



COMPANY UPDATE

Raffles Medical Group (RAFG.SI)

Neutral

Decent 1Q08 results; strong operating performance to continue

What's changed

Raffles' 1Q08 net profit of S\$6.1 mn (+48% yoy, -36% qoq) was better than our and consensus expectations by c.10%.

Implications

While topline growth (+26% yoy) was in line with our expectations, operating expenses were lower than we had expected. Consequently, we revise our 2008E-2010E earnings estimates upwards by 2%-3%.

Amongst the hospital stocks we cover, we currently view Raffles' prospects (from a share price performance perspective) as being relatively better than its listed competitors, given: (1) negative investor sentiment surrounding Parkway (PARM.SI, Neutral) following perceived overpayment for the Novena hospital site; and (2) continued political uncertainty in Thailand. We do not foresee any negative catalysts and expect quarterly results to continue to reflect Raffles' strong operating performance. Possible positive catalysts for the stock include: (1) the long-awaited award of a license for a medical center in China; as well as (2) possible acquisitions given current volatile markets may offer attractively priced opportunities. We highlight, however, that there is no indication as to when, if at all, these events might occur.

Valuation

Following our earnings revisions, we revise our 12-month SOTP-based target price to S\$1.50 (from S\$1.48). We maintain our Neutral rating.

Key risks

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

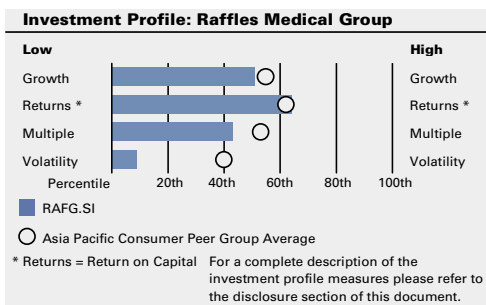
INVESTMENT LIST MEMBERSHIP

Neutral

Coverage View: Neutral

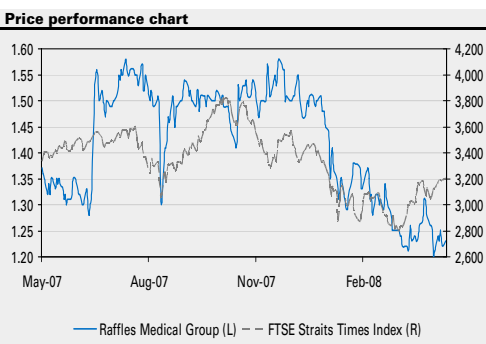
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Key data	Current
Price (S\$)	1.23
12 month price target (S\$)	1.50
Market cap (S\$ mn / US\$ mn)	633.5 / 465.0
Foreign ownership (%)	--

	12/07	12/08E	12/09E	12/10E
EPS (S\$)	0.05	0.06	0.07	0.08
EPS growth (%)	29.0	28.3	25.9	14.3
EPS (diluted) (S\$)	0.07	0.06	0.07	0.08
EPS (basic pre-ex) (S\$)	0.05	0.06	0.07	0.08
P/E (X)	27.1	21.1	16.8	14.7
P/B (X)	3.2	3.1	3.0	2.9
EV/EBITDA (X)	23.1	13.7	11.0	9.5
Dividend yield (%)	2.8	4.1	4.9	5.7
ROE (%)	22.9	14.8	18.1	20.0



Share price performance (%)	3 month	6 month	12 month
Absolute	(6.1)	(18.0)	(5.4)
Rel. to FTSE Straits Times Index	(10.8)	(4.3)	(1.7)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 4/28/2008 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
Total revenue	168.7	212.9	259.9	292.6	Cash & equivalents	19.7	33.7	51.5	67.2
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)	(34.2)	(40.7)	(45.2)	Total current assets	44.5	66.4	90.8	111.2
EBITDA	30.3	45.6	55.4	62.3	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
EBIT	26.1	37.6	46.9	53.4	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)	Total assets	281.5	298.5	319.9	337.1
Income/(loss) from uncons. subs.	1.1	0.0	0.0	0.0	Accounts payable	47.7	58.7	71.3	80.1
Others	0.0	0.0	0.0	0.0	Short-term debt	25.3	25.3	25.3	25.3
Pretax profits	28.6	37.1	46.7	53.3	Other current liabilities	6.7	8.6	10.4	11.6
Income tax	(5.2)	(7.0)	(8.9)	(10.1)	Total current liabilities	79.7	92.5	106.9	117.0
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	23.4	30.0	37.7	43.1	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)	23.4	30.0	37.7	43.1	Total liabilities	80.4	93.2	107.6	117.7
Post-tax exceptionals	12.5	0.0	0.0	0.0	Common stock & premium	170.0	170.0	170.0	170.0
Net income	35.9	30.0	37.7	43.1	Other common equity	30.8	35.0	41.8	48.9
EPS (basic, pre-except) (\$\$)	0.05	0.06	0.07	0.08	Total common equity	200.8	205.0	211.9	218.9
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	Total liabilities & equity	281.5	298.5	319.9	337.1
DPS (\$\$)	0.03	0.05	0.06	0.07	BVPS (\$\$)	0.39	0.40	0.41	0.43
Dividend payout ratio (%)	49.5	85.9	81.9	83.6					
Free cash flow yield (%)	5.0	6.3	7.3	--					
Growth & margins (%)	12/07	12/08E	12/09E	12/10E	Ratios	12/07	12/08E	12/09E	12/10E
Sales growth	25.6	26.2	22.1	12.6	ROE (%)	22.9	14.8	18.1	20.0
EBITDA growth	45.3	50.3	21.5	12.5	ROA (%)	16.6	10.3	12.2	13.1
EBIT growth	49.2	44.0	24.9	13.7	ROACE (%)	15.9	15.1	19.9	--
Net income growth	127.5	(16.4)	25.9	14.3	Inventory days	68.1	64.2	65.2	67.6
EPS growth	98.1	(16.4)	25.9	14.3	Receivables days	40.0	39.2	39.8	41.3
Gross margin	88.5	88.5	88.5	88.5	Payable days	732.3	794.1	794.5	821.8
EBITDA margin	18.0	21.4	21.3	21.3	Net debt/equity (%)	2.7	(4.1)	(12.4)	(19.2)
EBIT margin	15.5	17.7	18.1	18.2	Interest cover - EBIT (X)	NM	74.7	169.5	NM
Cash flow statement (\$\$ mn)	12/07	12/08E	12/09E	12/10E	Valuation	12/07	12/08E	12/09E	12/10E
Net income pre-preferred dividends	23.4	30.0	37.7	43.1	P/E (analyst) (X)	27.1	21.1	16.8	14.7
D&A add-back	4.2	8.0	8.4	8.9	P/B (X)	3.2	3.1	3.0	2.9
Minorities interests add-back	0.1	0.1	0.1	0.1	EV/EBITDA (X)	23.1	13.7	11.0	9.5
Net (inc)/dec working capital	13.9	4.6	5.9	4.1	Dividend yield (%)	2.8	4.1	4.9	5.7
Other operating cash flow	(1.4)	2.4	2.1	1.3					
Cash flow from operations	40.1	45.0	54.2	57.5					
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					
Cash flow from investments	(52.8)	(4.4)	(4.7)	(4.8)					
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)					
Cash flow from financing	(9.5)	(26.6)	(31.8)	(36.9)					
Total cash flow	(22.2)	14.0	17.7	15.8					

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: Raffles' 4Q07 results summary

S\$ mn	1Q2008	1Q2007	YoY growth	4Q2007	QoQ growth
Revenue	47.4	37.7	26%	45.7	4%
Total operating income/(expenses)	(39.6)	(33.2)	19%	(36.6)	8%
EBITDA	9.4	5.4	74%	10.7	-12%
Depreciation and amortisation	(1.6)	(0.9)	77%	(1.5)	2%
EBIT	7.8	4.5	74%	9.1	-14%
Operating profit margin (%)	16%	12%		20%	
EBITDA margin (%)	20%	14%		23%	
Non-operating income/(expenses)	0.0	0.6	-95%	(0.3)	NM
Profit before tax	7.8	5.1	52%	8.8	-11%
Taxation	(1.7)	(1.0)	-71%	0.7	-364%
Minority interests	(0.0)	(0.0)	43%	0.0	NM
Net profit	6.1	4.1	48%	9.5	-36%
Net profit margin (%)	13%	11%		21%	

Source: Company data, Bloomberg, Goldman Sachs Research.

Reg AC

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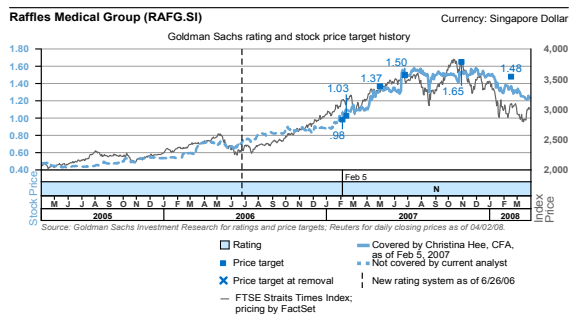
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