

IHH Healthcare Berhad

(5225 | IHH MK) Healthcare | Healthcare Providers

Maintain BUY

Earnings dragged by higher finance and tax costs

Revised Target Price: RM6.45

(Previously RM6.78)

KEY INVESTMENT HIGHLIGHTS

- **4QFY19's normalised earnings declined by -15.1%yoy to RM289.8m**
- **FY19 normalised earnings came in at RM920.6m which is below ours and consensus' estimates**
- **Overall earnings was dragged by higher finance and tax costs**
- **First and final dividend declared of 4.0sen per share**
- **Maintain BUY with a revised TP of RM6.45 per share**

Below expectations. IHH Healthcare Bhd (IHH) has reported 4QFY19 earnings of RM40.6m. Excluding the exceptional items such as impairment loss due to Global Hospitals, 4QFY19 normalised earnings came in at RM289.8m (-15.1%yoy) while full year FY19 normalised earnings came in at RM920.6m (-10.4%yoy) which is below ours and consensus' estimate of full year FY19 forecast at 92.2% and 87.6% respectively. While core performance remained intact, the 4QFY19 earnings was dragged by the higher finance and tax costs.

Singapore and Malaysia continue to anchor group's performance. In 4QFY19, both Singapore and Malaysia markets continue to support the group's overall performance with total revenue growth of +8.0%yoy and +12.0%yoy respectively. The revenue intensity per inpatient rose by +4.3%yoy and +7.7%yoy respectively driven by the strong organic growth from existing hospitals. 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).

Despite external headwinds, Acibadem remain resilient. Acibadem's performance has been impacted by the drop in local patient (from social insurance scheme) at its non-Istanbul hospitals. Nevertheless, Acibadem Holdings' 4QFY19 revenue increased by +11.0%yoy due to the: (i) continuous ramp up of Acibadem Altunizade Hospital (opened in March 2017); (ii) increased capacity from Acibadem Maslak Hospital (expansion completed in October 2018); and (iii) increase in foreign patients.

Fortis made continued progress since acquisition. Since its acquisition in November 2018, Fortis has made continued progress in improving operational and financial performance. In 4QFY19, it reported a PBT for four straight quarter of about RM28.1m in comparison to a loss of about RM70.0m for Q4FY19 of thanks to a discipline turnaround plan by the new management.

RETURN STATISTICS

Price @ 28 th February 2020 (RM)	5.70
Expected share price return (%)	+13.2
Expected dividend yield (%)	+0.7
Expected total return (%)	+13.9

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.0	3.3
3 months	4.2	11.8
12 months	-1.6	12.9

KEY STATISTICS

FBM KLCI	1,482.64
Syariah compliant	Yes
Issue shares (m)	8774.00
Estimated free float (%)	17.12
Market Capitalisation (RM'm)	50,011.75
52-wk price range	RM5.13 - RM5.95
Beta vs FBM KLCI (x)	0.62
Monthly velocity (%)	11.02
Monthly volatility (%)	8.76
3-mth average daily volume (m)	4.25
3-mth average daily value (RM'm)	24.19
Top Shareholders (%)	
Mitsui & Co Ltd	32.92
Khazanah Nasional Berhad	26.04
Central Depository Limited	7.54

ANALYST


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Earnings were eroded by increased in finance and tax costs. Despite the solid core performance, IHH's Q4FY19 normalised earnings was dragged by -15.1%yoy attributed to the higher net interest expenses as additional loans were taken for acquisition, working capital and conversion of Acibadem's Euro interest to Turkish Lira interest, which is higher. Furthermore, the group's effective tax rates rose significantly by +67.0ppts year-on year to 79.6%. This was driven by the increase in Fortis' tax expense by RM67.2m mainly due to its reversal of deferred tax assets in Q4FY19 and unrecognised tax losses arising from the group's new hospitals and hospitals under construction.

First and final dividend declared. The group has declared its first and final dividend of 4.0sen per share for FY19 which is above our expectation of 3.0sen per share.

Impact to earnings. We are revising our earnings forecasts for FY20F and FY21F downwards by -16.1% and -20.5% respectively as we take into account a slower growth rate in inpatient admission in the near term, higher finance and tax costs.

Target price. We are revising our target price to RM6.45 per share (previously RM6.78). 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 are confident of IHH's ability to response to these challenges. 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 like IHH for its: (i) geographically-diversified revenue base; (ii) strong synergies across its global network; and (iii) robust balance sheet. 

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	16,057.8	17,295.4	18,657.4
EBITDA	2,477.7	3,374.1	4,135.5	4,433.0	4,796.9
PBT	752.5	1,042.6	1,464.6	1,564.7	1,695.7
PATANCI	627.7	551.4	966.6	1,032.7	1,119.2
Normalised PATANCI	1,027.6	920.6	966.6	1,032.7	1,119.2
Normalised Basic EPS (sen)	11.3	9.5	11.1	11.8	12.8
Normalised EPS growth (%)	67.8	(16.3)	17.0	6.0	8.4
PBT margin (%)	6.5	7.0	9.1	9.0	9.1
Normalised PATANCI margin (%)	8.9	6.2	6.0	6.0	6.0
PER (x)	50.3	60.1	51.4	48.4	44.7
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: 4QFY19 RESULTS SUMMARY

FYE Dec (RMm)	Quarterly results			Cumulative results		
	4QFY19	YoY (%)	QoQ (%)	FY19	FY18	YoY (%)
Revenue	3,836.1	21.2	1.3	14,912.5	11,520.9	29.4
Other operating income	76.4	(55.7)	(8.0)	308.6	372.9	(17.2)
Inventories and consumables	(751.3)	23.7	0.8	(2,923.5)	(2,210.4)	32.3
Purchased and contracted services	(400.3)	41.9	(2.0)	(1,584.1)	(948.7)	67.0
Staff costs	(1,344.7)	14.7	(0.7)	(5,371.5)	(4,538.1)	18.4
Depreciation and impairment losses of PPE	(216.0)	(11.0)	(13.8)	(965.3)	(880.7)	9.6
Amortisation and impairment losses of intangible assets	(25.3)	62.9	80.8	(65.7)	(58.5)	12.4
Operating lease expenses	(7.9)	(91.3)	(75.5)	(84.6)	(334.3)	(74.7)
Other operating expenses	(730.9)	48.4	46.3	(2,160.3)	(1,380.2)	56.5
Finance costs	(245.2)	(172.3)	>100	(903.6)	(978.8)	(7.7)
Share of profits of associates (net of tax)	87.3	740.8	>100	64.2	11.5	>100
Share of profits of joint ventures (net of tax)	2.0	nm	(29.1)	9.9	1.9	>100
Profit Before Tax	195.7	(75.9)	(50.4)	1,042.6	752.5	38.6
Income tax expense	(155.7)	52.4	38.5	(527.9)	(262.6)	>100
Profit After Tax	40.0	(94.4)	(85.8)	514.7	489.9	5.1
Non-controlling interests	(0.6)	nm	(101.3)	(36.6)	(137.8)	(73.4)
PATANCI	40.6	(92.0)	(82.8)	551.4	627.7	(12.2)
Exceptional Items	249.2	nm	nm	369.2	399.9	(7.7)
Normalised Earnings	289.8	(15.1)	43.2	920.6	1,027.6	(10.4)
Basic EPS (sen)	0.2	(96.4)	(91.4)	5.3	6.4	(17.9)
Fully diluted EPS (sen)	0.2	(96.4)	(91.4)	5.3	6.4	(18.0)
Basic EPS ex-EI (sen)	3.1	(19.5)	48.8	9.5	11.3	(16.3)
Fully diluted EPS ex-EI (sen)	3.1	(19.5)	48.8	9.5	11.3	(16.3)
		<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
PBT margin (%)	5.1	(20.6)	(5.3)	7.0	6.5	0.5
PAT margin (%)	1.0	(21.4)	(6.4)	3.5	4.3	(0.8)
PATANCI margin (%)	1.1	(15.0)	(5.2)	3.7	5.4	(1.8)
Effective tax rate (%)	79.6	67.0	51.0	50.6	34.9	15.7

Source: Company, MIDFR

APPENDIX

Table 1: Breakdown by operating segment

FYE Dec	Quarterly results			Cumulative results		
Segmental Breakdown	4QFY19	YoY (%)	QoQ (%)	FY19	FY18	YoY (%)
Revenue						
Pantai Parkway	2,744.2	29.1	(1.1)	10,745.2	7,450.4	44.2
Acibadem Holdings	988.5	5.2	8.2	3,764.7	3,676.2	2.4
IMU Health	66.5	3.3	3.6	259.0	257.5	0.6
Others	1.5	nm	55.9	4.1	3.7	10.0
Group (ex-Plife REIT)	3,800.7	21.4	1.3	14,773.0	11,387.8	29.7
Plife REIT	3,800.7	4,350.5	4,228.0	347.9	335.8	3.6
Eliminations	(52.8)	2.3	1.0	(208.5)	(202.5)	2.9
Total	3,836.1	21.2	1.3	14,912.5	11,521.1	29.4
EBITDA						
Pantai Parkway	630.2	45.9	1.4	1,637.2	1,518.1	7.8
Acibadem Holdings	246.8	37.0	32.6	606.7	617.3	(1.7)
IMU Health	13.5	40.6	(41.8)	73.7	84.9	(13.2)
Others	(19.0)	6.7	(7.1)	(46.6)	(64.4)	(27.6)
Group (ex-Plife REIT)	810.2	34.2	0.0	2,271.0	2,155.9	5.3
Plife REIT	83.0	(30.9)	15.9	201.6	321.7	(37.3)
Total	901.5	24.5	8.8	3,374.1	2,477.6	36.2
EBITDA margin (%)		<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Parkway Pantai	22.4	0.6	1.9	20.5	20.1	0.4
Acibadem Holdings	20.4	5.2	(1.5)	21.9	16.0	5.8
IMU Health	36.1	(3.3)	(2.1)	38.3	32.2	6.1
Plife REIT	81.6	1.9	3.9	77.6	82.6	(5.0)

Source: Company, 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.