

18 October 2016 | Corporate Update

## KPJ Healthcare Berhad

*Widening its reach to Batu Pahat*

**Maintain NEUTRAL**

**Unchanged Target Price: RM4.05**

### INVESTMENT HIGHLIGHTS

- **Proposed development and leasing of KPJ Batu Pahat Specialist Hospital**
- **A 7-storey, 90-bed hospital**
- **Renting from JLand to reduce operating cost**
- **Reaching the underserved area**
- **Maintain NEUTRAL with an unchanged TP of RM4.05**

**Proposed development and leasing of KPJ Batu Pahat Specialist Hospital.** KPJ Healthcare in its announcement on Bursa Malaysia yesterday evening stated that the group has entered into an agreement to lease (ATL) with Johor Land Berhad (JLand) and Johor Corporation (JCorp) for the proposed development and leasing of a hospital building to be known as KPJ Batu Pahat Specialist Hospital.

**A 7-storey, 90-bed hospital.** The proposed hospital, KPJ Batu Pahat Specialist Hospital, will be constructed on a portion of 5-acre land in Mukim Simpang Kanan in Batu Pahat, Johor. The owner of the land which is JCorp has agreed to allow JLand to develop a hospital on the piece of land. We understand that the proposed hospital will be a seven storey building with 90-bed and a gross floor area measuring approximately 157,000sqft. It will also have 162 parking bays with a built up area of 21,797.1sqft. The development cost, which will be borne completely by JLand, is estimated to be at about RM67.6m. The sum includes the costs of development of the hospital, its secondary infrastructure and land cost.

**Renting to reduce cost.** We are positive that KPJ has entered into an ATL with JLand and JCorp for the proposed development of KPJ Batu Pahat Specialist Hospital. This, we think would reduce the strain on its balance sheet and allow KPJ to manage its gearing which is currently at 0.9x. Under the ATL, KPJ will be liable for a commitment fee which is equivalent to six months rent of RM2.197m and a monthly rent equivalent to one-twelfth (1/12) of 6.5% of the development costs which would translate to about RM366k per month. The principal lease will be for a period six years upon the issuance of certificate of completion and compliance (CCC). Additionally, under the ATL, KPJ will also be receiving a three months rent-free period upon the commencement of the lease period.

RETURN STATS	
Price (17 October 2016)	RM4.21
Target Price	RM4.05
Expected Share Price Return	-3.80%
Expected Dividend Yield	+1.60%
<b>Expected Total Return</b>	<b>-2.20%</b>

STOCK INFO	
KLCI	1,658.58
Bursa / Bloomberg	5878 / KPJ MK
Board / Sector	Main / Trading Services
Syariah Compliant	YES
Issued shares (mil)	1,046.78
Par Value (RM)	1.00
Market cap. (RM'm)	4,406.92
Price over NA	2.87
52-wk price Range	RM4.12 – RM4.40
Beta (against KLCI)	0.56
3-mth Avg Daily Vol	0.41m
3-mth Avg Daily Value	RM1.78m
Major Shareholders (%)	
Johor Corporation	44.31
EPF	12.94
Waqaf An-Nur Corp	7.27

**Reaching the underserved area.** Looking at the proposed development, we believe that it is in line with KPJ's objective of increasing its network of hospitals in areas which are underserved but with potential high demand for private healthcare. Additionally, it is also to cater for the increasing demand for healthcare services in the vicinity of Batu Pahat and the surrounding area.

**Earnings forecasts.** No changes to our earnings estimates.

**Maintain NEUTRAL with an unchanged Target Price (TP) of RM4.05.** Despite being positive on the news, we are maintaining our **NEUTRAL** recommendation on KPJ with a SOP-based TP of RM4.05 per share (TG: 3.0%, WACC: 8.3%) as the development could take at least 1.5 years to complete.



**Table 1: KPJ Healthcare's valuation**

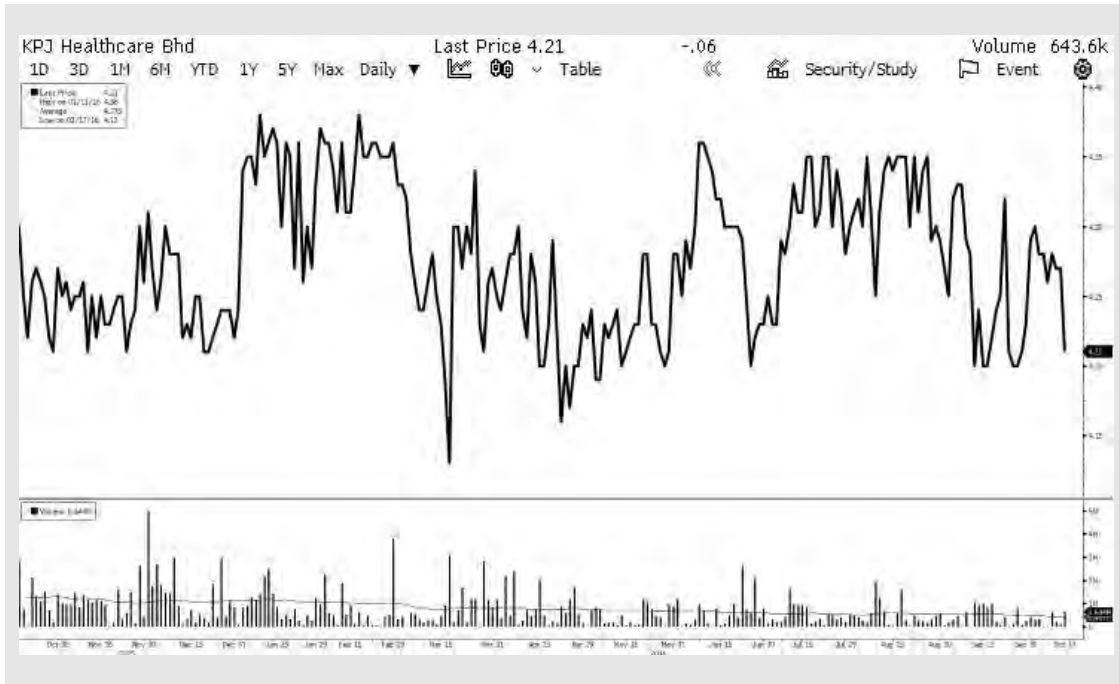
Items	RM'm	Remarks
KPJ Enterprise value	4,348.9	DCF method, WACC: 8.3%, TG: 3%
Net debt FY16	1,137.6	
KPJ firm value	3,211.3	
KPJ Al-Aqar REIT	638.1	based on KPJ's 48.7% stake and consensus TP: RM1.80
Total KPJ firm value	3,849.4	
Proceeds from warrants	355.8	
Cash proceeds from rights and warrants	4,205.3	
No. of shares (m)	1,039.0	
<b>KPJ value per share</b>	<b>4.05</b>	

## INVESTMENT STATISTICS

FYE Dec (RMm)	FY2013	FY2014	FY2015	FY2016F	FY2017F
Revenue	2,332.0	2,639.1	2,847.6	3,212.2	3,533.0
Cost of sales	(1,634.2)	(1,869.7)	(2,021.2)	(2,209.4)	(2,412.1)
Gross profit	697.8	769.4	826.4	1,002.8	1,120.9
Finance costs	(38.8)	(42.9)	(50.4)	(62.9)	(67.2)
Profit before tax and zakat	159.6	218.1	209.6	209.6	256.3
Income tax expense	(47.4)	(68.6)	(62.2)	(57.4)	(73.3)
Net Profit (RM'm)	110.4	147.3	145.1	141.1	169.7
<b>Core Profit (RM'm)</b>	<b>100.0</b>	<b>126.0</b>	<b>120.9</b>	<b>141.1</b>	<b>169.7</b>
PBT Margin (%)	6.8	8.3	7.4	6.5	7.3
Net Profit Margin (%)	4.7	5.6	5.1	4.4	4.8
EPS (sen)	10.5	14.1	12.8	13.7	16.5
EPS Growth (%)	-56.1	33.9	-9.1	7.1	20.3
PER (x)	40.1	29.9	32.9	30.8	25.6
Dividend per share (sen)	10.0	4.9	7.9	6.8	8.2
Dividend yield (%)	2.4	1.2	1.9	1.6	2.0
Tax rate (%)	29.7	31.4	29.7	27.4	28.6

Source: Company, Forecasts by MIDFR

## DAILY PRICE CHART



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**MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS****STOCK RECOMMENDATIONS**

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.