

KPJ Healthcare Berhad

Stable Outlook

TP: RM1.17 (+8.1%)

Last Traded: RM1.08

Hold

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Review

- KPJ's FY18 net profit of RM179.4mn (+10.8% YoY) came in within ours and consensus estimates at 100.7% and 99.7% of full-year forecasts respectively.
- YoY**, FY18 EBITDA grew 18.0% to RM500.9mn, ahead of revenue which increased by 4.0% to RM3.31bn. This was driven by the group's core hospital operations in Malaysia which recorded an increase in patient volumes (outpatient +2.7% YoY, inpatient +4.6% YoY). Coupled with the net addition of 55 operating beds to 3,107 beds, those newer hospitals like KPJ Rawang, KPJ Pasir Gudang and KPJ Bandar Maharani recorded higher profit. EBITDA margin improved by 1.8p.p to 15.1% as a result of better cost optimisation. Meanwhile, occupancy rates remained healthy at 65%.
- Overseas, Indonesian operations remained challenging as revenue declined by 11.0% YoY. We attribute this to: i) lower patient number, and ii) stricter regulations imposed by the government over cases and treatment on patients under BPJS Kesehatan scheme). Meanwhile, Australia's losses before zakat and tax narrowed from RM8.1mn to RM4.5mn, in line with greater operating efficiencies achieved through higher occupancy at the retirement village, Jeta Gardens.
- Separately, an interim dividend of 0.5sen/share was declared (FY18: 2.0sen/share vs. FY17: 1.78sen/share).

Impact

- We tweak FY19-21 lower by less than 1% after incorporating FY18 into our forecasts.

Outlook

- In terms of expansion plans, KPJ officially opened KPJ Bandar Dato' Onn yesterday, which offered 30 beds for a start. It would be increased to 150 beds in stages. The group will focus on attracting locals living within the areas and other districts such as Ayer Hitam and Sedenak.
- Thereafter, KPJ intends to open 2 more new hospitals; KPJ Miri (96 beds) and KPJ Kuching (150 beds) in 2019. Coupled with its brownfield expansion plans, we estimate that KPJ's operating beds will increase by circa-250 (+8%) beds from 3,107 beds in 2018.

Valuation & Recommendation

- Target price for KPJ is lowered to RM1.17/share (previously RM1.20/share) based on SOTP valuation. We downgrade the stock to **Hold** from Buy.

Share Information

| | |
|----------------------------------|------------------------------------|
| Bloomberg Code | KPJ MK |
| Stock Code | 5878 |
| Listing | Main Market |
| Share Cap (mn) | 4,422.0 |
| Market Cap (RMmn) | 4,775.8 |
| 52-wk Hi/Lo (RM) | 1.17/0.84 |
| 12-mth Avg Daily Vol ('000 shrs) | 5,130.7 |
| Estimated Free Float (%) | 37.9 |
| Beta | 0.6 |
| Major Shareholders (%) | |
| | Johor Corp - 45.5 |
| | EPF - 9.5 |
| | Waqaf An-Nur Corporation Bhd - 7.1 |

Forecast Revision

| | FY19 | FY20 |
|-----------------------|------------------|-------|
| Forecast Revision (%) | 0.0 | 0.0 |
| Net profit (RMmn) | 190.0 | 208.1 |
| Consensus | 197.8 | 215.6 |
| TA's / Consensus (%) | 96.1 | 96.5 |
| Previous Rating | Buy (Downgraded) | |

Financial Indicators

| | FY19 | FY20 |
|-----------------|------|------|
| Net gearing (x) | 0.7 | 0.7 |
| CFPS (RM) | 0.1 | 0.1 |
| ROAA (%) | 4.3 | 4.5 |
| ROAE (%) | 9.7 | 10.0 |
| NTA/Share (RM) | 0.4 | 0.4 |
| Price/ NTA (x) | 2.9 | 2.7 |

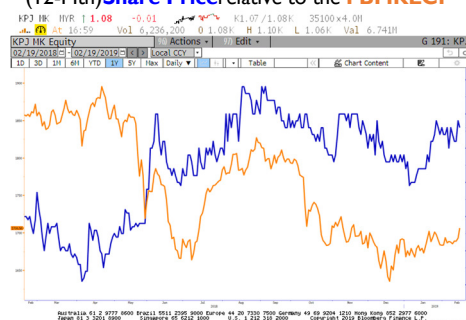
Scorecard

| | % of FY | |
|---------------|---------|--------|
| vs. TA | 100.7 | Within |
| vs. Consensus | 99.7 | Within |

Share Performance (%)

| | KPJ | FBM KLCI |
|--------------|-------|----------|
| Price Change | | |
| 1 mth | 3.8 | 0.8 |
| 3 mth | (1.8) | (0.2) |
| 6 mth | (4.4) | (4.5) |
| 12 mth | 13.7 | (8.1) |

(12-Mth)Share Pricerelative to the FBMKLCI



Source: Bloomberg

Table 1: SOTP Valuation

| Segment | Valuation Method | Value (RM mn) | Stake (%) |
|------------------------------|------------------------------------|---------------|-----------|
| Hospital Operations | DCF (WACC: 7.4%, LT: 3.0%) | 4,748.3 | 100 |
| Al-Aqar Healthcare REIT | Equity Market Value (RM1.34/share) | 414.2 | 42 |
| | | 5,162.5 | |
| Number of Outstanding Shares | | 4,422.5 | |
| Target Price/share | | RM1.17 | |

Table2: FY18 Results Analysis

| FYE Dec (RM mn') | 4QFY17 | 3QFY18 | 4QFY18 | QoQ | YoY | FY17 | FY18 | YoY |
|-----------------------------------|---------|---------|---------|-----------|-----------|-----------|-----------|-----------|
| | | | | % | % | | | % |
| Revenue | 833.7 | 820.6 | 863.3 | 5.2 | 3.6 | 3,180.0 | 3,308.1 | 4.0 |
| - Malaysia | 806.1 | 794.9 | 835.9 | 5.2 | 3.7 | 3,071.4 | 3,205.8 | 4.4 |
| - Indonesia | 11.2 | 10.9 | 12.4 | 13.6 | 10.5 | 48.8 | 43.5 | (11.0) |
| - Australia | 10.9 | 14.6 | 13.2 | (9.6) | 20.6 | 54.8 | 57.5 | 4.9 |
| Gross profit | 267.6 | 255.4 | 269.8 | 5.6 | 0.8 | 965.3 | 1,018.8 | 5.5 |
| EBITDA | 121.6 | 119.7 | 143.6 | 20.0 | 18.1 | 424.5 | 500.9 | 18.0 |
| - Malaysia | 134.3 | 118.0 | 149.6 | 26.7 | 11.4 | 434.5 | 503.4 | 15.8 |
| - Indonesia | (7.2) | 1.7 | (1.5) | >-100.0 | (79.2) | (0.8) | 1.3 | >-100.0 |
| - Australia | (0.5) | 0.3 | (4.7) | >-100.0 | >100.0 | (3.4) | (2.2) | (36.4) |
| Depreciation & amortisation | 25.0 | 36.6 | 44.3 | 21.0 | 77.1 | 131.0 | 155.5 | 18.7 |
| EBIT | 79.7 | 75.3 | 85.8 | 13.9 | 7.7 | 260.1 | 305.9 | 17.6 |
| Net finance costs | (18.6) | (19.8) | (22.7) | 14.9 | 21.8 | (66.3) | (81.1) | 22.2 |
| Associate share of results | 16.1 | 7.4 | 18.2 | >100.0 | 13.0 | 39.5 | 41.7 | 5.4 |
| PBZT | 77.1 | 62.9 | 81.3 | 29.1 | 5.4 | 233.3 | 266.5 | 14.2 |
| - Malaysia | 90.2 | 64.3 | 86.1 | 34.0 | (4.5) | 249.2 | 278.2 | 11.6 |
| - Indonesia | (9.0) | (0.4) | (4.1) | >100.0 | (54.7) | (7.7) | (7.0) | (9.6) |
| - Australia | (2.4) | (0.7) | (3.9) | >100.0 | 66.4 | (8.1) | (4.5) | (43.8) |
| Taxation | (14.1) | (21.2) | (23.1) | 9.0 | 63.8 | (60.0) | (76.6) | 27.6 |
| PAT (-MI) | 60.9 | 41.3 | 53.3 | 29.1 | (12.5) | 161.9 | 179.4 | 10.8 |
| EPS (sen) | 1.4 | 1.0 | 1.3 | 33.3 | (8.6) | 3.8 | 4.2 | 10.3 |
| DPS (sen) | 0.4 | 0.5 | 0.5 | 0.0 | 25.0 | 1.8 | 2.0 | 12.4 |
| Profitability ratios (%) | | | | PP | PP | | | PP |
| GP margins | 32.1 | 31.1 | 31.3 | 0.1 | (0.8) | 30.4 | 30.8 | 0.4 |
| EBITDA margins | 14.6 | 14.6 | 16.6 | 2.0 | 2.0 | 13.3 | 15.1 | 1.8 |
| - Malaysia | 16.7 | 14.8 | 17.9 | 3.0 | 1.2 | 14.1 | 15.7 | 1.6 |
| - Indonesia | (64.5) | 15.2 | (12.2) | (27.4) | 52.4 | (1.7) | 2.9 | 4.6 |
| - Australia | (4.4) | 2.3 | (35.2) | (37.6) | (30.8) | (6.2) | (3.8) | 2.4 |
| PBZT margins | 9.2 | 7.7 | 9.4 | 1.7 | 0.2 | 7.3 | 8.1 | 0.7 |
| - Malaysia | 11.2 | 8.1 | 10.3 | 2.2 | (0.9) | 8.1 | 8.7 | 0.6 |
| - Indonesia | (79.9) | (3.8) | (32.8) | (29.0) | 47.2 | (15.8) | (16.0) | (0.2) |
| - Australia | (21.5) | (4.6) | (29.7) | (25.1) | (8.2) | (14.7) | (7.9) | 6.8 |
| Taxation | 18.3 | 33.7 | 28.4 | (5.2) | 10.1 | 25.7 | 28.7 | 3.0 |
| PAT (-MI) margins | 7.3 | 5.0 | 6.2 | 1.1 | (1.1) | 5.1 | 5.4 | 0.3 |
| Operating Statistics | | | | | | | | |
| Malaysia Patient Traffic: | | | | % | % | | | % |
| - Outpatient | 616,935 | 635,984 | 653,178 | 2.7 | 5.9 | 2,473,851 | 2,541,822 | 2.7 |
| - Inpatient | 70,966 | 74,949 | 78,703 | 5.0 | 10.9 | 286,465 | 299,780 | 4.6 |
| Malaysia Average Patient Revenue: | | | | % | % | | | % |
| - Outpatient | - | - | - | - | - | 329 | 328 | (0.5) |
| - Inpatient | - | - | - | - | - | 7,180 | 7,274 | 1.3 |

Table 3: Earnings Summary

| FYE Dec (RM mn') | FY17 | FY18 | FY19F | FY20F | FY21F |
|--------------------------------|---------|---------|---------|---------|---------|
| Revenue | 3,180.0 | 3,308.1 | 3,459.5 | 3,716.6 | 4,005.8 |
| EBITDA | 424.5 | 500.9 | 473.6 | 501.2 | 545.7 |
| Depreciation and amortisation | (131.0) | (155.5) | (158.0) | (163.2) | (198.5) |
| Net finance costs | (66.3) | (81.1) | (88.8) | (90.4) | (91.0) |
| Share of results of associates | 39.5 | 41.7 | 47.8 | 52.9 | 58.5 |
| PBZT | 233.3 | 266.5 | 274.5 | 300.5 | 314.6 |
| PAT (-MI) | 161.9 | 179.4 | 190.0 | 208.1 | 217.8 |
| EPS (sen) | 3.8 | 4.2 | 4.3 | 4.7 | 4.9 |
| EPS growth (%) | 26.7 | 10.3 | 5.9 | 9.5 | 4.7 |
| DPS (sen) | 1.8 | 2.0 | 2.1 | 2.3 | 2.4 |
| Div yield (%) | 1.6 | 1.8 | 1.9 | 2.1 | 2.2 |
| PER | 29.5 | 26.6 | 25.1 | 23.0 | 21.9 |

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
- HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
- SELL** : Total return is lower than the required rate of return.
- Not Rated:** The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Wednesday, February 20, 2019, the analyst, Tan Kam Meng, who prepared this report, has interest in the following securities covered in this report:
(a) nil

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