# Raffles Medical Group – Singapore

## BUY
*(Maintained)*

## Company Results

2010: Solid results; concrete expansion plans in Singapore

### 2010 Results

| Year to 31 Dec | 2010 (S$m) | 2009 (S$m) | % chg |
|---|---|---|---|
| **Turnover** | **239.1** | **218.6** | **9.4** |
| EBIT | 53.0 | 45.3 | 17.0 |
| **Pre-tax Profit** | **53.1** | **45.0** | **17.9** |
| Tax | (7.6) | (7.0) | 8.6 |
| Profit After Tax | 45.5 | 38.0 | 19.6 |
| Minority Interests | 0.2 | 0.2 | 43.7 |
| **Net Profit** | **45.3** | **37.9** | **19.5** |
| EPS (cents) | 8.7 | 7.3 | 18.5 |
| EBITDA margin (%) | 25.1 | 23.9 | 5.0 |

*Source: RMG, UOB Kay Hian*

### Results

- Management of Raffles Medical Group (RMG) hosted an analyst briefing following its 4Q10 results on 21 February.
- **Results in line.** No surprises in RMG's 2010 results. 2010 net profit of S$45.3m improved 20% yoy, underpinned by stronger contributions from its hospital and healthcare services divisions, which enjoyed top-line growth of 12% and 6% respectively.
- **Solid growth in core earnings.** Net earnings growth of 20% yoy was driven by higher patient load, wider range of medical specialties and continued improvement in operating efficiencies. Core net profits (after excluding Job Credits in 2009/1H10 and asset revaluation gains in 2009-10) actually rose 23% yoy.
- **Higher dividends too.** Management declared a final dividend of 2.5 cents giving full-year dividend of 3.5 cents (+17% yoy vs 3.0 cents in 2009). The ex-date for the final dividend will be announced at a later date.

### Stock Impact

- **Expansion in Singapore.** Together with the results, management highlighted they have successfully tendered for a seven-storey commercial block of Thong Sia Building for a purchase consideration of S$92.08m. This comes to a price of S$2,158psf, which looks undemanding since medical suites at Novena were launched at S$3,588-3,828psf in early-10. RMG will incur S$10m in capex on renovating and equipment but we only expect contributions from 2012 onwards when the existing tenants relocate. In the meantime, this property will yield net profit of S$2m p.a.. RMG plans to convert the space into a specialist medical centre, which will cater to its foreign patients and existing patients.

### Key Financials

| Year to 31 Dec (S$m) | 2009 | 2010 | 2011F | 2012F | 2013F |
|---|---|---|---|---|---|
| Net turnover | 218.6 | 239.1 | 260.4 | 289.4 | 314.2 |
| EBITDA | 52.3 | 60.3 | 67.7 | 76.3 | 86.3 |
| Operating profit | 45.5 | 53.3 | 61.3 | 69.9 | 79.9 |
| Net profit (rep./act.) | 37.9 | 45.3 | 50.9 | 58.0 | 66.1 |
| Net profit (adj.) | 37.9 | 45.3 | 50.9 | 58.0 | 66.1 |
| EPS (S$ cent) | 7.2 | 8.5 | 9.6 | 10.9 | 12.4 |
| P/E (x) | 29.6 | 25.1 | 22.4 | 19.6 | 17.2 |
| P/BV (x) | 4.4 | 3.8 | 3.5 | n.a. | n.a. |
| EV/EBITDA (x) | 21.3 | 18.5 | 16.4 | 14.6 | 12.9 |
| Dividend yield (%) | 1.4 | 1.6 | 1.6 | 1.6 | 1.6 |
| Net margin (%) | 17.3 | 18.9 | 19.5 | 20.0 | 21.0 |
| Net debt/(cash) to equity (%) | (20.0) | (29.5) | (4.5) | (6.4) | (8.5) |
| Interest cover (x) | 127.7 | 252.2 | n.a. | n.a. | n.a. |
| ROE (%) | 16.1 | 16.9 | 16.8 | 17.1 | 17.3 |
| Consensus net profit | - | - | 43.3 | 51.3 | 58.7 |
| UOBKH/Consensus (x) | - | - | 1.18 | 1.13 | 1.13 |

*Source: Raffles Medical Group, Bloomberg, UOB Kay Hian*

| | |
|---|---|
| **Share Price** | **S$2.16** |
| **Target Price** | **S$2.81** |
| **Upside** | **+30.1%** |
| ***(Previous TP*** | ***S$2.86)*** |

**Company Description**

Raffles Medical Group Limited is a health care provider. The Company operates medical clinics, imaging centers, and medical laboratories. Raffles provides general and specialized medical, medical evacuation, medical advisory, and dental treatment services.

**Stock Data**

| | |
|---|---|
| GICS sector | Health Care |
| Bloomberg ticker: | RFMD SP |
| Shares issued (m): | 526.5 |
| Market cap (S$m): | 1,137.3 |
| Market cap (US$m): | 891.0 |
| 3-mth avg daily t'over (US$m): | 1.3 |

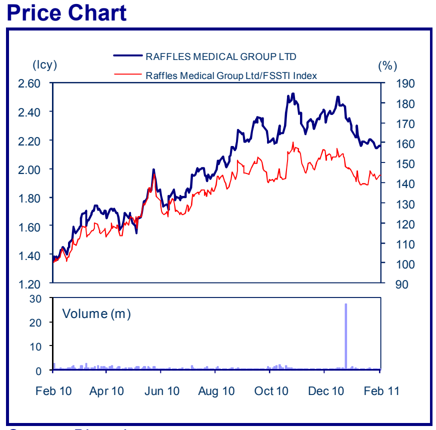
**Price Performance (%)**

52-week high/low S$2.52/S$1.35

| 1mth | 3mth | 6mth | 1yr | YTD |
|---|---|---|---|---|
| (4.8) | (12.6) | 10.8 | 61.2 | (9.6) |

| **Major Shareholders** | **%** |
|---|---|
| Dr Loo Choon Yong | 40.0 |
| | |
| FY11 NAV/Share (S$) | 0.62 |
| FY11 Net Cash/Share (S$) | 0.03 |

**Price Chart**

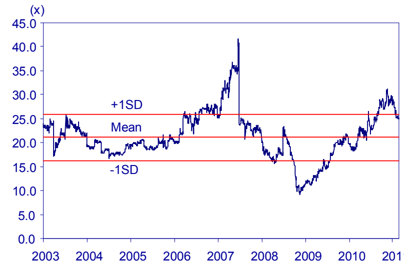



*Source: Bloomberg*

**Analyst**
**Andrew Chow, CFA**
**+65 6590 6633**
**andrewchow@uobkayhian.com**

- **Free cash flow to fund growth.** The Group's operating cash flow remains strong, with an operating cash flow of S$59m generated in 2010. Following this, its net cash balance continued to rise to S$85m as at Dec 10. This will partially fund its acquisition of the retail podium at Thong Sia as well as the expansion of its current hospital. Although its capex will remain high over 2011-13, we believe funding is not a problem given its strong free cash flow of about S$40m per year. Looking ahead, management is comfortable it could raise net gearing up to 25% to fund expansions or acquisitions.

**Historical PE**




*Source: Bloomberg*

## Earnings Revision/Risk

- **Introducing 2013 forecast.** We trimmed our 2011-12 earnings forecasts by up to 3% to factor in the acquisition of the commercial block of Thong Sia, with minimal contributions from rental income. We also introduce an estimate for 2013.
- **Key risks.** Possible risks include delays in the expansion of its hospital, retaining quality doctors and a global double-dip in economic growth affecting demand for private healthcare.

## Valuation/Recommendation

- **Premier healthcare exposure in Singapore.** RMG remains on our BUY list with a target price of S$2.81/share (previously S$2.86, -1.7% adjustment after 2010 results). This is based on a DCF valuation which factors in a long-term growth of 4.0%. At our target price, the implied 2011F target PE is 28.9x, which is more than +1SD to RMG's mean PE of 20.6x (between 2003-present). We think the premium is justified given the scarcity premium after the de-listing of Parkway and Thomson Medical as well as RMG's strong operating cash flow.

## Share Price Catalyst

- In our view, possible share price catalysts include: a) better-than-expected earnings growth in 2011-12, b) clarity and updates on its Singapore and China expansion plans, c) M&A newsflow in the sector, which could further re-rate healthcare companies.

## Regional Peer Comparison

| Company | Ticker | Price 21 Feb 11 (lcy) | Market Cap (US$m) | PE 2010 (x) | PE 2011F (x) | PE 2012F (x) | Yield 2011F (%) | ROE 2012F (%) | P/B (x) | Net Gearing (%) |
|---|---|---|---|---|---|---|---|---|---|---|
| Raffles Medical Group Ltd | RFMD SP | 2.16 | 892 | 25.1 | 22.4 | 19.6 | 1.6 | 17.1 | 3.8 | (26.2) |
| Healthway Medical Corp Ltd | HMED SP | 0.145 | 212 | 48.3 | 18.1 | 20.7 | 1.4 | 7.1 | 1.4 | (11.6) |
| Health Management Intl Ltd | HMI SP | 0.12 | 54 | n.a. | 2.0 | 30.0 | n.a. | 1.1 | 2.2 | 52.9 |
| Singapore Medical Group Ltd | SMG SP | 0.22 | 25 | n.a. | n.a. | n.a. | n.a. | n.a. | 5.6 | (92.1) |
| Bangkok Dusit Med Service | BGH TB | 53.5 | 2,183 | 29.2 | 23.6 | 19.8 | 2.0 | 15.7 | 4.3 | 49.2 |
| Bumrungrad Hospital Pub Co | BH TB | 35.5 | 847 | 21.7 | 19.1 | 17.8 | 2.7 | 22.0 | 4.5 | 22.9 |

*Source: Bloomberg, UOB Kay Hian*

### Profit & Loss

| Year to 31 Dec (S$m) | 2010 | 2011F | 2012F | 2013F |
|---|---|---|---|---|
| **Net turnover** | **239.1** | **260.4** | **289.4** | **314.2** |
| EBITDA | 60.3 | 67.7 | 76.3 | 86.3 |
| Deprec. & amort. | 6.9 | 6.4 | 6.4 | 6.4 |
| EBIT | 53.3 | 61.3 | 69.9 | 79.9 |
| Associate contributions | 0.0 | 0.0 | 0.0 | 0.0 |
| Net interest income/(expense) | (0.2) | 0.7 | 0.7 | 0.7 |
| **Pre-tax profit** | **53.1** | **62.0** | **70.7** | **80.6** |
| Tax | (7.6) | (11.2) | (12.7) | (14.5) |
| Minorities | (0.2) | 0.0 | 0.0 | 0.0 |
| **Net profit** | **45.3** | **50.9** | **58.0** | **66.1** |
| Net profit (adj.) | 45.3 | 50.9 | 58.0 | 66.1 |

### Balance Sheet

| Year to 31 Dec (S$m) | 2010 | 2011F | 2012F | 2013F |
|---|---|---|---|---|
| Fixed assets | 232.3 | 338.0 | 372.8 | 412.5 |
| Other LT assets | 1.2 | 1.3 | 1.4 | 1.5 |
| Cash/ST investment | 107.1 | 46.4 | 55.1 | 66.6 |
| Other current assets | 31.1 | 33.9 | 37.7 | 40.9 |
| **Total assets** | **371.8** | **419.6** | **467.0** | **521.6** |
| ST debt | 4.6 | 2.0 | 2.0 | 2.0 |
| Other current liabilities | 60.5 | 65.9 | 73.3 | 79.5 |
| LT debt | 18.0 | 30.0 | 30.0 | 30.0 |
| Other LT liabilities | 1.7 | 1.9 | 2.0 | 2.2 |
| Shareholders' equity | 286.4 | 319.3 | 359.2 | 407.3 |
| Minority interest | 0.5 | 0.5 | 0.5 | 0.5 |
| **Total liabilities & equity** | **371.8** | **419.6** | **467.0** | **521.6** |

### Cash Flow

| Year to 31 Dec (S$m) | 2010 | 2011F | 2012F | 2013F |
|---|---|---|---|---|
| **Operating** | **49.2** | **59.0** | **66.8** | **74.6** |
| Pre-tax profit | 53.1 | 62.0 | 70.7 | 80.6 |
| Tax | (6.9) | (11.2) | (12.7) | (14.5) |
| Deprec. & amort. | 6.9 | 6.4 | 6.4 | 6.4 |
| Working capital changes | (2.5) | 1.8 | 2.4 | 2.1 |
| Other operating cashflows | (1.4) | 0.0 | 0.0 | 0.0 |
| **Investing** | **(3.4)** | **(132.1)** | **(40.0)** | **(45.0)** |
| Capex (growth) | (5.5) | (132.1) | (40.0) | (45.0) |
| Investments | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds from sale of assets | 1.7 | 0.0 | 0.0 | 0.0 |
| Others | 0.4 | 0.0 | 0.0 | 0.0 |
| **Financing** | **(12.8)** | **12.0** | **(18.0)** | **(18.0)** |
| Dividend payments | (15.8) | (18.0) | (18.0) | (18.0) |
| Issue of shares | 4.3 | 0.0 | 0.0 | 0.0 |
| Proceeds from borrowings | (1.4) | 30.0 | 0.0 | 0.0 |
| Others/interest paid | 0.0 | 0.0 | 0.0 | 0.0 |
| **Net cash inflow (outflow)** | **33.1** | **(61.1)** | **8.7** | **11.6** |
| **Beginning cash & cash equivalent** | **74.4** | **107.4** | **46.4** | **55.1** |
| Changes due to forex impact | 0.0 | 0.0 | 0.0 | 0.0 |
| **Ending cash & cash equivalent** | **107.4** | **46.4** | **55.1** | **66.6** |

### Key Metrics

| Year to 31 Dec (%) | 2010 | 2011F | 2012F | 2013F |
|---|---|---|---|---|
| **Profitability** | | | | |
| EBITDA margin | 25.2 | 26.0 | 26.4 | 27.5 |
| Pre-tax margin | 22.2 | 23.8 | 24.4 | 25.7 |
| Net margin | 18.9 | 19.5 | 20.0 | 21.0 |
| ROA | 12.8 | 12.9 | 13.1 | 13.4 |
| ROE | 16.9 | 16.8 | 17.1 | 17.3 |
| **Growth** | | | | |
| Turnover | 9.4 | 8.9 | 11.1 | 8.6 |
| EBITDA | 15.1 | 12.3 | 12.8 | 13.0 |
| Pre-tax profit | 17.9 | 16.8 | 13.9 | 14.1 |
| Net profit | 19.5 | 12.4 | 13.9 | 14.1 |
| Net profit (adj.) | 19.5 | 12.4 | 13.9 | 14.1 |
| EPS | 17.8 | 12.4 | 13.9 | 14.1 |
| **Leverage** | | | | |
| Debt to total capital | 7.9 | 10.0 | 8.9 | 7.8 |
| Debt to equity | 7.9 | 10.0 | 8.9 | 7.9 |
| Net debt/(cash) to equity | (29.5) | (4.5) | (6.4) | (8.5) |
| Interest cover (x) | 252.2 | n.a. | n.a. | n.a. |

http://research.uobkayhian.com

MICA (P) 048/03/2011
RCB Regn. No. 198700235E