

29 May 2024

KPJ Healthcare

New Hospitals Cut Losses

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Losses from KPJ's five new hospitals narrowed 30% YoY in 1QFY24. It is optimistic that these hospitals will halve their losses in FY24, driven by incremental revenues from higher patient throughput. KPJ's earnings will also be driven by new beds and improving operational efficiency. We maintain our forecasts, TP of RM1.95 and MARKET PERFORM call.

We came away from KPJ's 1QFY24 post-results briefing feeling positive. The key highlights are as follows:

1. KPJ expects sustained performance throughout the remaining of FY24 with no sign of patient throughput slowing down as patients are expected to flock back following the festive period in 1QFY24. Note that historically (i.e. for past three years pre-COVID, 2H accounted for an average of between 53%-65% of full-year earnings). To recap, key operating indicators remained solid in both 1QFY24 despite the slower festive period that led to patients delaying treatment. 1QFY24 earnings were driven by higher inpatient throughput (+4%), bed capacity (+8%), average revenue per inpatient (+11%) and outpatient (+8%) and surgeries (+1%) despite a lower bed occupancy rate (BOR) of 65% compared to 70% in 1QFY23 and outpatient throughput (-2%).
2. It is optimistic that the performance of its five new hospitals will further improve for the rest of FY24. As an indication, 1QFY24 net losses of these hospitals narrowed by 30% YoY.

With incremental revenues from higher patient throughput, Damansara Specialist Hospital 2 (DSH2), KPJ Perlis, KPJ Batu Pahat and KPJ Bandar Dato Onn already turned EBITDA-positive in 1QFY24, while KPJ Miri is expected to achieve EBITDA-positive in end-2024. Note that Miri and DSH2 were EBITDA-negative in 4QFY23.

All in, KPJ is optimistic that losses of RM137m from these five new hospitals in FY23 will halve in FY24, which works out to be RM69m. It also expects its overall earnings to improve in subsequent quarters in FY24 driven by better operational efficiency from its cost optimisation effort and overhead absorption by adding new beds (+10%), which we have factored into our forecasts.

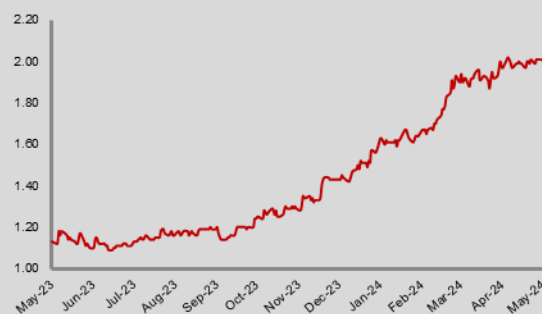
3. Particularly, DSH2 reported RM0.6m EBITDA in 1QFY24, from RM10m loss before interest, tax, depreciation and amortisation in 1QFY23. The group is hopeful with effective marketing and advanced technological equipment, DSH2 is capable of achieving double-digit topline growth in the next few quarters. It has conducted its first robotic surgery on partial nephrectomy. It is targeting DSH2 to register revenue of RM100m in FY24. The group aims to increase bed capacity from 120 beds in 2024 to 205-265 beds in 2025. Initially, DSH2 is targeting 50% medical tourism portion in FY24-FY25 by offering cardiac services through collaboration with consultants to bring in patients from the Middle East. KPJ's 1QFY24 medical tourism revenue rose 21% YoY to RM51m and is targeted to reach RM300m in FY24 (9% of our FY24F revenue) where almost 50% of the patients are from Indonesia.

Forecasts. Maintained based on our unchanged assumptions that its FY24 patient throughput will grow at 9% (vs. an estimated 7% in FY23) with BOR at 72% (vs. 67% in FY23), driven by revenue intensity emanating from the recovery in demand for elective surgeries.

MARKET PERFORM ↔

Price: RM1.94
Target Price: RM1.95 ↔

Share Price Performance



KLCI	1,615.82
YTD KLCI chg	11.1%
YTD stock price chg	34.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KPJ MK
Market Cap (RM m)	8,466.7
Shares Outstanding	4,364.3
52-week range (H)	2.05
52-week range (L)	1.08
3-mth avg. daily vol.	11,449,700
Free Float	40%
Beta	0.9

Major Shareholders

Johor Corporation	35.9%
Employees Provident Fund	9.9%
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
Net Profit (NP)	281.3	273.7	306.6
Core NP	254.8	273.7	306.6
Consensus (NP)	-	303	329
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)	33.8	31.5	28.1
Price/BVPS (x)	3.6	3.4	3.2
Net Gearing (%)	47.3	42.3	34.1
Dividend Yield (%)	1.7	1.7	1.7

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Valuations. We also keep our TP at RM1.95 based on 28x FY25F 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).

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, which mean players are 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, the fundamentals have priced-in the recent run-up in its share price. Reiterate **MARKET PERFORM**.

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

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F	FY Dec	2021A	2022A	2023A	2024F	2025F
Revenue	2,626.8	2,920.7	3,418.7	3,447.2	3,624.7	Growth					
EBITDA	529.5	708.8	838.0	823.9	866.3	Turnover	9.6%	11.2%	17.1%	0.8%	5.1%
Dep & Amort	(255.3)	(261.8)	(271.0)	(276.1)	(277.8)	EBITDA	-1.7%	33.9%	18.2%	-1.7%	5.1%
Associates	25.9	47.8	46.8	48.9	50.1	Operating Profit	-12.3%	60.8%	29.7%	5.8%	7.4%
PBT	115.6	263.5	379.7	408.9	453.7	PBT	-12.3%	60.8%	29.7%	5.8%	7.4%
Taxation	(49.9)	(73.2)	(77.1)	(113.9)	(125.8)	Net Profit /(loss)	-53.1%	212.5%	62.9%	-2.7%	11.9%
Minorities	(14.6)	(18.3)	(21.3)	(21.3)	(21.3)	Profitability					
Net profit	51.0	172.0	281.3	273.7	306.6	EBITDA Margin	19.5%	24.3%	24.5%	23.9%	23.9%
Core net profit	51.0	172.0	254.8	273.7	306.6	Operating Margin	9.5%	13.7%	15.1%	15.1%	15.9%
Balance Sheet						PBT Margin	4.4%	9.0%	11.1%	11.9%	12.5%
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F	Core Net Margin	1.9%	5.9%	8.2%	7.9%	8.5%
Fixed Assets	2,676.2	2,760.2	2,774.5	2,798.4	2,820.6	Eff. Tax Rate	36.0%	37.0%	20.3%	28.0%	28.0%
Int. Assets	220.0	206.0	198.5	198.5	198.5	ROA	0.9%	2.5%	3.9%	3.7%	4.1%
Other FA	2,072.7	2,556.4	2,604.3	2,604.3	2,604.3	ROE	2.4%	7.9%	12.2%	11.2%	11.9%
Inventories	481.4	65.9	73.0	73.6	77.4	DuPont Analysis					
Receivables	115.4	645.7	673.6	671.2	706.1	Net Margin (%)	1.9	5.9	8.2	7.9	8.5
Other CA	318.0	134.4	101.9	101.9	101.9	Assets T/O (x)	2.4	2.4	2.1	2.1	2.1
Cash	250.2	467.9	785.2	852.0	1,003.1	Lev. Factor (x)	2.9	3.1	3.0	2.9	2.8
Non CA	-	157.5	35.2	35.2	35.2	ROE (%)	2.4	7.9	12.2	11.3	11.9
Total Assets	6,187.6	6,994.1	7,246.2	7,335.0	7,547.1	Leverage					
Payables	618.3	720.2	658.3	663.8	700.2	Debt/Asset (x)	0.3	0.3	0.3	0.3	0.3
ST Borrowings	860.5	839.4	547.0	547.0	547.0	Debt/Equity (x)	0.9	0.8	0.8	0.8	0.7
Ot. ST Liability	101.4	113.8	142.0	142.0	142.0	Valuations					
LT Borrowings	968.0	1,047.8	1,365.0	1,365.0	1,365.0	EPS (sen)	1.3	3.9	6.4	6.2	6.9
Ot. LT Liability	1,389.0	1,918.6	2,005.9	1,943.1	1,939.7	NDPS (sen)	0.75	2.60	3.35	3.35	3.35
Minorities Int.	115.1	127.0	145.0	166.3	187.6	BVPS (RM)	0.51	0.50	0.54	0.56	0.60
Net Assets	2,135.4	2,227.3	2,383.1	2,508.0	2,665.7	PER (x)	155.0	49.6	30.4	31.5	28.1
Share Capital	959.5	976.3	999.2	999.2	999.2	Net Div. Yield(%)	0.4	1.3	1.7	1.7	1.7
Treasury shares	(155.3)	(155.3)	(155.3)	(155.3)	(155.3)	P/BV (x)	3.9	3.8	3.9	3.6	3.4
Reserves	1,331.2	1,406.2	1,539.3	1,664.1	1,821.9	EV/EBITDA (x)	18.2	14.2	11.6	11.7	11.0
Equity	2,135.4	2,227.3	2,383.2	2,508.0	2,665.7						
Cashflow Statement											
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F						
Operating CF	336.7	412.2	459.8	657.6	669.6						
Investing CF	(248.3)	37.8	(25.8)	(94.6)	(270.4)						
Financing CF	(134.1)	(393.8)	(286.5)	(434.7)	(99.6)						
Change In Cash	(45.7)	56.1	147.4	128.2	299.5						
Free CF	36.7	112.2	159.8	357.6	369.6						

Source: Kenanga Research, Bursa Malaysia

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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.				
Stocks Under Coverage																	
IHH HEALTHCARE BHD	OP	6.20	7.00	12.9%	54,603	Y	12/2024	20.6	21.6	41.6%	4.8%	30.0	28.7	1.8	6.1%	7.0	1.1%
KOTRA INDUSTRIES BHD	OP	4.47	5.35	19.7%	663	Y	06/2024	29.5	35.6	-33.0%	20.6%	15.1	12.6	2.1	14.9%	26.0	5.8%
KPJ HEALTHCARE BHD	OP	1.94	1.95	0.5%	8,782	Y	12/2024	6.2	6.9	7.4%	12.0%	31.5	28.1	3.4	11.2%	3.4	1.8%
NOVA WELLNESS GROUP BHD	OP	0.530	0.700	32.1%	169	Y	06/2024	4.1	4.7	-8.4%	13.0%	12.9	11.4	1.5	11.9%	3.3	6.2%
PHARMANIAGA	UP	0.370	0.340	-5.6%	519	Y	12/2024	3.5	3.4	-34.7%	-3.8%	10.5	11.0	NM	NM	0.0	0.0%

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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