



KPJ Healthcare Berhad

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

Maintain BUY

Key Hospitals Added to Revenue In 1QFY24

Revised Target Price: RM2.54
(Previously RM2.30)

KEY INVESTMENT HIGHLIGHTS

- **1QFY24 normalised earnings up +56%yoy, within expectation**
- **Revenue up +11%yoy due to increase in patient visits and higher BOR, contributed by DSH2, KPJ Selangor, KPJ Klang and KPJ Puteri**
- **Abolishment of provision for Jeta Gardens added to the surge of earnings in Other segment**
- **Maintain BUY, revised TP: RM2.54**

Maintain BUY, revised TP: RM2.54. KPJ Healthcare Berhad (KPJ)'s 1QFY24 earnings came in within our earnings estimates at 23%, and above consensus' estimates at 30%. As such, we maintain our **BUY** call for KPJ. This is premised on its sanguine performance in its Malaysian front, in addition to better revenues from DSH2 and other key hospitals. We are expecting medical tourism, government support and advanced technology will translate to higher BOR, inpatient visits, treatments, and surgery demand in CY24. We also revised our **target price to RM2.54** (previously RM2.30) to support our view.

1QFY24 revenue up +11%yoy. KPJ's 1QFY24 revenue was up by +11.4%yoy to RM908m. This was attributable to an increase in the inpatient visits to 91,039 patients (+3.4%yoy) and increased bed capacity to 3,693 beds (+8.1%yoy), subsequently easing BOR to 65%.

1QFY24 normalised earnings up +56%yoy. KPJ's 1QFY24 normalised earnings surged +56.1%yoy to RM89.1m. The improved results were driven by the Malaysia segment. KPJ DSH2's EBITDA gained +106%yoy to RM0.6m, attributable to effective marketing and advanced technology equipment. Additionally, the disposal of the aged care business in Australia added to the increased earnings.

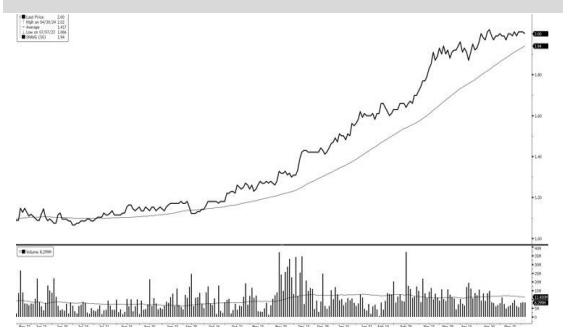
Higher surgeries and inpatient days in Malaysia. The Malaysia segment saw revenue climbed +11.4%yoy to RM892.6m, while EBITDA added +2.8%yoy to RM198.4m. Other than revenue at DSH2 with an increment of RM14.7m, KPJ Klang, KPJ Ampang Puteri and KPJ Selangor contributed an aggregate increase in revenue by RM17.8m. These hospitals collectively recorded a surge in surgeries by +13%yoy to 4,509 cases, with inpatient days increased by +7%yoy to 40,672 days.

Earnings gained from end of provision in Jeta. 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 revenue increased +6.2%yoy to RM16.1m, while collective EBITDA grew nearly 22-fold to RM48.7m. The surge in EBITDA was attributable to the provisional extinguishment of net liabilities of the aged care business in Jeta Gardens.

RETURN STATISTICS

Price @ 27 th May 2024 (RM)	2.00
Expected share price return (%)	+27.0
Expected dividend yield (%)	+1.4
Expected total return (%)	+28.4

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.5	-1.2
3 months	4.2	15.4
12 months	77.3	53.7

INVESTMENT STATISTICS


FYE Dec	2024F	2025F	2026F
Revenue	3,871	4,010	4,191
Operating Profit	800	894	935
Profit Before Tax	450	537	688
Core PATAMI	403	478	485
Core EPS	8.7	10.4	10.6
DPS	3.6	4.0	5.0
Dividend Yield	1.4%	1.6%	2.0%

KEY STATISTICS

FBM KLCI	1,618.27
Issue shares (m)	4,364.30
Estimated free float (%)	40.35
Market Capitalisation (RM'm)	8,728.60
52-wk price range	RM1.07-RM2.05
3-mth average daily volume (m)	11.53
3-mth average daily value (RM'm)	21.52
Top Shareholders (%)	
Johor Corp	35.886
Employees Provident Fund Board	9.82
Waqaf AN Nur Corp Bhd	6.68

Optimism remains on hospital services for FY24. In the expectation that Malaysia’s economy will grow at a better pace than last year (MIDFR forecast +4.7% in CY24), we opine that this would assist in improving the demand for healthcare services. KPJ is expected to continue focusing on asset optimisation, including: (i) maximising existing bed capacity, (ii) boosting operations of hospitals under gestation period, and (iii) promoting key hospitals as Centres of Excellence. KPJ is also in the right position to leverage on the medical tourism market, which is expected to exceed RM2b of revenue in CY24.

Revised earnings estimate and target price. Despite 1QFY24 earnings coming in within our expectations, we adjusted our earnings forecasts for FY24 and FY25 upwards marginally by +1% and +2% respectively. This is considering the improved revenue for its Malaysian hospitals – notably DSH2 – in addition to the expected higher BOR in CY24. We opine that the slight adjustment is in line with the additional 400 beds anticipated in CY24 for KPJ’s hospitals.

Consequently, we revise our **target price to RM2.54**, based on pegging a PER of 29x to EPS24 of 8.7sen. The PER is based on the Healthcare sector’s 3-year average PER, as we are expecting KPJ to follow the uptrend in the healthcare sector with an anticipated expansion of up to RM128b by CY27, in addition to the government’s continuous support to the sector and higher demand through medical tourism. 

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		
	1QFY23	4QFY23	1QFY24	QoQ(%)	YoY (%)	3MFY22	3MFY23	YoY (%)
Revenue	815.0	911.5	908.0	(0.4)	11.4	815.0	908.0	11.4
Cost of sales	(475.6)	(533.4)	(518.6)	2.8	(11.2)	(475.6)	(518.6)	9.0
Gross Profit	339.4	378.0	389.4	3.0	14.7	339.4	389.4	14.7
Admin Expenses	(226.3)	(275.3)	(269.5)	(2.1)	19.1	(226.3)	(269.5)	19.1
Other Income	3.8	9.2	51.8	465.8	1,277.0	3.8	51.8	1,277.0
Zakat	(0.8)	(0.6)	(2.0)	263.9	166.4	(0.8)	(2.0)	166.4
Operating Profit	116.1	111.3	169.7	52.4	46.1	116.1	169.7	46.1
Finance Income	2.1	7.8	5.8	(25.6)	171.3	2.1	5.8	171.3
Finance Borrowings	(20.4)	(24.6)	(23.0)	(6.5)	12.8	(20.4)	(23.0)	12.8
Finance Costs: Lease Liabilities	(27.0)	(24.0)	(27.2)	13.2	0.7	(27.0)	(27.2)	0.7
Associates	10.3	12.9	9.4	(27.2)	(9.2)	10.3	9.4	(9.2)
Profit Before Tax	81.3	83.4	134.8	61.5	65.8	81.3	134.8	65.8
Taxation	(21.2)	1.7	(31.2)	(1,923.5)	47.5	(21.2)	(31.2)	47.5
Profit After Tax	60.1	85.2	103.6	21.6	72.3	60.1	103.6	72.3
Minority Interest	4.4	17.8	7.8	(56.3)	75.5	4.4	7.8	75.5
PATANCI	55.7	67.3	95.8	42.2	72.0	55.7	95.8	72.0
Exceptional Items (EI)	(1.4)	(29.1)	6.7	(122.9)	(575.7)	(1.4)	6.7	(575.7)
PATANCI ex-EI	57.1	96.4	89.1	(7.6)	56.1	57.1	89.1	56.1
Basic EPS (sen)	1.3	1.9	1.7	(8.9)	39.2	1.3	1.7	39.2
Diluted EPS (sen)	1.3	1.9	1.7	(8.9)	39.2	1.3	1.7	39.2
Dividend per share (sen)	0.6	1.3	1.0	(23.1)	66.7	0.6	1.0	66.7
				+ / (-) pts			+ / (-) pts	
GP margin (%)	41.6	41.5	42.9	1.4	1.2	41.6	42.9	1.2
Operating Profit margin (%)	14.3	12.2	18.7	6.5	4.4	14.3	18.7	4.4
PBT margin(%)	10.0	9.2	14.8	5.7	4.9	10.0	14.8	4.9
PAT margin(%)	7.4	9.3	11.4	2.1	4.0	7.4	11.4	4.0
PATANCI margin(%)	6.8	7.4	10.5	3.2	3.7	6.8	10.5	3.7
Effective Tax rate (%)	26.0	(2.1)	23.2	25.2	(2.9)	26.0	23.2	(2.9)

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		
	1QFY23	4QFY23	1QFY24	QoQ(%)	YoY (%)	3MFY22	3MFY23	YoY (%)
Revenue								
Malaysia	800.8	892.3	892.6	0.0	11.5	800.8	892.6	11.5
Others	15.1	19.9	16.1	(19.0)	6.2	15.1	16.1	6.2
PAT								
Malaysia	192.9	200.6	198.4	(1.1)	2.8	192.9	198.4	2.8
Others	2.1	(6.0)	48.7	(905.3)	2,198.0	2.1	48.7	2,198.0

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Revenue	2,920.7	3,418.7	3,870.5	4,009.6	4,190.8
EBITDA	399.2	714.0	799.6	894.4	935.2
D&A	200.34	208.64	201.76	203.58	204.63
Profit before tax	127.9	377.9	450.3	536.8	687.9
Tax	(73.2)	(75.3)	(79.0)	(80.2)	(82.7)
Net Profit	182.7	270.4	373.8	443.5	463.0
Core PATAMI	184.9	302.0	403.2	477.5	484.8

Balance Sheet (RM'm)	2022A	2023A	2024F	2025F	2026F
Fixed assets	2,760.2	2,774.5	3,033.2	3,299.9	3,575.6
Intangible assets	1,783.1	1,784.3	1,508.7	1,546.5	1,598.4
Investments	846.7	872.0	926.2	982.3	1,036.8
Trade and other receivables	17.1	19.3	20.0	20.0	20.0
Non-current assets	5,522.7	5,577.2	5,775.2	5,851.8	6,358.0
Inventories	65.9	73.0	82.1	85.2	85.8
Cash	416.9	552.5	583.0	656.3	759.7
Trade debtors	645.7	673.6	760.6	787.9	823.5
Others	291.90	137.03	253.26	142.02	269.77
Current assets	1,420.3	1,436.2	1,678.9	1,671.5	1,938.8
Trade creditors	720.2	658.3	674.5	705.3	725.3
Short-term debt	839.4	547.0	608.4	672.2	705.5
Current liabilities	1,673.5	1,401.6	1,563.4	1,401.3	1,445.1
Long-term debt	1,047.8	1,365.0	1,260.8	1,160.2	1,260.2
Lease liabilities	1,818.2	1,870.3	1,938.0	2,165.1	2,268.3
Non-current liabilities	2,915.3	3,083.8	3,449.7	3,598.9	4,232.5
Share capital	976.3	999.2	999.2	999.2	999.2
Retained earnings	1,406.2	1,539.3	1,458.1	1,543.5	1,642.9
Equity	2,354.2	2,528.2	2,441.1	2,523.0	2,619.2

Cash Flow (RM'm)	2022A	2023A	2024F	2025F	2026F
PBT	127.9	377.9	450.3	536.8	687.9
Depreciation & amortisation	200.3	208.6	201.8	203.6	204.6
Changes in working capital	(90.3)	(11.7)	(79.8)	0.3	(16.1)
Operating cash flow	459.8	657.6	539.9	683.3	459.8
Capital expenditure	(398.0)	(380.0)	(450.0)	(459.7)	(469.9)
Investing cash flow	(25.8)	(94.6)	(105.5)	(134.0)	(163.2)
Debt raised/(repaid)	23.3	16.2	(46.0)	(100.6)	100.0
Dividends paid	(86.9)	(146.2)	(133.1)	(142.5)	(163.6)
Financing cash flow	(286.5)	(434.7)	(404.9)	(475.7)	(381.9)
Net cash flow	147.4	128.2	29.5	73.6	102.1
Beginning cash flow	270.0	416.9	552.5	583.0	656.3
Ending cash flow	416.9	552.5	583.0	656.3	759.7

Profitability Margins	2022A	2023A	2024F	2025F	2026F
EBITDA margin	13.7%	20.9%	20.7%	22.3%	22.3%
PBT margin	4.4%	11.1%	11.6%	13.4%	16.4%
Net Profit margin	6.3%	7.9%	9.7%	11.1%	11.0%
Core PAT margin	6.3%	8.8%	10.4%	11.9%	11.6%

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