

Health Management International

In the pink of health



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SINGAPORE | HEALTHCARE | 3Q18 RESULTS

- 9M18 Revenue/Core PATMI met 73%/76% of our full year estimations
- Remains a medical tourism hotspot; 9M18 Foreign patient load +15% YoY
- Improving operating efficiencies, with higher Day Surgery cases and benefitting from its cost-saving initiatives; FY18e EBITDA margin could +2pps YoY to c.25%
- Maintain **BUY** with unchanged DCF-derived **TP of S\$0.83**

Results at a glance

(MYR mn)	3Q18	3Q17	YoY (%)	Comments
Healthcare	111.6	104.1	7.2%	Higher patient load (+2.7% YoY) and revenue intensity (+4.4% YoY)
Education	3.8	3.6	5.3%	
Revenue	115.4	107.7	7.1%	As above
Gross profit	41.4	34.3	20.5%	Higher revenue intensity and better cost management <i>Gross Margin +40bps to 35.9%</i>
EBITDA	28.2	22.3	26.6%	<i>EBITDA Margin +37bps to 24.4%</i>
NPAT	15.9	4.6	243.1%	Higher finance costs, offset by FX gain and lower effective tax rate Ex. non-operational and one-off items, Core NPAT +15.9% YoY
PATMI	15.9	-1.6	n.m.	Post-consolidation of NCI Ex. FX impact and post-consolidation, Core PATMI +117.2% YoY

Source: Company, PSR

The Positives

- Both hospitals ramping up patient volume and average bill sizes.** Mahkota (Mahkota Medical Centre) and Regency (Regency Specialist Hospital) saw 2.7% YoY growth in both inpatients and outpatients load. 9M18 foreign patient load grew 15% YoY, faster than local patient load growth at 4%, and accounts for 23% of the Group's patients (vs 21% in 9M17).
Average bill size continued to grow with higher revenue intensity and increasingly complex surgeries. Average outpatient bill size and average inpatient bill size rose 9% and 3.8% YoY, respectively.
- Higher Day Surgery cases to lift margins.** As advocated in our previous report, Day Surgery is gaining traction as we continue to see bed occupancy rate trending downward (c.59% in 9M18, vs c.63% in 9M17) and higher average outpatient bill size. Note that the bed occupancy rate tracks overnight-stay and Day Surgery cases are billed under outpatient category. Total number of operational beds remained stable at 437.
- EBITDA margins improving; FY18e EBITDA margin could reach c.25% (c.2 percentage points higher than FY17's).** Operating efficiencies improved with Day Surgery getting traction, driving up revenue intensity, alongside Group's effort in streamlining procurement processes.

The Negative

- Finance costs more than doubled or increased RM0.87mn YoY.** Recall that the Group drawdown a S\$53.0mn from its term loan facility in Mar-17 to partially fund the acquisition of non-controlling interest of its two hospitals. Nonetheless, the Group's commitment to pare down debt has strengthened its balance sheet. Within a year, the Group has repaid 62.7% of the loan. Total debt declined 41.4% YoY to MYR 95.9mn as at 31 Mar-18 with net gearing improved to 0.1x from 0.6x a year ago.
Coupled with the S\$11.0mn net proceeds from the Placement Shares to Heliconia Capital Management, which has not yet been utilised, the Group now has greater financial flexibility to pursue any business or investment opportunities.

10 May 2018

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.670
FORECAST DIV	SGD 0.005
TARGET PRICE	SGD 0.83
TOTAL RETURN	24.3%

COMPANY DATA

BLOOMBERG CODE	HMI SP
O/S SHARES (MN)	838
MARKET CAP (USD mn / SGD mn)	418 / 561
52 - WK HI/LO (SGD)	0.73 / 0.59
3M Average Daily T/O (mn)	0.28

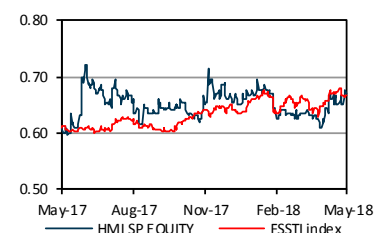
MAJOR SHAREHOLDERS (%)

Nam See Investment Pte Ltd	35.5%
Maju Medik (Malaysia) Sdn Bhd	18.4%
Kabouter Management LLC	5.9%
Gan See Khem	13%
Chin Wei Jia	12%

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 18e	FY 19e
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	2.47	2.85
PER, adj. (x)	29.3	65.7	27.1	23.5
P/BV, x	3.4	8.0	6.9	5.1
DPS (S cts)	0.25	0.32	0.51	0.58
Div Yield (%)	0.4%	0.5%	0.8%	0.9%
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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Outlook

Positive outlook with upgrading and expansion plans in Mahkota and Regency on track to meet the growing demand.

- **Mahkota** has opened its new ward (i.e. ward 9B with 36 beds), allowing it to refurbish older wards over the next 2 years. It is also currently undergoing a small extension to the East Wing for more clinical space for diagnostic radiology and other departments.
- **Regency's** expansion plan is on track. The new extension block will more than double its existing capacity with additional inpatient beds (from 218-bed to 380, and eventually 500), clinical services, operating theatres and clinical suites. The hospital extension block in approval process, land preparation is ongoing, and construction is expected to commence in 2018. It is slated to commission in 2021.
- Meanwhile, both hospitals continue to develop their Centres of Excellence and recruit skilled sub-specialists to broaden their service offerings.
- Intensifying competition in Melaka and Johor is a concern, but we believe HMI's first mover advantage and established track record would enable it to gain a foothold in these areas, while the new competing hospitals ramp up their operations.
- We do not expect any significant impact on Malaysia's Private Healthcare Facilities and Services Act arising from the change in government.

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) favourable demographics; and (iv) cost competitive pricing compared to regional peers.

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	0.34	0.34
EPS, reported	1.65	1.15	1.01	2.47	2.85
DPS	0.00	0.25	0.32	0.51	0.58
BVPS	8.62	9.90	8.28	9.69	13.06

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	59	94	94	107	130
Others	(11)	(13)	(20)	(27)	(31)
Cashflow from ops	48	82	74	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	17	35	1	(53)	56
Effect of FX	0	1	1	1	1
CCE, end	39	79	77	36	117

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	27.1	23.5
P/B (X)	4.1	3.4	8.0	6.9	5.1
EV/EBITDA (X), adj.	8.1	6.9	17.9	15.8	13.7
Dividend Yield (%)	0.0%	0.4%	0.5%	0.8%	0.9%
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%

Source: Company, Phillip Securities Research (Singapore) Estimates

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

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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