

KPJ Healthcare Berhad

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

Demand for Hospital Services Continue to Climb

KEY INVESTMENT HIGHLIGHTS

- **Maintain BUY, revised TP: RM1.42**
- **Earnings up +73%yoy, came slightly below expectations**
- **Revenue up +14%yoy due to higher earnings and revenue from an increase in patient visits and higher BOR in 2QFY23**
- **Demand for medical treatments and hospital services expected to increase**

Maintain BUY, TP: RM1.42. KPJ Healthcare Berhad (KPJ)'s 1HFY23 earnings came in below expectation at 40% of our yearly estimate. Hence, we cut our earnings estimates. Moreover, as we rollover to FY24, we revised our target price to RM1.42 (previously RM1.48). We however maintain our BUY call for KPJ, given its continuously robust performance in its Malaysian front. Additionally, we expect earnings to improve in the final quarter of the year, as the demand for healthcare services is expected to grow in CY23 in line with improvements on the local economic outlook, as well as increasing travel activities which will contribute to higher inpatient visits.

Earnings up +73%yoy. KPJ's 2QFY23 earnings added +73.4%yoy to RM46.9m. The group's Malaysia segment contributed to the higher earnings. Meanwhile, revenue was up by +14.3%yoy to RM799.5m. The higher revenue was attributable to the increase in patient visits and bed occupancy rate (BOR). Inpatient visits rose to 82,479 patients from 72,424 patients in 2QFY22, while BOR increased to 63% from 56%.

Malaysian segment. This segment recorded 2QFY23 earnings up +16.2%yoy to RM67.8m. Revenue gained +13.5%yoy to RM770.7m. Inpatient visits for this segment rose by +13% accompanied with the +17% improvement in inpatient days from 166,520 days in 2QFY22 to 194,641 days. The additional 5% in number of beds especially in KPJ Batu Pahat, KPJ Penang and KPJ Bandar Dato Onn also contributed to the better performance in 2QFY23.

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 2QFY23 was in a deficit of RM19.3m down from a loss of RM12.6m in 2QFY2, while revenue was down -8.2%yoy to RM30m.

Assets, cash flow remain robust. Total assets in 1HFY23 grew +6%yoy to RM7.2b, due to: (i) the completion of sale and leaseback arrangement with Al-'Aqar Healthcare REIT, (ii) the opening KPJ Damansara 2, and (iii) the development in KPJ Penang. The group also reported surge in cash generated by +45%yoy to RM283.6m as a result to significant improvement in hospital operations and gain from disposals of two Indonesian subsidiaries and land in Jeta Garden.

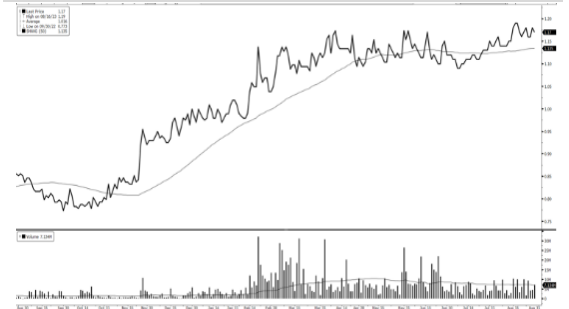
Maintain BUY

Revised Target Price: RM1.42
(Previously RM1.48)

RETURN STATISTICS

Price @ 29 th August 2023 (RM)	1.17
Expected share price return (%)	+21.4
Expected dividend yield (%)	+2.8
Expected total return (%)	+24.2

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	3.5	3.2
3 months	4.5	0.9
12 months	33.0	37.3


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	241	244	245
Core PATAMI	220	224	227
Core EPS	5.0	5.1	5.1
DPS	3.0	4.0	5.0
Dividend Yield	2.1%	2.8%	3.5%

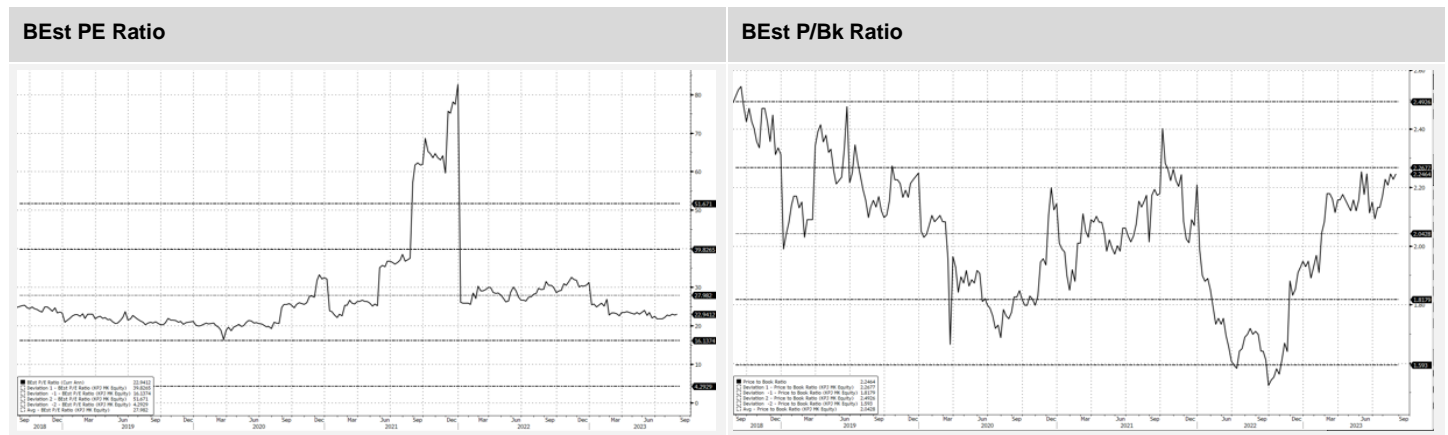
KEY STATISTICS

FBM KLCI	1,454.4
Issue shares (m)	4,343.2
Estimated free float (%)	24.5
Market Capitalisation (RM'm)	5,106.2
52-wk price range	RM0.78-RM1.21
3-mth average daily volume (m)	7.3
3-mth average daily value (RM'm)	8.2
Top Shareholders (%)	
Johor Corp	44.99
Employees Provident Fund Board	9.64
Waqaf AN Nur Corp Bhd	7.03

Improved demand for healthcare services expected in CY23. We are confident in KPJ's ability to continue operating excellently given the higher demand in 1HCY23 for healthcare services. We anticipate that the present climate will benefit the labour market and have a positive impact on medical professionals as well. Premised on the expected economic growth of +4%-5% in CY23 to support household spending, we believe KPJ is still on track in its momentum for the coming quarters. We are also positive on KPJ's prospects on the strength of increase in tourist arrivals which could contribute to the group's operations via medical tourism.

Revised earnings estimate and target price. Given the lower than expected earnings, we adjust our earnings forecasts for FY23 and FY24 downwards by -11% and -15% respectively. Nevertheless, we believe KPJ's current performance is on the right trajectory, and we are expecting a continuous growth in its financial performance in 2HCY23. Consequently, we maintain our Buy recommendation but revised our target price to RM1.42 as we rollover to FY24 valuations, based on pegging a PER of 28x to the revised EPS24 of 5.1sen. The PER is based on KPJ's 3-year average PER. 

FORWARD BAND



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		
	2QFY22	1QFY23	2QFY23	QoQ(%)	YoY (%)	1HFY22	1HFY23	YoY (%)
Revenue	699.3	829.0	799.5	(3.6)	14.3	1,341.0	1,628.5	21.4
Cost of sales	(426.3)	(487.1)	(478.9)	(1.7)	12.3	(825.7)	(966.0)	17.0
Gross Profit	273.1	341.9	320.7	(6.2)	17.4	515.2	662.5	28.6
Admin Expenses	(194.9)	(233.1)	(221.3)	(5.1)	13.6	(363.7)	(454.3)	24.9
Other Income	4.2	4.5	7.8	74.3	85.6	8.2	12.2	50.0
Zakat	(1.0)	(0.8)	(1.1)	38.6	8.9	(1.3)	(1.8)	42.9
Operating Profit	81.4	112.5	106.1	(5.7)	30.3	158.4	218.6	38.0
Finance Income	4.2	2.2	4.9	123.0	14.8	7.1	7.0	(1.7)
Finance Borrowings	(25.8)	(20.4)	(23.6)	15.5	(8.5)	(49.6)	(44.0)	(11.3)
Finance Costs: Lease Liabilities	(25.9)	(27.0)	(28.6)	6.2	10.5	(51.3)	(55.6)	8.4
Associates	12.2	10.3	9.8	(5.3)	(20.0)	19.9	20.1	0.9
Profit Before Tax	46.2	77.6	68.5	(11.7)	48.4	84.6	146.2	72.8
Taxation	(15.7)	(21.2)	(20.1)	(5.2)	27.7	(27.3)	(41.2)	50.8
Profit After Tax	30.5	56.5	48.5	(14.2)	59.0	57.3	104.9	83.3
Minority Interest	2.8	-	1.3	-	(52.5)	7.0	5.6	(19.9)
PATANCI	27.7	56.5	47.1	(16.5)	70.4	50.2	99.3	97.7
Exceptional Items (EI)	0.6	-	0.2	-	(68.9)	1.0	0.5	(53.2)
PATANCI ex-EI	27.1	56.5	46.9	(16.9)	73.4	49.2	98.8	100.8
Basic EPS (sen)	0.6	1.2	1.1	(9.2)	71.4	1.1	2.3	99.1
Diluted EPS (sen)	0.6	1.2	1.1	(9.2)	77.0	1.1	2.3	104.5
Dividend per share (sen)	0.3	0.6	0.7	8.3	160.0	0.5	1.3	177.8
					+ / (-) ppts			+ / (-) ppts
GP margin (%)	39.0	41.2	40.1	(1.1)	1.1	38.4	40.7	2.3
Operating Profit margin (%)	11.6	13.6	13.3	(0.3)	1.6	11.8	13.4	1.6
PBT margin(%)	6.6	9.4	8.6	(0.8)	2.0	6.3	9.0	2.7
PAT margin(%)	4.4	6.8	6.1	(0.7)	1.7	4.3	6.4	2.2
PATANCI margin(%)	4.0	6.8	5.9	(0.9)	1.9	3.7	6.1	2.4
Effective Tax rate (%)	34.0	27.3	29.3	2.0	(4.7)	32.3	28.2	(4.1)

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		
	2QFY22	1QFY23	2QFY23	QoQ(%)	YoY (%)	1HFY22	1HFY23	YoY (%)
Revenue								
Malaysia	678.8	800.7	770.7	(3.7)	13.5	1,296.9	1,571.4	21.2
Others	32.6	29.1	30.0	2.8	(8.2)	69.2	59.1	(14.6)
PAT								
Malaysia	58.3	66.3	67.8	2.2	16.2	106.1	134.1	26.4
Others	(12.6)	(9.8)	(19.3)	96.3	53.7	(22.2)	(29.2)	31.6

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	241.2	243.9	244.5
Tax	(49.9)	(73.2)	(28.6)	(27.8)	(27.3)
Core PATAMI	51.0	182.7	220.2	223.7	227.4

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	6,090.5	6,193.6	6,278.3
Cash	318.0	467.9	553.3	646.0	697.5
Trade debtors	481.4	645.7	621.4	721.8	770.1
Current assets	1,218.7	1,471.4	1,478.7	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	1,773.5	1,702.2	1,608.6
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	2,250.5	2,354.2	2,202.5	2,268.5	2,337.1

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	115.6	263.5	241.2	243.9	244.5
Depreciation & amortisation	185.8	188.1	158.1	183.7	196
Changes in working capital	-46.81	-94.56	-44.09	-69.32	-65.99
Operating cash flow	412.3	459.8	476.9	484.3	525.7
Capital expenditure	-216.6	-234.2	-293.8	-276.5	-252.3
Investing cash flow	37.8	-25.8	-54.8	-79	-99.1
Debt raised/(repaid)	-150.43	23.32	26.45	6.08	11.89
Dividends paid	-23.7	-86.9	-186.3	-198	-205.7
Financing cash flow	-393.8	-286.5	-336.7	-312.6	-375.1
Net cash flow	102.96	149.9	85.4	92.7	51.5
Beginning cash flow	215.04	318	467.9	553.3	646
Ending cash flow	318	467.9	553.3	646.0	697.5

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%	7.6%	6.6%	6.2%
Core PAT margin	1.9%	7.5%	7.1%	6.1%	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 <i>rise</i> 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 <i>fall</i> 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