Raffles Medical-- Maintain OUTPERFORM

Still room to grow

EPS: ▼ TP: ▲

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- Improvement in patient load and broader medical specialties helped Raffles Medical deliver strong FY07 results, with revenues up 26% YoY and operating profits up 47% YoY to S$28.2 mn. This was slightly better than our estimates and 9% ahead of the street.
- Hospital services, up 35% YoY, contributing 59% of total revenue and 70% operating profits, was the key driver of the strong performance, while 15% YoY improvement in healthcare services revenue reaffirms robust underlying demand across the sector.
- Core net profit would have been S$23.4 mn, excluding S$12.5 mn gains from revaluation of the Raffles Hospital, now 100%-owned. A final dividend of S1.5ct was declared, and including the S1ct interim, brings full-year payout to 34% of earnings.
- We have raised forecasts on stronger operations from healthcare services, while paring back in-patient volume growth assumptions. Raffles Medical remains best leveraged to rising demand for private healthcare services in the medium term, given its control over an under-utilised hospital asset and the largest GP network. Reiterate OUTPERFORM to our new TP of S$1.80.

Bbg/RIC	**RFMD SP / RAFG.SI**	**Price (18 Feb 08, S$)**			**1.37**
Rating (prev. rating)	**O (O)**	**TP (S$) (prev. TP)**			**1.80 (1.75)**
Shares outstanding (mn)	515.49	Est. pot. % chg. to TP			31
Daily trad vol–6m avg (mn)	0.3	52-wk range (S$)			1.58 - 1.06
Daily trad val–6m avg (US$ mn)	0.4	Mkt cap (S$/US$ mn)			706.2/ 500.2
Free float (%)	33.0	**Performance**	**1M**	**3M**	**12M**
Major shareholders	Dr Loo Choon Yong (40.2%)	Absolute	1.5	(8.7)	25.6
		Relative	3.6	2.8	32.2

Year	12/06A	12/07A	12/08E	12/09E	12/10E
Revenues (S$ mn)	134.2	171.8	206.9	247.5	288.0
EBITDA (S$ mn)	20.9	29.2	43.0	52.5	60.5
Net profit (S$ mn)	15.7	20.9	32.0	40.0	47.8
EPS (S$)	0.03	0.07	0.06	0.07	0.09
- Change from prev. EPS (%)	n.a.	n.a.	-5	1	n.a.
- Consensus EPS (S$)	n.a.	n.a.	0.06	0.08	0.00
EPS growth (%)	21.9	124.2	(15.3)	25.7	19.3
P/E (x)	44.7	19.9	23.6	18.7	15.7
Dividend yield (%)	2.0	2.5	3.4	4.3	5.1
EV/EBITDA (x)	31.9	24.4	16.5	13.1	10.9
P/B (x)	5.5	3.5	3.4	3.3	3.1
ROE (%)	13.9	11.6	15.4	18.4	20.9
Net debt/equity (%)	net cash	3	1	net cash	net cash

Note 1: Raffles Medical Group (RMG) is a leading medical group and the largest private group practice in Singapore, owning and operating a fully integrated healthcare system comprising hospital, clinics, insurance and consumer healthcare.

Results better than expected

Raffles Medical's FY07 results were better than our and consensus expectations. Revenues were up 26% YoY and operating profits jumped 47% YoY to S$28.2 mn. This was 0.5% better than our estimates of S$28.1 mn, and 9% ahead of the street. Staff costs, which grew by 24% YoY, remain well-managed, and helped to boost overall operating margins by 2.4% to 16.7% for FY07.

Hospital services grew 35% YoY, and continued to drive both growth and earnings for Raffles Medical, on the back of stronger patient volumes and operating efficiencies. This segment now contributes 59% of total revenue and 70% of operating profits. With margins at 19%, the CPF increase implemented from July 07 last year should slightly moderate any significant operating leverage going forward.

Healthcare services showed a 15% YoY improvement, largely driven by strong underlying growth in GP services, and to some extent success in strategising to broaden the range of medical specialities under a single roof, and deepening the clinic network (medical augmenting dental services) within profitable localities. Margins for healthcare services, therefore, were lower at 9.1% (from 10% in FY06) owing to start-up costs incurred.

Inorganic growth still some distance away

We were slightly disappointed about the lack of M&A traction so far. We understand that Raffles Medical is looking actively at opportunities in China, India and Vietnam, and will likely bring on partners to mitigate potential risks of entry into new geographies. While Raffles Medical remains a pure play on growth in demand for private healthcare services in Singapore, driven by strong underlying fundamentals over the longer term, looking forward we believe that management and its two strategic partners – Temasek Holdings and Qatar Investments - will have to strive to map out an overseas growth strategy which should be a positive catalyst to share price performance.

Figure 2: Results summary

(S$mn)	FY07A	FY06A	YoY (%)	FY07E (old)	% of FY07E
Revenue	168.7	134.2	25.6	171.8	98.2
EBITDA	30.6	20.9	46.6	29.2	104.9
Op. profit	28.2	19.2	46.9	28.1	100.5
PBT	28.9	20.0	43.9	29.4	98.0
Tax	-5.5	-4.3	28.5	-8.4	65.6
Core net profit	23.4	15.8	48.1	21.0	111.0
Exceptionals	12.5	0.0	n.m.	12.5	100.0
EPS (S$)	0.048	0.034	38.8	0.043	111.0

Source: Company data, Credit Suisse estimates.

Figure 3: Key earnings estimate changes

	FY08E			FY09E		
(S$mn)	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenue	206.9	213.1	-2.9	247.5	234.3	5.6
EBITDA	43.0	43.3	-0.7	52.5	50.0	4.9
Op. profit	37.6	37.8	-0.3	47.0	45.2	4.0
PBT	36.4	39.2	-7.1	45.7	46.6	-1.9
Tax	-6.5	-7.8	-16.4	-8.2	-9.3	-11.7
Net profit	29.8	31.3	-4.8	37.5	37.3	0.6
EPS (S$)	0.058	0.061	-4.7	0.073	0.073	0.7

Source: Company data, Credit Suisse estimates.

Figure 1: Valuation Metrics

Company	Ticker	CS	Price		EPS chg (%)		TP (%)	Up/dn	EPS		EPS grth (%)		P/E (x)		Div. yld (%)	ROE	P/B
		Rating	Local	Target	T+1	T+2	Chg	(%)	T+1	T+2	T+1	T+2	T+1	T+2	T+1	(%)	(X)
Parkway	PWAY SP	O	3.30	4.40	0	0	0	33	0.1	0.2	41	20	25.6	21.5	3.6	15.0	3.9
Raffles Medical	RFMD SP	O	1.37	1.80	(5)	1	3	31	0.1	0.1	(15)	26	23.6	18.7	3.4	15.4	3.4

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM Source: Company data, Credit Suisse estimates

Companies Mentioned ***(Price as of 18 Feb 08)***
Raffles Medical Group (RAFG.SI, S$1.37, OUTPERFORM, TP S$1.80)
Parkway Holdings (PARM.SI, S$3.60, OUTPERFORM, TP S$4.40)

Disclosure Appendix

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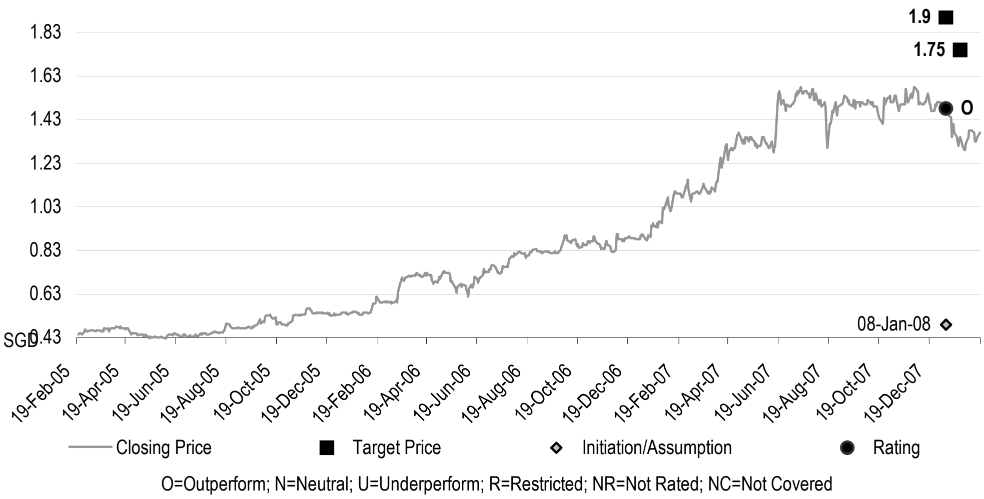
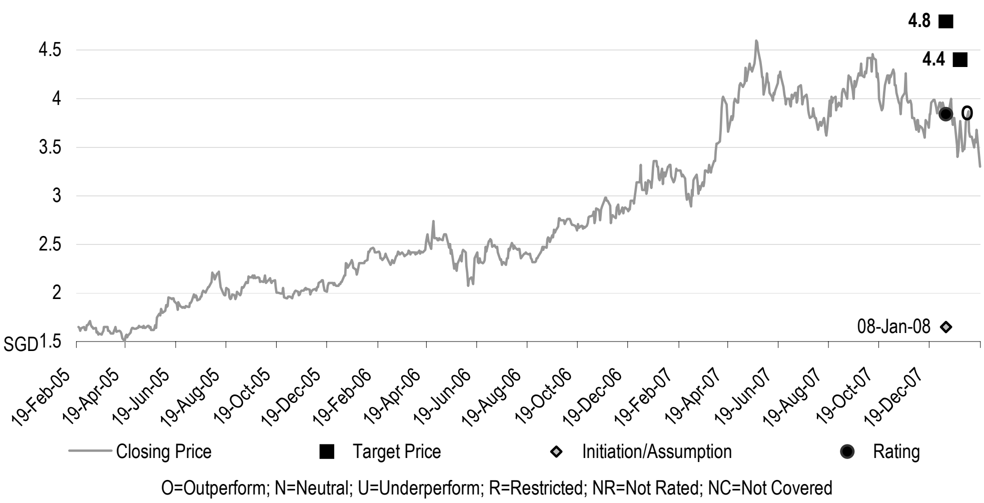
3-Year Price, Target Price and Rating Change History Chart for RAFG.SI



RAFG.SI Date	Closing Price Price (SGD)	Target Price Price (SGD)	Rating	Initiation/ Assumption
8-Jan-08	1.48	1.9	OUTPERFORM	X
25-Jan-08	1.35	1.75		

3-Year Price, Target Price and Rating Change History Chart for PARM.SI



PARM.SI Date	Closing Price Price (SGD)	Target Price Price (SGD)	Rating	Initiation/ Assumption
8-Jan-08	3.84	4.8	OUTPERFORM	X
25-Jan-08	3.77	4.4		

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Price Target: (12 months) for (RAFG.SI)

Method: Our S$1.80 target price for Raffles Medical is based on a discounted cash flow (DCF) methodology of a weighted average cost of capital (WACC) of 10.5% (a risk-free rate of 3.5%, an equity risk premium of 7.0% and a beta of 1), a terminal growth rate of 3%, and a medium-term growth rate of 6% over 2007-2030.

Risks: Key risks to our S$ 1.80 target price for Raffles Medical include: 1) Regulatory changes driven by government policies 2) Macroeconomic slowdown affecting employment and population growth 3) Increasing competition from regional healthcare providers 4) Risk of a pandemic outbreak 5) Inability to attract talent and Increased labour costs

Price Target: (12 months) for (PARM.SI)

Method: Our S$4.40 target price for Parkway is based on a Sum of the parts valuation with a $0.31 marked to market valuation for its 35% stake in Parkway Life REIT, and a discounted cash flow (DCF) valuation, with a weighted average cost of capital (WACC) of 10.5% (a 3.5% risk-free rate, a 7.0% equity risk premium and a beta of 1), a terminal growth rate of 4%, and a medium-term growth rate of 8% over 2007 to 2030.

Risks: Key risks to our S$4.40 target price for Parkway include: 1) regulatory changes driven by government policies 2) a potential macroeconomic slowdown, which would affect employment and population growth, 3) increased competition from regional healthcare providers, 4) risk of a pandemic outbreak, 5) execution risks.

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