

## IHH Healthcare Berhad

(5225 | IHH MK) Healthcare | Healthcare Providers

### Outstanding Growth in Major Segments

#### KEY INVESTMENT HIGHLIGHTS

- **IHH 2QFY23 earnings down marginally by -1% to RM315m, came in below expectations**
- **Hospitals and healthcare segment continue to contribute on the back of increased demand for treatments**
- **IMU Health cease to contribute to IHH's financials**
- **Maintain BUY, revised TP: RM7.12**

**Maintain BUY, revised TP: RM7.12.** IHH Healthcare (IHH)'s 1HFY23 results came in slightly below our expectations at 40% of full-year estimate. However, in consideration of the divestment of IMU Health segment and the recent addition to the Labs segment as well as recent share acquisition of a chain of hospitals in India, we revised our earnings estimation upwards. Likewise, we **revised our target price higher to RM7.12** (previously RM6.57) as we rollover to FY24 valuations.

We maintain a **BUY** call for IHH, on the basis of expected support by healthcare megatrends, as well as IHH's operational resilience, and a solid financial position. Additionally, we expect expansion plans for its strategically located hospitals and its new Labs segment will sustain its robust performance in the near-term.

**Earnings slipped -1%yoy.** IHH's 2QFY23 earnings dropped marginally by -0.8%yoy to RM315m. Meanwhile, 2QFY23 revenue gained +6.9%yoy to RM4.7b. The slight decrease in earnings were due to higher finance cost. The higher revenue was offset by (i) higher cost of operations, (ii) weakened TL against RM, and (iii) higher debit adjustment relating to the application of MFRS 129.

**Hospital and Healthcare.** 2QFY23 EBITDA increased +12.2%yoy to RM1.0b, while revenue added +21.7%yoy to RM4.8b. The higher EBITDA was mainly driven by higher revenue offset by higher staff cost and other operating expenses, as well as translational effects from a weakened TL against RM. The higher revenue was due to: (i) strong recovery from core non-Covid revenues, (ii) increased treatment demand from local and foreign patients, (iii) the continued operations at Atasehir Hospital and GHK Hospital, and (iv) the acquisitions of Ortopedia and Kent. Refer to Table 1 and 2 for details on inpatient admission and revenue by country.

**IMU Health.** The divestment of IMU Health was completed on March CY23. This segment will cease to contribute to the group's results.

**Labs.** 2QFY23 EBITDA increased by +14.4%yoy to RM90.9m, while revenue slipped by -5.1%yoy to RM237.9m. Total test volumes increased in 2QFY23 by +3%yoy to 22.6m, notwithstanding that there were more COVID-related tests undertaken in 2QFY22. Non-COVID revenues increased +13%yoy in 2QFY23.

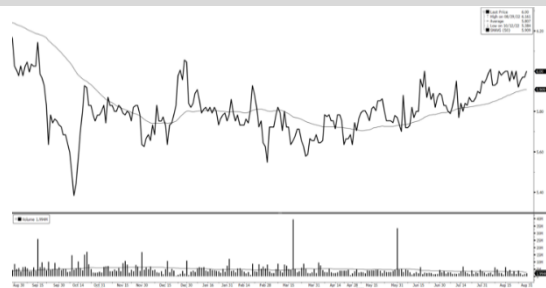
**Maintain BUY**

**Revised Target Price: RM7.12**  
(previously RM6.57)

#### RETURN STATISTICS

Price @ 29 <sup>th</sup> August 2023 (RM)	6.00
Expected share price return (%)	+18.7
Expected dividend yield (%)	+1.0
<b>Expected total return (%)</b>	<b>+19.7</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.9	1.8
3 months	1.9	0.9
12 months	-3.8	-0.7

#### INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	19,548	20,010	19,436
Operating Profit	4,262	4,366	4,381
Profit Before Tax	2,303	2,368	2,919
Core PATAMI	1,712	1,760	2,170
Core EPS	17.7	18.3	20.5
DPS	6.0	7.0	8.0
Dividend Yield	0.9%	1.1%	1.2%

#### KEY STATISTICS


FBM KLCI	1,454.4
Issue shares (m)	8806.0
Estimated free float (%)	15.0
Market Capitalisation (RM'm)	52,842.0
52-wk price range	RM5.35-RM6.27
3-mth average daily volume (m)	3.4
3-mth average daily value (RM'm)	19.7
Top Shareholders (%)	
Mitsui & Co Ltd	32.80
PULAU MEMUTIK VEN SDN BHD	25.73
Employees Provident Fund Board	10.45

**Plife REIT.** 2QFY23 EBITDA added +10%yoy to RM78.9m, while revenue was up +6.2%yoy to RM39m. EBITDA increased mainly due to contribution from five nursing homes acquired and higher inter-segment rental income from the hospitals in Singapore.

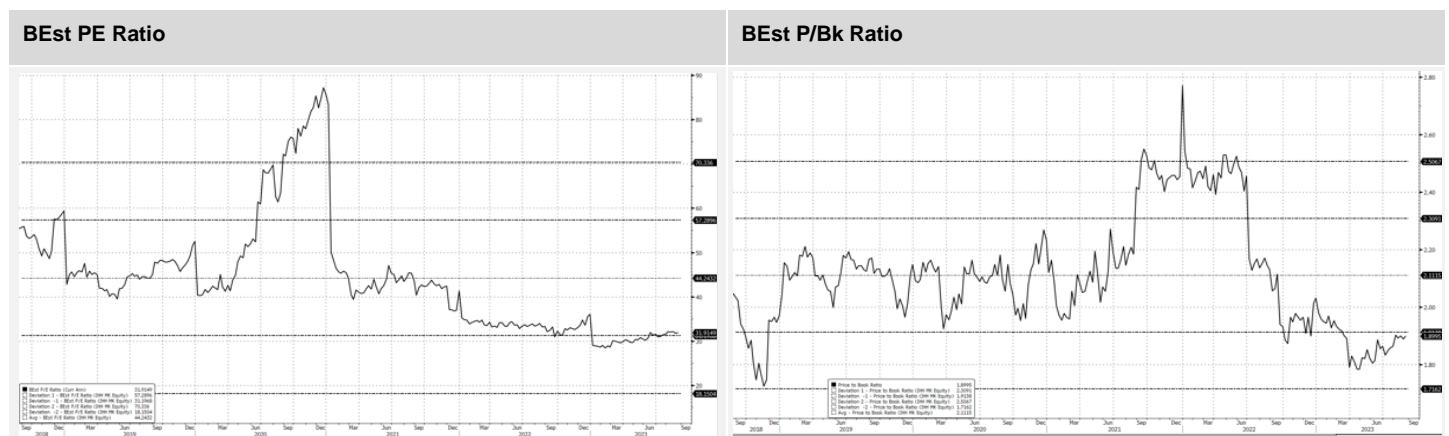
**Others.** 2QFY23 EBITDA increased to a deficit of RM35.3m from a deficit of RM40.5m in 2QFY22. Meanwhile, revenue increased +8.4%yoy to RM1.3m EBITDA losses decreased mainly due to reversal of over-provision of bonus and lower professional fee expense.

**Higher demand for healthcare services from aging population.** We opine that the upsurge in demand for healthcare services from local and international patients is in line with the growing aging population in locations where IHH operates in. Addressing this trend, IHH is expected to expand its bed capacity by around +25% over the next 3 years in Malaysia (+600 beds), India (+1,400 beds), Turkiye (+380 beds), and Europe (+200 beds). IHH is also exploring strategic opportunities in advanced medical treatments for oncology and pediatric patients in Asia and Europe.

**High operational cost a key challenge.** Despite the robust demand for healthcare services, we believe the main challenge to IHH's operations is the cost pressures stemming from elevated inflation and rising interest rates. Nevertheless, we are optimistic in the group's commitment to cost management and capitalization on synergies within its international network to achieve cost efficiencies. Beyond operational growth, we are expecting IHH to actively seek opportunities to acquire strategic assets across Asia and Europe, supported by its sound financial position, while also catering to local needs and the burgeoning medical tourism sector.

**Revised earnings estimates.** In consideration of its divestments of Gleneagles Chengdu Hospital, IMU Health, and Fortis Arcot Road Hospital as well as IHH's recent acquisition of shares for a chain of hospitals in India, we revised our earnings forecast for both FY23 and FY24 upwards by +6% and +5% respectively. Likewise, as we rollover to FY24 valuations, we revise our target price to RM7.12, pegging on a PER of 35.5x to the revised EPS24 of 20.1 sen. The PER is based on the healthcare service provider subsector's 5-year average PER. 

## FORWARD BAND



Source: Bloomberg, MIDFR

**Table 1: IHH Healthcare's Hospital Inpatient Admission**

Location	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	1HFY22	1HFY23	YoY (%)
Singapore	15,738	15,564	15,133	-3	-4	31,618	30,697	-3
Malaysia	47,684	58,939	56,767	-4	+16	84,465	115,706	+27
India	84,983	82,031	84,142	+3	-1	159,526	166,173	+4
Turkey & Europe	59,126	65,570	60,333	-8	+2	115,831	125,903	+8

Source: Company, MIDFR

**Table 2: IHH Healthcare's Hospital Revenue per Admission (RM)**

Location	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	1HFY22	1HFY23	YoY (%)
Singapore	51,373	51,785	57,723	+11	+11	4,929	56,665	+13
Malaysia	9,607	9,690	10,007	+3	+4	9,649	9,846	+2
India	9,288	8,798	9,382	+7	+1	7,968	9,374	+15
Turkey&Europe	6,084	11,480	11,480	0	+47	6,085	10,675	+43

Source: Company, MIDFR

**Table 3: IHH Healthcare Quarterly Result Review**

Financial year ending 31st Dec (in RM'm unless stated otherwise)	Quarterly results					Cumulative results		
	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	1HFY22	1HFY23	YoY (%)
<b>Revenue</b>	<b>4,373.6</b>	<b>5,142.4</b>	<b>4,673.9</b>	<b>(9.1)</b>	<b>6.9</b>	<b>8,536.6</b>	<b>9,816.3</b>	<b>15.0</b>
Other operating income	116.4	1,104.4	115.3	(89.6)	(0.9)	215.9	1,219.7	465.1
Inventories and consumables	(963.7)	(1,043.3)	(995.7)	(4.6)	3.3	(1,825.9)	(2,039.0)	11.7
Purchased and contracted services	(418.0)	(464.2)	(444.4)	(4.3)	6.3	(796.9)	(908.5)	14.0
Staff costs	(1,536.1)	(1,905.8)	(1,673.1)	(12.2)	8.9	(3,043.3)	(3,578.9)	17.6
Depreciation and impairment losses of PPE	(268.6)	(266.0)	(240.3)	(9.7)	(10.5)	(491.1)	(506.3)	3.1
Amortisation and impairment losses of intangible assets	(13.0)	(11.1)	(11.1)	(0.3)	(14.5)	(23.2)	(22.2)	(4.2)
Operating lease expenses	(21.8)	(27.5)	(24.8)	(9.9)	13.7	(41.8)	(52.3)	24.9
Other operating expenses	(537.2)	(669.9)	(615.3)	(8.2)	14.5	(1,032.5)	(1,285.1)	24.5
Finance income	125.6	39.6	182.8	361.7	45.5	175.8	222.4	26.5
Finance costs	(185.2)	(185.2)	(385.5)	108.1	108.2	(311.7)	(570.7)	83.1
Share of profits of associates (net of tax)	11.1	6.1	5.1	(15.9)	(53.5)	18.9	11.3	(40.5)
Share of profits of joint ventures (net of tax)	0.7	0.5	0.2	(68.7)	(76.5)	1.2	0.7	(46.8)
<b>Profit Before Tax</b>	<b>878.5</b>	<b>1,792.5</b>	<b>542.0</b>	<b>(69.8)</b>	<b>(38.3)</b>	<b>1,499.7</b>	<b>2,334.5</b>	<b>55.7</b>
Income tax expense	(144.1)	(240.5)	(157.1)	(34.7)	9.0	(195.2)	(397.6)	103.7
<b>Profit After Tax</b>	<b>734.4</b>	<b>1,552.0</b>	<b>384.9</b>	<b>(75.2)</b>	<b>(47.6)</b>	<b>1,304.4</b>	<b>1,936.9</b>	<b>48.5</b>
Non-controlling interests	122.3	161.4	83.1	(48.5)	(32.0)	199.1	244.5	22.8
<b>PATANCI</b>	<b>612.1</b>	<b>1,390.5</b>	<b>301.8</b>	<b>(78.3)</b>	<b>(50.7)</b>	<b>1,105.4</b>	<b>1,692.4</b>	<b>53.1</b>
Exceptional Items	(294.6)	(1,060.7)	13.2	(101.2)	(104.5)	(380.5)	(1,047.5)	175.3
<b>Normalised Earnings</b>	<b>317.5</b>	<b>329.9</b>	<b>315.0</b>	<b>(4.5)</b>	<b>(0.8)</b>	<b>724.9</b>	<b>644.9</b>	<b>(11.0)</b>
Basic EPS (sen)	6.7	15.8	3.4	(78.3)	(48.7)	12.1	19.2	59.5
Fully diluted EPS (sen)	6.7	15.8	3.4	(78.3)	(48.7)	12.0	19.2	59.6
Basic EPS ex-EI (sen)	3.3	3.8	3.6	(4.5)	7.2	7.7	7.3	(5.1)
Fully diluted EPS ex-EI (sen)	3.3	3.8	3.6	(4.5)	7.2	7.7	7.3	(5.1)
				+ / (-) ppts				+ / (-) ppts
PBT margin (%)	20.1	34.9	11.6	(23.3)	(8.5)	17.6	23.8	6.2
PAT margin (%)	16.8	30.2	8.2	(21.9)	(8.6)	15.3	19.7	4.5
PATANCI margin (%)	14.0	27.0	6.5	(20.6)	(7.5)	12.9	17.2	4.3
Effective tax rate (%)	16.4	13.4	29.0	15.6	12.6	13.0	17.0	4.0

Source: Company, MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
Revenue	17,131.8	17,988.7	19,547.5	20,009.7	,436.0
EBITDA	4,279.4	4,158.0	4,262.3	4,365.5	4,380.9
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	2,303.0	2,367.6	2,918.8
Core PATAMI	1,594.8	1,548.4	1,712.1	1,760.2	2,169.9
<b>Balance Sheet (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
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
<b>Non-current assets</b>	<b>36,977.2</b>	<b>40,185.2</b>	<b>40,626.70</b>	<b>41,710.50</b>	<b>42,218.30</b>
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
<b>Current assets</b>	<b>8,533.1</b>	<b>8,282.3</b>	<b>8,392.80</b>	<b>8,764.30</b>	<b>8,838.70</b>
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
<b>Current liabilities</b>	<b>6,049.3</b>	<b>7,258.7</b>	<b>9,372.20</b>	<b>9,426.30</b>	<b>9,549.40</b>
Long-term debt	7,609.5	7,566.0	6,766.00	5,966.00	5,166.00
<b>Non-current liabilities</b>	<b>12,184.2</b>	<b>12,049.7</b>	<b>11,991.40</b>	<b>12,208.10</b>	<b>12,317.10</b>
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
<b>Equity</b>	<b>27,276.8</b>	<b>29,159.1</b>	<b>27,655.90</b>	<b>28,840.40</b>	<b>29,190.50</b>
<b>Cash Flow (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
PBT	2,555.7	2,217.1	2,303.0	2,367.6	2,918.8
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
<b>Operating cash flow</b>	<b>3,531.9</b>	<b>3,667.6</b>	<b>4,047.4</b>	<b>4,684.0</b>	<b>5,303.0</b>
Capital expenditure	-312.9	206.9	254.5	262.1	274.5
<b>Investing cash flow</b>	<b>-821.69</b>	<b>-1853.9</b>	<b>-1,813.0</b>	<b>-1,529.9</b>	<b>-1,492.9</b>
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
<b>Financing cash flow</b>	<b>-1,804.0</b>	<b>-2,920.0</b>	<b>-2,396.9</b>	<b>-2,662.0</b>	<b>-,965.9</b>
<b>Net cash flow</b>	<b>906.2</b>	<b>-1,106.1</b>	<b>-162.5</b>	<b>492.1</b>	<b>844.2</b>
<b>Beginning cash flow</b>	<b>4,172.3</b>	<b>4,993.5</b>	<b>3,662.4</b>	<b>3,499.9</b>	<b>3,992.0</b>
<b>Ending cash flow</b>	<b>4,993.5</b>	<b>3,662.4</b>	<b>3,499.9</b>	<b>3,992.0</b>	<b>4,836.2</b>
<b>Profitability Margins</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
EBITDA margin	25.0%	23.1%	21.8%	21.8%	22.5%
PBT margin	14.9%	12.3%	11.8%	11.8%	15.0%
Core PAT margin	9.3%	8.6%	8.8%	8.8%	11.2%

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