Securities

AFFIN HWANG CAPITAL

Out**think.** Out**perform.**

1Q17 in line with our expectation

KPJ's 1Q2017 net profit increased by 12%yoy to RM38.3m and accounted for 25% of our full year estimates, which was in line with our/consensus expectations. While patient volume growth has yet to show meaningful recovery, higher revenue intensity/inpatient contributed to top line growth. There were some slight delays in opening of new hospitals but still fall within our forecast of 4 new facilities in next 15 months. We maintain Buy with TP of RM4.71 based on assumptions of private healthcare spending recovery and new hospital openings to provide top line growth.

1Q17: decent set of results

KPJ's 1Q17 net profit of RM 38.3m was broadly in line with our/consensus estimates. The revenue increased by 6.7% on the back of higher average revenue/patient of RM1,145 (+9%yoy) while the overall patient admission growth remains lacklustre. In 1Q17, outpatient number was 620,450 (-2%yoy) and inpatient number was 72,735 (-1%yoy). Similar to 4Q16, KPJ's effective tax rate was lower because of the benefits from tax losses has been utilized from certain companies within the Group. The group declared interim dividend of 1.8 sen.

Expansions are still within the expected schedule

Currently KPJ has 4 greenfield expansions, namely 90-bed KPJ Perlis (opening in 4Q17), 150-bed KPJ Specialist Hospital Bandar Dato' Onn (opening in 1Q18), 96-bed KPJ Miri Specialist Hospital (opening in 2Q18), and 150-bed KPJ Kuching Specialist Hospital (opening in 3Q18). While the scheduled openings of new hospitals are delayed by 1 to 2 quarters, they still fall within our forecast of seeing 4 new hospitals opening in next 15 months to provide inorganic growth in FY17/18. Also, KPJ has 7 brownfield expansions to add another 530 beds over FY17/20. We believe that these pipelines will help KPJ to deliver sustainable growth in the long run.

Maintain Buy with unchanged TP of RM4.71

We fine-tune our 2017-19E net profit upon the release of KPJ's 2016 annual report. We maintain Buy with an unchanged SOTP-based 12 month TP of RM4.71. We continue to like KPJ for its: (1) strong expansion plan; (2) exposure to the Malaysian private healthcare market (Malaysia's aged population growth of 5%), (3) recovery from low base, and 4) cheap valuation among regional peers (30xFY17PE). Key downside risks for KPJ would be: (1) margin compression; and (2) declines in patient volume.

Earnings and Valuation Summary

FYE 31 Dec	2015A	2016A	2017E	2018E	2019E
Revenue (RMm)	2,847.6	3,021.1	3,288.0	3,611.5	3,924.2
EBITDA (RMm)	332.1	359.5	420.7	462.7	527.9
Pretax profit (RMm)	209.6	210.2	240.7	257.8	299.4
Net profit (RMm)	135.3	149.2	153.2	163.3	187.4
EPS (sen)	13.0	14.0	14.4	15.4	17.6
PER (x)	32.2	29.9	29.2	27.4	23.8
Core net profit (RMm)	122.5	133.3	153.2	163.3	187.4
Core EPS (sen)	11.8	12.5	14.4	15.4	17.6
Core EPS chg (%)	(2.3)	6.1	15.0	6.6	14.8
Core PER (x)	35.6	33.5	29.2	27.4	23.8
DPS (sen)	6.9	4.7	7.8	8.3	9.5
Dividend Yield (%)	1.6	1.1	1.9	2.0	2.3
EV/EBITDA (x)	16.5	15.6	13.4	12.2	10.7
Chg in EPS (%)			0.4	1.9	2.2
Affin/Consensus (x)			1.0	1.0	1.0

Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

KPJ Healthcare

KPJ MK
Sector: Healthcare

RM4.17 @ 26 May 2017

BUY (maintain)

Upside: 13%

Price Target: RM4.71

Previous Target: RM4.71

Price Performance

	1M	3M	12M
Absolute	-1.9%	2.5%	-1.0%
Rel to KLCI	-2.0%	-1.8%	-8.8%

Stock Data

Issued shares (m)	1,049.8
Mkt cap	4377.5/1025.6
Avg daily vol - 6mth (m)	0.6
52-wk range (RM)	3.85-4.37
Est free float	18.2%
BV per share (RM)	1.55
P/BV (x)	2.69
Net cash/ (debt) (RMm)	(1,221.95)
Derivatives	Yes
Shariah Compliant	Yes

Key Shareholders

Johor Corp	44.2%
EPF	12.9%
Waqaf An-Nur	7.3%

Source: Affin Hwang, Bloomberg

Research Team
(603) 2146 8158
research@affinhwang.com

(for further enquiries, please contact Jun Zhang Tan; (603 2146 7487), junzhang.tan@affinhwang.com

FYE Dec (RMm)	1Q17	QoQ % chg	YoY % chg	Comment
Revenue	793.9	6.6	6.7	1Q17 revenue growth was driven by higher average revenue/patient (+9%yoy). Outpatient and inpatient volume growth declined by 1-2%yoy.
Op costs	(695.3)	6.7	6.9	
EBITDA	98.6	5.9	5.2	Slightly lower due to ESOS and higher cost of sales.
EBITDA margin (%)	*12.4*	*-0.1ppt*	*-0.2ppt*	
Depn and amort	(32.1)	6.9	(1.6)	
EBIT	66.5	5.4	8.8	
EBIT margin (%)	8.4	-0.1ppt	0.2ppt	
Int expense	(20.9)	(25.1)	0.6	
Int and other inc	2.4	(60.0)	(11.8)	
Associates	6.6	1.4	(21.0)	
EI	0.0	Nm	nm	
Pretax profit	**54.6**	**(14.1)**	**6.2**	
Core pretax	**54.6**	**14.6**	**6.2**	
Tax	(14.6)	44.6	(1.5)	
Tax rate (%)	26.7	10.8ppt	-2.1ppt	Lower tax rate due to certain companies within the Group has managed to utilize the benefits from tax losses and other tax incentives.
MI	(1.8)	35.7	(27.2)	
Net profit	**38.3**	**(26.7)**	**12.0**	
EPS (sen)	3.51	(26.87)	8.18	
Core net profit	**38.3**	**5.5**	**12.0**	Within expectation.

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