

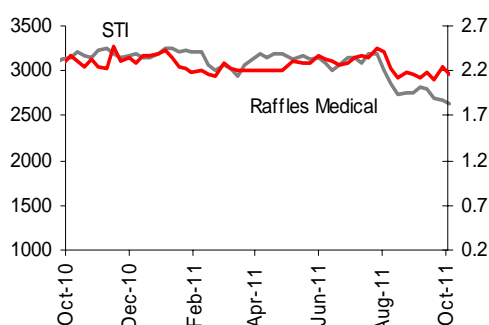
1 November 2011

Maintain

BUY

Previous Rating: BUY

Current Price: S\$2.25
Fair Value: S\$2.61



Reuters Code	RAFG.SI
ISIN Code	R01
Bloomberg Code	RFMD SP
Issued Capital (m)	534
Mkt Cap (S\$m / US\$m)	1,201 / 957
Major Shareholders	
Raffles Medical Holdings Pte Ltd	39.2%
Free Float (%)	46.6%
Daily Vol 3-mth ('000)	380
52 Wk Range	2.020 - 2.530

(\$ m)	FY09	FY10	FY11F	FY12F
Revenue	218.6	239.1	274.1	314.8
EBIT	45.5	53.0	57.5	69.0
P/NTA (x)	4.7	4.1	3.8	3.3
EPS (cts)	7.3	8.7	9.1	10.9
PER (x)	30.8	26.0	24.7	20.7

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Raffles Medical Group

Continues to deliver growth

3Q11 results slightly below expectations. Raffles Medical Group (RMG) reported a 13.5% YoY rise in revenue to S\$69.1m and a 10.4% YoY increase in net profit to S\$11.8m for its 3Q11 results. On a sequential basis, revenue and net profit grew 3.2% and 1.4%, respectively. RMG's improved performance was attributed to the recruitment of more specialist consultants, higher patient load and patient acuity. For 9M11, revenue of S\$200.5m (+14.2% YoY) and net profit of S\$33.9m (+11.8% YoY) constituted 72.5% and 67.9% of our full-year forecasts, respectively. This set of results only came in slightly below our expectations and 4Q is traditionally RMG's strongest quarter.

Delivers growth in both key divisions. On a segmental basis, RMG delivered growth from both its key divisions. Its Hospital Services and Healthcare Services segments registered a 14.1% and 8.4% YoY increase in revenue respectively. Management highlighted that this revenue growth was driven largely by higher ASPs, with volume increase contributing to a smaller extent.

Positive long-term growth prospects. RMG sees growth potential from the government's recent initiative to expand the Primary Care Partnership Scheme (PCPS), which should lead to higher demand for primary care services. This is in line with our previous report dated 19 Aug 2011 which stated that RMG would be a key beneficiary from initiatives by the government to reduce out-of-pocket expenses for outpatients. Nevertheless, while demand for RMG's high quality healthcare services is relatively inelastic, the group is not totally immune to an economic slowdown. Management stated that growth in its foreign patient numbers, while at a double-digit pace in 3Q11, was not as robust as before. We believe this is attributed to the macroeconomic uncertainties which could have led to belt-tightening measures by patients.

Maintain BUY. While 4Q is typically RMG's strongest quarter, we are lowering our earnings estimates for FY11 marginally by 2.6% and for FY12 by 2.8% as a prudent measure given that the weak global economic outlook could lead to the postponement of elective surgeries by both local and foreign patients. Notwithstanding our reduced projections, we roll forward our valuation on RMG to 24x FY12F EPS, which in turn increases our fair value estimate from S\$2.50 to S\$2.61. Maintain **BUY** as we opine that RMG is still competitively placed to capture the rising demand for high quality healthcare services in Singapore and the region, given its strong management team and reputable brand equity.

Raffles Medical's Key Financial Data

Raffles Medical's Results	3Q10	3Q11	% Chg	2Q11	% Chg
Year Ended 31 Dec (S\$ m)	(S\$ m)	(S\$ m)	(YoY)	(S\$ m)	(QoQ)
Revenue	60.9	69.1	13.5%	67.0	3.2%
Other operating income	0.0	0.0	N.M.	0.0	N.M.
Inventories and consumables used	-7.0	-8.3	18.9%	-7.6	8.9%
Purchased and contracted services	-4.2	-5.0	20.3%	-5.3	-5.0%
Staff costs	-29.2	-33.4	14.4%	-31.7	5.2%
Depreciation of PPE	-1.7	-1.8	8.6%	-2.0	-7.1%
Operating lease expenses	-1.5	-1.4	-4.7%	-1.5	-2.8%
Other operating expenses	-4.3	-4.7	10.2%	-4.6	2.4%
Profit from operating activities (EBIT)	13.1	14.5	10.3%	14.3	0.9%
Finance income	0.1	0.0	-100.0%	0.0	-100.0%
Finance expenses	-0.1	-0.1	5.6%	-0.1	8.6%
Share of profits in a jointly-controlled entity	0.0	0.0	N.M.	0.0	N.M.
Profit before income tax	13.1	14.4	9.6%	14.3	0.6%
Income tax expense	-2.4	-2.5	6.4%	-2.6	-2.5%
Profit for the year	10.7	11.8	10.3%	11.7	1.2%
<i>Attributable to:</i>					
Owners of the company (net profit)	10.7	11.8	10.4%	11.6	1.4%
Minority interest	0.1	0.0	-25.5%	0.1	-26.8%
Profit for the year	10.7	11.8	10.3%	11.7	1.2%

Raffles Medical Group's Key Financial Data

EARNINGS FORECAST					BALANCE SHEET				
Year Ended 31 Dec (S\$m)	FY09	FY10	FY11F	FY12F	As at 31 Dec (S\$m)	FY09	FY10	FY11F	FY12F
Revenue	218.6	239.1	274.1	314.8	Bank and cash balances	74.4	107.1	26.5	35.1
EBITDA	52.3	59.9	65.0	77.1	Other current assets	30.1	31.1	36.5	41.9
Depreciation and amortisation	-6.9	-6.9	-7.5	-8.2	PPE & Inv properties	231.4	232.3	356.7	398.6
EBIT	45.5	53.0	57.5	69.0	Total assets	336.8	371.8	421.1	477.0
Net interests	-0.4	-0.2	-0.3	-0.4	Debt	24.5	22.6	29.5	34.7
Share of results of JVs, net	0.0	0.0	0.0	0.0	Current liabilities excluding debt	60.7	60.5	72.6	83.4
Profit before tax	45.0	53.1	57.5	68.7	Total liabilities	86.7	84.8	103.8	119.8
Income tax expense	-7.0	-7.6	-8.6	-10.3	Shareholders equity	249.8	286.4	316.5	356.1
Minority interests	-0.2	-0.2	-0.2	-0.3	Minority interests	0.4	0.5	0.8	1.1
Profit attributable to shareholders	37.9	45.3	48.6	58.1	Total equity and liabilities	336.8	371.8	421.1	477.0
CASH FLOW					KEY RATES & RATIOS				
Year Ended 31 Dec (S\$m)	FY09	FY10	FY11F	FY12F		FY09	FY10	FY11F	FY12F
Op profit before working cap. chg.	53.3	58.9	65.0	77.2	EPS (SG cents)	7.3	8.7	9.1	10.9
Working cap, taxes and int	-6.0	-9.7	-2.3	-5.5	NTA per share (SG cents)	48.0	54.4	59.9	67.4
Net cash from operations	47.2	49.2	62.7	71.7	EBIT margin (%)	20.8	22.2	21.0	21.9
Purchase of PPE & Inv prop	-3.9	-5.5	-132.0	-50.0	Net profit margin (%)	17.1	18.9	17.7	18.4
Other investing flows	0.4	2.1	0.3	0.1	PER (x)	30.8	26.0	24.7	20.7
Investing cash flow	-3.5	-3.4	-131.7	-49.9	Price/NTA (x)	4.7	4.1	3.8	3.3
Financing cash flow	-13.7	-12.8	-11.6	-13.2	EV/EBITDA (x)	22.0	18.7	18.5	15.6
Net cash flow	30.0	33.1	-80.6	8.5	Dividend yield (%)	1.3	1.6	1.6	1.6
Cash at beginning of year	44.1	74.4	107.1	26.5	ROE (%)	16.1	16.9	16.1	17.3
Cash at end of year	74.4	107.1	26.5	35.1	Net gearing (%)	net cash	net cash	0.9	net cash

Source: Company data, OIR estimates

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The analyst/analysts who wrote this report holds NIL shares in the above security.

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For OCBC Investment Research Pte Ltd



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