UOBKayHian

Malaysia Daily

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PLEASE CLICK ON THE PAGE NUMBER TO MOVE TO THE RELEVANT PAGE.

KEY HIGHLIGHTS

Sector Update

Healthcare – Malaysia Page 2

Maintain MARKET WEIGHT as the sector lacks compelling catalysts aside from bargain valuations. However, we like KPJ for its divestment efforts and earnings visibility.

Company Update

Sarawak Oil Palms (SOP MK/HOLD/RM2.57/Target: RM3.00) Page 4

SOP would still outperform other Sarawak players in 2024, thanks to better operational performance, higher CPO prices and higher operating margin in 2024.

TRADERS' CORNER Page 7

Berjaya Food (BFD MK): Technical BUY

Oppstar (OPPSTAR MK): Technical BUY

KEY INDICES

	Index	pt chg	% chg
FBMKLCI	1,450.23	2.0	0.1
Bursa Emas	10,746.90	20.3	0.2
Ind Product	174.83	0.4	0.2
Finance	16,220.63	(7.3)	(0.0)
Consumer	557.35	0.3	0.1
Construction	185.62	0.9	0.5
Properties	887.72	11.9	1.4
Plantations	6,927.22	2.1	0.0

BURSA MALAYSIA TRADING & PARTICIPATION

Malaysia Turnover	22-Sep-23	% chg
Volume (m units)	3,131	(3.6)
Value (RMm)	2,076	(2.6)

By Investor type	(%)	ppt chg
Foreign investors	27.0	(0.8)
Local retail	28.9	1.6
Local institution	44.1	(0.8)

TOP VOLUME / GAINERS / LOSERS

	Price (RM)	Chg (%)	Volume ('000)
Top Volume			
UEM Sunrise	0.91	3.4	65,038
Eastern & Orient	0.72	10.0	63,712
Bumi Armada	0.57	1.8	55,072
MY EG Services	0.82	(0.6)	45,494
SP Setia	1.03	6.2	36,689
Top Gainers			
Eastern & Orient	0.72	10.0	63,712
SapuraEnergy	0.06	10.0	9,538
SP Setia	1.03	6.2	36,689
Mah Sing Group	0.89	4.7	28,268
WCT Bhd	0.58	4.5	16,991
Top Losers			
Tropicana	1.21	(3.2)	341
Velesto Energy	0.26	(1.9)	29,478
Telekom Malaysia	4.97	(1.2)	3,590
Media Prima	0.45	(1.1)	528
POS Malaysia	0.53	(0.9)	859

OTHER STATISTICS

	22-Sep-23	chg	% chg
RM/US$	4.69	(0.00)	(0.0)
CPO 3rd mth future (RM/mt)	3,681	3.0	0.1

Top volume, gainers and losers are based on FBM100 component stocks

SECTOR UPDATE

Healthcare – Malaysia

Lacking Compelling Catalysts

We expect increased allocation to the MoH in Budget 2024 albeit at a tempered rate given other pressing priorities. Over the longer term, structural reforms as outlined by the HWP should significantly integrate both the private and public sectors, but it should not detrimentally affect the former's financial prospects. Sector earnings should recover in 2024 but there is a lack of compelling catalysts. Maintain MARKET WEIGHT. Top pick: KPJ Healthcare.

WHAT'S NEW

- **Budget review.** Budget 2023 saw an increased 12% yoy allocation to the Ministry of Health (MoH) at RM36.3b (Budget 2022: RM32.4b). It accounted for 9.4% of the total budget of RM388b and was the second-largest allocation in the federal budget. However, this would position public sector current health expenditure as a percentage of GDP at close to ~2.0%, which is relatively low compared to the 4.4% spent by upper-middle income countries (UMIC) and 6.4% of high-income countries (HIC).
- **Budget 2024 likely tempered with cost-of-living priority.** Given the rising burden of non-communicable diseases and Malaysia increasingly becoming an ageing nation, there have been calls from various parties for an increased emphasis and budget allocation towards healthcare by drawing public sector health expenditure as a percentage of GDP closer to 5%. However, the government has highlighted that Budget 2024's priority is to address the cost of living. This may rein in public sector healthcare allocation, an increment but throttled down from the 12% yoy growth seen in 2023.
- **Government contracts likely unaffected with bidding done on tender basis.** Development expenses may be at risk with core recurring operating expenses already accounting for 87% of 2023's public sector allocation. Of this, primary spending was for the procurement of medicines, vaccines and consumables. Naturally, the tender of government pharmaceutical contracts that expired on 30 Jun 23 is put into question. However, we highlight that these contracts are bid on an open tender basis and already extracting competitive rates for the government. Given this premise, there should not be increased risk for the likes of Duopharma. Government contract tenders are expected to be awarded in 4Q23.

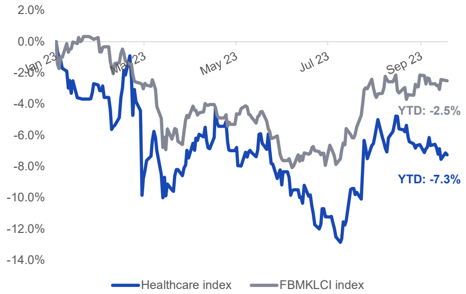
ACTION

- **Maintain MARKET WEIGHT.** The hospital subsector's 2023 earnings are projected to contract by 1.1% following the moderation of COVID-19-related contributions. Growth should resume in 2024 with an earnings growth of 10.9%. This is against the backdrop of the sub-sector's valuations trading below -1.5SD to its five-year PE mean. However, the sector lacks compelling catalysts at this juncture, which underpins our MARKET WEIGHT on the sector. Our top pick is KPJ and we like it for its bargain valuations, its intention to divest its loss-making regional operations, and the conclusion of its greenfield expansion that allows for realisation of its positive operating leverage.

MARKETWEIGHT

(Maintained)

HEALTHCARE INDEX VS FBMKLCI INDEX



Healthcare Index is an equal weighted index consisting of IHH Healthcare, KPJ Healthcare, Duopharma Biotech, Pharmaniaga, Apex Healthcare, Kotra Industries, Optimax, Cengild Medical and DC Healthcare, YSP Southeast Asia, TMC Life Sciences
Source: Bloomberg, UOB Kay Hian

SECTOR PICKS

Company	Rec	Share Price (RM)	Target Price (RM)
KPJ Healthcare	BUY	1.19	1.40
Duopharma Biotech	BUY	1.20	1.59
IHH Healthcare	HOLD	5.96	6.40

Source: UOB Kay Hian

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REGIONAL PEER COMPARISON

Company	Ticker	Rec	Currency	Share Price 22 Sep 23 (lcl)	Target Price (lcl)	Market Cap (US$m)	PE (x) 2023F	PE (x) 2024F	EV/EBITDA (x) 2023F	EV/EBITDA (x) 2024F	Div Yield (%) 2023F	P/B (x) 2023F
BKK. Dusit	BDMS TB	BUY	THB	26.25	33.00	11,582	30.8	29.2	17.8	17.1	2.3	4.4
IHH Healthcare	IHH MK	HOLD	RM	5.96	6.40	11,194	40.5	36.9	18.3	17.7	0.8	1.9
Bumrungrad Hosp	BH TB	HOLD	THB	265.00	235.00	5,848	40.0	38.1	24.6	23.5	1.3	9.3
Raffles Medical	RFMD SP	BUY	S$	1.24	1.70	1,691	21.1	22.6	11.4	12.2	2.8	2.2
BKK. Chain Hosp.	BCH TB	HOLD	THB	19.60	17.30	1,357	36.6	32.1	17.8	16.3	1.4	4.0
KPJ Healthcare	KPJ MK	BUY	RM	1.19	1.40	1,108	22.2	19.0	8.4	7.7	2.2	2.3
Regional Hospitals Avg						**5,463**	**31.9**	**29.7**	**16.4**	**15.8**	**1.8**	**4.0**
APEX Healthcare	APEX MK	NOT RATED	RM	2.50	n.a.	383	18.8	17.0	12.6	11.9	2.4	2.2
Duopharma Biotech	DBB MK	BUY	RM	1.20	1.59	246	17.2	12.6	10.8	8.2	1.7	1.6
Pharmaniaga	PHRM MK	NOT RATED	RM	0.45	n.a.	137	16.5	17.1	13.1	12.3	1.8	(4.0)
Malaysia Pharma Avg						**255**	**17.5**	**15.6**	**12.2**	**10.8**	**2.0**	**(0.1)**

Source: Bloomberg, UOB Kay Hian

ESSENTIALS

- **HWP implications for the private sector.** Recently, the MoH proposed a reform of the health system in Malaysia with its Health White Paper (HWP). This is to address the health system, particularly the public healthcare system that is overstretched, overburdened and dated. Among the comprehensive multi-pronged approach, we only highlight those relevant to the private sector, in the interest of IHH Healthcare and KPJ Healthcare. The HWP looks to enhance public and private partnerships to help balance resource utilisation across both sectors. Procurement of hospital care services from the private sector will be progressively and strategically implemented.

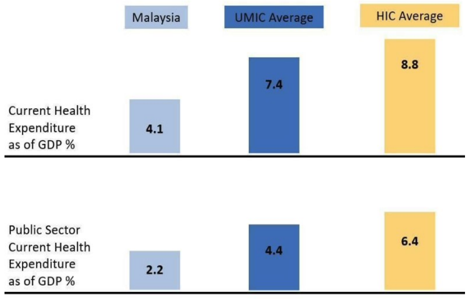
- **Neutral to positive impact, depending on benefit package.** KPJ's Damansara Specialist Hospital 2 (DSH2) is an example, receiving decanted patients from the public sector for non-COVID-19-related operations. Expanding on this, HWP proposed to develop a benefit package that outlines a specific set of services and medications across primary healthcare up to hospital care for a standard set of affordable fees across both the public and private sectors. Indonesia had enacted a similar policy with its National Health Insurance to implement universal health coverage in 2014. Depending on the standardised rate, the impact is likely neutral to positive to the private hospitals in Malaysia and more so for the likes of KPJ which is geographically dispersed with ample capacity.

- **Tangible effects of the HWP likely only to be realised at least five years from now** as the initial stage (1-5 years) is focused on pilot programmes and legislative amendments. Only over the medium- to long-term horizon will there be better coordination across the public and private sectors so that they are less fragmented, allowing service standards to achieve more balanced quality and performance levels.

- **1H23 results were largely disappointing but hospital operators should see a better 2H23.** Both IHH Healthcare (IHH) and Duopharma's 1H23 earnings have been curtailed by lower margins and normalising COVID-19 contributions which were also margin accretive weighed earnings. In addition, IHH's Acibadem operations were affected by the sharply depreciating Turkish lira. Meanwhile, KPJ's earnings came in broadly in line. Over 2H23, we expect for hospital operators' (IHH and KPJ) earnings to come in stronger vis-à-vis 1H23 following the full normalisation of the Turkish lira impact on Acibadem for the former and better gestation of hospitals for the latter. Contrastingly, headwinds are expected to persist for Duopharma with lacklustre public sector sales.

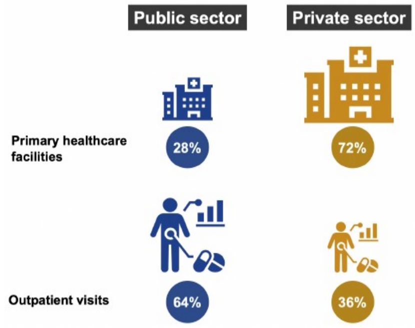
- **Our preferred pick is KPJ Healthcare (KPJ MK/BUY/Target: RM1.40).** Our target price is based on 10.0x EV/EBITDA, a 30% discount to regional peers', and implies 22.4x 2024F PE. We are encouraged by KPJ's reorganisation of its loss-making regional operations, which paves the way for improved earnings visibility. In addition, KPJ has completed its greenfield expansion, which allows for a healthier balance sheet and realisation of its positive operating leverage. KPJ's valuations are also undemanding.

CURRENT HEALTH EXPENDITURE AS % OF GDP, MALAYSIA VS UPPER MIDDLE INCOME COUNTRIES (UMIC) AND HIGH INCOME COUNTRIES (HIC)



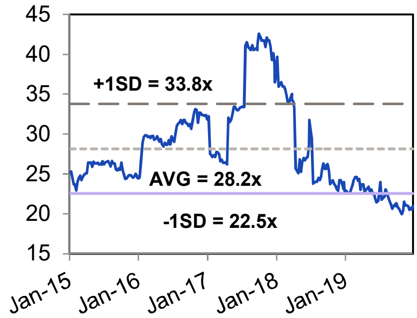
Source: WHO

IMBALANCE OF FACILITIES RELATIVE TO OUTPATIENT VISITS BETWEEN THE PUBLIC AND PRIVATE SECTORS (2020)



Source: Ministry of Health

KPJ: HISTORICAL PE BAND (PRE-PANDEMIC)



Source: Bloomberg, UOB Kay Hian

COMPANY UPDATE

Sarawak Oil Palms (SOP MK)

The Better Sarawak Plantation Player

From our recent estate visit, we maintain our recommendation and earnings forecast for SOP where we still expect it to outperform the other Sarawak plantation players. However, we have observed that more and more Sarawak estates are facing Ganoderma issues due to wet weather and labour shortage for the past 2-3 years. We reckon that SOP would still outperform on the back of better yields, higher CPO prices and higher operating margins in 2024. Maintain HOLD. Target price: RM3.00.

WHAT'S NEW

- From our recent estate visit to Sarawak Oil Palms' (SOP) Miri estates, we maintain our earnings forecast for SOP.
- **SOP to be one of the better performing Sarawak plantation players for 2024.** We reckon that SOP's 2024 earnings may still outperform its Sarawak peers given its larger planted area coupled with better operational performance. The higher CPO price forecast for 2024 and the better-than-peers operational performance should benefit SOP's earnings. On top of that, we also expect higher operating margin for 2024, thanks to lower fertiliser cost and fuel cost which contributed about 35-40% of the total cost of production.
- **Lower 2024 production growth.** We expect the production growth for 2024 to be flat yoy, mainly due to:

  i) **More aggressive replanting in 2024.** As mentioned, SOP has been focusing on replanting for the past few years due to its aging palm oil profile. We observed that SOP has a lot of ready-to-be-planted oil palm trees at their nursery. Note that oil palm trees take three years to mature, taking 12 months to be cultivated in the nursery and only being planted in the estates thereafter. We believe that the high number of ready-to-be-planted oil palm trees at SOP's nursery was mainly due to the disruption over the past two years which includes the weather and labour shortage issues.

  ii) **Ganoderma disease** had spread quite a bit in the Sarawak estates. We understand the issue started from 2021. We believe that this was mainly affected by the labour shortage situation (which most of the plantation companies faced during 2021-22) which happened as SOP had huge replanting activities over the years. On top of that, the three consecutive years of La Nina (wet weather) also brought more moisture to the area which led to a better environment for the Ganoderma fungus.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	4,433	5,365	4,235	4,253	4,424
EBITDA	858	871	594	685	758
Operating profit	683	697	424	527	600
Net profit (rep./act.)	511	480	284	361	418
Net profit (adj.)	511	480	284	361	418
EPS (sen)	57.9	54.0	31.9	40.5	46.9
PE (x)	4.4	4.8	8.1	6.3	5.5
P/B (x)	0.5	0.7	0.7	0.6	0.6
EV/EBITDA (x)	2.1	2.1	3.0	2.6	2.4
Dividend yield (%)	3.9	4.3	5.4	6.7	7.7
Net margin (%)	11.5	9.0	6.7	8.5	9.4
Net debt/(cash) to equity (%)	6.8	(14.4)	(19.3)	(25.3)	(30.9)
Consensus net profit	-	-	242	276	263
UOBKH/Consensus (x)	-	-	1.17	1.31	1.59

Source: SOP, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM2.57
Target Price	RM3.00
Upside	+16.7%

COMPANY DESCRIPTION

Sarawak Oil Palms is a pure Sarawak based plantation company and its refinery has a 450,000 tonne per year capacity.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	SOP MK
Shares issued (m):	890.3
Market cap (RMm):	2,288.1
Market cap (US$m):	488.3
3-mth avg daily t'over (US$m):	0.1

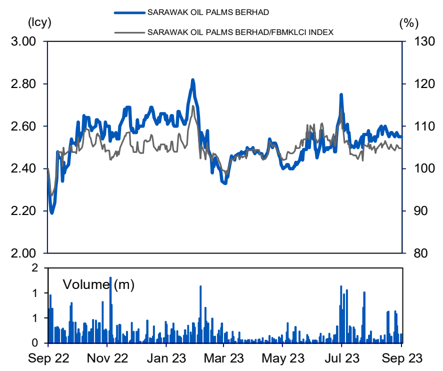
Price Performance (%)

52-week high/low RM2.82/RM2.19

1mth	3mth	6mth	1yr	YTD
0.4	0.0	6.6	1.6	(1.2)

Major Shareholders	%
Shin Yang Plantation	27.43
LCDA Holdings	19.48
FY23 NAV/Share (RM)	3.86
FY23 Net Cash/Share (RM)	0.74

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Operational performance still above average.** Despite the aggressive replanting that SOP had over the past few years, given its older average age profile of about 15-16 years old, its FFB yield and oil extraction rate is still higher than the Sarawak average. We attribute this mainly to its good agro-management where we had observed higher oil palm stand in its peat soil areas as compared to other peat soil oil palm estates. Even though the estates that we visited were in peat soil area, we reckon that the good and flat road condition in the estates helped to improve its product quality.
- **2H23 outlook:**

  a) Production guidance. Management guided for a strong FFB production growth of 8% yoy for 2023, with peak production to come in 3Q23. However, we remain concerned on its FFB yield given the impact from the lack of fertiliser application (due to weather condition and shortage of labour in the past two years) and the weather impact from the previous La Nina. Hence, we have only pencilled in a production growth of 3% yoy for 2023.

  b) We reckon that the 2H23 earnings for SOP may be buoyed by better margin from its upstream operations given the higher CPO ASP and lower cost of production (mainly fertiliser cost). On top of that, we reckon that the strong procurement strategy of SOP may allow its downstream operations to perform slightly better than its peers.
- **2024 outlook:**

  a) **Lower production growth...** With the ongoing replanting activities, impact from Ganorderma and potential El Nino by end-23, we reckon that SOP's production growth may be affected and hence we expect the production growth for 2024 to be flat yoy.

  b) **Best performing Sarawak plantation players for 2024.** We reckon that SOP's 2024 earnings may still outperform its Sarawak peers given its larger planted area coupled with better operational performance. The higher CPO price forecast for 2024 and the better-than-peers operational performance should benefit SOP's earnings. On top of that, we also expect higher operating margin for 2024, thanks to lower fertiliser and fuel costs which contributed about 35-40% of the total cost of production.

EARNINGS REVISION/RISK

- **Maintain earnings forecast.** We maintain our earnings forecast for 2023-25 at RM320m, RM388m and RM442m respectively.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a target price of RM3.00**, based on 7x 2024F PE, or -2SD to the stock's five-year mean.

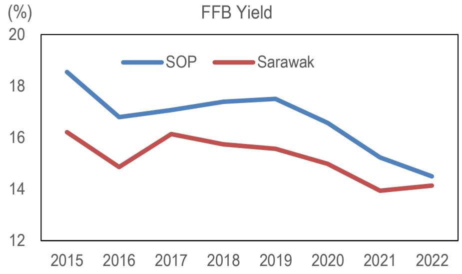
SHARE PRICE CATALYST

- Higher-than-expected CPO prices and better-than-expected FFB production growth.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

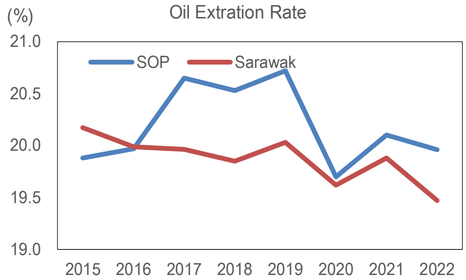
- **Environmental**
  - Its Metanik palm oil mill (POM) was the site of the first methane capture facility, commissioned in Feb 20. Currently, the next methane capture facility is being constructed at Sabaju POM and is scheduled for commissioning in 2H23. Construction of methane capture facilities at another three palm oils mills are in progress while tendering is in progress for construction of a methane capture facility at another palm oil mill. The Group expects to achieve a reduction of 35% in GHG emissions across all POMs once methane capture installations are completed at all seven POMs by 2024.
- **Social**
  - Transparent communication and response to ongoing cases involving community.
  - Implementation of programmes related to health, education, medical assistance, and other community enrichment acts.
- **Governance**
  - Transparent governance along with an Anti-Bribery and Anti-Corruption Policy.

HIGHER THAN AVERAGE FFB YIELD



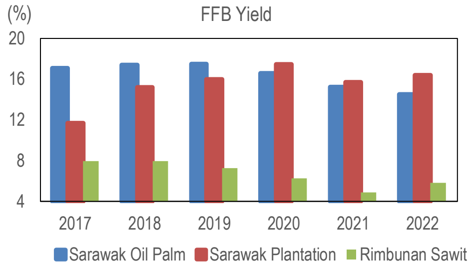
Source: MPOB, SOP

HIGHER THAN AVERAGE OIL EXTRACTION RATE



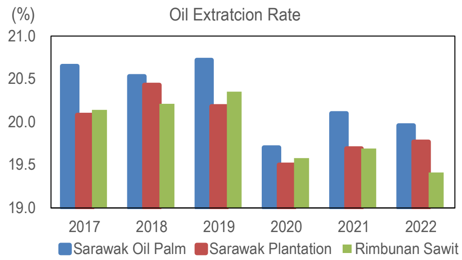
Source: MPOB, SOP

FFB YIELD COMPARISON



Source: Companies report

OIL EXTRACTION RATE



Source: Companies report

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	**5,365**	**4,235**	**4,253**	**4,424**
EBITDA	871	594	685	758
Deprec. & amort.	174	169	158	158
EBIT	697	424	527	600
Associate contributions	(3)	(3)	(3)	(3)
Net interest income/(expense)	(2)	7	11	18
Pre-tax profit	**692**	**429**	**536**	**616**
Tax	(164)	(106)	(132)	(152)
Minorities	(25)	(16)	(20)	(23)
Net profit	**480**	**284**	**361**	**418**
Net profit (adj.)	480	284	361	418

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	1,957	1,886	1,819	1,764
Other LT assets	755	755	755	755
Cash/ST investment	1,236	1,464	1,768	2,105
Other current assets	942	952	1,018	1,105
Total assets	**4,890**	**5,057**	**5,360**	**5,729**
ST debt	315	265	215	165
Other current liabilities	278	222	223	231
LT debt	446	529	613	698
Other LT liabilities	403	403	403	403
Shareholders' equity	3,295	3,469	3,717	4,019
Minority interest	152	168	189	212
Total liabilities & equity	**4,890**	**5,057**	**5,360**	**5,729**

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	**767**	**573**	**608**	**651**
Pre-tax profit	670	431	539	618
Tax	(164)	(106)	(132)	(152)
Deprec. & amort.	174	169	158	158
Working capital changes	18	33	(2)	(19)
Other operating cashflows	71	45	45	45
Investing	**(179)**	**(148)**	**(129)**	**(117)**
Capex (maintenance)	(103)	(103)	(103)	(103)
Investments	0	0	1	2
Proceeds from sale of assets	1	0	0	0
Others	(76)	(46)	(27)	(16)
Financing	**(123)**	**(147)**	**(176)**	**(196)**
Dividend payments	(98)	(124)	(154)	(177)
Issue of shares	2	3	4	5
Proceeds from borrowings	82	83	84	85
Loan repayment	(50)	(50)	(50)	(50)
Others/interest paid	(59)	(59)	(59)	(59)
Net cash inflow (outflow)	**465**	**278**	**303**	**338**
Beginning cash & cash equivalent	**720**	**1,186**	**1,464**	**1,768**
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	**1,185**	**1,464**	**1,767**	**2,105**

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	16.2	14.0	16.1	17.1
Pre-tax margin	12.9	10.1	12.6	13.9
Net margin	9.0	6.7	8.5	9.4
Net profit (adj.)	(6.0)	(41.0)	27.2	15.9
Leverage				
Debt to total capital	18.1	17.9	17.5	16.9
Debt to equity	23.1	22.9	22.3	21.5
Net debt/(cash) to equity	(14.4)	(19.3)	(25.3)	(30.9)

TRADERS' CORNER

Source: UOBKH ChartGenie

Berjaya Food (BFD MK)

Technical BUY with +21.8% potential return

Last price: RM0.735

Target price: RM0.825, RM0.895

Support: RM0.65

Stop-loss: RM0.645

BUY with a target price of RM0.895 and stop-loss at RM0.645. BFD's share price has been climbing higher gradually after having established a support level at RM0.65. Positive readings in both the DMI and MACD should translate into stronger momentum, which will in turn lift the share price higher. We peg our targets at RM0.825 and RM0.895 respectively in the near term.

Expected timeframe: Two weeks to two months.

Note: Not available for CFD Trading

Source: UOBKH ChartGenie

Oppstar (OPPSTAR MK)

Technical BUY on breakout with +19.2% potential return

Last price: RM1.61

Target price: RM1.88, RM1.99

Support: RM1.48

Stop-loss: RM1.47

BUY on breakout with a target price of RM1.99 and stop-loss at RM1.47. A successful rebound from the previous low of RM1.48 has sent the stock higher. Last Friday's breakout above the BBI line has kicked started a new up-leg. Given higher trading volumes and the positive readings from both the MACD and the DMI, we expect an upward continuation from here, thus pegging our upside targets at RM1.88 and RM1.99 once it manages to penetrate above the breakout level of RM1.67.

Expected timeframe: Two weeks to two months.

Note: Not available for CFD Trading

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