Corporate Update

KPJ Healthcare Berhad

(5878 | KPJ MK) Healthcare | Healthcare Providers

3 Stars | SHARIAH Compliant | FTSE4Good

Maintain **NEUTRAL**

Revised Target Price **RM3.00** (from RM3.02)

Minimal SST Impact Anticipated

8% SST to be charged. The government has expanded its Sales and Service Tax (SST) effective 1 July CY25 unto rental and leasing services including REITs. All REITs are subject to an 8% tax, which we anticipate will be charged to the tenants. Additionally, healthcare services to foreigners – including medical tourists – will also be taxed under this updated SST.

Minimal impact on latest asset injections. Recently, KPJ Healthcare (KPJ) had announced it is injecting two of its hospital properties – a 15-storey building at KPJ Ampang Puteri, and a 10-storey building at KPJ Penang – to Al-'Aqar Healthcare REIT (Al-'Aqar) for a total of RM241m. Under the agreement, KPJ will lease KPJ Ampang Puteri for 11 years and KPJ Penang for 15 years at an increment of 2% per annum, with the possibility to extend the lease for another 15 years. The rental for these two assets will be charged at approx. RM15m in CY25 as a baseline. With the implemented SST, we opine the net charge would be about RM16m. However, it should be noted that any contracts signed before the date of implementation will be exempted from SST for a year. Hence, CY26 rental is estimated to be nearly RM17m. By CY40, we expect the rental for these two assets to reach about RM22m. To note, KPJ had 19 out of its 30 hospitals injected into Al-'Aqar, with FY24 lease sans the two assets mentioned amounting to over RM107m.

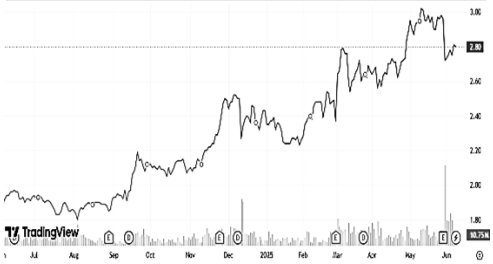
RM100m debt payoffs mitigates additional costs. Nevertheless, the proceeds from the sale-and-leasebacks of the two hospitals are expected to be mitigated through debt repayments of RM100m, as well as improvements in operations through an additional working capital of RM139m. We believe the short-term support will streamline KPJ's financial performance amid the economic headwinds and policy changes, moving forward.

Foreign patients to be charged SST. The SST will also be charged for foreign patients, per the expansion of the SST scope in the healthcare sector. While KPJ has its fair share of medical tourists, only about 9-12% of the total revenue are contributed from medical tourism. Hence, we estimated that SST will add RM24-32m per annum in tax expenses. We noted that this could increase cost of treatment, subsequently reduce KPJ's competitiveness with other domestic and regional players and increase price sensitivity. However, the actual impact is still dependable on: (i) whether KPJ or its patients will bore the additional cost, (ii) medical tourism demand growth, and (iii) government exemptions on certain type of treatments/services such as allied health services and traditional medicines.

Revised earnings estimates, TP. All in all, we tweak our earnings forecast for FY25-27 downwards by -1%. This is to include the lease increments for the recently injected hospitals and the expansion of SST on its lease and services. Likewise, we adjust our **target price to RM3.00** from RM3.02, pegging on a PER of 28.8x to the revised EPS25 of 10.4sen. The PER used is derived from KPJ's average 5-Y PER, +1 SD. Considering that the impact of the SST is minimal on the group's forecasted results, we maintain our **NEUTRAL** call for KPJ.

RETURN STATISTICS	
Price @ 10 June 2025 (RM)	2.80
Expected share price return (%)	+7.1
Expected dividend yield (%)	+1.6
Expected total return (%)	+8.7

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	10.7	7.7
3 months	9.0	19.0
12 months	44.3	53.3

INVESTMENT STATISTICS

FYE Dec (Rm'm)	2025E	2026F	2027F
Revenue	3,961	4,196	4,320
EBIT	749	835	859
PBT	625	703	725
Core PATAMI	470	522	538
Core EPS	10.4	11.5	11.9
DPS	4.8	5.3	5.5
Dividend Yield (%)	1.6	1.8	1.8

KEY STATISTICS	
FBM KLCI	1,516.95
Issue shares (m)	4,364.30
Estimated free float (%)	46.68
Market Capitalisation (RM'm)	12,656.47
52-wk price range	RM1.71 - RM3.05
3-mth average daily volume (m)	11.97
3-mth average daily value (RM'm)	32.32
Top Shareholders (%)	
Johor Corp	44.99
Employees Provident Fund Board	9.30
Waqaf AN Nur Corp Bhd	6.41

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FINANCIAL SUMMARY

Profit or Loss (RM'm)	2023A	2024A	2025E	2026F	2027F
Revenue	3419	3922	3961	4196	4320
EBIT	516	657	749	835	859
PBT	378	531	625	703	725
Taxation	-75	-166	-200	-229	-236
PAT	303	365	424	474	489
MI	32	42	50	51	53
PATAMI	270	407	474	525	542
Core PATAMI	302	400	470	522	538
EPS (sen)	6.5	8.8	10.4	11.5	11.9
PER (x)	41.7	31.4	28.8	26.0	25.2
DPS (sen)	3.4	4.2	4.8	5.3	5.5
Dividend yield (%)	1.0	1.3	1.6	1.8	1.8

Cash Flow (RM'm)	2023A	2024A	2025E	2026F	2027F
PBT	378	531	625	703	725
Depreciation	-198	-208	-223	-234	-244
OP pre-WC changes	753	960	1067	1198	1243
Change in NWC	-96	-115	-217	-455	-429
Operating cash flow	**658**	**844**	**850**	**743**	**815**
Capital expenditure	-380	-479	-476	-491	-475
Investing cash flow	**-95**	**-232**	**-179**	**-223**	**-285**
Debt raised/(repaid)	16	-256	-200	-202	-149
Dividends paid	-146	-181	-144	-135	-154
Financing cash flow	**-435**	**-570**	**-563**	**-567**	**-533**
Net cash flow	**128**	**43**	**107**	**-47**	**-3**
Beginning cash flow	**417**	**552**	**594**	**701**	**654**
Ending cash flow	**552**	**594**	**701**	**654**	**651**

Growth (%)	2023A	2024A	2025E	2026F	2027F
Revenue growth	17.1	14.7	1.0	5.9	3.0
PBT growth	195.6	40.5	17.7	12.4	3.2
PATAMI growth	48.0	50.6	16.5	10.7	3.2
Core PATAMI growth	63.3	32.5	17.5	11.0	3.1

Profitability Ratios (%)	2023A	2024A	2025E	2026F	2027F
EBIT margin	15.1	16.7	18.9	19.9	19.9
PBT margin	11.1	13.5	15.8	16.7	16.8
PATAMI margin	7.9	10.4	12.0	12.5	12.5
Core PATAMI margin	8.8	10.2	11.9	12.4	12.5
ROA	4.3	5.4	6.2	6.7	6.8
ROE	11.9	14.6	15.2	16.7	17.1

Balance Sheet (RM'm)	2023A	2024A	2025E	2026F	2027F
PPE	2,774	2,949	3,060	3,173	3,261
ROU assets	1,784	1,835	1,798	1,848	1,928
Non-current assets	**5,577**	**5,799**	**5,927**	**6,035**	**6,259**
Trade receivables	674	782	778	824	849
Cash & bank balances	552	594	701	654	651
Current assets	**1,436**	**1,604**	**1,712**	**1,718**	**1,715**
Long-term debt	1,365	1,347	1,100	1,121	1,245
Non-current liabilities	**3,084**	**3,369**	**3,146**	**3,184**	**3,322**
Short-term debt	547	329	395	422	438
Trade payables	658	828	769	774	796
Current liabilities	**1,402**	**1,297**	**1,400**	**1,447**	**1,504**
Share capital	999	999	999	999	999
Reserves	1,539	1,693	2,067	2,102	2,236
Equity	**2,528**	**2,738**	**3,092**	**3,122**	**3,149**

Liquidity Ratios (x)	2023A	2024A	2025E	2026F	2027F
Current ratio	1.0	1.2	1.2	1.2	1.1
Quick ratio	1.0	1.2	1.2	1.2	1.1

Leverage Ratios (x)	2023A	2024A	2025E	2026F	2027F
Debt-to-equity	1.8	1.7	1.5	1.5	1.5
Interest coverage	-2.5	-3.3	-3.8	-4.0	-4.0

Efficiency Ratios (days)	2023A	2024A	2025E	2026F	2027F
Cash conversion cycle	-105	-124	-120	-117	-118
DIO	13.4	13.5	8.6	8.6	8.5
DSO	2.1	1.8	1.8	1.7	1.8
DPO	120.9	139.5	130.8	127.1	128.4

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	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
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	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

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