

30 May 2024

IHH Healthcare

Saved by Lower Tax

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IHH's 1QFY24 results met expectations. Its 1QFY24 core net profit rose 22% YoY driven largely by lower tax. Its EBITDA eased 2% despite a 16% growth in its top line suggesting that price hikes were outpaced by cost inflation. We believe scale will be critical to its operating performance in coming quarters. We maintain our forecasts, TP of RM7.00 and OUTPERFORM call.

Its 1QFY24 core net profit met expectations at 22% and 23% of our full-year forecast and the full-year consensus estimate, respectively. No dividend was declared during the quarter as expected.

YoY, its 1QFY24 revenue increased 16% driven by significant pick-up in its operations across the board driven by sustained demand, a case-mix of more acute patients and price adjustments to counter inflation. Overall, its revenue per inpatient admissions were largely higher across the board - higher in Malaysia (+10%), Türkiye (+51%) and India (+11%) and Singapore (+15%). Inpatient admissions were largely flat at 1%-3% across the board. However, its EBITDA fell 2%, we believe, weighed down by higher cost. Nonetheless, its core net profit rose 22% due to lower tax.

QoQ, its 1QFY24 revenue rose 13% largely due to higher revenue per inpatient and a mixed bag of inpatient admission across its key markets, from a low base in 4QFY23 (due to lower patient throughput during the year-end holiday and festive season). Overall, its inpatient admissions were higher in Singapore (+3%), Türkiye (+2%) but lower in Malaysia (-5%), and flat in India. In addition, revenue per inpatient also rose across the board including Türkiye (+24%), Malaysia (+5%), Singapore (+1%) and India (+6%). Its core net profit rose by a sharp 52% on gain of operating scale.

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 unchanged at RM7.00 (see Page 3). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

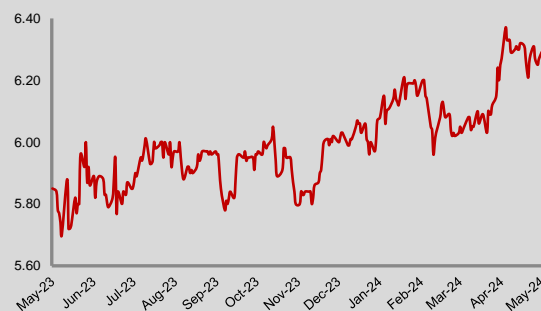
Investment case. We continue to like IHH for: (i) its pricing power, as the inelastic demand for healthcare provides it with the ability to pass cost through amidst rising inflation, (ii) the strong recovery in patient throughput, from both domestic and international markets, and (iii) its commanding 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.

OUTPERFORM ↔

Price: RM6.19
Target Price: RM7.00 ↔

Share Price Performance



KLCI	1,605.35
YTD KLCI chg	10.4%
YTD stock price chg	2.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IHH MK Equity
Market Cap (RM m)	54,515.3
Shares Outstanding	8,807.0
52-week range (H)	6.43
52-week range (L)	5.64
3-mth avg. daily vol.	4,999,291
Free Float	20%
Beta	0.7

Major Shareholders

Mitsui & Co Ltd	32.8%
Pulau Memutik Ven Sdn Bhd	25.9%
Employees Provident Fund	11.1%

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)	-	1686.7	1878.6
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)	42.5	30.0	28.6
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

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Results Highlight

FYE Dec (RM m)	1Q 2023	4Q 2023	1Q 2024	QoQ %Chg	YoY %Chg
Turnover	5,142.4	5,292.6	5,955.5	12.5	15.8
Parkway Pantai	3,306.3	3,670.2	3,855.9	5.1	16.6
Acibadem Holdings	1,456.1	1,564.5	1,793.9	14.7	23.2
IMU Health	53.9	-	-	NA	NA
Labs	239.3	243.6	255.8	5.0	6.9
PLife REIT	101.0	102.1	106.6	4.3	5.5
Others (PLife REIT inter-segment revenue)	(60.5)	(63.4)	(66.8)	5.5	10.4
Adjustment for hyperinflationary economies^	46.3	(224.4)	10.1	(104.5)	(78.2)
EBITDA	1,147.6	843.9	1,120.1	32.7	(2.4)
Parkway Pantai	882.1	768.7	911.5	18.6	3.3
Acibadem Holdings	476.3	491.5	511.7	4.1	7.4
IMU Health	13.0	-	-	NA	NA
Labs	83.8	85.4	98.8	15.7	17.9
PLife REIT	83.0	94.5	92.8	(1.7)	11.9
Others	1,052.4	609.4	13.6	(97.8)	(98.7)
Eliminations	(289.6)	(710.2)	(112.5)	(84.2)	(61.1)
Depreciation & amortisation	(369.4)	(387.0)	(414.0)	7.0	12.1
Finance cost	(185.2)	(246.9)	(257.4)	4.3	39.0
Finance income	39.6	(12.5)	78.7	(727.9)	98.9
Associates and JV	6.6	8.7	7.4	(14.9)	12.5
EI	1,153.3^	495.4*	395.9#		
Pretax profit	1,792.5	701.6	930.6	32.6	(48.1)
Taxation	(240.5)	114.7	(5.2)	(104.5)	(97.8)
Minority interest	(161.4)	(88.8)	(157.4)	77.3	(2.5)
Net profit (PATAMI)	1,390.5	727.5	768.0	5.6	(44.8)
Core PATAMI	329.9	265.5	402.8	51.8	22.1
EPS (sen)	15.8	8.3	8.7	5.6	(44.8)
EBITDA margin (%)	22	16	25		
Parkway Pantai	27	21	24		
Acibadem Holdings	33	31	29		
IMU Health	24	NM	NM		
Pretax margin (%)	35	13	16		
Effective tax rate	13	(16)	1		

Source : Bursa Malaysia, Kenanga Research ,

^excluding gain from disposal (RM981m) and net monetary gain arising from hyperinflationary economy (RM165m)

* net monetary gain arising from hyperinflationary economy (RM274m), deferred tax credits (RM256m), Exchange difference on net borrowings, net of changes in fair value of financial derivatives (RM43m)

deferred tax credits (RM293m), Exchange difference on net borrowings, net of changes in fair value of financial derivatives (RM146m), Exchange difference on net borrowings, net of changes in fair value of financial derivatives (RM46m)

Note that core PATAMI exclude tax effects and Minorities on EI

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IHH's Sum-of-Parts Valuations

Unit	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

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	6.19	7.00	13.1%	54,515.3	Y	12/2024	20.6	21.6	41.6%	4.8%	30.0	28.6	1.8	6.1%	7.0	1.1%
KOTRA INDUSTRIES BHD	OP	4.47	5.35	19.7%	663.0	Y	06/2024	29.5	35.6	-33.0%	20.6%	15.1	12.6	2.1	14.9%	26.0	5.2%
KPJ HEALTHCARE BHD	OP	1.94	1.95	0.5%	8,466.7	Y	12/2024	6.2	6.9	7.4%	12.0%	31.5	28.1	3.4	11.2%	3.4	2.1%
NOVA WELLNESS GROUP BHD	OP	0.530	0.700	32.1%	168.9	Y	06/2024	4.1	4.7	-8.4%	13.0%	12.9	11.4	1.5	11.9%	3.3	6.0%
PHARMANIAGA	UP	0.340	0.340	0.0%	490.0	Y	12/2024	3.5	3.4	-34.7%	-3.8%	9.7	10.1	(2.0)	-18.7%	0.0	0.0%

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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