KPJ Healthcare (KPJ MK)

Strategic Roadmap Intact Despite Leadership Transition

Highlights

- KPJ's five-year strategic plan, centred on brownfield expansion, remains firmly implemented by the current interim management team led by the group's Chief Medical Director.
- CoE expansion remains on track and should drive higher-acuity cases, a richer case mix and stronger revenue intensity.
- Maintain BUY and target price of RM3.85. We like KPJ for its inflection point of gestating hospitals and aggressive multi-year brownfield expansion.

Analysis

- KPJ Healthcare (KPJ) organised a briefing to update on its strategic priorities following the resignation of Chin Keat Chyuan (Chin) as President and Managing Director of KPJ Healthcare, effective 1 Sep 26. The briefing was anchored by Chief Medical Director Prof. Dato' Dr. Hanafiah Harunarashid, who stepped in as Officer-in-Charge, and Mohd Khairul Izzad (CFO).
- **Loss of policy bridge.** To recap, Chin resigned to pursue other interests. Beyond his direct corporate role, Chin also holds prominent industry governance positions, serving as Vice President of the Association of Private Hospitals of Malaysia (APHM). His leadership at APHM positioned KPJ directly at the policy table during critical discussions on Malaysia's transition to a Diagnosis-Related Group (DRG) payment model. While his exit removes a direct policy bridge with regulators during this implementation window, it does not derail KPJ's operational readiness, as internal DRG framework preparation, led by the group's CFO, remains well underway.
- **Echoes of CEO churn but KPJ is on solid bedding.** The series of brief CEO tenures preceding Chin – Ahmad Shahizam (Jul 20-Mar 22, ~20 months) and Datuk Mohd Shukrie Salleh (Apr 22-Sep 22, five months) – inevitably raises questions regarding long-term leadership continuity. Given that filling the CEO position prior to Chin's appointment required nearly a year-long search, finding a permanent successor may similarly involve an extended timeline without an immediate front-runner. Nonetheless, Chin's three-year tenure successfully addressed historical operational bottlenecks, established institutional stability, and formalised a structured roadmap via the Strategic Plan (2026-2030). This groundwork provides a solid foundation for Chief Medical Director Prof. Datuk Dr. Hanafiah Harunarashid as interim Officer-in-Charge, supporting a smooth operational transition.

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

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BUY (Maintained)

Share Price	RM2.61
Target Price	RM3.85
Upside	47.5%

Stock Data

Sector	Health Care
Bloomberg ticker	KPJ MK
Shares issued (m)	4,426.3
Market cap (RMm)	11,810.6
Market cap (US$m)	2,964.4
3-mth avg daily t'over (US$m)	4.8

Price Performance (%)

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

1mth	3mth	6mth	1yr	YTD
(15.8)	(25.4)	(15.5)	9.6	(3.0)

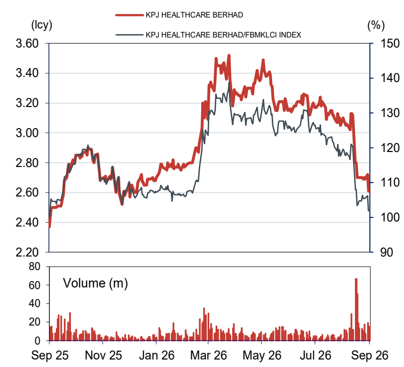
Major Shareholders (%)

Johor Corporation	44.6
Employees Provident Fund	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.

- **KPJ's five-year strategic plan (2026-2030) remains a key priority.** To recap, the strategic plan marks a shift from KPJ's traditional network of hospitals to an integrated health system focused on clinical excellence, research and education with an aim to deepen clinical capability and drive sustainable long-term earnings growth. Management assured that KPJ remains committed on executing the strategic plan, governed by the Board Executive Committee, with its target of 2,200-bed brownfield expansion and committed capex of RM4b-5b remain unchanged.
- **CoE implementation is progressing well.** KPJ's focus towards complex and specialised care through its COEs has been the key driver of operational growth, as evidenced by the rise in revenue intensity (+6.9% yoy) and inpatient volume (+9.7% yoy) in 2Q26. In particular, Johor Specialist Hospital's (JSH) Heart and Lung CoE has delivered improved revenue growth driven by higher case complexity. The two upcoming CoEs – JSH second COE (oncology) and KPJ Selangor (orthopedic) – are also on track for launch targeted by end-26.
- **Healthcare tourism as a structural growth engine.** KPJ recorded RM146m (+21% yoy) in healthcare tourism revenue in 1H26, accounting for 6.5% of its total revenue. Management remains positive on achieving full-year double-digit growth in revenue in this segment. KPJ is also looking to expand its patient base tapping into high growth emerging market such as Cambodia and the Middle East. While we remain positive on the segment as a structural growth engine for KPJ, given its relatively low penetration rate versus peers such as IHH (~15% of revenue) and Sunway Healthcare (~14%), we expect some near-term softness in medical tourist arrivals amid current higher logistic and travel costs.

Valuation/Recommendation

- **Maintain BUY and target price of RM3.85,** pegged to a PE of 36.8x, reflecting +1.5SD to its pre-pandemic five-year mean. Overall, we believe the near-term uncertainty surrounding management continuity should not derail KPJ's underlying fundamentals, with the strategic plan remaining firmly in place under the current management. That said, the pace of execution will be a key monitorable should the search for a permanent MD is prolonged.

  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.

Earnings Revision/Risk

- **No changes to earnings.** Key downside risks include: a) tightening of regulatory policy, b) slow progress in executing the expansion plan, and c) inability to pass on operating cost increases to customers.

Revenue Assumptions

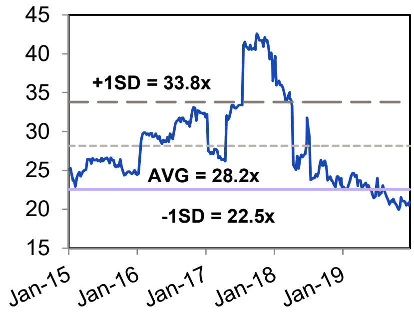
	2026F	2027F	2028F
Inpatient volume growth (%)	6.7	8.3	8.7
Outpatient volume growth (%)	3.0	3.0	3.0
Occupancy rate (%)	66.0	66.0	66.0
Average Length of Stay (days)	2.5	2.5	2.5
Average no. of beds	4,234	4,584	4,984

Source: UOB Kay Hian

Strategic Plan (2026-30)

Source: KPJ Healthcare

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