DMG & Partners SECURITIES

3Q08 Results Review

Private Circulation Only

HEALTHCARE

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RAFFLES MEDICAL GROUP

BUY	**Maintain**
Price	**S$0.66**
Target	**S$0.77**

Strong operating cash flows

Stock Profile/Statistics

Bloomberg Ticker	RFMD SP
STI	1,671.20
Issued Share Capital (m)	517.557
Market Cap (S$m)	341.59
52 week H L Price (S$)	1.58 | 0.60
Average Volume (3m) '000	244
YTD Returns (%)	(56.29%)
Net gearing (x)	Net cash
Altman Z-score	5.82
Beta	0.70
ROCE/WACC	1.02
Book Value/share (S¢)	40.99

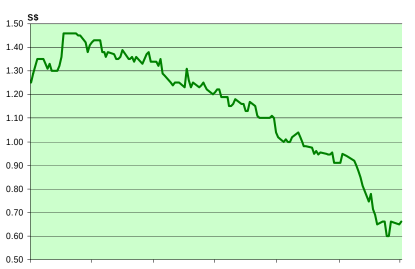
Major Shareholders

Raffles Medical Holdings Pte	39.94%
Loo Choon Yong	9.95%

Share Performance (%)

Month	Absolute	Relative
1m	(27.5%)	1.8%
3m	(45.5%)	(3.4%)
6m	(47.2%)	0.1%
12m	(56.9%)	(1.0%)

6-month Share Price



3Q08 net profit grew 25.0% YoY. RMG achieved a net profit of S$8.2m for 3Q08, on the back of a 17.0% YoY growth in revenue to S$51.3m. Both its Healthcare Services and Hospital Services recorded improved revenue during the quarter (up 17.1% and 16.9% YoY respectively), a result of higher patient volume. For the 9M08, net profit was S$22.0m, 16.7% lower than 9M07. Included in 9M07 was a one-off gain in fair value of an investment property and its associated deferred tax charge. Excluding this event, 9M08 net profit would have risen 36.1%.

S$m	3QFY08	3QFY07	% chg	9MFY08	9MFY07	% chg
Revenue	51.3	43.8	17.0	149.3	122.9	21.5
Staff costs	(25.1)	(21.5)	16.8	(73.7)	(61.5)	19.9
Operating expenses	(16.1)	(15.6)	2.7	(48.1)	(44.2)	8.8
Operating profit	10.2	7.6	35.0	28.1	19.1	47.2
PBT	10.1	8.1	24.2	27.6	32.6	(15.4)
Net profit	8.2	6.6	25.0	22.1	26.4	(16.7)

Patient load remains healthy. During the quarter, RMG recorded higher local and foreign patient load. Coupled with improved operating efficiencies, its operating profit jumped 35.0% YoY to S$10.2m. For the first time, the Group achieved operating profit exceeding S$10.0m in a quarter.

Cash flows also strong. RMG generated healthy cash flows of S$15.8m during the quarter. Its strong operating cash flows and net cash position (S$9.0m or 1.7 S¢ per share) will allow RMG to face the challenging operating environment, going forward, brought on by the global economic slowdown.

Remains optimistic. In FY08, RMG would benefit from the full-year impact of full-ownership of the Raffles Hospital building, which would allow RMG to optimize the use of its hospital and clinic space to boost revenue and grow earnings. Patient loads are expected to continue to increase, even though the economic outlook is less rosy. Contribution from its insurance business (International Medical Insurers, which was started in 2005, to offer health insurance products) is also expected in FY08. IMI's tie-up with BUPA International Health is progressing well.

We are lowering our target price to S$0.77 from S$1.47, based on lower PE valuation. We have a target price of S$0.77, based on 12x blended FY08/09 earnings. We are estimating earnings of S$30.6m for FY08 and S$40.4m FY09.

FYE Dec (S$m)	FY05	FY06	FY07*	FY08F	FY09F
Turnover	112.9	134.2	168.7	213.8	265.5
Net Profit	12.1	15.7	35.9	30.6	40.4
% chg YoY	-2.6%	29.7%	128.2%	-14.8%	32.3%
EPS (S¢)	3.0	3.5	7.4	5.6	7.1
DPS (S¢)	3.0	4.0	2.5	2.0	2.5
Div Yield	4.5%	6.1%	3.8%	3.0%	3.8%
ROE	11.7%	14.3%	22.9%	13.9%	15.5%
ROA	11.1%	13.8%	19.1%	12.0%	13.8%
P/E (x)	21.9	18.8	9.0	11.7	9.3
P/B (x)	2.5	2.4	1.7	1.5	1.3

** Includes S$12.5m relating to changes in fair value of the investment property, recorded under Share of Associates*
Source: Company and DMG estimates

FINANCIAL TABLES

Figure 1: Profit and loss statement

Year end 31 Dec (S$m)	2005	2006	2007*	2008F	2009F
Revenue	112.9	134.2	168.7	213.8	265.5
Other Operating Income	0.9	1.9	2.1	2.6	2.9
Inventories and Consumables Used	(13.7)	(16.6)	(19.4)	(23.7)	(29.2)
Staff Costs	(61.5)	(69.3)	(85.9)	(106.9)	(132.7)
Depreciation	(3.1)	(3.4)	(4.2)	(7.7)	(7.5)
Other Operating Expenses	(22.1)	(27.7)	(33.0)	(41.7)	(51.1)
Operating Income	13.5	19.2	28.2	36.3	47.9
Finance Costs	(0.1)	(0.1)	(0.4)	(0.3)	(0.3)
Share of associates	1.4	0.9	13.6	-	-
Profit Before Taxes	14.8	20.0	41.4	36.0	47.6
Income Tax Expense	(2.8)	(4.3)	(5.5)	(5.4)	(7.1)
Minority Interest	0.1	(0.1)	(0.1)	(0.1)	(0.1)
Net Income	12.1	15.7	35.9	30.6	40.4
Basic EPS (cents)	3.01	3.50	7.36	5.65	7.12
Diluted EPS (cents)	2.96	3.44	7.23	5.59	7.01
PE (x)	21.9	18.8	9.0	11.7	9.3
Revenue by segments					
Healthcare services	52.6	60.7	69.7	80.1	91.7
Hospital services	60.2	73.5	99.0	133.6	173.7
Investment holdings	0.1	0.1	0.0	0.0	0.0
	112.9	134.2	168.7	213.8	265.5
Revenue growth by segments					
Healthcare services	-4.2%	15.3%	14.8%	15.0%	14.5%
Hospital services	29.5%	22.1%	34.6%	35.0%	30.0%
Investment holdings	1.3%	-32.1%	-75.5%	20.0%	20.0%
Growth					
Revenue	11.3%	18.9%	25.6%	26.7%	24.2%
Operating Income	19.2%	42.3%	46.9%	28.8%	31.8%
PBT	18.9%	35.5%	106.7%	-13.0%	32.3%
Net Income	-2.6%	29.7%	128.2%	-14.8%	32.3%
Margins					
Operating margin	12.0%	14.3%	16.7%	17.0%	18.0%
PBT margin	13.1%	14.9%	24.6%	16.9%	17.9%
Net profit margin	10.7%	11.7%	21.3%	14.3%	15.2%

** Includes S$12.5m relating to changes in fair value of the investment property, recorded under Share of Associates*
Source: Company and DMG estimates

Figure 2: Balance sheet

Year end 31 Dec (S$m)	2005	2006	2007	2008F	2009F
Property Plant & Equipment	21.4	20.2	150.8	146.1	141.6
Intangible Assets Excluding Goodwill	0.3	0.3	0.5	0.5	0.5
Investments in Joint Controlled Entities	53.0	54.0	-	-	-
Other Non-current Assets	0.1	-	-	-	-
Investment Properties	-	-	84.4	84.4	84.4
Deferred Tax Assets	0.8	1.0	1.3	1.1	1.5
Non-Current Assets	75.6	75.5	237.0	232.0	228.0
Investment in Commercial Notes	13.0	14.3	-	-	-
Investment in equity securities held for trading	-	-	0.7	0.7	0.8
Inventories	2.9	3.4	3.8	4.8	5.8
Trade and Other Receivables	12.3	16.8	20.2	25.3	31.6
Cash and Cash Equivalents	35.1	41.9	19.7	57.5	102.7
Current Assets	63.3	76.4	44.5	88.3	140.9
Total Assets	138.9	151.8	281.5	320.4	368.9
Share Capital	40.0	101.1	170.0	188.2	207.3
Reserves	67.5	11.8	30.8	50.6	76.9
	107.5	112.9	200.8	238.8	284.2
Minority Interest	0.2	0.3	0.2	0.2	0.3
Total Shareholders Equity	107.7	113.1	201.0	239.1	284.4
Deferred Tax Liabilities	0.7	0.7	0.7	0.7	0.7
Non-Current Liabilities	0.7	0.7	0.7	0.7	0.7
Bank Overdrafts	-	-	-	-	-
Deferred Expenses	-	-	-	-	-
Accrued Compensation/Post-retirement Obligation	-	-	-	-	-
Trade and Other Payables	24.4	30.0	47.7	54.9	63.1
Short-Term Borrowings	2.3	2.0	25.3	20.2	15.2
Income Taxes Accrued/Payable	3.8	5.9	6.7	5.5	5.4
Current Liabilities	30.5	37.9	79.7	80.6	83.7
Total Liabilities	31.2	38.7	80.4	81.3	84.4
Total Equity and Liabilities	138.9	151.8	281.5	320.4	368.9
NBV per share (S cents)	26.9	27.4	39.0	44.2	50.1
Price/BV	2.5	2.4	1.7	1.5	1.3
Inventories turnover (days)	73.3	70.1	68.1	65.8	66.0
Receivables turnover (days)	37.6	39.5	40.0	38.9	39.1
Gross borrowings	2.3	2.0	25.3	20.2	15.2
Net borrowings	(32.8)	(40.0)	5.5	(37.3)	(87.6)
Gross gearing (x)	0.02	0.02	0.13	0.08	0.05
Net gearing (x)	Net cash	Net cash	0.03	Net cash	Net cash
ROE	11.7%	14.3%	22.9%	13.9%	15.5%
ROA	11.1%	13.8%	19.1%	12.0%	13.8%

Source: Company and DMG estimates

Figure 3: Cash flow statement

Year end 31 Dec (S$m)	2005	2006	2007	2008F	2009F
Profit Before Taxation	14.8	20.0	41.4	36.0	47.6
Adjustments:-					
Amortization	0.1	0.1	0.1	0.1	0.1
Depreciation	3.1	3.4	4.2	7.7	7.5
Equity-settled share-based transaction	-	0.6	0.9	-	-
Foreign Exchange Gains/Losses	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)
Finance Costs	0.1	0.1	0.4	0.3	0.3
Gain (Loss) on Disposal of Equities	-	-	(0.1)	-	-
Interest Income	(0.8)	(1.7)	(1.8)	(3.5)	(5.1)
Change in Fair Value of Equity Securities	0.5	-	(0.0)	-	-
Share of Associates	(1.4)	(0.9)	(13.6)	-	-
Cashflow from Operations Before Working Capital Changes	16.2	21.4	31.3	40.5	50.1
Inventories	(0.4)	(0.5)	(0.4)	(1.0)	(1.0)
Trade & Other Receivables	(1.2)	(4.5)	(3.6)	(5.1)	(6.3)
Trade Payables & Other Payables	2.4	5.7	17.3	7.2	8.3
Income Tax Paid	(1.4)	(2.3)	(4.2)	(5.5)	(5.4)
Interest Paid	(0.1)	(0.1)	(0.4)	(0.3)	(0.3)
Cashflow from Operating Activities	15.6	19.6	40.1	35.9	45.4
Acquisition of Subsidiary	-	-	(64.0)	-	-
Acquisition of Equity Securities	-	-	(1.9)	(2.0)	(2.1)
Investment in Commercial Notes	(3.5)	(54.5)	(32.8)	(29.5)	(26.5)
Interest Received	-	1.6	2.0	3.5	5.1
Purchase of Club Memberships and Intangibles	-	-	(0.2)	-	-
Proceeds from Sale of Commercial Notes	-	53.3	47.0	42.3	38.1
Proceeds from Equity Securities	-	-	1.4	1.5	1.5
Purchase of Fixed Assets	(5.8)	(2.3)	(4.3)	(3.0)	(3.0)
Proceeds from Sale of Fixed Assets	0.6	0.0	-	-	-
Cashflows from Investing Activities	(7.9)	(1.9)	(52.8)	12.7	13.1
Dividends Paid	(8.0)	(15.5)	(17.8)	(10.7)	(14.1)
Proceeds from Issue of Shares Under Share Option	3.0	4.8	69.0	5.0	6.0
Proceeds from/(Repayment of) Bank Loan	0.0	-	(60.3)	(5.1)	(5.1)
Repayment of Loan to Minority	-	-	(0.1)	-	-
Cashflows from Financing Activities	(5.0)	(10.7)	(9.2)	(10.7)	(13.2)
Net Change in Cash and Cash Equivalents	2.7	7.1	(22.0)	37.9	45.3
Cash and Cash Equivalents at Beginning	32.0	34.8	41.8	19.7	57.5
Effect of Exchange Rates Changes	0.0	(0.1)	(0.1)	(0.1)	(0.1)
Cash and Cash Equivalents at End	34.8	41.8	19.7	57.5	102.7
Represented by:-					
Cash and Cash Equivalents	34.8	41.8	19.7	57.5	102.7
Bank Overdrafts (Unsecured)	0.4	0.2	-	-	-
	35.1	41.9	19.7	57.5	102.7

Source: Company and DMG estimates

DMG & Partners Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months
Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral: Share price may fall within the range of +/- 10% over the next 12 months
Take Profit: Target price has been attained. Look to accumulate at lower levels
Sell: Share price may fall by more than 10% over the next 12 months
Not Rated: Stock is not within regular research coverage

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