



## KPJ Healthcare Berhad

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

**Maintain BUY**

### Hospital Improvements Boosted FY23 Earnings

**Revised Target Price: RM2.30**  
(Previously RM2.12)

#### KEY INVESTMENT HIGHLIGHTS

- **Maintain BUY, revised TP: RM2.30**
- **4QFY23 earnings up +14%yoy, in line with expectations**
- **4QFY23 revenue up by +19%yoy mainly due to higher contribution from KPJ Damansara 2, KPJ Penang and KPJ Puteri**
- **Demand for hospital services expected to increase from medical tourism and aging population, supported by Budget 2024**

**Maintain BUY, revised TP: RM2.30.** KPJ Healthcare Berhad (KPJ)'s 4QFY23 earnings came in within our earnings estimates at 95%, and above consensus' estimates at 103%. We maintain our **BUY** call for KPJ, given its continuously robust performance of its Malaysian front. Additionally, we are expecting earnings to improve at a faster pace in FY24, in line with an expected increase in healthcare services demand from the growing aging population and higher revenue for medical tourism, which subsequently translates to higher BOR, inpatient visits, treatments and surgery demand. We also revised our earnings forecast and **target price to RM2.30 (previously RM2.12)** on this basis.

**4QFY23 earnings up +14%yoy.** KPJ's 4QFY23 earnings added +13.7%yoy to RM83.5m. The higher earnings were due to improved hospital activities in Malaysia segment, partially offset by a RM6.8m impairment loss on the retirement village business' investment property in Australia.

**4QFY23 revenue up +19%yoy.** Meanwhile, revenue was up by +19%yoy to RM911.5m. This is attributable to a +4%yoy increase in patient visits to 857,537 in 4QFY23, supported with the higher number of beds by +6%yoy to 3,643. The bed occupancy rate (BOR) also increased from 64% to 69%.

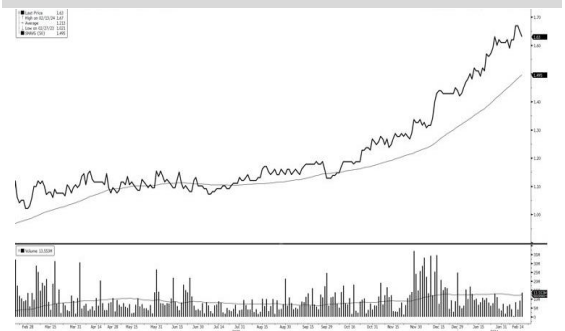
**Improved Malaysian segment by new hospitals.** 4QFY23 earnings up +3.9%yoy to RM92.9m, while revenue gained +18.5%yoy to RM892.3m. Patient visits increased by +4%yoy to 808,050 patients along with the increase in surgery cases by +6%yoy to 99,473 cases, and inpatient days up by 29,380 days evidenced by the higher BOR to 67% as compared to 58% in FY22. KPJ Damansara 2, KPJ Penang and KPJ Puteri registered the highest revenue increase, as they are newly opened hospital and building blocks. The higher earnings were also contributed mainly from the gain on disposal of the group's Indonesian operations in FY23.

**KPJ Dhaka and KPJU added for others segment.** This segment included: (i) the retirement village in Australia operated by Jeta Garden, (ii) education services by KPJ Healthcare University (KPJU), and (iii) hospital and management services by KPJ Dhaka. Collective earnings for 4QFY23 added +21.1%yoy to a deficit of RM7.7m, while revenue added +26.6%yoy to RM19.9m. The improved earnings and revenue were contributed by KPJ Dhaka and KPJU.

#### RETURN STATISTICS

Price @ 16 <sup>th</sup> February 2024 (RM)	1.64
Expected share price return (%)	+40.2
Expected dividend yield (%)	+1.6
<b>Expected total return (%)</b>	<b>+41.8</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	3.8	0.6
3 months	13.2	20.6
12 months	54.1	48.4

#### INVESTMENT STATISTICS

FYE Dec	2023A	2024F	2025F
Revenue	3,419	3,673	3,919
Operating Profit	1,432	1,597	1,628
Profit Before Tax	378	485	569
Core PATAMI	281	393	465
Core EPS	6.5	8.7	10.4
DPS	3.4	3.6	4.0
Dividend Yield	1.5%	1.6%	1.7%

#### KEY STATISTICS

FBM KLCI	1,533.55
Issue shares (m)	4,505.53
Estimated free float (%)	26.09
Market Capitalisation (RM'm)	7,113.81
52-wk price range	RM1.03-RM1.69
3-mth average daily volume (m)	12.08
3-mth average daily value (RM'm)	17.23
Top Shareholders (%)	
Johor Corp	44.99
Employees Provident Fund Board	9.09
Waqaf AN Nur Corp Bhd	6.68

**Strong balance sheet and cash flow despite disposals.** Total assets in FY23 grew +4%yoy to RM7.25b, 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 a surge in cash generated from operating activities by +43%yoy to RM657.6m as a result of significant improvement in hospital operations.

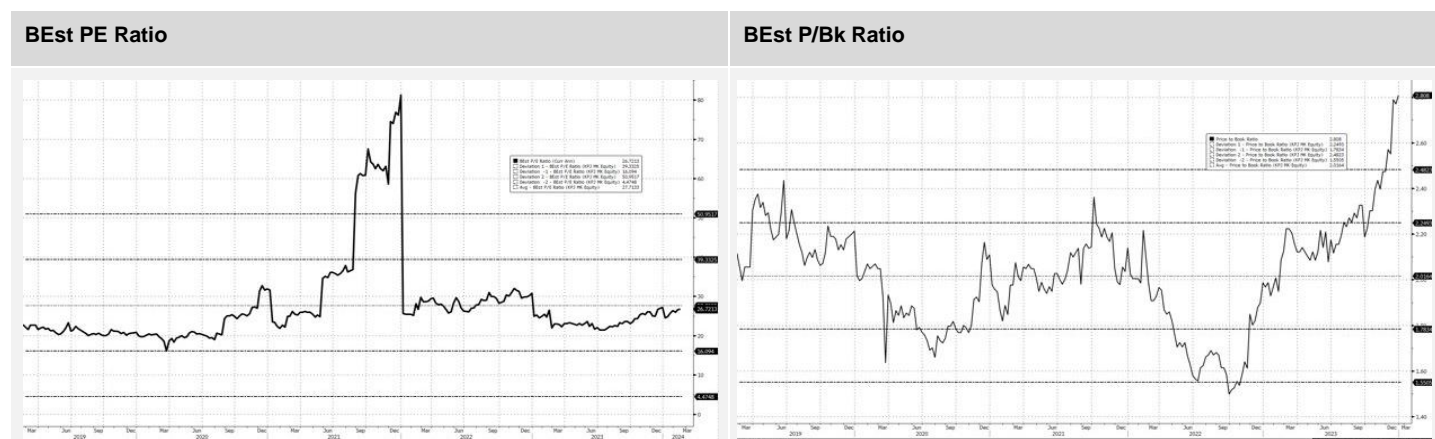
**Indonesia segment disposal completed.** FY23 saw the completed disposal of the group's Indonesian operations, which included: (i) entire 100% equity interest in PT Al-Aqar Permata Hijau (PTAPH), (ii) 80% interest in PT Khidmat Perawatan Jasa Medika (PTKPJM) (ii) entire 100% equity interest in PT Al-Aqar Bumi Serpong Damai (PTABSD) and, (iv) 75% equity interest in PT KPJ Medica (PTKM). KPJ gained a cash consideration of RM22.4m from PTAPH and PTKPJM disposals, and RM13.7m from PTABSD and PTKM disposals.

**KPJ poised to remain robust in FY24.** We remain positive for KPJ's prospects in FY24, on the basis that its focus on its Malaysian hospitals will ensure an efficient operation, while giving more room to expand its operations with more premium offerings for its patients. Other key drivers to KPJ's FY24 performance also include: (i) Budget 2024 and state budgets favouring the Healthcare sector, (ii) increased beds, services, and medical consultants in line with the expansion of its hospitals, (iii) rising aging population in Malaysia by +4.5% 10-year CAGR, and (iv) medical tourism expected to exceed RM2b of revenue in CY24.

**Revised earnings estimate and target price.** Given that 4QFY23 earnings came in within our expectations, we adjust our earnings forecasts for FY24 and FY25 upwards by +9% and +1% respectively, in addition to adjustments to our valuation with FY23 results and expectation of more capacity for income from the group's planned additions to its BOR. We believe that, with the opening of KPJ Damansara 2 Hospital, which boasted as KPJ's first smart infrastructure and equipped with a 300-bed capacity, as well as the renovations in planning for its hospitals to realise the group's target of adding an additional 400 beds in CY24, KPJ is expected to continue on this positive trajectory.

Consequently, we revise our **target price to RM2.30**, based on pegging a PER of 26.5x to the revised EPS24 of 8.7sen. The PER is based on KPJ's 5-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		
	4QFY22	3QFY23	4QFY23	QoQ(%)	YoY (%)	FY22	FY23	YoY (%)
<b>Revenue</b>	<b>765.8</b>	<b>925.4</b>	<b>911.5</b>	(1.5)	19.0	<b>2,868.5</b>	<b>3,418.7</b>	19.2
Cost of sales	(439.6)	(540.8)	(533.4)	(1.4)	21.3	(1,696.4)	(1,986.8)	17.1
<b>Gross Profit</b>	<b>326.2</b>	<b>384.6</b>	<b>378.0</b>	(1.7)	15.9	<b>1,172.1</b>	<b>1,431.9</b>	22.2
Admin Expenses	(218.8)	(259.6)	(275.3)	6.0	25.8	(788.4)	(980.3)	24.3
Other Income	14.7	46.1	9.2	(80.1)	(37.9)	28.6	67.3	135.4
Zakat	(1.2)	(0.7)	(0.6)	(19.3)	(54.5)	(2.7)	(3.1)	14.3
<b>Operating Profit</b>	<b>120.9</b>	<b>170.4</b>	<b>111.3</b>	(34.7)	(7.9)	<b>409.6</b>	<b>515.9</b>	26.0
Finance Income	2.8	5.3	<b>7.8</b>	47.2	183.1	12.1	20.1	66.0
Finance Borrowings	(20.2)	(28.3)	<b>(24.6)</b>	(13.2)	21.6	(91.9)	(97.2)	5.8
Finance Costs: Lease Liabilities	(25.9)	(28.1)	(24.0)	(14.7)	(7.2)	(102.5)	(107.7)	5.1
Associates	14.1	13.8	12.9	(7.0)	(8.8)	47.8	46.8	(2.1)
<b>Profit Before Tax</b>	<b>91.7</b>	<b>133.1</b>	<b>83.4</b>	(37.3)	(9.0)	<b>275.1</b>	<b>377.9</b>	37.4
Taxation	(14.2)	(35.8)	1.7	(104.8)	(112.0)	(73.2)	(75.3)	2.9
<b>Profit After Tax</b>	<b>77.5</b>	<b>97.3</b>	<b>85.2</b>	(12.5)	9.9	<b>201.9</b>	<b>302.6</b>	49.8
Minority Interest	4.0	7.0	1.7	(76.3)	(58.9)	23.3	21.3	(8.7)
<b>PATANCI</b>	<b>73.5</b>	<b>90.3</b>	<b>83.5</b>	(7.5)	13.7	<b>178.6</b>	<b>281.3</b>	57.5
Basic EPS (sen)	1.7	2.1	1.9	(7.7)	13.0	4.1	6.5	56.9
Diluted EPS (sen)	1.7	2.1	1.9	(7.7)	15.8	4.0	6.5	60.4
Dividend per share (sen)	1.0	0.8	1.3	62.5	30.0	2.0	3.4	67.5
				+ / (-) ppts			+ / (-) ppts	
GP margin (%)	42.6	41.6	41.5	(0.1)	(1.1)	40.9	41.9	1.0
Operating Profit margin (%)	15.8	18.4	12.2	(6.2)	(3.6)	14.3	15.1	0.8
PBT margin(%)	12.0	14.4	9.2	(5.2)	(2.8)	9.6	11.1	1.5
PAT margin(%)	10.1	10.5	9.3	(1.2)	(0.8)	7.0	8.9	1.8
PATANCI margin(%)	9.6	9.8	9.2	(0.6)	(0.4)	6.2	8.2	2.0
Effective Tax rate (%)	15.5	26.9	(2.1)	(29.0)	(17.6)	26.6	19.9	(6.7)

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		
	4QFY22	3QFY23	4QFY23	QoQ(%)	YoY (%)	FY22	FY23	YoY (%)
<b>Revenue</b>								
Malaysia	753.1	888.1	892.3	0.5	18.5	2,825.3	3,351.8	18.6
Others	15.7	38.2	19.9	(48.0)	26.6	109.8	70.5	(35.8)
<b>PAT</b>								
Malaysia	89.4	103.6	92.9	(10.3)	3.9	246.5	330.6	34.1
Others	(9.5)	(6.3)	(7.7)	22.6	(19.1)	(45.3)	(28.0)	(38.3)

Source: Company, MIDFR

## FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023A	2024F	2025F
Revenue	2,626.8	2,920.7	3,162.0	3,673.2	3,919.0
EBITDA	940.1	1,169.5	1,431.9	1,596.6	1,628.1
D&A	197.3	200.3	208.6	201.8	203.6
Profit before tax	115.6	263.5	377.9	485.0	569.3
Tax	(49.9)	(73.2)	(75.3)	(108.4)	(128.6)
Core PATAMI	51.0	182.7	281.3	392.9	464.5

Balance Sheet (RM'm)	2021A	2022A	2023A	2024F	2025F
Fixed assets	2,676.2	2,760.2	2,774.5	2,990.2	3,213.2
Intangible assets	220.0	206.0	198.5	219.2	215.9
Trade and other receivables	2,072.7	2,556.4	2,604.3	2,520.1	2,332.0
<b>Non-current assets</b>	<b>4,968.9</b>	<b>5,522.7</b>	<b>5,577.2</b>	<b>5,729.4</b>	<b>5,761.2</b>
Inventories	53.8	65.9	73.0	77.9	82.8
Cash	<b>270.0</b>	<b>416.9</b>	<b>552.5</b>	<b>681.8</b>	<b>788.9</b>
Trade debtors	481.4	645.7	673.6	721.8	770.1
Others	413.0	342.0	369.0	197.0	96.0
<b>Current assets</b>	<b>1,218.7</b>	<b>1,471.4</b>	<b>1,668.9</b>	<b>1,678.9</b>	<b>1,738.0</b>
Trade creditors	618.3	720.2	658.3	674.5	705.3
Short-term debt	860.5	839.4	547.0	608.4	672.2
<b>Current liabilities</b>	<b>1,580.1</b>	<b>1,673.5</b>	<b>1,401.6</b>	<b>1,563.4</b>	<b>1,401.3</b>
Long-term debt	968.0	1,047.8	1,365.0	1,260.8	1,160.2
Lease liabilities	1,288.1	1,818.2	1,870.3	1,938.0	2,165.1
<b>Non-current liabilities</b>	<b>2,357.0</b>	<b>2,966.4</b>	<b>3,316.5</b>	<b>3,289.6</b>	<b>3,428.5</b>
Share capital	959.5	976.3	999.2	999.2	999.2
Retained earnings	1,331.2	1,406.2	1,539.3	1,572.4	1,689.7
<b>Equity</b>	<b>2,250.5</b>	<b>2,354.2</b>	<b>2,528.2</b>	<b>2,555.4</b>	<b>2,669.3</b>

Cash Flow (RM'm)	2021A	2022A	2023A	2024F	2025F
PBT	<b>115.6</b>	<b>263.5</b>	<b>377.9</b>	<b>485.0</b>	<b>569.3</b>
Depreciation & amortisation	197.3	200.3	208.6	201.8	203.6
Changes in working capital	(46.8)	(90.3)	(11.7)	(36.9)	(22.5)
<b>Operating cash flow</b>	<b>412.2</b>	<b>459.8</b>	<b>657.6</b>	<b>613.7</b>	<b>687.1</b>
Capital expenditure	(536.7)	(398.0)	(380.0)	(407.0)	(416.1)
<b>Investing cash flow</b>	<b>37.8</b>	<b>(25.8)</b>	<b>(94.6)</b>	<b>(80.5)</b>	<b>(104.0)</b>
Debt raised/(repaid)	(150.4)	23.3	16.2	(46.0)	(100.6)
Dividends paid	(23.7)	(86.9)	(146.2)	(133.1)	(142.5)
<b>Financing cash flow</b>	<b>(393.8)</b>	<b>(286.5)</b>	<b>(434.7)</b>	<b>(404.9)</b>	<b>(475.7)</b>
<b>Net cash flow</b>	<b>56.1</b>	<b>147.4</b>	<b>128.2</b>	<b>128.3</b>	<b>107.3</b>
<b>Beginning cash flow</b>	<b>215.0</b>	<b>270.0</b>	<b>416.9</b>	<b>552.5</b>	<b>681.8</b>
<b>Ending cash flow</b>	<b>270.0</b>	<b>416.9</b>	<b>552.5</b>	<b>681.8</b>	<b>788.9</b>

Profitability Margins	2021A	2022A	2023A	2024F	2025F
EBITDA margin	35.8%	40.0%	45.3%	43.5%	41.5%
PBT margin	4.4%	9.0%	12.0%	13.2%	14.5%
Core PAT margin	1.9%	7.5%	8.9%	10.7%	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 <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