

KPJ Healthcare Berhad

(5878 | KPJ MK) | Health Care | Health Care Providers

Maintain NEUTRAL

Soft earnings recorded following MCO

Revised Target Price: RM0.94

(Previously RM0.93)

KEY INVESTMENT HIGHLIGHTS

- **1QFY20 earnings came in at RM38.5m, lower by -4.1% year-over-year**
- **Earnings was impacted by implementation of MCO in March by the Malaysian Government**
- **Lower revenue recognised across the group following lower number of patients recorded**
- **First interim dividend declared of 0.5sen per share for 1QFY20**
- **Maintain NEUTRAL with a revised TP of RM0.94**

1QFY20 earnings missed expectations. KPJ Healthcare Bhd's (KPJ) 1QFY20 earnings came in at RM38.5m (-4.1%yoy) which was below ours and consensus expectations, accounting for 18.9% and 19.1% of our full year FY20 forecasts respectively. While its revenue grew marginally by +1.8%yoy, the group's earnings declined slightly by -4.1%yoy mainly attributable to the lower revenue recorded by the Malaysian hospitals year-over-year following the implementation of the Movement Control Order (MCO) by the Malaysian government. The MCO which was effective from 18th March 2020 resulted in lower revenue recorded for the Malaysian hospitals operation in March at RM268m vs >RM300m in revenue recorded in January and February prior to the implementation of MCO.

Higher revenue offset lower inpatients and outpatients . The group's revenue in 1QFY20 was mainly supported by the Malaysian operations despite recording a marginal growth of +0.6%yoy. This was mainly attributable to higher revenue per patients recorded as inpatients and outpatients numbers dipped by -6.5%yoy and -0.9%yoy respectively during the quarter under review following the implementation of MCO in March.

Lacklustre performance from international operations. Meanwhile, revenue from its Indonesian operations dipped by -9.0%yoy due to lower revenue recognised from RS Medika Permata Hijau (RSMPH) which saw lower revenue by -32%yoy due to the decline in number of patients during the quarter by -48%yoy. This was however, offset by the revenue from Rumah Sakit Bumi Serpong Damai (RSBSD) which grew by +13%yoy supported by higher outpatients number. Additionally, Jeta Garden recorded a lower revenue by -11.0%yoy due to lower occupancy rate during the quarter.

First interim dividend declared. In line with its lower earnings, a first interim dividend of 0.5sen per share was declared for 1QFY20. This represents a 55.6% payout from its 1QFY20 EPS of RM0.9sen which translates to an annualised yield of 2.0% to yesterday's closing price. That said, the quarter's dividend payout is similar to its 1QFY19 dividend payout of 0.5sen.

RETURN STATISTICS

Price @ 10 th June 2020 (RM)	0.90
Expected share price return (%)	+4.4
Expected dividend yield (%)	+2.6
Expected total return (%)	+7.0

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	2.9	-9.7
3 months	-3.8	-13.7
12 months	-7.7	-3.3

KEY STATISTICS

FBM KLCI	1,575.27
Syariah compliant	Yes
Issue shares (m)	4276.89
Estimated free float (%)	25.62
Market Capitalisation (RM'm)	3830.25
52-wk price range	RM0.72 - RM1.04
Beta vs FBM KLCI (x)	0.86
Monthly velocity (%)	0.00
Monthly volatility (%)	7.70
3-mth average daily volume (m)	2.08
3-mth average daily value (RM'm)	1.81
Top Shareholders (%)	
Johor Corp	45.80
EPF	12.47
Waqaf An-Nur	7.13

ANALYST

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Impact to earnings. We are revising our FY20F earnings forecast downwards by -18.1% as we take into account the expected dip in 2QFY20 earnings as a result of the implementation of the MCO by the Malaysian government and higher operating expenses relating to the fight against Covid-19. Furthermore, we have also reduced our FY21F earnings by -5.6% as we opine that the ripple effect going forward as a result of social distancing measures remaining in place will be extended into FY21 which will result in lower footfall in the hospitals i.e. lower inpatients and outpatients.

Target price. Post earnings revision and rolling forward our valuation base year to FY21, we are revising our target price to **RM0.94** per share (*from RM0.93 previously*). Our target price is derived from DCF valuation with terminal growth of 3.0% and WACC of 8.3%.

Maintain NEUTRAL. While we note that the group intends to grow its revenue via expanding existing hospital capacities as well as aggressively opening greenfield and brownfield developments which is expected to further accelerate the revenue growth rate going forward. However, with the current fight against the Covid-19 pandemic globally far from being over, we opine that the group will continue to be affected by lower footfalls at the hospitals following the new social norms taking place post-MCO. Additionally, higher OPEX is expected to be incurred in relations to the fight against Covid-19 with various PPEs, Covid-19 test kits and other various consumables are expected to be purchased.

Furthermore, we are expecting the first year impact from adopting MFRS 16 and reclassification of loss making Jeta Gardens to drag earnings in the short-term. All factors considered, we are maintaining our **NEUTRAL** recommendation. The key risks to our recommendation are: (i) delay in the execution of expansion plan; (ii) lower-than-expected revenue per patient and; (iii) increase in operations cost.



INVESTMENT STATISTICS

Financial year ending 31st Dec (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Revenue	884.2	3,604.4	3,818.4	4,009.3	4,209.8
Cost of Sales	(617.6)	(2,494.1)	(2,634.8)	(2,758.4)	(2,887.9)
Gross profit	266.5	1,110.3	1,183.6	1,250.9	1,321.9
Finance Borrowings	(25.2)	(89.5)	(133.6)	(104.2)	(109.5)
Finance Costs: Lease Liabilities	(18.0)	(69.6)	(72.6)	(76.2)	(80.0)
Profit before tax	55.1	275.4	232.9	302.7	317.8
Income tax expense	(14.6)	(48.7)	(60.5)	(82.9)	(87.1)
PATANCI (RM'm)	38.5	211.4	166.6	200.5	210.5
GP margin (%)	30.1	30.8	31.0	31.2	31.4
PBT Margin (%)	6.2	7.6	6.1	7.6	7.6
PATANCI margin (%)	4.4	5.9	4.4	5.0	5.0
EPS (sen)	4.1	4.9	3.8	4.6	4.8
EPS growth (%)	10.8	17.8	(21.2)	20.3	5.0
PER (x)	21.8	18.5	23.5	19.6	18.6
Dividend per share (sen)	2.0	2.0	2.2	2.3	3.3
Dividend yield (%)	2.2	2.2	2.4	2.6	3.7
Effective tax rate (%)	26.4	17.7	26.0	27.4	27.4

Source: Company, MIDFR

KPJ HEALTHCARE BERHAD: 1QFY20 RESULTS SUMMARY

Table 1: KPJ's quarterly earnings review

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly results				
	1QFY19	4QFY19	1QFY20	QoQ(%)	YoY (%)
Revenue	868.1	944.0	884.2	(6.3)	1.8
Cost of sales	(598.1)	(665.1)	(617.6)	(7.1)	3.3
Gross Profit	270.0	279.0	266.5	(4.5)	(1.3)
Admin Expenses	(179.7)	(184.5)	(184.2)	(0.1)	2.5
Other Income	6.1	5.0	6.0	19.1	(1.4)
Zakat	-	(0.5)	(0.3)	(46.1)	nm
Operating Profit	96.4	98.9	88.0	(11.1)	(8.7)
Finance Income	1.7	4.5	2.7	(41.0)	56.5
Finance Borrowings	(24.9)	(19.9)	(25.2)	26.7	1.1
Finance Costs: Lease Liabilities	(15.8)	(22.1)	(18.0)	(18.6)	13.9
Associates	8.9	16.8	7.6	(54.9)	(14.7)
Profit Before Tax	66.3	78.3	55.1	(29.7)	(16.9)
Taxation	(20.7)	12.5	(14.6)	(216.9)	(29.7)
Profit After Tax	45.3	90.8	40.5	(55.4)	(10.5)
Minority Interest	5.1	6.8	2.0	(70.5)	(60.8)
PATANCI	40.2	84.0	38.5	(54.1)	(4.1)
Basic EPS (sen)	0.9	2.0	0.9	(54.3)	0.0
Diluted EPS (sen)	0.9	1.9	0.9	(54.5)	(4.4)
Dividend per share (sen)	0.5	0.5	0.5	0.0	0.0
					+ / (-) ppts
GP margin (%)	31.1	29.5	30.1	0.6	(1.0)
Operating Profit margin (%)	11.1	10.5	10.0	(0.5)	(1.2)
PBT margin(%)	7.6	8.3	6.2	(2.1)	(1.4)
PAT margin(%)	5.2	9.6	4.6	(5.0)	(0.6)
PATANCI margin(%)	4.6	8.9	4.4	(4.5)	(0.3)
Effective Tax rate (%)	31.2	(15.9)	26.4	42.3	(4.8)

Source: Company, MIDFR

Table 2: KPJ's quarterly segmental breakdown

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly results				
	1QFY19	4QFY19	1QFY20	QoQ(%)	YoY (%)
Revenue					
Malaysia	839.3	900.6	844.6	(6.2)	0.6
Indonesia	14.7	14.8	13.4	(9.7)	(9.0)
Others	1.2	24.0	14.7	(38.6)	1,111.8
Australia (Disc.operation)	12.9	4.5	11.4	152.4	(11.0)
Total (ex. Australia)	855.2	939.5	872.7	(7.1)	2.0
PBT					
Malaysia	68.4	97.0	61.3	(36.9)	(10.5)
Indonesia	1.4	(11.8)	0.6	(105.4)	(53.6)
Others	(0.5)	(6.4)	(3.9)	(39.5)	719.9
Australia (Disc.operation)	(3.0)	(0.5)	(2.9)	495.5	(2.6)
Total (ex. Australia)	69.3	78.8	58.0	(26.4)	(16.3)

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.