

KPJ Healthcare

9MFY21 Came in Below, Lack of Catalysts

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9MFY21 PATAMI of RM33m (-62% YoY) came in below expectations at 31%/34% of our/consensus estimates. The negative variance from our side was due to lower-than-expected number of patients and higher-than-expected effective tax rate. This prompts us to cut our FY21E/FY22E net profit by 19%/13%. TP is reduced from RM1.03 to RM1.01 based on 28x FY22E EPS in line with historical 5-year forward mean. On lack of re-rating catalyst coupled with its new hospitals still under gestation that are likely to continue dragging earnings, we reiterate Market Perform.

Key results' highlights. QoQ, 3QFY21 revenue rose 10%, thanks to higher number of patients (+3%) and bed-occupancy rate (BOR) of 44% compared to 41% in 2QFY21. Correspondingly, 3QFY21 EBITDA and PBT rose 27% and >100% from a low base in 2QFY21, respectively, due to rental rebates received from Al-'Aqar Healthcare REIT, and we believe from absence of start-up cost incurred for new hospitals namely, KPJ Sri Manjung and KPJ Taiping which were opened to the public in 2QFY21. This caused 3QFY21 PATAMI to come in below expectation at RM12.6m (+82%) due to a higher effective tax rate of 59% compared to 38% in 2QFY21 due to certain expenses not deductible for tax purposes, and the impact of business losses arising from the new hospitals that are currently under gestation. A 2nd interim dividend of 0.30 sen was declared bringing 9MFY21 DPS to 0.55 sen which came in below our expectation.

YoY, 9MFY21 revenue rose 9%, thanks to higher number of patients (+7%). Despite the increase in revenue, the desired optimal operating efficiency is yet to be achieved due to high fixed costs which comprise staff costs, maintenance costs and depreciation/amortisation and finance costs. Consequently, EBITDA and PBT fell 6% and 40%, respectively, which was further exacerbated by lower contribution from new hospitals under gestation period. New hospitals still under gestation, such as KPJ Bandar Dato' Onn, KPJ Batu Pahat, KPJ Perlis and KPJ Miri, remained loss-making, contributing to the lower EBITDA weighing 9MFY21 PATAMI lower by 62%.

Outlook. We expect a slow recovery in terms of hospital activities due to patient deferring seeking hospital treatments; however, with business activities resuming and the easing of restrictions, activities in the hospitals are expected to start recovering gradually towards the end of the year and into early 2022. Nevertheless, emergence of new variants of COVID-19 and surge in cases overseas could mean a slower recovery. Additionally, the new hospitals under gestation period could continue to be a drag on earnings.

Downgrade FY21E/FY22E net profit by 19%/13%. Our FY21E downgrade is due to lower number of patients and effective tax rate raised from 30% to 36%. We cut our FY22E net profit by 13% to account for one-off prosperity tax from the recently announced Budget 2022 as we assume an effective tax rate of 38% instead of 30% previously.

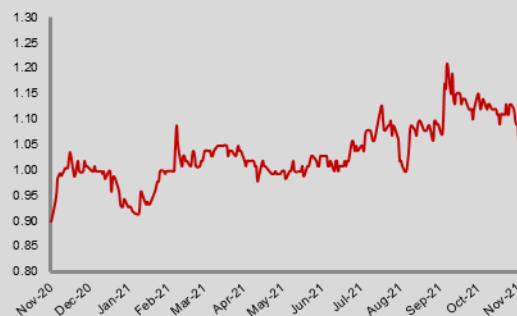
Reiterate MARKET PERFORM. Our TP is lowered from RM1.03 to RM1.01 based on 28x FY22 EPS in line with historical 5-year forward mean. With lack of re-rating catalyst and the new hospitals under gestation period which could continue to be a drag to earnings, we reiterate our Market Perform call.

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

MARKET PERFORM ↔

Price: **RM1.05**
Target Price: **RM1.01** ↓

Share Price Performance



KLCI	1,512.22
YTD KLCI chg	-7.1%
YTD stock price chg	5.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KPJ MK Equity
Market Cap (RM m)	4,542.6
Shares Outstanding	4,326.3
52-week range (H)	1.30
52-week range (L)	0.90
3-mth avg daily vol:	5,229,399
Free Float	31%
Beta	0.6

Major Shareholders

Johor Corporation	35.7%
Employees Provident Fund	12.3%
Waqaf An-Nur Corporation	7.1%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	2,397.4	2,582.0	2,801.8
PBT	150.8	132.8	242.5
Net Profit (NP)	110.4	85.2	151.2
Core NP	131.0	85.2	151.2
Consensus (NP)	-	97.3	188.9
Earnings Revision	-	-19%	-13%
Core EPS (sen)	3.1	2.1	3.6
Core EPS growth (%)	(38.5)	(33.7)	75.6
NDPS (sen)	1.2	1.5	1.5
BVPS (RM)	0.53	0.53	0.55
PER (x)	33.7	50.7	28.9
Price/BVPS (x)	2.0	2.0	1.9
Net Gearing (%)	67.7	68.7	64.5
Dividend Yield (%)	1.1	1.4	1.4

Result Highlight								
FY Dec (RM m)	3Q FY21	2Q FY21	Q-o-Q Chg (%)	3Q FY20	Y-o-Y Chg (%)	9M FY20	9M FY21	Y-o-Y Chg (%)
Turnover	699.0	632.8	10.4	633.4	8.4	1,775.1	1,937.7	9.2
EBITDA	147.9	116.9	26.6	152.2	(2.8)	417.2	390.6	(6.4)
Associates	3.5	6.3	(44.9)	5.2	(32.8)	15.3	14.6	(4.7)
PBT	43.4	14.2	206.1	56.1	(22.6)	130.2	77.8	(40.3)
PATAMI	12.6	7.0	81.6	34.0	(62.8)	85.2	32.6	(61.7)
EPS (sen)	0.3	0.2	70.6	0.8	(63.3)	2.0	0.8	(61.8)
NDPS (sen)	0.3	0.25		0.4		1.20	0.55	
EBITDA margin	21%	18%		24%		24%	20%	
PBT margin	6%	2%		9%		7%	4%	
Effective tax rate	59%	38%		37%		33%	46%	

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	6.56	57,663	Y	12/2021	15%	9%	67%	7%	80.5	48.1	44.8	2.6	2.5	5%	1%	6.65	MP
KPJ HEALTHCARE BERHAD	1.05	4,543	Y	12/2021	8%	9%	-35%	77%	33.7	50.7	28.9	2.0	2.0	4%	1%	1.01	MP
PHARMANIAGA BERHAD	0.820	1,074	Y	12/2021	102%	-25%	294%	-31%	39.0	9.9	14.4	3.2	2.8	30%	6%	0.850	MP

Source: Bloomberg, Kenanga Research

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29 November 2021

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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