

23 March 2018 | Corporate Update

## IHH Healthcare Berhad

*Eyeing to acquire Prince Court Medical Centre*

### INVESTMENT HIGHLIGHTS

- **Collaboration with Khazanah to transform Prince Court Medical Centre**
- **Positive on potential acquisition of Prince Court**
- **Potential acquisition in-line with growth strategy**
- **FY18-19F earnings maintained**
- **Maintain BUY with an unchanged TP of RM6.91 per share**

**Collaboration with Khazanah to transform Prince Court Medical Centre.** IHH Healthcare announced that it has entered into a term sheet for a Collaboration Agreement (CA) with Pulau Memutik Ventures Sdn Bhd (PMV); a wholly-owned subsidiary of Khazanah Nasional Berhad (Khazanah) for shared services support and operational improvement initiatives at Prince Court Medical Centre (Prince Court).

**Potential acquisition of Prince Court.** Aside from the entering into a term sheet for CA with IHH, we understand that concurrently, PMV has also entered into a sales and purchase agreement (SPA) with Petroliaam Nasional Berhad (Petronas) to acquire 100% stake in Prince Court. The acquisition price of the 270-bedded hospital has yet to be made known however; according to our estimate and previous industry experience the acquisition price could be between RM300-400m based on: (i) the current location of Prince Court and; (ii) the types of specialization available in Prince Court. The acquisition by PMV is expected to be completed by the end of 2Q18. Pursuant to the signing of the CA, IHH has also been given a right of first offer to acquire Prince Court from PMV once the acquisition from Petronas is completed.

**Potential acquisition in-line with growth strategy.** We are positive on this potential acquisition of Prince Court by IHH as we opine that: (i) this is in-line with its strategy to be the leading premium healthcare service provider in Malaysia and; (ii) this presents a good opportunity for IHH to increase its presence in Malaysia as currently the company has no other greenfield or brownfield plan to expand in Malaysia except of the extensions of several existing hospitals. Furthermore, with IHH's experience of managing and transforming hospitals into premium healthcare service providers, we opine that this potential acquisition could be earnings-accretive for IHH in the future.

**Maintain BUY**

**Unchanged Target Price (TP): RM6.91**

#### RETURN STATS

Price (22 March 2018)	RM6.02
Target Price	RM6.91
Expected Share Price Return	+14.8%
Expected Dividend Yield	+1.3%
<b>Expected Total Return</b>	<b>+16.1%</b>

#### STOCK INFO

KLCI	1,876.87
Bursa / Bloomberg	5225 / IHH MK
Board / Sector	Services Products
Syariah Compliant	YES
Issued shares (mil)	8239.58
Market cap. (RM'm)	49,602.37
Price over NA	2.27
52-wk price Range	RM5.42-RM6.33
Beta (against KLCI)	0.74
3-mth Avg Daily Vol	5.31m
3-mth Avg Daily Value	RM31.8m
Major Shareholders (%)	
Khazanah Nasional Bhd	40.91
EPF	8.64
Central Depository	5.11

**FY18-19F earnings estimate maintained.** We make no changes to our FY18-19F earnings pending further information on the potential acquisition. 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 an unchanged Target Price (TP) of RM6.91.** We are reiterating our **BUY** recommendation on IHH with an unchanged TP of **RM6.91** per share (TG: 4.7%, WACC: 9.0%). Going forward, we continue to believe that the resilient demand and growth for healthcare services across all its home markets will continue to drive its earnings growth going forward coupled with the increase in contribution from its newly opened hospitals. We continue to be long term positive on IHH's fundamentals as its robust balance sheet with a gearing ratio of 0.20x and cash position of RM3.3b will continue to ensure the prospects of the company remains intact.

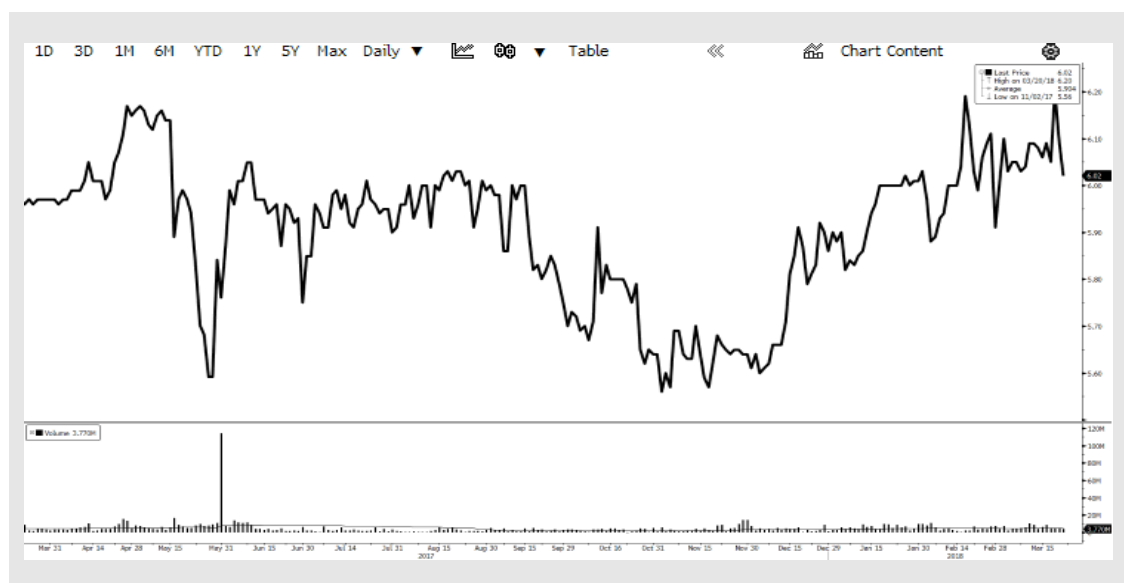


## INVESTMENT STATISTICS

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>11,946.5</b>	<b>12,851.5</b>
EBITDA	2,077.0	2,283.2	2,279.5	3,241.3	3,732.7
Profit Before Tax	1,217.5	877.6	1,164.5	1,523.3	1,694.2
<b>PATAMI (Ex-EI)</b>	<b>899.2</b>	<b>866.0</b>	<b>595.3</b>	<b>952.4</b>	<b>1,059.3</b>
Basic EPS (sen)\	11.4	7.4	6.8	11.6	12.9
EPS growth (%)	23.9	(35.1)	(8.6)	71.8	11.2
PBT margin (%)	14.4	8.8	10.5	12.8	13.2
PATAMI margin (%)	10.7	8.6	5.3	8.0	8.2
PER (x)	57.2	85.4	89.1	51.8	46.6
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.