

28 November 2018 | 3QFY18 Results Review

## IHH Healthcare Berhad

*Resilient core earnings performance*

### INVESTMENT HIGHLIGHTS

- 3QFY18's normalised earnings grew more than double to RM309.0m, after excluding impact on foreign exchange loss
- Improvement in operational statistics posed a healthy growth led to the growth in 3QFY18 normalised earnings
- Cumulative 9MFY18 normalised earnings of RM686.0m came in better than ours and consensus expectations
- Stronger cash level enables the group to be more aggressive in reducing its foreign-currency denominated borrowings
- Maintain BUY with a revised TP of RM6.33 per share

**Above expectations.** IHH Healthcare Bhd (IHH) has recorded a loss of -RM104.1m in the 3QFY18. Nonetheless, excluding exceptional item which is mainly resulting from the foreign exchange losses of RM752.5m on Achibadem's non-Turkish Lira denominated borrowings, earnings for the quarter grew more than double year-on-year to RM309.0m. This brings its 9MFY18 earnings to RM686.0m which is above our and consensus' full-year earnings estimates.

**Resilient core performance.** 3QFY18 revenue and EBITDA grew by +1.4%yoy and +10.0%yoy respectively despite adverse impact caused by a stronger Ringgit against the currencies of the countries which the group operates. Nonetheless, excluding the effects of strengthening Ringgit, revenue and EBITDA rose by +18.0%yoy and +23.0%yoy respectively. This was mainly a result of: (i) organic growth from existing hospitals and; (ii) continued ramp up of Gleneagles Hong Kong (GHK) and Acibadem Altunizade hospital in Istanbul, Turkey. Overall, operational statistics in terms of revenue intensity per inpatient has been growing at all four of its home markets.

**Managing exposure to currency volatility.** The management has been proactive in managing the volatility in the Turkish Lira. In terms of pairing down its non-Turkish Lira denominated borrowings, management is in the midst of increasing its stake in Achibadem to 90.0% (from the current 60.0%). Post completion, the management is targeting to repay the USD\$250m subordinated loans by 1QFY19. In addition, they are also planning to divest non-core assets to significantly reduce remaining foreign borrowings. On the bright side, despite the weakening Turkish Lira, Achibadem's operation continue to grow at a healthy pace where inpatient admission and revenue intensity per inpatient grew by +7.5%yoy and 31.5%yoy respectively resulting from strong increase in medical tourism.

**Maintain BUY**

**Revised Target Price (TP): RM6.33**  
(Previously RM6.22)

### RETURN STATS


Price (27 <sup>th</sup> November 2018)	RM4.92
Target Price	RM6.33
Expected Share Price Return	+28.6%
Expected Dividend Yield	+0.6%
<b>Expected Total Return</b>	<b>+29.2%</b>

### STOCK INFO

KLCI	1,701.99
Bursa / Bloomberg	5225 / IHH MK
Board / Sector	Services Products
Syariah Compliant	Yes
Issued shares (mil)	8,244.80
Market cap. (RM'm)	40,564.43
Price over NA	1.91
52-wk price Range	RM4.54-RM6.42
Beta (against KLCI)	0.67
3-mth Avg Daily Vol	5.10m
3-mth Avg Daily Value	RM26.3m
Major Shareholders (%)	
Khazanah Nasional Bhd	41.55
Mitsui & Co Ltd	18.02
EPF	8.85

**Impact to earnings.** We are revising our FY18F and FY19F earnings upwards by +18.2% and +19.2% to take into account the higher revenue intensity per inpatient at Achibadem operation. This could result in higher cash balances which enable the group to pare down the foreign denominated debts faster than anticipated.

**Target price.** Post our earnings adjustment, we are revising our target price to **RM6.33** per share (*previously RM6.22*) 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 seen about +15.0% recovery since September 2019 which has 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 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
<b>Revenue</b>	<b>8,431.0</b>	<b>10,021.9</b>	<b>11,142.6</b>	<b>11,412.8</b>	<b>12,257.5</b>
EBITDA	2,077.0	2,283.2	2,279.5	2,928.7	3,113.2
Profit Before Tax	1,217.5	877.6	1,164.5	1,151.9	1,208.0
<b>PATAMI (Ex-EI)</b>	<b>899.2</b>	<b>866.0</b>	<b>595.3</b>	<b>720.2</b>	<b>755.3</b>
Basic EPS (sen)\	11.4	7.4	6.8	8.8	9.2
EPS growth (%)	23.9	(35.1)	(8.6)	29.9	4.9
PBT margin (%)	14.4	8.8	10.5	10.1	9.9
PATAMI margin (%)	10.7	8.6	5.3	6.3	6.2
PER (x)	43.2	66.5	72.8	56.0	53.4
Dividend Per Share (sen)	3.0	3.0	3.0	3.0	3.0
Dividend Yield (%)	0.6	0.6	0.6	0.6	0.6

Source: Company, Forecasts by MIDFR

## DAILY PRICE CHART



**Table 1: IHH's quarterly earnings review**

FYE Dec (RMm)	Quarterly results			Cummulative results		
	3QFY18	YoY (%)	QoQ (%)	9MFY18	9MFY17	YoY (%)
<b>Revenue</b>	<b>2,840.9</b>	1.4	6.8	<b>8,355.6</b>	<b>8,257.5</b>	1.2
Other operating income	80.9	37.4	80.8	200.7	721.6	(72.2)
Inventories and consumables	(551.5)	5.5	8.1	(1,603.0)	(1,547.5)	3.6
Purchased and contracted services	(230.5)	0.6	8.1	(666.6)	(692.3)	(3.7)
Staff costs	(1,126.2)	(1.6)	4.2	(3,366.1)	(3,371.6)	(0.2)
Depreciation and impairment losses of PPE	(215.1)	(9.7)	5.3	(638.0)	(674.5)	(5.4)
Amortisation and impairment losses of intangible assets	(14.3)	(13.6)	4.4	(42.9)	(46.6)	(7.8)
Operating lease expenses	(82.2)	(3.2)	8.8	(243.6)	(245.2)	(0.6)
Other operating expenses	(269.0)	(24.4)	22.1	(887.8)	(954.8)	(7.0)
Finance income	66.1	36.5	36.2	146.0	116.0	25.9
Finance costs	(816.9)	nm	202.4	(1,317.8)	(502.3)	162.4
Share of profits of associates (net of tax)	0.4	121.5	24.8	1.1	1.0	13.5
Share of profits of joint ventures (net of tax)	0.6	nm	(58.3)	2.1	0.7	200.7
<b>Profit Before Tax</b>	<b>(316.7)</b>	nm	(290.3)	<b>(60.4)</b>	<b>1,062.0</b>	<b>nm</b>
Income tax expense	(37.8)	(55.9)	(39.0)	(160.4)	(269.6)	(40.5)
<b>Profit After Tax</b>	<b>(354.5)</b>	nm	(439.2)	<b>(220.8)</b>	<b>792.4</b>	<b>nm</b>
Non-controlling interests	(250.4)	nm	(513.1)	(339.1)	76.2	nm
<b>PATANCI</b>	<b>(104.1)</b>	nm	(163.0)	118.3	868.6	(86.4)
Exceptional Items	413.1	nm	351.9	567.8	(455.3)	nm
<b>Normalised Earnings</b>	<b>309.0</b>	146.8	20.5	<b>686.0</b>	<b>413.3</b>	<b>66.0</b>
Basic EPS (sen)	(1.5)	nm	(187.4)	0.7	10.5	(93.6)
Fully diluted EPS (sen)	(1.5)	nm	(187.4)	0.7	10.5	(93.6)
Basic EPS ex-EI (sen)	3.5	132.0	21.7	7.6	5.0	51.0
Fully diluted EPS ex-EI (sen)	3.5	132.0	21.7	7.6	5.0	51.0
		<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
PBT margin (%)	nm	nm	nm	(0.7)	12.9	13.6
PAT margin (%)	nm	nm	nm	(2.6)	9.6	12.2
PATANCI margin (%)	nm	nm	nm	1.4	10.5	9.1
Effective Tax rate (%)	nm	nm	nm	(265.6)	25.4	290.9

Source: Company, MIDFR

**Table 2: IHH's quarterly segmental breakdown**

FYE Dec	Quarterly results			Cumulative results		
Segmental Breakdown	3QFY18	YoY (%)	QoQ (%)	9MFY18	9MFY17	YoY (%)
<b>Revenue</b>						
Pantai Parkway	1,673.6	(3.1)	(2.5)	3,329.1	3,442.8	3.4
PPL Others	41.2	(5.4)	(9.4)	85.6	89.0	3.9
Acibadem Holdings	953.6	20.6	(6.8)	1,868.4	1,813.7	(2.9)
IMU Health	68.4	5.8	6.7	132.4	128.7	(2.7)
Others	0.6	(54.7)	2,810.5	1.1	1.2	13.2
<b>Group (ex-Plife REIT)</b>	<b>2,737.3</b>	<b>4.2</b>	<b>(3.9)</b>	<b>5,416.5</b>	<b>5,475.4</b>	<b>1.1</b>
Plife REIT	85.8	3.6	3.8	170.0	165.6	(2.6)
Eliminations	(51.3)	3.2	(33.0)	(129.9)	(126.3)	(2.8)
<b>Total</b>	<b>2,771.8</b>	<b>4.2</b>	<b>(2.9)</b>	<b>5,456.7</b>	<b>5,514.7</b>	<b>1.1</b>
<b>EBITDA</b>						
Pantai Parkway	334.7	(4.2)	(6.7)	686.7	708.1	3.1
Acibadem Holdings	145.0	33.9	(23.2)	291.3	297.1	2.0
IMU Health	24.6	5.2	(7.2)	52.0	49.9	(4.1)
Others	(38.3)	90.9	(157.3)	(49.8)	46.8	(193.9)
<b>Group (ex-Plife REIT)</b>	<b>466.0</b>	<b>1.1</b>	<b>(27.3)</b>	<b>980.2</b>	<b>1,101.9</b>	<b>12.4</b>
Plife REIT	69.8	4.0	(475.8)	138.8	48.5	(65.0)
<b>Total</b>	<b>535.8</b>	<b>1.5</b>	<b>(11.3)</b>	<b>1,119.0</b>	<b>1,150.4</b>	<b>2.8</b>
<b>EBITDA margin (%)</b>		<i>+/(-) pts</i>				<i>+/(-) pts</i>
Parkway Pantai	20.0	(0.2)	(0.9)	23.7	20.1	(3.7)
Acibadem Holdings	15.2	1.5	(3.3)	13.9	16.0	2.1
IMU Health	36.0	(0.2)	(5.4)	37.5	32.2	(5.3)
Plife REIT	81.3	0.3	103.8	81.1	82.6	1.5

Source: Company, MIDFR

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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.