

# Raffles Medical Group

Passing the first health check of the year

OUTPERFORM	Maintained
<b>S\$1.36</b>	@30/05/07
Target: S\$1.49	Mkt.Cap: S\$621.7m
Healthcare	

RFMD SP / RAFG SI

Gary Ng +65 6210-8699 – gary.ng@cimb.com

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- 1Q07 net profit is above Street estimates but in line with ours.** 1Q07 revenue came in at S\$38m (+22% yoy), while PATMI improved by 42% yoy to S\$4.1m, the strongest 1Q showing to date. The results represent 19% (typically 17%) of our above-consensus FY07 estimate (despite an enlarged share base due to a bonus issue, going ex on 30 Apr).
- Increased patient load key to higher sales and margins.** The 1Q07 strength was led by Hospital Services, whose revenue jumped 27.6% yoy on the back of a surge in local and foreign patient arrivals. 1Q07 EBITDA margin expanded by 120bp yoy to 14.8%, despite higher staff costs (enlarged specialist pool), increased capacity (25 beds added in 1Q) and slightly higher rental charges, a further reflection of the group's operating leverage.
- Stronger balance sheet with strong yields.** Net cash strengthened to S\$46m in 1Q07 (S\$40m in FY06). We believe that the group is serious about paying out excess funds, given that it has no Section 44 tax credit to offer generous payouts. With a strong cash flow position, RMG should be able to maintain strong dividend streams without affecting its growth strategy.
- Positive outlook.** Management has a track record of smooth execution, and is confident of rolling out 25 more beds by FY07 (having pushed out 25 beds in 1Q, on track to meet our forecast of 50 new beds for FY07). Healthcare insurance, new public and private-sector healthcare contracts and imminent rate hikes are also expected to catalyse FY07 earnings.
- Hospital services could surprise on the upside.** With occupancy rates hovering at 55-60%, we believe higher non-bed-related fee income could boost Hospital Services revenue, adding to the impact of bed rollout by the end of the year.
- Pfizer collaboration adds bite.** We believe the 42% yoy decline in 1Q07 JV income is temporary. Late 2Q should see rental contributions from one floor contracted out to Pfizer's clinical research. We believe additional services to Pfizer could help to drive our 15% growth assumption for Healthcare Services in FY07.
- Maintain Outperform; target price upgraded to S\$1.49.** Our FY08-09 earnings estimates have been raised by 7-14% to reflect: 1) operating efficiencies from Healthcare Services; 2) a higher outpatient load from chronic illness treatment; 3) higher insurance and JV contributions; and 4) a lower effective tax. As we roll forward our 23x P/E target to CY08, our target price has been lifted to S\$1.49 from S\$1.22. Maintain Outperform.

## Results comparison

FYE Dec (S\$ m)	1QFY07	1QFY06	yoy % chg	qoq % chg	Prev. FY07F	Comments
Revenue	37.7	30.9	21.9	6.0	157.0	Increase in load & cases
Operating costs	(32.1)	(26.7)	20.2	10.7	(124.9)	In line, expansion and higher staff costs
EBITDA	5.6	4.2	32.5	(14.8)	32.1	In line, operating efficiencies
EBITDA margin (%)	14.8	13.6	8.7	(19.6)	20.4	YoY margin improvement
Depn & amort.	(0.9)	(0.8)	8.2	2.5	(4.0)	Within expectation
EBIT	4.7	3.4	38.3	(17.4)	28.1	In line
Interest expense	(0.0)	(0.0)	(14.3)	4.3	(0.1)	In line
Interest & invt inc	0.5	0.4	25.1	2.3	1.7	Below, Interest charges from JV loan
Associates' contrib	0.2	0.3	(42.4)	11.8	1.6	Below, renovation charges
<b>Pretax profit</b>	<b>5.1</b>	<b>3.7</b>	<b>37.4</b>	<b>(18.2)</b>	<b>29.7</b>	In line with expectation
Tax	(1.0)	(0.8)	19.7	(23.1)	(5.9)	In line with expectation
Tax rate (%)	19.7	22.6	-	-	20.0	Reduced tax rate
Minority interests	(0.0)	(0.0)	133.3	(205.0)	0.0	
<b>Net profit</b>	<b>4.1</b>	<b>2.9</b>	<b>42.2</b>	<b>(17.7)</b>	<b>23.7</b>	In line, strongest Q1 net profit
EPS (cts)	1.0	0.7	37.7	(19.0)	5.3	18.8% of FY07 estimate

Source: Company, CIMB-GK estimates

Please read carefully the important disclosures at the end of this publication.

<b>Financial summary</b>					
<b>FYE Dec</b>	<b>2005</b>	<b>2006</b>	<b>2007F</b>	<b>2008F</b>	<b>2009F</b>
Revenue (S\$ m)	112.9	134.2	157.0	182.3	211.9
EBITDA (S\$ m)	17.1	22.4	32.2	37.8	46.5
EBITDA margins (%)	15.2	16.7	20.5	20.7	21.9
Pretax profit (S\$ m)	14.8	20.0	29.7	35.8	46.0
Net profit (S\$ m)	12.0	15.8	23.7	29.3	37.7
EPS (cts)	2.6	3.4	5.2	6.4	8.2
EPS growth (%)	26%	31%	51%	24%	29%
P/E (x)	52.0	39.6	26.2	21.2	16.5
Gross DPS (cts)	2.5	4.0	4.4	5.5	7.0
Dividend yield (%)	1.8	2.9	3.2	4.0	5.2
P/NTA (x)	5.8	5.5	5.6	5.6	5.4
ROE (%)	11.5	14.3	21.2	26.4	33.5
Net cash per share (S\$)	0.07	0.09	0.09	0.10	0.11
P/CF (x)	40.6	31.5	22.4	18.4	14.6
EV/EBITDA (x)	34.6	26.4	18.4	15.7	12.7
% change in EPS estimates	-	-	0%	7%	14%
CIMB-GK/Consensus (x)			1.07	1.01	1.02

Source: Company, CIMB-GK estimates, Reuters Estimates

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