

31 May 2019

# IHH Healthcare

## 1Q19 Barely Made The Grades

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**1Q19 Core Net Profit of RM188.4m (+56% YoY; -45% QoQ)** came in within expectations at 18% each of our and consensus full-year forecasts due to the seasonally slow first quarter. We lowered our EV/EBITDA multiple in Acibadem and Parkway Pantai due to the uncertain Turkey Lira and tough operating environment. Our TP is also lowered, from RM5.15 to RM4.90, based on SoP valuation. Reiterate UP due to tough operating environment and concerns over issues in Fortis.

**1Q19 Core Net Profit of RM188.4m (+56% YoY; -45% QoQ)** came in within expectations at 18% each of our/consensus full-year forecasts. We expect subsequent quarter's earnings to ramp up, from the seasonally slow 1Q19 in Acibadem. No dividend was declared as expected.

**Key results' highlights. QoQ, 1Q19** revenue and EBITDA rose 15% and 12%, respectively, mainly due to Fortis' full three-month's contribution, which included a one-off RM28.5m trustee management fee income from RHT relating to disposal of RHT assets. The increase in EBITDA was also due to the adoption of MFRS 16. 1Q19 core PATAMI decreased 44.8% due to the high base in 4Q18 where the Group recorded foreign exchange gain of RM44.7m mainly arising from the stronger USD on its USD-denominated cash balances and RM56.7m writeback of over-provision of prior year tax in 4Q18.

**YoY, 1Q19** revenue and EBITDA increased 28% and 34%, respectively, due to improvement on organic growth at existing operations and contribution from Gleneagles Hong Kong Hospital and Acibadem Altunizade Hospital. Amanjaya Specialist Centre and Fortis Healthcare also contributed to the higher revenue and EBITDA. The Group's revenue included a one-off RM28.5m trustee management fee income from RHT relating to its sale of RHT assets. Overall, revenue per inpatient increased across the board, including Singapore (+7%), Malaysia (+7.5%), and Acibadem (+27%). Headline PATAMI for 1Q19 rose 56% to RM89.5m. Core PATAMI excluding exchange loss on borrowings (RM127.2m) and share of loss of associate-RHT (RM28.9m) rose 56% to RM188.4m as a result of stronger operational performance, narrower losses at Gleneagles Hong Kong, and boosted by foreign exchange gains of RM67.9m.

**Outlook.** The group has pared down US\$250m equivalent of non-Lira debt for Acibadem in April as part of on-going plan to reduce the exposure to Turkish Lira's volatility. However, we are concerned over issues at Fortis, including an auditor's qualified audit report in FY18, which has been carried forward into the quarterly review on 13 Feb 2019, risk of more provisions, lapses in internal controls, which led to regulatory probing, which could well mean execution risk. Looking ahead, over the medium term, IHH is expected to face tough operating conditions on the back of: (i) the uncertain Turkish Lira which has depreciated significantly against USD, Euro and MYR with continued volatility, and (ii) execution risk at Fortis as well as uncertainty over its timeline in terms of a turnaround to profitability.

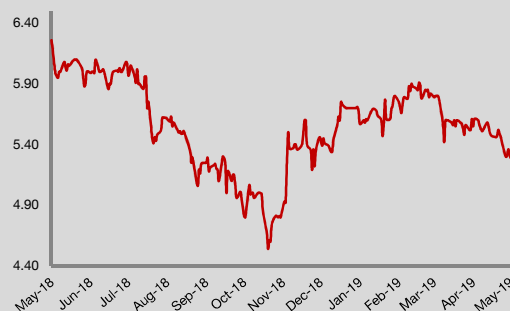
**Maintain UP.** We roll forward our valuation from FY19E to FY20E and attached a lower EV/EBITDA multiple for both operating units, i.e. Acibadem and Parkway Pantai due to the uncertain Turkey Lira and tough operating environment. We downgrade our TP from RM5.15 to RM4.90 based on SoP valuation, implying 41x FY19 EPS (-1.0SD below 5-year historical forward mean).

**Key risk to our call** - faster-than-expected ramp-up in new hospitals.

## UNDERPERFORM ↔

**Price :** RM5.48  
**Target Price :** RM4.90 ↓

### Share Price Performance



KLCI 1,636.50  
YTD KLCI chg -3.2%  
YTD stock price chg 1.7%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IHH MK Equity
Market Cap (RM m)	48,069.8
Shares Outstanding	8,771.9
52-week range (H)	6.19
52-week range (L)	4.54
3-mth avg daily vol:	6,412,331
Free Float	33%
Beta	0.6

### Major Shareholders

Mitsui & Co Ltd	32.9%
Pulau Memutik Ven Sdn Bhd	26.0%
Employees Provident Fund	7.9%

### Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	11,520	13,038	14,466
PBT	1,028.1	1,610.8	1,747.6
<b>Net Profit (NP)</b>	<b>627.7</b>	<b>955.3</b>	<b>1,158.1</b>
<b>Core NP</b>	<b>1,027.6</b>	<b>1,054.2</b>	<b>1,158.1</b>
Consensus (NP)	-	1,073.5	1,333
Earnings Revision	-	-	-
Core EPS (sen)	11.7	12.0	13.2
Core EPS growth (%)	62.2	2.6	9.9
NDPS (sen)	3.0	3.0	4.0
BVPS (RM)	2.51	2.60	2.70
Core PER (x)	46.7	45.6	41.5
PBV(x)	2.2	2.1	2.0
Net Gearing (%)	12.8	12.8	13.8
Net Div. Yield (%)	0.5	0.5	0.5

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## Result Highlight

FY Dec (RMm)	2018 1Q	2018 4Q	2019 1Q	Q-o-Q Chg (%)	Y-o-Y Chg (%)
Turnover	2,855.0	3,165.3	3,642.7	15.1	27.6
Parkway Pantai	1,734.9	2,125.8	2,578.9	21.3	48.6
Acibadem Holdings	1,023.3	940.0	967.1	2.9	(5.5)
IMU Health	64.1	64.4	61.7	(4.2)	(3.8)
PLife REIT	82.7	85.4	85.6	0.2	3.5
Others (Plife REIT inter-segment revenue)	(50.0)	(50.2)	(50.6)	0.6	1.1
EBITDA	608.9	724.1	813.7	12.4	33.6
Parkway Pantai	340.3	431.9	503.5	16.6	48.0
Acibadem Holdings	188.9	180.2	233.7	29.7	23.8
IMU Health	26.5	9.6	25.7	167.2	(3.0)
PLife REIT	66.8	120.1	69.3	(42.3)	3.8
Others	(13.6)	(17.8)	(18.6)	4.4	36.5
Depreciation & amortisation	(233.6)	(258.2)	(317.2)	22.8	35.8
Other operating income	75.0	172.3	83.1	(51.8)	10.8
Finance cost	(230.8)	(339.0)	(295.2)	(12.9)	27.9
Finance income	31.4	28.9	35.3	22.1	12.4
Associates and JV	0.4	10.2	(23.3)	(328.8)	NM
Pretax profit	89.9	812.9	187.1	(77.0)	108.2
Taxation	(60.7)	(102.2)	(196.0)	91.8	222.8
Minority interest	28.1	(201.3)	98.5	(148.9)	250.6
Net profit	57.2	509.4	89.5	(82.4)	56.4
EPS (sen)	0.4	5.8	0.8	(86.5)	77.3
Core net profit	120.5	341.5	188.4	(44.8)	56.3
EBITDA margin (%)	21	23	22		
Parkway Pantai	20	20	20		
Acibadem Holdings	18	19	24		
IMU Health	41	15	42		
Pretax margin (%)	3	26	5		
Effective tax rate (%)	68	13	105		

Source : Bursa Malaysia, Kenanga Research

## Sum-of-parts valuation

	Basis	Multiples (x)	Value (RM m)	Remarks
PPL	EV/EBITDA	18	30,416	Lowered from 21x to 18x which is inline with peers average.
Acibadem (60%)	EV/EBITDA	16	13,812	Lowered from 18x to 16x due to uncertain Turkey Lira
Fortis (57.1%)	Market value		310	Market value
IMU	EV/EBITDA	10	768	Premium to peers due to higher earnings base.
International	EV/EBITDA	12	3,456	In line with peers average.
Plife REIT (35.8%)			1,461	
Total			50,223	
Net debt			(7,136)	
Total			43,087	
No of shares			8,769	
Target price			4.90	

Source: Kenanga Research

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## Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
HEALTHCARE																	
IHH HEALTHCARE BHD	5.48	48069.8	Y	12/2019	13.2	11.0	2.6	9.9	46.7	45.6	41.5	2.2	2.1	4.6	0.5	4.90	UP
KPJ HEALTHCARE BERHAD	0.93	4019.5	Y	12/2019	12.3	5.0	10.9	3.1	22.4	20.2	19.6	2.1	2.0	10.0	2.2	1.35	OP
PHARMANIAGA BERHAD	2.54	661.7	Y	12/2019	5.0	3.0	-1.6	-0.4	11.5	11.6	11.7	1.3	1.2	10.6	5.5	2.35	MP

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published and printed by:

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