

3 March 2025

Consumer Non-cyclical | Healthcare

KPJ Healthcare (KPJ MK)

Buy (Maintained)

Charts Unprecedented Success; Still BUY

Target Price (Return):	MYR3.08 (+30%)
Price (Market Cap):	MYR2.37 (USD2,318m)
ESG score:	3.1 (out of 4)
Avg Daily Turnover (MYR/USD)	20.3m/4.56m

- Maintain BUY with a higher TP of MYR3.08 from MYR3, 30% upside with c.2% FY25F yield.** KPJ Healthcare's 2024 core earnings grew by 10% YoY to MYR312m, accounting for 110% and 100% of our and the Street expectations. Results were better than anticipated, underpinned by the higher number of patient visits and increase in bed capacity (+204 YoY) as well as improvements in operating leverage from hospitals under gestation. Our DCF-derived TP of MYR3.08 represents 16x 2025F EV/EBITDA, against its 5-year historical EV/EBITDA average of 12x.
- Results overview.** KPJ reported its highest ever revenue of MYR1,051m in 4Q24 – up 15% YoY on robust patient traffic numbers and a better patient case mix. Its core profit surged 40% YoY to MYR120m, mainly driven by improved operating efficiency, with hospitals under gestation recording narrower QoQ losses. The Board declared an interim DPS of 1.05 sen and a special DPS of 0.10 sen, in 4Q24, bringing its full-year DPS to 4.3 sen (2023: 3.35 sen). This reflects a payout ratio of 57% (vs 52% in 2023).
- Operating stats.** The number of KPJ's outpatient and inpatient visits increased by 2% and 6% YoY to 779,865 and 99,665, bringing total patient visits to 879,530 (+3% YoY). Its bed occupancy rate (BOR) decreased slightly to 69% from 72% in 3Q24 as KPJ added 60 new beds, bringing its total operational beds to 3,847. Core EBITDA margin improved 4.3ppt QoQ to 27.5%, likely driven by improving operating efficiency from hospital under gestation.
- Earnings revision and outlook.** KPJ's EV/EBITDA has recovered to 13-14x from the trough of 12x since the Government proposed implementing a diagnostic related group (DRG) in late 2024. Although the regulatory overhang arising from the DRG mechanism could affect investor sentiment in the near term, we think that their appetite for quality healthcare assets remains intact – in view of a permanent, structural shift driven by an ageing population. Ultimately, we think the implementation of DRG still requires extensive study and engagement with various stakeholders, given the complexity of each medical procedure and its underlying costs. Post results, we raise FY25-26 earnings estimates by 10% and 11% after adjusting revenue intensity and patient volume assumptions. Our new TP implies 15x 2025F EV/EBITDA, 2SD above its 5-year historical average of 12x. Our basis of a premium valuation is premised on the group's solid turnaround (room for margin improvement from hospitals under gestation) as well as room for scalability between KPJ and other premium healthcare service providers in Malaysia (ie price per bed of MYR1m vs various rivals' MYR1.3m/1.4m). Meanwhile, we expect investors' appetite towards the healthcare sector to grow – which should led to a valuation re-rating – in tandem with the imminent floating of Sunway Healthcare Group shares in the public market, in early 2026 (tentatively).

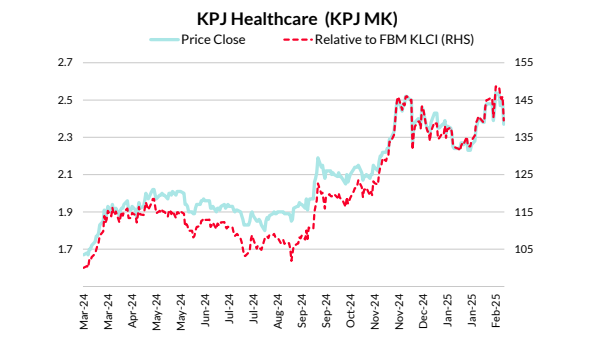
Analyst

Oong Chun Sung
 +603 2302 8126
chun.sung@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.5)	6.3	(5.2)	28.1	41.9
Relative	1.6	4.9	(3.8)	34.1	40.0
52-wk Price low/high (MYR)				1.67	–2.54



Source: Bloomberg

Forecasts and Valuation	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Total turnover (MYRm)	3,419	3,922	4,093	4,282	4,448
Recurring net profit (MYRm)	283	312	357	402	446
Recurring net profit growth (%)	64.2	10.3	14.2	12.8	10.9
Recurring P/E (x)	36.50	33.11	29.00	25.70	23.18
P/B (x)	4.3	4.1	3.8	3.6	3.3
P/CF (x)	15.72	12.25	14.86	12.46	11.85
Dividend Yield (%)	1.4	1.8	1.8	2.0	2.3
EV/EBITDA (x)	16.20	13.55	13.98	12.84	11.93
Return on average equity (%)	12.2	13.5	13.6	14.4	14.8
Net debt to equity (%)	120.1	111.7	102.0	88.0	74.6

Source: Company data, RHB

Overall ESG Score: 3.1 (out of 4)

E Score: 3.0 (GOOD)

S Score: 3.3 (EXCELLENT)

G Score: 3.0 (GOOD)

Please refer to the ESG analysis on the next page

Emissions And ESG

Trend analysis	Emissions (tCO2e)	Dec-22	Dec-23	Dec-24	Dec-25
-The Group has fully installed solar panel at five of its pilot hospitals namely KPJ Kluang, Johor, BDO, Seremban and Rawang.	Scope 1	70	na	na	na
	Scope 2	105,395	na	na	na
	Scope 3	1,102	na	na	na
	Total emissions	106,566	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

The group is in the midst of getting its Green Building Index (GBI) certification which includes the installation of solar panels on rooftops and carpark at 3 selected hospitals.

ESG Unbundled

Overall ESG Score: 3.1 (out of 4)

Last Updated: 20 Dec 2024

E Score: 3.0 (GOOD)

KPJ has outlined its 2025 target to decrease its GHG emissions per patient, as well as obtain 10% of energy used from renewable sources. Clinical waste per patient was reduced by 16% in 2022, thanks to the group's initiative in adopting 3R (reuse, reduce and recycling) in handling clinical waste.

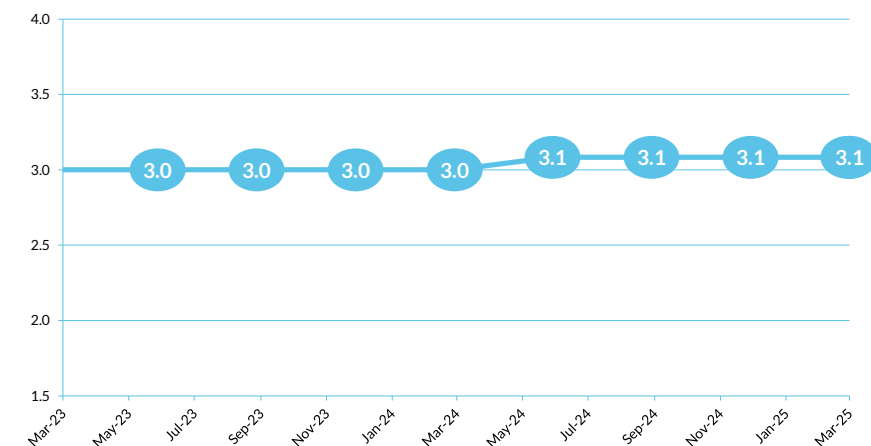
S Score: 3.3 (EXCELLENT)

To promote ethical business conduct, KPJ ensures pricing transparency in billing to accommodate patients in making decisions. KPJ Healthcare University College also provides scholarships for outstanding students from underprivileged backgrounds. Recipients of such scholarships are also guaranteed jobs with its hospitals, following their graduation.

G Score: 3.0 (GOOD)

50% of its board members are independent directors, and 20% are women. The percentage of female representation, however, is below the Malaysian Code on Corporate Governance's recommendation of a minimum 30%. On the positive side, KPJ provides full disclosures of its directors' remunerations. The group also holds regular investor briefings, embodying good transparency and disclosure practices.

ESG Rating History



Source: RHB

Financial Exhibits

Asia	Financial summary (MYR)	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Malaysia	Recurring EPS	0.06	0.07	0.08	0.09	0.10
Consumer Non-cyclical	DPS	0.03	0.04	0.04	0.05	0.05
KPJ Healthcare	BVPS	0.55	0.58	0.62	0.66	0.71
KPJ MK	Return on average equity (%)	12.2	13.5	13.6	14.4	14.8
Buy						
	Valuation metrics	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Valuation basis	Recurring P/E (x)	36.50	33.11	29.00	25.70	23.18
DCF	P/B (x)	4.3	4.1	3.8	3.6	3.3
	FCF Yield (%)	4.0	4.5	4.0	5.7	6.1
Key drivers	Dividend Yield (%)	1.4	1.8	1.8	2.0	2.3
Our earnings forecasts are most sensitive to:	EV/EBITDA (x)	16.20	13.55	13.98	12.84	11.93
i. Inpatient and outpatient numbers;	EV/EBIT (x)	24.51	19.36	20.09	17.94	16.29
ii. Revenue per patient;						
iii. Operating and financing costs.						
	Income statement (MYRm)	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Key risks	Total turnover	3,419	3,922	4,093	4,282	4,448
Key downside risks:	Gross profit	1,432	1,755	1,810	1,917	2,010
i. Lower-than-expected patient visits/revenue intensity growth;	EBITDA	781	938	905	969	1,022
ii. Higher-than-expected operating costs.	Depreciation and amortisation	(265)	(282)	(275)	(276)	(273)
	Operating profit	516	657	630	693	749
Company Profile	Net interest	(185)	(175)	(173)	(170)	(163)
KPJ Healthcare is a healthcare provider mainly focused in Malaysia. It also has operations in Australia and Indonesia.	Pre-tax profit	378	531	507	574	638
	Taxation	(75)	(166)	(123)	(141)	(158)
	Reported net profit	281	331	357	402	446
	Recurring net profit	283	312	357	402	446
	Cash flow (MYRm)	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
	Change in working capital	(93)	52	(102)	(13)	(12)
	Cash flow from operations	658	844	696	830	873
	Capex	(241)	(382)	(280)	(240)	(240)
	Cash flow from investing activities	(95)	(232)	(259)	(219)	(219)
	Dividends paid	(146)	(181)	(185)	(209)	(232)
	Cash flow from financing activities	(438)	(570)	(424)	(446)	(466)
	Cash at beginning of period	468	785	614	627	793
	Net change in cash	125	43	13	166	189
	Ending balance cash	601	829	648	793	981
	Balance sheet (MYRm)	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
	Total cash and equivalents	785	614	627	793	981
	Tangible fixed assets	4,360	4,589	4,594	4,558	4,525
	Total investments	874	889	918	948	980
	Total assets	7,246	7,403	7,483	7,684	7,906
	Short-term debt	587	375	375	375	375
	Total long-term debt	3,235	3,296	3,246	3,196	3,146
	Total liabilities	4,718	4,666	4,547	4,525	4,499
	Total equity	2,528	2,738	2,936	3,160	3,407
	Total liabilities & equity	7,246	7,403	7,483	7,684	7,906
	Key metrics	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
	Revenue growth (%)	19.2	14.7	4.3	4.6	3.9
	Recurrent EPS growth (%)	63.4	10.2	14.2	12.8	10.9
	Gross margin (%)	41.9	44.8	44.2	44.8	45.2
	Operating EBITDA margin (%)	22.8	23.9	22.1	22.6	23.0
	Net profit margin (%)	8.2	8.4	8.7	9.4	10.0
	Dividend payout ratio (%)	51.9	56.7	52.3	52.3	52.3
	Capex/sales (%)	7.0	9.7	6.8	5.6	5.4
	Interest cover (x)	2.52	3.33	3.33	3.72	4.07

Source: Company data, RHB

Figure 1: Results review

FYE Dec (MYRm)	4Q23	3Q24	4Q24	QoQ (%)	YoY (%)	2023	2024	YoY (%)	Comments
Revenue	911	1,033	1,051	1.7	15.3	3,419	3,922	14.7	YoY growth driven by organic growth in inpatient and outpatient visits, as well as increased bed capacity.
EBITDA	181	240	285	18.8	57.3	791	938	18.6	
EBITDA Margin (%)	19.9	23.2	27.1			23.1	23.9		
Depreciation	180	240	289	20.4	60.6	793	920	16.0	
EBIT	111	169	210	24.5	89.0	516	657	27.2	
EBIT Margin (%)	12.2	16.4	20.0	22.3	63.9	15.1	16.7		
Interest expense	(49)	(48)	(49)	2.1	1.5	(205)	(197)	(3.8)	
Interest income	8	5	5	(9.0)	(39.7)	20	22	9.7	
Associates	13	14	15	13.2	19.8	47	49	5.6	
Pretax profit	83	140	181	29.9	117.2	378	531	40.5	
Pretax Margin (%)	9.2	13.5	17.3			11.1	13.5		
Tax	2	(44)	(59)	35.5	(3,553.7)	(75)	(166)	120.6	
Effective tax rate (%)	(2.4)	34.6	35.6			22.8	34.5		
Minority Interest	(2)	(10)	(6)	(41.0)	253.8	(21)	(34)	58.1	
Net Profit	84	86	116	35.2	39.3	281	331	17.7	FY24 results are at 110% and 100% of our and consensus estimates.
Core Profit	82	86	120	39.9	46.3	283	312	10.3	
Net Margin (%)	9.0	8.3	11.4			8.3	8.0		

Source: Company data, RHB

Figure 2: DCF valuation

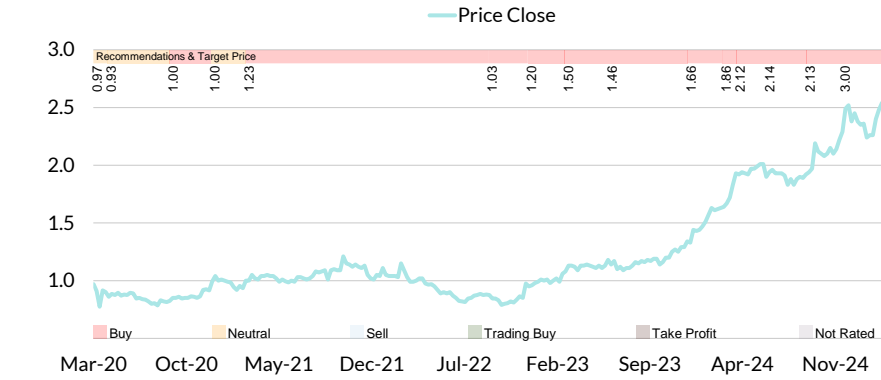
FYE Dec (MYRm)	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	FY34F	Terminal
CFO	696	830	873	913	954	990	1,025	1,061	1,098	1,137	
+ Interest (1 - Tax Rate)	144	142	140	138	136	134	132	130	128	126	
- capital expenditure	(280)	(240)	(240)	(240)	(240)	(240)	(240)	(240)	(240)	(240)	
Free cash flow to firm (FCFF)	560	732	773	811	850	884	917	951	986	1,023	21,538
Discount factor	0.95	0.88	0.82	0.77	0.71	0.67	0.62	0.58	0.54	0.50	0.50
PV of FCFF	531	647	636	622	607	588	568	549	530	512	10,791

Risk-free	4%
WACC	7%
Terminal growth	2%

Enterprise Value (MYR m)	16,580
Cash	627
- Debt	(3,622)
-Minority	(228)
Equity Value (MYR m)	13,357
No of shares (m)	4,364
Intrinsic Value (MYR)	3.06
ESG premium/(discount) %	0.02
Fair Value (MYR)	3.08

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-11-26	Buy	3.00	2.40
2024-08-30	Buy	2.13	1.92
2024-05-29	Buy	2.14	1.94
2024-03-22	Buy	2.12	1.93
2024-02-19	Buy	1.86	1.61
2023-11-30	Buy	1.66	1.34
2023-09-01	Buy	1.46	1.18
2023-06-01	Buy	1.46	1.16
2023-02-21	Buy	1.50	1.09
2022-11-28	Buy	1.20	0.98
2022-08-30	Buy	1.03	0.88
2021-02-19	Buy	1.23	1.00
2020-12-01	Neutral	1.00	0.99
2020-08-28	Buy	1.00	0.83
2020-04-07	Neutral	0.93	0.88

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Not Rated:	Stock is not within regular research coverage

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 2302 8100
Fax : +603 2302 8134

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 5093 9888
Fax : +6221 5093 9777

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470