Health Care & Pharmaceuticals | Asia

Raffles Medical RFMD SP

BUY

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RESULTS FIRST LOOK

Raffles Medical (RMG) posted a strong set of results, with 4Q09 net profit growth of 24% and full year net profit of S$38mn, exceeding our forecast by 5%. Most notably, 4Q09 revenue grew 13%--the first quarter with double-digit growth last year, suggesting a strong recovery post the downturn. Management remains optimistic on the outlook and guided for continued double-digit growth this year, driven by both local and foreign patients. Valuation is attractive at FY10E P/E of 16.2x. Reiterate BUY.

Price target: SGD 1.66 **Price (25 Feb 2010): SGD 1.38**

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Back to double-digit growth

- **Earnings vs. our Forecast:** **ABOVE**

Likely Impact:

- **Earnings Estimates:** **NO CHANGE**
- **Dividend Estimates:** **NO CHANGE**
- **Price Target:** **NO CHANGE**
- **Long-term View:** **CONFIRMED**

Strong quarter suggests back on double-digit growth track - Following the relatively muted single-digit growth for the first three quarters, the strong 13% 4Q09 revenue growth suggests that RMG is back on track to achieve the double-digit growth shown almost every quarter before financial crisis hit. The strong results were achieved on the back of volume growth in both local and foreign patients. For 2010F, we forecast a revenue growth of 14% which we believe is achievable given the potential pent-up demand from foreign patients post-recession.

Operating margin continues to expand - RMG has also delivered consistent expansion in operating margins since 2004 due to its operating efficiencies. EBITDA margin has increased from 22.5% in FY08 to 23.6% in FY09. Staff cost, the biggest cost component (60% of operating cost), is well-contained, rising only 6.7% y-y. Driven by operating leverage, we estimate its EBITDA margin to increase further to 25.8% by FY11.

Increased ordinary dividend going forward - The group has announced a final ordinary dividend of 2cents/share, making up a full year ordinary dividend of 3cents/share (vs. 2.5 cents in previous years). Management guided that this should be the sustainable ordinary dividend going forward. While the dividend is in line with our estimate, we were expecting it as a form of special dividend. As such, we think it is a positive surprise which underscores the management's intent to improve ROE.

Strong net cash balance sheet for regional expansion - The group's balance sheet remains strong with a net cash of S$50mn. Management continues to be on the lookout for regional expansion opportunities, and is open to both M&A and greenfield projects. We highlight an immediate opportunity in Hong Kong where the government is releasing four plots of land for private hospital use (see details: http://www.nomura.com/research/GetPub.aspx?pid=355788). Management is keen on this opportunity, but declined to give further details until the EOI (Expressions of Interest) is submitted by 31 March. We believe RMG's experience in Hong Kong (where it currently has two clinics) and strong track record should position them well for this opportunity. Given the right valuations, we continue to view overseas expansion as a potential stock catalyst for RMG.

Reiterate BUY: attractive valutions at 16.2x FY10E P/E - Notwithstanding the strong 4Q results, we are maintaining our above-consensus earnings estimate for FY10E as we have earlier anticipated a strong recovery in 2010. We expect immediate stock catalyst to arise from consensus earnings upgrade. Reiterate BUY - our Price Target of S$1.66 suggests 22% potential upside.

See recent Price Target upgrade note:
"Healthy prospects" (26 Jan 2010)
http://www.nomura.com/research/GetPub.aspx?spid=3781

Valuation Methodology and Investment Risks: We value Raffles Medical based on 19x FY10F P/E, which is at a mean relative P/E discount to Parkway's core P/E of 22x (set on 26 Jan 2010). Our price target of S$1.66 is derived after adding an estimated net cash/share of S$0.07. We believe an earnings-based methodology reflects the company's strong growth profile, backed by our estimated intrinsic value of S$2.77/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) rather than the date of this email.

Results First Look is the analyst's preliminary interpretation of the results announcement. Our recommendation and earnings estimates are not being changed in this report. Any formal changes to our recommendation or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed in this report.

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Mentioned Stocks:

Mentioned Company	Ticker	Price	Price Date	Stock Rating	Disclosures
Raffles Medical Sgd0.10	RFMD SP	SGD 1.38	25 Feb 2010	Buy	

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Stocks:

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• A rating of "2", or **"Buy"**, indicates that the analyst expects the stock to outperform the Benchmark by 5% or more but less than 15% over the next six months.
• 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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Stock recommendations are based on absolute valuation upside (downside), which is defined as (Fair Value - Current Price)/Current Price, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value. Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.

• 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%.

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

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