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Friday, May 29, 2015

## KPJ Healthcare Berhad

**“Business has been Profitable to give back to The Community”**

### Results Review

- Actual vs. expectations.** KPJ Healthcare Berhad (KPJ) clocked in 1Q15 net profit of RM34 million, (+12% y-o-y) that came in line with ours and consensus estimates, respectively, accounting 23% of ours and consensus full year net profit forecast. The better-than-expected net profit performance in 1Q15 was driven by higher contribution from the Malaysian segment, which registered a stronger growth of 7% y-o-y boosted by the increase in revenue from the existing and newly opened hospitals. EBIT increased to RM54 million (+23% y-o-y) in 1Q15 from RM44 million in the preceding year, pushing a gain in EBIT margin to 8% from 7% in 1Q14.
- Dividend.** Declared a first interim dividend of 2.6sen/share in 1Q15, equivalent to a dividend payout ratio of 81%.
- Top line vs Bottom line.** Malaysia segment posted RM633 million in revenue, which increased by 16% y-o-y in 1Q15 backed by higher contribution from existing hospitals and newly opened hospitals in Rawang and Muar for the group. Net profit from the Malaysia segment grew to RM53 million from RM50 million in 1Q15 which jumped by 7% y-o-y. As for the Indonesia segment, revenue surged to RM12 million (+7% y-o-y) in 1Q15 attributed by PT Khidmat Perawatan Jasa Medika in line with the improvement in their operational efficiencies in the current quarter as well as RS Bumi Serpong Damai. Furthermore, Indonesia operation has turnover after recording a net profit RM251k in 1Q15 from a net loss of RM357k in 1Q14.

### HOLD (FV: RM3.92 )

Current Price (RM)	RM4.22
New Fair Value (RM)	RM3.92
Previous Fair Value (RM)	RM3.40
Previous Recomm.	HOLD
Upside to the Fair Value	-7%
Dividend Yield (FY15)	1.8%

### 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	4,403.5mn
YTD Chg In Share Price	14.86%
Beta (x)	0.77
52-week Hi/Low(RM)	4.30   3.22
6M Average Volume (shares)	1.838mn
Estimated Free Float	37%

### Major Shareholders

Johor Corp	45%
EPF	10%
LembagaTabung Haji	7%

- Aged Care Facility.** Meanwhile, The Aged Care Facility posted RM12 million in revenue in 1Q15 which grew tremendously by 54% y-o-y. This was driven by the increase in total commonwealth subsidy from AUD125 to AUD169 per resident day, which was also boosted by the higher occupancy rate tagging along with the marketing and distribution of pharmaceutical, medical and surgical products. Net loss from the Aged Care dropped to RM1.2 million in 1Q15 from RM2.5 million in 1Q14.
- Outlook.** KPJ will gradually open up additional wards and beds in 2015 in order to meet patient demands. The Group will start the construction of new hospitals in Tanjung Lumpur, Perlis, Bandar Dato Onn, Kota Bayuemas and Miri. Replicating the aged care facility in Australia, Jeta Gardens Aged Care and Retirement Village, the group plans to build a retirement homes at Bandar Dato' Onn, Johor with a total capacity of approximately 390 beds but it will start once the new hospital is completed in FY16. The group also is looking out to grow its foreign patients through the medical tourism. They foresee that, Singapore and Thailand are the key potential as both countries have lower cost of private healthcare. Furthermore, KPJ expects by 2017, the group's bed capacity could reach approximately 4,000 beds based on the number of hospitals that would be opened in the country, driven by aging demographics, growing upper class/middle and increasing of medical tourists from non-traditional market for medical hub.
- Change to forecast.** No change to our earnings forecast. FY15 and FY16 earnings are projected to increase by 3% y-o-y and 18% y-o-y to RM149 millions and RM176 millions, lifted by i) the upgrading of private cloud system to link patient data which could save 30%-40% in hardware costs over the period of 5 years and ii) earnings contribution from higher bed occupancy at the new KPJ hospitals in Klang, Pasir Gudang, Kota Kinabalu, Rawang and Muar.
- Valuation.** We value KPJ at RM3.92 and the stock is a **HOLD**, pegged at 3-years PER 28x as the healthcare sector is seen as inflationary proof and supporting the stock will come from i) increase in population residing in urban areas ii) increase in aging population, and iii) participation of Malaysian Government in medical tourism.

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	4.22	14	15	31	29	3	3	11.9	1.76	3.92	Hold
IHH Healthcare	Dec	5.80	12	14	50	42	2	2	4.0	0.51	5.19	Sell
PharmaNiaga	Dec	6.90	41	42	17	17	4	3	15.9	4.38	NA	NA
Average			22	24	32	29	3	2				

Source: Bloomberg, M&amp;A Securities

Table 2: Earnings Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	2,096	2,342	2,641	3,011	3,342
Gross profit	656	708	874	994	1,103
EBIT	171	149	225	253	281
PBT	197	159	218	242	283
Net profit	147	101	145	149	176
EPS (sen)	24	19	14	14	17
PBT margin	9%	7%	8%	8%	8%
Net profit margin	7%	4%	5%	5%	5%
PER (x)	24	33	32	28	23
P/BV (x)	4	4	3	3	3
DPS (sen)	7	6	6	7	7
Div Yield	1.90%	1.60%	1.60%	1.79%	1.79%

Source: Company, M&amp;A Securities

Table 3: Results Highlight

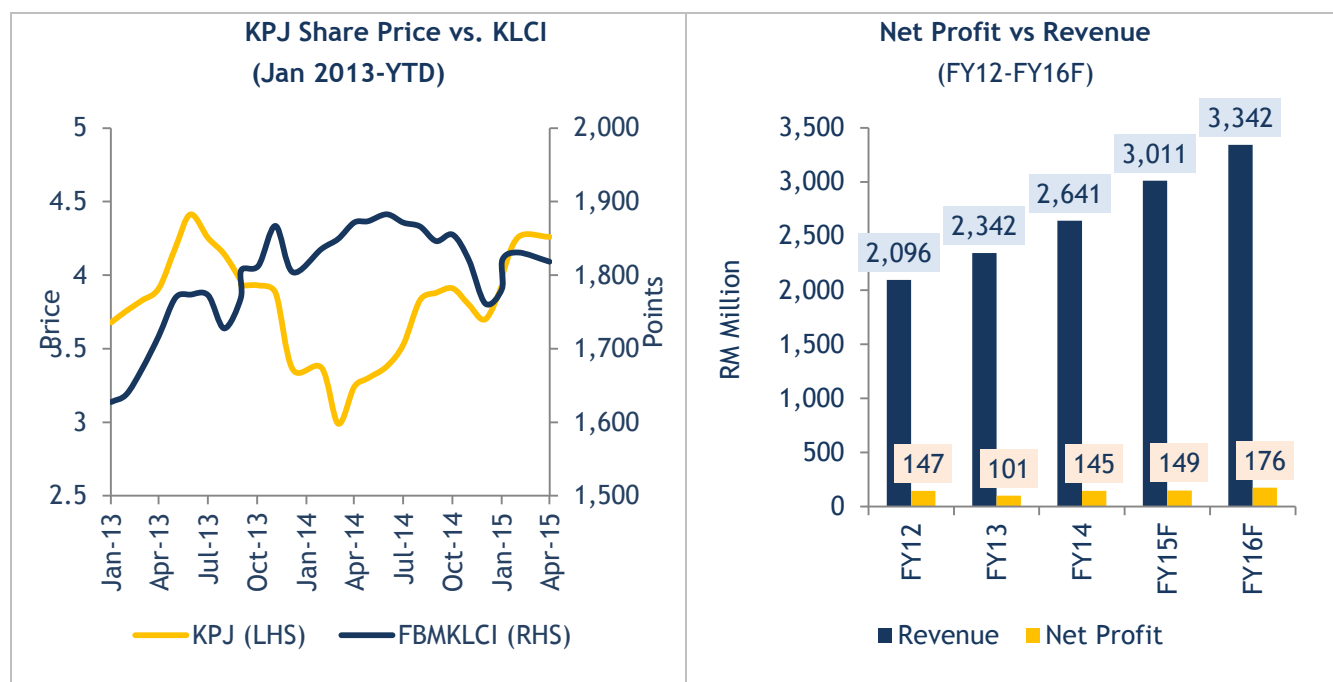
YE: Dec (RM million)	1Q15	1Q14	4Q14	q-o-q	y-o-y	3M15	3M14	y-o-y
Revenue	710	603	718	-1%	18%	710	603	18%
EBIT	54	44	76	-29%	23%	54	44	23%
PBT	51	45	71	-28%	11%	51	45	11%
Taxation	(14)	(13)	(23)	-39%	8%	(14)	(13)	8%
Net Profit	34	30	55	-38%	12%	34	30	12%
EPS (sen)	3.2	2.9	4.2	-24%	9%	3.2	2.9	9%
EBIT margin	8%	7%	11%			8%	7%	
PBT margin	7%	8%	10%			7%	8%	
Net profit margin	5%	5%	8%			5%	5%	
Effective tax rate	-28%	-29%	-33%			-28%	-29%	

Source: Company, M&amp;A Securities

Table 4: Segmental

	3M15	3M14	y-o-y
<b>Revenue</b>			
Malaysia	633	545	16%
Indonesia	12	11	7%
Thailand	0	0	-
Australia	12	8	54%
<b>PAT</b>			
Malaysia	53	50	7%
Indonesia	0	(0)	-170%
Thailand	1	0	1281%
Australia	(1)	(3)	-55%

Source: Bloomberg, M&amp;A Securities



Source: Bloomberg, M&A Securities

## M&A Securities

### STOCK RECOMMENDATIONS

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

### SECTOR RECOMMENDATIONS

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

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