Healthcare

OVERWEIGHT

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4QCY24 Report Card: Private Hospitals Lead the Way

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The recently concluded 4QCY24 results reporting season saw slight deterioration in earnings delivery (against our expectations) by the sector. Generally, the solid private hospitals' results from both IHH (OP; TP: RM8.11) and KPJ (MP; TP: RM2.60) were driven by stable demand in their operations across the board due to sustained demand, case-mix of more acute patients, and better yields. Meanwhile, health supplement and pharmaceutical players reported disappointing results. However, KOTRA's margin showed marked improvement on sales of higher margin products despite earnings missing our expectation. We believe the DRG-related regulatory impasse have gradually subsided as investors could gravitate towards the defensive nature of healthcare stocks amid a more risk-off environment. Pending further development on the DRG, we continue to remain positive, taking a view of longer-term growth prospects of the healthcare sector, which will continue to be underpinned by an ageing population, rising affluence and rising cases of chronic diseases globally. Reiterate OVERWEIGHT. Our Top pick for the sector is IHH (OP; TP: RM8.11), which we consider still a laggard to KPJ (MP; TP: RM2.60).

Private hospitals stood out, mixed bag of results from pharmaceutical. This quarter marked a slight sequential deterioration in earnings delivery against our expectations with 50%/50% coming in within/below our forecasts compared to 75%/25% within/below against the preceding quarter (see table on Page 2). The two companies under our coverage, **IHH (OP; TP: RM8.11)**, **KPJ (MP; TP: RM2.60)** met expectations. However, **NOVA (MP; TP: RM0.41) and KOTRA (OP; TP: RM5.10)** disappointed.

- **Private Hospitals**

Solid FY24 for private healthcare operators. Generally, private healthcare players recorded mixed results in 4QCY24. For IHH, due to seasonality in various markets they operate in, 4QCY24 is typically a slow quarter. On the other hand, KPJ registered QoQ double-digit bottomline growth underpinned by better overhead absorption (on an improved turnover) as well as reduced losses from its new hospitals (which are EBITDA-positive) i.e. KPJ Perlis, KPJ Batu Pahat and KPJ Bandar Dato Onn, despite a seasonally slow quarter.

Overall, **IHH's** FY24 results met expectations with core net profit rising 35% YoY driven by revenue intensity, better yields and a lower tax. IHH expects its earnings momentum to accelerate, underpinned by revenue intensity and rising demand in 4QCY24. This would be supported by higher yield services both in Singapore, return of medical tourists in Acibadem, and post-election effect in India.

Separately, **KPJ's** FY24 results met expectations driven by higher inpatient throughput (+7%), outpatient (+2%), bed capacity (+6%), surgeries (+5%) and average revenue per inpatient (+5%) and outpatient (+6%). Citing incremental revenue from higher patient throughput and improving operational efficiency, KPJ highlighted that FY24 losses at its new hospitals under gestation declined by 30%-35%.

We continue to like **IHH** for: (i) its pricing power, as the inelastic demand for healthcare provides it with the ability to pass cost through amidst rising inflation, (ii) the strong recovery in patient throughput, from both domestic and international markets, and (iii) its commanding market position in the private healthcare space with presence in Malaysia, Singapore, Türkiye and Greater China. Reiterate OUTPERFORM.

We also like **KPJ (MP; TP: RM2.60)** for its pricing power as a private healthcare provider and its strong market position locally with the largest network of 29 private hospitals (vs. 18 of the next largest player **IHH**). However, the fundamentals have been priced-in after the recent run-up in its share price (YTD: +11%), as investors gravitate towards secular growth businesses amid a more risk-off environment. It is optimistic of a total 4,400 beds (+13% YoY) by end-CY25. Beyond CY25, it will add 800 beds bringing total beds to 5,200 over the next five years, largely via brownfield expansion which we have already factored into our forecasts. In terms of bottom-line profitability, we expect earnings to gain momentum moving into FY25 on better operational efficiencies from its cost optimisation effort and overhead absorption rate as a result of a gradual ramp-up in opening new beds (+13%). However, the opening of KPJ Kuala Selangor (60-bed) slated to commence operation by mid-April CY25 is expected to incur start-up costs. Typically, new hospitals go through a gestation period of 3-5 years. With incremental revenue from higher patient throughput, Damansara Specialist Hospital 2 (DSH2), KPJ Perlis, KPJ Batu Pahat and KPJ Bandar Dato Onn have already turned EBITDA-positive in FY24 except for Miri which we expect to achieve the same in CY25. With a guided capex of RM300m-RM400m in FY25, the group is looking at M&A opportunities for future growth including looking at acquiring yield accretive hospitals or assets which are complimentary to its core business for future growth. Separately, in an effort to differentiate itself from other hospitals, KPJ has identified five areas of sub-specialities establishing them within its existing hospitals, in the discipline of heart and lung, neurology and stroke, oncology, orthopaedics as well as robotics for advanced surgery which is expected to raise revenue intensity due to its acute case of complex cases.

- **Health Supplements and OTC Drugs**

KOTRA's 1HFY25 margin shows marked improvement on sales of higher margin products though its earnings missed our expectation. QoQ, 2QFY25 earnings grew 13% QoQ, and we remain upbeat on KOTRA backed by recovering consumer spending, drawing encouragement from sales momentum.

Independent market researcher The Statista Consumer Market Outlook projects the OTC pharmaceuticals market in Malaysia to grow at a CAGR of 6% to an estimated USD715m (RM3.2b) by 2027 as consumers take a more proactive stance towards their health and well-being (including taking health supplements regularly), especially in the aftermath of the Covid-19 pandemic.

The trend augurs well for **KOTRA (OP; TP: RM5.10)** which manufactures and sells OTC supplements and nutritional and pharmaceutical products under key flagship household brands such as *Appeton, Axcel* and *Vaxcel*. We also like **KOTRA** for: (i) its integrated business model encompassing the entire spectrum of the pharmaceutical value chain from R&D, product conceptualisation to manufacturing and sales, and (ii) the superior margins of its original brand manufacturing (OBM) business model (vs. low-margin contract manufacturing).

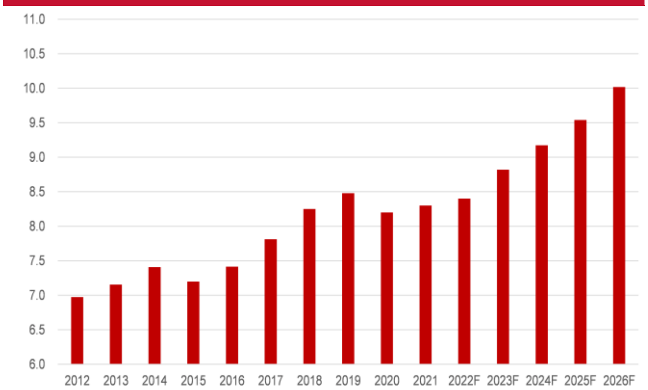
Meanwhile, **NOVA (MP; TP: RM0.41)** is ramping up production at its new plant during the year. There is also earnings impact from the introduction of 15-20 new SKUs in FY23 (in addition to 35 in FY22) including skincare products, health supplements, and Activmax and Sustinex range of functional food products such as plant-based protein including specialty Activmax for hospitals. We also like NOVA for its business model which encompasses the entire spectrum of value chain from product conceptualisation starting from R&D to manufacturing.

Quarterly Results Performance

	4QCY24						3QCY24					
	KENANGA			CONSENSUS			KENANGA			CONSENSUS		
	Above	Within	Below	Above	Within	Below	Above	Within	Below	Above	Within	Below
IHH		1				1		1			1	
KPJ		1			1			1				1
NOVA			1						1			
KOTRA			1		1			1			1	
Total	**0**	**2**	**2**	**0**	**2**	**1**	**0**	**3**	**1**	**0**	**2**	**1**
Total (%)	**0**	**50**	**50**	**0**	**67**	**33**	**0**	**75**	**25**	**0**	**67**	**33**

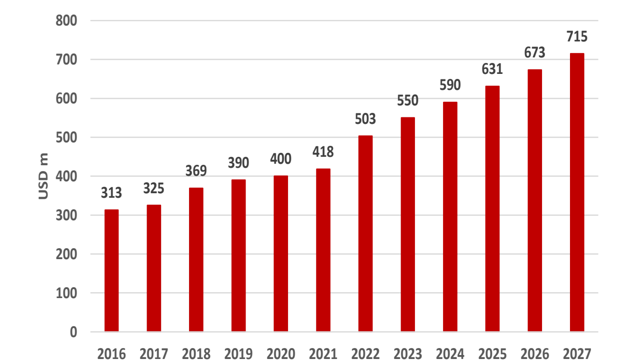
Source: Kenanga Research, companies quarterly results,
^Consensus estimate is unavailable.

Global Healthcare Expenditure (USDt)



Source: Kenanga Research, WHO, various

OTC Pharmaceuticals Market in Malaysia



Source: Kenanga Research, various

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	7.11	8.11	14.1%	62,678.2	Y	12/2025	21.6	24.3	12.6%	12.2%	32.9	29.3	2.0	6.2%	10.0	1.4%
KOTRA INDUSTRIES BHD	OP	3.96	5.10	28.8%	587.3	Y	06/2025	32.4	34.0	7.4%	5.0%	12.2	11.7	1.8	16.0%	25.5	6.4%
KPJ HEALTHCARE BHD	MP	2.60	2.60	0.0%	11,347.2	Y	12/2025	8.2	9.3	16.2%	13.5%	31.8	28.0	4.3	13.8%	4.2	1.6%
NOVA WELLNESS GROUP BHD	MP	0.330	0.410	24.2%	105.2	Y	06/2025	2.7	2.8	8.9%	3.5%	12.2	11.8	0.9	7.7%	1.3	3.9%

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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