

Raffles Medical -----Maintain OUTPERFORM

2Q10 in line - finally an expansion plan

EPS: ▲ TP: ▲

Su Tye Chua / Research Analyst / 65 6212 3014 / sutye.chua@credit-suisse.com

- Raffles Medical's 2Q10 results were strong and in line with our estimates. Revenue grew 9% YoY, while earnings jumped 20% YoY to S\$10.6 mn, with 6MTD revenue and net profit achieving 48% and 46% of our full-year FY10E estimates, respectively.
- Operating profit margins improved to 22.2% (from 20.4% in 2Q09), led by 11% YoY growth at its hospital, while the healthcare segment grew 4% YoY. Its cash hoard rose to S\$61.6 mn at end June-2010, and the company declared a S1ct interim dividend, similar to the previous year.
- Raffles Medical has received approval from the URA to expand its flagship hospital site by 30%. At S\$80-100 mn (S\$781-976/sf/gfa), including development premium, this is 39-51% lower than the cost of Parkway's upcoming Novena hospital project. Raffles Medical also separately announced that it has begun managing a medical centre in Shanghai.
- We have raised forecasts by 1-4% on stronger growth assumptions for its hospital operations. Valuations remain undemanding, given its growing franchise and earnings profile. We maintain our OUTPERFORM rating, but raise our new DCF-based target price to S\$2.10 (from S\$1.95).

cost, including the development premium, will range from S\$80-100 mn, and that the construction period will be about 18 months. We expect further updates and details on operational metrics to be shared over the coming quarters. At S\$780-976/sq ft, this is 39-51% lower than the project costs for Parkway's upcoming Novena hospital at S\$1,600/sq ft, and in line with that of Singapore HealthPartner's Farrer Park hospital at S\$907.5/sq ft. We recall that medical suites were transacted at S\$3,100-S\$3,888/sq ft at these two projects.

Figure 1: Hospital projects

Hospital	Total cost (\$\$ mn)	Additional GFA (sq ft)	\$\$/sq ft
Novena (Parkway)	1,646	778,769	1,600.0
Farrer (Singapore HealthPartners)	335	369,579	907.5
Raffles Hospital	80-100	102,408	780-976

Source: Company data, Credit Suisse estimates

Moreover, Raffles Medical also announced that it has begun the management of a medical centre from June 2010. This facility, referred to as the RafflesMedical Shanghai, will provide medical and dental care, catering to both the expatriate and local population in Shanghai.

Bbg/RIC	RFMD SP / RAFG.SI	Price (23 Jul 10, S\$)	1.87		
Rating (prev. rating)	O (O)	TP (Prev. TP S\$)	2.10 (1.95)		
Shares outstanding (mn)	523.94	Est. pot. % chg. to TP	12		
Daily trad vol - 6m avg (mn)	0.65	52-wk range (S\$)	1.99 - 1.04		
Daily trad val - 6m avg (US\$ mn)	0.7	Mkt cap (S\$/US\$ mn)	979.8/ 715.0		
Free float (%)	33.0	Performance	1M 3M 12M		
Major shareholders	Dr Loo Choon Yong	Absolute (%)	5.6 12.0 79.8		
	(40.0%)	Relative (%)	2.0 12.5 50.3		
Year	12/08A	12/09A	12/10E	12/11E	12/12E
Revenues (\$\$ mn)	200.8	218.6	238.9	269.3	302.6
EBITDA (\$\$ mn)	45.6	52.3	55.8	64.1	70.4
Net profit (\$\$ mn)	31.6	37.9	42.8	50.0	58.1
EPS (\$\$)	0.06	0.07	0.08	0.10	0.11
- Change from prev. EPS (%)	n.a.	n.a.	1	2	4
- Consensus EPS (\$\$)	n.a.	n.a.	0.08	0.10	0.11
EPS growth (%)	36.0	18.4	15.9	16.7	16.3
P/E (x)	30.7	25.9	22.3	19.1	16.5
Dividend yield (%)	1.3	1.6	1.8	2.1	2.4
EV/EBITDA (x)	21.1	17.8	16.0	13.4	11.5
P/B (x)	4.4	3.9	3.5	3.1	2.8
ROE (%)	14.2	15.1	15.4	16.0	16.5
Net debt (net cash)/equity (%)	(8.1)	(19.9)	(30.5)	(39.2)	(47.5)

Note1: Raffles Medical Group (RMG) is a leading medical group and the largest private group practice in Singapore, owning and operating a fully integrated healthcare system comprising hospital, clinics, insurance and consumer healthcare. Note2:..

Other snippets

Raffles Medical has received the grant of outline permission from the URA to build an additional 102,000 sq ft of space, or 30% of its current gross floor area, on the site of its flagship hospital for the expansion its facilities. Management estimates that the development

Valuation metrics

Company	Ticker	CS rating	Price		Year T	EPS Chg(%)		TP (%) Chg	Up/dn (%)	EPS		EPS grth (%)		P/E (x)		Div. yld (%) T+1	ROE (%)	P/B (x)
			Local	Target		T+1	T+2			T+1	T+2	T+1	T+2	T+1	T+2			
Raffles Medical	RFMD SP	O	1.87	2.10	12/09	1	2	8	12	0.1	0.1	16	17	22.3	19.1	1.8	15.4	3.5
Parkway	PWAY SP	N	3.88	3.75	12/09	0	0	0	(3)	0.1	0.2	36	73	27.0	15.6	0.3	10.0	2.8

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM

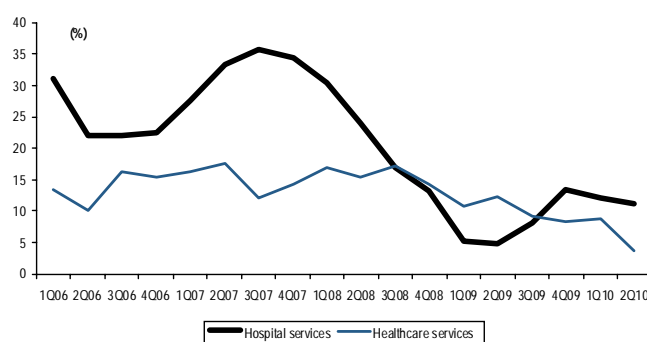
Source: Company data, Credit Suisse estimates

Figure 2: Results summary

(\$\$ mn)	2Q10	2Q09	YoY (%)	FY10E (old)	% of FY10E
Revenue	58.6	53.9	8.7	238.0	48.2
Operating profit	13.0	11.0	18.5	50.8	47.6
Net profit	10.6	8.8	20.3	42.6	46.1
EPS (Sct)	2.02	1.69	19.5	8.29	45.4
Operating margin (%)	22.2	20.4	-	21.4	-
Net margin (%)	18.0	16.3	-	17.9	-

Source: Company data, Credit Suisse estimates

Figure 3: Revenue growth (YoY change)



Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 26 Jul 10)

Raffles Medical Group (RAFG.SI, S\$1.87, OUTPERFORM, TP S\$2.10)

Parkway Holdings (PARM.SI, S\$3.88, NEUTRAL [V], TP S\$3.75)

Disclosure Appendix

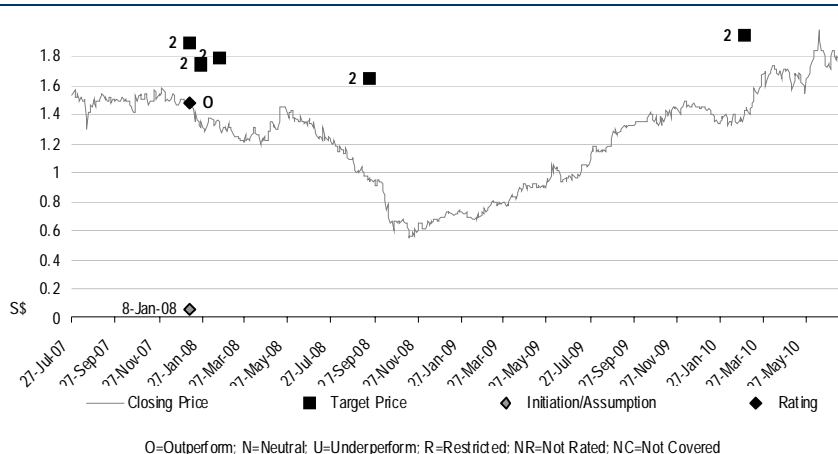
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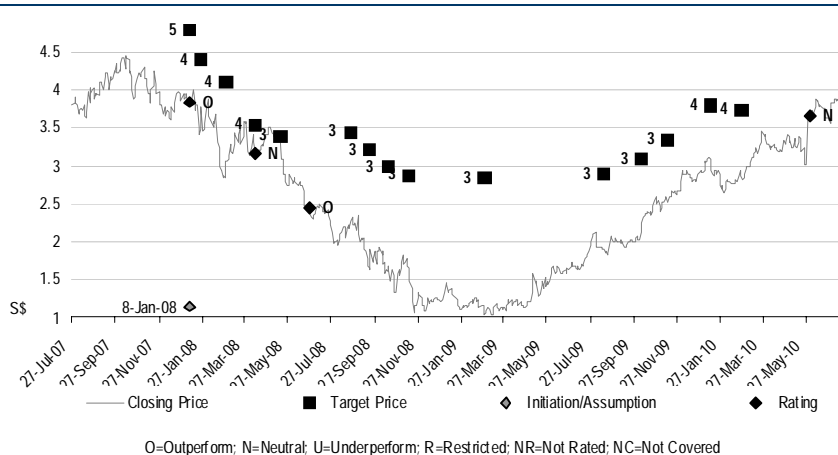
3-Year Price, Target Price and Rating Change History Chart for RAFG.SI

RAFG.SI	Closing Price	Target Price	Initiation/
Date	(S\$)	(S\$)	Rating Assumption
08-Jan-08	1.48	1.9	O X
25-Jan-08	1.35	1.75	
19-Feb-08	1.35	1.8	
18-Sep-08	.945	1.65	
01-Mar-10	1.4	1.95	



3-Year Price, Target Price and Rating Change History Chart for PARM.SI

PARM.SI	Closing Price	Target Price	Initiation/
Date	(S\$)	(S\$)	Rating Assumption
08-Jan-08	3.84	4.8	O X
25-Jan-08	3.77	4.4	
28-Feb-08	3.01	4.1	
10-Apr-08	3.16	3.55	N
15-May-08	3.43	3.4	
26-Jun-08	2.44		O
21-Aug-08	2.18	3.45	
18-Sep-08	1.62	3.22	
13-Oct-08	1.63	3	
13-Nov-08	1.48	2.88	
27-Feb-09	1.05	2.85	
14-Aug-09	1.91	2.9	
05-Oct-09	2.03	3.1	
13-Nov-09	2.51	3.35	
12-Jan-10	3.09	3.8	
24-Feb-10	2.93	3.75	
02-Jun-10	3.66		N



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Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

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Price Target: (12 months) for (RAFG.SIXXX)

Method: Our S\$2.10 target price for Raffles Medical is based on a discounted cash flow (DCF) methodology of a weighted average cost of capital (WACC) of 10% (a risk-free rate of 3.5%, an equity risk premium of 6.5% and a beta of 1), a terminal growth rate of 2%, and a medium-term growth rate of 6% over 2010-2030.

Risks: Key risks to our S\$2.10 target price for Raffles Medical include: 1) Regulatory changes driven by government policies 2) Macroeconomic slowdown affecting employment and population growth 3) Increasing competition from regional healthcare providers 4) Risk of a pandemic outbreak 5) Inability to attract talent and increased labour costs

Price Target: (12 months) for (PARM.SIXXX)

Method: Our S\$3.75 target price for Parkway is based on a Sum of the parts valuation with a \$0.25 marked to market valuation for its 37% stake in Parkway Life REIT, and a discounted cash flow (DCF) valuation, with a weighted average cost of capital (WACC) of 10.5% (a 3% risk-free rate, a 6.5% equity risk premium and a beta of 1.15), a terminal growth rate of 4%, and a medium-term growth rate of 8% over 2007 to 2030 for its hospital business, a DCF valuation for its Novena Hospital based on WACC of 8.0% on 75% debt structure and a terminal growth rate of 4%.

Risks: Key risks to our S\$3.75 target price for Parkway include: 1) regulatory changes driven by government policies 2) a potential macroeconomic slowdown, which would affect employment and population growth, 3) increased competition from regional healthcare providers, 4) risk of a pandemic outbreak, 5) execution risks.

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