

IHH Healthcare Berhad

(5225 | IHH MK) Healthcare | Healthcare Providers

Capacity Expansion is the Key Focus in CY24

KEY INVESTMENT HIGHLIGHTS

- **IHH's 4QFY23 normalised earnings down 22%yoy; below expectations**
- **Barring impairment on China assets, net profit gained 3-fold**
- **4QFY23 revenue gained +9%yoy on higher patient visits**
- **Prospects positive on the back of strong demand, expansion plans and healthcare megatrends**
- **Maintain BUY, revised TP: RM7.35**

Maintain BUY, TP: RM7.08. IHH Healthcare (IHH)'s FY23 results came in below our expectation at 86% and consensus' at 69%. However, barring the impairment on its China assets (Parkway Shanghai Hospital amounting to RM395m and goodwill of RM150.1m for its China clinics), net profit was nearly 3-fold higher. As such, we revise our earnings forecast upwards, subsequently revising **our target price to RM7.35** (previously RM7.08). We also maintain a **BUY** call for IHH, on the basis of: (i) upcoming healthcare megatrends, (iii) increase in service demand in line with growing aging population, global comorbidity rate and medical tourism, and (iv) IHH's future plans for expansion on its assets.

4QFY23 earnings slipped -22%yoy. IHH's 4QFY23 normalised earnings declined -22%yoy to RM265.5m. However, with in absence of about RM300m of impairment loss on its China assets and the higher depreciation and amortization on its reindexation of Turkiye assets under MFRS 129, net profit for the quarter is higher by over 3-fold from 4QFY22. Meanwhile, 4QFY23 revenue gained +9%yoy to RM5.3b.

Hospital and Healthcare. 4QFY23 EBITDA increased +9.7%yoy to RM1.18b, while revenue added +13.4%yoy to RM5.23b. The higher revenue was mainly due to the strong recovery from core non-COVID-19 revenues as both local and foreign patients returned to seek treatment at the hospitals, a case-mix of more acute patients and price adjustments to counter inflation. The ramp up of operations at Atasehir Hospital, the continuous ramp up of operations at GHK Hospital, as well as the acquisitions of Ortopedia and Kent also contributed to the increase.

Labs. 4QFY23 EBITDA dropped -29.8%yoy to RM73.9m, while revenue added +0.7%yoy to RM243.6m. Total test volumes increased +10%yoy to 25.8m. The lower EBITDA was due to costs incurred for the rebranding of the diagnostics business in India to "Agilus Diagnostics", as well as higher provision for doubtful debts.

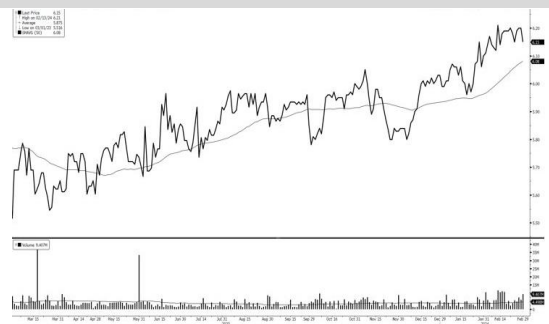
Plife REIT. 4QFY23 EBITDA added +44.2%yoy to RM87.7m, while revenue was down -0.8%yoy to RM37.4m. EBITDA increased mainly due to contribution from two nursing homes acquired in 4QCY23, valuation gain of RM5.8m on investment properties and higher inter-segment rental income from the hospitals in Singapore.

Maintain BUY
Revised Target Price: RM7.35
 (Previously RM7.08)

RETURN STATISTICS

Price @ 29 th February 2024 (RM)	6.15
Expected share price return (%)	+19.5
Expected dividend yield (%)	+2.6
Expected total return (%)	+22.1

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.8	-1.7
3 months	2.0	-1.2
12 months	8.0	1.2

INVESTMENT STATISTICS

FYE Dec	2024E	2025F	2026F
Revenue	21,163	21,966	22,552
Operating Profit	4,656	4,833	4,962
Profit Before Tax	4,183	4,228	4,342
Core PATAMI	1,575	1,818	2,020
Core EPS	17.9	23.8	26.9
DPS	19.2	19.7	20.3
Dividend Yield	2.6	2.7	2.8

KEY STATISTICS

FBM KLCI	1,551.44
Issue shares (m)	8806.04
Estimated free float (%)	14.50
Market Capitalisation (RM'm)	54,163.0
52-wk price range	RM5.52-RM6.25
3-mth average daily volume (m)	4.42
3-mth average daily value (RM'm)	26.77
Top Shareholders (%)	
Mitsui & Co Ltd	32.80
PULAU MEMUTIK VEN SDN BHD	25.73
Employees Provident Fund Board	10.90

Demand for healthcare services expected to grow in CY24. IHH has the advantage of its strategic position in both local and international fronts. Moving forward, we expect the group to maintain its resiliency in the healthcare sector, by meeting the growing demands for its high-quality healthcare services. At the same time, we anticipate IHH to expand its operations to other strategic regions as well as its current hospitals. This is based on its plans to significantly increase bed capacity by over 30% (approximately 4,000 beds) within the next five years in Malaysia, India, Turkiye, and Europe. The capacity increase plans include facelifts, renovations, building extensions, new constructions, and relocating some ancillary services to enhance space for inpatient admissions. Given the recent acquisition of Timberland Medical Centre in Kuching, Sarawak, we believe IHH will maintain its upwards trajectory in CY24.

Uncertainties in global economy may be the main risk factor. Despite the anticipation of a strong growth demand for healthcare services in CY24, we noted that ongoing inflationary pressures on materials and services cost may hamper demand. However, given IHH's robust track record in cost management and effective healthcare streamlining, we believe that the risk may be minimal, pending any major interest rate cuts. We echo the group's optimism in its long-term growth trajectory, driven by its fundamentals as well as upcoming healthcare megatrends including, AI and machine-learning healthcare, biotechnology advances and personalized care.


Revised earnings estimates. All in all, we revised our earnings forecast for both FY24 and FY25 upwards by +4% and +15% respectively. We reiterate our positive view on IHH's prospects in the long term, given its expansion plans for its hospital and healthcare assets in FY24 and onwards. In line with the changes in earnings forecast, we revise our target price to RM7.35 (previously RM7.08), pegging on a PER of 41.1x to the revised EPS24 of 17.9 sen. The PER is based on IHH's 5-Year average PER. 

Table 1: IHH Healthcare's Hospital Inpatient Admission

Location	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)
Singapore	14,997	15,503	14,997	-3	+0	60,585	61,197	-1
Malaysia	66,567	63,779	61,638	-3	+8	282,114	241,123	+17
India	74,240	80,050	73,505	-8	+1	299,506	299,506	0
Turkey & Europe	67,005	58,235	65,691	+13	+2	264,819	249,829	+6

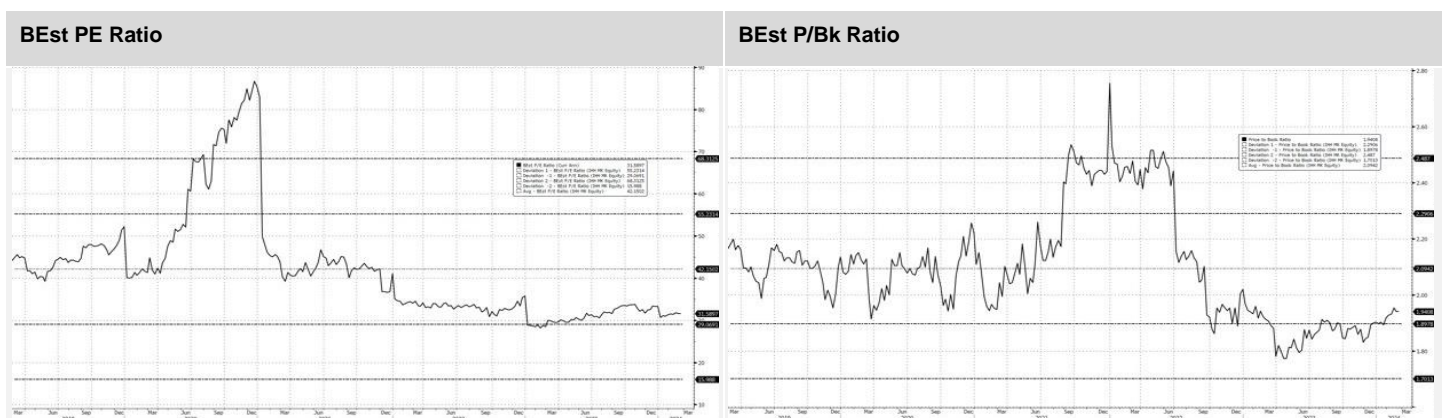
Source: Company, MIDFR

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

Location	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)
Singapore	67,678	60,004	62,665	+4	+8	62,268	59,529	+13
Malaysia	10,557	9,852	10,151	+3	+4	10,322	9,925	+4
India	11.803	10,509	10,929	+4	+8	12,079	10,596	+14
Turkey&Europe	15,767	12,247	11,593	-5	+36	14,770	10,703	+38

Source: Company, MIDFR

FORWARD BAND



Source: Bloomberg, MIDFR

Table 3: IHH Healthcare Quarterly Result Review

Financial year ending 31st Dec (in RM'm unless stated otherwise)	Quarterly results					Cumulative results		
	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)
Revenue	4,856.8	5,825.9	5,292.6	(9.2)	9.0	17,988.7	20,934.8	16.4
Other operating income	133.8	96.3	97.4	1.1	(27.2)	497.8	1,413.4	183.9
Inventories and consumables	(1,012.0)	(1,152.2)	(1,148.3)	(0.3)	13.5	(3,796.9)	(4,339.6)	14.3
Purchased and contracted services	(460.3)	(518.8)	(470.3)	(9.3)	2.2	(1,700.7)	(1,897.7)	11.6
Staff costs	(1,668.4)	(2,100.9)	(1,952.4)	(7.1)	17.0	(6,319.5)	(7,632.2)	20.8
Depreciation and impairment losses of PPE	(636.2)	(294.2)	(272.0)	(7.6)	(57.2)	(1,374.5)	(1,072.5)	(22.0)
Amortisation and impairment losses of intangible assets	(23.2)	(13.5)	(12.0)	(10.7)	(48.3)	(58.5)	(47.7)	(18.4)
Operating lease expenses	(24.7)	(32.3)	(28.2)	(12.6)	14.2	(88.0)	(112.8)	28.2
Other operating expenses	(856.4)	(686.6)	(725.7)	5.7	(15.3)	(2,530.9)	(2,697.4)	6.6
Finance income	6.0	(107.0)	(12.5)	(88.3)	(308.7)	113.4	102.8	(9.4)
Finance costs	(207.5)	(123.7)	(246.9)	99.6	19.0	(657.4)	(941.3)	43.2
Share of profits of associates (net of tax)	8.4	5.3	8.3	56.6	(1.8)	36.8	24.8	(32.7)
Share of profits of joint ventures (net of tax)	0.4	0.3	0.5	60.3	14.5	2.0	1.5	(28.0)
Profit Before Tax	204.2	1,013.2	701.6	(30.8)	243.6	2,217.1	4,049.3	82.6
Income tax expense	(187.7)	(375.4)	114.7	(130.5)	(161.1)	(571.9)	(658.3)	15.1
Profit After Tax	16.4	637.8	816.2	28.0	4,867.9	1,645.1	3,391.0	106.1
Non-controlling interests	(174.8)	105.7	88.8	(16.0)	(150.8)	96.7	439.0	353.8
PATANCI	191.3	532.1	727.5	36.7	280.3	1,548.4	2,951.9	90.6
Exceptional Items	149.1	(163.2)	(462.0)	183.2	(409.9)	(167.7)	(1,672.6)	897.3
Normalised Earnings	340.4	369.0	265.5	(28.1)	(22.0)	1,380.7	1,279.3	(7.3)
Basic EPS (sen)	2.2	6.0	8.3	36.8	280.6	17.0	33.5	97.2
Fully diluted EPS (sen)	2.2	6.0	8.3	36.8	280.6	17.0	33.5	97.3
Basic EPS ex-EI (sen)	3.9	4.2	3.0	(28.2)	(22.2)	15.1	14.5	(3.7)
Fully diluted EPS ex-EI (sen)	3.9	4.2	3.0	(28.2)	(22.2)	15.1	14.5	(3.7)
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
PBT margin (%)	4.2	17.4	13.3	(4.1)	9.1	12.3	19.3	7.0
PAT margin (%)	0.3	10.9	15.4	4.5	15.1	9.1	16.2	7.1
PATANCI margin (%)	3.9	9.1	13.7	4.6	9.8	8.6	14.1	5.5
Effective tax rate (%)	92.0	37.0	(16.3)	(53.4)	(108.3)	25.8	16.3	(9.5)

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	17,988.7	20,934.8	21,163.2	21,966.1	22,552.3
EBITDA	4,041.7	4,643.9	4,655.9	4,832.5	4,961.5
D&A	1,790.8	1,510.9	1,507.7	1,538.2	1,566.4
Profit before tax	2,217.1	4,049.3	4,183.3	4,228.1	4,342.1
Taxation	(571.9)	(658.3)	(699.8)	(734.2)	(808.7)
PATAMI	1,548.4	2,951.9	3,087.5	3,256.3	3,331.7
Normalised PATAMI	1380.7	1279.3	1,575.0	1,817.5	2,019.9

Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
Fixed assets	11,882.7	13,413.9	13,520.6	13,985.5	14,468.7
Intangible assets	15,947.2	17,259.0	17,733.8	17,899.4	18,106.5
Non-current assets	40,185.1	43,479.3	43,298.5	43,789.1	44,415.4
Cash	3,662.4	2,301.3	2,718.6	3,428.9	4,078.9
Trade debtors	2,625.4	3,084.0	3,203.6	3,422.7	3,716.7
Current assets	8,282.3	6,712.9	7,095.9	8,200.9	8,857.1
Trade creditors	4,208.5	4,951.7	4,192.6	4,668.5	5,030.8
Short-term debt	1,592.8	1,660.8	1,725.0	1,842.5	1,911.7
Current liabilities	7,258.7	7,456.8	6,645.8	7,241.2	7,683.0
Long-term debt	7,566.0	6,650.6	7,001.4	7,898.4	8,373.4
Non-current liabilities	12,049.7	10,376.7	10,963.8	11,775.9	12,429.0
Share capital	19,684.9	19,691.6	19,691.6	19,691.6	19,691.6
Retained earnings	6,665.2	7,840.0	8,179.0	8,341.2	8,447.4
Equity	29,159.1	32,358.7	32,784.8	32,972.9	33,160.4

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	2,217.1	4,049.3	4,183.3	4,228.1	4,342.1
Depreciation & amortisation	1,790.8	1,510.9	1,507.7	1,538.2	1,566.4
Changes in working capital	55.4	-244.2	(276.6)	(212.5)	(143.4)
Operating cash flow	3,667.6	3,759.5	4,078.1	4,196.1	4,294.0
Capital expenditure	(2,051.0)	(4,004.7)	(2,634.9)	(2,488.4)	(2,559.4)
Investing cash flow	(1,853.9)	(936.3)	(2,578.2)	(2,425.8)	(2,490.9)
Debt raised/(repaid)	429.0	(470.0)	(214.6)	(41.3)	(167.4)
Dividends paid	(713.0)	(2,037.0)	(868.0)	(946.3)	(1,031.6)
Financing cash flow	(2,919.9)	(3,998.6)	(1,769.7)	(1,666.0)	(1,846.4)
Net cash flow	(1,106.1)	(1,175.3)	523.9	836.9	725.1
Beginning cash flow	4,993.5	3,662.4	2,301.3	2,718.6	3,528.9
Ending cash flow	3,662.4	2,301.3	2,718.6	3,428.9	4,078.9

Profitability Margins	2022A	2023A	2024E	2025F	2026F
EBITDA margin	22.5%	22.2%	22.0%	22.0%	22.0%
PBT margin	12.3%	19.3%	19.8%	19.2%	19.3%
PAT margin	8.6%	14.1%	14.6%	14.8%	14.8%
Normalised PAT margin	7.7%	6.1%	7.4%	8.3%	9.0%

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