

IHH Healthcare Berhad

(5225 | IHH MK) Healthcare | Healthcare Providers

IHH Increases Stake in India's RGE

KEY INVESTMENT HIGHLIGHTS

- **IHH buys remaining stake in Ravindranath GE Medical Associates for approximately RM415m**
- **Additional ancillary transactions are also included for a collective of approximately RM17m**
- **Transactions expected to be completed by 4QCY23**
- **Maintain BUY, unchanged TP: RM6.57**

Sale and purchase agreements for RGE shares. IHH Healthcare's (IHH) subsidiaries – namely Gleneagles Development Pte Ltd (GDPL), and Ravindranath GE Medical Associates Pte Ltd (RGE) – and Global Clinical Research Services Pte Ltd (GCRS), RGE's indirect subsidiary, had entered a sale and purchase agreements and other ancillary agreements with Dr Ravindranath Kancherla (Dr Ravi) and his group (Dr Ravi Group). All purchase considerations were arrived at on a "willing buyer willing seller" basis. Barring unforeseen circumstances, the transactions are expected to be completed by 4QCY23.

Major transaction amounting to RM415m. GDPL and Parkway-Healthcare (Mauritius) Ltd (PHML), an indirect wholly-owned subsidiary of IHH, collectively hold 73.6% equity stake in RGE. 24.5% of the stake was held by Dr Ravindranath and his group, of which consisted of (i) 13.2% by Dr Ravi, 1.5% by Ms Adilakshmi, Dr Ravi's wife, (ii) 1.0% by Ms. Lakshmi Sailaja, Dr Ravi's daughter, (iii) 8.8% held by Global Hospitals Private Limited (GHPL), an entity controlled by Dr Ravi, and (iv) 1.8% by other minority shareholders. The acquisition is agreed at a total cash consideration of approximately RM415m. The acquisition will enable GDPL and PHML combined shareholding in RGE to increase to 98.2% and assume full control of RGE operations.

Minor transactions for collective of RM17.1m. IHH had also entered into ancillary transactions with Dr. Ravi Group, which include (i) the purchase of 0.3% GRCS shares held by Ms Adilakshmi, at a total cash consideration of approximately RM4,000, and (ii) the purchase of a parcel land and building in Chennai, currently owned by Ms Prathyusha, Dr Ravi's daughter-in-law and used RGE hospital operations, at a total cash consideration of approximately RM17.1m.

Fair acquisition. The transactions will be fully satisfied in cash via internally generated funds and/or bank borrowings, which will be determined nearing the completion of the transaction. We believe these transactions are reasonable and fair, as IHH's previous 75% stake in RGE were amounted to approximately RM1.5b, and the remaining stake should be valued at RM524m, in which these transactions would be cheaper by RM106m if they should fall through.

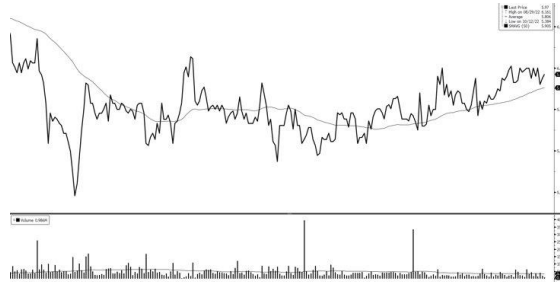
Maintain BUY

Unchanged Target Price: RM6.57

RETURN STATISTICS

Price @ 25 th August 2023 (RM)	5.97
Expected share price return (%)	+10.1
Expected dividend yield (%)	+1.1
Expected total return (%)	+11.2

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.4	1.8
3 months	1.4	0.8
12 months	-4.7	-1.0

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	18,548	19,010	19,436
Operating Profit	3,850	3,956	3,014
Profit Before Tax	2,181	2,249	2,752
Core PATAMI	1,622	1,672	1,790
Core EPS	18.5	19.1	20.4
DPS	6.0	7.0	8.0
Dividend Yield	0.9%	1.1%	1.2%

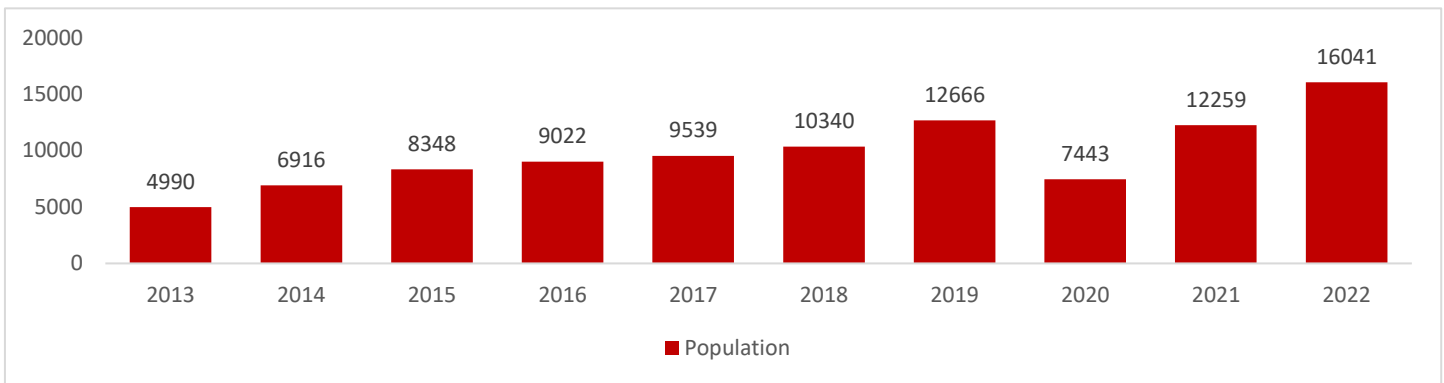
KEY STATISTICS

FBM KLCI	1,444.4
Issue shares (m)	8806.0
Estimated free float (%)	15.0
Market Capitalisation (RM'm)	52,577.7
52-wk price range	RM5.35-RM6.27
3-mth average daily volume (m)	3.4
3-mth average daily value (RM'm)	19.8
Top Shareholders (%)	
Mitsui & Co Ltd	32.80
PULAU MEMUTIK VEN SDN BHD	25.73
Employees Provident Fund Board	10.41

Aiming to strengthen RGE’s operations. IHH seeks to support RGE group’s operations and expand its leading market position, as part of IHH’s commitment to the India’s healthcare sector since its initial investment in CY15. We believe RGE plays a great role for IHH’s expansion in the Indian healthcare market, most notably in the multi-organ transplant services.


Slow growth in organ transplant. India’s deceased organ donation rate has been under one donor per million population for a decade, of which became a major factor leading to the annual death toll of 500,000 people. As of CY22, the country only registered 1,589 kidney, 761 liver and 250 heart transplants from deceased donors, while living donor kidney transplants amounted to 9,834 and liver transplants to 2,957. With RGE’s expertise in the transplantation services, we believe with IHH’s full involvement, the training of its healthcare workers and community awareness campaigns could be carried out and subsequently assist the nation to overcome this issue of scarce organ donation and organ trafficking.

CHART 1: Number of Deceased Organ Transplantation in India

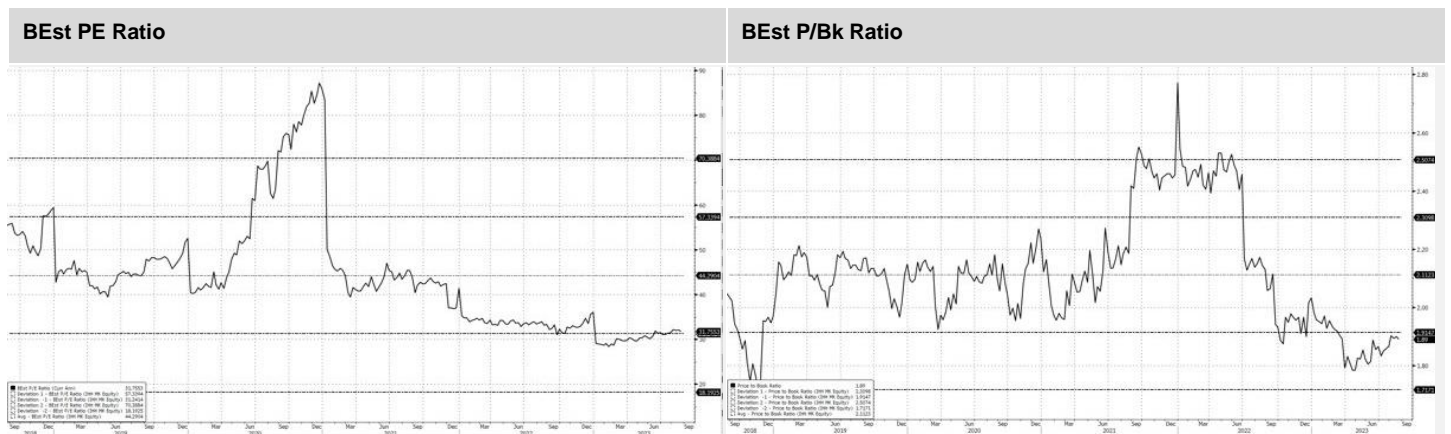


Source: Ministry of Healthcare India, MIDFR

No changes to earnings estimates. We believe the risk to the transactions are minimal, as IHH remained the major shareholder of RGE, and that RGE will continue its operations as usual post-transaction. We are also not expecting any effect on IHH’s financial performance for FY23 in regards of this transaction. Hence, at this juncture, pending IHH’s 2QFY23 results, we make no changes to our earnings estimates.

Maintain BUY, TP:RM6.57. We maintain our BUY call and target price of RM6.57. We continue to be positive on IHH for its medium to long term growth strategies as an international healthcare service provider, specializing in all manners of treatments for common, uncommon and rare illnesses, in tandem with the increased aging population globally and the return of inpatient visits post-pandemic, as well as the advancing of medical technologies. 

FORWARD BAND



Source: Bloomberg, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	17,131.8	17,988.7	18,547.5	19,009.7	19,436.0
EBITDA	4,279.4	4,158.0	3,850.0	3,955.8	3,013.6
D&A	1,116.1	1,374.5	1,433.0	1,483.5	1,529.3
Profit before tax	2,555.7	2,217.1	2,180.7	2,248.5	2,752.4
Core PATAMI	1,594.8	1,548.4	1,621.6	1,672.1	1,790.4
Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	10,840.6	11,882.7	11,664.40	12,214.10	12,504.70
Intangible assets	2,022.6	2,737.8	2,241.20	2,267.70	2,283.20
Non-current assets	36,977.2	40,185.2	40,626.70	41,710.50	42,218.30
Cash	5,017.7	3,663.5	3,499.90	3,992.00	4,836.20
Trade debtors	2,497.5	2,625.4	2,715.20	2,766.20	2,802.20
Current assets	8,533.1	8,282.3	8,392.80	8,764.30	8,838.70
Trade creditors	4,052.6	4,208.5	4,483.40	5,429.70	5,550.90
Short-term debt	1,237.4	1,592.8	2,661.80	3,169.60	3,971.60
Current liabilities	6,049.3	7,258.7	9,372.20	9,426.30	9,549.40
Long-term debt	7,609.5	7,566.0	6,766.00	5,966.00	5,166.00
Non-current liabilities	12,184.2	12,049.7	11,991.40	12,208.10	12,317.10
Share capital	19,614.9	19,684.9	19,684.90	19,684.90	19,684.90
Retained earnings	5,656.4	6,665.2	7,758.50	8,078.30	8,428.40
Equity	27,276.8	29,159.1	27,655.90	28,840.40	29,190.50
Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	2,555.7	2,217.1	2,180.7	2,248.5	3,752.4
Depreciation & amortisation	1,116.1	1,374.5	1,433.0	1,483.5	1,529.3
Changes in working capital	55.4	-244.2	-276.6	-212.5	-163.4
Operating cash flow	3,531.9	3,667.6	4,047.4	4,684.0	5,303.0
Capital expenditure	-312.9	206.9	254.5	262.1	274.5
Investing cash flow	-821.69	-1,853.9	-1,813.0	-1,529.9	-1,492.9
Debt raised/(repaid)	-540.2	429.0	399.7	472.3	479.5
Dividends paid	-593.9	-713.0	-716.1	-749.9	-787.2
Financing cash flow	-1,804.0	-2,920.0	-2,396.9	-2,662.0	-,965.9
Net cash flow	906.2	-1,106.1	-162.5	492.1	844.2
Beginning cash flow	4,172.3	4,993.5	3,662.4	3,499.9	3,992.0
Ending cash flow	4,993.5	3,662.4	3,499.9	3,992.0	4,836.2
Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBITDA margin	25.0%	23.1%	20.8%	20.8%	25.8%
PBT margin	14.9%	12.3%	11.8%	11.8%	19.3%
Core PAT margin	9.3%	8.6%	8.7%	8.8%	14.4%

Source: Bloomberg, 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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology