

Raffles Medical Group

Strong 4Q09, dividend lifted

OUTPERFORM	Maintained
S\$1.36	Target: S\$1.66
Mkt.Cap: S\$708m/US\$503m	
Hospitals	

RFMD SP / RAFG.SI

Gary Ng +65 6210 8699 – gary.ng@cimb.com

- Maintain Outperform; results above.** With a stronger-than-expected 4Q09 net profit of S\$11.9m (+24.3% yoy, 31.3% of our full-year forecast), FY09 net profit was S\$37.8m (+20.1%), 7.9% ahead of our expectations owing to robust operating results from Hospital Services. The results also beat consensus expectations. We raise our FY10-11 estimates by 2.1-2.4% to reflect higher revenue and margin assumptions for both healthcare services and the hospital division. We also introduce FY12 numbers. Our target price rises from S\$1.63 to S\$1.66 following our upgrade, still based on 16x CY11 P/E. With its defensive business that delivers consistent earnings, maintain Outperform. We expect stock catalysts from the addition of clinics, expansion of medical specialties, and higher foreign-patient catchments.
- Occupancy and patient load steady.** Revenue from Healthcare Services and the hospital segment grew 10.2% and 7.9% yoy respectively. Average occupancy was stable at around 60%. Foreign patients still formed a third of the patient load with Indonesian patients accounting for 22% of the foreigners. This partly explained the increase in foreign patient volume.
- Hallmark operating efficiencies.** Operating profit increased to S\$45.5m (+16.6% yoy) in FY09, attributable to improved patient admissions on the back of more clinics, added services and operating leverage. FY09 EBITDA margins improved 1.2% pts yoy to 23.8%. Staff expenses for FY09 rose only 6.7% yoy, below the pace of revenue growth.
- Increase of DPS to 3Scts.** Balance sheet was robust with a net cash position of S\$49.9m. We mentioned before that RFMD could possibly use its balance sheet for capital-management exercises or higher dividend payouts. The group did not disappoint, having raised its DPS to 3 Scts for the year (from 2.5 Scts in FY08).
- Organic FY10 growth.** The group plans to launch four new clinics in FY10 (Changi Business Park, Mapletree Business Park, Marina Boulevard and Serangoon). Within its flagship hospitals, new bed rollout and space rationalisation to make room for more beds will come in the year.

Results comparison

FYE Dec (\$ m)	4QFY09	4QFY08	yoy % chg	qoq % chg	4QFY09 Cum	4QFY08 Cum	yoy % chg	Prev. FY09F	Comments
Revenue	58.3	51.4	13.3	5.2	218.6	200.8	8.9	222.8	In line, Healthcare services +10.2% yoy, Hospital +7.9% y
Operating costs	(43.8)	(38.8)	12.6	4.5	(166.5)	(155.4)	7.2	(176.2)	Lower, costs contained well, staff cost up 6.7% yoy
EBITDA	14.5	12.6	15.5	7.2	52.1	45.4	14.8	46.6	Higher with better revenue and subdued cost
EBITDA margin (%)	24.9	24.5	1.9	1.9	23.8	22.6	5.5	20.9	Margin climbed yoy & qoq due to operating efficiency
Depn & amort.	(1.6)	(1.8)	(7.5)	(7.5)	(6.8)	(6.7)	2.5	(6.7)	Depreciation on PPE climbed 4.1% yoy
EBIT	12.9	10.8	19.2	9.4	45.3	38.7	16.9	39.9	Above, 4Q09 accounted for 28.5% of FY09
Interest expense	(0.1)	(0.2)	(48.1)	(18.2)	(0.4)	(0.6)	(34.2)	(0.4)	In line
Interest & invt inc	0.0	0.1	(95.1)	(96.0)	0.2	0.3	(30.2)	0.3	In-line with conservative investment
Associates' contrib	-	-	-	-	-	-	-	-	
Exceptionals	-	-	-	-	-	-	-	-	
Pretax profit	12.8	10.8	19.3	8.7	45.0	38.4	17.5	39.8	Above; strong operational showing
Tax	(0.9)	(1.2)	(20.5)	(59.6)	(7.0)	(6.7)	4.8	(4.7)	
Tax rate (%)	7.2	10.9	-	-	15.6	17.4	-	11.7	
Minority interests	(0.0)	(0.0)	(6.7)	(6.7)	(0.2)	(0.1)	33.6	(0.1)	
Net profit	11.9	9.5	24.3	25.4	37.9	31.5	20.1	35.0	4Q09 net profit forms 31.3% of FY09
EPS (cts)	2.3	1.8	23.9	25.5	7.3	6.1	19.6	6.8	... 4Q EPS yoy growth of 23.9%
Core net profit	11.9	9.5	24.3	25.4	37.9	31.5	20.1	35.0	FY09 net profit yoy growth of 20.1%
Core EPS (cts)	2.3	1.8	23.9	25.5	7.3	6.1	19.6	6.8	FY09 EPS 7.9% above forecast

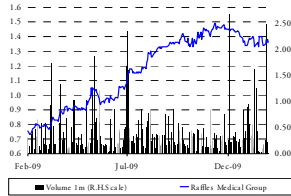
Source: Company, CIMB-GK Research

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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	11.9
EPS growth (%)	36.7%	19.6%	11.3%	28.0%	14.1%
P/E (x)	22.3	18.6	16.7	13.1	11.5
Core EPS (S cts)	6.1	7.3	8.1	10.4	11.9
Core EPS growth (%)	(4.7%)	19.6%	11.3%	28.0%	14.1%
Core P/E (x)	22.3	18.6	16.7	13.1	11.5
Gross DPS (S cts)	2.5	3.0	3.0	3.0	3.0
Dividend yield (%)	1.8%	2.2%	2.2%	2.2%	2.2%
P/BV (x)	3.2	2.8	2.6	2.2	2.0
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)	19.5	17.1	15.1	11.3	9.9
EV/EBITDA (x)	15.1	12.6	10.7	7.9	6.3
% change in EPS estimates			2.4%	2.1%	N/A
CIMB/Consensus (x)			1.02	1.08	N/A

Price chart



Source: Bloomberg

Source: Company, CIMB-GK Research, Bloomberg

Figure 1: Sector comparisons

	Bloomberg	Price	Target	Mkt cap	Core	3-yr EPS	P/BV	ROE	Div		
	ticker	(Local)	price	(US\$ m)	P/E (x)	CAGR	(x)	(%)	yield (%)		
	Recom.		(Local)		CY2009	CY2010	CY2009	CY2009	CY2009		
Raffles Medical	RFMD SP	O	1.36	1.66	503	18.6	16.7	17.6	2.8	16.1	2.2
Parkway	PWAY SP	O	2.81	3.69	2,259	26.8	21.1	19.0	2.2	8.5	0.4
Bumrungrad	BH TB	O	31.00	34.80	683	18.1	16.8	7.9	4.1	24.1	2.8
Simple average						21.1	18.1	13.3	3.0	16.1	1.9

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

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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.

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