

25 August 2017 | 2QFY17 Results Review

KPJ Healthcare Berhad

Revenue boosted by organic growth from existing and new hospitals

INVESTMENT HIGHLIGHTS

- 2QFY17 earnings within expectations
- Revenue boosted by organic growth from existing and new hospitals
- Overseas operating performance remains lackluster
- Operational headline numbers remain intact
- FY17-18F earnings maintained
- Maintain NEUTRAL with an unchanged TP of RM4.30

Within expectations. KPJ's 2QFY17 normalised earnings came in at RM45.3m which is within our full-year earnings forecasts at 49.1%. Revenue and earnings increased year-over-year by +3.6% and +43.9% respectively. On a quarterly sequential basis, KPJ's revenue was flat while earnings recorded an improvement of +18.3%. In addition, a second interim dividend of 1.8sen was also declared for the quarter. This brings the total dividend declared to date to 3.6sen which translates to a yield of 0.9% to yesterday's closing price.

Revenue boosted by organic growth from existing and new hospitals. In 2QFY17, KPJ's increase in revenue was mainly due to the combination of organic growth from existing hospitals as well as the increasing revenue from newly opened hospitals across all markets. The revenue from Malaysian hospitals increased by +3.9% year-over-year attributable to the increase in revenue generated by its newly opened hospital KPJ Pahang. The increase in revenue is also contributed by existing hospitals which have improved last financial year.

Overseas operations remain lackluster. KPJ's Indonesian operations revenue recorded a decrease by -23%yoy. However, EBITDA climbed by +64%yoy mainly due to the economies of scale of Rumah Sakit (RS) Medika Bumi Serpong Damai. Meanwhile, its Australian aged care service also reported improved revenue of +11%yoy which was mainly attributed to the higher capacity of the retirement village, with additional beds which has been opened in phases from mid of 2015 until May 2016. Meanwhile, on the PBT basis, it remains loss making due to higher operating expenses incurred.

Operational headline numbers remain intact. In 2QFY17, we note that the number of admissions for inpatient was up marginally by +1.0%yoy whilst outpatient admission was down by -1.5%yoy. Inpatient admission was recorded at 143,810 for the 2QFY17 vs 142,339 in 2QFY16 while occupancy rate for beds declined to 67.7% (vs 68.6 % in 2QFY16) with an average length of stay of 2.55days.

Maintain NEUTRAL
Unchanged Target Price: RM4.30

RETURN STATS	
Price (24 August 2017)	RM4.20
Target Price	RM4.30
Expected Share Price Return	+2.4%
Expected Dividend Yield	+2.1%
Expected Total Return	+4.5%

STOCK INFO	
KLCI	1,775.5
Bursa / Bloomberg	5878 / KPJ MK
Board / Sector	Main / Trading Services
Syariah Compliant	YES
Issued shares (mil)	1,054.27
Market cap. (RM'm)	4,427.92
Price over NA	2.68
52-wk price Range	RM3.85 – RM4.35
Beta (against KLCI)	0.49
3-mth Avg Daily Vol	0.55m
3-mth Avg Daily Value	RM2.34m
Major Shareholders (%)	
Johor Corporation	43.99
EPF	12.86
Waqaf An-Nur Corp	7.22

Earnings forecast. We are maintaining our FY17-18F earnings forecasts for now as we expect that KPJ will be able 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) increasing cost of operations.


Maintain NEUTRAL with unchanged Target Price (TP) of RM4.30. Post earnings announcement, we are reiterating our **NEUTRAL** recommendation on KPJ with an unchanged SOP-based TP of **RM4.30** per share (TG: 3.0%, WACC: 8.32%). Going forward, we anticipate higher contribution from newly opened hospitals as well as improvements in contribution coming from its more matured hospitals. We are encouraged on the fact that KPJ managed to maintain its inpatient admissions number as well as increased its revenue contribution from the Malaysian hospitals which we think stemmed from the gradual recovery in consumer sentiment. Additionally, we are also seeing the results of a price revision exercise undertaken back in October 2016 to cater for the increasing operational costs which we think will assist in its revenue growth in FY17. That said, we remain wary on the current currency environment of a strong USD against MYR which might continue to put pressure on their operating expenses. 

Table 1: KPJ's quarterly earnings review

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	2QFY16	1QFY17	2QFY17	QoQ (%)	YoY (%)	1HFY16	1HFY17	YoY (%)
Revenue	765.1	793.9	793.0	(0.1)	3.6	1,509.1	1,586.9	5.2
Cost of sales	(543.0)	(554.4)	(556.0)	0.3	2.4	(1,054.7)	(1,110.4)	5.3
Gross Profit	222.2	239.5	237.0	(1.0)	6.7	454.4	476.5	4.9
Expenses	(178.1)	(178.6)	(188.4)	5.5	5.8	(1,054.7)	(367.0)	(65.2)
Other Income	7.0	5.6	5.3	(5.2)	(24.5)	10.7	10.9	2.3
EBIT	51.1	66.5	53.9	(19.0)	5.4	112.3	120.5	7.3
Finance income	2.4	2.4	4.2	78.9	74.5	5.1	6.6	29.1
Finance cost	(16.4)	(20.9)	(19.8)	(5.1)	20.8	(37.1)	(40.7)	9.5
Share of profit-associates	8.9	6.6	7.2	8.9	(19.4)	17.2	13.8	(20.2)
Profit Before Tax & Zakat	46.1	54.6	45.5	(16.6)	(1.2)	97.5	100.2	2.7
Zakat	(0.7)	(0.4)	(1.9)	370.3	154.2	(1.1)	(2.3)	100.1
Income Tax Expense	(13.9)	(14.2)	(12.3)	(13.4)	(11.5)	(28.3)	(26.5)	(6.5)
Profit After Tax	31.5	40.1	31.4	(21.7)	(0.3)	68.1	71.4	4.9
Non-controlling interest	(0.0)	(1.8)	0.7	nm	nm	(2.5)	(1.1)	(56.4)
PATANCI	31.5	38.3	32.1	(16.1)	2.0	65.6	70.4	7.2
Exceptional Items (EI)	0.0	0.0	(13.2)	nm	nm	0.0	(13.2)	nm
Normalised earnings	31.5	38.3	45.3	18.3	43.9	65.6	83.5	27.3
Basic EPS (sen)	2.8	3.5	2.9	(16.2)	4.6	6.1	6.5	6.4
Diluted EPS (sen)	2.8	3.1	2.6	(15.7)	(8.2)	6.1	5.6	(6.8)
Dividend per share (sen)	1.5	1.8	1.8	0.0	20.0	3.3	3.6	9.1
GP margin (%)	29.0	30.2	29.9	(0.9)	2.9	30.1	30.0	(0.3)
EBIT margin (%)	6.7	8.4	6.8	(18.9)	1.7	7.4	7.6	2.0
PBT margin (%)	6.0	6.9	5.7	(16.5)	(4.7)	6.5	6.3	(2.3)
PAT margin (%)	4.1	5.0	4.0	(21.6)	(3.8)	4.5	4.5	(0.2)
PATANCI margin (%)	4.1	4.8	4.0	(16.0)	(1.6)	4.3	4.4	2.0
Tax rate (%)	30.1	25.9	27.0	3.9	(10.5)	29.0	26.4	(8.9)

Source: Company, MIDFR

Table 2: KPJ Healthcare's quarterly segmental earnings review

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	2QFY16	1QFY17	2QFY17	QoQ (%)	YoY (%)	1HFY16	1HFY17	YoY (%)
Revenue								
Malaysia Hospitals	724.4	750.4	752.5	0.3	3.9	1,432.0	1,503.0	5.0
Indonesia Hospitals	14.7	13.1	11.8	(10.4)	(19.9)	28.3	24.9	(12.0)
Thailand Hospital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Australia's Aged Care Facility	13.0	14.7	14.4	(1.7)	10.8	23.9	29.1	21.9
Support Services, Corporate & Others	13.1	15.7	14.3	(8.8)	9.6	24.9	30.0	20.2
Eliminations	0.0	0.0	0.0	nm	nm	0.0	0.0	0.0
Total	765.1	793.9	793.0	(0.1)	3.6	1,509.1	1,586.9	5.2
Profit Before Tax & Zakat								
Malaysia Hospitals	46.2	55.9	49.4	(11.6)	7.1	104.2	105.4	1.1
Indonesia Hospitals	0.2	1.0	(0.0)	(104.8)	(118.9)	0.8	0.9	9.1
Thailand Hospital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Australia's Aged Care Facility	(2.3)	(3.1)	(2.0)	(37.4)	(14.4)	(5.7)	(5.1)	(10.1)
Support Services, Corporate & Others	2.0	0.9	(1.9)	(311.0)	(195.7)	(1.8)	(1.0)	nm
Total	46.1	54.6	45.5	(16.6)	(1.2)	97.5	100.2	2.7

Source: Company, MIDFR

Table 3: KPJ's SOP valuation

Items	RM'm	Remarks
KPJ Enterprise value	5,369.6	DCF method, WACC: 8.32%, TG: 3%
Net debt FY18	1,089.8	
KPJ firm value	4,279.8	
KPJ Al-Aqar REIT	481.8	Based on KPJ's 42.7% stake and consensus TP: RM1.55
Total KPJ firm value	4,761.6	
Proceeds from warrants	355.8	
Cash proceeds from rights and warrants	5,117.4	
No.of shares (m)	1,190.0	
KPJ value per share	4.30	

Source: MIDFR

Table 4: KPJ Healthcare's capacity expansion plan (Greenfield)

Project	Location	Total Capacity (beds)	First Phase (beds)	Completion	Opening
Perlis	Perlis	90	60	3Q2017	4Q2017
Kuching	Sarawak	150	114	2Q2018	3Q2018
Miri	Sarawak	96	61	1Q2018	2Q2018
Bandar Dato' Onn	Johor	150	90	1Q2018	2Q2018
UTM	Johor	150	90		TBA
Nilai	Negeri Sembilan	96	61		TBA
Bayuemas, Klang	Selangor	90	90		TBA

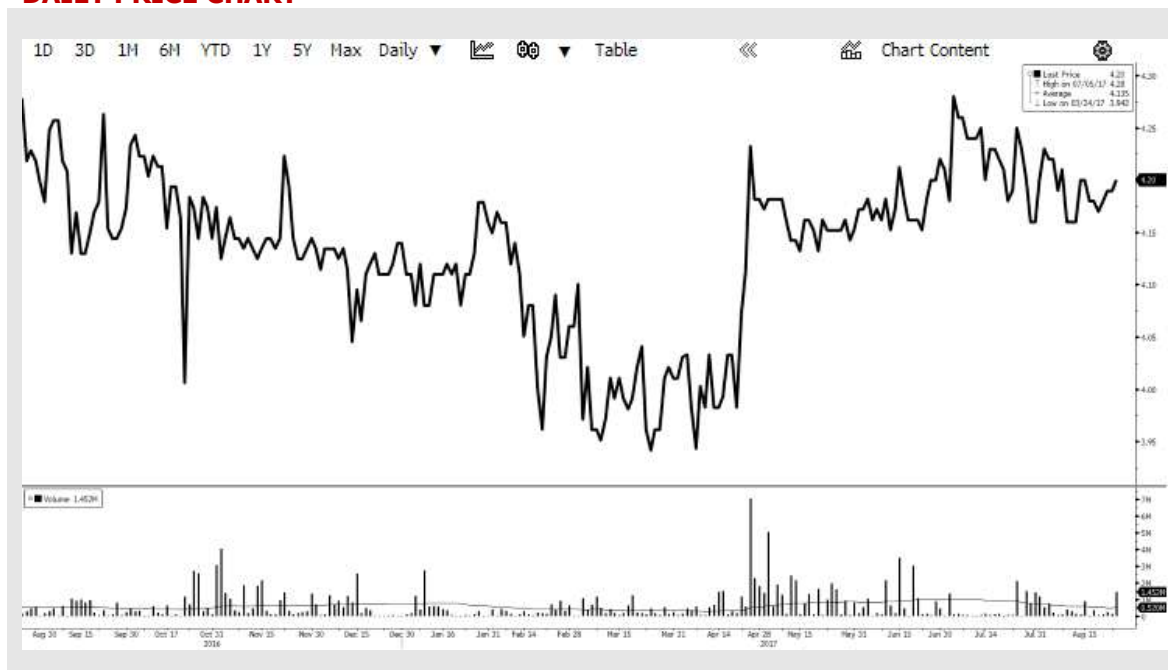
Source: Company

INVESTMENT STATISTICS

FYE Dec (RM'm)	FY2014	FY2015	FY2016	FY2017F	FY2018F
Revenue	2,639.1	2,847.6	3,021.1	3,533.0	3,875.0
Cost of sales	(1,869.7)	(2,021.2)	(2,123.1)	(2,408.1)	(2,618.4)
Gross profit	769.4	826.4	898.0	1,125.0	1,256.6
Finance costs	(42.9)	(50.4)	(83.1)	(72.9)	(77.2)
Profit before tax and zakat	218.1	209.6	210.2	255.9	316.4
Income tax expense	(68.6)	(62.2)	(50.5)	(73.2)	(93.8)
Net Profit	147.3	145.1	155.9	169.4	206.4
PBT Margin (%)	8.3	7.4	7.0	7.2	8.2
Net Profit Margin (%)	5.6	5.1	5.2	4.8	5.3
EPS (sen)	14.1	12.8	13.1	14.2	17.3
EPS Growth (%)	33.9	-9.1	2.5	8.7	21.8
PER (x)	29.9	32.9	32.1	29.5	24.2
Dividend per share (sen)	4.9	7.9	6.3	7.1	8.7
Dividend yield (%)	1.2	1.9	1.5	1.7	2.1
Tax rate (%)	31.4	29.7	24.0	28.6	29.6

Source: Company, Forecasts by MIDFR

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.