Standard Chartered

Singapore | Health Care

25 July 2011

Raffles Medical Group

OUTPERFORM (unchanged)

Price target: SGD2.83 (unchanged)

PRICE (as at 25 July 11)	REPORTING PERIOD	MARKET CAP	12 MONTH RANGE
SGD2.35		**SGD1,254m (US$1,037m)**	**SGD1.83 - 2.52**
BLOOMBERG	REUTERS	EPS EST. CHANGE	
RFMD SP	**RAFG.SI**	**No chg**	

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Summary

Raffles Medical reported 2Q 2011 results on 25 July with revenue and net profit growth of 14% and 10% YoY, respectively. Earnings are on-track to meet our estimates with 1H accounting for 42% of our full-year estimate (the ratio was 43% in 2010). Raffles Medical currently trades on 21x 2012E PER and our price target of SGD2.83 offers 20% potential upside.

Results summary

Fig 1: Results summary

Year end: Dec	2Q2010	2Q2011	YoY %	1H2010	1H2011	YoY %	2011E	1H2011 as a % of 2011E
Turnover (SGDm)	58.6	67.0	14.3%	114.8	131.4	14.5%	272.2	48.3%
Gross Profit (SGDm)	47.6	54.0	13.6%	93.6	106.2	13.5%	222.0	47.9%
Operating profit (SGDm)	13.0	14.3	10.1%	24.2	27.1	12.1%	60.6	44.8%
Operating margin	22.2%	21.4%	-3.7%	21.1%	20.7%	-2.0%	22.3%	nm
Net profit (SGDm)	10.6	11.6	10.1%	19.6	22.1	12.6%	52.3	42.3%
EPS (SGD cents)	1.99	2.17	9.1%	3.71	4.13	11.3%	9.75	42.3%
DPS (SGD cents)	1.00	1.00	0.0%	1.00	1.00	0.0%	3.97	25.2%
NAV per share (SGD cents)	50.17	59.01	17.6%	50.17	59.01	17.6%	60.30	97.9%

Source: Company, Standard Chartered Research estimates

Results: Key points

As we expected, Raffles Medical delivered a steady set of 2Q 2011 results. Key points are:

- **Steady growth:** Revenue grew 14% YoY, while both operating profit and net profit grew 10% YoY. It disclosed that excluding the impact of the jobs credit grant it received in 2Q 2010, profit would have grown at 13%.
- **Broad-based growth:** Both healthcare services and hospital services achieved double-digit revenue growth of 12% and 15% YoY, respectively. This is similar to the 1Q growth of 14% YoY for healthcare services and 15% YoY for hospital services. This is an acceleration from 2010's performance when healthcare and hospital services only grew 5% and 12% YoY, respectively.
- **On-track to meet our estimates:** Raffles Medical's 1H 2011 earnings of SGD22m represent 42% of our full-year estimate of SGD52m. In 2010, this ratio was 43%.
- **Operating leverage intact:** Management advised in the results briefing that excluding the jobs credit grant received in 2010 and losses at its new Shanghai clinic, its profit would have grown at about 17% on revenue growth of 14%.

- **Thong Sia purchase completed.** Raffles Medical completed the purchase of Thong Sia Building on April 15, 2011. An additional SGD83m was paid in 2Q for this purchase (SGD14.5m was paid in 1Q 2011) and the total purchase price is SGD97m. Raffles Medical expects its specialist medical centre to start operations in 2H 2011.
- **Balance sheet remains strong.** Due to the acquisition of Thong Sia at the end 2Q 2011, Raffles Medical had slight net gearing of SGD3m. We expect a further SGD25m of capex in relation to the Raffles Hospital expansion and for maintenance purposes. We believe Raffles Medical could end 2011 with net cash.

Recommendation and valuation

Raffles Medical is currently trading on 21x 2012E PER. Our price target multiple is based on 25x 2012E PER and translates to a price target of SGD2.83 per share, offering 20% potential upside.

Valuation summary

Fig 2: Valuation summary

Year end: Dec	2010	2011E	2012E	2013E
PER (x)	27.6	24.1	20.7	17.5
EV/EBITDA (x)	20.8	18.1	15.0	12.7
Dividend yield (%)	2.3	1.7	2.0	2.3
FCF yield (%)	3.5	-4.6	2.2	4.1
ROE (%)	16.9	17.3	18.1	19.2

Source: Company, Standard Chartered Research estimates

Disclosures appendix

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Company Raffles Medical Group

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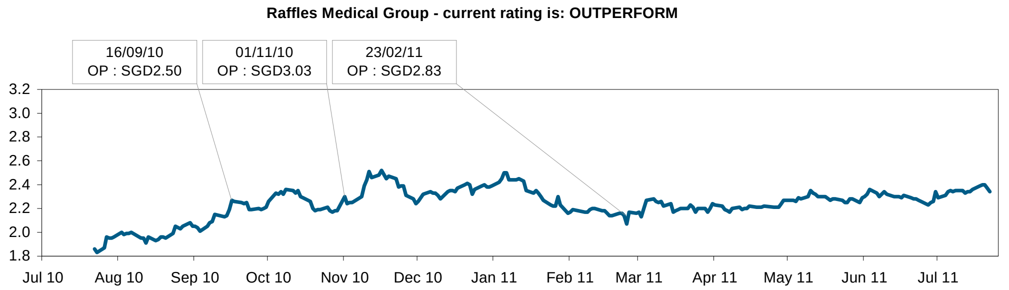

Source: FactSet prices / SCB ratings and price targets

Recommendation Distribution and Investment Banking Relationships

	% of covered companies currently assigned this rating	% of companies assigned this rating with which SCB has provided investment banking services over the past 12 months
OUTPERFORM	59.2%	14.0%
IN-LINE	32.5%	13.8%
UNDERPERFORM	8.3%	10.8%

Research Recommendation

Terminology	Definitions
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