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Singapore

Miscellaneous

Reuters RAFG.SI
Bloomberg RFMD SP

Priced on 29 October 2007

STI @ 3,819.8

12M hi/lo S\$1.61/0.82

12M price target S\$1.75

±% potential +14%

Target set on 30 Oct 07

Shares in issue 513.5m

Free float (est.) 43.9%

Market cap US\$543m

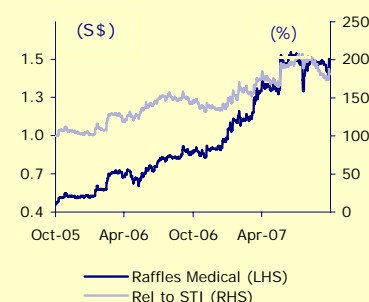
3M average daily volume
S\$0.6m (US\$0.4m)

Major shareholders

Raffles Medical Holdings 44.7%
Dr Loo Choon Yong 11.5%

Stock performance (%)

	1M	3M	12M
Absolute	1.3	0	79.0
Relative	(1.7)	(8.6)	28.0
Abs (US\$)	3.8	4.2	93.3



Source: Bloomberg

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Strong momentum

3Q07 results were extremely good. Revenues were up 25% YoY, largely driven by the Hospital Division. Meanwhile, the excess capacity has contributed to improved margins (net profit +60% YoY) as the hospital is able to tap on operating leverage. Demand for beds and healthcare services in Singapore remains strong, and we have upgraded FY08-09 earnings marginally to factor that. We value Raffles Med at S\$1.75, 23x FY08 PE, a slight discount to Parkway. With 14% upside and a potential 3% dividend yield for FY08, we recommend BUY.

3Q07 – Good performance

Revenues were up 25% YoY, largely driven by the Hospitals division, due to a slight increase in prices, as well as volume. As the hospital is seeing more foreign patients (35%), seeking after more complex specialties, revenue intensity has increased though management has not disclosed its magnitude. At the operating level, the excess capacity Raffles Med has allowed it to enjoy operating leverage, and improve its margins – NPAT was up 60% YoY.

Developments

With the recent developments in the healthcare landscape in Singapore, the demand for healthcare services and hospital beds will remain sustainable. Raffles Hospital is expecting to operate 200 beds by the end of the year. The hospital now has a maximum capacity of 300 beds following the restructuring and addition of specialist clinics. Raffles Med will also be opening more clinics, including one at Terminal 3 which includes aesthetics and women's services.

Regional expansion

The management remains coy about revealing more on regional expansion plans, preferring to remain conservative, until details are finalised. The countries in consideration are China/India/Vietnam, all high growth areas where healthcare demand is strong. For the time being, we have not assumed any potential overseas contribution, which could be a key growth trigger.

Valuations

Management has guided that it is unlikely to pay a special dividend this year in light of its recent acquisition of the 50% stake in the hospital. Normal dividends should however be sustainable. The healthcare demand in Singapore continues to remain strong, and we have upgraded our earnings slightly. We value Raffles Med at 23x FY08 PE, slight discount to larger peer Parkway (25x) and arrive at a TP of S\$1.75. With 14% upside and a potential 3% dividend yield for FY08, we recommend BUY.

Financials

Year to 31 Dec	05A	06A	07CL	08CL	09CL
Revenue (S\$m)	112.9	134.3	168.4	215.9	271.4
Rev forecast change (%)				4.1	9.0
Net profit (S\$m)	12.0	15.7	33.3	39.2	49.8
NP forecast change (%)				5.0	0.5
EPS (S¢)	3.0	3.9	7.2	7.6	9.6
CL/consensus(4)(EPS%)	-	-	127	131	132
EPS (% YoY)	24.5	28.2	85.1	5.4	26.4
PEX (@S\$1.53)	50.3	39.2	21.2	20.1	15.9
Dividend yield (%)	1.8	2.6	2.0	2.9	2.9
Price/book (x)	5.7	5.5	3.9	3.7	3.3
Net gearing (%)	(32.6)	(37.1)	(6.7)	(24.5)	(31.7)

Source: CLSA Asia-Pacific Markets

Recommendation history - Raffles Medical RFMD SP

Date	Rec level	Closing price	Target
30 October 2007	BUY	1.53	1.75
31 July 2007	O-PF	1.57	1.67
29 June 2007	O-PF	1.47	1.49
08 May 2007	O-PF	1.32	1.41

Source: CLSA Asia-Pacific Markets

Key to CLSA investment rankings: BUY = Expected to outperform the local market by >10%; O-PF = Expected to outperform the local market by 0-10%; U-PF = Expected to underperform the local market by 0-10%; SELL = Expected to underperform the local market by >10%. Performance is defined as 12-month total return (including dividends).

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Note: In the interests of timeliness, this document has not been edited.

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