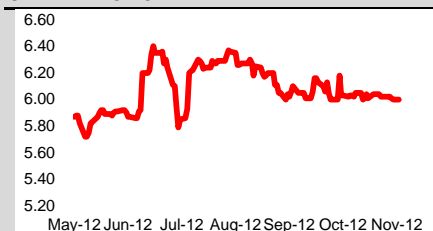


KPJ HEALTHCARE BERHAD
Outperform
DESCRIPTION

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 RM6.47
Current Price RM5.80
Expected Return 11.6%

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 | 38.4 |
| EPF | 13.4 |

Siew Jin Ling
 T 603 2031 3011
 F 603 2272 3704
 E siew.jinling@publicinvestbank.com.my

Still Healthy

KPJ reported commendable results for 3QFY12, with revenue of RM530.6m and core net profit of RM33.4m. Revenue YTD stands at RM1.6bn, accounting for 72.9% and 75.0% of our and consensus full year estimates respectively, while core net profit YTD is at RM101.5m, accounting for 65.9% and 66.9% consensus estimates. An interim dividend of 2.5 sen was declared for the quarter, bringing the full year dividend to 9.7 sen.

- Revenue (+0.2% q-o-q, +11.5% y-o-y).** The growth in revenue is attributed to higher inpatient volumes and higher revenue per inpatient of 5% and 10% y-o-y respectively. The Malaysian operations recorded an increase of 14.5% in YTD revenue to RM1.44bn compared to RM1.25bn in 9MFY11, while contributions from Indonesia jumped 114.5% to RM16.3m, albeit from a low base of RM7.6m in 2011.
- Net profit (-4.1% q-o-q, -3.3% y-o-y).** Net profit was affected by start-up costs in KPJ's new Klang hospital, which incurred an RM8m loss for the quarter. RS Bumi Serpong Damai, which was opened in Jan 2010, also incurred a RM6m loss in the quarter, as it is yet to achieve full operational capacity. These are the main factors that brought the net profit margin down from 7.2% in 3QFY11 to 6.3% in the current quarter. The company has also cautioned that profit growth for 2013 would moderate due to the opening of another three new hospitals next year, namely KPJ Sabah, Pasir Gudang and Maharani Specialist Hospital. As such, we are cutting our net profit forecast by 6.4% to 7.9% to account for the higher overheads.
- Maintain Outperform with reduced TP of RM6.47.** Due to the reduction in our net profit forecast, we are reducing our target price for KPJ by 9.4% to RM6.47, which is based on 26x P/E tagged to FY13 earnings. We believe a P/E multiple of 26x is in line with the regional peer average of 26.5x, justified by KPJ's strong track record of consistent earnings growth and favourable long-term outlook. It is also a 25% discount to our forward P/E for IHH at 34.5x. We like the company for its steady track record, defensive earnings and conservative expansion plans.

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 | 625.9 | 717.5 | 822.7 | 10.3% |
| Pre-tax Profit | 168.0 | 204.6 | 214.9 | 244.2 | 284.9 | 11.1% |
| Net Profit | 118.9 | 143.7 | 144.2 | 163.8 | 191.6 | 10.0% |
| EPS (Sen) | 18.0 | 21.8 | 21.9 | 24.9 | 29.1 | 10.0% |
| P/E (x) | 34.7 | 28.7 | 28.6 | 25.2 | 21.6 | |
| DPS (Sen) | 15.0 | 12.1 | 12.0 | 12.4 | 14.5 | |
| Dividend Yield (%) | 2.4 | 1.9 | 1.9 | 2.0 | 2.3 | |

Source: Company, PublicInvest Research estimates



Table 1: Results Summary

| FY Dec (RM m) | 3Q12 | 3Q11 | 2Q12 | Q-o-Q chg (%) | Y-o-Y chg (%) | YTD FY12 | YTD FY11 | Y-o-Y chg (%) | Comments |
|--|--------------|--------------|--------------|------------------|------------------|--------------|--------------|---------------------|--|
| Revenue | 530.6 | 476.0 | 529.3 | 0.2 | 11.5 | 1,585.5 | 1,384.7 | 14.5 | Higher patient volumes and revenue per inpatient. |
| Cost of sales | -370.8 | -332.8 | -370.4 | 0.1 | 11.4 | -1,110.4 | -968.3 | 14.7 | |
| Gross profit | 159.8 | 143.2 | 158.8 | 0.6 | 11.5 | 475.1 | 416.4 | 14.1 | |
| Other income | 5.0 | 4.1 | 4.8 | 3.5 | 21.8 | 14.6 | 10.3 | 41.8 | |
| Other expenses | -120.0 | -102.2 | -114.1 | 5.1 | 17.4 | -350.6 | -297.6 | 17.8 | Higher expenses due to start-up costs in Klang and BSD Hospital. |
| Operating profit | 44.7 | 45.1 | 49.5 | -9.7 | -0.8 | 139.1 | 129.1 | 7.8 | |
| Finance costs | -5.8 | -3.0 | -5.2 | 13.4 | 96.3 | -14.3 | -11.2 | 27.6 | Higher finance costs attributed to usage of more short-term borrowings. |
| Share of results of associated companies | 9.0 | 5.8 | 9.0 | 0.6 | 56.1 | 25.7 | 16.8 | 52.7 | |
| Pre-tax profit | 47.9 | 47.9 | 53.3 | -10.2 | 0.0 | 150.5 | 134.7 | 11.8 | |
| Zakat & tax | -11.1 | -11.2 | -13.8 | -20.0 | -0.7 | -36.4 | -32.6 | 11.7 | |
| Net profit | 36.8 | 34.1 | 39.5 | -6.7 | 8.1 | 114.2 | 102.1 | 11.8 | |
| Core net profit | 33.4 | 34.5 | 34.8 | -4.1 | -3.3 | 101.5 | 92.2 | 10.1 | |
| Core EPS (sen) | 5.1 | 5.2 | 5.3 | -4.1 | -3.3 | 15.4 | 14.0 | 10.1 | |
| DPS (sen) | 2.5 | 2.5 | 2.5 | - | - | 9.7 | 9.9 | - | |
| Gross Margin (%) | 30.1 | 30.1 | 30.0 | - | - | 30.0 | 30.1 | - | Gross margin maintained but net margin dropped due to operating losses in new hospitals. |
| Pre-tax Margin (%) | 9.0 | 10.1 | 10.1 | - | - | 9.5 | 9.7 | - | |
| Net Margin (%) | 6.3 | 7.2 | 6.6 | - | - | 6.4 | 6.7 | - | |

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 | 625.9 | 717.5 | 822.7 |
| Operating Expenses | -359.9 | -442.7 | -460.9 | -529.7 | -601.8 |
| Net Operating Profit | 144.0 | 159.2 | 165.0 | 187.7 | 220.9 |
| 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 | 214.9 | 244.2 | 284.9 |
| Income Tax | -41.8 | -50.3 | -53.3 | -60.6 | -70.7 |
| Effective Tax Rate (%) | 24.9 | 24.6 | 24.8 | 24.8 | 24.8 |
| Minorities | -41.8 | -50.3 | -53.3 | -60.6 | -70.7 |
| Net Profit | 118.9 | 143.7 | 144.2 | 163.8 | 191.6 |
| Growth | | | | | |
| Revenue (%) | 13.6 | 15.4 | 14.0 | 14.0 | 14.0 |
| Gross Operating Profit (%) | 20.2 | 19.4 | 4.0 | 14.6 | 14.7 |
| Net Profit | 10.0 | 20.9 | 0.4 | 13.6 | 17.0 |

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 | 263.8 | 271.7 | 275.9 |
| Receivables | 298.4 | 304.6 | 337.6 | 384.9 | 438.8 |
| Other Assets | 647.7 | 760.8 | 835.0 | 929.4 | 1,032.3 |
| Total Assets | 1,680.0 | 1,959.3 | 2,142.3 | 2,342.8 | 2,567.5 |
| Payables | 308.1 | 335.2 | 408.0 | 464.1 | 527.8 |
| 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 | 1,020.5 | 1,076.6 | 1,140.3 |
| Shareholders' Equity | 863.4 | 996.9 | 1,121.8 | 1,266.2 | 1,427.2 |
| Total Equity and Liabilities | 1,680.0 | 1,959.3 | 2,142.3 | 2,342.8 | 2,567.6 |

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

| Fiscal Year End December (RM m) | 2010A | 2011A | 2012F | 2013F | 2014F |
|---------------------------------|-------|-------|-------|-------|-------|
| Book Value Per Share | 1.17 | 1.36 | 1.52 | 1.71 | 1.92 |
| NTA Per Share | 1.0 | 1.1 | 1.3 | 1.5 | 1.7 |
| EPS (Sen) | 18.0 | 21.8 | 21.9 | 24.9 | 29.1 |
| DPS (Sen) | 15.0 | 12.1 | 12.0 | 12.4 | 14.5 |
| Payout Ratio (%) | 52.3 | 44.1 | 55.0 | 50.0 | 50.0 |
| ROA (%) | 10.4 | 10.9 | 10.5 | 11.0 | 11.7 |
| ROE (%) | 15.4 | 16.1 | 14.6 | 14.8 | 15.3 |

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. |

DISCLAIMER

This document has been prepared solely for information and private circulation only. It is for distribution under such circumstances as may be permitted by applicable law. The information contained herein is prepared from data and sources believed to be reliable at the time of issue of this document. The views/opinions expressed herein are subject to change without notice and solely reflects the personal views of the analyst(s) acting in his/her capacity as employee of Public Investment Bank Berhad ("PIVB"). PIVB does not make any guarantee, representations or warranty neither expressed or implied nor accepts any responsibility or liability as to its fairness liability adequacy, completeness or correctness of any such information and opinion contained herein. No reliance upon such statement or usage by the addressee/anyone shall give rise to any claim/liability for loss of damage against PIVB, Public Bank Berhad, its affiliates and related companies, directors, officers, connected persons/employees, associates or agents.

This document is not and should not be construed or considered as an offer, recommendation, invitation or a solicitation of an offer to purchase or subscribe or sell any securities, related investments or financial instruments. Any recommendation in this document does not have regards to the specific investment objectives, financial situation, risk profile and particular needs of any specific persons who receive it. We encourage the addressee of this document to independently evaluate the merits of the information contained herein, consider their own investment objectives, financial situation, particular needs, risks and legal profiles, seek the advice of their, amongst others, tax, accounting, legal, business professionals and financial advisers before participating in any transaction in respect of any of the securities of the company(ies) covered in this document.

PIVB, Public Bank Berhad, our affiliates and related companies, directors, officers, connected persons/employees, associates or agents may own or have positions in the securities of the company(ies) covered in this document or any securities related thereto and may from time to time add or dispose of, or may be materially interested in, any such securities. Further PIVB, Public Bank Berhad, our affiliates and related companies, associates or agents do and/or seek to do business with the company(ies) covered in this document and may from time to time act as market maker or have assumed an underwriting commitment in the securities of such company(ies), may sell them or buy them from customers on a principal basis, may have or intend to accommodate credit facilities or other banking services and may also perform or seek to perform investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment advisory or other services from any entity mentioned in this document. The analyst(s) and associate analyst(s) principally responsible for the preparation of this document may participate in the solicitation of businesses described aforesaid and would receive compensation based upon various factors, including the quality of research, investor client feedback, stock pickings and performance of his/her recommendation and competitive factors. Hence, the addressee or any persons reviewing this document should be aware of the foregoing, amongst others, may give rise to real or potential conflicts of interest.

Published and printed by:

PUBLIC INVESTMENT BANK BERHAD (20027-W)

9th Floor, Bangunan Public Bank
6, Jalan Sultan Sulaiman
50000 Kuala Lumpur
T 603 2031 3011
F 603 2272 3704
Dealing Line 603 2260 6718