

29 September 2023

Consumer Non-cyclical | Healthcare

Prodia Widyahusada (PRDA IJ)**Buy** (Maintained)**Striving For a Healthier Performance; Keep BUY**

Target Price (Return): IDR7,800 (16.4%)
 Price (Market Cap): IDR6,700 (USD405m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (IDR/USD) 10,357m/0.68m

- **Keep BUY, new IDR7,800 TP from IDR7,300, 16% upside.** We roll forward our valuation base to 2024F while maintaining our forecast assumptions. We expect Prodia Widyahusada to record a stronger performance in 2H23, given seasonal factors and the absence of long public holidays. We also note that PRDA is seeing a positive impact from its digitalisation strategies, and therefore, recorded better traction in July-August customer traffic. It is trading at c.7x 2024 EV/EBITDA – relatively cheaper than its healthcare peers.
- **Positive traction in July-August (compared to 2Q23 and YoY),** mainly driven by external referral clients. PRDA remains hopeful of increasing its corporate clients in 2H23, particularly in 4Q23. It may launch another promotional campaign in November in conjunction with Indonesia Healthcare Day, which could help boost volumes as well. It sees a minimal impact from the worsening air pollution situation on its testing volumes. Interestingly, PRDA saw an increase in allergy tests in August (+13% MoM), mainly in the Greater Jakarta area. Despite the tests being classified as esoteric (higher pricing and margins), it has minimal revenue contribution.
- **Various expansion strategies.** PRDA remains optimistic on its B2C app, U by Prodia, to attract new consumers. It is improving its B2B app, which currently contributes 5-7% of its revenue. The B2B app should strengthen its collaborations with doctors, insurance companies, and corporate clients. PRDA reiterated its plan to open 1-2 clinical laboratories (labs), 20 Points of Care (POC), 1-2 hospital labs, and one specialty clinic. However, it currently has no plans to expand in the new city centre (IKN) – it is still studying the available opportunities. We note that PRDA already has eight outlets and three POCs in Kalimantan, which made up c.5% of PRDA's 1H23 revenue.
- **Higher BPJS contribution.** The portion of revenue from patients under the social security scheme (BPJS) grew from c.6% in 1H22 to c.8% in 1H23 (expected to reach 8-10% this year), on the back of a more favourable government programme which allows more tests to be included under the BPJS scheme, as well as more frequent testing. Margins from BPJS patients are lower than walk-in customers but higher than that of corporate clients. PRDA is able to negotiate with its suppliers, given its high volume of orders, and the absence of maintenance and overtime costs. That said, its margins should remain at manageable levels. It also sees minimal issues relating to payment days. BPJS' current accounts receivable days stand at 30-45 days, a significant improvement from 90 days previously.
- **PRDA still expects 7-8% YoY revenue growth in 2023,** with -2ppts to flattish EBITDA margin expansion. It aims for at least 10% YoY revenue growth in 2024 with a +50bps EBITDA margin expansion. This guidance is slightly lower than our assumptions for 2023 and 2024.
- **Lower ESG score of 3.1.** Our TP now includes a 2% ESG premium. The lower ESG score is due to a reduced rating for the environmental pillar. We think PRDA needs to manage its emission levels, which have risen lately.

Analysts

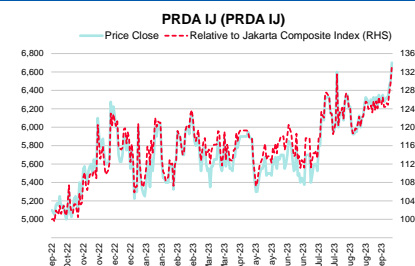
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Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|---------------|-----|------|------|------|
| Absolute | 19.6 | 9.8 | 17.5 | 15.5 | 29.5 |
| Relative | 18.3 | 9.2 | 13.4 | 12.1 | 32.0 |
| 52-wk Price low/high (IDR) | 5,000 – 6,700 | | | | |



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)**E: GOOD**

PRDA is mindful of potential negative impacts from its operations, and therefore has prepared a management plan to minimise the detrimental impacts on the environment. However, it needs to manage its emissions intensity, which has increased lately.

S: GOOD

PRDA is committed to safeguarding the security, safety and health of its customers and employees. It strives to improve its services via continuous digital innovations and transformation, and the establishment of the Prodia Education and Research Institute as an education and research centre. It has a strict policy of non-discrimination to ensure equality for its employees.

G: EXCELLENT

PRDA places utmost importance on its sustainability practices, supported by the implementation of sustainability governance that prioritises compliance to applicable laws and regulations. PRDA has adopted business ethics principles and standards that require every employee to behave in an ethical manner. This code of conduct applies to all personnel without exception.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

| Forecasts and Valuation | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
|---------------------------------|--------|--------|---------|---------|---------|
| Total turnover (IDRb) | 2,652 | 2,182 | 2,377 | 2,675 | 3,123 |
| Recurring net profit (IDRb) | 598 | 345 | 303 | 366 | 450 |
| Recurring net profit growth (%) | 151.1 | (42.2) | (12.3) | 20.7 | 23.1 |
| Recurring P/E (x) | 10.50 | 18.19 | 20.73 | 17.18 | 13.95 |
| P/B (x) | 2.7 | 2.7 | 2.6 | 2.5 | 2.3 |
| P/CF (x) | 12.36 | 8.14 | 18.07 | 14.08 | 12.38 |
| Dividend Yield (%) | na | na | na | na | na |
| EV/EBITDA (x) | 6.95 | 11.81 | 11.94 | 10.20 | 8.65 |
| Return on average equity (%) | 30.0 | 16.1 | 13.9 | 16.1 | 18.4 |

Source: Company data, RHB

See important disclosures at the end of this report

Financial Exhibits

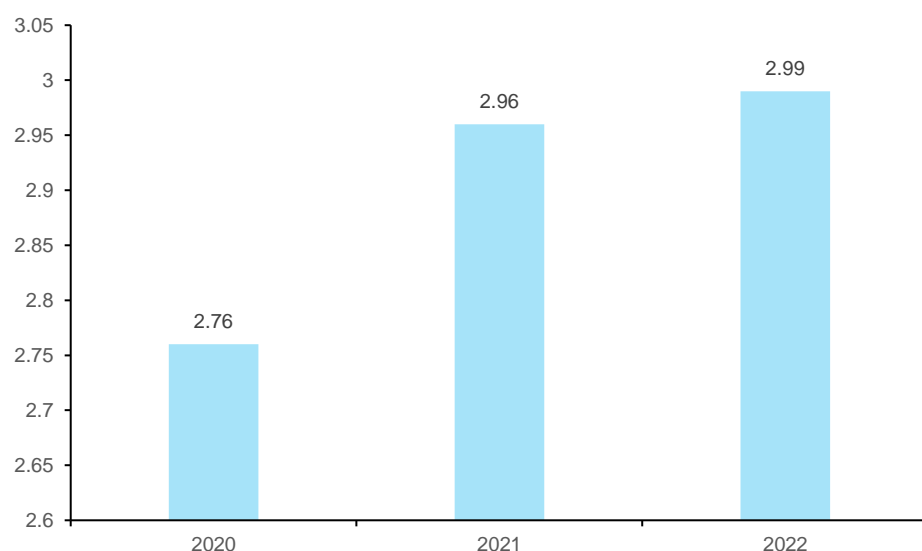
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|---|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Asia | Financial summary (IDR) | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
| Indonesia | Recurring EPS | 637.80 | 368.38 | 323.24 | 389.99 | 480.24 |
| Consumer Non-cyclical | BVPS | 2,464.47 | 2,462.04 | 2,572.47 | 2,724.67 | 2,882.66 |
| Prodia Widyahusada | Return on average equity (%) | 30.0 | 16.1 | 13.9 | 16.1 | 18.4 |
| PRDA IJ | | | | | | |
| Buy | | | | | | |
| | Valuation metrics | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
| | Recurring P/E (x) | 10.50 | 18.19 | 20.73 | 17.18 | 13.95 |
| | P/B (x) | 2.7 | 2.7 | 2.6 | 2.5 | 2.3 |
| | FCF Yield (%) | 6.7 | 10.3 | 0.6 | 4.1 | 4.8 |
| | EV/EBITDA (x) | 6.95 | 11.81 | 11.94 | 10.20 | 8.65 |
| | EV/EBIT (x) | 7.51 | 12.78 | 15.27 | 12.76 | 10.55 |
| Valuation basis | | | | | | |
| 10yr DCF | | | | | | |
| Key drivers | | | | | | |
| i. Increasing health awareness post COVID-19; | | | | | | |
| ii. Higher revenue contributions from esoteric tests; | | | | | | |
| iii. Continuous innovation (eg launch of new tests) and nationwide expansion; | | | | | | |
| iv. Potential partnerships with other global healthcare players; | | | | | | |
| v. Undemanding valuation. | | | | | | |
| Key risks | | | | | | |
| i. Thin liquidity profile; | | | | | | |
| ii. Intensifying competition; | | | | | | |
| iii. Slower traffic recovery | | | | | | |
| Company Profile | | | | | | |
| Established in 1973, Prodia Widyahusada was a pioneer, emerging as among the leading clinical laboratories (labs) in Indonesia. The company has maintained its formidable dominance by securing 37.9% market share for independent clinical labs in 2021 – the largest among its peers. PRDA also remains the top preference among consumers by providing an extensive range of clinical tests, which allows the company to cater a wide variety of customer types and needs. | | | | | | |
| | Cash flow (IDRb) | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
| | Change in working capital | (143) | 389 | (96) | (88) | (136) |
| | Cash flow from operations | 508 | 771 | 348 | 446 | 507 |
| | Capex | (88) | (124) | (309) | (187) | (203) |
| | Cash flow from investing activities | (137) | (308) | (364) | (242) | (281) |
| | Dividends paid | (161) | (373) | (223) | (260) | (339) |
| | Cash flow from financing activities | (128) | (373) | (210) | (256) | (333) |
| | Cash at beginning of period | 365 | 608 | 698 | 472 | 421 |
| | Net change in cash | 243 | 91 | (226) | (52) | (107) |
| | Ending balance cash | 608 | 698 | 472 | 421 | 314 |
| | Balance sheet (IDRb) | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
| | Total cash and equivalents | 608 | 698 | 472 | 421 | 314 |
| | Tangible fixed assets | 596 | 684 | 887 | 959 | 1,037 |
| | Total assets | 2,702 | 2,670 | 2,822 | 3,007 | 3,222 |
| | Short-term debt | 3 | 2 | 9 | 6 | 6 |
| | Total long-term debt | 2 | 0 | 0 | 0 | 0 |
| | Total liabilities | 392 | 358 | 407 | 450 | 516 |
| | Total equity | 2,310 | 2,311 | 2,415 | 2,558 | 2,706 |
| | Total liabilities & equity | 2,702 | 2,670 | 2,822 | 3,007 | 3,222 |
| | Key metrics | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
| | Revenue growth (%) | 41.6 | (17.7) | 9.0 | 12.5 | 16.8 |
| | Recurrent EPS growth (%) | 151.1 | (42.2) | (12.3) | 20.7 | 23.1 |
| | Gross margin (%) | 61.6 | 60.8 | 59.5 | 60.0 | 61.1 |
| | Operating EBITDA margin (%) | 30.8 | 21.7 | 20.5 | 21.5 | 22.1 |
| | Net profit margin (%) | 23.5 | 17.0 | 13.8 | 14.9 | 15.5 |
| | Capex/sales (%) | 3.3 | 5.7 | 13.0 | 7.0 | 6.5 |

Source: Company data, RHB

Figure 1: DCF valuation

| IDRbn | 2024F | 2025F | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F | 2032F | 2033F | 2034F |
|-------------------------------------|--------------|------------|------------|------------|------------|------------|------------|--------------|--------------|--------------|--------------|
| EBIT | 460 | 566 | 699 | 854 | 1,046 | 1,246 | 1,485 | 1,773 | 1,990 | 2,204 | 2,427 |
| EBIT (1-t) | 359 | 442 | 545 | 666 | 816 | 972 | 1,158 | 1,383 | 1,552 | 1,719 | 1,893 |
| Depreciation & Amortisation | 115 | 125 | 135 | 146 | 157 | 170 | 183 | 197 | 211 | 226 | 242 |
| Change in working capital | (24) | (36) | (43) | (44) | (49) | (56) | (62) | (70) | (64) | (64) | (68) |
| Capex | (187) | (203) | (219) | (223) | (241) | (265) | (283) | (294) | (302) | (324) | (345) |
| Net free cash flow to firm | 263 | 328 | 419 | 545 | 683 | 820 | 996 | 1,216 | 1,397 | 1,558 | 1,722 |
| Terminal Value | | | | | | | | | | | 12,168 |
| PV | 263 | 280 | 306 | 340 | 364 | 374 | 388 | 405 | 398 | 379 | 3,380 |
| Total discounted firm value | 6,878 | | | | | | | | | | |
| Less: net debt | (355) | | | | | | | | | | |
| Less: minority interest | - | | | | | | | | | | |
| Equity value | 7,232 | | | | | | | | | | |
| Number of shares (bn) | 0.9 | | | | | | | | | | |
| Equity value per share (IDR) | 7,714 | | | | | | | | | | |
| ESG premium (discount) | 2% | | | | | | | | | | |
| TP | 7,861 | | | | | | | | | | |
| Assumptions | | | | | | | | | | | |
| Risk free rate | 6.6% | | | | | | | | | | |
| Beta | 1.0 | | | | | | | | | | |
| Equity market premium | 6% | | | | | | | | | | |
| WACC | 17% | | | | | | | | | | |
| Terminal growth | 3% | | | | | | | | | | |

Source: Company data, Bloomberg, RHB

Figure 2: PRDA's GHG emissions intensity (ton CO₂ eq/person)

Source: Company data, RHB

Recommendation Chart

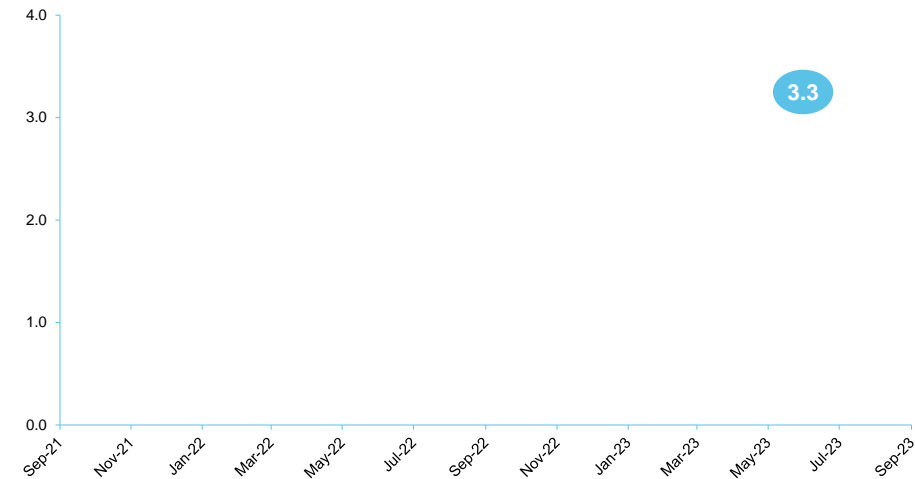


Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2023-06-27 | Buy | 7,300 | 5,700 |
| 2023-02-06 | Not Rated | na | 5,325 |

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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| | |
|---------------------|--|
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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 |
| 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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