"Green shoots" has finally appeared

KPJ booked a RM34.1m net profit in 1Q16, making up 23% of our forecasts. We deem this in-line as 1Q is typically weaker due to seasonality. Revenue grew 5% yoy helped by both higher patient volume and revenue intensity. Patient volume has finally staged a comeback, growing by 1% yoy after three consecutive quarters of decline, suggesting that the GST-driven impact has finally worn off. Maintain BUY with RM4.87 TP, based on SOTP valuation.

1Q16 results in-line with expectations

KPJ reported a headline net profit of RM34.1m in 1Q16 (+1% yoy; +39% qoq), making up 22%/23% of our/consensus full year forecasts. This is in-line with our expectations, as 1Q is usually weaker due to seasonality. We expect earnings to pick-up in 2Q-3Q. Also, KPJ declared its first interim dividend of 1.8 sen per share, which is in-line with our expectations.

Results analysis

Revenue grew to RM743.9m in 1Q16 (+5% yoy; +7% qoq), helped by higher patient volume (+1% yoy; +5% qoq) and higher revenue intensity (+4% yoy; +2% qoq). Gross margin was healthy at 31.2% in 1Q (flat yoy; +5.2ppts qoq), while administrative expenses remain steady at RM174.7m in the quarter (+2% yoy; +41% qoq due to seasonality). Share of associates' profit fell by 7% yoy to RM8.3m in 1Q16.

"Green shoots" finally appeared in patient volume

Following three consecutive quarters of decline in patient volume, KPJ's volume has finally staged a comeback growing by 1% yoy in 1Q16. More commendable is that higher-margin inpatients (+4% yoy) actually outpaced outpatients (+1% yoy) in 1Q. All these suggest that the drag on business volume following the implementation of GST in Apr 2015 has started to wear off. If so, patient volume will likely resume its long-term growth trend, in-line with the group's expansion plan.

Maintain BUY; raise TP to RM4.87

We tweaked our 2016/17/18E net profit forecasts by -2%/+0%/3%, after making some housekeeping adjustments following the finalisation of 2015 accounts. This led us to revise our SOTP-derived TP to RM4.87 (previous: RM4.90). Maintain BUY. Key risks include margin compression and declines in patient volume.

Earnings & Valuation Summary

FYE 31 Dec	2014	2015	2016E	2017E	2018E
Revenue (RMm)	2,639.1	2,847.6	3,098.8	3,363.6	3,671.4
EBITDA (RMm)	301.3	332.1	375.7	438.2	497.3
Pretax profit (RMm)	218.1	209.6	223.8	242.6	258.6
Net profit (RMm)	143.0	135.3	146.7	158.0	167.8
EPS (sen)	14.1	13.0	13.9	15.0	15.9
PER (x)	30.1	32.4	30.4	28.2	26.6
Core net profit (RMm)	123.0	122.5	146.7	158.0	167.8
Core EPS (sen)	12.1	11.8	13.9	15.0	15.9
Core EPS growth (%)	27.9	(2.3)	17.8	7.7	6.2
Core PER (x)	35.0	35.8	30.4	28.2	26.6
Net DPS (sen)	7.4	6.9	7.5	8.0	8.5
Dividend Yield (%)	1.8	1.6	1.8	1.9	2.0
EV/EBITDA (x)	17.9	17.0	15.9	14.4	13.3
Chg in EPS (%)	-	-	(1.6)	0.4	2.8
Affin/Consensus (x)	-	-	0.9	0.9	0.9

Source: Company, Affin Hwang estimates

Results Note

KPJ Healthcare

KPJ MK
Sector: Healthcare

RM4.23 @ 19 May 2016

BUY (maintain)

Upside: 15.1%

Price Target: RM4.87

Previous Target: RM4.90

Price Performance

	1M	3M	12M
Absolute	0.0%	-2.8%	-0.2%
Rel to KLCI	+4.7%	-0.3%	+10.5%

Stock Data

Issued shares (m)	1,041.7
Mkt cap (RMm)/(US$m)	4,406.3/1,079.5
Avg daily vol - 6mth (m)	0.8
52-wk range (RM)	3.96-4.42
Est free float	30.1%
BV per share (RM)	1.42
P/BV (x)	2.99
Net cash/ (debt) (RMm) (1Q16)	(1,153.8)
ROE (2016E)	9.7%
Derivatives	Yes
Shariah Compliant	Yes

Key Shareholders

Johor Corp	44.6%
EPF	12.5%
Waqaf An-Nur Corporation	7.3%

Source: Affin Hwang, Bloomberg

Tan Kee Hoong, CFA
(603) 2146 7470
keehoong.tan@affinhwang.com

Fig 1: Results comparison

FYE 31 Dec (RMm)	1QFY16	QoQ % chg	YoY % chg	3MFY16	*YoY % chg*	Comments
Revenue	743.9	*7.2*	*4.8*	743.9	*4.8*	Revenue grew 5% yoy on the back of higher patient volume and revenue intensity.
Op costs	(651.6)	*6.6*	*4.2*	(651.6)	*4.2*	
EBITDA	92.4	*11.1*	*9.2*	92.4	*9.2*	
EBITDA margin (%)	*12.4*	*0.4ppt*	*0.5ppt*	*12.4*	*0.5ppt*	
Depn and amort	(31.2)	*(5.1)*	*1.2*	(31.2)	*1.2*	
EBIT	61.1	*21.7*	*13.8*	61.1	*13.8*	
EBIT margin (%)	*8.2*	*1ppt*	*0.6ppt*	*8.2*	*0.6ppt*	
Int expense	(20.7)	*52.2*	*42.0*	(20.7)	*42.0*	
Int and other inc	2.7	*80.4*	*5.3*	2.7	*5.3*	
Associates & JVs	8.3	*32.5*	*(6.7)*	8.3	*(6.7)*	
EI	0.0	*N/A*	*N/A*	0.0	*N/A*	
Pretax profit	**51.4**	*(16.2)*	*1.6*	**51.4**	*(1.6)*	
Core pretax	**51.4**	*15.9*	*1.6*	**51.4**	*1.6*	
Tax	(14.8)	*(14.7)*	*3.9*	(14.8)	*3.9*	
Tax rate (%)	*28.8*	*-10.4ppt*	*0.7ppt*	*28.8*	*0.7ppt*	
MI	(2.5)	*(5.3)*	*(1.4)*	(2.5)	*1.4*	
Net profit	**34.2**	*(39.0)*	*0.8*	**34.2**	*0.8*	
EPS (sen)	3.2	*(39.3)*	*0.5*	3.2	*(0.5)*	
Core net profit	**34.2**	*38.4*	*0.8*	**34.2**	*0.8*	In-line with expectations

Source: Affin Hwang, company data

Fig 2: SOTP valuation for KPJ Healthcare

	Value (RM m)	Value per share (RM)	Remarks
Hospital operations	4,692.3	4.45	NPV of FCFF less net debt; WACC = 7.2%, LTG =2%
49% stake in Al-Aqar REIT	461.6	0.44	6% 2016E yield
Other associates & JVs	61.5	0.06	10x 2016E P/E
SOTP-Equity Value	**5,215.4**	**4.95**	Current share base of 1,054.5m
Add: Potential proceeds from warrants conversion	347.4		Exercise price of RM4.01; 86.6m warrants outstanding
Diluted Equity Value	**5,562.7**	**4.87**	Diluted share base of 1,141.1m

Source: Affin Hwang, Company data

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

This report is printed and published by:
Affin Hwang Investment Bank Berhad (14389-U)
(formerly known as HwangDBS Investment Bank Berhad)
A Participating Organisation of Bursa Malaysia Securities Bhd
Chulan Tower Branch,
3rd Floor, Chulan Tower,
No 3, Jalan Conlay,
50450 Kuala Lumpur.
www.affinhwang.com
Email : affin.research@affinhwang.com
Tel : + 603 2143 8668
Fax : + 603 2145 3005