KPJ Healthcare (KPJ MK)

3Q26: Within Expectations; Robust Patient Volume

Highlights

- KPJ's 3Q26 earnings are deemed in line with expectations, accounting for 67%/69% of our/consensus full-year forecasts respectively, as we expect a seasonally stronger 4Q26, supported by improved case mix and revenue intensity.
- We view the moderation in 3Q26 revenue intensity as temporary, with the longer-term upward trend remaining intact, underpinned by the ongoing expansion of the group's COEs.
- Maintain BUY and target price of RM3.85, pegged to a PE of 36.8x (+1.5SD to its pre-pandemic five-year mean).

3Q26 Results

Year to 31 Dec (RMm)	3Q26	QoQ (%)	YoY (%)	9M26	YoY (%)
Revenue	1,248.5	4.3	11.8	3,495.0	12.3
Cost of sales	-704.2	6.5	13.0	-1,959.6	0.4
Gross profit	544.3	1.6	10.4	1,535.3	12.8
EBITDA	274.1	3.2	6.4	760.8	8.7
Pretax profit	207.8	28.9	36.8	477.5	25.5
Core Net Profit	106.3	2.3	13.2	279.9	20.1
Margin					
Gross margin (%)	43.6	-1.2	-0.6	43.9	0.2
EBITDA margin (%)	22.0	-0.2	-1.1	21.8	-0.7
Effective tax rate (%)	22.7	-5.2	-7.8	25.8	-5.1
Core margin (%)	8.5	-0.2	0.1	8.0	0.5

Source: KPJ, UOB Kay Hian

Analysis

- **Within expectations.** KPJ Healthcare (KPJ) reported a 3Q26 net profit of RM106.3m (+2.3% qoq, +13.2% yoy), bringing 9M26 net profit to RM279.9m (+20.1% yoy). We deem the results to be in line with expectations, accounting for 67%/69% of our/consensus full-year forecasts respectively, as we expect a seasonally stronger 4Q26, supported by improved case mix and revenue intensity. In the past, 4Q has contributed the largest share of annual earnings, with 4Q24/4Q25 accounting for 34%/35% respectively of the group's 2024/25 earnings.
- An interim DPS of 1.1 sen was declared, bringing 9M26 DPS to 3.45 sen (9M26: 3 sen).

Key Financials

Year to 31 Dec (RMm)	FY25	FY26	FY27F	FY28F	FY29F
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	407	455	501
UOBKH/Consensus (x)	n.a	n.a	1.02	1.03	1.03

Source: KPJ, Bloomberg, UOB Kay Hian

Analyst(s)

Amerul Iqmal
ameruliqmal@uobkh.com
+603 2147 1915

BUY (Maintained)

Share Price	RM2.66
Target Price	RM3.85
Upside	44.7%

Stock Data

Sector	Health Care
Bloomberg ticker	KPJ MK
Shares issued (m)	4,426.3
Market cap (RMm)	12,040.8
Market cap (US$m)	2,920.6
3-mth avg daily t'over (US$m)	4.8

Price Performance (%)

52-week high/low				RM3.53/RM2.31
1mth	**3mth**	**6mth**	**1yr**	**YTD**
11.7	(5.0)	(15.5)	2.3	(1.1)

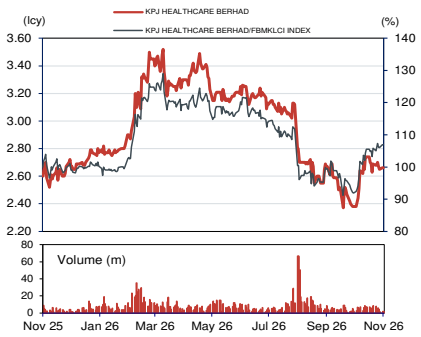
Major Shareholders (%)

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.

- **Robust patient volume offset by softer revenue intensity.** Revenue grew 4.3% qoq primarily due to higher inpatient admissions (+7.9% qoq), with bed occupancy rate improving 6ppt to 74% (2Q26: 68%). However, this was partially offset by a moderation in revenue intensity (-4% qoq), likely due to lower case complexity, despite recording a higher number of surgeries (+6.1% qoq). On a yoy basis, revenue growth remained decent (+11.8% yoy) supported by both higher inpatient volume (+9.7%) and revenue intensity (+1.5%).
- **Lower effective tax rate supported net margin.** 3Q26 gross margin declined by 1.2ppt qoq to 43.6%, likely reflecting lower revenue intensity. Nonetheless, net margin remained relatively stable at 8.5% (-0.2ppt) supported by a lower effective tax rate of 22.7% (9M26: 25.8%).
- **Long-term revenue intensity trend remains on an uptrend.** We view the moderation in 3Q26 revenue intensity as temporary, with the longer-term upward trend remaining intact. This is underpinned by KPJ's ongoing efforts to broaden its subspecialty offerings and expand its Centres of Excellence (CoE) across its hub-and-spoke hospital network, with the fourth CoE at Johor Specialist Hospital (cancer) slated for launch in 4Q26. We believe the growing contribution from higher-acuity and more complex cases will continue to drive revenue intensity upwards, supporting a stronger earnings mix and sustained earnings growth.

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. 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.

Share Price Catalyst

- **Strategic direction remains intact despite leadership transition.** KPJ has reiterated its commitment to executing its existing Strategic Plan, with the current management team continuing to drive key initiatives, particularly brownfield expansion and the development of its CoEs. We expect limited near-term operational disruption, with earnings growth continuing to be supported by healthy patient volumes and ongoing capacity expansion. Nevertheless, the pace of execution remains a key monitorable, particularly if the appointment of a permanent Managing Director is prolonged.
- **Long-term growth pipeline.** By 2030, the group targets to add 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. The expansion will be focused on high-occupancy facilities and align with KPJ's regional hub-and-spoke model, enabling more efficient scaling of capacity and better utilisation of resources across its network.

Key Assumptions

	2026F	2027F	2028F
Inpatient volume growth (%)	6.7	8.3	8.7
Outpatient volume growth (%)	3.0	3.0	3.0
Occupancy rate (%)	72	68	66.0
Average no. of beds	3,900	4,234	4,584

Source: KPJ, UOB Kay Hian

Environmental, Social and 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.**

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
Working capital changes	(49)	(49)	(49)	(49)
Other operating cashflows	25	(34)	(14)	10
Investing	263	262	262	262
Capex (maintenance)	**13**	**(708)**	**(776)**	**(894)**
Investments	(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

IMPORTANT NOTICE - DISCLOSURES AND DISCLAIMERS

This report is provided subject to various disclosures and disclaimers (the "Disclosures / Disclaimers") which form an integral part of this report and are available at this link or by scanning the QR code below:

The Disclosures / Disclaimers contain important information, including without limitation, (a) exclusions of liability, (b) confidentiality obligations, (c) restrictions on publication, circulation, reproduction, distribution and use of the report, (d) potential conflicts of interest, and (e) disclosures and requirements specific to recipients in the United States and other applicable jurisdictions.

Specifically, this report is intended for general circulation and informational purposes only and does not take into account the specific investment objectives, financial situation, or particular needs of any individual person. It is not intended to constitute personal investment advice or a recommendation to buy or sell any investment product or security. You should independently evaluate the information and, where necessary, seek advice from a qualified financial adviser regarding the suitability of any investment, taking into account your specific objectives, financial situation and needs, before making any investment decision. Analyst certifications required under applicable regulations, including SEC Regulation AC (where relevant), are included in this report.

Recipients of this report must carefully read, review and understand the full Disclosures / Disclaimers before using or relying on any information in this report. By accessing, receiving or using this report, you acknowledge and confirm that you have read, understood, accepted and agreed to be bound by the Disclosures / Disclaimers (as may be amended or updated from time to time) in full.