

IHH Healthcare Berhad

(5225 | IHH MK) Healthcare | Healthcare Providers

Maintain BUY

Earnings cushioned by higher revenue intensity

Revised Target Price: RM6.34

(Previously RM6.45)

KEY INVESTMENT HIGHLIGHTS

- **IHH Healthcare normalised earnings came in at RM189.4m in 1QFY20, growing by +1.0%yoy**
- **Lower revenue and patients visit recorded across its market due to travel restrictions brought about by Covid19**
- **Earnings cushioned by higher revenue intensity per patient and strong revenue recognition from Acibadem**
- **FY20-21F earnings lowered by -23.4% and -10.6% respectively**
- **Maintain BUY with a revised TP of RM6.34 per share**

Below expectations. IHH Healthcare Bhd (IHH) has reported a loss of -RM366.7m in 1QFY20. However, after excluding the exceptional items - impairment on goodwill worth RM400.5m and realisation of RM60.0m foreign currency translation losses; 1QFY20 normalised earnings came in at RM189.4m which was below ours but within consensus' full-year FY20 earnings estimates at 19.2% and 24.2% respectively. While core performance remained intact, the 1QFY20 earnings was dragged by the outbreak of Covid-19 which has led to the deferment and postponement of medical procedures as well as; lower patients visit to hospitals. This was further exacerbated by the additional costs incurred to implement Covid-19 precautionary and safety measures at all its healthcare facilities.

Loss of patients offset by higher revenue intensity per patient.

In 1QFY20, both Singapore and Malaysia markets recorded a contraction in inpatient admissions by -9.6%yoy and -3.6%yoy respectively following travel restrictions imposed to curb the spread of Covid-19 in both countries. This had resulted in the decline in revenue from its Singapore hospitals by -1.0%. However, Malaysian hospitals' revenue grew by +3.0%yoy despite the contraction in inpatient admission. This was mostly supported by revenue intensity per inpatient which rose by +10.9%yoy in Singapore and +4.2%yoy in Malaysia respectively, driven by the execution of urgent complex cases undertaken during the quarter. Furthermore, we expect the acquisition of Prince Court will contribute positively to the segment's earning post completion of its acquisition by May 2020 (pending regulatory approval).

Acibadem remains resilient despite weak Turkish Lira.

Acibadem's performance during the quarter had been strong despite operating in the current global pandemic situation and facing a weak Turkish Lira. Acibadem's revenue (after stripping off the effects of weak TRY translation) grew by +8.0%yoy despite the -4.4%yoy contraction in number of inpatients admitted. Furthermore, its revenue intensity per patient also grew by +14.8%yoy attributable to: (i) more complex cases undertaken during the quarter and; (ii) pricing adjustments made during the quarter to account for inflation.

RETURN STATISTICS

Price @ 29 th June 2020 (RM)	5.60
Expected share price return (%)	+13.2
Expected dividend yield (%)	+0.5
Expected total return (%)	+13.7

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	3.1	1.7
3 months	8.5	-5.0
12 months	-3.4	8.0

KEY STATISTICS

FBM KLCI	1,494.43
Syariah compliant	Yes
Issue shares (m)	8773.99
Estimated free float (%)	12.27
Market Capitalisation (RM'm)	49,152.43
52-wk price range	RM4.55 - RM5.95
Beta vs FBM KLCI (x)	0.73
Monthly velocity (%)	0.00
Monthly volatility (%)	8.76
3-mth average daily volume (m)	3.67
3-mth average daily value (RM'm)	19.46
Top Shareholders (%)	
Mitsui & Co Ltd	32.91
Khazanah Nasional Berhad	26.03
Employees Provident Fund	8.60

ANALYST

Noor **ATHILA** Mohd Razali
noor.athila@midf.com.my
 03 -2772 1679

Impact to earnings. We are revising our earnings forecasts for FY20F and FY21F downwards by -23.4% and -10.6% respectively as we take into account a lower number of patients admission following the travel restrictions and movement control order (MCO) implemented in various countries to curb the spread of Covid-19 which were extended into 2QFY20.

Target price. We are revising our **target price to RM6.34 per share** (previously RM6.45). We derived our target price based on DCF valuation method with assumption of terminal growth at 4.7% and WACC of 9.0%.

Maintain BUY. We acknowledge that the group is facing near term business headwinds particularly in the form of weak demand arising from Covid-19 outbreak. This is expected to slow down demand for medical tourism and deferrals of non-urgent and non-essential procedures and services. Nonetheless, we are maintaining our **BUY** recommendation as we opine that the loss in patients visit will be compensated in 2HFY20 once Covid19 measures have been eased further by governments across the world and patients coming in to perform the earlier deferred or postponed procedures.

Going forward, the group expects to further drive efficiency in its operation as well as realising additional resources through divestments of underperforming non-core assets. Through this initiatives, we believe that the group would be able to protect its profit margin and redeploy the additional cash to pare down debt. Meanwhile, we believe that the strong cashflow generative markets like Singapore and Malaysia will continue to support group's performance in the near term. In addition, we expect a long-term growth opportunities in India and Greater China as the markets are largely under-served. In summary, we continue to like IHH for its: (i) geographically-diversified revenue base; (ii) strong synergies across its global network; and (iii) robust balance sheet with RM5.4b cash position and 0.17times gearing as of March 2020.



INVESTMENT STATISTICS

Financial year ending 31st Dec (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Revenue	11,520.9	14,912.5	15,933.0	17,170.5	18,516.5
EBITDA	2,477.7	3,374.1	3,788.8	4,267.7	4,645.8
PBT	752.5	1,042.6	1,138.7	1,420.1	1,568.0
PATANCI	627.7	551.4	740.4	923.4	1,019.6
Normalised PATANCI	1,027.6	920.6	740.4	923.4	1,019.6
Normalised Basic EPS (sen)	11.7	9.5	8.4	10.5	11.6
Normalised EPS growth (%)	72.6	(16.3)	(11.2)	24.7	10.4
PBT margin (%)	6.5	7.0	7.1	8.3	8.5
Normalised PATANCI margin (%)	8.9	6.2	4.6	5.4	5.5
PER (x)	47.8	58.9	66.4	53.2	48.2
Dividend per share (sen)	3.0	4.0	4.0	4.0	4.0
Dividend yield (%)	0.5	0.7	0.7	0.7	0.7

Source: Company, MIDFR

IHH HEALTHCARE BERHAD: 1QFY20 RESULTS SUMMARY

Financial year ending 31st Dec (in RM'm unless stated otherwise)	Quarterly results				
	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY (%)
Revenue	3,642.7	3,836.1	3,555.2	(7.3)	(2.4)
Other operating income	83.1	76.4	105.6	38.3	27.1
Inventories and consumables	(704.4)	(751.3)	(715.9)	(4.7)	1.6
Purchased and contracted services	(380.7)	(400.3)	(367.2)	(8.3)	(3.6)
Development cost of properties sold	0.0	(0.3)	0.0	nm	nm
Staff costs	(1,325.9)	(1,344.7)	(1,369.7)	1.9	3.3
Depreciation and impairment losses of PPE	(247.1)	(216.0)	(238.8)	10.6	(3.4)
Amortisation and impairment losses of intangible assets	(13.2)	(25.3)	(17.0)	(32.7)	29.3
Operating lease expenses	(18.5)	(7.9)	(15.9)	100.4	(14.1)
Other operating expenses	(495.6)	(730.9)	(894.0)	22.3	80.4
Finance income	35.3	30.1	72.7	141.5	105.8
Finance costs	(295.2)	(245.2)	(288.6)	17.7	(2.2)
Share of profits of associates (net of tax)	(25.4)	87.3	1.0	(98.9)	(103.9)
Share of profits of joint ventures (net of tax)	2.1	2.0	0.7	(66.1)	(67.7)
Profit Before Tax	187.1	195.7	(257.4)	(231.5)	(237.6)
Income tax expense	(196.0)	(155.7)	(109.3)	(29.8)	(44.2)
Profit After Tax	(8.9)	40.0	(366.7)	(1,016.3)	4,000.4
Non-controlling interests	(98.5)	(0.6)	(46.9)	7,546.7	(52.4)
PATANCI	89.5	40.6	(319.8)	(887.1)	(457.3)
Exceptional Items	98.9	249.2	509.1	104.3	414.9
Normalised Earnings	188.4	289.8	189.4	(34.7)	0.5
Basic EPS (sen)	0.8	0.2	(3.9)	(1,957.1)	(600.0)
Fully diluted EPS (sen)	0.8	0.2	(3.9)	(1,957.1)	(606.5)
Basic EPS ex-EI (sen)	1.9	3.1	1.9	(37.7)	0.0
Fully diluted EPS ex-EI (sen)	1.9	3.1	1.9	(37.7)	0.0
				<i>+/(-) pts</i>	
PBT margin (%)	5.1	5.1	(7.2)	(12.3)	(12.4)
PAT margin (%)	(0.2)	1.0	(10.3)	(11.4)	(10.1)
PATANCI margin (%)	2.5	1.1	(9.0)	(10.1)	(11.5)
Effective tax rate (%)	104.8	79.6	(42.5)	(122.0)	(147.3)

Source: Company, MIDFR

APPENDIX

Table 1: Breakdown by operating segment

Financial year ending 31st Dec (in RM'm unless stated otherwise)	Quarterly results				
	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY (%)
Revenue					
Pantai Parkway	2,578.9	2,744.2	2,519.8	(8.2)	(2.3)
Acibadem Holdings	967.1	988.5	955.8	(3.3)	(1.2)
IMU Health	61.7	66.5	68.1	2.4	10.5
Others	1.0	1.5	348.7	23,149.3	34,669.7
Group (ex-Plife REIT)	3,608.7	3,800.7	3,892.5	2.4	7.9
Plife REIT	85.6	88.2	90.0	2.1	5.2
Eliminations	(51.6)	(52.8)	(427.3)	709.3	728.6
Total	3,642.7	3,836.1	3,555.2	(7.3)	(2.4)
EBITDA					
Pantai Parkway	503.5	630.2	504.9	(19.9)	0.3
Acibadem Holdings	233.7	246.8	217.3	(12.0)	(7.1)
IMU Health	25.7	13.5	28.5	110.9	10.8
Others	(18.6)	(19.0)	330.8	(1,841.2)	(1,878.2)
Group (ex-Plife REIT)	744.4	871.5	1,081.5	24.1	45.3
Plife REIT	69.3	83.0	70.4	(15.1)	1.6
Total	813.7	901.5	734.4	(18.5)	(9.7)
EBITDA margin (%)				<i>+ / (-) pts</i>	
Parkway Pantai	19.5	23.0	20.0	(2.9)	0.5
Acibadem Holdings	24.2	25.0	22.7	(2.2)	(1.4)
IMU Health	41.7	20.3	41.8	21.5	0.1
Plife REIT	81.0	94.1	78.3	(15.8)	(2.8)

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)). It is for distribution only under such circumstances as may be permitted by applicable law. Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.