

02 December 2019

IHH Healthcare

3rd Successive Quarter of Disappointment

By Raymond Choo Ping Khoo | pkchoo@kenanga.com.my

9MFY19 Core Net Profit (CNP) of RM631m (-8% YoY) came in below expectations at 61%/65% of our/consensus full-year forecasts. This quarter marked the third consecutive quarterly earnings disappointment. The variance from our forecast was due to lower-than-expected contribution from Acibadem. We cut our FY19E/FY20E net profit forecasts by 6%/7%. TP is lowered, from RM4.85 to RM4.70, based on SoP valuation. Reiterate UP.

Key results' highlights. QoQ, 3QFY19 revenue grew 4% from a low as a result of Ramadan and Eid Holiday in 2QFY19. EBITDA increased 7% largely driven by Malaysia (+21%) which more than offset a surprisingly flat Acibadem (-0.4%) whereby historically the latter usually booked in the strongest quarter. Overall inpatient admission increased across the board led by Malaysia (+10%), India (+10%), Singapore (2%) which more than offset a 2nd consecutive quarterly weaker Acibadem (-5%). This brings 3QFY19 CNP lower by 16% due mainly to higher net interest expenses, foreign exchange losses and higher fair value losses on forward exchange contracts. Overall, QoQ revenue per inpatient increased across the board, including Singapore (+1%), Malaysia (+3%), and Acibadem (+9%). No dividend was declared as expected.

YoY, 9MFY19 revenue and EBITDA increased 33% and 38%, respectively, underpinned by sustained organic growth from existing operations and the continuous ramp-up of Gleneagles Hong Kong Hospital (losses decreased from RM139m in 9MFY18 to RM107m in 9MFY19) and Acibadem Altunizade as well as contribution from Acibadem Maslak. The acquisition of Amanjaya in Oct 2018, and Fortis in Nov 2018 also bolstered both 9MFY19 revenue and EBITDA. The adoption of MFRS 16 also boosted 9MFY19 EBITDA since the group does not recognise operating lease expense but instead recognised depreciation on the right-of-use assets. However, 9MFY19 CNP fell 8% on higher net interest expenses as additional loans were taken for acquisition, working capital and conversion of Euro to Turkey Lira interest but this was partially cushioned by the reversal of RM21.8m accrued interest for prior years' tax payable. 9MFY19 net debt is RM4.4bn vs RM900m in 9MFY18. Overall, revenue per inpatient increased across the board, including Singapore (+5%), Malaysia (+6%), and Acibadem (+23%). However, Parkway Pantai's India hospital's revenue per inpatient admission decreased 19% as Fortis' revenue intensity is generally lower than Parkway Pantai's existing operations in India. As such, India losses continued to widen, to RM80m compared to RM27m in 9MFY18.

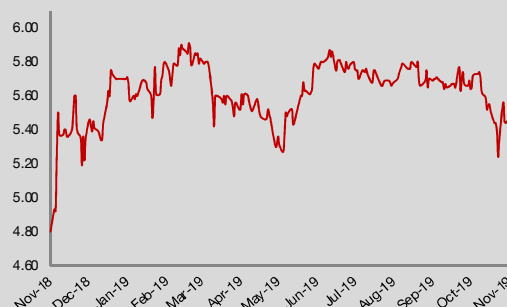
Outlook. Looking at IHH's performance in 62%-owned Continental Hospitals and 74%-owned Global Hospitals acquired back in 2015 where EBITDA is hardly positive, India is seen as a tough operating environment. We are concerned over issues at Fortis, including an auditor's qualified audit report in FY18, potential risk of provisions, lapses in internal controls, leading 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 downgrade FY19E/FY20E net profit by 6%/7% to take into account of lower contribution from Acibadem. Correspondingly, we downgrade our TP from RM4.85 to RM4.70 based on SoP valuation, implying 39x FY20E EPS (-1.5SD below 5-year historical forward mean). Key risk to our call is faster-than-expected ramp-up in new hospitals.

UNDERPERFORM ↔

Price : RM5.37
Target Price : RM4.70 ↓

Share Price Performance



KLCI	1,561.74
YTD KLCI chg	-7.6%
YTD stock price chg	-0.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IHH MK Equity
Market Cap (RM m)	47,116.3
Shares Outstanding	8,774.0
52-week range (H)	5.95
52-week range (L)	5.06
3-mth avg daily vol:	3,886,492
Free Float	17%
Beta	0.6

Major Shareholders

Mitsui & Co Ltd	32.9%
Pulau Memutik Ven Sdn Bhd	26.0%
Employees Provident Fund	7.5%

Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	11,520	12,728.1	14,006.6
PBT	1,028.1	1,499.7	1,598.7
Net Profit (NP)	627.7	969.8	1,045.0
Core NP	1,027.6	969.8	1,045.0
Consensus (NP)	-	972.0	1231.1
Earnings Revision	-	-6%	-7%
Core EPS (sen)	11.7	11.1	11.9
Core EPS growth (%)	62.2	(5.6)	7.8
NDPS (sen)	3.0	3.0	4.0
BVPS (RM)	2.51	2.59	2.68
Core PER (x)	45.8	52.3	48.6
PBV(x)	2.1	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 (YTD)			
FY Dec (RM m)	2018 9M	2019 9M	Y-o-Y Chg (%)
Turnover	8,355.6	11,076.4	32.6
Parkway Pantai	5,324.5	8,001.0	50.3
Acibadem Holdings	2,736.2	2,776.2	1.5
IMU Health	193.2	192.5	(0.3)
Plife REIT	250.3	259.7	3.7
Others (Plife REIT inter-segment revenue)	(148.6)	(153.0)	3.0
EBITDA	1,753.6	2,416.2	37.8
Parkway Pantai	1,086.2	1,740.5	60.2
Acibadem Holdings	437.1	606.7	38.8
IMU Health	75.3	73.7	(2.1)
Plife REIT	201.6	211.3	4.9
Others	(46.6)	(59.7)	28.2
Eliminations	-	(156.3)	NM
Depreciation & amortisation	(680.9)	(986.9)	44.9
Other operating income	200.7	232.3	15.8
Finance cost	(1,317.8)	(658.4)	(50.0)
Finance income	146.0	101.2	(30.7)
Associates and JV	3.2	(15.1)	NM
Pretax profit	(60.4)	847.0	NM
Taxation	(160.4)	(372.2)	132.0
Minority interest	339.1	36.0	(89.4)
PATAMI	118.3	510.8	NM
Core net profit	686.0	630.8	(8.0)
Core EPS (sen)	7.6	6.4	(15.8)
EPS (sen)	0.7	5.1	NM
EBITDA margin (%)	21	22	
Parkway Pantai	20	22	
Acibadem Holdings	16	22	
IMU Health	39	38	
Pretax margin (%)	(1)	8	
Effective tax rate (%)	(266)	44	

Source : Bursa Malaysia, Kenanga Research

^ includes Acibadem recognised exchange gain or loss arising from the translation of its non-TL denominated borrowings/payables net of its non-TL denominated cash/receivables as finance income or finance cost respectively.

Note 9MFY19 net debt is RM4.4bn vs RM900m in 9MFY18.

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Result Highlight				
FY Dec	1Q	2Q	3Q	QoQ
(RMm)	2019	2019	2019	%chg
Turnover	3,642.7	3,645.3	3,788.4	3.9
Parkway Pantai	2,578.9	2,648.0	2,774.1	4.8
Acibadem Holdings	967.1	895.5	913.6	2.0
IMU Health	61.7	66.7	64.2	(3.8)
PLife REIT	85.6	86.3	87.8	1.7
Others (Plife REIT inter-segment revenue)	(50.6)	(51.2)	(51.3)	0.3
EBITDA	813.7	773.7	828.9	7.1
Parkway Pantai	503.5	512.2	621.4	21.3
Acibadem Holdings	233.7	186.9	186.1	(0.4)
IMU Health	25.7	24.8	23.2	(6.5)
PLife REIT	69.3	70.4	71.6	1.8
Others	(18.6)	(20.6)	(20.5)	(0.9)
Eliminations	-	-	(53.0)	
Depreciation & amortisation	(317.2)	(334.6)	(335.2)	0.2
Other operating income	83.1	66.2	83.0	25.4
Finance cost [^]	(295.2)	(244.5)	(118.8)	(51.4)
Finance income [^]	35.3	53.3	12.5	(76.5)
Associates and JV	(23.3)	4.0	4.1	3.5
Pretax profit	187.1	265.6	394.3	48.4
Taxation	(196.0)	(63.7)	(112.4)	76.4
Minority interest	98.5	(16.9)	(45.5)	168.9
Net profit	89.5	185.0	236.3	27.8
EPS (sen)	0.8	1.9	2.4	31.2
Core net profit	188.4	240.1	202.3	(15.7)
EBITDA margin (%)	22	21	22	
Parkway Pantai	20	19	22	
Acibadem Holdings	24	21	20	
IMU Health	42	37	36	
Pretax margin (%)	5	7	10	
Effective tax rate (%)	105	24	29	

Source : Bursa Malaysia, Kenanga Research [^] includes Acibadem recognised exchange gain or loss arising from the translation of its non-TL denominated borrowings/payables net of its non-TL denominated cash/receivables as finance income or finance cost respectively.

Sum-of-parts valuation

	Basis	Multiples (x)	Value (RM m)	Remarks
PPL	EV/EBITDA	18	30,184	18x which is inline with peers average.
Acibadem (60%)	EV/EBITDA	16	12,060	16x due to uncertain Turkey Lira
Fortis (31.1%)	Market value		2,700	Market value
IMU	EV/EBITDA	10	310	Premium to peers due to higher earnings base.
International	EV/EBITDA	12	744	In line with peers average.
Plife REIT (35.8%)			1,461	
Total			47,460	
Net debt			(6,136)	
Total			41,323	
No of shares			8,769	
Target price			4.70	

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	5.37	47116.3	Y	12/2019	10.5	10.0	-5.6	7.8	45.8	52.3	48.6	2.1	2.1	4.3	0.6	4.70	UP
KPJ HEALTHCARE BERHAD	0.91	3871.5	Y	12/2019	10.5	3.3	5.0	1.0	21.8	20.7	20.5	2.0	1.9	9.1	2.2	1.15	OP
PHARMANIAGA BERHAD	2.07	540.7	Y	12/2019	5.0	0.9	-1.6	-6.0	9.3	9.5	10.1	1.1	1.0	10.6	4.8	1.85	UP

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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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

