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COMPANY ALERT**Raffles Medical Group****2Q beats expectations; Singapore hospital expansion****Forecast Change****Hold**

Reuters:RAFG.SI Exchange:SES Ticker:RAFG

Price (SGD)	1.87
Price target (SGD)	1.58
52-week range (SGD)	1.99 - 1.09
Market cap (USDm)	714
Shares outstanding (m)	526.3
Net debt/equity (%)	-19.2
Book value/share (SGD)	0.54
Price/book (x)	3.5

FYE 12/31	2009A	2010E	2011E
Sales (SGDm)	219	252	292
Net Profit (SGDm)	37.9	46.5	54.1
DB EPS (SGD)	0.07	0.09	0.10
PER (x)	15.0	21.2	18.2
Yield (net) (%)	2.3	1.6	1.9

2Q10 results above our and consensus' expectations. Revenue rose 8.7% YoY to S\$58.6m in 2Q, mainly driven by higher patient volumes. Earnings grew 20.4% YoY to S\$10.6m due to higher operating-room efficiencies. Revenue from hospital and healthcare services grew 11.2% and 3.7%, respectively. We believe growth in hospital and healthcare services is starting to show a deceleration, and a slowdown in healthcare demand could affect the industry's growth.

Redevelopment opportunities for Raffles hospital and China. Management has received approval from URA to increase its GFA by 102,408sqft to 410,283sqft at Raffles hospital. It plans to add more outpatient services at the hospital and is reviewing redevelopment plans, with an estimated completion date in 1Q12. Management plans to allocate S\$50m (S\$488sqft) for construction costs, with the remaining budget (S\$30-50m) to be used for the development premium and other costs. With a net cash position of S\$61.6m, the company can fund the redevelopment of its hospital through its internal funds. Elsewhere, the company in June began managing a medical centre in Shanghai.

Maintain Hold; raising our target price from S\$1.45 to S\$1.58. We have calibrated our earnings forecast and incorporated the impact from the hospital. We have raised our earnings by 3% in FY10-12E and raised our medium-term earnings from a CAGR of 9% to 11% as we have built in a steady ramp up in the additional capacity (+30%) at Raffles hospital. We maintain our Hold rating as the stock is trading above our fair value and close to its long-term average of 23.6x. Our revised TP of S\$1.58 implies 22.3x for FY10E PE.

Raffles Medical 1H10 results summary

	1H10	1H09	YoY
Revenue	114.8	104.9	9.4%
Operating profit	24.2	20.6	17.3%
Net profit	19.6	16.6	18.5%
EBIT margin	21.0%	19.6%	
Net profit margin	17.1%	15.8%	

Source: Deutsche Bank

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

Deutsche Bank AG/Hong Kong

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