KPJ Healthcare Berhad

(5878 | KPJ MK) Healthcare | Healthcare Providers

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Corporate Update

Maintain NEUTRAL

Revised Target Price **RM2.76**
(from RM2.65)

Headwinds Persist Despite FY26 Optimism

Maintain NEUTRAL. KPJ Healthcare Bhd's (KPJ) 9MFY25 normalised earnings came in below our and consensus' expectations at 63% and 67% respectively. We revised our earnings estimates accordingly. However, we revised our target price from RM2.65 to RM2.76 as we rollover to FY26 valuations. We maintain NEUTRAL for KPJ.

9MFY25 revenue up by +9%yoy. 3QFY25 and 9MFY25 revenue gained +9%yoy to RM1.1b and RM3.1b respectively. The improvement was contributed by the increase in patients' visits and increased bed capacity.

9MFY25 core earnings slipped -8%yoy. 3QFY25 and 9MFY25 EBITDA added to RM274.2m (+8%yoy) and RM734.8m (+7%yoy). Meanwhile, 3QFY25 core earnings added +9%yoy to RM93.8m. However, 9MFY25 core earnings slipped -8%yoy to RM235.5m. This was largely due to the gain from the disposal of Jeta Gardens in Australia in FY24.

Malaysian operations remain stable. 3QFY25 and 9MFY25 revenue added to RM1.1b (+8%yoy) and RM3.1b (+9%yoy) respectively. Meanwhile, 3QFY25 and 9MFY25 PAT added to RM94m (+3%yoy) and RM252.2m (+7%yoy). This was due to the increase in: (i) average revenue per inpatient to RM8.1k (+9%yoy), (ii) average revenue per outpatient to RM329 (+4%yoy), (iii) outpatient treatments by 4%yoy, (iv) surgeries by +7%yoy and (v) operational beds occupied by +7%yoy, during the reported quarter. However, BOR decreased by 7ppt due to the increase in bed capacity during the quarter by +7%.

We attended the group's briefing. Key takeaways as follows:

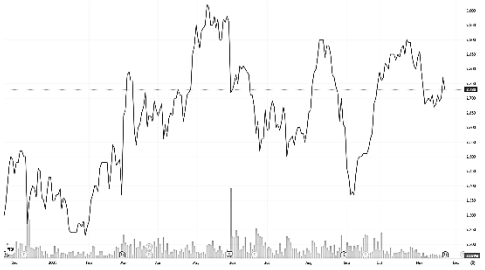
Cautiously optimistic until end-year. KPJ continues to be on watch for medical inflation and government initiatives to combat said inflation (DRG system implementation) as the year closes. Meanwhile, the group is expected to continue optimising its assets and focus on profitable areas within its Malaysian hospitals, including centralised purchasing for their drug and device procurements.

150 beds to be added in FY26. KPJ also remains steadfast in reaching its 4,000 beds target by the end-year, with another additional 150 beds in FY26, which will be added to hospitals with over 75% capacity. We noted that the modest growth suggests that the group is focusing on filling existing beds and increasing BOR next year. This is in line with the increased capacity this year from the new KPJ Kuala Selangor and the expansions in KPJ Klang and KPJ Johor.

Aiming for 30% subspecialties. KPJ is extensively hiring specialists to treat complex conditions, namely in oncology, cardiology and neurology, which provides higher profit margin. We opine that this is a very strategic move, as not only are the treatments sought after by domestic patients, but also medical tourists, which gives the group the leverage to improve further in their services.

RETURN STATISTICS	
Price @ 21st Nov 2025 (RM)	2.73
Expected share price return (%)	+1.1
Expected dividend yield (%)	+1.7
Expected total return (%)	+2.8

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-3.9	-4.2
3months	-0.4	-2.9
12 months	12.4	19.2

INVESTMENT STATISTICS

FYE Dec (RM m)	2025E	2026F	2027F
Revenue	4,037	4,261	4,387
Operating Profit	548	612	677
Profit Before Tax	425	483	538
Core PATAMI	312	356	399
Core EPS	6.9	7.9	8.8
DPS	4.4	4.8	5.4
Dividend Yield	1.6	1.7	1.9

KEY STATISTICS

FBM KLCI	1,617.57
Issue shares (m)	4364.30
Estimated free float (%)	40.99
Market Capitalisation (RM'm)	11914.54
52-wk price range	RM1.82 - RM3.05
3-mth average daily volume (m)	17.55
3-mth average daily value (RM'm)	42.75
Top Shareholders (%)	
Johor Corp	43.38
Employees Provident Fund Board	12.15
Waqaf AN Nur Corp Bhd	6.18

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Moving forward: Digitalisation and CoE. KPJ is shifting from traditional hospital management to a digital-first model, through AI data analytics and implementation of single electronic medical record system (nHIS). This mirrors initiatives taken by Singapore hospitals, which are known for its high-tech, high-value services in both their public and private hospitals. The group is also moving into creating flagship hospitals that specialise in complex, high-margin treatments. The full maturity of Damansara Specialist Hospital 2 (DSH2) as the group's premier "Smart Hospital" and flagship Centre of Excellence (CoE) for Cardiac and Orthopaedics, as well as other CoEs in East Malaysia (Cancer Centre in Kuching and Heart Centre in Kota Kinabalu) will pioneer this strategy, subsequently capture the medical tourism market.

Revised earnings estimates. Considering that 9MFY25 earnings came in below expectations, on top of the expectations of slower inpatient and outpatient visits due to the festive season in 4QFY25, we revised FY25-27 downwards by -15%/-16%/-14% respectively. However, as we rollover to FY26 estimates, we revise our **target price to RM2.76** (previously RM2.65) pegging on a new PER of 35x to a revised EPS26 of 7.9sen. The PER is KPJ's 3Y PER (+1SD), which is slightly higher than the healthcare sector's 1Y PER of 33.5x. We used the new PER to highlight the anticipated improvements in FY26, in tandem with the Malaysia Year of Medical Tourism 2026 (MYMT 2026), as well as the promising trajectory of its gestation hospitals, including the new KPJ Kuala Selangor, to be fully EBITDA-positive.

Despite our revision of the earnings forecast, we reiterate our optimism for KPJ's prospects. The rising in aging population, increase in NCD prevalence, medical tourism and infrastructure expansion to capture more market share are major drivers for KPJ to maintain its performance in the remaining FY25 and onwards. Nevertheless, the downside risks for KPJ will continue to limit the upside for KPJ, which includes: (i) rejection of insurance claims which will lower admission rates for minor treatments, (ii) fixed pricing from DRG system and other regulatory changes that could cap revenue per patient, (iii) 6% SST on foreign patients may disrupt medical tourism competitiveness, especially for high-value, long-stay treatments, and (iv) rising wages for medical workers as well as drug, consumables and equipment costs. At this juncture, we maintain our **NEUTRAL** call for the group.

Table 1: KPJ's 3QFY25 earnings review

Financial year ending 30th June (in RM'm unless stated otherwise)	Quarterly results					Cumulative results		
	3Q24	2Q25	3Q25	QoQ%	YoY%	9M24	9M25	YoY%
Revenue	1027.6	1023.7	1116.2	9.0	8.6	2854.7	3106.9	8.8
Cost of Sales	-560.2	-571.8	-623.1	9.0	11.2	-1598.7	-1746.4	9.2
Gross Profit	**467.4**	**451.9**	**493.1**	**9.1**	**5.5**	1256.1	1360.5	**8.3**
Admin and Other Operating Expenses	-306.0	-298.5	-323.2	8.3	5.6	-826.5	-905.0	9.5
Other Income	8.5	8.4	9.8	16.8	15.1	20.5	24.5	19.6
Zakat	-0.9	-2.0	-0.7	-63.0	-19.1	-4.8	-5.0	5.7
EBIT	**169.0**	**159.8**	**179.0**	**12.0**	**6.0**	445.3	474.9	**6.7**
Finance Income	5.2	4.0	4.7	17.7	-9.1	17.4	13.4	-23.0
Finance Cost:						0.0	0.0	
Borrowings	-21.4	-19.3	-20.0	3.6	-6.3	-66.1	-58.4	-11.6
Lease Liabilities	-26.7	-27.8	-28.0	0.7	5.0	-80.8	-83.2	2.9
Share of Results - Associates	13.6	14.0	16.2	16.0	19.2	34.0	33.6	-0.9
PBT	**139.7**	**130.6**	**151.9**	**16.3**	**8.7**	349.7	380.3	**8.8**
Tax	-43.5	-39.1	-46.2	18.3	6.2	-106.7	-117.4	10.1
PAT	**96.2**	**91.6**	**105.7**	**15.4**	**9.9**	243.0	262.9	**8.2**
Minority Interest	9.9	9.5	11.8	23.4	19.1	27.8	29.8	6.9
PATAMI	**86.3**	**82.0**	**93.9**	**14.5**	**8.8**	215.2	233.1	**8.3**
Exceptional Items	0.3	-2.7	0.1	-104.5	-58.3	-39.7	-2.4	-94.1
PATAMI ex-EI	**86.0**	**84.7**	**93.8**	**10.7**	**9.1**	**254.9**	**235.5**	**-7.6**
EBITDA	**240.0**	**235.8**	**258.0**	**9.4**	**7.5**	**652.5**	**701.6**	**7.5**
DPS (sen)	1.0	0.8	1.1	31.3	5.0	3.0	3.0	0.0
Basic EPS (sen)	2.0	1.9	2.2	14.4	8.6	4.9	5.3	8.3
Diluted EPS (sen)	2.0	1.9	2.1	10.7	9.1	5.8	5.4	-7.6
				+/(-) ppts	*+/(-) ppts*			*+/(-) ppts*
PATAMI margin %	8.4	8.0	8.4	0.4	0.0	7.5	7.5	0.0
Core PATAMI margin %	8.4	8.3	8.4	0.1	0.0	8.9	7.6	-1.3
Tax Rate %	31.2	29.9	30.4	0.5	-0.7	30.5	30.9	0.4
SEGMENTAL								
Revenue:								
Malaysia	1015.8	1011.4	1101.2	8.9	8.4	2822.5	3068.0	8.7
Others	12.6	13.1	16.0	22.5	27.1	34.2	41.3	20.7
PAT:								
Malaysia	91.0	89.1	94.0	5.6	3.4	236.6	252.2	6.6
Others	5.3	2.5	11.7	357.3	120.1	6.6	10.7	61.8

Source: Company, MBSBR

FINANCIAL SUMMARY

Profit or Loss (RM'm)	2024A	2025E	2026F	2027F	2028F
Revenue	3,922	4,037	4,261	4,387	4,553
EBIT	657	548	612	677	714
PBT	531	425	483	538	627
Taxation	-166	-133	-154	-172	-182
PAT	365	292	330	366	445
MI	42	25	32	38	9
PATAMI	407	316	361	404	455
Core PATAMI	400	312	356	399	456
EPS (sen)	8.8	6.9	7.9	8.8	10.1
PER (x)	31.4	43.5	38.1	34.1	27.6
DPS (sen)	5.5	4.4	4.8	5.4	6.7
Dividend yield (%)	2.0	1.6	1.7	1.9	2.4

Cash Flow (RM'm)	2024A	2025E	2026F	2027F	2028F
PBT	531.0	425.1	483.2	537.9	627.2
Depreciation	208.4	207.2	208.4	211.3	204.2
OP pre-WC changes	959.7	859.1	966.5	1043.6	1170.7
Change in NWC	67.2	42.2	-37.2	-0.4	-48.5
Operating cash flow	**1026.9**	**901.4**	**929.3**	**1043.2**	**1122.2**
Capital expenditure	-478.6	-469.6	-470.4	-458.2	-471.3
Investing cash flow	**-232.1**	**-207.1**	**-252.2**	**-302.6**	**-273.5**
Debt raised/(repaid)	-256.3	-102.4	22.3	128.4	57.5
Dividends paid	-181.1	-143.7	-134.9	-153.8	-227.9
Financing cash flow	**-569.7**	**-464.5**	**-338.4**	**-250.6**	**-461.9**
Net cash flow	**42.6**	**37.2**	**17.3**	**135.9**	**59.4**
Beginning cash flow	**552.5**	**594.3**	**630.9**	**649.1**	**785.0**
Ending cash flow	**594.3**	**630.9**	**649.1**	**785.0**	**844.4**

Growth (%)	2024A	2025E	2026F	2027F	2028F
Revenue growth	14.7	2.9	5.5	3.0	3.8
PBT growth	40.5	-19.9	13.7	11.3	16.6
PATAMI growth	50.6	-22.3	14.1	12.0	12.5
Core PATAMI growth	32.5	-22.0	14.1	11.9	14.3

Profitability Ratios (%)	2024A	2025E	2026F	2027F	2028F
EBIT margin	7.0	3.3	5.4	7.4	7.5
PBT margin	5.2	10.5	11.3	12.3	13.8
PATAMI margin	3.5	7.8	8.5	9.2	10.0
Core PATAMI margin	3.4	7.7	8.4	9.1	10.0
ROA	5.4	4.0	4.6	5.1	5.6
ROE	14.6	10.5	12.3	14.4	15.3

Balance Sheet (RM'm)	2024A	2025E	2026F	2027F	2028F
PPE	2,949	3,212	3,182	2,980	3,247
ROU assets	1,640	1,598	1,650	1,734	1,622
Non-current assets	**5,799**	**6,079**	**6,044**	**5,978**	**6,194**
Trade receivables	782	793	837	862	895
Cash & bank balances	594	631	649	785	844
Current assets	**1,604**	**1,661**	**1,731**	**1,867**	**1,959**
Long-term debt	1,347	1,245	1,267	1,396	1,453
Non-current liabilities	**3,369**	**3,291**	**3,329**	**3,472**	**3,547**
Short-term debt	329	474	545	562	611
Trade payables	828	769	774	796	780
Current liabilities	**1,297**	**1,465**	**1,547**	**1,597**	**1,633**
Share capital	999	999	999	999	999
Reserves	1,693	1,958	1,878	1,864	1,848
Equity	**2,738**	**2,983**	**2,898**	**2,777**	**2,974**

Liquidity Ratios (x)	2024A	2025E	2026F	2027F	2028F
Current ratio	1.2	1.1	1.1	1.2	1.2
Quick ratio	0.3	0.3	0.3	0.3	0.3

Leverage Ratios (x)	2024A	2025E	2026F	2027F	2028F
Debt-to-equity	1.7	1.6	1.7	1.8	1.7
Interest coverage	3.7	2.9	4.2	5.0	5.0

Efficiency Ratios (days)	2024A	2025E	2026F	2027F	2028F
Cash conversion cycle	199	184	178	181	171
DIO	-13	-8	-8	-8	-8
DSO	73	72	72	72	72
DPO	-139	-120	-115	-117	-107

Source: Bloomberg, MBSBR

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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