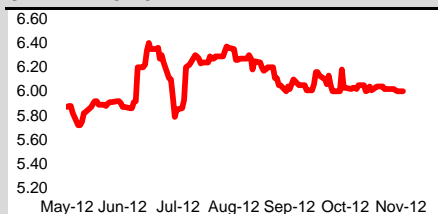


KPJ HEALTHCARE BERHAD
Outperform
DESCRIPTION

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 RM6.00
Expected Return 19.0%

Market Sector Main Healthcare
Bursa Code 5878
Bloomberg Ticker KPJ MK

SHARE PRICE CHART


52 Week Range (RM) 4.10-6.50
3-Month Average Vol ('000) 755.3

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	0.0	-5.4	6.9
Relative Returns	3.1	-3.7	-0.9

KEY STOCK DATA

Market Capitalisation (RM m) 3,851.2
No. of Shares (m) 641.9

MAJOR SHAREHOLDERS

	%
Johor Corp	38.0
EPF	15.4

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One Small Step

KPJ announced that it would be acquiring a 23.4% stake in Vejthani Public Company Limited (VPCL), the operator of Vejthani Hospital in Bangkok, Thailand. The acquisition of almost 8m preference shares in VPCL would be settled by a cash consideration of THB605.6m (RM60.5m), of which 90% is financed through external borrowings and the remaining by internal funds.

- Vejthani Hospital.** A 500-bed private hospital located in Bangkok, Vejthani treats over 300,000 patients annually. They are one of the smaller players in Thailand's medical tourism industry, compared to the well-known Bumrungrad and Bangkok Dusit hospitals. However, this does not lessen Vejthani's status as a quality healthcare provider as it has been accredited by the Joint Commission International, amongst other awards. Vejthani Hospital is particularly renowned for their plastic surgery department, orthopaedic department, dental department and cancer department.
- Valuation.** VPCL reported an audited profit before tax of THB77.6m (RM7.7m) for the financial year ended 31 Dec 2011. Although the price paid by KPJ may seem relatively high with a historical P/E of over 33x, VPCL is expecting a jump in earnings this year, as evidenced by a nine-month EBITDA of THB241.2m as at Sept 2012, and expected full-year EBITDA of THB321.6m (RM32.1m). We also understand from management that the purchase consideration represents a forward PE of 17x, which we deem a reasonable price to pay for a stake in a rising player in the burgeoning Thai medical tourism industry.
- Maintain Outperform with TP of RM7.14.** Although immaterial to FY12 earnings, the acquisition of Vejthani represents a small step for KPJ into regional expansion, and we particularly like the company's conservative approach in acquiring a smaller stake to gain familiarity with the industry dynamics before venturing in a bigger way. We reiterate our Outperform call for KPJ with TP of RM7.14.

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	635.9	731.7	838.7	10.7%
Pre-tax Profit	168.0	204.6	227.9	262.8	305.9	12.7%
Net Profit	118.9	143.7	154.0	177.8	207.4	11.8%
EPS (Sen)	18.8	22.7	24.3	28.1	32.7	11.8%
P/E (x)	31.3	25.9	24.2	20.9	18.0	
DPS (Sen)	15.0	12.1	12.2	14.0	16.4	
Dividend Yield (%)	2.4	1.9	1.9	2.2	2.6	

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	635.9	731.7	838.7
Operating Expenses	-359.9	-442.7	-457.9	-525.3	-596.8
Net Operating Profit	144.0	159.2	178.0	206.3	241.9
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	227.9	262.8	305.9
Income Tax	-41.8	-50.3	-56.5	-65.2	-75.9
Effective Tax Rate (%)	24.9	24.6	24.8	24.8	24.8
Minorities	-41.8	-50.3	-56.5	-65.2	-75.9
Net Profit	118.9	143.7	154.0	177.8	207.4
Growth					
Revenue (%)	13.6	15.4	14.0	14.0	14.0
Gross Operating Profit (%)	20.2	19.4	5.7	15.1	14.6
Net Profit	10.0	20.9	7.2	15.5	16.6

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	273.3	287.1	298.7
Receivables	298.4	304.6	337.6	384.9	438.8
Other Assets	647.7	760.8	815.9	872.3	929.8
Total Assets	1,680.0	1,959.3	2,132.7	2,301.1	2,487.8
Payables	308.1	335.2	405.4	460.3	523.6
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
Total Liabilities	816.7	962.4	1,017.9	1,072.9	1,136.1
Shareholders' Equity	863.4	996.9	1,133.9	1,285.3	1,454.2
Total Equity and Liabilities	1,680.0	1,959.3	2,151.8	2,358.2	2,590.4

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	1.81	2.04
NTA Per Share	1.0	1.1	1.3	1.5	1.8
EPS (Sen)	18.8	22.7	24.3	28.1	32.7
DPS (Sen)	15.0	12.1	12.2	14.0	16.4
Payout Ratio (%)	52.3	44.1	50.0	50.0	50.0
ROA (%)	10.4	10.9	11.2	12.0	12.9
ROE (%)	15.4	16.1	15.5	15.9	16.4

Source: Company, PublicInvest Research estimates



RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	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.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

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

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