

# IHH Healthcare

## Resilient Demand for Private Healthcare

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IHH expects the strong recovery in patient throughput in recent quarters, from both domestic and international markets, to extend into 2023, underpinned by demand for non-COVID related services including elective surgeries. We maintain our forecasts, TP of RM7.20 and OUTPERFORM call.

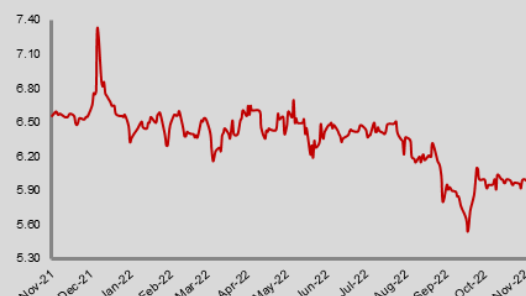
**Key highlights.** We came away from IHH's post 3QFY22 results briefing feeling positive. The key highlights are as follows:

1. The group is seeing pent-up demand for elective surgeries including local and foreign patients returning. There has been strong return of patients as well as growth in foreign patients in Malaysia and Singapore since April 2022. In Malaysia, patients are flocking back with bed occupancy rate (BOR) rising to 70% vs. 61% in 2QFY22 while its Singapore's 3QFY22 BOR was 57% vs. 56% in 2QFY22. In Singapore and Malaysia, foreign patients account for 17% (pre-COVID level) and 4% of revenue (not yet reach pre-COVID level). Overall, revenue intensity continued to remain strong. Inpatient admission was higher across the board including Malaysia (+36%), Acibadem (+7%) and India (+6%) but lower in Singapore (-3%). Revenue per inpatient rose in Singapore (+25%), Acibadem (+26%) and India (+1%), but lower in Malaysia (-9%). Inpatient admission rose in Malaysia (+25%) and Acibadem (+11%). In Turkey, foreign patient revenue contribution remained strong at 15%. European operation's contribution for Acibadem increased to 31% from 28%. As a result, 9MFY22 non-lira contribution rose to 46% from 41% in FY21. While in India, BOR came in at 75% vs. 69% in 2QFY22 due to growth in domestic electives and recovery of medical travel. Gleneagles HK continued its growth momentum in 3QFY22 with BOR of 64% vs. 58% in 2QFY22 to register positive EBITDA since May 2021.
2. The group is unperturbed by the weaker 3QFY22 contribution from both Singapore and Turkey which is only temporary. In Singapore, 3QFY22 inpatient throughput was lower due to nursing shortages leading to constraint in raising beds capacity. Going forward, the group is confident of overcoming the nursing shortages with >100 nurses currently in the recruitment pipeline and estimate that an additional uptick in volume by 10% once the additional beds capacity gradually improves. In Turkey, the poor showing in 3QFY22 was largely due to seasonally longer summer holidays.
3. The group is looking to divest its effective 49% stake in Gleneagles Chengdu Hospital Company Limited but short stop of saying when a decision is expected to be forthcoming. We are positive on this corporate move by IHH which is tandem with the group's strategy to review its operations and investments in China to minimise ongoing losses. We believe divestment of Gleneagles Chengdu is expected to further narrow losses and boost the group's overall bottomline. Specifically, 9MFY22 losses in Greater China narrowed to RM248m compared to RM497m in 9MFY21. The group has signed an equity transfer agreement with Perennial Health to divest its effective 49% stake in Gleneagles Chengdu Hospital Company Limited.

# OUTPERFORM ↔

Price : **RM5.80**  
Target Price : **RM7.20** ↔

### Share Price Performance



KLCI	1,488.80
YTD KLCI chg	-5.0%
YTD stock price chg	-21.0%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IHH MK Equity
Market Cap (RM m)	51,075.1
Shares Outstanding	8,806.0
52-week range (H)	7.34
52-week range (L)	5.44
3-mth avg daily vol:	6,228,079
Free Float	14%
Beta	1.0

### Major Shareholders

Mitsui & Co Ltd	32.8%
Pulau Memutik Ven Sdn Bhd	25.9%
Employees Provident Fund	10.0%

### Summary Earnings Table

FY Dec (RMm)	2021A	2022F	2023F
Turnover	17,132	17,891.0	18,696.9
PBT	2,555.7	2,514.4	2,873.2
<b>Net Profit (NP)</b>	<b>1,862.5</b>	<b>1,527.6</b>	<b>1,802.4</b>
<b>Core NP</b>	<b>1,594.8</b>	<b>1,527.6</b>	<b>1,802.4</b>
Consensus (NP)	-	1617.9	1791.5
Earnings Revision	-	-	-
Core EPS (sen)	17.2	17.4	20.5
Core EPS growth (%)	142.3	1.2	18.0
NDPS (sen)	6.0	6.0	6.0
BVPS (RM)	2.56	2.67	2.81
Core PER (x)	33.7	33.3	28.2
PBV(x)	2.3	2.2	2.1
Net Gearing (%)	17.1	10.7	3.9
Net Div. Yield (%)	1.0	1.0	1.0



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We continue to like IHH for: (i) its pricing power, as the inelastic demand of healthcare provides it with the ability to pass cost through amidst rising inflation, (ii) the strong recovery in patient throughput, from both domestic and international markets as the pandemic comes to an end, and (iii) its commanding market position in the private healthcare space with presence in Malaysia, Singapore, Turkey and Greater China.

We maintain our forecasts and SoP-TP of RM7.20 (see Page 3). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (also see Page 3).

**Key risks to our call include:** (i) regulatory risk, (ii) risks associated with overseas operations, and (iii) the lack of political will to roll out a national health insurance scheme.

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	FY Dec	2019A	2020A	2021A	2022F	2023F
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%
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	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)	92.3	176.2	27.3	33.3	28.2
Reserves	4,414	4,255	5,656	6,755	8,031	Net Div. Yield(%)	0.5	0.7	0.7	1.0	1.0
Equity	22,340	21,740	22,425	23,523	24,800	EV/EBITDA (x)	16.6	18.3	12.8	13.2	12.2
<b>Cashflow Statement</b>											
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F						
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

IHH's Sum-of-Parts Valuations				
	Basis	Multiples (x)	Value (RM m)	Remarks
PPL	EV/EBITDA	15	40,250	In-line with peers' average
Acibadem (60%)	EV/EBITDA	15	21,441	In-line with peers' average
IMU	Market value		1,345	Based on proposed divestment price
Fortis (31.1%)	Market value		3,300	10% discount to market value
Plife REIT (35.8%)			1,461	10% discount to market value
<b>Total</b>			<b>67,798</b>	
Net debt			(4,524)	
<b>Total</b>			<b>63,273</b>	
No of shares (m)			8,798	
<b>TP (RM)</b>			<b>7.20</b>	

Source: Kenanga Research

**Stock ESG Ratings:**

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★	★	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	☆		
<b>SPECIFIC</b>	Medical waste disposal	★	★	★		
	Usage of biodegradable materials	★	★	★		
	Energy efficiency	★	★	★	☆	
	Product safety	★	★	★	☆	
	Work site safety	★	★	★		
	Staff welfare	★	★	★		
<b>OVERALL</b>		★	★	★		

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP  
 ★★★★★ +10% premium to TP

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## Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
<b>Stocks Under Coverage</b>																	
IHH HEALTHCARE BHD	OP	5.80	7.20	24.1%	51,075	Y	12/2022	17.4	20.5	-4%	18%	33.3	28.2	2.2	6.7%	6.0	1.0%
KPJ HEALTHCARE BHD	OP	0.940	1.16	23.4%	4,083	Y	12/2022	3.8	4.2	211%	12%	24.9	22.3	1.8	7.3%	2.0	2.1%
MALAYSIAN GENOMICS	OP	0.755	1.07	41.7%	94	Y	06/2023	4.6	6.3	-14%	37%	16.5	12.0	2.0	13.9%	0.0	0.0%
RESOURCE CENTRE BHD																	
NOVA WELLNESS GROUP BHD	OP	0.885	1.09	23.2%	282	Y	06/2023	6.7	7.9	20%	18%	13.3	11.2	2.5	19.8%	3.0	3.4%
PHARMANIAGA BHD	MP	0.550	0.510	-7.3%	720	Y	12/2022	5.0	4.7	-62%	-6%	11.1	11.7	1.5	13.9%	2.3	4.2%
<b>Simple Average</b>								<b>7.5</b>	<b>8.7</b>	<b>30.1%</b>	<b>15.9%</b>	<b>19.8</b>	<b>17.1</b>	<b>2.0</b>	<b>12.3%</b>		<b>2.1%</b>

Source: Company, 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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Published by:

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