

Forum takeaways

At NAEF in Singapore today, Raffles Medical Group (RMG) management reiterated its view of the group's long-term growth prospects — positive on Singapore and cautious on pursuing M&A opportunities in the region. The group is positive on further organic growth in Singapore, given excess capacity at its flagship hospital.

Anchor themes

- Continued demand for private healthcare in the region will support the long-term prospects for Singapore healthcare service operators, which enjoy strong operating margins, brand equity and high entry barriers.
- Medical travel is a recurring sector theme driven by globalisation and escalating healthcare costs in developed countries. Singapore is the premier regional centre for high-end care and private operators are well placed to ride the growth.

FORUM FLASH

Closing price on 6 July	S\$0.97
Price target	S\$1.30



Growing amid the downturn

① Defensive franchise growing during recession

RMG posted strong 1Q09 results, with net profit up 28% y-y on improved cost efficiencies. The healthcare services segment (including its primary care network and insurance arm) grew by 10.8% y-y, confirming its defensiveness amid the downturn. Despite the downturn, RMG is still in growth mode, particularly in expanding its primary healthcare network. The group is taking the opportunity to lock in low rental rates and expand its clinic network, while at the same time focusing on organic growth. It has opened four new clinics in the year-to-date, including an integrated outpatient centre at Tampines One offering specialty services such as O&G and paediatric medicine. In terms of hospital capacity, management highlighted that the group is only utilising 200 beds currently, and could expand up to 320 beds if demand arose.

② Conservative regional strategy

Management reiterated its conservative stance on pursuing M&A opportunities in the region. The group highlighted China and Southeast Asia (particularly Malaysia) as the key regions of potential opportunity. Management continues to be wary of the regulatory environment in China. It is currently evaluating potential projects in cities like Beijing, with the aim of doing a greenfield project. One challenge is the selection of a local partner, since Chinese regulations cap foreign ownership of hospitals at 70%.

③ Valuation methodology and risks

Our price target of S\$1.30 (unchanged) is based on a target P/E of 16.4x applied to FY10F earnings, pegged within the mean of RMG's historical trading range (method unchanged).

Key risks to price target: 1) escalation of H1N1 virus, which could impede patient flows as patients may postpone elective procedures to avoid visiting a hospital; 2) regulatory risks in Singapore; and 3) ability to attract and retain medical professionals.

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Issuer	Ticker	Price (as at last close)	Closing Price Date	Rating	Disclosures
Raffles Medical	RFMD SP			Buy	

Previous Ratings

Issuer	Previous Rating	Date of change
Raffles Medical	No Rating	03 Mar 2009

Three-year stock price and rating history

Not Available for Raffles Medical

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