

27 April 2023

Consumer Non-cyclical | Healthcare

Mitra Keluarga Karyasehat (MIKA IJ)

Buy (from Neutral)

Steady Growth Outlook; Upgrade To BUY

- **U/G to BUY from Neutral, IDR3,200 TP, 17% upside, c.1% yield.** We adjust earnings by +3.3%, -1.0% and -0.4% for 2023F-2025F to account for FY22 results. The recent share price decline (-7% MTD) provides an opportunity for investors to accumulate. The counter is trading at 21-22x 2023F EV/EBITDA – at around -1SD of the 5-year EV/EBITDA. Although the stock is trading at c.25% premium vs its peers, we believe there is potential for further rerating, given its defensive characteristic, earnings normalisation post pandemic, and expansion strategies to support growth.
- **1Q23 results preview.** We remain positive for Mitra Keluarga Karyasehat's 1Q23 results, due to seasonal factors. The absence of COVID-19 cases should also support patient traffic in 1Q23. Its mid- to high-income target market should be more resilient against the challenging economic scenario. However, we have concerns on the risk of patients opting for medical treatments overseas. We believe MIKA's target market is more likely to opt for such treatments. However, the company's continued efforts to open centres of excellence (COEs) could help mitigate this.
- **Continuing with its expansion plans.** MIKA aims to open three new hospitals in 2023 and estimates 60-100 additional beds at existing hospitals, in line with our expectations. We pencil in two new hospital openings per year, from 2024 onwards. However, we note that its new hospitals continue to be located in Java areas. We have not seen evidence of MIKA's diversification strategy to start opening hospitals outside Java, where there is less competition. MIKA is mulling an acquisition strategy, but we have not factored this into our model. Higher capex needs should not be an issue, given its strong cash position. MIKA plans to open several COEs, which should help boost traffic.
- **Margin expansion.** We expect EBITDA margins to improve c.100bps to c.38% in 2023, in line with management's guidance, and based on the increased complexity of cases and ASP increment of 7-8% in 2023. The aforementioned strategy to open more COEs and improve *Kasih's* service offerings should also boost margins. The recent 7-9% hike in Indonesia Case-Based Groups or INA CBG tariffs – reimbursements from the Social Security Agency of Health (BPJS) to hospitals – and new Coordination of Benefits (COB) scheme for eligible patients should help bolster margins as well, in addition to its digitalisation strategies.
- **Risks.** Slow implementation of its expansion plans and intensifying competition from other hospitals are key risks to our call. However, we believe MIKA will be a preferred stock, especially among foreign investors, for exposure to defensive and strong earnings growth among hospital players, given that it has the biggest market cap and ample liquidity compared to other local listed hospital players.
- **We apply a 6% ESG premium** on MIKA's TP based on its 3.3 ESG score, which is above the country's median of 3.0.

Target Price (Return): IDR3,200 (16.8%)
Price (Market Cap): IDR2,740 (USD2,613m)
ESG score: 3.30 (out of 4)
Avg Daily Turnover (IDR/USD) 25,269m/1.66m

Analysts

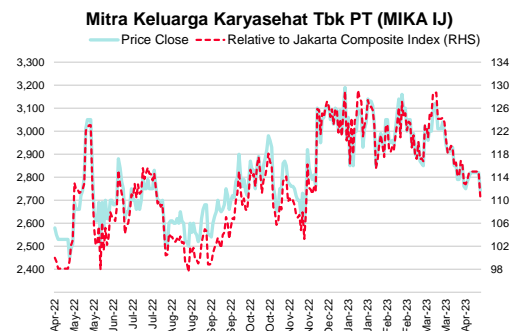
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(14.1)	(9.9)	(3.9)	(8.1)	6.2
Relative	(15.0)	(12.1)	(4.6)	(6.2)	10.7
52-wk Price low/high (IDR)	2,450 – 3,190				



Source: Bloomberg

Overall ESG Score: 3.30 (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	4,679	5,341	6,085
Recurring net profit (IDRb)	1,172	963	1,164	1,374	1,590
Recurring net profit growth (%)	49.1	(17.8)	20.9	18.0	15.8
Recurring P/E (x)	33.49	40.73	33.70	28.56	24.67
P/B (x)	6.9	6.3	5.6	5.0	4.4
P/CF (x)	19.17	31.95	39.85	28.84	25.59
Dividend Yield (%)	1.3	1.3	1.1	1.4	1.6
EV/EBITDA (x)	20.83	25.42	21.07	17.99	15.42
Return on average equity (%)	23.2	17.0	18.6	19.3	19.5
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

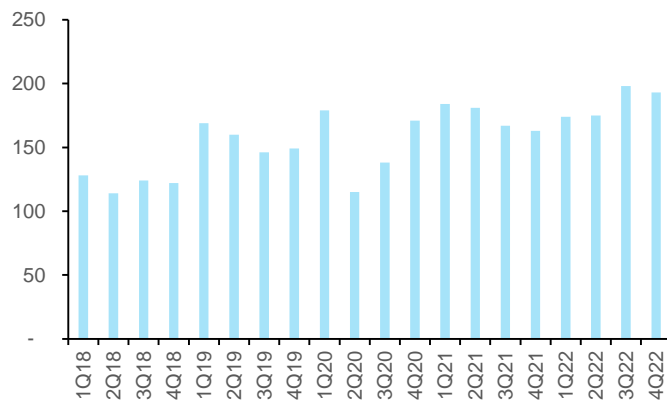
Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (IDR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Indonesia	Recurring EPS	81.82	67.27	81.31	95.93	111.05
Consumer Non-cyclical	DPS	35.80	34.97	30.27	37.54	45.02
Mitra Keluarga Karyasehat	BVPS	395.29	431.60	487.57	550.99	621.28
MIKA IJ	Return on average equity (%)	23.2	17.0	18.6	19.3	19.5
Buy						
Valuation basis	Income statement (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Our 12M TP is derived from a 10-year DCF valuation	Total turnover	4,353	4,049	4,679	5,341	6,085
Key drivers	Gross profit	2,261	2,077	2,462	2,837	3,258
i. Under-penetration of healthcare services in Indonesia;	EBITDA	1,795	1,497	1,772	2,055	2,369
ii. Continued expansion with new hospital openings and development of centres of excellence;	Depreciation and amortisation	(199)	(213)	(233)	(241)	(250)
iii. Net cash position for expansion.	Operating profit	1,596	1,284	1,540	1,814	2,119
Key risks	Net interest	51	46	68	82	74
i. Slower implementation of expansion plans;	Pre-tax profit	1,720	1,386	1,680	1,971	2,253
ii. Competition from other hospital players;	Taxation	(358)	(292)	(354)	(416)	(475)
iii. Risks related to diversification to ex Java areas.	Reported net profit	1,229	1,008	1,222	1,433	1,638
Company Profile	Recurring net profit	1,172	963	1,164	1,374	1,590
MIKA engages in hospital management and business services. The Company operates hospitals located in Jakarta, Surabaya and Tegal.	Cash flow (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	406	218	(177)	(15)	(16)
	Cash flow from operations	2,047	1,228	985	1,360	1,533
	Capex	2,046	1,228	985	1,360	1,533
	Cash flow from investing activities	(593)	(973)	(927)	(770)	(825)
	Dividends paid	(513)	(501)	(433)	(538)	(645)
	Cash flow from financing activities	(876)	(841)	340	(525)	(632)
	Cash at beginning of period	705	1,283	696	1,093	1,159
	Net change in cash	577	(586)	397	66	77
	Ending balance cash	1,282	696	1,093	1,159	1,236
	Balance sheet (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	2,511	1,895	2,497	2,761	3,061
	Tangible fixed assets	2,696	3,430	4,016	4,415	4,847
	Total assets	6,860	6,917	8,310	9,195	10,174
	Total liabilities	936	786	725	825	937
	Total equity	5,925	6,131	7,585	8,371	9,237
	Total liabilities & equity	6,860	6,917	8,310	9,195	10,174
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	27.3	(7.0)	15.6	14.1	13.9
	Recurrent EPS growth (%)	49.1	(17.8)	20.9	18.0	15.8
	Gross margin (%)	52.0	51.3	52.6	53.1	53.5
	Operating EBITDA margin (%)	41.2	37.0	37.9	38.5	38.9
	Net profit margin (%)	28.2	24.9	26.1	26.8	26.9
	Dividend payout ratio (%)	41.7	49.7	35.5	37.5	39.4
	Capex/sales (%)	(47.0)	(30.3)	(21.0)	(25.5)	(25.2)
	Interest cover (x)	131	100	82	113	70

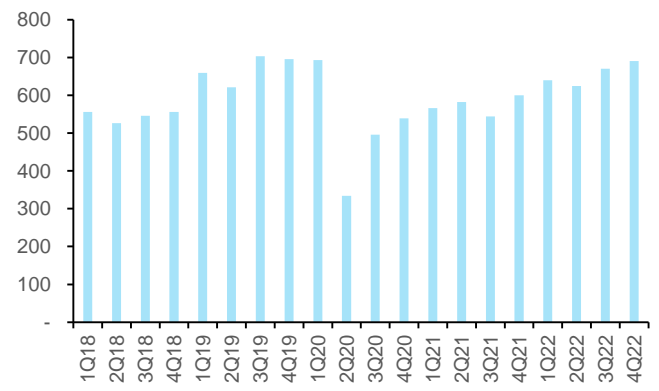
Source: Company data, RHB

Figure 1: Quarterly inpatient days (in '000)



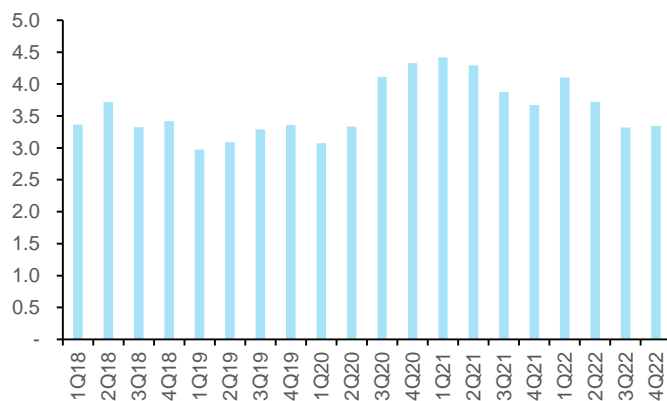
Source: Company data, RHB

Figure 2: Quarterly outpatient visits (in '000)



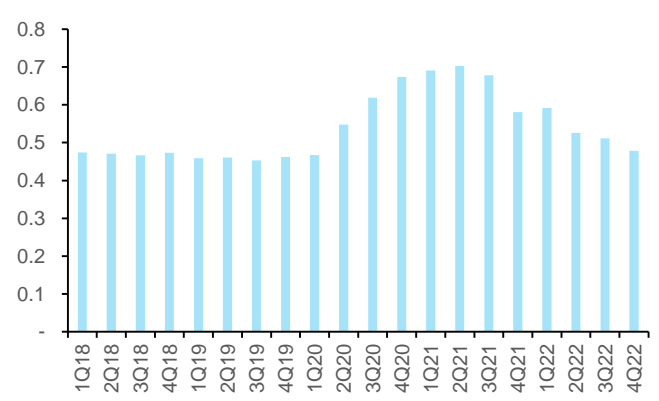
Source: Company data, RHB

Figure 3: Quarterly revenue per inpatient days (in IDRm)



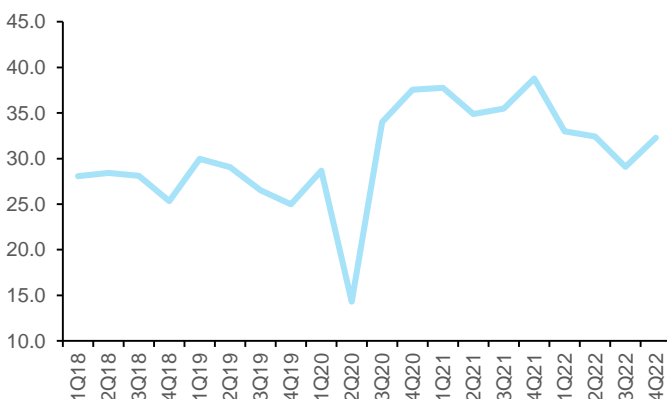
Source: Company data, RHB

Figure 4: Quarterly revenue per outpatient visits (in IDRm)



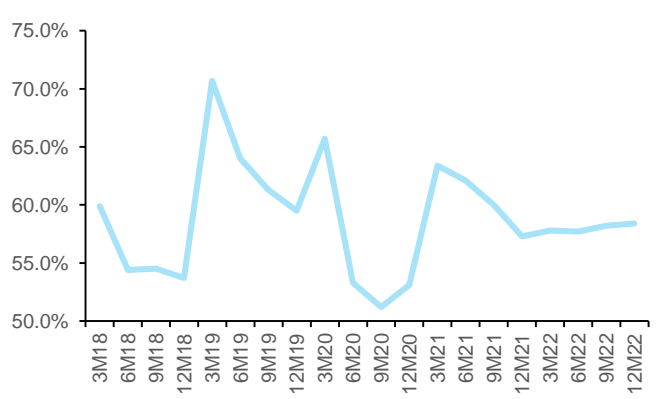
Source: Company data, RHB

Figure 5: Quarterly EBIT margin



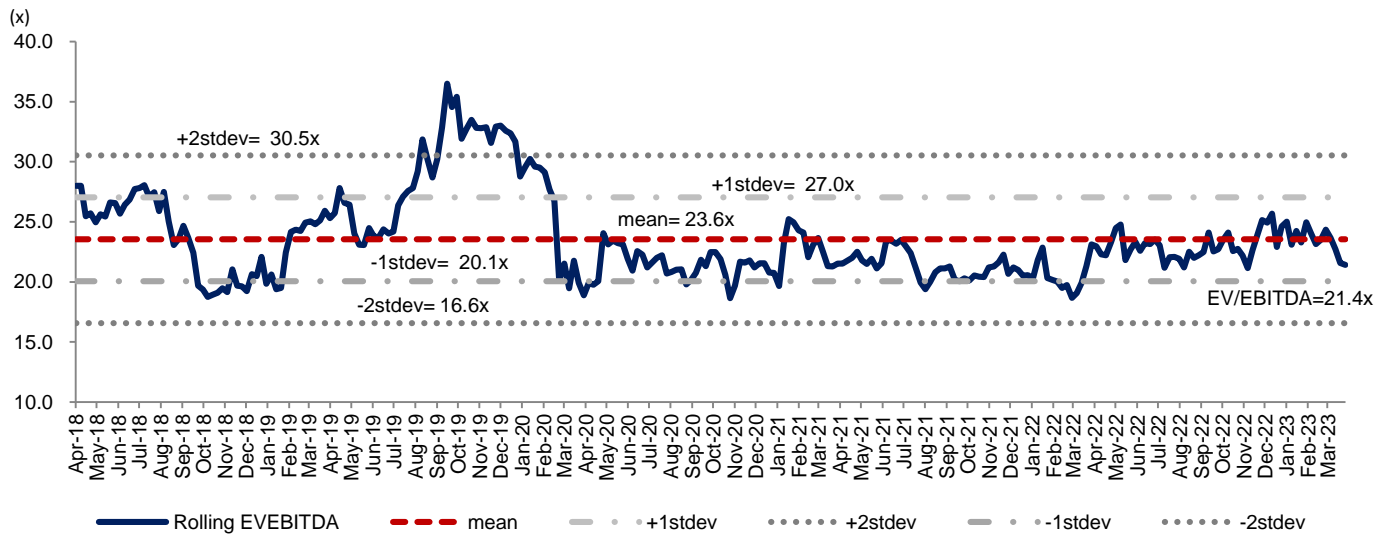
Source: Company data, RHB

Figure 6: Bed occupancy rate



Source: Company data, RHB

Figure 7: MIKA's 5-year EV/EBITDA band



Source: Bloomberg, Company data, RHB

Figure 8: Changes to our estimates

		New			Old		New/Old (%)		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Income Statement (IDRbn)									
Total Turnover	4,679	5,341	6,085	5,185	6,130	6,957	(9.8)	(12.9)	(12.5)
Gross Profit	2,462	2,837	3,258	2,533	3,056	3,473	(2.8)	(7.2)	(6.2)
EBIT	1,540	1,814	2,119	1,493	1,878	2,147	3.1	(3.4)	(1.3)
EBITDA	1,772	2,055	2,369	1,721	2,119	2,401	3.0	(3.0)	(1.4)
Net Profit	1,222	1,433	1,638	1,182	1,448	1,645	3.3	(1.0)	(0.4)
Key Metrics									
EPS (IDR)	85	100	114	83	101	115	3.3	(1.0)	(0.4)
DPS (IDR)	30	38	45	30	36	45	1.1	3.3	(1.0)
Revenue Growth (%)	15.6	14.1	13.9	17.8	18.2	13.5			
EPS Growth (%)	21.2	17.3	14.3	18.6	22.4	13.7			
EBITDA Margin (%)	37.9	38.5	38.9	33.2	34.6	34.5			
Net Profit Margin (%)	26.1	26.8	26.9	22.8	23.6	23.7			
Return on average equity (%)	19.7	19.3	19.5	18.4	19.2	19.2			

Source: Company data, RHB

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Figure 9: RHB vs Street estimates

IDRbn	RHB			Consensus			RHB/Cons (%)		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Net revenue	4,679	5,341	6,085	4,695	5,326	5,875	99.7	100.3	103.6
Gross profit	2,462	2,837	3,258	2,411	2,768	3,057	102.1	102.5	106.6
EBITDA	1,772	2,055	2,369	1,751	2,019	2,267	101.2	101.8	104.5
EBIT	1,540	1,814	2,119	1,481	1,720	1,921	104.0	105.4	110.3
Profit before tax	1,680	1,971	2,253	1,578	1,849	2,089	106.5	106.6	107.9
NPAT	1,222	1,433	1,638	1,142	1,346	1,516	107.0	106.4	108.1

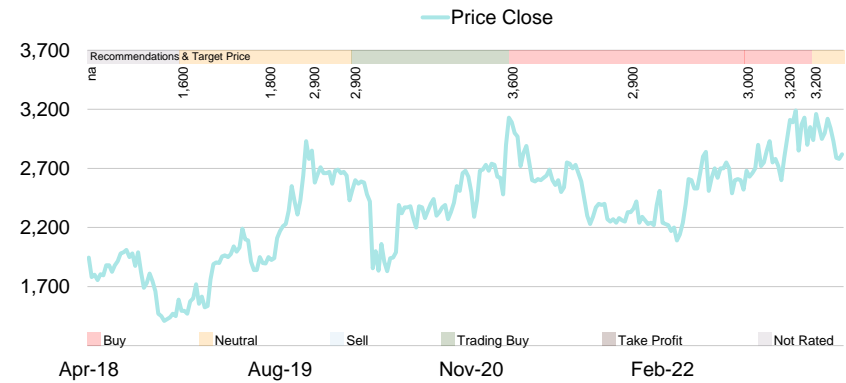
Source: Company data, Bloomberg, RHB

Figure 10: DCF valuation

IDRbn	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F
EBIT	1,540	1,814	2,119	2,418	2,715	3,037	3,384	3,754	4,161	4,605	5,023
EBIT (1-t)	1,215	1,431	1,672	1,908	2,143	2,396	2,670	2,962	3,283	3,633	3,964
Depreciation & Amortization	233	241	250	258	259	260	260	260	260	259	258
Change in working capital	(42)	(53)	(59)	(63)	(61)	(65)	(71)	(75)	(83)	(85)	(63)
Capex	(819)	(641)	(681)	(716)	(451)	(483)	(516)	(547)	(580)	(597)	(644)
Net free cash flow to firm	586	979	1,181	1,387	1,889	2,107	2,344	2,600	2,881	3,210	3,514
Terminal Value											65,567
PV	586	902	1,003	1,085	1,362	1,400	1,435	1,467	1,498	1,538	30,497
Total discounted firm value	42,773										
Less: net debt	(1,093)										
Less: minority interest	604										
Equity value	43,263										
Number of shares (bn)	14.3										
Equity value per share (IDR)	3,021										
ESG Premium (Discount)	6%										
Target Price	3,202										
Assumptions											
Risk free rate	7%										
Beta	0.3										
Equity market premium	6%										
WACC	8.5%										
Terminal growth	3%										

Source: Company data, RHB

Recommendation Chart

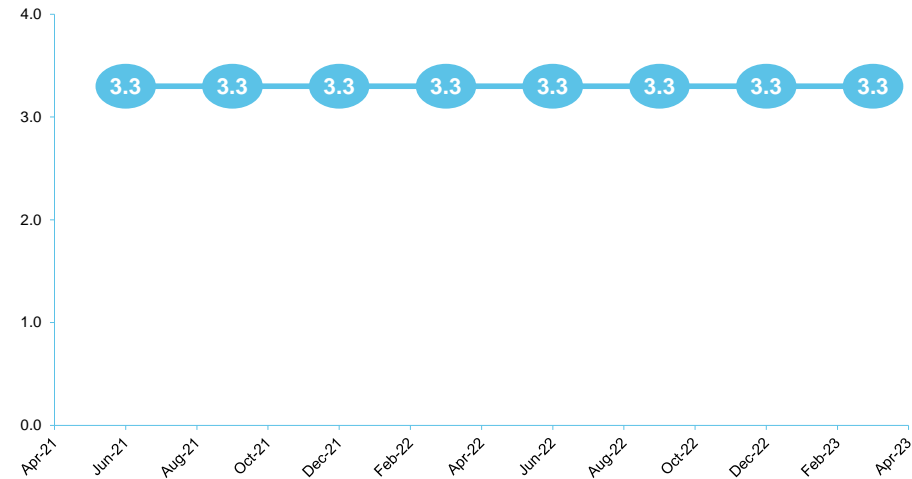


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2019-02-08	Neutral	1,600	1,535
2018-12-04	Neutral	1,600	1,470

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Not Rated:	Stock is not within regular research coverage

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