

Raffles Medical Group

2QFY08: Margin expansion from economies of scale

Raffles Medical Group (RMG) reported a net profit of S\$7.7m on revenue of S\$50.6m (+22.3% yoy). The results were slightly ahead of our net profit forecast of S\$7.4m. RMG booked a fair value gain of S\$12.9m in 2QFY07 for its original 50% stake in the Raffles Hospital building. Pre-tax profit increased 49.2% yoy if we exclude the one-time gain last year.

Economies of scale from Raffles Hospital. Revenue from hospital services grew 24.1% yoy, benefitting from growth in volume of local and international patients. International patients accounted for one-third of total admissions. Raffles Hospital has put in efforts to diversify its revenue base and sees healthy growth from new markets such as Russia, Vietnam, Cambodia and Mongolia. International patients provided higher revenue intensity due to their needs for more complex treatments and longer stay. Healthcare services registered steady revenue growth of 15.4% yoy due to the continual expansion of its corporate client base and contribution from new clinic at Changi Airport Terminal 3.

EBITDA margin improved from 17.9% in 2QFY07 to 22.6% in 2QFY08. This was due to a shift in revenue mix towards hospital services and economies of scale from Raffles Hospital. Inventories and consumables used and other operating expenses increased 17.7% and 18.3% respectively, slower than revenue growth of 22.3%. RMG has moved into a slight net cash position after generating positive cash flow of S\$13.6m in 1HFY08.

Boost from implementation of means testing. Raffles Hospital plans to add another 30 beds in 2HFY08, bringing the total to 230 beds. It will benefit from the implementation of means testing at restructured government hospitals from Jan 09 as local patients account for two-thirds of total admissions. Subsidies for "high-income" patients earning S\$5,201 and above per month will be reduced to 65% for Class C wards (current: 80%) and 50% for Class B2 wards (current: 65%). This will reduce the pricing differential between government hospitals and private hospitals. Raffles Hospital will benefit more than its competitors as its pricing is pegged close to the levels at government hospitals.

Benefitting from tie-up with Bupa. Raffles Medical Group's wholly-owned International Medical Insurer (IMI) has tied up with Bupa International to offer co-branded health insurance for executives who are travelling regularly or stationed overseas. RMG is actively marketing the plan in Singapore, Malaysia and Indonesia and response from corporate clients has been stronger than expected. Customers have access to a global network of 5,500 hospitals and clinics through the partnership. RMG benefits from referrals from the tie-up and management has noticed an increase in patient volume from British expatriates.

Maintain BUY. We like RMG for the growth momentum at Raffles Hospital. Raffles Hospital will benefit from the influx of foreign patients, increase in revenue intensity and positive impact from economies of scale. We have cut our target price from S\$2.27 to S\$2.14 as we have increased our risk-free rate from 2.35% to 3.5%.

SINGAPORE

Raffles Medical Group (RFMG SP)

BUY

Current Price: S\$1.20

Target Price: S\$2.14

(Previous: S\$2.27)

Jonathan Koh

☎ (65) 6539 1026

jonathankoh@uobkayhian.com

Sector Healthcare
Bloomberg RFMG SP
Website www.rafflesmedical.com

52-Wk Avg Daily Vol. ('000) 286
Market Cap (S\$m) 620.9
(US\$m) 456.5

Book NTA per Share (S\$) 0.40
ROE (%) 22.9
Net Cash per Share (S\$) 0.00004

Results Due
Interim July
Final February

12-Month House Call Tracking

Date	Rec	Target Price (S\$)
28/07/08	BUY	2.14
29/04/08	BUY	2.27
19/02/08	BUY	2.33
29/10/07	BUY	2.10
23/10/07	BUY	2.05

Price Chart

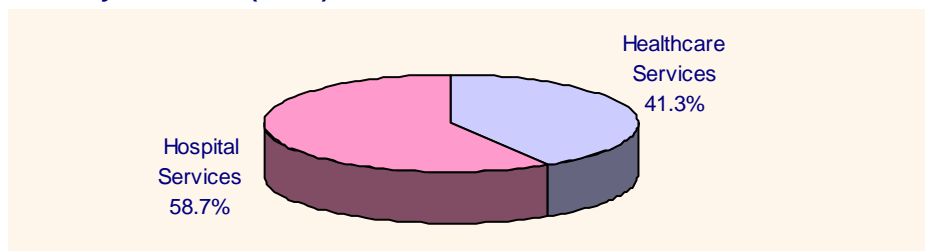


Year to 31 Dec	Turnover (S\$m)	EBITDA (S\$m)	Net Profit (S\$m)	EPS (¢)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS* (¢)
2006	134.2	22.6	15.7	3.5	27.9	34.3	27.5	2.3
2007#	168.7	32.4	35.9	7.4	110.3	16.3	19.2	2.5
2008F	205.4	42.8	29.6	5.7	(22.3)	21.0	14.5	2.5
2009F	250.7	53.8	37.4	7.2	26.5	16.6	11.5	2.5
2010F	278.6	60.1	42.2	8.2	12.7	14.7	10.3	2.5

FY07 earnings include fair value gain of S\$12.5m from 50% stake in CapitaLand-Raffles Properties Pte Ltd

* Exclude special dividend 1.36¢ for FY06

Sales By Business (FY07)



Source: RMG

Profit & Loss

Year to 31 Dec (S\$m)	2006	2007	2008F	2009F	2010F
Turnover	134.2	168.7	205.4	250.7	278.6
EBITDA	22.6	32.4	42.8	53.8	60.1
Pre-tax Profit	20.0	41.4	37.0	46.8	52.7
Net Profit	15.7	35.9	29.6	37.4	42.2
EPS (cents)	3.5	7.4	5.7	7.3	8.2

Balance Sheet

Year to 31 Dec (S\$m)	2006	2007	2008F	2009F	2010F
Current Assets	76.4	44.5	67.6	99.0	116.3
Total Assets	151.8	335.4	304.6	335.2	352.3
Current Liabilities	37.9	79.7	63.0	72.0	79.6
Long-Term Loans	0.0	0.0	23.0	20.0	0.0
Shareholders' Funds	112.9	200.8	217.5	242.1	271.4
Total Equity & Liabilities	151.8	281.5	304.6	335.2	352.3

Cash Flow

Year to 31 Dec (S\$m)	2006	2007	2008F	2009F	2010F
Operating	19.7	40.1	34.2	49.1	51.3
Investing	(1.9)	(52.8)	(5.0)	(5.0)	(5.0)
Financing	(10.7)	(9.2)	(10.1)	(18.9)	(32.9)
Net Cash In/(Out) Flow	7.1	(22.0)	19.0	25.2	13.5
Begin Cash & Cash Equiv.	34.8	41.8	19.7	38.8	64.0
End'g Cash & Cash Equiv.	41.8	19.7	38.8	64.0	77.4

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