Deutsche Bank

1 March 2010

Raffles Medical Group

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

Decent results; maintain Hold

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

Valuations close to long-term average

FY09 revenue rose 8.9% YoY to S$218.6m, with core earnings rising 18.2% YoY to S$37.3m, underpinned by an increase in operating efficiencies, higher patient load and operating leverage. We have raised our TP to S$1.35 and maintain our Hold recommendation as the stock is trading close to its long-term average and at a premium to regional healthcare peers. Our top pick in the sector is Parkway.

FY09 earnings 3% above consensus and in line with our expectations

Revenue from the healthcare and hospital divisions grew 10.2% YoY and 7.9% YoY, respectively. Operating profit rose 15.4% YoY to S$44.7m due to continued cost management, savings from job credit and improved bulk purchasing of medical consumables. The company has also recognized a revaluation gain in its property, Raffles Hospital, of S$0.6m in FY09.

Balance sheet strength and return of medical tourism to increase demand

The company has increased its net cash position to S$54m from S$23m in 2009 and has raised its dividends to 3 S cents (2 S cents) in FY09. Management continues to see a stable growth in hospital services and strong demand for its healthcare services. RMG is in a net cash position and has the balance sheet to acquire more health care assets in Singapore and in key regions.

Revised target price of S$1.35 implies a PE of 16.5x FY10E

Our DCF-derived target price is S$1.35, as we roll over our DCF (COE of 9.1% and a TGR of 2.0%) to FY10E and have revised our earnings upwards by 2% in FY10-11E, respectively. Downside risk includes inflationary pressure, lack of medical staff and lower patient inflows. Upside risk includes greater operating leverage, overseas acquisition, and a growing foreign patient base. (See page 4).

Forecasts and ratios

Year End Dec 31	2008A	2009A	**2010E**	2011E	2012E
Sales (SGDm)	200.8	218.6	**252.2**	292.5	326.6
EBITDA (SGDm)	45.6	51.8	**58.3**	67.4	75.7
Reported NPAT (SGDm)	31.5	37.9	**42.9**	50.2	56.4
Reported EPS FD(SGD)	0.06	0.07	**0.08**	0.10	0.11
DB EPS FD(SGD)	0.06	0.07	**0.08**	0.10	0.11
OLD DB EPS FD(SGD)	0.06	0.07	**0.08**	0.09	0.09
% Change	0.3%	0.9%	**1.4%**	1.5%	19.4%
DB EPS growth (%)	-	17.7	**15.0**	17.0	12.5
PER (x)	18.5	15.0	**16.7**	14.3	12.7
EV/EBITDA (x)	10.5	8.2	**9.5**	7.8	6.5
DPS (net) (SGD)	0.02	0.02	**0.03**	0.03	0.04
Yield (net) (%)	2.2	2.3	**2.0**	2.4	2.7

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

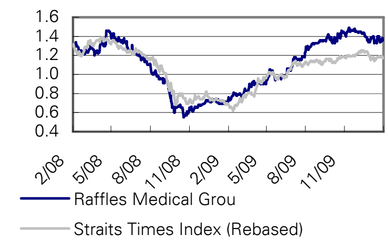
Hold

Price at 26 Feb 2010 (SGD)	**1.36**
Price target - 12mth (SGD)	**1.35**
52-week range (SGD)	**1.49 - 0.73**
Straits Times Index	**2,751**

Key changes

Price target	1.30 to 1.35 ↑	**3.8%**
Net profit (FYE)	42.1 to 42.9 ↑	**1.8%**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*0.7*	*-5.6*	*88.9*
Straits Times Index	*0.4*	*-0.4*	*70.1*

Stock data

Market cap (SGDm)	**713**
Market cap (USDm)	**507**
Shares outstanding (m)	**526.3**
Major shareholders	**Dr Loo Choon Yong (40%)**
Free float (%)	**50**
Avg daily value traded (USDm)	**0.4**

Key indicators (FY1)

ROE (%)	**16.2**
Net debt/equity (%)	**-25.5**
Book value/share (SGD)	**0.53**
Price/book (x)	**2.6**
Net interest cover (x)	**–**
Operating profit margin (%)	**20.2**

Model updated:27 February 2010

Running the numbers

Asia

ASEAN Singapore

Health Care

Raffles Medical Group

Reuters: RAFG.SI Bloomberg: RFMD SP

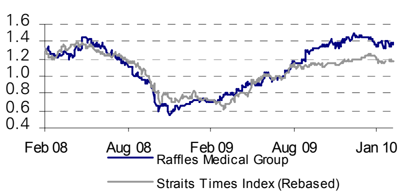
Hold

Price (26 Feb 10)	SGD 1.36
Target price	SGD 1.35
52-week Range	SGD 0.73 - 1.49
Market Cap (m)	SGDm 713 USDm 507

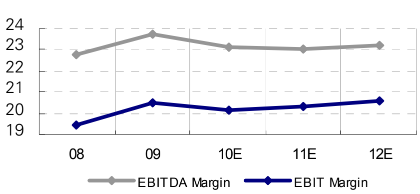
Company Profile

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.

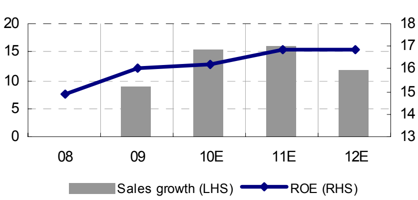
Price Performance



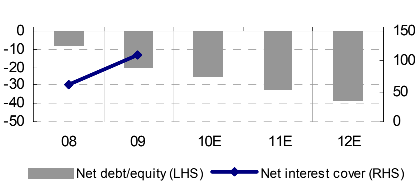
Margin Trends



Growth & Profitability



Solvency



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

Fiscal year end 31-Dec	2008	2009	2010E	2011E	2012E
Financial Summary					
DB EPS (SGD)	0.06	0.07	0.08	0.10	0.11
Reported EPS (SGD)	0.06	0.07	0.08	0.10	0.11
DPS (SGD)	0.02	0.02	0.03	0.03	0.04
BVPS (SGD)	0.4	0.5	0.5	0.6	0.7
Weighted average shares (m)	524	526	526	526	526
Average market cap (SGDm)	583	560	713	713	713
Enterprise value (SGDm)	481	425	556	526	491
Valuation Metrics					
P/E (DB) (x)	18.5	15.0	16.7	14.3	12.7
P/E (Reported) (x)	18.5	14.8	16.7	14.3	12.7
P/BV (x)	1.63	3.06	2.56	2.27	2.02
FCF Yield (%)	5.8	7.7	4.8	6.3	7.2
Dividend Yield (%)	2.2	2.3	2.0	2.4	2.7
EV/Sales (x)	2.4	1.9	2.2	1.8	1.5
EV/EBITDA (x)	10.5	8.2	9.5	7.8	6.5
EV/EBIT (x)	12.3	9.5	10.9	8.9	7.3
Income Statement (SGDm)					
Sales revenue	**201**	**219**	**252**	**292**	**327**
Gross profit	**67**	**73**	**83**	**96**	**107**
EBITDA	**46**	**52**	**58**	**67**	**76**
Depreciation	7	7	7	8	9
Amortisation	0	0	0	0	0
EBIT	**39**	**45**	**51**	**59**	**67**
Net interest income(expense)	-1	0	0	0	0
Associates/affiliates	0	0	0	0	0
Exceptionals/extraordinaries	0	1	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	**38**	**45**	**51**	**60**	**67**
Income tax expense	7	7	8	9	10
Minorities	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0
Net profit	**32**	**38**	**43**	**50**	**56**
DB adjustments (including dilution)	0	-1	0	0	0
DB Net profit	**32**	**37**	**43**	**50**	**56**
Cash Flow (SGDm)					
Cash flow from operations	**40**	**47**	**41**	**51**	**58**
Net Capex	-6	-4	-6	-6	-6
Free cash flow	**34**	**43**	**35**	**45**	**52**
Equity raised/(bought back)	1	1	0	0	0
Dividends paid	-13	-13	-13	-15	-17
Net inc/(dec) in borrowings	1	-2	0	0	0
Other investing/financing cash flows	1	0	0	0	0
Net cash flow	**24**	**30**	**22**	**31**	**34**
Change in working capital	*-22*	*-22*	*-13*	*-5*	*4*
Balance Sheet (SGDm)					
Cash and other liquid assets	45	74	96	127	161
Tangible fixed assets	150	146	145	143	140
Goodwill/intangible assets	0	0	0	0	0
Associates/investments	85	86	86	86	86
Other assets	31	30	36	43	50
Total assets	**310**	**337**	**363**	**398**	**437**
Interest bearing debt	27	25	25	25	25
Other liabilities	62	62	58	58	57
Total liabilities	**88**	**87**	**82**	**82**	**82**
Shareholders' equity	222	250	280	315	354
Minorities	0	0	1	1	1
Total shareholders' equity	**222**	**250**	**280**	**316**	**355**
Net debt	*-18*	*-50*	*-71*	*-102*	*-136*
Key Company Metrics					
Sales growth (%)	nm	8.9	15.4	16.0	11.7
DB EPS growth (%)	na	17.7	15.0	17.0	12.5
EBITDA Margin (%)	22.7	23.7	23.1	23.0	23.2
EBIT Margin (%)	19.4	20.5	20.2	20.3	20.5
Payout ratio (%)	41.0	34.2	34.2	34.2	34.2
ROE (%)	14.9	16.1	16.2	16.9	16.9
Capex/sales (%)	3.1	1.8	2.4	2.1	1.8
Capex/depreciation (x)	0.9	0.6	0.8	0.7	0.7
Net debt/equity (%)	-8.0	-19.9	-25.5	-32.3	-38.4
Net interest cover (x)	62.6	109.4	nm	nm	nm

Source: Company data, Deutsche Bank estimates

FY09 result highlights

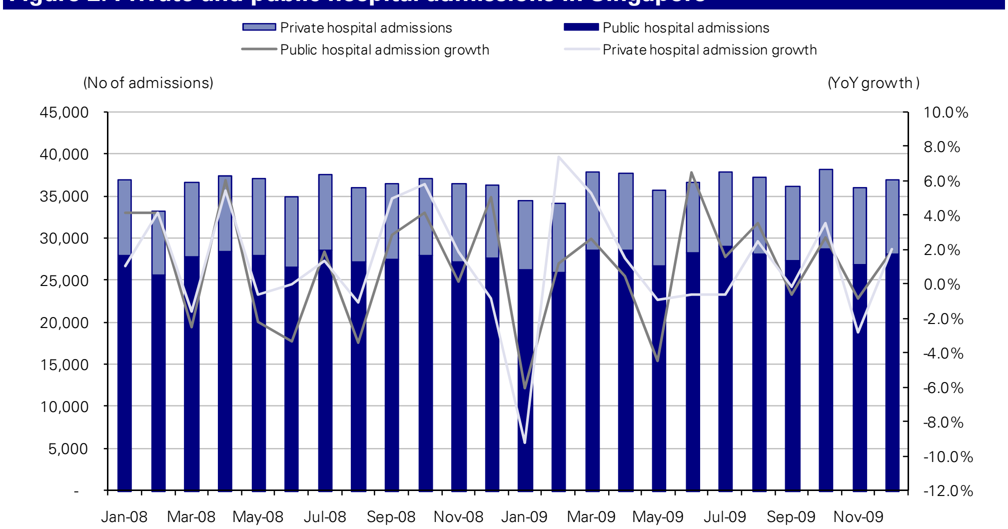
Results summary

Figure 1: FY09 results breakdown

FYE DEC SGDm	4Q09	4Q08	YoY	FY09	FY08	YoY	Comments
Sales	58.3	51.4	13.3%	218.6	200.8	8.9%	Revenue from hospital grew 7.9% and healthcare increased by 10.2%
Cost of Services	-40.7	-35.1	15.8%	-152.3	-140.5	8.4%	
Gross Profit	17.6	16.3	7.9%	66.3	60.3	10.0%	Benefit from jobs credits and bulk purchasing of medical supplies
Other Operating Income	0.1	0.0	nm	0.2	0.5	-63.6%	
Lease expenses	-1.2	-0.8	43.7%	-5.1	-4.5	15.3%	
Other Operating Expenses	-4.6	-4.3	6.5%	-16.5	-17.4	-5.0%	
Total operating expenses	-5.8	-5.2	12.5%	-21.6	-21.8	-0.8%	
EBIT	12.2	10.8	13.3%	44.7	38.7	15.4%	EBIT margins improved from 19.3% to 20.4% due to operating leverage
Interest Income	0.1	0.1	-54.7%	0.2	0.3	-30.2%	
Interest Expense	-0.1	-0.2	-48.7%	-0.4	-0.6	-34.2%	
Exceptional Gains/(Losses)	0.6	0.0	nm	0.6	0.0	nm	
Pretax Profit	12.8	10.8	19.3%	45.0	38.4	17.5%	
Tax	-0.9	-1.2	-20.5%	-7.0	-6.7	4.8%	
Minority Interests	-0.1	-0.1	-38.1%	-0.2	-0.1	33.6%	
Net Profit	11.2	9.4	18.7%	37.3	31.5	18.2%	Results were in line with our expectations and 3% above consensus

Source: Deutsche Bank, Company data

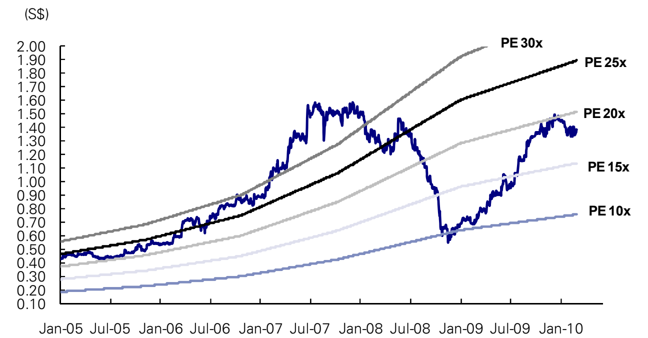
Figure 2: Private and public hospital admissions in Singapore



Source: Deutsche Bank, MOH

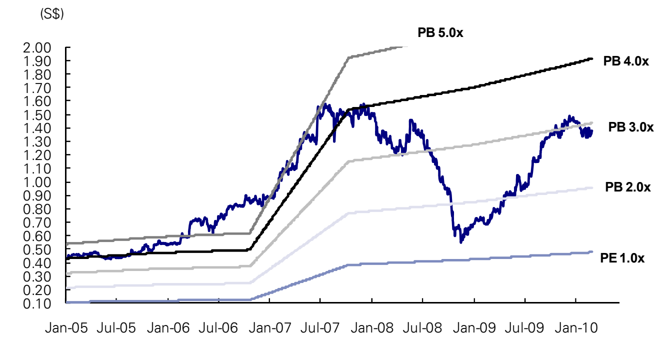
With the lead up to economic recovery in 2010, we believe we could witness the return of medical tourists and an increase in the pent-up demand in the domestic health care industry. Raffles Medical can benefit from the increase in medical tourism, which accounts for 30% of in-patient admissions.

Figure 3: Raffles Medical PE band chart



Source: Deutsche Bank, Bloomberg, price updated as of 260210

Figure 4: Raffles Medical PB band chart



Source: Deutsche Bank, Bloomberg, price updated as of 260210

Raffles Medical Group is trading close to its long-term average PE of 18x and trades at a premium to regional healthcare players.

Valuation

We maintain our Hold rating and have revised our target price from S$1.30 to S$1.35 as we roll over our DCF valuation to FY10E and revise our earnings upwards by 2% in FY10-11E, respectively. Our target price is derived from a DCF valuation as cash flow from the company's operations is relatively stable. Based on Deutsche Bank's revised cost of capital assumptions for Singapore, we have used our cost of equity of 9.1% using a equity risk premium of 4.7% with a risk-free rate of 2.8%. We have used the CoE as the discounting factor because the company is in a net cash position. We are using a terminal growth rate of 2.0% (discounted from Singapore's long-term inflation rate of 3%), and our beta of 1.3. Our target price implies 16.5x FY10E PE.

Risks

Upside risks include: achieving a greater operating leverage at its hospitals, increase in its foreign patient base and M&A activities.

Downside risks include: rising operating costs and the lack of medical professionals and a decline in foreign patient admissions could negatively impact RMG's profitability.

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	**Ticker**	**Recent price***	**Disclosure**
Raffles Medical Group	RAFG.SI	1.36 (SGD) 26 Feb 10	NA

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

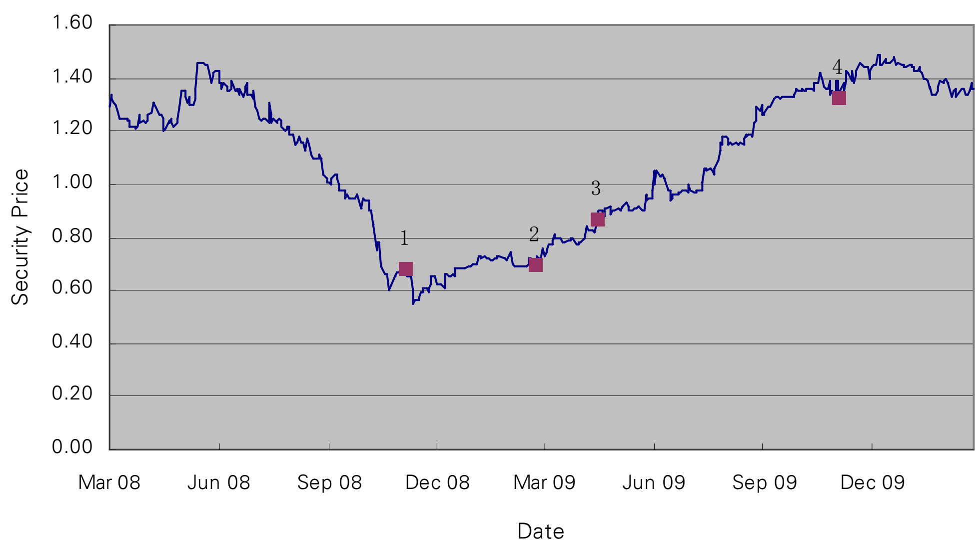
For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at http://gm.db.com/ger/disclosure/Disclosure.eqsr?ricCode=RAFG.SI**.**

Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. James Tan

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

(as of 2/26/2010)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

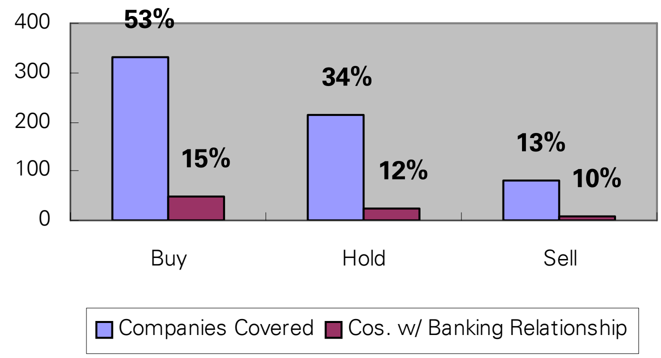
*New Recommendation Structure as of September 9, 2002

1.	5/11/2008:	Hold, Target Price Change SGD0.60	3.	16/4/2009:	Hold, Target Price Change SGD0.68
2.	23/2/2009:	Hold, Target Price Change SGD0.62	4.	5/11/2009:	Hold, Target Price Change SGD1.30

Equity rating key

Buy: Based on a current 12- month view of total shareholder 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.
Sell: Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock
Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.
Notes:
1. Newly issued research recommendations and target prices always supersede previously published research.
2. Ratings definitions prior to 27 January, 2007 were:
   Buy: Expected total return (including dividends) of 10% or more over a 12-month period
   Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period
   Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships



Asia-Pacific Universe

Regulatory Disclosures

1. Important Additional Conflict Disclosures

Aside from within this report, important conflict disclosures can also be found at https://gm.db.com/equities under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

2. Short-Term Trade Ideas

Deutsche Bank equity research analysts sometimes have shorter-term trade ideas (known as SOLAR ideas) that are consistent or inconsistent with Deutsche Bank's existing longer term ratings. These trade ideas can be found at the SOLAR link at http://gm.db.com.

3. Country-Specific Disclosures

Australia: This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act.
EU countries: Disclosures relating to our obligations under MiFiD can be found at http://globalmarkets.db.com/riskdisclosures.
Japan: Disclosures under the Financial Instruments and Exchange Law: Company name - Deutsche Securities Inc. Registration number - Registered as a financial instruments dealer by the Head of the Kanto Local Finance Bureau (Kinsho) No. 117. Member of associations: JSDA, The Financial Futures Association of Japan. Commissions and risks involved in stock transactions - for stock transactions, we charge stock commissions and consumption tax by multiplying the transaction amount by the commission rate agreed with each customer. Stock transactions can lead to losses as a result of share price fluctuations and other factors. Transactions in foreign stocks can lead to additional losses stemming from foreign exchange fluctuations.
New Zealand: This research is not intended for, and should not be given to, "members of the public" within the meaning of the New Zealand Securities Market Act 1988.
Russia: This information, interpretation and opinions submitted herein are not in the context of, and do not constitute, any appraisal or evaluation activity requiring a license in the Russian Federation.

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

Global Disclaimer

The information and opinions in this report were prepared by Deutsche Bank AG or one of its affiliates (collectively "Deutsche Bank"). The information herein is believed to be reliable and has been obtained from public sources believed to be reliable. Deutsche Bank makes no representation as to the accuracy or completeness of such information.

Deutsche Bank may (1) engage in securities transactions in a manner inconsistent with this research report, (2) with respect to securities covered by this report, sell to or buy from customers on a principal basis, and (3) consider this report in deciding to trade on a proprietary basis.

Opinions, estimates and projections in this report constitute the current judgement of the author as of the date of this report. They do not necessarily reflect the opinions of Deutsche Bank and are subject to change without notice. Deutsche Bank has no obligation to update, modify or amend this report or to otherwise notify a recipient thereof in the event that any opinion, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. Prices and availability of financial instruments are subject to change without notice. This report is provided for informational purposes only. It is not an offer or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy. Target prices are inherently imprecise and a product of the analyst judgement.

Deutsche Bank has instituted a new policy whereby analysts may choose not to set or maintain a target price of certain issuers under coverage with a Hold rating. In particular, this will typically occur for "Hold" rated stocks having a market cap smaller than most other companies in its sector or region. We believe that such policy will allow us to make best use of our resources. Please visit our website at http://gm.db.com to determine the target price of any stock.

The financial instruments discussed in this report may not be suitable for all investors and investors must make their own informed investment decisions. Stock transactions can lead to losses as a result of price fluctuations and other factors. If a financial instrument is denominated in a currency other than an investor's currency, a change in exchange rates may adversely affect the investment. Past performance is not necessarily indicative of future results.

Unless governing law provides otherwise, all transactions should be executed through the Deutsche Bank entity in the investor's home jurisdiction. In the U.S. this report is approved and/or distributed by Deutsche Bank Securities Inc., a member of the NYSE, the NASD, NFA and SIPC. In Germany this report is approved and/or communicated by Deutsche Bank AG Frankfurt authorized by the BaFin. In the United Kingdom this report is approved and/or communicated by Deutsche Bank AG London, a member of the London Stock Exchange and regulated by the Financial Services Authority for the conduct of investment business in the UK and authorized by the BaFin. This report is distributed in Hong Kong by Deutsche Bank AG, Hong Kong Branch, in Korea by Deutsche Securities Korea Co. This report is distributed in Singapore by Deutsche Bank AG, Singapore Branch, and recipients in Singapore of this report are to contact Deutsche Bank AG, Singapore Branch in respect of any matters arising from, or in connection with, this report. Where this report is issued or promulgated in Singapore to a person who is not an accredited investor, expert investor or institutional investor (as defined in the applicable Singapore laws and regulations), Deutsche Bank AG, Singapore Branch accepts legal responsibility to such person for the contents of this report. In Japan this report is approved and/or distributed by Deutsche Securities Inc. The information contained in this report does not constitute the provision of investment advice. In Australia, retail clients should obtain a copy of a Product Disclosure Statement (PDS) relating to any financial product referred to in this report and consider the PDS before making any decision about whether to acquire the product. Deutsche Bank AG Johannesburg is incorporated in the Federal Republic of Germany (Branch Register Number in South Africa: 1998/003298/10). Additional information relative to securities, other financial products or issuers discussed in this report is available upon request. This report may not be reproduced, distributed or published by any person for any purpose without Deutsche Bank's prior written consent. Please cite source when quoting.