

# Healthy growth plan

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## KPJ earmarks M&As, REIT as strategic investments this year

KPJ Healthcare Bhd, the country's largest listed healthcare group, has earmarked mergers and acquisitions (M&As) and Islamic real estate investment trusts (REITs) in Malaysia as part of its strategic investment moves this year.

The group will also aggressively embark on new hospital management projects abroad.

Managing director Datin Paduka Siti Sa'diah Sheikh Bakir said the group was open to investment opportunities both in Malaysia and abroad.

"This is part of KPJ's ultimate goal to continue to add and create value to its shareholders," she added.

Sa'diah told StarBiz that the group welcomed stand-alone hospitals to be part of the KPJ Group to leverage on its extensive network nationwide as well as expertise in clinical and management services.

The group also plans to establish its KPJ brand abroad via exporting management expertise and supply of healthcare professionals such as nurses and healthcare managers.

KPJ started with a single entity — Johor Specialist Hospital — in the late 1970's. To-date, the group has a network of 23 hospitals — 17 nationwide, three in Indonesia, two in Jeddah, Saudi Arabia and one in Dhaka, Bangladesh.

Sa'diah said: "KPJ has grown to be the country's leading corporate healthcare hub with annual revenue exceeding RM600mil over the past five years and charting double-digit growth annually".

Success, however, does not come easy for KPJ. She said: "Like many other corporations, we were once hit by the Asian financial crisis in 1997 and 1998. We did not unnecessarily give up our non-profitable units and



Datin Paduka Siti Sa'diah Sheikh Bakir

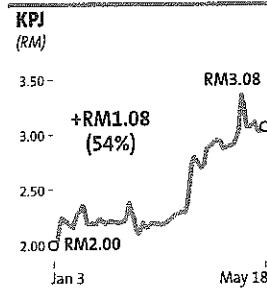
managed to persevere under the guidance of our holding company, Johor Corp".

While some may perceive the group's on-going domestic M&As as "small", she pointed out that the M&As had generated additional value, apart from the group's organ-

ic growth of 10% to 15% annually.

"We will continue to be in hot pursuit for M&As whenever the opportunity strikes. We will also expand into niche services and create centres of excellence within the hospitals," she added.

Sa'diah said KPJ had made a strong



impact in the local healthcare industry over the last five years. It had acquired and successfully turned around several private hospitals like Tawakal Hospital (Kuala Lumpur), Kuantan Specialist Hospital (Pahang), Puteri Specialist Hospital (Johor) and Bukit Mertajam Specialist Hospital (Penang).

"We are a very focussed company with an efficient operating system and a dedicated working team," she said.

To-date, the group's flagship hospitals in Malaysia include Ampang Puteri Specialist Hospital (Kuala Lumpur), Johor Specialist Hospital, Ipoh Specialist Hospital and Damansara Specialist Hospital.

KPJ has spread its wings into hospital management abroad.

"For overseas projects, KPJ doesn't need to undergo the bidding

process. Our foreign partners are convinced and satisfied with KPJ's good track record and the smooth operation of our hospitals in Malaysia," said Sa'diah.

She said KPJ had the corporate critical mass, physical resources, financial strength and competent human capital to undertake an overseas hospital management challenge.

"In fact, we can quickly assemble a professional team to undertake an international assignment," she added.

Sa'diah said the group was in the midst of talking to several potential partners in various parts of the world on potential hospital management ventures. "The recent two deals with the New Jeddah Clinic Hospital is one of the many examples where our expertise is sought after."

KPJ is now managing two hospitals in Jakarta, one in Padang, Indonesia, and another in Dhaka.


On Islamic REITs, she said KPJ would 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.

In July last year, the group injected the first six hospitals into Al-Aqar KPJ REIT, the world's first Islamic REIT. The REIT recently won the Deal of the Year 2006 award by International Finance News based in Dubai.

Meanwhile, in a filing with Bursa Malaysia on Friday, KPJ said it planned to sell its entire interest in five hospitals and car parks to Al'Aqar KPJ REIT for about RM170mil.

The disposals would result in a cashflow for the group, which will be used to reduce borrowings.

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## KPJ has upward re-rating potential

KPJ Healthcare Bhd is a major recipient of the anticipated growth in demand for private healthcare services in Malaysia.

Analysts concur that there would be more room for growth in healthcare spending in Malaysia, which is 3.4% of the total gross domestic product last year against 8.6% for OECD countries and 15.2% in the United States.

Deutsche Bank, in its latest note dated April 9, has initiated a "buy" call on KPJ with a 12-month target price of RM3.80, given the group's steady earnings growth and favourable industry dynamics.

"Key catalysts for the stock will be the delivery of strong quarterly earnings and increased foreign attention on small-cap stocks in Malaysia versus large cap stocks due to the valuation gap," it added.

Deutsche Bank said KPJ was the cheapest healthcare stock in the region. "We believe the sharp discount to its share price is unwarranted and the stock deserves a re-rating because

»We believe the sharp discount to KPJ share price is unwarranted«

DEUTSCHE BANK

investors are now buying into an enlarged group, a healthier balance sheet and a more aggressive expansion plan compared with five years ago," it said.

KPJ's major shareholder Johor Corp is also seen to be gradually reducing its stake from 72.4% at end of 2005 to 52.9% currently. This will improve the liquidity of the stock.

One real risk is a decline in purchasing power due to an economic slow-

down, which may lead to lower-than-expected number of patients visits and admissions as well as lower utilisation rates of medical facilities.

RHB Research, in its note dated March 1, maintained an "outperform" recommendation on KPJ with a target price of RM3.42. "To capitalise fully on the sector's growth potential and strengthening of its market position, KPJ will continue to grow via acquisitions and green field projects," it said.

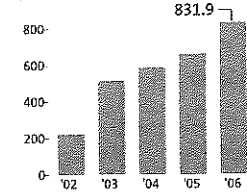
RHB Research views KPJ's management contract for two private hospitals in Saudi Arabia as highly strategic because it would open KPJ to other new markets in the Gulf region.

Credit Suisse also has an "outperform" call on KPJ. It said the group was a clear candidate for further upward re-rating. Its dividend payout of 48% also translates into an attractive dividend yield.

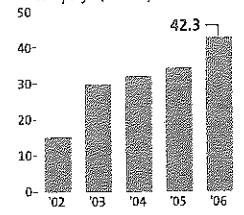
"We also raise our financial year 2007 to 2008 earnings per share forecasts by 6% to 12% due to higher sales growth assumptions," it added.

(KPJ)

Revenue (RM mil)  
1,000



Net profit (RM mil)



## Envy among its peers

Managing director Datin Paduka Siti Sa'diah Sheikh Bakir talks about KPJ's latest progress

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**STARBUZ:** The group's steady expansion has been the envy among your peers. What are KPJ's landmark deals over the past five years?

**Siti Sa'diah:** Our restructuring via injection of more hospitals into KPJ has transformed us into the largest listed healthcare company on Bursa Malaysia.

It is good to note that last year, four local and three foreign investment houses had placed KPJ on their radar screens. Many have started to upgrade KPJ to "buy" and "outperform." This is indeed a good sign.

Our local expansion via our presence in major towns in Peninsular Malaysia, Sabah and Sarawak, as well as overseas expansion in Dhaka and Jeddah are strategic moves made by the group.

In addition, our Al-Aqar KPJ REIT — the first Islamic healthcare REIT in the world — was well-received by the business fraternity.

We also take pride in our private nursing college, PNC International College of Nursing and Health Sciences, at its new purpose-built campus in Kota Seriemas in Nilai, Negri Sembilan. Over the last 15 years, PNC has produced high calibre nurses to meet organisational and national needs.

**STARBUZ:** Will the Middle East and South-East Asian hospital management businesses continue to be the group's major foray overseas?

**Siti Sa'diah:** We are open to any business ventures, depending on the feasibility and viability.

Our Middle East venture started two years ago when we formulated our overseas placement programme. The programme is actually a threat-turned-opportunity to reduce the number of nurses leaving the company to work in Saudi Arabia.

As for services, we will ensure that our staff are well-trained and continue to keep abreast with new developments in both tech-

nology and clinical advances.

We also look forward to creating and offering advanced services through our speciality centres of excellence.

**StarBiz:** How do you view prospects for the healthcare industry in Malaysia and overseas?

**Siti Sa'diah:** The potential is enormous, especially in Malaysia. There is a lot of room to grow, particularly in the various services that operators could offer.

For health tourism (both inbound and outbound), the standard of facilities and services in Malaysia is comparable with international standards, especially those with accreditation from the Malaysia Society for Quality in Health. In terms of outbound services, our nurses are well-regarded abroad for their technical skills and fluency in English.

In addition, the advancement in technology and research development in new diseases will offer an avenue for Malaysian and overseas healthcare practitioners to be more sensitive to the respective treatments available. This will also bring about more research and development in the health and healthcare industry.

**StarBiz:** What are KPJ's views on corporate social responsibility (CSR)?

**Siti Sa'diah:** KPJ is committed to giving back to society, particularly to the needy and disenfranchised. An example of our many CSR works is Klinik Waqaf An-Nur, an outpatient charity clinic with dialysis centres.

KPJ and its parent company Johor Corp have jointly set up and managed outpatient charity clinics with dialysis centres in Johor Baru, Pasir Gudang, Batu Pahat, Seremban and Sungai Buloh.

Since opening its doors to the public in 1998, Klinik Waqaf An-Nur has treated over 300,000 outpatients. This year, we plan to open clinics in Kluang and Muar in Johor, one in Ijok, Selangor, and one in Manjoi, Perak.

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