

IHH Healthcare

1QFY20 Hit by Impairment at Global

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1QFY20 Core Net Profit (CNP) of RM189.4m (+1% YoY) came in at 18%/24% of our/consensus full-year forecasts. We consider the results to be within our expectation as 2H is normally better than 1H. With the re-opening of economies, the group expect subsequent quarters to show marked improvement. Looking at performance of its 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. SoP-TP is RM4.70. Reiterate UP.

Key results' highlights. QoQ, 1QFY20 revenue and EBITDA fell 7% and 19% respectively due to the pandemic. EBITDA decreased due to lower contribution from Parkway Pantai (Malaysia, Singapore and India) and Acibadem due to lower inpatient admission volume. Overall inpatient admission fell across the board led by Singapore (-12%), Malaysia (-13%), India (-8%) and Acibadem (-3%). This brings 1QFY20 CNP lower by 35% due to lower contribution from Malaysia, Singapore and India.

YoY, 1QFY20 revenue and EBITDA decreased 2% and 10%, respectively, due to the pandemic as patients postponed non-urgent and non-essential treatment and visits to hospitals and healthcare facilities. The Group also saw a decrease in foreign patient volume especially from March 2020 onwards due to the various travel restrictions implemented across the countries that it operates in. Overall, inpatient admission fell across the board including Singapore (-10%), Malaysia (-4%), India (-3%) and Acibadem (-4%). Headline LATAMI of RM319.8m recorded as the Group undertook a thorough portfolio review of the non-Fortis investment made in 2015 and a) Impairment on the remaining goodwill of RM400.5m from an investment made into Global Hospitals in India; and b) Realisation of RM60m foreign currency translation losses relating to Khubchandani Hospitals in India upon substantive liquidation. However, 1QFY20 CNP (+1%) was marginally higher due to associates returning from profitability compared to losses in 1QFY19.

Outlook. The group has undertaken cost initiatives measures to defer non-essential capex and opex to mitigate any revenue shortfall. With the re-opening of economies, the group expect subsequent quarters to show marked improvement. Due to the COVID-19 pandemic, the opening of Parkway Shanghai has been postponed to 2021. Thus far the group has further deleveraged its non-lira debt in its Turkish operations from EUR267m as at Dec 2019 to EUR183m as at Mar 2020. 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 FY19, potential risk of provisions, lapses in internal controls leading to regulatory probing, which could well mean execution risk.

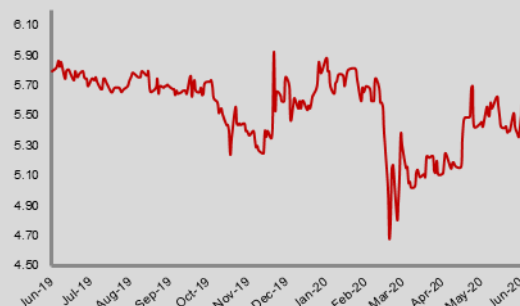
Maintain UP. TP is RM4.70 based on SoP valuation, implying 39x FY20E EPS. The stock is trading at rich valuations of 49x and 47x on FY20E and FY21E EPS, respectively, compared to growth averaging 8% each over the next two years.

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

UNDERPERFORM ↔

Price : RM5.60
Target Price : RM4.70 ↔

Share Price Performance



KLCI 1,494.43
YTD KLCI chg -5.9%
YTD stock price chg 2.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IHH MK Equity
Market Cap (RM m)	49,152.4
Shares Outstanding	8,777.2
52-week range (H)	5.95
52-week range (L)	4.55
3-mth avg daily vol:	3,666,744
Free Float	12%
Beta	0.7

Major Shareholders

Mitsui & Co Ltd	32.9%
Pulau Memutik Ven Sdn Bhd	26.0%
Employees Provident Fund	8.6%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	14,912.5	14,320.9	15,383.9
PBT	1,047.7	1,394.1	1,732.7
Net Profit (NP)	556.5	1,045.3	1,077.6
Core NP	920.7	1,045.3	1,077.6
Consensus (NP)		782.9	1150.3
Earnings Revision	-	-	-
Core EPS (sen)	10.5	11.9	12.3
Core EPS growth (%)	(10.5)	13.5	3.1
NDPS (sen)	4.0	4.0	4.0
BVPS (RM)	2.55	2.62	2.71
Core PER (x)	50.1	47.0	45.5
PBV(x)	2.1	2.1	2.1
Net Gearing (%)	18.8	23.3	19.4
Net Div. Yield (%)	0.7	0.7	0.7



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Result Highlight

FY Dec	1Q	4Q	1Q	QoQ	YoY
(RMm)	2019	2019	2020	%Chg	%chg
Turnover	3,642.7	3,836.1	3,555.2	(7.3)	(2.4)
Parkway Pantai	2,578.9	2,744.2	2,492.6	(9.2)	(3.3)
Acibadem Holdings	967.1	988.5	955.8	(3.3)	(1.2)
IMU Health	61.7	66.5	67.3	1.2	9.1
PLife REIT	85.6	88.2	90.0	2.0	5.2
Others (Plife REIT inter-segment revenue)	(50.6)	(51.3)	(50.5)	(1.7)	(0.2)
EBITDA	813.7	902.5	734.4	(18.6)	(9.7)
Parkway Pantai	555.0	630.2	486.6	(22.8)	(12.3)
Acibadem Holdings	233.7	246.8	217.3	(12.0)	(7.1)
IMU Health	25.7	13.5	28.5	111.6	10.8
PLife REIT	69.3	83.0	70.4	(15.2)	1.6
Others	(18.6)	(19.0)	(16.1)	(15.2)	(13.5)
Eliminations	(51.5)	(52.0)	(52.3)	0.5	1.6
Depreciation & amortisation	(317.2)	(330.2)	(324.2)	(1.8)	2.2
Other operating income	83.1	76.4	105.6	38.3	27.1
Finance cost [^]	(295.2)	(245.2)	(288.6)	17.7	(2.2)
Finance income [^]	35.3	30.1	72.7	141.5	105.8
Associates and JV	(23.3)	89.3	1.6	(98.2)	(106.8)
Pretax profit / (loss)	187.1	195.7	(257.4)	(231.5)	(237.6)
Taxation	(196.0)	(155.7)	(109.3)	(29.8)	(44.2)
Minority interest	98.5	0.6	46.9	NM	(52.4)
Net profit / (loss)	89.5	40.6	(319.8)	NM	NM
EPS / (LPS) (sen)	0.8	0.2	(3.9)	NM	NM
Core net profit	188.4	289.8	189.4	(34.6)	0.5
EBITDA margin (%)	22	24	21		
Parkway Pantai	22	23	20		
Acibadem Holdings	24	25	23		
IMU Health	42	20	42		
Pretax margin (%)	5	5	(7)		
Effective tax rate (%)	105	80	(42)		

Source : Bursa Malaysia, Kenanga Research [^] 1QFY20 exceptionals are impairment on goodwill (RM400m), Realisation of foreign currency translation (RM60m), Change in fair value of cross currency swaps (RM53m), exchange loss on borrowings (RM133m)

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 (m)			8,769	
Target price (RM)			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	5.60	49,152	Y	12/2020	-4.0%	7.4%	13.5%	3.1%	50.1	47.0	45.5	2.1	2.1	4.6%	0.7%	4.70	UP
KPJ HEALTHCARE BERHAD	0.820	3,509.3	Y	12/2020	4.7%	3.3%	-3.6%	7.9%	17.1	17.7	16.4	1.9	1.8	10.4%	2.4%	1.20	OP
PHARMANIAGA BERHAD	2.20	575.8	Y	12/2020	4.2%	-7.1%	51.8%	-15%	12.7	8.4	9.8	1.7	1.5	18.9%	4.5%	1.35	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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