

## COMPANY UPDATE

# Raffles Medical Group (RAFG.SI)

Neutral

## In-line 4Q07 results; incorporate higher costs; lower TP to S\$1.48

### What's changed

Raffles reported 4Q07 net profit of S\$9.5 mn (+90% yoy, +45% qoq), bringing full-year 2007 net profit to S\$35.9 mn (+127% yoy). The results were in line with our (S\$35 mn [after reversal of the tax provision for the revaluation surplus on the hospital building]) and consensus (S\$36 mn) expectations.

Raffles was also the lowest bidder (at S\$268 mn) for the Novena Terrace site, which closed on February 15.

### Implications

We believe 2008E operating performance will continue to be strong but as we factor in higher staff and operating costs, we have revised down our 2008E-2009E net profit by c.10%.

Management did not appear to be disappointed at losing the bid for Novena Terrace, saying that it had made a prudent bid based on its projections for a 500-600 bed hospital. We believe the higher bid by Parkway also reflects its more pressing need for space but Raffles, which still has capacity to add another 100 beds and with 40%-60% occupancy rates, can afford to take time to seek a new site or lobby the government to expand its existing site (given vacant land adjoining its existing premises). By our estimates, Raffles will have opened the maximum number of beds (300 beds) by end 2009E. However, until such time a new site is developed, other measures e.g., the decanting of office space and relocation of clinics can help alleviate capacity tightness, if any.

### Valuation

As a result of the abovementioned earnings revisions, we revise our 12-month DCF-based target price to S\$1.48 (from S\$1.65). Still Neutral.

### Key risks

Failure to execute planned capacity expansion (-ve), overpaying for acquisitions (if any) (-ve), possible REIT exercise (+ve).

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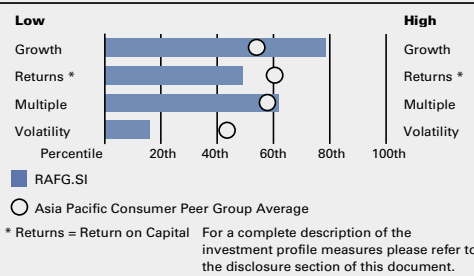
Neutral

### Coverage View: Neutral

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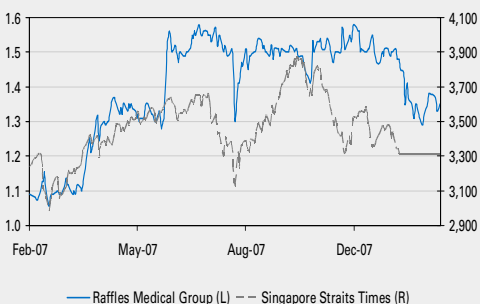
### Investment Profile: Raffles Medical Group



Key data	Current
Price (S\$)	1.35
12 month price target (S\$)	1.48
Market cap (S\$ mn / US\$ mn)	695.3 / 492.5
Foreign ownership (%)	--

	12/07	12/08E	12/09E	12/10E
EPS (S\$) New	0.05	0.06	0.07	0.08
EPS revision (%)	4.6	(10.9)	(10.0)	--
EPS growth (%)	29.0	24.9	26.5	14.6
EPS (dil) (S\$) New	0.07	0.06	0.07	0.08
P/E (X)	29.8	23.8	18.8	16.4
P/B (X)	3.5	3.4	3.3	3.2
EV/EBITDA (X)	23.1	15.4	12.3	10.7
Dividend yield (%)	2.6	3.7	4.4	5.2
ROE (%)	22.9	14.4	17.8	19.8

### Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(10.0)	(9.4)	23.8
Rel. to Singapore Straits Times	(5.5)	(10.4)	21.6

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 2/15/2008 close.

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# Raffles Medical Group: Summary financials

Profit model (\$\$ mn)	12/07	12/08E	12/09E	12/10E	Balance sheet (\$\$ mn)	12/07	12/08E	12/09E	12/10E
<b>Total revenue</b>	<b>168.7</b>	<b>212.9</b>	<b>259.9</b>	<b>292.6</b>	Cash & equivalents	19.7	33.1	50.0	65.0
Cost of goods sold	(19.4)	(24.4)	(29.8)	(33.6)	Accounts receivable	20.2	25.5	31.2	35.1
SG&A	(90.2)	(116.6)	(142.4)	(160.4)	Inventory	3.8	4.8	5.9	6.6
R&D	--	--	--	--	Other current assets	0.7	2.3	2.3	2.3
Other operating profit/(expense)	(33.0)	(35.2)	(41.7)	(46.2)	<b>Total current assets</b>	<b>44.5</b>	<b>65.7</b>	<b>89.3</b>	<b>109.0</b>
<b>EBITDA</b>	<b>30.3</b>	<b>44.6</b>	<b>54.4</b>	<b>61.3</b>	Net PP&E	235.2	232.0	228.9	225.6
Depreciation & amortization	(4.2)	(8.0)	(8.4)	(8.9)	Net intangibles	0.3	0.2	0.2	0.2
<b>EBIT</b>	<b>26.1</b>	<b>36.6</b>	<b>46.0</b>	<b>52.4</b>	Total investments	0.0	0.0	0.0	0.0
Interest income	1.8	0.4	0.6	0.8	Other long-term assets	1.5	0.0	0.0	0.0
Interest expense	(0.4)	(0.9)	(0.9)	(0.9)	<b>Total assets</b>	<b>281.5</b>	<b>297.9</b>	<b>318.4</b>	<b>334.8</b>
Income/(loss) from uncons. subs.	1.1	0.0	0.0	0.0	Accounts payable	47.7	59.0	71.6	80.4
Others	0.0	0.0	0.0	0.0	Short-term debt	25.3	25.3	25.3	25.3
<b>Pretax profits</b>	<b>28.6</b>	<b>36.1</b>	<b>45.7</b>	<b>52.3</b>	Other current liabilities	6.7	8.4	10.2	11.5
Income tax	(5.2)	(6.9)	(8.7)	(9.9)	<b>Total current liabilities</b>	<b>79.7</b>	<b>92.6</b>	<b>107.0</b>	<b>117.1</b>
Minorities	(0.1)	(0.1)	(0.1)	(0.1)	Long-term debt	0.0	0.0	0.0	0.0
<b>Net income pre-preferred dividends</b>	<b>23.4</b>	<b>29.2</b>	<b>36.9</b>	<b>42.3</b>	Other long-term liabilities	0.7	0.7	0.7	0.7
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	0.7	0.7	0.7	0.7
<b>Net income (pre-exceptionals)</b>	<b>23.4</b>	<b>29.2</b>	<b>36.9</b>	<b>42.3</b>	<b>Total liabilities</b>	<b>80.4</b>	<b>93.4</b>	<b>107.8</b>	<b>117.9</b>
Post-tax exceptionals	12.5	0.0	0.0	0.0	Common stock & premium	170.0	170.0	170.0	170.0
<b>Net income</b>	<b>35.9</b>	<b>29.2</b>	<b>36.9</b>	<b>42.3</b>	Other common equity	30.8	34.2	40.2	46.5
EPS (basic, pre-except) (\$\$)	0.05	0.06	0.07	0.08	<b>Total common equity</b>	<b>200.8</b>	<b>204.2</b>	<b>210.3</b>	<b>216.5</b>
EPS (basic, post-except) (\$\$)	0.07	0.06	0.07	0.08	Minority interest	0.2	0.3	0.3	0.4
EPS (diluted, post-except) (\$\$)	0.07	0.06	0.07	0.08	<b>Total liabilities &amp; equity</b>	<b>281.5</b>	<b>297.9</b>	<b>318.4</b>	<b>334.8</b>
DPS (\$\$)	0.03	0.05	0.06	0.07	<b>BVPS (\$\$)</b>	<b>0.39</b>	<b>0.40</b>	<b>0.41</b>	<b>0.42</b>
Dividend payout ratio (%)	49.5	88.2	83.7	85.2					
Free cash flow yield (%)	5.0	5.7	6.5	--					
<b>Growth &amp; margins (%)</b>	<b>12/07</b>	<b>12/08E</b>	<b>12/09E</b>	<b>12/10E</b>	<b>Ratios</b>	<b>12/07</b>	<b>12/08E</b>	<b>12/09E</b>	<b>12/10E</b>
Sales growth	25.6	26.2	22.1	12.6	ROE (%)	22.9	14.4	17.8	19.8
EBITDA growth	45.3	47.1	21.9	12.7	ROA (%)	16.6	10.1	12.0	13.0
EBIT growth	49.2	40.3	25.5	14.0	ROACE (%)	15.9	14.7	19.5	--
Net income growth	127.5	(18.6)	26.5	14.6	Inventory days	68.1	64.2	65.2	67.6
EPS growth	98.1	(18.6)	26.5	14.6	Receivables days	40.0	39.2	39.8	41.3
Gross margin	88.5	88.5	88.5	88.5	Payable days	732.3	796.5	798.5	825.3
EBITDA margin	18.0	21.0	20.9	20.9	Net debt/equity (%)	2.7	(3.8)	(11.8)	(18.3)
EBIT margin	15.5	17.2	17.7	17.9	Interest cover - EBIT (X)	NM	72.1	157.4	809.4
<b>Cash flow statement (\$\$ mn)</b>	<b>12/07</b>	<b>12/08E</b>	<b>12/09E</b>	<b>12/10E</b>	<b>Valuation</b>	<b>12/07</b>	<b>12/08E</b>	<b>12/09E</b>	<b>12/10E</b>
Net income pre-preferred dividends	23.4	29.2	36.9	42.3	P/E (analyst) (X)	29.8	23.8	18.8	16.4
D&A add-back	4.2	8.0	8.4	8.9	P/B (X)	3.5	3.4	3.3	3.2
Minorities interests add-back	0.1	0.1	0.1	0.1	EV/EBITDA (X)	23.1	15.4	12.3	10.7
Net (inc)/dec working capital	13.9	5.0	5.9	4.1	Dividend yield (%)	2.6	3.7	4.4	5.2
Other operating cash flow	(1.4)	2.2	2.1	1.3					
<b>Cash flow from operations</b>	<b>40.1</b>	<b>44.4</b>	<b>53.4</b>	<b>56.8</b>					
Capital expenditures	(4.3)	(4.8)	(5.3)	(5.7)					
Acquisitions	(0.7)	(0.7)	(0.7)	(0.7)					
Divestitures	0.0	0.0	0.0	0.0					
Others	(47.8)	1.1	1.3	1.5					
<b>Cash flow from investments</b>	<b>(52.8)</b>	<b>(4.4)</b>	<b>(4.7)</b>	<b>(4.9)</b>					
Dividends paid (common & pref)	(17.8)	(25.8)	(30.9)	(36.1)					
Inc/(dec) in debt	(60.4)	0.0	0.0	0.0					
Common stock issuance (repurchase)	69.0	0.0	0.0	0.0					
Other financing cash flows	(0.2)	(0.9)	(0.9)	(0.9)					
<b>Cash flow from financing</b>	<b>(9.5)</b>	<b>(26.6)</b>	<b>(31.8)</b>	<b>(36.9)</b>					
<b>Total cash flow</b>	<b>(22.2)</b>	<b>13.3</b>	<b>16.9</b>	<b>15.0</b>					

Note: Last actual year may include reported and estimated data.  
Source: Company data, Goldman Sachs Research estimates.

## Analyst Contributors

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**Exhibit 1: 4Q2007 results summary for Raffles Medical**

S\$ mn	4Q2007	4Q2006	YoY growth	3Q2007	QoQ growth	2007	2006	YoY growth
Revenue	45.7	35.5	29%	43.8	4%	168.7	134.2	26%
Total operating income/(expenses)	(36.6)	(30.0)	22%	(37.1)	-1%	(142.3)	(116.9)	22%
EBITDA	10.7	6.4	66%	7.7	39%	30.6	20.8	47%
Depreciation and amortisation	(1.5)	(0.9)	77%	(0.9)	65%	(4.2)	(3.4)	25%
EBIT	9.1	5.6	64%	6.7	36%	26.4	17.4	52%
Operating profit margin (%)	20%	16%		15%		16%	13%	
EBITDA margin (%)	23%	18%		17%		18%	15%	
Non-operating income/(expenses)	(0.3)	0.8	-141%	1.4	-123%	15.0	2.7	456%
Profit before tax	8.8	6.3	39%	8.1	9%	41.4	20.1	106%
Taxation	0.7	(1.3)	150%	(1.6)	142%	(5.5)	(4.3)	29%
Minority interests	0.0	(0.1)	100%	0.0	-100%	(0.1)	(0.1)	13%
Net profit	9.5	5.0	90%	6.6	45%	35.9	15.8	127%
Net profit margin (%)	21%	14%		15%		21%	12%	

Source: Company data.

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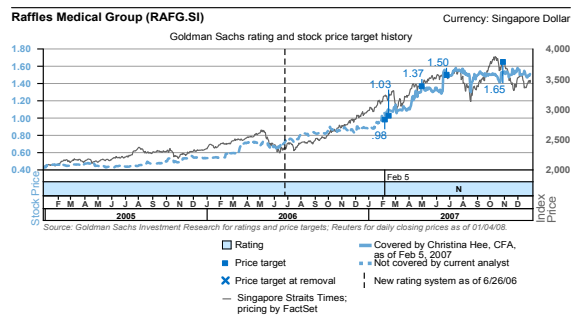
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