

# Raffles Medical Group

**OUTPERFORM** (unchanged)

**Price target: SGD2.50**

PRICE (as at 22 October 10) <b>SGD2.19</b>	REPORTING PERIOD <b>3Q 2010</b>	MARKET CAP <b>SGD1,150.54m (US\$887.29m)</b>	12 MONTH RANGE <b>SGD1.33 - 2.36</b>
BLOOMBERG <b>RFMD SP</b>	REUTERS <b>RAFG.SI</b>	EPS EST. CHANGE <b>2010E -4% 2011E</b>	<b>-</b>

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## Summary

- Raffles Medical reported strong 3Q 2010 results. The company disclosed that excluding a jobs credit grant received by the Group in Q3 2009, net profit for Q3 2010 would have grown 22.3% yoy.
- YTD Q3 2010 operating margins expanded by 1 percentage point to 21.3% and net cash increased to SGD71mio.
- We tweak our 2010 and 2011 EPS numbers, with our 2010 fully diluted EPS declining by 4% and 2011 EPS unchanged at SGD10cents. We remain confident of Raffles Medical's growth prospects, in particular, the accelerating growth of the hospital services revenues. We expect Raffles Medical's operating margins to continue to expand as the group expands its specialist services.

## Results summary

Fig 1: 3Q10 results summary

Year end: Dec	3Q09 results	3Q10 results	YoY % growth	YTD 3Q09 results	YTD 3Q10 results	YoY % growth	YTD as % of 2010E	New 2010E estimates
Turnover (SGDm)	55.4	60.9	10%	160.3	175.6	10%	72%	243
Gross Profit (SGDm)	45.5	49.7	9%	130.6	143.2	10%	72%	198
Operating profit (SGDm)	11.9	13.2	11%	32.6	37.4	15%	72%	52
Operating margin	21.5%	21.7%	1%	20.3%	21.3%	5%		21.4%
Net profit (SGDm)	9.5	10.7	13%	26.0	30.3	16%	70%	43
EPS (SGD cents)	1.80	2.00	11%	4.98	5.71	15%	70%	8.19
DPS (SGD cents)	-	-	n.a.	1.00	1.00	-	33%	3.00
NAV per share (SGD)	48.04	51.41	7%	40.53	43.77	8%	83%	52.50

Source: Company, Standard Chartered Research estimates

## Results: key points

- Raffles Medical reported strong 3Q 2010 results. 3Q 10 revenue grew 10% yoy and net profit grew 13% yoy. YTD 3Q revenue grew 10% yoy and net profit grew 16% yoy. The company disclosed that excluding a jobs credit grant received by the Group in 3Q 2009, net profit for Q3 2010 would have grown 22.3% yoy.
- As we expected, YTD Q3 2010 operating margins expanded by 1 percentage point to 21.3%. Net cash increased to SGD71mio.
- The company disclosed that in 3Q 2010, hospital services revenues grew 15% yoy and healthcare services revenues grew 4%. This represents an acceleration of growth for hospital services from 11% yoy in 1Q and 2Q 2010.



- We tweak our 2010 and 2011 EPS numbers to reflect slightly lower than expected growth in healthcare services and the latest fully diluted number of shares outstanding. (The company disclosed 4-5% growth yoy for healthcare services in 1Q-3Q 2010 compared to our expectations of 8% for the full year). Our 2010E fully diluted EPS declines by 4% and 2011E EPS remains unchanged at SGD10cents.
- Management advised that they are currently finalizing their plans for the expansion of Raffles Hospital by 102,408 sqf (about one-third of the existing area). The expansion area is equivalent to the space required for an additional 150 beds, although the group will likely use the space for specialty clinics. Management expects construction to start in 1Q 2011 and to be completed in 24 months time.
- We remain confident of Raffles Medical's growth prospects, in particular, the accelerating growth of the hospital services revenues. We expect Raffles Medical's operating margins to continue to expand as the group expands its specialist services.

### Recommendation and valuation

Raffles Medical is currently trading on PER21.9x 2011E. We maintain our OUTPERFORM rating and our price target of SGD2.5. We believe Raffles Medical is leveraged to margin expansion through the continued growth of the group's specialist services. We believe the group deserves to trade at high PER multiples due to its defensive business model and robust growth outlook. We also believe Raffles Hospital represents significant hidden value as the asset is only valued at about SGD700 psf (in comparison, Parkway sold their Novena specialist clinics at SGD3,700 psf).

### Valuation summary

**Fig 2: Valuation summary**

Year end: Dec	2009	2010E	2011E	2012E
EV/EBITDA (x)	21.4	18.9	15.6	12.7
PER (x)	30.6	27.0	21.9	17.9
Dividend yield (%)	1%	1%	1%	2%
FCF yield (%)	4%	4%	1%	3%
ROE (%)	15%	16%	17%	18%

Source: Company, Standard Chartered Research estimates



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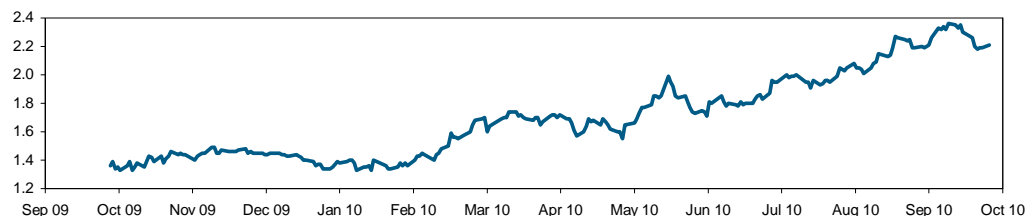
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#### Company Raffles Medical Group

As at the disclosure date, the following applies:

Raffles Medical Group - current rating is:



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	58.5%	12.4%
IN-LINE	27.4%	7.4%
UNDERPERFORM	14.1%	5.7%

#### Research Recommendation

Terminology	Definitions
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