

6 March 2024

Healthcare | Health Care Facilities & Svcs

## Medikaloka Hermina (HEAL IJ)

**Buy** (Maintained)

### Continued Growth Trajectory; Stay BUY

- **Keep BUY and IDR1,700 TP (34% upside), c.1% yield.** We had a call with Medikaloka Hermina's management team. HEAL aims for IDR6.6-6.7trn revenue with at least +1ppt EBITDA margin expansion in 2024 – in line with our forecasts. It raised prices for non-social security scheme (BPJS) patients' treatments by c.8%, resulting in 3-4% blended ASP adjustments in early 2024. Initiatives to boost margins include operating cost controls, digitalisation, and increasing its non-BPJS patient portion. It is trading at an undemanding valuation of c.12x 2024F EV/ EBITDA, near the 5-year mean.
- **Encouraging 2M24 performance** with positive traffic growth for both inpatient and outpatient segments vs Dec 2023. HEAL also saw margin improvement in 2M24 vs Dec 2023 levels. Despite concerns of softer patient volumes in March, due to the fasting period, HEAL expects the overall 1Q24 performance to remain in line with its 2024 targets. The company expects an increase in patient numbers for almost all its specialties. It noted that while dengue fever vaccine (DBD) patients have increased (mainly in Greater Jakarta), the magnitude is lower than in 2016 and 2019. HEAL also saw positive traction for non-BPJS patients in 2M24.
- **A better regulatory landscape.** HEAL is awaiting the full implementation of the Omnibus Law, particularly in relation to allowing foreign doctors to practice in Indonesia. If the regulation comes into effect, the company will be able to forge stronger partnerships with Quadria and Hiroshima University, resulting in better value-added services. It also awaits more clarity on the Coordination of Benefits (COB) scheme, which will provide better margins than BPJS. Note that HEAL is working with Astra International (ASII, BUY, IDR7,100) to set up an insurance programme related to the COB scheme. A BPJS deficit should not impact the company, given its solid accounts receivable (A/R) days. The impact from the class standardisation programme should also be minimal.
- **Expansions plans still in place.** HEAL plans to open four new hospitals in 2024 while also increasing the number of beds at its existing hospitals, as about 11 of its hospitals have reached bed occupancy rates (BOR) of >75%. It plans to add c.1,000 beds in total for 2024. Capex for the year stands at IDR2.0-2.1trn (vs IDR1.3-1.4trn in 2023). For 2025, the company has secured two landbanks in ex-Java areas. We think the company will continue with its plans to add 3-4 new hospitals per year.
- **ESG.** Our TP includes an ESG premium of 6% based on HEAL's ESG score of 3.3 (above the country median).

Target Price (Return): IDR1,700 (34.4%)  
Price (Market Cap): IDR1,265 (USD1,230m)  
ESG score: 3.3 (out of 4)  
Avg Daily Turnover (IDR/USD) 9,478m/0.62m

#### Analysts

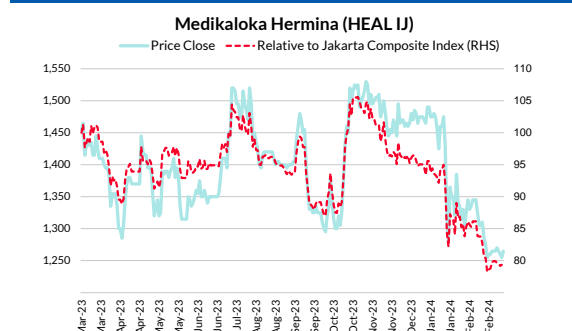
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(15.1)	(4.9)	(15.4)	(10.0)	(14.8)
Relative	(15.2)	(6.0)	(17.9)	(14.1)	(21.6)
52-wk Price low/high (IDR)				1,255 – 1,530	



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (IDRb)	5,869	4,902	5,665	6,781	7,864
Recurring net profit (IDRb)	971	243	439	685	962
Recurring net profit growth (%)	128.8	(75.0)	80.9	56.1	40.5
Recurring P/E (x)	19.49	78.05	43.14	27.64	19.67
P/B (x)	5.7	5.5	4.5	4.1	3.6
P/CF (x)	11.77	21.91	26.12	15.10	11.54
Dividend Yield (%)	0.4	0.5	0.6	1.2	1.8
EV/EBITDA (x)	9.54	20.39	15.26	11.58	9.16
Return on average equity (%)	34.0	8.8	11.8	15.8	19.7
Net debt to equity (%)	9.5	20.8	9.7	7.4	3.1

Source: Company data, RHB

#### Overall ESG Score: 3.3 (out of 4)

##### E: GOOD

HEAL has introduced initiatives like reducing electricity consumption and emissions. It also has a policy on waste management procedures, given the hazardous nature of its medical waste. However, we do not have details on its energy usage and targets ahead.

##### S: GOOD

HEAL takes a strong interest in ensuring that all stakeholders are involved in and benefit from its operational activities. It has held corporate social responsibility activities to give back to society. There are no major issues between employees and employers. The company continues to comply with the latest regulations on employee health, safety, and welfare.

##### G: EXCELLENT

The company regularly conducts shareholder meetings and ensures the equal distribution of public information to all stakeholders. All capital market participants can have access to disclosed material information. HEAL also continuously provides access to its management, and holds regular analyst briefings each quarter.

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (IDR)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
Indonesia	Recurring EPS	64.89	16.21	29.32	45.77	64.30
Healthcare	DPS	4.91	5.79	7.00	14.99	22.45
<b>Medikaloka Hermina</b>	BVPS	221.01	229.89	278.49	310.00	352.69
HEAL IJ	Return on average equity (%)	34.0	8.8	11.8	15.8	19.7
Buy						
	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Valuation basis</b>	Recurring P/E (x)	19.49	78.05	43.14	27.64	19.67
Our 12M TP is based on a 10-year DCF valuation	P/B (x)	5.7	5.5	4.5	4.1	3.6
	FCF Yield (%)	8.5	4.6	3.8	6.6	8.7
<b>Key drivers</b>	Dividend Yield (%)	0.4	0.5	0.6	1.2	1.8
i. Favourable BPJS health regulations;	EV/EBITDA (x)	9.54	20.39	15.26	11.58	9.16
ii. Higher health awareness;	EV/EBIT (x)	11.80	40.96	28.48	19.19	14.21
iii. The hospital industry being under-penetrated.						
	<b>Income statement (IDRb)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Key risks</b>	Total turnover	5,869	4,902	5,665	6,781	7,864
i. Slower increase in revenue intensity;	Gross profit	2,964	1,708	1,996	2,534	3,113
ii. Delay in the BPJS single policy implementation and new collaboration scheme.	EBITDA	2,147	1,037	1,364	1,804	2,273
	Depreciation and amortisation	(412)	(521)	(633)	(716)	(808)
	Operating profit	1,735	516	731	1,088	1,465
<b>Company Profile</b>	Net interest	(120)	(107)	(38)	(60)	(56)
Medikaloka Hermina owns and operates a chain of hospitals. It provides professional healthcare services, while focusing on obstetric and paediatric care.	Pre-tax profit	1,646	480	704	1,042	1,425
	Taxation	(356)	(101)	(144)	(203)	(278)
	Reported net profit	995	299	448	696	975
	Recurring net profit	971	243	439	685	962
	<b>Cash flow (IDRb)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Change in working capital	421	(100)	(285)	(68)	(80)
	Cash flow from operations	1,609	864	725	1,254	1,641
	Cash flow from investing activities	(1,189)	(1,093)	(991)	(1,132)	(1,250)
	Dividends paid	(74)	(87)	(105)	(224)	(336)
	Cash flow from financing activities	2	(283)	349	(31)	(438)
	Cash at beginning of period	865	1,287	775	908	988
	Net change in cash	422	(512)	82	90	(48)
	Ending balance cash	1,287	775	857	998	941
	<b>Balance sheet (IDRb)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Total cash and equivalents	1,287	775	908	988	1,107
	Tangible fixed assets	4,538	5,110	5,468	5,884	6,327
	Total assets	7,573	7,591	8,432	9,297	10,215
	Short-term debt	230	586	320	320	320
	Total long-term debt	1,477	1,163	1,123	1,123	1,002
	Total liabilities	3,140	2,906	2,907	3,158	3,265
	Total equity	4,433	4,685	5,525	6,139	6,950
	Total liabilities & equity	7,573	7,591	8,432	9,297	10,215
	<b>Key metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Revenue growth (%)	32.9	(16.5)	15.6	19.7	16.0
	Recurrent EPS growth (%)	128.8	(75.0)	80.9	56.1	40.5
	Gross margin (%)	50.5	34.9	35.2	37.4	39.6
	Operating EBITDA margin (%)	36.6	21.2	24.1	26.6	28.9
	Net profit margin (%)	17.0	6.1	7.9	10.3	12.4
	Dividend payout ratio (%)	7.4	29.0	23.4	32.2	34.5
	Interest cover (x)	12.1	3.7	7.3	10.3	13.9

Source: Company data, RHB

## Emissions And ESG

### Trend analysis

The company conducts routine emission tests, ensuring that all vehicles and diesel generators have fulfilled the applicable standards to control its GHG emission

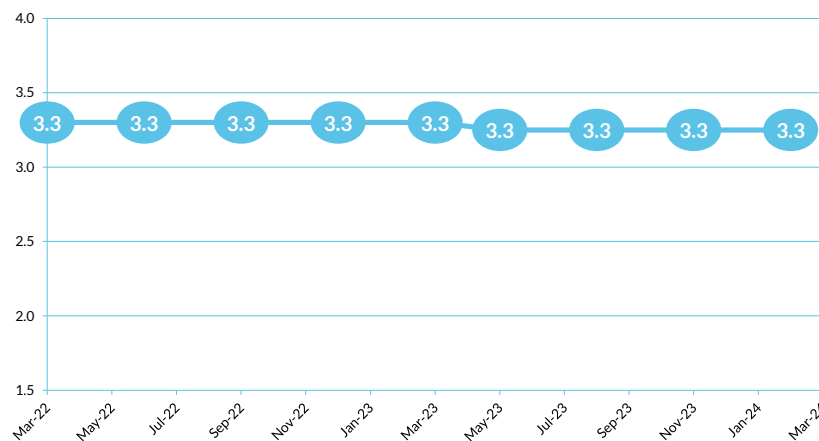
Emissions (tCO <sub>2</sub> e)	Dec-20	Dec-21	Dec-22
Scope 1	na	na	na
Scope 2	na	na	na
Scope 3	na	na	na
Total emissions	na	na	na

Source: Company data, RHB

## Latest ESG-Related Developments

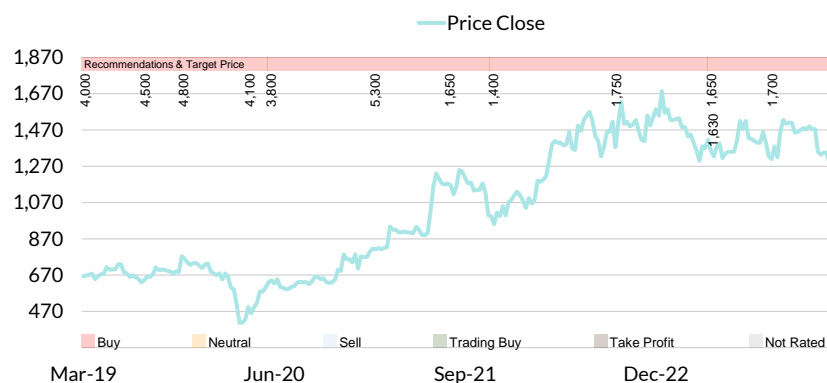
- Since 2020, it has launched various initiatives to reduce the use of plastic materials. One of the highlights is replacing the use of plastic bags in the pharmacies with recyclable paper-based bags. The company also launched awareness campaigns to reduce the consumption of mineral water in plastic cups and bottles, as well as the use of plastic straws in office areas and hospital wards.
- Various efforts have been launched to manage its energy consumption responsibly, including through the following initiatives such as installation of LED lighting to replace conventional lamps, maximising natural lighting through glass window installations, efficient use of elevators, room lighting, and air conditioning – especially after office hours, and solar-powered lighting in parking areas.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-01-19	Buy	1,700	1,350
2023-09-22	Buy	1,700	1,325
2023-05-02	Buy	1,630	1,395
2023-04-27	Buy	1,650	1,420
2023-04-04	Buy	1,750	1,355
2022-11-08	Buy	1,750	1,500
2022-09-09	Buy	1,750	1,515
2021-11-17	Buy	1,400	1,000
2021-08-03	Buy	1,650	1,210
2021-02-03	Buy	5,300	810
2020-05-28	Buy	3,800	622
2020-04-07	Buy	4,100	502
2019-10-30	Buy	4,800	782
2019-09-10	Buy	4,500	700
2019-07-30	Buy	4,500	640

Source: RHB, Bloomberg

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