

31 May 2023

KPJ Healthcare

A Solid Start to FY23

By Raymond Choo Ping Khoo | pkchoo@kenanga.com.my

KPJ's 1QFY23 results beat expectations on stronger-than-expected business rebound as the pandemic ended. For FY23, we project its patient throughput to grow 14% (vs. 12% in FY22) and bed occupancy rate (BOR) of 70% (vs. 58% in FY22) as the private healthcare services market resumes its growth path post the pandemic. We raise our FY23F net profit by 5% but keep our FY24F numbers. Our TP remains at RM1.50 based on FY24 earnings. Reiterate **OUTPERFORM**.

1QFY23 net profit more than doubled to RM52m, accounting for 25% and 24% of our full-year forecast and the full-year consensus estimate, respectively. We consider the results as above expectation as historically its 2H have performed better than 1H (i.e. for past three years pre-COVID, 2H accounted for an average of between 53%-62% of full-year earnings). The variance against our forecast came largely from a stronger-than-expected bed occupancy rate.

YoY, 1QFY23 revenue rose 29%, thanks to higher patient throughput (+4%) and higher BOR of 70% (compared to 48% in 1QFY22) as demand for non-COVID related services rebounded including elective surgeries following the transition to endemic phase. Better overhead absorption (on an improved turnover) drove a 26% improvement in EBITDA which we believe was also boosted by narrowing losses from its new hospitals (which are EBITDA positive), i.e. KPJ Bandar Dato' Onn, KPJ Perlis and KPJ Miri. As a result, 1QFY23 net profit more than doubled, albeit from a low base a year ago.

QoQ, 1QFY23 revenue rose 6% due to lower throughput from inpatient (+5%) and outpatient (-1%) with booster from higher bed occupancy rate (BOR) of 70% compared to 64% in 4QFY22. However, 1QFY23 net profit fell 28% to RM52m due to a higher effective tax rate of 27% compared to 16% in 4QFY22. A 1st interim dividend of 0.65 sen was declared which came in within our expectation.

Outlook. Looking ahead into FY23, we project KPJ's patient throughput to grow 14% (vs. 12% in FY22) and BOR of 70% (vs. 58% in FY22) as the demand for private healthcare services resumes its growth path post the pandemic.

Forecasts. We raise our FY23F net profit by 5% (as we raise our assumption on BOR from 66% to 70%). However, we keep our FY24F earning unchanged. Our TP remains unchanged at RM1.50 based on 28x FY24F EPS, in line with its regional peers. There is no adjustment to TP based on ESG given a 3-star rating as appraised by us (see next page).

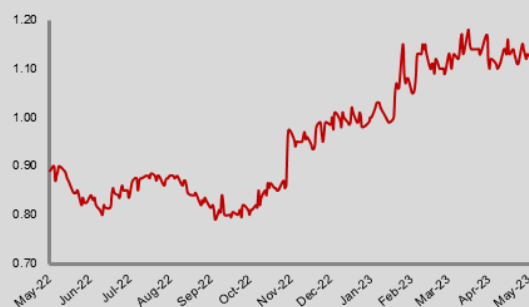
We continue to like KPJ for: (i) the low "price elasticity of demand" for healthcare service, which mean players are less vulnerable to high inflation as they could pass on the higher cost, (ii) being a reopening play, especially for elective surgeries, and (iii) its strong market position locally with the largest network of 29 private hospitals (vs. only 16 of IHH Healthcare's Malaysia operation in the second place). Reiterate **OUTPERFORM**.

Key risks to our call are: (i) regulatory risk, (ii) the lack of political will to roll out a national health insurance scheme, and (iii) longer-than-expected gestation periods for its newer hospitals.

OUTPERFORM ↔

Price: **RM1.12**
Target Price: **RM1.50** ↔

Share Price Performance



KLCI 1,396.91
YTD KLCI chg -6.6%
YTD stock price chg 10.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KPJ MK Equity
Market Cap (RM m)	4,888.0
Shares Outstanding	4,364.3
52-week range (H)	1.19
52-week range (L)	0.79
3-mth avg daily vol:	9,202,571
Free Float	33%
Beta	0.8

Major Shareholders

Johor Corporation	35.4%
Employees Provident Fund	11.1%
Waqaf An-Nur Corporation	7.0%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	2,920.7	3,285.8	3,303.7
PBT	263.5	354.2	378.4
Net Profit (NP)	172.0	219.6	236.4
Core NP	172.0	219.6	236.4
Consensus (NP)	-	214	242
Earnings Revision	-	+5%	-
Core EPS (sen)	3.9	4.7	5.4
Core EPS growth (%)	212.5	27.4	7.6
NDPS (sen)	2.6	3.0	3.0
BVPS (RM)	0.50	0.52	0.54
PER (x)	28.9	22.7	21.1
Price/BVPS (x)	2.2	2.2	2.1
Net Gearing (%)	63.7	58.2	51.4
Dividend Yield (%)	2.3	2.7	2.7



31 May 2023

Result Highlight

	1Q FY22	4Q FY22	1Q FY23	Q-o-Q Chg (%)	Y-o-Y Chg (%)
FY Dec (RM m)					
Turnover	641.6	780.9	829.0	6.2	29.2
EBITDA	151.8	202.0	190.9	(5.5)	25.8
Associates	7.7	14.1	10.3	(26.9)	34.0
PBT	38.4	90.5	77.6	(14.2)	102.2
PATAMI	22.1	72.1	51.9	(28.0)	134.4
EPS (sen)	0.5	1.7	1.2	(28.3)	133.3
EBITDA margin	24%	26%	23%		
PBT margin	6%	12%	9%		
Effective tax rate	30%	16%	27%		

Source: Company, Kenanga Research, Bursa Malaysia

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	☆		
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	☆		
SPECIFIC	Care Quality & Patient Safety	★	★	★		
	Effluent / Waste Management	★	★	★		
	Energy Efficiency	★	★	★		
	Cybersecurity/Data Privacy	★	★	★	☆	
	Talent Management	★	★	★		
	Supply Chain Management	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

The rest of the page is intentionally left blank

31 May 2023

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
IHH HEALTHCARE BHD	OP	5.78	7.00	21%	50,904	Y	12/2022	18.8	20.7	20%	10%	30.7	28.0	1.9	6.2%	7.0	1.2%
KOTRA INDUSTRIES BHD	OP	5.51	7.00	27%	816	Y	06/2023	46.6	46.7	11%	0%	11.8	11.8	2.6	24.8%	19.0	3.4%
KPJ HEALTHCARE BHD	OP	1.12	1.50	34%	4,888	Y	12/2023	4.9	5.3	28%	8%	22.7	21.0	2.2	9.7%	3.0	2.7%
MALAYSIAN GENOMICS	OP	0.505	0.800	58%	66	Y	06/2023	1.3	4.7	-75%	256%	38.0	10.7	1.4	4.3%	0.0	0.0%
RESOURCE CENTRE BHD																	
NOVA WELLNESS GROUP BHD	OP	0.760	0.960	26%	242	Y	06/2023	4.7	6.4	-11%	38%	16.3	11.8	2.2	14.1%	3.0	3.9%

Source: Company, Bloomberg, Kenanga Research

The rest of the page is intentionally left blank

31 May 2023

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my