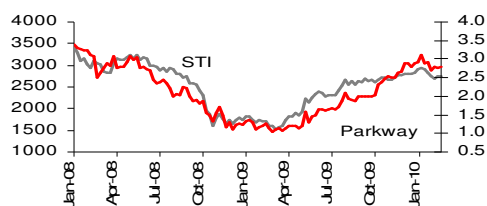


24 February 2010

Maintain

BUY

Previous Rating: BUY

Current Price: S\$2.93
Fair Value: S\$3.31


Parkway Holdings Ltd

Delivering as expected

4Q09 earnings in line. Parkway Holdings reported 4Q09 revenue of S\$250.3m (+7.3% YoY) and PATMI of S\$24.8m (reversing S\$21.0m loss in 4Q08). Topline is slightly lower than our sales estimate of S\$257.5m, while bottomline is spot on with our projection due to lower operating expenses and stronger share of associates' profits. For FY09, the group clocked 7.0% growth in revenue to S\$979.2m (4.8% and 3.3% below consensus and our sales forecast respectively) and 212.4% increase in PATMI to S\$118.9m (in line with consensus and our earnings). Parkway ended the fiscal year by proposing final dividend of 1.15 S cents/share, consistent with its guidance to resume dividend payments a quarter ago.

FY09 growth drivers. The strong FY09 revenue performance was mainly driven by double-digit growth in its Singapore healthcare segment (+12%) and International hospital revenue (+31%), as Parkway Shenton secured several major corporate accounts and benefited from contract by Singapore government to conduct temperature screening, whereas demand for quality healthcare at its International hospitals grew strongly. PATMI growth, on the other hand, was bolstered by higher turnover, S\$17.2m reversal of impairment loss on receivables (S\$34.4m loss in 4Q08) and lower impairment loss of S\$2.2m on its financial assets (S\$16.2m loss in 4Q08). Excluding these exceptional items and tax effects, we estimate that its operational PATMI would have increased by 28.6%.

Positive outlook. Going forward, management painted a relatively upbeat outlook, saying that an expected growth in demand for quality healthcare will continue to boost the group's growth. Since its partnership with Great Eastern Holdings to introduce post-surgical complications insurance for patients in Jan, Parkway has seen a decent take-up in Feb (21 cases signed up). We believe this would provide greater assurance to patients and lower financial risks for Parkway. On development of new Novena hospital, we are also delighted to learn that it is on schedule. According to management, the group is proceeding to award the construction tender after receiving approval from BCA, and the launch of Phase 1 medical suite sale is imminent.

Reiterate BUY. We are keeping our FY10 earnings forecast unchanged as the results were largely within our expectations. However, we now apply a five-year PER average of 30x to its core earnings in view of the improving outlook by management and possible re-rating from its impending medical suite sale. Our SOTP fair value is in turn raised to S\$3.31 (S\$2.78 previously), implying a 13% upside potential. Maintain **BUY**.

| | |
|------------------------|---------------|
| Reuters Code | PARM.SI |
| ISIN Code | P27 |
| Bloomberg Code | PWAY SP |
| Issued Capital (m) | 1,131 |
| Mkt Cap (S\$/US\$m) | 3,312 / 2,348 |
| Major Shareholders | |
| Khazanah Nasional | 23.26%, |
| Franklin Resources | 6.03%, |
| Bank of New York | 6.00%, |
| Newbridge Sing | 15.48% |
| Free Float (%) | 72.7% |
| Daily Vol 3-mth ('000) | 1,863 |
| 52 Wk Range | 1.010 - 3.140 |

| (S\$ m) | FY08 | FY09 | FY10F | FY11F |
|-----------|-------|-------|--------|--------|
| Revenue | 914.8 | 979.2 | 1092.1 | 1220.7 |
| EBIT | 125.6 | 139.1 | 153.7 | 183.2 |
| P/NTA (x) | 3.1 | 2.8 | 2.6 | 2.5 |
| EPS (cts) | 3.4 | 10.5 | 19.1 | 18.7 |
| PER (x) | 86.8 | 27.8 | 15.3 | 15.7 |

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Parkway's Key Financial Data

| Parkway Results Year Ended 31 Dec (S\$ m) | 4Q08 (S\$m) | 4Q09 (S\$m) | % Chg (YoY) | 3Q09 (S\$m) | % Chg (QoQ) |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Revenue | 233.2 | 250.3 | 7.3% | 259.0 | -3.4% |
| Other operating income | 9.5 | 6.9 | -27.7% | 8.5 | -18.7% |
| Change in inventories | -0.5 | 0.7 | nm | 0.8 | -11.7% |
| Inventories and consumables | -44.6 | -51.0 | 14.5% | -50.5 | 1.0% |
| Purchased and contracted services | -35.7 | -35.0 | -2.0% | -44.1 | -20.6% |
| Depreciation and impairment losses of PPE | -10.7 | -11.4 | 6.1% | -12.7 | -10.7% |
| Amortization of intangible assets | -1.6 | -0.1 | -95.9% | -3.0 | -97.8% |
| Staff costs | -55.4 | -75.8 | 36.8% | -76.2 | -0.5% |
| Operating lease expenses | -18.5 | -18.6 | 0.2% | -17.1 | 8.6% |
| Other operating expenses | -33.2 | -33.7 | 1.7% | -27.1 | 24.4% |
| Profit from operations | 42.5 | 32.2 | -24.2% | 37.5 | -14.2% |
| Finance costs | -7.6 | -3.5 | -54.0% | -2.7 | 32.0% |
| Share of profits of associates (net of tax) | 0.5 | 12.4 | 2173.2% | 3.5 | 255.0% |
| Profit before exceptional item | 35.4 | 41.1 | 16.0% | 38.4 | 7.1% |
| Exceptional item | -56.2 | -7.5 | -86.7% | 0.3 | nm |
| Profit before income tax | -20.8 | 33.6 | -261.8% | 38.7 | -13.0% |
| Income tax expense | 1.3 | -6.8 | nm | -5.2 | 30.4% |
| Net profit | -19.5 | 26.8 | nm | 33.4 | -19.8% |
| <i>Attributable to:</i> | | | | | |
| Equity holders of the company | -21.0 | 24.8 | nm | 32.5 | -23.6% |
| Minority interests | 1.6 | 2.0 | 25.1% | 0.9 | 108.8% |

Parkway Holdings' Key Financial Data

| EARNINGS FORECAST | | | | | BALANCE SHEET | | | | |
|----------------------------------|-------|-------|---------|---------|------------------------------------|---------|---------|---------|---------|
| Year Ended 31 Dec (\$m) | FY08 | FY09 | FY10F | FY11F | As at 31 Dec (\$m) | FY08 | FY09 | FY10F | FY11F |
| Revenue | 914.8 | 979.2 | 1,092.1 | 1,220.7 | Bank and cash balances | 542.1 | 610.3 | 704.8 | 914.0 |
| EBITDA | 174.8 | 194.0 | 216.2 | 249.0 | Other current assets | 159.1 | 489.2 | 398.0 | 303.8 |
| EBIT | 125.6 | 139.1 | 153.7 | 183.2 | Property, plant, and equipment | 1,656.2 | 1,373.3 | 1,470.8 | 1,465.2 |
| Finance costs | -16.6 | -11.8 | -16.4 | -17.1 | Total assets | 2,988.0 | 3,102.4 | 3,198.2 | 3,302.4 |
| Associates | 11.1 | 23.9 | 22.9 | 23.7 | Debt | 1,223.4 | 1,194.3 | 1,194.3 | 1,194.3 |
| Exceptional item | -60.5 | 3.9 | 112.3 | 76.9 | Current liabilities excluding debt | 235.5 | 253.1 | 276.4 | 302.1 |
| Income tax expense | -16.2 | -30.2 | -50.4 | -49.3 | Total liabilities | 1,574.5 | 1,565.2 | 1,588.5 | 1,614.3 |
| Minority interests | -5.4 | -6.0 | -6.0 | -6.5 | Shareholders equity | 1,338.2 | 1,460.7 | 1,527.1 | 1,599.1 |
| PATMI | 38.0 | 118.9 | 216.1 | 210.8 | Minority interests | 75.3 | 76.5 | 82.6 | 89.0 |
| PATMI (ex-EI, ex-REIT, ex-suite) | 89.9 | 100.4 | 115.2 | 138.5 | Total equity and liabilities | 2,988.0 | 3,102.4 | 3,198.2 | 3,302.4 |

| CASH FLOW | | | | | KEY RATES & RATIOS | | | | |
|------------------------------------|----------|--------|--------|-------|--------------------------|-------|-------|-------|-------|
| Year Ended 31 Dec (\$m) | FY08 | FY09 | FY10F | FY11F | | FY08 | FY09 | FY10F | FY11F |
| Op profit before working cap. chg. | 172.9 | 191.1 | 204.5 | 236.6 | EPS (SG cents) | 3.4 | 10.5 | 19.1 | 18.7 |
| Working cap, taxes and int | -75.4 | -4.3 | -66.0 | -48.6 | NTA per share (SG cents) | 93.3 | 104.7 | 111.0 | 117.8 |
| Net cash from operations | 97.5 | 186.9 | 138.5 | 188.0 | EBIT margin (%) | 13.7% | 14.2% | 14.1% | 15.0% |
| Purchase of PP&E | -1,360.2 | -63.4 | -150.0 | -50.0 | Net profit margin (%) | 4.2% | 12.1% | 19.8% | 17.3% |
| Other investing flows | -84.6 | -25.9 | 132.0 | 97.3 | PER (x) | 86.8 | 27.8 | 15.3 | 15.7 |
| Investing cash flow | -1,444.8 | -89.2 | -18.0 | 47.3 | Price/NTA (x) | 3.1 | 2.8 | 2.6 | 2.5 |
| Financing cash flow | 1,744.9 | -219.4 | -26.0 | -26.0 | EV/EBITDA (x) | 23.3 | 20.5 | 18.0 | 14.8 |
| Net cash flow | 397.6 | -121.7 | 94.5 | 209.3 | Dividend yield (%) | 1.1% | 0.4% | 0.8% | 0.8% |
| Cash at beginning of year | 139.2 | 531.3 | 610.3 | 704.8 | ROE (%) | 4.3% | 8.5% | 14.1% | 13.2% |
| Cash at end of year | 542.1 | 610.3 | 704.8 | 914.0 | Net gearing (%) | 50.9% | 40.0% | 32.1% | 17.5% |

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

The analyst/analysts who wrote this report holds NIL shares in the above security.

RATINGS AND RECOMMENDATIONS:

OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented.

- However, OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon. OIR's Buy = More than 10% upside from the current price; Hold = Trade within +/- 10% from the current price; Sell = More than 10% downside from the current price.

- For companies with less than S\$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

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For OCBC Investment Research Pte Ltd



Carmen Lee
Head of Research

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