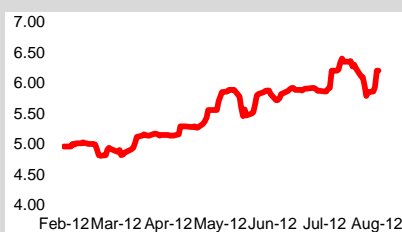


**KPJ HEALTHCARE BERHAD**
*Outperform*
**DESCRIPTION**

KPJ Healthcare is the largest private healthcare group in Malaysia with a network of 20 hospitals nationwide and 2 more in Indonesia. It also owns an education arm through KPJ International University College of Nursing and Health Sciences.

**12-Month Target Price** RM7.14  
**Current Price** RM6.20  
**Expected Return** 15.2%

**Market Sector** Main Healthcare  
**Bursa Code** 5878  
**Bloomberg Ticker** KPJ MK

**SHARE PRICE CHART**


52 Week Range (RM) 3.76-6.50  
 3-Month Average Vol ('000) 1,743.1

**SHARE PRICE PERFORMANCE**

	1M	3M	6M
Absolute Returns	5.6	12.0	28.2
Relative Returns	3.6	8.1	19.1

**KEY STOCK DATA**

Market Capitalisation (RM m) 3,927.3  
 No. of Shares (m) 633.4

**MAJOR SHAREHOLDERS**

	%
Johor Corp	38.4
EPF	13.4

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## Looking East

KPJ has announced that it is acquiring the remaining 49% equity interest in SMC Healthcare Sdn Bhd (SMCH) for RM54.9m, thereby making SMCH a wholly-owned subsidiary. SMCH owns Sabah Medical Centre (SMC), the largest private hospital in Sabah. We view this development positively due to KPJ's near-monopoly status of Sabah's private hospitals, the potential of Kota Kinabalu as a medical tourism destination and the streamlining of Sabah's operations after the acquisition.

- **Stronger grip in Sabah operations.** KPJ enjoys a near-monopoly status in Sabah, operating approximately 94% of private hospital beds in the state. It would continue enjoying this monopoly till at least 2015, when Gleneagles Kota Kinabalu is expected to commence operations. Kota Kinabalu, as one of the most popular tourist destinations in Malaysia, is primed for growth in the medical tourism industry, which bodes well for SMC.
- **Better performance ahead.** SMC is currently operating 80 beds leased from the government hospital catering mostly to daycare patients, while awaiting the completion of its new hospital building in Damai, Kota Kinabalu. As a result, profit contribution is minimal at RM3m a year. Nevertheless, the new SMC is expected to open before the end of this year with 80 beds in the first phase, eventually ramping up to 250 beds at full capacity, so we expect to see much better performance ahead when full operations commence.
- **Reiterate Outperform with TP of RM7.14.** The acquisition of SMCH will help streamline its Sabah operations with better management control and improve its core net profit, albeit at an insignificant level in the near term. It will also enable KPJ to inject the new SMC hospital into the Al-Aqar REIT in the near future, which we estimate would yield proceeds of at least RM40m. We continue to like KPJ's organic growth story and the gradual expansion within its means.

**KEY FORECAST TABLE (RM m)**

Fiscal Year End	2010A	2011A	2012F	2013F	2014F	CAGR
Revenue	1,654.6	1,909.0	2,176.3	2,480.9	2,828.3	11.3%
Gross Operating Profit	503.9	601.9	642.3	737.3	844.1	10.9%
Pre-tax Profit	168.0	204.6	236.4	270.3	312.9	13.2%
Net Profit	118.9	143.7	160.3	183.4	212.7	12.3%
EPS (Sen)	18.8	22.7	25.3	29.0	33.6	12.3%
P/E (x)	31.3	25.9	23.2	20.3	17.5	
DPS (Sen)	15.0	12.1	12.7	14.5	16.8	
Dividend Yield (%)	2.6	2.1	2.2	2.5	2.9	

Source: Company, PublicInvest Research estimates

## KEY FINANCIAL DATA

### INCOME STATEMENT DATA

Fiscal Year End December (RM m)	2010A	2011A	2012F	2013F	2014F
Revenue	1,654.6	1,909.0	2,176.3	2,480.9	2,828.3
Gross Operating Profit	503.9	601.9	642.3	737.3	844.1
Operating Expenses	-359.9	-442.7	-455.9	-523.5	-595.2
Net Operating Profit	144.0	159.2	186.5	213.8	248.9
Other Gains / (Losses)	30.4	54.8	60.9	69.5	79.2
Finance Costs	-6.4	-9.4	-11.0	-13.0	-15.2
Pre-tax Profit	168.0	204.6	236.4	270.3	312.9
Income Tax	-41.8	-50.3	-58.6	-67.0	-77.6
Effective Tax Rate (%)	24.9	24.6	24.8	24.8	24.8
Minorities	-41.8	-50.3	-58.6	-67.0	-77.6
Net Profit	118.9	143.7	160.3	183.4	212.7
<b>Growth</b>					
Revenue (%)	13.6	15.4	14.0	14.0	14.0
Gross Operating Profit (%)	20.2	19.4	6.7	14.8	14.5
Net Profit	10.0	22.2	15.1	14.4	15.8

Source: Company, PublicInvest Research estimates

### BALANCE SHEET DATA

Fiscal Year End December (RM m)	2010A	2011A	2012F	2013F	2014F
Property, Plant & Equipment	536.8	641.7	705.8	756.7	820.6
Cash and Cash Equivalents	197.1	252.1	274.8	291.6	305.9
Receivables	298.4	304.6	337.6	384.9	438.8
Other Assets	647.7	760.8	815.9	872.3	929.8
<b>Total Assets</b>	<b>1,680.0</b>	<b>1,959.3</b>	<b>2,134.2</b>	<b>2,305.6</b>	<b>2,495.0</b>
Payables	308.1	335.2	403.7	458.8	522.2
Borrowings	399.4	443.5	443.5	443.5	443.5
Tax payable	41.2	47.4	47.4	47.4	47.4
Other Liabilities	67.9	136.3	121.7	121.7	121.7
<b>Total Liabilities</b>	<b>816.7</b>	<b>962.4</b>	<b>1,016.2</b>	<b>1,071.4</b>	<b>1,134.7</b>
Shareholders' Equity	863.4	996.9	1,137.1	1,291.2	1,426.8
<b>Total Equity and Liabilities</b>	<b>1,680.0</b>	<b>1,959.3</b>	<b>2,153.3</b>	<b>2,362.7</b>	<b>2,597.6</b>

Source: Company, PublicInvest Research estimates

### PER SHARE DATA & RATIOS

Fiscal Year End December (RM m)	2010A	2011A	2012F	2013F	2014F
Book Value Per Share	1.21	1.41	1.60	1.82	2.05
NTA Per Share	1.0	1.1	1.3	1.6	1.8
EPS (Sen)	18.8	22.7	25.3	29.0	33.6
DPS (Sen)	15.0	12.1	12.7	14.5	16.8
Payout Ratio (%)	52.3	44.1	50.0	50.0	50.0
ROA (%)	10.4	10.9	11.6	12.3	13.2
ROE (%)	15.4	16.1	16.1	16.3	16.7

Source: Company, PublicInvest Research estimates



## RATING CLASSIFICATION

### STOCKS

<b>OUTPERFORM</b>	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
<b>NEUTRAL</b>	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
<b>UNDERPERFORM</b>	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
<b>TRADING BUY</b>	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
<b>TRADING SELL</b>	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
<b>NOT RATED</b>	The stock is not within regular research coverage.

### SECTOR

<b>OVERWEIGHT</b>	The sector is expected to outperform a relevant benchmark over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform a relevant benchmark over the next 12 months.

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