



# BUY

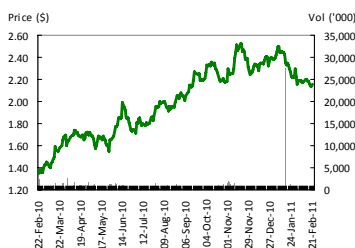
## 4Q10 Results

### Analyst

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**Price**           **\$2.17**  
**Target**         **\$2.80**  
**ST Index**       **3,070.6**

### Historical Chart



Performance	1m	3m	6m
Absolute (%)	-4.8	-11.8	10.8
Relative (%)	-1.3	-8.4	5.9

### Stock Information

Ticker code	RAFG.SI RFMD.SP
Market cap (US\$m)	891.9
52-week high (S\$)	2.52
52-week low (S\$)	1.34
Shares issued (m)	526.5
6m avg d.vol (US\$m)	1.1
Free float (%)	55.7
Major shareholders (%)	
Dr Loo Choon Yong - Chairman	(40.0)

### Key Indicators

ROE (%)	15.8
Net gearing (%)	Net cash
NTA (S\$)	0.55
Interest cover (x)	218

# Raffles Medical Group

## Growth runway extension

### Event

- For the ninth year in a row, Raffles Medical Group (RMG) posted double-digit profit growth, with 4Q10 profit surpassing our expectations. The more important question is whether the group can manage another nine. We think the answer is likely a "yes", given the expansion plans it has announced over the past six months.

### Our View

- Excluding revaluation gains, FY10 net profit was up 13% YoY to \$42.3m, driven by revenue growth of 9%. Growth was underscored by increases in both the Hospital Services and Healthcare Services (clinics) divisions. The former was up 12% YoY and the latter 6% YoY on higher prices and increased patient volume. Net margin also improved from 17.3% to 17.9%, thanks to the operating leverage.
- RMG also announced the successful tender for a seven-storey freehold building at 30 Bideford Road for \$92.08m, where it intends to establish a Specialist Medical Centre to expand its target customer pool. However, management will not change its Group Practice model or its current price point (10% less than Parkway).
- The new centre is likely to be ready by 2012/13 after the existing tenants move out and some minor fit-out. It will increase RMG's capacity on top of its existing plans to expand Raffles Hospital by 30% over the next 24 months. Significantly, these \$200m expansions will be fully funded with internal resources (current net cash position of \$85m), without any dilution to shareholders' earnings.

### Action & Recommendation

With the expansion plans in place, RMG is positioning itself for further steady growth over the next 5-10 years. We upgrade our DCF-derived target price to \$2.80, implying 30x FY11F, which is also in line with the valuation of other healthcare acquisitions in Singapore. Reiterate BUY.

Year End Dec	2009	2010	2011F	2012F	2013F
Sales (S\$m)	218.6	239.1	259.3	285.3	318.6
Pre-tax (S\$m)	45.0	53.1	57.4	65.1	76.2
Net profit-adj (S\$m)	37.3	42.3	48.2	54.8	64.2
EPS (S cts)	7.3	8.6	9.2	10.4	12.2
EPS growth (%)	19.6	18.1	6.5	13.5	17.2
PER (x)	31.0	26.2	24.6	21.6	18.5
EV/EBITDA (x)	20.8	17.5	17.6	15.3	13.1
Yield (%)	1.4	1.6	1.7	1.8	1.8

SEE APPENDIX I FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

### New Specialist Medical Centre

RMG said it has successfully tendered for a seven-storey building at 30 Bideford Road for \$92.08m. The 42,6668-sq-ft (or \$2,160 psf) freehold building in Orchard Road will house its new Specialist Medical Centre. Management believes this centre will be popular with patients living in districts 9, 10 and 11. It is also positioned to target overseas patients for whom the group is well-placed to provide services. However, management will not change either its Group Practice model or current price point, as the new centre will be treated as an extension of its existing business.

Significantly, these \$200m expansions will be fully funded with internal resources (current net cash position of \$85m), without any dilution to shareholders' earnings. With strong cash flow generation, we estimate RMG will be in a net cash position again by 2013F, assuming no other major capex plans.

### Other developments

During the year, RMG added four new clinics to its network in Singapore, cementing its position as a hospital with one of the largest chain of clinics locally. We expect this segment, which accounts for about 16% of group revenue, to continue to grow at a steady 5-10% YoY.

On the regional front, management said its medical centre in Shanghai (under management contract agreement) has been well-received since it opened last June and the cross-referrals it yielded have been encouraging. Going forward, we expect Singapore to remain the group's main focus and any further success abroad will be a bonus.

**Figure 1: FY10 results**

<b>YE Dec (\$m)</b>	<b>FY09</b>	<b>FY10</b>	<b>YoY growth</b>
<b>Sales</b>	<b>218.6</b>	<b>239.1</b>	<b>9.4%</b>
Other operating income	0.6	3.5	479.0%
Inventories & consumables	(24.5)	(26.6)	8.6%
Purchased & services	(16.0)	(17.5)	9.0%
Staff costs	(104.9)	(115.8)	10.4%
Depreciation	(6.9)	(6.9)	0.6%
Operating lease	(5.1)	(5.6)	8.9%
Other operating expenses	(5.1)	(5.6)	8.9%
<b>Operating profit</b>	<b>56.6</b>	<b>64.6</b>	<b>14.1%</b>
Finance income	0.2	0.4	103.3%
Financing costs	(0.4)	(0.2)	-41.7%
Pretax income	45.0	53.1	17.9%
Income taxes	(7.0)	(7.6)	8.6%
Minority interest	(0.2)	(0.2)	43.7%
<b>Net income</b>	<b>37.9</b>	<b>45.3</b>	<b>19.5%</b>
<b>Net income - adjusted</b>	<b>37.3</b>	<b>42.3</b>	<b>13.4%</b>
<b>Segmental Revenue (\$m)</b>	<b>FY09</b>	<b>FY10</b>	<b>YoY growth</b>
Healthcare Services	88.7	93.5	5.4%
Hospital Services	129.8	145.5	12.1%
<b>Segmental PBIT (\$m)</b>	<b>FY09</b>	<b>FY10</b>	<b>yoy growth</b>
Healthcare Services	7.0	8.3	19.1%
Hospital Services	129.8	145.5	12.1%

Source: Company data, Kim Eng

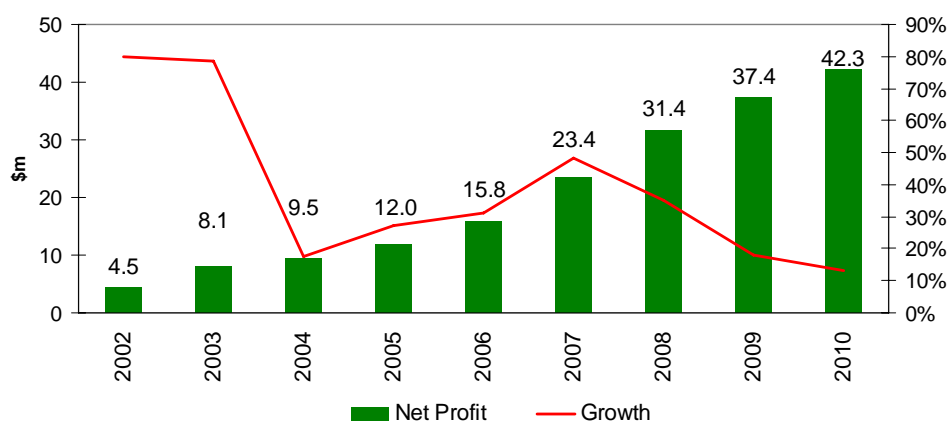
**Figure 2: DCF assumptions**

(\$m)	FY11	FY12	FY13	FY14	FY15
FCFE	(59.9)	18.2	15.8	60.0	68.9
Terminal Value					1919.3
PV	(56.1)	16.0	13.0	46.3	1437.6
Total discounted FCFE	1456.8				
Value/share	2.80				

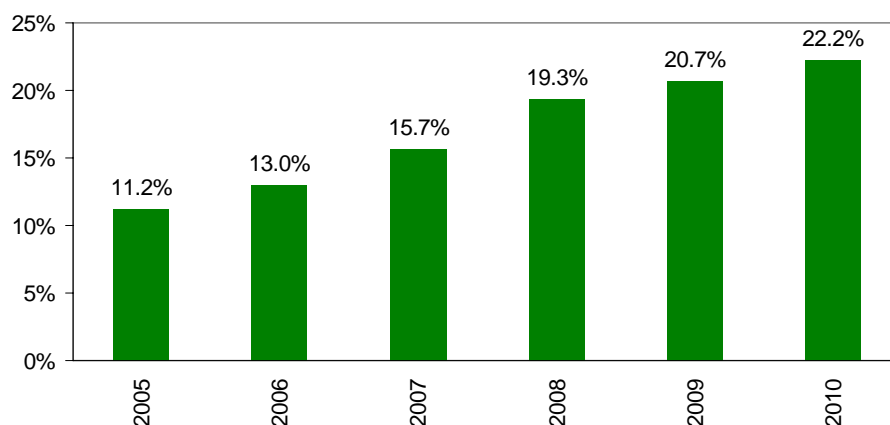
  

Cost of equity	6.7%
Risk-free rate	2.5%
Beta	0.70
Market risk premium	8.5%
Terminal growth	3.0%

Source: Bloomberg, Kim Eng estimates

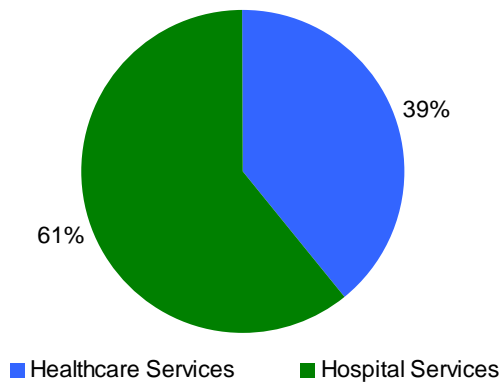
**Figure 3: Outstanding track record of profit growth**

Source: Company, Kim Eng

**Figure 4: Operating margin continues to trend upwards**

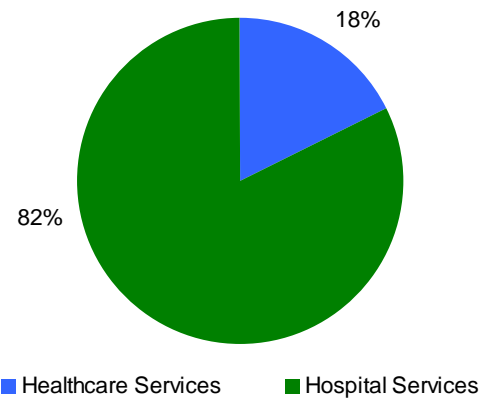
Source: Company, Kim Eng estimates

Figure 5: FY10 revenue split



Source: Company, Kim Eng estimates

Figure 6: FY10 EBIT split



Source: Company, Kim Eng estimates

**Profit and loss**

YE Dec (\$\$ m)	2009	2010	2011F	2012F	2013F
<b>Sales</b>	<b>218.6</b>	<b>239.1</b>	<b>259.3</b>	<b>285.3</b>	<b>318.6</b>
Consumables & services	(40.5)	(44.1)	(46.7)	(51.1)	(56.7)
Staff costs	(104.9)	(115.8)	(123.2)	(134.1)	(148.1)
Depreciation	(6.9)	(6.9)	(8.2)	(9.0)	(9.4)
Operating lease	(5.1)	(5.6)	(5.6)	(5.6)	(5.6)
Other op expenses (net)	(15.7)	(13.4)	(17.8)	(19.6)	(21.8)
<b>Operating profit</b>	<b>45.5</b>	<b>53.3</b>	<b>57.9</b>	<b>65.9</b>	<b>76.8</b>
Financing costs	(0.4)	(0.2)	(0.6)	(0.8)	(0.6)
Share of joint entity	0.0	0.0	0.0	0.0	0.0
Pretax income	45.0	53.1	57.4	65.1	76.2
Income taxes	(7.0)	(7.6)	(8.9)	(10.1)	(11.8)
Minority interest	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)
<b>Net profit attributable</b>	<b>37.9</b>	<b>45.3</b>	<b>48.2</b>	<b>54.8</b>	<b>64.2</b>
<b>Net profit (normalized)</b>	<b>37.3</b>	<b>42.3</b>	<b>48.2</b>	<b>54.8</b>	<b>64.2</b>
EPS (SG cents)	7.3	8.6	9.2	10.4	12.2
<b>EBITDA</b>	<b>52.4</b>	<b>60.3</b>	<b>66.1</b>	<b>75.0</b>	<b>86.3</b>

Source: Company data, Kim Eng estimates

**Cashflow**

YE Dec (\$\$ m)	2009	2010	2011F	2012F	2013F
<b>Operating cash flow</b>	<b>47.2</b>	<b>49.2</b>	<b>57.1</b>	<b>67.1</b>	<b>78.0</b>
Pretax profit	45.0	53.1	57.4	65.1	76.2
Depreciation & amortization	6.9	7.0	8.2	9.0	9.4
Change in working capital	0.6	(2.5)	(0.5)	1.8	2.3
Others	(5.4)	(5.4)	(7.9)	(8.8)	(9.9)
<b>Investment cash flow</b>	<b>(3.5)</b>	<b>(3.4)</b>	<b>(141.9)</b>	<b>(34.9)</b>	<b>(34.8)</b>
Net capex	(3.7)	(3.8)	(142.0)	(35.0)	(35.0)
Acquisition of sub	0.0	0.0	0.0	0.0	0.0
Others	0.4	2.1	0.2	0.2	0.2
<b>Financing cash flow</b>	<b>(13.7)</b>	<b>(12.8)</b>	<b>15.9</b>	<b>(22.6)</b>	<b>(36.1)</b>
Dividends	(13.0)	(15.7)	(18.9)	(20.0)	(21.0)
Net change in debt	(2.0)	(1.4)	34.9	(2.5)	(15.0)
Issue of shares	1.3	4.3	0.0	0.0	0.0
Others	(0.1)	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>30.0</b>	<b>33.1</b>	<b>(68.8)</b>	<b>9.6</b>	<b>7.1</b>

Source: Company data, Kim Eng estimates

**Balance Sheet**

YE Dec (\$\$ m)	2009	2010	2011F	2012F	2013F
<b>Total assets</b>	<b>336.8</b>	<b>371.8</b>	<b>441.2</b>	<b>480.1</b>	<b>517.1</b>
Current assets	104.5	138.3	73.9	86.9	98.3
Cash	74.4	107.1	38.2	47.7	54.6
Inventories	5.3	5.1	5.9	6.4	7.1
Receivables	24.3	26.1	29.8	32.8	36.7
Others	0.6	0.0	0.0	0.0	0.0
Long term assets	232.3	233.5	367.3	393.3	418.8
Plant and equipment	146.4	144.3	278.1	304.1	329.6
Intangibles	0.4	0.3	0.3	0.3	0.3
Investment properties	85.0	88.0	88.0	88.0	88.0
Others	0.5	0.9	0.9	0.9	0.9
<b>Total liabilities</b>	<b>86.7</b>	<b>84.8</b>	<b>124.9</b>	<b>129.1</b>	<b>123.0</b>
Current liabilities	65.2	65.1	73.2	77.4	86.3
Payables	52.0	51.0	55.1	60.3	67.1
ST borrowings	4.5	4.6	7.5	5.0	5.0
Others	8.7	9.5	10.7	12.1	14.2
<b>Long-term liabilities</b>	<b>21.4</b>	<b>19.7</b>	<b>51.7</b>	<b>51.7</b>	<b>36.7</b>
LT borrowings	20.0	18.0	50.0	50.0	35.0
Others	1.4	1.7	1.7	1.7	1.7
<b>Shareholder's equity</b>	<b>249.8</b>	<b>286.4</b>	<b>315.7</b>	<b>350.5</b>	<b>393.6</b>
Paid-in capital	172.7	177.0	177.0	177.0	177.0
Reserve	77.1	109.4	138.7	173.5	216.6
Minority interests	0.4	0.5	0.5	0.5	0.5

Source: Company data, Kim Eng estimates

**Key ratios**

YE Dec (\$\$ m)	2009	2010	2011F	2012F	2013F
<b>Growth (% YoY)</b>					
Sales	8.9	9.4	8.4	10.0	11.7
Operating Profit	16.6	17.3	8.6	13.8	16.6
EBITDA	14.8	15.1	9.6	13.4	15.1
Net Profit	18.2	13.4	14.1	13.5	17.2
EPS	19.6	18.1	6.5	13.5	17.2
<b>Profitability (%)</b>					
Gross margin	Na	Na	Na	Na	Na
Operating margin	20.8	22.3	22.3	23.1	24.1
EBITDA margin	24.0	25.2	25.5	26.3	27.1
Net profit margin	17.3	18.9	18.6	19.2	20.1
ROA	11.3	12.2	11.0	11.5	12.5
ROE	15.2	15.9	15.4	15.7	16.4
<b>Stability</b>					
Gross debt/equity (%)	9.8	7.9	18.2	15.7	10.2
Net debt/equity (%)	(8.1)	(20.0)	(29.5)	6.1	2.1
Int. coverage (X)	110.9	223.2	100.8	79.9	128.1
Int. & ST debt coverage (X)	9.2	11.1	7.2	11.3	13.7
Cash flow int. coverage (X)	73.1	138.3	(119.7)	11.7	11.8
Cash flow int. & ST debt (X)	6.1	6.9	(8.5)	1.7	1.3
Current ratio (X)	1.6	2.1	1.0	1.1	1.1
Quick ratio (X)	1.5	2.0	0.9	1.0	1.1
Net debt/(cash) (\$ m)	(49.9)	(84.6)	19.3	7.3	(14.6)
<b>Per share data (SG cent)</b>					
EPS	7.3	8.6	9.2	10.4	12.2
CFPS	5.5	6.1	(12.6)	1.8	1.3
BVPS	48.0	54.5	60.0	66.6	74.8
SPS	40.4	43.8	47.5	52.2	58.4
EBITDA/share	9.7	11.1	12.1	13.7	15.8
DPS	3.0	3.5	3.6	3.8	4.0

Source: Company data, Kim Eng estimates

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**Recommendation definitions**

**Our recommendation is based on the following expected price performance within 12 months:**

+15% and above: BUY  
 -15% to +15%: HOLD  
 -15% or worse: SELL

**APPENDIX I: TERMS FOR PROVISION OF REPORT, DISCLOSURES  
AND  
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