

Raffles Medical----- Maintain OUTPERFORM

Strong interims reaffirms robust underlying sector demand

EPS: ◀▶ TP: ◀▶

Su Tye Chua / Research Analyst / 6212 3014 / sutye.chua@credit-suisse.com

- Raffles Medical reported strong results for its March quarter, that were in line with our estimates, as well as the street, with revenues up 26% YoY to S\$47.4 mn, and earnings jumping 48% YoY to S\$6.1 mn, achieving 21% of our full-year forecasts.
- Management does not disclose detailed segmental information during the interims, although we are informed that there was a 31% YoY jump in revenue from hospital services, and a 17% YoY improvement in the healthcare services segment, which reaffirms strong underlying demand across the sector.
- The strong performance in hospital services was attributed to increased patient load, the introduction of higher ward charges (5-10%) during the quarter, and greater revenue-intensity.
- Our earnings forecast, S\$1.80 TP, and investment thesis for Raffles Medical remain intact, as we believe it remains best leveraged to growing demand for private healthcare services in the medium term, given its control over an under-utilised hospital asset and the largest GP network in Singapore. Reiterate OUTPERFORM.

segmental revenues and profits during the interims, but disclosed that its hospital operations grew 31% YoY in 1Q08, while healthcare services improved by 17% YoY.

Management attributed the strong performance of the hospital services business (which we estimate now contributes 62% of total revenues) to higher ward charges (up 5-10% on average), improved patient load, and greater revenue-intensity, with margins bolstered by some extent on operating efficiencies gains. Going forward, Raffles Medical is looking to add further specialist headcount, to cope with rising demand for higher-intensity procedures.

The improvement in the healthcare services segment reaffirms robust underlying demand across the sector. This was to some extent augmented by Raffles Medical's strategy in expanding the range of medical specialities within individual clinics, and capturing synergies (medical complementing dental services) within profitable localities. Raffles Medical opened a 24-hour clinic at the new Changi Airport Terminal 3 in Jan-08, and will look to add about another five clinics to its 65-strong network by end-08.

Bbg/RIC	RFMD SP / RAFG.SI	Price (29 Apr 08, S\$)	1.23		
Rating (prev. rating)	O (O)	TP (S\$) (prev. TP)	1.80 (1.80)		
Shares outstanding (mn)	516.03	Est. pot. % chg. to TP	46		
Daily trad vol-6m avg (mn)	0.3	52-wk range (S\$)	1.58 - 1.20		
Daily trad val-6m avg (US\$ mn)	0.3	Mkt cap (S\$/US\$ mn)	634.7/ 465.0		
Free float (%)	33.0	Performance	1M 3M 12M		
Major shareholders	Dr Loo Choon Yong	Absolute	0.0 (6.1) (5.4)		
	(40.2%)	Relative	(5.3) (10.8) (0.6)		
Year	12/06A	12/07A	12/08E	12/09E	12/10E
Revenues (S\$ mn)	134.2	168.7	206.9	247.5	288.0
EBITDA (S\$ mn)	20.9	40.4	43.0	52.5	60.5
Net profit (S\$ mn)	14.0	21.5	29.8	37.4	44.7
EPS (S\$)	0.03	0.07	0.06	0.07	0.09
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (S\$)	n.a.	n.a.	0.06	0.08	0.00
EPS growth (%)	21.9	123.7	(15.1)	25.7	19.3
P/E (x)	40.1	17.9	21.1	16.8	14.1
Dividend yield (%)	2.2	2.8	3.8	4.8	5.7
EV/EBITDA (x)	28.5	15.8	14.8	11.7	9.7
P/B (x)	4.9	3.2	3.1	2.9	2.8
ROE (%)	12.4	10.7	14.3	17.2	19.5
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.. Note 2: .

Snippets from the briefing

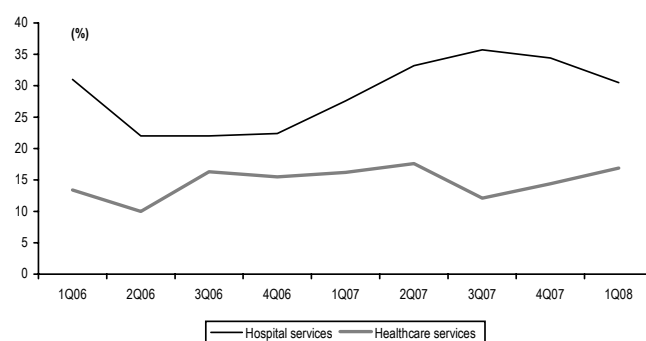
Given management's execution so far on driving the steady growth profile of its hospital operations, we believe that Raffles Medical will continue to prudently manage utilisation rates (at between 40-60%) to optimise yields. There was no change to the number of operational beds (200 at end-07) during the quarter, although management will look to add capacity (25 beds at a time), as and when utilisation increases beyond these thresholds. Raffles Medical does not report

Figure 1: Results summary comparison

(\$\$mn)	1Q08	1Q07	YoY (%)	FY08E (old)	% of FY08E
Revenue	47.4	37.7	25.8	206.9	22.9
EBITDA	9.6	5.4	77.7	43.0	22.3
Op. profit	8.0	5.0	60.6	37.6	21.3
PBT	7.8	5.1	52.5	36.4	21.6
Tax	-1.7	-1.0	71.0	-6.5	26.5
Net profit	6.1	4.1	48.4	29.8	20.5
EPS (Sct)	1.18	0.90	31.1	5.80	20.3
EBITDA margin (%)	20.2	14.3	-	20.8	-
Op margin (%)	16.9	13.2	-	18.2	-
Net margin (%)	12.9	10.9	-	14.4	-

Source: Company data, Credit Suisse estimates.

Figure 2: Revenue growth (YoY change)



Source: Company data, Credit Suisse estimates.

Figure 3: Valuation Metrics

Company	Ticker	CS Rating	Price		EPS chg (%)		TP (%)	Up/dn (%)	EPS		EPS grth (%)		P/E (x)		Div. yld (%)	ROE (%)	P/B (X)
			Local	Target	T+1	T+2			T+1	T+2	T+1	T+2	T+1	T+2			
Parkway	PWAY SP	N	3.41	3.55	0	0	0	4	0.1	0.1	(19)	26	35.7	28.2	1.4	6.9	2.7
Raffles Medical	RFMD SP	O	1.23	1.8	0	0	0	46	0.1	0.1	(15)	26	21.1	16.8	3.8	14.3	3.1

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM

Source: Company data, Credit Suisse estimates

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Companies Mentioned (Price as of 28 Apr 08)

Raffles Medical Group (RAFG.SI, S\$1.23, OUTPERFORM, TP S\$1.80)

Parkway Holdings (PARM.SI, S\$3.41, NEUTRAL, TP S\$3.55)

Disclosure Appendix

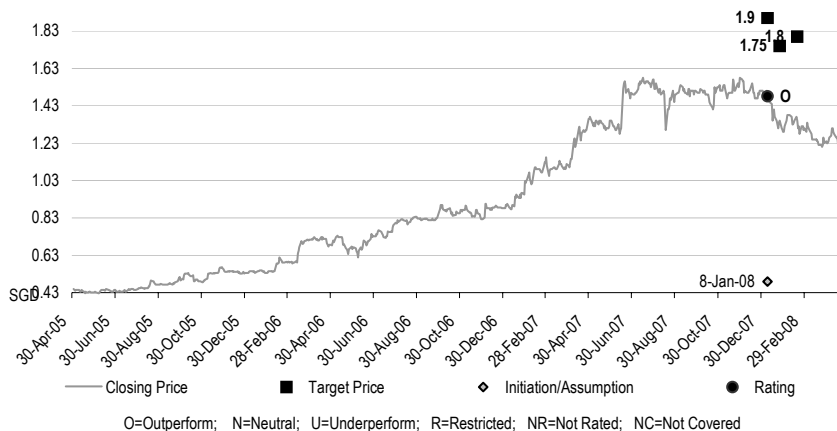
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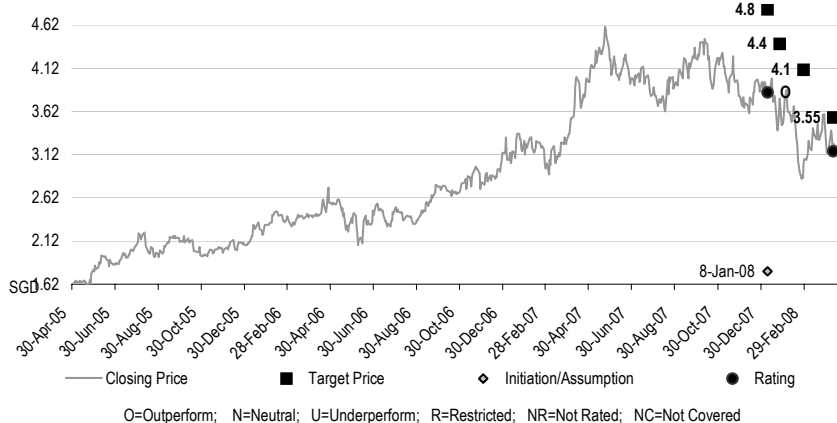
3-Year Price, Target Price and Rating Change History Chart for RAFG.SI

RAFG.SI Date	Closing Price (SGD)	Target Price (SGD)	Rating	Initiation/ Assumption
08-Jan-08	1.48	1.9	O	X
25-Jan-08	1.35	1.75		
19-Feb-08	1.35	1.8		



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

PARM.SI Date	Closing Price (SGD)	Target Price (SGD)	Rating	Initiation/ Assumption
08-Jan-08	3.84	4.8	O	X
25-Jan-08	3.77	4.4		
28-Feb-08	3.01	4.1		
10-Apr-08	3.16	3.55	N	



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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\$3.55 target price for Parkway is based on a Sum of the parts valuation with a \$0.23 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 for its hospital business, a DCF valuation for its Novena Hospital based on WACC of 8.0% on 75% debt structure and a terminal growth rate of 4%.

Risks: Key risks to our S\$3.55 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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