

29 August 2018 | 2QFY18 Results Review

IHH Healthcare Berhad

Solid 1HFY18 performance

Maintain BUY

Unchanged Target Price (TP): RM7.00

INVESTMENT HIGHLIGHTS

- 2QFY18 earnings more than tripled to RM256.5m
- Excluding the impact of forex, revenue and EBITDA posted double digit growth
- 1HFY18 earnings of RM377.0m came in within ours and consensus' expectations
- It is actively managing exposure to currency volatility
- Maintain BUY with an unchanged TP of RM7.00 per share

Within expectations. IHH Healthcare's 2QFY18 normalised earnings came in at RM256.5m. This brings its 1HFY18 earnings to RM377.0 which is broadly within our and consensus full-year earnings estimates at 43.0%. During the quarter, revenue declined by -4.0%yoy whilst earnings tripled year-on-year.

Marginal decline in revenue and EBITDA. In 2QFY18, the marginal year-over-year increase in revenue of -4.0%yoy and EBITDA of -1.0%yoy were mainly due to the effect of strengthening Ringgit against the currencies of the countries which the group operates. Nonetheless, excluding the effects of strengthening Ringgit, revenue and EBITDA rose by +14.0%yoy and +13.0%yoy respectively as a result of the: (i) organic growth from existing hospitals; and (ii) continued ramp up of Gleneagles Hong Kong (GHK) and Acibadem Altunizade hospital.

However, earnings tripled year-on-year. Despite the decline in 2QFY18 revenue and EBITDA, IHH's normalised earnings tripled on a year-on-year basis due to: (i) low base effect in 2QFY17 where RM21.3m interest expense was accrued for capital gain tax payable; and (ii) RM17.7m additional tax provision relating to prior year's tax.

Managing exposure to currency volatility. IHH has taken up foreign currency debt amounting to USD680.0m to finance Acibadem's expansion. Since June 2018, Lira went down as low as -30.0% against USD and this could impact IHH's bottom line. Nonetheless, we understand that the management team are actively managing Acibadem's interest against the volatility of the Turkish Lira through: (i) resizing Acibadem's balance sheet so as to reduce the foreign currency debt exposure; and (ii) shelving all capex plans for Acibadem. On the bright side, the devaluation of Lira is expected to result in strong increase in medical tourism.

RETURN STATS	
Price (28 th August 2018)	RM5.63
Target Price	RM7.00
Expected Share Price Return	+24.3%
Expected Dividend Yield	+1.3%
Expected Total Return	+25.6%

STOCK INFO	
KLCI	1,826.9
Bursa / Bloomberg	5225 / IHH MK
Board / Sector	Services Products
Syariah Compliant	Yes
Issued shares (mil)	8,244.80
Market cap. (RM'm)	46,418.24
Price over NA	2.17
52-wk price Range	RM5.27-RM6.42
Beta (against KLCI)	0.64
3-mth Avg Daily Vol	7.08m
3-mth Avg Daily Value	RM41.2m
Major Shareholders (%)	
Khazanah Nasional Bhd	40.33
Mitsui & Co Ltd	18.02
EPF	8.95

Impact to earnings. We made no changes to our FY18 and FY19 earnings forecasts post earnings announcement.

Target Price. Our target price remains unchanged at **RM7.00** per share. Our valuation is based on free cash flow to firm with assumption on terminal growth of 4.8% and WACC of 9.0%.


Maintain BUY recommendation. 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 (expected to be completed by end-CY18) which will further drive revenue growth. IHH's balance sheet also remains robust with a cash balance of RM6.2b which is able to offset its current debt obligation of RM6.9b. Due to these reasons, we are reiterating our **BUY** recommendation on IHH Healthcare. 

Table 1: IHH's quarterly earnings review

FYE Dec (RMm)	Quarterly results				Cumulative results		
	1QFY18	2QFY18	QoQ (%)	YoY (%)	1HFY17	1HFY18	YoY (%)
Revenue	2,855.0	2,659.7	(6.8)	(4.0)	5,456.7	5,514.7	1.1
Other operating income	75.0	44.8	(40.3)	(84.7)	662.7	119.7	(81.9)
Inventories and consumables	(541.5)	(510.1)	(5.8)	(2.3)	(1,024.8)	(1,051.5)	2.6
Purchased and contracted services	(223.0)	(213.1)	(4.4)	(8.2)	(463.3)	(436.1)	(5.9)
Staff costs	(1,159.0)	(1,081.0)	(6.7)	(5.2)	(2,227.0)	(2,240.0)	0.6
Depreciation and impairment losses of PPE	(218.5)	(204.3)	(6.5)	(12.8)	(436.3)	(422.9)	(3.1)
Amortisation and impairment losses of intangible assets	(15.0)	(13.7)	(9.1)	(17.5)	(30.1)	(28.7)	(4.8)
Operating lease expenses	(85.9)	(75.6)	(12.0)	(2.9)	(160.3)	(161.4)	0.7
Other operating expenses	(398.4)	(220.4)	(44.7)	(32.5)	(598.7)	(618.7)	3.3
Finance income	31.4	48.5	54.2	99.8	67.6	79.9	18.2
Finance costs	(230.8)	(270.2)	17.1	106.7	(314.9)	(500.9)	59.1
Share of profits of associates (net of tax)	0.3	0.4	5.3	(47.9)	0.8	0.7	(10.8)
Share of profits of joint ventures (net of tax)	0.1	1.4	1,243.8	(272.7)	1.2	1.5	28.5
Profit Before Tax	89.9	166.4	85.2	(59.2)	933.6	256.3	(72.5)
Income tax expense	(60.7)	(61.9)	2.0	(39.3)	(183.9)	(122.7)	(33.3)
Profit After Tax	29.2	104.5	258.4	(65.8)	749.7	133.6	(82.2)
Non-controlling interests	28.1	60.6	115.8	444.3	36.9	88.7	140.5
PATANCI	57.2	165.1	188.5	(47.8)	786.6	222.3	(71.7)
Exceptional Items	63.3	91.4	44.5	(139.7)	(498.6)	154.7	(131.0)
Normalised Earnings	120.5	256.5	112.9	197.4	288.0	377.0	30.9
Basic EPS (sen)	1.75	3.84	(35.3)	25.0	3.5	4.1	16.3
Fully diluted EPS (sen)	1.75	3.84	(35.4)	24.3	3.5	4.1	16.3
			<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
PBT margin (%)	3.1	6.3	3.1	(8.4)	17.1	4.6	12.5
PAT margin (%)	1.0	3.9	2.9	(7.1)	13.7	2.4	11.3
PATANCI margin (%)	2.0	6.2	4.2	(5.2)	14.4	4.0	10.4
Tax rate (%)	67.6	37.2	(30.3)	12.2	19.7	47.9	(28.2)

Source: Company, MIDFR

Table 2: IHH's quarterly segmental breakdown

FYE Dec	Quarterly results				Cumulative results		
	1QFY18	2QFY18	QoQ (%)	YoY (%)	1HFY17	1HFY18	YoY (%)
Segmental Breakdown							
Revenue							
Pantai Parkway	1,716.0	1,726.7	0.6	3.2	3,329.1	3,442.8	3.4
PPL Others	45.4	43.5	(4.2)	5.7	85.6	89.0	3.9
Acibadem Holdings	1,023.3	790.4	(22.8)	(17.1)	1,868.4	1,813.7	(2.9)
IMU Health	64.1	64.6	0.9	(5.5)	132.4	128.7	(2.7)
Others	0.0	1.2	6,331.6	121.0	1.1	1.2	13.2
Group (ex-Plife REIT)	2,848.8	2,626.5	(7.8)	(4.0)	5,416.5	5,475.4	1.1
Plife REIT	82.7	82.9	0.2	(3.4)	170.0	165.6	(2.6)
Eliminations	(76.6)	(49.7)	(35.1)	(3.1)	(129.9)	(126.3)	(2.8)
Total	2,855.0	2,659.7	(6.8)	(4.0)	5,456.7	5,514.7	1.1
EBITDA							
Pantai Parkway	358.9	349.2	(2.7)	4.3	686.7	708.1	3.1
Acibadem Holdings	188.9	108.3	(42.7)	(25.3)	291.3	297.1	2.0
IMU Health	26.5	23.4	(11.7)	(4.9)	52.0	49.9	(4.1)
Others	66.8	(20.0)	(130.0)	(47.6)	(49.8)	46.8	(193.9)
Group (ex-Plife REIT)	641.0	460.8	(28.1)	(1.1)	980.2	1,101.9	12.4
Plife REIT	(18.6)	67.1	(461.4)	(3.9)	138.8	48.5	(65.0)
Total	603.9	527.9	(12.6)	(1.5)	1,119.0	1,150.4	2.8
EBITDA margin (%)							
Parkway Pantai	20.9	20.2	(3.3)	1.1	23.7	20.1	(15.5)
Acibadem Holdings	18.5	13.7	(25.8)	(9.9)	13.9	16.0	15.2
IMU Health	41.4	36.2	(12.5)	0.6	37.5	32.2	(14.2)
Plife REIT	(22.5)	81.0	(460.6)	(0.4)	81.1	82.6	1.9

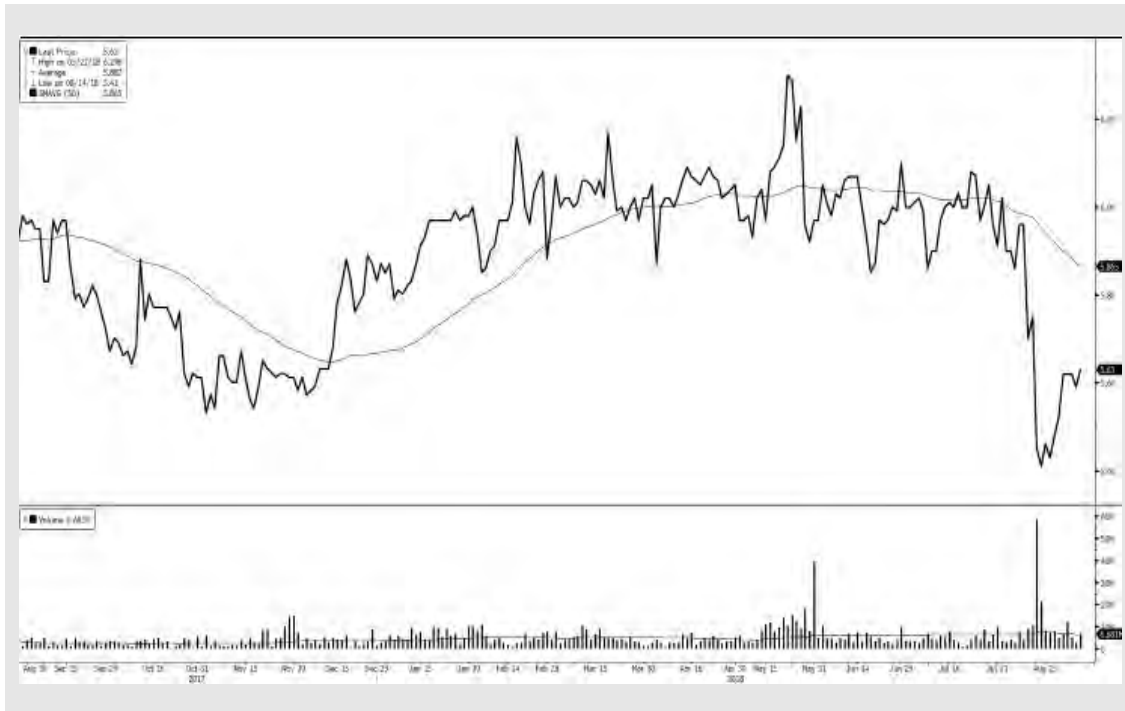
Source: Company, MIDFR

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	3,538.0
Profit Before Tax	1,217.5	877.6	1,164.5	1,394.5	1,632.8
PATAMI (Ex-EI)	899.2	866.0	595.3	871.9	1,020.9
Basic EPS (sen)\	11.4	7.4	6.8	10.6	12.4
EPS growth (%)	23.9	(35.1)	(8.6)	57.2	17.1
PBT margin (%)	14.4	8.8	10.5	12.0	12.9
PATAMI margin (%)	10.7	8.6	5.3	7.5	8.0
PER (x)	57.2	85.4	89.1	59.4	48.4
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



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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.