

# Singapore Company Focus

## Raffles Medical

Bloomberg: RFMD SP | Reuters: RAFG.SI

DBS Group Research . Equity

24 Feb 2009

**HOLD S\$0.705 STI : 1,630.69**

(Downgrade from Buy)

**Price Target :** 12-month S\$ 0.78 (Prev S\$ 0.76)

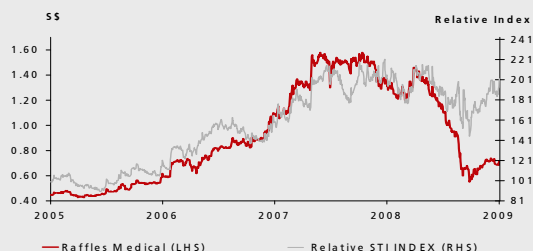
**Reason for Report :** 4Q08 Results

**Potential Catalyst:** Acquisitions, better than expected patient growth

### Analyst

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### Price Relative



### Forecasts and Valuation

FY Dec (\$ m)	2007A	2008A	2009F	2010F
Turnover	169	201	207	229
EBITDA	34	46	49	52
Pre-tax Profit	41	38	41	44
Net Profit	36	32	34	36
Net Pft (Pre Ex.)	23	32	34	36
EPS (S cts)	7.0	6.1	6.6	7.0
EPS Pre Ex. (S cts)	4.5	6.1	6.6	7.0
EPS Gth Pre Ex (%)	29	34	9	5
Diluted EPS (S cts)	6.9	6.0	6.5	6.9
Net DPS (S cts)	2.5	2.5	2.5	3.0
BV Per Share (S cts)	39.0	42.9	47.0	51.5
PE (X)	10.0	11.4	10.5	10.0
PE Pre Ex. (X)	15.3	11.4	10.5	10.0
P/Cash Flow (X)	9.2	9.4	8.6	8.1
EV/EBITDA (X)	10.8	7.5	6.4	5.5
Net Div Yield (%)	3.6	3.6	3.6	4.3
P/Book Value (X)	1.8	1.6	1.5	1.4
Net Debt/Equity (X)	0.0	CASH	CASH	CASH
ROAE (%)	22.9	14.9	14.7	14.2

**Earnings Rev (%) :** - 3.9 (2.9)  
**Consensus EPS (S cts):** 5.6 6.0 6.7

**ICB Industry :** Health Care

**ICB Sector:** Health Care Equipment & Servic

**Principal Business:** Raffles Medical Group Ltd. is a Singapore-based company that is principally engaged in the provision of integrated healthcare services.

### Expecting slower growth in FY09

FY08 net profit was above expectation on lower operating expenses. Topline growth in 4Q was slower versus previous quarters probably on slower admissions arising from the economic downturn. We trimmed revenue forecast by 7% (FY09F) but revised up net profit by 4% on expected savings from the Budget measures. Downgrade to Hold on limited upside. TP: S\$0.78.

**FY08 net profit above expectation.** Headline net profit of \$31.5m (+35% y-o-y) was above our expectation of \$29m on lower operating expenses. Revenue grew 19% to \$200.8m on growth from its Hospital (+20.2% y-o-y) and Healthcare (+16.3% y-o-y) divisions. As a result of slower growth in its operating expenses, EBIT margin improved to 19.3%, up by 3.6ppt from 15.7% in FY07. Net cash position grew to \$18m, from \$9m in Sep'08 and net debt of \$6m in Dec'07. A final dividend of 1.5 cents was proposed.

**...but a slower 4Q topline growth.** 4Q topline grew by a slower 12% versus an average growth of c.22% in the preceding 9 months. We estimate that hospital division showed a topline growth of c. 9% y-o-y in 4Q08 probably on slower new patients growth.

**Trimmed FY09 revenue growth.** We lowered our revenue forecast by 7% on slower expected admissions but revised our FY09F net profit forecasts up by 4% to S\$34m on expected savings from the Singapore Budget measures (c. \$2.5m).

**Downgrade to Hold, TP: S\$0.78.** Whilst we like this counter for its relatively defensive features and healthy balance sheet, the current price offers limited upside to our revised TP of \$0.78 (still based on 12x FY09F EPS). As such, we downgrade to Hold and would prefer to accumulate at a lower level (c.\$0.65).

### At A Glance

Issued Capital (m shrs)	518
Mkt. Cap (\$m/US\$m)	360 / 236
Major Shareholders	
Raffles Medical (%)	39.9
Loo Choon Yong (%)	10.2
Free Float (%)	49.9
Avg. Daily Vol.('000)	182

## Results Summary and Comments

FY Dec (\$m)	4Q07	4Q08	4Q Chg y-o-y	FY07	FY08	Chg y-o-y	Comments
<b>Sales</b>	<b>45.7</b>	<b>51.4</b>	12%	<b>168.7</b>	<b>200.8</b>	19%	Growth from Hospital (+20.2%) and Healthcare (+16.3%) divisions for full year
Other Operating Income	0.2	(0.1)	-159%	0.3	0.2	-77%	
<i>Inventories and consumables used</i>	(5.0)	(5.8)	15%	(19.4)	(22.7)	17%	
<i>Staff costs</i>	(24.5)	(24.6)	1%	(85.9)	(98.3)	14%	Lower than topline due to operating efficiencies
<i>Depreciation of PPE</i>	(1.5)	(1.8)	15%	(4.2)	(6.6)	57%	Increase largely due to full ownership of hospital, offset by lower operating lease expenses
<i>Operating lease expenses</i>	(1.2)	(0.8)	-28%	(9.8)	(4.5)	-55%	
<i>Other operating expenses</i>	(4.7)	(7.5)	58%	(23.2)	(30.2)	30%	Increase due to growth in business, electricity costs and higher marketing expenditure
Total operating expenses	(36.9)	(40.5)	10%	(142.6)	(162.3)	14%	Lower than topline due to operating efficiencies
Operating profit	9.1	10.8	19%	26.4	38.7	47%	
Interest Income	0.1	0.1	-20%	1.8	0.3	-86%	
Interest Expense	(0.3)	(0.2)	-49%	(0.4)	(0.6)	66%	
Share of Associates' or JV Income	(0.1)	0.0	na	1.1	0.0	na	
Exceptional Gains/(Losses)	0.0	0.0	na	12.5	0.0	na	Fair gains from the Hospital assets in 2Q07
Pretax Profit	8.8	10.8	22%	41.4	38.4	-7%	
Tax	0.7	(1.2)	-278%	(5.5)	(6.7)	22%	Offset by deferred tax credit in 4Q07
Minority Interests	(0.1)	(0.1)	37%	(0.1)	(0.1)	85%	
Net Profit	9.4	9.5	1%	35.9	31.5	-12%	4Q07 aided by deferred tax credit. Excluding that in 4Q07, net profit grew by 33% yoy in 4Q08. Excluding fair value gains in FY07, net profit would have grown by 35% yoy.

Margins (%)	4Q07	4Q08	Chg ppt	FY07	FY08	Chg ppt	
EBIT Margin	19.8	21.1	1.2	15.7	19.3	3.6	Improved operational efficiencies
Pre-tax Margin	19.3	20.9	1.7	24.6	19.1	-5.5	
Net Margin	20.5	18.4	-2.1	21.3	15.7	-5.6	FY07 skewed by one-off fair value gains
Depr % of sales	3.4	3.4	0.0	1.6	3.3	1.7	Higher depreciation in FY08 due to ownership of property
Effective Tax Rate %	-7	11	18.3	13	17	4.2	
Recurring Net Margin	16.6	18.4	1.8	14.1	15.7	1.6	

Source: Company, DBS Vickers

## Results comments/ Key take-away from briefing

**A credible FY08, net profit +35% excluding fair value gains.** Excluding fair value gain of \$12.5m in FY07 arising from the investment property, net profit would have grown by 35%. Topline growth for the full year at 19% was driven by both healthcare (+16.3% yoy) and hospital divisions (+20.2% yoy). EBIT margins continued to show improvement to 19.3%, up by 3.6ppt from 15.7% in FY07 on slower growth in operating expenses versus revenue growth.

**...but we see a slowing topline growth in Hospital division in 4Q.** We noted that the Group's 4Q topline **Balance sheet remains healthy with net cash of \$18m.** The Group's net cash position grew to \$18m, from \$9m

growth of c.12% yoy was slower than the preceding 3 quarters in FY08 of c.22%. We estimate that revenue from its Hospital division **grew at a slower 9% y-o-y in 4Q08**, down from the previous 3 quarters in 2008, averaging c.21%. The Group does not provide quarterly segmental figures.

## Quarterly topline growth in 2008 – 4Q slowing

Revenue growth y-o-y	1Q08	2Q08	3Q08	4Q08	FY08
Healthcare	16.9%	15.4%	16.9%	16.0%	16.3%
Hospital	30.5%	24.1%	17.1%	<b>9.0%</b>	20.2%
<b>Total</b>	<b>25.8%</b>	<b>22.3%</b>	<b>17.0%</b>	<b>12.4%</b>	<b>19.4%</b>

Source: Company, DBSVickers' estimates

in 3Q08 and net debt of \$6m as of Dec 07, **reflecting its healthy balance sheet and operating cashflow.** We expect the

Group to remain in a healthy cash position which should bode well for its expansion/acquisition plans should there be opportunities arising from it.

**Foreign patients from 100 countries account for about one-third.** Management shared that foreign patients account for about one-third of its total patient admissions. Of these, Indonesians account for c.20%, followed by Malaysians.

**Management still targeting positive topline growth, albeit slower.** Despite the downturn, management still hopes to achieve a 5-10% topline growth. It was highlighted that in the previous two recessions in 1998 and 2001, the Group still managed to achieve topline growth. While business could be affected in this current downturn, they believe that the business, being largely curative and non-elective in nature, should be more resistant in the downturn.

**Budget 2009 to yield c.\$2.5-\$3.0m in savings.** The measures arising from Singapore are expected to yield savings of c. \$2.5m - \$3.0m, largely arising from Job Credits and the 1% point cut in corporate tax rate.

**Final dividend of 1.5cents; special dividend only if there is no need for cash.** A final dividend of 1.5cents was proposed, thus bringing full year dividend to 2.5cents, similar to FY07. Management guided for normal dividend to be maintained at 2.5cents, with potential for special dividend payout if its net cash position is at c.\$40m - \$50m and that there are no uses for the cash.

### Earnings estimates/ Valuation

**Trim topline by 7% in FY09F on slower admissions...** We trimmed our FY09F revenue forecast down by 7% to \$207m on lower admissions for its hospital divisions on an expected slower admission.

S\$m	FY09F New	FY10F New	FY09F Old	FY10F Old	FY09F % chg	FY10F % chg
<b>Segment</b>						
<b>Healthcare</b>	86.3	94.0	86.4	94.2	0%	0%
<b>Hospital</b>	130.6	146.0	146.7	165.8	-11%	-12%
<b>Revenue</b>	207.2	228.5	223.6	249.2	-7%	-8%
<b>Net profit</b>	34.3	36.1	32.9	37.2	4%	-3%

**...but adjust FY09F earnings up by 4% on savings from budgetary measures.** However, as we take into account the expected savings from measures announced at the Budget, our FY09F earnings forecast is adjusted up by 4% to \$34.3m. The main bulk of savings should be from the Jobs Credit Scheme, which we estimate to yield savings of c.\$2.3m, based on our assumptions.

**Downgrade to Hold; TP: \$0.78, on limited upside in the near term.** Whilst we like this counter for its relatively defensive features and healthy balance sheet, the current price offers limited upside to our revised TP of \$0.78, still based on 12x FY09F EPS. As such, we downgrade to Hold and would prefer to accumulate at a lower levels (c.\$0.65).

### Peers' Valuation Table

Company	Curr	Last Px	Mkt cap (US\$)	Hist. PE (x)	PE Curr Yr (x)	PE Nxt Yr (x)	P/B (x)	P/S (x)	Sales (US\$)	Opg Income (US\$)
Raffles Medical Group Ltd	SGD	0.71	242	11.7	10.8	10.3	1.7	1.8	88.3	17.5
Parkway Holdings Ltd	SGD	1.16	870	12.8	14.3	13.3	1.0	1.2	575.2	84.3
Thomson Medical Centre Ltd	SGD	0.43	83	11.2	9.8	8.6	1.2	2.1	40.0	7.9
Pacific Healthcare Holdings Ltd	SGD	0.09	16	4.1	na	na	0.4	0.3	49.9	5.1
Health Management Int'l Ltd	SGD	0.10	30	na	na	na	1.5	1.0	29.5	3.5
Healthway Medical Corp Ltd	SGD	0.06	54	4.6	na	na	0.8	0.9	56.1	14.7
Primary Health Care Ltd	AUD	4.81	1,159	na	17.4	10.5	1.0	1.1	417.0	68.7
Ramsay Health Care Ltd	AUD	9.16	1,028	18.4	13.4	11.8	2.4	0.6	1,675.8	149.3
Healthscope Ltd	AUD	4.23	680	11.7	12.7	11.1	1.2	0.7	944.1	97.8
Bangkok Dusit Medical Service Pcl	THB	.40	605	11.6	12.6	12.4	1.8	1.0	530.0	61.3
Bumrungrad Hospital PCL	THB	21.50	448	9.7	14.5	15.2	3.4	1.8	238.7	41.7
Bangkok Chain Hospital PCL	THB	7.30	198	11.4	10.5	10.0	2.9	1.6	120.8	20.8
				12.3	13.0	11.9				

Source: Bloomberg, DBSVickers

## Company Focus

### Raffles Medical

#### Quarterly Cashflow and Average Cash Conversion Cycle

FY Dec (\$m)	1Q08	2Q08	3Q08	4Q08	Comments
Pre-tax Profit	7.8	9.7	10.1	10.8	
Tax Paid	(0.9)	(1.3)	(1.1)	(0.7)	
Depreciation & Amortization	1.6	1.6	1.7	1.8	
Associates & JVs Inc	0.0	0.0	0.0	0.0	
Other Non-Cash Adjustments	0.1	0.1	0.3	0.3	
Inventories	(0.4)	(0.2)	(0.3)	(0.9)	
Trade and other receivables	(5.5)	(4.7)	3.4	(4.7)	
Trade and other payables	0.5	5.1	1.7	3.8	
Changes in Non-Cash Work Cap	(5.5)	0.3	4.8	(1.8)	
Cash From Operations	3.2	10.4	15.8	10.7	Stable operating cashflows
Net Change in Capex	(0.5)	(2.0)	(1.6)	(2.0)	
Net Change In Investments	(1.3)	2.1	0.0	(0.9)	
Other Investing Activities	0.1	0.1	0.1	0.9	
Cash from Investing Activities	(1.7)	0.2	(1.6)	(1.9)	
Dividends Paid	0.0	(7.8)	(5.2)	0.0	
Net Change in Gross Debt	1.4	0.0	(1.0)	0.9	
Capital Issues	0.2	1.0	0.1	0.1	
Other Financing Activities	0.0	(0.0)	(0.0)	(0.0)	
Cash from Financing Activities	1.5	(6.7)	(6.1)	1.0	
Net Changes in Cash	3.0	3.9	8.1	9.8	
Currency Adjustments	(0.0)	(0.0)	(0.0)	0.1	
Cash at beginning of period	19.7	22.7	26.6	34.7	
Cash at end of period	22.7	26.6	34.7	44.5	Net cash of \$18m
Net Changes in Cash	3.0	3.9	8.1	9.8	
<b>Balance sheet items (as at end of quarter)</b>					
Average Inventory turnover days (COGS)	68	69	71	69	
Average Trade Receivables turnover days (Sales)	48	57	45	41	
Average Trade Payables turnover days (COGS)	101	116	120	112	
Cash Conversion Cycle (Days)	15	10	(4)	(2)	Healthy cash conversion cycle

Source: Company, DBSVickers

**Income Statement (\$\$ m)**

FY Dec	2007A	2008A	2009F	2010F
Turnover	169	201	207	229
Other Opng (Exp)/Inc	(140)	(162)	(165)	(185)
<b>Operating Profit</b>	<b>28</b>	<b>39</b>	<b>42</b>	<b>44</b>
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	1	0	0	0
Net Interest (Exp)/Inc	0	(1)	0	0
Exceptional Gain/(Loss)	13	0	0	0
<b>Pre-tax Profit</b>	<b>41</b>	<b>38</b>	<b>41</b>	<b>44</b>
Tax	(5)	(7)	(7)	(7)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
<b>Net Profit</b>	<b>36</b>	<b>32</b>	<b>34</b>	<b>36</b>
Net Profit before Except.	23	32	34	36
EBITDA	34	46	49	52
Sales Gth (%)	25.6	19.0	3.2	10.3
EBITDA Gth (%)	42.4	36.0	7.8	5.3
Opg Profit Gth (%)	46.9	38.1	7.0	4.7
Net Profit Gth (%)	128.2	(12.0)	8.6	5.5
Effective Tax Rate (%)	13.3	17.4	17.0	17.0

**Cash Flow Statement (\$\$ m)**

FY Dec	2007A	2008A	2009F	2010F
Pre-Tax Profit	41	38	41	44
Dep. & Amort.	4	7	8	8
Tax Paid	(4)	(4)	(9)	(7)
Assoc. & JV Inc/(loss)	(1)	0	0	0
Chg in Wkg.Cap.	13	(2)	6	3
Other Operating CF	(14)	1	0	0
<b>Net Operating CF</b>	<b>40</b>	<b>40</b>	<b>46</b>	<b>48</b>
Capital Exp.(net)	(68)	(6)	(5)	(5)
Other Invts.(net)	0	0	0	0
Invts in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	15	1	0	0
<b>Net Investing CF</b>	<b>(53)</b>	<b>(5)</b>	<b>(5)</b>	<b>(5)</b>
Div Paid	(18)	(13)	(13)	(13)
Chg in Gross Debt	0	1	(2)	(2)
Capital Issues	64	1	0	0
Other Financing CF	(55)	0	0	0
<b>Net Financing CF</b>	<b>(9)</b>	<b>(10)</b>	<b>(15)</b>	<b>(15)</b>
Net Cashflow	(22)	25	26	28

**Quarterly / Interim Income Statement (\$\$ m)**

FY Dec	1Q2008	2Q2008	3Q2008	4Q2008
Turnover	47	51	51	51
Other Oper. (Exp)/Inc	(39)	(41)	(41)	(41)
<b>Operating Profit</b>	<b>8</b>	<b>10</b>	<b>10</b>	<b>11</b>
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
<b>Pre-tax Profit</b>	<b>8</b>	<b>10</b>	<b>10</b>	<b>11</b>
Tax	(2)	(2)	(2)	(1)
Minority Interest	0	0	0	0
<b>Net Profit</b>	<b>6</b>	<b>8</b>	<b>8</b>	<b>9</b>
Net profit bef Except.	6	8	8	9
EBITDA	10	11	12	13
Sales Gth (%)	3.6	6.8	1.3	0.2
EBITDA Gth (%)	(9.9)	20.2	3.9	5.9
Opg Profit Gth (%)	(12.6)	23.4	4.0	6.4
Net Profit Gth (%)	(35.0)	26.4	6.8	15.1
Opg Profit Margins (%)	16.7	19.3	19.8	21.1
Net Profit Margins (%)	12.9	15.2	16.1	18.4

**Balance Sheet (\$\$ m)**

FY Dec	2007A	2008A	2009F	2010F
Net Fixed Assets	151	150	148	145
Invts in Associates & JVs	0	0	0	0
Other LT Assets	86	86	86	86
Cash & ST Invts	20	45	70	98
Inventory	4	5	5	6
Debtors	20	25	26	29
Other Current Assets	1	0	0	0
<b>Total Assets</b>	<b>281</b>	<b>310</b>	<b>335</b>	<b>363</b>
ST Debt	25	5	5	5
Other Current Liab	54	61	66	73
LT Debt	0	22	20	18
Other LT Liabilities	1	1	1	1
Shareholder's Equity	201	222	243	266
Minority Interests	0	0	0	1
<b>Total Cap. &amp; Liab.</b>	<b>281</b>	<b>310</b>	<b>335</b>	<b>363</b>
Non-Cash Wkg. Capital	(30)	(31)	(35)	(38)
Net Cash/(Debt)	(6)	18	46	76

**Rates & Ratio**

FY Dec	2007A	2008A	2009F	2010F
Opg Profit Margin (%)	16.7	19.4	20.1	19.1
Net Profit Margin (%)	21.3	15.7	16.5	15.8
ROAE (%)	22.9	14.9	14.7	14.2
ROA (%)	16.6	10.7	10.6	10.4
ROCE (%)	14.3	13.5	13.3	13.0
Div Payout Ratio (%)	36.0	41.0	37.8	43.0
Net Interest Cover (x)	75.0	62.6	153.2	NM
Asset Turnover (x)	0.8	0.7	0.6	0.7
Debtors Turn (avg days)	40.0	41.0	44.7	43.5
Creditors Turn (avg days)	nm	nm	nm	nm
Inventory Turn (avg days)	(308.8)	(234.0)	(241.1)	(243.1)
Current Ratio (x)	0.6	1.1	1.4	1.7
Quick Ratio (x)	0.5	1.1	1.4	1.6
Net Debt/Equity (X)	0.0	CASH	CASH	CASH
Capex to Debt (%)	270.3	23.1	20.3	22.1
Z-Score (X)	5.8	3.7	3.8	3.8
N. Cash/(Debt)PS (S cts)	(1.1)	3.5	8.9	14.6
Opg CFPS (S cts)	5.2	8.1	7.7	8.7
Free CFPS (S cts)	(5.5)	6.6	7.9	8.3

**Segmental Breakdown**

FY Dec	2007A	2008A	2009F	2010F
<b>Revenues (\$\$ m)</b>				
Healthcare services	70	81	86	94
Hospital services	106	128	131	146
Investment holdings	3	8	8	8
Less: Eliminations	(10)	(16)	(18)	(19)
<b>Total</b>	<b>169</b>	<b>201</b>	<b>207</b>	<b>229</b>
<b>Operating profit (\$\$ m)</b>				
Healthcare services	6	7	8	9
Hospital services	20	28	30	32
Investment holdings	2	3	3	3
<b>Total</b>	<b>28</b>	<b>39</b>	<b>42</b>	<b>44</b>
<b>Operating profit Margins</b>				
Healthcare services	9.1	9.2	9.1	9.1
Hospital services	18.6	22.0	23.3	21.7
Investment holdings	72.8	42.6	42.6	42.6
<b>Total</b>	<b>16.7</b>	<b>19.4</b>	<b>20.1</b>	<b>19.1</b>

Source: Company, DBS Vickers

DBSV recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (0-15% total return over the next 12 months for small caps, 0-10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

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