KPJ Healthcare Berhad

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

Upbeat Demand for Healthcare Services

Maintain **BUY**

Revised **Target Price: RM2.12**

(Previously RM1.42)

KEY INVESTMENT HIGHLIGHTS

- **Maintain BUY, revised TP: RM2.12**
- **Earnings up +78%yoy, came above expectations**
- **Revenue up +16%yoy mainly due to the increase in patient visits and higher BOR in 3QFY23**
- **Demand for medical treatments and hospital services expected to increase from medical tourism and aging population**

Maintain BUY, revised TP: RM2.12. KPJ Healthcare Berhad (KPJ)'s 3QFY23 earnings came in above our earnings estimates at 86%. As such, we maintain our **BUY** call for KPJ, given its continuously robust performance in its Malaysian front. Additionally, we are expecting earnings to continue improving in the final quarter of the year, as the demand for healthcare services is expected to grow with the increasing travel activities which will contribute to higher inpatient visits. We also revise our earnings forecast and **target price to RM2.12** (previously RM1.42).

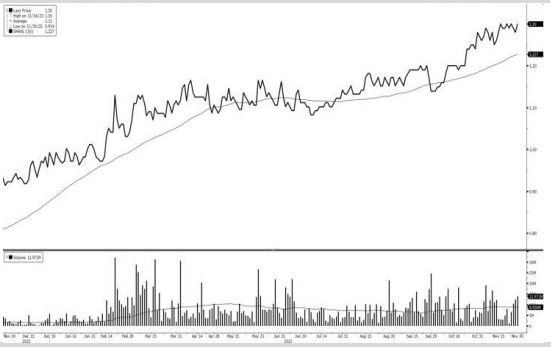
Earnings up +78%yoy. KPJ's 3QFY23 earnings added +78.2%yoy to RM90m. The higher earnings were due to improved hospital activities in Malaysia segment accompanied with a gain of RM41.5m from disposal of Indonesia operations. Meanwhile, revenue was up by +15.9%yoy to RM925.5m. The higher revenue was attributable to the increase in patient visits and bed occupancy rate (BOR). Inpatient visits rose 96,968 patients from 85,655 patients in 3QFY23, while BOR increased to 73% from 66%.

Rising BOR and inpatient visits in Malaysia. 3QFY23 earnings up +36.7%yoy to RM103.6m. Revenue gained +14.6%yoy to RM888.1m. Inpatient visits for this segment rose by +12%yoy to 93,512 patients accompanied with the +17%yoy improvement in inpatient days to 230,824 days. The higher earnings were also contributed mainly from the gain on disposal of PTABSD and KPJM and improvement in business activities. KPJ Damansara 2 and KPJ Penang showed the highest revenue increase in 3QFY23.

KPJ Dhaka improved 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. 3QFY23 earnings reversed to a gain of RM6.3m from a loss of -RM15.4m in 3QFY22, while revenue added +0.9%yoy to RM38.2m. The improved earnings and revenue were due to KPJ Dhaka increasing its number of beds to 100 beds, leading to an additional patient visits of 11,877 patients in 3QFY23.

RETURN STATISTICS	
Price @ 28th November 2023 (RM)	1.30
Expected share price return (%)	+63.1
Expected dividend yield (%)	+2.8
Expected total return (%)	**+65.9**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	4.0	3.6
3 months	14.0	11.6
12 months	36.1	38.8

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	345	424	544
Core PATAMI	295	361	460
Core EPS	6.5	8.0	10.2
DPS	3.0	4.0	5.0
Dividend Yield	2.1%	2.8%	3.5%

KEY STATISTICS	
FBM KLCI	1,448.02
Issue shares (m)	4,505.53
Estimated free float (%)	25.39
Market Capitalisation (RM'm)	5,673.59
52-wk price range	RM0.92-RM1.32
3-mth average daily volume (m)	8.98
3-mth average daily value (RM'm)	10.88
Top Shareholders (%)	
Johor Corp	44.99
Employees Provident Fund Board	8.52
Waqaf AN Nur Corp Bhd	7.03

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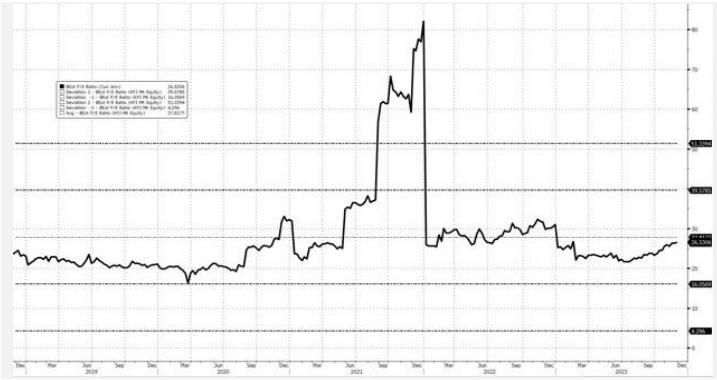
Continuously strong balance sheet and cash flow. Total assets in 9MFY23 grew +6%yoy to RM7.29b, due to: (i) the proceeds received from the completion of disposal of Indonesia subsidiaries, (ii) the completion of sale and leaseback arrangement with Al-'Aqar Healthcare REIT, (iii) the opening of new hospital, KPJ Damansara 2, and (iv) the development in KPJ Penang. The group also reported surge in cash generated by +30%yoy to RM527.4.4m as a result to significant improvement in hospital operations.

Improved demand for healthcare services expected in CY23. Given the increased demand for healthcare services in 3QFY23, we reiterate our positive stance in KPJ's capability and capacity to continue operating its hospitals efficiently. We opine that the recent tabling Budget 2024 as well as state budgetary proposals continue to favour the healthcare services. With the higher demand as well as improved regulations under the MOH, we anticipate that the labour market for medical professionals to be enhanced. As such, we believe KPJ will maintain its momentum in the remaining quarter, albeit the cyclical trend that sees decreased patient visits in 4QFY23. We are also optimistic about KPJ's prospects, owing to an increase in medical tourism and the rising in aging population.

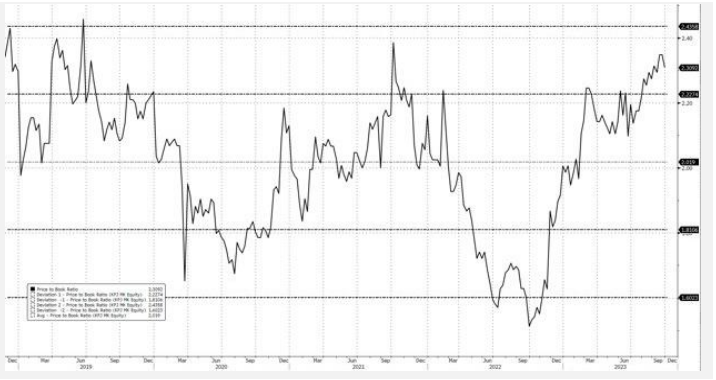
Revised earnings estimate and target price. Given that 3QFY23 earnings came in above our expectations, we adjust our earnings forecasts for FY23 and FY24 upwards by +34% and +60% respectively. We believe KPJ's current performance is on the right trajectory, and we are expecting a continuous growth in its financial performance until the end-year. Consequently, we revise our target price to RM2.12, based on pegging a PER of 26.5x to the revised EPS24 of 8.0sen. The PER is based on KPJ's 5-year average PER.

FORWARD BAND

BEst PE Ratio



BEst P/Bk Ratio



Source: Bloomberg, MIDFR

Table 1: KPJ's quarterly earnings review

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly results					Cumulative results		
	3QFY22	2QFY23	3QFY23	QoQ(%)	YoY (%)	9MFY22	9MFY23	YoY (%)
Revenue	**798.7**	**799.5**	**925.4**	15.7	15.9	**2,139.7**	**2,553.9**	19.4
Cost of sales	(473.1)	(478.9)	(540.8)	12.9	14.3	(1,298.8)	(1,506.7)	16.0
Gross Profit	**325.7**	**320.7**	**384.6**	19.9	18.1	**840.9**	**1,047.2**	24.5
Admin Expenses	(211.4)	(221.3)	(259.6)	17.3	22.8	(575.1)	(713.9)	24.1
Other Income	5.6	7.8	46.1	>100	>100	13.7	58.4	>100
Zakat	(0.2)	(1.1)	(0.7)	(34.6)	>100	(1.5)	(2.5)	72.2
Operating Profit	**119.7**	**106.1**	**170.4**	60.6	42.4	**278.1**	**389.1**	39.9
Finance Income	2.2	4.9	**5.3**	9.5	137.4	9.4	12.3	31.5
Finance Borrowings	(21.8)	(23.6)	**(28.3)**	20.2	29.8	(71.4)	(72.3)	1.2
Finance Costs: Lease Liabilities	(25.4)	(28.6)	(28.1)	(1.8)	10.8	(76.7)	(83.7)	9.2
Associates	13.8	9.8	13.8	41.5	0.4	33.7	33.9	0.7
Profit Before Tax	**88.5**	**68.5**	**133.1**	94.3	50.5	**173.0**	**279.3**	61.4
Taxation	(31.7)	(20.1)	(35.8)	78.6	13.2	(59.0)	(77.1)	30.6
Profit After Tax	**56.8**	**48.5**	**97.3**	100.7	71.3	**114.1**	**202.2**	77.3
Minority Interest	6.1	1.5	7.0	>100	14.1	14.2	13.1	(7.7)
PATANCI	**50.7**	**46.9**	**90.3**	92.4	78.2	**99.9**	**189.2**	89.3
Basic EPS (sen)	1.2	1.1	2.1	91.7	76.9	2.3	4.3	88.7
Diluted EPS (sen)	1.1	1.1	2.1	91.7	81.6	2.3	4.3	92.9
Dividend per share (sen)	0.6	0.7	0.8	23.1	45.5	1.0	2.1	105.0
				+/(-) ppts			*+/(-) ppts*	
GP margin (%)	40.8	40.1	41.6	1.5	0.8	39.3	41.0	1.7
Operating Profit margin (%)	15.0	13.3	18.4	5.1	3.4	13.0	15.2	2.2
PBT margin(%)	11.1	8.6	14.4	5.8	3.3	8.1	10.9	2.8
PAT margin(%)	7.1	6.1	10.5	4.5	3.4	5.3	7.9	2.6
PATANCI margin(%)	6.3	5.9	9.8	3.9	3.4	4.7	7.4	2.7
Effective Tax rate (%)	35.8	29.3	26.9	(2.4)	(8.9)	34.1	27.6	(6.5)

Source: Company, MIDFR

Table 2: KPJ's quarterly segmental breakdown

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly results					Cumulative results		
	3QFY22	2QFY23	3QFY23	QoQ(%)	YoY (%)	9MFY22	9MFY23	YoY (%)
Revenue								
Malaysia	775.2	770.7	888.1	15.2	14.6	2,072.2	2,459.5	18.7
Others	37.8	30.0	38.2	27.4	0.9	79.0	97.2	23.1
PAT								
Malaysia	75.8	66.3	103.6	56.2	36.7	181.8	237.7	30.7
Others	(15.4)	(9.8)	(6.3)	(36.1)	(59.2)	(37.6)	(35.5)	(5.6)

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	47.4	(56.6)	(78.4)
Profit before tax	115.6	263.5	345.4	423.6	543.6
Tax	(49.9)	(73.2)	17.3	21.2	27.2
Core PATAMI	51.0	**220.2**	294.8	360.9	460.2

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	2,676.2	2,760.2	2,784.8	2,913.2	3,359.4
Intangible assets	220.0	206.0	226.8	224.8	222.7
Non-current assets	4,968.9	5,522.7	**4,023.1**	**4,368.4**	**4,591.2**
Cash	318.0	467.9	453.3	636.0	767.5
Trade debtors	481.4	645.7	692.2	721.8	770.1
Current assets	1,218.7	1,471.4	**1,469.6**	**1,502.2**	**1,670.6**
Trade creditors	618.3	720.2	746.2	792.1	796.4
Short-term debt	860.5	839.4	551.9	609.4	673.4
Current liabilities	1,580.1	1,673.5	**1,723.5**	**1,837.8**	**1,911.4**
Long-term debt	968.0	1,047.8	1,174.2	1,315.3	1,418.6
Non-current liabilities	2,357.0	2,966.4	**3,769.3**	**4,032.7**	**4,350.4**
Share capital	959.5	976.3	976.3	976.3	976.3
Retained earnings	1,331.2	1,406.2	1,475.6	1,565.8	1,680.9
Equity	2,250.5	2,354.2	**2,498.6**	**2,621.0**	**2,835.3**

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	115.6	263.5	345.4	423.6	543.6
Depreciation & amortisation	185.8	188.1	47.4	(56.6)	(78.4)
Changes in working capital	-46.81	-94.56	**73.20**	**21.57**	**(41.99)**
Operating cash flow	**412.3**	**459.8**	**347.6**	**345.9**	**349.9**
Capital expenditure	-216.6	-234.2	-293.8	-276.5	-252.3
Investing cash flow	**37.8**	**-25.8**	**(177.8)**	**(119.8)**	**(106.8)**
Debt raised/(repaid)	-150.43	23.32	26.5	141.1	103.3
Dividends paid	-23.7	-86.9	(71.1)	(70.6)	(70.1)
Financing cash flow	**-393.8**	**-286.5**	**(184.4)**	**(43.3)**	**(111.6)**
Net cash flow	**171.8**	**275.3**	**(14.6)**	**182.7**	**131.6**
Beginning cash flow	**215.0**	**385.6**	**660.4**	**453.4**	**636.0**
Ending cash flow	**385.6**	**660.4**	453.3	636.0	767.5

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%	10.9%	11.5%	13.9%
Core PAT margin	1.9%	7.5%	9.3%	9.8%	11.7%

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