KPJ poised for more M&As

Reits will still form part of expansion programe

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KPJ Healthcare Bhd's successful transformation into an integrated healthcare player and its ability to unlock its property assets via real estate investment trusts (Reits), have placed it on a stronger footing to seek fresh opportunities.

Group managing director Datin Paduka Siti Sa'diah Sheikh Bakir said the opportunities included mergers and acquisitions (M&As). The group would also continue to look at Reits to unlock the value of its properties, she added.

She told *StarBiz* that the group's capability to undertake the whole value chain of running hospitals, from conceptualising to day-to-day operations, had spurred it to look into setting up more hospitals overseas on its own or providing its expertise to partners.

She said KPJ also planned to tap the growing health tourism sector as more foreigners sought elective surgery ranging from plastic surgery to orthopaedics.

The group's growth strategies include a focus on health tourism, export of healthcare professionals, M&As with local hospitals and selective overseas ventures.

"KPJ will continue to look at Reits as part of its expansion programme to unlock the true value of its properties. Funds raised will be used to reduce the group's gearing and seize strategic investment opportunities," she said.

Datin Paduka Siti Sa'diah Sheikh Bakri

She said KPJ's proposed disposal of seven hospital buildings and a nursing college to the Al-'Aqar KPJ REIT for RM296.4mil, was expected to be completed by year-end. The transaction involved 123 million new Al-'Aqar units at 95 sen each and RM179.52mil cash.

"Funds raised from the sale to the Al-'Aqar KPJ REIT will be used for other investments

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KPJ plans purpose-built hospital in states

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and to reduce borrowings. With the Reit exercise, the group will also be able to focus on its core activities of managing hospitals," she said.

She added that the Reits would provide the group with more resources to mobilise and look into proposals from international partners to manage and even own hospitals overseas.

On the RM179.52mil raised from the disposal, she said the funds would be used to expand via organic growth or through M&As and to reduce borrowings.

"As at June 30, the group's gearing was 0.48 times (net of cash). We anticipate that with the completion of the disposal, our gearing could be reduced to 0.35 times," she said.

Siti Sa'diah added that KPJ owned 49% of the Al-'Aqar KPJ REIT and the target for the REIT was to hold assets of more than RM1bil and still grow.

"The Reits enable us to focus more on expanding our services, as it reduces the expenditure on property maintenance and management," she said.

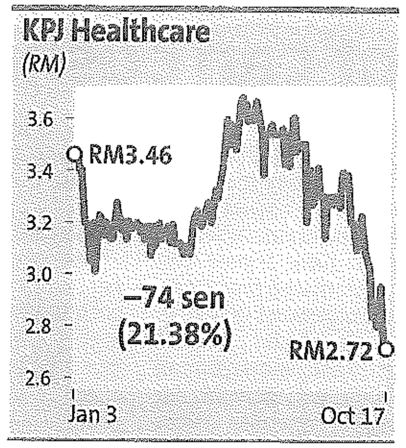
KPJ is looking into developing purpose-built hospitals in states where there is a strong demand for private healthcare services and also injecting more hospitals into the Al-'Aqar KPJ REIT.

The group, with 18 hospitals, could also leverage on its acquisitions of high-tech medical and surgical equipment as well as medicines to attract more patients.

Siti Sa'diah said KPJ allocated RM40mil to RM50mil annually as capital expenditure to upgrade the hospitals' equipment such as the magnetic resonance imaging equipment, computed axial tomography (CAT scan) and angiography sets.

"As for the physical infrastructure, we allocated about RM80mil to RM100mil for renovation, upgrading and expansion," she added.

The group is redeveloping the Tawakal Hospital in Kuala Lumpur and the new Bukit Mertajam Specialist Hospital in Penang.



KPJ is also looking at expanding the Ampang Puteri Specialist Hospital and develop the remaining one hectare there. Currently, the hospital occupies 1.2ha of the 2.2ha site in Ampang.

Siti Sa'diah is upbeat about KPJ's prospects as the group, which has been in business for 26 years, recorded RM1bil in revenue in 2007.

"However, I expect the timeframe to be shorter for the group to achieve revenue of RM2bil," she said.

The latest corporate exercise was KPJ's proposed acquisition of Pusat Pakar Kluang Utama Sdn Bhd for RM12mil.

OSK Investment Research viewed the acquisition positively as it was in line within the group's objective to widen its hospital network to locations with a growing demand for private healthcare.

The research house said KPJ had maintained its track record by nurturing three out of four unprofitable hospitals back to break even this year.

"As a result, we should see some margin improvements at the group level," it said, adding that it projected earnings to increase to RM82.8mil in the current financial year ending Dec 31 and RM92.8mil in 2009.