

03 September 2019

KPJ Healthcare

A Better 2H

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Key results highlights. QoQ, 2Q19 revenue fell 2% mainly due to lower inpatient (-2%) and outpatient (-1%) numbers in Malaysia as occupancy rates fell 2ppt to 66%. EBITDA came in unchanged at RM155m. This brings 2Q19 core PATAMI to RM43m (+7%) due to the lower effective tax rate of 31% compared to 32% in 1Q19.

YoY, 1H19 revenue rose 5% due mainly to the higher average revenue per inpatient (+6.5%), particularly for KPJ Rawang, KPJ Pasir Gudang and KPJ Johor. In addition, the newly-opened hospitals; namely KPJ Perlis and KPJ Bandar Dato' Onn, were also contributing factors to the double-digit increment to the revenue. Increased activities at the support companies also contributed to the revenue growth. EBITDA rose 30% due to impact of MFRS 16 adoption since the Group does not recognised lease rental but instead recognised depreciation and finance costs derived from the right-of-use assets and lease liabilities, respectively. Extended promotions to the neighbouring country and online promotions as well as organic growth from existing hospitals were also contributing factors to the increase in revenue. This brings 1H19 PATAMI to RM83.4m (-2%) due to the higher effective tax rate of 31% compared to 26% in 1Q18. 1H19 EBITDA margin rose 3ppt to 18% from 15% in 1H18 from adoption of MFRS 16 and potentially contributions from the new hospitals (previously under gestation) and incremental ramp-ups from new openings.

Outlook. The group is confident that start-up costs from new openings will be absorbed by: (i) incremental ramp-ups from earlier openings, and (ii) steady contributions from matured hospitals. As indication, start-up losses are only seen in KPJ Perlis and Bandar Dato Onn. Earnings growth is expected to come from narrower losses and profitability for hospitals built 2-3 years ago including KPJ Rawang, Maharani, Pasir Gudang and Pahang.

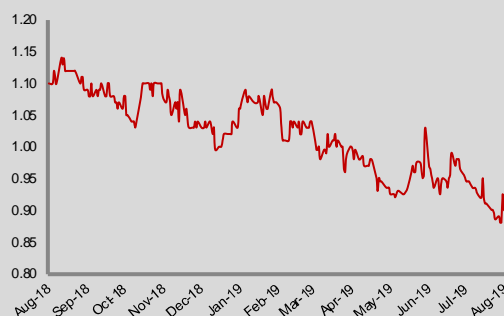
Maintain OUTPERFORM. TP is cut from RM1.20 to RM1.15 based on revised lower 26.5x FY20E EPS (historical average 5-year forward PER) from 27.5x PER previously. We like KPJ because: (i) start-up costs from new openings are diminishing, being absorbed by incremental ramp-ups from earlier openings and steady contributions from matured hospitals, and (ii) the stock is currently trading at 25% and 40% discount compared to the historical average of 26.5x and regional peers of 35x, respectively.

Key risk to our call is slower-than-expected turnaround in the group's new hospitals.

OUTPERFORM ↔

Price : RM0.910
Target Price : RM1.15 ↓

Share Price Performance



KLCI 1,612.14
YTD KLCI chg -4.6%
YTD stock price chg -12.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KPJ MK Equity
Market Cap (RM m)	3,900.6
Shares Outstanding	4,286.3
52-week range (H)	1.16
52-week range (L)	0.870
3-mth avg daily vol:	3,563,000
Free Float	36%
Beta	0.7

Major Shareholders

Johor Corporation	45.7%
Employees Provident Fund	11.4%
Waqaf An-Nur Corporation	7.1%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	3,308.1	3,654.6	3,775.5
PBT	266.5	301.5	303.5
Net Profit (NP)	181.9	192.1	194.1
Core NP	183.0	192.1	194.1
Consensus (NP)		184.4	200.6
Earnings Revision	-	-	-
Core EPS (sen)	4.1	4.4	4.4
Core EPS growth(%)	(2.4)	5.8	1.0
NDPS (sen)	1.6	1.7	1.7
BVPS (RM)	0.45	0.48	0.51
PER (x)	21.9	20.7	20.5
Price/BVPS (x)	2.0	1.9	1.8
Net Gearing (%)	60.8	55.1	49.2
Dividend Yield (%)	1.7	1.8	1.8

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Result Highlight								
FY Dec (RM'm)	2Q FY19	1Q FY19	Q-o-Q Chg (%)	2Q FY18	Y-o-Y Chg (%)	6M FY18	6M FY19	Y-o-Y Chg (%)
Turnover	847.3	868.1	(2.4)	801.3	5.7	1,624.2	1,715.4	5.6
EBITDA	154.9	154.9	0.0	119.4	28.3	237.6	309.8	30.4
PBT	66.7	66.4	0.4	61.4	8.5	122.3	133.1	8.8
Core PATAMI	43.1	40.3	6.8	42.6	1.1	84.8	83.4	(1.7)
EPS (sen)	1.0	0.9	6.8	1.0	1.5	1.9	2.0	4.1
EBITDA margin	18%	18%		15%		15%	18%	
PBT margin	8%	8%		8%		8%	8%	
Effective tax rate	31%	32%		27%		26%	31%	

Source: Company, Kenanga Research, Bursa Malaysia

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
HEALTHCARE																	
IHH HEALTHCARE BHD	5.79	50801.4	Y	12/2019	12.0	10.3	0.5	8.4	49.4	49.1	45.3	2.3	2.2	4.5	0.5	4.85	UP
KPJ HEALTHCARE BERHAD	0.910	3900.6	Y	12/2019	10.5	3.3	5.0	1.0	21.9	20.7	20.5	2.0	1.9	9.1	2.2	1.15	OP
PHARMANIAGA BERHAD	2.49	650.5	Y	12/2019	5.0	3.0	-1.6	-0.4	11.2	11.4	11.5	1.3	1.2	10.6	5.6	2.35	UP

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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