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Health Management International

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SINGAPORE | HEALTHCARE |3Q19 RESULTS

15 May 2019

- 9M19 EBITDA and core PATMI met 69% and 61% of our full-year estimates due to two quarters of Starmed's gestation costs.
- Excluding the impact from StarMed, 3Q19 EBITDA and core PATMI would have expanded by 5.6% YoY and 10.0% YoY. Starmed's top line contribution is currently immaterial.
- Group revenue rose 8.1% YoY, due to higher patient load (+1.3% YoY) and larger patient bill sizes (+5.3% YoY) from the two Malaysia hospitals.
- Completed acquisition of 28% stake in Plus Medical (primary care clinic chain) in 3Q19.
- **Maintain BUY with a lower DCF-derived TP of S$0.73 (previously S$0.77).** Our lower target price was due to the incorporation gestation costs of RM6-9mn EBIT loss for the first three years of Starmed's operation.

Results at a glance

(MYR mn)	3Q19	3Q18	YoY (%)	2Q19	QoQ (%)	Comments
Hospital and other healthcare services	120.2	111.6	7.7%	123.6	-2.8%	Patient load rose 1.3% YoY. Average inpatient and outpatient bill size rose 4.9% YoY and 5.3% YoY at the two hospitals in Malaysia. Starmed's YTD revenue contribution is still insignificant.
Healthcare education and training	4.6	3.8	21.2%	5.0	-9.2%	Fluctuations in the education business were due to student headcount.
Revenue	124.8	115.4	8.1%	128.6	-3.0%	
Gross profit	42.1	41.4	1.8%	46.2	-8.8%	Gross profit margin declined 2.1 p.p. to 33.7% due to Starmed's gestation costs.
EBITDA	27.5	28.2	-2.2%	29.0	-5.0%	EBITDA margin declined 2.3 p.p. to 22.1% due to Starmed's gestation costs. Excluding Starmed, EBITDA would have increased 5.6% YoY.
PATMI	13.4	15.9	-15.4%	11.3	19.3%	
Core PATMI	13.0	15.4	-15.9%	14.7	-11.6%	Excluding FOREX gain and one-off costs, core PATMI declined -15.9% YoY. Excluding Starmed, Core PATMI would have expanded 10.0% YoY.

Source: Company, PSR

The Positives

+ Revenue rose on the back of resilient patient load growth and increasing average patient bill sizes. Patient load grew 1.3% YoY to 116.2k patients, driven by both inpatient (+2.6% YoY) and outpatient (+1.1%YoY) growth from Mahkota (Mahkota Medical Centre, Melaka) and Regency (Regency Specialist Hospital, Johor). Average inpatient and outpatient bill size rose 4.9% and 5.3% YoY respectively. The continuous growth in patient load and larger bill sizes were due to the expansion of specialist offerings, further developments of HMI's Centres of Excellence (COE), investments in specialised medical technology and recruitment of more specialists and sub-specialists. Increasingly complex and acute cases will contribute to revenue intensity. Meanwhile, local and foreign patient load mix remained unchanged YoY at 77:33. We expect patient traffic to continue its steady growth as the COEs attract referrals and marketing efforts boost awareness.

+ Bed occupancy rose to 61% from 59% a year ago despite the total number of operational beds remaining the same at 437. HMI continues to increase its bed capacity with the new extension block at Regency, which begun construction last quarter. Regency's bed count will increase by 380 beds upon completion in 2021, with the potential to expand to 500 beds by utilising shell spaces set aside.

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.530
FORECAST DIV	SGD 0.007
TARGET PRICE	SGD 0.73
TOTAL RETURN	39.3%

COMPANY DATA

BLOOMBERG CODE	HMI SP
O/S SHARES (MN) :	837
MARKET CAP (USD mn / SGD mn) :	324 / 444
52 - WK HI/LO (SGD) :	0.67 / 0.52
3M Average Daily T/O (mn) :	0.14

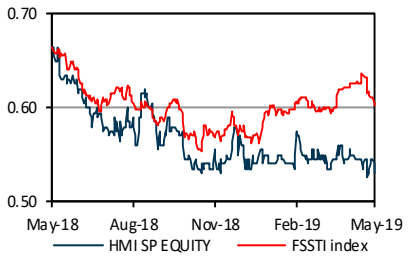
MAJOR SHAREHOLDERS (%)

Nam See Investment Pte Ltd	35.6%
Maju Medik (Malaysia) Sdn Bhd	18.4%
Kabouter Management LLC	6.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(5.5)	(5.8)	87.7
STI RETURN	3.90	6.67	23.82

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Jun	FY17	FY18	FY19e	FY20e
Revenue (RM mn)	436	468	510	560
EBITDA (RM mn)	96	115	122	132
NPAT (RM mn)	21	61	64	68
EPS (RM cts)	3.18	7.29	7.69	8.17
EPS (S cts)	1.01	2.44	2.53	2.69
PER, adj. (x)	52.4	21.7	20.9	19.7
P/BV, x	6.4	5.2	4.0	3.2
DPS (S cts)	0.32	0.67	0.66	0.69
Div Yield (%)	0.6%	1.3%	1.2%	1.3%
ROE (%)	12.1%	28.8%	22.0%	18.2%

Source: Bloomberg

VALUATION METHOD

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

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The Negative

- Starmed's gestation costs to weigh down PATMI in the next 2 to 3 years. Core PATMI of RM13.0mn fell 15.4% YoY. Excluding the Starmed's gestation costs, 3Q19's core PATMI would have increased by 10.0% YoY, indicating a RM4.0mn net loss from Starmed in 3Q19 (2Q19: RM2.9mn). Top line contribution from Starmed is immaterial at this point. Starmed's net loss this quarter includes the depreciation (inclusive of new property purchases in Jan 2019) and finance costs of six levels of Starmed. Hence, we expect this quarter's net profit impact from Starmed to be more indicative of moving forward. We raise our EBIT loss assumptions on Starmed to RM 6-9mn for the first three years of operation, resulting in lower EBITDA for FY19e and FY20e by 3.3% and 5.8% respectively.

Outlook

We remain positive on the outlook for HMI due to its resilient hospital operations and growth trajectory to meet the growing demand.

Mahkota (Malaysia, Melaka)

Mahkota's Cancer Centre will be launching Tomotherapy services and it will be the only hospital in South of Kuala Lumpur that offers this cancer treatment. Progressive upgrading and refurbishing of older wards will continue to maintain a new and consistently upgraded facility for the patients. Undertaking preliminary assessments to expand Mahkota.

Regency (Malaysia, Johor)

Construction of the new extension block begun last quarter. Upon its targeted commissioning in 2021, Regency will become a 380-bed tertiary hospital, with the potential to expand capacity to 500 beds.

Regency's new competitors. (i) KPJ Bandar Dato Onn (Johor): started operations and located 10 minutes away from Regency. (ii) Columbia Asia South Key (Johor): expected to open within next few months. Mainly a secondary care hospital and does not have the full set-up that Regency does. Regency will face increasing competition for specialists, staff and patients but there is currently no impact from both competitors as both hospitals are still in the early stages of operation. HMI's strategy is to expand faster, develop their Centre of Excellences and recruit more specialists.

StarMed Specialist Centre (Singapore)

Starmed currently has 30 accredited specialists. Average bill size is below the private healthcare average and the affordability is due to lower overheads costs associated with a smaller set-up and lower staff costs. In comparison to a hospital, Starmed does not need to maintain an emergency wing nor operate for 24 hours because its patients usually undergo minimally invasive procedures that do not require overnight stays.

Primary Care – Plus Medical Holdings Pte Ltd (Singapore)

Plus targets to have more than 40 primary care clinics in Singapore in 3 years. HMI invested an initial S$4.2mn for a 28% stake in a chain of 16 primary care clinics in Singapore on 15 Mar 2019. HMI's stake may increase over time, subject to further requests for funding and satisfaction of certain conditions.

Investment Action

Maintain BUY with a lower DCF-derived TP of S$0.73 (previously S$0.77). Our lower target price was due to the incorporation gestation costs of RM6-9mn EBIT loss for the first three years of Starmed's operation. Despite the suppression of earnings in the near term due to gestation costs, we maintain our view that HMI will benefit from the socioeconomic tailwinds arising from Malaysia's (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. Potential risks include (i) greater competition; (ii) disadvantageous regulatory changes; and (iii) longer than expected gestation period.

Financials

Income Statement

Y/E Jun, MYR mn	FY16	FY17	FY18	FY19e	FY20e
Revenue	**398**	**436**	**468**	**510**	**560**
EBITDA	**85**	**96**	**115**	**122**	**132**
Depreciation & Amortisation	(18)	(20)	(22)	(29)	(32)
EBIT	**63**	**65**	**92**	**93**	**101**
Share of results of assoc.	2	1	(0)	(0)	0
Net Finance Inc/(Exp)	(2)	(4)	(8)	(13)	(15)
Profit before tax	**63**	**62**	**84**	**80**	**86**
Taxation	(18)	(20)	(24)	(23)	(25)
NPAT before NCI, reported	**45**	**42**	**60**	**57**	**61**
NPAT before NCI, adjusted	**48**	**54**	**62**	**57**	**61**
Non-controlling interest	(26)	(22)	1	7	7
PATMI, reported	**20**	**21**	**61**	**64**	**68**
PATMI, adjusted	**23**	**32**	**63**	**64**	**68**

Per share data (MYR Cents)

Y/E Jun	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	3.45	3.18	7.29	7.69	8.17
DPS	0.75	1.00	2.00	2.00	2.10
BVPS	29.58	26.06	30.34	39.78	49.95

Per share data (SGD Cents)

Y/E Jun	FY16	FY17	FY18	FY19e	FY20e
FX rate (SGD/MYR)	0.33	0.32	0.33	0.33	0.33
EPS, reported	1.15	1.01	2.44	2.53	2.69
DPS	0.25	0.32	0.67	0.66	0.69
BVPS	9.90	8.28	10.15	13.10	16.45

Cash Flow

Y/E Jun, MYR mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
Profit before tax	63	62	84	80	86
Adjustments	27	33	30	42	46
WC changes	4	(1)	(6)	(4)	6
Cash generated from ops	94	94	109	118	138
Others	(13)	(20)	(31)	(38)	(41)
Cashflow from ops	**82**	**74**	**77**	**80**	**96**
CFI					
CAPEX, net	(11)	(11)	(30)	(89)	(81)
Others	(11)	(216)	(12)	2	2
Cashflow from investments	**(22)**	**(227)**	**(42)**	**(87)**	**(79)**
CFF					
Share issuance, net	(1)	61	33	0	0
Loans, net of repayments	1	122	33	(111)	(13)
Dividends	0	(4)	(17)	(17)	(17)
Others	(25)	(26)	(103)	64	2
Cashflow from financing	**(25)**	**153**	**(54)**	**(64)**	**(28)**
Net change in cash	**35**	**1**	**(18)**	**(71)**	**(10)**
Effect of FX	1	1	(1)	(1)	(1)
CCE, end	**79**	**77**	**59**	**(40)**	**(17)**

Source: Company, Phillip Securities Research (Singapore) Estimates

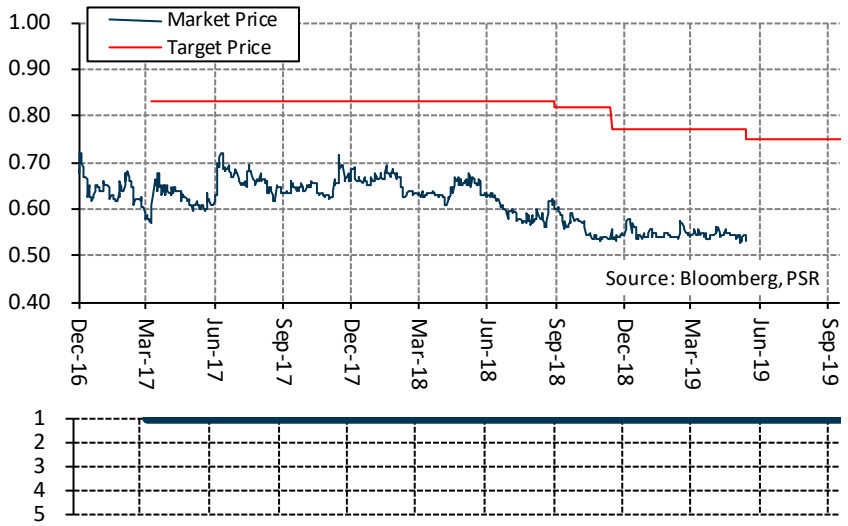
Balance Sheet

Y/E Jun, MYR mn	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
PPE	178	279	460	519	569
Others	50	0	0	0	0
Total non-current assets	**228**	**279**	**460**	**520**	**569**
Accounts receivables	57	45	45	45	49
Cash	79	77	59	(40)	(17)
Inventories	14	14	14	14	15
Others	4	3	11	11	11
Total current assets	**155**	**138**	**129**	**30**	**59**
Total Assets	**383**	**418**	**589**	**550**	**628**
LIABILITIES					
Accounts payables	79	68	109	104	115
Short term loans	27	72	89	27	7
Others	6	8	8	8	8
Total current liabilities	**113**	**148**	**206**	**140**	**131**
Long term loans	14	92	107	58	65
Others	24	9	30	30	30
Total non-current liabilities	**38**	**101**	**137**	**88**	**95**
Total Liabilities	**151**	**249**	**343**	**228**	**226**
EQUITY					
Non-controlling interests	62	0	(6)	(11)	(16)
Shareholder Equity	**171**	**169**	**252**	**333**	**418**

Valuation Ratios

Y/E Jun	FY16	FY17	FY18	FY19e	FY20e
P/E (X), adj.	45.9	52.4	21.7	20.9	19.7
P/B (X)	5.4	6.4	5.2	4.0	3.2
EV/EBITDA (X), adj.	10.8	14.2	11.5	11.0	10.2
Dividend Yield	0.5%	0.6%	1.3%	1.2%	1.3%
Growth & Margins					
Growth					
Revenue	15.2%	9.5%	7.3%	9.0%	9.8%
EBITDA	15.4%	13.7%	19.8%	6.1%	8.4%
EBIT	18.7%	2.0%	41.8%	1.9%	7.9%
Net profit, adj.	-27.1%	40.3%	95.9%	2.5%	6.3%
Margins					
EBITDA margin	21.2%	22.1%	24.6%	24.0%	23.6%
EBIT margin	15.9%	14.8%	19.6%	18.3%	18.0%
Net profit, adj. margin	5.7%	7.4%	13.4%	12.6%	12.2%
Key Ratios					
ROE	12.6%	12.1%	28.8%	22.0%	18.2%
ROA	5.3%	5.1%	12.0%	11.3%	11.6%
Net Debt / (Cash)	(37)	87	137	126	89
Net Gearing (X)	Net Cash	0.52	0.56	0.39	0.22

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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