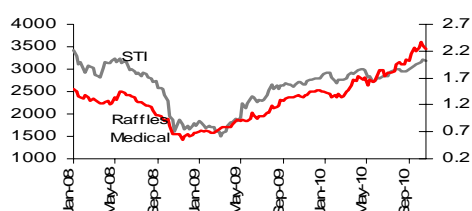


5 April 2011

Maintain

BUY

Previous Rating: BUY

Current Price: S\$2.22
Fair Value: S\$2.45


Raffles Medical Group

Quality healthcare play

Quality healthcare play. We believe that growing demand for quality healthcare services in Singapore will provide ample growth opportunities for Raffles Medical Group (RMG). This is due to its consistent track record established over the years. As a recap, RMG reported strong earnings growth of 19.5% to S\$45.3m for FY10. This was largely driven by higher patient load, operating efficiencies and operating leverage. The inclination towards the recruitment of more multi-disciplinary specialists who function under the unique group practice model should help to boost earnings momentum moving forward. A recent Straits Times article also pointed out that demand for health screening packages in Singapore has increased. We expect this trend to benefit RMG, especially since it has a wide network of clinics and also more than 5,500 corporate clients in Singapore.

Aiming for further growth with new medical centre. RMG also recently announced plans for a new specialist medical centre near Orchard Road, after successfully tendering for a seven-storey freehold podium/commercial block of Thong Sia Building for S\$92.08m. We see this as an astute move by management, given that RMG has a significant number of patients who live in Districts 9, 10 and 11. Hence the medical centre is strategically located for these patients to access its comprehensive range of healthcare services once it is ready. Moreover we expect this medical centre to be complementary to RMG's hospital operations as only outpatient services will be provided, which implies the prospect of increasing patient referrals to Raffles Hospital. The purchase is expected to be completed by end Apr, although existing tenancies for the property will only expire in 2012 and 2013.

Encouraging visitor arrivals. Visitor arrivals to Singapore continued to show robust growth, having increased 15.4% YoY to 990,000 in Feb. We expect RMG to be a key beneficiary of this trend, given its strong brand equity to medical travellers and Singapore's reputation as a leading medical tourism hub. We also do not expect the recent Japan earthquake and tsunami incident to have much impact on RMG, as Japanese patients form only a small proportion of its foreign patient base. Moreover, the catastrophe could have stymied Japan's plans to capture the lucrative medical tourism pie although visa requirements were eased recently for foreigners seeking medical treatment there. These potential patients could instead now seek alternatives such as RMG.

Maintain BUY. We continue to like RMG for its strong management, operating efficiencies and prudent risk management. Hence we maintain our **BUY** rating and S\$2.45 fair value estimate on RMG.

Reuters Code	RAFG.SI
ISIN Code	R01
Bloomberg Code	RFMDSP
Issued Capital (m)	527
Mkt Cap (S\$m / US\$m)	1,170 / 928
Major Shareholders	
Raffles Medical Holdings Pte Ltd	39.3%
Free Float (%)	46.6%
Daily Vol 3-mth ('000)	813
52 Wk Range	1.500 - 2.520

(S\$ m)	FY09	FY10	FY11F	FY12F
Revenue	218.6	239.1	276.4	319.3
EBIT	45.5	53.0	56.8	69.5
P/NTA (x)	4.6	4.1	3.7	3.3
EPS (cts)	7.3	8.7	9.2	11.2
PER (x)	30.4	25.7	24.1	19.8

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Raffles Medical Group's Key Financial Data

EARNINGS FORECAST					BALANCE SHEET				
Year Ended 31 Dec (\$m)	FY09	FY10	FY11F	FY12F	As at 31 Dec (\$m)	FY09	FY10	FY11F	FY12F
Revenue	218.6	239.1	276.4	319.3	Bank and cash balances	74.4	107.1	30.3	43.5
EBITDA	52.3	59.9	65.6	79.2	Other current assets	30.1	31.1	36.8	42.5
Depreciation and amortisation	-6.9	-6.9	-8.8	-9.7	Property, plant, and equipment	146.4	144.3	267.4	307.8
EBIT	45.5	53.0	56.8	69.5	Total assets	336.8	371.8	423.8	483.2
Net interests	-0.4	-0.2	-0.4	-0.5	Debt	24.5	22.6	29.5	34.8
Share of results of JVs, net	0.0	0.0	0.0	0.0	Current liabilities excluding debt	60.7	60.5	73.2	84.6
Profit before tax	45.0	53.1	56.9	69.2	Total liabilities	86.7	84.8	104.4	121.1
Income tax expense	-7.0	-7.6	-8.5	-10.4	Shareholders equity	249.8	286.4	318.6	361.1
Minority interests	-0.2	-0.2	-0.2	-0.3	Minority interests	0.4	0.5	0.8	1.1
Profit attributable to shareholders	37.9	45.3	48.1	58.5	Total equity and liabilities	336.8	371.8	423.8	483.2

CASH FLOW					KEY RATES & RATIOS				
Year Ended 31 Dec (\$m)	FY09	FY10	FY11F	FY12F		FY09	FY10	FY11F	FY12F
Op profit before working cap. chg.	53.3	58.9	65.6	79.2	EPS (SG cents)	7.3	8.7	9.2	11.2
Working cap, taxes and int	-6.0	-9.7	-2.1	-5.4	NTA per share (SG cents)	48.0	54.4	59.9	67.3
Net cash from operations	47.2	49.2	63.6	73.9	EBIT margin (%)	20.8	22.2	20.5	21.8
Purchase of PP&E	-3.9	-5.5	-132.0	-50.0	Net profit margin (%)	17.1	18.9	17.4	18.3
Other investing flows	0.4	2.1	0.5	0.2	PER (x)	30.4	25.7	24.1	19.8
Investing cash flow	-3.5	-3.4	-131.5	-49.8	Price/NTA (x)	4.6	4.1	3.7	3.3
Financing cash flow	-13.7	-12.8	-9.0	-10.8	EV/EBITDA (x)	21.4	18.1	17.8	14.7
Net cash flow	30.0	33.1	-76.9	13.2	Dividend yield (%)	1.4	1.6	1.4	1.4
Cash at beginning of year	44.1	74.1	107.1	30.3	ROE (%)	16.1	16.9	15.9	17.2
Cash at end of year	74.4	107.1	30.3	43.5	Net gearing (%)	net cash	net cash	net cash	net cash

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

The analyst/analysts who wrote this report holds NIL shares in the above security.

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- For companies with less than S\$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

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Carmen Lee
Head of Research

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