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COMPANY ALERT**Raffles Medical Group****1Q10 results above helped by operating leverage****Forecast Change****Hold**

Reuters:RAFG.SI Exchange:SES Ticker:RAFG

Price (SGD)	1.71
Price target (SGD)	1.45
52-week range (SGD)	1.74 - 0.89
Market cap (USDm)	654
Shares outstanding (m)	526.3
Net debt/equity (%)	-26.2
Book value/share (SGD)	0.54
Price/book (x)	3.2

FYE 12/31	2009A	2010E	2011E
Sales (SGDm)	219	252	292
Net Profit (SGDm)	37.9	45.0	52.7
DB EPS (SGD)	0.07	0.09	0.10
PER (x)	15.0	20.0	17.1
Yield (net) (%)	2.3	1.7	2.0

Raffles Medical posted a 10.2% YoY increase in revenue to S\$56.2m in 1Q10, while earnings rose 16.4% YoY to S\$9.1m. The 1Q10 figures came in above our forecasts and consensus underpinned by a stronger-than-expected increase in operating efficiencies and operating room leverage.

Revenue from the healthcare and hospital divisions grew by 8.8% and 12.0% YoY, respectively. Management said that the number of foreign patients rose by 24% YoY in 1Q10 helped by an increase in medical tourism; local patient numbers recorded single-digit growth. Foreign patients still make up one-third of the patient mix and account for more than one-third of the company's hospital revenues. The company is in a net cash position (S \$59.0m) and has the balance sheet to acquire more healthcare assets in Singapore and key regions.

We maintain our Hold rating as the stock is trading close to its long-term average. Parkway (PARM.SI, S\$3.20, Buy) remains our top pick in the sector. We have raised our target price from S\$1.35 to S\$1.45 based on our revised earnings. We have raised our earnings by 5.0-5.1% for FY10E and FY11E to reflect the improvement in operating margins (we raised our hospital EBIT margins by 1.7ppt to 28.0%). Our target price implies 16.9x for FY10E P/E. Upside risks include: (1) greater operating leverage; (2) an accretive acquisition; and (3) an increase in medical tourism helped by a faster-than-expected rebound in the economy. Downside risks comprise: (1) inflationary pressures and a lack of medical professionals leading to higher operating costs; and (2) a decline in medical tourism leading to a drop in foreign patients.

Raffles Medical 1Q results summary

	1Q10	1Q09	YoY
Revenue	56.2	51.0	10.2%
Gross profit	18.3	15.1	21.3%
Operating profit	11.1	9.6	15.9%
Net profit	9.1	7.8	16.4%
EBIT margin	19.8%	18.9%	
Net profit margin	16.1%	15.3%	

Source: Company data

James TanResearch Analyst
(+65) 6423 5139
james-s.tan@db.com

Deutsche Bank AG/Hong Kong

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