IHH Healthcare

Solid Growth Across Markets

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OUTPERFORM ↔

Price :	RM5.74
Target Price :	RM7.00 ↔

IHH expects double-digit top line growth in Malaysia, while staff shortages at its operations in Singapore are easing. Its operations in Türkiye should pick up as memories of the recent earthquake fade. Its operations in India are seeing the return of medical tourists from the Middle East and Central Asia while its hospital in Hong Kong should turn profitable by end-2023. We maintain our forecasts, TP of RM7.00 and OUTPERFORM call.

Key highlights. We came away from IHH's post 1QFY23 results briefing feeling positive. The key highlights are as follows:

1. **Malaysia**: The group expects double-digit growth in 2023 (which we have factored in our forecast), driven by sustained pent-up demand for elective surgeries, from both local and foreign patients. Beyond 2023, growth is expected to be driven by organic growth of an additional 600 beds (+20% to 3.600 beds) over the next 2-3 years.

   Recall, its Malaysia operation reported strong revenue intensity in 1QFY23 underpinned by inpatient admissions (+41% YoY; +3% QoQ) with bed occupancy rate (BOR) rising to 72% vs. 68% in 4QFY22 and 52% in 1QFY22. Presently, 1QFY23 foreign patients in Malaysia accounts for 5% of country revenue.

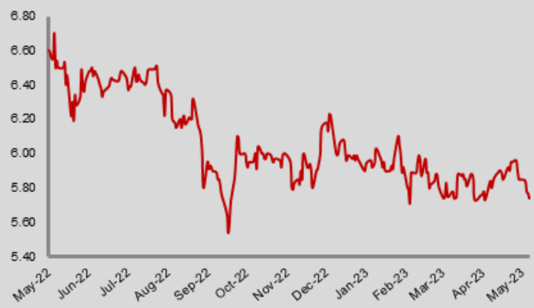
2. **Singapore**: The staff shortage issue is easing gradually. Case in point, 1QFY23 saw an estimated 50% of additional beds reopened due to new staff hiring. The group is confident of overcoming the nursing staff shortages with >100 nurses currently in the recruitment pipeline.

   1QFY23 BOR was at 60% vs. 55% in 1QFY22 thanks to easing nursing shortages. However, revenue intensity in Singapore remained robust driven by higher inpatient per revenue (+12% YoY). Presently, 1QFY23 foreign patients in Singapore accounts for 22% of country revenue which is seeing the return of medical travel.

3. **Türkiye**: The group is not perturbed by the lower contribution in Acibadem in 1QFY23 due to the Türkiye earthquake which is seen as temporary and expect patients to return in subsequent quarters as memories of the earthquake fade. Looking ahead, driven by procurement synergies and cost efficiency under the cluster strategy, the group conservatively expect a sustainable EBITDA margin of 23%-25% in Acibadem which is in line with our assumption of 23% for FY23. The group is seeing pent-up demand for elective surgeries including local and foreign patients returning, and to gain further momentum in the remaining quarters of 2023.

   Foreign patient revenue contribution remained steady at 12% albeit slightly lower at 15% in 4QFY22 due to the Türkiye earthquake. European operation's contribution for Acibadem fell marginally to 27% from 31%. In Türkiye, 300-bed Acibadem Atasehir Hospital which opened in mid-Sept 2022 experienced a faster-than-expected ramp-up due to strong medical tourism. All in, Acibadem's normalised 1QFY23 EBITDA margin fell 5ppts from 27% to 22% (excluding a one-off RM25m donations for Türkiye earthquake) due to the less than optimum patients throughput arising from the the Türkiye earthquake.

Share Price Performance



KLCI	1,383.01
YTD KLCI chg	-7.5%
YTD stock price chg	-6.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IHH MK
Market Cap (RM m)	50,552.1
Shares Outstanding	8,807.0
52-week range (H)	6.61
52-week range (L)	5.35
3-mth avg daily vol:	5,081,428
Free Float	15%
Beta	0.9

Major Shareholders

Mitsui & Co Ltd	32.8%
Pulau Memutik Ven Sdn Bhd	25.7%
Employees Provident Fund	10.2%

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)	-	1681	1862
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)	36.5	30.5	27.8
PBV(x)	1.9	1.8	1.8
Net Gearing (%)	21.0	15.0	8.9
Net Div. Yield (%)	1.2	2.7	1.2

4. **India**: The group reiterate that EBITDA mid-teens margins are sustainable in subsequent quarters (which we have factored in our forecast), driven by sustained pent-up demand for elective surgeries, from both local and foreign patients. Indications are pointing towards recovery in medical travel there as the group is seeing patients from Middle East and Central Asia returning.

   1QFY23 India operations top line and EBITDA grew 19% and 36%, respectively, driven by revenue intensity. Its India operation reported strong revenue intensity in 1QFY23 underpinned by inpatient admissions (+8% YoY; -1% QoQ) and average revenue per inpatient (+15% YoY; +5% QoQ) with bed occupancy rate (BOR) rising to 71% vs. 72% in 4QFY22 and 62% in 1QFY22.

5. **Hong Kong and Greater China**: The group expect Gleneagles Hong Kong (GHK) to achieve operating profit by end-2023. Due to better operational efficiencies and overhead absorption rate as a result of gradual ramp-up in opening new beds, GHK's revenue rose 45% YoY underpinned by higher patient throughput. The group target to open additional 50-100 beds from currently 230 by end 2023. As a testament, GHK EBITDA margins have gradually improved from as low as 2% to 9% in 1QFY23 and on track to achieve operating profit in end 2023. Gleneagles HK continued its growth momentum in 1QFY23 with BOR of 68% vs. 56% in 1QFY22. The group has completed the divestment of its effective 49% stake in Gleneagles Chengdu Hospital Company Limited. We are positive on this corporate move by IHH which is tandem with the group’s strategy to de-risk its operations and investments in China to minimise losses. *Ceteris paribus*, the deconsolidation of Gleneagles Chengdu in 2QFY23 is expected to narrow losses and boost the group’s overall bottom line.

6. Besides pursuing operational growth, the Group continues to seek earnings-accretive opportunities to acquire strategic assets across Asia and Europe, backed by its healthy balance sheet. It will also focus on improving its return on equity (ROE). The Group will continue to improve group synergies and operational efficiencies. On 14 February 2023, the Group expanded into Türkiye’s third largest city of Izmir with the acquisition of 100% of Kent, which operates the largest private hospital in Izmir. In addition, the Group continually reviews its asset portfolio and will divest any non-core and/or non-performing assets at an appropriate time. On 27 February 2023 and 31 March 2023, the Group completed the divestment of Gleneagles Chengdu Hospital and IMU Health, respectively.

7. Across all its key markets IHH operates in, prices were adjusted for inflation. The group has raised prices in tandem with rising inflation rate in an effort to mitigate rising cost pressure. The group expect the healthcare industry to continue facing near-term macroeconomic headwinds as most costs are expected to increase with global rising inflation including labour and higher energy prices. Nursing shortages across most markets have also led to increased pressure on salary costs, as well as placing limitations on bed capacity. Despite the high inflationary pressure, the group is unperturbed by any potential slowdown in demand. This is because IHH caters to a particular segment which is less price sensitive i.e. low “price elasticity of demand”. IHH has been able to pass on cost inflation to customers, as reflected in its rising revenue per inpatient over the past several quarters.

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 Türkiye. 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 Ataşehir hospital in Acibadem.

We maintain our forecasts and SoP-TP of RM7.00 (see Page 3). There is no adjustment to TP based on ESG given a 3-star rating as appraised by us (also see Page 4).

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, Türkiye 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.

Income Statement

FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F
Revenue	13,405	17,132	17,989	18,916	19,853
EBITDA	3,089	4,279	4,051	4,207	4,385
Dep & Amort	(1,397)	(1,484)	(1,791)	(1,225)	(1,211)
Op. Profit	1,254	3,060	2,734	2,981	3,174
PBT	568	2,556	2,217	2,493	2,733
Taxation	(362)	(379)	(572)	(670)	(750)
MI	83	(314)	(97)	(170)	(170)
Net Profit	289	1,863	1,548	1,652	1,814
Core net profit	715	1,595	1,381	1,652	1,814

Balance Sheet

FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F
Fixed Assets	11,569	10,841	11,883	11,723	11,578
Int. Assets	14,114	14,193	15,947	15,947	15,947
Other FA	11,539	11,943	12,355	12,355	12,355
Inventories	420	455	519	546	573
Receivables	1,953	2,498	2,625	2,761	2,897
Other CA	751	563	1,474	1,474	1,474
Cash	4,188	5,018	3,664	5,079	6,630
Total Assets	44,534	45,510	48,467	49,885	51,455
Payables	3,892	4,053	4,240	4,485	4,685
ST Borrowings	1,019	1,262	1,637	1,637	1,637
Ot. ST Liability	704	735	1,413	1,413	1,413
LT Borrowings	8,665	7,609	7,566	7,566	7,566
Ot. LT Liability	5,377	6,733	4,484	4,484	4,484
Minorities Int.	3,137	2,694	2,967	3,137	3,307
Net Assets	21,740	22,425	26,161	27,164	28,363
Share Capital	19,473	19,615	19,685	19,685	19,685
Reserves	4,255	5,656	6,634	7,637	8,836
Equity	21,740	22,425	26,161	27,164	28,363

Cashflow Statement

FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F
Operating CF	2,445	3,532	3,668	2,922	3,022
Investing CF	(2,078)	(822)	(1,854)	(1,000)	(1,000)
Financing CF	(860)	(1,793)	(2,920)	(506)	(471)
Change In Cash	(493)	917	(1,106)	1,417	1,551
Free CF	1,445	2,532	2,668	1,922	2,022

Financial Data & Ratios

FY Dec	2020A	2021A	2022A	2023F	2024F
Growth					
Turnover	-6%	30%	16%	6%	5%
EBITDA	-7%	39%	-5%	4%	4%
Operating Profit	-28%	144%	-11%	9%	6%
PBT	-46%	350%	-13%	12%	10%
Net Profit /(loss)	-22%	123%	-3%	7%	10%
Profitability					
EBITDA Margin	23%	25%	23%	22%	22%
Operating Margin	9%	18%	15%	16%	16%
PBT Margin	4%	15%	12%	13%	14%
Core Net Margin	2%	11%	9%	9%	9%
Eff. Tax Rate	28%	15%	26%	27%	27%
ROA	1%	4%	3%	3%	4%
ROE	1%	8%	6%	6%	7%
DuPont Analysis					
Net Margin (%)	2.2%	10.9%	8.6%	8.7%	9.1%
Assets T/O (x)	3.3	2.7	2.7	2.6	2.6
Lev. Factor (x)	2.0	2.0	1.9	1.8	1.8
ROE (%)	1.3%	8.4%	6.4%	6.2%	6.5%
Leverage					
Debt/Asset (x)	0.2	0.2	0.2	0.2	0.2
Debt/Equity (x)	0.4	0.4	0.4	0.3	0.3
Valuations					
EPS (sen)	3.3	21.2	17.6	18.8	20.7
NDPS (sen)	4.0	6.0	7.0	7.0	7.0
BVPS (RM)	2.48	2.56	2.98	3.10	3.24
PER (x)	173.5	26.9	36.3	30.5	27.8
Net Div. Yield(%)	0.7	1.1	1.2	1.2	1.2
EV/EBITDA (x)	18.0	12.6	13.7	12.9	12.0

Source: Kenanga Research, Bursa Malaysia

IHH's Sum-of-Parts Valuations

	Basis	Multiples (x)	Value (RM m)	Remarks
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

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

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.
Stocks Under Coverage																	
IHH HEALTHCARE BHD	OP	5.74	7.00	22%	50,552	Y	12/2023	18.8	20.7	19.7%	9.8%	30.5	27.8	1.8	6.2%	15.5	2.7%
KOTRA INDUSTRIES BHD	OP	5.40	7.00	30%	799	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	1.16	1.50	29%	5,063	Y	12/2023	4.9	5.3	27.7%	7.7%	23.5	21.8	2.2	9.7%	3.0	2.6%
MALAYSIAN GENOMICS RESOURCE CENTRE BHD	OP	0.500	0.800	60%	65	Y	06/2023	1.3	4.7	-75.0%	255.6%	37.6	10.6	1.4	4.3%	0.0	0.0%
NOVA WELLNESS GROUP BHD	OP	0.740	0.960	30%	236	Y	06/2023	4.7	6.4	-10.8%	37.8%	15.9	11.5	2.1	14.1%	3.0	4.1%

Source: Company, Bloomberg, Kenanga Research

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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