

14 September 2023

Consumer Non-cyclical | Healthcare

Mitra Keluarga Karyasehat (MIKA IJ)

Buy (Maintained)

Seeing a Brighter Growth Path Ahead; Keep BUY

Target Price (Return):	IDR3,300 (11.9%)
Price (Market Cap):	IDR2,950 (USD2,734m)
ESG score:	3.3 (out of 4)
Avg Daily Turnover (IDR/USD)	27,413m/1.81m

- **Keep BUY with new IDR3,300 TP from IDR3,200, 12% upside, c.1% yield.** We cut 2023-2025F earnings by 17-19% after taking into account Mitra Keluarga Karyasehat's weak 1H23 performance. However, we drop our risk-free assumption from 7% to 6.6% based on the lower government bond yields, and roll forward our valuation base to 2024F. We think the worst is over for MIKA, and the company should see better revenue growth from improving volumes and margins, as some of its initiatives start to bear fruit. MIKA is trading at c.23x 2024F EV/EBITDA – close to the 5-year mean.

- **Following a weak 2Q23, MIKA saw improvements in July and August patient volumes**, with the company recording 2023's highest monthly volume in August – exceeding the level recorded in March (previously the strongest month YTD). August outpatient and inpatient volumes were 9% and 6% higher than that of March. July-August occupancy rates reached c.60% (2Q23: 58.5%), while patient volumes were 10-11% and 5-6% higher for outpatient and inpatient admissions vs 2Q23's levels. July-August traffic was also higher YoY with 12-13% and 14-15% increases in inpatient and outpatient visits respectively.

- **Update on case and payer mix.** MIKA has seen a substantial increase in cases related to the pediatric specialty (c.+30% MoM). Cases related to respiratory diseases (given the worsening air quality) made up 3-4% of inpatient admissions and 4-5% of outpatient visits in August. MIKA also saw the number of cases related to other specialties rising by 8-12% MoM, including surgeries which rose by high single-digits. Payer mix remained largely similar to 1H23's levels, with the portion of payments from the Social Security Agency on Health (BPJS) staying at similar levels. The new Coordination of Benefit (COB) scheme mostly attracts collaborations with companies (now contributes 4-5% of MIKA's revenue).

- **Organic, inorganic expansions intact.** MIKA has secured landbanks in several areas to support its organic expansion plans. While all its landbanks are still located in Java, MIKA has not ruled out the possibility of tapping into areas outside Java, such as Balikpapan and Medan, which may be lucrative. It is taking a wait-and-see approach on the possibility of opening hospitals in the new capital city (IKN). MIKA has an ample cash pile and is currently considering several M&A opportunities.

- **Margins should improve in 3Q23** from: i) Better scale on the back of improved patient traffic (despite typically lower intensity/complexity for pediatric cases, resulting in lower margins), ii) two new hospitals should achieve EBITDA-positive levels by Sep 2023 (Pamulang hospital is already EBITDA-positive, Slawi hospital is nearing break-even), iii) opening of a new centre of excellence (COE) for radiotherapy in Kenjeran. MIKA will open a COE focused on otology soon, to be based in one of its Jakarta hospitals.

- **ESG overlay.** Based on MIKA's ESG score of 3.3, we have applied a 6% ESG premium to our DCF-based intrinsic value to derive our TP.

Analysts

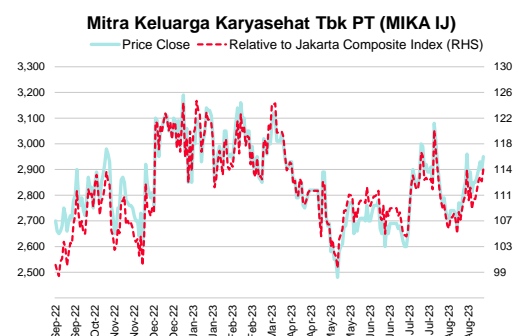
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.5)	7.7	6.9	(0.3)	9.3
Relative	(8.7)	6.9	3.7	(2.5)	14.5
52-wk Price low/high (IDR)					2,480 – 3,190



Source: Bloomberg

Overall ESG Score: 3.3 (out of 4)

E: GOOD

MIKA has consciously made efforts to reduce its electricity consumption and improve emissions levels. It has a clear policy on waste management procedures, given the hazardous nature of its medical waste. Several insights (post realisation) have been recorded but its future environmental targets remain unclear

S: GOOD

MIKA has implemented a number of corporate social responsibility programmes, to creating a positive social impact, especially in community healthcare and education. There are no major issues between employees and employers. It consistently complies with the latest regulations on safeguarding employee health, safety and welfare

G: EXCELLENT

It continues to comply with current regulations, such as regularly conducting shareholder meetings and ensuring the equal distribution of public information to all shareholders. All capital market participants can access its disclosed information. Access to management is available via quarterly analyst meetings held.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (IDRb)	4,353	4,049	4,249	4,864	5,494
Recurring net profit (IDRb)	1,172	963	957	1,140	1,285
Recurring net profit growth (%)	49.1	(17.8)	(0.6)	19.1	12.7
Recurring P/E (x)	36.05	43.85	44.13	37.07	32.88
P/B (x)	7.5	6.8	6.3	5.7	5.2
P/CF (x)	20.64	34.40	45.67	36.02	32.63
Dividend Yield (%)	1.2	1.2	1.2	1.3	1.5
EV/EBITDA (x)	22.50	27.43	27.71	24.08	21.22
Return on average equity (%)	23.2	17.0	15.7	17.0	17.2
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

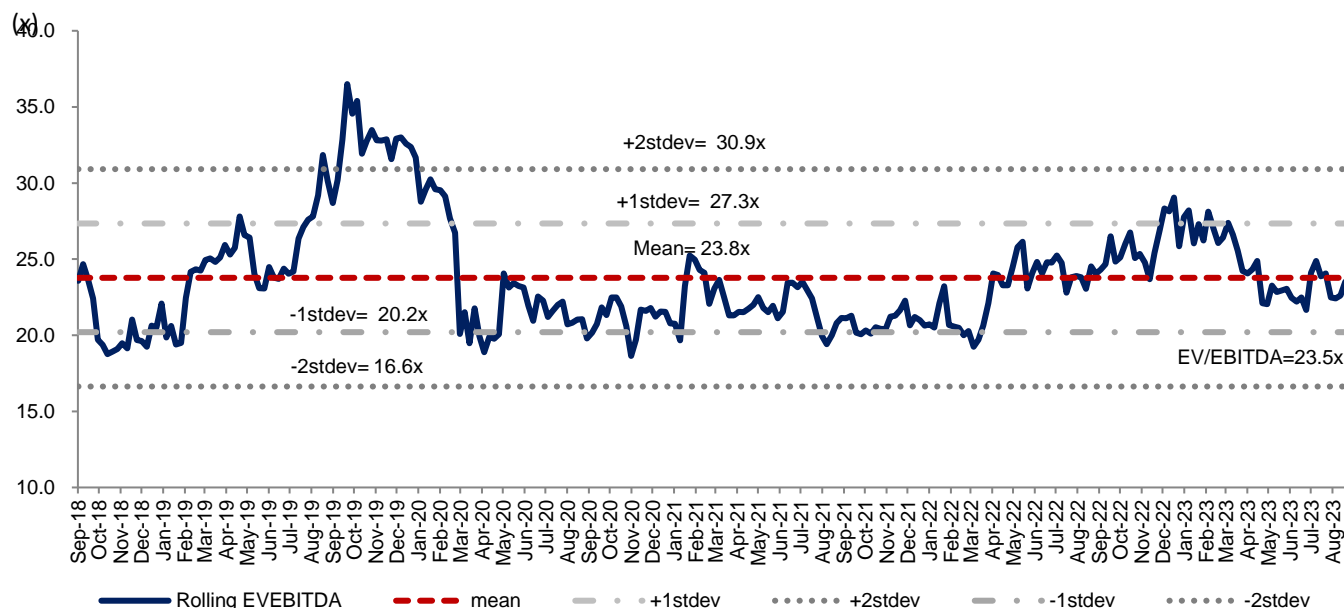
Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (IDR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Indonesia	Recurring EPS	81.82	67.27	66.85	79.59	89.73
Consumer Non-cyclical	DPS	35.80	34.97	35.93	37.39	45.04
Mitra Keluarga Karyasehat	BVPS	395.29	431.60	467.15	514.08	562.77
MIKA IJ	Return on average equity (%)	23.2	17.0	15.7	17.0	17.2
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	36.05	43.85	44.13	37.07	32.88
Our 12M TP is derived from a 10-year DCF valuation	P/B (x)	7.5	6.8	6.3	5.7	5.2
	FCF Yield (%)	4.0	0.7	0.3	1.4	1.6
Key drivers	Dividend Yield (%)	1.2	1.2	1.2	1.3	1.5
i. Under-penetration of healthcare in Indonesia;	EV/EBITDA (x)	22.50	27.43	27.71	24.08	21.22
ii. Continued expansion on new hospitals and COE development	EV/EBIT (x)	25.30	31.97	32.80	27.99	24.31
iii. Net cash position for expansion.						
	Income statement (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Key risks	Total turnover	4,353	4,049	4,249	4,864	5,494
i. Slower expansion plans;	Gross profit	2,261	2,077	2,137	2,458	2,787
ii. Market competition from other hospital players;	EBITDA	1,795	1,497	1,465	1,678	1,895
iii. Risks related to diversification to ex Java areas	Depreciation and amortisation	(199)	(213)	(228)	(235)	(241)
	Operating profit	1,596	1,284	1,238	1,443	1,654
Company Profile	Net interest	51	46	39	76	58
MIKA engages in hospital management and business services. The company operates hospitals located in Jakarta, Surabaya and Tegal.	Pre-tax profit	1,720	1,386	1,342	1,587	1,766
	Taxation	(358)	(292)	(262)	(309)	(344)
	Reported net profit	1,229	1,008	1,010	1,195	1,329
	Recurring net profit	1,172	963	957	1,140	1,285
	Cash flow (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	406	218	(169)	(13)	(14)
	Cash flow from operations	2,047	1,228	925	1,173	1,295
	Capex	(361)	(946)	(807)	(584)	(615)
	Cash flow from investing activities	(593)	(973)	(873)	(708)	(748)
	Dividends paid	(513)	(501)	(515)	(535)	(645)
	Cash flow from financing activities	(876)	(841)	259	(526)	(631)
	Cash at beginning of period	705	1,283	696	1,006	945
	Net change in cash	577	(586)	310	(62)	(84)
	Ending balance cash	1,282	696	1,006	944	861
	Balance sheet (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	2,511	1,895	2,281	2,404	2,509
	Tangible fixed assets	2,696	3,430	4,009	4,358	4,732
	Total assets	6,860	6,917	7,994	8,679	9,381
	Total liabilities	936	786	668	763	861
	Total equity	5,925	6,131	7,326	7,915	8,520
	Total liabilities & equity	6,860	6,917	7,994	8,679	9,381
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	27.3	(7.0)	4.9	14.5	12.9
	Recurrent EPS growth (%)	49.1	(17.8)	(0.6)	19.1	12.7
	Gross margin (%)	52.0	51.3	50.3	50.5	50.7
	Operating EBITDA margin (%)	41.2	37.0	34.5	34.5	34.5
	Net profit margin (%)	28.2	24.9	23.8	24.6	24.2
	Dividend payout ratio (%)	41.7	49.7	50.9	44.8	48.5
	Capex/sales (%)	8.3	23.4	19.0	12.0	11.2
	Interest cover (x)	131	100	73	99	60

Source: Company data, RHB

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



Source: Bloomberg, Company, RHB

Figure 2: Changes to our estimates

	New			Old			New/Old (%)		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Income Statement (IDRbn)									
Total Turnover	4,249	4,864	5,494	4,679	5,341	6,085	(9.2)	(8.9)	(9.7)
Gross Profit	2,137	2,458	2,787	2,462	2,837	3,258	(13.2)	(13.4)	(14.5)
EBITDA	1,465	1,678	1,895	1,772	2,055	2,369	(17.3)	(18.4)	(20.0)
Net Profit	1,010	1,195	1,329	1,222	1,433	1,638	(17.3)	(16.6)	(18.9)
Key Metrics									
EPS (IDR)	71	83	93	85	100	114	(17.3)	(16.6)	(18.9)
DPS (IDR)	36	37	45	30	38	45	19.8	(1.6)	0.1
Revenue Growth (%)	4.9	14.5	12.9	15.6	14.1	13.9			
EPS Growth (%)	0.2	18.2	11.3	21.2	17.3	14.3			
EBITDA Margin (%)	34.5	34.5	34.5	37.9	38.5	38.9			
Net Profit Margin (%)	23.8	24.6	24.2	26.1	26.8	26.9			
Return on average equity (%)	16.7	17.0	17.2	19.7	19.3	19.5			

Source: Company data, RHB

Figure 3: RHB vs Street estimates

IDRbn	RHB			Consensus			RHB/Cons (%)		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Net revenue	4,249	4,864	5,494	4,370	4,973	5,589	97.2	97.8	98.3
Gross profit	2,137	2,458	2,787	2,204	2,561	2,903	97.0	96.0	96.0
EBITDA	1,465	1,678	1,895	1,553	1,825	2,072	94.4	91.9	91.5
EBIT	1,238	1,443	1,654	1,292	1,530	1,743	95.8	94.3	94.9
Profit before tax	1,342	1,587	1,766	1,391	1,643	1,874	96.5	96.6	94.2
NPAT	1,010	1,195	1,329	1,015	1,207	1,380	99.5	99.0	96.3

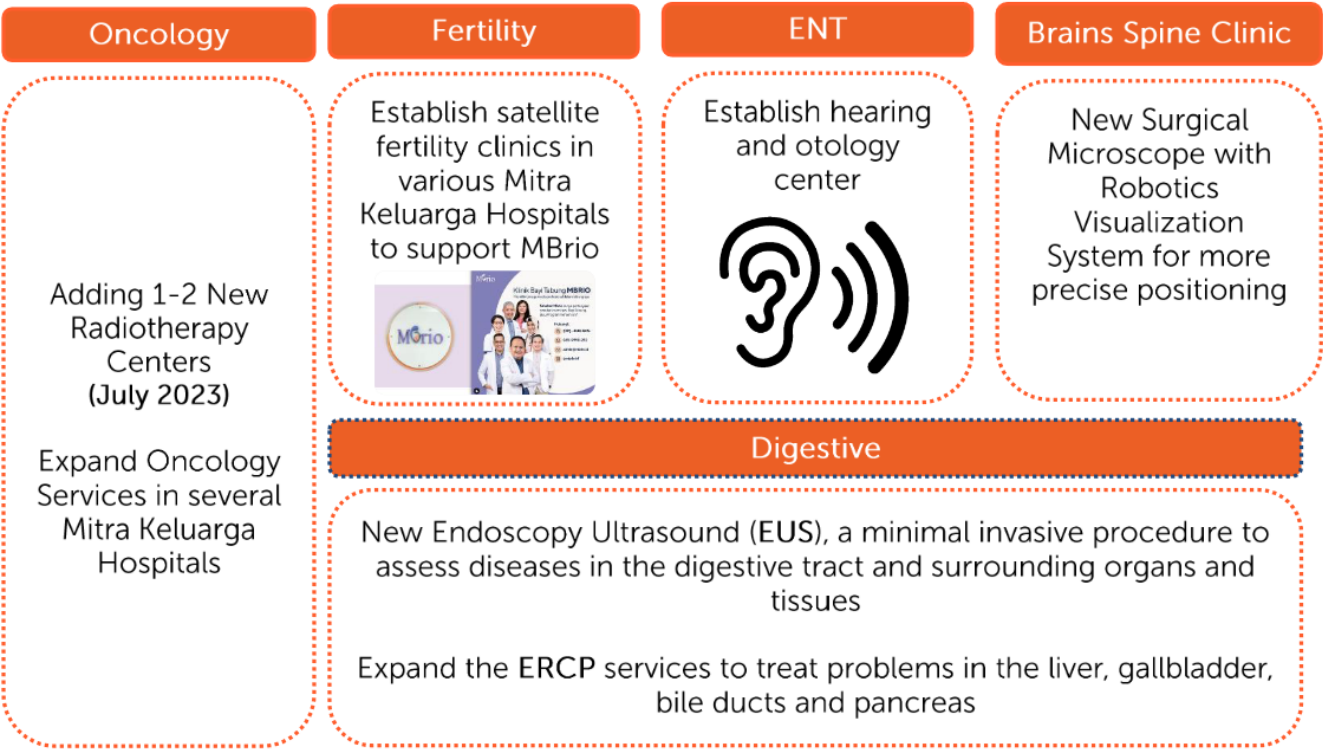
Source: Company data, Bloomberg, RHB

Figure 4: DCF valuation

IDRbn	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
EBIT	1,443	1,654	1,880	2,116	2,365	2,640	2,927	3,250	3,572	3,886	4,209
EBIT (1-t)	1,162	1,331	1,514	1,703	1,904	2,126	2,356	2,616	2,876	3,129	3,388
Depreciation & Amortisation	235	241	247	247	247	246	245	244	242	239	237
Change in working capital	(47)	(49)	(52)	(53)	(56)	(62)	(64)	(72)	(72)	(53)	(71)
Capex	(584)	(615)	(642)	(404)	(432)	(460)	(487)	(517)	(531)	(573)	(618)
Net free cash flow to firm	765	909	1,067	1,493	1,663	1,850	2,050	2,271	2,515	2,741	2,937
Terminal Value											67,179
PV Total discounted firm value	765	842	916	1,188	1,226	1,264	1,297	1,332	1,367	1,381	32,719
Less: net debt	(945)										
Less: minority interest	555										
Equity value	44,687										
Number of shares (bn)	14.3										
Equity value per share (IDR)	3,120										
ESG Premium (Discount)	6%										
TP (IDR)	3,308										
Assumptions											
Risk free rate	6.6%										
Beta	0.2										
Equity market premium	6%										
WACC	7.9%										
Terminal growth	3%										

Source: Company data, RHB

Figure 5: MIKA plans to add more COEs to its stable to enhance margins



Source: Company data, RHB

Recommendation Chart

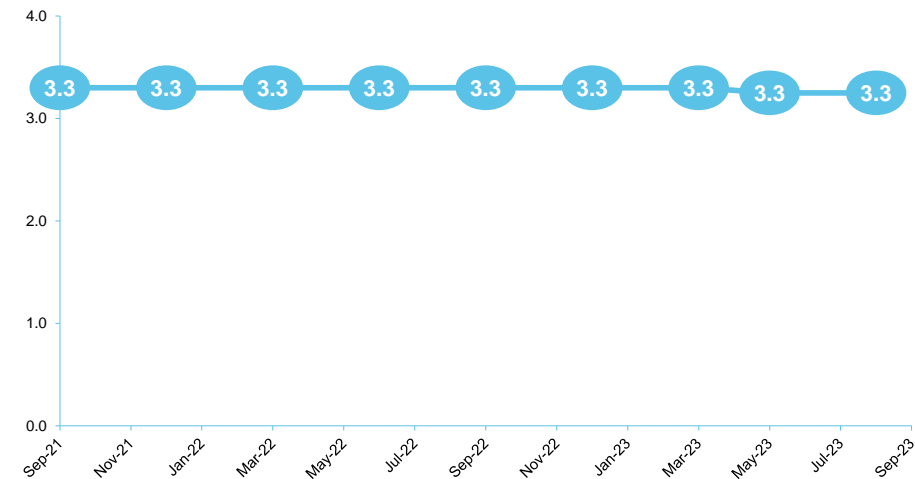


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-05-03	Buy	3,200	2,680
2023-04-27	Buy	3,200	2,680
2023-02-02	Neutral	3,200	2,910
2022-12-01	Buy	3,200	2,810
2022-08-23	Buy	3,000	2,600
2021-11-18	Buy	2,900	2,340
2021-04-27	Buy	3,600	2,690
2021-03-12	Buy	3,600	2,830
2021-02-02	Buy	3,600	3,200
2020-10-22	Trading Buy	2,900	2,650
2020-01-21	Trading Buy	2,900	2,500
2019-11-04	Neutral	2,900	2,660
2019-10-15	Neutral	2,900	2,670
2019-07-01	Neutral	1,800	1,900
2019-04-01	Neutral	1,600	1,970

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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