



Company report

IHH HEALTHCARE

(IHH MK EQUITY, IHHH.KL)

30 June 2020

Expecting better case mix in 2HFY20

BUY

(Maintained)

Nafisah Azmi

nafisah-azmi@ambankgroup.com

03-2036 2250

Rationale for report: Company results/update

Price	RM5.60
Fair Value	RM6.58
52-week High/Low	RM5.95/RM4.55

Key Changes

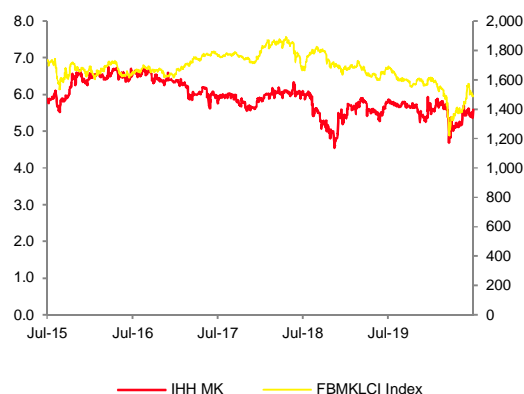
Fair value	↕
EPS	↔

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RMmil)	14,912.5	15,511.1	17,775.1	19,273.3
Core net profit (RMmil)	920.7	800.6	1,160.1	1,351.7
FD Core EPS (Sen)	10.5	9.1	13.2	15.4
FD Core EPS growth (%)	(10.4)	(13.0)	44.9	16.5
Consensus Net Profit (RMmil)	-	782.9	1,150.0	1,438.0
DPS (Sen)	5.4	4.6	6.6	7.7
PE (x)	53.3	61.3	42.3	36.3
EV/EBITDA (x)	16.6	15.9	13.5	13.6
Div yield (%)	1.0	0.8	1.2	1.4
ROE (%)	2.5	4.0	6.5	7.5
Net Gearing (%)	26.7	31.4	29.3	54.7

Stock and Financial Data

Shares Outstanding (million)	8,774.0
Market Cap (RMmil)	49,134.4
Book Value (RM/share)	2.55
P/BV (x)	2.2
ROE (%)	2.5
Net Gearing (%)	26.7
Major Shareholders	Mitsui & Co Ltd (32.9%) Khazanah Nasional (26.0%) EPF (7.9%)
Free Float	1,536.8
Avg Daily Value (RMmil)	19.5

Price performance	3mth	6mth	12mth
Absolute (%)	5.7	(2.8)	(3.4)
Relative (%)	(5.0)	4.8	8.0



Investment Highlights

- We maintain our BUY recommendation for IHH Healthcare with a higher fair value of RM6.58/share. Our valuation is based on DCF with a WACC of 7.0%. We lower our WACC 7.0% from 7.4% to reflect a lower risk-free rate.
- IHH's 1QFY20 core net profit of RM189.4mil (+1% YoY) was largely within our and street's expectations, accounting for 24% of our and consensus' full-year earnings' estimates.
- IHH's 1QFY20 revenue fell 2.4% YoY (-7.3% QoQ) to RM3,555.2mil. This was largely attributed to the impact of Covid-19 pandemic. Since late January 2020, patients have been postponing non-urgent and non-essential treatments as well as visits to hospitals and healthcare facilities.
- Foreign patient volume declined from March 2020 onwards due to travel restrictions across the different countries that IHH operates in.
- The drop in sales was slightly offset by Covid-19-related services that the group provides like the Covid-19 screening and laboratory tests in Malaysia and Singapore. Moreover, the group also receives walk-in Covid-19 patients.
- Core net profit inched up 0.5% YoY in 1QFY20 on the back of lower interest expense with the repayment of loans in 2H19.
- The core net profit excludes the impairment loss on goodwill of RM400.5mil in respect of investments in Global Hospitals in India. This follows a thorough portfolio review of non-Fortis India investments made in 2015 and earlier.
- Segmental highlights are as follows;
 1. Parkway Pantai's revenue dropped 3% YoY to RM2,492.6mil in 1QFY20 due to lower patient volumes because of the impact from the Covid-19 pandemic. This was slightly mitigated by Covid-19 services offered by the company. It was also coming off from a high base as there was a one-off RM28.5mil trustee management fee income relating to the disposal of RHT assets in 1QFY19.

Inpatient admissions dropped YoY while revenue intensity (average revenue per patient) **increased** in Parkway Pantai's **Singapore** and **Malaysia** hospitals. However, **India hospitals' revenue intensity decreased** in 1Q19 as Fortis' revenue intensity is generally lower than its existing operations in India due to the difference in case mix. EBITDA fell 12% YoY as EBITDA margin declined 2ppts to 19.5%.

2. **Acibadem Holdings** revenue slid 1% YoY to RM955.8mil in 1QFY20 while EBITDA dropped 7% YoY to RM217.3mil. This was largely impacted by currency exchange as the Turkish lira was weaker against the MYR in 1QFY20. On a constant currency basis, revenue increased 8% while EBITDA rose 2% YoY.

Inpatient admissions declined 4.4% YoY in 1QFY20 while revenue intensity grew 12% as the average price was raised by roughly 13% to compensate for inflation and more complex cases.

- **The worst impact of patient's treatment postponements will be felt in April and May. Urgent cases remain resilient but cases which are elective or semi-elective were postponed. However, the group is seeing a strong return of semi-elective cases in June while demand for elective treatments is slowly coming back. Urgent cases make up roughly 40% of the case mix, while semi-elective and elective cases make up around 60% of the case mix.**
- **Moreover, foreign patients, which make up 5%–25% of revenue in IHH's various markets, were not able to travel overseas for treatment due to travel restrictions. The group's Covid-19-related services (like Covid-19 screening and lab services) and care for stable Covid-19 patients that were decanted from Singapore's public hospitals should help limit the pressure on revenue. The group's hospitals in Turkey and India also receives some walk-in Covid-19 patients.**
- **The group is expecting a higher cost of operations from supply chain disruptions as well as continued wage inflation. The group plans to mitigate this by tight cost controls, improvements in case mix and diversifying into new revenue streams. The group deferred non-critical purchases and non-critical expansion plans. The construction of Parkway Shanghai Hospital in China will be delayed as a result of construction halt during the lockdown. The group is starting to see a recovery in local patient volumes following the easing of the movement control order (MCO).**
- **Gleneagles Hong Kong's (GHK) inpatient volume remained stable. However, there was a slight increase in losses due to higher operating costs. Gleneagles Chengdu Hospital's (commenced in October 2019) ramp-up was hampered by the pandemic.**
- **We believe IHH's 2QFY20 performance will continue to be subdued, dampened by the Covid-19 outbreak as: 1) patients delay non-essential and non-emergency treatments; and 2) a slowdown in medical tourism. We believe as lockdowns begin to ease, patient volume will gradually recover from 2HFY20 onwards.**
- **In the long term, we expect the group to continue to grow on the back of sustained demand growth in all of its markets, expansion in multiple countries, better operational metrics, and tighter cost controls. Risks to earnings are pricing controls, bigger-than-expected pre-operating and start-up costs of new operations and wage inflation.**
- **We like IHH for: (1) its strong prospects in the private healthcare sector backed by rising affluence and the aging population; and (2) its position in the premium segment of the private healthcare sector, translating to high EBITDA margins of around 20%. However, we are wary of the geopolitical risks from its Turkish and China operations due to the volatile currency and political climate.**

EXHIBIT 1: RESULTS SUMMARY

FYE Dec 31 (RM mil)	1Q19	4Q19	1Q20	QoQ	YoY
Revenue	3,642.7	3,836.1	3,555.2	-7.3	-2.4
EBITDA	813.7	901.5	734.4	-18.5	-9.7
Interest income	35.3	30.1	72.7	141.5	105.8
Interest expense	-295.2	-245.2	-288.6	17.7	-2.2
Depreciation & amortisation	-317.2	-355.3	-341.2	-4.0	7.6
Pre exceptional profit	367.1	332.2	270.3	-18.6	-26.4
Exceptionals	-156.7	-225.8	-529.3	134.4	237.7
Pre-associates profit	210.4	106.5	-259.0	-343.3	-223.1
Associates (net of tax)	-25.4	87.3	1.0		
Share of profits from JV (net of tax)	2.1	2.0	0.7	-66.1	-67.7
Pre-tax profit	187.1	195.7	-257.4	-231.5	-237.6
Taxation	-196.0	-155.7	-109.3	-29.8	-44.2
Minorities	98.5	0.6	46.9	7,546.7	-52.4
Net Profit	89.5	40.6	-319.8	-887.1	-457.3
Core net profit	188.4	289.8	189.4	-34.7	0.5
Core EPS (sen)	1.9	3.3	2.2	-0.3	0.1
EBITDA margin (%)	21.6	23.5	23.3	-0.3 ppt	1.7 ppt
Pretax margin (%)	5.1	5.1	-7.2	-12.3 ppt	-12.4 ppt
Effective tax (%)	104.8	79.6	-42.5	-122.0 ppt	-147.3 ppt
Net profit margin (%)	2.5	1.1	-9.0	-10.1 ppt	-11.5 ppt
Core net profit margin (%)	5.2	7.6	5.3	-2.2 ppt	0.2 ppt
Segmental revenue					
Singapore	1,023.9	1,108.9	1,014.8	-8.5	-0.9
Malaysia	540.8	618.8	555.4	-10.2	2.7
India	816.7	816.6	750.6	-8.1	-8.1
North Asia	146.4	148.9	128.7	-13.6	-12.1
Acibadem	967.1	988.5	955.8	-3.3	-1.2
Segmental EBITDA					
Singapore	345.7	424.8	328.2	-22.7	-5.1
Malaysia	162.6	171.0	149.6	-12.5	-8.0
India	68.5	90.0	69.1	-23.3	0.8
North Asia	-30.5	-68.9	-66.7	-3.2	118.9
Acibadem	233.7	246.8	217.3	-12.0	-7.1

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: OPERATIONAL METRICS

FYE Dec 31	1Q19	4Q19	1Q20	QoQ	YoY
Inpatient revenue intensity (RM '000)					
PPL Singapore	31.8	33.5	35.2	5.1	10.9
PPL Malaysia	6.9	7.2	7.2	0.9	4.7
PPL India	6.6	6.4	6.5	1.6	-2.5
Acibadem	8.1	8.0	9.1	13.1	12.3
Inpatient revenue intensity ('000)					
PPL Singapore (SGD)	10.5	11.0	11.7	6.1	10.9
PPL Malaysia (MYR)	6.9	7.2	7.2	0.9	4.7
PPL India (INR)	112.7	108.3	112.6	4.0	-0.1
Acibadem (TL)	11.1	10.9	13.5	23.9	21.8
Exchange rate					
SGD/MYR	3.0	3.0	3.0	-0.9	0.0
INR/MYR	0.1	0.1	0.1	-2.3	-2.4
TL/MYR	0.7	0.7	0.7	-8.7	-7.8
Inpatient Admission vol. (000)					
PPL Singapore	19.1	19.6	17.3	-12.0	-9.6
PPL Malaysia	51.8	56.9	49.8	-12.6	-4.0
PPL India	84.7	91.4	83.7	-8.4	-1.1
Acibadem	58.4	57.5	55.7	-3.2	-4.6
Total	214.0	225.5	206.5	-8.5	-3.5

Source: Company, AmInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART

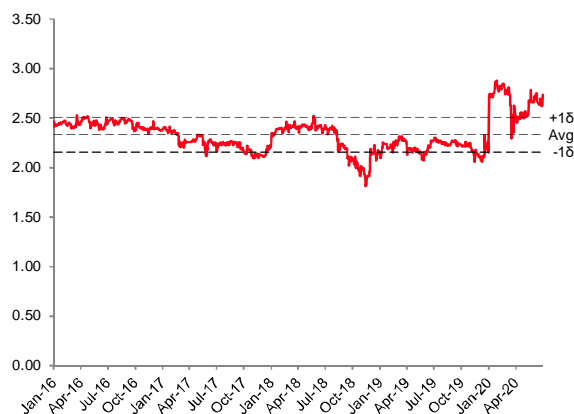


EXHIBIT 4: PE BAND CHART

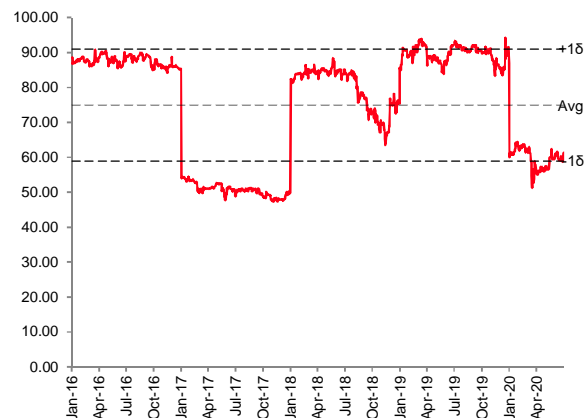


EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	11,520.9	14,912.5	15,511.1	17,775.1	19,273.3
EBITDA	2,482.1	3,317.7	3,442.4	4,018.5	4,318.7
Depreciation	(939.2)	(1,355.5)	(1,762.4)	(1,786.9)	(1,808.9)
Operating income (EBIT)	1,542.9	1,962.2	1,679.9	2,231.6	2,509.8
Other income & associates	13.4	74.1	74.1	74.1	74.1
Net interest	(803.9)	(772.3)	(776.1)	(817.2)	(827.9)
Exceptional items	399.9	369.2	-	-	-
Pretax profit	752.5	1,042.7	978.0	1,488.5	1,756.0
Taxation	(262.6)	(527.9)	(332.5)	(506.1)	(597.0)
Minorities/pref dividends	137.8	36.6	155.1	177.8	192.7
Net profit	627.7	551.5	800.6	1,160.1	1,351.7
Core net profit	1,027.6	920.7	800.6	1,160.1	1,351.7
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	14,123.3	11,786.7	12,024.3	12,237.4	12,428.5
Intangible assets	11,829.2	12,574.7	12,574.7	12,574.7	12,574.7
Other long-term assets	8,539.0	6,927.7	7,008.1	7,105.9	7,195.6
Total non-current assets	34,491.5	31,289.2	31,607.1	31,917.9	32,198.8
Cash & equivalent	7,763.4	4,714.7	2,940.1	3,582.1	4,250.0
Stock	350.7	350.3	364.4	417.6	452.8
Trade debtors	1,960.0	2,107.9	2,192.5	2,512.5	2,724.3
Other current assets	455.2	445.7	445.7	445.7	445.7
Total current assets	10,529.3	7,618.5	5,942.7	6,957.8	7,872.7
Trade creditors	3,786.8	3,858.2	4,013.0	4,598.8	4,986.4
Short-term borrowings	1,123.1	637.8	837.8	1,037.8	1,237.8
Other current liabilities	608.2	630.7	630.7	630.7	630.7
Total current liabilities	5,518.1	5,126.7	5,481.6	6,267.3	6,854.9
Long-term borrowings	9,366.4	8,266.1	8,366.1	8,466.1	8,566.1
Other long-term liabilities	1,784.7	1,492.5	1,502.5	1,540.4	1,565.4
Total long-term liabilities	11,151.1	9,758.5	9,868.5	10,006.4	10,131.5
Shareholders' funds	21,994.0	22,339.5	17,925.6	17,925.6	17,925.6
Minority interests	6,357.7	5,754.4	5,754.4	5,754.4	5,754.4
BV/share (RM)	2.51	2.55	2.04	2.04	2.04
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	752.5	1,042.7	978.0	1,488.5	1,756.0
Depreciation	880.7	1,289.9	1,762.4	1,786.9	1,808.9
Net change in working capital	(97.1)	(523.9)	(14.1)	152.7	75.9
Others	328.2	638.8	443.6	311.2	230.8
Cash flow from operations	1,864.3	2,447.5	3,169.8	3,739.2	3,871.7
Capital expenditure	(1,295.3)	(2,986.0)	(2,000.0)	(2,000.0)	(2,000.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	(2,002.7)	553.6	95.7	81.5	97.9
Cash flow from investing	(3,298.0)	(2,432.5)	-	-	-
Debt raised/(repaid)	1,683.9	(1,081.3)	300.0	300.0	300.0
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(445.4)	(476.6)	(400.3)	(580.1)	(675.8)
Others	(310.1)	(1,350.9)	(871.8)	(898.8)	(925.8)
Cash flow from financing	928.4	(2,908.8)	(972.1)	-	-
Net cash flow	(505.4)	(2,893.8)	293.4	641.9	668.0
Net cash/(debt) b/f	-	-	-	-	-
Net cash/(debt) c/f	(505.4)	(2,893.8)	293.4	641.9	668.0
Key Ratios (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	3.4	29.4	4.0	14.6	8.4
EBITDA growth (%)	(10.8)	33.7	3.8	16.7	7.5
Pretax margin (%)	6.5	7.0	6.3	8.4	9.1
Net profit margin (%)	5.4	3.7	5.2	6.5	7.0
Interest cover (x)	1.9	2.5	2.2	2.7	3.0
Effective tax rate (%)	34.9	50.6	34.0	34.0	34.0
Dividend payout (%)	71.0	86.4	50.0	50.0	50.0
Debtors turnover (days)	55	50	51	48	50
Stock turnover (days)	10	9	8	8	8
Creditors turnover (days)	104	94	93	88	91

Source: Company, AmInvestment Bank Bhd estimates

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