

02 October 2018 | Corporate Update

## IHH Healthcare Berhad

*Growing its presence in Kedah*

### INVESTMENT HIGHLIGHTS

- **IHH acquired Amanjaya Specialist Centre situated in Sungai Petani for RM101.7m**
- **Acquisition price is fairly valued given the good reputation and pristine condition of the hospital**
- **The acquisition will increase IHH's overall hospital bed capacity in Kedah to 208 beds**
- **Maintain BUY with an unchanged TP of RM7.00 per share**

#### Acquired a 98-bed capacity specialist hospital in Sungai Petani.

IHH Healthcare Bhd (IHH) announced that it has fully acquired Amanjaya Specialist Centre Sdn Bhd (ASCS) for a total cash consideration of RM101.7m. ASCS owns and operates a 98-bed capacity multidiscipline specialist hospital located in Sungai Petani, Kedah.

**Acquisition price is fairly valued.** Based on the acquisition price, we estimates that the cost of acquisition per bed amounted to RM1.0m. Traditionally, the cost of acquisition per bed can vary between RM0.7m to RM1.0m depending on the number of beds, types of specialisation and location. We believe that the hospital's fair value deserves to be at a higher range bound as: (i) it was opened in 2014 and hence, quite new; (ii) it has good reputation as one of the best private hospitals in Sungai Petani in terms of location, facilities and level of service and; (iii) the hospital is green building index-certified which means it requires lower energy utilisation. This translates to a reduction in operating cost by 15%-20%.

**Acquisition necessary to sustain revenue growth.** We are positive on the news as: (i) the acquisition will complements IHH's existing hospital, i.e. 110-bed Pantai Hospital Sungai Petani, which is currently operating at near maximum capacity and; (ii) it enables the group to cater to patient volume growth in Malaysia and hence, sustained revenue growth at high single digit.

**FY18F-19F earnings estimate maintained.** Given that new hospital normally has three to five years gestation period, we believe that the acquisition is not expected to contribute significantly to earnings in FY18F and FY19F having been in operation for only four years.

**Maintain BUY**

**Unchanged Target Price (TP): RM7.00**

#### RETURN STATS

Price (1 <sup>st</sup> October 2018)	RM5.23
Target Price	RM7.00
Expected Share Price Return	+32.9%
Expected Dividend Yield	+1.5%
<b>Expected Total Return</b>	<b>+34.4%</b>

#### STOCK INFO

KLCI	1,826.9
Bursa / Bloomberg	5225 / IHH MK
Board / Sector	Main/Health Care
Syariah Compliant	Yes
Issued shares (mil)	8,244.80
Market cap. (RM'm)	43,120.32
Price over NA	2.04
52-wk price Range	RM4.96-RM6.42
Beta (against KLCI)	0.65
3-mth Avg Daily Vol	7.05m
3-mth Avg Daily Value	RM39.3m
Major Shareholders (%)	
Khazanah Nasional Bhd	40.33
Mitsui & Co Ltd	18.02
EPF	9.04

**Target price.** We are maintaining our target price of **RM7.00** per share based on DCF valuation method with assumption of terminal growth at 4.7% and WACC of 9.0%.

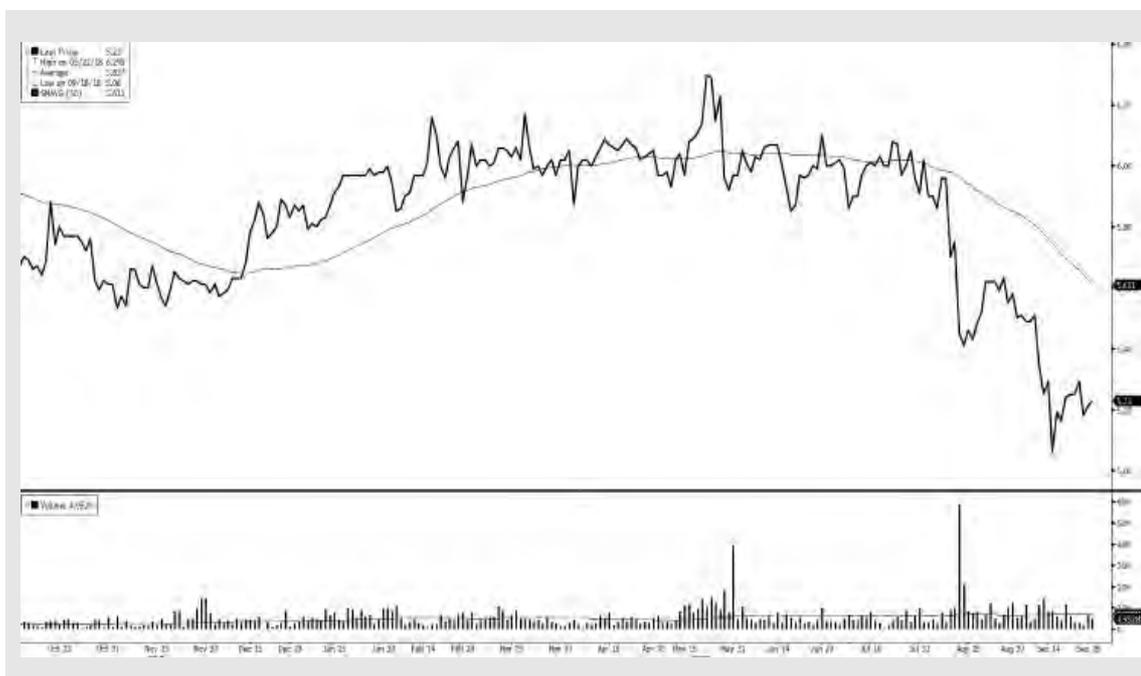
**Maintain BUY.** While we remain wary external challenges such as depreciating Lira currency will slow earnings growth in the near term, we like IHH as we are confident that its aggressive focus on establishing larger network of hospitals in its home market will benefit in a longer term. We are expecting further improvements in terms of revenue contributions coming from Gleneagles Hong Kong and Acibadem Altunizade as both hospitals continue to ramp up respective operations and receive more complex cases which will offset the incremental depreciation, amortisation and finance costs of these two hospitals. Additionally, we opine that its current revenue growth is sustainable given the expected addition of new hospitals such as Gleneagles Chengdu and expansion of Acibadem Maslak currently underway which is expected to be completed by end-CY18 which will drive revenue growth even further for IHH. Furthermore, IHH's balance sheet remains robust with cash balance of RM6.2b which is able to offset its current debt obligation of RM6.9b. 

## INVESTMENT STATISTICS

FYE Dec (RM'm)	FY2015	FY2016	FY2017	FY2018F	FY2019F
<b>Revenue</b>	<b>8,431.0</b>	<b>10,021.9</b>	<b>11,142.6</b>	<b>11,655.5</b>	<b>12,682.3</b>
EBITDA	2,077.0	2,283.2	2,279.5	3,171.4	3,563.5
Profit Before Tax	1,217.5	877.6	1,164.5	1,394.5	1,514.0
<b>PATAMI (Ex-EI)</b>	<b>899.2</b>	<b>866.0</b>	<b>595.3</b>	<b>871.9</b>	<b>946.6</b>
Basic EPS (sen)\	11.4	7.4	6.8	10.6	11.5
EPS growth (%)	23.9	(35.1)	(8.6)	57.2	8.6
PBT margin (%)	14.4	8.8	10.5	12.0	11.9
PATAMI margin (%)	10.7	8.6	5.3	7.5	7.5
PER (x)	57.2	85.4	89.1	59.4	52.2
Dividend Per Share (sen)	3.0	3.0	3.0	7.0	8.0
Dividend Yield (%)	0.5	0.5	0.5	1.2	1.5

Source: Company, MIDFR

## DAILY PRICE CHART



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## 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 <i>rise</i> 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 <i>fall</i> 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.