

**COMPANY QUICK COMMENT**

We reiterate our BUY rating on Raffles Medical, which we believe will be re-rated on the back of Khazanah's partial offer for Parkway. Trading at 19x FY10 P/E, Raffles Medical provides inexpensive exposure to the strong demand for quality healthcare in Asia, with 35% of patient load from the region. Our price target of S\$1.95 suggests potential upside of 18%.

Price target: SGD 1.95

Price (27 May 2010): SGD 1.65

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**Reiterating BUY for Raffles**

**Recent Parkway acquisitions underscore the attractiveness of healthcare services in Asia.** In our view, the rich valuations paid by Fortis (27.5x P/E) and potentially by Khazanah (29x P/E) underscore the attractiveness of the healthcare services sector in Asia to strategic investors (please see our note: Parkway Holdings; Tussle for control (I), dated 27 May 2010). We believe one of the key investment merits they are looking for is a proven platform that is scaleable throughout the region, supported by a strong brand name.

**Raffles Medical vs Parkway.** Besides operating a different business model (group practice for Raffles vs fee-for-service for Parkway), the key difference between the two healthcare franchises is that Raffles Medical is Singapore-centric (one flagship tertiary hospital and a clinic network) while Parkway has regional exposure. Raffles' management has reiterated its ambition to expand overseas, particularly in China and Malaysia, but with a conservative stance. Nonetheless, we are positive on its strong track record and scaleable business model.

**Reiterating BUY for Raffles Medical.** We reiterate our BUY rating for Raffles Medical which may be re-rated on the back of Parkway's re-rating. While Raffles is not likely to be subjected to takeover with the tight shareholding structure, valuations remain undemanding at 19x FY10E P/E on an EPS CAGR of 18% over 2009-11F. Our price target of S\$1.95 suggests potential upside of 18%.

**Potential upside to our estimates.** Post 1Q-results, Raffles' management revealed in the press that the group is aiming for 15-20% revenue growth in 2010F (Reuters, 3 May 2010), while we are forecasting 13.5%. As such, we believe there is potential upside of 2~7% to our FY10F EPS estimates.

See 1Q10 results note: <http://www.nomura.com/research/GetPub.aspx?pid=368917>

**Key Nomura anchor reports on Healthcare services.** For investors new to the sector, we highlight our past anchor reports which have detailed analysis on the industry dynamics of private healthcare in SE Asia:

1) Singapore healthcare initiation - Positive prognosis (3 March 2009)  
<http://www.nomura.com/research/GetPub.aspx?pid=311884>

2) Asia's vital signs (9 December 2009)  
<http://www.nomura.com/research/GetPub.aspx?spid=3408>

**Valuation Methodology and Investment Risks:** We value Raffles Medical based on 21x FY10F P/E, which is at a mean relative P/E discount to Parkway's core P/E of 25x (set on 26 Apr 2010). Our price target of S\$1.95 is derived after adding an estimated net cash/share of S\$0.15. We believe an earnings-based methodology reflects the company's strong growth profile, backed by our estimated intrinsic value of S\$1.89~2.89/share. Key risks to our call: 1) the group's ability to attract and retain medical professionals; 2) regulatory risks in Singapore

Note: Ratings and Price Targets are as of the date of the most recently published report (<http://www.nomura.com/research>) rather than the date of this email.

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### Mentioned Stocks:

Mentioned Company	Ticker	Price	Price Date	Stock Rating	Disclosures
Parkway Hdgs	PWAY SP	SGD 3.02	27 May 2010	Neutral	
Raffles Medical Sgd0.10	RFMD SP	SGD 1.65	27 May 2010	Buy	

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As at 31 Mar 2010.

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- A rating of "3", or "**Neutral**", indicates that the analyst expects the stock to either outperform or underperform the Benchmark by less than 5% over the next six months.
- A rating of "4", or "**Reduce**", indicates that the analyst expects the stock to underperform the Benchmark by 5% or more but less than 15% over the next six months.
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A "**Neutral**" stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next six months.

A "**Bearish**" stance, indicates that the analyst expects the sector to underperform the Benchmark during the next six months.

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- A rating of "1", or "**Strong buy**" recommendation indicates that upside is more than 20%.
- A rating of "2", or "**Buy**" recommendation indicates that upside is between 10% and 20%.
- A rating of "3", or "**Neutral**" recommendation indicates that upside or downside is less than 10%.
- A rating of "4", or "**Reduce**" recommendation indicates that downside is between 10% and 20%.
- A rating of "5", or "**Sell**" recommendation indicates that downside is more than 20%.

*Sectors:*

A "**Bullish**" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.

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