KPJ Healthcare Berhad

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

Highest BOR Since Pandemic

Maintain **BUY**

Unchanged **Target Price: RM1.48**

KEY INVESTMENT HIGHLIGHTS

- **Maintain BUY with an unchanged TP: RM1.48**
- **1Q23 earnings up more than +100%yoy to RM56.5m, in-line with expectations**
- **Increase in patient visits and higher BOR lifted 1Q23 revenue up by +27%yoy to RM892m**
- **Demand for medical treatments and hospital services expected to continue to increase**

Maintain BUY, TP: RM1.48. KPJ Healthcare Berhad (KPJ)'s 1QFY23 earnings came in within our yearly earnings estimates. Hence, we are maintaining out **BUY** call for KPJ, with the unchanged **target price** of **RM1.48**.

Earnings surged. KPJ's 1QFY23 earnings surged by +154.5%yoy to RM56.5m which was primarily contributed by the Malaysian operation.

Revenue was up by +27.3%yoy to RM829m. The higher revenue was attributable to the increase in patient visits and bed occupancy rate (BOR). Refer to Table 1 for the breakdown.

Malaysian segment. This segment recorded higher 1QFY23 earnings of RM66.3m (+38.9%yoy). Revenue gained +29.5%yoy to RM800.7m.

Higher BOR as a result of higher inpatient days and the slowing down of Covid-19 infection rate contributed to the higher earnings. Refer to Table 1 for the breakdown on BOR and inpatient visits.

Others segment. This segment included: (i) the aged care and retirement village in Australia operated by Jeta Garden, (ii) education services by KPJ Healthcare University College (KPJUC), and (iii) hospital and management services by KPJ Dhaka. Collective earnings for 1QFY23 were in a deficit of RM9.8m, although revenue was up +7.1%yoy to RM29.1m.

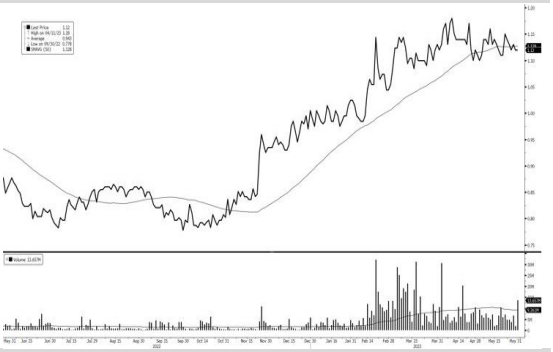
Strong prospects on medical demand. We remain positive on KPJ's capability to sustain its operations following the demand recovery for medical treatments in private hospitals. The current political climate on our local front also favours the improvement of the labour market, and we expect this to reflect on the medical workers as well. Overall healthcare sector had been on a promising track to recovery, as evident by KPJ's BOR reaching the highest since the onset of the pandemic. We are also optimistic on the potentiality of medical tourism, in line with the increase in tourist arrivals since the borders opened.

No changes to earnings estimates. At this juncture, we make no adjustments to our earnings forecast, as we believe KPJ's current performance is on the right trajectory.

Target price. We are also maintaining our target price at RM1.48. Our target price is based on pegging a PER of 26.8x to the revised EPS23 of 5.5sen. The PER is based on KPJ's 5-year average PER.

RETURN STATISTICS	
Price @ 30th May 2023 (RM)	1.12
Expected share price return (%)	+32.1
Expected dividend yield (%)	+2.0
Expected total return (%)	**+34.1**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.0	1.4
3 months	-0.9	11.0
12 months	24.4	37.5

INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	3,162	3,673	3,919
Operating Profit	1,419	1,683	1,787
Profit Before Tax	280	306	317
Core PATAMI	248	264	274
Core EPS	5.5	5.9	6.1
DPS	3.0	4.0	5.0
Dividend Yield	2.0%	2.7%	3.4%

KEY STATISTICS	
FBM KLCI	1,396.91
Issue shares (m)	4,343.2
Estimated free float (%)	32.6
Market Capitalisation (RM'm)	4,888.0
52-wk price range	RM0.78-RM1.19
3-mth average daily volume (m)	9.2
3-mth average daily value (RM'm)	10.3
Top Shareholders (%)	
Johor Corp	35.41
Employees Provident Fund Board	11.11
Waqaf AN Nur Corp Bhd	7.03

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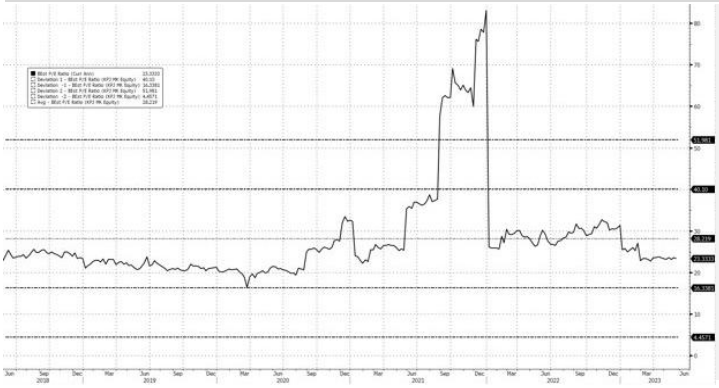
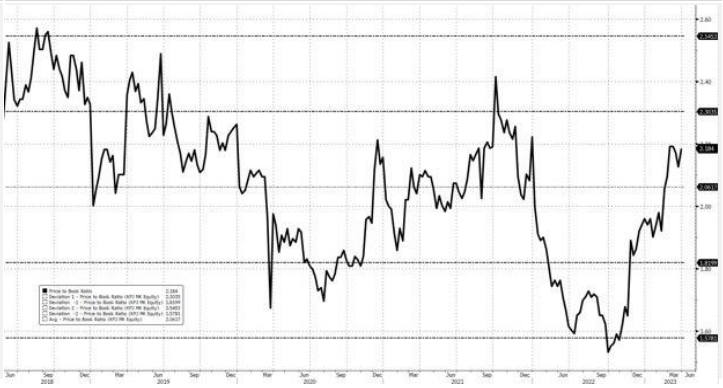
FORWARD BAND

BEst PE Ratio



BEst P/Bk Ratio



Source: Bloomberg, MIDFR

Table 1: KPJ's Patient Visits and BOR for 1QFY23

Total Operations	1Q22	1Q23	Variance %	FY21	FY22	Variance %
Patient Visits	786,421	821,126	+4.4	2,976,018	3,263,832	+9.7
Bed Occupancy Rate (BOR)	48%	70%	+22.0	43%	58%	+11.0
Malaysian Operations	**1Q22**	**1Q23**	**Variance %**	**FY21**	**FY22**	**Variance %**
Patient Visits	745,338	777,161	+4.3	2,840,022	3,096,989	+9.0
Bed Occupancy Rate (BOR)	48%	70%	+22.0	43%	58%	+11.0

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		
	1QFY22	4QFY22	1QFY23	QoQ(%)	YoY (%)	3MFY22	3MFY23	YoY (%)
Revenue	**651.0**	**780.9**	**829.0**	6.2	27.3	**651.0**	**829.0**	27.3
Cost of sales	(404.6)	(452.4)	(487.1)	7.7	20.4	(404.6)	(487.1)	20.4
Gross Profit	**246.4**	**328.6**	**341.9**	4.1	38.7	**246.4**	**341.9**	38.7
Admin Expenses	(173.2)	(221.1)	(233.1)	5.4	34.6	(173.2)	(233.1)	34.6
Other Income	4.1	14.9	4.5	(70.0)	9.3	4.1	4.5	9.3
Zakat	(0.3)	(1.2)	(0.8)	(37.9)	152.0	(0.3)	(0.8)	152.0
Operating Profit	**77.0**	**121.1**	**112.5**	(7.1)	46.2	**77.0**	**112.5**	46.2
Finance Income	2.9	2.8	**2.2**	(22.1)	(26.0)	2.9	2.2	(26.0)
Finance Borrowings	(24.1)	(20.6)	**(20.4)**	(0.9)	(15.3)	(24.1)	(20.4)	(15.3)
Finance Costs: Lease Liabilities	(25.4)	(26.9)	(27.0)	0.2	6.3	(25.4)	(27.0)	6.3
Associates	7.7	14.1	10.3	(26.9)	34.0	7.7	10.3	34.0
Profit Before Tax	**38.1**	**90.5**	**77.6**	(14.2)	103.5	**38.1**	**77.6**	103.5
Taxation	(11.8)	(14.2)	(21.2)	48.9	79.9	(11.8)	(21.2)	79.9
Profit After Tax	**26.4**	**76.3**	**56.5**	(26.0)	114.1	**26.4**	**56.5**	114.1
Minority Interest	4.2	10.3	-	(100.0)	(100.0)	4.2	-	(100.0)
PATANCI	**22.2**	**66.0**	**56.5**	(14.4)	154.5	**22.2**	**56.5**	154.5
PATANCI ex-EI	**22.2**	**66.0**	**56.5**	(14.4)	154.5	**22.2**	**56.5**	154.5

Basic EPS (sen)	0.5	1.5	1.2	(18.5)	133.3	0.5	1.2	133.3
Diluted EPS (sen)	0.5	1.4	1.2	(16.8)	138.0	0.5	1.2	138.0
Dividend per share (sen)	0.2	0.6	0.6	0.0	200.0	0.2	0.6	200.0
					+/(-) ppts			*+/(-) ppts*
GP margin (%)	37.9	42.1	41.2	(0.8)	3.4	37.9	41.2	3.4
Operating Profit margin (%)	11.8	15.5	13.6	(1.9)	1.7	11.8	13.6	1.7
PBT margin(%)	5.9	11.6	9.4	(2.2)	3.5	5.9	9.4	3.5
PAT margin(%)	4.1	9.8	6.8	(3.0)	2.8	4.1	6.8	2.8
PATANCI margin(%)	3.4	8.5	6.8	(1.6)	3.4	3.4	6.8	3.4
Effective Tax rate (%)	30.9	15.7	27.3	11.5	(3.6)	30.9	27.3	(3.6)

Source: Company, MIDFR

Table 3: KPJ's quarterly segmental breakdown

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly results					Cumulative results		
	1QFY22	4QFY22	1QFY23	QoQ(%)	YoY (%)	3MFY22	3MFY23	YoY (%)
Revenue								
Malaysia	618.6	753.1	800.7	6.3	29.4	618.6	800.7	29.4
Others	27.2	30.8	29.1	(5.4)	7.1	27.2	29.1	7.1
PAT								
Malaysia	47.7	89.4	66.3	(25.8)	38.9	47.7	66.3	38.9
Others	(9.6)	(10.7)	(9.8)	(8.3)	2.6	(9.6)	(9.8)	2.6

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	2,626.8	2,920.7	3,162.0	3,673.2	3,919.0
EBITDA	940.1	1,169.5	1,418.6	1,682.9	1,786.6
D&A	185.8	188.1	158.1	183.7	196.0
Profit before tax	115.6	263.5	280.3	305.5	317.0
Tax	(49.9)	(73.2)	(45.9)	(56.7)	(58.5)
Core PATAMI	51.0	182.7	248.4	264.0	274.3

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	2,676.2	2,760.2	2,852.1	2,898.5	2,922.5
Intangible assets	220.0	206.0	226.8	224.8	222.7
Non-current assets	4,968.9	5,522.7	4,090.5	4,193.6	4,278.3
Cash	318.0	467.9	453.3	436.0	427.5
Trade debtors	481.4	645.7	621.4	721.8	770.1
Current assets	1,218.7	1,471.4	1,398.7	1,487.5	1,530.6
Trade creditors	618.3	720.2	646.2	652.1	672.4
Short-term debt	860.5	839.4	751.9	709.4	673.4
Current liabilities	1,580.1	1,673.5	1,273.5	1,367.8	1,417.4
Long-term debt	968.0	1,047.8	1,147.8	1,247.8	1,347.8
Non-current liabilities	2,357.0	2,966.4	3,559.7	3,710.4	3,863.2
Share capital	959.5	976.3	976.3	976.3	976.3
Retained earnings	1,331.2	1,406.2	1,281.6	1,347.6	1,416.2
Equity	2,135.4	2,227.3	2,202.5	2,268.5	2,337.1

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	115.6	263.5	280.3	305.5	317.0
Depreciation & amortisation	185.8	188.1	158.1	183.7	196.0
Changes in working capital	(46.81)	(94.56)	44.09	(69.32)	(65.99)
Operating cash flow	**412.3**	**459.8**	**486.0**	**504.3**	**525.7**
Capital expenditure	(216.6)	(234.2)	(293.8)	(276.5)	(252.3)
Investing cash flow	**37.8**	**(25.8)**	**(54.8)**	**(79.0)**	**(87.7)**
Debt raised/(repaid)	(150.43)	23.32	26.45	6.08	11.89
Dividends paid	(23.7)	(86.9)	(186.3)	(198.0)	(205.7)
Financing cash flow	**(393.8)**	**(286.5)**	**(196.7)**	**(264.3)**	**(255.1)**
Net cash flow	**56.2**	**147.4**	**188.4**	**205.4**	**250.6**
Beginning cash flow	**215.0**	**271.2**	**319.6**	**508.0**	**713.4**
Ending cash flow	**271.2**	**419.6**	**508.0**	**713.4**	**964.0**

Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBITDA margin	35.8%	40.0%	44.9%	45.8%	45.6%
PBT margin	4.4%	9.0%	8.9%	8.3%	8.1%
Core PAT margin	1.9%	6.3%	7.9%	7.2%	7.0%

Source: 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