

02 March 2015 | FY14 results review

KPJ Healthcare Berhad

A weak end to a good year

Maintain NEUTRAL
Target Price (TP): RM4.05

INVESTMENT HIGHLIGHTS

- 4Q14 core earnings fell -4%yoy to RM33m mainly due to higher interest cost and lower associate. However, EBIT grew strongly, signifying strong performance at all hospitals.
- Losses for the Indonesia and Australia operations narrowed in 4Q14 and for the full year period.
- For the full year, core earnings grew +26%yoy to RM126m and were marginally ahead of our full year estimate of RM124m.
- We are NEUTRAL on KPJ with a SOTP-derived target price of RM4.05 which implies 31.2x FY15 PER.

Encouraging performance. KPJ's 4Q14 core earnings were down by -4%yoy to RM33m although earnings for the full year period grew at a commendable growth of +26%yoy to RM126m. This is after we adjust for fair value gains in investment property (+12.6m) and gains from disposal of shares in an associate (+1.2m), occurring in 4Q14. Against our forecast, core earnings were marginally ahead by +2%, over our RM124m FY14 earnings forecast and 10% below consensus.

4Q14 dampened by high interest cost and lower associate but...

The on-year decline in 4Q14 earnings was due to higher interest expense (+59%yoy) and weaker associate contribution (-28%yoy). Interest expense grew in tandem with the higher net gearing of 75% at end FY14 vs 66% at the end of FY13.

...strong EBIT growth. However, 4Q14 EBIT increased strongly by +27%yoy to RM62m and +53%yoy to RM211m for FY14. This implies that performance of existing hospitals remains robust while losses at the recently opened hospitals – KPJ Rawang (opened in 1Q14) and KPJ Bandar Maharani (opened in 2Q14) – might have eased on high occupancy rate.

Other operations improving. The Indonesia hospitals saw losses narrowing further despite the sequentially weaker revenue. For FY14, losses for the Indonesian hospitals eased by -64%yoy to -RM2m as revenue grew +22%yoy to RM41m. Meanwhile, losses at the Australia operation also narrowed despite flat revenue for the year.

Seasonal strength. Sequentially, KPJ's 4Q14 core earnings grew by +13%qoq to RM33m on a seasonally strong quarter.

Maintain NEUTRAL with TP of RM4.05. We are NEUTRAL on KPJ with a SOTP-derived TP of RM4.05. Our SOTP constitutes: (i) DCF valuation of KPJ's operations; (ii) 49% of the DDM valuation for Al-Aqar Healthcare REIT; and (iii) cash proceeds from potential warrants conversion. While we are positive on the long term outlook of the sector, stock valuation remains hefty.

RETURN STATS	
Price (27 Feb '15)	RM4.00
Target Price	RM4.05
Expected Share Price Return	+1.3%
Expected Dividend Yield	+1.6%
Expected Total Return	+2.9%

STOCK INFO	
KLCI	1,821.21
Bursa / Bloomberg	5878 / KPJ MK
Board / Sector	Main / Services
Syariah Compliant	Yes
Issued shares (mil)	1,018.6
Par Value (RM)	0.50
Market cap. (RM'm)	4,074.41
Price over NA	4.03x
52-wk price Range	RM2.97-RM4.09
Beta (against KLCI)	0.77
3-mth Avg Daily Vol	0.65m
3-mth Avg Daily Value	RM2.49m
Major Shareholders (%)*	
Johor Corp	45.54
EPF	11.36
LTH	10.44

*Source: Bloomberg

INVESTMENT STATISTICS

FYE Dec (RMm)	FY12	FY13	FY14	FY15F	FY16F
Revenue	2,096	2,332	2,641	2,841	3,211
EBIT	140	138	211	192	216
Associate	55	47	42	43	45
Net earnings	144	103	140	133	147
Core earnings	125	100	126	133	147
Core EPS (sen)	19.1	10.6	13.6	13.0	14.3
Core earnings growth (%)	(10.5)	(48.5)	28.3	(4.4)	10.0
PER (x) @ RM4.00	21.0	37.7	29.4	30.8	27.9
Net DPS (sen)	11.5	6.0	4.9	6.5	7.2
Net dividend yield (%) @ RM4.00	2.9%	1.5%	1.2%	1.6%	1.8%

Source: MIDFR

KPJ HEALTHCARE: 4Q14 RESULTS SUMMARY

FYE Dec	Quarterly Results					Cumulative		Remarks
	4Q13	3Q14	4Q14	%YoY	%QoQ	FY14	%YoY	
Revenue	634	657	718	13.3	9.3	2,641	13.3	Revenue grew on new hospital opening, higher bed occupancy in existing hospitals.
EBIT	75	82	89	18.5	8.1	211	53.4	
Associate	22	9	16	(28.2)	78.9	42	(9.5)	
Pretax profit	60	51	71	18.6	37.6	218	36.5	Inflated by EI from revaluation of property and disposal of shares in associate
Norm. Net profit	34	29	33	(3.7)	12.6	126	25.7	Lower due to higher interest expense and lower associate
Basic EPS (sen)	5.4	2.8	4.5	(16.9)	59.7	13.6	9.9	
				+/- ppts	+/- ppts		+/- ppts	
EBIT margin (%)	8.8	11.9	12.5	3.7	0.6	7.8	2.5	Strong margin on higher occupancy in new and old hospitals
Effective tax rate (%)	34.3	36.4	36.1	1.8	(0.3)	35.9	2.7	

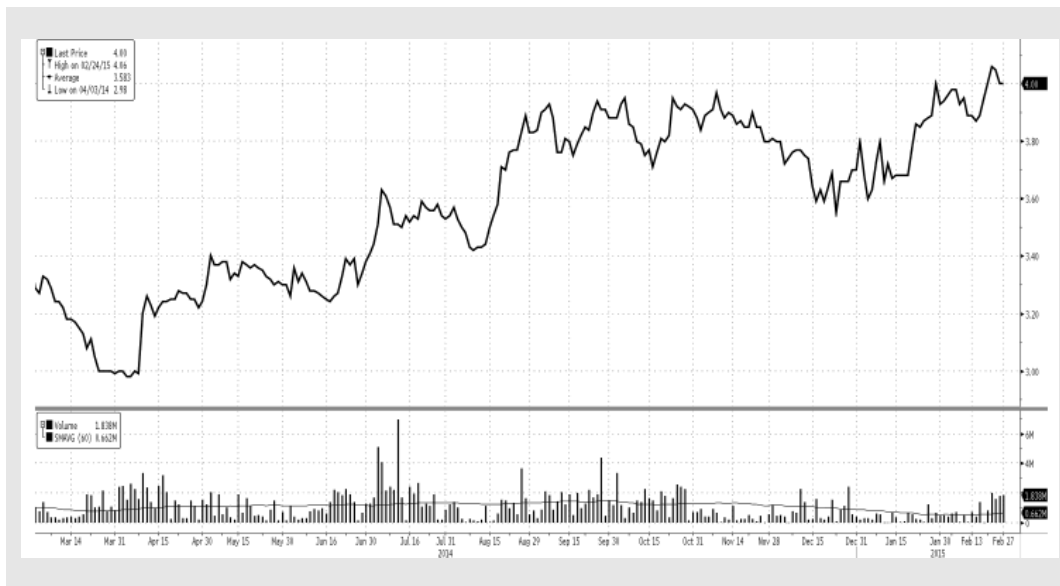
Source: MIDFR

KPJ HEALTHCARE: 4Q14 SEGMENTAL BREAKDOWN

Segmental breakdown	Quarterly Results					Cumulative	
	4Q13	3Q14	4Q14	%YoY	%QoQ	FY14	%YoY
RMm							
Revenue							
Malaysia (Hospitals)	548	592	622	13.6	5.1	1,740	15
Indonesia (Hospitals)	8	10	9	15.9	(9.5)	32	24
Australia (Aged Care Facility)	3	14	(1)	nm	nm	31	18
Others	74	41	88	18.1	113.8	839	8
Total revenue	634	657	718	13.3	9.3	2,641	13
PATMI							
Malaysia (Hospitals)	28	53	50	79.3	(5.2)	155	24
Indonesia (Hospitals)	(1)	(1)	(0)	(62.9)	(49.4)	(2)	(65)
Australia (Aged Care Facility)	(3)	(2)	(2)	(48.3)	(6.2)	(3)	(4)
Others	12	(14)	(1)	>(100)	(90.9)	1	(110)
Total PATMI	36	36	47	30.2	29.5	151	36

Source: 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.