Raffles Medical Group

2007: Room for growth

Raffles Medical Group (RMG) reported a net profit of S$35.9m, higher than our forecast of S$32.4m. The variance is mainly due to a write-back of S$2.3m for deferred tax previously provided for the fair value gain of S$12.5m from its 50% stake in CapitaLand-Raffles Properties Pte Ltd.

Steady expansion at Raffles Hospital. Revenue from Hospital Services grew 34.6% to S$99m. RMG hired 12 full-time consultant specialists in 2007, bringing the total to 50. Revenue intensity improved due to more high complexity cases such as spinal surgeries, neural surgeries, fertility treatments and increased usage of neo-natal intensive care units (ICU). Besides patients from this region, RMG is increasingly seeing patients from outside Asia such as Russia, the US and Europe. EBIT margin for Hospital Services was maintained at 20%. Benefits from economies of scale at Raffles Hospital were offset by the need to adjust remuneration for doctors and nurses due to a tight labour market.

Healthcare Services focuses on corporate market. Revenue from Healthcare Services grew 14.8% to S$69.7m. The buoyant economic environment resulted in more hiring and increased patient volume at its network of family medicine clinics. RMG made further inroads into the corporate market by setting up three clinics at Science Park (Ayer Rajah), TechPark and TechPlace (Ang Mo Kio). However, new centres usually take six to 12 months to break even. This resulted in a lower EBIT margin of 9.1% in 2007 compared with the 11.9% in the previous year. Management expects the situation to normalise in 2008 as the new centres start to contribute more significantly.

Improved operating efficiency at Raffles Hospital. RMG's flagship Raffles Hospital delivers medical care through its unique Group Practice Model. Raffles Hospital plans to add another 50 beds in 2008, bringing the total to 250 beds. The recruitment of more specialists has increased revenue intensity. Higher throughput of patients will provide economies of scale, improved operating efficiency and better margins from the Hospital Services business.

Further expansion at Changi International Airport. RMG's contract to provide medical services at Changi International Airport was renewed for another five years. The company has a new 24-hour medical centre with multi-disciplinary services in family medicine, health screening, occupational medicine, aesthetics, dentistry, obstetrics & gynaecology and emergency services at the new Terminal 3. RMG currently operates seven clinics in the entire airport complex. RMG plans to add another five clinics on a group-wide basis in 2008.

Maintain BUY. We like RMG for the growth momentum at Raffles Hospital. Raffles Hospital will benefit from the influx of foreign patients, increase in revenue intensity and positive impact from economies of scale. We raised our target price to S$2.33 based on our three-stage discounted cash flow model.

SINGAPORE

Raffles Medical Group

BUY
Current Price: S$1.37
Target Price: S$2.33
(Previous: S$2.10)

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Sector	Healthcare
Bloomberg	RFMG SP
Website	www.raflesmedical.com
52-Wk Avg Daily Vol. ('000)	438
Market Cap (S$m)	706.2
(US$m)	498.1
Book NTA per Share (S$)	0.39
ROE (%)	22.9
Net Debt per Share (S$)	0.01
Results Due	
Interim	July
Final	February

12-Month House Call Tracking

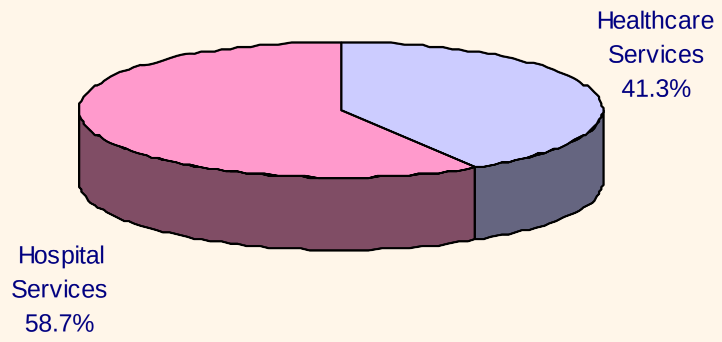
Date	Rec	Target Price (S$)
19/02/08	BUY	2.33
29/10/07	BUY	2.10
23/10/07	BUY	2.05

Price Chart

Year to 31 Dec	Turnover (S$m)	EBITDA (S$m)	Net Profit (S$m)	EPS (S¢)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS* (S¢)
2006	134.2	22.6	15.7	3.5	27.9	39.1	31.5	2.3
2007	168.7	32.4	35.9	7.4	110.3	18.6	21.9	2.5
2008F	201.4	47.2	31.4	6.1	(17.3)	22.5	15.1	3.0
2009F	255.4	58.2	40.0	7.8	27.5	17.6	12.2	3.5
2010F	288.8	68.4	48.1	9.3	20.1	14.7	10.4	4.5

 # 2007 earnings include fair value gain of S$12.5m from 50% stake in CapitaLand-Raffles Properties Pte Ltd
** Excludes 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	201.4	255.4	288.8
EBITDA	22.6	32.4	47.2	58.2	68.4
Pre-tax Profit	20.0	41.4	39.2	50.0	60.1
Net Profit	15.7	35.9	31.4	40.0	48.1
EPS (cents)	3.5	7.4	6.1	7.8	9.3

Balance Sheet

Year to 31 Dec (S$m)	2006	2007	2008F	2009F	2010F
Current Assets	76.4	44.5	72.6	87.8	120.8
Total Assets	151.8	335.4	308.6	322.4	355.1
Current Liabilities	37.9	79.7	50.8	62.6	70.3
Long-Term Loans	0.0	0.0	40.0	20.0	20.0
Shareholders' Funds	112.9	200.8	216.7	238.7	263.6
Total Equity & Liabilities	151.8	281.5	308.6	322.4	355.1

Cash Flow

Year to 31 Dec (S$m)	2006	2007	2008F	2009F	2010F
Operating	19.7	40.1	31.1	51.5	57.1
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)	27.3	8.5	29.0
Begin Cash & Cash Equiv.	34.8	41.8	19.7	47.1	55.6
End'g Cash & Cash Equiv.	41.8	19.7	47.1	55.6	84.5

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