

# Equity Beat

01 March 2010

## 4Q09 Results Review

## KPJ Healthcare Bhd

*On the expansion trail*

**Upgrade to BUY (from NEUTRAL)**

**Increased Target Price (TP): RM2.94 (from RM2.71)**

- **KPJ Healthcare (KPJ) continues to deliver commendable earnings growth of +25.1%yoy in 4QFY09, translating into 18.9%yoy growth to RM101.9m for the full year.**
- **The FY09 core earnings were slightly above expectation, accounting for 107.5% of our estimated FY09 number. This was due to higher than expected revenue and lower minority interest dilution in 4QFY09.**
- **Upgraded to BUY with higher Target Price of RM2.94, derived from 14x revised EPS10 of 21 sen. We believe that our valuation on KPJ is fair, taking into account that regional peers are trading at PER and P/BV range of 11.4x-20.3x and 1.8x-4.2x respectively. Also, KPJ has a relatively higher prospective dividend yield of 4.4% in FY10 compared with peers' average.**

### STOCK INFO

Price (25 Feb 10)	RM2.41	KLCI	1,270.78
Issued shares (mil)	527.63	Bursa / Bloomberg	5878 / KPJ MK
Par Value (RM)	1.00	Board / Sector	Main/ Healthcare
Market cap. (RM'm)	1,271.58	Syariah Compliant	Yes
Price over NA	2.1x		
52-wk price Range	RM1.00–RM2.80	Major Shareholders	
Beta (against KLCI)	0.69	Johor Corp	50.24%
3-mth Avg Daily Vol	1.55m	Kumpulan Waqaf An-Nur	8.81%
3-mth Avg Daily Value	RM3.72m	LTH & EPF	5.2% & 5.0%

**Double digit revenue growth despite economic slowdown.** KPJ's topline grew +14.1%yoy to RM1.45b in FY09, underpinned by the higher activities recorded by the hospitals. This was also due to the contribution from Kluang Utama Specialist Hospital acquired Dec 08 and the new KPJ Penang Specialist Hospital, which commenced its operation in Aug 09.


**Higher net profit margin achieved,** adding 0.2%-pt to 7% in FY09, which was the highest in the past 5 years. Topline grew at a faster pace than operating expenses growth, translating into 18.9% net profit growth. In addition, we believe that the acquisition of the remaining 28.3% stake in Seremban Specialist Hospital, announced in Aug09, also contributed to the topline. KPJ realised gains on the hospital buildings disposal of RM3.1m and RM3.9m in 3QFY09 and 1QFY08 respectively. Stripping out the one-off items, we estimated FY09 core net profit actually grew by +20%yoy.

**Expansion plans to boost growth on track.** KPJ is targeting to add between two and three hospitals a year. Potential places to venture into include Sandakan, Tawau, Muar and Iskandar Development Region. Besides, we gather from the management that KPJ will also focus on the extension of its existing hospitals, for instance, KPJ Ampang Puteri, Damansara, Seremban and Kajang, in order to increase bed capacity. Tawakal Hospital Kuala Lumpur, which is moving to a new building, is expected to open in 1Q10. Management is optimistic over the company's future prospects, targeting 10 to 15% organic growth per year. Management also expects revenue to hit

FYE Dec	FY07	FY08	FY09	FY10F
Revenue (RM'm)	1,108.0	1,267.3	1,446.4	1,655.2
EBIT (RM'm)	93.1	113.9	138.5	153.6
Pretax Profit (RM'm)	85.3	114.1	142.0	154.3
Net Profit (RM'm)	74.2	85.6	101.9	110.8
EPS (sen)	14.1	16.2	19.3	21.0
EPS growth (%)	81.2%	15.4%	18.9%	8.8%
PER(x)	17.1	14.8	12.5	11.5
Net Dividend (sen)	5.8	2.1*	6.0	10.5
Net Dividend Yield (%)	2.4%	0.9%	2.5%	4.4%

Source: Company, Forecasts by MIDFR  
Note: \*excluding the dividend-in-specie

RM2b in 2012. Currently, KPJ commands about 20% market share of the Malaysia private healthcare sector. We believe that higher penetration of the medical insurance coverage moving forward is also a growth factor for KPJ, as a leading private healthcare service provider in Malaysia.

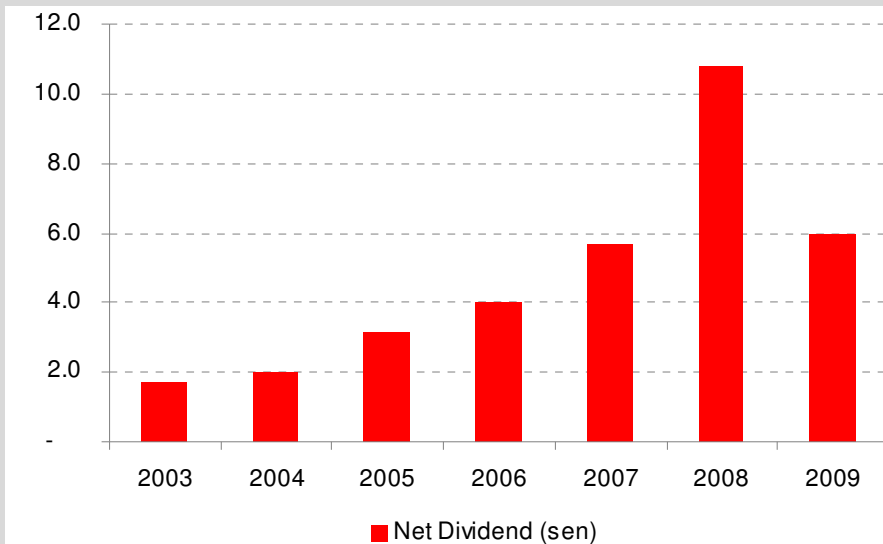
**Upgraded to BUY.** With higher total patient growth and EBITDA margin assumption, we are revising upwards our FY10 EPS forecast by +8.7% to 21 sen (from 19.3 sen). Hence, we are also raising our Target Price for KPJ to RM2.94 (RM2.71 previously), derived from 14x revised EPS10. We believe that our valuation on KPJ is fair, taking into account that regional peers are trading at PER and P/BV range of 11.4x-20.3x and 1.8x-4.2x respectively. Also, KPJ has a relatively higher prospective dividend yield of 4.4% in FY10, compared with peers' average (refer to Table A). Our decision to upgrade KPJ to a BUY is also due to the fact that its share price has retraced from a recent high of RM2.80 to last close at RM2.41 per share. 

## KPJ Healthcare: 4QFY09 Results Summary

	Quarterly Results			Cumulative		Comments
	4Q09	%YoY	%QoQ	FY09	%YoY	
FYE Dec (RM'm)						
<b>Revenue</b>	375.4	16.4%	3.8%	1,446.4	14.1%	Increase in patients and higher demand on private healthcare services.
Cost of sales	-273.4	16.5%	8.1%	-1,025.9	14.1%	
<b>Gross profit</b>	102.0	16.1%	-6.0%	420.4	14.1%	
Other op income	4.2	>100%	-46.5%	18.6	16.6%	
Op expense	-72.3	10.1%	-9.6%	-300.5	11.1%	At lower rate than topline growth.
<b>EBIT</b>	33.9	45.7%	-6.8%	138.5	21.6%	Overall better operational efficiency.
Finance cost	-2.1	-65.2%	-51.4%	-16.6	-10.4%	
Associate	5.7	-12.9%	12.6%	20.1	7.3%	Higher contribution from Al-Aqar KPJ REIT.
<b>Pre-tax profit</b>	37.5	58.2%	1.1%	142.0	24.5%	
Tax	-10.2	>100%	45.1%	-34.2	38.1%	
MI	1.0	4.7%	>100%	-5.9	61.3%	
<b>Net profit</b>	28.2	25.8%	5.4%	101.9	18.9%	
EPS (sen)	13.6	25.1%	5.5%	49.0	18.4%	
Diluted EPS (sen)	13.6	27.0%	6.7%	49.0	20.1%	
		+/- ppts	+/- ppts			
EBIT margin (%)	9.0%	1.8	-1.0	9.6%	0.6	As above.
Tax rate (%)	27.4%	18.0	8.3	24.1%	2.4	

Source: Company, MIDFR

**Graph A: Net Dividend (sen)**



Note: Inclusive of dividend in specie of 23 units REIT per 100 KPJ shares for 2008.

Sources: Company, MIDFR

**Table A: Peer Comparisons**

Stock (Bloomberg Ticker)	Currency	Price	Market Cap	PER (x)		Div Yield (%)		PBR (x)
		@ 25 Feb		FY10	FY11	FY10	FY11	
Thomson Medical (THOM SP)*	SGD	0.68	197.1	13.5	11.6	4.1	4.3	1.77
Raffles Medical (RFMD SP)*	SGD	1.38	718.1	17.3	14.7	2.1	2.2	2.88
Parkway Holdings (PWAY SP)*	SGD	2.86	3,233.3	20.3	16.8	1.4	1.8	2.73
Bangkok Chain Hosp. (KH TB)*	THB	5.25	8,728.1	11.4	10.3	5.0	6.1	3.20
Bumrungrad Hosp. (BH TB)*	THB	30.00	21,849.1	16.8	15.6	3.1	3.3	4.21
Bangkok Dusit Med. (BGH TB)*	THB	24.50	29,755.2	15.7	13.6	3.2	3.9	2.35
<b>Average</b>				<b>15.8</b>	<b>13.8</b>	<b>3.2</b>	<b>3.6</b>	<b>2.9</b>
KPJ Healthcare (KPJ MK)	MYR	2.41	1,271.6	11.5	10.9	4.4	4.6	2.1

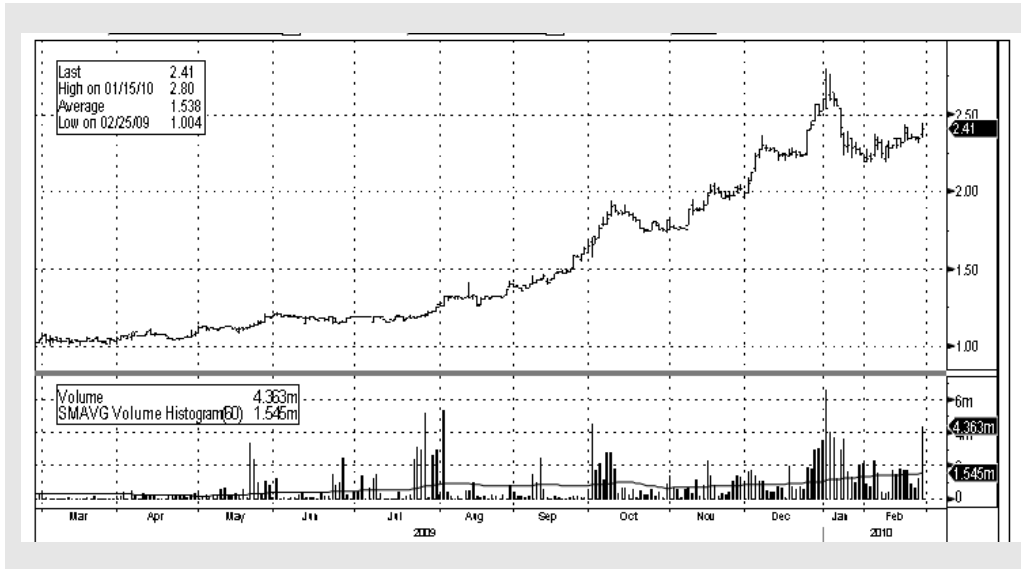
Sources: Bloomberg, MIDFR

Note: \* Consensus forecast

1 SGD = 2.44 MYR

100 THB = 10.36 MYR

## 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

OVERWEIGHT	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.
UNDERWEIGHT	The sector is expected to underperform the overall market over the next 12 months.