Corporate Update | Thursday, 05 September 2024

IHH Healthcare Berhad

***Maintain* BUY**

(5225 | IHH MK) Healthcare | Healthcare Providers

Solidifying the Northern Hospital Cluster

***Unchanged* Target Price: RM7.35**

KEY INVESTMENT HIGHLIGHTS

- **IHH Healthcare had proposed acquisition of Island Hospital for RM4b with expansion land valued at RM223m**
- **Strategic location, high-quality asset, powerhouse for medical tourism in Penang**
- **Revised FY26-27 earnings forecast, catering to additional expected revenue of +15% from acquired hospital**
- **Maintain BUY with TP: RM7.35**

Acquiring the best hospital in Penang. IHH Healthcare (IHH) had proposed the acquisition of the Island Hospital Sdn Bhd (IHSB) in Penang. The private hospital boasted a premise with 600 bed capacity and 500 operational beds, coupled with a strong accreditation by the Australian Council on Healthcare Standards and over 10 Centre of Excellence. The acquisition will be made in cash of RM3.92b, financed with internal funds and external borrowings which is expected to be accretive to its earnings from FY26.

High quality asset in strategic location. IHSB is a high-quality asset, given its: (i) existing 119 qualified and experienced medical resident and visiting specialist, (ii) 42k inpatient admissions and over 430k outpatient visits annually, (iii) average revenue per patient is RM12,000, and (iv) top 5 specialties are in orthopaedic, gastro, cardiology, oncology and general surgery. Additionally, its location in Penang is strategic for IHH to leverage on medical tourism, especially from Indonesia. We believe IHSB could provide bigger opportunities to double IHH's revenues from medical tourism as it currently serves 1 out of 3 inbound medical tourists into Malaysia.

Higher potentiality of expansion. The acquisition also includes the vacant land with approvals secured for future development near the established premises, which is roughly valued at RM223m. IHSB had been an attractive investment as it is known as a powerhouse of supporting medical tourism in the last 30 years.

Synergies to begin within a year from acquisition. IHH will realise potential revenue and cost synergies with the acquired assets starting in CY25 for 5 years; expecting a value creation of over RM200m. With IHSB, IHH will operate 3 hospitals in Penang, with an expected total of over 1k operational beds, which will enable better coordinated patient care, optimize resource utilization and streamline services. IHH is expected to spend less on IHSB facilities post-acquisition, as IHSB is well-maintained, consequently resulting in overall improved performance and services in its Malaysia front in the long run.

RETURN STATISTICS	
Price @ 4th Sept 2024 (RM)	6.39
Expected share price return (%)	+15.0
Expected dividend yield (%)	+2.7
Expected total return (%)	**+17.7**

SHARE PRICE CHART

Price performance (%)	Absolute	Relative
1 month	2.2	1.9
3 months	4.1	3.2
12 months	8.7	6.0

INVESTMENT STATISTICS

FYE Dec	2024E	2025F	2026F
Revenue	21,163	21,966	24,596
Operating Profit	4,656	4,833	5,411
Profit Before Tax	4,183	4,228	4,792
Core PATAMI	1,575	1,818	2,459
Core EPS	17.9	23.8	28.0
DPS	19.2	19.7	21.6
Dividend Yield	2.6	2.7	2.9

KEY STATISTICS	
FBM KLCI	1,670.24
Issue shares (m)	8,807.16
Estimated free float (%)	23.94
Market Capitalisation (RM'm)	56,397
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	32.80
PULAU MEMUTIK VEN SDN BHD	25.94
Employees Provident Fund Board	11.27

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Valuation seems rich for Malaysia but fair for regional. The purchase price gives an implied valuation of 24.6x EV/EBITDA to IHSB trailing 12-month EBITDA up to 30 June 2024. Comparatively, this may seem slightly rich for Malaysian listed hospitals with IHH and KPJ having an EV/EBITDA of 12.8x and 13.2x respectively. However, it is in-line with regional valuation of healthcare providers where the average valuation is 24.7x. Meanwhile, assuming full borrowings to fund the acquisition, IHH's net gearing would rise from 0.29x to 0.44x.

Internal and external risks remain. Downside risks to this proposed acquisition includes: (i) investment risks in terms of insufficient funds generated and weak earnings from IHSB post-acquisition, (ii) inability to integrate and synergise with other IHH hospitals, and (iii) challenges from the sector (lower patient demand, inflationary pressures, changes in regulations, changes in socio-economy, supply chain disruptions, higher operational costs, weak cyber security, etc.). Nevertheless, IHH has the capability to mitigate these risks, given its large number of hospitals in Malaysia with the capacity to monitor and improve its business measures and functions, subsequently ensuring a smoother integration moving forward.

Revised FY26-27 earnings forecast. In consideration that synergies between IHH's and IHSB's operational workflow are expected to positively impact IHH's earnings per share from FY26 onwards, as the acquired IHSB is anticipated to contribute about 15% of the total revenue upon completion of acquisition, we revise earnings forecast for FY26 and FY27 upwards by +22% and +36% respectively.

We maintain our **BUY** call for IHH with a **target price of RM7.35**. We reiterate our positive view on IHH's long-term growth trajectory, as we believe that the proposed acquisition of IHSB will enable IHH to strengthen its presence in the Northern peninsular, giving it a competitive advantage in Penang and across Malaysia. This acquisition is also in line with IHH's initiatives to: (i) increase its bed capacity by 4000 beds by 2028, (ii) expansion in hospital services, and (iii) integrating new technologies and methodologies for a more efficient treatment.

FINANCIAL SUMMARY

Income Statement (RM'm)	2023A	2024E	2025F	2026F	2027F
Revenue	20,934.8	21,163.2	21,966.1	24,595.7	25,803.8
EBITDA	4,643.9	4,655.9	4,832.5	5,411.1	5,008.0
D&A	1,510.9	1,507.7	1,538.2	1,496.2	1,290.2
Profit before tax	4,049.3	4,183.3	4,228.1	4,791.7	5,169.5
Taxation	(658.3)	(699.8)	(734.2)	(808.7)	(1,046.2)
PATAMI	2,951.9	3,087.5	3,256.3	3,781.3	4,094.7
Normalised PATAMI	1,279.3	1,575.0	1,817.5	2,459.4	2,824.0

Balance Sheet (RM'm)	2023A	2024E	2025F	2026F	2027F
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
Non-current assets	**43,479.3**	**43,298.5**	**43,789.1**	**44,415.4**	**46,411.8**
Cash	2,301.3	2,718.6	3,428.9	4,603.5	5,972.6
Trade debtors	3,084.0	3,203.6	3,422.7	3,716.7	3,960.5
Current assets	**6,712.9**	**7,095.9**	**8,200.9**	**8,096.2**	**8,473.5**
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
Current liabilities	**7,456.8**	**6,645.8**	**7,241.2**	**7,612.5**	**8,014.6**
Long-term debt	6,650.6	7,001.4	7,898.4	8,373.4	8,383.1
Non-current liabilities	**10,376.7**	**10,963.8**	**11,775.9**	**12,429.0**	**12,533.4**
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	10,059.5
Equity	**32,358.7**	**32,784.8**	**32,972.9**	**33,160.4**	**34,337.2**

Cash Flow (RM'm)	2023A	2024E	2025F	2026F	2027F
PBT	4,049.3	4,183.3	4,228.1	4,791.7	5,169.5
Depreciation & amortisation	1,510.9	1,507.7	1,538.2	1,496.2	1,290.2
Changes in working capital	(244.2)	(276.6)	(212.5)	(143.4)	(196.9)
Operating cash flow	**3,759.5**	**4,078.1**	**4,196.1**	**4,743.5**	**5,153.0**
Capital expenditure	(4,004.7)	(2,634.9)	(2,488.4)	(2,559.4)	(2,747.7)
Investing cash flow	**(936.3)**	**(2,578.2)**	**(2,425.8)**	**(2,490.9)**	**(2,686.8)**
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)
Financing cash flow	**(3,998.6)**	**(1,769.7)**	**(1,666.0)**	**(1,846.4)**	**(1,872.3)**
Net cash flow	**(1,175.3)**	**523.9**	**836.9**	**1,174.6**	**1,369.1**
Beginning cash flow	**3,662.4**	**2,301.3**	**2,718.6**	**3,428.9**	**4,603.5**
Ending cash flow	**2,301.3**	**2,718.6**	**3,428.9**	**4,603.5**	**5,972.6**

Profitability Margins	2023A	2024E	2025F	2026F	2027F
EBITDA margin	22.2%	22.0%	22.0%	22.0%	19.4%
PBT margin	19.3%	19.8%	19.2%	19.5%	20.0%
PAT margin	14.1%	14.6%	14.8%	15.4%	15.9%
Normalised PAT margin	6.1%	7.4%	8.3%	10.0%	10.9%

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 *rise* 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 *fall* 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