

30 November 2018 | 3QFY18 Results Review

KPJ Healthcare Berhad

9MFY18 earnings below our expectation

Maintain NEUTRAL

**Revised Target Price (TP): RM1.11
(Previously RM1.16)**

INVESTMENT HIGHLIGHTS

- **9MFY18 earnings below our expectations at RM41.7m**
- **Cost optimisation initiatives by new hospitals lifted earnings**
- **Indonesian segment loss expanded**
- **Nonetheless, headline operating statistics remains steady**
- **Maintain NEUTRAL with a revised TP of RM1.11**

9MFY18 earnings grew by +21.3%yoy. KPJ Healthcare Bhd's (KPJ) 3QFY18 earnings came in at RM41.7m (+34.9%yoy). This brings its 9MFY18 earnings to RM126.5m (+21.3%yoy) which is below ours but within consensus expectations, accounting for 65.0% and 73.1% of ours and consensus full year forecasts respectively. Nonetheless, we are expecting stronger 4QFY18 earnings as historically it accounted for 30% of full year earnings.

Earnings lifted by cost optimisation initiatives. 9MFY18 revenue generated from the Malaysian operation improved by +4.6%yoy contributed by the: (i) increase in number of patient visit, number of beds and complex cases per patient, particularly for KPJ Rawang, KPJ Bandar Maharani and KPJ Pasir Gudang and; (ii) aggressive promotions to increase medical tourism. Nevertheless, the solid improvement in earnings was further boosted by the cost optimisation initiatives.

Loss from Indonesian segment expanded. 9MFY18 revenue from the Indonesian segment declined by -54.2%yoy which resulted in net loss of RM2.9m. This was mainly contributed by the lower patients' admissions recorded at Rumah Sakit Medika Bumi Serpong Damai (inpatient: -29.3%yoy, outpatients: -11.1%yoy). The lower number of patient was caused by the stricter regulations imposed by the government over cases and treatment on patients under BPJS scheme, an Indonesian National Health Insurance System.

The group operational statistics remain steady. For the 9MFY18, we note that the number of admissions for inpatient for the group was up by +2.6%yoy whilst outpatient admission increased by +1.5%yoy. Nonetheless, occupancy rate for beds was marginally down by -1.0% to 65.0%. This is due to the aforementioned dropped in number of patients' admissions at Rumah Sakit Medika Bumi Serpong Damai. Nonetheless, we expect that the growth of inpatient admission for Malaysia segment (inpatient: +1.8%yoy) will partially mitigate the weakness of the Indonesian operation.


RETURN STATS	
Price (29 th November 2018)	RM1.07
Target Price	RM1.11
Expected Share Price Return	+3.7%
Expected Dividend Yield	+2.8%
Expected Total Return	+6.5%

STOCK INFO	
KLCI	1,696.34
Bursa / Bloomberg	5878 / KPJ MK
Board / Sector	Services Products
Syariah Compliant	YES
Issued shares (mil)	4,223.0
Market cap. (RM'm)	4,518.6
Price over NA	2.84x
52-wk price Range	RM0.84-RM1.17
Beta (against KLCI)	0.53
3-mth Avg Daily Vol	5.04m
3-mth Avg Daily Value	RM5.49m
Major Shareholders (%)	
Johor Corp	44.99
EPF	9.84
Waqaf An-Nur	7.21
LTH	3.29

Third interim dividend declared. Third interim dividend of 0.5sen per share was declared in Q3FY18 (vs Q3FY18:0.38sen). This brings the total dividend declared to-date to 1.5sen per share.

Impact to earnings. We are revising our FY18F and FY19F forecast downwards by -5.1% and -5.3% as we input: (i) a higher assumption of operating cost as the group will have to support the government with its initiative to provide the B40 group with more healthcare coverage as announced in the recent Budget 2019 and; (ii) a longer expectation of recovery for Indonesian operation.

Target price. We are revising our target price of **RM1.11** per share (*previously RM1.16*). Our target price is derived from DCF valuation with terminal growth of 3.0% and WACC of 8.32%.

Maintain NEUTRAL. 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 opening of 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. All factors considered, we are maintaining our **NEUTRAL** recommendation. The key risks to our call recommendation 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. 

INVESTMENT STATISTICS

FYE Dec (RM'm)	FY2015	FY2016	FY2017	FY2018F	FY2019F
Revenue	2,847.6	3,021.1	3,180.0	3,660.0	3,986.6
Cost of Sales	(2,021.2)	(2,123.1)	(2,214.7)	(2,512.1)	(2,729.3)
Gross profit	826.4	898.0	965.4	1,147.9	1,257.3
Finance costs	(50.4)	(83.1)	(80.0)	(71.6)	(75.9)
Profit before tax	209.6	210.2	233.3	289.4	327.9
Income tax expense	(62.2)	(50.5)	(56.1)	(84.4)	(97.1)
Net Profit (RM'm)	145.1	155.9	165.5	190.2	214.0
GP margin (%)	29.0	29.7	30.4	31.4	31.5
PBT Margin (%)	7.4	7.0	7.3	7.9	8.2
Net Profit Margin (%)	5.1	5.2	5.2	5.2	5.4
EPS (sen)	3.2	3.3	3.8	4.0	4.5
PER (x)	31.7	30.9	25.4	26.8	23.8
Dividend per share (sen)	7.9	1.6	1.6	2.7	3.0
Dividend yield (%)	7.8	1.6	1.7	2.5	2.8
Effective tax rate (%)	29.7	24.0	24.0	29.1	29.6

Source: Company, MIDFR

KPJ HEALTHCARE BHD: 3QFY18 RESULTS REVIEW

FYE Dec (RM'm)	Quarterly results			Cumulative results	
	3QFY18	YoY (%)	QoQ (%)	9MFY18	YoY (%)
Revenue	820.6	4.1	2.4	2,444.8	4.2
Cost of sales	(565.1)	1.1	1.2	(1,695.8)	2.9
Gross Profit	255.4	11.4	5.2	748.9	7.3
Admin Expenses	(185.3)	3.1	7.1	(543.2)	2.0
Other Income	5.2	(1.0)	23.7	14.3	(7.2)
Operating Profit	75.3	37.3	1.9	220.1	22.0
Finance Income	2.1	(34.9)	(34.9)	6.2	(36.2)
Finance Costs	(21.8)	30.0	(3.0)	(64.6)	12.4
Associates	7.4	(24.1)	8.1	23.5	0.1
Profit Before Tax & Zakat	62.9	23.6	2.5	185.2	18.6
Zakat	(1.0)	44.5	(34.0)	(3.7)	26.4
Taxation	(20.1)	21.7	35.7	(49.8)	15.8
Profit After Tax & Zakat	41.8	24.0	(7.2)	131.8	19.5
Minority Interest	0.1	(97.4)	(97.0)	5.3	(12.6)
PATAMI	41.7	34.9	(2.1)	126.5	21.3
Basic EPS (sen)	1.0	37.1	(1.0)	2.9	21.4
Diluted EPS (sen)	0.9	37.1	0.0	2.6	22.0
Dividend per share (sen)	0.5	31.6	0.0	1.5	8.7
		<i>+ / (-) ppts</i>			<i>+ / (-) ppts</i>
GP margin (%)	31.1	2.0	0.8	30.6	0.9
Operating Profit margin (%)	9.2	2.2	(0.0)	9.0	1.3
PBTZ margin(%)	7.7	1.2	0.0	7.6	0.9
PATZ margin(%)	5.1	0.8	(0.5)	5.4	0.7
PATAMI margin(%)	5.1	1.2	(0.2)	5.2	0.7
Effective Tax rate (%)	32.0	(0.5)	7.8	26.9	(0.6)

Source: Company, MIDFR

KPJ's quarterly segmental breakdown

FYE Dec (RM'm)	Quarterly results			Cumulative results	
	3QFY18	YoY (%)	QoQ (%)	9MFY18	YoY (%)
Revenue					
Malaysia	794.9	4.3	2.2	2,369.9	4.6
Indonesia	10.9	(14.2)	15.4	31.1	(54.2)
Others	14.8	10.3	4.1	43.8	(28.0)
Australia (Disc.operation)	14.6	(1.1)	(1.1)	44.3	1.0
Total (ex. Australia)	820.6	4.1	2.4	2,444.8	4.2
PBT					
Malaysia	64.3	19.7	0.4	192.1	33.1
Indonesia	(0.0)	(113.4)	(97.4)	(2.9)	(4.2)
Others	(1.3)	(57.2)	67.6	(4.0)	0.1
Australia (Disc.operation)	(0.2)	(63.0)	(48.2)	(0.6)	5.1
Total (ex. Australia)	62.9	23.5	2.4	185.2	29.0

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.