31 May 2018 | 1QFY18 Results Review

KPJ Healthcare Berhad

Higher contribution from new hospitals boosted earnings

***Maintain* BUY**

***Revised* Target Price (TP): RM1.16**
(Previously RM1.12)

INVESTMENT HIGHLIGHTS

- **1QFY18 earnings met expectations at RM42.2m**
- **Revenue boosted by increase in inpatient admission and complex cases**
- **Low patient admissions reduced Indonesian revenue contribution**
- **Headline operating statistics remains stable**
- **FY18-19F earnings maintained**
- **Maintain BUY with a revised TP of RM1.16 per share**

Met expectations. KPJ Healthcare Bhd's (KPJ) 1QFY18 earnings came in at RM42.2m which met ours and consensus expectations, accounting for 23% and 25.2% of ours and consensus full year forecasts respectively. Revenue and earnings increase by +5.6% and 5.4%yoy respectively while, on a quarterly sequential basis, revenue was flat at -1.3% while earnings dipped by -33%. A first interim dividend of 5sen was also declared for the quarter-under-review.

Revenue boosted by increase in inpatients admissions and complex cases. In 1QFY18, KPJ's increase in revenue was mainly due to the combination of higher contribution from new hospitals as well as increase in inpatient admission and complex cases undertaken during the quarter, particularly for KPJ Rawang, with its number of beds increased by +45%yoy to 128 beds. Other hospitals that registered a double digit growth in number of inpatients include: KPJ Tawakkal, KPJ Klang, KPJ Pasir Gudang and KPJ Bandar Maharani, which translated to higher revenue for the quarter.

Low patient admissions reduced Indonesian revenue contribution. KPJ's Indonesian cumulative operations revenue and PBT during the quarter declined by -18.6% and -172.3% respectively. This is mainly contributed by the lower patients admissions recorded at Rumah Sakit Medika Bumi Serpong Damai (inpatient: -4.2%yoy, outpatients: -11.9%yoy) and also due to the appreciation of Malaysian Ringgit towards the end of the quarter which resulted in a foreign exchange loss.

RETURN STATS	
Price (30 May 2018)	RM0.94
Target Price	RM1.16
Expected Share Price Return	+23.4%
Expected Dividend Yield	+4.4%
Expected Total Return	**+27.8%**

STOCK INFO	
KLCI	1,719.28
Bursa / Bloomberg	5878 / KPJ MK
Board / Sector	Services Products
Syariah Compliant	YES
Issued shares (mil)	4,213.39
Market cap. (RM'm)	3,960.59
Price over NA	2.29
52-wk price Range	RM0.84-RM1.14
Beta (against KLCI)	0.56
3-mth Avg Daily Vol	3.17m
3-mth Avg Daily Value	RM2.94m
Major Shareholders (%)	
Johor Corp	44.14
EPF	13.03
Waqaf An-Nur	7.23

Headline operational statistics remain stable. In 1QFY18, we note that the number of admissions for inpatient for Malaysia was up by +5.2%yoy whilst outpatient admission increased marginally by +4.1%yoy. Meanwhile, revenue growth per inpatient and per outpatient for Malaysia was flat at +0.4% and +1.5% respectively. Additionally, occupancy rate for beds was also flat at 69% (vs 68% in 1QFY17) with an average length of stay of 2.5 days. For Indonesia, the number of inpatients and outpatients for Rumah Sakit Permata Hijau (RSPH) increased by +3.9% and +11.6% respectively whilst for Rumah Sakit Bumi Serpong Damai (RSBSD), the number of inpatients and outpatients declined by -27.8% and -4.2% respectively. In terms of revenue per inpatient and outpatient, the Indonesian hospitals recorded -18.8% and -10% respectively.

FY18-19F earnings maintained. We are maintaining our earnings forecasts at this juncture as we believe that KPJ is on track to meet our earnings projections. The key risks to our earnings 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.

Maintain BUY with a revised Target Price (TP) of RM1.16. Post earnings announcement, we are reiterating our **BUY** recommendation on KPJ with a revised TP of **RM1.16** (from RM1.12 previously) per share (TG: 3.0%, WACC: 8.32%) as we roll forward our valuation base year to FY19. 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. Additionally, we are expecting KPJ Perlis which was opened on 17th May 2018 and KPJ Bandar Dato' Onn which is expected to be opened in 3QFY18 to further drive the revenue growth for the year. Furthermore, we deem that KPJ is attractive in terms of valuation as it remains undervalued when compared against its regional peers. Despite having 25 hospitals in its network, KPJ continues to trade below regional average at FY18F PER at 22x vs an average of 30-40x for its regional peers with lesser number of hospital under their belt.

Table 1: KPJ's quarterly earnings review

FYE Dec (RM'm)	Quarterly results				
	1QFY17	**4QFY17**	**1QFY18**	**QoQ (%)**	**YoY (%)**
Revenue	**779.2**	**833.7**	**822.9**	(1.3)	5.6
Cost of sales	(544.0)	(566.1)	(572.1)	1.1	5.2
Gross Profit	**235.3**	**267.6**	**250.8**	(6.3)	6.6
Admin Expenses	(170.6)	(198.8)	(185.0)	(6.9)	8.4
Other Income	5.0	10.8	5.0	(53.7)	0.8
Operating Profit	**69.7**	**79.7**	**70.8**	(11.1)	1.6
Finance Income	2.4	3.9	1.0	(73.5)	(57.0)
Finance Costs	(20.9)	(22.5)	(20.3)	(9.9)	(2.9)
Associates	6.6	16.1	9.3	(42.0)	41.6
Profit Before Tax & Zakat	**57.8**	**77.1**	**60.9**	(21.0)	5.4
Zakat	(0.4)	(1.0)	(1.1)	10.5	168.8
Taxation	(14.2)	(13.1)	(14.8)	12.8	4.5
Profit After Tax & Zakat	**43.2**	**63.0**	**45.0**	(28.6)	4.2
Minority Interest	3.1	-	2.8	nm	(10.8)
PATAMI	**40.1**	**63.0**	**42.2**	(33.0)	5.4
Basic EPS (sen)	0.9	1.4	1.0	(33.1)	2.0
Diluted EPS (sen)	0.8	1.3	0.8	(33.1)	3.4
Dividend per share (sen)	0.6	0.4	0.5	25.0	(9.1)
				(+/-) ppts	
GP margin (%)	30.2	32.1	30.5	(5.1)	0.9
Operating Profit margin (%)	8.9	9.6	8.6	(9.9)	(3.8)
PBTZ margin(%)	7.4	9.2	7.4	(20.0)	(0.2)
PATZ margin(%)	5.5	7.6	5.5	(27.6)	(1.3)
PATAMI margin(%)	5.1	7.6	5.1	(32.1)	(0.2)
Tax rate (%)	24.5	17.0	24.3	42.8	(0.9)

Source: Company, MIDFR

Table 2: KPJ's quarterly segmental breakdown

FYE Dec (RM'm)	Quarterly results				
	1QFY17	4QFY17	1QFY18	QoQ (%)	YoY (%)
Revenue					
Malaysia	750.4	806.1	797.3	(1.1)	6.3
Indonesia	13.1	11.2	10.7	(4.8)	(18.6)
Australia (Disc.operation)	14.7	10.9	14.9	36.3	1.7
Others	15.7	16.4	14.9	(9.6)	(5.3)
Total (ex. Australia)	779.2	833.7	837.8	0.5	7.5
PBT					
Malaysia	55.9	90.2	63.9	(29.2)	14.2
Indonesia	1.0	(9.0)	(0.7)	(92.3)	(172.3)
Australia (Disc.operation)	(3.1)	(2.4)	0.5	(120.4)	(115.3)
Others	0.9	(4.2)	(3.4)	(17.0)	(485.9)
Total (ex. Australia)	57.8	77.1	60.2	(21.9)	4.2

Source: Company, MIDFR

INVESTMENT STATISTICS

FYE Dec (RM'm)	FY2015	FY2016	FY2017	FY2018F	FY2019F
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)
Gross profit	**826.4**	**898.0**	**965.4**	**1,247.8**	**1,376.5**
Finance costs	(50.4)	(83.1)	(80.0)	(71.6)	(75.9)
Profit before tax	**209.6**	**210.2**	**233.3**	**305.6**	**348.3**
Income tax expense	(62.2)	(50.5)	(56.1)	(90.0)	(104.3)
Net Profit (RM'm)	**145.1**	**155.9**	**165.5**	**200.0**	**226.3**
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	22.4	19.8
Dividend per share (sen)	7.9	1.6	1.6	2.8	3.2
Dividend yield (%)	7.8	1.6	1.7	3.0	3.4
Tax rate (%)	29.7	24.0	24.0	29.5	29.9

Source: Company, Forecasts by MIDFR

DAILY PRICE CHART

Noor Athila Mohd Razali
noor.athila@midf.com.my
03-2772 1679

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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 *rise* 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 *fall* 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.