KPJ Healthcare Berhad

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

***Maintain* BUY**

KPJ to leverage on high demand for medical tourism

***Revised* Target Price: RM RM1.39**

(previously RM1.18)

KEY INVESTMENT HIGHLIGHTS

- **KPJ Healthcare's earnings surged >100%yoy to RM27m from higher inpatient visits and BOR, opening of DSH2**
- **Revenue rose +16%yoy to RM708m; offset by Jeta Gardens and KPJ Dhaka**
- **Medical tourism on recovery**
- **Revised FY23-24 earnings forecast up by 31% and 50%**
- **Maintain BUY with revised TP of RM1.39 per share**

Profit jumped nearly 4-fold. KPJ Healthcare (KPJ) reported a rise in 3QFY22 earnings by >100%yoy to RM54.3m from RM12.6m in 3QFY21, and RM27.1m in the previous quarter. For the cumulative 9-months, earnings surged +258.3%yoy to RM116.7m – which came in above our one-year earnings expectations at 97.4%. This was due to the increase in patient visits and bed occupancy rate (BoR). Additionally, its newly opened Damansara Specialist Hospital 2 in Sept 2022 has started contributed to its quarterly earnings.

Revenue up by 16%yoy. Revenue rose up by +15.8%yoy and +14.4%qoq to RM809.2m. For the cumulative 9-months, revenue gained +11.9% to RM2.17b. Growing hospital activities and improved confidence after the lifting of border movement control contributed to the increase in revenue.

Malaysian operations. KPJ's Malaysian operations revenue rose by +16.9%yoy and +14.2%qoq to RM775.2m. Meanwhile, earnings increased by +91.6%yoy and +83.4%qoq to RM107m. For the cumulative 9-months, revenue and earnings gained by +12.7%yoy to RM2.07b and by +84.4%yoy to RM213.1m respectively. Apart from the improved hospital activities, improvement in the share of profit from associates also contributed to the better result in its Malaysian front.

Other operations. This segment recorded a decline in revenue by -3.7%yoy but added +15.9%qoq to RM37.8m. Meanwhile, earnings came lower by -19.4%yoy and -17.5%qoq to a deficit of -RM14.8m. Cumulatively for 9-months, revenue lost -1.3%yoy to RM107m, while profit gained +2.1%yoy to a deficit of -RM37m. Indonesia's improved operations was offset by lower results in its Australian (Jeta Gardens) and Bangladeshi (KPJ Dhaka) operations. Year-on-year, Jeta Gardens' occupancy rate reduced to 85% from 89% while KPJ Dhaka's BoR declined to 71% against 88%, due to a decrease in revenue and higher expenses incurred.

RETURN STATISTICS	
Price @ 25th November 2022	0.98
Expected share price return (%)	+42.6
Expected dividend yield (%)	+2.2
Expected total return (%)	**+44.8**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	20.4	17.2
3 months	23.4	11.8
12 months	-6.2	-4.6

KEY STATISTICS	
FBM KLCI	1,486.54
Syariah compliant	Yes
F4GBM Index	Yes
ESG Grading Band	☆☆☆
Issues shares (m)	4326.85
Estimated free float (%)	29.09
Market Capitalisation (RM'm)	4,234.64
52-wk price range	RM0.78 - RM1.17
Beta vs FBM KLCI (x)	0.77
Monthly velocity (%)	3.89
Monthly volatility (%)	1.64
3-mth average daily volume (m)	1.39
3-mth average daily value (RM'm)	1.41
Top Shareholders (%)	
Johor Corp	35.59
Employees Provident Fund Board	13.52
Waqaf An Nur Corp Bhd	7.10

MIDF Research
research@midf.com.my

Table 1: KPJ's Patient Visits, BOR and Surgery Cases for 3QFY22

Total Operations	3Q21	3Q22	Variance %	9M21	9M22	Variance %
Patient Visits	782,732	910,995	+16.4	2,253,908	2,526,555	+12.1
Bed Occupancy Rate (BOR)	43%	64%	+21.0	41%	55%	+11.0
Surgeries	21,644	26,395	+22.0	38,759	43,556	+12.4
Malaysian Operations	**3Q21**	**3Q22**	**Variance %**	**9M21**	**9M22**	**Variance %**
Patient Visits	714,321	836.377	+17.0	2,084,740	2,321,226	+8.3
Bed Occupancy Rate (BOR)	44%	66%	+22.0	41%	52%	+11.0

Source: Company, MIDFR

Successful launch of DSH2. In Sept 2022, KPJ opened DSH2, which had contributed to its financial performance in the reporting quarter. The hospital boasted a new concept to reduce gestation period, starting with at least 9 insurance panel-ship obtained during its launch. For the reduced span of a gestation period to 3 years, DSH2 is expected to expand its capacity up to 265 beds, with services expansion and intensity to be focused on its: (i) Cardiac & Neuro Centre, (ii) Orthopedics & Traumatology Centre, and (iii) Gastroenterology & Endoscopy Procedures.

Medical tourism on recovery. KPJ reported in its analyst briefing on 25 Nov 2022 that its revenue for medical tourism had significantly increase +53% to RM93.1m from a year prior, signalling the surging return of health tourists into local hospitals for treatments. YTD, 61% of the health tourist consists of foreign expatriate and 39% are health travellers. In line with the growth, KPJ had developed a health tourism ecosystem with 11 hospitals designated to cater to health tourists. Medical tourism in Malaysia is currently contributing about RM11b, and is expected to grow with 10-year average CAGR of 7%. Tourists are expected to be from Indonesia, India, Singapore, Japan, and Australia, as well as countries in Europe, Americas and the Middle East. Medical tourists seek treatments and procedures, which included but not limited to, NCD treatments, cosmetic surgery, dental, reproduction treatments and organ transplants. The growth of medical tourism in Malaysia is leveraged on: (i) cutting-edge technology, (ii) faster equipment supply clearance, (iii) high government expenditure on healthcare and (iv) generally affordable treatment cost. The challenge to the medical tourism industry continues to be the scarcity of follow-up care. However, with KPJ's international affiliation and subsequent expansion, could mitigate this risk and continue to leverage on the care chain further. In line with the return to pre-pandemic levels and in mutual collaboration with the Malaysian Health Tourism Council (MHTC), we believe KPJ will leverage on this recovery in the near to mid-term.

Back to pre-pandemic levels. The reopening of international borders and the shift into endemicity have both positively impacted positively on the healthcare sector, with elective medical treatments and health tourism increasing in demand. As such, KPJ has return to performing on its pre-pandemic level, and is anticipated to maintain this momentum for the remainder of the year. The group will keep increasing its capacity in order to meet the rise in patient demand and continuously enhance the provision of patient care. The group's expansion will be accelerated by the inauguration of DSH2 as its flagship hospital and divestments of its Indonesian operations and Jeta Gardens, as well as its plans for KPJ University and Ambulatory Care Centres to add value to its workforce and care quality in the near future.

Revised FY22-FY23 earnings estimates. Considering that KPJ's recent financial performance returning to pre-pandemic levels, in addition to its new DSH2 commencing operations in 3QCY22, we revise our FY23 and FY24 earnings forecast upward by +32% and +50% respectively. As such, we **revise our target price to RM1.39** (previously RM1.18); pegging a PER of 36x to the revised EPS23 of 3.9sen. 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 RM1.39 per share.** We reiterate our positive stance on KPJ on the basis of: (i) demand recovery for hospital care and services, (ii) full recovery of medical tourism, (iii) rising demand for elective medical procedures, (iv) a growing aging population, and (v) increase in government grants for the healthcare sector for CY23. 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.

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	2,976.0	3,213.3	3,673.2
Cost of Sales	(1,494.9)	(1,686.8)	(1,527.8)	(1,697.6)	(1,902.1)
Gross profit	902.6	940.1	**1,448.2**	**1,515.7**	**1,771.1**
Finance Borrowings	(94.3)	(90.5)	(89.3)	(96.4)	(110.2)
Finance Costs	(69.6)	(76.7)	(56.5)	(61.1)	(69.8)
Profit before tax	150.8	115.6	**287.6**	**423.2**	**430.4**
Income tax expense	(40.0)	(49.9)	(97.2)	(206.3)	(150.1)
PATANCI (RM'm)	**110.4**	**51.0**	**161.7**	**174.6**	**237.2**
GP margin (%)	37.6	35.8	48.7	47.2	48.2
PBT Margin (%)	6.3	4.4	9.7	13.2	11.7
PATANCI margin (%)	4.6	1.9	5.4	5.4	6.5
EPS (sen)	2.5	1.1	3.6	3.9	5.3
EPS growth (%)	(47.8)	(55.2)	216.3	8.0	35.9
PER (x)	44.8	100.0	38.7	35.9	26.4
Dividend per share (sen)	1.2	0.6	2.5	3.0	4.0
Dividend yield (%)	1.1	0.5	1.8	2.2	2.9

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		
	3QFY21	2QFY22	3QFY22	QoQ(%)	YoY (%)	9MFY21	9MFY22	YoY (%)
Revenue	**699.0**	**707.6**	**809.2**	14.4	15.8	**1,937.7**	**2,167.7**	11.9
Cost of sales	(452.9)	(427.5)	(471.0)	10.2	4.0	(1,245.3)	(1,303.1)	4.6
Gross Profit	**246.0**	**280.1**	**338.2**	20.8	37.5	**692.4**	**864.7**	24.9
Admin Expenses	(170.7)	(202.2)	(220.1)	8.8	28.9	(526.3)	(595.5)	13.2
Other Income	6.9	4.3	5.7	31.6	(18.4)	17.4	14.1	(19.4)
Zakat	(0.3)	(1.0)	(0.2)	(81.0)	(47.3)	(1.4)	(1.5)	2.1
Operating Profit	**82.0**	**81.2**	**123.6**	52.3	50.8	**182.2**	**281.8**	54.7
Finance Income	1.6	4.2	**2.3**	(46.7)	38.1	6.8	9.4	38.7
Finance Borrowings	(21.8)	(25.9)	**(22.1)**	(14.8)	1.3	(67.9)	(72.2)	6.3
Finance Costs: Lease Liabilities	(21.8)	(25.9)	(25.4)	(2.1)	16.2	(57.9)	(76.7)	32.5
Associates	3.5	12.2	13.8	12.7	294.5	14.6	33.7	131.1
Profit Before Tax	**43.4**	**45.8**	**92.2**	101.3	112.2	**77.8**	**176.1**	126.4
Taxation	(25.5)	(15.8)	(31.8)	100.4	24.6	(35.8)	(59.4)	65.6
Profit After Tax	**17.9**	**29.9**	**60.4**	101.8	236.9	**41.9**	**116.7**	178.4
Minority Interest	5.3	2.8	6.1	114.9	14.9	9.3	13.1	40.1
PATANCI	**12.6**	**27.1**	**54.3**	100.4	329.7	**32.6**	**116.7**	258.3
Basic EPS (sen)	0.3	0.6	1.3	98.4	331.0	0.8	2.4	214.5
Diluted EPS (sen)	0.3	0.6	1.2	100.0	335.7	0.7	2.3	219.2
Dividend per share (sen)	0.3	0.3	0.6	120.0	120.0	0.3	1.0	300.0
				+/(-) ppts				*+/(-) ppts*
GP margin (%)	35.2	39.6	41.8	2.2	6.6	35.7	39.9	4.2
Operating Profit margin (%)	11.7	11.5	15.3	3.8	3.5	9.4	13.0	3.6
PBT margin(%)	6.2	6.5	11.4	4.9	5.2	4.0	8.1	4.1
PAT margin(%)	2.6	4.2	7.5	3.2	4.9	2.2	5.4	3.2
PATANCI margin(%)	1.8	3.8	6.7	2.9	4.9	1.7	4.8	3.1
Effective Tax rate (%)	58.7	34.6	34.5	(0.2)	(24.3)	46.1	33.7	(12.4)

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