

KPJ Healthcare

Look Beyond 1Q19

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1Q19 Core Net Profit (CNP) of RM40.3m (-5% YoY; -27% QoQ) came in below expectations at 20%/21% of our/consensus full-year forecasts. The negative variance from our forecast is due to lower-than-expected revenue per inpatient. As such, we downgrade our FY19E/FY20E Net Profit by 5.3%/7.3%. TP is lowered from RM1.35 to RM1.20 based on 27.5x FY20E EPS (historical average 5-year forward PER). Maintain OP.

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Key results highlights. QoQ, 1Q19 revenue rose 0.6% mainly due to lower inpatient (-3%) and outpatient (-1%) numbers in Malaysia. EBITDA rose 5% due to lease rental, which has been excluded from the administrative expenses, as a result from the adoption of MFRS 16. This brings 1Q19 core PATAMI to RM40.3m (-27%) due to the lower effective tax rate of 32% compared to 28% in 4Q18.

YoY, 1Q19 revenue rose 5% due mainly to the higher average revenue per inpatient (+6.5%), particularly for KPJ Rawang, KPJ Pasir Gudang and KPJ Johor. EBITDA was notably high at RM154.9m (+31% YoY) due to impact of MFRS 16 adoption. 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 1Q19 core PATAMI to RM40.3m (-5%) due to the higher effective tax rate of 32% compared to 26% in 1Q18. 1Q19 EBITDA margin rose 4ppt to 18% from 14% in 1Q18 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.

Downgrade FY19E/FY20E Net Profit by 5.3%/7.3%, taking into account lower-than-expected revenue per inpatient.

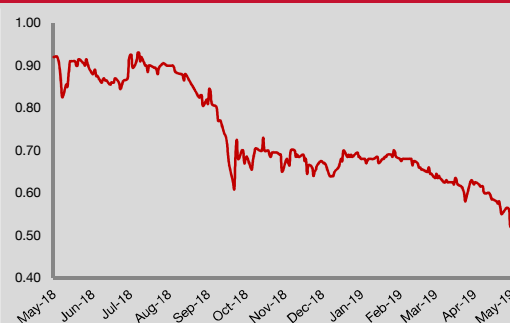
Maintain OUTPERFORM. Apart from the earnings downgrade, we roll over our valuation from FY19E to FY20E. Correspondingly, our TP is lowered from RM1.35 to RM1.20 based on 27.5x FY20E revised EPS (from 28.5x previously) (27.5x is historical average 5-year forward PER). We like KPJ because: (i) start-up costs from new openings will be absorbed by incremental ramp-ups from earlier openings and steady contributions from matured hospitals, and (ii) the stock is currently trading at 20% and 40% discount compared to historical average of 27.5x and regional peers of 35x, respectively.

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

OUTPERFORM ↔

Price : RM0.93
Target Price : RM1.20 ↓

Share Price Performance



KLCI	1,650.76
YTD KLCI chg	-2.4%
YTD stock price chg	-10.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KPJ MK Equity
Market Cap (RM m)	4,019.5
Shares Outstanding	4,322.1
52-week range (H)	1.17
52-week range (L)	0.92
3-mth avg daily vol:	5,700,669
Free Float	36%
Beta	0.7

Major Shareholders

Johor Corporation	45.4%
Employees Provident Fund	11.3%
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)		192	205
Earnings Revision	-	-5.3%	-7.3%
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)	22.4	21.2	21.0
Price/BVPS (x)	2.1	1.9	1.8
Net Gearing (%)	60.8	55.1	49.2
Dividend Yield (%)	1.7	1.8	1.8



Result Highlight						
FY Dec (RM'm)	1Q FY18	4Q FY18	1Q FY19	Q-o-Q Chg (%)	Y-o-Y Chg (%)	
Turnover	822.9	863.3	868.1	0.6	5.5	
EBITDA	118.1	148.3	154.9	4.5	31.1	
PBT	60.9	81.3	66.4	(18.3)	9.1	
Reported PATAMI	42.2	55.1	40.3	(26.9)	(4.5)	
Core PATAMI	45.3	47.1	40.3	(26.9)	(4.5)	
EPS (sen)	1.0	1.3	0.9	(26.9)	(3.9)	
EBITDA margin	14%	17%	18%			
PBT margin	7%	9%	8%			
Effective tax rate	26%	28%	32%			

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	5.50	48245.2	Y	12/2019	13.2	11.0	2.6	9.9	46.9	45.7	41.6	2.2	2.1	4.6	0.5	4.90	UP
KPJ HEALTHCARE BERHAD	0.93	4019.5	Y	12/2019	10.5	3.3	5.8	1.0	22.4	21.2	21.0	2.1	1.9	9.1	2.2	1.20	OP
PHARMANIAGA BERHAD	2.66	692.9	Y	12/2019	5.0	3.0	-1.6	-0.4	12.0	12.2	12.2	1.4	1.3	10.6	5.3	2.35	MP

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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Published and printed by:

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