

Raffles Medical Group

Record quarter

OUTPERFORM	Upgraded
S\$1.50	@26/10/07
Target: S\$1.66	Mkt.Cap: S\$772.5m
	Healthcare

RFMD SP / RAFG.SI

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- **3Q07 net profit of S\$6.6m (up 61% yoy) is 10% above our expectations** and forms 23% of consensus full-year estimate. Strong operations coupled with an increased share of profits from its former CapitaLand-Raffles Properties JV in 2Q07 lifted 9M07 net profit to S\$26.4m (+145% yoy).
- **Revenue rose 25% yoy to a record S\$43.8m**, led by a higher patient load, a wider range of medical specialities and improved operating efficiencies. Revenue from hospital services grew 36% yoy while that from healthcare services increased 12% yoy. 9M07 revenue came in at S\$122.9m (+25% yoy).
- **Dividend yields may not be as strong as before.** As the group now has net gearing after assuming debt to take on the full ownership of the hospital building, it is unlikely to pay special dividends this year, although we believe it may continue to pay an ordinary dividend of 2.5 Scts.
- **Positive outlook intact.** Management is confident that the group will continue to perform well for the rest of the year, driven by a buoyant Singapore economy and strong regional growth. With its full ownership of the hospital building, Raffles Hospital will have greater flexibility to optimise the use of the hospital and clinic space.
- **Upgrade to Outperform from Neutral; target price raised to S\$1.66 from S\$1.51.** We have raised our FY08-09 earnings estimates by 9-12% on higher revenue assumptions. Following this, we raise our target price to S\$1.66 from S\$1.51, still based on 27x CY08 P/E, or a 10% discount to our target P/E for Parkway, given that RFMD only has Singapore exposure currently. Stock catalysts could come from: 1) overseas expansion; and 2) policy changes such as means testing which may result in more middle-income patients seeking private healthcare services.

Results comparison

FYE Dec (S\$ m)	3QFY07	3QFY06	yoy % chg	qoq % chg	3QFY07 Cum	3QFY06 Cum	yoy % chg	Prev. FY07F	Comments
Revenue	43.8	35.0	25.2	5.9	122.9	98.7	24.5	159.3	6% abv due to higher patient load & wider r
Operating costs	(35.3)	(29.1)	21.6	3.9	(101.2)	(83.1)	21.7	(126.9)	Within
EBITDA	8.5	6.0	42.6	15.1	21.8	15.6	39.7	32.4	
EBITDA margin (%)	19.4	17.0			17.7	15.8	12.2	20.3	Within
Depn & amort.	(0.9)	(0.9)	8.3	4.6	(2.7)	(2.5)	7.2	(3.2)	Within
EBIT	7.6	5.1	48.3	16.5	19.1	13.1	46.0	29.2	In line
Net interest expense	(0.0)	(0.0)	(20.0)	-	(0.1)	(0.1)	(16.3)	(2.2)	Below due to lower interest rate
Associates' contrib	0.6	0.1	344.0	(95.7)	13.6	0.8	1,661.4	13.3	In line
Pretax profit	8.1	5.2	55.8	(58.1)	32.6	13.7	137.2	40.2	11% above due to higher revenue and lo
Tax	(1.6)	(1.1)	39.9	(56.2)	(6.2)	(3.0)	108.1	(7.2)	22% above due to higher effective tax rate
Tax rate (%)	19.3	21.5			18.9	21.5	(12.3)	18.0	Above
Minority interests	0.0	(0.0)	162.5	119.2	(0.0)	(0.0)	110.0	(0.1)	Within
Net profit	6.6	4.1	60.5	(58.4)	26.4	10.8	145.3	32.9	10% above
EPS (S cts)	1.3	1.0	28.1	(62.6)	5.7	2.6	121.1	7.1	

Source: CIMB-GK Research

Financial summary

FYE Dec	2005	2006	2007F	2008F	2009F
Revenue (S\$ m)	112.9	134.2	165.6	199.8	237.8
EBITDA (S\$ m)	16.6	22.6	32.4	46.0	54.5
EBITDA margins (%)	14.7	16.8	19.5	23.0	22.9
Pretax profit (S\$ m)	14.8	20.0	42.6	38.8	47.7
Net profit (S\$ m)	12.0	15.7	34.4	31.7	39.0
EPS (S cts)	3.0	3.9	6.7	6.2	7.6
EPS growth (%)	+24%	+28%	+73%	-8%	+23%
P/E (x)	49.9	38.9	22.5	24.3	19.8
FD EPS (S cts)	3.0	3.8	6.6	6.2	7.6
FD P/E (x)	50.6	39.7	22.9	24.3	19.8
Gross DPS (S cts)	3.0	4.0	2.5	5.4	7.6
Dividend yield (%)	2.0	2.7	1.7	3.6	5.0
P/NTA (x)	5.6	5.5	3.8	3.7	3.7
ROE (%)	11.5	14.3	21.7	15.5	18.8
Net cash per share (S\$)	0.08	0.10	(0.03)	0.00	0.02
P/CF (x)	38.2	31.1	18.5	17.6	15.0
EV/EBITDA (x)	34.0	25.3	24.2	16.8	14.0
% change in EPS estimates			0.2	9.4	11.8
CIMB/Consensus (x)			0.99	1.00	0.97

Source: Company, CIMB-GK estimates

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