

# Equity Beat

10 March 2010

## Corporate Update

## KPJ Healthcare Bhd

4<sup>th</sup> property injection into REIT

**Reiterate BUY**

**Unchanged Target Price (TP): RM2.94**

- **KPJ Healthcare (KPJ) has proposed to dispose (i) Rumah Sakit Bumi Serpong Damai Building; (ii) Kluang Utama Specialist Hospital Building; and (iii) Bandar Baru Klang Specialist Hospital Building to its 46%-owned associate, Al-Aqar KPJ REIT (Al-Aqar) for RM138.8m, to be satisfied by RM83.3m cash and 56.6m new Al-Aqar shares at an issue price of RM0.98 per unit.**

- **No change in earnings forecast as we expect the net effect, resulting from the property injection into Al-Aqar, to be neutral. However, it is more significant in term of the balance sheet management.**

- **We maintain our BUY recommendation for KPJ with unchanged Target Price of RM2.94, derived from 14x EPS10. We continue to like KPJ for its dividend payout with estimated FY10 net yield of 4.1%. Besides, the potential dividend-in-specie is also another plus for KPJ.**

### STOCK INFO

Price (9 Mar 10)	RM2.57	KLCI	1,317.94
Issued shares (mil)	527.63	Bursa / Bloomberg	5878 / KPJ MK
Par Value (RM)	1.00	Board / Sector	Main/ Healthcare
Market cap. (RM'm)	1,356.00	Syariah Compliant	Yes
Price over NA	2.2x		
52-wk price Range	RM1.00–RM2.80	Major Shareholders	
Beta (against KLCI)	0.71	Johor Corp	50.21%
3-mth Avg Daily Vol	1.67m	Kumpulan Waqaf An-Nur	8.81%
3-mth Avg Daily Value	RM4.28m	LTH & EPF	5.7% & 5.0%

**4<sup>th</sup> property injection into REIT.** KPJ announced yesterday that its 75%-owned subsidiary, PT KPJ Medica, and both wholly-owned subsidiaries, Pusat Pakar Kluang Utama Sdn Bhd and Bandar Baru Klang Specialist Hospital Sdn Bhd, are proposing to dispose their entire interest in the respective aforementioned properties to Al-Aqar. Management expects the proposed disposals to be completed by 2H 2011.

**Disposal valuation within historical range.** The total sales value of RM138.8m from the property disposal is at par with current market price or 2.4% higher than net book value as at 31 Dec 09. Based on the most recent deals (3<sup>rd</sup> injection), for which the selling prices averaged at 3.7% discount to the market and 6.4% premium respectively and net book worth, we believe that the valuation is fair.

**Better positioned for expansion.** Besides unlocking the properties value, we believed that property injection into a REIT is a positive move to a growth company like KPJ in order to be asset-light. KPJ is well-positioned for further expansion with better financing ability while maintaining balance sheet at a comfortable level. KPJ's net gearing was 0.36x as at Dec09. Post completion of the disposal, assuming other variables remaining unchanged, we estimate KPJ's net gearing to fall to 0.22x, taking into account the RM83.3m cash received and the capital gains of about

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)	18.3	15.8	13.3	12.2
Net Dividend (sen)	5.8	2.1*	6.0	10.5
Net Dividend Yield (%)	2.3%	0.8%	2.3%	4.1%

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

RM3.36m. According to the announcement to Bursa, the RM83.3m cash received would be utilised mainly for the bank borrowing repayment, working capital and expenses due to the proposed disposal.

**Minimal earnings impact.** Management does not expect any material effect on the KPJ's FY10 earnings but anticipate approximately RM3.36m capital gains realised in FY11. We are keeping our earnings forecast unchanged for FY10 and FY11, after factoring in that reduction in depreciate charge, interest savings and higher Al-Aqar's contribution will be offset by the higher rental paid. We also believed that if there is any variation as compared to our estimates, the earnings revision will be very minimal. In a nutshell, net effect, resulting from the property injection into Al-Aqar, is neutral. We believe that impact of this corporate exercise is more significant in term of the balance sheet management as mentioned above.

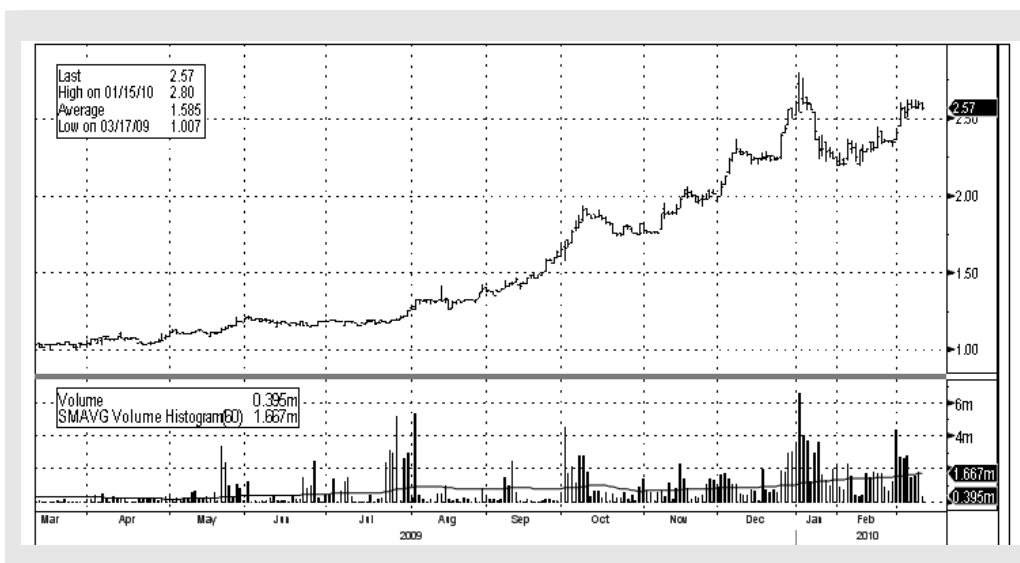
**Al-Aqar acquired another 3 buildings.** In a separate announcement filed by Al-Aqar, besides the aforesaid buildings disposed by KPJ, it has proposed to acquire (i) Rumah Sakit Medika Permata Hijau Building and Selesa Beach Resort Port Dickson from Johor Corp; and (ii) Menara Ansar Building from Kulim (M) for RM164.1m, to be satisfied by RM98.5m cash and 67.0m new Al-Aqar shares at an issue price of RM0.98 per unit. All in, the total purchase price is RM302.9m, which to be satisfied by RM181.8m cash and 123.6 new units in Al-Aqar. Management expects no impact on Al-Aqar's earnings in FY10 due to the proposed acquisition, which to be completed by 2H 2011. Due to the issuance of new units, Net Asset Value (NAV) per unit of Al-Aqar is expected to decline marginally to 1.02 from 1.04 as at 31 Dec 09 despite total NAV increase from RM540.5m to RM720.1m.

**Potential dividend-in-specie.** Post all the corporate exercises, KPJ will own 358.1m of Al-Aqar shares or equivalent to 50.87% shareholdings. In order to maintain Al-Aqar at associate level, we believed that the management will distribute the new Al-Aqar units it received to the shareholders.

**Reiterate BUY.** We maintain our BUY recommendation for KPJ with unchanged Target Price of RM2.94, derived from 14x EPS10. We believe that our valuation on KPJ is fair, taking into account its peers, which have more exposure to the regional markets and healthcare tourism business, are trading at a PER range of 12.6x-21.3x. We continue to like KPJ for its dividend play with estimated FY10 net yield of 4.1%. Besides, the potential dividend-in-specie is also another plus point for KPJ.



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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.