3 February 2021

Medikaloka Hermina (HEAL IJ)
Getting Into Stronger Shape; Maintain BUY

- **BUY, new IDR5,300 TP from IDR3,800, 31% upside.** We think earnings growth ahead is sustainable, and high COVID-19 numbers should support 2021 performance. The 2022 implementation of the Social Insurance Administration Organisation’s (BPJS) single class provides another growth avenue. The stock is trading at mean, and a strong 2021 growth profile should provide ample room for further re-rating. Key risks: Slower elective care recovery, lower pandemic reimbursements, and an unfavourable BPJS policy. We transfer coverage to Indonesia Research Team.

- **Growth profiles maintained for both topline...** We expect revenue growth to be supported in 2021. We believe the high number of COVID-19 patients will partly support HEAL’s topline growth and it has allocated 1,300 beds (c.20-30% of total beds) for such patients. We think the rising number of pandemic cases will prompt the company to convert more beds to handle more COVID-19 patients. Additionally, we believe non-pandemic patients will start returning again. For 2022, we are of the view that the initial implementation of the single class policy will boost HEAL’s revenue due to the likely conversion of a number of BPJS patients into private hospital ones. As such we foresee around 16% CAGR revenue for 2019-2022.

- **...and bottomline.** Aside from its revenue growth, the increasing number of COVID-19 patients should bolster HEAL’s profitability profile. Pandemic patients in general have higher revenue per inpatient days. In 2022, the early implementation of the one class policy might lure BPJS patients to switch to private hospitals, potentially solidifying HEAL’s margins profile. Additionally, we also see efforts to expand its IT implementation and increasing case complexity should help earnings ahead. HEAL eyes to lower its women and childcare portion to 40% from 45% over the short to mid-term. Altogether, we think this will sustain net margins to c.9-10% in 2020-2022, i.e. higher than 2019’s c.7%.

- **Continued expansion plans.** Looking ahead, we believe HEAL will continue to expand its footprint. The company aims to add 3-4 hospitals in 2021, in line with our forecast. Most of its new hospitals will be located in Java, though in suburban areas. We view this is as a positive due to less intense competition in the targeted areas. Additionally, HEAL’s strong doctor partnership model should help this initiative. We also estimate the company’s bed additions will slow down in 2021 and 2022, given that it has conducted massive bed additions to comply with hospital classification regulations. We foresee 400-500 bed additions each in 2021 and 2022 vs c.800 in 2020. We have not factored in any acquisitions that might happen in 2021. HEAL has allocated IDR800-900bn capex in 2021. This should not be an issue, in our view, given its solid liquidity profile.

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**Forecasts and Valuation**

<table>
<thead>
<tr>
<th></th>
<th>Dec-18</th>
<th>Dec-19</th>
<th>Dec-20F</th>
<th>Dec-21F</th>
<th>Dec-22F</th>
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</thead>
<tbody>
<tr>
<td>Total turnover (IDRb)</td>
<td>3,058</td>
<td>3,631</td>
<td>4,012</td>
<td>5,124</td>
<td>5,669</td>
</tr>
<tr>
<td>Recurring net profit (IDRb)</td>
<td>99</td>
<td>234</td>
<td>347</td>
<td>477</td>
<td>525</td>
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<tr>
<td>Recurring net profit growth (%)</td>
<td>7.4</td>
<td>135.5</td>
<td>48.1</td>
<td>37.7</td>
<td>10.0</td>
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<tr>
<td>Recurring P/E (x)</td>
<td>121.28</td>
<td>51.50</td>
<td>34.79</td>
<td>25.27</td>
<td>22.97</td>
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<tr>
<td>P/B (x)</td>
<td>6.5</td>
<td>5.6</td>
<td>5.1</td>
<td>4.5</td>
<td>4.0</td>
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<tr>
<td>P/CF (x)</td>
<td>na</td>
<td>31.13</td>
<td>21.10</td>
<td>17.14</td>
<td>14.22</td>
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<td>Dividend Yield (%)</td>
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<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
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<tr>
<td>EV/EBITDA (x)</td>
<td>24.54</td>
<td>17.17</td>
<td>14.34</td>
<td>10.91</td>
<td>10.05</td>
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<td>Return on average equity (%)</td>
<td>10.7</td>
<td>12.7</td>
<td>16.0</td>
<td>19.5</td>
<td>19.2</td>
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<td>Net debt to equity (%)</td>
<td>23.7</td>
<td>25.4</td>
<td>28.8</td>
<td>31.1</td>
<td>33.4</td>
</tr>
</tbody>
</table>

**Source:** Company data, RHB

**Note:** Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.
Financial Exhibits

Asia

Indonesia
Healthcare
Medikaloka Hermina

HEAL IJ
Buy

Valuation basis

DCF, WACC: 10.1%, long-term growth: 5%

Key drivers

i. Favourable BPJS health regulations;
ii. Increase in COVID-19 patient numbers;
iii. Higher concerns over health;
iv. Under-penetrated hospital industry.

Key risks

i. Longer recovery for elective care;
ii. Lower COVID-19 reimbursements;
iii. Unfavourable BPJS policy.

Company Profile

HEAL owns and operates a chain of hospitals. It provides professional healthcare services while focusing on obstetric and paediatric care.

Financial summary (IDR) Dec-18 Dec-19 Dec-20F Dec-21F Dec-22F

Recurring EPS 33.39 78.64 116.43 160.30 176.35
B/PS 626.53 721.01 796.38 907.65 1,004.48
Return on average equity (%) 10.7 12.7 16.0 19.5 19.2

Valuation metrics Dec-18 Dec-19 Dec-20F Dec-21F Dec-22F

Recur P/E (x) 121.28 51.50 34.79 25.27 22.97
PB (x) 6.5 5.6 5.1 4.5 4.0
FCF Yield (%) (0.6) 3.2 4.7 5.8 7.0
EV/EBITDA (x) 24.54 17.17 14.34 10.91 10.05
EV/EBIT (x) 37.50 24.23 19.89 14.40 13.47

Income statement (IDRb) Dec-18 Dec-19 Dec-20F Dec-21F Dec-22F

Total turnover 3,058 3,631 4,012 5,124 5,669
Gross profit 1,282 1,626 1,849 2,384 2,629
EBITDA 535 779 954 1,288 1,439
Depreciation and amortisation (185) (227) (266) (312) (366)
Operating profit 350 552 688 976 1,073
Net interest (110) (78) (48) (95) (111)
Pre-tax profit 276 505 660 911 990
Taxation (85) (162) (191) (268) (272)
Reported net profit 191 343 468 643 546
Recurring net profit 33.39 78.64 116.43 160.30 176.35

Cash flow (IDRb) Dec-18 Dec-19 Dec-20F Dec-21F Dec-22F

Change in working capital (405) (108) (47) (95) (40)
Cash flow from operations (74) 387 572 704 848
Cash flow from investing activities (671) (651) (750) (906) (1,000)
Cash flow from financing activities 726 553 488 (16) (311)
Cash at beginning of period 322 304 593 903 684
Net change in cash (19) 289 310 (219) (463)
Ending balance cash 304 593 903 684 222

Balance sheet (IDRb) Dec-18 Dec-19 Dec-20F Dec-21F Dec-22F

Total cash and equivalents 304 593 903 684 222
Tangible fixed assets 2,656 3,096 3,564 4,158 4,793
Total assets 4,171 5,048 5,831 6,564 6,929
Short-term debt 265 230 350 350 550
Total long-term debt 601 1,065 1,447 1,447 1,021
Total liabilities 1,801 2,283 2,735 2,988 2,892
Total equity 2,370 2,764 3,097 3,576 4,037
Total liabilities & equity 4,171 5,048 5,831 6,564 6,929

Key metrics Dec-18 Dec-19 Dec-20F Dec-21F Dec-22F

Revenue growth (%) 14.2 18.7 10.5 27.7 10.6
Recurrent EPS growth (%) 7.4 135.5 48.1 37.7 10.0
Gross margin (%) 41.9 44.8 46.1 46.5 46.4
Operating EBITDA margin (%) 17.5 21.5 23.8 25.1 25.4
Net profit margin (%) 4.1 7.0 9.0 9.7 9.6
Interest cover (x) 2.68 5.07 8.90 7.23 7.40

Source: Company data, RHB

See important disclosures at the end of this report
Figure 1: 5-year P/E band

Figure 2: Number of doctors per operational beds (2019)

Source: Bloomberg, Company data, RHB
Source: Company data, RHB

Figure 3: Peers comparison

<table>
<thead>
<tr>
<th>Company</th>
<th>Market cap</th>
<th>Curr.</th>
<th>Last price</th>
<th>EPS growth (%)</th>
<th>EV/EBITDA (x)</th>
<th>P/E (x)</th>
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<tr>
<td>MIKA U</td>
<td>3,250.7</td>
<td>IDR</td>
<td>3,200</td>
<td>9.5 28.2 5.6</td>
<td>41.1 27.2 24.9</td>
<td>57.29 44.68 42.24</td>
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<tr>
<td>SILO U</td>
<td>614.4</td>
<td>IDR</td>
<td>5,300</td>
<td>16.6 43.6 9.1</td>
<td>7.2 107.7 107.7</td>
<td>75.0</td>
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<tr>
<td>HEAL U</td>
<td>860.0</td>
<td>IDR</td>
<td>4,050</td>
<td>41.1 37.3 9.4</td>
<td>13.6 10.2 9.3</td>
<td>33.4 24.3 22.1</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>27.6</strong></td>
<td><strong>88.1</strong></td>
<td><strong>11.1</strong></td>
<td><strong>31.9</strong></td>
<td><strong>21.6</strong></td>
<td><strong>19.8</strong></td>
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<td><strong>Domestic Peers</strong></td>
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<tr>
<td>MIKA U</td>
<td>3,250.7</td>
<td>IDR</td>
<td>3,200</td>
<td>9.5 28.2 5.6</td>
<td>41.1 27.2 24.9</td>
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<tr>
<td>SILO U</td>
<td>614.4</td>
<td>IDR</td>
<td>5,300</td>
<td>16.6 43.6 9.1</td>
<td>7.2 107.7 107.7</td>
<td>75.0</td>
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<tr>
<td>HEAL U</td>
<td>860.0</td>
<td>IDR</td>
<td>4,050</td>
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<td>33.4 24.3 22.1</td>
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<tr>
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<td><strong>27.6</strong></td>
<td><strong>88.1</strong></td>
<td><strong>11.1</strong></td>
<td><strong>31.9</strong></td>
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<td><strong>19.8</strong></td>
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<td><strong>Regional Peers</strong></td>
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<td>SGD</td>
<td>0.9 N/A</td>
<td>26.1 24.1</td>
<td>20.3 17.5</td>
<td>15.2</td>
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<tr>
<td>IHH SP</td>
<td>11,124.6</td>
<td>SGD</td>
<td>1.7</td>
<td>20.8 67.2</td>
<td>25.2</td>
<td>22.0</td>
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<td>IHH MK</td>
<td>11,112.6</td>
<td>MYR</td>
<td>5.1</td>
<td>20.8 67.2</td>
<td>25.2</td>
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</tr>
<tr>
<td>KPJ MK</td>
<td>968.4</td>
<td>MYR</td>
<td>0.9</td>
<td>42.0 44.8</td>
<td>7.1</td>
<td>13.4</td>
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<tr>
<td>BH TB</td>
<td>3,362.2</td>
<td>THB</td>
<td>127.0</td>
<td>67.1 60.9</td>
<td>31.1</td>
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<tr>
<td>BDMS TB</td>
<td>11,172.2</td>
<td>THB</td>
<td>21.1</td>
<td>18.7 31.9</td>
<td>20.8</td>
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<td>BCH TB</td>
<td>1,213.1</td>
<td>THB</td>
<td>14.6</td>
<td>10.1 2.2</td>
<td>11.2</td>
<td>16.8</td>
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<td>CHG TB</td>
<td>982.2</td>
<td>THB</td>
<td>2.7</td>
<td>14.0 11.0</td>
<td>3.7</td>
<td>22.6</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>0.3</strong></td>
<td><strong>52.0</strong></td>
<td><strong>23.1</strong></td>
<td><strong>23.4</strong></td>
<td><strong>18.6</strong></td>
<td><strong>16.3</strong></td>
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</tbody>
</table>

Source: Bloomberg, RHB
Figure 4: Revenue and net margins

![Graph showing revenue and net margins over time.](source: Company data, RHB)

Figure 5: Number of beds and hospitals

![Graph showing the number of beds and hospitals over time.](source: Company data, RHB)

Figure 6: RHB vs consensus

<table>
<thead>
<tr>
<th>IDR bn</th>
<th>2020F</th>
<th>2021F</th>
<th>2022F</th>
<th>2020F</th>
<th>2021F</th>
<th>2022F</th>
<th>RHB/consensus (%)</th>
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<tbody>
<tr>
<td>Net revenue</td>
<td>4,012</td>
<td>5,124</td>
<td>5,669</td>
<td>3,901</td>
<td>4,456</td>
<td>4,921</td>
<td>102.9, 115.0, 115.2</td>
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<tr>
<td>Gross profit</td>
<td>1,849</td>
<td>2,384</td>
<td>2,629</td>
<td>1,780</td>
<td>2,036</td>
<td>2,243</td>
<td>103.9, 117.1, 117.2</td>
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<tr>
<td>EBITDA</td>
<td>954</td>
<td>1,288</td>
<td>1,439</td>
<td>994</td>
<td>1,156</td>
<td>1,308</td>
<td>96.0, 111.4, 110.0</td>
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<tr>
<td>EBIT</td>
<td>688</td>
<td>976</td>
<td>1,073</td>
<td>732</td>
<td>867</td>
<td>937</td>
<td>94.0, 112.5, 114.5</td>
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<tr>
<td>Profit before tax</td>
<td>680</td>
<td>911</td>
<td>990</td>
<td>642</td>
<td>772</td>
<td>886</td>
<td>102.8, 118.0, 111.8</td>
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<tr>
<td>NPAT</td>
<td>361</td>
<td>495</td>
<td>546</td>
<td>343</td>
<td>414</td>
<td>489</td>
<td>105.3, 119.7, 111.7</td>
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</table>

Source: Company data, Bloomberg, RHB

See important disclosures at the end of this report
### Figure 7: DCF valuation

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<tr>
<th>IDRbn</th>
<th>2021F</th>
<th>2022F</th>
<th>2023F</th>
<th>2024F</th>
<th>2025F</th>
<th>2026F</th>
<th>2027F</th>
<th>2028F</th>
<th>2029F</th>
<th>2030F</th>
<th>2031F</th>
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<tbody>
<tr>
<td>EBIT</td>
<td>976</td>
<td>1,073</td>
<td>1,482</td>
<td>1,746</td>
<td>2,115</td>
<td>2,413</td>
<td>2,744</td>
<td>3,078</td>
<td>3,405</td>
<td>3,733</td>
<td>4,081</td>
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<tr>
<td>EBIT (1-t)</td>
<td>689</td>
<td>778</td>
<td>1,067</td>
<td>1,257</td>
<td>1,523</td>
<td>1,737</td>
<td>1,975</td>
<td>2,216</td>
<td>2,452</td>
<td>2,688</td>
<td>2,938</td>
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<td>Depreciation &amp; Amortisation</td>
<td>312</td>
<td>366</td>
<td>423</td>
<td>489</td>
<td>560</td>
<td>636</td>
<td>718</td>
<td>807</td>
<td>905</td>
<td>1,010</td>
<td>1,125</td>
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<tr>
<td>Change in working capital</td>
<td>(132)</td>
<td>(60)</td>
<td>(143)</td>
<td>(106)</td>
<td>(135)</td>
<td>(121)</td>
<td>(133)</td>
<td>(138)</td>
<td>(142)</td>
<td>(147)</td>
<td>(158)</td>
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<tr>
<td>Capex</td>
<td>(906)</td>
<td>(1,000)</td>
<td>(1,151)</td>
<td>(1,251)</td>
<td>(1,357)</td>
<td>(1,436)</td>
<td>(1,581)</td>
<td>(1,739)</td>
<td>(1,899)</td>
<td>(2,072)</td>
<td>(2,259)</td>
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<tr>
<td>Net free cash flow to firm</td>
<td>(37)</td>
<td>83</td>
<td>197</td>
<td>389</td>
<td>591</td>
<td>817</td>
<td>979</td>
<td>1,146</td>
<td>1,315</td>
<td>1,478</td>
<td>1,646</td>
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<td>Terminal Value</td>
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<td>PV</td>
<td>(37)</td>
<td>76</td>
<td>162</td>
<td>292</td>
<td>402</td>
<td>505</td>
<td>550</td>
<td>585</td>
<td>610</td>
<td>622</td>
<td>13,609</td>
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<td>Terminal growth</td>
<td>5.0%</td>
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<td>WACC</td>
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<td>Total discounted firm value</td>
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<tr>
<td>Less: Net debt</td>
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<tr>
<td>Less: Minority interest</td>
<td>873</td>
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<td>Equity value</td>
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<td>Number of shares (bn)</td>
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<tr>
<td>Equity value per share (IDR)</td>
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Source: Company data, Bloomberg, RHB

### Figure 8: Earnings changes

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</thead>
<tbody>
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<td>Income statement (IDRbn)</td>
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</tr>
<tr>
<td>Total turnover</td>
<td>4,012</td>
<td>5,124</td>
<td>5,669</td>
<td>3,829</td>
<td>4,443</td>
<td>4,902</td>
<td>4.8</td>
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<tr>
<td>Gross profit</td>
<td>1,849</td>
<td>2,384</td>
<td>2,629</td>
<td>1,729</td>
<td>2,096</td>
<td>2,345</td>
<td>7.0</td>
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<tr>
<td>EBITDA</td>
<td>954</td>
<td>1,288</td>
<td>1,439</td>
<td>824</td>
<td>1,090</td>
<td>1,238</td>
<td>15.8</td>
</tr>
<tr>
<td>Net profit</td>
<td>361</td>
<td>495</td>
<td>546</td>
<td>269</td>
<td>400</td>
<td>488</td>
<td>34.0</td>
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<td>Key metrics</td>
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<tr>
<td>EPS (IDR)</td>
<td>121</td>
<td>166</td>
<td>193</td>
<td>91</td>
<td>135</td>
<td>164</td>
<td>33.8</td>
<td>23.6</td>
<td>11.7</td>
<td>10.5</td>
<td>27.7</td>
<td>10.8</td>
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<tr>
<td>DPS (IDR)</td>
<td>35</td>
<td>55</td>
<td>86</td>
<td>35</td>
<td>41</td>
<td>67</td>
<td>(0.2)</td>
<td>33.8</td>
<td>28.4</td>
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<td>Revenue growth (%)</td>
<td>10.5</td>
<td>27.7</td>
<td>10.8</td>
<td>5.5</td>
<td>16.0</td>
<td>10.3</td>
<td></td>
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<tr>
<td>EPS growth (%)</td>
<td>41.1</td>
<td>37.3</td>
<td>10.1</td>
<td>5.7</td>
<td>48.5</td>
<td>21.9</td>
<td></td>
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<tr>
<td>EBITDA margin (%)</td>
<td>23.8</td>
<td>25.1</td>
<td>25.4</td>
<td>21.5</td>
<td>24.5</td>
<td>25.2</td>
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<tr>
<td>Net profit margin (%)</td>
<td>9.0</td>
<td>9.7</td>
<td>9.6</td>
<td>7.0</td>
<td>9.0</td>
<td>10.0</td>
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<tr>
<td>Return on average equity (%)</td>
<td>16.0</td>
<td>19.5</td>
<td>19.2</td>
<td>12.2</td>
<td>16.7</td>
<td>18.2</td>
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Source: Company data, Bloomberg, RHB

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