IHH Healthcare

Upbeat on Prospects in FY24

OUTPERFORM ↔

Price : **RM6.19**
Target Price : **RM7.00** ↔

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IHH expects its earnings momentum to accelerate, underpinned by revenue intensity and rising demand in 2HFY24. It has pegged its charges to patients to consumer price index (CPI) across all its key markets. It expects strong patient throughput in Turkey, Singapore and Malaysia after the festive season in 1QFY24. We maintain our forecasts, TP of RM7.00 and OUTPERFORM call.

We came away from IHH's post 1QFY24 results briefing feeling positive on its prospects. The key highlights are as follows:

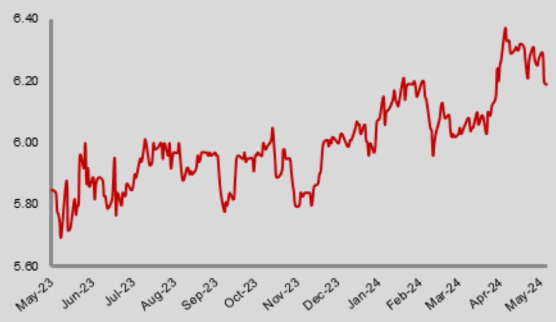
1. **Singapore**: The group is experiencing a surge in demand for single bedroom. Consequently, it is converting its two to four bedded rooms into single bedded room and only retaining a small number of four bedded rooms. Typically, single bedded room generate better yields compared to two and four bedded. Generally, single bedded rooms charges are higher compared to two and four bedded. Despite seasonally slower 1QFY24 due to festive holidays, its 1QFY24 BOR was at 63% vs 61% in 4QFY23 and 60% in 1QFY23. Similarly, 1QFY24 revenue intensity in Singapore remained robust, driven by higher revenue per inpatient (+13% YoY). Its Singapore operation is constantly moving up the value chain in providing higher yields healthcare services. Case in point, the opening of its Proton Therapy Centre at Mount Elizabeth Hospital in Singapore in May 2024 providing state-of-the art facility focusing on precision cancer treatments. Due to pent-up demand, it has increased its frequency for the usage of Proton Beam.

2. **Türkiye and Europe**: Acibadem's contribution is expected to see growth in FY24 from a low base effect in FY23. It is experiencing both local and foreign patients returning in Apr and May 2024 on the back of a seasonally slower 1QFY24 due to the fasting month in March. In 1QFY24, foreign patients accounted for 13% of its total revenue, up marginally from 12% in 1QFY23. Typically, while foreign patients only account for 5% of its total patients, these high-yielding customers contribute 23%-25% of total revenue.

   In 1QFY24, the contribution from Acibadem's Europe operation was flat at 27% from 27% in 1QFY23 but slightly lower compared to 30% in 4QFY23 due to a 50% capacity reduction in operation theatres in its Amsterdam hospital which was partially closed for renovation. Acibadem's core EBITDA margin fell 4ppts from 25% in 4QFY23 to 21% in 1QFY24 due to higher salary increment 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 Apr and May 2024. In FY24, it plans to add 120 beds (+5%) and 310 beds (+30%) in Türkiye and Europe.

3. **Malaysia**: Beyond 2024, 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. Its 1QFY24 EBITDA margin was 25% and is targeting FY24 EBIDTA margin of 24%-25%. The EBITDA margin compression in 1QFY24 of 25% vs 28% in 1QFY23 was due to higher nursing salary adjustments in Malaysia.

Share Price Performance



KLCI	1,604.26
YTD KLCI chg	10.3%
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.	4,959,187
Free Float	20%
Beta	0.7

Major Shareholders

Mitsui & Co Ltd	32.8%
Pulau Memutik Ven SdnBhd	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)	-	1740	1920
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
EV/EBITDA (x)	13.0	12.2	11.8

Its Malaysia operation reported strong revenue intensity in 1QFY24 underpinned by revenue per inpatient (+10% YoY; +5% QoQ) and inpatient admissions (-1% YoY; -5% QoQ). Due to the festive holidays in 1QFY24, bed occupancy rate was slightly lower at 67% (partly due to a 5% increase in operational beds) but remain sustained due to case-mix of more acute cases at 72% vs 74% in 3QFY23

It plans to construct a 200-bed hospital in Sarawak to serve the local needs in East Malaysia as well as the fast-growing medical tourism market from the region. Recall, 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 construction expected to commence somewhere in 2H 2024 with an investment estimated at RM400m.

4. **India**: The group is optimistic on the outlook in India underpinned by cost efficiency, case mix focusing on high yields and sustained pent-up demand in FY24. Its 1QFY24 EBITDA margin rose 4ppts to 19% compared to 15% in 4QFY23 and 1QFY23 due to absence of underperforming Fortis Malar hospital which had been divested (sale completed in Jan-Feb 2024), improved patient volumes and better cost management despite 1QFY24 BOR falling slightly to 70% from 71% in 1QFY23. 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. To further improve on margins and revenue intensity, it is focusing on oncology and cariology segments which are seeing surge in demand. The group is looking to improve under-performing assets 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 (+1560 beds or +38%) 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 1QFY24, underpinned by inpatient admissions (+1%) and average revenue per inpatient (+11%).

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 1QFY24 4QFY23 saw margin expansion to 14% from 10% in 1QFY23. However QoQ, 1QFY24 EBITDA margin is lower by 2% to 14% form 16% in 4QFY23 due to ramp-up in hiring in anticipation of increasing capacity. GHK's 1QFY24 revenue rose 24% YoY underpinned by higher patient throughput. Separately, it is targeting to improve underperforming Parkway Shanghai Hospital by increasing patient volumes through integration of referrals between Parkway Shanghai hospital and four of its clinics in Shanghai as well as refreshing its clinic facilities.

6. **Long-term growth via organic and M&As:** Backed by its healthy balance sheet, it is still in the midst of looking for potential mergers and acquisitions (M&As) in Indonesia and Vietnam, with a focus on deals that are earnings accretive and offer significant synergies. Looking ahead, 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 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. As part of the Group's efforts at deploying AI and other innovative technologies to elevate patient care and to provide more holistic healthcare solutions, the Group recently invested in an AI start-up for diagnosing sleep apnea and other sleep issues.

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). IHH trades at 12x EV/EBITDA compared to 20x that Columbia Asia paid for Ramsay Sime Darby Health Care in Nov 2023. 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 (MP; TP: RM1.95)** and **SUNWAY (UP; TP: RM2.47)** have seen their share prices rising 36% and 69% YTD.

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.

Income Statement

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Revenue	17,132	17,989	20,935	21,666	22,739
EBITDA	4,279	4,051	4,644	4,802	4,809
Dep & Amort	(1,484)	(1,791)	(1,120)	(1,363)	(1,337)
Op. Profit	3,060	2,734	4,864	3,439	3,473
PBT	2,556	2,217	4,049	2,738	2,846
Taxation	(379)	(572)	(658)	(756)	(779)
MI	(314)	(97)	(439)	(170)	(170)
Net Profit	1,863	1,548	2,952	1,811	1,898
Core net profit	1,595	1,381	1,279	1,811	1,898

Balance Sheet

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Fixed Assets	10,841	11,883	13,414	13,117	12,846
Int. Assets	14,193	15,947	17,259	17,259	17,259
Other FA	11,943	12,355	12,806	12,806	12,854
Inventories	455	519	640	662	695
Receivables	2,498	2,625	3,084	3,192	3,350
Other CA	563	1,474	610	610	610
Cash	5,018	3,664	2,379	4,021	5,746
Total Assets	45,510	48,467	50,192	51,667	53,359
Payables	4,053	4,240	4,952	5,059	5,298
ST Borrowings	1,262	1,637	1,739	1,739	1,739
Ot. ST Liability	735	1,413	766	766	766
LT Borrowings	7,609	7,566	6,651	6,651	6,651
Ot. LT Liability	6,733	4,484	3,726	3,726	3,726
Minorities Int.	2,694	2,967	3,253	3,423	3,593
Net Assets	22,425	26,161	29,106	30,303	31,586
Share Capital	19,615	19,685	19,692	19,692	19,692
Share premium	(2,846)	(158)	1,574	1,574	1,574
Reserves	5,656	6,634	7,840	9,037	10,320
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

Financial Data & Ratios

FY Dec	2021A	2022A	2023A	2024F	2025F
Growth					
Turnover	28%	5%	16%	3%	5%
EBITDA	39%	-5%	15%	3%	0%
Operating Profit	144%	-11%	78%	-29%	1%
PBT	350%	-13%	83%	-32%	4%
Net Profit /(loss)	123%	-13%	-7%	42%	5%
Profitability					
EBITDA Margin	25%	23%	22%	22%	21%
Operating Margin	9%	18%	15%	23%	16%
PBT Margin	15%	12%	19%	13%	13%
Core Net Margin	11%	9%	14%	8%	8%
Eff. Tax Rate	15%	26%	16%	28%	27%
ROA	4%	3%	6%	4%	4%
ROE	8%	6%	11%	6%	6%
DuPont Analysis					
Net Margin (%)	10.9%	8.6%	14.1%	8.4%	8.3%
Assets T/O (x)	2.7	2.7	2.4	2.4	2.3
Lev. Factor (x)	2.0	1.9	1.7	1.7	1.7
ROE (%)	8.4%	6.4%	10.7%	6.1%	6.1%
Leverage					
Debt/Asset (x)	0.2	0.2	0.2	0.2	0.2
Debt/Equity (x)	0.4	0.4	0.3	0.3	0.3
Valuations					
EPS (sen)	21.2	17.6	33.6	20.6	21.6
NDPS (sen)	6.0	7.0	7.0	7.0	7.0
BVPS (RM)	2.56	2.98	3.32	3.45	3.60
PER (x)	29.2	35.1	42.5	30.0	28.6
Net Div. Yld. (%)	1.0	1.0	1.1	3.0	1.1
EV/EBITDA (x)	13.6	14.8	13.0	12.2	11.8

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

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	6.19	7.00	13.1%	54,515	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	4.44	5.35	20.5%	659	Y	06/2024	29.5	35.6	-33.0%	20.6%	15.0	12.5	2.1	14.9%	26.0	5.9%
KPJ HEALTHCARE BHD	OP	1.93	1.95	1.0%	8,736	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	0.530	0.700	32.1%	169	Y	06/2024	4.1	4.7	-8.4%	13.0%	12.9	11.4	1.5	11.9%	3.3	6.2%
PHARMANIAGA	UP	0.360	0.340	-5.6%	519	Y	12/2024	3.5	3.4	-34.7%	-3.8%	10.3	10.7	(2.1)	-18.7%	0.0	0.0%

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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