

19 January 2024

Medikaloka Hermina (HEAL IJ)

Sustained Growth Path; Stay BUY

Healthcare | Health Care Facilities & Svcs

Buy (Maintained)

Target Price (Return):	IDR1,700 (24.5%)
Price (Market Cap):	IDR1,365 (USD1,314m)
ESG score:	3.3 (out of 4)
Avg Daily Turnover (IDR/USD)	10,531m/0.67m

- **Stay BUY, with IDR1,700 TP and 25% upside.** We joined the call with Medikaloka Hermina's management to discuss its growth strategy after the sudden resignation of Chief Financial Officer (CFO) Aristo Setiawidjaja triggered a massive sell-off. We deem market reaction to be positive post discussion as HEAL's share price rose 6.6% yesterday. The stock is trading at c.11-12x 2024F EV/EBITDA (at around mean level of 5-year EV/EBITDA band) – c.50% discount to closest peer Mitra Keluarga Karyasehat (MIKA IJ, BUY, TP: IDR3,300). HEAL remains our health sector Top Pick.
- **Reorganisation strategies to strengthen business...** Aristo's resignation was due to personal matters and he will continue to support HEAL as a company shareholder (based on latest Bloomberg data, he holds c.0.3% stake). Yulisar Khiat, HEAL's Managing Director-Operational & General Affairs, will be the new CFO. Yulisar is also HEAL's co-founder and has almost 40 years of experience with the company. He owns 11.66% stake in the company (as at 31 Dec 2023). HEAL will also appoint two new directors to lead the Human Capital and Operational divisions during its upcoming EGM on 29 Feb. The two new directors will be promoted internally, with the candidates having almost 30 years of experience at HEAL.
- **...and provide assurance to continue its expansion plan.** HEAL aims to open four new hospitals (in line with our estimates) in 2024. Two of the new hospitals will meet the international standard. Each hospital will have c.100 beds. The target is to open the hospital in Pasuruan by end of April, Madiun by end of July, IKN by July-end or early August, and PIK 2 by end of October. HEAL also plans to add another 500 beds to existing hospitals since it has 10 hospitals with more than 70% bed occupation rate (BOR). It aims to add c.900 beds by 2024 – much higher than our estimates.
- **Expanding non-BPJS revenue through digitalisation and adding more centres of excellence (COE).** HEAL sees the radiotherapy COE in Bekasi doing well and is working with Hiroshima University on kidney transplants. It eyes co-operation with more specialists and sub-specialists from overseas to entice more patients and improve revenue intensity (fetch higher margin). The company is in the process of completing the implementation of its IT system (ie improving security system) – with its tangible impact likely to be felt in 2025. It faces no problem in complying with government regulations on national healthcare programme (BPJS) class standardisation and working with insurance companies on Coordination of Benefits collaboration.
- **Colour on 4Q23 and guidance for 2024.** HEAL sees positive QoQ performance in 4Q23, with strong traffic in Oct and Nov 2023 but slowdown in Dec 2023 given the holiday season. Capex in 2023 was c.IDR1.2-1.3trn. For 2024, it targets to book 10-15% revenue growth (+8% price increase for non-BPJS treatments in Jan 2024) and 1-2ppts EBITDA margin expansion. Revenue growth guidance was lower than our assumption but EBITDA expansion is in line. The company earmarks IDR1.2-1.4trn capex for 2024.
- **We apply 6% ESG premium to our TP** as HEAL has a 3.3 ESG score.

Analysts

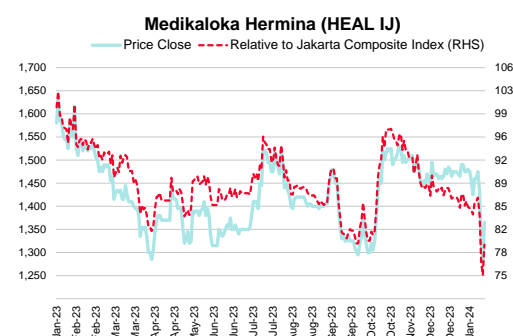
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(8.4)	(7.2)	(0.7)	(8.7)	(13.6)
Relative	(8.1)	(9.1)	(5.4)	(14.9)	(20.8)
52-wk Price low/high (IDR)	1,280 – 1,630				



Source: Bloomberg

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.

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)	21.03	84.22	46.55	29.82	21.23
P/B (x)	6.2	5.9	4.9	4.4	3.9
P/CF (x)	12.70	23.64	28.19	16.30	12.45
Dividend Yield (%)	0.4	0.4	0.5	1.1	1.6
EV/EBITDA (x)	10.23	21.84	16.36	12.41	9.82
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

See important disclosures at the end of this report

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Financial Exhibits

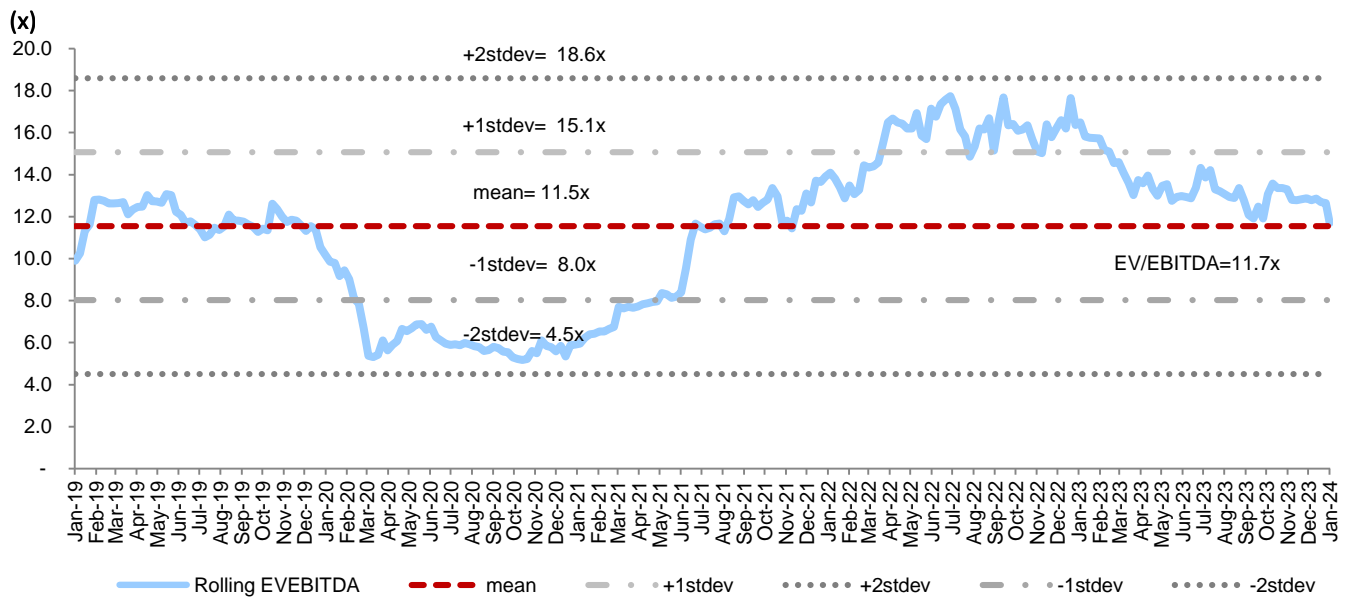
Asia	Financial summary (IDR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Indonesia	Recurring EPS	64.89	16.21	29.32	45.77	64.30
Healthcare	DPS	4.91	5.79	7.00	14.99	22.45
Medikaloka Hermina	BVPS	221.01	229.89	278.49	310.00	352.69
HEAL IJ	Return on average equity (%)	34.0	8.8	11.8	15.8	19.7
Buy						
Valuation basis	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Our 12M TP is based on a 10-year DCF valuation	Recurring P/E (x)	21.03	84.22	46.55	29.82	21.23
	P/B (x)	6.2	5.9	4.9	4.4	3.9
	FCF Yield (%)	7.9	4.2	3.5	6.1	8.0
	Dividend Yield (%)	0.4	0.4	0.5	1.1	1.6
Key drivers	EV/EBITDA (x)	10.23	21.84	16.36	12.41	9.82
i. Favourable BPJS health regulations;	EV/EBIT (x)	12.66	43.86	30.53	20.57	15.23
ii. Higher health awareness;						
iii. The hospital industry being under-penetrated.						
Key risks	Income statement (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
i. Slower increase in revenue intensity;	Total turnover	5,869	4,902	5,665	6,781	7,864
ii. Delay in the BPJS single policy implementation and new collaboration scheme.	Gross profit	2,964	1,708	1,996	2,534	3,113
	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
	Net interest	(120)	(107)	(38)	(60)	(56)
	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
Company Profile	Cash flow (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Medikaloka Hermina owns and operates a chain of hospitals. It provides professional healthcare services, while focusing on obstetric and paediatric care.	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
	Balance sheet (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	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
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	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

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Figure 1: HEAL's 5-year EV/EBITDA band



Source: Company data, Bloomberg, RHB

Figure 2: Regional healthcare companies' valuations

	Bloomberg ticker	Currency	Price	Market cap (USDm)	P/E (x)		EPS growth (%)		EV/EBITDA		EBITDA growth (%)	
					FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Raffles Medical Group	RFMD SP EQUITY	SGD	1.1	1,463	21.9	23.3	(37.9)	(6.3)	11.1	11.5	(33.4)	(3.2)
IHH Healthcare	IHH SP EQUITY	SGD	1.7	11,499	35.1	31.3	1.8	12.1	14.1	13.5	(9.0)	4.3
IHH Healthcare	IHH MK EQUITY	MYR	6.1	11,490	35.0	31.2	1.8	12.1	14.1	13.5	(0.0)	4.3
Bumrungrad Hospital	BH TB EQUITY	THB	238.0	5,383	28.2	26.5	35.7	6.6	19.8	18.8	32.9	5.2
Bangkok Dusit Medical Services	BDMS TB EQUITY	THB	27.8	12,549	32.1	29.5	9.0	8.8	19.0	17.8	4.4	7.2
Bangkok Chain Hospital	BCH TB EQUITY	THB	22.7	1,611	39.6	32.2	(53.0)	22.9	19.4	17.1	(42.1)	13.6
Chularat Hospital	CHG TB Equity	THB	3.2	1,014	33.1	29.5	(61.3)	12.2	20.2	17.8	(55.3)	13.5
Fortis Healthcare	FORH IN EQUITY	INR	432.3	3,928	53.8	41.4	29.5	30.1	27.4	22.6	13.5	21.3
Apollo Hospitals	APHS IN EQUITY	INR	5,869.9	10,158	84.3	55.9	22.3	50.9	35.8	28.0	20.3	27.8
Simple average					40.3	33.4	(5.8)	16.6	20.1	17.8	(7.6)	10.5
Weighted average					43.3	35.2	8.2	18.6	20.4	18.1	3.6	10.4

Source: Bloomberg, Company data, RHB

Figure 3: Regional healthcare companies' valuations

	Bloomberg Ticker	Currency	Price	Market cap (USDm)	P/BV (x)		Div yield (%)		ROE (%)	
					FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Raffles Medical Group	RFMD SP EQUITY	SGD	1.1	1,463	1.9	1.9	3.0	3.0	8.7	8.1
IHH Healthcare	IHH SP EQUITY	SGD	1.7	11,499	1.9	1.9	2.2	1.3	6.1	6.4
IHH Healthcare	IHH MK EQUITY	MYR	6.1	11,490	1.9	1.9	2.2	1.3	6.1	6.4
Bumrungrad Hospital	BH TB EQUITY	THB	238.0	5,383	8.0	7.0	1.8	2.0	31.6	28.5
Bangkok Dusit Medical Services	BDMS TB EQUITY	THB	27.8	12,549	4.7	4.5	2.1	2.2	15.0	15.6
Bangkok Chain Hospital	BCH TB EQUITY	THB	22.7	1,611	4.2	4.0	1.3	1.5	10.9	12.7
Chularat Hospital	CHG TB Equity	THB	3.2	1,014	4.7	4.3	2.1	2.3	14.1	15.5
Fortis Healthcare	FORH IN EQUITY	INR	432.3	3,928	4.1	3.7	0.1	0.2	8.2	9.8
Apollo Hospitals	APHS IN EQUITY	INR	5,869.9	10,158	12.0	10.1	0.2	0.3	14.9	19.3
Simple average					4.8	4.4	1.7	1.6	12.8	13.6
Weighted average					5.1	4.5	1.7	1.4	12.3	13.2

Source: Bloomberg, 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

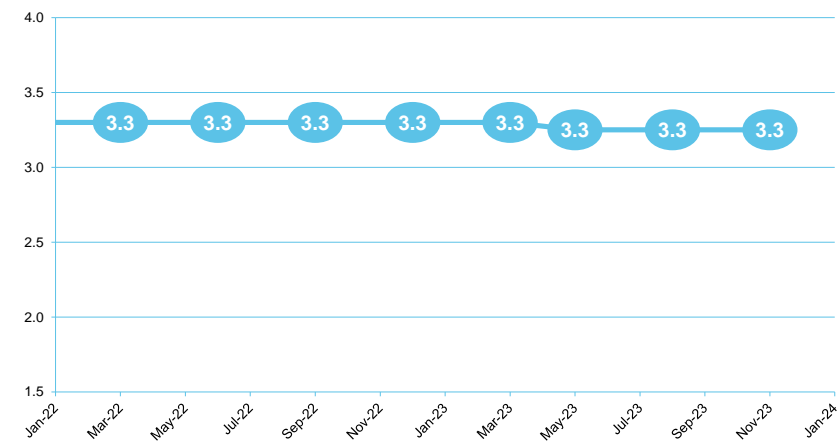
Emissions (tCO2e)	Dec-20	Dec-21	Dec-22
Scope 1	na	na	na
Scope 2	na	na	na
Scope 3	na	na	na
Total emissions	na	na	na

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
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
2019-07-01	Buy	4,000	660

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
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
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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