midf RESEARCH

16 July 2018 | Corporate Update

IHH Healthcare Berhad

Passage through India

***Maintain* BUY**

***Revised* Target Price (TP): RM7.00**
(Previously RM6.95)

INVESTMENT HIGHLIGHTS

- **Proposed subscription of 31.1% equity stake in Fortis Healthcare**
- **Open offer to acquire additional 26% of Fortis**
- **Open offer to acquire 26% of Fortis Malar Healthcare**
- **Acquisition price is fairly valued**
- **FY18-19F earnings maintained**
- **Maintain BUY with a revised TP of RM7.00 per share**

Proposed subscription of 31.1% equity stake in Fortis Healthcare. IHH Healthcare announced that it has entered into a share subscription agreement via its wholly-owned subsidiary Northern TK Venture Pte Ltd (NTK) with Fortis Healthcare Limited (Fortis) for the proposed subscription of 235.3m new Fortis shares by a way of preferential allotment representing a 31.1% of the total voting equity share capital of Fortis. The total consideration for the subscription amounts to INR4,000 crore or approximately RM2.35b, at INR170 per share (RM9.98 per share). The preferential allotment will make IHH the largest shareholder in Fortis.

Open offer to acquire additional 26% of Fortis. Concurrently, the preferential allotment has also triggered a requirement to make a mandatory offer to the public shareholders under the Indian takeover code. This requirement is to acquire an additional 197m Fortis share representing up to 26% of the Expanded Voting Share Capital. Should the open offer be fully taken up, IHH will end up with 57.1% stake in Fortis. The total consideration for this exercise is expected to cost IHH a further RM1.10b at a price of INR170 per share (RM9.98 per share).

Open offer to acquire 26% of Fortis Malar Healthcare. Additionally, assuming that the Fortis Offer mentioned earlier is fully taken up, the exercise will also trigger an open offer for Fortis Malar Healthcare (Malar) due to Fortis's indirect holding of 62.4% of the fully-diluted voting equity share capital in Malar. The Malar open offer is made to Malar shareholders to acquire 4.9m Malar shares accounting for 26% of the Malar Voting Share Capital. Assuming full acceptance of the Malar Offer, the total consideration will be approximately INR29 crore or equivalent to RM17m (at INR58 or RM3.40 per share). The Malar Offer is however, subjected to the completion of Fortis Open Offer.

RETURN STATS	
Price (13 July 2018)	RM6.00
Target Price	RM7.00
Expected Share Price Return	+16.7%
Expected Dividend Yield	+1.3%
Expected Total Return	**+18.0%**

STOCK INFO	
KLCI	1,721.93
Bursa / Bloomberg	5225 / IHH MK
Board / Sector	Services Products
Syariah Compliant	YES
Issued shares (mil)	8244.621
Market cap. (RM'm)	49,467.72
Price over NA	2.31
52-wk price Range	RM5.42-RM6.42
Beta (against KLCI)	0.64
3-mth Avg Daily Vol	6.45m
3-mth Avg Daily Value	RM39.1m
Major Shareholders (%)	
Khazanah Nasional Bhd	40.42
Mitsui & Co Ltd	18.02
EPF	8.78

Acquisition price is fairly valued. Based on the acquisition price of between RM2.3b-4.3b for a 31.1-57.1% equity stake – depending on the acceptance level of the Fortis Offer, the cost of acquisition per bed is arrived at between RM408k-RM763k. This is derived from the latest number of operating beds at Fortis which is 5,637 beds. When compared against IHH's previous acquisition cost in India of Global Hospitals at RM567k per bed, we believe the acquisition of Fortis is fairly valued given that Fortis: (i) is the second largest hospital player with pan-India footprint and strong presence in all key hubs across India; (ii) has a network of 40 hospitals; (iii) has presence in 5 different countries and; (iv) owns a leading nationwide diagnostic business with 368 laboratories and over 24 wellness centres.

In terms of multiples, using an implied equity value of INR105.8b over FY18 EBITDA of INR4.7b, the acquisition multiple is arrived at 22.3x which is attractive given that most regional healthcare players currently command an average PER of 26-28x. Furthermore, the acquisition is also earnings accretive given that no new IHH shares will be issued to finance the acquisition and we are expecting revenue and EBITDA to increase by +23.6% and +16.5% respectively post-acquisition.

Funding and gearing. Depending on the acceptance level for both the Fortis and Malar Open Offer, the total funding requirement for the transaction would be between INR40b (RM2.348b) and INR 74b (RM4.331b) which will be funded through both internally generated funds and external borrowings. Assuming full acceptance of both the Fortis and Malar Open Offer, management expects RM2.75b of the transaction to be funded via internally generated funds and the balance of RM1.59b to be financed via external borrowings. Post-acquisition, we expect IHH's net gearing to increase to 1.4x-2.1x from the current 0.3x which is still within IHH's internal debt covenant of not exceeding 3.5x.

FY18-19F earnings estimate maintained. As the acquisition is due to be completed in the fourth quarter of FY18, we are making no changes to our FY18 earnings at this juncture. As for FY19F, we have lifted our earnings by +7.8% to account for the contribution coming from Fortis as we are still expecting (i) high depreciation and amortisation cost to come in from the newly opened Gleneagles Hong Kong and Acibadem Altunizade as well as; (ii) higher interest expense from the acquisition to offset the earnings contribution slightly. 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 RM7.00. All in, we are positive on the acquisition of Fortis as the acquisition is both value accretive and strengthens IHH's presence in India. With this acquisition, IHH will now make its maiden foray into the lucrative North Indian region after previously operating in the South Indian region via Global and Continental Hospitals it acquired back in 2015. The acquisition will also increase the revenue contribution coming from India to 24% post-acquisition from the current 6%, making it IHH's fourth largest home market. Additionally, the acquisition will increase the number of IHH's operating hospitals to 83 (from the current 43) and opens the door to new markets such as Sri Lanka which it previously has no exposure to.

Hence, we are reiterating our **BUY** recommendation on IHH with a revised TP of **RM7.00** 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 are also expecting further improvements in terms of revenue contributions coming from GHK and Acibadem Altunizade as both hospitals continue to ramp up respective operations by accepting more complex cases which will offset the incremental depreciation, amortization and finance costs of these two hospitals.

INVESTMENT STATISTICS

FYE Dec (RM'm)	FY2015	FY2016	FY2017	FY2018F	FY2019F
Revenue	**8,431.0**	**10,021.9**	**11,142.6**	**11,655.5**	**13,030.4**
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	17.6
PBT margin (%)	14.4	8.8	10.5	12.0	12.5
PATAMI margin (%)	10.7	8.6	5.3	7.5	7.8
PER (x)	57.2	85.4	89.1	59.4	48.2
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

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

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.