


HEALTHCARE

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2Q08 Results Review

Private Circulation Only

RAFFLES MEDICAL GROUP

BUY **Maintained**
Price **S\$1.22**
Target **S\$1.47**

Growing patient volume boosts revenue
Stock Profile/Statistics

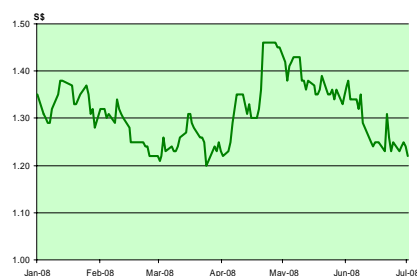
Bloomberg Ticker	RFMD SP
STI	2,922.91
Issued Share Capital (m)	517.405
Market Cap (S\$m)	646.76
52 week H L Price (S\$)	1.61 1.20
Average Volume (3m) '000	237
YTD Returns (%)	-17.22%
Net gearing (x)	Net cash
Altman Z-score	5.73
Beta	0.73
ROCE/WACC	1.10
Book Value/share (S¢)	40.32

Major Shareholders

Raffles Medical Holdings Pte	39.95%
Loo Choon Yong	9.78%

Share Performance (%)

Month	Absolute	Relative
1m	-10.95	-8.82
3m	0.00	8.35
6m	-9.63	-2.14
12m	-21.29	-3.13

6-month Share Price


Higher operating profit in 2Q08. RMG recorded a 22.3% YoY growth in 2Q08 revenue to S\$50.6m, as all divisions achieved higher revenue. The improved revenue was attributed to the addition of specialist consultants as well as higher patient volume. Coupled with improved operating efficiencies, 2Q08 operating profit jumped 51.1% YoY to S\$9.8m. As a result, operating profit margin improved from 15.7% in 2Q07 to 19.4% in 2Q08.

Underlying net profit improved. RMG achieved a net profit of S\$7.7m in 2Q08. This was 51.0% YoY lower than that recorded in 2Q07. Included in 2Q07 earnings was a gain in investment property and its associated deferred tax charge, which amounted to S\$10.2m. Excluding these one-off items, 2Q08 net profit would have improved by 40.2% YoY. To reward shareholders, management announced an interim dividend of 1.0 S¢ per share for 1H08.

Demand for its healthcare services expected to be sustained, despite the challenging economic environment today. This would be supported by the growth in its local and foreign patient loads. At the same time, RMG is continually evaluating opportunities for growth. Apart from opening new clinics across the island, management is looking at the possibility of offering other medical services, e.g. dental, at its existing 65 clinics. This would allow RMG to grow its revenue.

We maintain BUY. In FY08, RMG would also benefit from the full-year impact of full-ownership of the Raffles Hospital building. Full-ownership allows RMG to optimize the use of hospital and clinic space to boost revenue and grow earnings. As RMG continues to expand its services and extend its reach to more corporate clients and private patients, we believe it would be able to grow its underlying earnings. RMG's insurance business (International Medical Insurers, which was started in 2005, to offer health insurance products) is expected to breakeven and start contributing in FY08. We have a target price of S\$1.47, based on 23x blended FY08/09 earnings.

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	2.2%	2.9%	1.8%	1.4%	1.8%
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)	45.9	39.4	18.8	24.4	19.4
P/B (x)	5.1	5.0	3.5	3.1	2.8

* 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 (\$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)	3.0	3.5	7.4	5.6	7.1
Diluted EPS (cents)	3.0	3.4	7.2	5.6	7.0
PE (x)	45.8	39.4	18.7	24.4	19.4
Dividend (cents)	3.0	4.0	2.5	2.0	2.5
Dividend yield	2.2%	2.9%	1.8%	0.0	0.0
<u>Revenue by segments</u>					
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
<u>Revenue growth by segments</u>					
Healthcare services		15.3%	14.8%	15.0%	14.5%
Hospital services		22.1%	34.6%	35.0%	30.0%
Investment holdings		-32.1%	-75.5%	20.0%	20.0%
<u>Growth</u>					
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%
<u>Margins</u>					
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

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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