

Raffles Medical Group

Local and overseas expansion on track

OUTPERFORM

Maintained

S\$1.83

Target: S\$2.07

Mkt.Cap: S\$959m/US\$700m

Hospitals

RFMD SP / RAFG.SI

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- 2Q10 in line; maintain Outperform.** 2Q10 PATMI of S\$10.6m (+20.3% yoy) met consensus and our expectations. 2Q10 and 1H10 EPS form 24.9% and 46.3% of our FY10 estimates respectively. We are keeping our earnings estimates and target price of S\$2.07, based on 20x CY11 P/E, reflecting its mid-cycle valuations (still 20% short of its peak valuation of 25x). With its defensive business that delivers consistent earnings, we maintain Outperform on RFMD. We expect stock catalysts from the addition of clinics, expansion of medical specialties, higher local and foreign-patient catchments, and strong response to its new medical centre in Shanghai.
- Revenue up a healthy 8.7% yoy to S\$58.6m.** The growth was led by all divisions (Healthcare Services +3.7% yoy; Hospital +11.2% yoy). Average occupancy was stable, at 50+%. Foreign patients (+10% yoy) still formed a third of its patients.
- Operating efficiencies again in play.** 2Q10 EBITDA margins added 120bp yoy and 190bp qoq to 24.7%. The recruitment of more specialist consultants (staff costs +8.9% yoy), a higher patient load and a wider range of medical specialties contributed to improved EBIT S\$12.8m (+16.5% yoy, +14.6% qoq).
- Balance sheet strengthened further.** Net cash reached S\$61.6m at end-2Q10 (from S\$59.0m at end-1Q10), with net asset value reaching 50.2cts/share from 49.9cts at end-1Q10. An interim dividend of 1.0ct/share was declared.
- Expansion locally and overseas.** RFMD finally made inroads in China as it started to manage a medical centre, RafflesMedical Shanghai. It will provide professional medical and dental care to expatriates and the local population. Separately, the group has received grant of outline permission from the URA to build an additional 102,408 sf of space on its hospital site in Singapore. The additional area will enable the group to expand existing services as well as develop new facilities and services. Estimated development cost is S\$80m-100m, with a timeframe of about 24 months to completion.

Results comparison

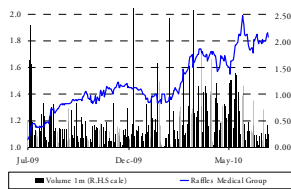
FYE Dec (\$\$ m)	2QFY10	2QFY09	yoy %	qoq %	2QFY10	2QFY09	yoy %	Prev.	
			chg	chg	Cum	Cum	chg	FY10F	Comments
Revenue	58.6	53.9	8.7	4.2	114.8	104.9	9.4	261.8	In line, Healthcare +3.7% yoy, Hospital +11.2% yoy
Operating costs	(44.1)	(41.2)	7.0	1.8	(87.5)	(80.9)	8.1	(203.8)	Inventories & consumables +3.6% yoy, staff cost +8.9% yoy
EBITDA	14.5	12.7	14.1	12.6	27.3	24.0	13.6	57.9	In-line with better revenue and cost management
EBITDA margin (%)	24.7	23.5	5.0	8.0	23.8	22.9	3.8	22.1	Margins climbed yoy due to operating efficiency
Depn & amort.	(1.7)	(1.7)	(0.9)	(0.2)	(3.4)	(3.5)	(1.4)	(6.8)	Depreciation on PPE very subdued
EBIT	12.8	10.9	16.5	14.6	23.9	20.6	16.1	51.1	In-line, 2Q10 accounted for 47% of FY10 forecast
Interest expense	(0.1)	(0.1)	(37.6)	(11.3)	(0.1)	(0.2)	(41.7)	(0.4)	In line
Interest & invt inc	0.3	0.0	687.9	293.9	0.3	0.1	283.5	0.3	Winthin expectation
Associates' contrib	-	-	-	-	-	-	-	-	
Exceptionals	-	-	-	-	-	1.0	-	-	
Pretax profit	12.9	10.9	19.0	16.4	24.1	20.4	17.9	51.0	In-line; strong operational efficiency still churning
Tax	(2.3)	(2.1)	13.0	17.2	(4.3)	(3.8)	14.9	(8.7)	
Tax rate (%)	18.1	19.1	-	-	18.1	18.5	-	17.0	
Minority interests	(0.0)	(0.0)	68.2	(32.7)	(0.1)	(0.1)	43.8	(0.2)	
Net profit	10.6	8.8	20.3	16.5	19.6	16.6	18.5	42.1	2Q10 net profit yoy growth of 20.3%
EPS (cts)	2.0	1.7	19.3	16.0	3.8	3.2	17.7	8.1	
Core net profit	10.6	8.8	20.3	16.5	19.6	16.6	18.5	42.1	2Q10 EPS formed 24.9% of FY10 estimate
Core EPS (cts)	2.0	1.7	19.3	16.0	3.8	3.2	17.7	8.1	1H10 EPS accounted for 46.3% of FY10 forecast

Source: Company, CIMB Research

Financial summary

FYE Dec	2008	2009	2010F	2011F	2012F
Revenue (S\$ m)	200.8	218.6	261.8	307.6	365.4
EBITDA (S\$ m)	45.4	52.1	57.9	72.8	81.9
EBITDA margins (%)	22.6%	23.8%	22.1%	23.7%	22.4%
Pretax profit (S\$ m)	38.4	45.0	51.0	66.0	75.3
Net profit (S\$ m)	31.5	37.9	42.1	54.0	61.6
EPS (S cts)	6.1	7.3	8.1	10.4	11.8
EPS growth (%)	36.7%	19.6%	10.9%	28.0%	14.1%
P/E (x)	30.0	25.1	22.6	17.6	15.5
Gross DPS (S cts)	2.5	3.0	3.0	3.0	3.0
Dividend yield (%)	1.4%	1.6%	1.6%	1.6%	1.6%
P/BV (x)	4.3	3.8	3.4	3.0	2.6
ROE (%)	14.9%	16.1%	16.0%	18.3%	18.2%
Net cash per share (S\$)	0.03	0.10	0.16	0.26	0.37
P/FCFE (x)	26.3	23.0	20.4	15.3	13.3
EV/EBITDA (x)	20.5	17.3	15.0	11.3	9.3
% change in EPS estimates			N/A	N/A	N/A
CIMB/Consensus (x)			0.98	1.05	1.08

Price chart



Source: Bloomberg

Source: Company, CIMB Research, Bloomberg

Figure 1: Sector comparisons

	Bloomberg	Price	Target	Mkt cap	Core	3-yr EPS	P/BV	ROE	Div		
	ticker	Recom.	price	(US\$ m)	P/E (x)	CAGR	(x)	(%)	yield (%)		
			(Local)		CY2009	CY2010	CY2009	CY2009	CY2009		
Raffles Medical	RFMD SP	O	1.83	2.07	700	25.1	22.6	17.4	3.8	16.1	1.6
Parkway	PWAY SP	O	3.88	3.69	3,227	37.1	29.1	19.0	3.0	8.5	0.3
Bumrungrad	BH TB	O	28.75	35.40	650	16.9	15.5	12.0	3.8	24.1	3.0
Simple average						24.8	21.0	16.3	3.4	16.8	1.8

O = Outperform, N = Neutral, U = Underperform, TB = Trading Buy and TS = Trading Sell
Source: Company, CIMB Research

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OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

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STOCK RECOMMENDATIONS

OUTPERFORM: Expected positive total returns of 15% or more over the next 12 months.

NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.

UNDERPERFORM: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 3 months.

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