

3 February 2021

Healthcare | Health Care Facilities & Svcs

Medikaloka Hermina (HEAL IJ)

Buy (Maintained)

Getting Into Stronger Shape; Maintain BUY

Target Price (Return): IDR5,300 (30.9%)
 Price: IDR4,050
 Market Cap: USD860m
 Avg Daily Turnover (IDR/USD) 4,124m/0.29m

- **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, ie higher than 2019's c.7%.

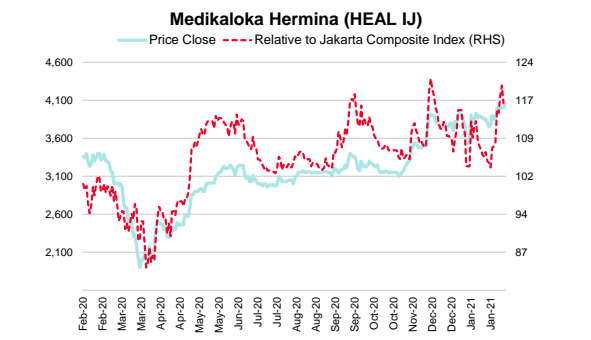
- **Continued expansion plans.** Looking ahead, we believe HEAL will continue to expand its footprint. The company aims to add 3-4 hospitals in 2021, in line with our forecast. Most of its new hospitals will be located in Java, though in suburban areas. We view this as a positive due to less intense 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.

Analyst

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Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|---------------|------|------|------|------|
| Absolute | 14.7 | 14.7 | 30.6 | 32.8 | 19.1 |
| Relative | 13.2 | 13.2 | 12.0 | 15.0 | 17.0 |
| 52-wk Price low/high (IDR) | 1,900 – 4,050 | | | | |



Source: Bloomberg

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

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

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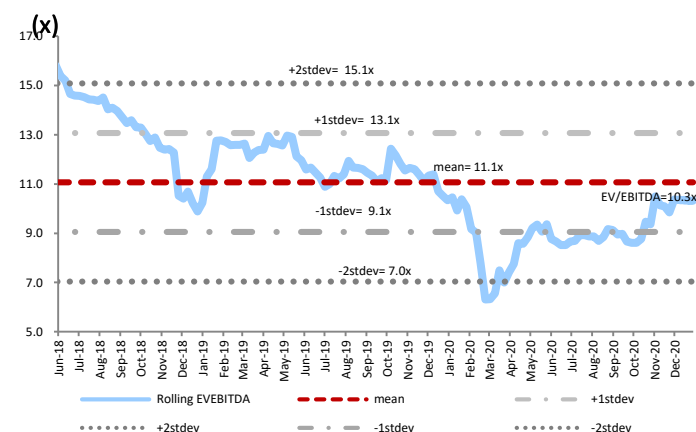
Healthcare | Health Care Facilities & Svcs

Financial Exhibits

| Asia | Financial summary (IDR) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---------------------------|-------------------------------------|--------|--------|---------|---------|----------|
| Indonesia | Recurring EPS | 33.39 | 78.64 | 116.43 | 160.30 | 176.35 |
| Healthcare | BVPS | 626.53 | 721.01 | 796.38 | 907.65 | 1,004.48 |
| Medikaloka Hermina | Return on average equity (%) | 10.7 | 12.7 | 16.0 | 19.5 | 19.2 |
| HEAL IJ | | | | | | |
| Buy | | | | | | |
| | Valuation metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
| | Recurring P/E (x) | 121.28 | 51.50 | 34.79 | 25.27 | 22.97 |
| | P/B (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) | (90) | (111) |
| | Pre-tax profit | 276 | 505 | 660 | 911 | 990 |
| | Taxation | (85) | (162) | (191) | (268) | (272) |
| | Reported net profit | 124 | 255 | 361 | 495 | 546 |
| | Recurring net profit | 99 | 234 | 347 | 477 | 525 |
| | Cash flow (IDRb) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
| | Change in working capital | (405) | (108) | (47) | (90) | (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 |

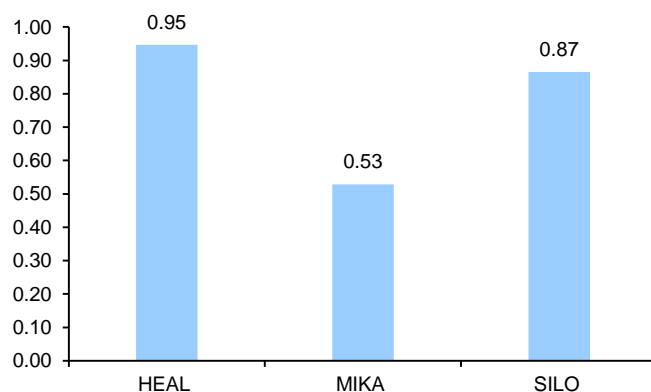
Source: Company data, RHB

Figure 1: 5-year P/E band



Source: Bloomberg, Company data, RHB

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



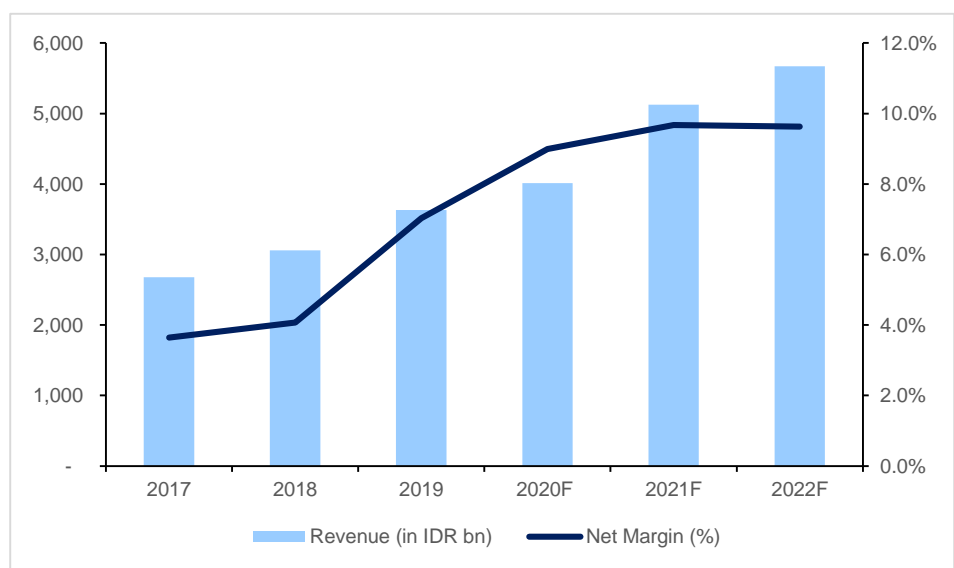
Source: Company data, RHB

Figure 3: Peers comparison

| Company | Market cap (USDm) | Curr. | Last price | EPS growth (%) | | | EV/EBITDA (x) | | | P/E (x) | | | |
|-----------------------|----------------------------------|----------|------------|----------------|-------------|-------------|---------------|-------------|-------------|-------------|--------------|-------------|-------------|
| | | | | 2020F | 2021F | 2022F | 2020F | 2021F | 2022F | 2020F | 2021F | 2022F | |
| Domestic peers | | | | | | | | | | | | | |
| MIKA IJ | Mitra Keluarga Karyasehat Siloam | 3,250.7 | IDR | 3,200 | 9.5 | 28.2 | 5.8 | 41.1 | 27.2 | 24.9 | 57.29 | 44.68 | 42.24 |
| SILO IJ | International Medikaloka | 614.4 | IDR | 5,300 | 104.1 | 475.9 | 43.6 | 9.1 | 8.0 | 7.2 | 620.2 | 107.7 | 75.0 |
| HEAL IJ | Hermina | 860.0 | IDR | 4,050 | 41.1 | 37.3 | 9.4 | 13.6 | 10.2 | 9.3 | 33.4 | 24.3 | 22.1 |
| Average | | | | | 27.6 | 88.1 | 11.4 | 31.9 | 21.6 | 19.8 | 126.1 | 49.2 | 42.8 |
| Regional Peers | | | | | | | | | | | | | |
| RFMD SP | Raffles Medical | 1,307.4 | SGD | 0.9 | N/A | 26.1 | 24.1 | 20.3 | 17.5 | 15.2 | 40.7 | 32.2 | 26.0 |
| IHH SP | IHH Healthcare | 11,124.6 | SGD | 1.7 | 20.8 | 67.2 | 25.2 | 22.0 | 16.8 | 14.9 | 80.1 | 47.9 | 38.3 |
| IHH MK | IHH Healthcare | 11,112.6 | MYR | 5.1 | 20.8 | 67.2 | 25.2 | 22.0 | 16.8 | 14.9 | 80.0 | 47.9 | 38.2 |
| KPJ MK | KPJ Healthcare | 968.4 | MYR | 0.9 | 42.0 | 44.8 | 7.1 | 13.4 | 11.4 | 10.3 | 31.6 | 21.8 | 20.3 |
| BH TB | Bumrungrad Hospital | 3,362.2 | THB | 127.0 | 67.1 | 60.9 | 31.1 | 36.0 | 25.5 | 20.7 | 75.0 | 46.6 | 35.5 |
| BDMS TB | Bangkok Dusit Medical | 11,172.2 | THB | 21.1 | 18.7 | 31.9 | 20.8 | 24.5 | 20.9 | 18.5 | 51.7 | 39.2 | 32.5 |
| BCH TB | Bangkok Chularat Chain Hospital | 1,213.1 | THB | 14.6 | 10.1 | 2.2 | 11.2 | 16.8 | 15.9 | 14.6 | 28.8 | 28.2 | 25.3 |
| CHG TB | Chularat Hospital | 982.2 | THB | 2.7 | 14.0 | 11.0 | 3.7 | 22.6 | 20.3 | 18.3 | 36.7 | 33.1 | 31.9 |
| Average | | | | | 0.3 | 52.0 | 23.1 | 23.4 | 18.6 | 16.3 | 67.0 | 43.4 | 35.1 |

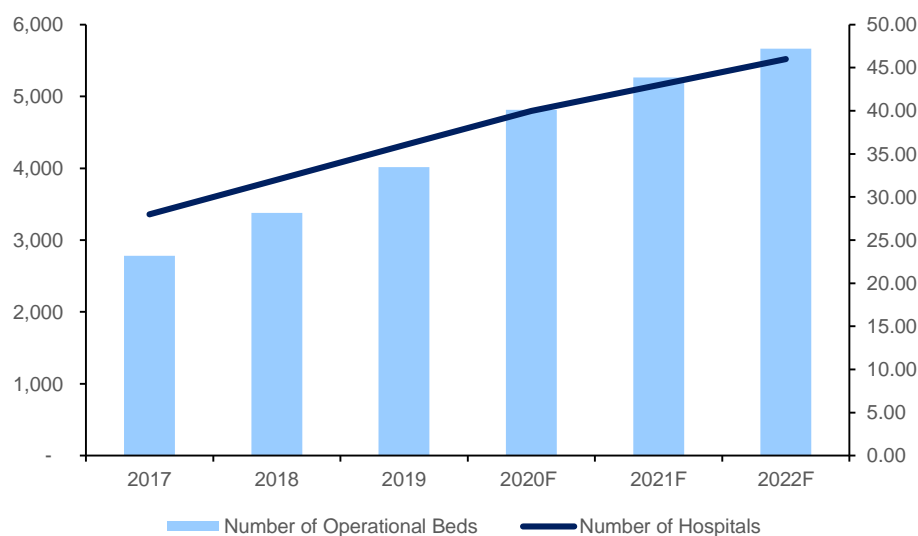
Source: Bloomberg, RHB

Figure 4: Revenue and net margins



Source: Company data, RHB

Figure 5: Number of beds and hospitals



Source: Company data, RHB

Figure 6: RHB vs consensus

| IDRbn | RHB | | | Consensus | | | RHB/consensus (%) | | |
|-------------------|-------|-------|-------|-----------|-------|-------|-------------------|-------|-------|
| | 2020F | 2021F | 2022F | 2020F | 2021F | 2022F | 2020F | 2021F | 2022F |
| Net revenue | 4,012 | 5,124 | 5,669 | 3,901 | 4,456 | 4,921 | 102.9 | 115.0 | 115.2 |
| Gross profit | 1,849 | 2,384 | 2,629 | 1,780 | 2,036 | 2,243 | 103.9 | 117.1 | 117.2 |
| EBITDA | 954 | 1,288 | 1,439 | 994 | 1,156 | 1,308 | 96.0 | 111.4 | 110.0 |
| EBIT | 688 | 976 | 1,073 | 732 | 867 | 937 | 94.0 | 112.5 | 114.5 |
| Profit before tax | 660 | 911 | 990 | 642 | 772 | 886 | 102.8 | 118.0 | 111.8 |
| NPAT | 361 | 495 | 546 | 343 | 414 | 489 | 105.3 | 119.7 | 111.7 |

Source: Company data, Bloomberg, RHB

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Figure 7: DCF valuation

| IDRbn | 2021F | 2022F | 2023F | 2024F | 2025F | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|-------------------------------------|--------------|-----------|------------|------------|------------|------------|------------|--------------|--------------|--------------|--------------|
| EBIT | 976 | 1,073 | 1,482 | 1,746 | 2,115 | 2,413 | 2,744 | 3,078 | 3,405 | 3,733 | 4,081 |
| EBIT (1-t) | 689 | 778 | 1,067 | 1,257 | 1,523 | 1,737 | 1,975 | 2,216 | 2,452 | 2,688 | 2,938 |
| Depreciation & Amortisation | 312 | 366 | 423 | 489 | 560 | 636 | 718 | 807 | 905 | 1,010 | 1,125 |
| Change in working capital | (132) | (60) | (143) | (106) | (135) | (121) | (133) | (138) | (142) | (147) | (158) |
| Capex | (906) | (1,000) | (1,151) | (1,251) | (1,357) | (1,436) | (1,581) | (1,739) | (1,899) | (2,072) | (2,259) |
| Net free cash flow to firm | (37) | 83 | 197 | 389 | 591 | 817 | 979 | 1,146 | 1,315 | 1,478 | 1,646 |
| Terminal Value | | | | | | | | | | | 33,946 |
| PV | (37) | 76 | 162 | 292 | 402 | 505 | 550 | 585 | 610 | 622 | 13,609 |
| Terminal growth | 5.0% | | | | | | | | | | |
| WACC | 10.1% | | | | | | | | | | |
| Total discounted firm value | 17,375 | | | | | | | | | | |
| Less: Net debt | 666 | | | | | | | | | | |
| Less: Minority interest | 873 | | | | | | | | | | |
| Equity value | 15,836 | | | | | | | | | | |
| Number of shares (bn) | 3.0 | | | | | | | | | | |
| Equity value per share (IDR) | 5,318 | | | | | | | | | | |

Source: Company data, Bloomberg, RHB

Figure 8: Earnings changes

| | New | | | Old | | | New/old (%) | | |
|---------------------------------|-------|-------|-------|-------|-------|-------|-------------|-------|-------|
| | 2020F | 2021F | 2022F | 2020F | 2021F | 2022F | 2020F | 2021F | 2022F |
| Income statement (IDRbn) | | | | | | | | | |
| Total turnover | 4,012 | 5,124 | 5,669 | 3,829 | 4,443 | 4,902 | 4.8 | 15.3 | 15.7 |
| Gross profit | 1,849 | 2,384 | 2,629 | 1,729 | 2,096 | 2,345 | 7.0 | 13.7 | 12.1 |
| EBITDA | 954 | 1,288 | 1,439 | 824 | 1,090 | 1,238 | 15.8 | 18.2 | 16.3 |
| Net profit | 361 | 495 | 546 | 269 | 400 | 488 | 34.0 | 23.8 | 11.9 |
| Key metrics | | | | | | | | | |
| EPS (IDR) | 121 | 166 | 183 | 91 | 135 | 164 | 33.8 | 23.6 | 11.7 |
| DPS (IDR) | 35 | 55 | 86 | 35 | 41 | 67 | (0.2) | 33.8 | 28.4 |
| Revenue growth (%) | 10.5 | 27.7 | 10.6 | 5.5 | 16.0 | 10.3 | | | |
| EPS growth (%) | 41.1 | 37.3 | 10.1 | 5.7 | 48.5 | 21.9 | | | |
| EBITDA margin (%) | 23.8 | 25.1 | 25.4 | 21.5 | 24.5 | 25.2 | | | |
| Net profit margin (%) | 9.0 | 9.7 | 9.6 | 7.0 | 9.0 | 10.0 | | | |
| Return on average equity (%) | 16.0 | 19.5 | 19.2 | 12.2 | 16.7 | 18.2 | | | |

Source: Company data, Bloomberg, RHB

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|---------------------|--|
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