



- **Hospital expansion update.** Raffles Medical Group (RMG) plans to commence the expansion of its existing hospital soon, which will raise its capacity by 33% to 410,283sf. Targeted to be completed in 2013, the expansion is expected to cost circa S\$100m, including construction cost and new equipment. Funding this will not be an issue given its strong operating cashflow, which we estimate to be more than S\$50m per year.
- **Still on lookout for regional opportunities.** After its recent investment in Singapore, RMG continues to be on the lookout for opportunities, particularly in China and the ASEAN region. Meanwhile, its medium-term growth visibility has improved with its recent Orchard Road investment and the expansion of its flagship hospital.
- **Pleasant surprise from healthcare.** In 1Q11, we were pleasantly surprised by the 14% yoy rise in healthcare turnover. This was achieved despite the opening of only one clinic during the quarter. Management attributes this to the strong pick-up in employment and the economy as patients changed their preferences to private healthcare. Should this trend continue into 2Q11, we expect to see further upside in our FY11-12F estimates as we have factored in only 7-10% growth in healthcare turnover. As for clinic expansion, RMG plans to increase its clinic count by 4-5 per annum.
- **Benefitting from robust growth in Singapore's tourism sector.** We estimate visitor arrivals to grow 10% yoy to 12.8m in 2011 as Singapore gears up for the next round of major tourist attractions. We believe the strong prospects for hospitality bode well for private healthcare providers such as RMG. Also, RMG's latest foray in setting up a specialist centre in Orchard Road will position it strategically to tap on strong tourist arrivals. Currently, about one-third of its patients are from other countries. Of the foreign patients segment, we estimate that Indonesians account for 20-25%, while Malaysians and Russians account for 5-7% each.
- **Solid earnings outlook.** We maintain our earnings estimates, which project a conservative 3-year EPS CAGR of 13%. Should the momentum in healthcare turnover continue, we see potential upside risk to our earnings estimate.

#### Valuation/Recommendation

- **RMG remains on our BUY list 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+ standard deviation to RMG's mean PE of 20.6x (between 2003-present). We think that the premium is deserved given the scarcity premium after the de-listing of Parkway and Thomson Medical as well as RMG's strong operating cashflow. .
- **Catalysts.** Possible share price catalysts 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.

**Figure 1: 1Q11 Results**

| (\$m)                          | 1Q11        | 1Q10        | yoy         |
|--------------------------------|-------------|-------------|-------------|
| <b>Turnover</b>                | <b>64.4</b> | <b>56.2</b> | <b>14.7</b> |
| EBITDA                         | 14.7        | 12.8        | 14.5        |
| Operating profit               | 12.8        | 11.1        | 15.2        |
| <b>Pre-tax Profit</b>          | <b>12.9</b> | <b>11.1</b> | <b>16.1</b> |
| Tax                            | (2.4)       | (2.0)       | 17.5        |
| Profit After Tax               | 10.6        | 9.1         | 15.7        |
| Minority Interests             | (0.1)       | (0.1)       | 45.5        |
| <b>Net Profit</b>              | <b>10.5</b> | <b>9.1</b>  | <b>15.6</b> |
| EPS (cents)                    | 1.96        | 1.71        | 14.6        |
| EBITDA margin (%)              | 22.8        | 22.8        | (0.3)       |
| Inventories & Consumables Used | (7.4)       | (6.4)       | 16.4        |
| Purchased/contracted services  | (4.8)       | (3.9)       | 24.1        |

Source: Raffles Medical Group, UOB Kay Hian

**Figure 2: Profit & Loss**

| Year to 31 Dec (\$m)            | 2009        | 2010        | 2011F       | 2012F       | 2013F       |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|
| Revenue, net                    | 218.6       | 239.1       | 260.4       | 289.4       | 314.2       |
| Operating expenses              | (173.2)     | (185.8)     | (199.1)     | (219.5)     | (234.3)     |
| <b>EBIT</b>                     | <b>45.5</b> | <b>53.3</b> | <b>61.3</b> | <b>69.9</b> | <b>79.9</b> |
| Associate contributions         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Net interest income/(expense)   | (0.4)       | (0.2)       | 0.7         | 0.7         | 0.7         |
| <b>Pre-tax profit</b>           | <b>45.0</b> | <b>53.1</b> | <b>62.0</b> | <b>70.7</b> | <b>80.6</b> |
| Tax                             | (7.0)       | (7.6)       | (11.2)      | (12.7)      | (14.5)      |
| Minorities                      | (0.2)       | (0.2)       | 0.0         | 0.0         | 0.0         |
| <b>Net profit(rep./act.)</b>    | <b>37.9</b> | <b>45.3</b> | <b>50.9</b> | <b>58.0</b> | <b>66.1</b> |
| Net profit(adj.)                | 37.9        | 45.3        | 50.9        | 58.0        | 66.1        |
| Deprec. & amort.                | 6.9         | 6.9         | 6.4         | 6.4         | 6.4         |
| EBITDA                          | 52.3        | 60.3        | 67.7        | 76.3        | 86.3        |
| <b>Per share data (\$ cent)</b> |             |             |             |             |             |
| EPS - diluted                   | 7.2         | 8.5         | 9.6         | 10.9        | 12.4        |
| Reported EPS - diluted          | 7.2         | 8.5         | 9.6         | 10.9        | 12.4        |
| Book value per shares (BVPS)    | 48.5        | 55.6        | 62.0        | 69.7        | 79.1        |
| Dividend per share (DPS)        | 3.0         | 3.5         | 3.5         | 3.5         | 3.5         |

Source: Raffles Medical Group, UOB Kay Hian

**Figure 3: Balance Sheet**

| Year to 31 Dec (\$m)                       | 2009         | 2010         | 2011F        | 2012F        | 2013F        |
|--|--------------|--------------|--------------|--------------|--------------|
| Cash/Near cash equiv.                      | 74.4         | 107.1        | 46.4         | 55.1         | 66.6         |
| Accounts receivable/debtors                | 24.3         | 26.1         | 28.4         | 31.6         | 34.3         |
| Stocks                                     | 5.3          | 5.1          | 5.5          | 6.2          | 6.7          |
| Other current assets                       | 0.6          | 0.0          | 0.0          | 0.0          | 0.0          |
| <b>Current assets</b>                      | <b>104.5</b> | <b>138.3</b> | <b>80.3</b>  | <b>92.8</b>  | <b>107.6</b> |
| Fixed assets                               | 231.4        | 232.3        | 338.0        | 372.8        | 412.5        |
| Investments                                | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| Intangible assets                          | 0.4          | 0.3          | 0.3          | 0.3          | 0.3          |
| Other non-current tangible assets          | 0.5          | 0.9          | 1.0          | 1.1          | 1.2          |
| <b>Total non-current assets</b>            | <b>232.3</b> | <b>233.5</b> | <b>339.3</b> | <b>374.2</b> | <b>414.0</b> |
| <b>Total assets</b>                        | <b>336.8</b> | <b>371.8</b> | <b>419.6</b> | <b>467.0</b> | <b>521.6</b> |
| Accounts payable/creditors                 | 52.0         | 51.0         | 55.5         | 61.7         | 67.0         |
| Short-term debt/borrowings                 | 4.5          | 4.6          | 2.0          | 2.0          | 2.0          |
| Other current liabilities                  | 8.7          | 9.5          | 10.4         | 11.6         | 12.5         |
| <b>Current liabilities</b>                 | <b>65.2</b>  | <b>65.1</b>  | <b>67.9</b>  | <b>75.3</b>  | <b>81.5</b>  |
| Long-term debt                             | 20.0         | 18.0         | 30.0         | 30.0         | 30.0         |
| Other non-current liabilities              | 1.4          | 1.7          | 1.9          | 2.0          | 2.2          |
| <b>Total non-current liabilities</b>       | <b>21.4</b>  | <b>19.7</b>  | <b>31.9</b>  | <b>32.0</b>  | <b>32.2</b>  |
| <b>Total liabilities</b>                   | <b>86.7</b>  | <b>84.8</b>  | <b>99.8</b>  | <b>107.3</b> | <b>113.8</b> |
| Minority interest - accumulated            | 0.4          | 0.5          | 0.5          | 0.5          | 0.5          |
| <b>Shareholders' equity</b>                | <b>249.8</b> | <b>286.4</b> | <b>319.3</b> | <b>359.2</b> | <b>407.3</b> |
| <b>Liabilities and shareholders' funds</b> | <b>336.8</b> | <b>371.8</b> | <b>419.6</b> | <b>467.0</b> | <b>521.6</b> |

Source: Raffles Medical Group, UOB Kay Hian

**Figure 4: Cash Flow**

| Year to 31 Dec (\$m)                  | 2009          | 2010          | 2011F          | 2012F         | 2013F         |
|---------------------------------------|---------------|---------------|----------------|---------------|---------------|
| <b>Operating cashflows</b>            | <b>52.8</b>   | <b>49.2</b>   | <b>59.0</b>    | <b>66.8</b>   | <b>74.6</b>   |
| Pre-tax profit                        | 45.0          | 53.1          | 62.0           | 70.7          | 80.6          |
| Tax                                   | (7.0)         | (6.9)         | (11.2)         | (12.7)        | (14.5)        |
| Deprec. & amort.                      | 6.9           | 6.9           | 6.4            | 6.4           | 6.4           |
| Working capital changes               | 0.6           | (2.5)         | 1.8            | 2.4           | 2.1           |
| Others                                | 7.3           | (1.4)         | 0.0            | 0.0           | 0.0           |
| <b>Cash from investing activities</b> | <b>(5.0)</b>  | <b>(3.4)</b>  | <b>(132.1)</b> | <b>(40.0)</b> | <b>(45.0)</b> |
| Capex (growth)                        | (5.0)         | (5.5)         | (132.1)        | (40.0)        | (45.0)        |
| Investments                           | 0.0           | 0.0           | 0.0            | 0.0           | 0.0           |
| Proceeds from sale of assets          | 0.0           | 1.7           | 0.0            | 0.0           | 0.0           |
| Others                                | 0.0           | 0.4           | 0.0            | 0.0           | 0.0           |
| <b>Cash from financing activities</b> | <b>(17.5)</b> | <b>(12.8)</b> | <b>12.0</b>    | <b>(18.0)</b> | <b>(18.0)</b> |
| Dividend payments                     | (15.5)        | (15.8)        | (18.0)         | (18.0)        | (18.0)        |
| Issue of shares                       | 0.0           | 4.3           | 0.0            | 0.0           | 0.0           |
| Proceeds from borrowings              | (2.1)         | (1.4)         | 30.0           | 0.0           | 0.0           |
| Others/interest paid                  | 0.0           | 0.0           | 0.0            | 0.0           | 0.0           |
| Net increase/(decrease) in cash       | 30.3          | 33.1          | (61.1)         | 8.7           | 11.6          |
| Beginning cash                        | 44.1          | 74.4          | 107.4          | 46.4          | 55.1          |
| Changes due to forex impact           | 0.0           | 0.0           | 0.0            | 0.0           | 0.0           |
| <b>End cash</b>                       | <b>74.4</b>   | <b>107.4</b>  | <b>46.4</b>    | <b>55.1</b>   | <b>66.6</b>   |

Source: Raffles Medical Group, UOB Kay Hian

**Figure 5: Ratios**

| Year to 31 Dec (%)        | 2009   | 2010   | 2011F | 2012F | 2013F |
|---------------------------|--------|--------|-------|-------|-------|
| <b>Growth</b>             |        |        |       |       |       |
| Turnover                  | 8.9    | 9.4    | 8.9   | 11.1  | 8.6   |
| EBITDA                    | 14.8   | 15.1   | 12.3  | 12.8  | 13.0  |
| Pre-tax profit            | 17.5   | 17.9   | 16.8  | 13.9  | 14.1  |
| Net profit                | 20.1   | 19.5   | 12.4  | 13.9  | 14.1  |
| Net profit (adj.)         | n.a.   | 19.5   | 12.4  | 13.9  | 14.1  |
| EPS                       | 20.0   | 17.8   | 12.4  | 13.9  | 14.1  |
| <b>Profitability</b>      |        |        |       |       |       |
| EBITDA margin             | 23.9   | 25.2   | 26.0  | 26.4  | 27.5  |
| EBIT margin               | 20.8   | 22.3   | 23.5  | 24.2  | 25.4  |
| Gross margin              | 85.6   | 86.0   | 86.0  | 86.3  | 86.5  |
| Pre-tax margin            | 20.6   | 22.2   | 23.8  | 24.4  | 25.7  |
| Net margin                | 17.3   | 18.9   | 19.5  | 20.0  | 21.0  |
| ROE                       | 16.1   | 16.9   | 16.8  | 17.1  | 17.3  |
| ROA                       | 11.7   | 12.8   | 12.9  | 13.1  | 13.4  |
| ROIC                      | 14.6   | 15.6   | 15.2  | 15.4  | 15.7  |
| RONTA                     | 14.0   | 14.8   | 14.3  | 15.2  | 16.1  |
| <b>Leverage</b>           |        |        |       |       |       |
| Interest cover (x)        | 127.7  | 252.2  | n.a.  | n.a.  | n.a.  |
| Debt to total capital     | 9.8    | 7.9    | 10.0  | 8.9   | 7.8   |
| Debt to equity            | 9.8    | 7.9    | 10.0  | 8.9   | 7.9   |
| Net debt/(cash) to equity | (20.0) | (29.5) | (4.5) | (6.4) | (8.5) |
| Current ratio (x)         | 1.6    | 2.1    | 1.2   | 1.2   | 1.3   |

Source: Raffles Medical Group, UOB Kay Hian

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