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KPJ Healthcare Bhd

“Take Over Bid on Crossborder Hall and Crossborder Aim”

Latest Development

- Bid Takeover.** KPJ Healthcare (KPJ) has proposed an offer to acquire the entire stake in Crossborder Hall (M) Sdn Bhd and Crossborder Aim (M) Sdn Bhd, a company that is operating in Indonesia for purchase consideration of RM4.718 mil from Al-‘Aqar. The acquisition was proposed by the Group’s subsidiary Kumpulan Perubatan (Johor) Sdn Bhd (KPJSB) and AmanahRaya Trustees Bhd, the trustee for Al-‘Aqar Healthcare REIT.
- About Crossborder Hall and Crossborder Aim.** Crossborder Hall and Crossborder Aim is a special purpose vehicle wholly owned by Al-‘Aqar to operate private hospitals in Indonesia. Both companies own 50% equity interest in each in PT Al-‘Aqar Permata Hijau and PT Al-‘Aqar Bumi Serpong Damai with both incorporating in Indonesia.
- Rationale for the takeover.** We view that the takeover bid by KPJ is to leverage on the private sector growth in Indonesia to rationalize and streamline its operation to improve further taking advantage of the robust domestic economic growth. Hence, the takeover would be a positive move as healthcare sector is a recession proof as people seek healthcare no matter what’s happening to the economy.
- Impact to bottomline.** At this juncture, we are uncertain on the financial impact to KPJ as both companies are private limited companies. Hence, the financial information is restricted at this point. However, we view that the financial contribution from both companies possibly is too minute to the Group.

HOLD (FV: RM3.92)

Current Price (RM)	RM4.26
New Fair Value (RM)	RM3.92
Previous Fair Value (RM)	RM3.92
Previous Recomm.	HOLD
Upside to the Fair Value	-7%
Dividend Yield (FY15)	1.9%

Stock Code

Bloomberg	KPJ MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Healthcare
Shariah Compliance	Yes
Issued Shares	1,036mn
Market Cap	4,382.8mn
YTD Chg In Share Price	14.32%
Beta (x)	0.79
52-week Hi/Lo(RM)	4.27 2.97
6M Average Volume (shares)	1.524mn
Estimated Free Float	33%

Major Shareholders

Johor Corp	45%
EPF	11%
Lembaga Tabung Haji	10%

Nonetheless, we are of the view that the takeover bid is more on non-financial reason as KPJ is seemingly seeing as spreading its wings and leveraging on the rising of private healthcare industry in Indonesia and hence, building and enhancing its brand name there.

- **Change to forecast.** We leave unchanged of our FY15 and FY16 forecast as 1) the takeover bid is only at the early stage and the possibility of contribution is too minimal for Group's earnings
- **Valuation and recommendation.** We value KPJ at RM3.92 and the stock is a **HOLD**.

Table 1: Peers Comparison

Company	Year End	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	Div Yield (%)	Target Price	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
KPJ Healthcare	Dec	4.26	14	15	31	29	3	3	11.9	1.76	3.92	Hold
IHH Healthcare	Dec	5.98	12	14	51	42	3	2	4.0	0.50	4.92	Hold
PharmaNiaga	Dec	6.23	39	42	16	15	3	3	18.5	4.55	NA	NA
Average			22	24	33	28	3	2				

Source: Bloomberg, M&A Securities

Table 2: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	2,096	2,342	2,648	3,026	3,457
Gross profit	656	708	781	850	930
EBIT	171	149	182	207	236
PBT	197	159	195	222	253
Net profit	147	101	122	139	158
EPS (sen)	24	19	12	14	16
PBT margin	9%	9%	9%	7%	7%
Net profit margin	7%	7%	7%	5%	5%
PER (x)	24	33	32	24	24
P/BV (x)	4	4	3	3	3
DPS (sen)	7	6	6	7	7
Div Yield	1.9%	1.6%	1.6%	1.9%	1.9%

Source: Company, M&A Securities

Table 3: Projects committed under ETP

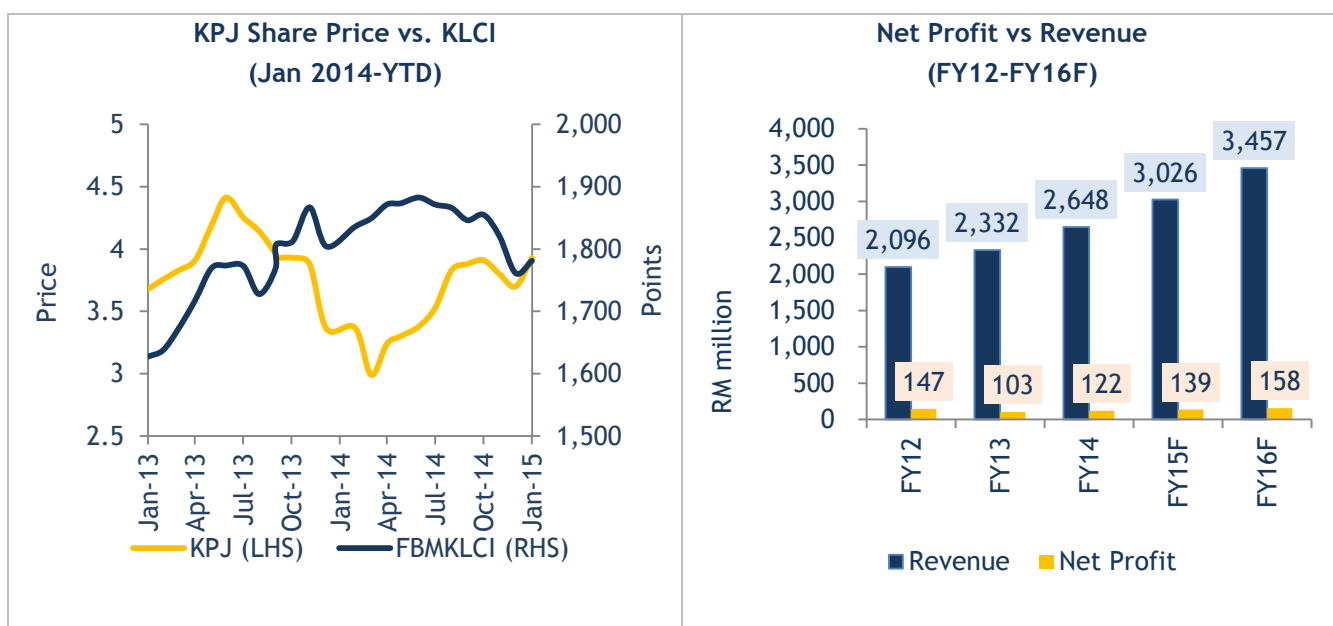
Project	Location	Total Capacity (Beds)	First Phase (Beds)	Estimated Completion
Tg Lumpur	Pahang	160	120	2015
Perlis	Perlis	90	60	2015
BDO	Johor	390	150	2016
Subtotal		640	330	

Source: Company, M&A Securities

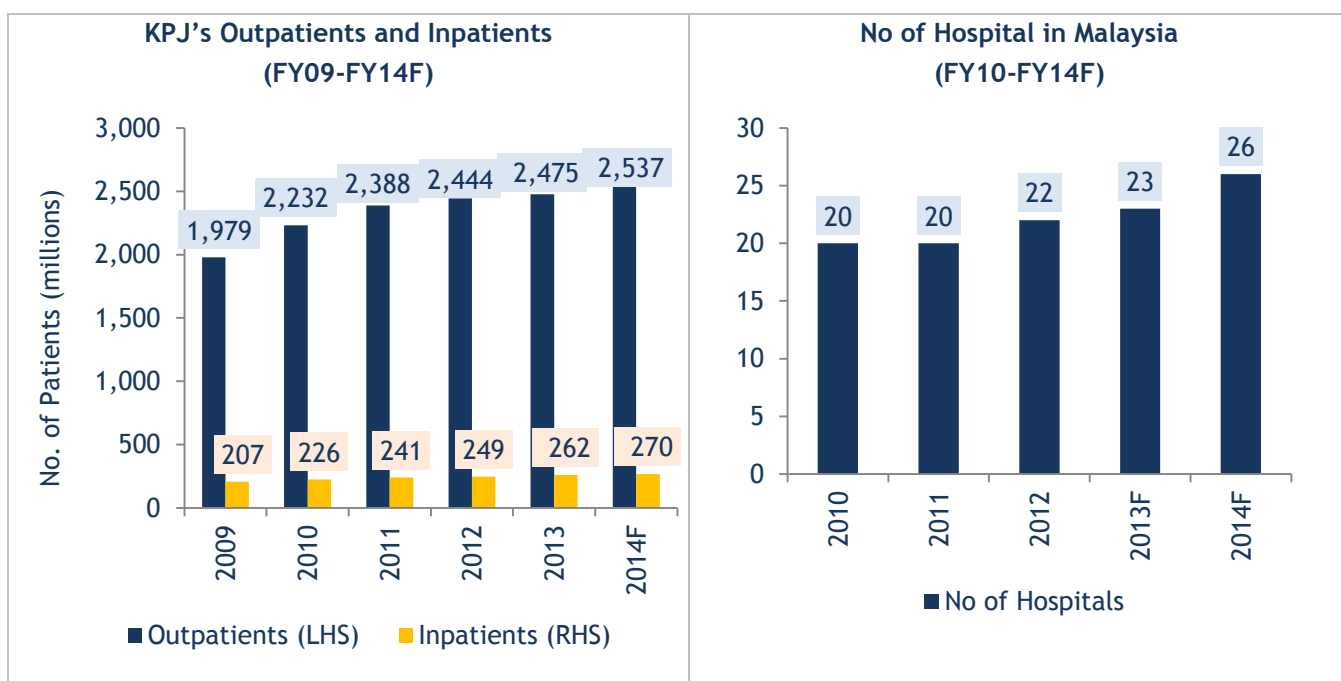
Table 4: Other ongoing projects

Project	Location	Total Capacity (Beds)	First Phase (Beds)	Estimated Completion
K/Bayuemas	Selangor	200	60	2016
Miri	Sarawak	120	60	2016
Subtotal		320	120	

Source: Company, M&A Securities



Source: Bloomberg, M&A Securities



Source: Company, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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