

28 May 2024

# KPJ Healthcare

## Solid Fundamentals, but Priced In

By Raymond Choo Ping Khoo | [pkchoo@kenanga.com.my](mailto:pkchoo@kenanga.com.my)

KPJ's 1QFY24 results met expectations. Its 1QFY24 core net profit grew 5% YoY on higher inpatient throughput partially offset by, we believe, cost pressure especially at its newer hospitals. We keep our forecasts and TP of RM1.95 but downgrade our call to MARKET PERFORM from OUTPERFORM after the recent run-up in its share price.

Its 1QFY24 core net profit of RM57.1m (excluding extinguishment of net liabilities related to the disposal of the aged care business by Jeta Gardens) came in at only 21% and 19% of our full-year forecast and the full-year consensus estimate, respectively. We consider the results within expectations as KPJ typically reports stronger earnings in 2H. It declared an interim dividend of 1 sen, on track to meet our full-year forecast of 3.35 sen.

YoY, its 1QFY24 revenue rose 11% thanks to higher inpatient throughput (+4%) and bed capacity (+8%) which drove elective surgeries cases (+13%). However, its EBITDA only rose 5% weighed down by, we believe, cost pressure especially at newer hospitals, i.e. DSH2, KPJ Bandar Dato' Onn, KPJ Perlis and KPJ Miri. Similarly, its core net profit only grew 5%.

QoQ, its 1QFY24 revenue was flattish on lower throughput from both inpatients (-4%) and outpatients (-6%). However, its 1QFY24 core net fell 32% due to a high base in the preceding quarter (arising from tax write-back due to recognition of unutilised capital allowances and tax losses for new businesses under gestation).

**Outlook.** We expect KPJ's patient throughput to grow at 9% in FY24 (vs. an estimated 7% in FY23) with a bed occupancy rate (BOR) of 72% (vs. 67% in FY23) driven by improved revenue intensity emanating from the recovery in 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.

**Forecasts.** Maintained.

**Valuations.** We keep our TP of RM1.95 based on 28x FY25F 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).

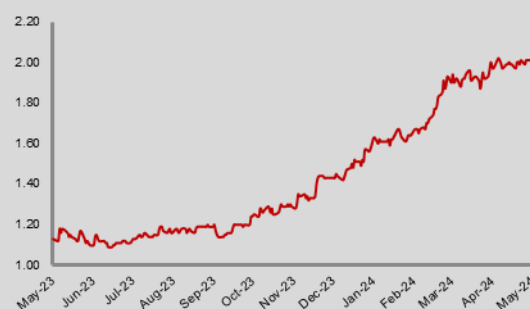
**Investment case.** We like KPJ for: (i) the bright prospects of the private healthcare sector in Malaysia underpinned by rising affluence and ageing population, (ii) the low "price elasticity of demand" for healthcare service making players less vulnerable to high inflation as they could pass on the higher cost, 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). However, we downgrade our call to MARKET PERFORM from OUTPERFORM after the recent run-up in its share price.

**Key risks to our call are:** (i) regulatory risks, (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.

## MARKET PERFORMANCE ↓

Price: RM2.00  
Target Price: RM1.95 ↔

### Share Price Performance



KLCI 1,618.27  
YTD KLCI chg 11.2%  
YTD stock price chg 38.9%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KPJ MK Equity
Market Cap (RM m)	8,728.6
Shares Outstanding	4,364.3
52-week range (H)	2.05
52-week range (L)	1.08
3-mth avg. daily vol.	11,527,110
Free Float	40%
Beta	0.9

### Major Shareholders

Johor Corporation	45.0%
Employees Provident Fund	9.8%
Waqaf An-Nur Corporation	6.7%

### Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	3,418.7	3,447.2	3,624.7
PBT	379.7	408.9	453.7
<b>Net Profit (NP)</b>	281.3	273.7	306.6
<b>Core NP</b>	254.8	273.7	306.6
Consensus (NP)	-	299	328
Earnings Revision	-	-	-
Core EPS (sen)	5.7	6.2	6.9
Core EPS Growth (%)	46.6	8.1	11.9
NDPS (sen)	3.35	3.35	3.35
BVPS (RM)	0.54	0.56	0.60
PER (x)	34.9	32.5	29.0
Price/BVPS (x)	3.7	3.5	3.3
Net Gearing (%)	47.3	42.3	34.1
Dividend Yield (%)	1.7	1.7	1.7

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**Result Highlight**

	1Q	4Q	1Q	Q-o-Q	Y-o-Y
FY Dec (RM m)	FY23	FY23	FY24	Chg (%)	Chg (%)
<b>Turnover</b>	815.0	911.5	908.0	(0.4)	11.4
EBITDA	184.0	194.1	193.9	(0.1)	5.4
Dep & Amortisation	(67.9)	(69.9)	(67.6)	(3.3)	(0.4)
EBIT	116.1	124.2	126.3	1.7	8.8
Net Interest expense	(45.2)	(40.8)	(44.3)	8.7	(1.9)
Associates	10.3	12.9	9.4	(27.2)	(9.2)
EI <sup>^</sup>	-	-	43.4	nm	nm
PBT	81.3	83.4	134.8	61.5	65.8
Tax	(21.2)	1.7	(31.2)	nm	47.5
MI	(5.5)	(1.7)	(27.7)	nm	401.8
<b>PATAMI</b>	54.6	83.5	75.8	(9.2)	38.9
<b>Core Net profit</b>	54.6	83.5	57.1	(31.6)	4.7
EPS (sen)	1.2	1.9	1.7	(8.9)	46.2
EBITDA margin	23%	21%	21%		
PBT margin	10%	9%	15%		
Effective tax rate	26%	-2%	23%		

Source: Company, Kenanga Research, Bursa Malaysia

<sup>^</sup> provisional extinguishment of net liabilities related to the disposal of the aged care business in Jeta Gardens

**Stock ESG Ratings:**

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

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

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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.
<b>Stocks Under Coverage</b>																	
IHH HEALTHCARE BHD	OP	6.29	7.00	11.3%	55,396	Y	12/2024	20.6	21.6	41.6%	4.8%	30.5	29.1	1.8	6.1%	7.0	1.1%
KOTRA INDUSTRIES BHD	OP	4.50	5.35	18.9%	667	Y	06/2024	29.5	35.6	-33.0%	20.6%	15.2	12.6	2.1	14.9%	26.0	5.8%
KPJ HEALTHCARE BHD	OP	2.00	1.95	-2.5%	9,053	Y	12/2024	6.2	6.9	7.4%	12.0%	32.5	29.0	3.5	11.2%	3.4	1.7%
NOVA WELLNESS GROUP BHD	OP	0.540	0.700	29.6%	172	Y	06/2024	4.1	4.7	-8.4%	13.0%	13.1	11.6	1.5	11.9%	3.3	6.1%
PHARMANIAGA	UP	0.390	0.340	-12.8%	562	Y	12/2024	3.5	3.4	-34.7%	-3.8%	11.1	11.5	(2.3)	-18.7%	0.0	0.0%

Source: Company, Bloomberg, Kenanga Research

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**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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**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](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

