

Raffles Medical Group – Singapore

2Q11: No surprises; premier healthcare and M&A play

1H11 Results

Year to 31 Dec	2Q11 (S\$m)	2Q10 (S\$m)	yoy % chg	1H11 (S\$m)	1H10 (S\$m)	yoy % chg
Turnover	67.0	58.6	14.3	131.4	114.8	14.5
EBITDA	16.3	14.7	10.9	31.0	27.4	13.0
Operating Profit	14.3	13.0	10.1	27.1	24.0	12.9
Pre-tax Profit	14.3	12.9	10.4	27.2	24.1	13.0
Tax	(2.6)	(2.3)	11.3	(5.0)	(4.3)	14.2
Profit after Tax	11.7	10.6	10.2	22.2	19.7	12.8
Minority Interests	(0.1)	(0.0)	51.4	(0.1)	(0.1)	47.8
Net Profit	11.6	10.6	10.1	22.1	19.6	12.6
EPS (cents)	2.2	2.0	9.0	4.1	3.7	11.3

Source: Raffles Medical Group, UOB Kay Hian

Results

- **Steadily delivering.** 1H11 net profit of 22.1m (+13% yoy) were in line with ours and market expectations, accounting for 43% of our full estimates. We forecast a seasonally stronger 2H11 to lift earnings closer towards our estimates.
- **Managing staff cost well.** On our estimates, 1H11 EBITDA margins slipped 0.3ppt to 23.6% due to losses at its Shanghai medical centre. In addition, 1H10 staff costs were also distorted by jobs credit grants in 2Q10. 1H11 staff costs went up 14.4% yoy, in line with topline growth of 14.5%.
- **Maintaining interim dividend.** Despite a significant cash outflow of S\$82m in Apr 11 to pay for the balance for acquiring Thong Sia Building, the group maintained its interim dividend of 1.0 cents. The payment date for the interim dividend has been set on 2 Sep 11.

Stock Impact

- **Strong cashflow to fund growth.** The group's balance sheet reverted to a net debt position of S\$3.2m as at Jun 11 after the acquisition of Thong Sia Building. Although its capex will remain high over 2011-13, we believe funding is not a problem given its estimated strong operating cashflow of S\$60m-65m per year. The projected cost for its hospital expansion is S\$100m-120m and for the Thong Sia Building, the estimated renovation and fit-out cost is S\$10m-15m.

BUY

(Maintained)

Company Results

Share Price **S\$2.35**
Target Price **S\$2.81**
Upside **+19.7%**

Company Description

Raffles Medical Group (RMG) is a health care provider. The company operates medical clinics, imaging centres, and medical laboratories. RMG provides general and specialised medical, medical evacuation, medical advisory, and dental treatment services.

Stock Data

GICS sector Health Care
Bloomberg ticker: RFMD SP
Shares issued (m): 533.4
Market cap (S\$m): 1,253.5
Market cap (US\$m): 1,037.9
3-mth avg daily t'over (US\$m): 0.5

Price Performance (%)

52-week high/low S\$2.52/S\$1.87
1mth 3mth 6mth 1yr YTD
4.0 6.3 5.9 28.4 (1.7)

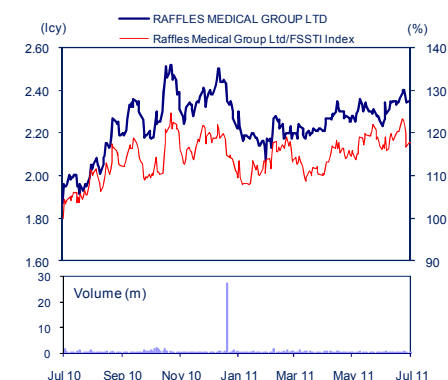
Major Shareholders

Dr Loo Choon Yong 53.0%

FY11 NAV/Share (S\$) 0.62

FY11 Net Cash/Share (S\$) 0.03

Price Chart



Source: Bloomberg

Analyst

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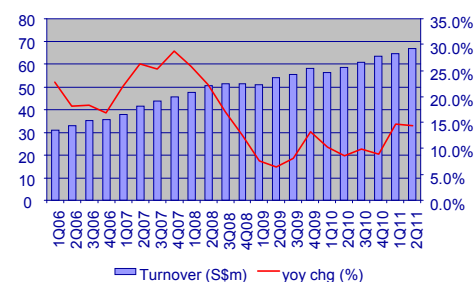
Key Financials

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
PE (x)	32.5	27.6	24.6	21.6	18.9
P/B (x)	4.8	4.2	3.8	3.4	3.0
EV/EBITDA (x)	23.7	20.6	18.3	16.2	14.4
Dividend yield (%)	1.3	1.5	1.5	1.5	1.5
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	-	-	50.0	57.1	68.8
UOBKH/Consensus (x)	-	-	1.02	1.01	0.96

Source: Raffles Medical Group, Bloomberg, UOB Kay Hian

- Benefitting from robust growth in Singapore's tourism sector.** We forecast visitor arrivals to grow 10.0% yoy in 2011 and 7.2% in 2012 as Singapore gears up for the next round of major tourist attractions. In our view, the strong outlook for hospitality bodes well for private healthcare providers such as Raffles Medical Group (RMG). Also, the group's latest foray in setting up a specialist centre in Orchard Road will position RMG well to cater to strong demand for private healthcare from foreigners. Currently, we estimate about one-third of its patients are foreigners. Of the foreign patients segment, Indonesians account for 20-25%, and Malaysians as well as Russians account for 5-7% each. Other than rising number of patients, we think the group's strategy of offering more subspecialties treatments and raising capacity through the acquisition of Thong Sia Building and its hospital expansion should drive medium-term growth.

Quarterly Revenue Trend



Source: Raffles Medical Group, UOB Kay Hian

Earnings Revision/Risk

- No change in our earnings estimates, which project a 3-year EPS CAGR of 13%. Potential risks that could adversely affect the share price include: a) delays in the expansion of its hospital, b) retaining quality doctors, and c) a global double dip in economic growth affecting demand for private healthcare.

Historical PE Band



Source: Raffles Medical Group, UOB Kay Hian

Valuation/Recommendation

- Premier healthcare exposure in Singapore.** We remain upbeat on RMG with a target price of S\$2.81/share (unchanged). 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 1+ SD to RMG's mean PE of 20.6x (between 2003-present).

Share Price Catalyst

- In our view, potential catalysts to drive the share price closer towards our target price include: a) better-than-expected earnings growth in FY11-12F, b) clarity and updates on its China expansion plans, c) M&A newsflow in the sector, which could further re-rate healthcare companies.

Regional Peer Sector Comparison

Company	Ticker	Price 25 Jul 11 (lcy)	Market Cap (US\$m)	PE			Yield 2011F (%)	ROE 2011F (%)	P/B 2011F (x)	Net Gearing (%)
				2010 (x)	2011F (x)	2012F (x)				
Raffles Medical	RFMD SP	2.35	1,038	27.2	24.6	21.6	1.5	16.8	4.3	1.0
Healthway Medical	HMED SP	0.086	149	56.2	21.5	17.2	0.0	3.8	0.9	12.7
Health Management Intl	HMI SP	0.111	53	n.a.	0.3	27.8	n.a.	7.4	2.0	52.9
Singapore Medical Group	SMG SP	0.21	25	13.1	n.a.	n.a.	n.a.	n.a.	5.8	(72.8)
Bangkok Dusit Med Service	BGH TB	59.00	3,063	31.4	25.0	20.7	1.9	15.8	4.4	57.2
Bumrungrad Hospital Pub Co	BH TB	37.50	918	21.7	19.3	17.8	2.7	23.7	4.4	59.4

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

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

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

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	7.3	9.1	8.2	7.3
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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