



*Raffles*MedicalGroup

To Our Patients Our Best

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Agenda

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Company Background

- ❖ Raffles Medical group (RMG) was founded in 1976 by Dr Loo Choon Yong and Dr Alfred Loh to cater to corporate clients
- ❖ RMG is the largest public listed medical group in Singapore
- ❖ They have a Hospital in Bugis with 20 specialist clinics
 - 74 Clinics island wide
 - 3 Clinics in Hong Kong 1 in Shanghai
 - 2 24 Hour clinics in Changi Airport and Hong Kong international airport
- ❖ International Medical Insurers(IMI): Insurance arm of Raffles Medical



Company Background (cont..)

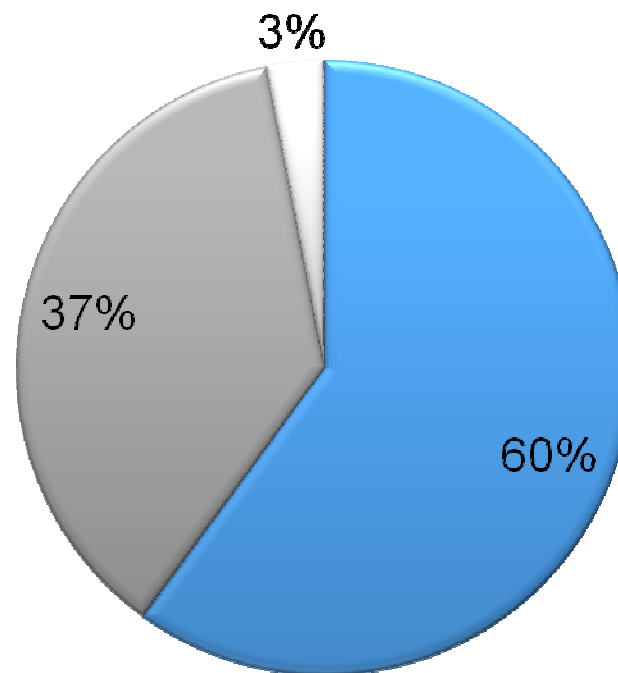
❖ The Group has 3 segments

- Healthcare Services – Operations of medical clinics, health insurance, trading in pharmaceutical products & diagnostic equipment and consultancy services
- Hospital Services – Specialized medical services and operation of hospital and medical laboratory
- Investment Holdings

Operating Profit Breakdown

Revenue Contribution by segment

■ Hospital Services ■ Clinical Services ■ Investments



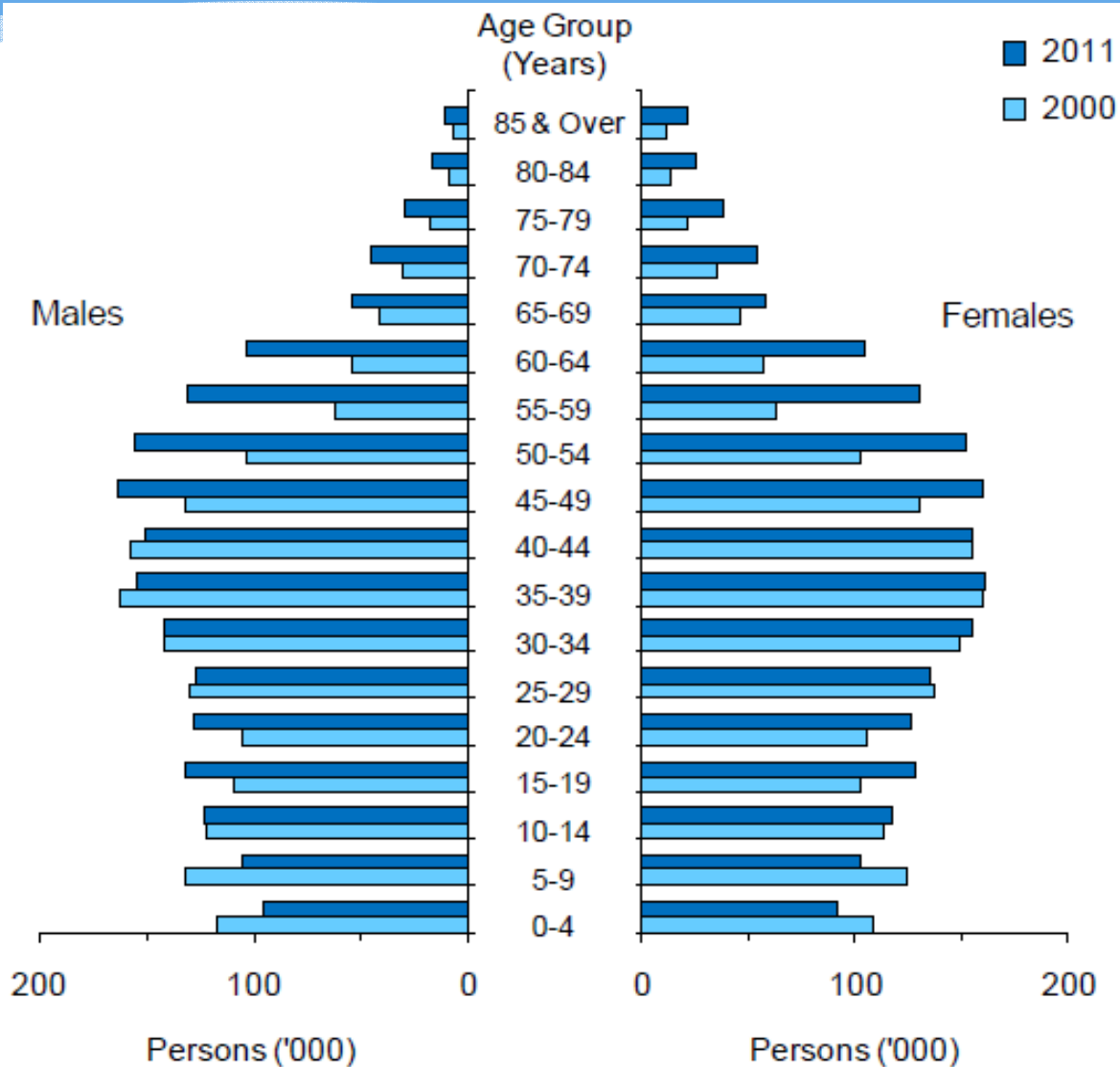
Source: Company Report



Drive Factors

- ❖ Political – RMG to benefit from the new government scheme (Community Health Assist Scheme).
- ❖ Economic – Stable economy in Singapore
- ❖ Social – Aging population

Age Pyramid (Spore)





Five Forces

❖ Threat of New Competition : Low to Medium

- It is quite difficult to set up a hospital, as a large amount of capital and expertise is required
- It is however easier to set up an independent practice.
- As Raffles Medical is competing on two fronts both in the hospital and clinical arena we deem this threat as medium

❖ Threat of Substitute products or services: low

- There are not that many substitute products or services in the market, when it comes to healthcare, various practices like Traditional Chinese Medicine come to mind, but Raffles has its own TCM line.

Five Forces (cont.)

❖ Bargaining power of customers: Low

- Raffles medical is the market leader in Private Medical services
- Customers can switch to restructured hospitals
- Overseas patients may have the option to choose a competitor or substitute from a foreign service provider but Singapore is still the number one medical provider in Asia

❖ Intensity of competitive rivalry: Medium to High

- There are many overseas rivals who are looking to attract the same target medical tourist that Singapore is seeking
- Industry in Singapore is pretty mature, as government hospitals are more or less set but in the Private medical industry, Raffles medical is the market leader.



Five Forces (cont.)

❖ Bargaining power of suppliers Medium

- 1. Rental, as their clinics are located in many locations and switching between locations in the same vicinity is not difficult
- 2. Medical equipment/ Drugs: There are many players in both the pharmaceutical and medicinal equipment providers industry, so switching between suppliers should not be an issue
- 3. Doctors/ Specialist: High bargaining power as many of their doctors are industry experts and have many years of experience.



Risk

- ❖ Credit Risk – The group has a credit policy in place which establishes credit limit for customers and monitors their balances
- ❖ Liquidity Risk – The group maintains a level of cash and cash equivalent to mitigate fluctuations in cash flow
- ❖ Market Risk – The group ensures that net exposure to currency fluctuation and interest rates are kept to an acceptable level



Risk

- ❖ Operating Margin pressure – latest government's policy to further tighten foreign labour dependency, current tight labour market coupled with plans to increase headcount
- ❖ China operations remain in the red, but expected to turn profitable within 2 yrs



Future Expansion

- ❖ In Jan 2012, the group had decanted 15k sq ft of space in RH for conversion into healthcare dollar-churning business.
- ❖ RMG will commence construction of the hospital extension in 2H'2012 and expects the construction to be completed in 18-24 months.
- ❖ RMG bought 5k sq ft of space in Samsung Hub in the CBD for use as a medical centre
- ❖ RMG operates 74+ general practice (GP) clinics in Singapore and plans to add 4-5 clinics each year going forward

Key Financial Highlights

	Increase	FY 2011	FY 2010
Revenue	14.0%	272.8	239.1
COGS	15.4%	184.5	159.9
Gross Profit	11.3%	88.3	79.3
EBIT	16.2%	57.5	49.5
Shareholder's net profit	11.3%	50.4	45.3
EPS (cents)	9.8%	9.50	8.65

Source: Company Report



Trading Data

52 week range	\$2.02 - \$2.53
Market Capitalization	\$1.2 B
Share Outstanding	534.9 M
Average Volume 10 Days	112.9 K

Source: Bloomberg



Valuation

❖ Use FCFF

❖ Rationale

- Low Dividend payout 36.0%
- Value the firm as a whole based on its cash flow
- Doesn't depend on dividend payout ratio (volatile payout ratio)

Peer Comparison

	Price (local currency)	Mrkt Cap (M USD)	P/E (2011)	P/B (2011)	Dividend Yield
Raffles Medical Group	2.30	981	24.2	3.6	1.52
KPJ Healthcare (KL)	4.86	974	20.5	3.2	2.55
Bangkok Dusit Med Services	82.5	4,172	27.5	3.9	-
Fortis Healthcare (India)	105.65	860	32.7	1.3	-

Source: Bloomberg

Recommendation

FCFF = Operating Cash Flow – Expenses - Taxes
- Changes in Networking Capital - Changes in Investment

❖ Based on FCFF - **Hold**

Cost of Equity (using CAPM)	7.7%
Cost of Debt	1.6%
Weighted Average Cost Capital	7.1%
Fair Value	\$2.39
Current Price	\$2.35
Projected P/E	17.92



Recommendation & Price Target

Target Price	\$2.39
Current Price (16 Mar 2012)	\$2.35
Recommendation	Hold



Thank You !

Questions please