



IHH HEALTHCARE BERHAD

Outperform

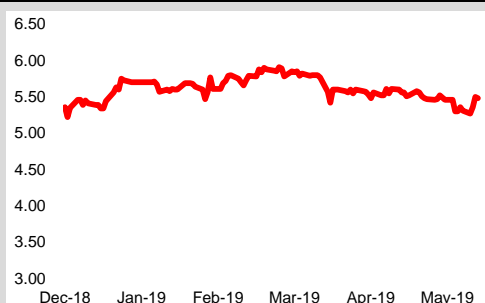
DESCRIPTION

Major private healthcare provider with a global network of 30 hospitals, medical centres, clinics and ancillary healthcare businesses across eight countries.

12-Month Target Price RM7.00
Current Price RM5.48
Expected Return 27.7%

Market Sector Main Healthcare
Bursa Code 5225
Bloomberg Ticker IHH MK
Shariah-Compliant Yes

SHARE PRICE CHART



52 Week Range (RM) 4.54 - 6.19
 3-Month Average Vol ('000) 6,412.3

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-1.8	-4.0	0.0
Relative Returns	-1.1	-0.2	4.8

KEY STOCK DATA

Market Capitalisation (RMm) 48,069.8
 No. of Shares (m) 8,771.9

MAJOR SHAREHOLDERS

	%
Mitsui & Co Ltd	32.93
Pulau Memutik Ventures	26.04
EPF	7.94

Research Team

T 603 2268 3010

F 603 2268 3014

E research@publicinvestbank.com.my

Satisfactory Quarter

IHH reported a core PATAMI of RM188.4m in 1QFY19, came in within ours but missed consensus' estimates, accounting for 21% and 18% respectively. Strong gains in revenue and EBITDA was on the back of organic growth from its current operations as well as contribution from the newly acquired hospitals, Amanjaya and Fortis. We maintain our **Outperform** call and raise our TP slightly to RM7.00 (from previous TP of RM6.96) as we roll over our valuations to FY20F.

§ **In a nutshell.** Revenue for 1QFY19 increased by 28% YoY to RM3.6bn, driven by the continuous ramp up in Gleneagles HK and Acibadem Altunizade, contribution from the newly bought hospitals, Amanjaya and Fortis, as well as the organic growth of existing hospital. EBITDA was up 34% YoY in 1QFY19, to RM813.7m, mainly attributed to the adoption of MFRS 16. One-off management fee income from RHT of RM28.5m also contributed to the EBITDA increase.

§ **Parkway Pantai (PPL).** PPL Singapore saw a decrease in footfall (-1.2% YoY) in this quarter, but was compensated by stronger revenue intensity (+7.0% YoY), as the hospitals took on more complex cases as well as longer length of stay. PPL Malaysia also saw stronger footfall growth and revenue intensity growth of 3.1% and 7.5% respectively in this quarter. With the inclusion of Fortis into PPL India, while we see the footfall increasing tremendously by 463% YoY, the average revenue per inpatient dipped 14.9% YoY as the revenue intensity of Fortis was approximately 15% lower than the other hospitals under PPL India. We believe that as Fortis grows to be more capable of taking on complex cases, the gap should narrow. For this current quarter, Fortis has turned PBT positive, attributed to cost savings and increase productivity. Losses of Gleneagles HK continue to narrow as cost saving efforts are still on-going, reporting EBITDA loss of RM33.3m for this quarter. Occupancy rate hovers around 68% and the revenue per inpatient was close to PPL Singapore's level, at approximately RM30k. Gleneagles HK is also seeing more foreign patients coming in from mainland China.

§ **MFRS 16 impact.** Following the adoption of the MFRS16, the Group no longer recognise expenses in relation to operating leases, but will recognise the depreciation on the right of use asset. As a result, IHH's EBITDA for 1QFY19 was boosted by RM85.6m, but shaved RM11.6m off the Group's core PATAMI.

KEY FORECAST TABLE

FYE Dec (RM m)	2017A	2018A	2019F	2020F	2021F	CAGR (%)
Revenue	11,142.6	11,520.9	13,774.4	15,551.0	17,481.9	11.9
Operating Profit	1,804.8	1,542.9	1,536.6	1,658.9	1,922.2	1.6
Pre-tax Profit	1,164.5	752.5	1,022.6	1,182.3	1,505.5	6.6
Net Profit	970.0	627.7	911.3	1,043.2	1,300.6	7.6
EPS (Sen)	1,177.0	715.6	1,038.8	1,189.3	1,482.7	
P/E (x)	0.5	0.7	0.5	0.5	0.4	
DPS (Sen)	5.0	6.0	7.0	8.0	9.0	
Div. Yield (%)	0.9	1.1	1.3	1.5	1.7	

Source: Company, PublicInvest Research estimates

- § **Acibadem.** Inpatient admission of Acibadem fell 3% YoY due to seasonality factor. Revenue per inpatient grew 27.2%, in tandem with higher volume of complex cases undertaken, price increase to compensate for inflation as well as more incoming foreign patients. The price increase for 1QFY19 was approximately 22%, roughly in line with the inflation rate Turkey is experiencing. Given that the Turkish Lira continues to depreciate against the USD (fallen c. 14% YTD), more medical tourists are anticipated to visit Turkey for treatment due to its affordability. Foreign patients currently contribute to about 15% of Acibadem's revenue and they generally pay in USD.
- § **Going forward.** Expansions in China are still progressing well, with Gleneagles Chengdu slated to open its doors by end of this year. Apart from that, IHH remains committed to refinance its remaining debt by swapping part of the borrowing into Turkish Lira. IHH targets to have no more than USD350m worth of non-Turkish Lira debt by FY2020, as to reduce its forex exposure. IHH is also working closely with Fortis' management and board of directors to create synergies and increase operational efficiency in order to lower costs. Through that, the management estimates Fortis to possibly save INR80cr (c.RM48m) in the coming 18-24 months. The Group's effort in reducing Fortis' finance cost also resulted in c. 5% savings in the overall finance cost.

**Table 1: Results Summary**

<u>FYE Dec</u> <u>(RM m)</u>	<u>1Q19</u>	<u>1Q18</u>	<u>4Q18</u>	<u>QoQ</u> <u>chg</u> <u>(%)</u>	<u>YoY</u> <u>chg</u> <u>(%)</u>	<u>YTD 19</u>	<u>YTD 18</u>	<u>YoY</u> <u>chg</u> <u>(%)</u>	<u>Comments</u>
Revenue									
Parkway Pantai	2,578.9	1,734.9	2,125.8	0.2	0.5	2,578.9	1,734.9	48.65	Primarily due to the ramp up of Gleneagles HK. Inclusion of Fortis (+RM7.5m) and Amanjaya (+RM674.7m) also contributed to the strong revenue growth.
Acibadem	967.1	1,023.3	940.0	0.0	(0.1)	967.1	1,023.3	-5.49	Attributed to the ramping up of Acibadem Altunizade and growth coming from the existing hospitals
IMU	61.7	64.1	64.4	(0.0)	(0.0)	61.7	64.1	-3.76	
PLife REIT	34.0	32.7	33.8	0.0	0.0	34.0	32.7	3.98	
Others**	1.0	-	1.4	(0.3)	NM	1.0	-	NM	
Total	3,642.7	2,855.0	3,165.3	0.2	27.6	3,642.7	2,855.0	27.59	
EBITDA									
Parkway Pantai	503.5	340.3	431.9	16.6	48.0	503.5	340.3	47.96	Startup losses in Gleneagles are decreasing (1QFY19: -RM33.3m; 1QFY18: - RM46.6m)
Acibadem	233.7	188.9	180.2	29.7	23.8	233.7	188.9	23.75	
IMU	25.7	26.5	9.6	167.2	(3.0)	25.7	26.5	-2.99	
PLife REIT*	69.3	66.8	120.1	(42.3)	3.8	69.3	66.8	3.81	
Others**	(18.6)	(13.6)	(17.8)	4.3	36.3	(18.6)	(13.6)	36.33	
Total	813.8	608.9	724.1	12.4	33.7	813.8	608.9	33.65	

* Includes rental income earned from lease of hospitals to Parkway Pantai

** Others comprise mainly IHH Group's corporate office and other investment holding entities.

Source Company, PublicInvest Research

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Dec (RM m)	2017A	2018A	2019F	2020F	2021F
Revenue	11,142.6	11,520.9	13,774.4	15,551.0	17,481.9
Operating Profit	1,804.8	1,542.9	1,536.6	1,658.9	1,922.2
Other Gains / (Losses)	154.0	188.4	245.4	350.6	462.0
Finance Costs	-794.3	-978.8	-759.4	-827.2	-878.7
Pre-tax Profit	1,164.5	752.5	1,022.6	1,182.3	1,505.5
Income Tax	-334.6	-262.6	-276.1	-325.1	-414.0
Effective Tax Rate (%)	28.7	34.9	27.0	27.5	27.5
Minorities	140.1	137.8	164.8	186.0	209.1
Net Profit	970.0	627.7	911.3	1,043.2	1,300.6
Growth					
Revenue (%)	11.2	3.4	19.6	12.9	12.4
Operating Profit (%)	29.9	-14.5	-0.4	8.0	15.9
Net Profit (%)	58.4	-35.3	45.2	14.5	24.7

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2017A	2018A	2019F	2020F	2021F
Property, Plant & Equipment	13,141.6	14,605.2	14,167.4	13,603.1	12,866.1
Goodwill and Intangibles	12,970.6	13,938.3	13,879.9	13,821.4	13,763.0
Cash and Cash Equivalents	6,078.6	7,763.4	11,298.8	15,041.1	18,641.5
Other Assets	6,733.4	8,807.6	10,197.1	11,288.2	12,469.8
Total Assets	38,924.2	45,114.5	49,543.1	53,753.9	57,740.30
Payables	2,811.5	3,751.6	4,584.1	5,194.8	5,811.2
Borrowings	6,793.8	10,535.3	11,330.9	12,037.5	12,244.0
Tax payable	436.5	390.5	390.5	390.5	390.5
Other Liabilities	2,981.7	1,930.1	2,113.8	2,258.5	2,415.9
Total Liabilities	13,023.5	16,607.4	18,419.3	19,881.3	20,861.6
Shareholders' Equity	25,900.7	28,507.1	31,123.9	33,872.6	36,878.7
Total Equity and Liabilities	38,924.2	45,114.5	49,543.1	53,753.9	57,740.3

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2017A	2018A	2019F	2020F	2021F
Book Value Per Share	2.9	2.8	3.1	3.4	3.7
EPS (Sen)	11.8	7.2	10.4	11.9	14.8
DPS (Sen)	5.0	6.0	7.0	8.0	9.0
Payout Ratio (%)	42.5	83.8	67.4	67.3	60.7
ROA (%)	2.1	1.1	1.5	1.6	1.9
ROE (%)	4.0	2.6	3.4	3.5	4.0

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

DISCLAIMER

This document has been prepared solely for information and private circulation only. It is for distribution under such circumstances as may be permitted by applicable law. The information contained herein is prepared from data and sources believed to be reliable at the time of issue of this document. The views/opinions expressed herein are subject to change without notice and solely reflects the personal views of the analyst(s) acting in his/her capacity as employee of Public Investment Bank Berhad ("PIVB"). PIVB does not make any guarantee, representations or warranty neither expressed or implied nor accepts any responsibility or liability as to its fairness liability adequacy, completeness or correctness of any such information and opinion contained herein. No reliance upon such statement or usage by the addressee/anyone shall give rise to any claim/liability for loss of damage against PIVB, Public Bank Berhad, its affiliates and related companies, directors, officers, connected persons/employees, associates or agents.

This document is not and should not be construed or considered as an offer, recommendation, invitation or a solicitation of an offer to purchase or subscribe or sell any securities, related investments or financial instruments. Any recommendation in this document does not have regards to the specific investment objectives, financial situation, risk profile and particular needs of any specific persons who receive it. We encourage the addressee of this document to independently evaluate the merits of the information contained herein, consider their own investment objectives, financial situation, particular needs, risks and legal profiles, seek the advice of their, amongst others, tax, accounting, legal, business professionals and financial advisers before participating in any transaction in respect of any of the securities of the company(ies) covered in this document.

PIVB, Public Bank Berhad, our affiliates and related companies, directors, officers, connected persons/employees, associates or agents may own or have positions in the securities of the company(ies) covered in this document or any securities related thereto and may from time to time add or dispose of, or may be materially interested in, any such securities. Further PIVB, Public Bank Berhad, our affiliates and related companies, associates or agents do and/or seek to do business with the company(ies) covered in this document and may from time to time act as market maker or have assumed an underwriting commitment in the securities of such company(ies), may sell them or buy them from customers on a principal basis, may have or intend to accommodate credit facilities or other banking services and may also perform or seek to perform investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment advisory or other services from any entity mentioned in this document. The analyst(s) and associate analyst(s) principally responsible for the preparation of this document may participate in the solicitation of businesses described aforesaid and would receive compensation based upon various factors, including the quality of research, investor client feedback, stock pickings and performance of his/her recommendation and competitive factors. The analyst(s) and associate analyst(s) may also receive compensation or benefit (including gift and company/issuer-sponsored and paid trips in line with the Bank's policies) in executing his/her duties. Hence, the addressee or any persons reviewing this document should be aware of the foregoing, amongst others, may give rise to real or potential conflicts of interest.

Published and printed by:

PUBLIC INVESTMENT BANK BERHAD (20027-W)

9th Floor, Bangunan Public Bank

6, Jalan Sultan Sulaiman

50000 Kuala Lumpur

T 603 2268 3000

F 603 2268 3014

Dealing Line 603 2268 3129