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KPJ Healthcare

No Sign of Patient Throughput Slowing

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KPJ expects the recovery in demand for its services to accelerate in the remaining quarters underpinned by pent-up demand for elective surgeries. Thanks to high patient throughput, two of its new hospitals have turned EBITDA-positive while the other two only recorded small operating losses. We maintain our forecasts, TP of RM1.50 and OUTPERFORM call.

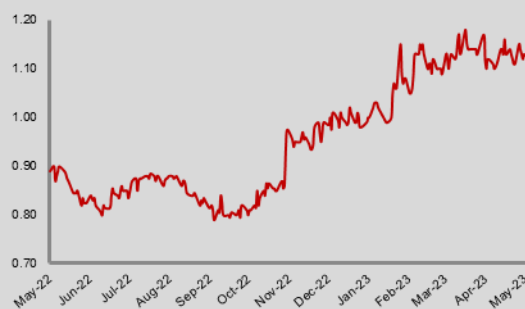
We came away from KPJ's 1QFY23 post-results briefing feeling positive. The key highlights are as follows:

1. KPJ expects the demand recovery for its services to accelerate in the remaining quarters underpinned by pent-up demand for elective surgeries with both local and foreign patients returning. The group indicated that its 1QFY is seasonally a slower quarter due to the festive holidays and a shortened February month. We highlight that historically (i.e. for past three years pre-COVID, 2H accounted for an average of between 53%-62% of full-year earnings). To recap, key operating indicators showed marked improvement in 1QFY23. YoY, 1QFY23 earnings were driven by higher patient throughput (+39%), bed occupancy rate (BOR) of 70% compared to 48% in 1QFY22 and health tourism revenue (+126%) as the group saw a rebound in non-COVID related services including elective surgeries (+23%).
2. Due to better operational efficiencies and overhead absorption rate as a result of gradual-ramp up in opening new beds and hence gaining incremental revenue underpinned by higher patient throughput, the group's two hospitals under gestation turned EBITDA-positive. Its other hospitals, namely KPJ Perlis and KPJ Miri recorded small operating loss of RM0.2m in 1QFY23. The group expect all four hospitals to breakeven somewhere in 2023 as revenue is gaining momentum.
3. Damansara Specialist Hospital 2 (DSH2) posted 1QFY23 losses of RM22m, similar to 4QFY22. In 1QFY23, BOR came in at 34% compared to 38% in 4QFY22 on gradual ramp-up in activities. The group aims to increase bed capacity from 60-123 beds in 2023 to 205-265 beds in 2025. Initially, DSH2 is targeting 30% medical tourism in FY23 (thereafter 50% in 2025) by offering cardiac services through collaboration with consultants to bring in patients from the Middle East. Recall, the group is targeting DSH2 to be EBITDA-positive within three years by deploying 50% of capacity towards medical tourism coupled with offering high revenue intensity services to reduce the gestation period including elective surgeries like neurosurgery, cardiac surgery, gastroenterology & endoscopy procedures and orthopaedics.
4. The group is positioning DSH2 as KPJ Healthcare's first smart hospital by taking the lead in digital transformation. Upon successful implementation, the digital transformation is expected to be replicated in the group's other hospitals. Specifically, KPJ will implement a new Hospital Information System (nHIS), which is a platform that provides data-driven intelligence by utilising analytics and insight using a machine learning engine. At the heart of the system is AI-driven Electronic Medical Records System, coupled with an Internet of Things (IoT) network to enable seamless integration of processes, systems and experiences throughout the facility.

OUTPERFORM ↔

Price: RM1.18
Target Price: RM1.50 ↔

Share Price Performance



KLCI	1,387.12
YTD KLCI chg	-7.2%
YTD stock price chg	16.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KPJ MK Equity
Market Cap (RM m)	5,149.9
Shares Outstanding	4,364.3
52-week range (H)	1.19
52-week range (L)	0.79
3-mth avg daily vol:	9,274,410
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)	-	220.4	248.0
Earnings Revision	-	-	-
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)	30.5	23.9	22.2
Price/BVPS (x)	2.4	2.3	2.2
Net Gearing (%)	63.7	58.2	51.4
Dividend Yield (%)	2.2	2.5	2.5

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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 keep our earnings forecasts unchanged. Our TP remains at RM1.50 based on 28x FY24F EPS, in line with its regional peers. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4). Reiterate **OUTPERFORM**.

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) it 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).

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.

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	FY Dec	2020A	2021A	2022A	2023F	2024F
Revenue	2,397.4	2,626.8	2,920.7	3,285.8	3,303.7	Growth					
EBITDA	538.9	529.5	708.8	767.6	789.6	Turnover	-33.5%	9.6%	11.2%	12.5%	0.5%
Dep & Amort	(223.3)	(255.3)	(261.8)	(276.3)	(278.2)	EBITDA	-15.9%	-1.7%	33.9%	8.3%	2.9%
Associates	16.9	25.9	47.8	47.8	49.7	Operating Profit	-25.5%	-12.3%	60.8%	23.1%	4.1%
PBT	150.8	115.6	263.5	354.2	378.4	PBT	-25.5%	-12.3%	60.8%	23.1%	4.1%
Taxation	(40.0)	(49.9)	(73.2)	(116.3)	(123.7)	Net Profit /(loss)	-47.5%	-53.1%	212.5%	27.4%	7.6%
Net profit	(0.4)	(14.6)	172.0	219.6	236.4	Profitability					
						EBITDA Margin	17.1%	19.5%	24.3%	23.4%	23.9%
						Operating Margin	13%	10.5%	13.7%	13.7%	14.9%
						PBT Margin	6.3%	4.4%	9.0%	10.8%	11.5%
						Core Net Margin	4.6%	1.9%	5.9%	6.7%	7.2%
						Eff. Tax Rate	30.0%	36.0%	37.0%	33.0%	33.0%
						ROA	1.8%	0.9%	2.5%	3.1%	3.3%
						ROE	5.6%	2.4%	7.9%	9.7%	10.0%
						DuPont Analysis					
						Net Margin (%)	4.6%	1.9%	5.9%	6.7%	7.2%
						Assets T/O (x)	2.6	2.4	2.4	2.2	2.2
						Lev. Factor (x)	3.0	2.9	3.1	3.1	3.0
						ROE (%)	5.6%	2.4%	7.9%	9.7%	10.0%
						Leverage					
						Debt/Asset (x)	0.3	0.3	0.3	0.3	0.3
						Debt/Equity (x)	1.0	0.9	0.8	0.8	0.8
						Valuations					
						EPS (sen)	2.7	1.3	3.9	5.0	5.4
						NDPS (sen)	2.00	0.75	2.60	3.00	3.00
						BVPS (RM)	0.49	0.51	0.50	0.52	0.54
						PER (x)	44.3	94.3	30.2	23.9	22.2
						Net Div. Yield(%)	1.7	0.6	2.2	2.5	2.5
						P/BV	2.2	2.4	2.3	2.4	2.3
						EV/EBITDA (x)	12.0	12.2	9.4	8.6	8.2
Balance Sheet											
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F						
Fixed Assets	2,863.6	2,676.2	2,760.2	2,783.9	2,805.7						
Int. Assets	235.8	220.0	206.0	206.0	206.0						
Other FA	1,971.8	2,072.7	2,556.4	2,556.4	2,556.4						
Inventories	457.4	481.4	65.9	74.1	74.5						
Receivables	98.6	115.4	645.7	723.1	722.3						
Other CA	0.0	318.0	134.4	134.4	134.4						
Cash	462.2	250.2	467.9	540.1	644.6						
Non CA	-	-	157.5	157.5	157.5						
Total Assets	6,141.4	6,187.6	6,994.1	7,175.5	7,301.4						
Payables	605.1	618.3	720.2	810.2	814.7						
ST Borrowings	505.8	860.5	839.4	839.4	839.4						
Ot. ST Liability	121.1	101.4	113.8	100.7	100.7						
LT Borrowings	1,449.2	968.0	1,047.8	1,047.8	1,047.8						
Ot. LT Liability	1,258.0	1,389.0	1,918.6	1,918.6	1,918.6						
Minorities Int.	152.1	115.1	127.0	145.3	163.6						
Net Assets	2,050.1	2,135.4	2,227.3	2,313.5	2,416.6						
Share Capital	909.5	959.5	976.3	976.3	976.3						
Treasury shares	(155.3)	(155.3)	(155.3)	(155.3)	(155.3)						
Reserves	1,295.9	1,331.2	1,406.2	1,492.5	1,595.6						
Equity	2,050.1	2,135.4	2,227.3	2,313.5	2,416.6						
Cashflow Statement											
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F						
Operating CF	590.3	336.7	412.2	459.8	467.0						
Investing CF	(444.7)	(248.3)	37.8	(25.8)	(270.4)						
Financing CF	(310.0)	(134.1)	(393.8)	(286.5)	(72.8)						
Change In Cash	(164.4)	(45.7)	56.1	147.4	123.8						
Free CF	290.3	36.7	112.2	159.8	167.0						

Source: Kenanga Research, Bursa Malaysia

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	5.77	7.00	21%	50,816	Y	12/2023	18.8	20.7	19.7%	9.8%	30.7	27.9	1.9	6.2%	15.5	2.7%
KOTRA INDUSTRIES BHD	OP	5.41	7.00	29%	801	Y	06/2023	46.6	46.7	11.1%	0.1%	11.6	11.6	2.6	24.8%	19.0	3.5%
KPJ HEALTHCARE BHD	OP	1.18	1.50	27%	5,150	Y	12/2023	4.9	5.3	27.7%	7.7%	23.9	22.2	2.3	9.7%	3.0	2.5%
MALYSIAN GENOMICS	OP	0.530	0.800	51%	69	Y	06/2023	1.3	4.7	-75.0%	255.6%	39.9	11.2	1.5	4.3%	0.0	0.0%
RESOURCE CENTRE BHD																	
NOVA WELLNESS GROUP BHD	OP	0.750	0.960	28%	239	Y	06/2023	4.7	6.4	-10.8%	37.8%	16.1	11.7	2.2	14.1%	3.0	4.0%

Source: Company, Bloomberg, Kenanga Research

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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

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.**

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