

Health Management International

Setting for next expansion



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SINGAPORE | HEALTHCARE | 4Q17 RESULTS

29 August 2017

- FY17 Revenue was in line with expectation; while Core PATMI missed by 7% due to higher than expected tax
- Aggregate bed capacity to increase by 16% in FY18; Regency's new extension block to more than double its current capacity in FY21
- Proposed final dividend of RM1.0 Cents per share (20% of FY17 Core EPS)
- Maintained Buy with unchanged DCF-derived TP of S\$0.83

Results at a glance

(MYR mn)	FY17	FY16	YoY (%)	Comments
Hospital and other healthcare services	420.6	388.2	8.3%	Higher patient load
Healthcare education and training	15.2	9.6	58.0%	Higher student enrolment
Revenue	435.8	397.8	9.5%	
Gross profit	143.8	129.8	10.8%	Gross Margin +40bps to 33.0%
EBITDA	96.1	84.5	13.7%	EBITDA Margin +80bps to 22.1%
NPAT, reported	42.2	45.5	-7.1%	
NPAT, adj.	53.7	48.4	10.9%	Ex. FX impact and consolidation costs
PATMI, reported	20.6	19.9	3.4%	
PATMI, adj.	32.1	22.9	40.3%	Ex. FX impact and consolidation costs; 4Q17 contributes fully consolidated results
DPS (Cents)	1.00	0.75	33.3%	

Source: Company, PSR

The positives

- Both hospitals in Malaysia continued to register growth in revenue and patient volume.** In particular, the younger hospital, Regency Specialist Hospital, continued to record double digit growth (Revenue +14.2% YoY and Patient load +27.2% YoY). Notably, patient load grew 8.8% YoY despite that FY17 being weighed down by two Hari Raya festive days (Jul-16 and Jun-17) compared to once in FY16 (Jul-15). Patients typically avoid seeking healthcare services during the Ramadhan month, while doctors go on leave during the festive season. We expect a higher hospital revenue in 1Q18 as the delayed effect of 2017 Hari Raya will be reflected in Jul-17.
- Back to net debt, but manageable.** The Group is in a net debt position of RM87mn as at end-FY17 as compared to net cash of RM37.1mn a year ago. The Group plans to pay down 50% of its acquisition debt by Dec-18, which we think that it is achievable as it has (i) pared down c.25% in 4Q17, and (ii) strong operating cash flows. Net Debt/EBITDA improved to 0.9x from 1.0x; while gearing declines to 0.5x from 0.6x as at 31 Mar-17.

The negatives

- More foreign patients but average hospital bill size per patient was flattish YoY.** The shift from inpatient to outpatient care offsets the 21.4% YoY growth in foreign patient load. However, we expect revenue intensity to expand as HMI enhance its range of specialist healthcare offerings.

Outlook

FY18 outlook remains positive. Both Mahkota Medical Centre and Regency Specialist Hospital continue to ramp up capacity on increasing demand. Both hospitals will add 34 operational beds each (or +15.7%), leading to a total bed capacity of 500 by FY18.

Meanwhile, the new hospital extension block at Regency will transform it from a 218-bed tertiary hospital to a 380-bed hospital, and eventually to a 500-bed hospital.

Buy (Maintained)

LAST CLOSE PRICE	SGD 0.640
FORECAST DIV	SGD 0.005
TARGET PRICE	SGD 0.83
TOTAL RETURN	30.1%

COMPANY DATA

BLOOMBERG CODE	HMI SP
O/S SHARES (MN)	821
MARKET CAP (USD mn / SGD mn)	388 / 525
52 - WK HI/LO (SGD)	0.75 / 0.41
3M Average Daily T/O (mn)	0.62

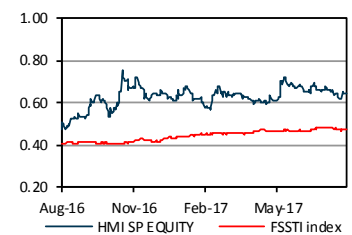
MAJOR SHAREHOLDERS (%)

Nam See Investment Pte Ltd	36.1%
Maju Medik (Malaysia) Sdn Bhd	18.8%
Kabouter Management LLC	6.0%
Cheah Way Mun	3.5%
Gan See Khem	1.3%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(5.5)	(5.8)	87.7
STIRETURN	3.90	6.67	23.82

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Jun	FY 16	FY 17	FY 18 e	FY 19 e
Revenue (RM mn)	398	436	480	551
EBITDA (RM mn)	85	96	103	119
NPAT (RM mn)	20	21	60	69
EPS (RM cts)	3.45	3.18	7.31	8.43
EPS (S cts)	1.15	1.02	2.34	2.70
PER, adj. (x)	29.3	65.3	27.4	23.7
P/BV, x	3.4	8.0	7.0	5.2
DPS (S cts)	0.25	0.32	0.48	0.54
Div Yield (%)	0.4%	0.5%	0.7%	0.8%
ROE (%)	12.6%	12.1%	29.7%	25.1%

Source: Bloomberg

VALUATION METHOD

DCF (WACC: 7.0%; terminal g: 1.0%)

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The new extension block will also provide the additional capacity for more clinical services, operating theatres, as well as clinic suites for sale or rental to doctors. Construction is expected to commence in FY18 after obtaining necessary approvals and is slated to commission in FY21. The construction cost is estimated at RM160mn and will be funded by debt and internal cash resources.

The Groups targets to reach 840 aggregate bed capacity – Mahkota (shifting its back office to another location will free up space for another 40 bed; eventual capacity of 340 beds) and Regency (eventual capacity of 500 beds).

Maintained Buy with unchanged DCF-derived TP of S\$0.83

We maintained our view that HMI will benefit from the socioeconomic tailwinds arising from (i) government initiatives to improve infrastructure and regional connectivity; (ii) increasing domestic insurance take-up rate; (iii) ageing population; and (iv) most cost competitive pricing compared to regional peers.

The consolidation of ownership in 48.9%-owned MMC and 60.8%-owned RSH to 100% each was completed in Mar-17. We expect higher dividend payout with a full hospitals ownership structure, i.e. 100% of MMC's and RSH's earnings being attributable to shareholders.

Financials

Income Statement

Y/E Jun, MYR mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	345	398	436	480	551
EBITDA	73	85	96	103	119
Depreciation & Amortisation	(16)	(18)	(20)	(23)	(26)
EBIT	53	63	65	80	92
Share of results of assoc.	3	2	1	0	0
Net Finance Inc/(Exp)	(2)	(2)	(4)	(5)	(6)
Profit before tax	55	63	62	80	92
Taxation	(1)	(18)	(20)	(20)	(23)
NPAT before NCI, reported	53	45	42	60	69
NPAT before NCI, adjusted	57	48	54	60	69
Non-controlling interest	(26)	(26)	(22)	0	0
PATMI, reported	28	20	21	60	69
PATMI, adjusted	31	23	32	60	69

Per share data (MYR Cents)

Y/E Jun	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	4.79	3.45	3.18	7.31	8.43
DPS	0.00	0.75	1.00	1.50	1.70
BVPS	25.02	29.58	26.06	28.65	38.59

Per share data (SGD Cents)

Y/E Jun	FY15	FY16	FY17	FY18e	FY19e
FX rate (SGD/MYR)	0.34	0.33	0.32	0.32	0.32
EPS, reported	1.65	1.15	1.02	2.34	2.70
DPS	0.00	0.25	0.32	0.48	0.54
BVPS	8.62	9.90	8.33	9.16	12.33

Cash Flow

Y/E Jun, MYR mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Profit before tax	55	63	62	80	92
Adjustments	21	27	33	28	33
WC changes	17	(4)	1	(2)	5
Cash generated from ops	92	86	97	107	130
Others	(11)	(13)	(20)	(27)	(31)
Cashflow from ops	82	73	77	80	99
CFI					
CAPEX, net	(10)	(11)	(11)	(65)	(68)
Others	3	(11)	(216)	2	2
Cashflow from investments	(7)	(22)	(227)	(63)	(65)
CFF					
Share issuance, net	0	(1)	61	0	0
Loans, net of repayments	(15)	1	122	(63)	35
Dividends	0	0	(4)	(7)	(12)
Others	(9)	(25)	(26)	0	0
Cashflow from financing	(24)	(25)	153	(69)	22
Net change in cash	50	26	4	(53)	56
Effect of FX	0	1	1	1	1
CCE, end	80	111	111	68	160

Source: Company, Phillip Securities Research (Singapore) Estimates

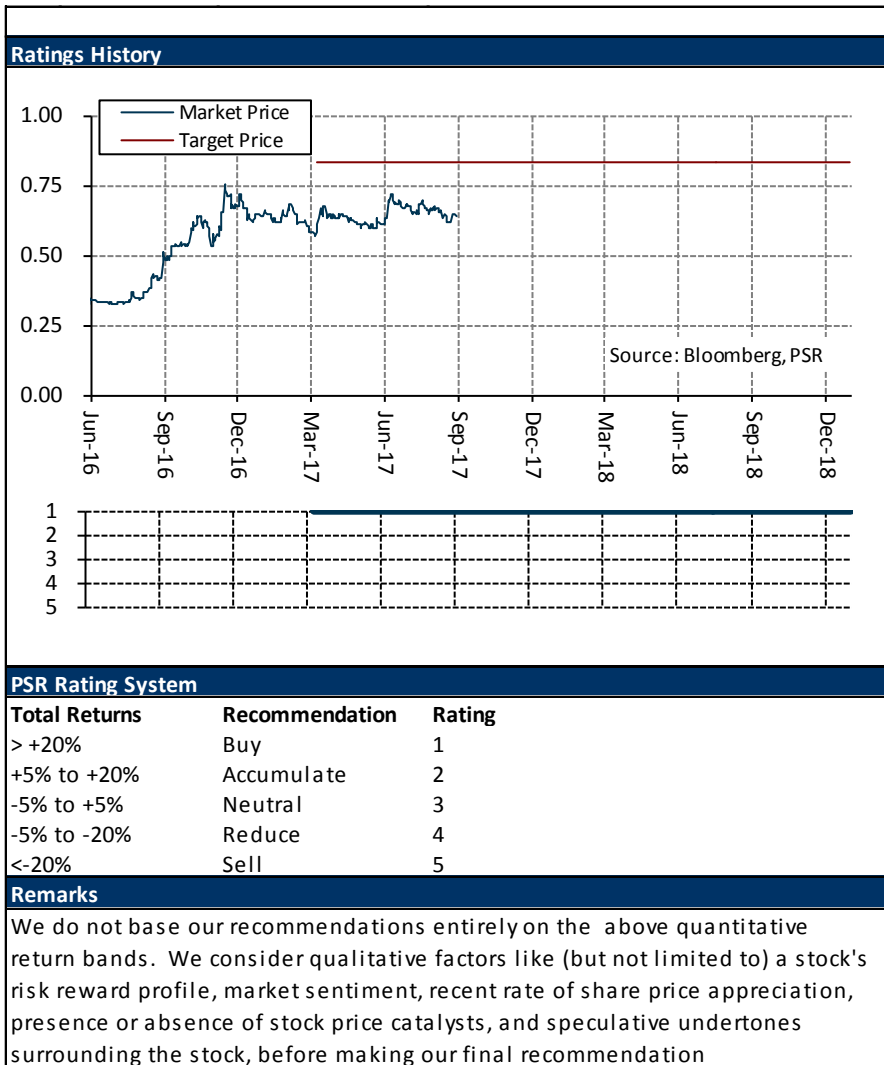
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Jun, MYR mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	180	178	279	320	362
Others	48	50	0	0	0
Total non-current assets	228	228	279	321	362
Accounts receivables	88	57	45	78	85
Cash	39	79	77	36	117
Inventories	13	14	14	14	16
Others	4	4	3	3	3
Total current assets	144	155	138	132	222
Total Assets	372	383	418	453	584
LIABILITIES					
Accounts payables	66	79	68	100	114
Short term loans	29	27	72	42	42
Others	2	6	8	7	7
Total current liabilities	97	113	148	149	164
Long term loans	12	14	92	59	94
Others	58	24	9	9	9
Total non-current liabilities	69	38	101	68	103
Total Liabilities	167	151	249	217	267
EQUITY					
Non-controlling interests	61	62	0	0	0
Shareholder Equity	144	171	169	235	317

Valuation Ratios

Y/E Jun	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	21.5	29.3	65.3	27.4	23.7
P/B (X)	4.1	3.4	8.0	7.0	5.2
EV/EBITDA (X), adj.	8.1	6.9	17.8	15.9	13.8
Dividend Yield (%)	0.0%	0.4%	0.5%	0.7%	0.8%
Growth & Margins (%)					
Growth					
Revenue	17.9%	15.2%	9.5%	10.2%	14.8%
EBITDA	26.3%	15.4%	13.7%	7.3%	15.2%
EBIT	25.8%	18.7%	2.0%	24.1%	15.3%
Net profit, adj.	77.7%	-27.1%	40.3%	87.2%	15.3%
Margins					
EBITDA margin	21.2%	21.2%	22.1%	21.5%	21.5%
EBIT margin	15.4%	15.9%	14.8%	16.7%	16.7%
Net profit, adj. margin	9.1%	5.7%	7.4%	12.5%	12.6%
Key Ratios					
ROE (%)	21.7%	12.6%	12.1%	29.7%	25.1%
ROA (%)	8.4%	5.3%	5.1%	13.8%	13.4%
Net Debt / (Cash)	2	(37)	87	64	19
Net Gearing (X)	0.7%	Net Cash	51.6%	27.4%	5.9%



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