

01 June 2023

IHH Healthcare

Prescription for Growth

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IHH's 1QFY23 met expectations. Its 1QFY23 topline grew 24% driven by the return of both local and foreign patients, and generally higher inpatient admissions and yields. This was further boosted by its enlarged operations scale backed by the opening of Atasehir Hospital, the expansion at Gleneagles Hong Kong hospital and the acquisition of Ortopedia hospital. We maintain our forecasts, TP of RM7.00 and OUTPERFORM call.

1QFY23 core net profit of RM355m came in at 21% of both our full-year forecast and the full-year consensus estimate. We consider the results within expectations as we expect patient throughput to continue to rise during the remaining quarters.

YoY, 1QFY23 revenue increased 24% driven by the return of both local and foreign patients, the opening of Atasehir Hospital, the expansion at Gleneagles Hong Kong hospital and the acquisition of Ortopedia hospital. Overall, its inpatient admissions were largely higher across the board -higher in Malaysia (+41%), Acibadem (+14%) and India (+8%) but lower in Singapore (-2%). Revenue per inpatient rose in Singapore (+12%), Acibadem (+44%) and India (+15%), but was lower in Malaysia (-1%).

EBITDA only rose 15% due to higher operating expenses, particularly, staff cost. However, 1QFY23 core net profit came in lower by 12% due to lower contribution from Singapore and Acibadem. No dividend was declared in this quarter as expected.

Outlook. Looking ahead into 2023, we expect IHH's revenue per inpatient growth of 10%-15% (vs. 18% in 2022 due to low base effect in 2021), inpatient throughput growth of 10%-15% (vs. 10% in 2022) and bed occupancy rate (BOR) of 60%-73% (vs. 56%-70% in 2022) for its hospitals in Malaysia, Singapore, India and Turkey. We believe the key growth factor for its inpatient throughput and BOR will be the return of elective surgeries and medical travel, the addition of new beds (previously constrained by staff shortages) and the first full-year contribution from Atasehir hospital in Acibadem

Forecasts. We maintain our forecasts and SoP-TP of RM7.00 (see Page 2). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 3).

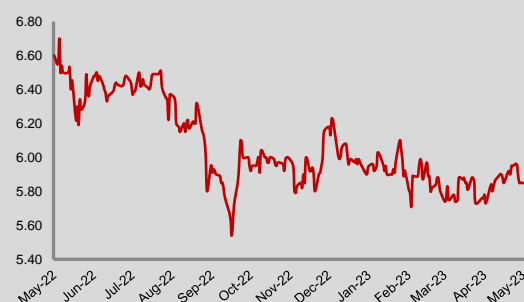
We continue to like IHH for: (i) its pricing power, as the inelastic demand of healthcare provides it with the ability to pass cost through amidst rising inflation, (ii) the strong recovery in patient throughput, from both domestic and international markets as the pandemic comes to an end, and (iii)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

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.

OUTPERFORM ↔

Price: **RM5.77**
Target Price: **RM7.00** ↔

Share Price Performance



KLCI	1,387.12
YTD KLCI chg	-7.2%
YTD stock price chg	-5.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IHH MK Equity
Market Cap (RM m)	50,816.3
Shares Outstanding	8,807.0
52-week range (H)	6.61
52-week range (L)	5.35
3-mth avg daily vol:	4,624,075
Free Float	15%
Beta	0.9

Major Shareholders

Mitsui & Co Ltd	32.8%
Pulau Memutik Ven Sdn Bhd	25.7%
Employees Provident Fund	10.3%

Summary Earnings Table

FY Dec (RMm)	2022A	2023F	2024F
Turnover	17,988.7	18,915.8	19,852.9
PBT	2,217.1	2,492.6	2,733.2
Net Profit (NP)	1,548.4	1,652.1	1,813.6
Core NP	1,380.7	1,652.1	1,813.6
Consensus (NP)	-	1679	1859
Earnings Revision	-	-	-
Core EPS (sen)	15.7	18.8	20.7
Core EPS growth (%)	(8.5)	19.7	9.8
NDPS (sen)	7.0	15.5	7.0
BVPS (RM)	2.98	3.10	3.24
Core PER (x)	36.7	30.7	27.9
PBV(x)	1.9	1.9	1.8
Net Gearing (%)	21.0	15.0	8.9
Net Div. Yield (%)	1.2	2.7	1.2

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Results Highlight					
FYE Dec	1Q	4Q	1Q	QoQ	YoY
(RM m)	2022	2022	2023	%Chg	%Chg
Turnover	4,163.1	4,856.8	5,142.4	5.9	23.5
Parkway Pantai	2,732.8	3,283.1	3,306.3	0.7	21.0
Acibadem Holdings	1,007.0	1,334.4	1,456.1	9.1	44.6
IMU Health	62.2	70.0	53.9	(23.0)	(13.3)
Labs	320.5	242.0	239.3	(1.1)	(25.3)
PLife REIT	94.7	96.3	101.0	4.9	6.6
Others (PLife REIT inter-segment revenue)	(54.1)	(57.0)	(60.5)	6.2	11.9
Adjustment for hyperinflationary economies^	0.0	(112.0)	46.3	NM	NM
EBITDA	996.5	1,073.1	1,149.5	7.1	15.4
Parkway Pantai	615.2	721.2	771.5	7.0	25.4
Acibadem Holdings	257.8	350.6	296.8	(15.3)	15.1
IMU Health	21.9	19.3	13.0	(32.6)	(40.6)
Labs	102.4	105.3	93.2	(11.5)	(9.0)
PLife REIT	72.8	60.8	78.6	29.2	7.9
Others	(16.8)	(77.7)	(41.4)	(46.7)	146.4
Eliminations	(56.9)	(57.5)	(64.2)	11.6	12.8
Adjustment for hyperinflationary economies^	0.0	(49.0)	1.9	(103.9)	NM
Depreciation & amortisation	(299.6)	(725.6)	(358.3)	(50.6)	19.6
Other operating income	99.5	133.8	1,104.4	725.3	1,010.3
Finance cost	(126.6)	(207.5)	(185.2)	(10.8)	46.3
Finance income	50.2	6.0	39.6	558.8	(21.2)
Associates and JV	8.4	8.8	6.6	(25.2)	(21.5)
Pretax profit	621.1	204.2	1,792.5	777.9	188.6
Taxation	(51.1)	(187.7)	(240.5)	28.1	370.8
Minority interest	(76.8)	174.8	(161.4)	(192.3)	110.2
Net profit	493.3	191.3	1,390.5^*	627.0	181.9
EPS (sen)	5.4	2.8	15.8	468.0	194.6
Core net profit	407.4	340.4	354.9*	(12.9)	(3.1)
EBITDA margin (%)	24	22	22		
Parkway Pantai	23	22	23		
Acibadem Holdings	26	26	20		
IMU Health	35	28	24		
Pretax margin (%)	15	4	35		
Effective tax rate (%)	8	92	13		

Source : Bursa Malaysia, Kenanga Research , ^ application of MFRS 129; *excluding a one-off RM25m donations for Türkiye earthquake), ^*due to RM981m gain from divestments of IMU (RM862m) and Chengdu Hospital (RM119m)

IHH's Sum-of-Parts Valuations

	Basis	Multiples	Value	Remarks
		(x)	(RM m)	
PPL	EV/EBITDA	15	40,062	In-line with peers' average
Acibadem (60%)	EV/EBITDA	15	20,042	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
Total			66,210	
Net debt			(4,612)	
Total			61,598	
No of shares (m)			8,798	
TP (RM)			7.00	

Source: Kenanga Research

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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.				
Stocks Under Coverage																	
IHH HEALTHCARE BHD	OP	5.77	7.00	21%	50,816	Y	12/2023	18.8	20.7	19.7%	9.8%	30.7	27.9	1.9	6.2%	15.5	2.7%
KOTRA INDUSTRIES BHD	OP	5.41	7.00	29%	801	Y	06/2023	46.6	46.7	11.1%	0.1%	11.6	11.6	2.6	24.8%	19.0	3.5%
KPJ HEALTHCARE BHD	OP	1.18	1.50	27%	5,150	Y	12/2023	4.9	5.3	27.7%	7.7%	23.9	22.2	2.3	9.7%	3.0	2.5%
MALAYSIAN GENOMICS	OP	0.530	0.800	51%	69	Y	06/2023	1.3	4.7	-75.0%	255.6%	39.9	11.2	1.5	4.3%	0.0	0.0%
RESOURCE CENTRE BHD																	
NOVA WELLNESS GROUP BHD	OP	0.750	0.960	28%	239	Y	06/2023	4.7	6.4	-10.8%	37.8%	16.1	11.7	2.2	14.1%	3.0	4.0%

Source: Company, Bloomberg, Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	★	
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	☆		
SPECIFIC	Care Quality & Patient Safety	★	★	★		
	Effluent / Waste Management	★	★	★		
	Energy Efficiency	★	★	★	☆	
	Cybersecurity/Data Privacy	★	★	★	☆	
	Talent Management	★	★	★		
	Supply Chain Management	★	★	★		
OVERALL		★	★	★		

☆ 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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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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