

MITA No. 010/06/2008

6 May 2009

Raffles Education Corp

 Maintain
BUY

Previous Rating: BUY

S\$0.51**Fair Value: S\$0.59**
 Stock Code:
 Reuters: RLSE.SI
 ISIN Code: E6D
 Bloomberg: RLS SP

Event: Results

General Data

Issued Capital (m)	2,428
Mkt Cap (S\$m/US\$m)	1,238 / 841
Major Shareholder	
Chew Hua Seng	(32.2%)
Free Float (%)	53%
NAV per share (S\$)	0.165
Daily Vol 3-mth ('000)	18,723
52Wk High (S\$)	1.380
52Wk Low (S\$)	0.255

Key asset to be securitised

Imputing impairment in 3Q09. Raffles Education Corporation (Raffles) reported a loss-making quarter (-S\$16.5m) as it had decided to book in S\$33.1m as allowance for impairment charges for its associate Oriental Century (ORIC). Excluding this non-cash charge and land sales (as continued payment for Oriental University City, or OUC), Raffles' 3Q09 net profit would have come in at S\$14.7m. Student numbers held steady instead of a marginal increase as we anticipated as recruitment drive slowed.

Securitising OUC. Management continues to be optimistic about OUC and shares our sentiments that it is a well worth investment to embark on its next phase of growth. We were updated on the plan to pay for this asset by securitising it. To do that, management hopes to list OUC in China/HK (earliest in 2011) due to listing rules requiring operating history of three years under Raffles' jurisdiction. Currently, the majority of the debt (~S\$320m) owed by Raffles for OUC is primarily to the provincial government supporting this University City project. While Raffles will continue to pay down this debt, we expect it to fulfil a significant part through the listing. As such, post listing, it will remain a major shareholder along with the provincial government.

No dividends. Raffles will not be paying any dividends this quarter. The Dividend Re-Investment Scheme (DRIS) has also been terminated in view of the volatile share price and poorer-than-expected take-up rate. We had earlier forecast that Raffles would cut its dividend to 0.75 S cents/quarter to preserve cash and pay off its debts.

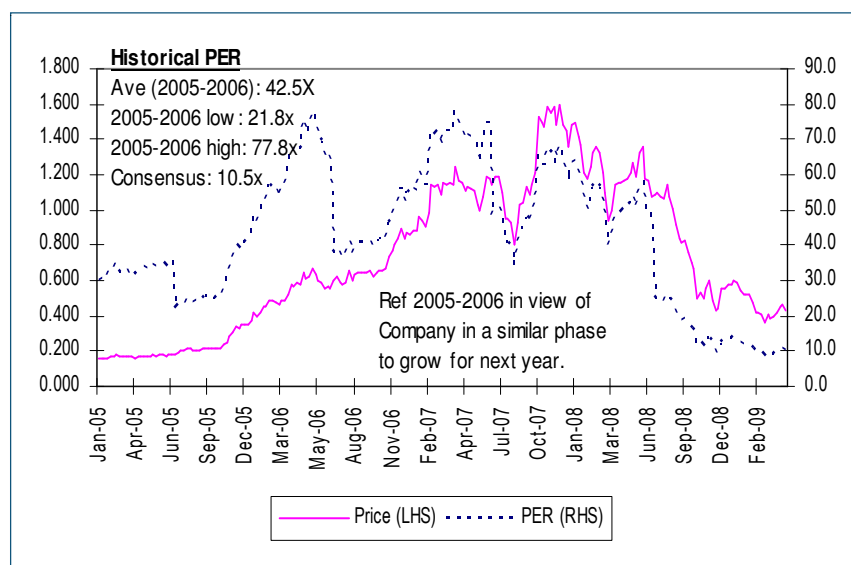
Trough reached, next year will be better. Raffles has undergone a winter season in the last months with the ORIC scandal coupled with a tight liquidity situation that has prohibited the company in embarking on an M&A route to grow the business. However, we think that the next year would start bearing the first fruit of its labour when it finalises the securitisation plan for OUC, aggressively pay down its other debt and refocuses on student recruitment for its new schools. While the share price might take a tumble in view of its loss-making position this quarter, we look past this event and set our valuations to FY10F where the company will resume its growth trajectory. We roll our valuation to FY10F based on the same 12x PER, still close to its lower historical trading band. Our fair value is edged down slightly to S\$0.59 (prev. S\$0.60). Maintain **BUY**.

Kelly Chia
 (65) 6531 9817
 e-mail: kelly@ocbc-research.com

Year to 31-Dec	Turnover (S\$m)	EBITDA (S\$m)	Net Profit (S\$m)	EPS (cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	124.1	58.1	50.8	2.3	47.8	21.8	7.8
FY 08	190.0	98.3	99.4	4.3	85.3	11.8	8.3
FY 09F	234.4	152.1	92.9	3.9	-9.4	13.0	3.9
FY 10F	278.3	148.4	121.4	5.1	30.7	9.9	-

Please refer to the important disclosures at the back of this document.

Exhibit 1: Raffle Education Historical PER trend



Source: Bloomberg

Raffles Education's Key Financial Data

Raffles Education Results Year Ended 31 Dec (S\$ m)	3Q08 (S\$m)	3Q09 (S\$m)	% Chg (YoY)	2Q09 (S\$m)	% Chg (QoQ)
Total revenue	49.2	49.9	1.4%	54.2	-7.9%
Cost of Sales	-28.9	-34.8	20.4%	-32.0	8.9%
Gross profit	20.2	15.0	-25.7%	22.2	-32.3%
Other operating income	0.8	7.6	814.2%	8.6	-10.8%
Staff costs	-9.0	-12.1	34.7%	-11.5	4.5%
Depreciation and amortisation	-3.5	-2.7	-22.9%	-3.6	-26.6%
Other operating costs	-16.5	-20.1	21.7%	-16.8	19.7%
-Rental	-3.5	-3.1	-9.0%	-1.5	103.8%
-Marketing and advertising	-2.2	-2.2	0.0%	-2.1	2.6%
-Others	-10.9	-14.8	35.8%	-13.1	12.6%
Profit from operations	21.1	21.6	2.4%	30.7	-29.9%
Financial income (expense), net	-0.7	-2.7	290.9%	-2.7	-0.3%
Share of associates	0.6	-1.5	NM	0.9	NM
Exceptionals (impairment)	0.0	-33.1	NM	0.0	NM
Profit before income tax	21.0	-15.6	-174.5%	28.9	-154.1%
Income Tax	-0.6	-0.8	50.1%	-1.7	-50.2%
Profit after tax	20.4	-16.5	NM	27.3	NM
Minority Interests	-1.0	0.0	-98.4%	-0.3	-93.3%
PATMI	19.4	-16.5	NM	27.0	NM
PATMI (ex land sales, impairment, finance costs)	20.1	14.7	-26.9%	23.8	-38.2%

EARNINGS FORECAST				
Year Ended 31 Dec (S\$m)	FY07	FY08	FY09F	FY10F
Revenue	124.1	190.0	234.4	278.3
Other operating income	2.2	10.2	39.6	10.6
Staff costs	(31.4)	(37.4)	(46.9)	(54.3)
Other operating costs	(36.8)	(64.5)	(75.0)	(86.3)
EBITDA	58.1	98.3	152.1	148.4
Depreciation	(4.2)	(12.6)	(12.2)	(13.5)
Operating profit	53.9	85.7	139.9	134.9
Other expenses/income	(0.7)	(3.2)	(8.0)	(4.4)
Share of associate	0.9	2.5	-	-
Exceptional Items (EI)	-	20.4	(33.1)	-
Pre-tax profit	54.0	105.4	98.8	130.5
Tax	(3.3)	(5.9)	(5.9)	(9.1)
Net profit	50.8	99.4	92.9	121.4
Minority Interests	(1.4)	(0.6)	(1.9)	(2.4)
PATMI	49.3	98.8	91.1	118.9
Core ops PATMI	NA	79.6	94.9	118.9
Earnings per share (S\$cents)	2.34	4.33	3.92	5.13
Fully diluted earnings per share (S\$cents)	2.33	4.32	3.89	4.95
FD EPS growth	48.21%	85.35%	-10.06%	27.34%
Revenue revision	NA	NA	-0.9%	-4.9%
PATMI revision	NA	NA	-27.8%	-5.7%
Core ops PATMI (ex exceptionals)	NA	NA	-4.1%	-7.6%
Profitability ratios				
EBITDA margin (%)	46.8	51.7	64.9	53.3
Operating profit margin (%)	43.4	45.1	59.7	48.5
Net profit margin (%)	40.9	52.3	39.6	43.6
Growth rates				
Revenue (%)	37.7	53.2	23.3	18.7
Operating profit (%)	53.7	59.2	63.2	(3.6)
Core ops net profit (%)	52.9	61.4	19.2	25.3

Non-cash allowance

Higher due to land sales

BALANCE SHEET

As at 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Cash and equivalents	104.3	68.5	87.9	61.7
Other current assets	34.8	76.9	117.7	139.7
Fixed assets	78.7	133.1	127.8	123.3
Other long term assets	86.0	637.2	646.2	646.2
Total assets	303.7	915.7	979.6	970.9
ST and LT debt	80.3	344.8	320.0	175.0
Short term liabilities	42.7	188.1	165.5	180.0
Other long term liabilities	0.1	144.3	1.5	2.0
Total liabilities	123.1	534.2	487.0	357.0
Shareholders equity (incl reserves + MI)	180.6	381.5	492.7	613.9
Total equity and liabilities	303.7	915.7	979.6	970.9
NTA per share (S\$ cents)	4.7	7.0	10.3	15.6
NAV per share (S\$ cents)	7.9	16.3	20.2	25.5

CASH FLOW

Year Ended 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Profit/(Loss) before working cap. changes	57.1	97.0	148.0	151.7
Working capital changes	-21.2	-46.2	-46.9	-20.9
Net cash from operations	35.9	50.8	101.2	130.8
Capex	-15.2	-8.4	-7.0	-9.0
Other investing flows (incl OUC repayments)	-80.0	-216.7	-15.7	-103.0
Total investing cash flow	-95.3	-225.1	-22.7	-112.0
Net change in debt	69.8	80.1	-42.6	-45.0
Change in equity	113.1	114.5	30.0	0.0
Other financing activities (incl div)	-35.9	-55.7	-46.4	0.0
Total financing cash flow	147.0	138.8	-59.0	-45.0
Net cash flow	89.1	-35.8	19.4	-26.2
Cash at beginning of year	15.2	104.3	68.5	87.9
Cash at end of year (incl FD pledged)	104.3	68.5	87.9	61.7

Key Ratios

PER (x)	21.8	11.8	13.0	9.9
Price/NTA (x)	10.8	7.3	4.9	3.3
Dividend yield (%)	7.8	8.3	3.9	0.0
ROA (%)	16.7	10.9	9.5	12.5
ROE (%)	28.1	26.1	18.9	19.8
Net gearing (x)	Net Cash	0.3	0.7	0.4
PE growth (x)	0.5	0.1	-1.4	0.3

Source: Company data, OIR estimates

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

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Carmen Lee
Head of Research

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