

IHH Healthcare Berhad

(5225 | IHH MK) Healthcare | Healthcare Providers

Robust Demand for Healthcare to Persist

KEY INVESTMENT HIGHLIGHTS

- **IHH 3QFY23 earnings up 17%yoy to RM369m, came in slightly below expectations**
- **Revenue gained +27%yoy to RM5.8b due to strong demand recovery and price adjustments for Lira against inflation**
- **Prospects positive on the back of strong demand for healthcare services and treatments**
- **Maintain BUY, revised TP: RM7.08**

Maintain BUY, revised TP: RM7.08. IHH Healthcare (IHH)'s 3QFY23 results came in slightly below our expectations at 63%. As such we revise our earnings forecast slightly downwards and **our target price accordingly to RM7.08** (previously RM7.12). Nevertheless, we maintain a **BUY** call for IHH, on the basis of: (i) an expected support by healthcare megatrends, most notably from the increase in aging population, (ii) IHH's robust bed occupancy rate and inpatient revenues, and (iii) a solid financial position. We continue to be positive with IHH's long-term prospects and growth as one of the major healthcare service providers regionally and locally.

Earnings gained +17%yoy. IHH's 3QFY23 earnings rose +17%yoy to RM369m. Meanwhile, 3QFY23 revenue gained +26.8%yoy to RM5.83b. The higher revenue was due to: (i) strong recovery from core non-COVID-19 revenues, (ii) return of local and foreign patients returned to seek treatment, (iii) more case-mix of acute patients, and (iii) price adjustments to counter inflation from Turkish Lira (Lira).

Hospital and Healthcare. 3QFY23 EBITDA increased +16.8%yoy to RM1.20b, while revenue added +15.4%yoy to RM5.22b. The increase in earnings were mainly driven by cost management, offset by translational effects from a weakened Lira against MYR. (Refer to Table 1 and 2 for details on inpatient admission and revenue by country).

Labs. 3QFY23 EBITDA dropped -3.9%qoq to RM87.4m, while revenue added +8.7%qoq to RM258.7m. Total test volumes increased in 3QFY23 by +10%yoy to 25.5m, notwithstanding that there were more COVID-related tests undertaken during this period. Non-COVID revenues increased +18%yoy in 3QFY23.

Plife REIT. 3QFY23 EBITDA added +2%yoy to RM80.5m, while revenue was up +5.6%yoy to RM37.6m. Earnings and revenue increased from five nursing homes acquired and higher inter-segment rental income from the hospitals in Singapore.

Others. 3QFY23 EBITDA increased to a deficit of RM4.9m from a deficit of RM35.6m in 3QFY22. Meanwhile, revenue increased +51.9%yoy to RM1.5m. The decrease in losses was mainly due to higher inter-segment management fee income from other business segments.

Maintain BUY

Revised Target Price: RM7.08
(Previously RM7.12)

RETURN STATISTICS

| | |
|---|--------------|
| Price @ 30 th November 2023 (RM) | 5.83 |
| Expected share price return (%) | +21.4 |
| Expected dividend yield (%) | +1.0 |
| Expected total return (%) | +22.4 |

SHARE PRICE CHART



| Price performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1 month | -2.7 | -3.8 |
| 3 months | -0.3 | -0.1 |
| 12 months | 2.4 | 5.1 |

INVESTMENT STATISTICS


| FYE Dec | 2023E | 2024F | 2025F |
|-------------------|--------|--------|--------|
| Revenue | 18,548 | 19,010 | 19,436 |
| Operating Profit | 3,850 | 3,956 | 4,014 |
| Profit Before Tax | 2,181 | 2,249 | 2,502 |
| Core PATAMI | 1,492 | 1,517 | 1,584 |
| Core EPS | 16.9 | 17.2 | 18.0 |
| DPS | 6.0 | 7.0 | 8.0 |
| Dividend Yield | 0.8% | 1.0% | 1.1% |

KEY STATISTICS

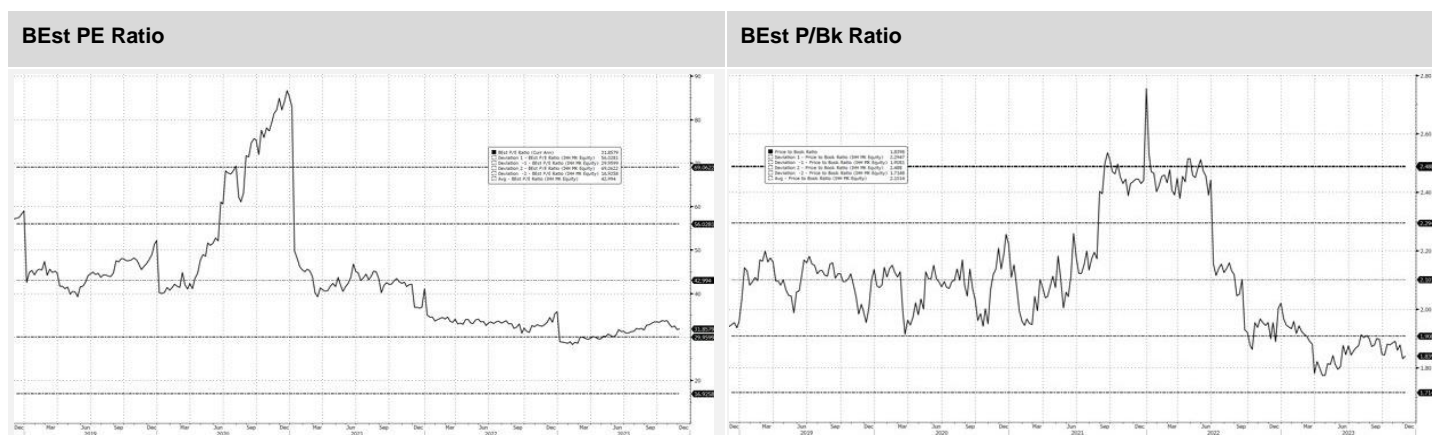
| | |
|----------------------------------|---------------|
| FBM KLCI | 1,452.74 |
| Issue shares (m) | 8806.04 |
| Estimated free float (%) | 14.95 |
| Market Capitalisation (RM'm) | 51,344.76 |
| 52-wk price range | RM5.52-RM6.16 |
| 3-mth average daily volume (m) | 3.95 |
| 3-mth average daily value (RM'm) | 12.40 |
| Top Shareholders (%) | |
| Mitsui & Co Ltd | 32.80 |
| PULAU MEMUTIK VEN SDN BHD | 25.73 |
| Employees Provident Fund Board | 10.45 |

Serving healthcare services and treatments to growing demand. We opine that the upsurge in demand for healthcare is in tandem with the growing aging population in locations where IHH operates in, coupled with the increase in medical tourism following higher traveler numbers across the globe. To meet the rising healthcare demand locally and regionally, IHH is expected to increase its bed capacity by more than +30%, equating to nearly 4,000 additional beds in Malaysia, India, Turkiye and Europe. IHH is also looking into improving its capacity initiatives to include refurbishments and renovations of existing facilities to optimize patient utilization.

Active effort to control cost. Despite the robust demand for healthcare services, the cost pressures stemming from heightened inflation and rising interest rates remain a challenge for IHH. Nevertheless, we are optimistic in the group's commitment in cost control and in leveraging on synergies within its international network to achieve cost efficiencies, streamlining of workflows and operational excellence. We are also anticipating IHH to actively taking steps to revitalize its underperforming assets and in turn, unlock their full potential to fulfil the group's long-term growth aspirations.

Revised earnings estimates. In consideration of its 9MFY23 earnings came in below our expectations, coupled with the ongoing divestment of Fortis Malar Hospital in Chennai by Fortis Healthcare Ltd, we revised our earnings forecast for both FY23 and FY24 downwards by -9% and -10% respectively. In line with the changes in earnings forecast, we revise our **target price to RM7.08**, pegging on a new PER of 41.1x to the revised EPS24 of 17.2sen. The PER is based on IHH's 5-Year average PER. We shift the PER to a premium for this valuation from the industry average of 35.5x to reflect IHH's consistent earnings and positive growth trajectory, at a manageable risk. 

FORWARD BAND



Source: Bloomberg, MIDFR

Table 1: IHH Healthcare's Hospital Inpatient Admission

| Location | 3QFY22 | 2QFY23 | 3QFY23 | QoQ (%) | YoY (%) | 9MFY22 | 9MFY23 | YoY (%) |
|-----------------|--------|--------|--------|---------|---------|---------|---------|---------|
| Singapore | 15,348 | 15,133 | 15,503 | +2 | +1 | 45,276 | 46,200 | +2 |
| Malaysia | 56,763 | 56,767 | 63,779 | +12 | +11 | 141,793 | 179,485 | +21 |
| India | 78,449 | 84,142 | 80,050 | -5 | +2 | 226,001 | 226,001 | 0 |
| Turkey & Europe | 53,576 | 60,333 | 58,235 | -4 | +8 | 169,407 | 184,138 | +8 |

Source: Company, MIDFR

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

| Location | 3QFY22 | 2QFY23 | 3QFY23 | QoQ (%) | YoY (%) | 9MFY22 | 9MFY23 | YoY (%) |
|---------------|--------|--------|--------|---------|---------|--------|--------|---------|
| Singapore | 49,803 | 57,723 | 60,004 | +4 | +17 | 48,711 | 57,308 | +15 |
| Malaysia | 9,261 | 10,007 | 9,852 | -2 | +6 | 9,553 | 9,848 | +3 |
| India | 9,879 | 9,382 | 10,509 | +12 | +8 | 8,833 | 10,515 | +16 |
| Turkey&Europe | 7,348 | 11,480 | 12,247 | +7 | +40 | 6,265 | 10,801 | +42 |

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 | | |
|--|-------------------|----------------|----------------|-------------|--------------|--------------------|-----------------|--------------|
| | 3QFY22 | 2QFY23 | 3QFY23 | QoQ (%) | YoY (%) | 9MFY22 | 9MFY23 | YoY (%) |
| Revenue | 4,595.2 | 4,673.9 | 5,825.9 | 24.6 | 26.8 | 13,131.9 | 15,642.2 | 19.1 |
| Other operating income | 148.1 | 115.3 | 96.3 | (16.5) | (35.0) | 364.0 | 1,316.0 | 261.6 |
| Inventories and consumables | (959.1) | (995.7) | (1,152.2) | 15.7 | 20.1 | (2,784.9) | (3,191.2) | 14.6 |
| Purchased and contracted services | (443.4) | (444.4) | (518.8) | 16.8 | 17.0 | (1,240.3) | (1,427.4) | 15.1 |
| Staff costs | (1,607.8) | (1,673.1) | (2,100.9) | 25.6 | 30.7 | (4,651.1) | (5,679.8) | 22.1 |
| Depreciation and impairment losses of PPE | (247.2) | (240.3) | (294.2) | 22.4 | 19.0 | (738.3) | (800.5) | 8.4 |
| Amortisation and impairment losses of intangible assets | (12.0) | (11.1) | (13.5) | 21.2 | 12.3 | (35.2) | (35.7) | 1.4 |
| Operating lease expenses | (21.4) | (24.8) | (32.3) | 30.3 | 50.9 | (63.2) | (84.6) | 33.7 |
| Other operating expenses | (642.1) | (615.3) | (686.6) | 11.6 | 6.9 | (1,674.6) | (1,971.7) | 17.7 |
| Finance income | (68.5) | 182.8 | (107.0) | (158.6) | 56.4 | 107.4 | 115.3 | 7.4 |
| Finance costs | (138.1) | (385.5) | (123.7) | (67.9) | (10.5) | (449.9) | (694.4) | 54.4 |
| Share of profits of associates (net of tax) | 9.5 | 5.1 | 5.3 | 2.5 | (44.6) | 28.4 | 16.5 | (41.9) |
| Share of profits of joint ventures (net of tax) | 0.4 | 0.2 | 0.3 | 97.5 | (14.6) | 1.6 | 1.0 | (39.5) |
| Profit Before Tax | 513.3 | 542.0 | 1,013.2 | 86.9 | 97.4 | 2,012.9 | 3,347.7 | 66.3 |
| Income tax expense | (189.0) | (157.1) | (375.4) | 139.0 | 98.6 | (384.2) | (773.0) | 101.2 |
| Profit After Tax | 324.3 | 384.9 | 637.8 | 65.7 | 96.7 | 1,628.7 | 2,574.7 | 58.1 |
| Non-controlling interests | 72.5 | 83.1 | 105.7 | 27.2 | 45.8 | 271.6 | 350.3 | 29.0 |
| PATANCI | 251.8 | 301.8 | 532.1 | 76.3 | 111.4 | 1,357.1 | 2,224.5 | 63.9 |
| Exceptional Items | 63.7 | 13.2 | (163.2) | (1,338.3) | (356.3) | (316.8) | (1,210.6) | 282.1 |
| Normalised Earnings | 315.4 | 315.0 | 369.0 | 17.1 | 17.0 | 1,040.3 | 1,013.8 | (2.5) |
| Basic EPS (sen) | 2.8 | 3.4 | 6.0 | 76.1 | 117.3 | 14.8 | 25.3 | 70.3 |
| Fully diluted EPS (sen) | 2.8 | 3.4 | 6.0 | 76.1 | 117.3 | 14.8 | 25.3 | 70.4 |
| Basic EPS ex-EI (sen) | 3.5 | 3.6 | 4.2 | 17.0 | 19.7 | 11.2 | 11.5 | 2.7 |
| Fully diluted EPS ex-EI (sen) | 3.5 | 3.6 | 4.2 | 17.0 | 19.7 | 11.2 | 11.5 | 2.7 |
| | | | | +/(-) ppts | | | | +/(-) ppts |
| PBT margin (%) | 11.2 | 11.6 | 17.4 | 5.8 | 6.2 | 15.3 | 21.4 | 6.1 |
| PAT margin (%) | 7.1 | 8.2 | 10.9 | 2.7 | 3.9 | 12.4 | 16.5 | 4.1 |
| PATANCI margin (%) | 5.5 | 6.5 | 9.1 | 2.7 | 3.7 | 10.3 | 14.2 | 3.9 |
| Effective tax rate (%) | 36.8 | 29.0 | 37.0 | 8.1 | 0.2 | 19.1 | 23.1 | 4.0 |

Source: Company, 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 | 4,013.6 |
| 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 | 2,502.4 |
| Core PATAMI | 1,594.8 | 1,548.4 | 1491.61 | 1517.05 | 1583.90 |

| Balance Sheet (RM'm) | 2021A | 2022A | 2023E | 2024F | 2025F |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Fixed assets | 10,840.6 | 11,882.7 | 12,964.4 | 13,214.1 | 13,504.7 |
| Intangible assets | 2,022.6 | 2,737.8 | 3,341.2 | 3,587.7 | 4,071.5 |
| Non-current assets | 36,977.2 | 40,185.2 | 40,992.9 | 41,505.0 | 42,277.0 |
| Cash | 5,017.7 | 3,663.5 | 4,376.5 | 5,180.7 | 5,410.9 |
| Trade debtors | 2,497.5 | 2,625.4 | 2,215.2 | 2,266.2 | 2,302.2 |
| Current assets | 8,533.1 | 8,282.3 | 8,487.0 | 8,603.2 | 8,929.3 |
| Trade creditors | 4,052.6 | 4,208.5 | 4,483.4 | 5,429.7 | 5,550.9 |
| Short-term debt | 1,237.4 | 1,592.8 | 2,661.8 | 3,169.6 | 3,971.6 |
| Current liabilities | 6,049.3 | 7,258.7 | 8,372.2 | 9,426.3 | 9,549.4 |
| Long-term debt | 7,609.5 | 7,566.0 | 7,566.0 | 7,966.0 | 8,166.0 |
| Non-current liabilities | 12,184.2 | 12,049.7 | 9,541.1 | 9,759.6 | 9,859.6 |
| Share capital | 19,614.9 | 19,684.9 | 19,427.6 | 19,427.6 | 19,427.6 |
| Retained earnings | 5,656.4 | 6,665.2 | 7,875.6 | 9,102.7 | 10,481.9 |
| Equity | 27,276.8 | 29,159.1 | 25,637.6 | 27,254.2 | 28,244.0 |

| Cash Flow (RM'm) | 2021A | 2022A | 2023E | 2024F | 2025F |
|-----------------------------|-----------------|-----------------|------------------|------------------|------------------|
| PBT | 2,555.7 | 2,217.1 | 2,180.7 | 2,248.5 | 2,502.4 |
| 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) | (143.4) |
| Operating cash flow | 3,531.9 | 3,667.6 | 2,924.0 | 2,996.1 | 3,189.0 |
| Capital expenditure | -312.9 | 206.9 | 254.5 | 262.1 | 274.5 |
| Investing cash flow | -821.69 | -1853.9 | (1,813.0) | (1,529.9) | (1,492.9) |
| Debt raised/(repaid) | -540.2 | 429.0 | 2,399.7 | 2,072.3 | 1,679.5 |
| Dividends paid | -593.9 | -713.0 | (416.1) | (449.9) | (487.2) |
| Financing cash flow | -1,804.0 | -2,920.0 | (396.9) | (662.0) | (965.9) |
| Net cash flow | 906.2 | -1,106.1 | 714.1 | 804.3 | 730.2 |
| Beginning cash flow | 4,172.3 | 4,993.5 | 3,662.4 | 4,376.5 | 5,180.7 |
| Ending cash flow | 4,993.5 | 3,662.4 | 4,376.5 | 5,180.7 | 5,910.9 |

| Profitability Margins | 2021A | 2022A | 2023E | 2024F | 2025F |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| EBITDA margin | 25.0% | 23.1% | 20.8% | 20.8% | 20.7% |
| PBT margin | 14.9% | 12.3% | 11.8% | 11.8% | 12.9% |
| Core PAT margin | 9.3% | 8.6% | 8.0% | 8.0% | 8.1% |

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