

27 February 2018 | 4QFY17 Results Review

KPJ Healthcare Berhad

Increase in inpatient and complex cases boosted revenue

Maintain BUY

Revised Target Price (TP): RM1.12
(previously RM1.06)

INVESTMENT HIGHLIGHTS

- **4QFY17 normalised earnings beat expectations at RM61.3m**
- **Revenue boosted by increase in inpatient admission and complex cases**
- **Indonesian operation remain challenging**
- **Headline operating statistics remains intact**
- **FY18F earnings revised upwards by +8.3%**
- **Maintain BUY with a revised TP of RM1.12 per share**

Exceeded expectations. KPJ Healthcare Bhd's (KPJ) 4QFY17 normalised earnings came in at RM61.3m. This brings its full-year FY17 normalised earnings to RM162.2m which exceeded ours and consensus expectations, accounting for 108% and 109.3% of ours and consensus full year forecasts respectively. Revenue and earnings increase by +13.3%yoy and 17.9% respectively. Meanwhile, on a quarterly sequential basis, revenue and increased by +16.7% while earnings expanded by +70.4%. A fourth interim dividend of 4.0sen was also declared for the quarter-under-review.

Revenue boosted by increase in inpatients admissions and complex cases. In 4QFY17, 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. The revenue from Malaysian hospitals increased by +11.3%yoy attributable to the increase in revenue generated by its newly opened hospitals such as: KPJ Rawang, KPJ Klang, KPJ Pasir Gudang, KPJ Bandar Maharani and KPJ Pahang. The increase in revenue was also contributed by the increase in inpatient admissions and complex cases undertake as a result of 25 new consultants hired from various specialization.

Indonesian operation remains challenging. KPJ's Indonesian cumulative operations revenue improved marginally by +1.9%yoy. This is mainly contributed by the lower patients admissions recorded at Rumah Sakit Medika Permata Hijau 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 (26 February 2018)	RM0.92
Target Price	RM1.12
Expected Share Price Return	+21.7%
Expected Dividend Yield	+2.3%
Expected Total Return	+24.0%

STOCK INFO	
KLCI	1,860.08
Bursa / Bloomberg	5878 / KPJ MK
Board / Sector	Services Products
Syariah Compliant	YES
Issued shares (mil)	4,216.22
Market cap. (RM'm)	3,900.00
Price over NA	2.26
52-wk price Range	RM0.87-RM1.14
Beta (against KLCI)	0.55
3-mth Avg Daily Vol	1.52m
3-mth Avg Daily Value	RM1.43m
Major Shareholders (%)	
Johor Corp	44.11
EPF	12.88
Waqaf An-Nur	7.22

Operational headline numbers remain intact. In 4QFY17, we note that the number of admissions for inpatient was up by +2.4%yoy whilst outpatient admission was down marginally by -0.4%yoy. Inpatient admission was recorded at 286,465 for the 4QFY17 vs 279,794 in 4QFY16 while occupancy rate for beds declined to 65.2% (vs 66.2% in 4QFY16) with an average length of stay of 2.54days.

Revised FY18 earnings upwards. We are revising our FY18F upwards by +8.3% as we input lower operating expenses due to strengthening and stabilizing Ringgit against USD. 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 BUY with a revised Target Price (TP) of RM1.12. Post earnings adjustment, we are reiterating our **BUY** recommendation on KPJ with a higher TP of **RM1.12** (from RM1.06 previously) per share (TG: 3.0%, WACC: 8.32%). 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 opine that the strengthening and stabilising of Ringgit against USD will bode well for the company as it will provide better clarity on KPJ's operating expenditure. 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.



INVESTMENT STATISTICS

FYE Aug (RM'm)	FY2014	FY2015	FY2016	FY2017	FY2018F
Revenue	2,639.1	2,847.6	3,021.1	3,179.99	3,882.8
Cost of Sales	(1,869.7)	(2,021.2)	(2,123.1)	(2,214.65)	(2,646.1)
Gross profit	769.4	826.4	898.0	965.35	1,236.7
Finance costs	(42.9)	(50.4)	(83.1)	(79.95)	(77.2)
Profit before tax	218.1	209.6	210.2	233.33	288.55
Income tax expense	(68.6)	(62.2)	(50.5)	(56.1)	(89.1)
Net Profit (RM'm)	147.3	145.1	155.9	165.5	199.4
PBT Margin (%)	8.3	7.4	7.0	7.4	7.4
Net Profit Margin (%)	5.6	5.1	5.2	5.2	5.2
EPS (sen)	3.5	3.2	3.3	3.8	4.0
PER (x)	31.4	31.9	31.1	26.1	22.0

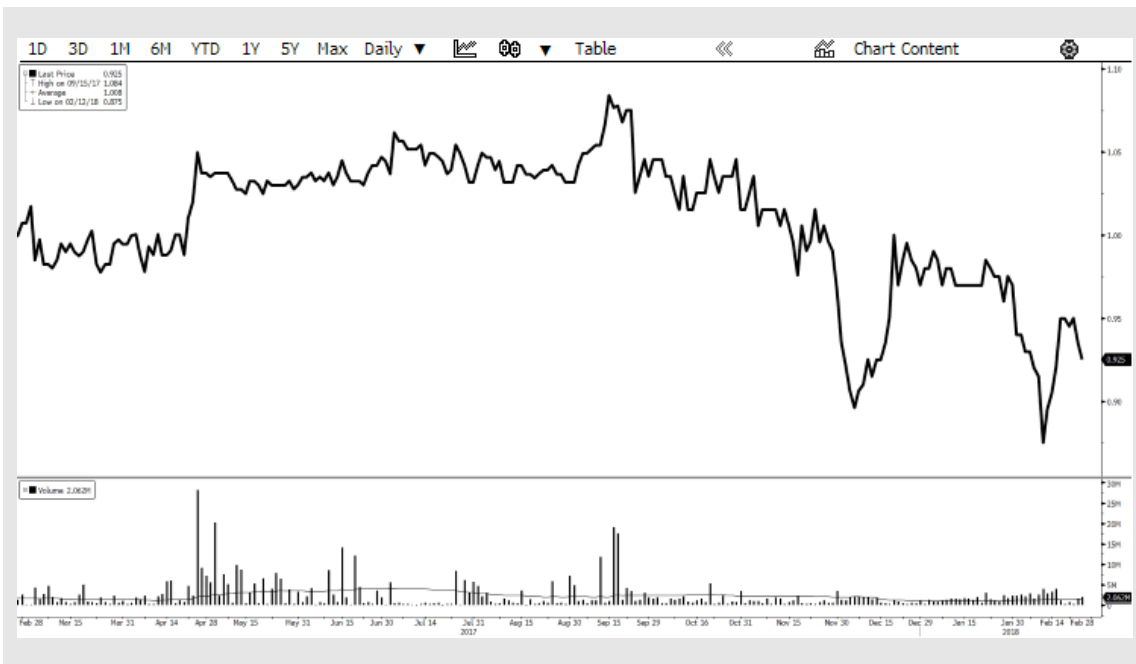
Source: Company, Forecasts by MIDFR

Table 1: KPJ's quarterly earnings review

FYE Dec (RMm)	Quarterly results					Cumulative results		
	4QFY16	3QFY17	4QFY17	QoQ (%)	YoY (%)	FY16	FY17	YoY (%)
Revenue	736.0	714.3	833.7	16.7	13.3	2,969.6	3,180.0	7.1
Cost of sales	(516.2)	(490.2)	(566.1)	15.5	9.7	(2,084.6)	(2,214.7)	6.2
Gross profit	219.8	224.0	267.6	19.5	21.8	885.0	965.3	9.1
Administration and Other operating expenses	(156.2)	(173.1)	(198.8)	14.8	27.3	(662.7)	(731.5)	10.4
Other income	16.1	8.4	10.8	29.1	(32.6)	29.9	26.3	(12.0)
Operating profit	79.7	59.3	79.7	34.4	(0.0)	252.1	260.1	3.2
Finance income	4.8	3.1	3.9	26.0	(19.1)	15.1	13.6	(9.9)
Finance cost	(24.9)	(15.9)	(22.5)	41.5	(9.7)	(80.2)	(80.0)	(0.3)
Associates - share of results	6.5	9.0	16.1	78.6	147.6	33.6	39.5	17.5
Profit Before Zakat & Tax	66.0	55.4	77.1	39.1	16.8	220.7	233.3	5.7
Zakat	(2.1)	(0.6)	(1.0)	70.7	(53.6)	(3.8)	(3.9)	2.7
Income tax expense	(10.7)	(16.2)	(13.1)	(18.8)	22.1	(53.3)	(56.1)	5.4
Profit After Zakat & Tax	53.2	38.7	63.0	62.8	18.5	163.6	173.3	5.9
Non-controlling interests	1.2	2.7	1.7	(37.6)	44.0	10.0	7.7	(22.7)
PATANCI	52.0	36.0	61.3	70.4	17.9	153.6	165.6	7.8
Basic EPS (sen)	1.2	0.9	1.4	52.2	17.1	3.53	3.78	7.1
Fully diluted EPS (sen)	1.0	0.9	1.2	34.4	17.5	3.08	3.32	7.8
				+ / (-) <i>ppts</i>				+ / (-) <i>ppts</i>
PBT margin (%)	9.0	7.8	9.2	1.2	(0.3)	7.4	7.3	0.1
PAT margin (%)	7.2	5.4	7.6	1.8	(0.3)	5.5	5.4	0.1
PATANCI margin (%)	7.1	5.0	7.4	2.0	(0.3)	5.2	5.2	(0.0)
Zakat rate (%)	3.2	1.0	1.3	2.1	1.9	1.7	1.7	0.0
Tax rate (%)	16.3	29.2	17.0	(12.9)	(0.7)	24.1	24.1	0.1

Source: Company,

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.