

Raffles Medical Group – Singapore

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

BUY

(Maintained)

Company Results

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)

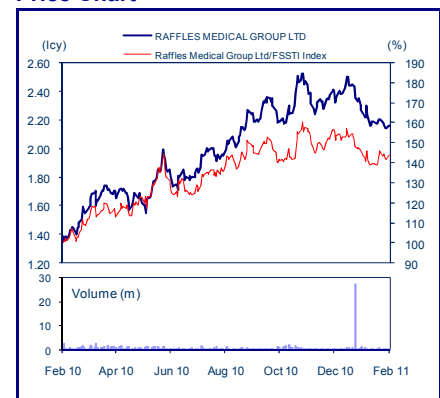
Major Shareholders

	%
Dr Loo Choon Yong	40.0

FY11 NAV/Share (S\$) 0.62

FY11 Net Cash/Share (S\$) 0.03

Price Chart



Source: Bloomberg

Analyst

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- 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-----			Yield 2011F (%)	ROE 2012F (%)	P/B (x)	Net Gearing (%)
				2010 (x)	2011F (x)	2012F (x)				
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 (\$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

Cash Flow

Year to 31 Dec (\$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

Balance Sheet

Year to 31 Dec (\$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

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.

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MICA (P) 048/03/2011
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