Deutsche Bank

17 April 2009

Raffles Medical Group

Reuters: **RAFG.SI** Bloomberg: **RFMD SP** Exchange: **SES** Ticker: **RAFG**

1Q09 saw positive growth in foreign patient volumes

James Tan
Research Analyst
(+65) 6423 5139
james-s.tan@db.com

Stock trades at a slight premium to its peers; maintain Hold

YTD private hospital admissions declined 1.8% YoY. The decline in admissions reflects a slowdown in private healthcare and a migration toward public healthcare. RMG's patient base has shown resilience in 1Q09 with growth in its foreign patient base. However, continued economic slowdown could put pressure on the private healthcare sector. The stock has a yield of 2.8% and trades at a PE of 14.6x FY09E, a slight premium to its regional peers which trade at 13.2x. Hold.

1Q09 earnings rose 28% YoY; above expectations and consensus

1Q09 results showed that growth came from an increase in volumes at its healthcare (+11% YoY) and hospital divisions (+5% YoY). Outperformance came from the increase in the number of foreign patients, which rose 8% YoY, and recent key measures in the government budget through savings from Job Credit.

Raise our earnings estimates due to higher patient volumes and margins

Management continues to see an increase in foreign patients helped by a diverse mix of foreign patients and higher operating margins due to increased operating leverage, savings from Job Credit and improved bulk purchasing. We raise our earnings estimates by 6-9% in FY09-11E to factor in higher patient volumes (from a 5.5% decline to flat) and margin assumptions.

DCF-based TP of S$0.68 implies a PE of 11.4x FY09E; risks

Based on our revised earnings forecasts, we have raised our TP to S$0.68 from S$0.62 based on our DCF valuation using a discount rate of 9.0% with a terminal growth rate of 1.0%. Upside risks are greater operating leverage, an accretive acquisition, and a rebound of regional economies. Downside risks are higher operating costs and a drop in the number of foreign patients. (See p. 4 for details.)

Forecasts and ratios

Year End Dec 31	2007A	2008A	**2009E**	2010E	2011E
Sales (SGDm)	168.7	200.7	**211.4**	236.5	261.6
EBITDA (SGDm)	30.6	45.3	**45.1**	50.3	56.9
Reported NPAT (SGDm)	35.9	31.5	**31.1**	34.9	39.9
Reported EPS FD(SGD)	0.07	0.06	**0.06**	0.07	0.08
DB EPS FD(SGD)	0.04	0.06	**0.06**	0.07	0.08
OLD DB EPS FD(SGD)	0.04	0.06	**0.05**	0.06	0.07
% Change	0.0%	0.0%	**9.3%**	6.4%	6.0%
DB EPS growth (%)	–	38.8	**-1.1**	12.3	14.3
PER (x)	31.1	18.5	**14.6**	13.0	11.4
EV/EBITDA (x)	20.1	10.6	**7.6**	6.4	5.3
DPS (net) (SGD)	0.03	0.02	**0.02**	0.03	0.03
Yield (net) (%)	2.6	2.2	**2.8**	3.2	3.6

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items
[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Forecast Change

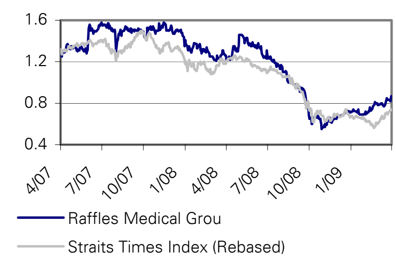
Hold

Price at 16 Apr 2009 (SGD)	**0.86**
Price target - 12mth (SGD)	**0.68**
52-week range (SGD)	**1.46 - 0.55**
Straits Times Index	**1,906**

Key changes

Price target	0.62 to 0.68 ↑	**9.7%**
Sales (FYE)	207 to 211 ↑	**2.4%**
Op prof margin (FYE)	16.9 to 18.0 ↑	**6.7%**
Net profit (FYE)	28.5 to 31.1 ↑	**9.3%**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*8.8*	*21.8*	*-30.8*
Straits Times Index	*20.2*	*10.1*	*-38.3*

Stock data

Market cap (SGDm)	**453**
Market cap (USDm)	**302**
Shares outstanding (m)	**524.1**
Major shareholders	**Dr Loo Choon Yong (40%)**
Free float (%)	**50**
Avg daily value traded (USDm)	**0.1**

Key indicators (FY1)

ROE (%)	**13.5**
Net debt/equity (%)	**-11.5**
Book value/share (SGD)	**0.46**
Price/book (x)	**1.9**
Net interest cover (x)	**86.3**
Operating profit margin (%)	**18.0**

Model updated:16 April 2009

Running the numbers

Asia

ASEAN Singapore

Health Care

Raffles Medical Group

Reuters: RAFG.SI Bloomberg: RFMD SP

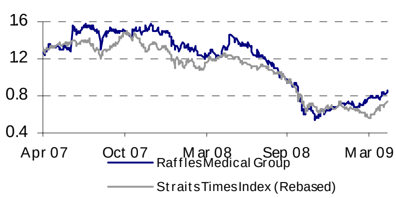
Hold

Price (16 Apr 09)	SGD 0.87
Target price	SGD 0.68
52-week Range	SGD 0.55 - 1.46
Market Cap (m)	SGDm 453 USDm 302

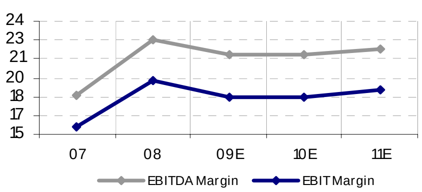
Company Profile

Raffles Medical Group is an integrated healthcare organization in Singapore. It has a 380-bed tertiary hospital in Singapore, providing its patients with a full complement of specialist and emergency services combined with advanced medical technology.

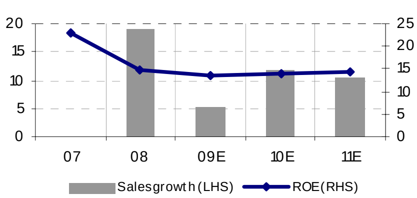
Price Performance



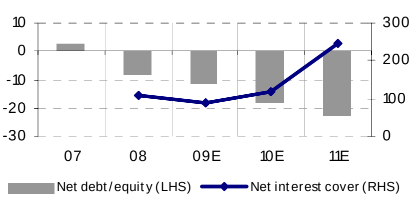
Margin Trends



Growth & Profitability



Solvency



James Tan
+65 6423 5139 james-s.tan@db.com

Fiscal year end 31-Dec	2007	2008	2009E	2010E	2011E
Financial Summary					
DB EPS (SGD)	0.04	0.06	0.06	0.07	0.08
Reported EPS (SGD)	0.07	0.06	0.06	0.07	0.08
DPS (SGD)	0.03	0.02	0.02	0.03	0.03
BVPS (SGD)	0.4	0.4	0.5	0.5	0.5
Weighted average shares (m)	515	524	524	524	524
Average market cap (SGDm)	693	583	453	453	453
Enterprise value (SGDm)	614	481	341	321	303
Valuation Metrics					
P/E (DB) (x)	31.1	18.5	14.6	13.0	11.4
P/E (Reported) (x)	19.3	18.5	14.6	13.0	11.4
P/BV (x)	3.87	1.63	1.89	1.73	1.57
FCF Yield (%)	5.2	5.8	5.0	7.3	7.0
Dividend Yield (%)	2.6	2.2	2.8	3.2	3.6
EV/Sales (x)	3.6	2.4	1.6	1.4	1.2
EV/EBITDA (x)	20.1	10.6	7.6	6.4	5.3
EV/EBIT (x)	23.3	12.4	9.0	7.5	6.3
Income Statement (SGDm)					
Sales revenue	**169**	**201**	**211**	**237**	**262**
Gross profit	**51**	**67**	**70**	**79**	**87**
EBITDA	**31**	**45**	**45**	**50**	**57**
Depreciation	4	7	7	8	8
Amortisation	0	0	0	0	0
EBIT	**26**	**39**	**38**	**43**	**48**
Net interest income(expense)	1	0	0	0	0
Associates/affiliates	0	0	0	0	0
Exceptionals/extraordinaries	14	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	**41**	**38**	**38**	**42**	**48**
Income tax expense	5	7	6	7	8
Minorities	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0
Net profit	**36**	**31**	**31**	**35**	**40**
DB adjustments (including dilution)	-14	0	0	0	0
DB Net profit	**22**	**31**	**31**	**35**	**40**
Cash Flow (SGDm)					
Cash flow from operations	**40**	**40**	**29**	**40**	**38**
Net Capex	-4	-6	-7	-7	-7
Free cash flow	**36**	**34**	**23**	**33**	**32**
Equity raised/(bought back)	69	1	0	0	0
Dividends paid	-18	-13	-13	-13	-14
Net inc/(dec) in borrowings	-60	1	0	0	0
Other investing/financing cash flows	-49	1	0	0	0
Net cash flow	**-22**	**24**	**10**	**21**	**18**
Change in working capital	*-23*	*-22*	*-16*	*-12*	*-1*
Balance Sheet (SGDm)					
Cash and other liquid assets	20	45	54	75	92
Tangible fixed assets	151	150	150	149	147
Goodwill/intangible assets	0	0	0	0	0
Associates/investments	85	85	85	85	85
Other assets	26	31	38	48	64
Total assets	**281**	**310**	**327**	**357**	**388**
Interest bearing debt	25	27	27	27	27
Other liabilities	55	62	60	67	73
Total liabilities	**80**	**88**	**87**	**94**	**99**
Shareholders' equity	201	222	240	262	288
Minorities	0	0	0	1	1
Total shareholders' equity	**201**	**222**	**241**	**263**	**289**
Net debt	*6*	*-18*	*-28*	*-48*	*-66*
Key Company Metrics					
Sales growth (%)	nm	19.0	5.4	11.9	10.6
DB EPS growth (%)	na	38.8	-1.1	12.3	14.3
EBITDA Margin (%)	18.2	22.5	21.3	21.3	21.7
EBIT Margin (%)	15.7	19.3	18.0	18.0	18.5
Payout ratio (%)	49.5	41.1	41.0	41.0	41.0
ROE (%)	22.9	14.9	13.5	13.9	14.5
Capex/sales (%)	2.5	3.1	3.1	2.7	2.5
Capex/depreciation (x)	1.0	0.9	0.9	0.8	0.8
Net debt/equity (%)	2.7	-8.0	-11.5	-18.3	-22.8
Net interest cover (x)	nm	105.8	86.3	117.4	244.6

Source: Company data, Deutsche Bank estimates

1Q09 results highlights

1Q09 results breakdown

Figure 1: 1Q09 results

Year end Dec 31 (SGD m)	1Q08	1Q09	YoY
Sales	47.4	51.0	7.6%
Cost of services	-35.1	-35.9	2.2%
Gross profit	12.3	15.1	23.0%
Other operating income	0.1	0.1	nm
Lease expenses	-1.1	-1.2	15.4%
Other operating expenses	-4.3	-4.3	-2.1%
Total operating expenses	-5.4	-5.5	1.4%
EBIT	7.9	9.6	21.3%
Interest income	0.1	0.1	-27.8%
Interest expense	-0.2	-0.1	-14.6%
Pretax profit	7.8	9.5	21.6%
Tax	-1.7	-1.7	-1.6%
Minority interests	-0.0	-0.0	nm
Net profit	6.1	7.8	27.7%
Margins (%)			
Gross margin	25.9	29.6	
SGA % sales	11.4	10.8	
EBIT margin	16.7	18.9	
Net margin	12.9	15.3	

Source: Deutsche Bank

1Q09 results above expectations and consensus. Raffles Medical Group reported that its 1Q09 revenue rose 7.6% YoY to S$51.0m with earnings rising 27.7% YoY to S$7.8m underpinned by an increase in operating efficiencies and operating room leverage. Operating profit rose 20.9% YoY to S$9.7m due to continued cost management, maiden savings from Job Credit (accounted for S$700k) and improved bulk purchasing of medical consumables.

Growth came mainly from the increase in volumes. Revenue from the healthcare and hospital divisions grew 10.8% YoY and 5.2% YoY, respectively. The company said that the number of foreign patients grew 8% YoY in the 1Q09 while local patient growth was flat. The foreign patient mix still remains at one-third and accounts for more than one-third of the company's hospital revenues. Management continues to see an increase in foreign patients, helped by a diverse mix of foreign patients (Indonesians account for the largest share of RMG's foreign patients at around 20%).

Introduction of means testing has been a non-event. The Ministry of Health did not see an apparent change in how patients choose ward classes, with more than 90% of patients continuing to get a full subsidy of 80% in C class wards and 65% in B2 class wards. This is in line with our view that means testing should have a minimal impact and will not benefit the private healthcare sector in the near term.

Valuation

We have raised our target price to S$0.68 from S$0.62 based on our DCF valuation and our revised earnings estimates. We have used a risk-free rate of 2.6%, equity risk premium of 4.8% and maintain our beta of 1.3 to derive our cost of equity of 9.0%. We use a cost of equity of 9.0% as the discounting factor because the company is in a net cash position. We are using a terminal growth rate of 1.0% (discounted from Singapore's long-term inflation rate of 3%). Our target price implies PE multiples of 11.4x for FY09E and 10.2x for FY10E. The stock has a dividend yield of 2.8% and trades at a PE of 14.6x FY09E, a slight premium to its regional healthcare peers, which trade at a PE of 13.2x FY09E. Maintain Hold.

Risks

We believe the key upside risks to Raffles Medical Group are:

Achieving greater operating leverage
Raffles Medical Group recently acquired the remaining 50% stake in Raffles hospital. This could allow the company to expand its services and redevelop the hospital, which would lead to better operating efficiency and upside risk to our earnings estimate.

The ability to attract and grow its foreign patient base during an economic slowdown
If RMG is able to increase its foreign patient base in an economic slowdown, this could allow the company to achieve a higher growth in revenue for its hospital division and provide an upside risk to our earnings estimate.

Making an accretive overseas acquisition to expand its operations
The company is looking to make an overseas acquisition of a hospital or medical centre. This could boost the company's profile as a regional healthcare player and provide an upside risk to our earnings estimate if the company is able to make an accretive acquisition.

We believe the key downside risks to Raffles Medical Group are:

Higher operating costs could affect the company's profitability
Due to inflationary pressure and the lack of medical professionals, there could be an increase in operating costs for RMG.

Drop in foreign patient admissions
The current economic slowdown could lead to a decline in medical tourism, and RMG could see a drop in foreign patient admissions, which make up approximately 30% of in-patients at its hospital. This could provide a downside to our earnings estimate.

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	**Ticker**	**Recent price***	**Disclosure**
Raffles Medical Group	RAFG.SI	0.86 (SGD) 16 Apr 09	6

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at http://gm.db.com/ger/disclosure/Disclosure.eqsr?ricCode=RAFG.SI**.**

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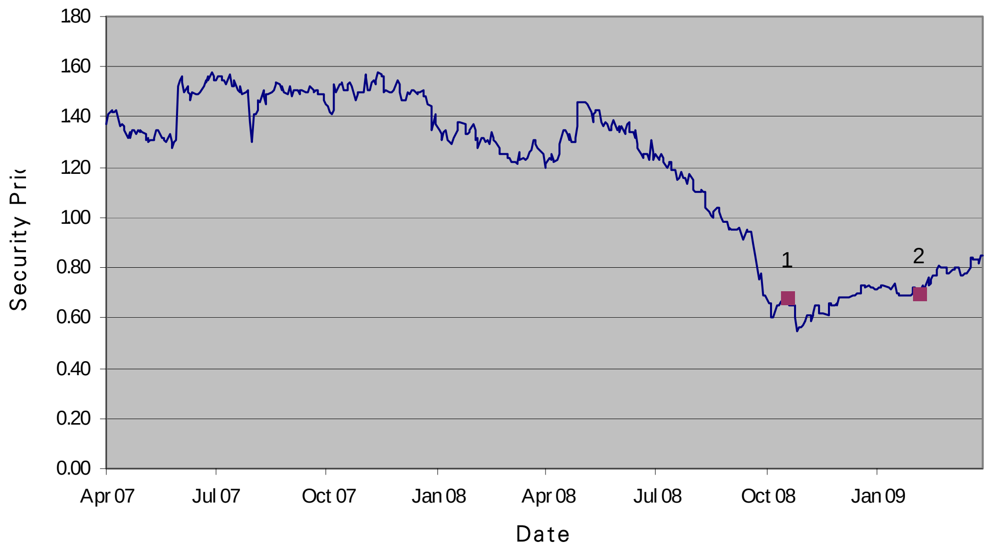
Historical recommendations and target price: Raffles Medical Group (RAFG.SI)

(as of 4/16/2009)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure as of September 9, 2002

1.	5/11/2008:	Hold, Target Price Change SGD0.60	2.	23/2/2009:	Hold, Target Price Change SGD0.62

Equity rating key

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.
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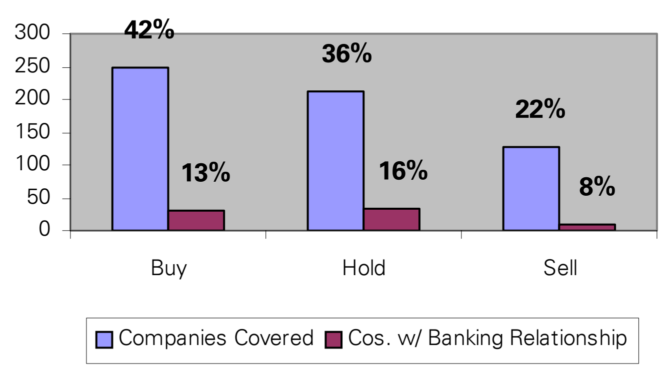
Equity rating dispersion and banking relationships



Asia-Pacific Universe

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Asia-Pacific locations

Deutsche Bank AG
Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG
Level 55
Cheung Kong Center
2 Queen's Road Central
Hong Kong
tel: (852) 2203 8888

Deutsche Equities India Pte Ltd
DB House, Ground Floor
Hazarimal Somani Marg
Fort, Mumbai 400 001
India
Tel: (91) 22 5658 4600

Deutsche Securities Inc.
2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6701

Deutsche Bank (Malaysia) Berhad
Level 18-20
Menara IMC
8 Jalan Sultan Ismail
Kuala Lumpur 50250
Malaysia
Tel: (60) 3 2053 6760

In association with
Deutsche Regis Partners, Inc.
Level 23, Tower One
Ayala Triangle, Ayala Avenue
Makati City, Philippines
Tel: (63) 2 894 6600

Deutsche Securities Korea Co.
17th Floor, YoungPoong Bldg.,
33 SeoRin-Dong,
Chongro-Ku, Seoul (110-752)
Republic of Korea
Tel: (82) 2 316 8888

Deutsche Bank AG Singapore
One Raffles Quay
South Tower
Singapore 048583
Tel: (65) 6423 8001

Deutsche Securities Asia Ltd
Taiwan Branch
Level 6
296 Jen-Ai Road, Sec 4
Taipei 106
Taiwan
Tel: (886) 2 2192 2888

In association with
TISCO Securities Co., Ltd
TISCO Tower
48/8 North Sathorn Road
Bangkok 10500
Thailand
Tel: (66) 2 633 6470

In association with
PT Deutsche Verdhana Indonesia
Deutsche Bank Building,
6th Floor, Jl. Imam Bonjol No.80,
Central Jakarta,
Indonesia
Tel: (62 21) 318 9541

International locations

Deutsche Bank Securities Inc.
60 Wall Street
New York, NY 10005
United States of America
Tel: (1) 212 250 2500

Deutsche Bank AG London
1 Great Winchester Street
London EC2N 2EQ
United Kingdom
Tel: (44) 20 7545 8000

Deutsche Bank AG
Große Gallusstraße 10-14
60272 Frankfurt am Main
Germany
Tel: (49) 69 910 00

Deutsche Bank AG
Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG
Level 55
Cheung Kong Center
2 Queen's Road Central
Hong Kong
Tel: (852) 2203 8888

Deutsche Securities Inc.
2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6701

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