

## IHH Healthcare Berhad

(5225 | IHH MK) Healthcare | Healthcare Providers

### Expansion and Upgrades on Operations Boosted Earnings

#### KEY INVESTMENT HIGHLIGHTS

- **IHH's 1QFY24 normalised earnings up +22%yoy; in-line with expectations**
- **Revenue up +16% from acquisition of Kent and Bedrock, higher demand, case-mix and price adjustments**
- **Global economic challenges remain, but manageable through digitalization and expansion strategies**
- **Maintain BUY with TP: RM7.35**

**Maintain BUY, TP: RM7.35.** IHH Healthcare (IHH)'s 1QFY24 results came in within our expectation at 26% and consensus at 24%. As such, we maintain a **BUY** call for IHH, with target price of RM7.35, on the basis of: (i) IHH's capability in leveraging on healthcare megatrends, (ii) increase in hospital services demand in tandem with growing aging population, comorbid diseases and medical tourism, and (ii) IHH's CY24 plans to expand and increase efficiency to its assets.

**1QFY24 performance in gained positively.** IHH's revenue gained +15.8%yoy to RM5.96b in 1QFY24. Meanwhile, normalised earnings for 1QFY24 were up by +22.1%yoy to RM402.8m.

**Hospital and Healthcare.** 1QFY24 revenue for this segment gained +18.6%yoy to RM5.6b, while EBITDA surged +21.1%yoy to RM1.3b. The growth in revenue was driven by: (i) sustained demand for quality healthcare services, (ii) case-mix of more acute patients, and (iii) price adjustments to counter inflation. The acquisitions of Kent on 14 February 2023 and Bedrock on 29 February 2024 also contributed to the increase. The higher EBITDA was driven by higher revenue was partially offset by higher staff cost and other operating expense such as utilities.

**Labs.** 1QFY24 revenue for this segment gained +6.9%yoy to RM255.8m, while EBITDA was up +3.7%yoy to RM30.7m. Total test volumes increased +5%yoy to 24.2m in the reporting quarter.

**Plife REIT.** 1QFY24 revenue for this segment slipped -2%yoy to RM38.2m, but EBITDA increased +6.1%yoy to RM83.4m. The lower revenue was due to a weakening Yen against MYR that eroded the revenue earned from the Japanese properties. EBITDA increased mainly due to contribution from two nursing homes acquired in October CY23, and higher inter-segment rental income from the hospitals in Singapore.

**Expansions and improvements are ongoing.** IHH is strategically positioned to address growing healthcare needs and demand both locally and regionally. We opine that IHH would continue to prioritize strategic growth, both organically and inorganically, as the group aimed to expand its healthcare services across local and regional businesses, which would include its underperforming assets.

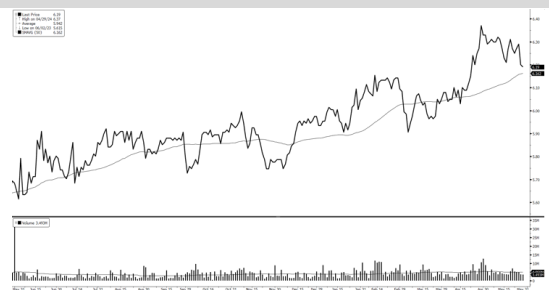
**Maintain BUY**

**Unchanged Target Price: RM7.35**

#### RETURN STATISTICS

Price @ 29 <sup>th</sup> May 2024 (RM)	6.19
Expected share price return (%)	+18.7
Expected dividend yield (%)	+2.6
<b>Expected total return (%)</b>	<b>+21.3</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-2.8	-4.2
3 months	2.3	-2.7
12 months	7.8	-5.7

#### 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	1605.35
Issue shares (m)	8806.99
Estimated free float (%)	20.28
Market Capitalisation (RM'm)	54515.28
52-wk price range	RM5.64 - RM6.43
3-mth average daily volume (m)	5.00
3-mth average daily value (RM'm)	30.86
Top Shareholders (%)	
Mitsui & Co Ltd	32.8
PULAU MEMUTIK VEN SDN BHD	25.94
Employees Provident Fund Board	11.06

The acquisition of Timberland Medical Centre in Kuching, Sarawak on 29 February 2024 strengthens its position in Malaysia. Meanwhile, Gleneagles Global Hospitals in India underwent rebranding in March 2024 to become Gleneagles Hospitals, with infrastructure upgrades for improved patient experience. The Mount Elizabeth Proton Therapy Centre in Singapore had also officially opened in May 2024, reinforcing its position as Asia's leading Centre of Excellence in comprehensive cancer care.

**Usual risks remain, but manageable.** We believe IHH will continue to maintain its efficiency and quality care, despite cost pressures derived from: (i) inflationary pressures, (ii) high energy prices, and (iii) increasing staff costs. We also expect IHH to continue leveraging on digitization and optimization to enhance workflows and processes in its operations. In line with the group's pursuit to utilize advanced technology in its operations, IHH had invested in an AI start-up for diagnosing sleep apnea. While the global economic challenges may need cautious navigation, we are confident that IHH will continue to be committed to high-quality care, driven by its expansion initiatives and healthcare megatrends, which include higher demand for comorbid diseases treatments and increased utilisation of medical technology.

**No changes to earnings estimates.** All in all, we make no changes to IHH's earnings forecast revised our earnings as we reiterate our optimism on IHH's long-term growth trajectory. As such, we maintain our **BUY** call for IHH with a **target price of RM7.35**.

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

Location	1QFY23	4QFY23	1QFY24	QoQ (%)	YoY (%)	3MFY23	3MFY24	YoY (%)
Singapore	15,583	14,997	15,427	+3	-1	15,583	14,997	-1
Malaysia	58,714	61,638	58,714	-5	0	58,714	61,638	0
India	72,419	73,505	73,151	0	+1	72,419	73,505	+1
Turkey & Europe	65,587	65,691	66,925	+2	+2	65,587	65,691	+2

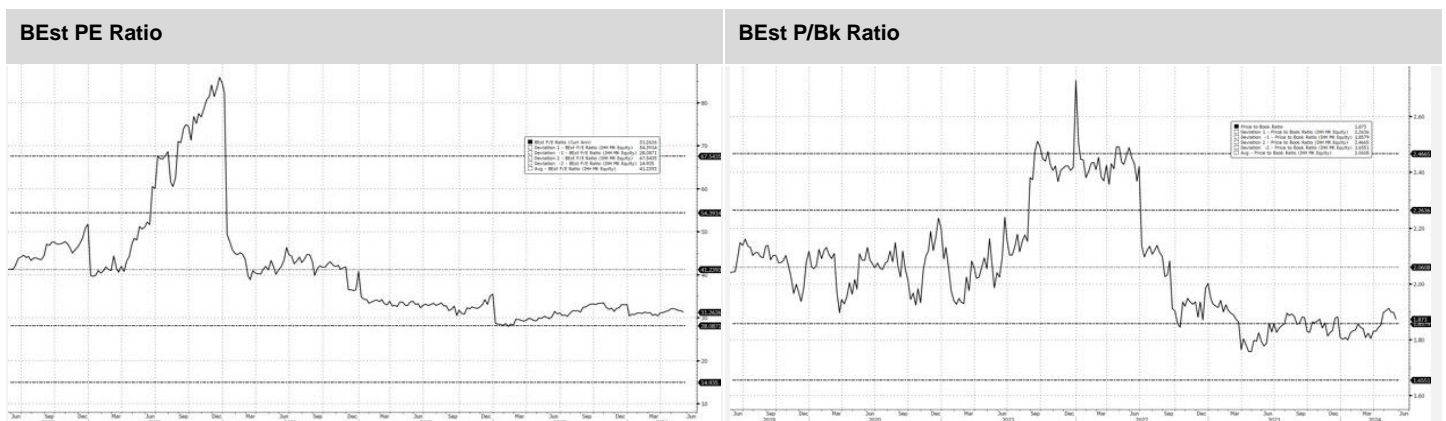
Source: Company, MIDFR

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

Location	1QFY23	4QFY23	1QFY24	QoQ (%)	YoY (%)	3MFY23	3MFY24	YoY (%)
Singapore	55,009	62,665	64,716	+1	+15	55,009	62,665	+15
Malaysia	9,629	10,151	10,699	+5	+10	9,629	10,151	+10
India	10,411	10,929	11,698	+6	+11	10,411	10,929	+11
Turkey&Europe	6,781	11,593	13,838	+24	+51	6,781	11,593	+51

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		
	1QFY23	4QFY23	1QFY24	QoQ (%)	YoY (%)	3MFY23	3MFY24	YoY (%)
<b>Revenue</b>	<b>5,142.4</b>	<b>5,292.6</b>	<b>5,955.5</b>	<b>12.5</b>	<b>15.8</b>	<b>5,142.4</b>	<b>5,955.5</b>	<b>15.8</b>
Other operating income	1,104.4	97.4	102.9	5.6	(90.7)	1,104.4	102.9	(90.7)
Inventories and consumables	(1,043.3)	(1,148.3)	(1,192.6)	3.9	14.3	(1,043.3)	(1,192.6)	14.3
Purchased and contracted services	(464.2)	(470.3)	(471.1)	0.2	1.5	(464.2)	(471.1)	1.5
Staff costs	(1,905.8)	(1,952.4)	(2,272.8)	16.4	19.3	(1,905.8)	(2,272.8)	19.3
Depreciation and impairment losses of PPE	(266.0)	(272.0)	(294.1)	8.2	10.6	(266.0)	(294.1)	10.6
Amortisation and impairment losses of intangible assets	(11.1)	(12.0)	(13.2)	9.9	18.5	(11.1)	(13.2)	18.5
Operating lease expenses	(27.5)	(28.2)	(30.9)	9.4	12.3	(27.5)	(30.9)	12.3
Other operating expenses	(669.9)	(725.7)	(721.2)	(0.6)	7.7	(669.9)	(721.2)	7.7
Finance income	39.6	(12.5)	78.7	(727.9)	98.9	39.6	78.7	98.9
Finance costs	(185.2)	(246.9)	(257.4)	4.3	39.0	(185.2)	(257.4)	39.0
Share of profits of associates (net of tax)	6.1	8.3	6.8	(18.2)	10.5	6.1	6.8	10.5
Share of profits of joint ventures (net of tax)	0.5	0.5	0.7	39.2	37.8	0.5	0.7	37.8
<b>Profit Before Tax</b>	<b>1,792.5</b>	<b>701.6</b>	<b>930.6</b>	<b>32.6</b>	<b>(48.1)</b>	<b>1,792.5</b>	<b>930.6</b>	<b>(48.1)</b>
Income tax expense	(240.5)	114.7	(5.2)	(104.5)	(97.8)	(240.5)	(5.2)	(97.8)
<b>Profit After Tax</b>	<b>1,552.0</b>	<b>816.2</b>	<b>925.4</b>	<b>13.4</b>	<b>(40.4)</b>	<b>1,552.0</b>	<b>925.4</b>	<b>(40.4)</b>
Non-controlling interests	161.4	88.8	157.4	77.3	(2.5)	161.4	157.4	(2.5)
<b>PATANCI</b>	<b>1,390.5</b>	<b>727.5</b>	<b>768.0</b>	<b>5.6</b>	<b>(44.8)</b>	<b>1,390.5</b>	<b>768.0</b>	<b>(44.8)</b>
Exceptional Items	(1,060.7)	(462.0)	(365.1)	(21.0)	(65.6)	(1,060.7)	(365.1)	(65.6)
<b>Normalised Earnings</b>	<b>329.9</b>	<b>265.5</b>	<b>402.8</b>	<b>51.8</b>	<b>22.1</b>	<b>329.9</b>	<b>402.8</b>	<b>22.1</b>
Basic EPS (sen)	15.8	8.3	8.7	5.6	(44.8)	15.8	8.7	(44.8)
Fully diluted EPS (sen)	15.8	8.3	8.7	5.6	(44.8)	15.8	8.7	(44.8)
Basic EPS ex-EI (sen)	3.8	3.0	4.6	51.8	21.9	3.8	4.6	21.9
Fully diluted EPS ex-EI (sen)	3.8	3.0	4.6	51.8	21.9	3.8	4.6	21.9
					<i>+ / (-) ppts</i>			<i>+ / (-) ppts</i>
PBT margin (%)	34.9	13.3	15.6	2.4	(19.2)	34.9	15.6	(19.2)
PAT margin (%)	30.2	15.4	15.5	0.1	(14.6)	30.2	15.5	(14.6)
PATANCI margin (%)	27.0	13.7	12.9	(0.8)	(14.1)	27.0	12.9	(14.1)
Normalised Earnings margin (%)	6.4	5.0	6.8	1.7	0.3	6.4	6.8	0.3
Effective tax rate (%)	13.4	(16.3)	0.6	16.9	(12.9)	13.4	0.6	(12.9)

Source: Company, MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
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

<b>Balance Sheet (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
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
<b>Non-current assets</b>	<b>40,185.1</b>	<b>43,479.3</b>	<b>43,298.5</b>	<b>43,789.1</b>	<b>44,415.4</b>
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
<b>Current assets</b>	<b>8,282.3</b>	<b>6,712.9</b>	<b>7,095.9</b>	<b>8,200.9</b>	<b>8,857.1</b>
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
<b>Current liabilities</b>	<b>7,258.7</b>	<b>7,456.8</b>	<b>6,645.8</b>	<b>7,241.2</b>	<b>7,683.0</b>
Long-term debt	7,566.0	6,650.6	7,001.4	7,898.4	8,373.4
<b>Non-current liabilities</b>	<b>12,049.7</b>	<b>10,376.7</b>	<b>10,963.8</b>	<b>11,775.9</b>	<b>12,429.0</b>
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
<b>Equity</b>	<b>29,159.1</b>	<b>32,358.7</b>	<b>32,784.8</b>	<b>32,972.9</b>	<b>33,160.4</b>

<b>Cash Flow (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
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)
<b>Operating cash flow</b>	<b>3,667.6</b>	<b>3,759.5</b>	<b>4,078.1</b>	<b>4,196.1</b>	<b>4,294.0</b>
Capital expenditure	(2,051.0)	(4,004.7)	(2,634.9)	(2,488.4)	(2,559.4)
<b>Investing cash flow</b>	<b>(1,853.9)</b>	<b>(936.3)</b>	<b>(2,578.2)</b>	<b>(2,425.8)</b>	<b>(2,490.9)</b>
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)
<b>Financing cash flow</b>	<b>(2,919.9)</b>	<b>(3,998.6)</b>	<b>(1,769.7)</b>	<b>(1,666.0)</b>	<b>(1,846.4)</b>
<b>Net cash flow</b>	<b>(1,106.1)</b>	<b>(1,175.3)</b>	<b>523.9</b>	<b>836.9</b>	<b>725.1</b>
<b>Beginning cash flow</b>	<b>4,993.5</b>	<b>3,662.4</b>	<b>2,301.3</b>	<b>2,718.6</b>	<b>3,528.9</b>
<b>Ending cash flow</b>	<b>3,662.4</b>	<b>2,301.3</b>	<b>2,718.6</b>	<b>3,428.9</b>	<b>4,078.9</b>

<b>Profitability Margins</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
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