

Raffles Medical----- Maintain OUTPERFORM

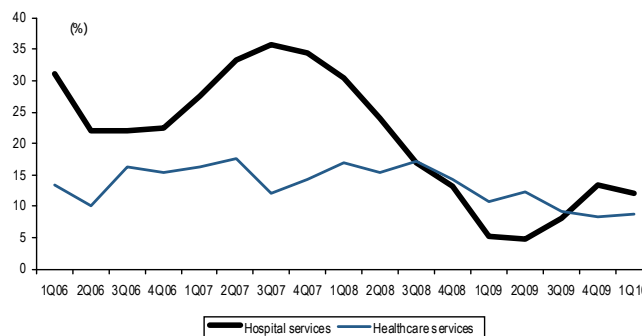
1Q10 in line - Growth led by rebound in foreign patient volumes

EPS: ◀▶ TP: ◀▶

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

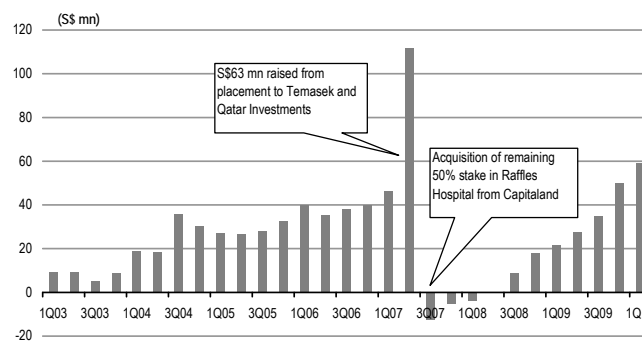
- Raffles Medical delivered 1Q10 results which were broadly in line with our estimates. Revenues were up 10% YoY, while earnings jumped 16% YoY to S\$9.1 mn, with revenue and net profit achieving 24%/ 21% of our full-year FY10E estimates respectively.
- The 9% YoY revenue growth in healthcare operations, and 12% YoY improvement at its flagship Raffles Hospital, reaffirms firm underlying demand across the sector. With improvements at the hospital driven by a strong 24% YoY rebound in foreign patient volumes according to management, then we see this as positive read-through for Parkway's Mar-quarter results (out on 12 May).
- Operating margins in 1Q10 were 19.9%, slightly down from 22.1% in the previous quarter on seasonality, and 19.0% a year ago, reflecting operational efficiency gains, which should continue to drive earnings going forward. Raffles Medical's S\$59 mn net cash balance sheet profile is now 6% of its market cap.
- For now, we maintain our forecasts, and continue to view Raffles Medical as best-leveraged into an anticipated hospital bed supply crunch in the near to medium-term. OUTPERFORM.

Figure 2: Revenue growth – Into second quarter of double-digit growth at hospital



Source: Company data, Credit Suisse estimates.

Figure 3: Gearing – Balance sheet cashed up



Source: Company data, Credit Suisse estimates.

Bbg/RIC	RFMD SP / RAFG.SI	Price (23 Apr 10, S\$)	1.67		
Rating (prev. rating)	O (O)	TP (Prev. TP S\$)	1.95 (1.95)		
Shares outstanding (mn)	522.06	Est. pot. % chg. to TP	17		
Daily trad vol - 6m avg (mn)	0.4	52-wk range (S\$)	1.74 - 0.89		
Daily trad val - 6m avg (US\$ mn)	0.5	Mkt cap (S\$/US\$ mn)	871.8/ 636.0		
Free float (%)	33.0	Performance	1M 3M 12M		
Major shareholders	Dr Loo Choon Yong (40.0%)	Absolute (%)	5.0 24.6 84.5		
Year	12/08A	12/09A	12/10E	12/11E	12/12E
Revenues (\$\$ mn)	200.8	218.6	238.0	264.4	292.9
EBITDA (\$\$ mn)	45.6	52.3	55.3	62.8	70.4
Net profit (\$\$ mn)	31.6	37.9	42.4	48.9	56.1
EPS (\$\$)	0.06	0.07	0.08	0.10	0.11
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (\$\$)	n.a.	n.a.	0.08	0.10	0.11
EPS growth (%)	36.0	18.4	14.8	15.2	14.8
P/E (x)	27.4	23.1	20.1	17.5	15.2
Dividend yield (%)	1.5	1.8	2.0	2.3	2.6
EV/EBITDA (x)	18.7	15.7	14.2	12.0	10.1
P/B (x)	3.9	3.5	3.1	2.8	2.5
ROE (%)	14.2	15.1	15.2	15.7	16.1

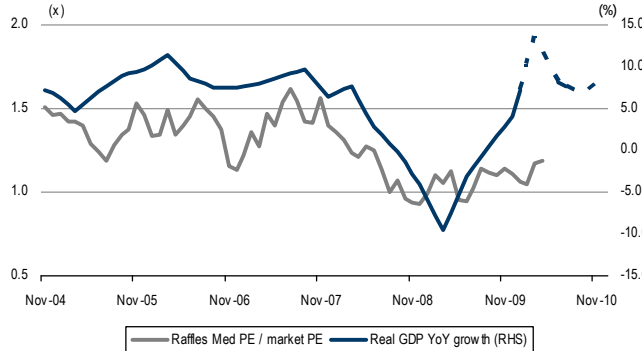
Note1: Raffles Medical Group (RMG) is a leading medical group and the largest private group practice in Singapore, owning and operating a fully integrated healthcare system comprising hospital, clinics, insurance and consumer healthcare. Note2:...

Figure 1: Results summary

(\$\$mn)	1Q10	1Q09	YoY (%)	FY10E (old)	% of FY10E
Revenue	56.2	51.0	10.2	238.0	23.6
EBITDA	12.9	11.4	13.0	55.3	23.3
Op. profit	11.2	9.7	15.8	50.8	22.0
Tax	-2.0	-1.7	17.3	-7.9	25.5
Net profit	9.1	7.8	16.4	42.6	21.3
EPS (Sct)	1.74	1.50	16.0	8.29	21.0

Source: Company data, Credit Suisse estimates.

Figure 4: Raffles Medical's P/E premium and GDP growth



Source: Company data, Credit Suisse estimates.

Valuation Metrics

Company	Ticker	CS Rating	Price		Year	EPS Chg(%)			TP (%)	Up/dn (%)	EPS		EPS grth (%)		P/E (x)		Div. yld (%)	ROE (%)	P/B (x)
			Local	Target		T	T+1	T+2			T+1	T+2	T+1	T+2	T+1	T+2			
Parkway	PWAY SP	O	3.20	3.75	12/09	0	0	0	17	0.1	0.2	40	68	21.6	12.9	0.4	10.3	2.3	
Raffles Medical	RFMD SP	O	1.67	1.95	12/09	0	0	0	17	0.1	0.1	15	15	20.1	17.5	2.0	15.2	3.1	

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

Source: Company data, Credit Suisse estimates

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Companies Mentioned (Price as of 23 Apr 10)

Raffles Medical Group (RAFG.SI, S\$1.67, OUTPERFORM, TP S\$1.95)

Parkway Holdings (PARM.SI, S\$3.20, OUTPERFORM [V], TP S\$3.75)

Disclosure Appendix

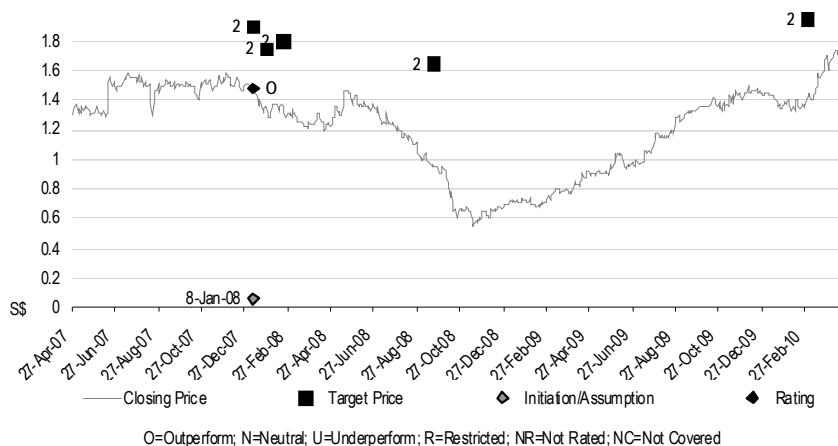
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3-Year Price, Target Price and Rating Change History Chart for RAFG.SI

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	



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

Method: Our S\$1.95 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\$ 1.95 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

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