

23 April 2024

IHH Healthcare

Too Prominent to Sit Out Sector Re-Rating

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IHH will add >4,000 beds (+30%) over the next five years. It is planning a new hospital in Rotterdam, following its success in Amsterdam. It is stepping up ambulatory care (Singapore), public-private partnerships (Malaysia), and brownfield expansion (India). Its share price has lagged its peers amidst a sector re-rating. We maintain our forecasts, TP of RM7.00 and OUTPERFORM call.

A screaming laggard play. The private healthcare sector has attracted significant attention from investors of late due to: (i) the recent acquisition of Ramsay Sime Darby Health Care by Columbia Asia Healthcare (at premium valuations), and (ii) the impending listing of Sunway Healthcare Group (potentially also at premium valuations). **KPJ (OP; TP: RM1.95)** and **SUNWAY (UP; TP: RM2.51)** have seen their share prices rising 36% and 69% YTD, respectively (see chart on the next page). However, IHH (+2% YTD) has sat out the share price rally, we believe, as investors are still fixated with its earnings disappointment in FY23 due to: (i) presidential election, an earthquake and long weekend holidays in Türkiye, and (ii) shortages of nurses in Singapore and Malaysia.

We believe investors should now focus on its earnings catalysts in FY24 such as: (i) the return of foreign patients in Türkiye, (ii) nurse shortages resolved in Singapore and Malaysia; and (iii) disposal of under-performing assets and the return of patients from Middle East and Central Asia in India.

IHH trades at 12x EV/EBITDA compared to 20x that Columbia Asia paid for Ramsay Sime Darby Health Care in Nov 2023. Note that Ramsay Sime Darby Health Care owns 1,530 licensed beds across seven premium hospitals in Malaysia and Indonesia.

Meanwhile, we came away from IHH's leadership dialogue series yesterday feeling positive on its prospects. The key highlights are as follows:

- Türkiye and Europe:** IHH is focusing on Europe to drive growth and as part of its plan to increase non-lira revenue. Following its success in Amsterdam, Netherlands, it is considering opening a hospital in Rotterdam (2nd largest city in Netherlands). Its success in the Amsterdam hospital was mainly due to its strategy focusing on short stay procedures and ambulatory care. 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.

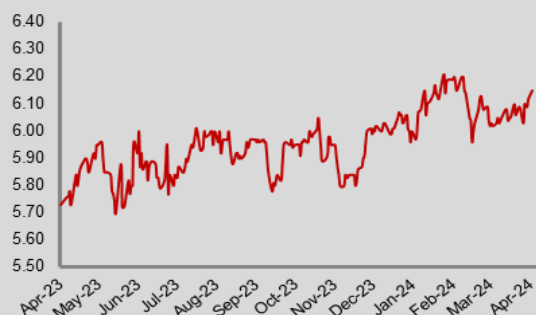
In FY23, the contribution from Acibadem's Europe operation fell marginally to 29% from 31% due to a 50% capacity reduction in operation theatres in its Amsterdam hospital which was partially closed for renovation. However, it already recovered in 4QFY23, lifting the total contribution from Europe to 30% compared to 28% in 3QFY23. In FY24, it plans to add 120 beds (+5%) and 310 beds (+30%) in Türkiye and Europe.

- Singapore:** It is pushing to grow the continuum of care with an expansion in the ambulatory care. For instance, procedures like total knee replacements, typically conducted as inpatient surgeries are now performed on an outpatient basis in ambulatory centres. Typically, patients undergo surgery in the morning and return home the same day.

OUTPERFORM ↔

Price : **RM6.15**
Target Price : **RM7.00** ↔

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,559.59 |
| YTD KLCI chg | 7.2% |
| YTD stock price chg | 2.0% |

Stock Information

| | |
|-----------------------|---------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | IHH MK Equity |
| Market Cap (RM m) | 54,163.0 |
| Shares Outstanding | 8,807.0 |
| 52-week range (H) | 6.25 |
| 52-week range (L) | 5.61 |
| 3-mth avg. daily vol. | 4,943,433 |
| Free Float | 14% |
| Beta | 0.7 |

Major Shareholders

| | |
|---------------------------|-------|
| Mitsui & Co Ltd | 32.8% |
| Pulau Memutik Ven Sdn Bhd | 25.7% |
| Employees Provident Fund | 10.9% |

Summary Earnings Table

| FY Dec (RM m) | 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) | - | 1,675.9 | 1,864.4 |
| 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 | 29.8 | 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 |
| EV/EBITDA (x) | 12.9 | 12.1 | 11.8 |

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An ambulatory surgical centre accommodates patients for less than 24 hours, with patients typically discharged at the end of the day. 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.

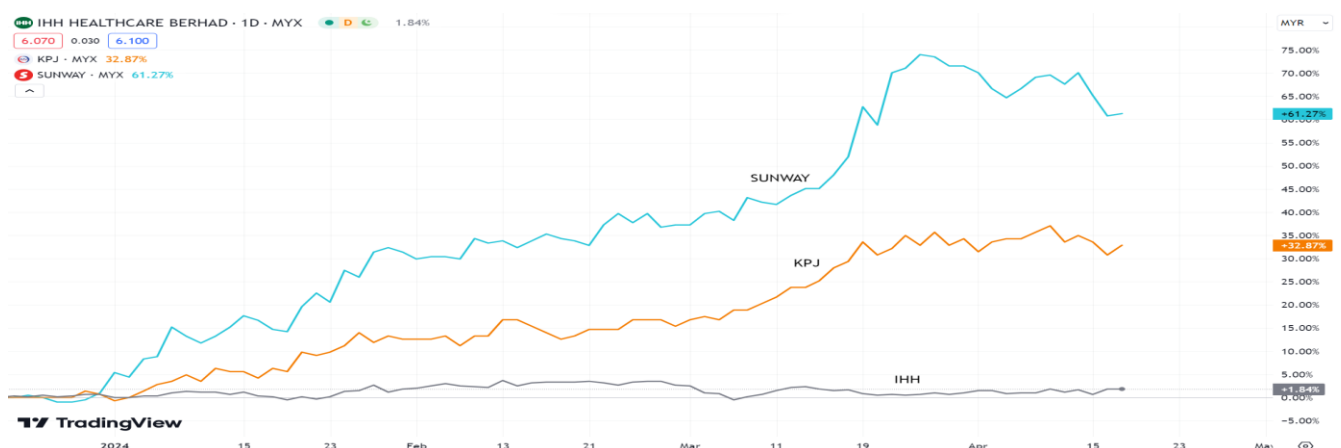
- 3. **Malaysia:** IHH believe that public-private partnerships are crucial in ensuring a more equitable healthcare ecosystem for all. It is providing free radiotherapy and radiosurgery treatment for 500 patients from government hospitals. These patients, referred by Ministry of Health (MOH) and its specialists, will receive treatment at IHH's seven hospitals in Malaysia equipped with Gamma Knife and Linear Accelerator (LINAC). Since 2022, IHH Malaysia has completed treatment for 500 cancer patients using these cutting-edge technologies in the previous iteration of the MOU.

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.

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. Generally, medical tourism in Malaysia accounts for <3% of Malaysia's topline.

- 4. **India:** Citing high bed occupancy rate of >70% throughout its hospitals nationwide, IHH believes the fastest way to meet the growing demand is via brownfield expansion. It is targeting to add >2,000 beds to 7,000 by 2028 in India via Fortis Healthcare (+1,530 beds or +36%) and Gleneagles India (+300 beds or +34%) over the next five-years. 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. 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.
- 5. **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.

YTD Relative Share price performance



Source: Kenanga Research, TradingView

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.

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

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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. |
| Stocks Under Coverage | | | | | | | | | | | | | | | | | |
| IHH HEALTHCARE BHD | OP | 6.15 | 7.00 | 13.8% | 54,163.0 | Y | 12/2024 | 20.6 | 21.6 | 41.6% | 4.8% | 29.8 | 28.4 | 1.8 | 6.1% | 7.0 | 1.1% |
| KOTRA INDUSTRIES BHD | OP | 4.66 | 5.90 | 26.6% | 691.1 | Y | 06/2024 | 33.9 | 39.3 | -23.2% | 16.0% | 13.8 | 11.9 | 2.1 | 16.9% | 26.0 | 5.6% |
| KPJ HEALTHCARE BHD | OP | 1.93 | 1.95 | 1.0% | 8,423.1 | Y | 12/2024 | 6.2 | 6.9 | 7.4% | 12.0% | 31.3 | 28.0 | 3.4 | 11.2% | 3.4 | 1.8% |
| NOVA WELLNESS GROUP BHD | OP | 0.515 | 0.740 | 43.7% | 164.1 | Y | 06/2024 | 4.9 | 5.5 | 9.1% | 11.5% | 10.5 | 9.4 | 1.4 | 14.0% | 3.3 | 6.4% |
| PHARMANIAGA | UP | 0.335 | 0.310 | -7.5% | 482.8 | Y | 12/2024 | 3.1 | 3.2 | -41.9% | 2.7% | 10.7 | 10.4 | (1.9) | -16.4% | 0.0 | 0.0% |

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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