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Singapore Healthcare

Reuters RAFG.SI
Bloomberg RFMD SP

Priced on 9 July 2010

STI @ 2,917.2

12M hi/lo S\$2.00/0.98

12M price target S\$2.10
±% potential +17%
Target set on 9 Jul 10

Shares in issue 517.7m
Free float (est.) 50.0%

Market cap US\$684m

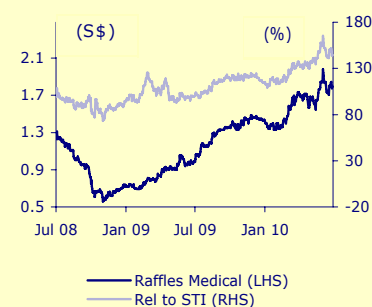
3M average daily volume
S\$1.1m (US\$0.8m)

Major shareholders

Raffles Medical Holdings 39.7%
Dr Loo Choon Yong 10.3%

Stock performance (%)

	1M	3M	12M
Absolute	(2.7)	3.4	82.7
Relative	(6.7)	5.4	44.6
Abs (US\$)	(1.0)	4.3	93.6



Source: Bloomberg

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Beneficiary of bidding war

The bidding war emerging in Parkway has raised investor's risk appetite and interest in the healthcare space, driving share price outperformance for healthcare stocks. Our checks also reaffirmed our view of healthy fundamentals in the sector with likely double digit growth for foreign patient trend in 2Q10. Based on historical peak multiples for stakes acquired, Raffles Medical can trade up to 17.7x fwd EV/EBITDA. However, we apply a more conservative multiple at 15x fwd EV/EBITDA derived from historical trading premium of 21% for Parkway over Raffles Med on Fortis's 23.9% stake acquisition from TPG (as it excludes the controlling premium inherent in the current bid). We raised target price to S\$2.10 by pegging a 15x fwd EV/EBITDA. Maintain BUY

Checks suggest healthcare fundamentals remain robust

Our ground checks suggest that business fundamentals in the healthcare space remain robust. Double digit growth in foreign patient's trend in 1Q10 should follow into 2Q10 and likely to be reflected in upcoming results. Year to date, tourists arrivals also reached record levels and for 2010, arrivals are expected to reach 12million. Furthermore, despite the government's efforts to increase bed supply in Singapore, the bed crunch situation has seen little improvement and remains a positive for the healthcare operators.

Offer for Parkway driving interest in Raffles Medical

Since the partial offer announcement for Parkway by Khazanah on 27th May, Parkway's share price has soared 27.2% outperforming the FSSTI market by 19.2%. As a result of this offer, investor's interest in Raffles Medical has raised significantly. During the same period, Raffles Medical's share price climbed by 16.0% outperforming the market by 8.0%.

Raffles Medical - what multiple?

The bidding war emerging in Parkway suggests increasing risk appetite for healthcare plays. If history is of any guidance, Fortis's current offer of 21x fwd EV/EBITDA at 9.5% discount to historical peak multiples implies a 16.0x multiple for Raffles Med. Extending this, we applied Parkway's historical trading premium of 21% over Raffles Med on Fortis's 23.9% stake acquisition in Mar10 valued at 19.8x. This results in a 15x forward EV/EBITDA for Raffles Medical. We believe this is an appropriate and conservative approach as it excludes the controlling stake premium inherent in the current bid price.

Target price raised to S\$2.10, maintain BUY

We have raised our target price to S\$2.10 pegging to 15x FY11 EV/EBITDA. Our 15x multiple is premised on the EV/Ebitda historical discount of 21% against its larger peer Parkway which is also lower than >1 s.d above Raffles Medical's historical trading multiple. With 17% upside to our target price, we maintain our Buy recommendation.

Financials

Year to 31 Dec	08A	09A	10CL	11CL	12CL
Revenue (\$m)	200.8	218.6	244.3	277.6	298.0
Net profit (\$m)	31.6	37.9	41.4	50.7	52.6
EPS (\$¢)	6.1	7.3	8.0	9.8	10.2
CL/consensus(7)(EPS%)	-	-	94	98	90
EPS (% YoY)	(17.0)	20.1	9.2	22.5	3.5
PEX (@S\$1.80)	29.5	24.6	22.5	18.3	17.7
Dividend yield (%)	1.4	1.7	1.7	1.7	1.7
FCF yield (%)	3.6	4.6	3.8	6.1	5.5
ROAE (%)	14.9	16.1	15.8	17.3	16.0
Price/book (x)	4.2	3.7	3.4	3.0	2.7
Net gearing (%)	(8)	(20)	(25)	(35)	(42)

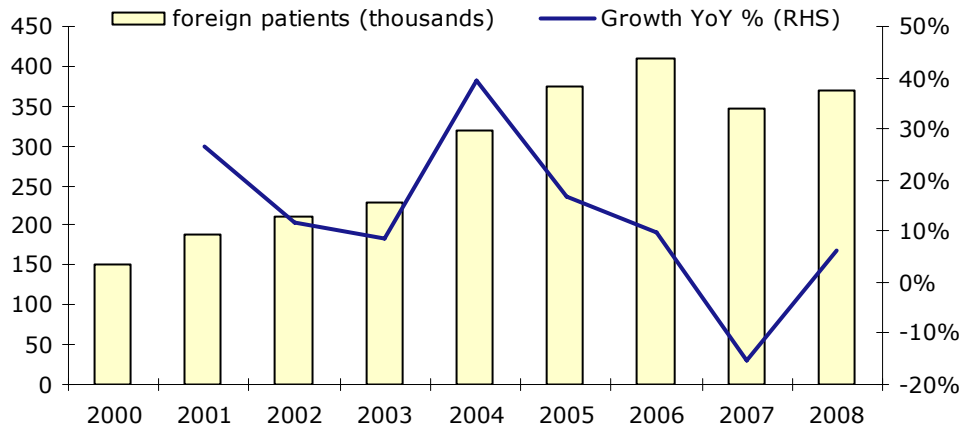
Source: CLSA Asia-Pacific Markets

Checks suggest healthcare fundamentals remain robust

Our ground checks suggest that business fundamentals in the healthcare space remain robust. Foreign patient's trend has also staged a strong recovery in 2010 posting double digit growth for 1Q10 and we expect similar trend to be reflected in upcoming results. Year to date, tourists arrivals also reached record levels and for 2010 arrivals are expected to reach 12million.

Figure 1

Medical tourists in Singapore

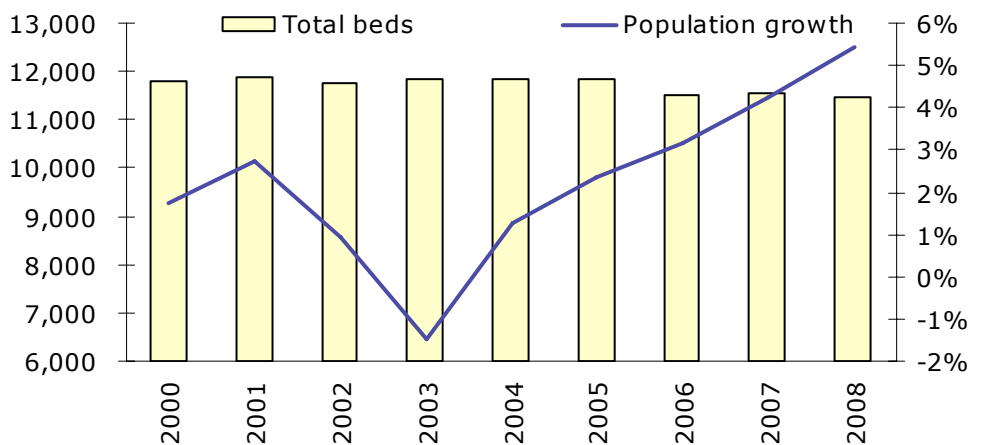


Source: CLSA Asia-Pacific Markets , STB, MOH

Furthermore, despite the government's efforts to increase bed supply in Singapore, the bed crunch situation in Singapore remains a positive for the healthcare operators in Singapore.

Figure 2

Singapore population growth versus total beds



Source: CLSA Asia-Pacific Markets , MOH

Offer for Parkway driving interest in Raffles Medical

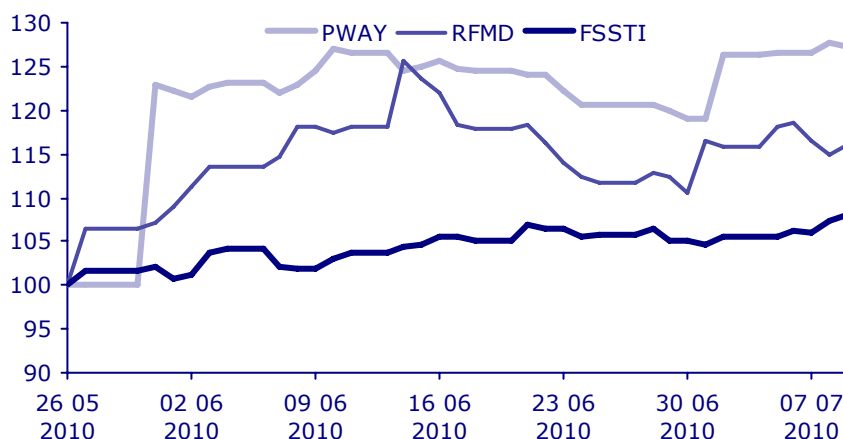
Since the partial offer announcement for Parkway by Khazanah on 27th May, Parkway's share price has soared 27.2% outperforming the FSSTI market by 19.2%. As a result of this offer, investor's interest in Raffles Medical has raised significantly. During the same period, Raffles Medical's share price climbed by 16.0% outperforming the market by 8.0%. Year to date, Singapore's healthcare sector is one of the best performing sectors with the corporate actions driving share price performance.

Singapore population growth outpacing bed supply growth

Parkway and Raffles Medical outperformed the market by 19.2% and 8.0% respectively

Figure 3

Share price performance of Parkway and Raffles Med since Khazanah's offer



Source: CLSA Asia-Pacific Markets , Bloomberg

Raffles Medical - what multiple?

The bidding war emerging in Parkway warrants a look at Parkway's closest peer in the Singapore healthcare space, Raffles Medical. A look at historical investments by sovereign wealth funds, both Temasek and Qatar Investments have paid up to 17.7x forward EV/EBITDA multiples for a 5% stake in Raffles Medical each back in 2007.

Figure 4

Past transactions by major shareholders

Acquirer	Announcement Date	Price as of announcement	Date paid	Price S\$	Value S\$m	% stake	Year	Premium to share price	Trailing valuations			Forward Valuations		
									PE (x)	PB (x)	EV/E A (x)	BITD (x)	PE (x)	PB (x)
Parkway Holdings	TPG	1.38	May 05	1.69	312	26.0	2005	22.1	19.0	3.4	14.3	18.8	2.8	11.1
Parkway Holdings	Khazanah	3.09	Apr 08	4.11	581	18.3	2008	33.0	43.4	3.6	22.5	39.9	3.2	23.2
Parkway Holdings	Fortis	3.12	Mar 10	3.56	959	23.9	2010	14.1	34.5	2.8	23.7	29.8	2.5	19.8
Raffles Medical	Temasek	1.30	Jun 07	1.30	33	4.9	2007	0.0	37.2	3.9	26.1	27.2	2.4	17.7
Raffles Medical	Qatar Inv	1.30	Jun 07	1.3	33	4.9	2007	0.0	37.2	3.9	26.1	27.2	2.4	17.7

Source: CLSA Asia-Pacific Markets

Applying peak multiples discount to current bid at Parkway suggest 16x fwd EV/EBITDA for Raffles Med

Historical multiple premium of 21% suggest a fwd EV/EBITDA multiple of 15x for Raffles Med

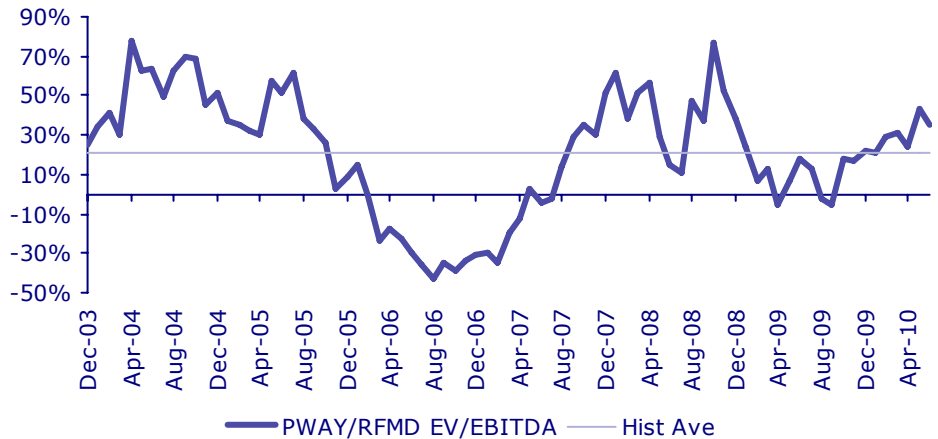
On the other hand, the current offer from Khazanah and Fortis healthcare is valued at close to 21x forward EV/EBITDA implying a discount of 9.5% to the historical high of 23.2x EV/EBITDA paid by Khazanah for an 18.3% stake in Parkway back in 2008. Assuming the same discount is applied on Raffles Medical's peak valuations of 17.7x paid in 2007, this would suggest that valuation multiple for Raffles Medical can reach 16.0x forward EV/EBITDA.

Extending this, we applied Parkway's historical trading premium of 21% over Raffles Med on Fortis's 23.9% stake acquisition in Mar10 valued at 19.8x forward EV/EBITDA. This implies in a 15x forward EV/EBITDA for Raffles Medical. We believe this is a more appropriate and conservative approach as the Fortis's bid back in March 2010 excludes the controlling stake premium inherent in the current counter offer price.

Parkway has traded at 21% premium over RFMD based on forward EV/EBITDA

Figure 5

Parkway EV/EBITDA premium discount over Raffles Medical



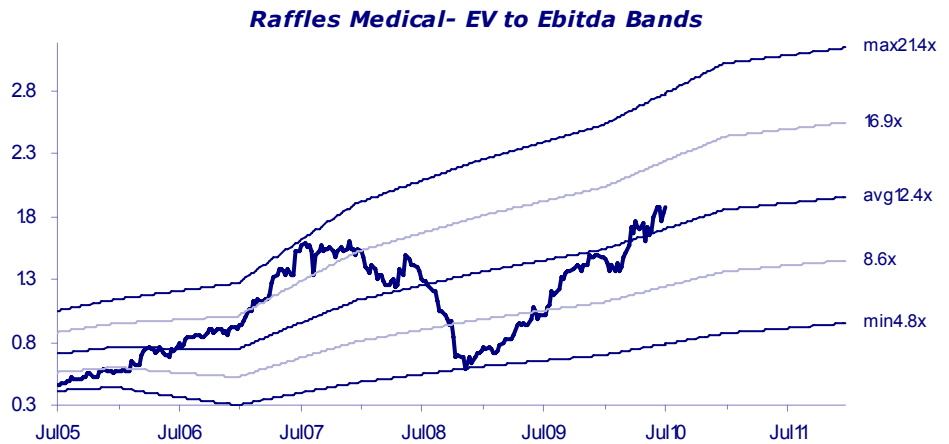
Source: CLSA Asia-Pacific Markets

Target price raised to S\$2.10, maintain BUY

We have raised our target price to S\$2.10 pegging to 15x FY11 EV/EBITDA from 14x earlier. Our 15x multiple is premised on the EV/Ebitda historical discount of 21% against its larger peer Parkway and supported by the suggested multiple range based on historical bids. This is also lower than >1 s.d above Raffles Medical’s historical trading multiple. With 17% upside to our target price, we maintain our Buy recommendation.

Figure 6

Raffles Medical EV/Ebitda band



Source: CLSA Evalu@tor

Source: CLSA Asia-Pacific Markets

Raffles Medical continues to be a beneficiary of improving outlook in the tourism healthcare demand driving higher foreign patient volume. Earnings should also be supported by increased revenue intensity seen in its healthcare services segment.

Figure 7

Sector Valuations

Company Name	Rec	Target Price	Price (LCY)	Mkt cap in US\$m	Ave 3mth trading value US\$m	PE (x) 10	PE (x) 11	EV/EB ITDA (x) 10	EV/EB ITDA (x) 11	PB (x) 10	Div Yield (%)	ROE (%)
Parkway Holdings Ltd	UPF	3.43	3.86	3,185	9.3	25.0	21.8	20.7	19.4	2.7	0.0	11.3
Raffles Medical Group Ltd	BUY	2.10	1.80	683	1.1	22.5	18.3	16.0	13.4	3.4	1.7	15.8
Bangkok Dusit Medical Service	NR	NR	29.75	1,113	33.7	18.8	16.1	8.1	7.6	2.4	2.7	13.2
Apollo Hospitals Enterprise Lt	NR	NR	741.0	972	50.6	25.8	21.6	12.7	10.8	3.0	1.5	9.9
Bumrungrad Hospital PCL	NR	NR	30.50	684	14.0	17.0	15.8	9.6	8.7	3.8	3.1	23.1
Fortis Healthcare Ltd	NR	NR	152.55	1,028	571.4	38.9	25.1	19.6	14.7	3.3	0.0	5.9
KPJ Healthcare Bhd	NR	NR	3.45	569	3.2	15.5	14.8	11.4	10.5	2.7	3.1	18.1
Bangkok Chain Hospital PCL	NR	NR	4.98	255	9.7	11.9	10.9	6.3	5.6	2.7	4.9	22.5
Thomson Medical Centre Ltd	NR	NR	0.72	150	0.1	14.3	13.2	8.8	7.9	1.9	3.8	12.6
Market Cap weighted average				5,452		23.9	19.8	15.5	13.8	2.9	1.3	12.8

Source: CLSA Asia-Pacific Markets

Summary P&L forecast (\$m)

Year to 31 December	2008A	2009A	2010CL	2011CL	2012CL
Revenue	201	219	244	278	298
Operating Ebitda	45	51	57	67	69
Operating Ebit	38	44	51	61	62
Interest income	0	0	1	2	3
Interest expense	(1)	0	(1)	(1)	(1)
Other items	0	1	0	0	0
Profit before tax	38	45	51	62	64
Taxation	(7)	(7)	(9)	(11)	(12)
Minorities and other	0	0	0	0	0
Profit	32	38	41	51	53

Summary cashflow forecast (\$m)

Operating Ebit	38	44	51	61	62
Depreciation/amort	7	7	7	7	6
Working capital - trade	(2)	1	(11)	1	(5)
Other operating items	1	0	0	0	0
Operating cashflow	44	53	46	68	64
Net interest/taxes/other	(4)	(6)	(7)	(7)	(9)
Cashflow	40	46	39	61	55
Capital expenditure	(6)	(4)	(4)	(4)	(4)
Acq/inv/disposals	1	0	0	0	0
Free Cashflow	34	43	35	57	51
Ord div paid/Other items	(11)	(11)	(16)	(16)	(16)
Decrease in net debt	23	32	19	41	35

Summary balance sheet forecast (\$m)

Cash & equivalents	45	74	94	135	170
Debtors - trade	25	24	30	34	37
Inventories - trade	5	5	6	6	7
Other current assets	0	1	1	1	1
Fixed assets	150	146	144	141	139
Intangible assets	0	0	0	0	0
Other term assets	86	86	86	86	86
Total assets	310	337	360	403	439
Short-term debt	5	5	5	5	5
Creditors - trade	52	52	48	53	51
Other current liabs	9	9	10	13	14
Long-term debt/CBs	22	20	20	20	20
Other long-term liabs	1	1	1	1	1
Minorities/other equity	0	0	0	0	0
Shareholder funds	222	250	276	311	348
Total liabs & equity	310	337	360	403	439

Ratio analysis

Revenue growth (%)	19.0	8.9	11.8	13.6	7.4
Op Ebitda growth (%)	57.5	14.6	11.3	17.4	2.3
Op Ebit growth (%)	57.8	16.4	13.7	19.9	2.8
Op Ebitda margin (%)	22.4	23.5	23.4	24.2	23.1
Op Ebit margin (%)	19.0	20.4	20.7	21.8	20.9
Net profit margin (%)	15.7	17.3	17.0	18.3	17.6
Dividend payout (%)	41.0	40.9	37.5	30.5	29.5
Tax rate (%)	17.4	15.6	18.0	18.0	18.0
Ebitda/net int exp (x)	123.0	223.7	(499.8)	(47.4)	(34.8)
Net debt/equity (%)	(8.0)	(19.9)	(25.1)	(35.4)	(41.8)
Gross debt/equity (%)	12.0	9.8	8.9	7.9	7.0
Net debt/op Ebitda (x)	(0.4)	(1.0)	(1.2)	(1.6)	(2.1)
Gross debt/op Ebitda (x)	0.6	0.5	0.4	0.4	0.4
Return on equity (%)	14.9	16.1	15.8	17.3	16.0
ROCE (%)	18.8	22.4	24.8	29.7	30.9
Return on assets (%)	10.7	11.7	11.9	13.3	12.5

Source: CLSA Asia-Pacific Markets

Recommendation history - Raffles Medical RFMD SP

Date	Rec level	Closing price	Target
09 July 2010	BUY	1.78	2.10
27 April 2010	BUY	1.71	1.97
10 March 2010	BUY	1.40	1.70

Source: CLSA Asia-Pacific Markets

Key to CLSA investment rankings: **BUY** = Expected to outperform the local market by >10%; **O-PF** = Expected to outperform the local market by 0-10%; **U-PF** = Expected to underperform the local market by 0-10%; **SELL** = Expected to underperform the local market by >10%. Performance is defined as 12-month total return (including dividends).

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Note: In the interests of timeliness, this document has not been edited.

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