


**DMG & Partners Research
HEALTHCARE**

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CONSUMER

Raffles Medical is a healthcare provider which operates medical clinics, imaging centers and medical laboratories.

Stock Profile/Statistics

Bloomberg Ticker	RFMD SP
STI	3183.0
Issued Share Capital (m)	533.4
Market Capitalisation (S\$m)	1258.9
52 week H L Price (S\$)	2.52 1.83
Average Volume ('000)	262.7
YTD Returns (%)	(1.3)
Net gearing (%)	2.0
Altman Z-Score	9.6
ROCE/WACC	1.6
Beta (x)	0.8
Book Value/share (S¢)	59.0

Major Shareholders (%)

Loo Choon Yong	49.5
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Share Performance (%)

Month	Absolute	Relative
1m	2.6	(2.0)
3m	5.4	5.8
6m	4.9	5.0
12m	27.9	20.8

6-month Share Price Performance

2QFY10 Results Review

Private Circulation Only

**RAFFLES MEDICAL
GROUP**

BUY	↔
Price	S\$2.34
Previous Target	S\$2.52
Target	↗ S\$2.55

Room to grow

Continues to grow earnings, Maintain BUY. Raffles Medical's 2Q11 PATMI grew 10.1% YoY to S\$11.6m, as revenue rose 14.3% YoY. The results exceeded our 2Q11 estimates slightly. 2Q11 earnings included start up losses from its Shanghai medical centre (expect to breakeven in FY13) and there were also job credits grants received in 2Q10. Excluding these, PATMI would have increased by ~17% YoY. Raffles Medical's fees are not as high as other private hospitals and management believes that it still has room to raise fees. Management indicated that it will continue to pay out at least 3.0 S¢/share dividends in FY11. We re-iterate our BUY recommendation and DCF-based TP of S\$2.55.

Expansion plans on track. Purchase of Thong Sia Building has completed and management expects the operations of its Specialist Medical Centre there to commence in 2H12. It expects to spend capex of ~S\$10m – 15m (including equipment) for its Specialist Medical Centre, which we believe would be met by its stable operating cashflows (~S\$10m / quarter).

Integrating public with private healthcare would improve patient load, but....

The government has not put through any policy on how private doctors can help ease the supply crunch. One possibility is for private healthcare providers like Raffles Medical to treat subsidised patients. Depending on the way the subsidy is structured, this could either boost earnings (there is no price ceiling on the patients' cost of treatment. Patient pays subsidised amount and provider claims the balance cost), or lower its operating margins (the cost of treatment is fixed).

Remain positive on prospects, raise earnings estimates. 1H11 earnings represented 50% of our FY11 estimates. Raffles Medical's earnings tend to be stronger in 2H. We remain positive on Raffles Medical's prospects, given the strong demand for healthcare in Singapore. Hence, we are tweaking our FY11 revenue and earnings estimates to S\$269.5m (previously S\$263.1m) and S\$46.2m (previously S\$44.4m) respectively. We arrive at a TP of S\$2.55, based on DCF.

FYE 31 Dec (S\$ m)	FY08	FY09	FY10	FY11F	FY12F
Turnover	200.8	218.6	239.1	269.5	296.2
Net profit	31.5	37.9	45.3	46.2	50.4
% chg YoY	-12.03%	20.08%	19.49%	1.97%	9.14%
Consensus				49.7	57.9
EPS (S¢)	6.1	7.3	8.7	8.7	9.5
DPS (S¢)	2.5	3	3.0	3.0	3.0
Div Yield	1.1%	1.3%	1.3%	1.3%	1.3%
ROE (%)	14.90%	16.10%	16.9%	15.2%	14.9%
ROA (%)	13.00%	13.90%	15.0%	14.1%	13.9%
P/E (x)	38.3	32.0	27.1	26.8	24.7
P/B (x)	5.5	4.9	4.3	3.9	3.5

Source: Company and DMG Estimates

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Figure 1: Quarterly financial summary

FYE Dec (\$m)	1Q11	2Q10	2Q11	YoY%	QoQ%	Remarks
Revenue	64.4	58.6	67.0	10.0%	3.9%	Exceeded DMG estimates slightly
Other operating income	0.1	0.3	0.0		-94.9%	
Inventories and consumables	(7.4)	(6.7)	(7.6)	11.8%	2.9%	
Staff costs	(31.7)	(27.8)	(31.7)	13.9%	0.1%	
Other operating expenses	(12.5)	(11.4)	(13.3)	9.9%	6.2%	Job credits grants were received in 2Q10.
Operating income	13.0	13.0	14.3	-0.4%	10.6%	
PBT	12.9	12.9	14.3	-0.3%	10.7%	
Tax	(2.4)	(2.3)	(2.6)			
PATMI	10.5	10.6	11.6	-0.8%	11.0%	

Source: Company and DMG estimates

FINANCIAL SUMMARY

Year End 31 Dec (\$m)									
Income Statement					Cash Flow				
	2009	2010	2011F	2012F		2009	2010	2011F	2012F
Revenue	218.6	239.1	269.5	296.2	Profit Before Taxation	45.0	53.1	55.9	61.0
Other Operating Income	0.8	3.8	1.3	3.0	Non-cash Items	8.2	5.8	12.3	11.7
Inventories and Consumables	(24.5)	(26.6)	(30.5)	(33.5)	Changes in Working Capital	0.6	(2.5)	10.0	2.2
Operating Expenses	(139.6)	(149.4)	(163.0)	(184.0)	Income Tax Paid	(6.2)	(6.9)	(7.6)	(9.5)
Operating Income	45.5	53.3	56.4	61.4	Interest Paid	(0.4)	(0.2)	(0.5)	(0.4)
Finance Costs	(0.4)	(0.2)	(0.5)	(0.4)	Net Cash from Operations	47.2	49.2	70.1	64.9
Profit Before Taxes	45.0	53.1	55.9	61.0	Interest Received	0.2	0.4	0.3	0.5
Income Tax Expense	(7.0)	(7.6)	(9.5)	(10.4)	Purchase of Fixed Assets	(3.9)	(5.5)	(97.0)	(5.0)
Minority Interest	(0.2)	(0.2)	(0.2)	(0.3)	Others	0.2	1.7	-	-
Net Income	37.9	45.3	46.2	50.4	Net Cash from Investments	(3.5)	(3.4)	(96.7)	(4.5)
Balance Sheet					Dividends Paid	(13.0)	(15.8)	(15.9)	(15.9)
	2009	2010	2011F	2012F	Proceeds from Issue of Shares	1.3	4.3	-	-
Fixed Assets	146.4	144.3	229.2	222.4	Proceeds from/(Repayment of) Loan	(2.0)	(1.4)	2.5	(3.0)
Intangibles	0.4	0.3	0.3	0.3	Others	(0.1)	-	-	-
Investment Properties	85.0	88.0	88.0	88.0	Net Cash from Financing	(13.7)	(12.8)	(13.4)	(19.0)
Deferred Tax Assets	0.5	0.9	1.0	1.1	Net Increase/(Decrease) in Cash	30.0	33.1	(40.0)	41.5
Non-Current Assets	232.3	233.5	318.5	311.8	Exchange Effects on Cash	0.0	(0.0)	(0.0)	(0.0)
Inventories	5.3	5.1	6.2	7.6	Cash (beginning)	44.1	74.1	107.1	67.1
Receivables	24.3	26.1	28.7	31.5	Cash (end)	74.1	107.1	67.1	108.6
Cash and Cash Equivalents	74.4	107.1	67.1	108.6	Ratios				
Current Assets	104.5	138.3	102.0	147.7		2009	2010	2011F	2012F
Total Assets	336.8	371.8	420.4	459.5	Growth & Margin (%)				
Share Capital	172.7	177.0	179.7	180.6	Revenue Growth	8.9	9.4	12.7	9.9
Reserves	77.1	109.4	141.1	174.0	Operating Income Growth	16.6	17.3	5.7	9.0
Shareholders Fund	249.8	286.4	320.8	354.6	Operating Income Margin	20.8	22.3	20.9	20.7
Minority Interest	0.4	0.5	0.6	0.6	Pretax Profit Growth	17.5	17.9	5.3	9.1
Shareholders Equity	250.2	287.0	321.4	355.2	Pretax Profit Margin	20.6	22.2	20.7	20.6
Deferred Tax Liabilities	1.4	1.7	1.7	1.7	Tax Rate	(15.6)	(14.3)	(17.0)	(17.0)
Interest-bearing Liabilities	20.0	18.0	21.6	19.4	Net Income Growth	20.1	19.5	2.0	9.1
Non-Current Liabilities	21.4	19.7	23.3	21.1	Net Income Margin	17.3	18.9	17.1	17.0
Trade and Other Payables	52.0	51.0	64.7	71.1	Revenue Breakdown				
Short-Term Borrowings	4.5	4.6	3.4	2.6		2009	2010	2011F	2012F
Income Taxes Payable	8.7	9.5	7.6	9.5	Healthcare Services	88.7	93.5	104.3	115.2
Current Liabilities	65.2	65.1	75.7	83.2	Hospital Services	129.8	145.5	165.1	180.8
Total Liabilities	86.7	84.8	99.0	104.3	Investment Holdings	0.2	0.1	0.1	0.2
Total Equity and Liabilities	336.8	371.8	420.4	459.5	Total	218.6	239.1	269.5	296.2

Source: Company and DMG estimates

DMG & Partners Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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