Asia Pacific Equity Research
29 October 2007

Raffles Medical Group

More room for operating leverage

- **3Q07 results in line:** RMG reported 3Q07 core earnings of S$6.6MM, up 60.6% Y/Y on the back of strong revenue growth of 25.2% Y/Y and 5.9% Q/Q to S$43.8MM. The earnings result for 9M07 was EPS of 2.9 S cents, the same as our estimate of 2.9 S cents, and 3.6% above the consensus estimate of 2.8 S cents.
- **Hospital services remain the key growth driver:** Revenue from Healthcare and Hospital services divisions contributed to the Group's growth, increasing by 12.1% Y/Y and 35.7% Y/Y respectively. Management attributed this outstanding performance to increased patient load, a wider range of medical specialties, and improved operating efficiencies.
- **Continued operating efficiency and evidence of margin expansion:** We believe the strong Singapore economy and the growth of Singapore as a medical hub in the region have benefited the Group. Raffles Hospital continues to attract more patients, foreign as well as local, and the increased patient load has further enhanced its operating efficiency and margins. This has helped the company see one of its highest gross margins this quarter, hitting 38.0%, an improvement of 3ppt Y/Y and 1.1ppt Q/Q.
- **Maintain OW:** We reiterate our June 2008 PT of S$2.10 based on our DCF valuation with a WACC of 6.1% and terminal growth of 2%. Key risks to our PT include RMG's ability to fill the hospital's planned expanded bed capacity; as well as stronger regional competition.

Overweight

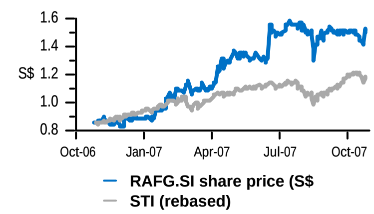
S$1.53

29 October 2007
Price Target: S$2.10

Singapore
Hospitals

James Sekchuan Tan[AC]
(65) 6882-2367
james.s.tan@jpmorgan.com

Price Performance



	YTD	-1M	-3M	-12M
Absolute	70.1%	0.7%	-3.2%	74.6%
Relative	43.8%	-2.6%	-8.6%	36.4%

Source: RIMES, Reuters.

Reuters: RAFG.SI, Bloomberg: RFMD SP

S$ in millions, year-end December

	2006	2007E	2008E	2009E
Revenue	134.2	163.2	199.7	237.5
Net profit	15.7	46.9	30.7	37.5
*Recurring net profit	15.7	21.9	30.7	37.5
*EPS (S cents)	3.4	4.5	6.0	7.3
DPS (S cents) - Net	4.0	4.8	5.5	6.5
Sales growth (%)	18.9%	21.5%	22.4%	18.9%
*Net profit growth (%)	31.4%	39.4%	40.2%	22.2%
*EPS growth (%)	31.4%	32.3%	33.4%	22.2%
*ROE (%)	13.9%	11.0%	15.3%	18.3%
P/E (x)	45.1	34.1	25.6	20.9
NAV per share (S¢)	24.3	38.6	39.1	39.9
Net divd yield (%)	2.6%	3.1%	3.6%	4.2%

Source: Company reports and JPMorgan estimates. *Based on weighted shares outstanding.

Company data

52-week range	S$0.82 - 1.61
Market cap (S$MM)	788
Market cap (US$MM)	543
Shares outstanding (MM)	515
Avg daily Volume (MM)	0.4
Avg daily value (S$MM)	0.6
Avg daily value (US$MM)	0.4
STI	3,820
Exchange rate	S$1.451/US$

Source: Bloomberg

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See page 3 for analyst certification and important disclosures, including investment banking relationships.

Results highlights

Table 1: Raffles Medical Group: Results summary

Hospital services continues to be its key performer, growing at 35.7% Y/Y and contributing to the bulk of the growth in operating profit for the group, helped by higher intensive cases and >35% mix of foreign patients

Healthcare services grew at a modest pace at 12.1% Y/Y on the back of growth in patient volume in their clinics

Raffles Hospital continues to attract more patients, foreign as well as local. The increased patient load has further enhanced its operating efficiencies and margins. This has helped the company see one of its highest gross margins this quarter, hitting 38.0%, an improvement of 3ppt Y/Y and 1.1ppt Q/Q

S$ in millions, year-end Dec	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	Chg % Y/Y
Sales	30.9	32.8	35.0	35.5	37.7	41.4	43.8	25.2%
Cost of Goods Sold	(21.6)	(21.9)	(22.7)	(22.9)	(25.2)	(26.1)	(27.2)	19.5%
Gross Profit	9.3	10.8	12.3	12.6	12.4	15.3	16.7	35.8%
Other Operating Income	0.4	0.4	0.4	0.6	0.5	0.5	0.8	96.5%
Other Operating Expenses	(6.2)	(6.8)	(7.6)	(7.1)	(8.0)	(9.3)	(9.9)	30.8%
EBIT	3.1	4.1	4.7	5.7	4.5	6.0	6.7	43.8%
Interest Income	0.4	0.4	0.4	0.4	0.5	0.5	0.8	96.5%
Interest Expense	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	-20.0%
Share of Associates' or JV Income	0.3	0.3	0.1	0.2	0.2	0.4	0.6	nm
Exceptional Gains/(Losses)	0.0	0.0	0.0	0.0	0.0	12.5	0.0	nm
Pretax Profit	3.7	4.8	5.2	6.3	5.1	19.4	8.1	55.8%
Tax	(0.8)	(1.0)	(1.1)	(1.3)	(1.0)	(3.6)	(1.6)	39.9%
Minority Interests	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	0.0	nm
Net Profit	2.9	3.8	4.1	4.9	4.1	15.8	6.6	60.6%
Margins (%)								Chg ppt
Gross Margin	30.0	33.1	35.0	35.5	33.0	36.9	38.0	3.0
SGA % Sales	20.1	20.6	21.7	20.0	21.1	22.4	22.7	1.0
EBITDA Margin	12.6	15.0	0.0	0.0	11.9	0.0	0.0	0.0
EBIT Margin	9.9	12.5	13.4	16.1	11.9	14.6	15.4	2.0
Pre-tax Margin	12.1	14.6	14.9	17.7	13.7	46.8	18.5	3.6
Net Margin	9.4	11.6	12.3	13.7	8.8	38.1	14.9	2.7
Effective Tax Rate %	22.6	20.7	21.5	20.9	19.7	18.5	19.3	-2.2

Source: Company reports and JPMorgan estimates.

YTD, the company has increased its operational beds to 175 from 150 in FY06 and plans to increase it to 200 beds by the end of FY07E, in line with our expectations

Full ownership of Raffles Hospital in Sep07 allows greater flexibility and control

On 28 September 2007, RMG completed the acquisition of the remaining 50% stake in Raffles Hospital. The company plans to optimize the use of the hospital by adding more beds and clinic space. Overall, the company remains confident of its performance for the rest of the year and has stated that its Healthcare services division continues to grow, with improving margins. International Medical Insurers, with more corporate and personal clients, is growing strongly this year.

Share price catalysts

We believe that the key drivers will be: 1) results to continue to show higher operating leverage as hospital bed utilization and average bill rate/day increases; 2) announcement of its expansion into China via a medical centre/ hospital; 3) possible M&A opportunities in Malaysia through direct purchase of hospital(s).

Valuation and recommendation

Based on our price target, the stock should trade on 47x and 35x FY07-08E P/E multiples

We maintain our June 2008 price target of S$2.10

Our June 2008 price target of S$2.10 is based on our DCF valuation with a WACC of 6.1% and terminal growth rate of 2%.

Key risks to our price target

We believe the key risks to our price target are: 1) regulation of healthcare costs and tariffs by the government; 2) increased regional competition; 3) loss of key specialists; 4) a health pandemic.

James Sekchuan Tan
(65) 6882-2367
james.s.tan@jpmorgan.com

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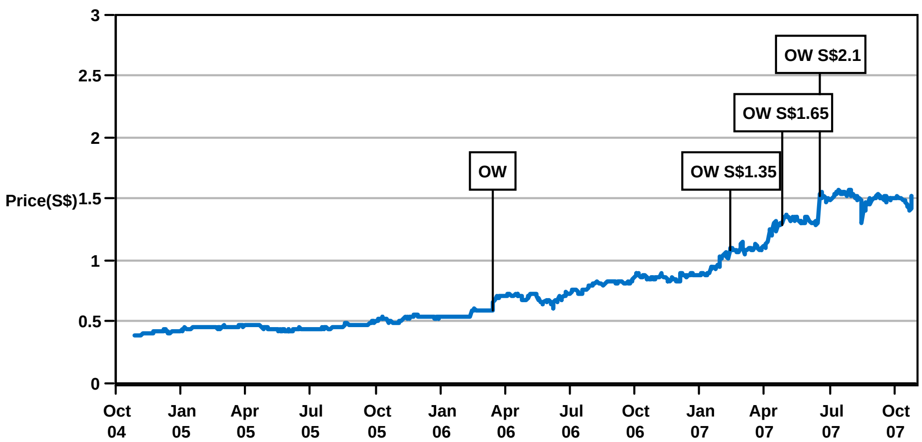
- **Market Maker/ Liquidity Provider:** JPMSL and/or an affiliate is a market maker and/or liquidity provider in Raffles Medical Group.

Raffles Medical Group (RAFG.SI) Price Chart



Date	Rating	Share Price (S$)	Price Target (S$)
15-Mar-06	OW	0.59	-
12-Feb-07	OW	1.08	1.35
26-Apr-07	OW	1.29	1.65
19-Jun-07	OW	1.52	2.10

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
Initiated coverage Mar 15, 2006. This chart shows JPMorgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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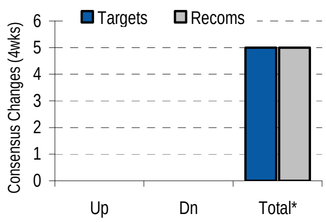
Revised September 28, 2007.

James Sekchuan Tan
(65) 6882-2367
james.s.tan@jpmorgan.com

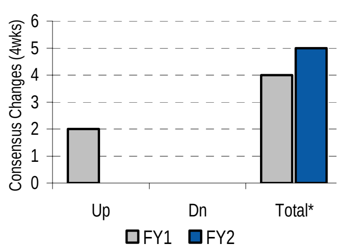
All Data As Of 29-Oct-07

Q-Snapshot: Raffles Medical Group Ltd.

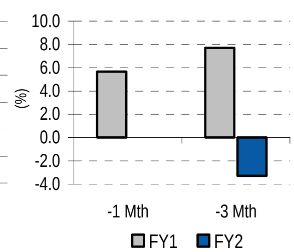
Targets & Recommendations



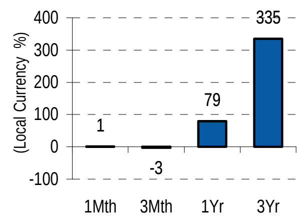
EPS Revisions



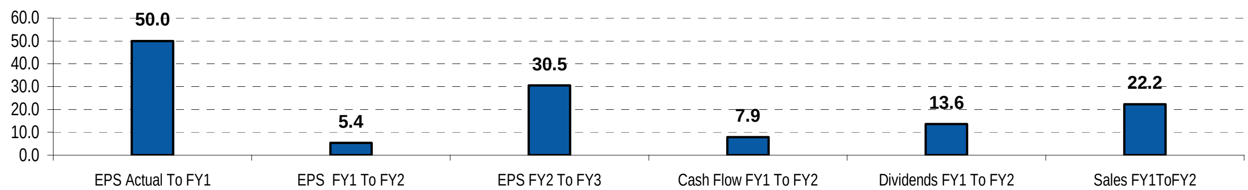
EPS Momentum (%)



Historical Total Return (%)



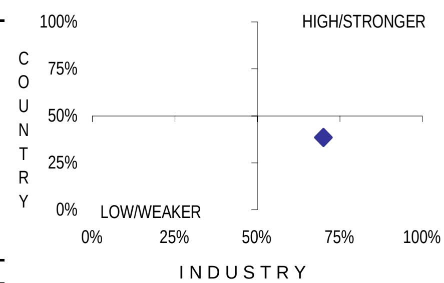
Consensus Growth Outlook (%)



Quant Return Drivers (A Score >50% indicates company ranks 'above average')

Score 0% (worst) to 100% (best)	vs Country Peers	vs (regional) IBES Industry Peers
Valuations: P/E Vs Market (12mth fwd EPS)	**16%**	26%
Valuations: P/E Vs Sector (12mth fwd EPS)	38%	43%
Valuations: EPS Growth (forecast)	67%	**85%**
Momentum: 12 Month Price Momentum	63%	**93%**
Momentum: 1 Month Price Reversion	55%	46%
Quality: Return On Equity (forecast)	43%	**78%**
Quality: Earnings Risk (Variation in Consensus)	**23%**	**15%**
Earnings&Sentiment: Earnings Momentum	45%	38%
Earnings&Sentiment: Change in Recomms	48%	**22%**
Earnings&Sentiment: Net Revisions Fy2 EPS	65%	**76%**
COMPOSITE Q-SCORE (0% To 100%)**	**39%**	**70%**

JPMorgan Composite Q-Score



Regional IBES Industry Peers (Closest by Size, Consensus. ADV = Average daily value traded in US$m over the last 3 mths)

Code	Name	Country	USD MCAP	ADV	PE FY1	Q-Score**
500674-IN	Aventis Pharma Ltd.	India	637	0.16	13.5	53%
4553-JP	Towa Pharmaceutical Co. Ltd.	Japan	609	3.80	19.4	31%
2877-HK	China Shineway Pharmaceutical Group Ltd.	Hong Kong	602	0.22	12.1	67%
600436-CN	Zhangzhou Pientzehuang Pharmaceutical Co.	China	584	4.66	40.4	69%
4541-JP	Nichi-iko Pharmaceutical Co. Ltd.	Japan	554	1.57	25.0	25%
R01-SG	**Raffles Medical Group Ltd.**	**Singapore**	**530**	**0.51**	**26.8**	**70%**
500680-IN	Pfizer Ltd.	India	506	0.35	15.9	74%
API-AU	Australian Pharmaceutical Industries Ltd.	Australia	465	0.82	27.0	**2%**
532843-IN	Fortis Healthcare Ltd.	India	455	0.57	-41.9	**1%**
002004-CN	Chongqing Huapont Pharmaceutical Co. Ltd.	China	449	4.55	38.8	55%
4555-JP	Sawai Pharmaceutical Co. Ltd.	Japan	446	5.21	20.1	**15%**

Country Peers (Closest by Size, Consensus. ADV = average daily value traded in US$m over the last 3 mths)

Code	Name	Industry	USD MCAP	ADV	PE FY1	Q-Score**
U04-SG	United Engineers Ltd.	Engineering & Construction	612	1.36	14.9	**91%**
F25U-SG	Fortune Real Estate Investment Trust	Real Estate Investment Trusts	585	0.38	16.9	**20%**
C8R-SG	Jiutian Chemical Group Ltd.	Chemicals: Specialty	584	6.30	30.5	**94%**
S72-SG	SC Global Developments Ltd.	Hotels/Resorts/Cruiselines	583	2.46	16.5	**98%**
R07-SG	Rotary Engineering Ltd.	Engineering & Construction	555	2.91	16.1	**96%**
R01-SG	**Raffles Medical Group Ltd.**	**Hospital/Nursing Management**	**530**	**0.51**	**26.8**	**39%**
5CP-SG	Silverlake Axis Ltd.	Information Technology Services	517	0.92	13.3	**97%**
U24-SG	Unisteel Technology Ltd.	Electronic Components	514	1.70	13.4	30%
PWLR-SG	Parkway Life Real Estate Investment Trust		509	4.28	41.0	
D06-SG	Datacraft Asia Ltd.	Computer Communications	505	1.01	17.9	31%
P34-SG	Petra Foods Ltd.	Food: Specialty/Candy	491	0.38	16.3	29%

Source: Factset, Thomson and JPMorgan Quantitative Research. For an explanation of the Q-Snapshot, please visit http://jpmorgan.hk.acrobat.com/qsnapshot/
Q-Snapshots are a product of JPMorgan's Global Quantitative Analysis team and provide quantitative metrics summarized in an overall company 'Q-Score.'
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* Total number of target prices, recommendations or EPS forecasts that make up consensus. ** The Composite Q-Score is calculated by weighting and combining the 10 Quant return drivers shown. The higher the Q-Score the higher the one month expected return. On a 14 Year back-test the stocks with the highest Q-Scores have been shown (on average) to significantly outperform those stocks with the lowest Q-Scores in this universe.

James Sekchuan Tan
(65) 6882-2367
james.s.tan@jpmorgan.com

Raffles Medical Group: Summary of financials

S$ in millions, year-end December

Profit and loss statement	2006	2007E	2008E	2009E
Revenues	134.2	163.2	199.7	237.5
% change Y/Y	18.9%	21.5%	22.4%	18.9%
Gross margin (%)	36.0%	36.1%	36.1%	36.1%
EBITDA	22.6	31.9	43.2	51.5
% change Y/Y	36.4%	41.5%	35.2%	19.3%
EBITDA margin (%)	16.8%	19.6%	21.6%	21.7%
EBIT	19.2	26.7	37.9	46.3
% change Y/Y	42.3%	39.0%	42.1%	22.0%
EBIT margin (%)	14.3%	16.4%	19.0%	19.5%
Net interest	-0.1	-0.4	-1.3	-1.3
Associate	0.9	0.9	0.9	0.9
Exceptional gains/ (losses)	0.0	25.0	0.0	0.0
Earnings before tax	20.0	52.2	37.6	45.9
Tax	-4.3	-5.2	-6.8	-8.3
as % of EBT	-21.3%	-9.9%	-18.0%	-18.0%
Net income	15.7	46.9	30.7	37.5
Net profit ex exceptional	15.7	21.9	30.7	37.5
% change Y/Y	31.4%	198.5%	-34.5%	22.2%
*Weighted shares	463.5	488.5	513.5	513.5
*EPS (S cts)	3.4	4.5	6.0	7.3

Cash flow statement	2006	2007E	2008E	2009E
Net Income	15.7	46.9	30.7	37.5
Depreciation & amortisation	3.4	5.2	5.2	5.2
Other non-cash items	2.3	5.3	6.9	8.4
Change in working capital	0.7	2.9	3.6	3.7
Cash flow from operations	22.1	60.3	46.4	54.9
CAPEX	-2.3	-71.9	-5.0	-5.0
Disposal/ (purchase)	0.4	0.0	0.0	0.0
Cash flow from investing	-1.9	-71.9	-5.0	-5.0
Equity raised/(repaid)	0.0	63.0	0.0	0.0
Debt raised/(repaid)	4.8	80.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Dividends	-15.5	-24.4	-28.2	-33.4
Cash flow from financing	-10.7	118.6	-28.2	-33.4
Net changes in cash	9.5	107.1	13.2	16.5
Beginning cash	34.8	41.9	143.8	150.2
Ending cash	41.9	143.8	150.2	158.5
DPS (S cts)	4.0	4.8	5.5	6.5
Free cash flows	19.8	-11.5	41.4	49.9
*FCF per share (S$)	0.04	-0.02	0.08	0.10
*Net cash per share (S$)	0.12	0.16	0.16	0.18

Balance Sheet	2006	2007E	2008E	2009E
Cash and Cash Equivalents	41.9	143.9	150.3	158.5
Accounts receivable	16.8	20.4	24.9	29.6
Inventories	3.4	3.4	3.4	3.4
Others	14.3	14.3	14.3	14.3
Current assets	76.4	181.9	192.9	205.9
LT investments	54.0	54.0	54.0	54.0
Net fixed assets	20.2	86.8	86.6	86.3
Intangible assets	1.3	1.3	1.3	1.3
Total Assets	151.8	324.0	334.7	347.5
ST bank loans	2.0	2.0	2.0	2.0
Payables	30.0	36.5	44.6	53.1
Others	5.9	5.9	5.9	5.9
Total current liabilities	37.9	44.4	52.6	61.0
Long term debt	0.0	80.0	80.0	80.0
Other liabilities	1.0	1.2	1.3	1.4
Total liabilities	39.0	125.6	133.9	142.4
Shareholder's equity	112.9	198.4	200.9	205.0
Total liabilities and equity	151.8	324.0	334.7	347.5
BVPS (S$)	0.24	0.39	0.39	0.40

Ratio Analysis	2006	2007E	2008E	2009E
Gross Margin (%)	36.0%	36.1%	36.1%	36.1%
EBIT Margin (%)	16.8%	19.6%	21.6%	21.7%
Net profit margin (%)	11.7%	28.7%	15.4%	15.8%
COGS/sales (%)	64.0%	63.9%	63.9%	63.9%
SG&A/sales (%)	19.2%	16.5%	14.5%	14.4%
*Sales per share growth (%)	18.9%	15.3%	22.4%	18.9%
Sales growth (%)	18.9%	21.5%	22.4%	18.9%
EBIT growth (%)	42.3%	39.0%	42.1%	22.0%
*Net profit growth (%)	31.4%	39.4%	40.2%	22.2%
*EPS growth (%)	31.4%	32.3%	33.4%	22.2%
Interest Coverage (x)	176.2	66.8	29.2	35.6
Inventory Turnover (x)	20.2	24.6	30.1	35.8
Sales/Assets (%)	175.8%	89.7%	103.5%	115.4%
Assets/Equity (%)	134.5%	163.3%	166.6%	169.5%
*ROE (%)	13.9%	11.0%	15.3%	18.3%
*ROCE (%)	12.5%	6.6%	9.1%	10.8%
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash
Price to Book (x)	6.2	3.9	3.9	3.8
FCF yield	2.7%	-1.5%	5.3%	7.1%

Source: Company reports and JPMorgan estimates. *Based on weighted shares outstanding.