19 November 2018 | 3QFY18 Results Preview

IHH Healthcare Berhad

Negative impact from Fortis to be short-lived

***Maintain* BUY**

***Revised Target* Price (TP): RM6.22**
(Previously RM7.00)

INVESTMENT HIGHLIGHTS

- **Consolidation of Fortis as a subsidiary of IHH will temporarily impact the group's earnings growth trajectory**
- **We expect Fortis to contribute to the group earnings positively within the span of two years**
- **IHH is actively reducing its exposure in foreign-denominated debts**
- **The group's earnings will be mainly supported by its operations in Malaysia and Singapore**
- **Maintain BUY with a revised TP of RM6.22 per share**

Consolidation of Fortis as a subsidiary of IHH. With the completion of IHH's acquisition of 31.1% stake in Indian based Fortis Healthcare Ltd (Fortis) and subsequent appointment of four of its representative to the board of Fortis, IHH is deemed to have effective control over Fortis and hence, subjected to consolidate Fortis's latest financial result effective in the 4QFY18. Fortis's latest financial result (2QFY19) revealed that its loss after minority interest is equivalent to RM97.3m driven by mainly by the deficit of clinical talent created by managerial related controversies. As IHH now has come on board, we expect a turnaround of at least two years to stabilise Fortis and positively contribute to earnings.

2HFY18 earnings performance to remain subdued. IHH Healthcare Berhad (IHH) is expected to release its 3QFY18 results on 27 November 2018. We estimate that the normalised earnings for the quarter to be in the region between RM110.0m to RM122.0m. Overall, we expect 2HFY18 performance to be weaker year-over-year driven primarily by the: (i) consolidation of Fortis's loss into IHH; and (ii) lower contribution from Achibadem as a result of weaker a Lira against Ringgit.

Stronger operational performance. Despite the expected lower contribution from Achibadem in-line with the depreciation of Lira (-22.7%qoq), we gathered that operational performance remains healthy. This is driven by a strong volume growth in inpatient admission of +8.0%yoy. As a consequent, Achibadem Altunizade (recently opened in March 2017) has now turned EBITDA positive.

RETURN STATS	
Price (16th November 2018)	RM4.74
Target Price	RM6.22
Expected Share Price Return	+31.2%
Expected Dividend Yield	+0.6%
Expected Total Return	**+31.8%**

STOCK INFO	
KLCI	1,706.38
Bursa / Bloomberg	5225 / IHH MK
Board / Sector	Services Products
Syariah Compliant	Yes
Issued shares (mil)	8,244.80
Market cap. (RM'm)	39,080.37
Price over NA	1.84
52-wk price Range	RM4.54-RM6.42
Beta (against KLCI)	0.67
3-mth Avg Daily Vol	5.49m
3-mth Avg Daily Value	RM28.7m
Major Shareholders (%)	
Khazanah Nasional Bhd	41.55
Mitsui & Co Ltd	18.02
EPF	8.82

In addition, management are actively reducing foreign-denominated debts through the: (i) capitalisation of USD$250m subordinated loans and; (ii) shelving all major capex plans for Acibadem. We expect this will reduce the volatility in foreign exchange translation due to the mismatch between operational currency (Lira) and repayment of foreign denominated debts.

Impact to earnings. We are revising our FY18F and FY19F earnings downwards to RM609.4m and RM633.8m as we conservatively factored in Fortis's expected loss in 4QFY18 and full year FY19.

Target price. Post our earnings adjustment, we are revising our target price to **RM6.22** per share (previously RM7.00) based on DCF valuation method with assumption of terminal growth at 4.7% and WACC of 9.0%.

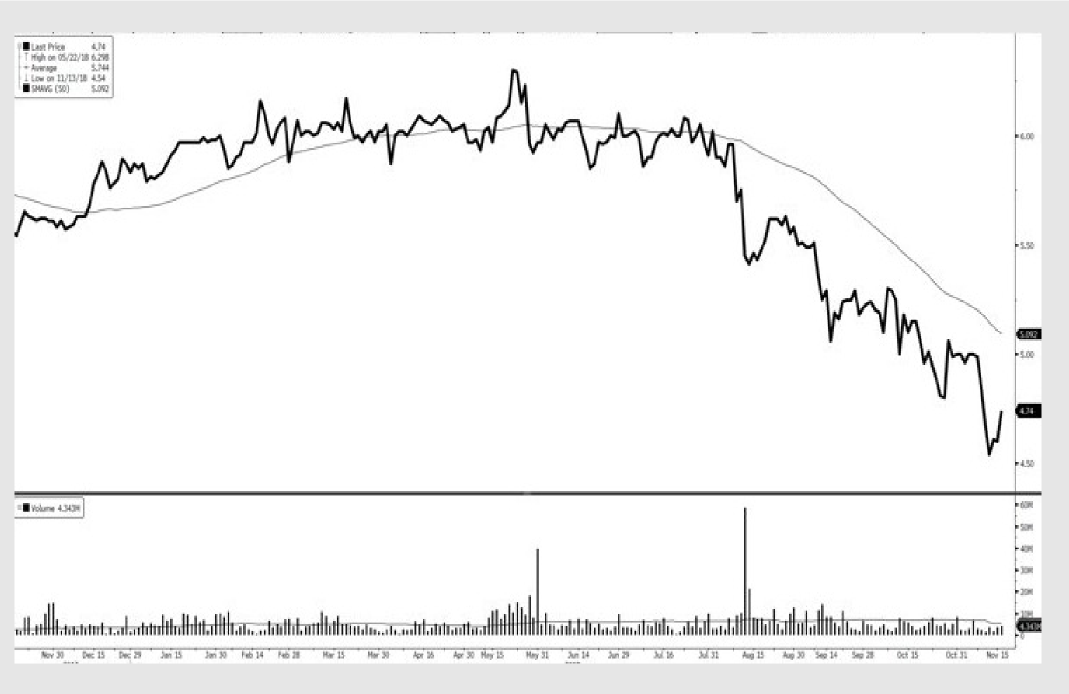
Maintain BUY. In the short term, we remain wary of the external challenges faced by IHH in the form of depreciating Lira currency as well as the consolidation of Fortis. Fortunately, Lira has posed a +14.4% recovery since September 2019 which partially alleviate investors' concern. Notwithstanding this, we take comfort on management active efforts to reduce the Lira foreign exchange impact. In addition, we are also confident that IHH can perform a turnaround on Fortis within the spans of two years given its expertise and understanding of Indian market. Looking forward, IHH has now increased its exposure to India which could power the group into its next phase of growth. Furthermore, IHH's balance sheet remains robust with a net gearing of 0.04x with a strong cash flow from operation. All things considered, we maintain our **BUY** call on IHH.

INVESTMENT STATISTICS

FYE Dec (RM'm)	FY2015	FY2016	FY2017	FY2018F	FY2019F
Revenue	**8,431.0**	**10,021.9**	**11,142.6**	**11,235.5**	**12,063.3**
EBITDA	2,077.0	2,283.2	2,279.5	2,751.4	2,918.9
Profit Before Tax	1,217.5	877.6	1,164.5	974.6	1,013.7
PATAMI (Ex-EI)	**899.2**	**866.0**	**595.3**	**609.4**	**633.8**
Basic EPS (sen)	11.4	7.4	6.8	7.4	7.7
EPS growth (%)	23.9	(35.1)	(8.6)	9.9	4.0
PBT margin (%)	14.4	8.8	10.5	8.7	8.4
PATAMI margin (%)	10.7	8.6	5.3	5.4	5.3
PER (x)	41.6	64.1	70.1	63.8	61.3
Dividend Per Share (sen)	3.0	3.0	3.0	3.0	3.0
Dividend Yield (%)	0.5	0.5	0.5	0.6	0.6

Source: Company, MIDFR

DAILY PRICE CHART



Nabil Zainoodin, CFA, CA
nabil.zainoodin@midf.com.my
03-2772 1663

DISCLOSURES AND DISCLAIMER

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.