

27 December 2021

Healthcare

IHH-led Recovery but Valuations Unappealing

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

NEUTRAL



Maintain Neutral. The bright spot is IHH Healthcare which has shown strong earnings recovery due to a turnaround into profitability underpinned by both its India operation and Acibadem which continued to show signs of faster-than-expected recovery, registering their fourth consecutive quarterly profits in 3QFY21. Elsewhere, pent-up demand and ramp-up of the CEE (Central Eastern Europe) region business coupled with de-leveraging of non-lira debt exposure has also alleviated the finance cost of Acibadem. However, the sharp price run-up looks to have rendered current valuations fairly-valued, which seem to have over-priced the positive near-term prospects. KPJ's lack of re-rating catalyst and new hospitals under gestation period could continue to be a drag to earnings; hence, we reiterate our Market Perform call. For stock pick, we prefer IHH on these merits; (i) solid captive markets in growth locations, (ii) commanding market positions specifically in Singapore, Malaysia and Turkey, and (iii) a strong management. Our calls are as follow: IHH (Market Perform; TP: RM6.65) and KPJ (MP; TP: RM1.01) and Pharmaniaga (MP; TP: RM0.74).



India and Turkey are turning around, providing booster for IHH. We highlight that India and Acibadem continued to post strong commendable bottom-line performances in 3QFY21, and Hong Kong Gleneagles has turned EBITDA breakeven in May 2021. Overall, 3QFY21 continued to show sequential topline improvement due to easing of travel restrictions and lockdowns as patients including elective cases gradually returned to the group's hospitals but this was negated by a sharp decrease of COVID-19-related revenue in India, which outstripped the higher revenues from COVID-19-related services rendered in other markets. COVID-19-related services contributed about between 6%-29% to 3QFY21 (2QFY21: 12%-31%) revenues from the Group's operations in its home markets. Revenue per inpatient admission rose in Malaysia (+7%) and India (+17%) but lower in Singapore (+6%), and flat in Acibadem. Inpatient admission rose in India

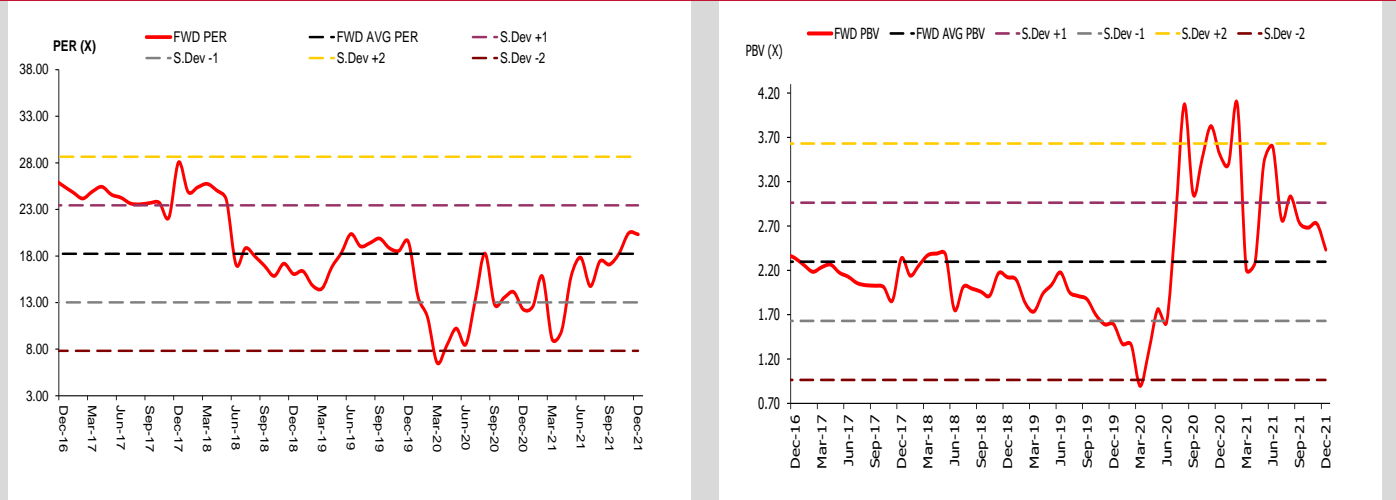
(+21%), Acibdem (+2%) and Singapore (+2%) but lower in Malaysia (-2%). Although patient volume is impacted by the resurgence of COVID-19 cases across the globe and by the various movement restrictions implemented, the Group's diversified earnings base across 10 markets provides resilience with key markets at different phases of the COVID-19 pandemic. The Group took pro-active initiatives to partially mitigate the effects of lower patient volumes by improving case-mix and by providing COVID-19 screening services. We highlight that foreign patient revenues at the Group's hospitals in Turkey have exceeded pre-COVID-19 levels since 4QFY20 after Turkey reopened its borders on June 2020. In India, the group will continue to drive cost savings and ramp up productivity and increase bed occupancy ratio currently averaging at 60%.

Pharmaniaga's outlook. Despite recording bumper profits in 3QFY21, we do not expect sequential 4QFY21 net profit growth since most of the vaccines delivery were completed in 3QCY21. The majority of Sinovac recipients received their second dose between June and September. As such, the requirement for a booster shot will could potentially start from December onwards. Pharmaniaga had previously supplied more than 22m doses of Sinovac vaccine to MOH and the private sector and is ready to supply up to 10m doses. Thus, there are about 11m Sinovac recipients requiring the booster shot. The group is currently in talks with Sinovac Biotech to supply vaccines to neighbouring countries via their fill-and-finish facility. We understand that Malaysia is one of five countries (including Turkey, Brazil, Egypt, and Indonesia) outside of China that has been authorised to conduct fill-and-finish for Sinovac. Specifically, Pharmaniaga marked its maiden entrance into the vaccine international market by successfully exporting the first batch of Sinovac filled-and-finish Covid-19 vaccine to Myanmar with an initial order of 200,000 doses. We highlight that earnings visibility could also come from the possibility that Sinovac vaccines would be approved as booster shots and for adolescent use, likely in 1H 2022. We have factored in concession extension beyond the interim extended concession period from 1st Dec 2019 to 31st Dec 2021 for procurement of drugs to ensure no supply chain disruption in the supply and distribution of medicines nationwide in view of Pharmaniaga's infrastructure setup via a computerised system i.e. Pharmacy Information System (PHIS) which is an integral role in ensuring the distribution of drugs to patients and effective management of stock levels. The group highlight that a series of discussions and negotiations for the renewal of the concession has been carried out and the outcome is looking positive. **We lower our TP from RM0.85 to RM0.74 based on 13x FY22E EPS (-0.5SD below its 5-year historical forward mean).** We lower our PER from 15x to 13x to reflect lower sequential earnings growth ahead. Maintain MP.

KPJ's lack of re-rating catalyst, Reiterate MP. KPJ's lack of re-rating catalyst and new hospitals under gestation period could continue to be a drag to earnings. The Group will continue to take advantage of governments' incentives in order to mitigate the adverse effects of the pandemic. However, its new hospitals such as KPJ Bandar Dato' Onn, KPJ Batu Pahat, KPJ Perlis and KPJ Miri currently under gestation period could continue to drag overall earnings. Although price has fallen to seemingly attractive levels at mean PE, catalysts are lacking and it may take longer to outperform.

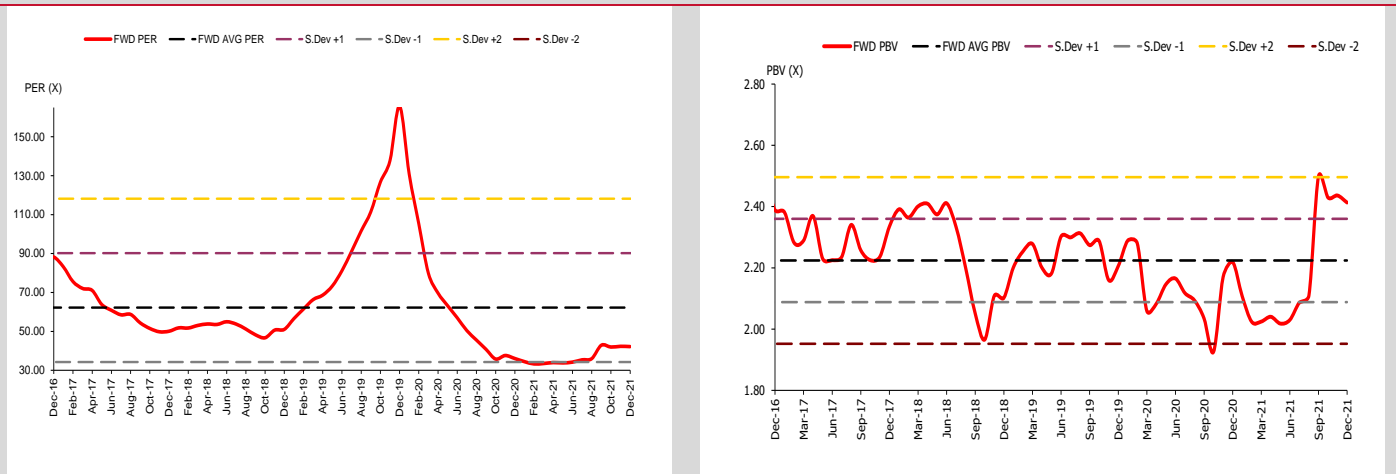
27 December 2021

Pharmaniaga – Forward PER and PBV Band



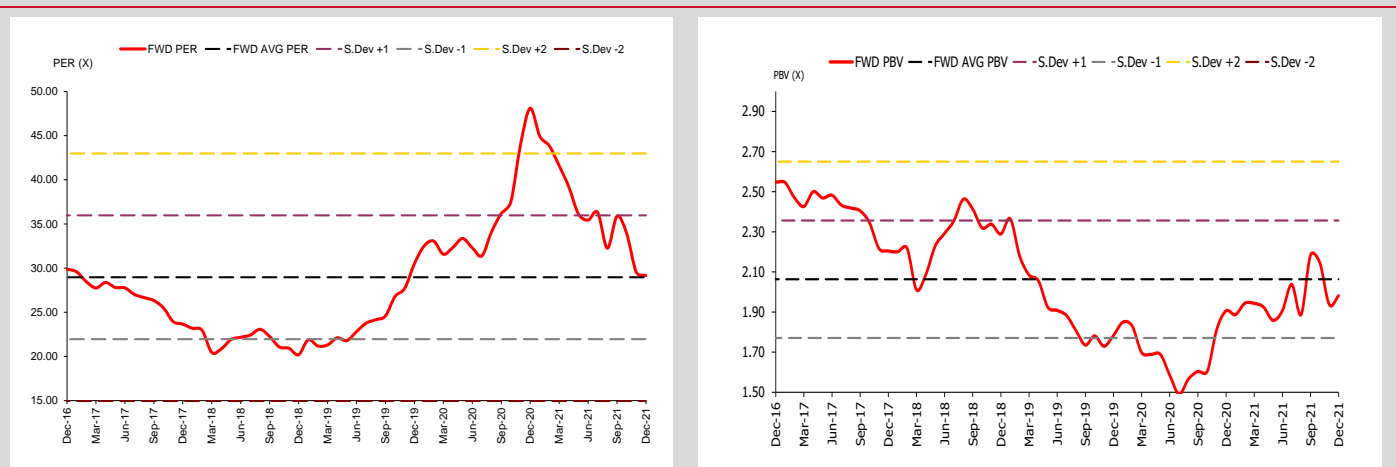
Source: Bloomberg, Kenanga Research

IHH Healthcare – Forward PER and PBV Band



Source: Bloomberg, Kenanga Research

KPJ Healthcare - Forward PER and PBV Band



Source: Bloomberg, Kenanga Research

27 December 2021

Peer Comparison

Name	Price @ 17/12/21 (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	6.54	57,530	Y	12/2021	15%	8%	96%	-3%	80.2	40.9	42.3	2.6	2.5	6%	1%	6.65	MP
KPJ HEALTHCARE BERHAD	1.05	4,543	Y	12/2021	8%	9%	-35%	77%	33.7	51.6	29.2	2.0	2.0	4%	1%	1.01	MP
PHARMANIAGA BERHAD	0.730	956	Y	12/2021	102%	-25%	294%	-31%	34.7	8.8	12.8	2.8	2.5	30%	7%	0.740	MP

Source: Bloomberg, Kenanga Research

The rest of this page is intentionally left blank

27 December 2021

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

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