

04 March 2024

IHH Healthcare

Upbeat on FY24

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IHH plans to add >4,000 beds (+30%) over the next five years across Malaysia, India, Türkiye and Europe. It expects earnings drag to gradually ease in Türkiye (the return of foreign patients), Singapore (nurse shortages resolved) and Hong Kong (economies of scale). We maintain our forecasts, TP of RM7.00 and OUTPERFORM call.

Key highlights. We came away from IHH's post 4QFY23 results briefing feeling positive on its prospects. The key highlights are as follows:

- Türkiye and Europe:** Acibadem's operating environment in FY24 will be more favourable as compared to FY23 when there were a presidential election, an earthquake and long weekend holidays. In FY23, foreign patients accounted for 18% of its total revenue, down from 23% in FY22. Typically, while foreign patients only account for 5% of its total patients, these high-yielding customers contribute 23%-25% of total revenue.

In FY23, the contribution from Acibadem's Europe operation fell marginally to 29% from 31% due to a 50% capacity reduction in operation theatres in its Amsterdam hospital which was partially closed for renovation. However, it already recovered in 4QFY23, lifting the total contribution from Europe to 30% compared to 28% in 3QFY23. All in, Acibadem's FY23 EBITDA margin fell 3ppts from 24% to 21% due to higher salary increment and staff costs from new hospitals (Kent, Ataşehir and Ortopedia) and less than optimum patient throughput arising from the reasons explained above. The group is optimistic of margin improvement in FY24, as they have seen uptick in demand in Jan 2024. In FY24, it plans to add 120 beds (+5%) and 310 beds (+30%) in Türkiye and Europe.

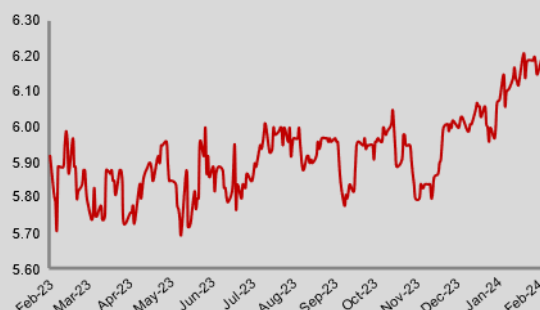
- Singapore:** IHH expects patient throughput to recover, having resolved the nurse shortage issue, coupled with the return of patients after the year-end holiday period. Its 4QFY23 BOR was at 61% vs. 62% in 3QFY23. Its FY23 revenue intensity in Singapore remained robust driven by higher inpatient per revenue (+14% YoY). It has gradually re-opened all its blocked beds in tandem with uptick in demand. Revenue intensity is expected to remain robust with the opening of its Proton Therapy Centre at Mount Elizabeth Hospital in Singapore. The state-of-the art facility is the first of its kind among private hospitals in Southeast Asia, providing adult and paediatric patients in Singapore and within the region with access to one of the most advanced forms of precision cancer treatments available.

- Malaysia:** The growth will be organic in nature with the addition of 1,300 beds (+46% to 4,300 beds) over the next five years, including 160 beds in FY24. For example, it has partnered with Pelaburan Hartanah Bhd (PHB) for the development of a new medical block adjacent to the current Gleneagles Hospital Kuala Lumpur complex with over 260 beds targeted for completion by 2027. In the meantime, IHH has completed the acquisition of Timberland Medical Centre (TMC) and build new 200-bed hospital in Kuching.

OUTPERFORM ↔

Price : RM6.14
Target Price : RM7.00 ↔

Share Price Performance



KLCI	1,538.02
YTD KLCI chg	5.7%
YTD stock price chg	1.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IHH MK Equity
Market Cap (RM m)	54,074.9
Shares Outstanding	8,807.0
52-week range (H)	6.25
52-week range (L)	5.53
3-mth avg. daily vol.	4,568,362
Free Float	14%
Beta	0.7

Major Shareholders

Mitsui & Co Ltd	32.8%
Pulau Memutik Ven SdnBhd	25.7%
Employees Provident Fund	10.9%

Summary Earnings Table

FY Dec (RMm)	2023A	2024F	2025F
Turnover	20,934.8	21,666.1	22,739.4
PBT	4,049.3	2,737.8	2,846.3
Net Profit (NP)	2,951.9	1,811.3	1,897.5
Core NP	1,279.2	1,811.3	1,897.5
Consensus (NP)	-	1740.3	1863.5
Earnings Revision	-	-	-
Core EPS (sen)	14.6	20.6	21.6
Core EPS Growth (%)	(7.4)	41.6	4.8
NDPS (sen)	18.6	7.0	7.0
BVPS (RM)	3.32	3.45	3.60
Core PER (x)	42.1	29.7	28.4
PBV(x)	1.9	1.8	1.7
Net Gearing (%)	20.4	14.2	8.1
Net Div. Yield (%)	3.0	1.1	1.1

04 March 2024

It is targeting EBITDA margin of 24%-25% in FY24. The EBITDA margin compression in FY23 of 25% vs 28% in FY22 was due to a one-off backdated sales and service tax provision (RM13m) and higher nursing salary adjustments in Malaysia. Its Malaysia operation reported strong revenue intensity in 4QFY23 underpinned by revenue per inpatient (+4% YoY; +2% QoQ) and inpatient admissions (+8% YoY; +3% QoQ). Due to the year-end holidays, 4QFY23 bed occupancy rate was slightly lower but remain sustained due to case-mix of more acute cases at 72% vs 74% in 3QFY23.

4. **India:** Its 4QFY23 EBITDA margin rose 1ppt to 16% compared to 15% (reported EBITDA margin is 21% due to writebacks) in 3QFY23 due to improved patient volumes and better cost management despite 4QFY23 BOR falling slightly to 68% from 73% due to floods in Chennai. The group reiterated that its EBITDA margin in the mid-teens is sustainable (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. The group is looking to improve under-performing assets. Case in point, it has divested loss-making Fortis Malar Hospital, in-line with its rationalisation strategy to improve profitability. In terms of organic growth, it is targeting to add >2,000 beds to 7,000 by 2028 in India via Fortis Healthcare (+1530 beds or +36%) and Gleneagles India (+300 beds or +34%) over the next five-years.

In FY23, India operation's top line and EBITDA grew 12% and 22%, respectively, driven by revenue intensity. Its India operation reported strong revenue intensity driven by acute case mix in FY23, underpinned by inpatient admissions (+1%) and average revenue per inpatient (+14%) with bed occupancy rate (BOR) higher at 70% vs. 69% in FY22. The weak throughput was impacted by floods in Chennai.

5. **Hong Kong and Greater China:** IHH is optimistic and targeting GHK to be bottom line positive in 2024 after achieving EBIT-positive in 2QFY23. Due to better operational efficiencies and overhead absorption rate as a result of strong ramp-up in its operations including opening new beds, GHK in 4QFY23 saw margin expansion to 16% from 11% in 3QFY23, and higher BOR of 65% vs. 64% in 3QFY23. GHK's 4QFY23 revenue rose 24% YoY underpinned by higher patient throughput. The group target to open additional 50-100 beds from currently 230 by end-2023.
6. **Long-term growth via organic and M&As:** The group plans to increase bed capacity >30% or 4,000 beds over the next 5-years across Malaysia, India, Türkiye and Europe. The capacity expansion will also encompass facelifts and renovations to existing facilities, building of extensions, new constructions and relocating some of its complementary ancillary services to alternative sites near the hospitals to avail more space for inpatients. It will continue to seek earnings-accretive corporate opportunities across Asia and Europe, backed by its healthy balance sheet. It will also focus on improving its return on equity (ROE). Case in point - ROE has improved from 6% in 2022 to 11% as at Dec 2023. The Group will continue to improve group synergies and operational efficiencies. On Feb 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. The Group will expand its footprint to Kuching, Sarawak, upon the completion of the acquisition of Bedrock Healthcare Sdn Bhd in 1HCY24, and plans to scale up the existing 82-bed hospital to a 200-bed hospital with a further investment estimated at RM400m, to serve the local needs in East Malaysia as well as the fast-growing medical tourism market from the region.

Outlook. Looking ahead in 2024, we expect IHH's revenue per inpatient growth of 12%–16% (vs. an estimated +19% in 2023 due to low base effect in 2022), inpatient throughput growth of 9%–12% (vs. an estimated +7% in 2023) and bed occupancy rate (BOR) of 65%–73% (vs. an estimated averaging 65% in 2023) for its hospitals in Malaysia, Singapore, India and Türkiye. We believe the key growth factor for its inpatient throughput and BOR would be revenue intensity from a case-mix with more acute cases and medical tourists, the addition of new beds (previously constrained by staff shortages which are gradually easing). We expect sustained performance in Malaysia, while staff shortages in Singapore have been resolved. There is also a return of Middle Eastern and Central Asian medical tourists to its hospitals in Türkiye and India.

Forecasts. Maintained.

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

Investment case. We continue to like IHH for: (i) the bright prospects of the private healthcare sector in Malaysia underpinned by rising affluence and ageing population, (ii) its pricing power, as the inelastic demand of healthcare provides it with the ability to pass cost through amidst rising inflation, 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.

04 March 2024

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F	FY Dec	2021A	2022A	2023A	2024F	2025F
Revenue	17,132	17,989	20,935	21,666	22,739	Growth					
EBITDA	4,279	4,051	4,644	4,802	4,809	Turnover	28%	5%	16%	3%	5%
Dep & Amort	(1,484)	(1,791)	(1,120)	(1,363)	(1,337)	EBITDA	39%	-5%	15%	3%	0%
Op. Profit	3,060	2,734	4,864	3,439	3,473	Operating Profit	144%	-11%	78%	-29%	1%
PBT	2,556	2,217	4,049	2,738	2,846	PBT	350%	-13%	83%	-32%	4%
Taxation	(379)	(572)	(658)	(756)	(779)	Net Profit /(loss)	123%	-13%	-7%	42%	5%
MI	(314)	(97)	(439)	(170)	(170)	Profitability					
Net Profit	1,863	1,548	2,952	1,811	1,898	EBITDA Margin	25%	23%	22%	22%	21%
Core net profit	1,595	1,381	1,279	1,811	1,898	Operating Margin	9%	18%	15%	23%	16%
Balance Sheet						PBT Margin	15%	12%	19%	13%	13%
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F	Core Net Margin	11%	9%	14%	8%	8%
Fixed Assets	10,841	11,883	13,414	13,117	12,846	Eff. Tax Rate	15%	26%	16%	28%	27%
Int. Assets	14,193	15,947	17,259	17,259	17,259	ROA	4%	3%	6%	4%	4%
Other FA	11,943	12,355	12,806	12,806	12,854	ROE	8%	6%	11%	6%	6%
Inventories	455	519	640	662	695	DuPont Analysis					
Receivables	2,498	2,625	3,084	3,192	3,350	Net Margin (%)	10.9%	8.6%	14.1%	8.4%	8.3%
Other CA	563	1,474	610	610	610	Assets T/O (x)	2.7	2.7	2.4	2.4	2.3
Cash	5,018	3,664	2,379	4,021	5,746	Lev. Factor (x)	2.0	1.9	1.7	1.7	1.7
Total Assets	45,510	48,467	50,192	51,667	53,359	ROE (%)	8.4%	6.4%	10.7%	6.1%	6.1%
Payables	4,053	4,240	4,952	5,059	5,298	Leverage					
ST Borrowings	1,262	1,637	1,739	1,739	1,739	Debt/Asset (x)	0.2	0.2	0.2	0.2	0.2
Ot. ST Liability	735	1,413	766	766	766	Debt/Equity (x)	0.4	0.4	0.3	0.3	0.3
LT Borrowings	7,609	7,566	6,651	6,651	6,651	Valuations					
Ot. LT Liability	6,733	4,484	3,726	3,726	3,726	EPS (sen)	21.2	17.6	33.6	20.6	21.6
Minorities Int.	2,694	2,967	3,253	3,423	3,593	NDPS (sen)	6.0	7.0	7.0	7.0	7.0
Net Assets	22,425	26,161	29,106	30,303	31,586	BVPS (RM)	2.56	2.98	3.32	3.45	3.60
Share Capital	19,615	19,685	19,692	19,692	19,692	PER (x)	29.0	34.9	42.1	29.7	28.4
Share premium	(2,846)	(158)	1,574	1,574	1,574	Net Div. Yld. (%)	1.0	1.1	3.0	1.1	1.1
Reserves	5,656	6,634	7,840	9,037	10,320	EV/EBITDA (x)	13.5	14.7	12.9	12.1	11.8
Equity	22,425	26,161	29,106	30,303	31,586						
Cashflow Statement											
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F						
Operating CF	3,532	3,668	3,759	3,191	3,196						
Investing CF	(822)	(1,854)	(936)	(1,000)	(1,000)						
Financing CF	(1,793)	(2,920)	(3,999)	(471)	(471)						
Change In Cash	917	(1,106)	(1,175)	1,720	1,725						
Free CF	2,532	2,668	2,759	2,191	2,196						

Source: Kenanga Research, Bursa Malaysia

IHH's Sum-of-Parts Valuations

	Basis	Multiples (x)	Value (RM m)	Remarks
Parkway Pantai	EV/EBITDA	15	43,261	In line with peers' average
Acibadem (60%)	EV/EBITDA	15	20,712	In line with peers' average
Fortis (31.1%)	Market value		3,300	10% discount to market value
Plife REIT (35.8%)			1,461	10% discount to market value
Total			68,735	
Net debt			(6,995)	
Total			61,739	
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

04 March 2024

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	6.14	7.00	14%	54,075	Y	12/2024	20.6	21.6	42%	5%	29.7	28.4	1.8	6.1%	7.0	1.1%
KOTRA INDUSTRIES BHD	OP	4.80	5.90	23%	712	Y	06/2024	33.9	39.3	-23%	16%	14.2	12.2	2.2	16.9%	26.0	5.4%
KPJ HEALTHCARE BHD	OP	1.67	1.95	17%	7,559	Y	12/2024	6.2	6.9	7%	12%	27.1	24.2	3.0	11.2%	3.4	2.0%
NOVA WELLNESS GROUP BHD	OP	0.545	0.740	36%	174	Y	06/2024	4.9	5.5	9%	12%	11.1	10.0	1.5	14.0%	3.3	6.1%
PHARMANIAGA	UP	0.365	0.310	-15%	526	Y	12/2024	3.1	3.2	-42%	3%	11.7	11.4	(2.1)	-16.4%	0.0	0.0%

Source: Company, Bloomberg, Kenanga Research

04 March 2024

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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