KPJ to embark on expansion campaign, market capitalisation

KUALA LUMPUR: KPJ Healthcare Bhd (KPJ), Malaysia’s largest private healthcare provider, is moving towards an aggressive expansion campaign by increasing its bed capacity and capitalising on the booming health tourism market.

According to AmResearch Sdn Bhd (AmResearch) in a research report, the increase in bed capacity via a pipeline of seven new hospitals would accelerate earnings momentum to achieve the firm’s conservative three year compounded annual growth rate (CAGR) of 17 per cent.

The group’s current occupancy rate of 70 to 75 per cent was a tad below overcrowded thresholds of 85 per cent to 90 per cent, noted AmResearch.

Part of KPJ’s hospital expansion plan would see three additional hospitals strategically located within the state neighbouring Singapore.

All in all, it was expected to more than double KPJ’s total capacities to a total of 385 beds upon completion. This would help boost the group’s revenue contribution from health tourism from circa 10 per cent currently to 25 per cent by 2020.

AmResearch also added that with a sizeable 22 per cent market share, the company was well placed to capitalise on the booming and lucrative health tourism, with the doubling of the strategic existing hospital chain in Johor, a focal area slated to become the primary destination for medical tourists.

The increased demand as spurred by recent regulatory changes on cross border medical reimbursement between Malaysia and Singapore was expected to power the segment’s contribution from 10 per cent currently to 25 per cent of group revenue as forecasted by AmResearch.

Given that KPJ also operates KPRI International University College of Nursing and Health Sciences (KPJUIC) with an annual revenue between RM40 million to RM50 million, the education arm complemented its hospital operations, serving to mitigate staffing risks of qualified nurses and medical staff.

The company had earmarked RM120 million capital expenditure for the Nilai branch expansion and commissioning of a new campus at Bukit Mertajam. It aimed to quadruple student intakes to 10,000 in five years’ time.

The firm pegged a discounted cash flow fair value of RM6.15 per share with expected potential returns of 20 per cent.

The company’s fully diluted price earnings ratio of 17 times and 20 times were 10 per cent and 13 per cent discount to its closest peer Thailand based Bumrungrad Hospital, and a wider 25 per cent 33 per cent discount to regional peers’ average.