



COMMENT

Raffles Medical Group (RAFG.SI) S\$1.53

In-line 2Q07 results, on track to meet full year net profit estimate

News

Raffles reported 2Q07 net profit of S\$15.8 mn, in line with our expectations. Excluding the exceptional gain of S\$10.3 mn (i.e., the revaluation surplus on the hospital building), net profit was up 45% yoy (+34% qoq). We highlight that comparisons against consensus estimates are not meaningful as we suspect that some analysts have yet to adjust their estimates for Raffles' purchase of the 50% stake in CapitaLand-Raffles Properties.

Analysis

Raffles looks on track to meet our full year 2007E estimate of S\$35 mn with 1H07 already accounting for about 57% of our estimate. Raffles has grown c.40% yoy in 1Q07 and 2Q07 and we expect this trend to continue for the next two quarters, driven by higher volume and revenue intensity as it continues to recruit more specialists and expand its specialist services. What was once office space in the hospital building has now made way for expanded Japanese and Aesthetics clinics, as well as the newly-opened Raffles Eye Centre. In addition, Raffles has opened the Raffles Fertility Centre and is looking to add a new medical centre at Terminal 3, Changi Airport following the renewal of its contract to operate medical services at the said airport for another five years. Pfizer clinical trials have also begun at the hospital with c.50 beds taken up for that purpose. We also expect price increases of 5%-10% for selected services in 2H07 to further drive topline growth.

Raffles also declared an interim dividend of S\$0.01 per share and has indicated that it will, at minimum, pay S\$0.025 per share in ordinary dividends for 2007E, similar to last year.

Implications

We maintain our Neutral rating and 12-month SOTP-based target of S\$1.50. Risks: failure to execute planned capacity expansion (-ve), overpaying for acquisitions (if any) (-ve), possible REIT exercise (+ve).

INVESTMENT LIST MEMBERSHIP

Neutral

Coverage View: Neutral

Singapore:
Healthcare Services

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Financial Highlights

Exhibit 1: Summary of Raffles' 2Q2007 results

S\$ mn	2Q2007	2Q2006	YoY growth	1Q2007	QoQ growth
Revenue	41.4	32.8	26%	37.7	10%
Total operating income/(expenses)	(35.4)	(28.7)	23%	(33.2)	7%
EBITDA	6.9	4.9	40%	5.4	29%
Depreciation and amortisation	(0.9)	(0.8)	5%	(0.9)	0%
EBIT	6.0	4.1	48%	4.5	34%
Operating profit margin (%)	15%	12%		12%	
EBITDA margin (%)	17%	15%		14%	
Non-operating income/(expenses)	13.3	0.7	1789%	0.6	1952%
Profit before tax	19.4	4.8	304%	5.1	276%
Taxation	(3.6)	(1.0)	261%	(1.0)	253%
Minority interests	(0.0)	0.0	-967%	(0.0)	24%
Net profit	15.8	3.8	314%	4.1	283%
Net profit margin (%)	38%	12%		11%	

Source: Company data.

Reg AC

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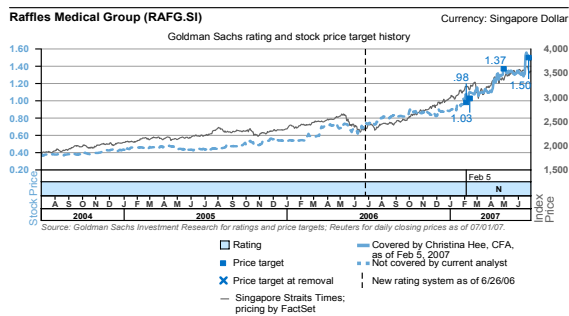
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