

2 March 2023

Consumer Non-cyclical | Healthcare

KPJ Healthcare (KPJ MK)

Buy (Maintained)

Proposed Disposal Of Indonesian Unit; Keep BUY

Target Price (Return):	MYR1.50 (41.6%)
Price (Market Cap):	MYR1.06 (USD1,031m)
ESG score:	3.00 (out of 4)
Avg Daily Turnover (MYR/USD)	4.04m/0.92m

- **Keep BUY and MYR1.50 TP (DCF), 42% upside and c.3% FY23F yield.** KPJ Healthcare has entered into a share sale agreement (SSA) with Nusautama for the disposal of 75%-owned Al-Aqar Bumi Serpong Damai (AABSD) for a total considerations of MYR156.7m. We are positive on this, given the earnings-accretive nature. It also enables KPJ to realign its focus towards its domestic business.
- **Proposal details.** The disposal consideration of MYR156.7m entails MYR143m for the repayment of shareholders' loans. The target hospital to be disposed is a 200-bed specialist medical centre in BSD City in Jakarta. KPJ expects the disposal to be completed by 2Q23, subject to the fulfilment of conditions precedent as stated in the SSA. The transaction was valued at a price-to-revenue multiple of >3.5x, which we deem fair, given that the most recent deal proposed – IHH Healthcare (IHH MK, BUY, TP: MYR6.90) and Ramsay Sime Darby Healthcare – conveyed a price-to-revenue multiple of >5x despite the acquisition falling through. The AABSD disposal is expected to yield a potential gain of MYR55.7m after taking into consideration the expenses related to the disposal of MYR4.3m.
- **Rationale for the disposal.** The proposed disposal is said to be part of the group's restructuring plan, given that the challenging business environment in the Indonesia segment necessitated action on its part. Post disposal, KPJ intends to realign its strategies and focus solely on managing its specialist healthcare facilities in Malaysia. Note: The net loss attributed by AABSD to KPJ was MYR8.4m during 2022. Had the disposal been completed by the end of last year, this could have potentially uplifted its earnings by 4.9% (without taking into consideration the net disposal gain).
- **Our view.** We are positive on the disposal of KPJ's Indonesia unit, given the potential earnings accretion to the group as previously mentioned in our [earlier update](#). We would like to reiterate that the disposal will not have negative impact on KPJ's health tourism (HT) revenue, given the differentiated HT services provided. Note: KPJ's Malaysia operations' Indonesian medical tourists are not inter-related with AABSD's – the former's Indo HT patients are mostly from Aceh, Bukit Tinggi, and Batam.
- **Earnings revision.** We make no changes to our estimates pending materialisation of the disposal. Maintain BUY and MYR1.50 TP. We still like KPJ for its robust inpatient and outpatient growth trajectories as well as being less affected by nursing shortages. Valuation is compelling at 18x 2023F P/E, below its pre-COVID-19 mean of 24x. We incorporate a 0% ESG premium/discount into our intrinsic value, as the ESG score is in line with the country median.
- **Key risks:** Lower-than-expected patient visits/revenue intensity growth and higher-than-expected operating costs.

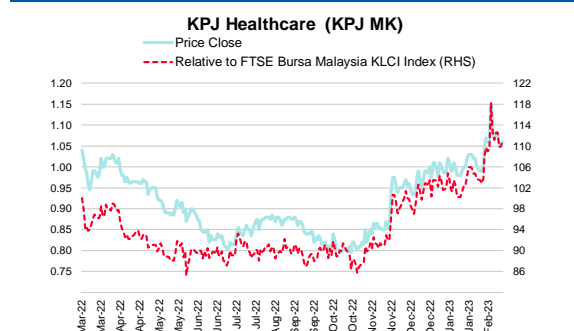
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.0	2.9	11.6	20.5	1.9
Relative	8.0	5.3	14.4	23.3	11.1
52-wk Price low/high (MYR)				0.79 – 1.15	



Source: Bloomberg

Overall ESG Score: 3.00 (out of 4)

E: GOOD

KPJ has put in place short- and long-term waste management targets aimed at reducing clinical waste within the scope of its operations. The group remains steadfast with its carbon emissions commitment, eg it set a target to reduce such emission by 5% by 2022.

S: EXCELLENT

KPJ offers various channel and town hall sessions for employee engagement activities. The group also provides scholarships for outstanding students from underprivileged backgrounds to study at KPJ Healthcare University College. Recipients of such scholarships are also guaranteed jobs with its hospitals following their graduation.

G: GOOD

45% of its board members are independent and 18% are female. The female percentage is below the Malaysian Code on Corporate Governance's minimum 30%. On the positive side, KPJ provides full disclosures of its directors' remunerations. The group also holds regular investor briefings, embodying good transparency and disclosure practices.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	2,590	2,921	3,220	3,379	3,505
Recurring net profit (MYRm)	67	165	262	302	335
Recurring net profit growth (%)	(49.9)	146.7	58.4	15.3	10.9
Recurring P/E (x)	67.92	27.85	17.58	15.24	13.75
P/B (x)	2.1	2.1	2.0	1.8	1.7
P/CF (x)	11.04	10.01	7.04	6.26	5.97
Dividend Yield (%)	0.5	1.9	2.9	3.3	3.7
EV/EBITDA (x)	13.35	10.84	9.11	8.36	7.79
Return on average equity (%)	2.6	7.9	11.4	12.4	12.9
Net debt to equity (%)	125.7	139.4	128.0	114.5	101.3

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

Asia	Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS	0.02	0.04	0.06	0.07	0.08
Consumer Non-cyclical	DPS	0.01	0.02	0.03	0.04	0.04
KPJ Healthcare	BVPS	0.50	0.51	0.54	0.58	0.62
KPJ MK	Return on average equity (%)	2.6	7.9	11.4	12.4	12.9
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	67.92	27.85	17.58	15.24	13.75
We use the DCF (FCFF) valuation method.	P/B (x)	2.1	2.1	2.0	1.8	1.7
	FCF Yield (%)	4.3	4.9	8.1	9.9	10.7
Key drivers	Dividend Yield (%)	0.5	1.9	2.9	3.3	3.7
Our earnings forecasts are most sensitive to:	EV/EBITDA (x)	13.35	10.84	9.11	8.36	7.79
i. Inpatient and outpatient numbers;	EV/EBIT (x)	26.46	17.94	14.03	12.43	11.32
ii. Revenue per patient;						
iii. Operating and financing costs.						
	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Key risks	Total turnover	2,590	2,921	3,220	3,379	3,505
Key downside risks:	Gross profit	926	1,170	1,288	1,373	1,439
i. Lower-than-expected patient visits/revenue intensity growth;	EBITDA	502	661	779	835	877
ii. Higher-than-expected operating costs.	Depreciation and amortisation	(249)	(262)	(273)	(274)	(274)
	Operating profit	254	399	506	561	603
Company Profile	Net interest	(158)	(183)	(183)	(180)	(175)
KPJ Healthcare is a healthcare provider that is mainly focused in Malaysia. It also has operations in Australia and Indonesia.	Pre-tax profit	121	264	372	431	479
	Taxation	(49)	(73)	(81)	(95)	(107)
	Reported net profit	55	172	262	302	335
	Recurring net profit	67	165	262	302	335
	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(47)	(73)	(59)	(19)	(16)
	Cash flow from operations	412	460	653	735	771
	Capex	(217)	(234)	(280)	(280)	(280)
	Cash flow from investing activities	38	(26)	(259)	(259)	(259)
	Dividends paid	(29)	(83)	(132)	(152)	(169)
	Cash flow from financing activities	(394)	(287)	(379)	(397)	(411)
	Cash at beginning of period	462	318	468	483	562
	Net change in cash	56	147	15	79	101
	Ending balance cash	517	465	534	562	663
	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	318	468	483	562	663
	Tangible fixed assets	3,826	4,337	4,344	4,350	4,356
	Total investments	785	848	876	904	934
	Total assets	6,188	6,994	7,118	7,224	7,342
	Short-term debt	892	884	884	884	884
	Total long-term debt	2,256	2,866	2,816	2,766	2,716
	Total liabilities	3,937	4,640	4,605	4,528	4,443
	Total equity	2,251	2,354	2,513	2,696	2,899
	Total liabilities & equity	6,188	6,994	7,118	7,224	7,342
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	8.0	12.8	10.2	4.9	3.7
	Recurrent EPS growth (%)	(50.0)	143.9	58.4	15.3	10.9
	Gross margin (%)	35.8	40.0	40.0	40.6	41.1
	Operating EBITDA margin (%)	19.4	22.6	24.2	24.7	25.0
	Net profit margin (%)	2.1	5.9	8.1	8.9	9.5
	Dividend payout ratio (%)	43.1	50.5	50.5	50.5	50.5
	Capex/sales (%)	8.4	8.0	8.7	8.3	8.0
	Interest cover (x)	1.52	2.04	2.57	2.88	3.14

Source: Company data, RHB

Figure 1: DCF valuation

FYE Dec (MYRm)	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	Terminal
CFO	653	735	771	788	819	861	904	939	974	1,010	
+ Interest (1 - Tax Rate)	150	148	146	144	142	140	138	136	134	132	
- capital expenditure	(280)	(280)	(280)	(280)	(280)	(280)	(280)	(280)	(280)	(280)	
Free cash flow to firm (FCFF)	523	603	637	652	681	720	762	795	828	862	13,403
Discount factor	0.93	0.85	0.78	0.71	0.65	0.59	0.54	0.50	0.45	0.41	0.41
PV of FCFF	486	512	494	463	442	427	413	395	376	358	5,559
Risk-free	3.9%										
WACC	8.6%										
Terminal growth	2.0%										
Enterprise value (MYRm)	9,924										
Cash	468										
- Debt	(3,750)										
- Minority	(127)										
Equity value (MYRm)	6,515										
Number of shares (m)	4,341										
Intrinsic value (MYR)	1.50										
ESG premium/(discount) %	0.00										
FV (MYR)	1.50										

Source: RHB

Recommendation Chart

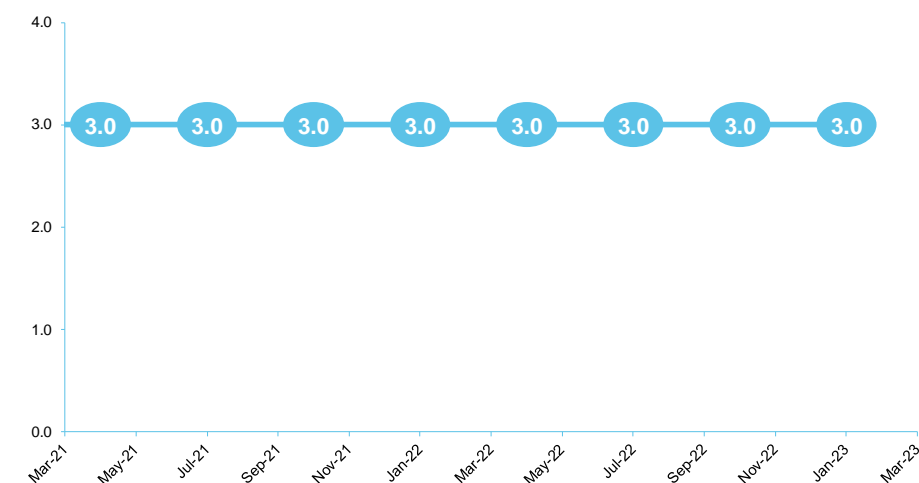


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-02-21	Buy	1.50	1.09
2022-11-28	Buy	1.20	0.98
2022-08-30	Buy	1.03	0.88
2021-02-19	Buy	1.23	1.00
2020-12-01	Neutral	1.00	0.99
2020-08-28	Buy	1.00	0.83
2020-04-07	Neutral	0.93	0.88
2019-09-03	Neutral	0.97	0.91
2019-06-03	Neutral	0.97	0.93
2019-02-20	Neutral	1.13	1.07
2019-02-18	Neutral	1.13	1.09
2018-08-17	Neutral	1.05	1.13

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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