



**RafflesMedicalGroup**  
To Our Patients Our Best



# BUY

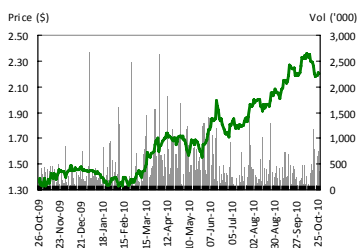
## 3Q10 Results

### Analyst

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**Price**           **\$2.18**  
**Target**          **\$2.54**  
**ST Index**       **3,182.08**

### Historical Chart



Performance	1m	3m	6m
Absolute (%)	1.4	18.7	29.8
Relative (%)	-1.3	10.9	22.7

### Stock Information

Ticker code	RAFG.SI
	RFMD.SP
Market cap (US\$m)	889.7
52-week high (S\$)	2.36
52-week low (S\$)	1.33
Shares issued (m)	525.4
6m avg d.vol (US\$m)	0.7
Free float (%)	55.7
Major shareholders (%)	
Dr Loo Choon Yong - Chairman	(40.0)

### Key Indicators

ROE (%)	15.7
Net gearing (%)	Net cash
NTA (S\$)	0.51
Interest cover (x)	84.2

# Raffles Medical Group

## Steady climb continues

### Event

- Raffles Medical Group (RMG) posted another set of record quarterly results, which was in line with our expectations. Consecutive growth for 14 years is now a near certainty. Despite the stock returning 210% since we initiated coverage 12 months ago, we expect the stock price to continue its steady climb, much like its profitability.

### Our View

- In 3Q10, revenue increased by 9.8% yoy while net profit rose by 13% yoy to \$10.7m. Thus, for 9M10, net profit grew by 16.5% to \$30.5m. The growth was again contributed by both Hospital Services, up 15%, and Healthcare Services (clinics), up 4%.
- Higher prices and increased patient volume contributed equally to growth in Hospital Services. Stripping out the impact of the government's Jobs Credit Scheme in 3Q09, net profit would have grown 22%, despite hospital capacity remaining unchanged. The result is testament to management's organisation ability, as well as Raffles Hospital's growing reputation and capabilities.
- Management is still convinced that the demand for private healthcare will remain strong even as the supply of public hospital beds increase. It will continue to focus on deepening the depth of speciality healthcare it offers, having substantially broadened the scope in the past few years.

### Action & Recommendation

We expect the expansion of Raffles Hospital over the next 24 months will enable the group to maintain growth at the same steady rate for at least another five years. The recent takeover of Parkway highlights the value of good quality healthcare assets in the region. We maintain our BUY recommendation and upgrade our DCF-derived target price to \$2.54 after adjusting our assumptions.

Year End Dec	2008	2009	2010F	2011F	2012F
Sales (S\$m)	200.8	218.6	237.7	261.0	284.1
Pre-tax (S\$m)	38.4	45.0	52.4	58.9	67.2
Net profit (S\$m)	31.5	37.9	43.4	48.8	55.7
EPS (S cts)	6.1	7.3	8.4	9.4	10.7
EPS growth (%)	(12.4)	19.9	14.6	12.5	14.1
PER (x)	36.9	30.8	26.9	23.9	20.9
EV/EBITDA (x)	24.4	20.6	17.5	15.2	12.9
Yield (%)	1.1	1.4	1.4	1.4	1.4

SEE APPENDIX I FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

**Figure 1: 3Q10 results**

(S\$m)	3Q09	3Q10	yoy growth
<b>Sales</b>	<b>55.4</b>	<b>60.9</b>	<b>9.8%</b>
Other operating income	0.1	0.1	-5.9%
Inventories & consumables	(6.1)	(7.0)	14.3%
Purchased & services	(3.8)	(4.2)	10.9%
Staff costs	(26.8)	(29.2)	8.7%
Depreciation	(1.7)	(1.7)	-3.1%
Operating lease	(1.3)	(1.5)	13.6%
Other operating expenses	(3.9)	(4.3)	10.2%
<b>Operating profit</b>	<b>11.9</b>	<b>13.2</b>	<b>10.9%</b>
Financing costs	(0.1)	(0.1)	-27.3%
Pretax income	11.8	13.1	11.2%
Income taxes	(2.3)	(2.4)	4.0%
Minority interest	(0.0)	(0.1)	22.2%
<b>Net income</b>	<b>9.5</b>	<b>10.7</b>	<b>12.9%</b>

Source: Company data, Kim Eng

**Figure 2: DCF assumptions**

(S\$m)	FY10	FY11	FY12	FY13	FY14
FCFE	(5.6)	14.9	19.4	54.0	62.6
Terminal Value					1646.4
PV	(5.3)	13.2	16.1	42.2	1253.3
Total discounted FCFE	1319.4				
Value/share	2.54				
Cost of equity	6.4%				
Risk-free rate	1.5%				
Beta	0.70				
Market risk premium	8.5%				
Terminal growth	2.5%				

Source: Bloomberg, Kim Eng estimates

**Profit and loss**

YE Dec (\$\$ m)	2008	2009	2010F	2011F	2012F
<b>Sales</b>	<b>200.8</b>	<b>218.6</b>	<b>237.7</b>	<b>261.0</b>	<b>284.1</b>
Consumables & services	(35.5)	(40.5)	(42.4)	(45.7)	(49.1)
Staff costs	(98.3)	(104.9)	(111.7)	(120.1)	(129.2)
Depreciation	(6.6)	(6.9)	(7.3)	(7.3)	(7.5)
Operating lease	(4.5)	(5.1)	(5.3)	(5.3)	(5.3)
Other op expenses (net)	(16.9)	(15.7)	(18.0)	(23.3)	(25.3)
<b>Operating profit</b>	<b>39.0</b>	<b>45.5</b>	<b>53.0</b>	<b>59.5</b>	<b>67.7</b>
Financing costs	(0.6)	(0.4)	(0.6)	(0.6)	(0.5)
Share of joint entity	0.0	0.0	0.0	0.0	0.0
Pretax income	38.4	45.0	52.4	58.9	67.2
Income taxes	(6.7)	(7.0)	(8.9)	(10.0)	(11.4)
Minority interest	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)
<b>Net profit attributable</b>	<b>31.5</b>	<b>37.9</b>	<b>43.4</b>	<b>48.8</b>	<b>55.7</b>
<b>Net profit (normalized)</b>	<b>31.5</b>	<b>37.9</b>	<b>43.4</b>	<b>48.8</b>	<b>55.7</b>
EPS (SG cents)	6.1	7.3	8.4	9.4	10.7
<b>EBITDA</b>	<b>45.6</b>	<b>52.4</b>	<b>60.3</b>	<b>66.8</b>	<b>75.2</b>

Source: Company data, Kim Eng estimates

**Cashflow**

YE Dec (\$\$ m)	2008	2009	2010F	2011F	2012F
<b>Operating cash flow</b>	<b>40.1</b>	<b>47.2</b>	<b>43.6</b>	<b>59.4</b>	<b>65.2</b>
Pretax profit	38.4	45.0	52.4	58.9	67.2
Depreciation & amortization	6.7	6.9	7.3	7.3	7.5
Change in working capital	(1.8)	0.6	(6.9)	3.6	1.2
Others	(3.1)	(5.4)	(9.2)	(10.4)	(10.7)
<b>Investment cash flow</b>	<b>(5.0)</b>	<b>(3.5)</b>	<b>(4.5)</b>	<b>(4.5)</b>	<b>(4.5)</b>
Net capex	(6.1)	(3.7)	(5.0)	(5.0)	(5.0)
Acquisition of sub	0.0	0.0	0.0	0.0	0.0
Others	1.2	0.4	0.5	0.5	0.5
<b>Financing cash flow</b>	<b>(10.7)</b>	<b>(13.7)</b>	<b>(22.2)</b>	<b>(17.7)</b>	<b>(17.7)</b>
Dividends	(12.9)	(13.0)	(15.6)	(15.6)	(15.6)
Net change in debt	0.9	(2.0)	(6.5)	(2.0)	(2.0)
Issue of shares	1.3	1.3	0.0	0.0	0.0
Others	0.0	(0.1)	0.0	0.0	0.0
<b>Net cash flow</b>	<b>24.4</b>	<b>30.0</b>	<b>16.9</b>	<b>37.3</b>	<b>43.1</b>

Source: Company data, Kim Eng estimates

**Balance Sheet**

YE Dec (\$\$ m)	2008	2009	2010F	2011F	2012F
<b>Total assets</b>	<b>310.4</b>	<b>336.8</b>	<b>356.6</b>	<b>395.0</b>	<b>438.9</b>
Current assets	74.2	104.5	126.0	166.6	213.0
Cash	44.5	74.4	91.2	128.5	171.6
Inventories	4.8	5.3	5.4	5.9	6.4
Receivables	24.9	24.3	29.3	32.2	35.0
Others	0.0	0.6	0.0	0.0	0.0
Long term assets	236.2	232.3	230.7	228.4	225.9
Plant and equipment	150.3	146.4	144.8	142.5	140.0
Intangibles	0.3	0.4	0.4	0.4	0.4
Investment properties	84.4	85.0	85.0	85.0	85.0
Others	1.3	0.5	0.5	0.5	0.5
<b>Total liabilities</b>	<b>88.2</b>	<b>86.7</b>	<b>78.6</b>	<b>83.7</b>	<b>87.5</b>
Current liabilities	65.4	65.2	59.2	66.3	72.0
Payables	51.5	52.0	50.3	57.3	61.8
ST borrowings	4.6	4.5	0.0	0.0	0.0
Others	9.3	8.7	8.9	9.0	10.3
<b>Long-term liabilities</b>	<b>22.7</b>	<b>21.4</b>	<b>19.4</b>	<b>17.4</b>	<b>15.4</b>
LT borrowings	22.0	20.0	18.0	16.0	14.0
Others	0.7	1.4	1.4	1.4	1.4
<b>Shareholder's equity</b>	<b>221.9</b>	<b>249.8</b>	<b>277.6</b>	<b>310.9</b>	<b>351.0</b>
Paid-in capital	171.3	172.7	172.7	172.7	172.7
Reserve	50.6	77.1	105.0	138.2	178.4
Minority interests	0.3	0.4	0.4	0.4	0.4

Source: Company data, Kim Eng estimates

**Key ratios**

YE Dec (\$\$ m)	2008	2009	2010F	2011F	2012F
<b>Growth (% YoY)</b>					
Sales	19.0	8.9	8.8	9.8	8.8
Operating Profit	38.1	16.6	16.7	12.2	13.8
EBITDA	40.5	14.8	15.1	10.7	12.6
Net Profit	35.0	20.1	14.6	12.5	14.1
EPS	(12.4)	19.9	14.6	12.5	14.1
<b>Profitability (%)</b>					
Gross margin	Na	Na	Na	Na	Na
Operating margin	19.4	20.8	22.3	22.8	23.8
EBITDA margin	22.7	24.0	25.4	25.6	26.5
Net profit margin	15.7	17.3	18.3	18.7	19.6
ROA	10.2	11.3	12.2	12.4	12.7
ROE	14.3	15.2	15.7	15.7	15.9
<b>Stability</b>					
Gross debt/equity (%)	12.0	9.8	6.5	5.1	4.0
Net debt/equity (%)	2.7	(8.1)	(20.0)	(26.4)	(36.2)
Int. coverage (X)	62.6	110.9	84.2	106.3	138.2
Int. & ST debt coverage (X)	7.4	9.2	84.2	106.3	138.2
Cash flow int. coverage (X)	39.1	73.1	26.9	66.6	87.9
Cash flow int. & ST debt (X)	4.7	6.1	26.9	66.6	87.9
Current ratio (X)	1.1	1.6	2.1	2.5	3.0
Quick ratio (X)	1.1	1.5	2.0	2.4	2.9
Net debt/(cash) (\$ m)	(17.9)	(49.9)	(73.2)	(112.5)	(157.6)
<b>Per share data (SG cent)</b>					
EPS	6.1	7.3	8.4	9.4	10.7
CFPS	4.6	5.6	3.2	7.0	8.1
BVPS	42.9	48.2	53.5	60.0	67.7
SPS	37.6	40.9	44.5	48.8	53.1
EBITDA/share	8.5	9.8	11.3	12.5	14.1
DPS	2.5	3.0	3.0	3.0	3.0

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

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AND  
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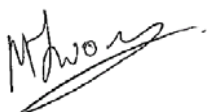
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