KPJ, Al-Aqar KPJ REIT still strong

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FORSEEABLE FUTURE: Photo shows the Kuching Specialist Centre, one of KPJ's healthcare centres. MIDF Research believes the growth story of KPJ will continue in the foreseeable future.

KUCHING: KPJ Healthcare Bhd (KPJ) is still growing strong along with its associate, Al-Aqar KPJ Real Estate Investment Trust (REIT) having completed its fourth and fifth tranche asset injections in 2011 and 2012.

According to the research team from MIDF Amanah Investment Bank Bhd (MIDF Research), the group was now in the midst of processing the sixth tranche of asset injection.

This asset light strategy that the company had been adopting had enabled it to unlock the properties' value and realise the capital gains in its assets, thus freeing up cash for further expansions.

KPJ also stood to reap steady dividends from its Al-Aqar shareholding.

"We continue to like this strategy, which we believe has been a major contributing factor to the impressive growth of KPJ in recent years," highlighted the firm.

Moving forward, MIDF Research believed KPJ was well on its way to gaining positive light, riding on increasing spending in healthcare. To recap, total healthcare industry spending in Malaysia amounted to 4.7 per cent of the country's gross domestic product (GDP).

By comparison, in 2011, healthcare spending amounted to 16.2 per cent of GDP in the US and 10.9 per cent of GDP in Germany.

"Therefore, the healthcare industry in this region is set for strong growth, driven by the changing demographic, growth of the middle income group, congested public healthcare services, greater insurance penetration, and growing health tourism," affirmed the research house.

"We believe the growth story of KPJ will continue in the foreseeable future."

In other news, KPJ added another hospital to its portfolio with the opening of its latest hospital, Klang Specialist Hospital. The first phase of the hospital, comprising 94 beds, commenced operations in May 2012. Eventually, the hospital would have a total capacity of 200 licensed beds.

With the commencement of this hospital, KPJ now has in total 21 hospitals under its portfolio in Malaysia.

"Situated in the approximate of Klang Valley, we expect the strong private healthcare demand to eventually boost the occupancy rate for the new hospital. However, we remain cautious and still expect the normal gestation period of two to three years before the hospital can turn profitable," said the research firm.

Regarding medical tourism, foreign patients currently made up less than 10 per cent of KPJ's total number of patients.

As the medical tourism sector had been identified as one of three primary healthcare sub-sectors under the Economic Transformation Programme, MIDF expected KPJ to grow its composition of foreign tourists to 25 per cent by 2020.

In addition, the research firm also said, "We believe with the expansion plans that are already in place, this is well within KPJ's reach."

"Based on its proven track record, we are confident that the company's management will be able to sustain KPJ's growth momentum, maintaining its top line growth rate and preserving its profitability," added the research firm.

Thus, MIDF Research pegged a fair value of RM6.98 per share for the healthcare group.