midf RESEARCH

28 May 2018 | 1QFY18 Results Review

IHH Healthcare Berhad

EBITDA grew by 8% despite decline in earnings

***Maintain* BUY**

***Revised* Target Price (TP): RM6.95**

(Previously RM6.91)

INVESTMENT HIGHLIGHTS

- **1QFY18 earnings below expectations**
- **EBITDA grew by +8% despite decline in earnings**
- **Revenue growth remains strong across home markets**
- **FY18-19F earnings revised down by -8.5% and -7.5%**
- **Maintain BUY with a revised TP of RM6.95 per share**

Below expectations. IHH Healthcare's 1QFY18 normalised earnings came in at RM120.5m which is below our and consensus' full-year earnings estimates at 12%. During the quarter, revenue increased by +6.3%yoy whilst earnings dipped by -40.3%. On a quarterly sequential basis, revenue was flat at -1.0% and earnings declined by -33.7% respectively.

EBITDA grew by +8.0% despite decline in earnings. In 1QFY18, the year-over-year increase in revenue (+6.3%yoy) and EBITDA (+8.0%yoy) were mainly due to: (i) organic growth from existing hospitals; (ii) continued ramp up of Gleneagles Hong Kong (GHK) and Acibadem Altunizade as well as; (iii) contribution from newly acquired hospitals in Bulgaria and India. However, IHH's normalised earnings was lower by +40.3%yoy due to: (i) the incremental depreciation, amortisation and finance costs incurred for GHK and Acibadem Altunizade and; (ii) foreign exchange losses arising from the weakening of USD on the group's USD -denominated cash balances.

Revenue growth remains strong across home markets. Inpatients admissions grew in most of its home markets such as: Singapore, India and Acibadem by +2.7%, 6.7% and 14.4% year-over-year respectively while Malaysia recorded a marginal contraction by -0.6%yoy. The surge in the patient admissions in Acibadem is mainly attributable to the admissions into the Bulgarian hospitals where both the revenue and admissions are booked under Acibadem. As for the revenue per inpatients, the growth remains strong in all markets where the increase recorded were: +5.0% +9.6%. +8.5% and +14.4%yoy respectively for Singapore, Malaysia, India and Acibadem.

RETURN STATS	
Price (25 May 2018)	RM6.26
Target Price	RM6.95
Expected Share Price Return	+11.0%
Expected Dividend Yield	+1.3%
Expected Total Return	**+12.3%**

STOCK INFO	
KLCI	1,797.40
Bursa / Bloomberg	5225 / IHH MK
Board / Sector	Services Products
Syariah Compliant	YES
Issued shares (mil)	8,242.66
Market cap. (RM'm)	51,599.04
Price over NA	2.41
52-wk price Range	RM5.42-RM6.42
Beta (against KLCI)	0.63
3-mth Avg Daily Vol	5.43m
3-mth Avg Daily Value	RM33.1m
Major Shareholders (%)	
Khazanah Nasional Bhd	40.48
Mitsui & Co Ltd	18.02
EPF	8.62

FY18-19F earnings reduced by -8.5% and -7.5%. We are revising our FY18-19F earnings by -8.5% and -7.5% as we are expecting the depreciation and amortisation costs of GHK and Acibadem Altunizade to only significantly reduce in 2HFY18 with the ramp up of both hospitals. The key risks to our earnings are: (i) delay in opening of new hospitals; (ii) longer-than-expected gestation period for new hospitals; (iii) lower-than-expected inpatient admissions and revenue per patient and; (iv) increasing cost of operations.

Maintain BUY with a revised Target Price (TP) of RM6.95. Post earnings announcement, we are reiterating our **BUY** recommendation on IHH with a revised TP of **RM6.95** per share (TG: 4.7%, WACC: 9.0%) after we roll forward our valuation base year to FY19. Going forward, we are expecting further improvements in terms of revenue contributions coming from GHK 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 a cash balance of RM6.2b which is able to offset its current debt obligation of RM6.9b.

Table 1: IHH's quarterly earnings review

FYE Dec (RM'm)	Quarterly results				
	1QFY17	**4QFY17**	**1QFY18**	**QoQ (%)**	**YoY (%)**
Revenue	**2,684.8**	**2,885.1**	**2,855.0**	(1.0)	6.3
Other operating income	370.3	84.6	75.0	(11.4)	(79.8)
Inventories and consumables	(502.7)	(557.4)	(541.5)	(2.9)	7.7
Purchased and contracted services	(231.1)	(217.3)	(223.0)	2.6	(3.5)
Staff costs	(1,086.4)	(1,158.2)	(1,159.0)	0.1	6.7
Depreciation and impairment losses of PPE	(202.0)	(241.2)	(218.5)	(9.4)	8.2
Amortisation and impairment losses of intangible assets	(13.6)	(15.7)	(15.0)	(4.5)	10.8
Operating lease expenses	(82.4)	(83.4)	(85.9)	3.0	4.1
Other operating expenses	(272.0)	(338.4)	(398.4)	17.7	46.4
Finance income	43.3	35.8	31.4	(12.3)	(27.4)
Finance costs	(184.2)	(292.0)	(230.8)	(21.0)	25.3
Share of profits of associates (net of tax)	0.1	0.6	0.3	(40.0)	254.7
Share of profits of joint ventures (net of tax)	2.0	(0.1)	0.1	(216.7)	(94.7)
Profit Before Tax	**526.1**	**102.4**	**89.9**	(12.2)	(82.9)
Income tax expense	(81.8)	(65.1)	(60.7)	(6.6)	(25.8)
Profit After Tax	**444.3**	**37.3**	**29.2**	(21.9)	(93.4)
Non-controlling interests	25.8	(63.9)	28.1	(143.9)	9.1
PATANCI	**470.0**	**101.3**	**57.2**	(43.5)	(87.8)
Exceptional Items	(268.3)	80.6	63.3	(21.5)	(123.6)
Normalised Earnings	**201.8**	**181.9**	**120.5**	(33.7)	(40.3)
Basic EPS (sen)	1.4	2.8	1.8	(35.3)	25.0
Fully diluted EPS (sen)	1.4	2.8	1.8	(35.4)	24.3
Basic EPS ex-EI (sen)					
Fully diluted EPS ex-EI (sen)					
				+/(-) ppts	
PBT margin (%)	19.6	3.5	3.1	(0.4)	(16.4)
PAT margin (%)	16.5	1.3	1.0	(0.3)	(15.5)
PATANCI margin (%)	17.5	3.5	2.0	(1.5)	(15.5)
Tax rate (%)	15.5	63.5	67.6	4.0	52.0

Source: Company, MIDFR

Table 2: IHH's quarterly segmental breakdown

FYE Dec	Quarterly results				
Segmental Breakdown	**1QFY17**	**4QFY17**	**1QFY18**	**QoQ (%)**	**YoY (%)**
Revenue					
Pantai Parkway	1,655.5	1,713.4	1,716.0	0.2	3.7
PPL Others	44.5	44.7	45.4	1.7	2.2
Acibadem Holdings	914.8	1,034.5	1,023.3	(1.1)	11.9
IMU Health	64.0	59.0	64.1	8.6	0.2
Others	0.5	0.6	0.0	(96.6)	(96.5)
Group (ex-Plife REIT)	**2,679.3**	**2,852.2**	**2,848.8**	**(0.1)**	**6.3**
Plife REIT	84.2	85.1	82.7	(2.8)	(1.8)
Eliminations	(78.6)	(52.1)	(76.6)	46.8	(2.6)
Total	**2,684.8**	**2,885.1**	**2,855.0**	**(1.0)**	**6.3**
EBITDA					
Revenue					
Pantai Parkway	352.0	317.3	358.9	13.1	1.9
Acibadem Holdings	146.3	206.1	188.9	(8.4)	29.1
IMU Health	27.4	7.0	26.5	279.4	(3.4)
Others	(11.5)	10.9	66.8	514.0	(679.4)
Group (ex-Plife REIT)	**514.2**	**541.2**	**641.0**	**18.4**	**24.7**
Plife REIT	69.0	74.5	(18.6)	(124.9)	(126.9)
Total	**565.6**	**615.7**	**603.9**	**(1.9)**	**6.8**
EBITDA margin (%)					
Parkway Pantai	21.3	18.5	20.9	12.9	(1.7)
Acibadem Holdings	16.0	19.9	18.5	(7.3)	15.4
IMU Health	42.9	11.8	41.4	249.4	(3.5)
Plife REIT	81.9	87.5	(22.5)	(125.7)	(127.4)

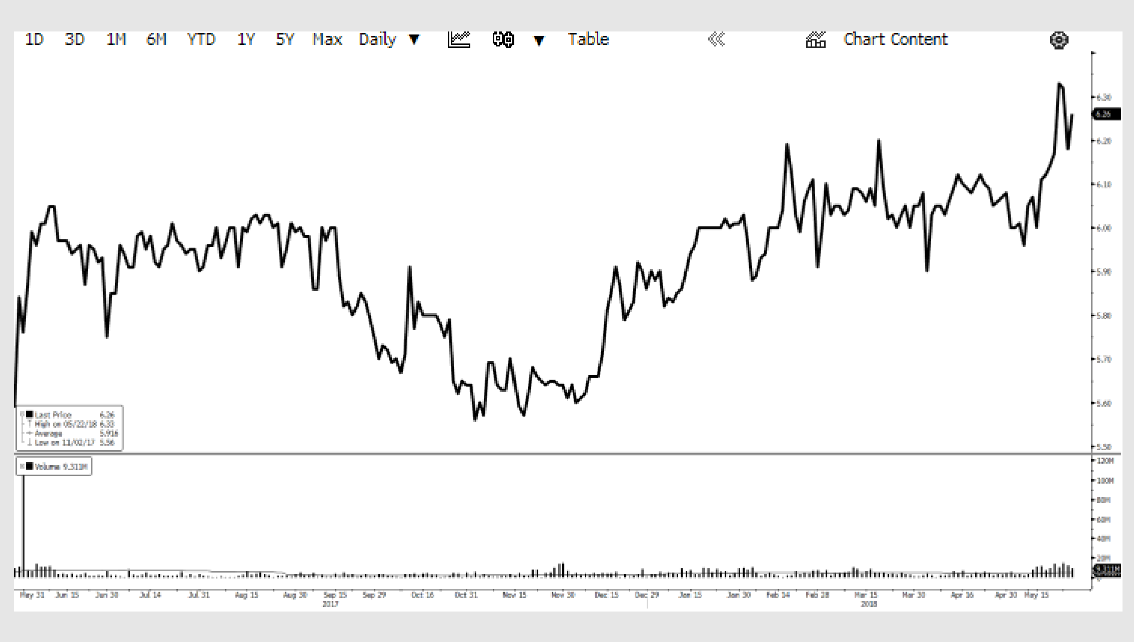
Source: Company, MIDFR

INVESTMENT STATISTICS

FYE Dec (RM'm)	FY2015	FY2016	FY2017	FY2018F	FY2019F
Revenue	**8,431.0**	**10,021.9**	**11,142.6**	**11,655.5**	**12,682.3**
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
PATAMI (Ex-EI)	**899.2**	**866.0**	**595.3**	**871.9**	**946.6**
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%	1.3%

Source: Company, Forecasts by MIDFR

DAILY PRICE CHART



Noor Athila Mohd Razali
noor.athila@midf.com.my
03-2772 1679

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein This document may not be reproduced, distributed or published in any form or for any purpose.

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.