KPJ Healthcare (KPJ MK)

2Q26: Decent Showing As Revenue Intensity Shine Continues

Highlights

- Earnings were within expectations. A drive in inpatient intensity lifted both sales and margins.
- Higher opex for the quarter was balanced by lower finance cost and favourable tax rate for core margins to expand marginally.
- Maintain BUY and target price of RM3.85. We like KPJ for its inflection point of gestating hospitals and aggressive multi-year brownfield expansion.

2Q26 Results

Year to 31 Dec (RMm)	1Q26 (RMm)	qoq % chg	yoy % chg	1H26 (RMm)	yoy % chg	Comments
Revenue	1196.8	14.0	16.9	2246.5	12.6	Decent growth supported by enhanced operating stats across inpatient intensity.
COS	-661.0	11.2	15.6	-1255.5	1.5	
Gross profit	535.8	17.7	18.6	991.1	14.1	
EBITDA	265.5	20.0	13.2	486.8	10.0	
Pre-tax profit	161.2	48.7	23.4	269.6	18.1	
Tax	-44.9	0.0	0.0	-76.0	6.5	
Net profit	103.9	49.2	26.7	173.6	24.8	
Core profit	103.9	49.2	26.7	173.6	24.8	Within expectations.
Margin (%)						
Gross Margin (%)	44.8	1.4	0.6	44.1	0.6	Lifted by enhanced case mix.
EBITDA Margin (%)	22.2	1.1	-0.7	21.7	-0.5	
Eff. Tax rate (%)	27.9	-0.7	-2.0	28.2	-3.1	
Net Margin (%)	8.7	2.0	0.7	7.7	0.8	

Source: KPJ Healthcare, UOB Kay Hian

Analysis

- **Within expectations.** KPJ Healthcare (KPJ) reported a 2Q26 net profit of RM103.9m (49% qoq, +27% yoy), bringing 1H26 core profit to RM174m (25% yoy). Core profit is within our and consensus expectations, accounting for 42% of both our and consensus full-year forecasts respectively. We expect better seasonality for the remaining quarters to shore up full-year earnings. 2H typically accounts for about 60% of full-year earnings. An interim DPS of 1.1 sen was declared, bringing 1H26 DPS to 2.1 sen (1H25: 1.85 sen).

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	3,922.2	4,258.4	4,746.7	5,293.3	5,927.8
EBITDA	935.5	998.0	1,091.0	1,202.3	1,306.6
Operating profit	656.5	687.8	773.5	847.9	910.3
Net profit (rep./act.)	331.1	366.0	414.8	469.7	516.3
Net profit (adj.)	331.1	366.0	414.8	469.7	516.3
EPS	7.4	8.1	9.2	10.4	11.5
PE (x)	47.4	42.8	37.8	33.4	30.4
P/B (x)	6.2	5.7	5.4	5.0	4.7
EV/EBITDA (x)	20.2	18.9	17.1	15.7	14.7
Dividend yield (%)	1.2	1.3	1.6	1.8	2.0
Net margin (%)	8.4	8.6	8.7	8.9	8.7
Net debt/(cash) to equity(%)	41.9	22.6	27.1	30.5	34.3
Interest cover (x)	5.4	5.8	5.7	6.2	6.7
ROE (%)	14.2	15.0	16.4	17.9	19.0
Consensus net profit	n.a	n.a	410.5	450.9	488.6
UOBKH/Consensus (x)	n.a	n.a	1.0	1.0	1.1

Source: KPJ Healthcare, Bloomberg, UOB Kay Hian

Analyst

Philip Wong

philipwong@uobkh.com

(603) 2147 1996

BUY (Maintained)

Share Price	RM3.02
Target Price	RM3.85
Upside	26.2%

Stock Data

Sector	Health Care
Bloomberg ticker	KPJ MK
Shares issued (m)	4,426.3
Market cap (RMm)	14,916.6
Market cap (US$m)	3,764.4
3-mth avg daily t'over (US$m)	7.8

Price Performance (%)

52-week high/low: RM3.50/RM2.40

1mth	3mth	6mth	1yr	YTD
0.3	22.1	23.0	16.2	25.3

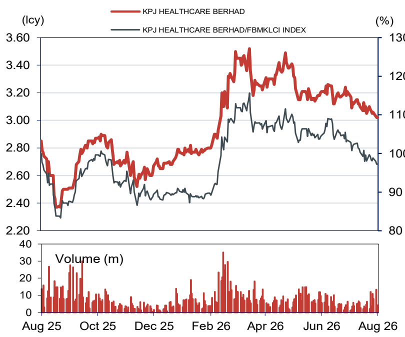
Major Shareholders (%)

Johor Corp	44.6
EPF	15.2

Balance Sheet Metrics

FY26 NAV/Share (RM)	0.6
FY26 Net Debt/Share (RM)	0.2

Price Chart



Source: Bloomberg

Company Description

Malaysia's largest private hospital operator.

- **Decent revenue growth driven by inpatient drive.** Revenue grew 16.9% yoy, a pick-up from +8.0% yoy in 1Q26. 2Q26 bed occupancy rate improved 6ppt yoy to 68% (2Q25: 62%) amid an unchanged operating bed count (3,930) and a 9.7% yoy bump in inpatient volume. Meanwhile, inpatient revenue intensity rose 6.9% yoy. The robust inpatient intensity reflects KPJ's intentional drive to widen its sub-specialties and Centres of Excellence across its hub-and-spoke network of hospitals. In terms of the uncertain Middle East geopolitical conflict, we expect it to have a negligible impact on KPJ's healthcare tourism given that foreign medical tourists account for only around 3% of revenue.
- **Case mix lifts gross margins.** 2Q26 gross margin improved marginally by 0.6ppt yoy to 44.8%, owing to KPJ's intentional drive on surgeries, case intensity and case mix improved as a result. A lower effective tax rate by -2.0bp yoy to 27.9% and finance cost offset higher opex, which supported core margin gain at 0.7ppt yoy yo 8.7%.

Valuation/Recommendation

- **Maintain BUY and target price of RM3.85.** We continue to like KPJ for its: a) strong execution capabilities, as exhibited by the record gestation of KPJ Kuala Selangor; b) inflection point of gestating hospitals; c) aggressive multi-year brownfield expansion that is margin accretive; and d) highly domesticated and defensive shield against uncertain externalities. Target price is pegged to a PE multiple of 36.8x, reflecting +1.5SD to its pre-pandemic five-year mean.

Earnings Revision/Risk

- **No changes to earnings.** Key downside risks include: a) tightening of regulatory policy, b) delay in hospital openings, and c) inability to pass on operating cost increases to customers.

Share Price Catalyst

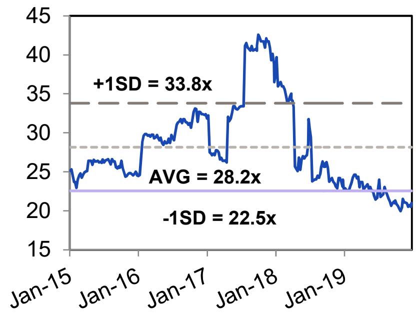
- **Long-term growth pipeline.** By 2030, the group targets the addition of 2,200 new beds to its current base of 3,934 operating beds (2025), representing a 56% capacity increase or a 9.3% five-year CAGR across nine hospitals. Expansion will prioritise high-occupancy facilities and be aligned with KPJ's regional hub-and-spoke model, enabling more efficient scaling of capacity and better utilisation of resources across its network.
- **Middle East conflict poses minimal threat.** Healthcare tourism revenue accounts for close to 6% of KPJ's total revenue, split evenly between expatriates and medical tourists. Given the higher logistics and travel costs arising from the Middle East conflict, medical tourist arrivals could see some near-term softness. However, as medical tourism contributes only around 3% of total revenue, we believe the earnings impact would be largely immaterial. Meanwhile, our channel checks indicate that inflationary pressure on medical supplies has remained manageable and largely unaffected thus far. Overall, we expect the direct impact from the Middle East conflict on KPJ to remain insignificant.

Revenue Assumptions

	2026F	2027F	2028F
Inpatient volume growth (%)	6.7	8.3	8.7
Outpatient volume growth (%)	3.0	3.0	3.0
Occupancy rate (%)	66.0	66.0	66.0
Average Length of Stay (days)	2.5	2.5	2.5
Average no. of beds	4,234	4,584	4,984

Source: UOB Kay Hian

KPJ's Historical PE band (Pre-pandemic)



Source: Bloomberg

Environmental, Social, Governance (ESG)

Environmental
- Greenhouse gas emissions. Reduce greenhouse gas (GHG) emissions by 25% across 42 facilities by 2025, supported by energy optimisation projects, renewable energy adoption and green electricity procurement.
- Climate change. Net Zero emissions by 2050, guided by KPJ's ESG roadmap and phased decarbonisation strategy.

Social
- Community contribution. Expand access to affordable healthcare, particularly for underserved communities through initiatives such as Klinik Waqaf An-Nur (KWAN) and outreach programmes.
- Maintain high patient satisfaction levels, supported by continuous monitoring of service quality and patient-centric healthcare delivery.

Governance
- Transparency and accountability are enhanced through ESG reporting aligned with Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB) and Bursa Malaysia sustainability frameworks.

Source: KPJ Healthcare

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	4,258	4,747	5,293	5,928
EBITDA	998	1,091	1,202	1,307
Deprec. & amort.	310	318	354	396
EBIT	688	773	848	910
Associate contributions	49	49	49	49
Net interest income/(expense)	(173)	(192)	(194)	(195)
Pre-tax profit	563	630	703	764
Tax	(162)	(175)	(188)	(196)
Minorities	(36)	(41)	(45)	(51)
Net profit	366	415	470	516
Net profit (adj.)	366	415	470	516

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Fixed assets	2,792	3,283	3,811	4,420
Other LT assets	3,256	3,096	3,188	3,306
Cash/ST investment	1,006	837	681	492
Other current assets	990	1,074	1,185	1,316
Total assets	8,045	8,290	8,865	9,534
ST debt	269	269	269	269
Other current liabilities	1,048	1,086	1,159	1,301
LT debt	1,360	1,360	1,360	1,360
Other LT liabilities	2,364	2,366	2,636	2,908
Shareholders' equity	2,758	2,922	3,109	3,313
Minority interest	247	288	333	384
Total liabilities & equity	8,045	8,290	8,865	9,534

Cash Flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	893	868	981	1,095
Pre-tax profit	563	630	703	764
Tax	(141)	(175)	(188)	(196)
Deprec. & amort.	233	234	267	304
Associates	(49)	(49)	(49)	(49)
Working capital changes	25	(34)	(14)	10
Other operating cashflows	263	262	262	262
Investing	13	(708)	(776)	(894)
Capex (growth)	(270)	(708)	(776)	(894)
Proceeds from sale of assets	241	0	0	0
Others	42	0	0	0
Financing	(509)	(329)	(362)	(390)
Dividend payments	(185)	(251)	(283)	(312)
Issue of shares	0	0	0	0
Proceeds from borrowings	83	0	0	0
Loan repayment	(193)	0	0	0
Others/interest paid	(214)	(78)	(78)	(78)
Net cash inflow (outflow)	397	(169)	(156)	(189)
Beginning cash & cash equivalent	614	1,006	837	681
Changes due to forex impact	(5)	0	0	0
Ending cash & cash equivalent	1,006	837	681	492

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	23.4	23.0	22.7	22.0
Pre-tax margin	13.2	13.3	13.3	12.9
Net margin	8.6	8.7	8.9	8.7
ROA	5.3	5.7	6.0	6.2
ROE	12.2	13.2	13.7	14.0
Growth				
Turnover	8.6	11.5	11.5	12.0
EBITDA	6.7	9.3	10.2	8.7
Pre-tax profit	6.1	11.9	11.5	8.6
Net profit	10.1	13.5	13.1	10.1
Net profit (adj.)	10.1	13.5	13.1	10.1
EPS	10.1	13.5	13.1	10.1
Leverage				
Debt to total capital	35.1	33.7	32.1	30.6
Debt to equity	54.2	50.7	47.3	44.0
Net debt/(cash) to equity	20.7	24.6	27.5	30.7
Interest cover	3.3	3.3	3.6	3.9