

BUY S\$1.57 STI : 3,526.29

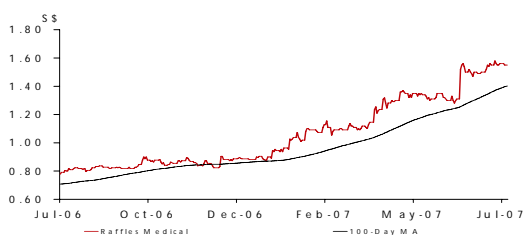
Price Target : 12-month S\$ 1.80 (Prev S\$1.75)

Reason for Report : 2Q07 Results

Potential Catalyst: Full ownership of Raffles Hospital, strategic tide-up with 2 institutional investors

ANALYSTWallace Chu +65 6398 7963
WallaceChu@dbsvickers.com**FORECASTS AND VALUATION**

FY Dec (\$\$ m)	2006A	2007F	2008F	2009F
Turnover	134.2	166.7	206.3	252.6
EBITDA	20.9	28.5	35.1	41.1
Pre-tax Profit	20.0	28.3	33.3	40.3
Net Profit	15.7	23.1	27.2	32.9
Net Pft (Pre Ex.)	15.7	23.1	27.2	32.9
EPS (S cts)	3.5	4.9	5.3	6.4
EPS Gth (%)	29	41	9	21
Diluted EPS (S cts)	3.5	4.9	5.3	6.4
Net DPS (S cts)	2.9	4.0	4.4	5.3
BVPer Share (S cts)	24.8	25.9	25.5	27.5
PE (X)	45.5	32.2	29.7	24.5
P/Cash Flow (X)	39.3	29.6	26.1	22.6
EV/EBITDA (X)	31.6	24.0	20.9	17.5
Net Div Yield (%)	1.8	2.6	2.8	3.4
P/Book Value (X)	6.3	6.1	6.2	5.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	14.3	19.6	21.4	24.2

SHARE PRICE CHART**AT A GLANCE**

Issued Capital (m shrs)	514
Mkt. Cap (\$\$m/US\$m)	807 / 533
Major Shareholders	
Raffles Medical (%)	40.2
Loo Choon Yong (%)	10.2
Free Float (%)	49.6
Avg. Daily Vol. ('000)	730

Earnings Rev (%)	2008: 2.1	2009: (10.2)
Consensus EPS (S cts)	2008: 4.5	2009: 6.0
Variance vs Cons (%)	2008: 8.9	2009: (11.7)

Sector : Health Care

Bloomberg/Reuters Code: RFMD SP/RAFG.SI

Principal Business: Raffles Medical Group Ltd. is a Singapore-based company that is principally engaged in the provision of integrated healthcare services.

Raffles Medical**Just what the doctor ordered**

➤ **Story:** Raffles Medical Group 2Q07 results were slightly above our expectation.

➤ **Point:** Net profit increased from S\$3.8m to S\$15.8m mainly due to fair value gain of Raffles Hospital. Stripping off the EI, net profit rose 44% y-o-y to S\$5.5m due to higher patient load and a wider range of medical specialties.

➤ **Relevance:** With the increased emphasis on healthcare due to an aging population, increase in wealth accumulation and Singapore's drive to be a leading medical hub, we see Raffles Medical benefitting from both local and international patients. We maintain Buy with an increased target price of S\$1.80.

2Q07 result slightly above our expectation. Revenue grew 26.3% yoy to S\$41.4m. Revenue from Healthcare (clinic and insurance segments) and Hospital Services grew 17.6% and 33.2% respectively. Net profit rose 315% mainly due to the share of profits in Raffles Hospital's fair value gain. After stripping out the exceptional gain, net profit at S\$5.5m was 44.5% higher than the same period last year. An interim ordinary dividend of 1.0cents per share for 2Q07 was declared, which will be paid on 7th September. They are targeting 2.5cents of ordinary dividend payout for FY07, the same as last year.

New airport medical centre to serve as regional hub for Eastern Singapore. The group has been operating three medical clinics in Singapore's Changi Airport since 1990. It is now starting a medical centre at the new Terminal 3. The 24-hour centre will provide general practice, health screening, Obstetrics and Gynaecology, and Aesthetics services. It will also serve as a regional medical centre for those living in the East who need late night emergency treatments.

Two strategic investors propel overseas expansion. RMG had undertaken a placement of 50m new shares in the capital of RMG to V-Science Investments, a wholly-owned subsidiary of Temasek Holdings and Qatar Investment Authority. Each subscribed 25m new shares at S\$1.30 each, giving each a 4.87% stake in RMG based on the enlarged share capital of \$513.5m. Total proceeds raised approximate S\$63m. The tie-up with Qatar Investment Authority will enable RMG to leverage on the former's connection in the fast growing Middle East region.

Maintain Buy, TP S\$1.80. We have factored in the full ownership of the hospital and adjusted our assumptions in our forecast to take into account the increase in efficiency and EBIT margin (from 12% to 14%) for the hospital operation. This translates to the new target price to S\$1.80, backed by DCF calculations. Maintain Buy.

Company Focus

Raffles Medical

Full ownership of Raffles Hospital. Raffles Medical Group (RMG) has entered into a conditional sale and purchase agreement with a wholly-owned subsidiary of CapitaLand to acquire the remaining 50% in Raffles Hospital for a total consideration of S\$66.86m. The property was valued at S\$215m as at June 15. RMG, in turn, will have 100% control and ownership of the hospital. The deal is expected to be completed at or before end September. We see this as positive for RMG. With the full ownership of the hospital, the acquisition gives RMG complete use of Raffles Hospital and full flexibility to improve operational efficiency. Management indicated that REIT is not part of their plans right now, but the deal may also help to pave the way for the formation of a REIT in the future.

DCF Analysis

	Assumptions				
Risk Free Rate	2.8%	10 yr Singapore T-bond			
Cost of Debt	2.8%	Assumed risk-free rate			
Tax rate %	18.0%	Singapore corporate tax rate			
Expected market return	8.5%	Singapore market return			
Current Beta	0.6				
Current Debt/Equity Ratio	0%	Net cash in FY06F			
Target Debt/Equity Ratio	0%	Net cash in FY08F			
Beta at Target Gearing	0.6				
Cost of Equity	6.2%	Based on CAPM model			
WACC	6.2%				
Terminal growth	0.9%	Assumed			

FY DEC (\$m)	07F	08F	09F	10F	Terminal
Opg Profit	24.8	30.6	37.6	52.6	
Opg Profit Growth%		23%	23%	40%	
Tax rate %	18%	18%	18%	18%	
NOPLAT	20.3	25.1	30.8	43.1	
+Depn & Amortn	3.7	3.7	2.7	2.7	
+(Inc)/Dec in WC	3.7	2.8	3.7	8.1	
-Capex	(5.0)	(5.0)	(5.0)	(4.0)	
FCFF	22.7	26.6	32.2	49.9	946.5
Disc. FCFF	22.7	25.0	32.2	49.9	743.6
Sum of Disc. FCFF to FY05F	873.5				
Net Cash as at FY07	50.1				
Fair Value of Equity	924				
Total outstanding shares (m)	514				
Fair Equity Value/Share (\$)	1.80				

Results Summary

FY Dec (\$m)	2Q06	2Q07	Chg y-o-y	Comments
Sales	32.8	41.4	26.3%	Revenue lead by strong growth in Hospital Services
Cost of Goods Sold	(21.9)	(26.1)	18.8%	
Gross Profit	10.8	15.3	41.5%	
Other Operating Income	0.0	(0.1)		
Other Operating Expenses	(6.8)	(9.3)	37.3%	Higher staff headcount and cost due to expansion
EBIT	4.1	6.0	46.6%	Increase in EBIT margins due to increased operating efficiencies and higher patient loads.
Non-Operating Income	0.0	0.0		
Interest Income	0.4	0.5	17.6%	
Interest Expense	(0.0)	(0.0)		
Share of Associates' or JV Income	0.3	0.4	25.8%	
Exceptional Gains/(Losses)	0.0	12.5		Due to revaluation gain of the Raffles Hospital
Pretax Profit	4.8	19.4	303.8%	
Tax	(1.0)	(3.6)		
Minority Interests	(0.0)	0.0		
Net Profit	3.8	15.8	316.1%	
Net Profit Ex EI	3.8	5.5	44.5%	Net profit slightly above our expectations
EBIT Margin	12%	14%		

Company Focus

Raffles Medical

Income Statement (\$S m)

FY Dec	2006A	2007F	2008F	2009F
Turnover	134.2	166.7	206.3	252.6
Cost of Goods Sold	(85.9)	(109.1)	(134.3)	(164.5)
Gross Profit	48.4	57.6	72.0	88.1
Other Opg (Exp)/Inc	(30.9)	(32.8)	(40.6)	(49.7)
EBIT	17.5	24.8	31.4	38.4
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	0.9	1.7	0.0	0.0
Net Interest (Exp)/Inc	1.6	1.9	1.9	1.9
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
Pre-tax Profit	20.0	28.3	33.3	40.3
Tax	(4.3)	(5.1)	(6.0)	(7.3)
Minority Interest	(0.1)	(0.1)	(0.1)	(0.1)
Preference Dividend	0.0	0.0	0.0	0.0
Net Profit	15.7	23.1	27.2	32.9
Net profit before Except.	15.7	23.1	27.2	32.9
EBITDA	20.9	28.5	35.1	41.1
Sales Gth (%)	18.9	24.2	23.7	22.5
EBITDA Gth (%)	26.8	36.0	23.1	17.2
EBIT Gth (%)	30.7	41.5	26.6	22.4
Effective Tax Rate (%)	21.3	18.0	18.0	18.0

Cash Flow Statement (\$S m)

FY Dec	2006A	2007F	2008F	2009F
Pre-Tax Profit	20.0	28.3	33.3	40.3
Dep. & Amort.	3.4	3.7	3.7	2.7
Tax Paid	(2.3)	(5.9)	(5.1)	(6.0)
Assoc. & JV Inc/(loss)	(0.9)	(1.7)	0.0	0.0
Chg in Wkg.Cap.	0.7	3.7	3.2	3.8
Other Operating CF	0.0	0.0	0.0	0.0
Net Operating CF	20.9	28.1	35.1	40.8
Capital Exp.(net)	(2.3)	(5.0)	(5.0)	(5.0)
Other Invts.(net)	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0
Net Investing CF	(2.3)	(5.0)	(5.0)	(5.0)
Div Paid	(11.4)	(13.0)	(19.2)	(22.6)
Chg in Gross Debt	(0.4)	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0
Net Financing CF	(11.8)	(13.0)	(19.2)	(22.6)
Net Cashflow	6.8	10.1	10.9	13.2

Quarterly / Interim Income Statement (\$S m)

FY Dec	4Q2005	1Q2006	2Q2006	3Q2006
Turnover	30.4	30.9	32.8	35.0
Cost of Goods Sold	(20.2)	(21.6)	(21.9)	(22.7)
Gross Profit	10.3	9.3	10.8	12.3
Other Oper. (Exp)/Inc	(5.7)	(6.2)	(6.8)	(7.6)
EBIT	4.6	3.1	4.1	4.7
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	0.3	0.3	0.3	0.1
Net Interest (Exp)/Inc	(0.5)	0.4	0.4	0.4
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
Pre-tax Profit	4.4	3.7	4.8	5.2
Tax	(0.6)	(0.8)	(1.0)	(1.1)
Minority Interest	(0.1)	0.0	0.0	0.0
Net Profit	0.0	0.0	0.0	0.0
Net profit bef Except.	3.7	2.9	3.8	4.1
EBITDA	5.4	3.9	4.9	5.5
Sales Gth (%)	2.8	1.6	6.0	6.9
EBITDA Gth (%)	23.7	(28.0)	26.4	11.4
EBIT Gth (%)	29.2	(33.2)	33.6	13.7
Gross Margins (%)	33.8	30.0	33.1	35.0
EBIT Margins (%)	15.1	9.9	12.5	13.3

Source: Company, DBS Vickers

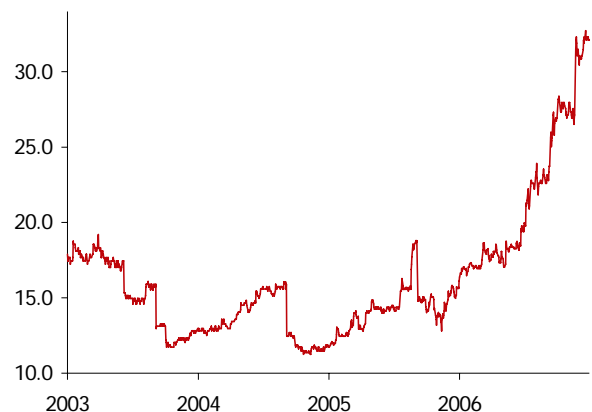
Balance Sheet (\$S m)

FY Dec	2006A	2007F	2008F	2009F
Net Fixed Assets	20.2	21.5	22.8	25.1
Invts in Assocs & JVs	54.0	55.6	55.6	55.6
Other LT Assets	1.3	1.3	1.3	1.3
Cash & ST Invts	56.2	66.3	77.2	90.4
Other Current Assets	20.2	22.5	27.8	34.0
Total Assets	151.8	167.2	184.7	206.4
ST Debt	2.0	2.0	2.0	2.0
Other Current Liab	36.0	41.1	50.6	61.8
LT Debt	0.0	0.0	0.0	0.0
Other LT Liabilities	0.7	0.7	0.7	0.7
Shareholder's Equity	112.9	123.0	130.9	141.3
Minority Interests	0.3	0.4	0.4	0.6
Total Cap. & Liab.	151.8	167.2	184.7	206.4
Non-Cash Wkg. Cap	(1.5)	(4.4)	(8.5)	(13.5)
Net Cash/(Debt)	54.2	64.3	75.2	88.4

Rates & Ratios

FY Dec	2006A	2007F	2008F	2009F
Gross Margin (%)	36.0	34.5	34.9	34.9
EBITDA Margin (%)	15.6	17.1	17.0	16.3
EBIT Margin (%)	13.0	14.9	15.2	15.2
Net Profit Margin (%)	11.7	13.9	13.2	13.0
ROAE (%)	14.3	19.6	21.4	24.2
ROA (%)	13.9	17.8	19.0	20.7
ROCE (%)	13.0	17.2	20.2	23.1
Div Payout Ratio (%)	83.0	83.0	83.0	83.0
Interest Cover (x)	NM	NM	NM	NM
Debtors Turn (avg days)	39.5	38.2	35.9	36.0
Creditors Turn (avg days)	87.6	87.2	85.9	85.5
Inventory Turn (avg days)	13.5	13.0	13.2	13.3
Current Ratio (x)	2.0	2.1	2.0	1.9
Quick Ratio (x)	1.9	2.0	1.9	1.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Capex to Debt (%)	115.3	250.8	250.8	250.8
N.Cash/(Debt)PS (\$ cts)	11.9	13.5	14.6	17.2
Opg CFPS (\$ cts)	4.4	5.1	6.2	7.2
Free CFPS (\$ cts)	4.1	4.9	5.9	7.0

PE Chart (x)



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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (0-15% total return over the next 12 months for small caps, 0-10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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