IHH Healthcare

All Is Well, A Healthy Diagnosis

OUTPERFORM ↑

Price : **RM8.00**

Target Price : **RM9.10** ↑

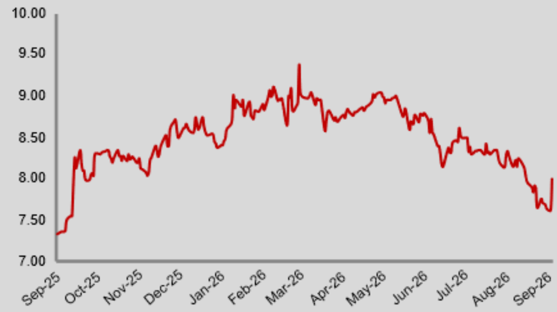
By Raymond Choo Ping Khoon I pkchoo@kenanga.com.my

Following a meeting with IHH's Investor Relations, we upgrade the stock to OUTPERFORM from MARKET PERFORM. The 10% YTD share price retracement offers a compelling entry point for a global healthcare leader with commanding market positions across four core regions. The worst is over for its Singapore operations, with bed occupancy rates (BOR) recovering to above 52% in August and September. In Türkiye and Europe, we expect 2HFY26 operational performance to outpace 1HFY26, driven by dynamic pricing strategies and the ongoing ramp-up of newly consolidated hospital acquisitions. In India, Gleneagles Healthcare operational margins will converge with those of Fortis Healthcare. We view Greater China as a key re-rating catalyst, driven by a faster-than-expected narrowing of operational losses. We upgrade our FY26F-FY27F net profit by 6% each to take into account of lower losses in Greater China due to its faster-than-expected improvement there. We also lift our SOP-derived target price to RM9.10 (from RM8.50) after factoring in upward revision in valuation for its 31% stake in Fortis Healthcare, pegged to the lower end of its 5-year average EV/EBITDA; this partially factors in sentiment given the ongoing forensic audit at Fortis Healthcare.

The group notes that the worst is over for its Singapore operations, with bed occupancy rates (BOR) recovering to 55% in July and August (against 51% in 2QFY26). Consequently, we believe near-term operational concerns involving Singapore are now largely priced in. To capture market share, the group plans to strengthen payor-provider partnerships with leading insurers by offering competitive, value-based packages for complex, high-acuity cases. Meanwhile, in Türkiye and Europe operations, we expect 2HFY26 operational performance to outpace that of 1HFY26, driven by dynamic pricing strategies, a structural recovery in medical tourism, and the ongoing ramp-up of newly consolidated hospital acquisitions. In Greater China, operational losses halved in 1HFY26, driven by bottom-line profitability at the 500-bed Gleneagles Hong Kong Hospital. A faster-than-expected turnaround in Greater China presents a key re-rating catalyst for the stock.

Singapore: We expect 2HFY26 earnings to outperform 1HFY26, underpinned by favourable second-half seasonality and the progressive operational ramp-up of the newly renovated Mount Elizabeth Novena Hospital. The group signals that the worst is over for its Singapore operations, with bed occupancy rates (BOR) recovering to >52% in Aug–Sept (vs. 51% in 2QFY26 and 49% in 1QFY26), indicating a clear operational bottom. To drive volume growth in 2HFY26, the group is offering competitive packages in collaboration with leading insurers, strengthening payor-provider partnerships for high-acuity, complex cases. Despite suboptimal capacity utilization, 2QFY26 EBITDA margin expanded to 29% (vs. 26% in 1QFY26). In response to persistent payor cost pressures and a structural shift toward outpatient care, IHH is executing a "tactical pivot" focused on an "out-of-hospital" strategy—expanding its ambulatory care center (ACC) network and shifting lower-acuity cases away from inpatient beds. This strategy addresses insurer concerns regarding routine inpatient inflation while freeing up core hospital bed capacity for higher-yielding, complex surgeries.

Share Price Performance



KLCI	1,683.50
YTD KLCI chg	0.2%
YTD stock price chg	-8.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IHH MK
Market Cap (RM m)	70,689.2
Shares Outstanding	8,836.2
52-Week Range (H)	10.48
52-Week Range (L)	7.32
3-Mth Avg. Daily Vol.	5,165,390
Free Float	29%
Beta	0.7

Major Shareholders

Mitsui & Co Ltd	32.7%
Pulau Memutik Ven Sdn Bhd	25.9%
Employees Provident Fund	13.2%

Summary Earnings Table

FY Dec (RM m)	**2025A**	**2026F**	**2027F**
Turnover	25,745.0	27,305.7	28,818.0
PBT	3,428.0	2,991.7	3,272.6
Net Profit (NP)	2,101.0	2,215.9	2,408.8
Core NP	1,818.0	2,215.9	2,408.8
Consensus (NP)	-	2274	2635
Earnings Revision	-	+6%	+6%
Core EPS (sen)	20.7	25.2	27.4
Core EPS Growth (%)	7.9	21.9	8.7
NDPS (sen)	10.5	11.5	11.5
BVPS (RM)	3.45	3.59	3.75
Core PER (x)	38.6	31.7	29.1
PBV(x)	2.3	2.2	2.1
Net Gearing (%)	38.7	30.4	22.2
Net Div. Yield (%)	1.3	1.4	1.4
EV/EBITDA	14.6	14.2	13.4

Malaysia: Underpinned by second-half seasonality, we expect 2HFY26 operational performance to outpace 1HFY26. IHH continues to sharpen its cluster strategy, leveraging its hospital network to expand its footprint and drive yield optimization. Reflecting this, 2QFY26 EBITDA margin expanded to 28% (vs. 26% in 1QFY26), driven by higher bed occupancy rates (BOR) of 64% (vs. 59% in 1QFY26). The structural shift in the healthcare delivery model—characterized by an increasing focus on daycare services, higher surgical case-mix, and a pivot away from basic medical admissions—gained further momentum in 1HFY26. Daycare revenue rose 13% YoY on double-digit throughput growth to RM286m, accounting for 11% of total Malaysia revenue. To strategically expand its healthcare continuum, the group is relocating select outpatient (OP) and daycare (DC) services to dedicated Ambulatory Care Centres (ACCs). This decanting strategy diverts suitable low-acuity cases away from acute care hospitals, lowering facility overheads, strengthening referral pipelines, and unlocking core bed capacity for high-yielding surgical procedures.

Türkiye and Europe: We expect 2HFY26 operational performance to outpace that of 1HFY26, driven by dynamic pricing strategies, a structural recovery in medical tourism, and the ongoing ramp-up of newly consolidated hospital acquisitions. While the lag in price adjustments typically weighs on its first-half performance, the full impact of these structural price catch-ups will materialize in 2H, providing a strong tailwind to revenue per inpatient admission (which surged 22% YoY in 2QFY26). Over the long term, IHH targets an overall EBITDA margin of 23%. In Türkiye, although medical tourism revenue as a percentage of total regional revenue softened to 11% in 1HFY26 (vs. 13% in 1HFY25), this contraction in mix was driven by domestic revenue expanding at a significantly faster pace, rather than the drop in international demand, as absolute foreign patient revenue in fact rose 4% YoY. In addition, Acıbadem's foreign patient franchise demonstrated strong resilience by capturing higher-acuity, complex cases from Europe and other markets. Coupled with higher patient throughput, elevated case-mix intensity, and the swift operational ramp-up of new facilities (Bayındır, Acıbadem Kartal, and Acıbadem Vitosha), regional EBITDA expanded 35% YoY. This translated into a solid 2QFY26 EBITDA margin of 20% (vs. 21% in 1QFY26).

Türkiye operations - Domestic revenue Türkiye Operations foreign patient revenue is expanding at a significantly faster pace, rather than the drop in international demand

Revenue (RM m)	FY23	FY24	FY25	1H25	1H26
Turkiye and Europe revenue	5900	7100	8500	3994	4721
Türkiye Operations foreign patient revenue as a % of Turkiye and Europe revenue	18%	15%	14%	13%	11%
Türkiye Operations as a % of Turkiye and Europe revenue	71%	74%	77%	NA	NA
Türkiye Operations revenue	4189	5254	6545	3025	3712
Türkiye Operations foreign patient revenue	754	788	916	393	408
Türkiye Operations foreign patient revenue YoY growth	NA	5%	16%	NA	4%

Source: Company, Kenanga Research

India: Driven by enhanced cost efficiencies, a strategic focus on high-yield case-mix, and sustained demand, IHH has significantly strengthened Fortis Healthcare's operational profile via clinical integration, technology adoption, and network synergies across its Indian hospital and diagnostic networks.

The group is optimistic that Gleneagles Healthcare India's operational margins will converge with those of Fortis Healthcare, facilitated by their Master Services Agreement (MSA) / Operations & Management (O&M) model. Under this structure, Fortis now manages five of the six hospitals in the Gleneagles India network, harmonizing procurement, IT systems, and clinical governance. Consequently, it targets to lift Gleneagles India's EBITDA margins from low double-digits (~10%) to high teens (18%–19%). Consolidated India EBITDA margins reached 18% in 2QFY26 and 19% in 1HFY26, with a target of 25%.

Regarding legacy legal issues, the Delhi High Court recently ordered a forensic audit into the historical shareholding of the former promoters (the Singh brothers), the change in control of Fortis, and the role of key stakeholders—including the transaction through which IHH acquired control. Crucially, the order imposes no liability, penalty, or financial fine on either IHH or Fortis. We view these legacy litigation proceedings as unlikely to disrupt IHH's operational efficiency or its aggressive expansion plans in India.

Greater China a potential re-rating catalyst: In tandem with narrowing losses in 1HFY26, we reduce our loss forecasts for IHH's Greater China operations in FY27F from RM250m to RM129m. We view the rapid loss reduction in Greater China as a key potential re-rating catalyst for the group. Net losses narrowed significantly to RM56m in 1HFY26 (vs. RM90m in 1HFY25), with Gleneagles Hospital Hong Kong (GHK) registering its sixth consecutive month of net profitability. Driven by enhanced operational efficiencies and better overhead absorption alongside a swift capacity ramp-up (including new bed openings), GHK's EBITDA margin expanded to 19% in 1HFY26 (vs. 14% in 2QFY25 and 15% in 1QFY25).

In Shanghai, the integration between Parkway Shanghai Hospital and its satellite network is progressing well, with its four outpatient clinics already generating positive EBITDA. Leveraging robust local demand, IHH has launched an Ambulatory Care Centre (ACC) in Shanghai, though the group maintains no current expansion plans outside the city. To turn around underperforming operations at Parkway Shanghai Hospital, the group is focused on driving patient volumes by strengthening cross-referral pathways between its Shanghai clinics and the main hospital, alongside refreshing its clinic facilities.

Greater China – Losses narrowing fast due to bottomline profitability at Gleneagles Hong Kong

Greater China (RM m)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26
Turnover	369	403	373	384	413	397	399	411	391	441
EBITDA	25	44	31	45	45	34	29	38	31	58
PBT / (LBT)	(85)	(45)	(54)	(45)	(45)	(45)	(44)	(46)	(40)	(16)
Net profit / (loss)	(89)	(49)	(57)	(43)	(45)	(45)	(44)	(56)	(40)	(16)

Greater China (RM m)	1H24	2H24	1H25	2H25	FY23	FY24	FY25	1H26
Turnover	772	757	810	810	1,307	1,529	1,620	832
EBITDA	69	76	79	67	75	145	146	89
PBT / (LBT)	(130)	(99)	(90)	(90)	(206)	(229)	(180)	(56)
Net profit / (loss)	(138)	(100)	(90)	(100)	(221)	(238)	(190)	(56)

Source: Company, Kenanga Research

Valuations. We upgrade our FY26F-FY27F net profit by 6% each to take into account of lower losses in Greater China from RM250m to RM129m due to its faster-than-expected improvement there.

Our changes in our SOP-TP are : i) we attached a 40% discount (or implied 21x EV/Ebitda multiple at the lower end of its historical 5-years average to take into account of its current legal issues) to market price on 31.1%-owned Fortis compared to valuation based on preferential allotment pricing; ii) we now factored in lower losses in Greater China and hence improvement in EBITDA. Consequently, we raise our SoP-TP from RM8.50 to RM9.10. In the immediate term, the magnitude of rerating could also hinge on any details from the ongoing forensic audit at Fortis Healthcare.

We upgrade our call from **MARKET PERFORM to OUTPERFORM**. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4). We 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.

Key risks to our call include: (i) regulatory risk, (ii) risks associated with overseas operations, and (iii) earnings risk related to potential imposition of Diagnostic-Related Group (DRG) payment system to regulate private healthcare costs in Malaysia

IHH's Sum-of-Parts Valuations

Unit	Basis	Multiples (x)	Value (RM m)	Remarks
Hospitals (exclude listed companies)	EV/Ebitda	14.5	84,210	40% historical discount to Asean and Indian players
Fortis Healthcare	40% discount to market value		5,320.2	implied 21x EV/Ebitda multiple at the lower end of its historical 5-year average to take into account of its current legal issues
Plife REIT (32.9%)	30% discount to market value		1,943.4	
Net debt			(11,416.0)	
Total			80,057	
No of shares			8,836	
Target price			9.10	
Implied FY27F EV/EBITDA			15x	

Source: Kenanga Research

Income Statement

FY Dec (RM m)	2023A	2024A	2025A	2026F	2027F
Revenue	20,935	24,383	25,745	27,306	28,818
EBITDA	4,644	5,439	5,618	5,618	5,794
Dep & Amort	(1,120)	(1,300)	(1,911)	(1,746)	(1,685)
Op. Profit	4,864	4,519	4,282	3,872	4,110
PBT	4,049	3,756	3,428	2,992	3,273
Taxation	(658)	(594)	(821)	(606)	(694)
MI	(439)	(505)	(506)	(170)	(170)
Net Profit	2,952	2,657	2,101	2,216	2,409
Core net profit	1,279	1,685	1,818	2,216	2,409

Balance Sheet

FY Dec (RM m)	2023A	2024A	2025A	2026F	2027F
Fixed Assets	13,414	16,229	17,665	16,985	16,366
Int. Assets	17,259	19,913	19,490	19,490	19,490
Other FA	12,806	13,746	13,805	13,805	13,805
Inventories	640	681	719	763	805
Receivables	3,084	3,598	3,365	3,525	3,733
Other CA	610	1,082	978	978	978
Cash	2,379	1,510	1,595	3,747	6,020
Total Assets	50,192	56,759	57,617	59,293	61,197
Payables	4,952	5,128	4,939	5,239	5,572
ST Borrowings	1,739	3,643	5,650	5,650	5,650
Ot. ST Liability	766	805	805	805	805
LT Borrowings	6,651	9,366	7,734	7,734	7,734
Ot. LT Liability	3,726	3,909	4,388	4,388	4,388
Minorities Int.	3,253	3,768	3,798	3,968	4,138
Net Assets	29,106	30,140	30,303	31,510	32,909
Share Capital	19,692	19,739	19,894	19,894	19,894
Share premium	1,574	693	(405)	(405)	(405)
Reserves	7,840	9,708	10,814	12,021	13,420
Equity	29,106	30,140	30,303	31,510	32,909

Cashflow Statement

FY Dec (RM m)	2023A	2024A	2025A	2026F	2027F
Operating CF	3,759	4,286	5,574	3,961	4,048
Investing CF	(936)	(8,247)	(3,694)	(1,000)	(1,000)
Financing CF	(3,999)	3,033	(1,675)	(757)	(775)
Change In Cash	(1,175)	(928)	205	2,204	2,273
Free CF	2,759	3,286	4,574	2,961	3,048

Financial Data & Ratios

FY Dec	2023A	2024A	2025A	2026F	2027F
Growth					
Turnover	16%	16%	6%	6%	6%
EBITDA	15%	17%	17%	0%	3%
Operating Profit	78%	-7%	-5%	-10%	6%
PBT	83%	-7%	-9%	-13%	9%
Net Profit /(loss)	-7%	32%	8%	22%	9%
Profitability					
EBITDA Margin	22%	22%	22%	21%	20%
Operating Margin	9%	18%	19%	17%	14%
PBT Margin	19%	15%	13%	11%	11%
Core Net Margin	14%	11%	8%	8%	8%
Eff. Tax Rate	16%	16%	24%	20%	21%
ROA	6%	5%	4%	4%	4%
ROE	11%	9%	7%	7%	7%
DuPont Analysis					
Net Margin	14.1%	10.9%	8.2%	8.1%	8.4%
Assets T/O (x)	2.4	2.3	2.2	2.2	2.1
Lev. Factor (x)	1.7	1.9	1.9	1.9	1.9
ROE	10.7%	9.0%	7.0%	7.2%	7.5%
Leverage					
Debt/Asset (x)	0.2	0.2	0.2	0.2	0.2
Debt/Equity (x)	0.3	0.4	0.4	0.4	0.2
Valuations					
EPS (sen)	33.6	30.3	23.9	25.2	27.4
NDPS (sen)	9.0	10.0	10.5	11.5	11.5
BVPS (RM)	3.32	3.43	3.45	3.59	3.75
PER (x)	54.9	41.7	33.4	31.7	29.1
Net Div. Yld. (%)	2.3	1.3	1.3	1.4	1.4
EV/EBITDA (x)	16.4	17.1	14.6	14.2	13.4

Source: Kenanga Research, Bursa Malaysia

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																	
DUOPHARMA BIOTECH BERHAD	1.18	1.72	45.8%	1,135	1.18	Y	12/2026	11.5	12.1	14%	5%	10.3	9.7	1.4	14.0%	4.6	3.9%
IHH HEALTHCARE BHD	8.00	9.10	13.8%	70,689	8.00	Y	12/2026	25.2	27.4	22%	9%	31.7	29.1	2.2	7.2%	10.0	1.3%
KOTRA INDUSTRIES BHD	3.80	3.88	2.1%	564	3.80	Y	06/2027	27.4	26.3	-4%	-4%	13.9	14.5	2.0	14.3%	25.5	6.7%
KPJ HEALTHCARE BHD	2.65	3.05	15.1%	11,731	2.65	Y	12/2026	8.7	9.5	8%	10%	30.6	27.8	4.3	14.5%	4.2	1.6%
NOVA WELLNESS GROUP BHD	0.385	0.380	-1.3%	123	0.385	Y	06/2027	3.0	3.1	2%	4%	12.7	12.2	1.1	8.6%	1.6	4.2%
PHARMANIAGA BHD	1.10	1.15	4.5%	1,443	1.10	Y	12/2026	5.6	6.2	53%	10%	19.5	17.8	3.0	16.1%	2.0	1.8%
SCOMNET BHD	0.505	0.570	12.9%	425	0.505	Y	12/2026	3.3	3.4	8%	3%	15.4	15.0	1.0	6.6%	2.3	4.6%
SUNWAY HEALTHCARE HOLDINGS BHD	2.17	1.75	-19.4%	24,965	2.17	Y	12/2026	2.6	3.6	20%	35%	82.5	61.1	7.6	10.4%	0.6	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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KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880   Website: www.kenanga.com.my   E-mail: research@kenanga.com.my