

**Raffles Medical----- Maintain OUTPERFORM**

**Interims reaffirm strong sector growth outlook**

EPS: ◀▶ TP: ◀▶

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- Raffles Medical delivered strong results in its Jun quarter, which arrived very much in line with our estimates. Revenues were up 22% YoY, while core profits jumped 40% YoY to S\$7.7 mn.
- The 15% YoY revenue growth in the healthcare segment, as well as the 24% YoY improvement in its hospital operations, reaffirms strong underlying demand across the sector.
- Raffles Medical achieved 19% operating margins for the quarter, up from 17% in 1Q08, and 16% a year ago, reflecting operational efficiency gains at its flagship hospital. Management declared a S1 ct interim dividend, similar to the previous year.
- With results for the first six months having met 47% of our revenue and earnings estimates, we have kept our assumptions, earnings forecast and our DCF-based S\$1.80 TP intact.
- We continue to believe that Raffles Medical remains best leveraged to rising demand for private healthcare services in the medium term, given its control over an under-utilised hospital asset and the largest GP network. OUTPERFORM.

medical specialities within individual clinics, with medical complementing dental and other niche services. There are also plans to add another 5 clinics to its 65-strong network by end-08. Raffles Medical's healthcare insurance arm, International Medical Insurers, has benefited from its tie-up with Bupa International, the world's largest expatriate health insurer, and management hinted that the business segment is likely to be separately reported by end-08 (i.e. contributing more than 5% of its total revenues). We believe that its insurance business is likely to contribute more significantly to top-line growth versus earnings in the medium term. Raffles Medical will continue to focus on growing its foreign patient load, which now constitutes a-third of its patient base, while seeking diversification across origination geographies. We continue to favour the Singapore healthcare sector for its defensive qualities - healthcare expenditure has grown annually (other than 2003), regardless of GDP growth over the last two decades. During this time, there has also been a stronger growth trend for private healthcare services, which has risen by an average of 11% annually, outpacing the 8% increase in GDP growth, thus reaffirming our view that the earnings outlook for private operators should remain robust despite changes in the macro overlay.

Bbg/RIC	RFMD SP / RAFG.SI	Price (25 Jul 08, S\$)	1.22		
Rating (prev. rating)	O (O)	TP (S\$) (prev. TP)	1.80 (1.80)		
Shares outstanding (mn)	517.45	Est. pot. % chg. to TP	48		
Daily trad vol-6m avg (mn)	0.3	52-wk range (S\$)	1.58 - 1.20		
Daily trad val-6m avg (US\$ mn)	0.3	Mkt cap (S\$/US\$ mn)	631.3/ 464.1		
Free float (%)	33.0	<b>Performance</b>	<b>1M 3M 12M</b>		
Major shareholders	Dr Loo Choon Yong	Absolute (10.9)	0.0 (21.3)		
	(40.2%)	Relative (9.0)	9.1 (2.2)		
<b>Year</b>	<b>12/06A</b>	<b>12/07A</b>	<b>12/08E</b>	<b>12/09E</b>	<b>12/10E</b>
Revenues (S\$ mn)	134.2	168.7	206.9	247.5	288.0
EBITDA (S\$ mn)	20.9	40.4	43.0	52.5	60.5
Net profit (S\$ mn)	14.0	21.5	29.8	37.4	44.7
EPS (S\$)	0.03	0.07	0.06	0.07	0.09
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (S\$)	n.a.	n.a.	0.06	0.08	0.00
EPS growth (%)	21.9	123.7	(15.1)	25.7	19.3
P/E (x)	39.8	17.8	21.0	16.7	14.0
Dividend yield (%)	2.2	2.8	3.8	4.8	5.7
EV/EBITDA (x)	28.3	15.8	14.7	11.6	9.7
P/B (x)	4.9	3.1	3.0	2.9	2.7
ROE (%)	12.4	10.7	14.3	17.2	19.5
Net debt/equity (%)	net cash	3	1	net cash	net cash

Note 1: Raffles Medical Group (RMG) is a leading medical group and the largest private group practice in Singapore, owning and operating a fully integrated healthcare system comprising hospital, clinics, insurance and consumer healthcare.. Note 2: .

**Other snippets at the briefing**

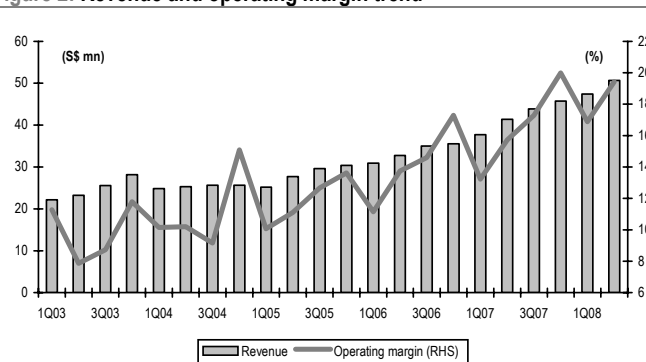
Management still does not disclose detailed segmental information during the interims, and maintained their guidance on key operating parameters. The number of operational beds at its flagship hospital remained unchanged at 200 at end-Jun-08, with utilisation at 40-60%. Raffles Medical plans for incremental capacity of 25 beds, as and when utilisation increases beyond these thresholds. For its healthcare services segment, Raffles Medical strategises to expand the range of

Figure 1: Results summary comparison

(\$\$mn)	2Q08	2Q07	YoY (%)	FY08E (old)	% of FY08E
Revenue	50.6	41.4	22.3	206.9	47.4
EBITDA	11.5	6.9	65.7	43.0	48.9
Operating profit	9.8	6.5	51.1	37.6	47.4
PBT	9.7	6.9	41.1	36.4	48.2
Tax	-1.9	-1.3	45.4	-6.5	55.9
Net profit	7.7	5.5	40.2	29.8	46.6
EPS (Sct)	1.49	3.40	-56.2	5.80	46.6
EBITDA margin (%)	22.6	16.7	-	20.8	-
Op margin (%)	19.4	15.7	-	18.2	-
Net margin (%)	15.2	13.3	-	14.4	-

Source: Company data, Credit Suisse estimates.

Figure 2: Revenue and operating margin trend



Source: Company data, Credit Suisse estimates.

Figure 1: Valuation Metrics

Company	Ticker	CS Rating	Price		EPS chg (%)		TP (%)	Up/dn (%)	EPS		EPS grth (%)		P/E (x)		Div. yld (%)	ROE (%)	P/B (X)
			Local	Target	T+1	T+2			T+1	T+2	T+1	T+2	T+1	T+2			
Raffles Medical	RFMD SP	O	1.22	1.8	0	0	0	48	0.1	0.1	(15)	26	21.0	16.7	3.8	14.3	3.0
Parkway	PWAY SP	O	2.23	3.4	0	0	0	52	0.1	0.1	(28)	35	26.5	19.6	1.9	6.1	1.8

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM

Source: Company data, Credit Suisse estimates

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**Companies Mentioned (Price as of 25 Jul 08)**

Raffles Medical Group (RAFG.SI, S\$1.22, OUTPERFORM, TP S\$1.80)

Parkway Holdings (PARM.SI, S\$2.23, OUTPERFORM, TP S\$3.40)

**Disclosure Appendix**

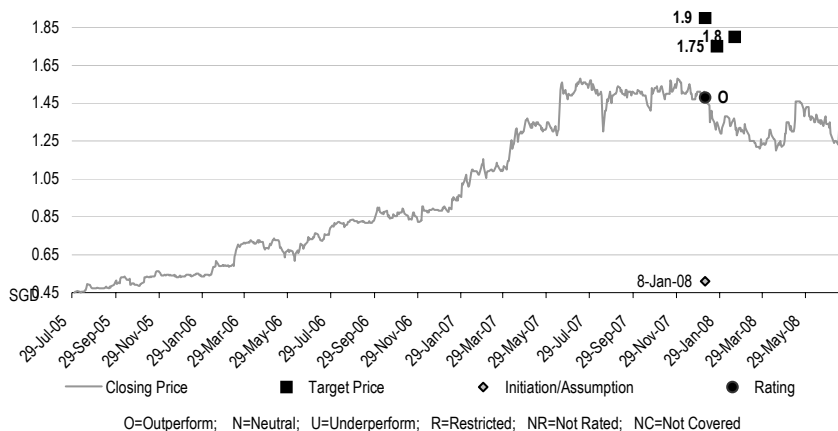
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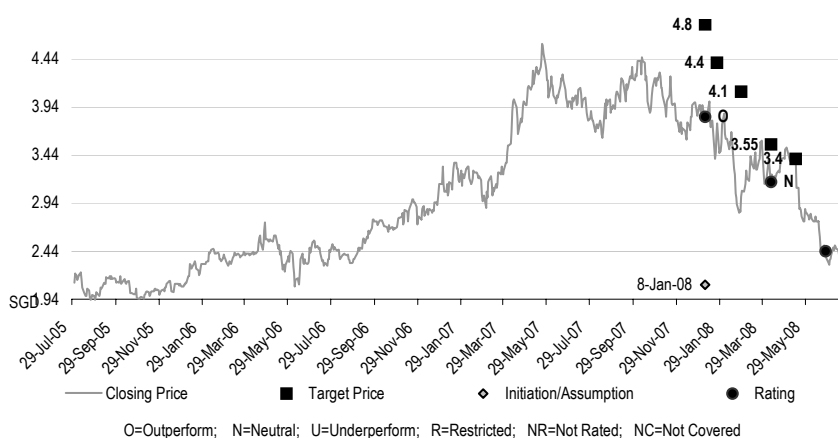
**3-Year Price, Target Price and Rating Change History Chart for RAFG.SI**

RAFG.SI Date	Closing Price (SGD)	Target Price (SGD)	Rating	Initiation/ Assumption
08-Jan-08	1.48	1.9	O	X
25-Jan-08	1.35	1.75		
19-Feb-08	1.35	1.8		



**3-Year Price, Target Price and Rating Change History Chart for PARM.SI**

PARM.SI Date	Closing Price (SGD)	Target Price (SGD)	Rating	Initiation/ Assumption
08-Jan-08	3.84	4.8	O	X
25-Jan-08	3.77	4.4		
28-Feb-08	3.01	4.1		
10-Apr-08	3.16	3.55	N	
15-May-08	3.43	3.4		
26-Jun-08	2.44		O	



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<b>Restricted</b>	2%	

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**Price Target:** (12 months) for (RAFG.SI)

**Method:** Our S\$1.80 target price for Raffles Medical is based on a discounted cash flow (DCF) methodology of a weighted average cost of capital (WACC) of 10.5% (a risk-free rate of 3.5%, an equity risk premium of 7.0% and a beta of 1), a terminal growth rate of 3%, and a medium-term growth rate of 6% over 2007-2030.

**Risks:** Key risks to our S\$ 1.80 target price for Raffles Medical include: 1) Regulatory changes driven by government policies 2) Macroeconomic slowdown affecting employment and population growth 3) Increasing competition from regional healthcare providers 4) Risk of a pandemic outbreak 5) Inability to attract talent and increased labour costs

**Price Target:** (12 months) for (PARM.SI)

**Method:** Our S\$3.40 target price for Parkway is based on a Sum of the parts valuation with a \$0.23 marked to market valuation for its 35% stake in Parkway Life REIT, and a discounted cash flow (DCF) valuation, with a weighted average cost of capital (WACC) of 10.5% (a 3.5% risk-free rate, a 7.0% equity risk premium and a beta of 1), a terminal growth rate of 4%, and a medium-term growth rate of 8% over 2007 to 2030 for its hospital business, a DCF valuation for its Novena Hospital based on WACC of 8.0% on 75% debt structure and a terminal growth rate of 4%.

**Risks:** Key risks to our S\$3.40 target price for Parkway include: 1) regulatory changes driven by government policies 2) a potential macroeconomic slowdown, which would affect employment and population growth, 3) increased competition from regional healthcare providers, 4) risk of a pandemic outbreak, 5) execution risks.

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