4 December 2019

Healthcare | Healthcare Services

LYC Healthcare (MEXT MK)

Not Rated

New On The Healthcare Menu

Fair Value (Return)	MYR0.44 (+42%)
Price:	MYR0.31
Market Cap:	MYR104m
Avg Daily Turnover (MYR/USD)	0.37m/0.09m

- **Our MYR0.44 fair value for this unrated stock implies a 42% upside.** We foresee an earnings turnaround for LYC Healthcare in FY21 (Mar), driven by contributions from newly-opened confinement centres – once occupancy rate critical mass is hit. Fundamentally, it is tapping into healthcare segments with high growth opportunity potential with an asset-light model that ensures shorter gestation periods. We also see various avenues to monetise the valuable branding, built on strict quality control.
- **Tapping into the right markets.** LYC is building a portfolio of premium healthcare services spanning across postpartum confinement and senior living care. It is also expanding into the fertility, baby care, and cosmetics segments. The confinement market is facing a supply shortage, given the scarcity of confinement ladies, while demand is rising for senior living nurseries due to the aging population and increasingly smaller family units. Meanwhile, the Government has now allowed Employees Provident Fund withdrawals for couples seeking fertility treatments under Budget 2020 to encourage fertility. LYC looks forward to capitalising on such opportunities with several medical centres and nursing homes coming online in CY20.
- **Asset-light model shortens gestation period.** Essentially, LYC will expand its network of medical centres using an asset-light approach – resulting in a much shorter gestation period vs other healthcare services providers. To illustrate, the average capex/bed at its confinement centres is c.MYR100k and it takes less than a year to breakeven. By comparison, a conventional hospital's average is MYR3-4m/bed and a gestation period of 3-5 years. The maiden postpartum confinement centre in Taman Tun Dr Ismail (TTDI) is fully booked, while the recently-opened Puchong branch has received encouraging take ups.
- **Monetising the valuable brand.** The premium market positioning – aimed at the high-income group – leads to the development of multiple lucrative ancillary income streams via the sale of mother & baby-related and insurance products. Meanwhile, the adherence to strict standard operating procedures – to ensure high safety and hygiene standards – should build up a valuable reputation and branding, which is one of the key consideration criteria when it comes to selecting healthcare options. We believe this will translate into higher profit margins and solid occupancy rates, resulting in increased profitability moving forward as its market presence extends.
- **Turnaround in FY21F.** LYC is likely to remain in the red in FY20. This should be due to the initial start-up costs in relation to its expansion and the new confinement centres which are not likely to contribute significantly during the year. That said, we expect profitability from FY21F onwards, once the new centres hit critical mass in occupancy rates. To sustain the momentum, the group targets 2-3 annual confinement centres (80-100 beds) to be set up and more senior living homes too. We believe the prospect of an earnings turnaround has yet to be priced in, with the current share price near its 52-week low. LYC is NOT RATED with a fair value estimated at MYR0.44 based on 20x FY21F P/E.
- **Downside risks**: lower-than-expected occupancy rates and expansion delays.

Forecasts and Valuation	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Total turnover (MYRm)	6.4	7.6	14.3	57.2	77.6
Recurring net profit (MYRm)	(5.2)	(5.9)	(5.5)	7.5	9.4
Recurring net profit growth (%)	nm	nm	nm	nm	25.5
Recurring EPS (MYR)	(0.02)	(0.02)	(0.02)	0.02	0.03
Recurring P/E (x)	nm	nm	nm	14.0	11.2
P/B (x)	4.0	4.4	4.7	3.5	2.7
P/CF (x)	nm	nm	nm	7.7	7.4
Dividend Yield (%)	-	-	-	-	-
EV/EBITDA (x)	nm	nm	62.0	8.9	5.7
Return on average equity (%)	nm	nm	nm	28.9	27.4
Net debt to equity (%)	net cash	net cash	9.0	net cash	net cash

Source: Company data, RHB

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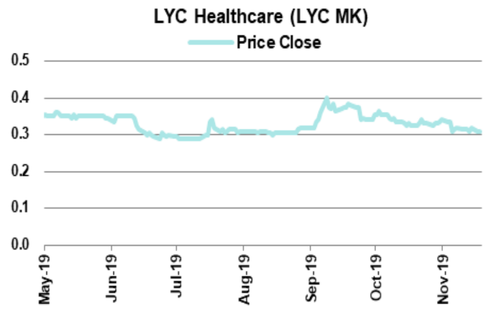
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(19.5)	(4.6)	1.6	(11.4)	(27.1)
Relative	(12.0)	(3.7)	3.6	(7.7)	(19.2)
52-wk Price low/high (MYR)					0.275 - 0.46



Source: Bloomberg

Financial Exhibits

Asia
Malaysia
Consumer
LYC Healthcare
MEXT MK Equity

Valuation basis

NA

Key drivers

i. Quick pick-up in occupancy rates;
ii. Favourable regulatory policies.

Key risks

i. Long gestation period;
ii. Delays in expansion plans.

Company Profile

LYC provides healthcare services. The group offers mother & child centre, child specialist, family clinic, and senior living services. These include recovery and wellness therapies, postnatal yoga, specialised confinement meals, nursery care, and other related services.

Financial summary	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Recurring EPS (MYR)	(0.02)	(0.02)	(0.02)	0.02	0.03
DPS (MYR)	-	-	-	-	-
BVPS (MYR)	0.08	0.07	0.07	0.09	0.12
ROE (%)	nm	nm	nm	28.9	27.4

Valuation metrics	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Recurring P/E (x)	nm	nm	nm	14.0	11.2
P/B (x)	4.0	4.4	4.7	3.5	2.7
FCF Yield (%)	nm	nm	nm	3.5	7.1
Dividend yield (%)	-	-	-	-	-
EV/EBITDA (x)	nm	nm	62.0	8.9	5.7

Income statement (MYRm)	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Total turnover	6.4	7.6	14.3	57.2	77.6
Gross profit	1.9	1.7	4.6	20.0	27.2
EBITDA	(2.9)	(6.3)	1.7	11.4	17.0
Depreciation & amortisation	(0.3)	(0.9)	(1.3)	(3.0)	(4.3)
Operating profit	(3.2)	(7.2)	(5.6)	8.4	12.7
Net interest	(0.1)	0.1	0.1	(0.1)	0.0
Pre-tax profit	(3.3)	(7.6)	(5.5)	8.3	13.7
Taxation	(0.1)	(0.0)	-	-	(3.4)
Net profit	(5.2)	(5.9)	(5.5)	7.5	9.4
Recurring net profit	(5.2)	(5.9)	(5.5)	7.5	9.4

Cash flow (MYRm)	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Change in working capital	3.8	0.1	4.1	2.9	0.3
Cash flow from operations	(2.4)	(4.1)	(0.2)	13.6	14.0
Capex	(6.6)	(3.1)	(15.0)	(10.0)	(10.0)
Cash flow from investing activities	(8.7)	(7.9)	(15.0)	(10.0)	(10.0)
Dividends paid	-	-	-	-	-
Cash flow from financing activities	15.8	7.4	8.2	(2.1)	(3.0)
Cash at beginning of period	5.3	8.0	10.1	3.1	5.3
Net change in cash	4.7	(4.5)	(7.0)	1.5	1.1
Ending balance cash	8.0	10.1	3.1	5.3	7.3

Balance sheet (MYRm)	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Total cash and equivalents	8.0	10.1	3.1	5.3	7.3
Tangible fixed assets	11.6	27.3	41.1	48.1	53.8
Total investments	0.3	-	-	-	-
Total assets	31.2	42.3	46.2	60.5	70.7
Short-term debt	0.1	0.1	0.1	0.1	0.1
Total long-term debt	1.8	1.7	5.0	3.0	-
Total liabilities	11.7	19.4	24.0	30.0	29.8
Total equity	19.5	22.9	22.2	30.5	40.9
Total liabilities & equity	31.2	42.3	46.2	60.5	70.7

Key metrics	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Revenue growth (%)	-84.4	18.6	87.6	301.0	35.7
Recurrent EPS growth (%)	160.2	14.4	-6.9	-236.3	25.5
Gross margin (%)	29.8	22.1	32.0	35.0	35.0
Operating EBITDA margin (%)	nm	nm	12.0	20.0	21.9
Net profit margin (%)	nm	nm	nm	13.1	12.2
Capex/sales (%)	102.2	40.5	105.2	17.5	12.9
Interest cover (x)	nm	nm	nm	38.3	146.7

Source: Company data, RHB

Financial Summary

LYC is likely to incur losses in FY20F due to initial start-up costs in relation to its expansion and new confinement centres which are not likely to provide significant contributions at this point, given the time required to ramp up the occupancy rates.

As the group's IT business is also not contributing losses, management has no plans to dispose of this division. It actually sees the potential of integrating this wing with the healthcare business at some point.

Profitability should kick in from FY21 onwards, once the new centres hit critical mass in terms of occupancy rates. We project the confinement segment to contribute 39% of FY21 revenue, followed by fertility (31%), and senior living (20%). Typically, a new confinement centre breaks even upon hitting an occupancy rate of 55%, according to management.

We understand that the maiden postpartum confinement centre in TTDI is fully booked, while the recently-opened Puchong branch has received encouraging take ups. Additionally, the new centre at Bukit Jalil should provide a substantial uplift to bed capacity (2x) – consequently, a fast pick-up in occupancy rates will be a major boost to earnings.

Note that we project an occupancy rate of 80% for the Bukit Jalil centre and 85% for the other two. To be more conservative, we only assume the flat basic room rates – this is without factoring in any ancillary income and higher-tier room rates. To sustain the momentum, LCY targets 2-3 annual additions in terms of new confinement centres (80-100 beds) moving forward, as well as more senior living homes if the opportunities arise.

Downside risks include lower-than-expected occupancy rates and expansion delays.

Figure 1: Portfolio of medical centres

Segment	Location	Capacity Pax	Commencement date	Key drivers
Confinement	Plaza VADS, TTDI	33	Apr-18	Supply scarcity of confinement services.
	The Prime, Puchong	29	Sep-19	Demand for confinement services with high-quality standards.
	Aurora Place, Bukit Jalil	61	Feb-20	
Senior living	Jalan Gallagher	41	Dec-18	Aging population demographic.
	Kenny Hills	51	Mar-20	Higher participation in the labour force among women.
	Home delivery	100	Feb-20	Smaller family unit size.
Baby day care	TTDI	85	Feb-20	Higher participation in the labour force among women.
	Puchong	21	Feb-20	The increasing younger generation with double income family.
Family clinic	TTDI	N/A	Dec-18	
Fertility	University Malaya Medical Centre (UMMC)	N/A	Dec-19	Medical tourism – Malaysia as a destination has grown 16-17% annually in past five years vs the global average of 10-12%. The Government's intention to drive fertility.
Cosmetic	Wisma Life Care, Bangsar South	N/A	Jan-20	Medical tourism – Malaysia as a destination has grown 16-17% annually in past five years vs the global average of 10-12%. Increasing demand for cosmetic and aesthetic procedures

Source: Company

Valuation

Healthcare stocks are scarce and command premium valuations in Malaysia, given the sector's resilient nature and operations scalability. We highlight TMC Life (TMCL MK, NR) – despite being the smallest cap healthcare stock, this counter is trading at a historical P/E of 40x.

By pegging 20x P/E to FY21F EPS, we estimate LYC's fair value at MYR0.44. This still represents a sizeable 50% discount to TMC Life, as well as reflecting LYC's smaller market capitalisation and loss-making position. Valuations could further re-rate when earnings kick in by FY21.

We highlight that the share price is not far off from the 52-week low, as earnings have yet to effectively kick in despite the positive prospects. Notably, three tranches of placements – involving 12m new shares – were transacted at MYR0.30-0.32 so far in 2019. The proceeds were earmarked for LYC's expansion, as management has opted to keep the balance sheet light.

Figure 2: Peers comparison based on consensus' numbers

Company	Country	Market cap (USDm)	P/E (x)			Div yield (%)	ROE (%)	P/BV (x)	EV/EBITDA	NP growth (%)	
			Actual	1Y Fwd	2Y Fwd	1Y Fwd	1Y Fwd	1Y Fwd	1Y Fwd	1Y Fwd	2Y Fwd
Local											
IHH Healthcare	MY	11,738	11,344	84.5	48.6	38.6	0.8	2.0	19.1	73.9	25.8
KPJ Healthcare	MY	937	937	21.1	21.2	19.3	2.1	2.1	11.9	-0.8	9.8
TMC Life Sciences	MY	270	267	39.3	NA	NA	NA	NA	NA	NA	NA
Regional											
Bangkok Dusit	TH	12,635	12,912	45.4	39.8	35.8	0.4	4.8	22.4	14.1	11.0
Ramsay Healthcare	AU	10,055	10,202	26.8	25.5	23.8	13.2	5.3	10.2	5.1	7.2
Bumrungrad Hospital	TH	3,127	3,250	25.3	25.4	24.7	0.7	4.9	15.3	-0.4	2.6
Mitra Keluarga	IND	2,719	2,714	62.9	54.5	48.7	0.0	8.7	35.9	15.5	11.9
Apollo Hospitals	IN	2,715	2,750	81.4	54.5	39.2	10.5	5.5	15.7	49.4	39.1
Mkt. Cap Weighted Avg.			**52.5**	**39.1**	**33.6**	**1.4**	**4.2**	**4.4**	**18.4**		

Source: Bloomberg

Company Overview

Company background

LYC – formerly known as Mexter Technology – ventured into the healthcare business in 2017 by providing mother & childcare-related services. This include:

i. Postnatal and postpartum care;
ii. Post-delivery confinement care;
iii. Child specialists;
iv. Family clinic and aesthetics.

On 30 Oct 2018, in a move to streamline its investment portfolio, the group divested its entire 80% shareholding in Mexcomm Group. The latter operates mobile services businesses in Malaysia and Thailand. This allowed LYC to exit from its loss-making mobile services business, as well as stem further losses to the group.

Furthermore, this move was in line with its strategic plan to focus and expand its healthcare services segment. Concurrently, LYC's remaining IT business was retained, as it was not incurring losses. Management believes there is still value in this business.

Figure 3: LYC's portfolio of healthcare services

Source: Company

Various healthcare centres

Figure 4: TTDI confinement centre

Source: Company

Figure 5: VIP room

Source: Company

Figure 6: LYC Senior Living, Kenny Hills

Source: Company

Figure 7: LYC Senior Living, Jalan Gallagher

Source: Company

Figure 8: Baby day-care centre

Source: Company

Figure 9: Fertility centre

Source: Company

Key Management Team

LYC is aggressively expanding its healthcare services and portfolios, and is backed by a strong management team of investment and healthcare professionals:

i. **Sui Diong Hoe, Managing Director/Group CEO,** was appointed to the board on 12 Jul 2016. He is an associate member of the Association of Chartered Certified Accountants and Malaysian Institute of Accountants. Sui has been a practicing accountant since 1983, providing management, corporate, and other related services;

ii. **Dr June Yang, Healthcare Division Head,** has considerable experience in healthcare management and patient services for more than 20 years in Singapore and Malaysia. In addition, she has been actively involved in all aspects of the establishment of LYC's medical centres. Dr Yang was previously the Group Chief Operating Officer and board Member of HSC Medical Centre between 2011 and 2016;

iii. **Ahmad Rafique bin Mat Tahir, Group COO,** began his career at CIMB Investment Bank and subsequently joined TAEL Partners in 2014. During his tenure at the aforementioned firms, he was involved in the analysis on potential investee companies. He also formulated and structured corporate finance transactions, conducted financial due diligence, and generated of investment ideas;

iv. **Soh Hoo Hong, Project Management Division CEO,** is responsible for the overall strategic direction and business planning for LYC Living's principle business. He started his career as an architect and subsequently served under Malton and Pan Asia Project Management in similar roles. He eventually became the business development director of Pavilion, Malton, and Pan Asia in 2005 until Dec 2018;

v. **Chong Siew Fong, ICT and Electronics Engineering Division Head,** graduated from Stamford College with a Chartered Institute of Marketing. She has a total of 29 years of experience in the IT, industrial semiconductor, and automation products distribution businesses.

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Not Rated:	Stock is not within regular research coverage

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