KPJ Healthcare Berhad

Maintain BUY

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

End of KPJ's Indonesian Operations

Target Price: RM1.48

DEVELOPMENT

- KPJ is in a share sale agreement for 75% KPJ Medica and 100% Al-Aqar Bumi Serpong Damai to PT Nusautama Medicalindo via three of its subsidiaries.
- Proposed disposal is valued at approximately RM150.2m; in line with KPJ's operational strategies.

OUR VIEW

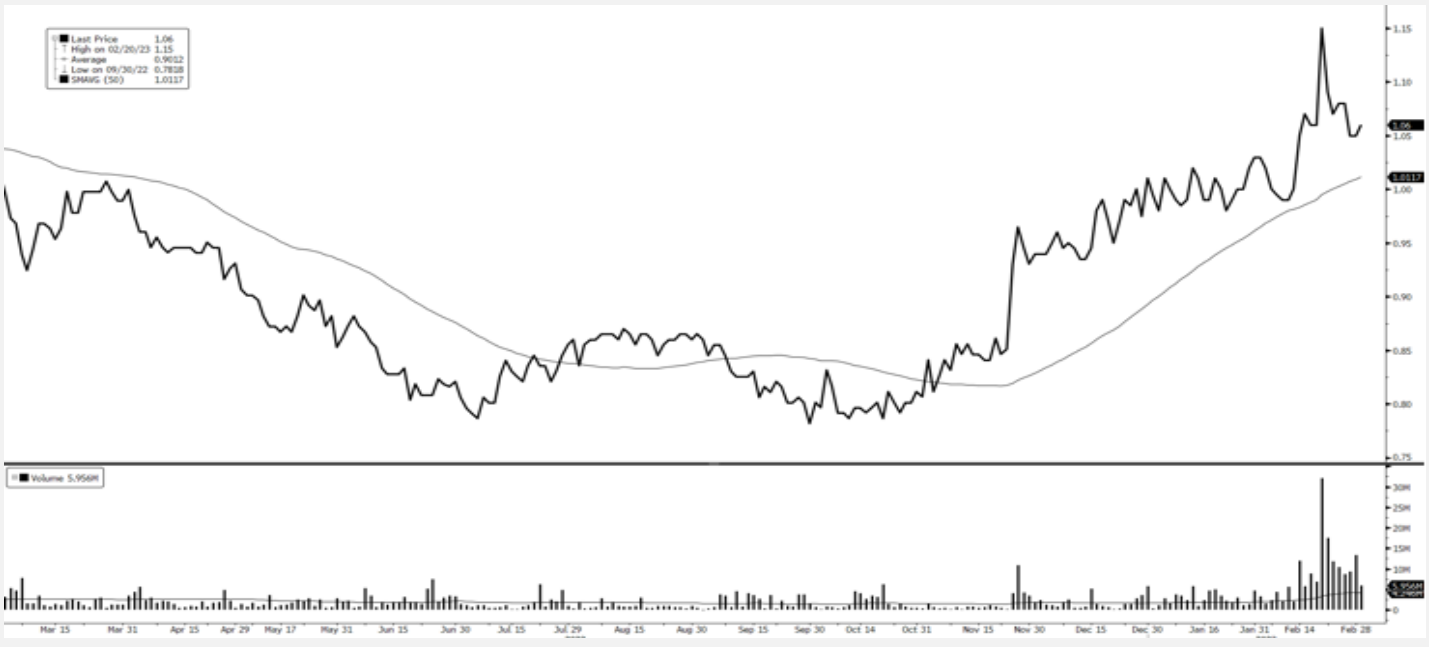
- **Disposal for RM150m**. KPJ Healthcare (KPJ) entered into a share sale agreement with PT Nusautama Medicalindo via its three subsidiaries – Kumpulan Perubatan (Johor) (KPJSB), Crossborder Aim (CAMSB), and Crossborder Hall (CHMSB) – for the proposed disposal of its Indonesian hospital operations and facilities, totalling for approximately RM150.2m. The proposed disposal involves a 75% stake in KPJ Medica by KPJSB, and a 100% stake in Al-Aqar Bumi Serpong Damai by CAMSB and CHMSB.
- **Marks KPJ's Indonesian exit.** The proposed disposal is part of its hospital operations restructuring in Indonesia necessitated by a challenging business environment, licensing and regulatory requirements imposed on foreign operators. This marks the group's exit from operating specialist hospitals in Indonesia.
- **In line with restructuring strategy**. KPJ's Indonesian operations had been reclassified as discontinued in its recent quarterly result announcement. Net loss from the Indonesia segment was MYR10.3m; about 16% of its PATAMI from continuing operations during 4QFY22.
- **Concluded exit in 2QCY23**. The share sale agreement is expected to be completed in the second quarter of CY23, together with another Indonesian hospital operation, Rumah Sakit Medika Permata Hijau, which was exited earlier this year.
- **Strengthening focus.** We believe the divestment is in part of its restructuring plans and asset rationalisation; hence, strengthening its focus on managing specialist healthcare facilities in Malaysia. The proceeds from the disposal is expected to be rediverted into its other operations.
- **No changes to earnings forecast.** We make no changes to our earnings estimates upon this announcement, as we believe this update is in line with our trajectory for KPJ in FY23.
- **Maintain BUY.** We maintain our BUY call on KPJ, with an unchanged **target price of RM1.48.** Our target price is pegged on a PER of 26.8x to an EPS23 of 5.5sen.

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

SHARE PRICE CHART



Source: Company, Bloomberg, 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