

Health Care

Updating our currency forecasts

We review the impact of changes to RBS's exchange rate forecasts on our healthcare universe. CSL, ISF, RMD and SHL's earnings are the most negatively affected of the healthcare stocks we cover.

Key recommendations & forecasts

	Reuters	Year end	Recom	Price	Target price	Upside/downside	EPS 1fcst	P/E 1fcst
Ansell	ANN.AX	Jun 2010	Buy	A\$10.15	A\$11.24	10.7%	0.64	15.9
Clinuvel	CUV.AX	Jun 2010	Buy	A\$0.29	A\$0.78	169.0%	-0.05	-6.2
Cochlear	COH.AX	Jun 2010	Hold	A\$64.57	A\$55.30	-14.4%	2.55	25.3
CSL Ltd	CSL.AX	Jun 2010	Hold	A\$30.15	A\$34.10	13.1%	1.82	16.5
Healthscope	HSP.AX	Jun 2010	Buy	A\$4.70	A\$5.20	10.6%	0.37	12.7
iSOFT Group	ISF.AX	Jun 2010	Buy	A\$0.69	A\$0.93	34.8%	0.05	14.6
Mesoblast	MSB.AX	Jun 2010	Hold	A\$1.33	A\$1.21	-9.0%	-0.10	-13.7
Primary Health	PRY.AX	Jun 2010	Hold	A\$5.54	A\$6.00	8.3%	0.36	15.2
Ramsay Health	RHC.AX	Jun 2010	Hold	A\$10.56	A\$10.40	-1.5%	0.78	13.5
ResMed Inc	RMD.AX	Jun 2010	Hold	A\$5.72	A\$5.40	-5.6%	2.16	23.4
Sonic Health	SHL.AX	Jun 2010	Hold	A\$14.58	A\$13.90	-4.7%	0.87	16.7

1. Normalised EPS - pre non-recurring items and post preference dividends.
Priced at close of business 10 December 2009.
Source: Company data, RBS forecasts

Sector performance

	(1M)	(3M)	(12M)
Absolute	21.4	48.3	129.9
Absolute (%)	6.2	15.2	55.2
Rel market (%)	9.0	14.0	20.0

ASX All Ordinaries: 4622.90
BBG AP Health: 365.40
Source: Bloomberg

Changes to currency affect most of the Australian healthcare stocks

In line with the new RBS house view, we have updated our exchange rate forecasts from FY10 onwards. The major exchange rates for the healthcare stocks in our coverage universe are: 1) AUD/USD – FY10F has increased to 0.89 (from 0.83); 2) AUD/EUR – FY10F has increased to 0.60 (from 0.59); and 3) EUR/USD – FY10F has increased to 1.48 (from 1.40). In terms of offshore earnings, we note Australian healthcare's niche offerings are generally in well-regulated industries that continue to show evidence of rational industry behaviour.

FY10F – downgrades to earnings for CSL, ISF, RMD and SHL

Using our new exchange rate forecasts, for FY10F we downgrade EPS by 3.2% for COH, 5.3% for CSL, 5.9% for ISF, 4.4% for RMD and 1.6% for SHL. We also update our healthcare comparable multiples.

Outlook unchanged for the healthcare stocks in our universe

For ANN, we highlight its defensive portfolio in consumer and professional divisions, but with cyclical leverage via the occupational division and improving global IP. We forecast ongoing growth for COH from the next-generation cochlear implant. For CSL, we forecast continued solid IVIG volume growth, with flat price growth in other plasma products. For RMD, we believe competition has eased in the obstructive sleep apnoea (OSA) market. We believe the market will remain interested in the realisation of synergies in SHL's offshore divisions and any possible further acquisitions. For PRY, over the medium term, we believe co-payment rates will increase in the pathology and medical centres businesses. For RHC, we forecast solid growth from brownfield opportunities in Australia and growth in the UK. For HSP, we forecast solid growth in its hospital and pathology businesses. As a result of earnings changes and updated comparables multiples, we change our target prices for ANN, CUV, COH, CSL, ISF, RHC, RMD and SHL. After its strong share price performance, we move to a Hold recommendation (from Buy) for MSB.

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Important disclosures can be found in the Disclosures Appendix.

Healthcare sector – updating our exchange rate forecasts

In line with changes to the RBS house view, we review the effect of revised exchange rate forecasts on the healthcare stocks in our coverage universe. The main negative impacts are seen on our earnings forecasts for CSL, ISF, RMD and SHL. In this note, we:

- present a summary of our new exchange rate forecasts; and
- review what this means for each of the stocks in turn.

Summary – changes to earnings for the healthcare stocks

In terms of offshore earnings, we note Australian healthcare's niche offerings to the global healthcare industry are generally in well-regulated industries that continue to show evidence of rational industry behaviour. Favourable industry conditions and potential acquisitions provide the possibility of positive earnings surprises. Our new currency assumptions are shown below.

Table 1 : Currency forecasts

	FY10F			FY11F			FY12F		
	Prev	Rev	Diff	Prev	Rev	Diff	Prev	Rev	Diff
AUD/USD	0.83	0.89	7.1%	0.79	0.87	10.5%	0.75	0.84	11.9%
AUD/EUR	0.59	0.60	1.8%	0.60	0.64	7.2%	0.60	0.65	8.2%
AUD/GBP	0.51	0.54	7.2%	0.48	0.53	10.5%	0.46	0.51	11.9%
AUD/CHF	0.89	0.91	3.0%	0.88	0.92	3.7%	0.91	0.96	5.4%
AUD/NZD	1.24	1.27	2.5%	1.25	1.35	7.6%	1.21	1.35	11.6%
EUR/USD	1.40	1.48	5.2%	1.31	1.35	3.1%	1.25	1.29	3.5%
CHF/USD	1.07	1.03	-3.8%	1.13	1.06	-6.2%	1.22	1.15	-5.8%
USD/GBP	1.64	1.64	-0.2%	1.64	1.64	0.0%	1.64	1.64	0.0%

Source: RBS forecasts

We detail the changes to our EPS forecasts for companies under our coverage in the following table.

Table 2 : Changes to EPS forecasts

	FY10F			FY11F			FY12F		
	Prev	Rev	Diff	Prev	Rev	Diff	Prev	Rev	Diff
ANN	A\$0.64	A\$0.64	0.1%	A\$0.73	A\$0.72	-1.4%	A\$0.88	A\$0.84	-5.1%
COH	A\$2.64	A\$2.55	-3.2%	A\$3.15	A\$2.91	-7.5%	A\$3.47	A\$3.16	-8.7%
CSL	A\$1.93	A\$1.82	-5.3%	A\$2.32	A\$2.09	-9.9%	A\$2.50	A\$2.23	-10.8%
CUV	-A\$0.05	-A\$0.05	na	-A\$0.02	-A\$0.02	na	A\$0.01	A\$0.01	na
HSP	A\$0.37	A\$0.37	-0.1%	A\$0.37	A\$0.37	-0.4%	A\$0.44	A\$0.44	-0.5%
ISF	A\$0.05	A\$0.05	-5.9%	A\$0.05	A\$0.05	-10.7%	A\$0.06	A\$0.05	-11.8%
MSB	-A\$0.10	-A\$0.10	na	-A\$0.09	-A\$0.09	na	A\$0.00	-A\$0.01	na
PRY	A\$0.36	A\$0.36	0.0%	A\$0.42	A\$0.42	0.0%	A\$0.48	A\$0.48	0.0%
RHC	A\$0.78	A\$0.78	0.0%	A\$0.91	A\$0.91	0.0%	A\$1.08	A\$1.08	0.0%
RMD	US\$2.26	A\$2.16	-4.4%	US\$2.64	A\$2.28	-13.7%	US\$3.10	A\$2.65	-14.4%
SHL	A\$0.88	A\$0.87	-1.6%	A\$1.01	A\$0.96	-4.6%	A\$1.11	A\$1.05	-5.4%

Source: RBS forecasts

In the next table we outline the sensitivities to the USD/AUD exchange rate of the Australian healthcare stocks in our universe.

Table 3 : Change in reported profit to a US\$0.01 increase in AUD/USD exchange rate

	FY10F	FY11F	FY12F
COH	-0.1%	-0.1%	-0.1%
CSL	-1.2%	-1.0%	-1.0%
RMD	-2.5%	-2.3%	-2.1%
SHL	-0.4%	-0.4%	-0.4%

Source: RBS forecasts

We also include our valuation summary in the following table. For most of the healthcare companies that we cover we use a blend of three metrics to derive a valuation: DCF analysis, sum-of-the-parts on an EV/EBITDA basis and sum-of-the-parts on a normalised PE basis.

Table 4 : Valuation, target price and risks summary

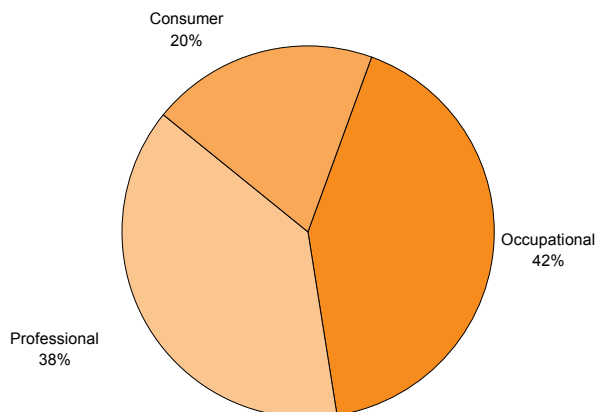
Company	Ticker	Share price (A\$)	Recom	Target price (A\$)	Valuation methodology/Key risks
Ansell	ANN	10.15	Buy	11.24	Our valuation and target price are derived using a blended DCF, PE multiple and SOTP methodology (EV/EBIT). The key downside risks to our target price are: 1) significant increases to the company's COGS via sharp increases in latex, nitrile and vinyl; 2) an unexpected decrease in global industrial demand; and 3) poor inventory and cost management by the company. Upside risks include: 1) material value-accretive acquisitions; and 2) a softer AUD/USD exchange rate.
Cochlear	COH	64.57	Hold	55.30	We use a blend of DCF, normalised PE and capitalisation of EV/EBITDA valuation to derive our target price for COH. Downside risks to our target price include a faster-than-expected product release into the market from competitor Med-El in the US. Upside risks include faster-than-expected growth in cochlear implants or BAHA sales.
CSL Ltd	CSL	30.15	Hold	34.10	Our target price is set at a premium to our blended DCF, PE, EV/EBITDA valuation to account for potential upside from a possible global pharma bid. Downside risks to our target price relate to irrational industry behaviour leading to potential oversupply of IVIG, which in turn could lead to price weakness, and lower-than-expected HPV revenues from Merck. Upside could come from IVIG demand in Alzheimer's disease.
Clinuvel Pharmaceuticals	CUV	0.29	Buy	0.78	Our valuation of CUV is based on a discounted cash flow model, from which we derive our target price. Upside risks include the faster-than-expected progression to production of CUV's photoprotective technology, while downside risks include any delay or failure to progress clinical trials.
Healthscope	HSP	4.70	Buy	5.20	We use an even blend of DCF, EV/EBITDA and normalised PE to derive our target price. We use PE as it is a market standard and EV/EBITDA as this used widely in the global healthcare sector. Upside risks to our target price include greater-than-expected revenue growth in the hospital division due to increased reimbursement from private health insurers. Downside risks include the expected ongoing increase in revenue from the hospital division not arising and margin compression in the pathology division.
iSOFT Group	ISF	0.70	Buy	0.93	Our target price is based on an even blended DCF, PE and EV/EBITDA valuation methodology. Upside risks to our target price include additional contract wins in its geographic jurisdictions and the successful delivery of Lorenzo to the UK NHS. Downside risks include increased competition from other healthcare IT providers and later-than-expected delivery of the UK Lorenzo software system.
Mesoblast	MSB	1.33	Hold	1.21	Our valuation of MSB is based on a discounted cash flow model, from which we derive our target price. Upside risks include the faster-than-expected progression to production of MSB's MPC technology, while downside risks include the lack of scalability of the manufacturing process.
Primary Health Care	PRY	5.54	Hold	6.00	We use an even blend of three methodologies to derive our valuation: DCF analysis, SOTP on an EV/EBITDA basis and SOTP on a normalised PE basis. Upside risks include greater-than-expected synergy capture from the SYB acquisition and reimbursement increases from public insurers in Australia. Downside risks include competition issues continuing in the Australian DI industry and a strong competitive response in PRY's pathology markets.
Ramsay Health Care	RHC	10.56	Hold	10.40	We use an even blend of DCF, capitalisation of EV/EBITDA and normalised PE multiples to derive our valuation and target price (PE valuation is a market standard and EV/EBITDA is used widely in the global healthcare sector). Upside risks to our target price include greater-than-expected revenue growth in the hospital division due to increased reimbursement from the private health insurers, and an accretive acquisition. Downside risks include margin compression, particularly in the UK hospital business.
ResMed Inc	RMD	5.72	Hold	5.40	We use an even blend of DCF, and a capitalisation of EV/EBITDA and normalised PE multiples to derive a target price for RMD. Downside risks are industry risk and the introduction of new entrants. Also, although the market appears attractive, high margins for all the major players mean there is a risk that another competitor could decrease the prices for its CPAP machines and masks to gain market share. Upside risks include a faster-than-expected rollout of home-diagnosis testing in the US market.
Sonic Healthcare	SHL	14.58	Hold	13.90	We use an even blend of DCF, and a capitalisation of EV/EBITDA and normalised PE multiples to derive a valuation and target price for SHL. Downside risks to our target price include the expected increase in revenue from the UK pathology business not arising, and margin compression in the Australian pathology and diagnostic imaging businesses. Upside risks include accretive acquisitions.

Priced at close of business 10 December 2009.
Source: RBS estimates

ANN – Buy, target price A\$11.24 (from A\$11.73)

Ansell's reported currency is USD. Our valuation is USD based on the company's earnings profile in USD before a translation into AUD. The increase in our AUD/USD forecast does lower our target price as the valuation translation is a 100% effect, whereas earnings changes are muted by a mix of currencies as well as strength in ANN cost currencies (MYR, THB and INR) versus USD.

Chart 1 : FY10F – ANN EBIT by division



Source: RBS estimates

Changes to RBS currency forecasts noted on page 2 are offset by strength in ANN's cost currencies of MYR, THB and INR versus USD. Our FY12 forecast is reduced as we have brought our outer year forecast into line with RBS house forecasts versus a linear fade previously.

Table 5 : ANN – changes to forecasts

	FY10F			FY11F			FY12F		
	Prev	Rev	Diff	Prev	Rev	Diff	Prev	Rev	Diff
EBITDA (US\$m)	140.0	140.1	0.0%	158.0	156.3	-1.1%	182.4	174.7	-4.2%
NPAT (US\$m)	87.4	87.5	0.2%	99.4	98.0	-1.4%	119.7	113.6	-5.0%
EPS (c)	63.8	63.9	0.2%	73.2	72.2	-1.4%	88.2	83.7	-5.1%
DPS (c)	28.0	28.0	0.0%	28.5	28.5	0.0%	29.0	29.0	0.0%

Source: RBS estimates

As a result of currency changes (for valuation translation), earnings changes and updated comparables multiples, we change our target price for ANN. Our updated valuation methodology is shown below.

Table 6 : ANN – valuation methodology

Metric	Weight	Valuation (US\$ ps)	Blended valuation (A\$ ps)
DCF valuation	30%	9.74	3.29
PE valuation in line with Industrials (15.8x FY10)	35%	10.13	3.98
SOTP	35%	10.10	3.97
Blended equity valuation	100%		11.24
Target price			11.24

*PE and EV/EBIT multiples derived from average of comparable companies (from Reuters consensus).

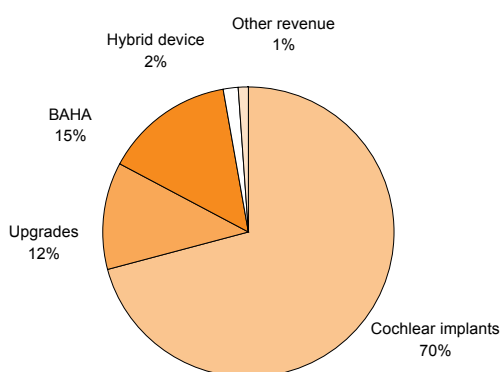
Source: RBS estimates

COH – Hold, target price A\$55.30 (from A\$56.10)

COH has received US Food and Drug Administration (FDA) approval for the two Premarket Approval (PMA) supplements covering the new Cochlear Nucleus 5 System. COH announced that the full system (which includes both implant and sound processor) was released in the US on 8 September 2009.

We believe uptake of the next-generation COH CI will be strong and we continue to forecast FY10 volume growth of 20%. Since listing, COH has launched the third-generation CI (Nucleus 24) and the fourth-generation (Freedom) CI systems. The average rate of volume growth over the five half-year periods following these launches was 23% compared with the long-term average of 17%. This suggests there is likely to be strong volume growth in COH CI after the release of a new COH cochlear implant platform; although we acknowledge volume growth is likely to be 2H10-weighted. The breakdown of COH revenue by product is shown below.

Chart 2 : COH – revenues by product, FY10F



Source: RBS forecasts

The changes to our FY10-12 forecasts are shown below.

Table 7 : COH – changes to forecasts

	FY10F			FY11F			FY12F		
	Fcast	Actual	Diff	Prev	Rev	Diff	Prev	Rev	Diff
EBIT (A\$m)	218.5	211.8	-3.1%	264.2	245.0	-7.3%	289.3	264.6	-8.5%
NPAT (A\$m)	149.0	144.3	-3.2%	178.5	165.2	-7.5%	196.7	179.6	-8.7%
Core NPAT (A\$m)	155.9	151.1	-3.1%	185.8	172.2	-7.3%	204.1	186.7	-8.5%
EPS (c)	263.5	255.2	-3.2%	314.7	291.2	-7.5%	346.6	316.5	-8.7%
DPS (c)	190.0	180.0	-5.3%	220.0	210.0	-4.5%	250.0	220.0	-12.0%
Net op cash flow (A\$m)	117.2	119.6	2.0%	151.1	151.5	0.2%	194.9	183.4	-5.9%

Source: RBS forecasts

As a result of earnings changes and updated comparables multiples, we change our target price for COH. Our valuation methodology is shown below.

Table 8 : COH – valuation methodology

Metric	Weight	Valuation (A\$ ps)	Blended valuation (A\$ ps)
DCF valuation	40%	71.71	28.69
PE valuation* at (18.4x FY1)	30%	46.50	13.95
EV/EBITDA valuation* at (10.8x FY1)	30%	42.12	12.64
Blended equity valuation	100%		55.27
Target price			55.30

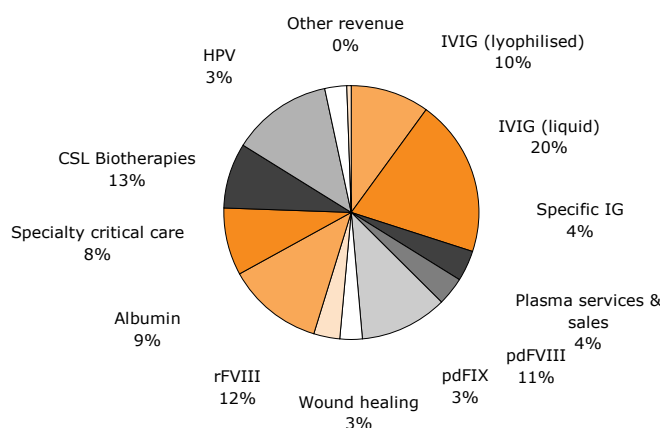
*PE and EV/EBITDA multiples derived from average of comparable companies (from Reuters consensus).
Source: RBS estimates

CSL – Hold, target price A\$34.10 (from A\$35.30)

Overall, we believe the product pipeline for CSL looks solid. One of the company's near-term projects is the approval of an additional 10m grams of Privigen liquid IVIG capacity, due in 2010. We believe liquid IVIG makes up 21% of FY10F revenue, and we estimate there is about 12mg of capacity for Privigen. Additional capacity will be used to service expected future demand.

CSL confirmed that the seasonal flu vaccine for next season will include the H1N1 (swine flu) vaccine as a subcomponent of the full vaccine. We believe CSL's FY10 capacity is about 20m seasonal flu vaccine doses. CSL stated that yields of swine-flu antigen are improving, which leads to potential volume upside when the vaccine is produced as part of the pandemic flu and as a sub-component of the seasonal flu. On our analysis, for every 10m increase in seasonal or H1N1 vaccines produced, CSL's FY10 EPS increases about 1.1%. We enclose revenues by product for CSL below.

Chart 3 : CSL – revenue by product, FY10F



Source: RBS forecasts

The changes to our FY10-12 forecasts due to our new exchange rate forecasts are shown below.

Table 9 : CSL – changes to forecasts

	FY10F			FY11F			FY12F		
	Prev	Rev	Diff	Prev	Rev	Diff	Prev	Rev	Diff
EBIT (A\$m)	1,408.3	1,335.9	-5.1%	1,612.2	1,492.6	-7.4%	1,710.1	1,568.7	-8.3%
NPAT (A\$m)	1,103.6	1,049.5	-4.9%	1,234.6	1,145.9	-7.2%	1,331.4	1,224.3	-8.0%
EPS (c)	191.9	182.5	-4.9%	225.1	208.9	-7.2%	242.7	223.2	-8.0%
DPS (c)	67.0	64.0	-4.5%	79.0	73.0	-7.6%	85.0	78.0	-8.2%
Net op cash flow (A\$m)	1,162.2	1,195.9	2.9%	1,369.0	1,306.5	-4.6%	1,407.8	1,311.5	-6.8%

Source: RBS forecasts

As a result of earnings changes and updated comparables multiples, we change our target price for CSL. Our valuation methodology is shown below.

Table 10 : CSL – valuation methodology

Metric	Weight	Valuation (A\$ ps)	Blended valuation (A\$ ps)
DCF valuation	33%	28.94	9.65
PE valuation* at (16.4x FY1)	33%	31.70	10.57
EV/EBITDA valuation* at (10.4x FY1)	33%	32.35	10.78
Blended equity valuation	100%		31.00
Fair value			31.00
Target price			34.10

*PE and EV/EBITDA multiples derived from average of comparable companies (from Reuters consensus).
Source: RBS estimates

CUV – Buy, target price A\$0.78 (from A\$0.85)

We believe CUV has sufficient cash (A\$40.4m in cash and other financial assets as at 30 June 2009) to fund its clinical programme.

CUV announced it had obtained positive results from a Phase II trial evaluating the photoprotective effect of its product, afamelanotide, in 16 patients who have the potential for phototoxicity (ie, sensitivity to UV light, which may lead to second-degree burns) as a side-effect of cancer therapy. A significant improvement in quality-of-life assessment was demonstrated at 60 days of treatment ($p=0.02$). No significant adverse events were reported.

CUV should receive final results from its Phase III erythropoietic protoporphyria (EPP) trial by end 4QCY09 and, subject to the successful completion of this trial, will seek EMEA marketing authorisation for afamelanotide for EPP. This would be the final regulatory step before the start of EU sales. Marketing authorisation is usually granted three to nine months after filing in the US and EU. CUV's timelines are shown below.

Table 11 : CUV – updated timeline* for clinical trials and approvals

Date (CY)	Date (FY)	Trial	RBS comment
End 4QCY09	End 2Q10	Final result of EU/Australia Final Phase III EPP (CUV017)	Then EU regulatory review begins – likely to take three to nine months from filing date. Pending the Phase III results, filing date to be made public
End 4QCY09	End 2Q10	Interim result of interim EU Phase III PLE trial (CUV015)	Should provide insight into PLE clinical response
End 2QCY10	End 4Q10	Initiate Phase III EPP trial in US (pending FDA approval, CUV030)	Trial should be complete in six months
End 2QCY10	End 4Q10	Initiate Phase III SU trial in EU (CUV023)	Trial should be complete in four months
End 2QCY10	End 4Q10	Final result of EU Phase III PLE trial (CUV015)	Filing to be determined upon final results
4QCY10 to end 1QCY11	2Q11 to end 3Q11	Final results of Phase III SU trial in EU (CUV023)	Filing to be determined upon final results
4QCY10 to end 1QCY11	2Q11 to end 3Q11	EU regulatory approval – marketing authorisation EPP	Start EU revenues from EPP
4QCY10 to end 1QCY11	2Q11 to end 3Q11	US (FDA) regulatory filing for NDA – marketing authorisation EPP	Review time three to nine months (From filing date) – then start US revenues from EPP
4QCY10 to end 1QCY11	2Q11 to end 3Q11	Interim results Phase II AK/SCC in OTR (CUV011)	CUV to then evaluate results and determine whether to progress to Phase III

*As at end November 2009.
Source: Company data, RBS estimates

The changes to our FY10-12 forecasts due to our new exchange rate forecasts are shown below.

Table 12 : CUV – changes to forecasts

	FY10F			FY11F			FY12F		
	Prev	Rev	Diff	Prev	Rev	Diff	Prev	Rev	Diff
EBIT (A\$m)	-18.0	-18.0	0.0	-8.1	-9.1	-1.0	2.9	0.6	-2.3
NPAT (A\$m)	-14.3	-14.3	0.0	-5.4	-6.5	-1.0	4.1	2.3	-1.7
EPS (c)	-4.7	-4.7	0.0	-1.8	-2.1	-0.3	1.3	0.8	-0.6
DPS (c)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net op cash flow (A\$m)	-13.8	-13.8	0.0	-4.9	-5.9	-1.0	9.6	7.7	-1.9

Source: RBS forecasts

As a result of earnings changes, we update our DCF-based valuation and target price for CUV.

Table 13 : DCF valuation summary (A\$m)

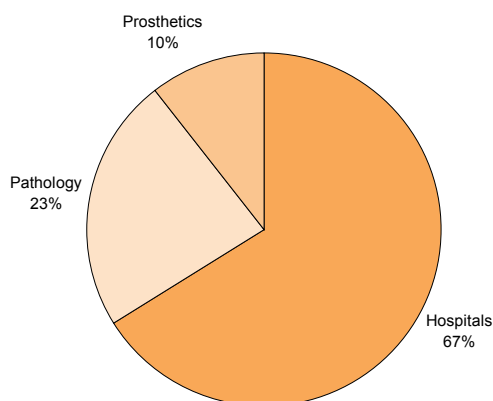
Risk-free rate (Rf)	6.5%	NPV cash flow	24.6
Market risk premium (Rm)	4.5%	Minority interest	0.0
Equity beta (B)	1.50	Net debt	-21.7
Ke = (Rf+(B*Rm))	13.2%	Investments	0.0
Kd	8.5%	Equity market value	236.2
Equity (E/EV)	100.0%	Diluted no. of shares (m)	303.1
Debt (D/EV)	0.0%	DCF valuation (A\$)	0.78
Tax rate (t)	30.0%	Target price (A\$)	0.78
WACC = E/EV*Ke+D/EV*Kd(1-t)	13.2%	Current share price (A\$)	0.29
Terminal growth rate	5.0%	Potential upside to target price	169.0%

Source: RBS estimates

HSP – Buy, target price unchanged at A\$5.20

We believe strong growth in the volume of work in private hospitals will continue due to: 1) the ageing of the population; 2) ongoing pressures in the public sector; and 3) the shift to doing more day-surgery cases, hence increasing bed turnover. HSP management has identified greenfield and brownfield opportunities for its hospitals division. We assume an incremental EBIT contribution from most of these beds in FY10, with the balance contributing in FY11. In addition, management has estimated brownfield opportunities will increase bed stock by 10% over the next two to three years (ie, adding about 400 beds). There is continuing industry feedback that the listed pathology players have increased co-payment rates recently. From the start of FY10 we believe that, with all the listed players, if a doctor does not specify bulk-billing, the listed pathology company will default to private billing (away from the default option of bulk-billing).

Chart 4 : HSP – revenue by division, FY10F



Source: RBS forecasts

The changes to our FY10-12 forecasts due to our new exchange rate forecasts are shown below.

Table 14 : HSP – changes to forecasts

	FY10F			FY11F			FY12F		
	Prev	Rev	Diff	Prev	Rev	Diff	Prev	Rev	Diff
EBIT (A\$m)	198.0	197.8	-0.1%	217.3	216.6	-0.3%	243.3	242.3	-0.4%
NPAT (A\$m)	106.1	106.0	-0.1%	116.7	116.3	-0.4%	139.1	138.4	-0.5%
EPS (c)	37.1	37.1	-0.1%	37.3	37.1	-0.4%	44.4	44.2	-0.5%
DPS (c)	23.5	23.5	0.0%	25.5	25.5	0.0%	27.5	27.5	0.0%
Net op cash flow (A\$m)	176.2	175.9	-0.2%	194.0	193.2	-0.4%	224.2	222.9	-0.6%

Source: RBS forecasts

As a result of earnings changes and updated comparables multiples, our target price for HSP is unchanged. Our valuation methodology is shown below.

Table 15 : HSP – changes to forecasts

Metric	Weight	Valuation (A\$ per share)	Blended valuation (A\$ per share)
DCF valuation	33%	5.90	1.97
PE valuation* at (11.2x FY2)	33%	5.41	1.80
EV/EBITDA valuation* at (6.1x FY2)	33%	4.21	1.40
Blended equity valuation	100%		5.18
Target price			5.20

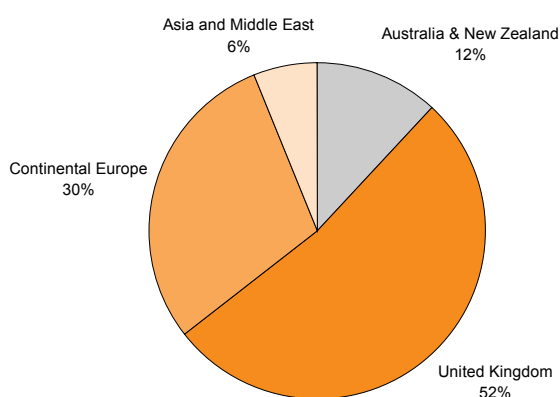
*PE and EV/EBITDA multiples derived from average of comparable companies (from Reuters consensus).
Source: RBS estimates

ISF – Buy, target price A\$0.93 (from A\$0.97)

As part of a UK pre-budget report, the UK Chancellor said in a recent interview that the some centralised parts of the NHS NPfIT programme were to be scaled back. Press reports suggest the centralised nature of the NHS's IT contracts (ie, centralised local-service-provider contracts) could be modified, but the existing contracts would be honoured.

We believe ISF is effectively a subcontractor to CSC. Should the LSPs be dismantled, we believe this could mean ISF would be able to sell directly into the UK NHS trusts, where it has 60% market share and therefore a first-mover advantage. We believe ISF's Lorenzo system is compatible with existing ISF products, unlike products from ISF's competitors, which would require the implementation of a new system and likely a larger capital outlay than for an ISF upgrade. We believe the barriers to exit for a health IT system are high.

Chart 5 : ISF – revenue by division, FY10F



Source: RBS forecasts

The changes to our FY10-12 forecasts due to our revised exchange rate forecasts are shown below.

Table 16 : ISF – changes to forecasts

	FY10F			FY11F			FY12F		
	Prev	Rev	Diff	Prev	Rev	Diff	Prev	Rev	Diff
EBIT (A\$m)	84.3	80.0	-5.1%	89.2	81.3	-8.9%	95.8	86.3	-10.0%
NPAT (A\$m)	54.8	51.6	-5.9%	58.1	51.9	-10.7%	64.5	56.8	-11.8%
EPS (c)	5.0	4.7	-5.9%	5.3	4.7	-10.7%	5.8	5.1	-11.8%
DPS (c)	1.0	1.0	0.0%	1.0	1.0	0.0%	1.0	1.0	0.0%
Net op cash flow (A\$m)	115.4	108.6	-5.9%	123.7	111.9	-9.5%	134.9	121.7	-9.7%

Source: RBS forecasts

As a result of earnings changes and updated comparables multiples, we change our target price for ISF. Our valuation methodology is shown below.

Table 17 : ISF – valuation methodology

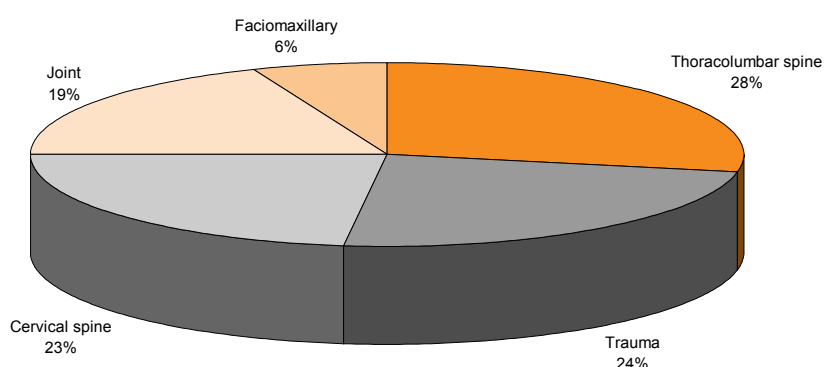
Metric	Weight	Valuation (A\$ per share)	Blended valuation (A\$ per share)
DCF valuation	33%	0.59	0.20
PE valuation* at (19.6x FY1)	33%	0.97	0.32
EV/EBITDA valuation* at (9.9x FY1)	33%	1.24	0.41
Blended equity valuation	100%		0.93
Target price			0.93

*PE and EV/EBITDA multiples derived from average of comparable companies (from Reuters consensus).
Source: RBS estimates

MSB – Hold (from Buy), target price unchanged at A\$1.21

MSB announced it has received clearance from the US Food and Drug Administration (US FDA) for a Phase II clinical trial of its MPCs in minimally invasive lumbar spinal fusion surgery. The 24-patient trial, based at multiple US sites, compares the effectiveness and safety of two low doses of MSB's product, NeoFuse, with autograft (patient's own hip bone) in minimally invasive surgery for lumbar spine fusion. Previous pre-clinical trials of NeoFuse in minimally invasive spinal fusion surgery showed that a lower dose than has previously been used in the lumbar spine resulted in significantly earlier bony fusion over three to six months compared with autograft, with no safety issues. In July 2008, the US FDA issued a statement that the safety and effectiveness of rhBMP in the cervical spine had not been demonstrated and these products were not approved by the FDA for this use. We think the anterior interbody cervical spine fusion market for BMPs is worth about US\$325m. As a result of the FDA decision, we believe there is currently no synthetic bone graft approved for anterior interbody cervical spine fusions. In the medium term, MSB's mesenchymal precursor cells (MPCs) may address this gap in the market.

Chart 6 : MSB – bone grafts performed in the US, 2006



Source: Company data

The changes to our FY10-12 forecasts due to our revised exchange rate forecasts are shown below.

Table 18 : MSB – changes to forecasts

	FY10F			FY11F			FY12F		
	Prev	Rev	Diff	Prev	Rev	Diff	Prev	Rev	Diff
EBIT (A\$m)	-11.0	-11.0	0.0	-12.4	-12.4	0.0	1.8	0.3	-1.5
NPAT (A\$m)	-13.2	-13.2	0.0	-14.5	-14.5	0.0	-0.1	-1.6	-1.6
EPS (c)	-9.7	-9.7	0.0	-9.5	-9.5	0.0	-0.1	-1.0	-1.0
DPS (c)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net op cash flow (A\$m)	-10.7	-10.7	0.0	-12.2	-12.2	0.0	3.4	1.8	-1.7

Source: RBS forecasts

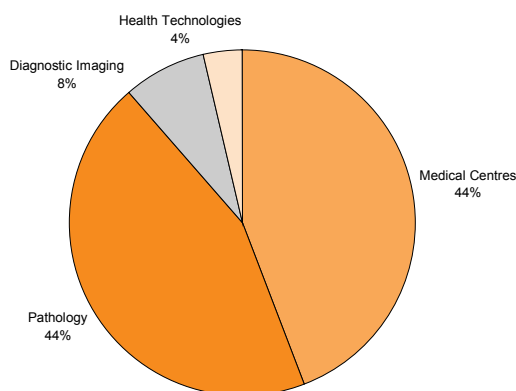
PRY – Hold, target price unchanged at A\$6.00

In the May 2009 Federal Budget the government changed the Patient Episode Reimbursement (PEI) scale from November 2009. Overall, there was a decline of up to 39.5% in reimbursement for one PEI item. The government previously forecast that this would lead to savings of up to A\$74m (3.6% of Australian Medicare Pathology spend) for FY10F.

In the May 2009 Federal Budget, the government changed the pathology reimbursement scale. PRY management stated at its recent AGM that without any adjustments, this would cause EBITDA reduction of up to A\$33m in FY09. In addition, PRY continues to lose market share in its Diagnostic Imaging (DI) division to independent DI practices.

PRY expects to grow EBITDA at a minimum of 15% pa in FY11 and FY12. We believe this is possible, and will likely be driven by: 1) greater-than-expected synergies – we believe best-case synergies from the SYB acquisition are A\$129.3m; and 2) increasing co-payments and the return of volume growth – we believe pathology and medical centres are reasonably price inelastic. Hence, over the medium term, we believe co-payment rates will increase in the pathology and medical centres businesses.

Chart 7 : PRY – EBIT by division, FY10F



Source: RBS forecasts

We have made no changes to our FY10-12 forecasts resulting from our revised exchange rate forecasts. This is shown below.

Table 19 : PRY – changes to forecasts

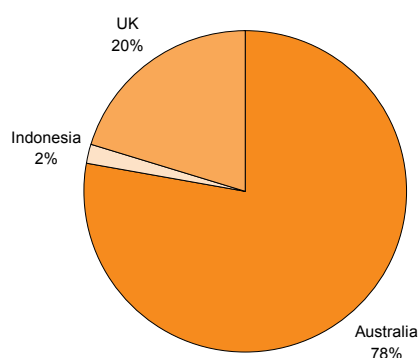
	FY10F			FY11F			FY12F		
	Prev	Rev	Diff	Prev	Rev	Diff	Prev	Rev	Diff
EBIT (A\$m)	329.2	329.2	0.0%	366.3	366.3	0.0%	399.2	399.2	0.0%
NPAT (A\$m)	171.1	171.1	0.0%	203.5	203.5	0.0%	230.6	230.6	0.0%
EPS (c)	36.4	36.4	0.0%	42.1	42.1	0.0%	47.7	47.7	0.0%
DPS (c)	35.0	35.0	0.0%	21.0	21.0	0.0%	24.0	24.0	0.0%
Net op cash flow (A\$m)	243.5	243.5	0.0%	278.6	278.6	0.0%	310.4	310.4	0.0%

Source: RBS forecasts

RHC – Hold, target price A\$10.40 (from A\$10.50)

We believe RHC offers solid, defensive earnings over the medium term. In terms of FY10 guidance, RHC management is targeting core NPAT growth of 12-14%. In the UK (21% of FY10F revenue) we forecast flat margin growth as we believe the impact of the UK recession will lead to decreasing numbers of higher-margin Private Medical Insurance admissions. RHC previously earmarked A\$580m of net capital expenditure to fund a multi-year program of brownfield expansion in Australia intended to increase the number of hospital beds. Of this, A\$300m has been spent. Management's target ROCE is up to 15% on these new beds. A significant EBIT contribution is likely to occur two to three years after the beds come on stream. Management said brownfield projects continue to pass through a heavy investment phase and made a positive contribution to EBIT in FY09. Our Australian brownfield bed assumptions are unchanged. In addition, RHC has previously invested A\$60m to expand and improve UK facilities, slated to be completed by 2H11.

Chart 8 : RHC – revenue by geography, FY10F



Source: RBS forecasts

We made no changes to our FY10-12 forecasts resulting from our revised exchange rate forecasts. This is shown below.

Table 20 : RHC – changes to forecasts

	FY10F			FY11F			FY12F		
	Prev	Rev	Diff	Prev	Rev	Diff	Prev	Rev	Diff
EBIT (A\$m)	322.8	322.8	0.0%	361.5	361.5	0.0%	401.4	401.4	0.0%
NPAT pre CARES (A\$m)	160.6	160.6	0.0%	190.3	190.3	0.0%	218.2	218.2	0.0%
NPAT post CARES (A\$m)	148.4	148.4	0.0%	184.6	184.6	0.0%	218.2	218.2	0.0%
EPS pre CARES (c)	84.9	84.9	0.0%	94.0	94.0	0.0%	107.7	107.7	0.0%
EPS post CARES (c)	78.5	78.5	0.0%	91.2	91.2	0.0%	107.7	107.7	0.0%
DPS (c)	40.0	40.0	0.0%	46.0	46.0	0.0%	54.0	54.0	0.0%
Net op cash flow (A\$m)	250.3	250.3	0.0%	290.0	290.0	0.0%	328.4	328.4	0.0%

Source: RBS forecasts

As a result of updated comparables multiples, we change our target price for RHC. We provide our valuation methodology below.

Table 21 : RHC – valuation methodology

Metric	Weight	Valuation (A\$ per share)	Blended valuation (A\$ per share)
DCF valuation	33%	13.34	4.45
PE valuation* at (13.4x FY1)	33%	9.34	3.11
EV/EBITDA valuation* at (7.2x FY1)	33%	8.54	2.85
Blended equity valuation	100%		10.41
Target price			10.40

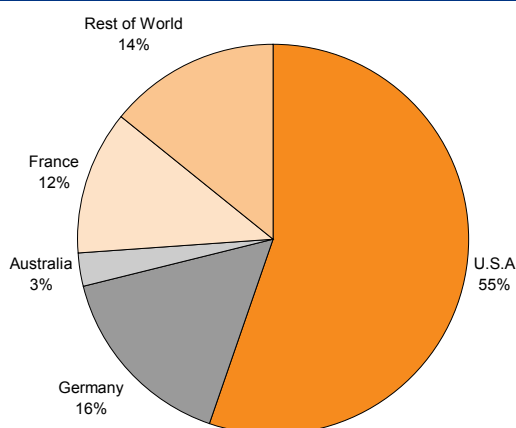
*PE and EV/EBITDA multiples derived from average of comparable companies (from Reuters consensus).
Source: RBS estimates

RMD – Hold, target price A\$5.40 (from A\$5.65)

We believe the US market is growing at 15-20% pa and that growth in the US is likely to continue throughout FY10 due to the growing awareness of the need for higher-margin autosetting devices in this region.

We continue to believe continuous positive airways pressure (CPAP) is the gold standard for obstructive sleep apnoea (OSA) treatment. However, a recent series of medical articles has demonstrated the efficacy of a new surgical treatment, originally designed to treat snoring, that may have a place in the treatment of mild-to-moderate OSA. This treatment is known as the Pillar Procedure and was originally developed by US-based Restore Medical. Restore Medical was acquired by Medtronic in July 2008 for US\$29m. Over the longer term, we believe the growing popularity of this procedure could lead to it becoming a potential competitor to CPAP for the treatment of mild-to-moderate OSA. Industry feedback from ENT surgeons suggests the procedure has been seen as a treatment for mild-to-moderate OSA. Going forward, we will be watching for whether the Pillar Procedure becomes a competitive threat to RMD's sales of CPAP equipment.

Chart 9 : RMD – revenue by geography, FY10F



Source: RBS forecasts

The changes to our FY10-12 forecasts due to our revised forex forecasts are shown below.

Table 22 : RMD – changes to forecasts

	FY10F			FY11F			FY12F		
	Prev	Rev	Diff	Prev	Rev	Diff	Prev	Rev	Diff
EBIT (US\$m)	228.7	218.3	-4.5%	263.4	226.7	-14.0%	306.9	262.1	-14.6%
NPAT (US\$m)	172.4	164.9	-4.4%	200.1	172.9	-13.6%	234.5	201.0	-14.3%
EPS (c)	225.7	215.7	-4.4%	264.4	228.2	-13.7%	309.8	265.3	-14.4%
DPS (c)	na	na	na	na	na	na	na	na	na
Net op cash flow (US\$m)	188.5	173.2	-8.2%	229.4	210.0	-8.5%	273.2	239.3	-12.4%

Source: RBS forecasts

As a result of earnings changes and updated comparables multiples, our target price for RMD has changed. This is shown below.

Table 23 : RMD – valuation methodology

Metric	Weight	Valuation (US\$ per share)	Blended (US\$ per share)
PE valuation* at (15.4x FY2)	33%	US\$33.26	US\$11.09
EV/EBITDA valuation* at (9.7x FY2)	33%	US\$39.19	US\$13.06
DCF valuation	33%	US\$71.76	US\$23.92
Blended equity valuation	100%		US\$48.07
Blended equity valuation per CDI – ASX			A\$5.40

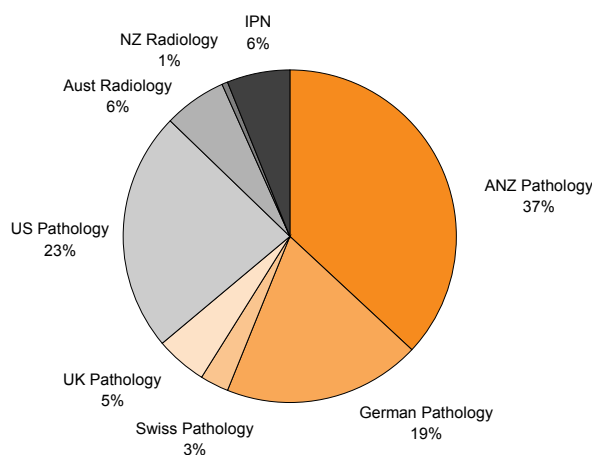
*PE and EV/EBITDA multiples derived from average of comparable companies (from Reuters consensus).
Source: RBS estimates

SHL – Hold, target price A\$13.90 (from A\$14.00)

SHL announced it has acquired East Side Clinical Lab, based in Providence, Rhode Island. East Side provides services throughout Rhode Island and parts of Southern Massachusetts, with current revenues of about US\$30m pa. We estimate the purchase price equates to a prospective EV/EBITDA (pre-synergies) of about 6x (in line with a SHL's recent acquisition multiple for PML and Axiom Labs in the US).

Management states that East Side will provide the opportunity for synergy capture, in that it will be integrated into SHL's North-East division. SHL has provided no guidance on synergies, but we believe there is potential for synergies from at least group purchasing of pathology-testing consumables. We estimate these at US\$1.3m pa at the EBITDA level from FY11, and we believe they will be ongoing. As a result of the inclusion of the acquisition in our forecasts, our EPS has increased 1.0% in FY10F and 1.7% in FY11F.

Chart 10 : SHL – EBIT by division, FY10F



Source: RBS forecasts

Changes to our FY10-12 forecasts due to our new exchange rate forecasts are shown below.

Table 24 : SHL – changes to forecasts

	FY10F			FY11F			FY12F		
	Prev	Rev	Diff	Prev	Rev	Diff	Prev	Rev	Diff
EBIT (A\$m)	523.5	516.6	-1.3%	582.5	559.8	-3.9%	628.6	599.4	-4.6%
NPAT (A\$m)	345.4	340.0	-1.6%	395.4	377.8	-4.4%	433.7	411.1	-5.2%
EPS (c)	88.4	87.0	-1.6%	100.6	96.2	-4.4%	110.4	104.6	-5.2%
DPS (c)	58.0	57.0	-1.7%	66.0	63.0	-4.5%	72.0	68.0	-5.6%
Net op cash flow (A\$m)	444.1	441.1	-0.7%	495.3	479.7	-3.1%	544.4	519.5	-4.6%

Source: RBS forecasts

As a result of earnings changes and updated comparables multiples, we change our target price for SHL. We provide our valuation methodology below.

Table 25 : SHL – valuation methodology

Metric	Weight	Valuation (A\$ per share)	Blended valuation (A\$ per share)
DCF valuation	33%	11.60	3.87
PE valuation* at (19.2x FY1)	33%	16.79	5.60
EV/EBITDA valuation* at (9.6x FY1)	33%	13.25	4.42
Blended equity valuation	100%		13.88
Target price			13.90

*PE and EV/EBITDA multiples derived from average of comparable companies (from Reuters consensus).
Source: RBS estimates

Table 26 : Healthcare comparables (rolling basis)

Company name	RIC	Yr end	Currency	Mkt cap (Local m)	Mkt cap (US\$m)	EV/EBITDA (x)				P/E (x)				EPS growth (%)		
						Actual	FY1	FY2	FY3	Actual	FY1	FY2	FY3	FY1	FY2	3Y CAGR
Pharmaceuticals																
CSL - RBS	CSL.AX	Jun-10	AUD	18,298	17,042	9.7	9.0	8.0	7.6	17.6	15.3	13.1	12.4	15.1%	16.4%	1.2
CSL - Consensus	CSL.AX	Jun-10	AUD	18,298	17,042	9.7	9.4	8.5	7.8	17.6	15.9	14.0	13.0	10.8%	13.1%	1.5
Amgen	AMGN.OQ	Dec-09	USD	57,540	57,540	7.8	7.6	7.5	7.5	11.9	11.1	10.5	10.4	6.8%	5.8%	2.4
AstraZeneca	AZ.N	Dec-09	USD	67,128	67,128	5.3	5.5	5.7	5.8	8.4	8.1	8.3	8.3	4.1%	-2.3%	19.6
Sanofi-Aventis	SASY.PA	Dec-09	EUR	69,573	103,587	5.8	5.7	5.8	5.8	9.5	8.3	8.2	8.2	14.2%	0.7%	1.7
Baxter	BAX.N	Dec-09	USD	34,176	34,176	10.2	9.1	8.2	8.0	15.5	13.6	12.2	11.9	14.3%	11.4%	1.5
Bayer	BAYG.F	Dec-09	USD	34,176	34,176	10.2	9.1	8.2	8.0	15.5	13.6	12.2	11.9	14.3%	11.4%	1.5
Eli Lilly	LLY.N	Dec-09	USD	42,962	42,962	6.5	6.1	5.8	5.8	12.6	8.1	7.9	7.8	55.6%	2.5%	0.5
Grifols S.A.	GRLS.MC	Dec-09	EUR	2,403	3,578	10.9	9.4	8.2	8.0	16.4	14.0	11.8	11.4	17.3%	18.0%	1.1
GlaxoSmithKline	GSK.L	Dec-09	GBP	68,059	112,535	7.7	7.5	7.2	7.2	11.6	10.8	10.4	10.3	7.8%	3.2%	2.8
Merck	MRK.N	Dec-09	USD	112,099	112,099	10.2	6.4	5.1	4.9	10.9	10.7	9.5	9.2	2.1%	13.1%	1.8
Novo Nordisk	NOVO.CO	Dec-09	DKK	199,226	39,862	11.2	10.7	9.8	9.5	19.4	16.9	15.0	14.7	14.7%	12.4%	1.7
Pfizer	PFE.N	Dec-09	USD	149,206	149,206	5.4	4.4	4.1	4.1	10.1	8.5	8.0	7.9	18.8%	6.0%	1.0
Roche	ROG.VX	Dec-09	CHF	146,118	144,250	10.4	9.6	8.9	8.8	14.4	12.8	11.7	11.5	12.1%	9.7%	1.6
Wyeth	WYE.N	Dec-09	USD	67,274	67,274	-	-	-	-	-	-	-	-	-	-	na
					Ave	8.6	7.7	7.2	7.0	13.4	11.7	10.7	10.5	14.8%	8.1%	
Medical Devices																
Cochlear - RBS	COH.AX	Jun-10	AUD	3,617	3,303	17.8	14.7	12.6	11.9	26.5	23.1	19.8	18.5	14.7%	16.5%	1.8
Cochlear - Consensus	COH.AX	Jun-10	AUD	3,617	3,303	17.8	14.9	12.7	11.7	26.5	23.1	19.6	17.8	14.7%	17.7%	1.6
Boston Scientific	BSX.N	Dec-09	USD	12,869	12,869	8.0	7.5	7.0	6.9	94.1	14.6	12.2	11.7	-	20.4%	0.1
Johnson & Johnson	JNJ.N	Dec-09	USD	177,576	177,576	8.8	8.4	7.9	7.8	14.1	13.3	12.1	11.9	6.0%	9.3%	2.3
Medtronic	MDT.N	Apr-10	USD	47,659	47,659	10.1	9.0	8.4	8.1	17.1	12.9	11.7	11.2	32.9%	10.0%	0.8
St Jude	STJ.N	Jan-10	USD	12,301	12,301	9.9	8.9	8.0	7.8	17.4	13.9	12.4	12.1	25.1%	12.1%	1.1
Stryker	SYK.N	Dec-09	USD	20,607	20,607	9.2	8.7	7.9	7.7	17.8	16.2	14.4	14.1	10.0%	12.3%	2.0
Synthes	SYST.VX	Dec-09	CHF	15,971	15,767	10.6	9.7	8.8	8.6	20.2	18.0	16.1	15.7	12.2%	11.8%	2.1
Zimmer	ZMH.N	Dec-09	USD	12,547	12,547	-	8.0	7.6	7.5	15.3	14.0	12.7	12.4	8.9%	10.6%	
					Ave	10.6	9.4	8.5	8.3	27.8	15.8	13.9	13.4	15.7%	13.0%	
Sleep Apnea																
Resmed - RBS	RMD.AX	Jun-10	AUD	3,917	3,917	14.2	12.1	10.5	9.5	26.2	22.1	18.9	16.9	18.3%	17.1%	1.4
Resmed (NY) - Consensus	RMD.N	Jun-10	USD	3,917	3,917	14.2	11.9	10.1	9.0	26.2	21.1	17.5	14.9	24.2%	20.6%	1.0
Fisher & Paykel - RBS	FPH.NZ	Mar-10	NZD	1,682	1,202	14.9	13.8	11.9	11.0	25.9	23.7	20.0	18.1	9.4%	18.6%	1.9
Fisher & Paykel - Consensus	FPH.NZ	Mar-10	NZD	1,676	1,202	14.7	13.4	11.5	10.6	25.9	23.1	19.3	17.5	12.3%	19.8%	1.6
Covidien Ltd.	COV.N	Sep-09	USD	23,612	23,612	9.4	8.7	7.9	7.9	14.2	12.9	11.6	11.6	10.3%	11.8%	1.8
					Ave	12.8	11.3	9.8	9.2	22.1	19.0	16.1	14.7	15.6%	17.4%	
Pathology & Radiology																
Sonic Healthcare - RBS	SHL.AX	Jun-10	AUD	5,562	5,035	11.4	10.4	9.4	8.9	16.6	15.6	13.8	13.0	6.7%	12.6%	1.8
Sonic Healthcare - Consensus	SHL.AX	Jun-10	AUD	5,562	5,035	11.4	10.6	9.7	9.1	16.6	15.6	14.1	13.1	6.3%	11.1%	1.9
Primary Health Care - RBS	PRY.AX	Jun-10	AUD	2,616	2,395	11.1	9.8	8.9	8.3	18.4	15.4	13.4	12.3	19.1%	15.1%	1.1
Primary Health Care - Consensus	PRY.AX	Jun-10	AUD	2,616	2,395	10.6	9.0	8.3	7.9	18.4	13.8	12.6	11.7	32.9%	10.2%	0.8
Healthscope - RBS	HSP.AX	Jun-10	AUD	1,245	1,140	9.1	7.9	7.1	6.6	13.6	13.0	12.3	10.9	4.4%	5.6%	1.7
Healthscope - Consensus	HSP.AX	Jun-10	AUD	1,245	1,140	8.0	7.2	6.5	6.1	15.8	13.4	12.2	11.0	17.2%	10.1%	1.1
Alliance Imaging, Inc.	AIQ.N	Dec-09	USD	310	310	4.9	4.8	4.8	4.8	22.5	22.5	22.1	27.2	-0.2%	1.7%	na
CML Healthcare Income Fund	CLC u.TO	Dec-09	CAD	1,225	1,166	10.6	9.8	9.6	9.2	11.8	11.0	10.8	14.1	7.7%	2.0%	-1.9
Bio-Reference Laboratories, Inc.	BRLI.OQ	Oct-09	USD	464	464	10.3	8.9	7.5	7.4	23.6	20.1	19.9	16.0	17.9%	0.9%	na
Genoptix, Inc.	GDX.OQ	Dec-09	USD	640	640	10.5	8.0	7.6	6.4	22.4	20.5	19.8	16.3	9.5%	3.1%	1.8
Laboratory Corp	LH.N	Dec-09	USD	7,758	7,758	8.1	7.7	7.6	7.0	15.5	13.8	13.5	12.2	12.2%	2.3%	1.7
Quest Diagnostics	DGX.N	Dec-09	USD	10,769	10,769	8.5	8.1	8.0	7.5	15.6	14.2	13.9	12.6	10.3%	1.7%	1.9
RadNet Inc.	RDNT.OQ	Dec-09	USD	77	77	5.4	5.0	5.0	5.2	-	8.4	7.3	7.3	-	14.4%	na
					Ave	8.7	7.8	7.4	7.0	17.3	14.8	14.0	13.9	12.0%	6.3%	
Hospitals																
Ramsay Healthcare - RBS	RHC.AX	Jun-10	AUD	2,150	1,969	8.4	7.8	7.1	6.6	14.6	13.3	11.4	10.1	9.9%	16.8%	1.0
Ramsay Healthcare - Consensus	RHC.AX	Jun-10	AUD	2,150	1,969	8.3	7.7	7.0	6.5	14.6	13.8	12.1	10.6	6.0%	13.8%	1.2
Healthscope - RBS	HSP.AX	Jun-10	AUD	1,245	1,140	9.1	7.9	7.1	6.6	13.6	13.0	12.3	10.9	4.4%	5.6%	1.7
Healthscope - Consensus	HSP.AX	Jun-10	AUD	1,245	1,140	8.0	7.2	6.5	6.1	13.6	13.4	12.2	11.0	1.1%	10.1%	1.9
Community Health Systems	CYH.N	Dec-09	USD	2,821	2,821	7.2	6.8	6.5	6.5	12.0	10.6	9.5	9.3	13.7%	11.4%	1.0
Health Mgt Ass.	HMA.N	Dec-09	USD	1,632	1,632	6.9	6.6	6.3	6.3	11.4	12.3	11.0	10.8	-7.6%	11.7%	1.2
Kindred Healthcare, Inc.	KND.N	Dec-09	USD	602	602	2.4	2.4	2.6	2.6	10.2	11.7	10.3	9.9	-12.8%	13.2%	6.8
Lifepoint Hospitals	LPNT.OQ	Dec-09	USD	1,603	1,603	6.3	6.0	5.8	5.8	11.7	11.2	10.4	10.2	4.9%	7.6%	10.7
Southern Cross Healthcare Group	SCHE.L	Sep-09	GBP	204	337	3.8	3.8	3.5	3.5	6.0	5.8	5.1	5.1	5.0%	13.4%	2.4
Universal Health Serv	UHS.N	Dec-09	USD	2,776	2,776	5.8	5.5	5.4	5.3	12.3	11.3	10.8	10.6	9.3%	4.8%	2.4
					Ave	6.1	5.7	5.4	5.3	11.5	11.3	10.2	9.7	2.4%	10.8%	
Consumer																
Sigma - RBS	SIP.AX	Jan-10	AUD	1,158	1,052	6.5	6.1	5.8	5.7	12.6	11.7	10.4	10.3	8.2%	11.9%	1.6
Sigma - Consensus	SIP.AX	Jan-10	AUD	1,158	1,052	6.5	6.3	5.9	5.8	12.6	10.5	9.8	9.6	19.8%	7.3%	1.1
Blackmores - RBS	BKL.AX	Jun-10	AUD	343	311	11.0	9.9	9.3	8.9	16.2	15.8	14.7	13.9	2.6%	7.4%	3.0
Blackmores - Consensus	BKL.AX	Jun-10	AUD	343	311	11.0	9.9	9.2	8.7	16.2	15.1	13.9	13.2	7.4%	8.9%	2.1
NBTY Inc	NTY.N	Sep-10	USD	2,653	2,653	8.6	7.0	-	-	18.3	12.2	11.3	11.4	50.0%	8.1%	0.7
USANA Health Sciences, Inc.	USNA.OQ	Jan-10	USD	485	485	8.6	7.8	-	-	15.5	13.6	11.9	11.5	14.1%	14.5%	1.3
Yakult Honsha	2267.T	Mar-10	JPY	477,129	5,304	-	-	-	-	42.3	47.8	38.8	32.1	-11.6%	23.1%	4.9
Roche	ROG.VX	Dec-09	CHF	146,118	144,250	10.4	9.6	8.9	8.8	14.4	12.8	11.7	11.5	12.1%	9.7%	1.6
Daiichi Sankyo	4568.T	Mar-10	JPY	1,256,519	13,969	8.7	8.2	7.3	6.8	16.4	22.4	17.7	16.3	-	26.2%	-0.1
Eisai	4523.T	Mar-10	JPY	943,057	10,484	7.7	7.4	7.7	8.1	16.9	14.9	15.8	16.7	13.3%	-5.5%	35.4
					Ave	8.8	8.0	7.8	7.6	15.0	18.7	16.4	15.3	15.0%	11.5%	
Pharmacy																
Aust Pharma - RBS	API.AX	Aug-10	AUD	320	257	4.8	4.2	3.8	3.7	9.3	11.3	9.1	8.3	-17.1%	24.3%	2.9
Aust Pharma - Consensus	API.AX	Aug-10	AUD	320	257	4.8	4.4	3.9	3.7	9.3	11.3	10.0	8.9	-17.1%	13.4%	6.8

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For UK-based Investment Funds research the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company. For listed property trusts (LPT) or real estate investment trusts (REIT) the recommendation is based upon the target price plus the dividend yield, ie total return.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months. Sector relative to market: The sector view relative to the market is the responsibility of the strategy team. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside. Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Distribution of recommendations

The tables below show the distribution of ABN AMRO's recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where ABN AMRO has an investment banking relationship.

Long Term recommendations (as at 11 Dec 2009)		
	Global total (IB%)	Asia Pacific total (IB%)
Buy	610 (10)	397 (1)
Add	0 (0)	0 (0)
Hold	403 (6)	224 (0)
Reduce	0 (0)	0 (0)
Sell	113 (0)	72 (0)
Total (IB%)	1126 (7)	693 (0)

Source: ABN AMRO

Trading recommendations (as at 11 Dec 2009)		
	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	6 (0)	6 (0)
Trading Sell	1 (0)	1 (0)
Total (IB%)	7 (0)	7 (0)

Source: ABN AMRO

Valuation and risks to target price

Ansell (RIC: ANN.AX, Rec: Buy, CP: A\$10.15, TP: A\$11.73): Our valuation and target price are derived using a blended DCF, PE multiple and SOTP methodology (EV/EBIT). The key downside risks to our target price are: 1) significant increases to the company's COGS via sharp increases in latex, nitrile and vinyl; 2) an unexpected decrease in global industrial demand; and 3) poor inventory and cost management by the company. Upside risks include: 1) material value-accretive acquisitions; and 2) a softer AUD/USD exchange rate.

Clinuvel Pharmaceuticals (RIC: CUV.AX, Rec: Buy, CP: A\$0.290, TP: A\$0.85): Our valuation of CUV is based on a discounted cash flow model, from which we derive our target price. Upside risks include the faster-than-expected progression to production of CUV's photoprotective technology, while downside risks include any delay or failure to progress clinical trials.

Cochlear (RIC: COH.AX, Rec: Hold, CP: A\$64.57, TP: A\$56.10): We use an even blend of DCF, normalised PE and capitalisation of EV/EBITDA valuation to derive our target price for COH. Downside risks to our target price include a faster-than-expected product release into the market from competitor Med-El in the US. Upside risks include faster-than-expected growth in cochlear implants or BAHA sales.

CSL Ltd (RIC: CSL.AX, Rec: Hold, CP: A\$30.15, TP: A\$35.30): Our target price is set at a premium to our blended DCF, PE, EV/EBITDA valuation to account for potential upside from a possible global pharma bid. Downside risks to our target price relate to irrational industry behaviour leading to potential oversupply of IVIG, which in turn could lead to price weakness, and lower-than-expected HPV revenues from Merck. Upside could come from IVIG demand in Alzheimer's disease.

Healthscope (RIC: HSP.AX, Rec: Buy, CP: A\$4.70, TP: A\$5.20): We use an even blend of DCF, EV/EBITDA and normalised PE to derive our target price. We use PE as it is a market standard and EV/EBITDA as this used widely in the global healthcare sector. Upside risks to our target price include greater-than-expected revenue growth in the hospital division due to increased reimbursement from private health insurers. Downside risks include the expected ongoing increase in revenue from the hospital division not arising and margin compression in the pathology division.

iSOFT Group (RIC: ISF.AX, Rec: Buy, CP: A\$0.695, TP: A\$0.97): Our target price is based on an even blended DCF, PE and EV/EBITDA valuation methodology. Upside risks to our target price include additional contract wins in its geographic jurisdictions and the successful delivery of Lorenzo to the UK NHS. Downside risks include increased competition from other healthcare IT providers and later-than-expected delivery of the UK Lorenzo software system.

Mesoblast (RIC: MSB.AX, Rec: Buy, CP: A\$1.330, TP: A\$1.21): Our valuation of MSB is based on a discounted cash flow model, from which we derive our target price. Upside risks include the faster-than-expected progression to production of MSB's MPC technology, while downside risks include the lack of scalability of the manufacturing process.

Primary Health Care (RIC: PRY.AX, Rec: Hold, CP: A\$5.54, TP: A\$6.00): We use an even blend of three methodologies to derive our valuation: DCF analysis, SOTP on an EV/EBITDA basis and SOTP on a normalised PE basis. Upside risks include greater-than-expected synergy capture from the SYB acquisition and reimbursement increases from public insurers in Australia. Downside risks include competition issues continuing in the Australian DI industry and a strong competitive response in PRY's pathology markets.

Ramsay Health Care (RIC: RHC.AX, Rec: Hold, CP: A\$10.56, TP: A\$10.50): We use an even blend of DCF, capitalisation of EV/EBITDA and normalised PE multiples to derive our valuation and target price (PE valuation is a market standard and EV/EBITDA is used widely in the global healthcare sector). Upside risks to our target price include greater-than-expected revenue growth in the hospital division due to increased reimbursement from the private health insurers, and an accretive acquisition. Downside risks include margin compression, particularly in the UK hospital business.

ResMed Inc (RIC: RMD.AX, Rec: Hold, CP: A\$5.72, TP: A\$5.65): We use an even blend of DCF, and a capitalisation of EV/EBITDA and normalised PE multiples to derive a target price for RMD. Downside risks are industry risk and the introduction of new entrants. Also, although the market appears attractive, high margins for all the major players mean there is a risk that another competitor could decrease the prices for its CPAP machines and masks to gain market share. Upside risks include a faster-than-expected rollout of home-diagnosis testing in the US market.

Sonic Healthcare (RIC: SHL.AX, Rec: Hold, CP: A\$14.58, TP: A\$14.00): We use an even blend of DCF, and a capitalisation of EV/EBITDA and normalised PE multiples to derive a valuation and target price for SHL. Downside risks to our target price include the expected increase in revenue from the UK pathology business not arising, and margin compression in the Australian pathology and diagnostic imaging businesses. Upside risks include accretive acquisitions.

Regulatory disclosures

Subject companies: **ANN.AX, CUV.AX, COH.AX, CSL.AX, HSP.AX, ISF.AX, MSB.AX, PRY.AX, RHC.AX, RMD.AX, SHL.AX**

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ABN AMRO is appointed by IBA Health Limited as financial advisor for the acquisition of iSOFT Plc. : **ISF.AX**

ABN AMRO is mandated in a lead role in facilitating the rights issue for IBA Health Limited in the offer for iSOFT Group, and will earn a fee for this role.: **ISF.AX**

ABN AMRO is appointed by IBA Health as Joint Lead Manager, Joint Bookrunner and Underwriter up to \$124 million equity raising, comprising a 2 for 7 accelerated non-renounceable pro-rata entitlement offer. : **ISF.AX**

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