

Health Management International

Expect continued momentum in 2H18



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SINGAPORE | HEALTHCARE | 2Q18 RESULTS

- Both 1H18 Revenue and PATMI met 49% of our full year FY2018 estimations
- Margins expansion on patient volume and bill size growth, as well as realizing gain from its cost-saving measures
- Declared interim dividend of RM1.0 Cents per share; Adopting dividend policy of paying out $\geq 20\%$ of Core PATMI
- Maintain 'BUY' with unchanged DCF-derived TP of **S\$0.83**

Results at a glance

(MYR mn)	2Q18	2Q17	YoY (%)	Comments
Healthcare	112.2	105.6	6.3%	Higher patient load (+5.4% YoY) and revenue intensity (+2.8% YoY)
Education	4.9	3.9	25.8%	Higher student headcount
Revenue	116.0	106.9	8.5%	As above Higher revenue intensity and better cost management
Gross profit	42.8	34.7	23.3%	Gross Margin +44bps to 36.9%
EBITDA	29.4	24.0	22.5%	EBITDA Margin +29bps to 25.3%
NPAT	15.7	12.4	26.6%	Higher finance costs, offset by FX gain and lower effective tax rate Exclude non-operational and one-off items, Core NPAT +6.5% YoY
PATMI	15.7	5.3	194.9%	Post-consolidation of NCI
DPS (Cents)	1.0	0.0	n.a.	Payout 54% of Core PATMI

Source: Company, PSR

The Positives

- Expecting a strong FY18e.** 1H18 Revenue/NPAT grew 7.7%/9.6% YoY. 2H is typically seasonally stronger. We expect revenue intensity and patient load growth to extend their upward trajectory. Meanwhile, its partnership with Gakken Cocofump to introduce elderly care training into Singapore and the region could add a new revenue stream to its Education business.
- Foreign patient load growth (+15.5% YoY) continued to outpace local patient's (2.8% YoY).** Malaysia private healthcare services remain price competitive as compared to its neighbouring countries despite strengthening MYR. Recall that medical fees in Malaysia is moderated by the Medical Fee Schedule.
- Intentional shift towards more outpatient services.** The Group is moving towards handling more Day Surgery cases, in line with the growing demand. A faster growth in outpatient load (higher throughput), lower bed occupancy ratio (length of stay decreased), and a strong 10.9% YoY growth from average outpatient bill size (higher revenue intensity), reflect increased efficiency and more Day Surgery cases. Its Day Surgery Centre in Mahkota Medical Centre (with two Day Surgery Units) is gaining traction.
- Declared an interim dividend of RM1.0 Cents per share and adopting a dividend policy to payout not less 20% of the Group's core earnings.** We view the adoption of dividend policy positively and it should be supported by its strong operating cash flows. The payout ratio guided by the policy is the same as our initial forecast.

The Negatives

- Finance costs increased by 6.7x** 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 Medical Centre and Regency Specialist Hospital. Nonetheless, the pressure from finance costs should taper off as the Group has pared down 57% of its acquisition debt, bringing Net debt/T12M EBITDA and gearing ratio down to 0.3x and 0.2x from 1.7x and 0.5x in end-FY17, respectively.

14 February 2018

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)	838
MARKET CAP (USD mn / SGD mn)	405 / 536
52 - WK HI/LO (SGD)	0.73 / 0.57
3M Average Daily T/O (mn)	0.53

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 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	2.44	2.82
PER, adj. (x)	29.3	65.7	26.2	22.7
P/BV, x	3.4	8.0	6.7	5.0
DPS (S cts)	0.25	0.32	0.50	0.57
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

Outlook remains positive. The upgrading and expansion plans for Mahkota Medical Centre and Regency Specialist Hospital are on track to meet the increasing medical demand in the region.

- Both hospitals will add c.30 operational beds each (or +15% YoY), leading to a total bed capacity of 500 by end-FY18.
- Mahkota is also expanding its Radiology and other departments for more clinical areas and is expected to be completed by end-2018.
- The construction of its new hospital extension block at Regency is expected to commence in FY18 after obtaining necessary approvals and is slated to commission in FY21.

The S\$11.0mn net proceeds from the Placement Shares to Heliconia Capital Management is earmarked for the Group's business expansion and has not yet been utilised.

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.

The Group targets to reach 840 aggregate bed capacity – Mahkota (eventual capacity of 340 beds) and Regency (eventual capacity of 500 beds).

Other significant updates

1. *Mahkota opened a new ward with 36 beds; and will refurbish older wards over the next 1-2 years.*
2. *Regency is the first to launch ECMO (Extracorporeal Membrane Oxygenation) Therapy in the Southern region of Malaysia.*
 - *Requires a comprehensive medical care team. The fact that Regency could offer such service is a testament to its comprehensive and exceptional healthcare team.*
 - *Offers convenience and affordability. Previously, patients from Johor are referred to Singapore private hospitals and could cost up to S\$200,000 for a 5-day treatment. HMI is offering about one-third of that costs.*

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	0.33	0.33
EPS, reported	1.65	1.15	1.01	2.44	2.82
DPS	0.00	0.25	0.32	0.50	0.57
BVPS	8.62	9.90	8.28	9.57	12.89

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

Source: Company, Phillip Securities Research (Singapore) Estimates

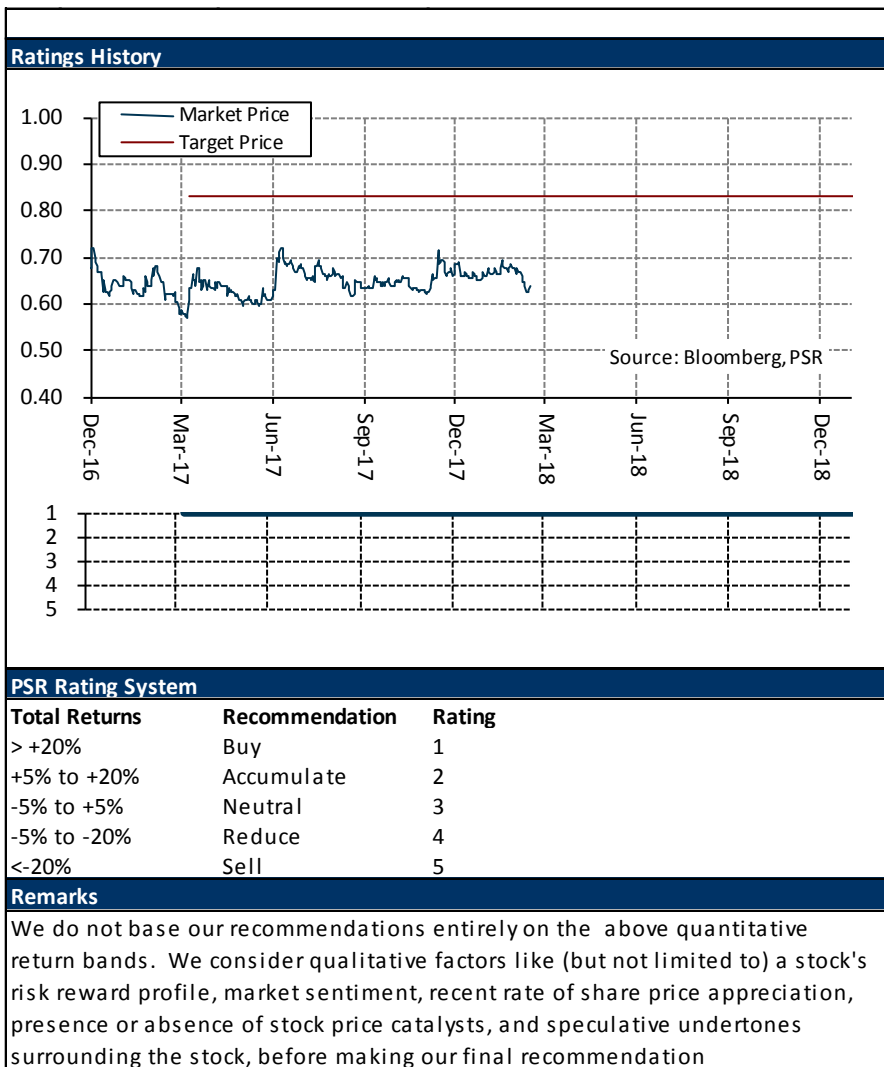
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

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	26.2	22.7
P/B (X)	4.1	3.4	8.0	6.7	5.0
EV/EBITDA (X), adj.	8.1	6.9	17.9	15.3	13.2
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%



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