

## IHH Healthcare Berhad

(5225 | IHH MK) Healthcare | Healthcare Providers

### Increased Inpatient Visits Boosted 1HFY24 Earnings

#### KEY INVESTMENT HIGHLIGHTS

- **IHH's 1HFY24 normalised earnings up +30%yoy; came in within expectations**
- **Revenue up +23% from increased inpatient visits and higher revenue per admission across all hospitals**
- **Demand fundamentals for healthcare services robust, but cost pressures remain a risk**
- **Maintain BUY with unchanged TP: RM7.35**

**Maintain BUY, TP: RM7.35.** IHH Healthcare (IHH)'s 1HFY24 results came in within our expectation at 53% and consensus' at 50%. As such, we maintain a **BUY** call for IHH, with the **target price of RM7.35**, based on: (i) IHH's capability in leveraging on healthcare megatrends, (ii) increase in hospital services demand in tandem with growing aging population, medical tourism and general spending, and (ii) IHH's CY24 plans to expand and increase efficiency to its assets.

**Positive 1HFY24 performance.** IHH's revenue gained +22.7%yoy to RM12.05b in 1HFY24. Meanwhile, normalised earnings were up by +30.2%yoy to RM839.8m.

**Hospital and Healthcare.** 1HFY24 revenue for this segment gained +19.2%yoy to RM11.45b, while EBITDA slipped -6.9%yoy to RM1.97b. 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 lower EBITDA was due to higher staff cost and other operating expense such as utilities.

**Labs.** 1HFY24 revenue for this segment gained +8.6%yoy to RM518m, while EBITDA was flattish at -0.6%yoy to RM183m. Total test volumes increased +8%yoy to 49m in the reporting quarter.

**Plife REIT.** 1HFY24 revenue for this segment slipped -3.9%yoy to RM75m, but EBITDA increased +5.4%yoy to RM166m. 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.

**Operational efficiency to mitigate risks.** Given the robust fundamentals of the healthcare sector, IHH is poised to meet the increasing demand for healthcare services, in line with the spending growth, higher disease prevalence and increased aging population.

**Maintain BUY**

**Unchanged Target Price: RM7.35**

#### RETURN STATISTICS

Price @ 29 <sup>th</sup> August 2024 (RM)	6.29
Expected share price return (%)	+16.9
Expected dividend yield (%)	+2.6
<b>Expected total return (%)</b>	<b>+19.5</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.5	-0.2
3 months	1.5	1.5
12 months	5.4	4.3

#### 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	1,653.55
Issue shares (m)	8,807.16
Estimated free float (%)	23.94
Market Capitalisation (RM'm)	55,397
52-wk price range	RM5.72 - RM6.43
3-mth average daily volume (m)	5.16
3-mth average daily value (RM'm)	32.47
Top Shareholders (%)	
Mitsui & Co Ltd	32.8
PULAU MEMUTIK VEN SDN BHD	25.94
Employees Provident Fund Board	11.25

As such, we believe IHH will continue to improve its clinical offerings and subsequently: (i) expand its healthcare services, (ii) develop new growth mechanisms, and (iii) improve underperforming assets. Nevertheless, we noted that cost pressures due to ongoing inflation, rising energy prices, and increased staff costs will persist in the near term. IHH has the leverage in operational efficiencies from its international network to mitigate these risks, all while advancing towards value-based healthcare.

**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. We maintain our **BUY** call for IHH with a **target price of RM7.35**, pegging on a PER of 31x to an EPS25 of 23.8 sen, as we rollover to FY25 valuations.

The PER is based on IHH's 3-Y historical PER of 30x, with a slight premium based on IHH's experience in healthcare management across its network of hospitals in Asia and Europe, as well as its dominant market position and its expansion strategies for its services in the near term. This is lower than previous 41x PER, as we expect rationalisation for IHH's operations in its Turkish and European hospitals, following the uncertainty in the forex movement, as well as to reflect its complete divestment from its university division and other Southeast Asian operations, which reduced its operational performance moving forward. We also adjusted the PER closer to its peer's at 27x-31x, as we expect a more sustainable and stable performance amid the plaguing higher operational costs and higher labour costs across the healthcare sector. As of current, IHH is trading at 24x PER, which gives room for more growth in the group's financial performance while reducing risks in a positive market sentiment for the healthcare sector. 

**Table 1: IHH Healthcare Quarterly Result Review**

Financial year ending 31st Dec (in RM'm unless stated otherwise)	Quarterly results					Cumulative results		
	2QFY23	1QFY24	2QFY24	QoQ (%)	YoY (%)	1HFY23	1HFY24	YoY (%)
<b>Revenue</b>	<b>4,673.9</b>	<b>5,955.5</b>	<b>6,093.0</b>	<b>2.3</b>	<b>30.4</b>	<b>9,816.3</b>	<b>12,048.5</b>	<b>22.7</b>
Other operating income	115.3	102.9	142.0	38.1	23.2	1,219.7	244.9	(79.9)
Inventories and consumables	(995.7)	(1,192.6)	(1,246.0)	4.5	25.1	(2,039.0)	(2,438.6)	19.6
Purchased and contracted services	(444.4)	(471.1)	(497.0)	5.5	11.8	(908.5)	(968.1)	6.6
Staff costs	(1,673.1)	(2,272.8)	(2,306.0)	1.5	37.8	(3,578.9)	(4,578.8)	27.9
Depreciation and impairment losses of PPE	(240.3)	(294.1)	(302.0)	2.7	25.7	(506.3)	(596.1)	17.7
Amortisation and impairment losses of intangible assets	(11.1)	(13.2)	(15.0)	13.6	35.1	(22.2)	(28.2)	26.8
Operating lease expenses	(24.8)	(30.9)	(31.0)	0.4	25.1	(52.3)	(61.9)	18.4
Other operating expenses	(615.3)	(721.2)	(787.0)	9.1	27.9	(1,285.1)	(1,508.2)	17.4
Finance income	182.8	78.7	69.0	(12.4)	(62.2)	222.4	147.7	(33.6)
Finance costs	(385.5)	(257.4)	(243.0)	(5.6)	(37.0)	(570.7)	(500.4)	(12.3)
Share of profits of associates (net of tax)	5.1	6.8	6.0	(11.2)	16.6	11.3	12.8	13.3
<b>Profit Before Tax</b>	<b>542.0</b>	<b>930.6</b>	<b>901.0</b>	<b>(3.2)</b>	<b>66.2</b>	<b>2,334.5</b>	<b>1,831.6</b>	<b>(21.5)</b>
Income tax expense	(157.1)	(5.2)	(154.0)	2,855.3	(2.0)	(397.6)	(159.2)	(60.0)
<b>Profit After Tax</b>	<b>384.9</b>	<b>925.4</b>	<b>747.0</b>	<b>(19.3)</b>	<b>94.1</b>	<b>1,936.9</b>	<b>1,672.4</b>	<b>(13.7)</b>
Non-controlling interests	83.1	157.4	124.0	(21.2)	49.2	244.5	281.4	15.1
<b>PATANCI</b>	<b>301.8</b>	<b>768.0</b>	<b>623.0</b>	<b>(18.9)</b>	<b>106.4</b>	<b>1,692.4</b>	<b>1,391.0</b>	<b>(17.8)</b>
Exceptional Items	13.2	(365.1)	(186.0)	(49.1)	(1,511.7)	(1,047.5)	(551.1)	(47.4)
<b>Normalised Earnings</b>	<b>315.0</b>	<b>402.8</b>	<b>437.0</b>	<b>8.5</b>	<b>38.7</b>	<b>644.9</b>	<b>839.8</b>	<b>30.2</b>
Basic EPS (sen)	3.4	8.7	7.1	(18.9)	106.1	19.2	15.8	(17.8)
Basic EPS ex-EI (sen)	3.6	4.6	5.0	8.5	38.5	7.3	9.5	30.0
				+ / (-) pts				+ / (-) pts
PBT margin (%)	11.6	15.6	14.8	(0.8)	3.2	23.8	15.2	(8.6)
PAT margin (%)	8.2	15.5	12.3	(3.3)	4.0	19.7	13.9	(5.9)
PATANCI margin (%)	6.5	12.9	10.2	(2.7)	3.8	17.2	11.5	(5.7)
Effective tax rate (%)	6.7	6.8	7.2	0.4	0.4	6.6	7.0	0.4

Source: Company, MIDFR

**Table 2: IHH Healthcare's Segmental Review**

Financial year ending 31st Dec (in RM'm unless stated otherwise)	Quarterly results					Cumulative results		
	2QFY23	1QFY24	2QFY24	QoQ (%)	YoY (%)	1HFY23	1HFY24	YoY (%)
<b>Revenue</b>								
Hospital and Healthcare	4,844.2	5,649.8	5,802.2	2.7	19.8	9,606.6	11,452.0	19.2
Singapore	1,346.5	1,551.0	1,561.0	0.6	15.9	2,663.9	3,112.0	16.8
Malaysia	876.8	954.6	1,012.4	6.1	15.5	1,751.7	1,967.0	12.3
India	875.6	981.5	1,026.5	4.6	17.2	1,691.0	2,008.0	18.7
Greater China	327.9	368.9	403.1	9.3	22.9	626.6	772.0	23.2
Turkey and Europe	1,417.3	1,793.9	1,799.1	0.3	26.9	2,873.4	3,593.0	25.0
Labs	237.9	255.8	262.2	2.5	10.2	477.2	518.0	8.6
Plife REIT	39.0	38.2	36.8	(3.9)	(5.7)	78.0	75.0	(3.9)
Others	1.3	1.5	1.5	0.8	15.0	2.7	3.0	9.4
<b>EBITDA</b>								
Hospital and Healthcare	1,043.8	1,294.2	672.8	(48.0)	(35.5)	2,112.2	1,967.0	(6.9)
Singapore	395.5	468.6	492.4	5.1	24.5	786.3	961.0	22.2
Malaysia	220.4	239.3	252.7	5.6	14.7	468.7	492.0	5.0
India	125.7	185.5	169.5	(8.6)	34.8	249.1	355.0	42.5
Greater China	32.1	24.6	44.4	81.0	38.4	41.2	69.0	67.6
Turkey and Europe	270.2	376.2	(286.2)	(176.1)	(205.9)	567.0	90.0	(84.1)
Labs	90.9	96.6	86.4	(10.6)	(5.0)	184.1	183.0	(0.6)
Plife REIT	78.9	83.4	82.6	(1.0)	4.6	157.5	166.0	5.4
Others	(35.3)	(25.6)	6.6	32.2	(118.7)	(76.7)	(19.0)	(75.2)
<b>EBITDA margin (%)</b>				+ / (-) pts				+ / (-) pts
Hospital and Healthcare	21.5	22.9	11.6	(11.3)	(10.0)	22.0	17.2	4.8
Labs	38.2	37.8	32.9	(4.8)	(5.3)	38.6	35.3	3.3
Plife REIT	202.4	218.1	224.7	6.7	22.3	201.9	221.3	(19.5)
Others	(2,697.5)	(1,713.3)	438.0	2,151.4	3,135.5	(2,800.0)	(633.3)	(2,166.6)

Source: Company, MIDFR

**Table 3: IHH Healthcare's Hospital Inpatient Admission**

Location	2QFY23	1QFY24	2QFY24	QoQ (%)	YoY (%)	1HFY23	1HFY24	YoY (%)
Singapore	15,081	15,427	15,875	+3	+5	30,676	31,302	+2
Malaysia	56,098	58,714	62,331	+6	+10	114,993	121,045	+5
India	73,096	73,151	76,943	+5	+5	145,591	150,094	+3
Turkey & Europe	60,204	66,925	62,066	-7	+3	126,411	128,991	+2

**Table 4: IHH Healthcare's Hospital Revenue per Admission (RM)**

Location	2QFY23	1QFY24	2QFY24	QoQ (%)	YoY (%)	1HFY23	1HFY24	YoY (%)
Singapore	55,054	64,716	63,280	-2	+13	52,843	63,666	+17
Malaysia	9,953	10,699	10,702	0	+7	9,737	10,700	+9
India	9,663	11,698	10,619	-9	+9	9,563	10,626	+10
Turkey&Europe	7,186	13,838	14,372	+4	+50	6,818	13,915	+51

Source: Company, MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>	<b>2027F</b>
Revenue	20,934.8	21,163.2	21,966.1	22,552.3	22,578.3
EBITDA	4,643.9	4,655.9	4,832.5	4,961.5	5,008.0
D&A	1,510.9	1,507.7	1,538.2	1,566.4	1,580.5
Profit before tax	4,049.3	4,183.3	4,228.1	4,342.1	4,184.9
Taxation	(658.3)	(699.8)	(734.2)	(808.7)	-1,046.2
PATAMI	2,951.9	3,087.5	3,256.3	3,331.7	3,343.8
Normalised PATAMI	1,279.3	1,575.0	1,817.5	2,019.9	2,073.1

<b>Balance Sheet (RM'm)</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>	<b>2027F</b>
Fixed assets	13,413.9	13,520.6	13,985.5	14,468.7	15,194.3
Intangible assets	17,259.0	17,733.8	17,899.4	18,106.5	18,889.2
<b>Non-current assets</b>	<b>43,479.3</b>	<b>43,298.5</b>	<b>43,789.1</b>	<b>44,415.4</b>	<b>46,411.8</b>
Cash	2,301.3	2,718.6	3,428.9	4,078.9	4,463.4
Trade debtors	3,084.0	3,203.6	3,422.7	3,716.7	3,960.5
<b>Current assets</b>	<b>6,712.9</b>	<b>7,095.9</b>	<b>8,200.9</b>	<b>8,857.1</b>	<b>8,473.5</b>
Trade creditors	4,951.7	4,192.6	4,668.5	5,030.8	5,226.4
Short-term debt	1,660.8	1,725.0	1,842.5	1,911.7	2,046.6
<b>Current liabilities</b>	<b>7,456.8</b>	<b>6,645.8</b>	<b>7,241.2</b>	<b>7,683.0</b>	<b>8,014.6</b>
Long-term debt	6,650.6	7,001.4	7,898.4	8,373.4	8,383.1
<b>Non-current liabilities</b>	<b>10,376.7</b>	<b>10,963.8</b>	<b>11,775.9</b>	<b>12,429.0</b>	<b>12,533.4</b>
Share capital	19,691.6	19,691.6	19,691.6	19,691.6	19,691.6
Retained earnings	7,840.0	8,179.0	8,341.2	8,447.4	9,059.5
<b>Equity</b>	<b>32,358.7</b>	<b>32,784.8</b>	<b>32,972.9</b>	<b>33,160.4</b>	<b>34,337.2</b>

<b>Cash Flow (RM'm)</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>	<b>2027F</b>
PBT	4,049.3	4,183.3	4,228.1	4,342.1	4,184.9
Depreciation & amortisation	1,510.9	1,507.7	1,538.2	1,566.4	1,580.5
Changes in working capital	(244.2)	(276.6)	(212.5)	(143.4)	(196.9)
<b>Operating cash flow</b>	<b>3,759.5</b>	<b>4,078.1</b>	<b>4,196.1</b>	<b>4,294.0</b>	<b>4,168.4</b>
Capital expenditure	(4,004.7)	(2,634.9)	(2,488.4)	(2,559.4)	(2,747.7)
<b>Investing cash flow</b>	<b>(936.3)</b>	<b>(2,578.2)</b>	<b>(2,425.8)</b>	<b>(2,490.9)</b>	<b>(2,686.8)</b>
Debt raised/(repaid)	(470.0)	(214.6)	(41.3)	(167.4)	(92.9)
Dividends paid	(2,037.0)	(868.0)	(946.3)	(1,031.6)	(1,119.2)
<b>Financing cash flow</b>	<b>(3,998.6)</b>	<b>(1,769.7)</b>	<b>(1,666.0)</b>	<b>(1,846.4)</b>	<b>(1,872.3)</b>
<b>Net cash flow</b>	<b>(1,175.3)</b>	<b>523.9</b>	<b>836.9</b>	<b>725.1</b>	<b>384.5</b>
<b>Beginning cash flow</b>	<b>3,662.4</b>	<b>2,301.3</b>	<b>2,718.6</b>	<b>3,528.9</b>	<b>4,078.9</b>
<b>Ending cash flow</b>	<b>2,301.3</b>	<b>2,718.6</b>	<b>3,428.9</b>	<b>4,078.9</b>	<b>4,463.4</b>

<b>Profitability Margins</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>	<b>2027F</b>
EBITDA margin	22.2%	22.0%	22.0%	22.0%	22.2%
PBT margin	19.3%	19.8%	19.2%	19.3%	18.5%
PAT margin	14.1%	14.6%	14.8%	14.8%	14.8%
Normalised PAT margin	6.1%	7.4%	8.3%	9.0%	9.2%

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