

Raffles Medical Group

1Q08: Solid organic growth driven by Raffles Hospital

Raffles Medical Group (RMG) reported net profit of S\$6.1m (+48.4% yoy) on revenue of S\$47.4m (+25.8% yoy). The results were in line with our forecast.

Steady growth from Raffles Hospital. Revenue from hospital services grew 30.5% yoy. Raffles Hospital benefitted from growth in volume for both local and international patients. International patients accounted for one-third of total admissions, including contributions from new markets such as Russia, Vietnam and Cambodia.

Raffles Hospital has increased charges for treatments by about 5%, closing the pricing gap with the competition. Revenue intensity has increased as the hospital has beefed up capabilities in internal medicine, gynaecology, surgery, dentistry and radiology. Healthcare services registered steady revenue growth of 16.9% yoy. The buoyant economic environment resulted in more hiring and increased patient volume at its network of family medicine clinics.

EBITDA margin improved from 15.6% in 1Q07 to 19.2% in 1Q08. This was due to a shift in the revenue mix towards hospital services and economies of scale from Raffles Hospital. Results would have been better if not for a higher effective tax rate of 22.1%, which resulted in a 71% yoy increase in tax expense to S\$1.7m.

Boost from implementation of means testing. Raffles Hospital plans to add another 50 beds in 2008, bringing the total to 250 beds. It works closely with international insurance companies, such as AXA, Bupa and Goodhealth, and medical evacuation companies to increase the volume of international patients. Raffles Hospital will benefit from the implementation of means testing at restructured government hospitals from Jan 09 as local patients account for two-thirds of total admissions. Subsidies for "high-income" patients earning S\$5,201 and above per month will be reduced to 65% for Class C wards (current: 80%) and 50% for Class B2 wards (current: 65%). This will reduce the pricing differential between government hospitals and private sector hospitals, resulting in more high-income patients seeking treatments at private sector hospitals.

Expanding network of clinics. RMG opened a new 24-hour clinic at Changi Airport Terminal 3, offering family medicine, health screening, occupational medicine, aesthetics, dentistry, obstetrics & gynaecology and emergency services. The clinic serves airline passengers, crew & airport staff and the population base in the eastern part of Singapore. RMG operates seven clinics in the entire airport complex. RMG also started the Raffles Executive Medical Centre located at Level 2 of Raffles Hospital in Mar 08. The centre is staffed by senior family physicians and provides more personalised services.

Maintain BUY. We like RMG for the growth momentum at Raffles Hospital. The hospital will benefit from an influx of foreign patients, increase in revenue intensity and positive impact from economies of scale. We lowered our target price to S\$2.27 based on our three-stage discounted cash flow model.

SINGAPORE

Raffles Medical Group (RFMG SP)

BUY

Current Price: S\$1.25

Target Price: S\$2.27

(Previous: S\$2.40)

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Sector	Healthcare
Bloomberg	RFMG SP
Website	www.rafflesmedical.com

52-Wk Avg Daily Vol. ('000)	422
Market Cap (S\$m)	645.7
(US\$m)	474.5

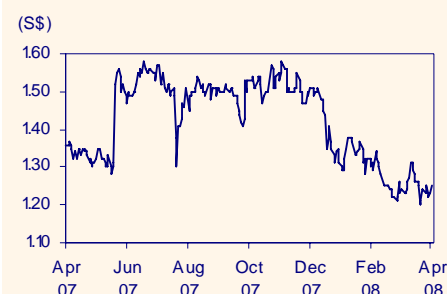
Book NTA per Share (S\$)	0.40
ROE (%)	22.9
Net Debt per Share (S\$)	0.01

Results Due	
Interim	July
Final	February

12-Month House Call Tracking

Date	Rec	Target Price (S\$)
29/04/08	BUY	2.27
10/03/08	BUY	2.40
19/02/08	BUY	2.33
29/10/07	BUY	2.10
23/10/07	BUY	2.05

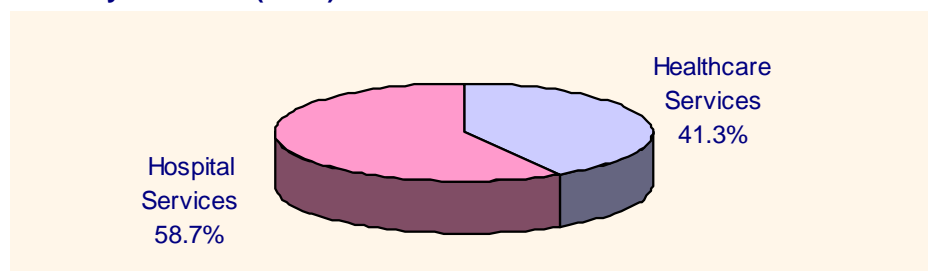
Price Chart



Year to 31 Dec	Turnover (S\$m)	EBITDA (S\$m)	Net Profit (S\$m)	EPS (¢)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS* (¢)
2006	134.2	22.6	15.7	3.5	27.9	35.7	28.8	2.3
2007#	168.7	32.4	35.9	7.4	110.3	17.0	20.0	2.5
2008F	202.4	42.3	28.9	5.6	(24.0)	22.3	15.4	3.0
2009F	257.1	57.9	39.8	7.7	37.7	16.2	11.2	3.5
2010F	288.0	65.0	45.3	8.8	14.0	14.2	10.0	4.5

2007 earnings include fair value gain of S\$12.5m from 50% stake in CapitaLand-Raffles Properties Pte Ltd
* Exclude special dividend 1.36¢ for FY06

Sales By Business (FY07)



Source: RMG

Profit & Loss

Year to 31 Dec (S\$m)	2006	2007	2008F	2009F	2010F
Turnover	134.2	168.7	202.4	257.1	288.0
EBITDA	22.6	32.4	42.3	57.9	65.0
Pre-tax Profit	20.0	41.4	36.1	49.7	56.7
Net Profit	15.7	35.9	28.9	39.8	45.3
EPS (cents)	3.5	7.4	5.6	7.7	8.8

Balance Sheet

Year to 31 Dec (S\$m)	2006	2007	2008F	2009F	2010F
Current Assets	76.4	44.5	77.2	94.5	125.6
Total Assets	151.8	335.4	314.6	330.7	361.4
Current Liabilities	37.9	79.7	59.3	73.5	82.0
Long-Term Loans	0.0	0.0	40.0	20.0	20.0
Shareholders' Funds	112.9	200.8	214.3	236.0	258.2
Total Equity & Liabilities	151.8	281.5	314.6	330.7	361.4

Cash Flow

Year to 31 Dec (S\$m)	2006	2007	2008F	2009F	2010F
Operating	19.7	40.1	32.7	52.8	55.1
Investing	(1.9)	(52.8)	(5.0)	(5.0)	(5.0)
Financing	(10.7)	(9.2)	1.3	(38.0)	(23.2)
Net Cash In/(Out) Flow	7.1	(22.0)	29.0	9.8	26.9
Begin Cash & Cash Equiv.	34.8	41.8	19.7	48.7	58.5
End'g Cash & Cash Equiv.	41.8	19.7	48.7	58.5	85.4

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MICA (P) 229/04/2008
RCB Regn. No. 198700235E