

KPJ Healthcare Berhad

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

Maintain NEUTRAL

Earnings lifted by the recognition of tax incentives

Revised Target Price: RM0.93

(Previously RM0.94)

KEY INVESTMENT HIGHLIGHTS

- 4QFY19 earnings came in at RM84.0m (+57.5%yoy), leading to FY19 earnings of RM211.4m
- This exceeds our and consensus' expectation
- Profit before tax was partially depressed by -5.7% due to the impact of adoption of MFRS 16
- However, earnings was significantly lifted by the recognition of investment tax allowance
- First interim dividend declared of 0.5sen per share for FY20
- Maintain NEUTRAL with a revised TP of RM0.93

Earnings lifted by the recognition of tax incentives. KPJ Healthcare Bhd's (KPJ) 4QFY19 earnings came in at RM84.0m (+57.5%yoy). This brings its cumulative full year FY19 earnings to RM211.4m (+17.8%yoy) which was above ours and consensus expectations, accounting for 117.8% and 114.3% of full year FY19 forecasts respectively. The group's earnings were significantly lifted in 4QFY19 due to the recognition of investment tax allowance, which the group had obtained from the authority during the period. This resulted in an increase in deferred tax asset by +59.4% to RM109.1m.

Commendable performance by the Malaysian operation. The group earnings continued to be supported by the Malaysian operation whereby 4QFY19 revenue and PBT improved by +7.7%yoy and +11.0%yoy respectively. This was driven by the: (i) increase in inpatient revenue intensity by +7.1%yoy resulting from increased in surgeries performed; (ii) the opening of new block in KPJ Seremban which resulted in increased number of beds. However, KPJ's overall PBT was partially depressed by -5.7% due to the impact of adoption of MFRS 16 which require the group to eliminate rental expenses in profit and loss and replaced by depreciation and finance costs.

First interim dividend declared. The first interim dividend of 0.5sen per share was declared for FY20.

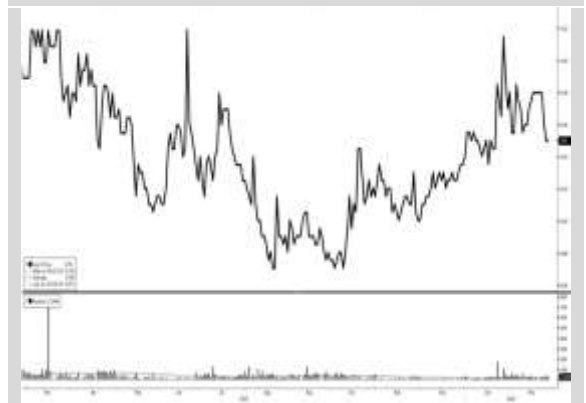
Impact to earnings. We are revising our FY20F and FY21F forecast downwards by -1.6% and -0.4% as we take into account a slightly higher effective tax rate going forward.

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

RETURN STATISTICS

Price @ 26 st February 2020 (RM)	0.95
Expected share price return (%)	-2.1
Expected dividend yield (%)	+2.4
Expected total return (%)	+0.3

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-2.1	3.0
3 months	0.5	10.8
12 months	-5.9	7.8


KEY STATISTICS

FBM KLCI	1,495.19
Syariah compliant	Yes
Issue shares (m)	4283.95
Estimated free float (%)	26.47
Market Capitalisation (RM'm)	4,065.19
52-wk price range	RM0.87 - RM1.05
Beta vs FBM KLCI (x)	0.70
Monthly velocity (%)	11.02
Monthly volatility (%)	7.70
3-mth average daily volume (m)	2.55
3-mth average daily value (RM'm)	2.46
Top Shareholders (%)	
Johor Corp	45.80
EPF	11.68
Waqaf An-Nur	7.12

ANALYST

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Maintain NEUTRAL. KPJ currently leads the local private hospital operator market with a 19.0% market share. In order to improve this, the group will sustain its efforts to increase new hospital developments as well as expanding the capacity of its existing hospitals. The aggressive opening of greenfield and brownfield developments would further accelerate the revenue growth rate going forward. However, 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 call 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	3,365.6	3,604.4	3,818.4	4,009.3	4,209.8
Cost of Sales	(2,329.3)	(2,494.1)	(2,634.8)	(2,758.4)	(2,887.9)
Gross profit	1,036.3	1,110.3	1,183.6	1,250.9	1,321.9
Finance Borrowings	(91.1)	(89.5)	(103.1)	(104.2)	(109.5)
Finance Costs: Lease Liabilities	-	(69.6)	(72.6)	(76.2)	(80.0)
Profit before tax	258.1	275.4	290.1	302.7	317.8
Income tax expense	(71.9)	(48.7)	(79.4)	(82.9)	(87.1)
PATANCI (RM'm)	179.4	211.4	203.5	212.5	223.1
GP margin (%)	30.8	30.8	31.0	31.2	31.4
PBT Margin (%)	7.7	7.6	7.6	7.6	7.6
PATANCI margin (%)	5.3	5.9	5.3	5.3	5.3
EPS (sen)	4.1	4.9	4.7	4.9	5.1
EPS growth (%)	10.8	17.8	(3.7)	4.4	5.0
PER (x)	21.8	18.5	19.3	18.4	17.6
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

Source: Company, MIDFR

KPJ HEALTHCARE BERHAD: 4QFY19 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly results			Cumulative results		
	4QFY19	YoY (%)	QoQ (%)	FY19	FY18	YoY (%)
Revenue	944.0	7.7	4.1	3,604.4	3,365.6	7.1
Cost of sales	(665.1)	10.8	9.2	(2,494.1)	(2,329.3)	7.1
Gross Profit	279.0	0.9	(6.2)	1,110.3	1,036.3	7.1
Admin Expenses	(184.5)	(10.5)	(10.7)	(752.0)	(765.8)	(1.8)
Other Income	5.0	(51.8)	(7.5)	21.7	30.8	(29.8)
Zakat	(0.5)	149.8	(62.3)	(3.4)	(3.9)	(12.4)
Operating Profit	98.9	22.9	4.3	376.5	297.5	26.6
Finance Income	4.5	18.0	12.0	14.2	10.1	41.1
Finance Borrowings	(19.9)	(21.8)	(6.1)	(89.5)	(91.1)	(1.8)
Finance Costs: Lease Liabilities	(22.1)	nm	39.5	(69.6)	-	nm
Associates	16.8	(7.4)	69.5	43.9	41.7	5.3
Profit Before Tax	78.3	1.6	9.0	275.4	258.1	6.7
Taxation	12.5	nm	nm	(48.7)	(71.9)	(32.2)
Profit After Tax	90.8	65.0	78.3	226.7	186.2	21.8
Minority Interest	6.8	296.4	108.8	15.3	6.7	127.4
PATANCI	84.0	57.5	76.2	211.4	179.4	17.8
Basic EPS (sen)	2.0	58.9	79.1	5.0	4.1	20.1
Diluted EPS (sen)	1.9	60.2	78.3	4.7	3.7	27.7
Dividend per share (sen)	0.5	0.0	0.0	2.0	2.0	0.0
		+ / (-) pts				+ / (-) pts
GP margin (%)	29.5	(2.0)	(3.3)	30.8	30.8	0.0
Operating Profit margin (%)	10.5	1.3	0.0	10.4	8.8	1.6
PBT margin (%)	8.3	(0.5)	0.4	7.6	7.7	(0.0)
PAT margin (%)	9.6	3.3	4.0	6.3	5.5	0.8
PATANCI margin (%)	8.9	2.8	3.6	5.9	5.3	0.5
Effective tax rate (%)	(15.9)	(44.5)	(45.1)	17.7	27.9	(10.2)

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.