

# IHH Healthcare

## Stronger Recovery, Taking Inflation In Stride

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We raise our FY22E/FY23E net profit forecasts by 8%/11% and increase our SoP-TP by 8% to RM7.20 (from RM6.65) (see table on page 2). Upgrade to Outperform from Market Perform on stronger-than-expected demand recovery, and earnings resilience in the face of sustained elevated inflation.

**Key highlights.** We came away from a recent engagement with IHH feeling positive. The key highlights are as follows:

- 1) Indications are pointing to a demand recovery in 2QFY22 that will be stronger than what we had previously assumed as the geographical locations in which IHH operates are exiting the end of the pandemic. There have been strong returns of domestic patients as well as growth in foreign patients in Malaysia and Singapore. Specifically, the group in April 2022 saw a strong return in local and foreign patients. In Turkey (80% bed occupancy rate) and Europe, IHH foresees high bed occupancy rate to continue. While in India, it expect gradual improvement of non-Covid patients starting from 2QFY22 since 1QFY22 saw depression on low elective surgeries due to the omicron wave. The group will continue to drive cost savings and ramp up productivity and increase bed occupancy ratio currently averaging at 60% in India. Gleneagles HK turned positive EBITDA since May 2021 and sustains its growth with EBITDA margin at single digit.
- 2) Given the low “price elasticity of demand” of private healthcare services, IHH has been able to pass on cost inflation to customers, as reflected in its rising revenue per inpatient over the past several quarters. In tandem with the stronger-than-expected demand we expect revenue per inpatient to surpass our earlier expectations. We highlight that prices have been adjusted for inflation in 1QFY22. However, the group stopped short of saying there could be further upwards price adjustment, depending on inflationary pressure. In Turkey, price adjustment is based on CPI. However, medical supplies inflation which represents bulk of its cost is less than price inflation and hence, it enjoys the difference which flow through to margins.
- 3) Turkey is expected to be classified as a hyper-inflationary economy. As such, Acibadem Holdings may have to apply IAS29 Financial Reporting in Hyperinflationary Economies in 2QCY22. The Group is in the midst of evaluating the implications on its financial reporting. Basically, assets need to be rebased which typically could potentially lead to higher level of depreciation.

**Higher revenue growth assumptions.** We now assume higher revenue per inpatient growth in Singapore/Malaysia/Acibadem of 18%/11%/20% from 8%/9%/10% for FY22E.

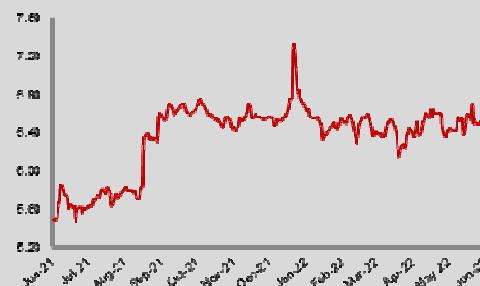
**Investment case.** IHH’s investment appeal lies in: (i) its pricing power, as the inelastic demand of healthcare needs provides it with the ability to pass cost through amidst rising inflation; (ii) strong pent-up demand from domestic and international patients of which the group have started seeing in end Mar 2022; and (iii) commanding market position in countries it operates in.

**Key risk to our views** is the global economy slipping into a prolonged recession/stagflation.

# OUTPERFORM ↑

Price : **RM6.28**  
Target Price : **RM7.20** ↑

### Share Price Performance



KLCI	1,456.74
YTD KLCI chg	-7.1%
YTD stock price chg	-14.4%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IHH MK Equity
Market Cap (RM m)	55,281.5
Shares Outstanding	8,802.8
52-week range (H)	7.34
52-week range (L)	5.47
3-mth avg daily vol:	4,025,016
Free Float	14%
Beta	1.0

### Major Shareholders

Mitsui & Co Ltd	32.8%
Pulau Memutik Ven Sdn Bhd	26.0%
Employees Provident Fund	9.7%

### Summary Earnings Table

FY Dec (RMm)	2021A	2022E	2023E
Turnover	17,132	17,891.0	18,696.9
PBT	2,555.7	2,655.4	2,873.8
<b>Net Profit (NP)</b>	<b>1,862.5</b>	<b>1,625.1</b>	<b>1,802.9</b>
<b>Core NP</b>	<b>1,594.8</b>	<b>1,625.1</b>	<b>1,802.9</b>
Consensus (NP)	-	1623.1	1847.0
Earnings Revision	-	+8%	+11%
Core EPS (sen)	17.2	18.5	20.5
Core EPS growth (%)	142.3	7.7	10.9
NDPS (sen)	6.0	6.0	6.0
BVPS (RM)	2.56	2.68	2.83
Core PER (x)	36.5	33.9	30.6
PBV(x)	2.5	2.3	2.2
Net Gearing (%)	17.1	10.3	3.6
Net Div. Yield (%)	17.2	18.5	20.5

20 June 2022

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2019A	2020A	2021A	2022E	2023E	FY Dec	2019A	2020A	2021A	2022E	2023E
Revenue	14,912	13,405	17,132	17,891	18,697	<b>Growth</b>					
EBITDA	3,319	3,089	4,279	4,183	4,247	Turnover	11%	-6%	30%	16%	5%
Dep & Amort	(945)	(1,397)	(1,484)	(1,132)	(1,126)	EBITDA	34%	-7%	39%	-2%	2%
Op. Profit	1,746	1,254	3,060	3,051	3,121	Operating Profit	14%	-28%	144%	0%	2%
PBT	1,048	568	2,556	2,655	2,874	PBT	39%	-46%	350%	4%	8%
Taxation	(528)	(362)	(379)	(860)	(901)	Net Profit /(loss)	-11%	-22%	123%	2%	11%
MI	37	83	(314)	(170)	(170)	<b>Profitability</b>					
<b>Net Profit</b>	556	289	1,863	1,625	1,803	EBITDA Margin	22%	23%	25%	23%	23%
<b>Core net profit</b>	921	715	1,595	1,625	1,803	Operating Margin	13%	12%	9%	18%	17%
<b>Balance Sheet</b>						PBT Margin	7%	4%	15%	15%	15%
<b>FY Dec (RM m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	Core Net Margin	4%	2%	11%	9%	10%
Fixed Assets	11,787	11,569	10,841	10,775	10,715	Eff. Tax Rate	50%	28%	31%	31%	31%
Int. Assets	14,656	14,114	14,193	14,193	14,193	ROA	1%	1%	4%	4%	4%
Other FA	10,984	11,539	11,943	11,943	11,943	ROE	2%	1%	8%	7%	7%
Inventories	350	420	455	475	497	<b>DuPont Analysis</b>					
Receivables	2,108	1,953	2,498	2,608	2,726	Net Margin (%)	3.7%	2.2%	10.9%	9.1%	9.6%
Other CA	453	751	563	563	563	Assets T/O (x)	3.0	3.3	2.7	2.6	2.6
Cash	4,715	4,188	5,018	6,422	7,964	Lev. Factor (x)	2.0	2.0	2.0	2.0	2.0
Total Assets	45,053	44,534	45,510	46,980	48,601	ROE (%)	2.5%	1.3%	8.4%	7.1%	7.5%
Payables	3,858	3,892	4,053	4,254	4,429	<b>Leverage</b>					
ST Borrowings	760	1,019	1,262	1,262	1,262	Debt/Asset (x)	0.2	0.2	0.2	0.2	0.2
Ot. ST Liability	731	704	735	735	735	Debt/Equity (x)	0.4	0.4	0.4	0.4	0.4
LT Borrowings	8,266	8,665	7,609	7,609	7,609	<b>Valuations</b>					
Ot. LT Liability	5,502	5,377	6,733	6,733	6,733	EPS (sen)	6.3	3.3	21.2	18.6	20.5
Minorities Int.	3,596	3,137	2,694	2,864	3,034	NDPS (sen)	4.0	4.0	6.0	6.0	6.0
Net Assets	22,340	21,740	22,425	23,523	24,800	BVPS (RM)	2.55	2.48	2.56	2.68	2.83
Share Capital	19,455	19,473	19,615	19,615	19,615	PER (x)	99.9	190.8	29.6	33.9	30.6
Reserves	4,414	4,255	5,656	6,755	8,031	Net Div. Yield(%)	0.5	0.6	0.6	1.0	1.0
Equity	22,340	21,740	22,425	23,523	24,800	EV/EBITDA (x)	17.9	19.6	13.8	13.8	13.2
<b>Cashflow Statement</b>											
<b>FY Dec (RM m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>						
Operating CF	2,447	2,445	3,532	2,242	2,247						
Investing CF	(2,592)	(2,078)	(822)	(1,000)	(1,000)						
Financing CF	(2,909)	(860)	(1,793)	163	295						
Change In Cash	(3,054)	(493)	917	1,405	1,542						
Free CF	1,447	1,445	2,532	1,242	1,247						

Source: Kenanga Research, Bursa Malaysia

**Sum-of-parts valuation (SOP-TP)**

	Basis	Multiples (x)	Value (RM m)	Remarks
PPL	EV/EBITDA	16	41,116	Inline with peers average
Acibadem (60%)	EV/EBITDA	15	19,806	Inline with peers average
IMU	Market value		1,345	Based on proposed divestment price
Fortis (31.1%)	Market value		2,715	10% discount to market value
Plife REIT (35.8%)			2,870	10% discount to market value
Total			67,851	
Net debt			(4,507)	
<b>Total</b>			<b>63,345</b>	
No of shares (m)			8,798	
<b>Target price (RM)</b>			<b>7.20</b>	

Source: Kenanga Research

20 June 2022

## 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.	1-Yr. Fwd.		
<b>HEALTHCARE</b>																	
IHH HEALTHCARE BHD	6.28	55,281	Y	12/2022	6%	6%	2%	11%	36.5	33.9	30.6	2.5	2.3	7.1%	1.0%	7.20	OP
KPJ HEALTHCARE BERHAD	0.850	3,692	Y	12/2022	9%	7%	140%	18%	70.0	29.2	24.7	1.7	1.6	5.6%	1.4%	0.970	MP
PHARMANIAGA BERHAD	0.605	793	Y	12/2022	-20%	-10%	-45%	-18%	4.6	8.4	10.2	1.8	1.6	20.1%	6.6%	0.710	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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