

# Health Management International

Expansions continue to paint a rosy outlook



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## SINGAPORE | HEALTHCARE | FY18 RESULTS

30 August 2018

- FY18 Revenue and Core PATMI were in line with our expectations.
- Higher outpatient loads and average bill sizes boosted earnings.
- Continues as a medical tourism hotspot with foreign patient load growing faster than local patient load.
- Proposed final dividend of RM1.0 Cent per share; total dividends of RM2.0 cents per share for FY18. (26% of FY18 Core EPS).
- Maintain **BUY** with unchanged DCF-derived **TP of S\$0.83**.

### Results at a glance

(MYR mn)	FY17	FY18	YoY (%)	Comments
Hospital and other healthcare services	420.6	451.7	7.4%	Higher patient load and average bill sizes
Healthcare education and training	15.2	15.9	4.3%	
Revenue	435.8	467.6	7.3%	As above
Gross profit	143.8	165.8	15.3%	Higher revenue intensity and effective cost management. Gross margins +250bps to 35.5%
EBITDA	96.1	115.1	19.8%	EBITDA margins +250bps to 24.6%
NPAT	42.2	60.0	42.2%	Core NPAT +15.9% YoY
PATMI	20.6	60.6	194.4%	One-off impact of consolidation exercise, where 100% of net income now attributable to shareholders. Core PATMI +95.9% YoY

Source: Company, PSR

### The Positives

- Patient volume and average bill sizes ramped up both hospitals' earnings.** Mahkota (Mahkota Medical Centre) and Regency (Regency Specialist Hospital) saw a 3.7% YoY growth in total patient load to 461.8k in FY18. Foreign patient load grew faster than local patient load and accounted for 24% of the Group's patients. Outpatient load was the main driver, while inpatient load remained relatively flat because of competition from heavily subsidised Malaysian public healthcare as well as a trend towards shorter lengths of stay. Average bill size continued to grow with higher revenue intensity and increasingly complex surgeries. Average inpatient and outpatient bill size rose 5.6% and 9.0% YoY respectively.
- Day Surgery cases continue to lift margins.** Day Surgery is gaining traction as we continue to see bed occupancy rate trending downward (c.58% in 4Q18, vs c.62% in 4Q17) 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.
- Better than expected EBITDA margins improvement.** EBITDA margin improved +250bps YoY to 24.6% for FY18, driven by Regency's margin (Regency is newer as compared to Mahkota, which is 25 years old) and effective cost management measures.

## BUY (Maintained)

LAST CLOSE PRICE	SGD 0.615
FORECAST DIV	SGD 0.006
TARGET PRICE	SGD 0.83
<b>TOTAL RETURN</b>	<b>36.0%</b>

### COMPANY DATA

BLOOMBERG CODE	HMI SP
O/S SHARES (MN):	837
MARKET CAP (USD mn / SGD mn):	377 / 515
52 - WK HI/LO (SGD):	0.73 / 0.56
3M Average Daily T/O (mn):	0.23

### MAJOR SHAREHOLDERS (%)

Nam See Investment Pte Ltd	35.6%
Maju Medik (Malaysia) Sdn Bhd	18.4%
Kabouter Management LLC	6.0%
Gan See Khem	1.3%
Chin Wei Jia	1.2%

### 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	FY 19 e
Revenue (RM mn)	398	436	468	537
EBITDA (RM mn)	85	96	115	133
NPAT (RM mn)	20	21	61	71
EPS (RM cts)	3.45	3.18	7.29	8.44
EPS (S cts)	1.15	1.01	2.46	2.84
PER, adj. (x)	29.3	65.7	25.0	21.6
P/BV, x	3.4	8.0	6.0	4.5
DPS (S cts)	0.25	0.32	0.67	0.57
Div Yield (%)	0.4%	0.5%	1.1%	0.9%
ROE (%)	12.6%	12.1%	28.8%	23.9%

Source: Bloomberg

### VALUATION METHOD

DCF (WACC: 7.0%; terminal g: 1.8%)

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### The Negative

- **Finance costs increased +57.2% or RM3.23mn YoY.** Borrowings increased RM32.6mn due a RM103mn mortgage loan taken by the Group for its StarMed acquisition, offset by repayment of term loans during the year. Total debt spiked +19.9% YoY to RM196.4mn as at 30 Jun-18, but net gearing increased slightly to 0.55x from 0.52x a year ago. However, we think that the Group's higher leverage will be well contained by healthy operating cash flows to meet its debt obligation.

### Outlook

**We remain positive on the outlook of the upgrading and expansion plans in Mahkota and Regency and expect it to be on track to meet the growing demand.**

- **Mahkota** has completed renovation works for Ward 9A and Paediatric Rehabilitation. But there will be continuous upgrading and refurbishing of older wards over the next 2 years. More clinical space for diagnostic radiology will be added.
- **Regency's** expansion plan is on track. The new extension block will more than double its existing capacity with additional - inpatient beds (mid-term target 380 beds, and eventually 500), clinical services, operating theatres and clinical suites. The hospital extension block is in process of approval, land preparation is ongoing and construction is expected to commence by end 2018. The extension is slated to commission in 2021.
- Both hospitals continue to develop their Centres of Excellence and recruit skilled sub-specialists to broaden their service offerings especially in quality and safety.
- We do not expect any significant impact on Malaysia's Private Healthcare Facilities and Services Act arising from the change in government.
- **StarMed (StarMed Specialist Centre)** acquisition was completed in May 2018 and the Group now owns 62.5% of this one-stop ambulatory care centre in Singapore. StarMed has completed renovations and received licenses from the Ministry of Health's to operate. Main growth drivers for StarMed will be higher insurance-holding population, ageing population and medical tourism. StarMed is expected to incur gestation start-up losses from its operations and drag down margins for 2-3 years from its expected commencement in FY2019. We factored in RM1.6-2.2mn in EBIT loss p.a. for the first 3 years of operations.

### 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	FY16	FY17	FY18	FY19e	FY20e
Revenue	398	436	468	537	590
EBITDA	85	96	115	133	148
Depreciation & Amortisation	(18)	(20)	(22)	(26)	(28)
EBIT	63	65	92	107	119
Share of results of assoc.	2	1	(0)	0	0
Net Finance Inc/(Exp)	(2)	(4)	(8)	(8)	(9)
<b>Profit before tax</b>	<b>63</b>	<b>62</b>	<b>84</b>	<b>99</b>	<b>111</b>
Taxation	(18)	(20)	(24)	(28)	(32)
<b>NPAT before NCI, reported</b>	<b>45</b>	<b>42</b>	<b>60</b>	<b>71</b>	<b>79</b>
<b>NPAT before NCI, adjusted</b>	<b>48</b>	<b>54</b>	<b>62</b>	<b>71</b>	<b>79</b>
Non-controlling interest	(26)	(22)	1	0	0
<b>PATMI, reported</b>	<b>20</b>	<b>21</b>	<b>61</b>	<b>71</b>	<b>79</b>
<b>PATMI, adjusted</b>	<b>23</b>	<b>32</b>	<b>63</b>	<b>71</b>	<b>79</b>

### Per share data (MYR Cents)

Y/E Jun	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	3.45	3.18	7.29	8.44	9.42
DPS	0.75	1.00	2.00	1.70	1.90
BVPS	29.58	26.06	30.34	40.53	51.65

### Per share data (SGD Cents)

Y/E Jun	FY16	FY17	FY18	FY19e	FY20e
FX rate (SGD/MYR)	0.33	0.32	0.34	0.34	0.34
EPS, reported	1.15	1.01	2.46	2.84	3.17
DPS	0.25	0.32	0.67	0.57	0.64
BVPS	9.90	8.28	10.22	13.65	17.40

### Cash Flow

Y/E Jun, MYR mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
<b>Profit before tax</b>	63	62	84	99	111
Adjustments	27	33	30	34	37
WC changes	4	(1)	(6)	4	2
Cash generated from ops	94	94	109	137	150
Others	(13)	(20)	(31)	(39)	(43)
<b>Cashflow from ops</b>	<b>82</b>	<b>74</b>	<b>77</b>	<b>99</b>	<b>107</b>
CFI					
CAPEX, net	(11)	(11)	(30)	(67)	(69)
Others	(11)	(216)	(12)	2	2
<b>Cashflow from investments</b>	<b>(22)</b>	<b>(227)</b>	<b>(42)</b>	<b>(65)</b>	<b>(66)</b>
CFF					
Share issuance, net	(1)	61	33	0	0
Loans, net of repayments	1	122	33	11	(31)
Dividends	0	(4)	(17)	(17)	(14)
Others	(25)	(26)	(103)	0	0
<b>Cashflow from financing</b>	<b>(25)</b>	<b>153</b>	<b>(54)</b>	<b>(6)</b>	<b>(45)</b>
<b>Net change in cash</b>	<b>35</b>	<b>1</b>	<b>(18)</b>	<b>28</b>	<b>(5)</b>
Effect of FX	1	1	(1)	(1)	(1)
<b>CCE, end</b>	<b>79</b>	<b>77</b>	<b>59</b>	<b>120</b>	<b>144</b>

### Balance Sheet

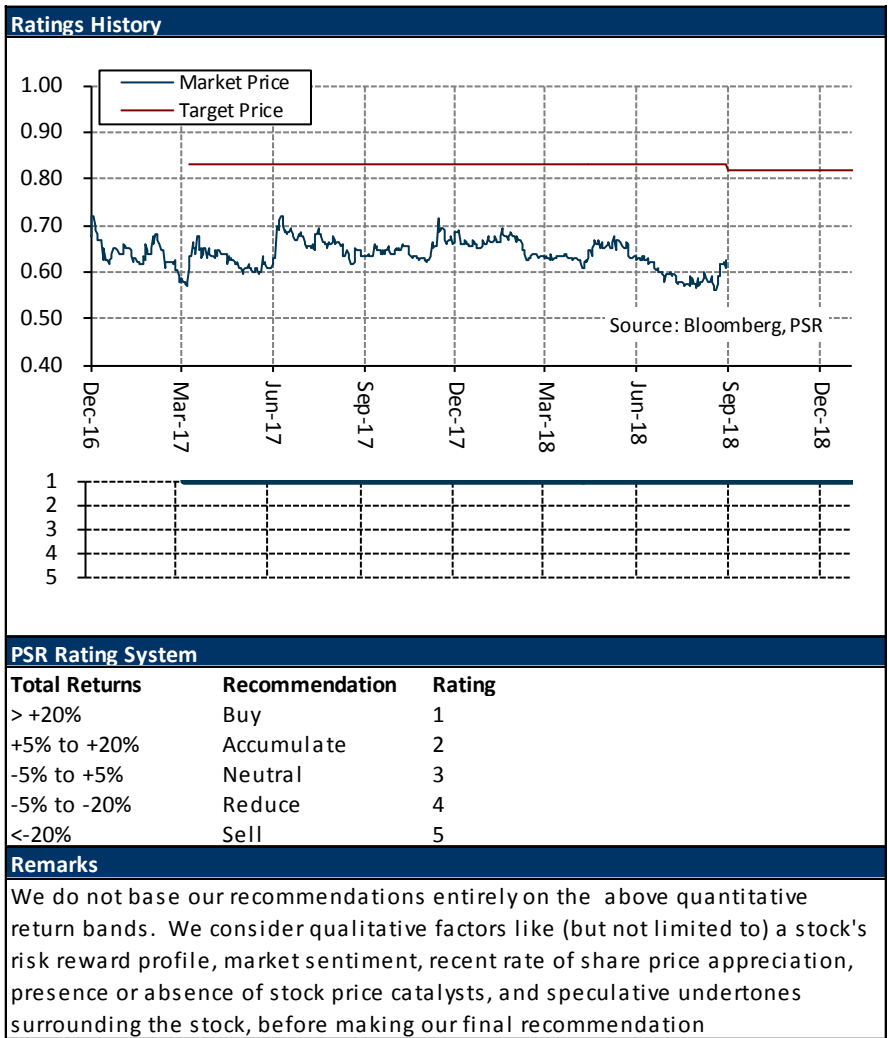
Y/E Jun, MYR mn	FY16	FY17	FY18	FY19e	FY20e
<b>ASSETS</b>					
PPE	178	279	463	504	545
Others	50	0	0	0	0
<b>Total non-current assets</b>	<b>228</b>	<b>279</b>	<b>463</b>	<b>505</b>	<b>545</b>
Accounts receivables	57	45	49	47	54
Cash	79	77	59	120	144
Inventories	14	14	14	14	16
Others	4	3	7	7	7
<b>Total current assets</b>	<b>155</b>	<b>138</b>	<b>129</b>	<b>188</b>	<b>222</b>
<b>Total Assets</b>	<b>383</b>	<b>418</b>	<b>592</b>	<b>693</b>	<b>767</b>
<b>LIABILITIES</b>					
Accounts payables	79	68	110	112	124
Short term loans	27	72	89	89	69
Others	6	8	7	7	7
<b>Total current liabilities</b>	<b>113</b>	<b>148</b>	<b>206</b>	<b>209</b>	<b>200</b>
Long term loans	14	92	107	118	107
Others	24	9	30	30	30
<b>Total non-current liabilities</b>	<b>38</b>	<b>101</b>	<b>137</b>	<b>148</b>	<b>137</b>
<b>Total Liabilities</b>	<b>151</b>	<b>249</b>	<b>343</b>	<b>356</b>	<b>337</b>
<b>EQUITY</b>					
Non-controlling interests	62	0	(3)	(3)	(3)
<b>Shareholder Equity</b>	<b>171</b>	<b>169</b>	<b>252</b>	<b>339</b>	<b>433</b>

### Valuation Ratios

Y/E Jun	FY16	FY17	FY18	FY19e	FY20e
P/E (X), adj.	29.3	65.7	25.2	21.8	19.5
P/B (X)	3.4	8.0	6.1	4.5	3.6
EV/EBITDA (X), adj.	6.9	17.9	13.4	11.6	10.4
Dividend Yield (%)	0.4%	0.5%	1.1%	0.9%	1.0%
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	15.2%	9.5%	7.3%	14.8%	9.8%
EBITDA	15.4%	13.7%	19.8%	15.4%	11.2%
EBIT	18.7%	2.0%	41.8%	17.0%	11.5%
Net profit, adj.	-27.1%	40.3%	95.9%	12.5%	11.6%
<b>Margins</b>					
EBITDA margin	21.2%	22.1%	24.6%	24.7%	25.0%
EBIT margin	15.9%	14.8%	19.6%	19.9%	20.2%
<b>Net profit, adj. margin</b>	<b>5.7%</b>	<b>7.4%</b>	<b>13.4%</b>	<b>13.2%</b>	<b>13.4%</b>
<b>Key Ratios</b>					
ROE (%)	12.6%	12.1%	28.8%	23.9%	20.4%
ROA (%)	5.3%	5.1%	12.0%	11.0%	10.8%
Net Debt / (Cash)	(37)	87	137	87	32
Net Gearing (X)	Net Cash	51.6%	55.2%	25.9%	7.5%

Source: Company, Phillip Securities Research (Singapore) Estimates

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



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