

Raffles Medical Group

3QFY07: Economics of scale

Raffles Medical Group (RMG) reported a good set of results for 3Q07 with net profit of S\$6.5m (+60.1% yoy) on revenue of S\$43.8m (+25.2% yoy). The results were significantly better than our net profit forecast of S\$5.1m.

Raffles Hospital is key growth driver. Revenue from Hospital Services expanded 35.7% to an estimated S\$26.2m. Raffles Hospital benefited from an increase in volume of foreign and local patients accompanied by higher revenue intensity. There were contributions from more complex procedures such as spinal surgeries, neural surgeries, fertility treatments and increased usage of neo-natal intensive care unit (ICU). Raffles Hospital has also reduced the amount of discount to corporate customers given the buoyant economic environment.

The increase in patient volume has led to improvement in operating efficiency. Inventories & consumable used was controlled at 10.9% of sales in 3Q07, compared to 11.9% in the previous quarter, benefiting from greater scale in procurement. Gaining full ownership of the hospital building has also allowed Raffles Hospital to convert some office space into hospital and clinic space. Raffles Hospital benefited from economies of scale, as there is minimal increase in fixed costs as more beds are added. Overall EBITDA margin expanded from 17.9% in 2Q07 to 19.4% in 3Q07 due to margin expansion at Raffles Hospital.

Steady growth from Healthcare Services. Revenue from Healthcare Services expanded 12.1% to an estimated S\$17.6m. The buoyant economic environment resulted in more hiring and increased patient volume at its network of family medicine clinics from both corporate and individual customers. There was also increased contribution from International Medical Insurer (IMI).

Continuing to expand network of clinics. RMG has opened a new Japanese clinic at International Building in Orchard Road in Oct 07. This is the second satellite clinic for Raffles Japanese Clinic. RMG will also start a new 24-hour multi-disciplinary medical centre at Terminal 3, which will open in Jan 08. The centre will provide family medicine, specialist care, emergency care, occupational medicine, aesthetics and health screening.

Expansion into clinical research. Pfizer has set up the biggest clinical research unit in Singapore at Raffles Hospital. The S\$67m, 38,000sf facility is Pfizer's third Phase 1 labs on a worldwide basis.

Maintain BUY. We like RMG for the growth momentum at Raffles Hospital, which will benefit from the influx of foreign patients, increase in revenue intensity and positive impact from economics of scale. We raised our target price to S\$2.10 based on our three-stage discounted cash flow model.

SINGAPORE

Raffles Medical Group (RFMG SP)

BUY

Current Price: S\$1.53

Target Price: S\$2.10

(Previous: S\$2.05)

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Sector	Healthcare
Bloomberg	RFMG SP
Website	www.rafflesmedical.com

52-Wk Avg Daily Vol. ('000)	491
Market Cap (S\$m)	788.0
(US\$m)	542.5

Book NTA per Share (S\$)	0.37
ROE (%)	14.3
Net Cash per Share (S\$)	0.22

Results Due	
Interim	July
Final	February

12-Month House Call Tracking

Date	Rec	Target Price (S\$)
29/10/07	BUY	2.10
23/10/07	BUY	2.05

Price Chart

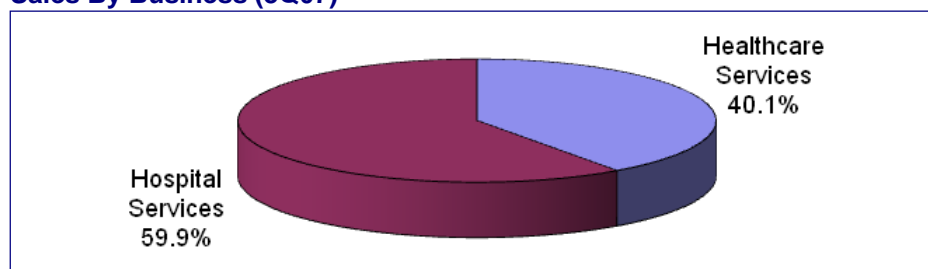


Year to 31 Dec	Turnover (S\$m)	EBITDA (S\$m)	Net Profit (S\$m)	EPS (S ¢)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS* (S ¢)
2005	112.9	16.6	12.0	2.7	23.9	55.9	42.2	1.4
2006	134.2	22.6	15.7	3.5	27.9	43.7	30.6	2.3
2007F#	170.3	30.6	32.4	6.3	79.6	24.3	25.9	2.5
2008F	224.1	41.9	28.5	5.5	(11.8)	27.6	18.9	3.0
2009F	244.9	45.6	31.9	6.2	11.6	24.7	17.0	3.5

FY07F earnings include fair value gain of S\$12.5m from 50% stake in CapitaLand-Raffles Properties Pte Ltd

* Excludes special dividend 1.36¢ for FY05 and FY06

Sales By Business (3Q07)



Source: RMG

Profit & Loss

Year to 31 Dec (S\$m)	2005	2006	2007F	2008F	2009F
Turnover	112.9	134.2	170.3	224.1	244.9
EBITDA	16.6	22.6	30.6	41.9	45.6
Pre-tax Profit	14.8	20.0	40.1	35.7	39.8
Net Profit	12.0	15.7	32.4	28.5	31.9
EPS (cents)	2.7	3.5	7.4	5.5	6.2

Balance Sheet

Year to 31 Dec (S\$m)	2005	2006	2007F	2008F	2009F
Current Assets	63.3	76.4	49.7	75.0	74.8
Total Assets	138.9	151.8	282.6	307.1	306.1
Current Liabilities	30.5	37.9	44.1	55.4	60.5
Long-Term Loans	0.0	0.0	40.0	40.0	20.0
Shareholders' Funds	107.5	112.9	197.4	210.5	224.3
Total Equity & Liabilities	138.9	151.8	282.6	307.1	306.1

Cash Flow

Year to 31 Dec (S\$m)	2005	2006	2007F	2008F	2009F
Operating	15.6	19.7	31.2	36.8	37.9
Investing	(7.9)	(1.9)	(69.9)	(3.0)	(3.0)
Financing	(5.0)	(10.7)	10.1	(15.5)	(38.0)
Net Cash In/(Out) Flow	2.7	7.1	(28.6)	18.3	(3.1)
Begin Cash & Cash Equiv.	32.0	34.8	41.8	13.2	31.6
End'g Cash & Cash Equiv.	34.8	41.8	13.2	31.6	28.5

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