

Health Management International

Surge in foreign patients



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SINGAPORE | HEALTHCARE | 1Q18 RESULTS

- 1Q18 Revenue/PATMI met 24%/26% of our full year FY2018 estimations
- Both hospitals in Malaysia continue to gain traction, with higher revenue intensity and increased patient load
- Strong foreign patient load growth at 28% YoY on pricing edge
- Maintain 'BUY' with unchanged DCF-derived TP of **S\$0.83**

Results at a glance

(MYR mn)	1Q18	1Q17	YoY (%)	Comments
Healthcare	112.2	105.6	6.3%	Higher patient load (+5.4% YoY) and revenue intensity
Education	4.9	3.9	25.6%	Higher student headcount
Revenue	117.1	109.5	6.9%	As above
Gross profit	40.6	37.8	7.4%	Gross Margin +20bps to 34.7%
EBITDA	28.7	25.8	11.0%	Lower share-based payment offsets increased marketing expenses EBITDA Margin +90bps to 24.5%
NPAT	13.8	14.5	-5.0%	Higher finance costs and FX losses (due to weaker MYR) Exclude non-operational and one-off items, Core NPAT +1.4% YoY
PATMI	13.8	6.2	123.4%	Post-consolidation of NCI

Source: Company, PSR

The Positives

- Foreign patient load grew at its highest pace since FY2015, at +27.9% YoY in 1Q18.** Local patient load +7.6% YoY. Foreign to local patient mix was at 76:24. While HMI operates on a one-tier pricing policy, the average hospital bill size of a foreign patient is historically 1.4-1.5x of a local patient's. Foreign patients contributed c.30% of 1Q18 revenue.

Malaysia has been picking up the slack from Singapore's structural slowdown in medical tourism due to a more competitive pricing.

- On track to pare down 50% of acquisition debt by Dec-17.** We think that it is achievable as (a) it has already paid down c.35% of its acquisition debt as at end Sep-17; (b) the remaining RM25mn repayment in 2Q18 should be supported by its strong operating cash flows. The Group generated RM31mn net cash from its 1Q18 operations. Financial position continues to improve with gearing ratio declining to 0.35x from 0.52x in end-FY17.

The Negatives

- Finance costs tripled** due to the drawdown of S\$53.0mn of the term loan facility for the purposes of the acquisition of non-controlling interests in Mahkota and Regency. Nonetheless, the pressure from finance costs should taper off as the management is committed to its aggressive debt repayment schedule.

Outlook

Outlook remains positive. The upgrading and expansion plans for Mahkota Medical Centre and Regency Specialist Hospitals are on track to meet the increasing medical demand in the region. 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. Construction is expected to commence in FY18 after obtaining necessary approvals and is slated to commission in FY21.

15 November 2017

Buy (Maintained)

LAST CLOSE PRICE	SGD 0.685
FORECAST DIV	SGD 0.005
TARGET PRICE	SGD 0.83
TOTAL RETURN	21.5%

COMPANY DATA

BLOOMBERG CODE	HMI SP
O/S SHARES (MN)	821
MARKET CAP (USD mn / SGD mn)	43 / 562
52 - WK HI/LO (SGD)	0.75 / 0.57
3M Average Daily T/O (mn)	0.38

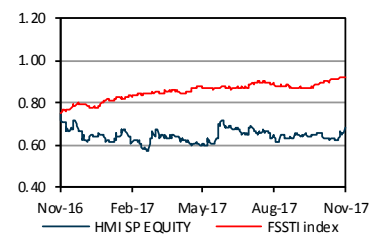
MAJOR SHAREHOLDERS (%)

Nam See Investment Pte Ltd	36.2%
Maju Medik (Malaysia) Sdn Bhd	18.8%
Kabouter Management LLC	6.0%
Gan See Khem	13%
Chin Wei Jia	13%

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	1.01	2.35	2.71
PER, adj. (x)	29.3	65.7	29.1	25.3
P/BV, x	3.4	8.0	7.4	5.5
DPS (S cts)	0.25	0.32	0.48	0.55
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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With the additional capacity, Mahkota is well positioned to capture growth opportunities for medical tourism. More flights and the proposed upgrading of the Malacca International Airport will provide a leg up for medical tourism in Melaka. The positive upside in near term would be from Air Asia's recent introduction of direct flights to Guangzhou, Vietnam and Jakarta from Melaka airport in Oct-17.

Maintain BUY with unchanged DCF-derived TP of S\$0.83

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

The Group 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).

Heliconia Capital Management's investment of S\$11.0mn or 2.0% stake in HMI is a strategic partnership to allow HMI to gain access to Heliconia's network and resources to facilitate the Group's regional expansion.

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	1.01	2.35	2.71
DPS	0.00	0.25	0.32	0.48	0.55
BVPS	8.62	9.90	8.28	9.21	12.41

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

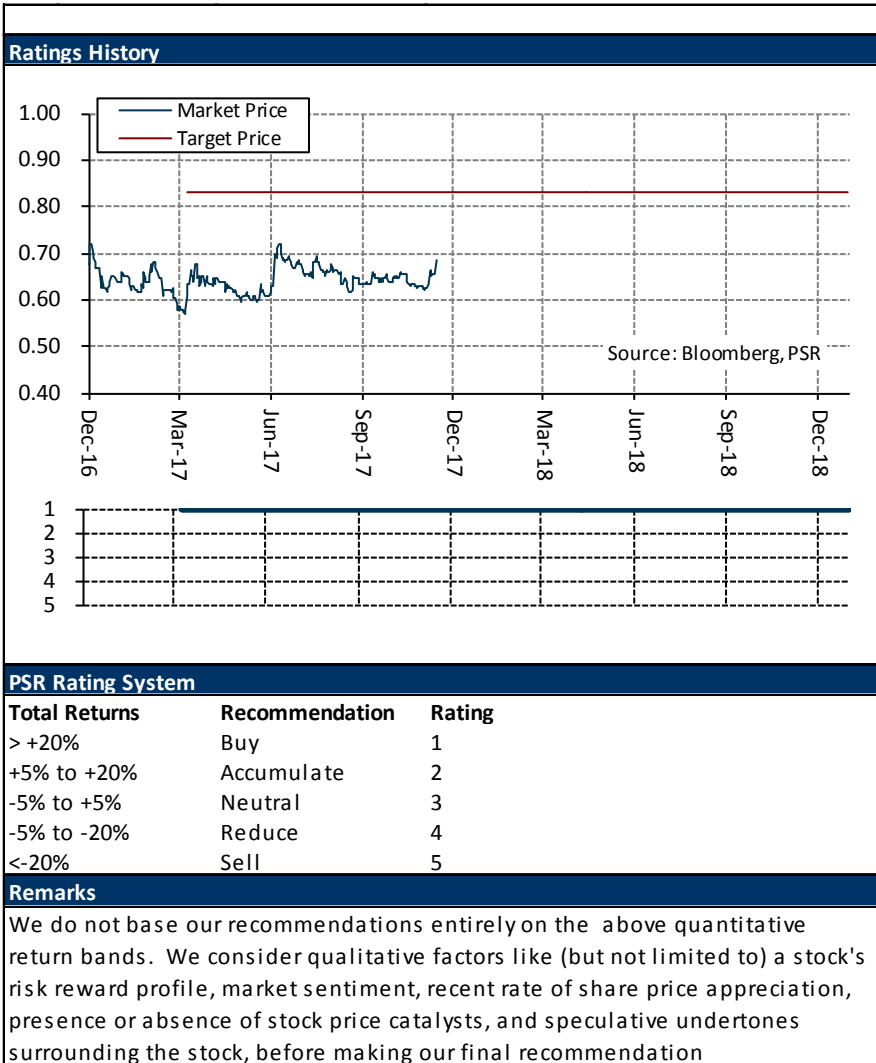
Y/E Jun	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	21.5	29.3	65.7	29.1	25.3
P/B (X)	4.1	3.4	8.0	7.4	5.5
EV/EBITDA (X), adj.	8.1	6.9	17.9	17.0	14.7
Dividend Yield (%)	0.0%	0.4%	0.5%	0.7%	0.8%

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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