# KPJ Healthcare Berhad

(5878 | KPJ MK) | Health Care| Health Care Providers

***Maintain* BUY**

**Increased patient visits, BOR pushed earnings up**

***Revised* Target Price: RM RM1.18**

*(previously RM1.14)*

## KEY INVESTMENT HIGHLIGHTS

- **KPJ Healthcare's earnings surge >100%yoy to RM27m from higher inpatient visits and BOR**
- **Revenue rose up by +12%yoy to RM708m; offset by impact of Covid-19 Omicron cases**
- **Earnings came above expectations**
- **Revised FY23-24 earnings forecast up by 3% and 10%**
- **Maintain BUY with revised TP of RM1.18 per share**

**Profit jumped nearly 3-fold.** KPJ Healthcare (KPJ) reported a rise in 2QFY22 earnings by >100%yoy to RM27.1m from RM7m in 2QFY22, and +22.1%qoq from RM22.2m in the previous quarter. For the cumulative first half, earnings surged +147.3%yoy to RM49.3m – which came in above our one-year earnings expectations by +11%.

**Revenue up by 12%yoy.** Revenue rose up by +11.8%yoy and +8.7%qoq to RM707.6m. For the cumulative 1HFY22, earnings increased +9.7%yoy to RM1.36b.

**Malaysian operations.** KPJ's Malaysian operations rose up in revenue by +12.9%yoy and +9.8%qoq to RM678.8m. Meanwhile, earnings increased by +115%yoy and +22.2%qoq to RM58.3m. For the cumulative first half, revenue and earnings gained by +10.3%yoy to RM1.3b and by +77.6%yoy to RM106.1m respectively.

**Other operations.** This segment recorded a decline in revenue by -5.5%yoy and -10.8%qoq to RM32.6m. Meanwhile, earnings came in slightly higher from deficits of -RM13m in 2QFY21 but lower from -RM9.6m in 1QFY22, to a deficit of -RM12.6m. Cumulatively for 1HFY22, revenue rose up marginally by +0.1%yoy to RM69.2m, while profit gained about +12.6%yoy to a deficit of -RM22.2m. The performance in the current financial period correlates with the decrease in revenue and higher expenses incurred. Despite the improvement in the Indonesian operations for the current financial period, the overall performance for others segment has been moderated by Jeta Gardens. Jeta Gardens reported -11%yoy decrease in revenue to RM11.7m, in line with the decrease in the occupancy rate to 85% from 89% in 2QFY21. Additionally, higher staff costs and professional fees incurred during the period, which led to a profit loss of -36.5%yoy to RM6.3m.

| RETURN STATISTICS | |
|---|---|
| Price @ 29th August 2022 | 0.88 |
| Expected share price return (%) | +34.1 |
| Expected dividend yield (%) | +2.5 |
| **Expected total return (%)** | **+36.6** |

**SHARE PRICE CHART**



| Share price performance (%) | Absolute | Relative |
|---|---|---|
| 1 month | 1.1 | 0.5 |
| 3 months | 5.4 | 0.5 |
| 12 months | -12.0 | -6.2 |

| KEY STATISTICS | |
|---|---|
| FBM KLCI | 1,501.57 |
| Syariah compliant | Yes |
| F4GBM Index | Yes |
| ESG Grading Band | ☆☆☆ |
| Issues shares (m) | 4326.85 |
| Estimated free float (%) | 29.87 |
| Market Capitalisation (RM'm) | 3,822.02 |
| 52-wk price range | RM0.8 - RM1.3 |
| Beta vs FBM KLCI (x) | 0.71 |
| Monthly velocity (%) | 3.89 |
| Monthly volatility (%) | 18.56 |
| 3-mth average daily volume (m) | 1.65 |
| 3-mth average daily value (RM'm) | 1.41 |
| Top Shareholders (%) | |
| Johor Corp | 35.59 |
| Employees Provident Fund Board | 12.73 |
| Waqaf An Nur Corp Bhd | 7.10 |

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**Table 1: KPJ's Patient Visits, BOR and Surgery Cases (2Q22 v. 2Q21, 1H22 v. 1H21)**

| Total Operations | 2Q21 | 2Q22 | Variance % | 1H21 | 1H22 | Variance % |
|---|---|---|---|---|---|---|
| Patient Visits | 758,629 | 802,840 | 5.8 | 1,471,176 | 1,615,560 | 9.8 |
| Bed Occupancy Rate (BOR) | 41% | 51% | 10.0 | 40% | 51% | 11.0 |
| **Malaysian Operations** | **2Q21** | **2Q22** | **Variance %** | **1H21** | **1H22** | **Variance %** |
| Patient Visits | 709,268 | 739,511 | 4.3 | 1,370,419 | 1,484,849 | 8.3 |
| Bed Occupancy Rate (BOR) | 41% | 56% | 15.0 | 41% | 52% | 11.0 |
| Surgeries | 19,738 | 22,679 | 14.9 | 38,759 | 43,556 | 12.4 |
| **Indonesian Operations** | **2Q21** | **2Q22** | **Variance %** | **1H21** | **1H22** | **Variance %** |
| Patient visits | 29,575 | 52,046 | 76.0 | n/a | n/a | n/a |
| Surgeries | 617 | 1,137 | 84.3 | n/a | n/a | n/a |

*Source: Company, MIDFR*

**Balance sheet.** As of 2QFY22, KPJ's total assets stood at RM6.78b; +13%yoy higher. The increase is attributed to the recalculation of right-of-use for 6 hospitals that renewed their lease agreement with Al-'Aqar Healthcare REIT in CY21 and the recognition of new ROU assets in Damansara Specialist Hospital 2 (DSH2). Net cash from operations increased +60%yoy to RM195m, as the transition to the endemic phase saw the increase in activities in the hospitals as well as an increase of patient traffic. Cash outflow is mainly for the expansion of its hospitals and purchase of new assets in KPJ Puteri, KPJ Selangor, KPJ Seremban and KPJ Ampang Puteri. The cash inflows mainly comprised of dividends received from Al-'Aqar Healthcare REIT amounting to RM10.2m, and drawdown of borrowings of RM798.1m

**Pandemic over, patient returns.** The Malaysian economy is anticipated to continue to grow in 2HCY22, as the transition into the endemic phase had begun nationwide. Given that the Malaysian government continues to place a high priority on healthcare spending and that Bank Negara anticipates this year's GDP to grow by 5.3% to 6.3%, KPJ anticipates that the healthcare sector will continue to play a key role in the nation's economic recovery. Additionally, demand for healthcare services due to rising mental and physical healthcare awareness is expected to rise; more so as the healthcare sector is now focusing more on preventative care than merely hospitalisation. To meet the rising patient demand and continuously enhance the quality of patient treatment, KPJ will continue to raise its current capacity.

**Dividend**. KPJ announced its second interim dividend of 0.25sen per share which is paid on July CY22 – making the total dividend for FY22 thus far to RM19.54m.

**Revised FY22-FY23 earnings estimates.** Considering that KPJ's recent financial performance, in addition to its new DSH2 commencing operations in 3QCY22, we revise our FY23 and FY24 earnings forecast upward by +3% and +10% respectively. As we rollover to FY23, we **revise our target price to RM1.18** (previously RM1.14); pegging a PER of 40.1x to the revised EPS23 of 2.9sen. The PER is based on the 5-year average PER of the hospital and healthcare services subsector.

**Maintain BUY.** All in, we maintain our call on KPJ to a **BUY** recommendation with a new **TP of RM1.18 per share.** The reopening of borders within the country and internationally, had shown its impact through outpatient and inpatient visits, BOR, as well as surgery and invasive treatments. We opine that CY22 will continue to be favourable for KPJ on the basis of: higher demand for hospital care and treatments, (ii) improving medical tourism, (iii) rising demand for elective medical procedures, (iv) demographic shift to a growing aging population, and (v) continuous utilisation of digital healthcare for its day-to-day operations. Nevertheless, risks to KPJ's near-term operations are: (i) growing inflation and interest rates hikes, (ii) unpredictable global economy and market movement, and (iii) supply chain disruption from increasing prices of equipment and medicine. Nevertheless, we maintain to be positive of KPJ's prospects.

## INVESTMENT STATISTICS

| Financial year ending 31st December (in RM'm unless stated otherwise) | 2020A | 2021A | 2022E | 2023F | 2024F |
|---|---|---|---|---|---|
| Revenue | 2,397.4 | 2,626.8 | 2,852.4 | 3,213.3 | 3,531.7 |
| Cost of Sales | (1,494.9) | (1,686.8) | (1,487.9) | (1,697.6) | (1,856.4) |
| **Gross profit** | 902.6 | 940.1 | **1,364.5** | **1,515.7** | **1,675.2** |
| Finance Borrowings | (94.3) | (90.5) | (114.1) | (112.5) | (106.0) |
| Finance Costs | (69.6) | (76.7) | (54.2) | (61.1) | (67.1) |
| **Profit before tax** | 150.8 | 115.6 | **223.5** | **246.5** | **297.9** |
| Income tax expense | (40.0) | (49.9) | (81.3) | (89.2) | (110.2) |
| **PATANCI (RM'm)** | **110.4** | **51.0** | **119.8** | **132.6** | **157.9** |
| GP margin (%) | 37.6 | 35.8 | 47.8 | 47.2 | 47.4 |
| PBT Margin (%) | 6.3 | 4.4 | 7.8 | 7.7 | 8.4 |
| PATANCI margin (%) | 4.6 | 1.9 | 4.2 | 4.1 | 4.5 |
| EPS (sen) | 2.5 | 1.1 | 2.7 | 2.9 | 3.5 |
| EPS growth (%) | (47.8) | (55.2) | 134.4 | 10.7 | 19.1 |
| PER (x) | 44.8 | 100.0 | 44.4 | 40.1 | 33.7 |
| Dividend per share (sen) | 1.2 | 0.6 | 2.5 | 3.0 | 4.0 |
| Dividend yield (%) | 1.1 | 0.5 | 2.1 | 2.5 | 3.4 |

*Source: Company, MIDFR*

## Table 2: KPJ's quarterly earnings review

| Financial year ending 31st December (in RM'm unless otherwise stated) | Quarterly results | | | | | Cumulative results | | |
|---|---|---|---|---|---|---|---|---|
| | 2QFY21 | 1QFY22 | 2QFY22 | QoQ(%) | YoY (%) | 1HFY21 | 1HFY22 | YoY (%) |
| **Revenue** | **632.8** | **651.0** | **707.6** | 8.7 | 11.8 | **1,238.8** | **1,358.6** | 9.7 |
| Cost of sales | (407.6) | (404.6) | (427.5) | 5.7 | 4.9 | (792.4) | (832.1) | 5.0 |
| **Gross Profit** | **225.2** | **246.4** | **280.1** | 13.7 | 24.3 | **446.4** | **526.5** | 17.9 |
| Admin Expenses | (184.2) | (173.2) | (202.2) | 16.8 | 9.8 | (355.6) | (375.4) | 5.6 |
| Other Income | 5.0 | 4.1 | 4.3 | 5.5 | (13.1) | 10.5 | 8.4 | (20.1) |
| Zakat | (0.9) | (0.3) | (1.0) | 220.9 | 11.6 | (1.1) | (1.3) | 18.1 |
| **Operating Profit** | **45.1** | **77.0** | **81.2** | 5.4 | 80.0 | **100.2** | **158.2** | 57.8 |
| Finance Income | 2.4 | 2.9 | **4.2** | 44.5 | 73.6 | 5.2 | 7.2 | 38.9 |
| Finance Borrowings | (22.0) | (24.1) | **(25.9)** | 7.6 | 17.9 | (46.1) | (50.1) | 8.6 |
| Finance Costs: Lease Liabilities | (17.7) | (25.4) | (25.9) | 2.2 | 46.6 | (36.0) | (51.3) | 42.3 |
| Associates | 6.3 | 7.7 | 12.2 | 58.7 | 92.9 | 11.1 | 19.9 | 79.7 |
| **Profit Before Tax** | **14.2** | **38.1** | **45.8** | 20.0 | 222.7 | **34.3** | **83.9** | 144.3 |
| Taxation | (5.4) | (11.8) | (15.8) | 34.7 | 191.6 | (10.4) | (27.6) | 166.8 |
| **Profit After Tax** | **8.8** | **26.4** | **29.9** | 13.5 | 241.9 | **24.0** | **56.3** | 134.7 |
| Minority Interest | 1.8 | 4.2 | 2.8 | (32.4) | 57.5 | 4.1 | 7.0 | 72.9 |
| **PATANCI** | **7.0** | **22.2** | **27.1** | 22.1 | 289.5 | **19.9** | **49.3** | 147.3 |
| Basic EPS (sen) | 0.2 | 0.5 | 0.6 | 23.5 | 270.6 | 0.5 | 1.1 | 142.6 |
| Diluted EPS (sen) | 0.2 | 0.5 | 0.6 | 22.0 | 281.3 | 0.5 | 1.1 | 146.7 |
| Dividend per share (sen) | - | 0.2 | 0.3 | 25.0 | nm | - | 0.5 | nm |
| | | | | *+/(-) ppts* | | | | *+/(-) ppts* |
| GP margin (%) | 35.6 | 37.9 | 39.6 | 1.7 | 4.0 | 36.0 | 38.8 | 2.7 |
| Operating Profit margin (%) | 7.1 | 11.8 | 11.5 | (0.4) | 4.3 | 8.1 | 11.6 | 3.6 |
| PBT margin(%) | 2.2 | 5.9 | 6.5 | 0.6 | 4.2 | 2.8 | 6.2 | 3.4 |
| PAT margin(%) | 1.4 | 4.1 | 4.2 | 0.2 | 2.8 | 1.9 | 4.1 | 2.2 |
| PATANCI margin(%) | 1.1 | 3.4 | 3.8 | 0.4 | 2.7 | 1.6 | 3.6 | 2.0 |
| Effective Tax rate (%) | 38.3 | 30.9 | 34.6 | 3.8 | (3.7) | 30.1 | 32.9 | 2.8 |

*Source: Company, MIDFR*

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| **MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS** | |
|---|---|
| **STOCK RECOMMENDATIONS** | |
| BUY | Total return is expected to be >10% over the next 12 months. |
| TRADING BUY | Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow. |
| NEUTRAL | Total return is expected to be between -10% and +10% over the next 12 months. |
| SELL | Total return is expected to be <-10% over the next 12 months. |
| TRADING SELL | Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow. |
| **SECTOR RECOMMENDATIONS** | |
| POSITIVE | The sector is expected to outperform the overall market over the next 12 months. |
| NEUTRAL | The sector is to perform in line with the overall market over the next 12 months. |
| NEGATIVE | The sector is expected to underperform the overall market over the next 12 months. |
| **ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell** | |
| ☆☆☆☆ | Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆☆☆ | Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆☆ | Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆ | Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology