KPJ Healthcare Berhad

***Maintain* BUY**

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

MoU with Samsung Electronics to explore precision tech

Target Price: RM1.48

DEVELOPMENT

- KPJ Healthcare signed an MoU with Samsung Electronics to explore and advance precision medicine and diagnostics in Malaysia, under the facilitation of LAC Medical Supplies and support of KPJ Healthcare University College.
- Precision technologies is expected to improve outcomes, reduce cost and enable development of better drugs and treatments.

OUR VIEW

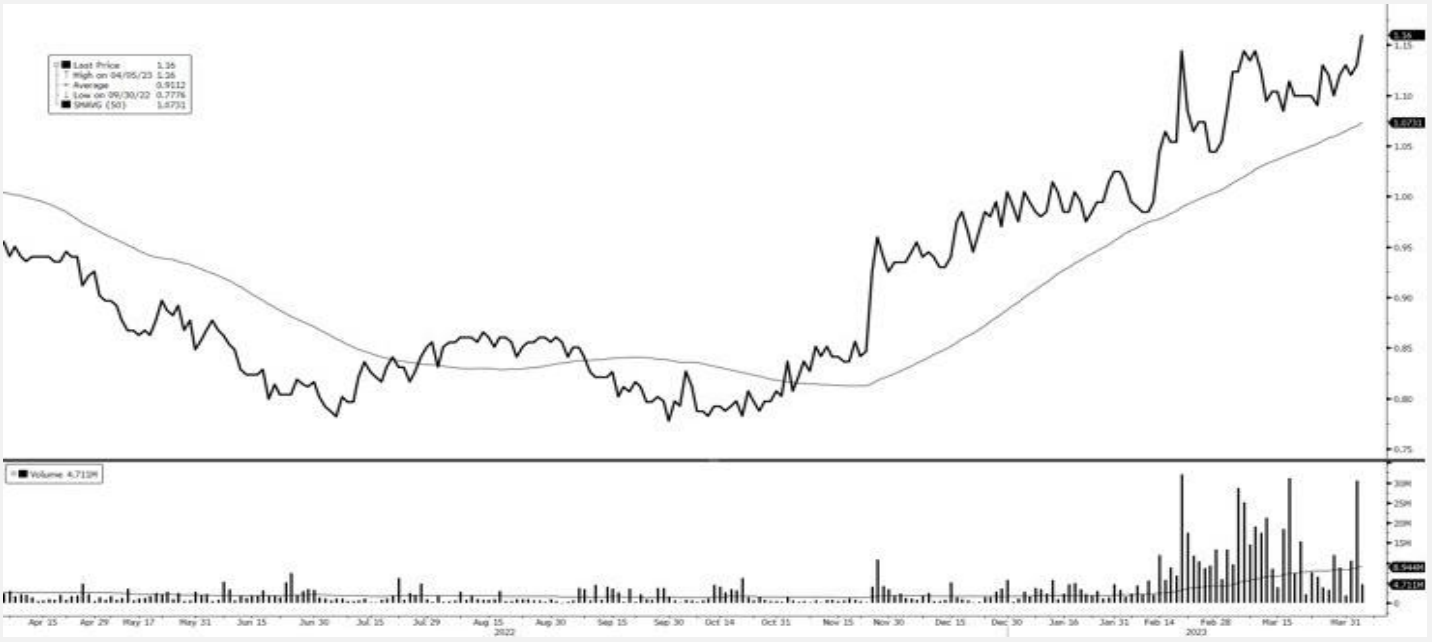
- **MoU signed.** KPJ Healthcare Bhd (KPJ) and Samsung Electronics Co Ltd (SEC) have signed a memorandum of understanding (MoU) for the advancement of precision medicine and diagnostics in Malaysia. The collaboration's aim is to explore innovative technologies and collaborative opportunities over the next 6 months. LAC Medical Supplies Sdn Bhd (LAC) will be the key facilitator in ensuring the provision of complete information, services, and training requirements.
- **Focus on precision technologies.** Precision medicine tailors to specific medical treatment to the individual characteristics of each patient, and has been improved rapidly since pre-pandemic to: (i) improve patient outcomes, (ii) reduce healthcare costs, and (iii) enable development of more effective drugs and treatments. Both KPJ and SEC will also be exploring remote reporting systems and smart hospital solutions for upcoming ambulatory care centres and new hospital projects.
- **More integrated hospital system.** Leveraging on assistive artificial intelligence (AI) diagnostic technology and data analytics, KPJ aims to improve patient care through: (i) unified outpatient systems, (ii) intra-hospital use of telemedicine, (iii) clinical innovation centers, and (iv) modernised hospital information system development. This is expected to be supported by KPJ Healthcare University College (KPJ-HUC) under its research management centre.
- **Mitigation from global healthcare setbacks.** Limited medical equipment, limited skilled workers and high treatment cost had been a recurring setback to healthcare providers globally. We opine that precision medicine and diagnostics is the right measure to mitigate from these issues moving forward. The collaboration with SEC and under the supervision of LAC, as well as the assistance from KPJ-HUC, would render KPJ the upper hand in seeking more opportunities for new technology in ensuring its operations continue to be robust in the long run.
- **We make no changes to our earnings forecast at this juncture,** as we believe the announced partnership is a preliminary stage in exploring the technologies and opportunities of precision medicine and diagnostics.
- **Hence, we maintain our BUY call** on KPJ with the **target price of RM1.48,** 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.

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