

# Raffles Medical Group

*Predictably good results, yet again*

<b>OUTPERFORM</b>	Maintained
<b>S\$2.19</b>	Target: S\$2.64
Mkt.Cap: S\$1,150m/US\$887m	
Hospitals	

RFMD SP / RAFG.SI

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- In line; maintain Outperform.** 3Q10 PATMI of S\$10.7m (+12.9% yoy) met consensus and our expectations. 3Q10 and 9M10 EPS form 25.3% and 72.2% of our FY10 estimates respectively. We are keeping our earnings estimates. But our target price climbs to S\$2.64 (from S\$2.07) as we roll over to 23x CY12 P/E (from 20x CY11 P/E), reflecting its mid-cycle valuations (still 10% short of its peak valuation of 25x). With its defensive business that delivers consistent earnings, we maintain Outperform. We expect stock catalysts from the addition of clinics, expansion of medical specialties, higher foreign-patient growth, and higher intensity cases within the hospital segment.
- Record revenue, +9.8% yoy to S\$60.9m.** 3Q growth was led by all divisions (Healthcare Services +4.0% yoy; Hospital +15.0% yoy). Average occupancy was stable, at a high 50+%. Foreign patients (up more than 20% yoy) still formed a third of its patients, outpacing local-patient growth in 3Q10. Growth in the Hospital segment was driven partially by volume, partially by prices and the number of intensity cases.
- Operating efficiencies again in play.** A wider range of medical specialties, continued improvements in operating efficiency, a higher patient load and the recruitment of more specialist consultants contributed to improved operating profit, up 10.9% yoy to S\$13.2m. 3Q10 EBIT margins added 20bp yoy to 21.5%.
- Balance sheet strengthened further.** Net cash reached S\$70.9m as at end-3Q10 (from S\$61.6m at end-1H10), despite the payment of the last interim dividend of S\$5.2m.
- New clinics to be opened in 4Q10.** Architectural consultants are finalising the design for the expansion of Raffles Hospital (additional 102,408 sf) for submission to the authorities. RFMD will be opening a new clinic at Mapletree Business City in Oct 10. It is also targeting a few more family-medicine clinics, scheduled to open in 4Q10.

## Results comparison

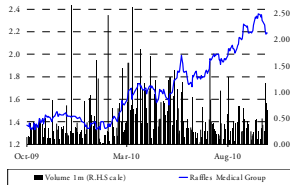
FYE Dec (\$\$ m)	3QFY10	3QFY09	yoy %	qoq %	3QFY10	3QFY09	yoy %	Prev.	
			chg	chg	Cum	Cum	chg	FY10F	Comments
Revenue	60.9	55.4	9.8	3.9	175.6	160.3	9.5	261.8	In line, Healthcare services +4% yoy, Hospital +15% yoy
Operating costs	(46.1)	(41.9)	10.0	4.4	(133.5)	(122.7)	8.8	(203.8)	Inventories & consumables +14.3% yoy, staff cost +8.7% yoy
EBITDA	14.8	13.5	9.3	2.4	42.1	37.6	12.0	57.9	In-line with better revenue and cost management
EBITDA margin (%)	24.3	24.4	(0.5)	(1.4)	24.0	23.4	2.3	22.1	Margin climbed yoy due to operating efficiency
Depn & amort.	(1.7)	(1.8)	(2.7)	(0.1)	(5.1)	(5.2)	(1.8)	(6.8)	In-line; depreciation on PPE very subdued
EBIT	13.1	11.8	11.1	2.8	37.0	32.4	14.2	51.1	In-line, 3Q10 accounted for 25.7% of FY10 forecast
Interest expense	(0.1)	(0.1)	(27.3)	14.3	(0.2)	(0.3)	(37.4)	(0.4)	In line
Interest & invt inc	0.1	0.1	(5.9)	(63.5)	0.4	0.2	139.2	0.3	Winthin expectation
Associates' contrib	-	-	-	-	-	-	-	-	
Exceptionals	-	-	-	-	-	1.0	-	-	
Pretax profit	13.1	11.8	11.2	1.4	37.2	32.2	15.4	51.0	In-line; 9M10 PBT +15.4% yoy strong operational efficiency
<b>Tax</b>	<b>(2.4)</b>	<b>(2.3)</b>	<b>4.0</b>	<b>2.0</b>	<b>(6.7)</b>	<b>(6.1)</b>	<b>10.8</b>	<b>(8.7)</b>	
Tax rate (%)	18.2	19.5	-	-	18.1	18.9	-	17.0	
Minority interests	(0.1)	(0.0)	22.2	48.6	(0.1)	(0.1)	34.9	(0.2)	
Net profit	10.7	9.5	12.9	1.1	30.3	26.0	16.4	42.1	3Q10 PATMI yoy growth of 12.9%
EPS (cts)	2.0	1.8	11.7	0.7	5.8	5.0	15.5	8.0	
<b>Core net profit</b>	<b>10.7</b>	<b>9.5</b>	<b>12.9</b>	<b>1.1</b>	<b>30.3</b>	<b>26.0</b>	<b>16.4</b>	<b>42.1</b>	3Q10 EPS forms 25.3% of FY10 estimate
<b>Core EPS (cts)</b>	<b>2.0</b>	<b>1.8</b>	<b>11.7</b>	<b>0.7</b>	<b>5.8</b>	<b>5.0</b>	<b>15.5</b>	<b>8.0</b>	9M10 EPS accounts for 72.2% 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	72.9	82.1
EBITDA margins (%)	22.6%	23.8%	22.1%	23.7%	22.5%
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	8.0	10.3	11.7
EPS growth (%)	36.7%	19.6%	10.0%	28.0%	14.1%
P/E (x)	35.9	30.0	27.3	21.3	18.6
Gross DPS (S cts)	2.5	3.0	3.0	3.0	3.0
Dividend yield (%)	1.1%	1.4%	1.4%	1.4%	1.4%
P/BV (x)	5.1	4.5	4.2	3.7	3.2
ROE (%)	14.9%	16.1%	16.0%	18.3%	18.3%
Net cash per share (S\$)	0.03	0.10	0.16	0.17	0.19
P/FCFE (x)	31.4	27.5	24.7	66.9	43.5
EV/EBITDA (x)	24.6	20.8	18.4	14.6	12.8
% change in EPS estimates			N/A	N/A	N/A
CIMB/Consensus (x)			0.95	1.04	1.06

### Price chart



Source: Bloomberg

Source: Company, CIMB Research, Bloomberg

### Figure 1: Sector comparisons

	Bloomberg		Price	Target		Core	3-yr EPS	P/BV	ROE	Div	
	ticker	Recom.	(Local)	price	Mkt cap	P/E (x)	CAGR	(x)	(%)	yield (%)	
				(Local)	(US\$ m)	CY2011	CY2012	CY2011	CY2011	CY2011	
Raffles Medical	RFMD SP	O	2.19	2.64	887	21.3	18.6	17.1	3.7	18.3	1.4
Bumrungrad	BH TB	O	33.75	38.50	820	16.3	14.1	11.6	3.6	23.5	3.1
<b>Simple average</b>						<b>18.8</b>	<b>16.4</b>	<b>14.4</b>	<b>3.7</b>	<b>20.9</b>	<b>2.3</b>

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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## RECOMMENDATION FRAMEWORK #2 \*\*

### 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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