\$ 0.91 (Prev S\$ 0.78)

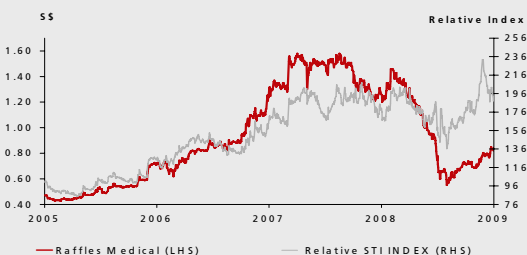
Reason for Report : 1Q09 Results

Potential Catalyst: Acquisitions, better than expected patients growth

Analyst

Andy Sim CFA +65 6398 7969
andysim@dbsvickers.com

Price Relative



Forecasts and Valuation

FY Dec (\$ m)	2007A	2008A	2009F	2010F
Turnover	169	201	207	229
EBITDA	34	46	49	52
Pre-tax Profit	41	38	41	44
Net Profit	36	32	34	36
Net Pft (Pre Ex.)	23	32	34	36
EPS (S cts)	7.0	6.1	6.6	7.0
EPS Pre Ex. (S cts)	4.5	6.1	6.6	7.0
EPS Gth Pre Ex (%)	29	34	9	5
Diluted EPS (S cts)	6.9	6.0	6.5	6.9
Net DPS (S cts)	2.5	2.5	2.5	3.0
BV Per Share (S cts)	39.0	42.9	47.0	51.5
PE (X)	12.4	14.2	13.1	12.4
PE Pre Ex. (X)	19.1	14.2	13.1	12.4
P/Cash Flow (X)	11.4	11.7	10.7	10.1
EV/EBITDA (X)	13.4	9.4	8.2	7.2
Net Div Yield (%)	2.9	2.9	2.9	3.5
P/Book Value (X)	2.2	2.0	1.8	1.7
Net Debt/Equity (X)	0.0	CASH	CASH	CASH
ROAE (%)	22.9	14.9	14.7	14.2

Earnings Rev (%): 0.1 0.1
Consensus EPS (S cts): 6.1 6.7

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.

A good start

1Q09 results were on a good start. Topline grew by 8%. Bottomline was up by a larger 28%, thanks to operating efficiencies and lower taxes. We raised our TP valuation peg to 14x (from 12x previously), in line with a normalization of the equity risk premium. TP raised to S\$0.91; Maintain Hold.

A good 1Q09. 1Q09 net profit grew by 28% to \$7.8m on the back of an 8% growth in topline to \$51m, from \$47.4m in 1Q08. The stronger growth in net profit vis-à-vis our expectations were a result of better operating efficiencies and lower taxes. Operating margins improved by 2.2ppt y-o-y to 18.9%.

Healthcare division posted stronger growth of 10%. Whilst both divisions (Healthcare and Hospital) posted positive growth, Healthcare grew by a stronger 10.8%. Hospital division grew by a lower 5.2%. The Group saw an 8% y-o-y growth in its foreign patients.

Slower topline growth, but as expected. We note that topline growth has slowed sequentially, which is not surprising given that the economy has slowed. Management has also indicated previously they are targeting for positive growth, albeit a slower one (~5%-10%). They believe that the business, being largely curative and non-elective in nature should be more resilient in the downturn.

Maintain Hold, TP is raised to \$0.91. Our forecasts are unchanged. We raised our TP higher to \$0.91 as we pegged our valuations to 14x FY09F PER to align with our house view for a 2H recovery in the broader economy and with the narrowing of equity risk premium. Maintain Hold. Our new TP is S\$0.91.

At A Glance

Issued Capital (m shrs)	518
Mkt. Cap (S\$m/US\$m)	448 / 299
Major Shareholders	
Raffles Medical (%)	39.9
Loo Choon Yong (%)	10.2
Free Float (%)	49.9
Avg. Daily Vol. ('000)	232

Results Summary and Comments

FY Dec (\$3m)	1Q08	1Q09	Y-o-y chg %	4Q08	Q-o-q chg %	Comments
Sales	47.4	51.0	8%	51.4	-1%	Topline growth in line with expectations. Growth from Hospital (+5.2%) and Healthcare (+10.8%) divisions
Other Operating Income	0.1	0.0	nm	3.1	nm	
<i>Inventories and consumables used</i>	(5.7)	(5.4)	-5%	(5.8)	-6%	
<i>Purchased and contracted services</i>	(3.3)	(3.8)	17%	na*	na*	Increase y-o-y largely due to insurance claims
<i>Staff costs</i>	(23.9)	(24.9)	4%	(24.6)	1%	Lower than topline due to operating efficiencies and Jobs Credit savings of about \$0.7m
<i>Depreciation of PPE</i>	(1.6)	(1.7)	11%	(1.8)	-1%	
<i>Operating lease expenses</i>	(1.1)	(1.2)	15%	(0.8)	49%	
<i>Other operating expenses</i>	(4.1)	(4.3)	4%	(10.7)*	na*	Lower growth largely due to lower utilities
Total operating expenses	(39.6)	(41.4)	5%	(43.7)	-5%	Lower than topline due to operating efficiencies
Operating profit	7.9	9.6	21%	10.8	-11%	Slightly higher than expectations due to lower operating expenses
Interest Income	0.1	0.1	-28%	0.1	-37%	
Interest Expense	(0.2)	(0.1)	-15%	(0.2)	-17%	
Pretax Profit	7.8	9.5	22%	10.8	-11%	
Tax	(1.7)	(1.7)	-2%	(1.2)	46%	Write-back on overprovision in prior periods
Minority Interests	(0.0)	(0.0)	250%	(0.1)	-57%	
Net Profit	6.1	7.8	28%	9.5	-18%	Slightly above expectations due to lower operating expenses and taxes

Margins (%)	1Q08	4Q08	1Q09	Chg ppt (1Q09 vs 1Q08)	Chg ppt (1Q09 vs 4Q08)	Comments
EBIT Margin	16.7	21.1	18.9	2.1	-2.2	Due to lower staff costs and operating expenses y-o-y. 4Q usually the strongest quarter. Hence we see a drop in qoq margins.
Pre-tax Margin	16.6	20.9	18.7	2.1	-2.2	
Net Margin	12.9	18.4	15.3	2.4	-3.2	Lower tax rate y-o-y
Depr % of sales	3.3	3.4	3.4	0.1	0.0	
Effective Tax Rate %	22	11	18	-4.2	7.0	

* Note: Purchased and contracted services provided only for FY08. Hence, 4Q08 figures are not available; amount is included under "Other operating expenses".

Source: Company, DBS Vickers

Results comments/ Key take-away from briefing

Strong 1Q09 results on lower expenses/taxes. 1Q09 net profit grew by 28% to \$7.8m on the back of an 8% growth in topline to \$51m, from \$47.4m in 1Q08. The stronger growth in net profit vis-à-vis our expectations were a result of better operating efficiencies and lower taxes. 1Q net profit now forms 24.7% of our full year estimates.

Lower operating expenses. Staff costs grew by a smaller 4% partly with Jobs Credit Scheme, which resulted in a savings of about \$0.7m. Other operating expenses also grew by a lower rate vis-à-vis topline largely due to lower

utilities. As a result, operating profits was up by 21% y-o-y to \$9.6m.

Foreign patients +8% y-o-y. Management shared that they have observed an 8% growth in foreign patients load y-o-y. Indonesian patients still account for about 20% of foreign patients load but the foreign patient base comes from over 100 countries. This is the diligent effort by management to diversify their foreign patients base, so as not to be overly reliant on any single one market. Local patients remain flat y-o-y.

Slower topline growth, but as expected. We note that topline growth has slowed sequentially over the past few quarters. This is not surprising given that the economy has slowed. Management has also indicated previously they are targeting for positive growth, albeit a slower one. They still hope to be able to achieve a topline growth of between 5% -10% in this period of uncertainty. They believe that the business, being largely curative and non-elective in nature, should be more resilient in the downturn.

Slowing topline growth but as expected

Division Revenue growth y-o-y	1Q08	2Q08	3Q08	4Q08	1Q09
Healthcare	16.9%	15.4%	16.9%	16.0%	10.8%
Hospital	30.5%	24.1%	17.1%	9.0%	5.2%
Total	25.8%	22.3%	17.0%	12.4%	7.6%

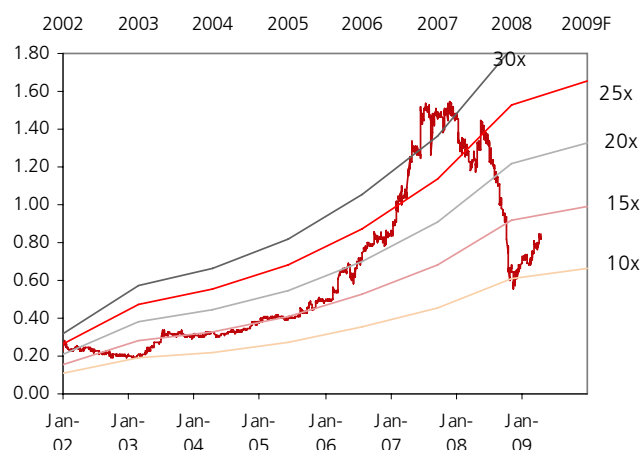
Source: Company, DBSVickers' estimates

Valuation

FY09F estimates unchanged. We are maintaining our full year estimates for FY09F. We are currently estimating a topline growth of 3% largely on lower hospital admissions. We are forecasting a net profit growth of 9% in FY09F on better operating efficiencies, and savings from the Singapore 2009 Budget measures.

Maintain Hold, TP is raised to \$0.91. We raised our TP higher as we pegged our valuations to 14x FY09F PER to align with our house view for a 2H recovery in the broader economy and with the re-rating of the market recently. Raffles Med has historically traded at between 10x to above 30x PE. We feel that our current PER multiple of 14x is justified at this point in time with the normalization of risk premium in the equities market.

Raffles Medical Historical Price/ PE trading band



Source: Bloomberg, DBSVickers

Peers' valuation table

Company	Curr	Last Px	Mkt cap (US\$)	Hist. PE (x)	PE Curr Yr (x)	PE Nxt Yr (x)	P/B (x)	P/S (x)	Sales (US\$)	Opg Income (US\$)
Raffles Medical Group Ltd	SGD	0.85	292	13.4	14.1	12.8	1.9	2.2	89.4	25.8
Parkway Holdings Ltd	SGD	1.23	928	28.7	14.5	12.7	1.0	1.3	630.7	58.0
Thomson Medical Centre Ltd	SGD	0.44	86	11.5	10.0	8.8	1.2	2.1	40.2	7.9
Pacific Healthcare Holdings Ltd	SGD	0.09	17	na	na	na	0.6	0.3	54.2	(1.4)
Health Management International Ltd	SGD	0.10	32	na	na	na	1.6	1.1	29.7	3.6
Healthway Medical Corp Ltd	SGD	0.09	77	5.7	na	na	0.8	0.7	54.0	8.3
Primary Health Care Ltd	AUD	4.44	1,208	na	16.0	9.7	0.9	1.0	468.4	77.2
Ramsay Health Care Ltd	AUD	9.40	1,188	18.7	13.3	11.8	2.6	0.5	1,882.2	167.6
Healthscope Ltd	AUD	3.83	710	10.6	11.5	10.1	1.1	0.6	1,060.4	109.9
Bangkok Dusit Medical Service Pcl	THB	17.00	583	na	12.5	10.9	1.7	na	603.3	72.6
Bumrungrad Hospital PCL	THB	18.40	379	11.7	13.0	12.0	2.9	1.6	243.9	41.0
Bangkok Chain Hospital PCL	THB	7.25	195	11.5	10.5	9.9	2.7	1.6	119.3	27.6
				15.2	12.8	11.2				

Source: Bloomberg, DBSVickers

Raffles Medical

Income Statement (\$\$ m)

FY Dec	2007A	2008A	2009F	2010F
Turnover	169	201	207	229
Other Opng (Exp)/Inc	(140)	(162)	(165)	(185)
Operating Profit	28	39	42	44
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	1	0	0	0
Net Interest (Exp)/Inc	0	(1)	0	0
Exceptional Gain/(Loss)	13	0	0	0
Pre-tax Profit	41	38	41	44
Tax	(5)	(7)	(7)	(7)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
Net Profit	36	32	34	36
NET Profit before Except.	23	32	34	36
EBITDA	34	46	49	52
Sales Gth (%)	25.6	19.0	3.2	10.3
EBITDA Gth (%)	42.4	36.0	7.8	5.3
Opg Profit Gth (%)	46.9	38.1	7.1	4.7
Net Profit Gth (%)	128.2	(12.0)	8.7	5.5
Effective Tax Rate (%)	13.3	17.4	17.0	17.0

Cash Flow Statement (\$\$ m)

FY Dec	2007A	2008A	2009F	2010F
Pre-Tax Profit	41	38	41	44
Dep. & Amort.	4	7	7	8
Tax Paid	(4)	(4)	(9)	(7)
Assoc. & JV Inc/(loss)	(1)	0	0	0
Chg in Wkg.Cap.	13	(2)	6	3
Other Operating CF	(14)	1	0	0
Net Operating CF	40	40	46	48
Capital Exp.(net)	(68)	(6)	(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	1	0	0
Net Investing CF	(53)	(5)	(5)	(5)
Div Paid	(18)	(13)	(13)	(13)
Chg in Gross Debt	0	1	(2)	(2)
Capital Issues	64	1	0	0
Other Financing CF	(55)	0	0	0
Net Financing CF	(9)	(10)	(15)	(15)
Net Cashflow	(22)	25	26	28

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

FY Dec	2Q2008	3Q2008	4Q2008	1Q2009
Turnover	51	51	51	51
Other Oper. (Exp)/Inc	(41)	(41)	(41)	(41)
Operating Profit	10	10	11	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	10	10	11	10
Tax	(2)	(2)	(1)	(2)
Minority Interest	0	0	0	0
Net Profit	8	8	9	8
Net profit bef Except.	8	8	9	8
EBITDA	11	12	13	11
Sales Gth (%)	6.8	1.3	0.2	(0.8)
EBITDA Gth (%)	20.2	3.9	5.9	(9.6)
Opg Profit Gth (%)	23.4	4.0	6.4	(11.2)
Net Profit Gth (%)	26.4	6.8	15.1	(17.9)
Gross Margins (%)	100.0	100.0	100.0	100.0
Opg Profit Margins (%)	19.3	19.8	21.1	18.9
Net Profit Margins (%)	15.2	16.1	18.4	15.3

Balance Sheet (\$\$ m)

FY Dec	2007A	2008A	2009F	2010F
Net Fixed Assets	151	150	148	145
Invts in Associates & JVs	0	0	0	0
Other LT Assets	86	86	86	86
Cash & ST Invts	20	45	70	98
Inventory	4	5	5	6
Debtors	20	25	26	29
Other Current Assets	1	0	0	0
Total Assets	281	310	335	363
ST Debt	25	5	5	5
Other Current Liab	54	61	66	73
LT Debt	0	22	20	18
Other LT Liabilities	1	1	1	1
Shareholder's Equity	201	222	243	267
Minority Interests	0	0	0	1
Total Cap. & Liab.	281	310	335	363
Non-Cash Wkg. Capital	(30)	(31)	(35)	(38)
Net Cash/(Debt)	(6)	18	46	76

Rates & Ratio

FY Dec	2007A	2008A	2009F	2010F
Gross Margins (%)	100.0	100.0	100.0	100.0
Opg Profit Margin (%)	16.7	19.4	20.1	19.1
Net Profit Margin (%)	21.3	15.7	16.6	15.8
ROAE (%)	22.9	14.9	14.7	14.2
ROA (%)	16.6	10.7	10.6	10.4
ROCE (%)	14.3	13.5	13.4	13.0
Div Payout Ratio (%)	36.0	41.0	37.7	42.9
Net Interest Cover (x)	75.0	62.6	153.4	NM
Asset Turnover (x)	0.8	0.7	0.6	0.7
Debtors Turn (avg days)	40.0	41.0	44.7	43.5
Creditors Turn (avg days)	nm	nm	nm	nm
Inventory Turn (avg days)	(308.8)	(234.0)	(242.2)	(244.1)
Current Ratio (x)	0.6	1.1	1.4	1.7
Quick Ratio (x)	0.5	1.1	1.4	1.6
Net Debt/Equity (X)	0.0	CASH	CASH	CASH
Capex to Debt (%)	270.3	23.1	20.3	22.1
Z-Score (X)	5.8	4.2	4.2	4.2
N. Cash/(Debt)PS (S cts)	(1.1)	3.5	8.9	14.6
Opg CFPS (S cts)	5.2	8.1	7.7	8.7
Free CFPS (S cts)	(5.5)	6.6	7.9	8.3

Segmental Breakdown

FY Dec	2007A	2008A	2009F	2010F
Revenues (\$\$ m)				
Healthcare services	70	81	86	94
Hospital services	106	128	131	146
Investment holdings	3	8	8	8
Less: Eliminations	(10)	(16)	(18)	(19)
Total	169	201	207	229
Operating profit (\$\$ m)				
Healthcare services	6	7	8	9
Hospital services	20	28	31	32
Investment holdings	2	3	3	3
Total	28	39	42	44
Operating profit Margins				
Healthcare services	9.1	9.2	9.1	9.1
Hospital services	18.6	22.0	23.4	21.8
Investment holdings	72.8	42.6	42.6	42.6
Total	16.7	19.4	20.1	19.1

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

DBS Vickers Research is available on the following electronic platforms: DBS Vickers (www.dbsvresearch.com); Thomson (www.thomson.com/financial); Factset (www.factset.com); Reuters (www.rbr.reuters.com); Capital IQ (www.capitaliq.com) and Bloomberg (DBSR GO). For access, please contact your DBSV salesperson.

GENERAL DISCLOSURE/DISCLAIMER

This document is published by DBS Vickers Research (Singapore) Pte Ltd ("DBSVR"), a direct wholly-owned subsidiary of DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS") and an indirect wholly-owned subsidiary of DBS Vickers Securities Holdings Pte Ltd ("DBSVH"). [This report is intended for clients of DBSV Group only and no part of this document may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of DBSVR.]

The research is based on information obtained from sources believed to be reliable, but we do not make any representation or warranty as to its accuracy, completeness or correctness. Opinions expressed are subject to change without notice. This document is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. DBSVR accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. DBSVH is a wholly-owned subsidiary of DBS Bank Ltd. DBS Bank Ltd along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. DBSVR, DBSVS, DBS Bank Ltd and their associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

ANALYST CERTIFICATION

The research analyst primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst also certifies that no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report. As of 17 Apr 2009, the analyst and his / her spouse and/or relatives who are financially dependent on the analyst, do not hold interests in the securities recommended in this report ("interest" includes direct or indirect ownership of securities, directorships and trustee positions).

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

1. DBS Vickers Securities (Singapore) Pte Ltd and its subsidiaries do not have a proprietary position in the mentioned company as of 15 Apr 2009
2. DBSVR, DBSVS, DBS Bank Ltd and/or other affiliates of DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, beneficially own a total of 1% or more of any class of common equity securities of the Healthway medical Corp Ltd as of 17 Apr 2009.
3. Compensation for investment banking services:
 - i. DBSVR, DBSVS, DBS Bank Ltd and/or other affiliates of DBSVUSA may have received compensation, within the past 12 months, and within the next 3 months receive or intends to seek compensation for investment banking services from the mentioned company.
 - ii. DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

RESTRICTIONS ON DISTRIBUTION

General	This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.
Australia	This report is being distributed in Australia by DBSVR and DBSVS, which are exempted from the requirement to hold an Australian financial services licence under the Corporation Act 2001 ["CA] in respect of financial services provided to the recipients. DBSVR and DBSVS are regulated by the Monetary Authority of Singapore ["MAS"] under the laws of Singapore, which differ from Australian laws. Distribution of this report is intended only for "wholesale investors" within the meaning of the CA.
Hong Kong	This report is being distributed in Hong Kong by DBS Vickers (Hong Kong) Limited which is licensed and regulated by the Hong Kong Securities and Futures Commission.
Singapore	This report is being distributed in Singapore by DBSVR, which holds a Financial Adviser's licence and is regulated by the MAS. This report may additionally be distributed in Singapore by DBSVS (Company Regn. No. 198600294G), which is an Exempt Financial Adviser as defined under the Financial Advisers Act. Any research report produced by a foreign DBS Vickers entity, analyst or affiliate is distributed in Singapore only to "Institutional Investors", "Expert Investors" or "Accredited Investors" as defined in the Securities and Futures Act, Chap. 289 of Singapore. Any distribution of research reports published by a foreign-related corporation of DBSVR/DBSVS to "Accredited Investors" is provided pursuant to the approval by MAS of research distribution arrangements under Paragraph 11 of the First Schedule to the FAA.
United Kingdom	This report is being distributed in the UK by DBS Vickers Securities (UK) Ltd, who is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Services Authority. Research distributed in the UK is intended only for institutional clients.
Dubai/ United Arab Emirates	This report is being distributed in Dubai/United Arab Emirates by DBS Bank Ltd, Dubai (PO Box 506538, 3 rd Floor, Building 3, Gate Precinct, DIFC, Dubai, United Arab Emirates) and is intended only for clients who meet the DFSA regulatory criteria to be a Professional Client. It should not be relied upon by or distributed to Retail Clients. DBS Bank Ltd, Dubai is regulated by the Dubai Financial Services Authority.
United States	Neither this report nor any copy hereof may be taken or distributed into the United States or to any U.S. person except in compliance with any applicable U.S. laws and regulations.
Other jurisdictions	In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

DBS Vickers Research (Singapore) Pte Ltd – 8 Cross Street, #02-01 PWC Building, Singapore 048424
Tel. 65-6533 9688, Fax: 65-6226 8048
Company Regn. No. 198600295W