

01 March 2021

IHH Healthcare

4Q20 India and Acibadem Return to the Black

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FY20 Core Net Profit (CNP) of RM715m (-22% YoY) beat our and consensus expectations by 10% and 34%, respectively. The positive variance from our estimate was due to better-than-expected performance in India and Acibadem. Specifically, after several quarters in the red, both India and Acibadem turned into the black, prompting us to turn positive. Hence, we upgrade our SoP-TP from RM4.56 to RM5.85 and call from Underperform to Outperform.

Key results' highlights. QoQ, 4QFY20 headline revenue and EBITDA rose 7% and 25%, respectively, due to easing of travel restrictions and lockdowns as patients including elective cases increasingly returned to the group's hospitals. Similarly, EBITDA increased across the board led by strong rebound in inpatient admissions. Overall inpatient admission rose across the board including Singapore (+7%), India (+14%) and Acibadem (+27%). However, inpatient admission in Malaysia fell 6%. This brings 4QFY20 Core Net Profit (CNP) to RM372m (+56%) boosted by: (i) maiden profit recorded in India (4QFY20 core net profit of RM15m compared to 3QFY20 core net loss at RM28m, and (ii) Acibadem registering a maiden profit. A final DPS of 4.0 sen was declared which is within our expectation.

YoY, FY20 revenue and EBITDA decreased 10% and 13%, respectively, due to the pandemic as patients postponed non-urgent and non-essential treatments and visits to hospitals primarily in 2QFY20. The decrease in revenue as a result of lower patient volumes was partially mitigated by COVID-19-related services the Group rendered. Overall, inpatient admission fell across the board including Singapore (-18%), Malaysia (-27%), India (-26%) and Acibadem (-16%). This brings FY20 CNP to RM715m (-22%) due to losses in India.

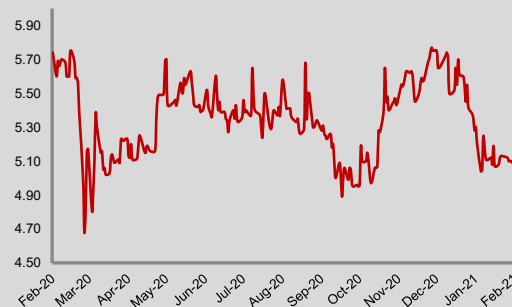
Outlook. With the gradual easing of local movement restrictions starting in June 2020, the Group has seen local patient volumes recover and occupancy rising to between 45%-75%. Occupancies at the Group's hospitals in Malaysia and Singapore recovered to about 64% and 85% of pre-COVID-19 levels in 4QFY20, respectively. The Group took proactive initiatives to partially mitigate the effects of lower patient volumes by improving case-mix and by providing COVID-19 screening services. COVID-19-related services contributed about 11%, 12% and 21% of the 4QFY20 revenues in Singapore, Central Eastern Europe and India, respectively. In Malaysia, the Group's hospitals will allocate approximately 10% of bed capacity to treat COVID-19 patients and have also taken in non-COVID-19 patients decanted from public hospitals, and will be setting aside about 200 beds for this purpose. We highlight that foreign patient revenues at the Group's hospitals in Turkey exceeded pre-COVID-19 levels in 4QFY20 after Turkey reopened its borders on June 2020. Thus far, the group has further deleveraged its non-lira debt in its Turkish operations from EUR288m as at Dec 2019 to EUR37m as at Dec 2020. The group is hopeful and targeting EBITDA breakeven in Gleneagles HK. In India, the group will continue to drive cost savings and ramped up productivity and room to increase bed occupancy ratio currently averaged 60%. In India, specifically, non-COVID related activities saw month-on-month recovery on inpatient admission. IHH guided that it will try to contain costs for Gleneagles Chengdu while Parkway Shanghai is expected to open in end-2021 or early 2022.

Upgrade from UP to OP. No changes to our FY21E earning forecast. On the back of the positive results from India and Acibadem, we upgrade our SoP-TP from RM4.56 to RM5.85. We roll over our base valuation from FY21 to FY22. We attached a higher EV/Ebitda multiple due to the better outlook.

OUTPERFORM ↑

Price: **RM5.08**
Target Price: **RM5.85** ↑

Share Price Performance



KLCI	1,577.75
YTD KLCI chg	-3.0%
YTD stock price chg	-7.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IHH MK Equity
Market Cap (RM m)	44,588.3
Shares Outstanding	8,777.2
52-week range (H)	5.88
52-week range (L)	4.55
3-mth avg daily vol:	3,129,845
Free Float	11%
Beta	0.8

Major Shareholders

Mitsui & Co Ltd	32.9%
Pulau Memutik Ven Sdn Bhd	26.0%
Employees Provident Fund	9.8%

Summary Earnings Table

FY Dec (RMm)	2020A	2021E	2022E
Turnover	13,404.6	14,047.5	15,753.0
PBT	567.5	1,652.0	1,872.1
Net Profit (NP)	288.9	920.3	1,065.6
Core NP	715.3	920.3	1,065.6
Consensus (NP)		972.0	1,250.9
Earnings Revision	-	-	New
Core EPS (sen)	7.1	10.5	12.1
Core EPS growth (%)	(32.3)	47.7	15.8
NDPS (sen)	4.0	4.0	4.0
BVPS (RM)	2.48	2.54	2.62
Core PER (x)	71.5	55.2	47.7
PBV(x)	2.1	2.0	1.9
Net Gearing (%)	25.2	29.4	23.3
Net Div. Yield (%)	0.7	0.7	0.7

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Key risk to our call is slower-than-expected recovery from the pandemic.

Result Highlight (YTD)			
FY Dec (RM m)	2019 12M	2020 12M	Y-o-Y Chg (%)
Turnover	14,912.5	13,404.6	(10.1)
Parkway Pantai	10,745.2	9,533.9	(11.3)
Acibadem Holdings	3,764.7	3,462.2	(8.0)
IMU Health	259.0	248.7	(4.0)
Plife REIT	347.9	367.0	5.5
Others (Plife REIT inter-segment revenue)	(204.4)	(207.2)	1.4
EBITDA	3,317.7	2,876.7	(13.3)
Parkway Pantai	2,370.7	1,989.2	(16.1)
Acibadem Holdings	853.5	796.1	(6.7)
IMU Health	87.2	75.7	(13.2)
Plife REIT	294.4	309.3	5.1
Others	(78.7)	(134.8)	71.4
Eliminations	(209.3)	(158.6)	(24.2)
Depreciation & amortisation	(1,317.2)	(1,339.4)	1.7
Other operating income	308.6	738.4	139.2
Finance cost	(903.6)	(947.6)	4.9
Finance income	131.3	242.9	84.9
Associates and JV	74.1	18.3	(75.3)
Pretax profit	1,042.7	567.5	(45.6)
Taxation	(527.9)	(361.7)	(31.5)
Minority interest	36.6	83.0	126.7
PATAMI	551.5	288.9	(47.6)
Core net profit	920.7	715.3	(22.0)
Core EPS (sen)	9.5	7.1	(25.0)
EPS (sen)	5.3	2.3	(57.3)
EBITDA margin (%)	22	23	
Parkway Pantai	22	21	
Acibadem Holdings	23	23	
IMU Health	34	30	
Pretax margin (%)	7	4	
Effective tax rate (%)	51	64	

Source : Bursa Malaysia, Kenanga Research

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Result Highlight					
FY Dec	1Q	2Q	3Q	4Q	QoQ
(RMm)	2020	2020	2020	2020	%chg
Turnover	3,555.2	2,565.1	3,518.3	3,766.0	7.0
Parkway Pantai	2,492.6	1,847.0	2,501.8	2,692.5	7.6
Acibadem Holdings	955.8	613.9	922.7	969.9	5.1
IMU Health	67.3	63.2	54.0	64.1	18.7
PLife REIT	90.0	92.5	92.2	92.3	0.0
Others (Plife REIT inter-segment revenue)	(50.5)	(51.5)	(52.4)	(52.8)	0.7
EBITDA	734.4	268.0	832.7	1,041.6	25.1
Parkway Pantai	486.6	178.5	596.7	727.3	21.9
Acibadem Holdings	217.3	74.5	224.1	280.2	25.0
IMU Health	28.5	22.8	12.0	12.4	3.8
PLife REIT	70.4	73.7	73.6	91.6	24.5
Others	(16.1)	(28.4)	(20.4)	(16.5)	(18.9)
Eliminations	(52.3)	(53.0)	(53.3)	(53.4)	0.3
Depreciation & amortisation	(324.2)	(325.4)	(354.9)	(334.9)	(5.6)
Other operating income	105.6	158.5	295.8	178.5	(39.7)
Finance cost	(288.6)	(217.4)	(375.6)	(66.0)	(82.4)
Finance income	72.7	58.2	112.9	(1.0)	(100.9)
Associates and JV	1.6	(3.6)	5.6	14.7	160.6
Pretax profit	(257.4)	(232.0)	396.0	660.9	66.9
Taxation	(109.3)	(0.1)	(86.8)	(165.5)	90.7
Minority interest	46.9	111.5	0.8	(76.1)	NM
Net profit	(319.8)	(120.6)	310.0	419.4	35.3
EPS (sen)	(3.9)	(1.6)	3.3	4.5	37.8
Core net profit	189.4	(84.2)	238.4	371.8	55.9
EBITDA margin (%)	21	10	24	28	
Parkway Pantai	20	10	24	27	
Acibadem Holdings	23	12	24	29	
IMU Health	42	36	22	19	
Pretax margin (%)	(7)	(9)	11	18	
Effective tax rate (%)	(42)	(0)	22	25	

Source : Bursa Malaysia, Kenanga Research

Sum-of-parts valuation

	Basis	Multiples (x)	Value (RM m)	Remarks
PPL	EV/EBITDA	18.00	37,233	Previously 17x
Acibadem (60%)	EV/EBITDA	17.00	15,370	Previously 16x
Fortis (31.1%)	Market value		2700	Market value
IMU	EV/EBITDA	11.00	638	Premium to peers due to higher earnings base.
International	EV/EBITDA	11.00	341	In line with peers average.
Plife REIT (35.8%)			1,461	
Total			57,744	
Net debt			(6,502)	
Total			51,242	
No of shares (m)			8,769	
Target price (RM)			5.84	

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 DivYld (%)	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	5.08	44,588	Y	12/2021	4.8%	12.1%	28.7%	15.8%	71.5	55.2	47.7	2.1	2.0	4.2%	0.8%	5.85	OP
KPJ HEALTHCARE BERHAD	1.00	4,279.9	Y	12/2021	12.9%	7.7%	28.1%	14.0%	32.1	25.0	22.0	1.9	1.8	7.5%	2.0%	1.00	MP
PHARMANIAGA BERHAD	4.25	1,112.2	Y	12/2020	-2.4%	-2.7%	34.6%	-4.0%	24.6	18.2	19.0	3.3	3.0	17.1%	2.8%	3.15	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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