

COMPANY UPDATE

Raffles Medical Group (RAFG.SI)

Neutral

4Q2006 results augur well for 2007, target price revised to S\$1.13

What's changed

As widely expected, Raffles reported 4Q2006 net profit of S\$5 mn (+35% yoy, +22% qoq) on the back of strong revenue growth (17% yoy) and improved EBITDA margins (4Q06: 18%, 4Q05: 16%). Raffles also declared dividends of S\$0.03 per share (final dividend of S\$0.02 plus special dividend of S\$0.01), bringing total dividends for the year to S\$0.04 per share (i.e., a payout of 98% of 2006 net profit). In addition, Raffles announced a bonus issue of 1 share for every 10 existing shares.

On the operational front, Raffles announced: (1) the renewal of its contract (worth S\$85 mn) to provide medical services to several departments under the Ministry of Home Affairs; (2) an agreement with Pfizer Asia Pacific (Pfizer) to conduct clinical research at Raffles Hospital.

Implications

We have revised our net profit estimates upwards by about 6% and 15% in 2007E and 2008E respectively. We have also introduced our 2009E estimates. We continue to expect: (1) strong revenue growth (c.25% in 2007E and 2008E, 20% in 2009E); and (2) EBITDA margin improvement (from 16% in 2006 to 19% in 2009E).

Post the latest dividend announcement, we are more convinced of management's willingness to return excess cash to shareholders and accordingly, we have revised our assumptions from a dividend payout ratio of 80% to 100% of prior year's profits.

Valuation

We rate Raffles as Neutral and have a new 12-month SOTP-based target price of S\$1.13 (previously S\$1.08). Post the bonus issue, we estimate the enlarged share base to be 455 mn shares, which would translate to S\$1.03 per share.

Key risks

Failure to execute planned capacity expansion.

INVESTMENT LIST MEMBERSHIP

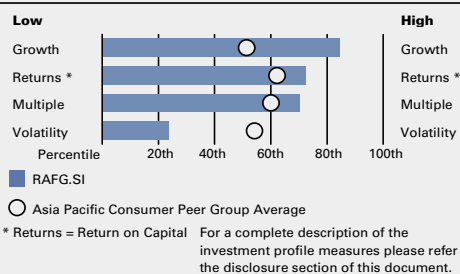
Neutral

Coverage view: Neutral

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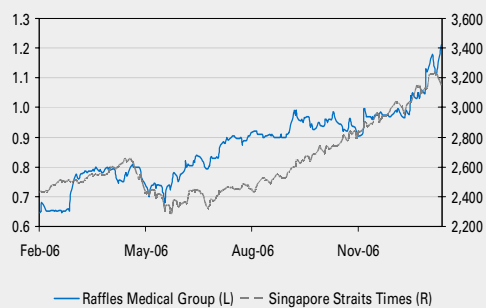
Investment Profile: Raffles Medical Group



Key data	Current
Price (S\$)	1.21
12 month price target (S\$)	1.13
Market cap (S\$ mn / US\$ mn)	500.7 / 325.0
Foreign ownership (%)	--

	12/06	12/07E	12/08E	12/09E
EPS (S\$)	0.04	0.05	0.07	0.09
EPS growth (%)	28.5	41.7	36.2	24.4
EPS (diluted) (S\$)	0.04	0.05	0.07	0.09
EPS (basic, pre-ex) (S\$)	0.04	0.05	0.07	0.09
P/E (X)	31.3	22.1	16.2	13.0
P/B (X)	4.4	4.2	3.9	3.7
EV/EBITDA (X)	14.0	15.4	11.3	9.0
Dividend yield (%)	3.1	3.1	4.5	6.2
ROE (%)	14.3	19.5	24.9	29.2

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	28.0	34.4	87.6
Rel. to Singapore Straits Times	11.7	4.6	44.7

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 2/13/2007 close.

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Raffles Medical Group: Summary financials

Profit model (\$\$ mn)	12/06	12/07E	12/08E	12/09E	Balance sheet (\$\$ mn)	12/06	12/07E	12/08E	12/09E
Total revenue	134.2	167.6	209.2	250.0	Cash & equivalents	41.9	51.4	64.2	75.4
Cost of goods sold	(16.6)	(20.7)	(25.8)	(30.9)	Accounts receivable	16.8	20.9	26.1	31.2
SG&A	(72.7)	(88.5)	(109.2)	(130.2)	Inventory	3.4	4.3	5.3	6.4
R&D	--	--	--	--	Other current assets	14.3	14.3	14.3	14.3
Other operating profit/(expense)	(27.5)	(32.8)	(39.1)	(45.4)	Total current assets	76.4	90.8	109.9	127.2
EBITDA	20.9	29.2	38.9	47.7	Net PP&E	20.2	19.7	17.9	16.7
Depreciation & amortization	(3.4)	(3.6)	(3.8)	(4.1)	Net intangibles	0.2	0.2	0.2	0.2
EBIT	17.5	25.6	35.1	43.5	Total investments	54.0	55.0	56.2	57.4
Interest income	1.7	1.9	2.3	2.8	Other long-term assets	1.1	0.9	0.9	0.9
Interest expense	(0.1)	(0.1)	(0.1)	(0.1)	Total assets	151.8	166.7	185.0	202.5
Income/(loss) from uncons. subs.	0.9	1.0	1.1	1.3	Accounts payable	30.0	36.5	44.8	53.1
Others	0.1	0.0	0.0	0.0	Short-term debt	2.0	2.0	2.0	2.0
Pretax profits	20.1	28.4	38.4	47.5	Other current liabilities	5.9	7.3	9.2	10.7
Income tax	(4.3)	(5.7)	(7.5)	(9.0)	Total current liabilities	37.9	45.8	55.9	65.8
Minorities	(0.1)	(0.1)	(0.1)	(0.1)	Long-term debt	0.0	0.0	0.0	0.0
Net income pre-preferred dividends	15.8	22.7	30.9	38.4	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
Net income (pre-exceptionals)	15.8	22.7	30.9	38.4	Total liabilities	38.7	46.6	56.7	66.5
Post-tax exceptionals	0.0	0.0	0.0	0.0	Common stock & premium	101.1	101.1	101.1	101.1
Net income	15.8	22.7	30.9	38.4	Other common equity	11.8	18.7	26.9	34.5
EPS (basic, pre-except) (\$\$)	0.04	0.05	0.07	0.09	Total common equity	112.9	119.8	128.0	135.5
EPS (basic, post-except) (\$\$)	0.04	0.05	0.07	0.09	Minority interest	0.3	0.3	0.4	0.4
EPS (diluted, post-except) (\$\$)	0.04	0.05	0.07	0.09	Total liabilities & equity	151.8	166.7	185.0	202.5
DPS (\$\$)	0.04	0.04	0.05	0.07	BVPS (\$\$)	0.27	0.29	0.31	0.33
Dividend payout ratio (%)	98.3	69.5	73.4	80.4					
Free cash flow yield (%)	4.8	4.7	6.6	8.0					
Growth & margins (%)	12/06	12/07E	12/08E	12/09E	Ratios	12/06	12/07E	12/08E	12/09E
Sales growth	18.9	24.8	24.8	19.5	ROE (%)	14.3	19.5	24.9	29.2
EBITDA growth	32.5	40.0	33.1	22.5	ROA (%)	10.8	14.2	17.6	19.8
EBIT growth	37.8	46.2	37.0	24.2	ROACE (%)	19.7	29.6	42.6	56.4
Net income growth	31.9	43.8	36.2	24.4	Inventory days	70.1	67.9	67.9	69.2
EPS growth	28.5	41.7	36.2	24.4	Receivables days	39.5	41.0	41.0	41.8
Gross margin	87.7	87.7	87.7	87.7	Payable days	598.9	586.6	574.1	578.3
EBITDA margin	15.6	17.4	18.6	19.1	Net debt/equity (%)	(35.4)	(41.2)	(48.6)	(54.1)
EBIT margin	13.0	15.3	16.8	17.4	Interest cover - EBIT (X)	NM	NM	NM	NM
Cash flow statement (\$\$ mn)	12/06	12/07E	12/08E	12/09E	Valuation	12/06	12/07E	12/08E	12/09E
Net income pre-preferred dividends	15.8	22.7	30.9	38.4	P/E (analyst) (X)	31.3	22.1	16.2	13.0
D&A add-back	3.4	3.6	3.8	4.1	P/B (X)	4.4	4.2	3.9	3.7
Minorities interests add-back	0.1	0.1	0.1	0.1	EV/EBITDA (X)	14.0	15.4	11.3	9.0
Net inc/(dec) working capital	0.6	1.5	2.0	2.2	Dividend yield (%)	3.1	3.1	4.5	6.2
Other operating cash flow	(0.2)	(1.4)	(1.6)	(2.4)					
Cash flow from operations	19.7	26.4	35.2	42.4					
Capital expenditures	(2.3)	(3.0)	(2.0)	(3.0)					
Acquisitions	(0.7)	(0.7)	(0.7)	(0.7)					
Divestitures	0.0	0.0	0.0	0.0					
Others	1.1	2.6	3.0	3.5					
Cash flow from investments	(1.9)	(1.1)	0.3	(0.2)					
Dividends paid (common & pref)	(15.5)	(15.8)	(22.7)	(30.9)					
Inc/(dec) in debt	0.0	0.0	0.0	0.0					
Common stock issuance (repurchase)	4.8	0.0	0.0	0.0					
Other financing cash flows	(0.3)	(0.1)	(0.1)	(0.1)					
Cash flow from financing	(11.0)	(15.9)	(22.8)	(31.0)					
Total cash flow	6.8	9.5	12.8	11.2					

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: 4Q2006 results summary for Raffles Medical

S\$ mn	4Q2006	4Q2005	YoY growth	3Q2006	QoQ growth	2006	2005	YoY growth
Revenue	35.5	30.4	17%	35.0	1%	134.2	112.9	19%
Total operating income/(expenses)	(30.0)	(26.5)	13%	(30.3)	-1%	(116.9)	(100.2)	17%
EBITDA	6.4	4.7	36%	5.5	16%	20.8	15.8	32%
Depreciation and amortisation	(0.9)	(0.8)	4%	(0.9)	1%	(3.4)	(3.1)	11%
EBIT	5.6	3.9	43%	4.7	19%	17.4	12.7	37%
Operating profit margin (%)	16%	13%		13%		13%	11%	
EBITDA margin (%)	18%	16%		16%		15%	14%	
Non-operating income/(expenses)	0.8	0.6	38%	0.5	48%	2.7	2.1	29%
Profit before tax	6.3	4.5	42%	5.2	22%	20.1	14.8	36%
Taxation	(1.3)	(0.7)	93%	(1.1)	18%	(4.3)	(2.8)	55%
Minority interests	(0.1)	(0.1)	-40%	(0.0)	NM	(0.1)	(0.1)	-33%
Net profit	5.0	3.7	35%	4.1	22%	15.8	12.0	32%
Net profit margin (%)	14%	12%		12%		12%	11%	

Source: Company data.

Exhibit 2: We have revised our 12-month SOTP-based target to S\$1.13 (previously S\$1.08)

SOTP valuation

	Value (S\$ mn)	Value per share (S\$)	Breakdown (%)	Methodology
Hospital and clinics	351	0.85	75%	Based on 12X 2007E EV/EBITDA
Associates and other investments	69	0.17	15%	Book value
Enterprise value	420	1.02		
Net cash / (debt)	49	0.12	11%	
Equity value	470	1.13		

Source: Company data, Goldman Sachs Research estimates.

Reg AC

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