KPJ Healthcare Berhad

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

***Maintain* BUY**

FY22 performance exceeds pre-pandemic levels

***Revised* Target Price: RM RM1.48**

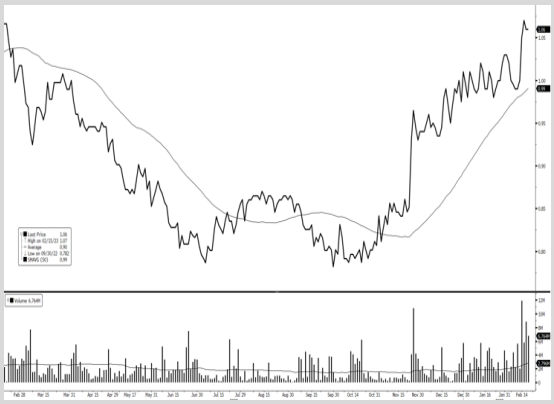
(previously RM1.39)

KEY INVESTMENT HIGHLIGHTS

- **KPJ Healthcare's FY22 earnings surge >100%yoy to RM183m from improved hospital activities**
- **FY22 revenue rose up by +13%yoy to RM2.9b on improved cost management**
- **Earnings came above expectations**
- **Revised FY23-24 earnings forecast up by 42% and 11%**
- **Maintain BUY with revised TP of RM1.48 per share**

RETURN STATISTICS	
Price @ 17th February 2023	1.06
Expected share price return (%)	+39.6
Expected dividend yield (%)	+2.0
Expected total return (%)	**+41.6**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	7.1	8.7
3 months	5.0	22.4
12 months	-2.8	5.7

KEY STATISTICS	
FBM KLCI	1,476.90
Syariah compliant	Yes
F4GBM Index	Yes
ESG Grading Band	☆☆☆
Issues shares (m)	4326.85
Estimated free float (%)	29.49
Market Capitalisation (RM'm)	4,604.23
52-wk price range	RM0.78 - RM1.11
Beta vs FBM KLCI (x)	0.75
3-mth average daily volume (m)	2.73
3-mth average daily value (RM'm)	2.71
Top Shareholders (%)	
Johor Corp	35.59
Employees Provident Fund Board	13.43
Waqaf An Nur Corp Bhd	7.10

Profit jumped nearly 3-fold. KPJ Healthcare (KPJ) reported higher earnings by >100%yoy from RM23.7m in 4QFY21, and +21.5%qoq to RM66m. For FY22, earnings surged +178.2%yoy to RM182.7m – which came in above our one-year earnings expectations by +13% and consensus' by +26%. The improved performance was supported with the improving hospital activities, especially from its Malaysia segment.

Revenue up by 15%yoy. Revenue rose up by +14.7%yoy but slipped -3.5%qoq to RM708.9m in 4QFY22. For FY22, revenue gained +12.8% to RM2.92b. Improved cost management practices contributed to the increase in revenue.

Malaysian operations. In 4QFY22, KPJ's Malaysian operations rose up in revenue by +14.9%yoy but declined -2.9%qoq to RM753.1m. Meanwhile, earnings increased by +106.8%yoy and +18%qoq to RM89.4m. For FY22, revenue and earnings gained by +13.3%yoy to RM2.83b and by +101.1%yoy to RM246.5m respectively. The improvement was due to higher patient visits, in line with an increase in number of beds, totalling to 137 beds across 5 hospitals. During the quarter, the segment also recorded a reversal of impairment in property, plant and equipment (PPE) amounting to RM6.7m in contrast of impairment loss of RM14.1m relates to PPE and intangible assets recorded in 4QFY21.

Other operations. Revenue for this segment increased +7.7%yoy but declined -18.5%qoq to RM30.8m, while earnings declined from a loss of -RM3.2m in 4QFY21, but increased from a loss of -RM15.4m in 3QFY22, to a deficit of -RM10.7m. For FY22, revenue rose up by +1.3%yoy to RM109.8m, while earnings dropped to a deficit of -RM45.3m from a loss of -RM40.2m in FY21. The higher revenue was mainly contributed by KPJUC with an increase of RM4.0m; partially offset by the decrease in contribution from KPJ Dhaka, Malaysian College of Hospitality and Management and Jeta Garden aggregated to RM2.5m.

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

Total Operations	4Q21	4Q22	Variance %	FY21	FY22	Variance %
Patient Visits	780,211	820,734	+5.2	2,976,018	3,263,832	+9.7
Bed Occupancy Rate (BOR)	46%	64%	+18.0	43%	58%	+11.0
Malaysian Operations	**4Q21**	**4Q22**	**Variance %**	**FY21**	**FY22**	**Variance %**
Patient Visits	755,282	775,763	+2.7	2,840,022	3,096,989	+9.0
Bed Occupancy Rate (BOR)	47%	63%	+16.0	43%	58%	+11.0

Source: Company, MIDFR

Improvement on patient returns and expansion activities. KPJ ended FY22 with RM7.0b in total assets, up by +13% from FY21, on the back of hospital expanding activities and rising development costs. The group's excellent performance and improved earnings for FY22 were the result of the transition to endemicity and the reopening of international borders, of which both assisted in boosting local economic activity. KPJ's network of hospitals has seen a resurgence in healthcare services demand, which resulted in the group outperforming pre-pandemic levels. While we are optimistic on the outlook of the healthcare industry, particularly on the healthcare and medical service subsector, the risk of a global economic downturn and inflationary pressures could falter demand and cause volatility in prices of machineries, operating costs and medication expenses. Nevertheless, we continue to be positive on KPJ's commitment in improving its operational efficiency and capacity to provide exceptional customer care and experience. As Malaysia continues to be one of the top medical tourism destinations in Asia, we opine that the group is well-positioned to capitalise on its upside.

Revised FY22-FY23 earnings estimates. Considering that KPJ's FY22 earnings exceeded our expectation, we revise our FY23 and FY24 earnings forecast upward by +42% and +11% respectively. As such, we **revise our target price to RM1.48** (previously RM1.39); by pegging a PER of 26.8x to the revised EPS23 of 5.5sen. The PER is based on KPJ's 5-year average PER.

Maintain BUY. All in, we maintain our **BUY** recommendation on KPJ with a new **TP of RM1.48 per share.** We reiterate our positive stance on KPJ on the basis of: (i) demand recovery for hospital care and services to pre-pandemic level, (ii) full recovery of local and international medical tourism, (iii) rising demand for selective medical procedures and treatments, and (iv) a growing aging population with higher demand for old-age related disease treatments and inpatient visits. In view of the re-tabling of Budget 2023 later this week, we strongly believe that the government will continue to provide grants for the healthcare sector for the benefit of the citizens in CY23. Nevertheless, risks to KPJ's near-term operations are: (i) growing inflationary pressures, (ii) global economic slowdown, and (iii) supply chain disruption from increasing prices and geopolitical tensions.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm unless stated otherwise)	2021A	2022A	2023E	2024F	2025F
Revenue	2,626.8	2,920.7	3,162.0	3,673.2	3,919.0
Cost of Sales	(1,686.8)	(1,751.2)	(1,743.3)	(1,990.2)	(2,132.4)
Gross profit	**940.1**	**1,169.5**	**1,418.6**	**1,682.9**	**1,786.6**
Finance Borrowings	(90.5)	(92.0)	(189.7)	(238.8)	(254.7)
Finance Costs	(76.7)	(103.6)	(60.1)	(69.8)	(74.5)
Profit before tax	**115.6**	**263.5**	**280.3**	**305.5**	**317.0**
Income tax expense	(49.9)	(73.2)	(45.9)	(56.7)	(58.5)
PATANCI (RM'm)	**51.0**	**190.3**	**248.4**	**264.0**	**274.3**
GP margin (%)	35.8	40.0	44.9	45.8	45.6
PBT Margin (%)	4.4	9.0	8.9	8.3	8.1
PATANCI margin (%)	1.9	6.5	7.9	7.2	7.0
EPS (sen)	1.1	3.9	5.5	5.9	6.1
EPS growth (%)	(55.2)	239.4	43.2	6.3	3.9
PER (x)	130.5	38.4	26.8	25.3	24.3
Dividend per share (sen)	0.6	1.6	3.0	4.0	5.0
Dividend yield (%)	0.4	1.1	2.0	2.7	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		
	4QFY21	3QFY22	4QFY22	QoQ(%)	YoY (%)	FY21	FY22	YoY (%)
Revenue	**680.8**	**809.2**	**780.9**	(3.5)	14.7	**2,589.9**	**2,920.7**	12.8
Cost of sales	(435.7)	(471.0)	(452.4)	(3.9)	3.8	(1,663.9)	(1,751.2)	5.2
Gross Profit	**245.1**	**338.2**	**328.6**	(2.8)	34.1	**925.9**	**1,169.5**	26.3
Admin Expenses	(195.0)	(220.1)	(221.1)	0.5	13.4	(708.2)	(796.2)	12.4
Other Income	21.1	5.7	14.9	162.7	(29.3)	38.0	28.6	(24.7)
Zakat	(0.7)	(0.2)	(1.2)	565.8	70.4	(2.1)	(2.7)	25.0
Operating Profit	**70.4**	**123.6**	**121.1**	(2.0)	72.1	**253.6**	**399.2**	57.4
Finance Income	1.8	2.3	**2.8**	23.5	57.4	8.6	12.2	42.4
Finance Borrowings	(23.0)	(22.1)	**(20.6)**	(6.8)	(10.6)	(90.0)	(92.0)	2.2
Finance Costs: Lease Liabilities	(18.9)	(25.4)	(26.9)	6.1	42.7	(76.7)	(103.6)	35.0
Associates	11.3	13.8	14.1	2.5	24.9	25.9	47.8	84.7
Profit Before Tax	**41.5**	**92.2**	**90.5**	(1.8)	117.9	**121.2**	**263.5**	117.4
Taxation	(13.8)	(31.8)	(14.2)	(55.2)	2.8	(48.9)	(73.2)	49.8
Profit After Tax	**27.7**	**60.4**	**76.3**	26.3	175.4	**72.4**	**190.3**	163.0
Minority Interest	4.0	6.1	10.3	69.1	159.4	6.7	7.7	14.1
PATANCI	**23.7**	**54.3**	**66.0**	21.5	178.1	**65.7**	**182.7**	178.2
Basic EPS (sen)	0.4	1.3	1.5	16.8	239.5	1.2	3.9	223.5
Diluted EPS (sen)	0.4	1.2	1.4	17.2	232.6	1.2	3.8	224.1
Dividend per share (sen)	0.3	0.6	0.6	9.1	100.0	0.6	1.6	190.9
				+/(-) ppts				*+/(-) ppts*
GP margin (%)	36.0	41.8	42.1	0.3	6.1	35.8	40.0	4.3
Operating Profit margin (%)	10.3	15.3	15.5	0.2	5.2	9.8	13.7	3.9
PBT margin(%)	6.1	11.4	11.6	0.2	5.5	4.7	9.0	4.3
PAT margin(%)	4.1	7.5	9.8	2.3	5.7	2.8	6.5	3.7
PATANCI margin(%)	3.5	6.7	8.5	1.7	5.0	2.5	6.3	3.7
Effective Tax rate (%)	33.3	34.5	15.7	(18.8)	(17.6)	40.3	27.8	(12.5)

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