

4Q24 Earnings Review

OVERWEIGHT

Ample Earnings Growth Potential for Hospital Players

- Overall, the recently concluded 4Q24 corporate earnings season showed mixed results.
- Hospital players recorded double-digit earnings growth in FY24.
- Going ahead pharmaceutical and nutraceutical players may face challenges from higher raw material costs and subdued demand.
- KPJ and IHH expanded bed capacity and plan further growth, with KPJ adding 200 beds and IHH targeting 1,000 more beds in FY25.
- We maintain an OVERWEIGHT call on the healthcare sector, with IHH (BUY, TP: RM8.60) as our top pick. Our positive outlook on hospital players is supported by (i) organic capacity expansion, (ii) growing demand for elective surgeries, (iii) improved adoption of healthcare digitalization, (iv) increased revenue from health tourism. and (iv) rising demand driven by an aging population.

Strong Hospital Growth, Weaker Pharma & Nutraceuticals

The recently concluded 4Q24 corporate earnings season presented mixed results overall. Among the four companies under our coverage KPJ, Apex Healthcare and Nova Wellness met expectations, while IHH underperformed. Nevertheless, both private hospital players recorded double-digit earnings growth in FY24, driven by increased hospital activities and a higher proportion of complex cases that contributed to greater revenue intensity. Conversely, Apex Healthcare and Nova Wellness experienced lower earnings in FY24, declining by 9.7% YoY and 31.3% YoY, respectively, due to higher expenses. Apex Healthcare's earnings were impacted as costs increased, with advertising and promotional expenses for brand-building rising by 61.5%. Meanwhile, Nova Wellness's earnings were weighed down by a 22% YoY increase in administrative expenses and a 7% YoY rise in selling and distribution costs. Looking ahead, we anticipate that pharmaceutical and nutraceutical players will remain under pressure due to higher raw material costs and subdued demand, which could weigh on overall performance in this segment.

Private Hospitals Eyeing Further Growth

Both KPJ and IHH have expanded their bed capacity, with KPJ increasing by 6% YoY to 3,643 beds and IHH growing by 34% to nearly 4,000 beds in FY24. Looking ahead, both groups remain committed to further expansion, with KPJ planning to add 200 beds and IHH targeting approximately 1,000 additional beds. IHH is on track to increase its capacity by ~4,000 beds (+33%) by 2028. For KPJ, revenue growth in FY24 is expected to be supported by hospitals in their gestation phase, including KPJ Bandar Dato' Onn, Damansara Specialist Hospital 2, KPJ Batu Pahat Specialist Hospital and KPJ Perlis. These hospitals have already achieved EBITDA-positive results in FY24, and management expects them to turn PBT-positive by FY25, except for KPJ Miri. Additionally, KPJ Kuala Selangor is set to begin operations in April, with the group guiding for its 30th hospital to reach EBITDA-positive status by FY25. Meanwhile, IHH Healthcare is expected to benefit from its recent acquisition of Island Hospital, completed in November 2024. The deal is projected to enhance operational efficiency and generate over RM200mn in synergies over the next five years, with medical tourism revenue in Malaysia set to double. Island Hospital's vacant land offers further expansion opportunities, with approvals in place to add around 400 more beds, increasing capacity to over 1,000 beds to meet growing demand. Plans are also in place to build a hotel to accommodate medical travelers

Shahira Rahim
 shahira@bimbsec.com.my
 +(603) 2613 1734

and their companions. With strong ongoing premium healthcare services demand and consistent earnings growth, we anticipate that private hospital players will pursue more inorganic expansions going forward.

OVERWEIGHT on the Sector

We maintain an **OVERWEIGHT** rating on the healthcare sector, supported by (i) organic capacity expansion, (ii) growing demand for elective surgeries, (iii) improved adoption of healthcare digitalization, (iv) increased revenue from health tourism, and (iv) rising demand driven by an aging population. Our key risks to our call include higher-than-expected raw material costs, which could impact earnings for our pharmaceutical and nutraceutical players, as well as unfavorable regulations related to the implementation of DRG. Our **BUY** recommendation for **IHH (TP: RM8.60)** remains intact, driven by expectations of strong performance from increased hospital activities.

Table 1: Healthcare Results Summary

Company	Reporting Period	Against Estimate	Core Profit Chg.			Earnings Forecast	Rating	TP (RM)	Company Commentary
			QoQ	YoY	YTD				
IHH Healthcare	4QFY24	Below	-40.0%	+19.1%	+31.6%	Maintain	BUY	8.60	<p>Outlook: In 2024, IHH expanded its capacity by adding over 600 beds, including 501 from Island and Timberland Hospital. The group plans to further increase capacity by 340 beds in 2025. We remain positive on IHH's outlook, expecting sustained demand growth driven by increasing patient volume. Additionally, we anticipate stronger contributions from medical tourism, as Malaysia's cost advantage allows the group to optimize pricing strategies to sustain profit margins. While medical tourism currently contributes less than 15% of IHH's revenue, we foresee steady growth supported by ongoing healthcare digitalization initiatives. Looking ahead, Island Hospital is poised for solid revenue growth, as medical travellers often seek major surgeries, which typically generate higher revenue intensity.</p> <p>Our Call: We maintain a BUY call with an unchanged TP of RM8.60. Our valuation is based on a SOP approach with a WACC of 7% for Parkway Pantai Limited and 11% for Acibadem.</p>
Nova Wellness	2QFY25	Inline	+8.0%	-33.3%	-31.3%	Maintain	BUY	0.63	<p>Outlook: We expect Nova's earnings to benefit from its intensified marketing strategy. However, the group's margins may face pressure due to higher material costs driven by fluctuations in foreign currency exchange rates. Aside to that, Nova's share price has declined by 38.2% YoY. Hence, we maintain our BUY recommendation based on the price weakness.</p> <p>Our Call: Maintain a BUY call with an unchanged TP of RM0.63 based on Nova's FY25F EPS of 4.4sen, pegged to a PER of 14.3x (-0.5SD its 5-year historical forward PE).</p>
KPJ Healthcare	4QFY24	Inline	+35.2%	+39.3%	+11.5%	Maintain	HOLD	2.52	<p>Outlook: Note that hospitals typically see softer earnings QoQ in the first quarter, influenced by festive periods and seasonal trends. We expect this pattern to persist in 1QFY25, following a strong 4Q24 peak. However, for FY25, we foresee positive YoY earning growth, propelled by rising patient volumes and better contributions from hospitals in their gestation period, namely (i) Miri, (ii) Perlis and (iii) DSH2. For the medical tourism segment, we expect KPJ to experience steady earnings growth, driven by rising demand for premium healthcare services and a consistent influx of Indonesian patients.</p> <p>Our Call: We maintain a HOLD rating with an unchanged TP of RM2.52. Our valuation is derived based on SOP valuation with a WACC of 8.1% and a long-term growth of 2.5%.</p>
Apex Healthcare	4QFY24	Inline	-3.6%	-13.8%	-9.7%	Maintain	Non-Rated	Non-Rated	<p>Outlook: Despite the sustained demand for pharmaceuticals and consumer healthcare products, along with the launch of new group-branded products, we do not expect significant near-term earnings growth for the group due to the weak contribution from its associate.</p> <p>Our Call: We maintain our coverage on the Apex Healthcare with a Non-Rated recommendation as the group has been reclassified as a Shariah non-compliant counter.</p>

Source: Companies, BIMB Securities

Table 2: Peers Comparison – Stocks under Coverage (Healthcare)

Company	Rec.	RM		Mkt cap (RM mn)	EPS (sen)		PER (x)		PB (x)		ROE (%)		EBITDA margin (%)		Dividend Yield (%)	
		TP	Price^		CY25	CY26	CY25	CY26	CY25	CY26	CY25	CY26	CY25	CY26	CY25	CY26
IHH Healthcare	BUY	8.60	7.41	65,318.8	22.8	26.5	32.5	27.9	2.0	1.8	6.0	6.6	23.7	22.3	1.1	1.1
Nova Wellness	BUY	0.63	0.42	100.4	5.9	6.1	7.1	6.9	0.9	0.8	12.2	12.2	44.9	39.0	3.0	3.0
KPJ Healthcare	HOLD	2.52	2.65	11,565.4	9.2	9.4	28.9	28.1	4.4	4.1	15.3	14.7	26.5	26.0	1.3	1.5
Apex Healthcare	NOT-RATED	NOT-RATED	2.25	1,620.5	14.5	14.9	15.5	15.1	2.3	2.1	14.7	13.9	12.4	11.7	2.9	3.0
Sector Average					13.1	14.2	21.0	19.5	2.4	2.2	12.1	11.8	26.9	24.7	2.1	2.1

Note: ^Closing price as at 4th March 2025

Source: Bloomberg, companies, BIMB Securities

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

Disclaimer

This report has been prepared for information and educational purposes only and are not recommendation or endorsement to sell or solicitation to buy any securities, subscription of financial products or otherwise to be taken as investment advice of any form or kind and neither should be relied upon as such. The information herein was obtained or derived from publicly available information, internally developed data and other sources believed to be reliable. Whilst all reasonable care has been taken to ensure that all information and data are accurate and the opinions are fair and reasonable, we do not represent or warrant their accuracy, timeliness, completeness and currentness or applicability of such information for any particular purpose. The investments advice or idea discussed or recommended in this report may not be suitable for all investors. Any recommendation presented in this report is general in nature and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this report. The investors are advised to conduct own research and seek independent professional advice prior to taking any investment or investment related decisions. The directors and employees of BIMB Securities Sdn Bhd and BIMB Group of Company may from time to time have a position in or either the securities mentioned or may provide services to any company and affiliates of such companies whose securities are mentioned herein. BIMB Securities Sdn Bhd and BIMB Group of Company accept no liability for any direct, indirect or consequential losses, claims and damages arising from any use of this report. BIMB Securities does not have a financial interest in the securities or other capital market products of the subject company(ies) covered in this report. Unless stated otherwise, BIMB Securities is not a market maker in the securities or other capital market products of the subject company(ies) covered in this report. BIMB Securities did not receive compensation for corporate finance services from the subject company(ies) in the past 12 months. BIMB Securities did not receive compensation or benefit (including gift and special cost arrangement e.g. company/issuer-sponsored and paid trip) in relation to the production of this report. The analyst(s) who prepared this research report is/are prohibited from receiving any compensation, incentive or bonus based on specific transactions or for providing a specific recommendation for, or view of, a particular company.

Printed and published by

BIMB SECURITIES

BIMB SECURITIES SDN BHD (290163-X)

*A Participating Organisation of Bursa Malaysia Securities Berhad
Level 34, Menara Bank Islam*

*No 22, Jalan Perak,
50450 Kuala Lumpur.*

Tel: 03-2613 1600 Fax: 03-2613 1799

<http://www.bimbsec.com.my>



Mohd Redza Abdul Rahman
Director of Research