03 March 2014 | FY13 Results Review

KPJ Healthcare Berhad

Profitability pressured by aggressive expansion

***Maintain* NEUTRAL**
***Revised* Target Price (TP): RM3.50**

INVESTMENT HIGHLIGHTS

- **FY13 revenue grew +11.3% but earnings fell to RM146.8m, -24.0% lower.**
- **Earnings affected by lower profitability in its local operation and losses in overseas operations.**
- **Earnings forecast revised downwards due to lower profitability of new hospitals.**
- **Maintain NEUTRAL with a revised TP of RM3.50.**

Revenue grew +11.3%. KPJ's revenue in FY13 grew +11.3% to RM2.3b from RM2.1b in FY12. The increase in revenue was attributable to the increase in revenue of the existing and new hospitals in the Group.

Profit declined -24.0%. Despite higher revenue, the Group's bottom line in FY13 however declined by -24%, affected by lower profitability in its local operation and losses in Indonesian and Australian operations.

Malaysian operation growing. The Group's Malaysian operation registered a 9.2%yoy growth in revenue to RM2.0b. However, PBT slipped slightly by -1.1% to RM180.9m. We believe the lower profitability was mainly due to the losses incurred at its newly opened Pasir Gudang Specialist Hospital, which is still going through its gestation period.

Indonesia still bleeding, but outlook promising. KPJ's Indonesian operation continued to register a loss of RM6.5m in FY13, but nonetheless a 33.2%yoy improvement from the same period last year. On a positive note, revenue surged 51.6%yoy to RM33.5m, mainly due to the increase in the revenue contributed by PT Khidmat Perawatan Jasa Medika.

Aged Care business losses widened. The Australian Aged Care Facility is also remained in red. Its losses has widened from RM5.0m in FY12 to RM6.1m in FY13. KPJ's aged care business is still in infancy. Over the long term, we are positive on the Group's venture into aged care facility services. There is a huge potential for the business model to be replicated in other countries in this region.

Support Services segment shrank. PBT for Support Services segment recorded a loss of RM19.7m in FY13. This segment covers the other operations of the Group, comprising of provision of hospital management services, marketing and distribution of pharmaceutical, medical and surgical products, pathology and laboratory services, and the operation of a healthcare university.

RETURN STATS	
Price (28 Feb 2014)	RM3.37
Target Price	RM3.50
Expected Share Price Return	+3.85%
Expected Dividend Yield	+1.32%
Expected Total Return	**+5.17%**

STOCK INFO	
KLCI	1,835.66
Bursa / Bloomberg	5878 / KPJ MK
Board / Sector	Main / Trading & Service
Syariah Compliant	Yes
Issued shares (mil)	1025.9
Par Value (RM)	0.50
Market cap. (RM'm)	3,457.2
Price over NA	3.98x
52-wk price Range	RM3.25–RM4.79
Beta (against KLCI)	0.81
3-mth Avg Daily Vol	1.05m
3-mth Avg Daily Value	RM3.93m
Major Shareholders	
Johor Corp	45.10%
EPF	12.90%
Tabung Haji	10.37%

Group's operation growing, but profit margin remains under pressure. Moving forward, we expect the Group's hospitals operation to continue to grow. However, the PAT margin of this segment is expected to be under pressure in the coming years due to the losses contributed by the newly opened hospitals in the Group, which are going through their gestation period of between three to five years period. Therefore, we reduce our net earnings forecast of KPJ by -34.6% to RM108.6m in FY14.

Maintain NEUTRAL with a revised TP of RM3.50. Year-to-date, KPJ was traded at an average price of RM3.55 which implies a PE multiple of 28.9 times of our EPS13, which is expensive in our opinion. With the expectation of lower earnings in the coming years, we believe that there is limited upside potential to the stock in the short to medium term. Hence, we are maintaining our NEUTRAL recommendation on the stock, with a revised TP of RM3.50. The TP is derived from 25x PE multiple of FY14F EPS, based on average PE multiple of peers with similar market capitalization.

INVESTMENT STATISTICS

FYE Dec	FY11	FY12	FY13	FY14F
Revenue (RM'm)	1,909.00	2,112.00	2,332.38	2,589.31
Profit from operations (RM'm)	159.2	166.8	133.50	156.94
Profit before zakat and tax (RM'm)	204.6	195.2	151.14	171.57
Net Profit (RM'm)	143.7	139.1	102.54	129.47
EPS (sen)	26.31	23.78	17.25	12.62
EPS growth (%)	16.60%	-9.62%	-27.46%	-26.84%
PER(x)	24.9	27.5	28.9	25.5
Net Dividend (sen)	12	11.5	6.00	4.50
Net Dividend Yield (%)	3.53%	3.38%	1.76%	1.32%

Source: Company, Forecasts by MIDFR

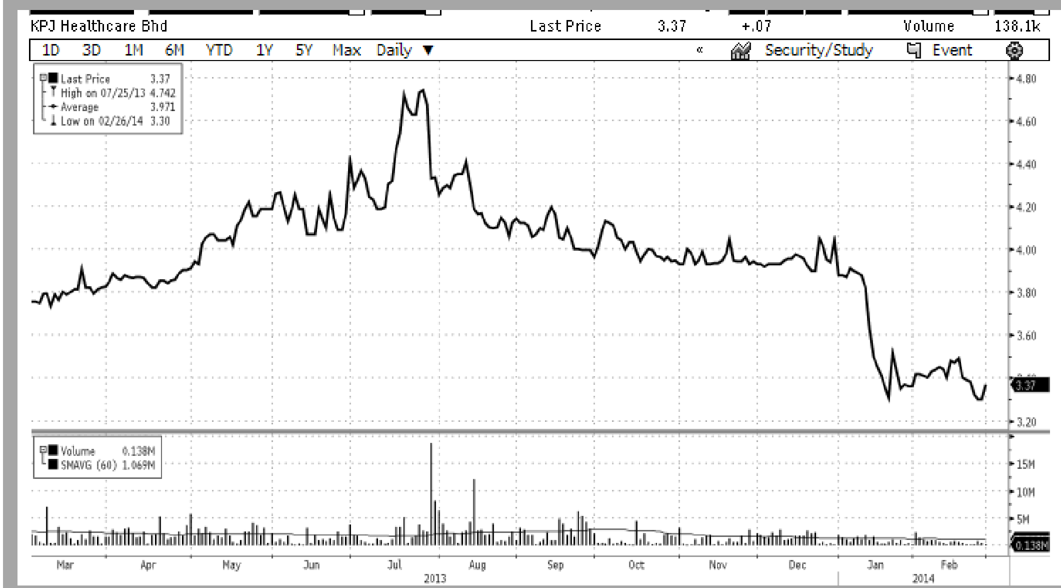
KPJ HEALTHCARE FY13 RESULT SUMMARY

FYE Dec (RM m)	Quarterly Result					Cumulative		
	4Q13	4Q12	3Q13	%YoY	%QoQ	FY13	FY12	%YoY
Revenue	**634.5**	**510.6**	**565.18**	***24.3%***	***12.3%***	**2,332.4**	**2,096.1**	***11.3%***
Cost of sales	439.2	(329.3)	(401.49)	*-233.4%*	*-209.4%*	(1,620.0)	(1,439.7)	*12.5%*
Gross profit	195.3	181.3	163.70	*7.7%*	*19.3%*	712.4	656.4	*8.5%*
Administration expenses	157.4	164.5	(143.15)	*-4.3%*	*-210.0%*	(599.4)	(512.9)	*16.9%*
Other income	6.7	17.5	7.11	*-61.5%*	*-5.3%*	25.2	32.1	*-21.5%*
Other operating expenses	(3.1)	2.9	(0.43)	*-207.6%*	*611.8%*	(4.7)	(5.0)	*-5.9%*
EBIT	**41.5**	**31.5**	**27.22**	***32.0%***	***52.5%***	**133.5**	**170.6**	***-21.7%***
Finance income	4.6	5.7	3.22	*-20.3%*	*41.5%*	13.2	12.5	*5.6%*
Finance cost	(14.8)	(2.5)	(9.48)	*502.1%*	*56.6%*	(38.3)	(23.6)	*62.4%*
Finance costs - net	(9.8)	3.2	(6.26)	*-403.0%*	*57.1%*	(25.1)	(11.1)	*126.8%*
Share of results of associates	17.7	11.7	7.62	*51.9%*	*132.4%*	42.7	37.4	*14.3%*
PBT	**49.4**	**46.4**	**28.59**	***6.6%***	***72.8%***	**151.1**	**196.9**	***-23.2%***
Zakat	(0.8)	0.3	(0.33)	*-353.0%*	*153.0%*	(1.8)	(1.3)	*38.3%*
Taxation	(13.3)	(13.4)	(6.86)	*-0.6%*	*94.3%*	(37.7)	(48.8)	*-22.6%*
PAT	**35.2**	**32.6**	**21.40**	***8.0%***	***64.7%***	**111.6**	**146.8**	***-24.0%***
Net profit	**32.7**	**33.4**	**19.42**	***-1.9%***	***68.6%***	**102.5**	**140.0**	***-26.8%***
Basic EPS (sen)	5.4	6.6	3.28	*-17.1%*	*65.9%*	17.25	23.94	*-27.9%*
Diluted EPS (sen)	4.7	5.7	2.85	*-18.0%*	*64.9%*	15.02	21.03	*-28.6%*
				%-point	***%-point***			***%-point***
Gross profit margin	30.8%	35.5%	29.0%	*(4.73)*	*1.82*	30.5%	31.3%	*(0.77)*
EBIT margin	6.5%	6.2%	4.8%	*0.38*	*1.73*	5.7%	8.1%	*(2.41)*
PBT margin	7.8%	9.1%	5.1%	*(1.29)*	*2.73*	6.5%	9.4%	*(2.91)*
PAT margin	5.6%	6.4%	3.8%	*(0.84)*	*1.77*	4.8%	7.0%	*(2.22)*
Net profit margin	5.2%	6.5%	3.4%	*(1.38)*	*1.72*	4.4%	6.7%	*(2.29)*
Tax rate	28.7%	28.2%	25.2%	*0.47*	*3.52*	25.0%	24.8%	*0.20*

Source: Company, MIDFR

Revenue breakdown (RM m)	FY13	FY12	%YoY
Malaysia (Hospitals)	2,044.1	1,872.5	9.2%
Indonesia (Hospitals)	33.5	22.1	51.6%
Thailand (Hospitals)	0.0	0.0	-
Australia (Aged Care Facility)	34.6	30.8	12.5%
Support Services	220.2	170.7	29.0%
PBT breakdown (RM m)	**FY13**	**FY12**	***%YoY***
Malaysia (Hospitals)	180.9	182.9	-1.1%
Indonesia (Hospitals)	(6.5)	(9.8)	33.2%
Thailand (Hospitals)	2.5	0.2	1306.7%
Australia (Aged Care Facility)	(6.1)	(5.0)	-21.2%
Support Services	(19.7)	28.6	-168.7%
PBT margin	**FY13**	**FY12**	***%-pt YoY***
Malaysia (Hospitals)	8.8%	9.8%	(0.92)
Indonesia (Hospitals)	-19.5%	-44.2%	24.71
Thailand (Hospitals)	n.a	n.a	n.a
Australia (Aged Care Facility)	-17.5%	-16.3%	(1.26)
Support Services	-8.9%	16.8%	(25.69)

DAILY PRICE CHART



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STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* 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 *fall* 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.