KPJ Healthcare

1HFY25 Lifted by Higher Revenue Per Inpatient

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KPJ's 1HFY25 met expectations. Its 1HFY25 net profit grew 26% YoY on higher average revenue per inpatient and better yields from more surgeries. We expect earnings to gain momentum moving into 2HFY25 on better operational efficiencies from its cost optimisation effort and overhead absorption rate because of a gradual ramp-up in the opening of new beds (+6%). We keep our forecasts and TP of RM2.50 but upgrade our call from UNDERPERFORM to MARKET PERFORM as its valuation is now fair following the retracement in its share price.

KPJ's 1HFY25 core net profit climbed 26% to RM139m which came in at 41% and 35% of our and consensus full-year net profit forecast, respectively. We consider the results within expectations as KPJ typically reports stronger earnings in 2H. Historically, 2H accounts for 55% to 60% of full-year forecasts. It declared an interim dividend of 1.05 sen, bringing 1HFY25 DPS to 1.95 sen which came in within our expectation.

QoQ, its 2QFY25 revenue was up 5% on higher inpatient throughput (+3%) and higher average revenue per inpatient (+3%) which more than offset lower outpatients (-2%) and a marginally lower bed occupancy rate of 62% vs. 63% in 1QFY25. Its 2QFY25 core net profit grew 44%, thanks to the higher contribution (>100%) from associate i.e. the 34.5%-owned Al-Aqar Healthcare REIT, and, we believe, a higher-than-expected ramp-up in hospitals under gestation which led to better-than-optimum operational efficiency, resulting in lower losses.

YoY, its 1HFY25 revenue rose 9%, thanks to higher revenue per inpatient (+7%) which drove elective surgeries cases (+4%) and offset lower inpatient throughput (-1%). Core net profit surged 26%, thanks to better overhead absorption (on an improved turnover) and boosted by, we believe, reduced losses from its new hospitals (which are EBITDA-positive) i.e. Damansara Specialist Hospital 2 (DSH2), KPJ Perlis, KPJ Batu Pahat and KPJ Bandar Dato Onn. The better performance was underpinned by incremental revenues from higher patient throughput from new hospitals and better operational efficiency from its cost optimisation effort and overhead absorption by adding new beds.

Valuations and forecasts. We keep our forecasts. TP is RM2.50 based on unchanged 28x FY26F 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).

In terms of PER, regional healthcare players with similar or bigger market capitalisation, namely Bumrumgrad Hospital and Bangkok Dusit are trading at FY26F PER of 17x and 20x, respectively, based on *Bloomberg* consensus earnings. Similarly, in terms of FY26F EV-EBITDA multiple, Bumrumgrad Hospital and Bangkok Dusit are trading at 12x and 13x, respectively. Note that Bumrumgrad Hospital and Bangkok Dusit's FY25F consensus EBITDA margins are 38% and 24%, respectively. We upgrade our call from **UNDERPERFORM to MARKET PERFORM** as its valuation is now fair following the retracement in its share price.

MARKET PERFORM ↑

Price: **RM2.61**

Target Price: **RM2.50** ↔

Share Price Performance

KLCI	1,587.07
YTD KLCI chg	-3.4%
YTD stock price chg	7.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KPJ MK
Market Cap (RM m)	11,390.8
Shares Outstanding	4,364.3
52-week range (H)	3.05
52-week range (L)	1.83
3-mth avg. daily vol.	14,596,080
Free Float	44%
Beta	0.9

Major Shareholders

Johor Corporation	45.0%
Employees Provident Fund	17.1%
Waqaf An-Nur Corporation	6.4%

Summary Earnings Table

FY Dec (RM m)	2024A	2025F	2026F
Turnover	3,822.2	4,088.9	4,378.9
PBT	531.0	517.6	591.7
Net Profit (NP)	331.1	339.0	392.3
Core NP	312.4	339.0	392.3
Consensus (NP)	-	393.8	431.8
Earnings Revision	-	-	-
Core EPS (sen)	7.0	7.7	8.9
Core EPS Growth (%)	22.6	9.1	15.6
NDPS (sen)	4.15	4.15	4.15
BVPS (RM)	0.57	0.61	0.65
PER (x)	35.0	34.2	29.6
Price/BVPS (x)	4.6	4.3	4.0
Net Gearing (%)	41.9	32.8	21.8
Dividend Yield (%)	1.6	1.6	1.6
EV/EBITDA (x)	13.5	13.0	11.9

Outlook. KPJ is optimistic of reaching 4,200 beds (+9% YoY) by end-CY25. Beyond CY25, it will continue to add beds, bringing total beds to >6,000 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 2HFY25 on better operational efficiencies from its cost optimisation effort and overhead absorption rate because of a gradual ramp-up in new beds (+6%). However, the opening of KPJ Kuala Selangor (60-bed) which commenced operation in Mar 2025 is expected to incur start-up losses. Typically, new hospitals go through a gestation period of 3−5 years.

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).

Key risks to our call are: (i) regulatory risks, (ii) earnings risk related to potential imposition of Diagnostic-Related Group (DRG) payment system to regulate private healthcare costs in Malaysia., and (iii) longer-than-expected gestation periods for its newer hospitals.

Results Highlights

FYE Dec (RM m)	2Q FY25	1Q FY25	Q-o-Q Chg (%)	2Q FY24	Y-o-Y Chg (%)	1H FY24	1H FY25	Y-o-Y Chg (%)
Turnover	1,023.7	971.8	5.3	924.8	10.7	1,827.1	1,995.5	9.2
EBITDA	235.5	207.9	13.4	219.0	7.6	371.8	443.2	19.2
Dep & Amortisation	(75.7)	(71.8)	5.8	(68.7)	10.3	(135.8)	(147.3)	8.5
EBIT	159.8	136.1	17.5	150.3	6.3	236.0	295.9	25.4
Net Interest expense	(43.1)	(41.8)	3.3	(42.7)	1.2	(86.7)	(84.9)	(2.1)
Associates	14.0	3.4	305.7	11.0	27.2	20.4	17.4	(14.4)
EI^	-	0.0	NM	-	NM	40.3	-	NM
PBT	130.6	97.7	33.7	118.6	10.1	210.0	228.4	8.8
Tax	(39.1)	(32.4)	20.8	(32.1)	21.9	(63.1)	(71.4)	13.2
MI	(9.5)	(8.4)	13.2	(8.8)	8.0	(18.4)	(18.0)	(2.3)
PATAMI	82.0	57.0	44.0	77.7	5.5	128.4	139.0	8.2
Core Net profit	82.0	57.0	44.0	77.7	5.5	110.0	139.0	26.3
EPS (sen)	1.9	1.3	43.5	1.8	5.6	3.0	3.2	8.1
EBITDA margin	23%	21%		24%		20%	22%	
PBT margin	13%	10%		13%		11%	11%	
Effective tax rate	30%	33%		27%		30%	31%	

Source: Company, Kenanga Research, Bursa Malaysia
^ provisional extinguishment of net liabilities related to the disposal of the aged care business in Jeta Gardens

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

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																	
DUOPHARMA	OP	1.35	1.72	27.4%	1,298.6	Y	12/2025	9.9	11.5	51.8%	15.9%	13.7	11.8	1.7	12.8%	3.3	2.4%
IHH HEALTHCARE BHD	OP	6.79	8.11	19.4%	59,997.5	Y	12/2025	21.6	24.3	12.6%	12.2%	31.4	28.0	1.9	6.2%	10.0	1.5%
KOTRA INDUSTRIES BHD	OP	4.23	4.90	15.8%	627.4	Y	06/2026	32.5	33.4	13.2%	2.7%	13.0	12.7	1.9	15.8%	25.5	6.0%
KPJ HEALTHCARE BHD	MP	2.61	2.50	-4.2%	11,390.8	Y	12/2025	7.6	8.8	8.5%	15.7%	34.2	29.6	4.3	13.0%	4.2	1.6%
NOVA WELLNESS GROUP BHD	OP	0.340	0.410	20.6%	108.4	Y	06/2025	2.7	2.8	8.9%	3.5%	12.6	12.1	0.9	7.7%	1.3	3.8%
PHARMANIAGA BHD	MP	0.175	0.150	-14.3%	1,147.5	Y	12/2025	0.7	1.0	25.2%	35.9%	23.6	17.3	(9.4)	-33.2%	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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