

17 August 2018 | 2QFY18 Results Review

## KPJ Healthcare Berhad

*1HFY18 results within expectations*

**Downgrade to NEUTRAL**  
(Previously BUY)

**Unchanged Target Price (TP): RM1.16**

### INVESTMENT HIGHLIGHTS

- **1HFY18 earnings met expectations at RM84.8m**
- **Cost optimisation initiatives by new hospitals lifted earnings**
- **Indonesian segment turned loss making**
- **Headline operating statistics remains steady**
- **FY18-19F earnings maintained**
- **Downgrade to NEUTRAL with unchanged TP of RM1.16**

**Met expectations.** KPJ Healthcare Bhd's (KPJ) 2QFY18 earnings came in at RM42.6m (+27.9%yoy). This brings its 1HFY18 earnings to RM84.8m which met expectations, accounting for 45.0% and 50.0% of ours and consensus' full year forecasts respectively. A second interim dividend of 5.0sen was also declared for the quarter-under-review, bringing the total dividend declared to-date to 10sen.

#### **Cost optimisation initiatives by new hospitals lifted earnings.**

In 2QFY18, revenue generated from the Malaysian operation improved by +2.9%yoy contributed by the increase in number of patient and complex cases per patient, particularly for KPJ Rawang, KPJ Bandar Maharani and KPJ Pasir Gudang. In addition, the commencement of KPJ Perlis from 17<sup>th</sup> May 2018 had also contributed to revenue. Nevertheless, the solid improvement in earnings was mainly contributed by the cost optimisation initiatives by new hospitals which were under gestation period.

**Indonesian segment turned loss making.** KPJ's Indonesian cumulative revenue declined by -18.6%yoy. This resulted in a net loss of RM2.5m. This was mainly attributable to the lower patients admissions recorded at Rumah Sakit Medika Bumi Serpong Damai (inpatient: -31.3%yoy, outpatients: -8.2%yoy) and also due to the appreciation of Malaysian Ringgit which resulted in a foreign exchange loss. Meanwhile, the number of inpatients and outpatients for Rumah Sakit Permata Hijau (RSPH) increased by +13.5%yoy and +10.6%yoy respectively.


**Malaysia headline operational statistics remain steady.** In 2QFY18, we note that the number of admissions for inpatient for Malaysia was up by +1.6%yoy whilst outpatient admission increased by +1.2%yoy. Meanwhile, revenue growth per inpatient and per outpatient for Malaysia grew at +3.1%yoy and +1.2%yoy respectively. Additionally, occupancy rate for beds dropped to 65% (vs 68% in 2QFY17) while the overall average length of stay remained resilient at 2.5 days.

### RETURN STATS

Price (16 <sup>th</sup> August 2018)	RM1.14
Target Price	RM1.16
Expected Share Price Return	+1.8%
Expected Dividend Yield	+2.5%
<b>Expected Total Return</b>	<b>+4.3%</b>

### STOCK INFO

KLCI	1785.94
Bursa / Bloomberg	5878 / KPJ MK
Board / Sector	Services Products
Syariah Compliant	YES
Issued shares (mil)	4,206.9
Market cap. (RM'm)	4,795.87
Price over NA	2.84x
52-wk price Range	RM0.84-RM1.17
Beta (against KLCI)	0.62
3-mth Avg Daily Vol	6.89m
3-mth Avg Daily Value	RM7.17m
Major Shareholders (%)	
Johor Corp	44.54
EPF	10.98
Waqaf An-Nur	7.24
LTH	3.30

**Downgrade our recommendation to NEUTRAL with an unchanged TP of RM1.16.** Going forward, we are expecting further improvements in terms of revenue contributions coming from KPJ's new hospitals as well as its more matured hospitals. The anticipated opening of a new hospital (KPJ Bandar Dato' Onn) in 3QFY18 would further accelerate the revenue growth rate for the year. However, we expect the Indonesian operations to remain loss-making in the foreseeable term mainly due to lack of contract doctors. Moreover, the key risks to our forward estimates are: (i) delay in opening of new hospitals; (ii) longer-than-expected gestation period for new hospitals; (iii) lower-than-expected inpatient admissions and revenue per patient; and (iv) increase in operations cost. On another note, the share price had risen +25.3% since our BUY recommendation on the 12<sup>th</sup> December 2017. We believe that the market has already priced-in the positivity. All factors considered, we are downgrading our recommendation to **NEUTRAL** (previously BUY) with an unchanged target price of **RM1.16** per share (TG: 3.0%, WACC: 8.32%). 

## INVESTMENT STATISTICS

FYE Dec (RM'm)	2015	2016	2017	2018F	2019F
Revenue	2,847.6	3,021.1	3,180.0	3,893.0	4,292.1
Cost of Sales	(2,021.2)	(2,123.1)	(2,214.7)	(2,645.2)	(2,915.6)
<b>Gross profit</b>	<b>826.4</b>	<b>898.0</b>	<b>965.4</b>	<b>1,247.8</b>	<b>1,376.5</b>
Finance costs	(50.4)	(83.1)	(80.0)	(71.6)	(75.9)
<b>Profit before tax</b>	<b>209.6</b>	<b>210.2</b>	<b>233.3</b>	<b>305.6</b>	<b>348.3</b>
Income tax expense	(62.2)	(50.5)	(56.1)	(90.0)	(104.3)
<b>Net Profit (RM'm)</b>	<b>145.1</b>	<b>155.9</b>	<b>165.5</b>	<b>200.0</b>	<b>226.3</b>
GP margin (%)	29.0	29.7	30.4	32.1	32.1
PBT Margin (%)	7.4	7.0	7.3	7.9	8.1
Net Profit Margin (%)	5.1	5.2	5.2	5.1	5.3
EPS (sen)	3.2	3.3	3.8	4.2	4.8
PER (x)	31.7	30.9	25.4	27.1	24.0
Dividend per share (sen)	7.9	1.6	1.6	2.8	3.2
Dividend yield (%)	7.8	1.6	1.7	2.5	2.8
Tax rate (%)	29.7	24.0	24.0	29.5	29.9

Source: Company, MIDFR

**Table 1: KPJ's quarterly segmental breakdown**

FYE Dec (RM'm)	Quarterly results				Cumulative results			
	2QFY17	1QFY18	2QFY18	QoQ (%)	YoY (%)	1HFY17	1HFY18	YoY (%)
<b>Revenue</b>								
Malaysia	752.5	797.3	777.7	(2.5)	3.3	1,503.0	1,575.0	4.8
Others	26.1	25.5	23.6	(7.5)	(9.3)	30.0	49.7	65.6
Australia (Disc.operation)	14.4	14.9	14.8	(1.0)	2.4	29.1	29.7	2.0
<b>Total (ex. Australia)</b>	<b>778.6</b>	<b>822.9</b>	<b>801.3</b>	<b>(2.6)</b>	<b>2.9</b>	<b>1,572.3</b>	<b>1,624.2</b>	<b>3.3</b>
<b>PBT</b>								
Malaysia	49.1	63.9	64.0	0.2	30.4	105.4	127.9	21.4
Others	(1.6)	(3.0)	(2.6)	(12.8)	63.9	(0.1)	(5.6)	7,017.9
Australia (Disc.operation)	(2.0)	0.5	(0.4)	(186.9)	(78.8)	(5.1)	0.1	(101.2)
<b>Total (ex. Australia)</b>	<b>47.5</b>	<b>60.9</b>	<b>61.4</b>	<b>0.9</b>	<b>29.3</b>	<b>105.3</b>	<b>122.3</b>	<b>16.2</b>

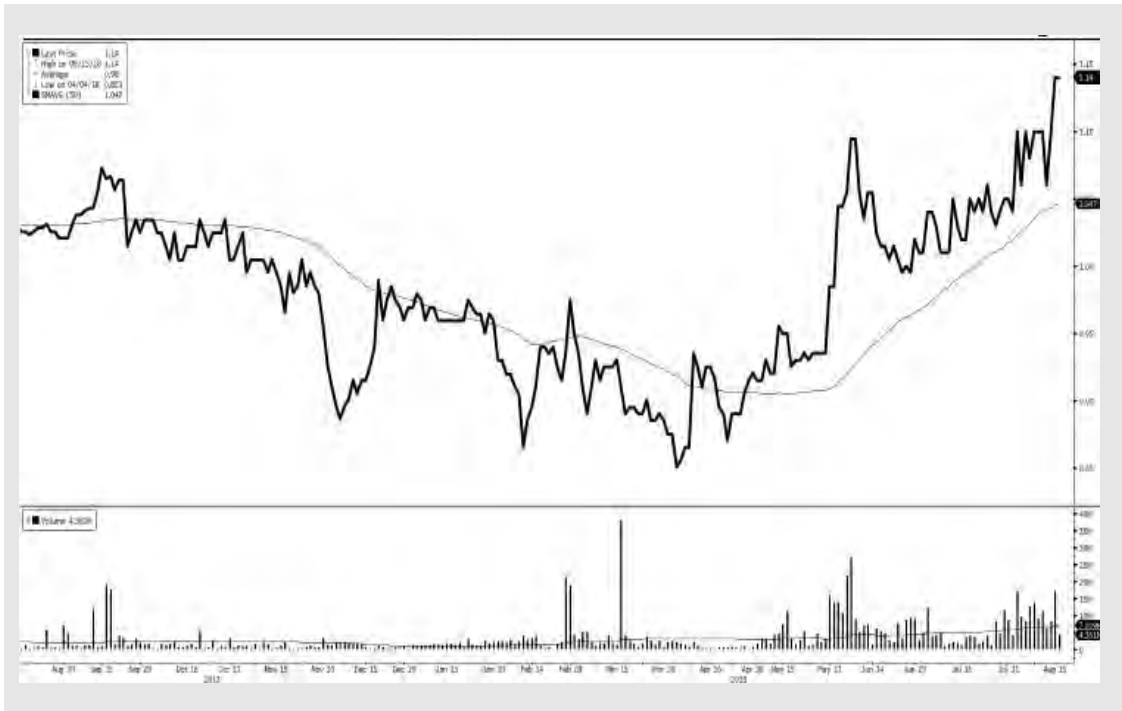
Source: Company, MIDFR

## KPJ Healthcare Bhd: 2QFY18 Results Review

FYE Dec (RM'm)	Quarterly results				Cumulative results			
	2QFY17	1QFY18	2QFY18	QoQ (%)	YoY (%)	1HFY17	1HFY18	YoY (%)
<b>Revenue</b>	<b>778.6</b>	<b>822.9</b>	<b>801.3</b>	(2.6)	2.9	<b>1,557.8</b>	<b>1,624.2</b>	4.3
Cost of sales	(545.4)	(572.1)	(558.6)	(2.4)	2.4	(1,089.4)	(1,130.7)	3.8
<b>Gross Profit</b>	<b>233.2</b>	<b>250.8</b>	<b>242.7</b>	(3.2)	4.1	468.4	493.5	5.3
Admin Expenses	(182.5)	(185.0)	(172.9)	(6.5)	(5.3)	(353.1)	(357.9)	1.4
Other Income	5.3	5.0	4.2	(16.5)	(20.8)	10.2	9.2	(10.3)
<b>Operating Profit</b>	<b>55.9</b>	<b>70.8</b>	<b>74.0</b>	4.5	32.3	125.6	144.8	15.3
Finance Income	4.2	1.0	3.2	209.9	(25.6)	6.6	4.2	(36.9)
Finance Costs	(19.8)	(20.3)	(22.5)	11.0	13.6	(40.7)	(42.8)	5.2
Associates	7.2	9.3	6.8	(27.1)	(5.3)	13.8	16.1	17.2
<b>Profit Before Tax &amp; Zakat</b>	<b>47.5</b>	<b>60.9</b>	<b>61.4</b>	0.9	29.3	105.3	122.3	16.2
Zakat	(1.8)	(1.1)	(1.6)	47.8	(12.3)	(2.2)	(2.7)	20.5
Taxation	(12.3)	(14.8)	(14.8)	0.2	20.8	(26.5)	(29.6)	12.1
<b>Profit After Tax &amp; Zakat</b>	<b>33.4</b>	<b>45.0</b>	<b>45.0</b>	(0.0)	34.6	76.6	90.0	17.5
Minority Interest	0.1	2.8	2.4	(13.5)	1,705.2	3.3	5.2	59.6
<b>PATAMI</b>	<b>33.3</b>	<b>42.2</b>	<b>42.6</b>	0.9	27.9	73.4	84.8	15.6
Basic EPS (sen)	0.7	1.0	1.0	0.8	31.1	1.7	1.9	14.9
Diluted EPS (sen)	0.7	0.8	0.9	0.5	30.8	1.5	1.7	15.6
Dividend per share (sen)	-	0.5	0.5	-	nm	0.6	1.0	81.8
GP margin (%)	29.9	30.5	30.3	(0.6)	1.1	30.1	30.4	1.0
Operating Profit margin (%)	7.2	8.6	9.2	7.3	28.6	8.1	8.9	10.6
PBTZ margin(%)	6.1	7.4	7.7	3.6	25.6	6.8	7.5	11.4
PATZ margin(%)	4.3	5.5	5.6	2.7	30.8	4.9	5.5	12.7
PATAMI margin(%)	4.3	5.1	5.3	3.6	24.3	4.7	5.2	10.9
Tax rate (%)	25.8	24.3	24.2	(0.7)	(6.5)	25.1	24.2	(3.5)

Source: Company, MIDFR

## DAILY PRICE CHART



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## MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.