

6 December 2024

Healthcare | Health Care Facilities & Svcs

## Medikaloka Hermina (HEAL IJ)

**Buy** (Maintained)

### Anticipating Improvements Ahead; Stay BUY

- **Still BUY, new IDR1,800 TP (from IDR1,700), 21% upside, c.1% yield.** We cut our earnings assumptions by 13.3%, 14.3%, and 13.4% for 2024-2026 due to weak 3Q24 traffic and roll forward our valuation base to 2025. We still like Medikaloka Hermina for its expansion plans, initiatives to bolster margins via digitalisation, and expansion of its non-Social Insurance Administration Organisation (BPJS) segment. We think the higher stake ownership by its CFO also provides positive sentiment. HEAL is trading at c.12x 2025F EV/EBITDA, near the 5-year mean. Our TP includes a 6% ESG premium.
- **Short-term improvements.** HEAL saw MoM and YoY improvements in its Oct 2024 patient traffic. The company also noted that patient traffic was 6-8% higher than 3Q24's average during the month. We think this positive traction should continue in Nov 2024, as the country enters the rainy season, before softening in Dec 2024 during the holiday festive season. Over the long term, we note the potential of another wave of tuberculosis cases in Indonesia, which reportedly has the second-highest number of cases globally. The Ministry of Health and the United States Agency for International Development are monitoring this situation.
- **2025 outlook.** HEAL aims to book revenue growth in mid-high teen levels, slightly above our forecasts. EBITDA margin is expected to expand by c.1ppt – in line with our estimates for 2025. The company is mulling a prudent price increase due to concerns on the economic outlook. Capex is expected at IDR1.0-1.3trn in 2025 for the opening of new hospitals, addition of c.700 beds in existing hospitals with high occupancy rates, and to boost digitalisation. It aims to provide real time data for all hospitals in 2026.
- **Expansion plans.** HEAL aims to add two new hospitals in 4Q25 and open 2-4 hospitals per year moving forward, in line with our forecasts. It plans to open one hospital in PIK 2 in 4Q24, aimed at catering to non-BPJS patients. We have not pencilled in potential acquisitions. HEAL also sees potential in being a hospital operator, where it can obtain revenue and gross profit-sharing, as it has been doing for the Ubaya Hospital. Revenue from this segment was at 2.8% in 9M24. It plans to conduct co-branding initiatives with prominent brands, and to offer hospital-based training/teaching, pending detailed regulations by the Government.
- **BPJS impact.** HEAL is awaiting regulations on the 2025 class standardisation scheme. It is working with Astra Buana Insurance to monetise the Coordination of Benefits (COB) scheme, but has not received further details from the Financial Services Authority (OJK). It noted that payments from BPJS remain timely despite the potential deficit. HEAL plans to focus on BPJS' high intensity cases (cancer, surgery-related) to beef up margins. Its hospital in the new capital city has started accepting BPJS patients, while its Aceh hospital aims to start receiving BPJS patient in Jan 2025.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (IDRb)	4,902	5,784	6,790	7,698	8,763
Recurring net profit (IDRb)	243	408	615	774	907
Recurring net profit growth (%)	(75.0)	68.2	50.7	25.9	17.2
Recurring P/E (x)	91.94	54.66	36.27	28.82	24.60
P/B (x)	6.5	5.8	4.7	4.2	3.8
P/CF (x)	25.80	26.69	11.52	13.48	11.72
Dividend Yield (%)	0.4	0.5	0.6	1.1	1.3
EV/EBITDA (x)	23.64	18.29	12.69	10.79	9.39
Return on average equity (%)	8.8	12.0	14.6	15.6	16.3
Net debt to equity (%)	20.8	27.3	3.4	net cash	net cash

Source: Company data, RHB

Target Price (Return):	IDR1,800 (20.8%)
Price (Market Cap):	IDR1,490 (USD1,443m)
ESG score:	3.3 (out of 4)
Avg Daily Turnover (IDR/USD)	20,588m/1.32m

#### Analysts

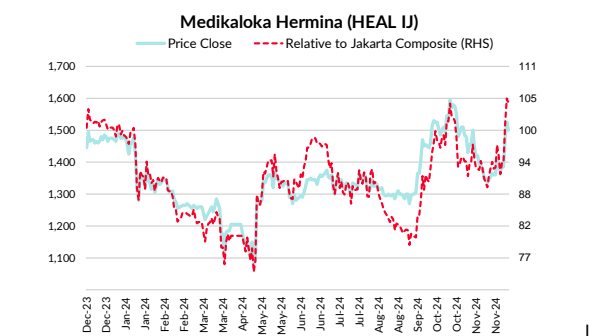
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.0	4.9	14.6	15.1	(0.3)
Relative	(0.6)	7.3	19.4	9.8	(3.3)
52-wk Price low/high (IDR)				1,085	–1,595



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.

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## Financial Exhibits

<b>Asia</b> Indonesia Healthcare <b>Medikaloka Hermina</b> HEAL IJ Buy	<b>Financial summary (IDR)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Recurring EPS	16.21	27.26	41.08	51.71	60.58
	DPS	5.79	7.00	8.73	16.25	19.78
	BVPS	229.89	258.51	317.81	353.89	395.15
	Return on average equity (%)	8.8	12.0	14.6	15.6	16.3
<b>Valuation basis</b> Our 12M TP is based on a 10-year DCF valuation	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Recurring P/E (x)	91.94	54.66	36.27	28.82	24.60
	P/B (x)	6.5	5.8	4.7	4.2	3.8
	FCF Yield (%)	3.9	3.7	8.7	7.4	8.5
	Dividend Yield (%)	0.4	0.5	0.6	1.1	1.3
<b>Key drivers</b> i. Favourable BPJS health regulations; ii. Higher health awareness; iii. The hospital industry being under-penetrated.	EV/EBITDA (x)	23.64	18.29	12.69	10.79	9.39
	EV/EBIT (x)	47.49	32.08	20.88	17.30	14.88
<b>Key risks</b> i. Slower increase in revenue intensity; ii. Delay in the BPJS single policy implementation and new collaboration scheme	<b>Income statement (IDRb)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total turnover	4,902	5,784	6,790	7,698	8,763
	Gross profit	1,708	2,075	2,539	2,940	3,361
	EBITDA	1,037	1,370	1,893	2,214	2,523
	Depreciation and amortisation	(521)	(589)	(742)	(833)	(931)
<b>Company Profile</b> Medikaloka Hermina owns and operates a chain of hospitals. It provides professional healthcare services, while focusing on obstetric and paediatric care	Operating profit	516	781	1,151	1,381	1,592
	Net interest	(107)	(108)	(147)	(146)	(164)
	Pre-tax profit	480	710	1,024	1,247	1,437
	Taxation	(101)	(151)	(210)	(256)	(294)
	Reported net profit	299	437	631	783	914
	Recurring net profit	243	408	615	774	907
	<b>Cash flow (IDRb)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Change in working capital	(100)	81	71	22	36
	Cash flow from operations	864	835	1,936	1,655	1,903
	Cash flow from investing activities	(1,093)	(1,353)	(1,134)	(1,224)	(1,323)
	Dividends paid	(87)	(105)	(131)	(243)	(296)
	Cash flow from financing activities	(283)	598	(430)	(215)	(138)
	Cash at beginning of period	1,287	775	855	1,227	1,443
	Net change in cash	(512)	80	372	216	442
	Ending balance cash	775	855	1,227	1,443	1,885
	<b>Balance sheet (IDRb)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total cash and equivalents	775	855	1,227	1,443	1,885
	Tangible fixed assets	5,110	5,874	6,266	6,657	7,049
	Total assets	7,591	8,803	9,305	10,130	11,219
	Short-term debt	586	269	320	320	320
	Total long-term debt	1,163	2,003	1,123	1,002	1,002
	Total liabilities	2,906	3,604	3,026	3,102	3,345
	Total equity	4,685	5,198	6,280	7,028	7,874
	Total liabilities & equity	7,591	8,803	9,305	10,130	11,219
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Revenue growth (%)	(16.5)	18.0	17.4	13.4	13.8
	Recurrent EPS growth (%)	(75.0)	68.2	50.7	25.9	17.2
	Gross margin (%)	34.9	35.9	37.4	38.2	38.4
	Operating EBITDA margin (%)	21.2	23.7	27.9	28.8	28.8
	Net profit margin (%)	6.1	7.6	9.3	10.2	10.4
	Dividend payout ratio (%)	29.0	24.0	20.7	31.1	32.4
	Interest cover (x)	3.69	5.59	7.40	8.72	9.28

Source: Company data, RHB

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Figure 1: Changes to estimates

	New			Old			New/Old (%)		
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
<b>Income Statement (IDRbn)</b>									
Total Turnover	6,790	7,698	8,763	6,740	7,791	8,915	0.7	(1.2)	(1.7)
Gross Profit	2,539	2,940	3,361	2,623	3,083	3,531	(3.2)	(4.6)	(4.8)
EBIT	1,151	1,381	1,592	1,244	1,518	1,749	(7.5)	(9.0)	(9.0)
Pretax Profit	1,024	1,247	1,437	1,158	1,436	1,658	(11.6)	(13.2)	(13.4)
Net Profit	631	783	914	728	913	1,054	(13.3)	(14.3)	(13.4)
<b>Key Metrics</b>									
EPS (IDR)	42	53	61	49	61	71	(13.3)	(14.3)	(13.4)
DPS (IDR)	9	16	20	15	25	31	(41.7)	(34.1)	(35.3)
Revenue Growth (%)	17.4	13.4	13.8	16.5	15.6	14.4			
EPS Growth (%)	44.3	24.1	16.7	66.3	25.6	15.4			
EBITDA Margin (%)	27.9	28.8	28.8	29.5	30.2	30.1			
Net Profit Margin (%)	9.3	10.2	10.4	10.8	11.7	11.8			
Return on average equity (%)	14.6	15.5	16.3	16.8	18.1	18.8			

Source: Company data, Bloomberg, RHB

Figure 2: RHB vs Street estimates

IDRbn	RHB			Consensus			RHB/Cons (%)		
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
Net revenue	6,790	7,698	8,763	6,720	7,683	8,532	101.0	100.2	102.7
Gross profit	2,539	2,940	3,361	2,501	2,898	3,245	101.5	101.4	103.6
EBITDA	1,893	2,214	2,523	1,879	2,181	2,429	100.7	101.5	103.9
EBIT	1,151	1,381	1,592	1,091	1,306	1,446	105.5	105.8	110.1
Profit before tax	1,024	1,247	1,437	966	1,186	1,334	106.0	105.1	107.7
NPAT	631	783	914	574	707	847	109.9	110.7	107.9

Source: Company data, Bloomberg, RHB

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Figure 3: DCF valuation

IDRbn	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F	2035F
<b>EBIT</b>	1,381	1,592	1,817	2,018	2,199	2,391	2,602	2,834	3,064	3,316	3,584
<b>EBIT (1-t)</b>	1,098	1,266	1,445	1,604	1,749	1,901	2,069	2,253	2,436	2,636	2,850
Depreciation & Amortisation	833	931	1,038	1,157	1,285	1,424	1,572	1,731	1,901	2,083	2,278
Change in working capital	(48)	(46)	(49)	(45)	(42)	(43)	(47)	(53)	(54)	(60)	(62)
Capex	(1,224)	(1,323)	(1,484)	(1,630)	(1,758)	(1,892)	(2,035)	(2,190)	(2,351)	(2,525)	(2,713)
<b>Net free cash flow to firm</b>	<b>659</b>	<b>827</b>	<b>949</b>	<b>1,086</b>	<b>1,234</b>	<b>1,390</b>	<b>1,558</b>	<b>1,742</b>	<b>1,931</b>	<b>2,134</b>	<b>2,353</b>
Terminal Value											43,729
PV	659	755	790	825	855	879	899	917	928	936	18,433
Total discounted firm value	26,877										
Less: net debt	(123)										
Less: minority interest	1,721										
Equity value	25,279										
Number of shares (bn)	14.9										
<b>Equity value per share (IDR)</b>	<b>1,698</b>										
ESG Premium (Discount)	6%										
TP	1,800										
<b>Assumptions</b>											
Risk free rate	6.6%										
Beta	0.4										
Equity market premium	6%										
WACC	9.6%										
Terminal growth	4%										

Source: Company data, Bloomberg, RHB

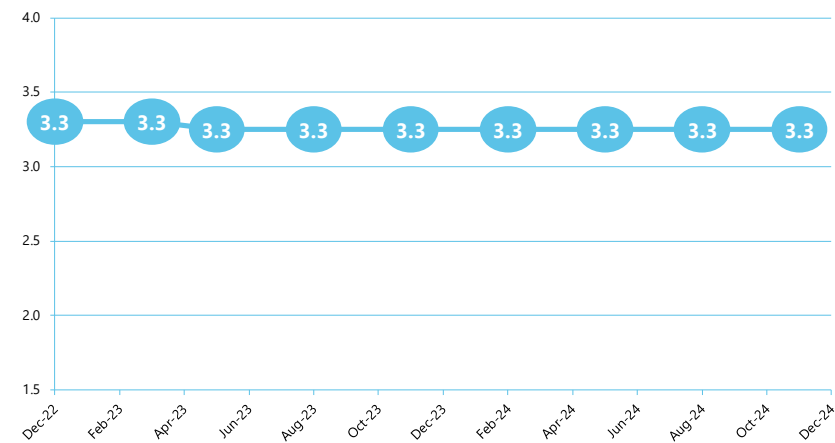
Emissions And ESG

Trend analysis	Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
The company conduct routine emission tests, ensuring that all vehicles and diesel generators have fulfilled the applicable standards to control its GHG emission	Scope 1	1	3	1
	Scope 2	438,783,451	34,457,659	35,236,049
	Scope 3	na	na	na
	Total emissions	438,783,452	34,457,662	35,236,050
	Source: Company data, RHB			

Latest ESG-Related Developments

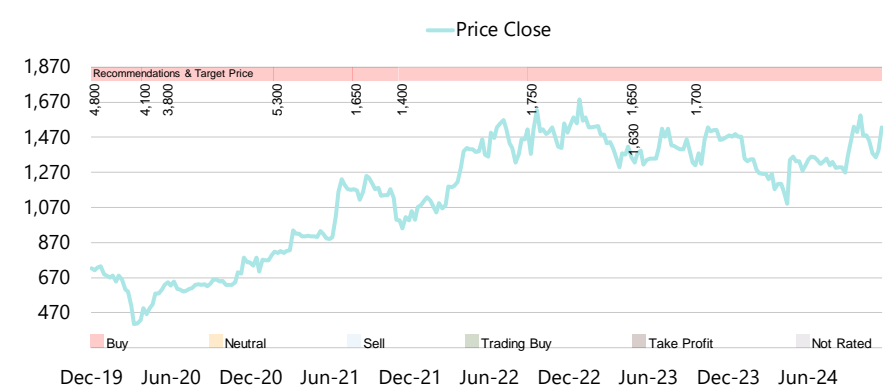
- Since 2020, it has launched various initiatives to reduce the use of plastic materials. One of the highlights is replacing the use of plastic bags in the pharmacies with recyclable paper-based bags.
- It also launched awareness campaigns to reduce the consumption of mineral water in plastic cups and 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 elevator, 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
2024-06-20	Buy	1,700	1,350
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

Source: RHB, Bloomberg

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