

IHH Healthcare Berhad

(5225 | IHH MK) Healthcare | Healthcare Providers

Maintain BUY


IHH to expand operations to Sarawak with BHSB acquisition

Target Price: RM6.57

DEVELOPMENT

- IHH Healthcare acquires equity interest in Bedrock Healthcare for RM245m, with expected completion in 1HCY24.
- Bedrock Healthcare operates Timberland Medical Centre in Kuching, Sarawak and earmarked a vacant land for the construction of a 200-bed hospital.

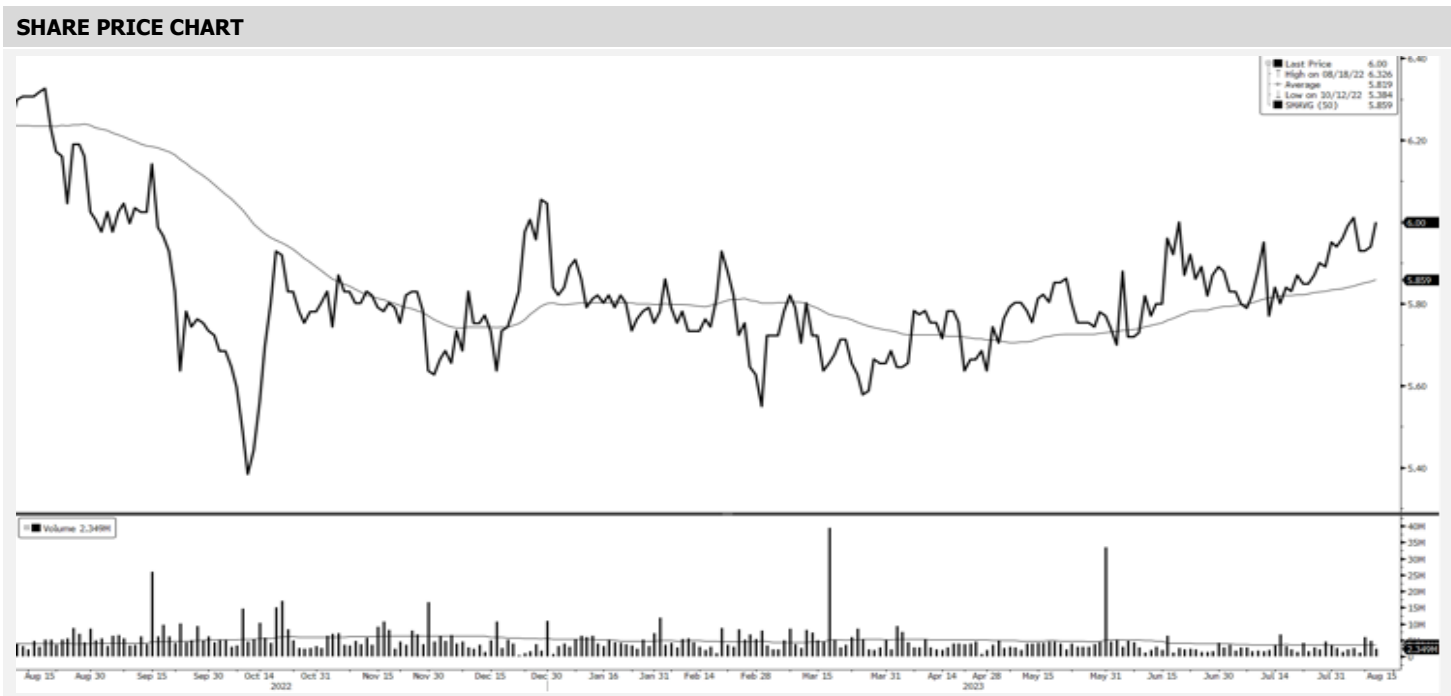
OUR VIEW

- **Acquisition interest in BHSB for RM245m.** IHH Healthcare Bhd (IHH) is acquiring the entire equity interest in Bedrock Healthcare Sdn Bhd (BHSB) for RM245m. Its wholly-owned subsidiary, Pantai Holdings Sdn Bhd, had entered into a share purchase agreement with Saravita Holdings Sdn Bhd (Saravita) and nine founders to acquire BHSB, which is expected to be completed by 1HCY24.
- **BHSB is focused on Sarawak.** BHSB operates Timberland Medical Centre, an 82-bed hospital, in Kuching, Sarawak and has reserved a vacant land in central Kuching for the construction of a 200-bed hospital.
- **Expected higher demand for hospitals in Sarawak.** We believe the acquisition would be to IHH advantage, considering that Sarawak had been developing its industrials and oil and gas sectors, which translated to potentially more demand for hospital care. Medical tourism is also expected to play a role, as domestic travels to the state had rapidly increase in CY22 by +138% to 15.5 million domestic visitors, with an expected additional +20% rise by the end of CY23.
- **Hospitals to cater for aging care.** Additionally, the aging population in Sarawak is increasing at a rate of 0.55% per year, since 2020. It is expected that by 2028, Sarawak would be officially an ageing state, with the current population stood at approximately 312,000, which consisted of 12.6% of Sarawak's population. We opine that, with an increase in the aging population, specialist hospitals that tended to specific age-related diseases would be in high demand in the near future.
- **Strategic location to boost Sarawak's socio-economy.** Kuching serves as an economic and trade hub for Sarawak, as well as a home to several universities and research institutions. The city's accessibility and cultural diversity also support the business and tourism activities in the region. Kuching population is also forecasted to increase at a 5-Year CAGR of 2.3%. We anticipate that additional healthcare service providers in Kuching would be necessary in the long run, hence we are positive on this acquisition plan.
- All in all, we like IHH for its medium to long term growth strategies as a healthcare service provider and with the demographic gradually returning to pre-pandemic demand for healthcare, in addition to the increased in senior citizen population requiring more healthcare services, we maintain positive on IHH's prospects and operational excellence.
- Pending the 2QFY23 results and in consideration of the preliminary stage of the acquisition, we make no changes to our earnings estimates and maintain our **BUY** call on IHH with a **target price of RM6.57**. Our target price pegs on a PER of 35.5x to an EPS23 of 8.7sen. 

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm unless stated otherwise)	2020A	2021A	2022E	2023F	2024F
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	5,013.6
PBT	2,555.7	2,217.1	2,180.7	2,248.5	3,752.4
PATANCI	1,862.5	1,645.1	1,621.6	1,672.1	2,790.4
Normalised PATANCI	1,594.8	1,548.4	1,621.6	1,672.1	1,790.4
Normalised Basic EPS (sen)	17.2	17.0	18.5	19.1	20.4
Normalised EPS growth (%)	141.2	(1.2)	8.7	3.1	7.1
PBT margin (%)	14.9	12.3	11.8	11.8	19.3
Normalised PATANCI margin (%)	10.9	9.1	8.7	8.8	14.4
PER (x)	38.2	38.6	35.5	34.5	32.2
Dividend per share (sen)	6.0	6.0	6.0	7.0	8.0
Dividend yield (%)	0.9	0.9	0.9	1.1	1.2

Source: Company, MIDFR



Source: Company, 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