

22 April 2016 | Corporate Update

## IHH Healthcare Berhad

*Widening its reach to Bulgaria*

**Maintain NEUTRAL**

**Unchanged Target Price (TP): RM7.10**

### INVESTMENT HIGHLIGHTS

- **Proposed acquisition of Tokushukai-Sofia EOOD by Acibadem Saglik Hizmetleri Ve Ticaret AS**
- **Proposed merger with City Clinic Group by Acibadem**
- **Strengthening presence in Central Eastern Europe and Balkan Region**
- **Maintain NEUTRAL with unchanged TP of RM7.10**

**Proposed acquisition of Tokushukai-Sofia EOOD by Acibadem Saglik Hizmetleri.** IHH announced yesterday evening that it has entered into a share purchase agreement with Dr. Torao Tokuda and Tokushukai Incorporated to purchase the entire issued and outstanding share capital (100% stake) of Tokushukai-Sofia EOOD and its subsidiaries (collectively known as Tokuda Group) – the largest private healthcare service provider in Bulgaria. The agreement is entered into via IHH's indirect 59.6%-owned Turkish-based subsidiary Acibadem Saglik Hizmetleri whereby upon completion of the proposed acquisition, Tokuda Group will be consolidated as indirect subsidiaries of IHH. The purchase consideration for Tokuda Group which amounts to EUR65.0m (~RM286.13m), will be settled in cash.

**Proposed merger with City Clinic Group by Acibadem.** Simultaneously with the acquisition of Tokuda Group, IHH via Acibadem and Clinical Hospital Acibadem Sistina Skopje is also acquiring nearly one-third of the existing stake in City Clinic from its operating partners. The stake in City Clinic Group which is another leading high-quality integrated healthcare provider in Bulgaria, will be for a cash consideration of EUR10.9m (~RM48.29m). The remaining stake in City Clinic will be rolled over into a new-combined entity which will have 76.5% of the newly created holding company's share capital held by Acibadem and the balance by City Clinic operating partners. IHH will end up with an effective stake of 41.2% in City Clinic Group.

**Strengthening presence in Central Eastern Europe and Balkan Region.** The combined entity of Tokuda Group City Clinic will create the largest private healthcare provider in Bulgaria and one of the leading healthcare institutions in Central Eastern Europe. The rationale behind the acquisitions of both Tokuda Group and City Clinic is to cement IHH's presence in key emerging markets which has big potential in terms of demand and to be the centre of premium and quality healthcare in the region.

RETURN STATS	
Price (21 April '16)	RM6.68
Target Price	RM7.10
Expected Share Price Return	+6.29%
Expected Dividend Yield	+0.70%
<b>Expected Total Return</b>	<b>+7.0%</b>

STOCK INFO	
KLCI	1,721.47
Bursa / Bloomberg	5225 / IHH MK
Board / Sector	Main / Trading Services
Syariah Compliant	YES
Issued shares (mil)	8,224.20
Par Value (RM)	1.00
Market cap. (RM'm)	54,937.66
Price over NA	2.44
52-wk price Range	RM5.32 – RM6.75
Beta (against KLCI)	0.90
3-mth Avg Daily Vol	7.23m
3-mth Avg Daily Value	RM47.2m
Major Shareholders (%)	
Khazanah Nasional Bhd	43.39
Mitsui & Co Ltd	20.06
EPF	8.93

**Impact on operations and earnings.** Post the merger and acquisition of Tokuda Group and City Clinic, Acibadem's number of beds offering will increase to more than 3,500 across 22 hospitals in three countries. We view the transactions positively as Acibadem's track record in providing quality-healthcare services coupled with well-designed clinical process and experienced management has been well-proven and it will continue to lead both Tokuda Group and City Clinic in providing premium healthcare services. We also understand from the management that both Tokuda Group and City Clinic are already EBITDA positive at the time of announcement and we think that the entities will be contributing positively to the group's earnings going forward.

Tokuda Hospital has been established in 2006 and operating for 9 years with an established brand name and clinical excellence. It is the largest private healthcare service provider in Sofia. EBITDA margins are currently in its mid-teens.

Meanwhile, City Clinic has three hospitals and three outpatient centers. It has the largest cardiovascular surgery (CVS) centre and a market leader in diagnostics and treatment of cvs diseases and interventional procedures in Bulgaria. Its first hospital was established in 2012, a hospital in Burgas in 2015, a cancer hospital in 2015. EBITDA margins in high single digits. We expect margin to improve as the hospitals continue to ramp up its operations.

**Table 1: Subsidiaries of Tokuda**

Name of subsidiaries	% of Equity Interests held by Tokuda
Tokuda Hospital Sofia EAD	100%
Tokuda Medical Centre EAD	100%
Tokuda Pharmacy EOOD	100%
Tokuda Hospis EOOD	100%
Tokuda Clinical Research Center AD	85%


Source: Company, MIDFR

**Table 2: Subsidiaries of City Clinic Group**

Name of subsidiaries	% of Equity Interests held by City Clinic Group
City Clinic University Multi-Profile for Acute Care EOOD	100%
City Clinic Diagnostic and Consultative Centre EOOD	100%
City Clinic Medical Centre EOOD	100%
City Clinic Specialized Hospital for Cardiac Surgery OOD	70%
City Clinic Services EOOD	100%
City Clinic Pharmacies EOOD	100%
United Medical Center Varna EOOD	100%

Source: Company, MIDFR

**Earnings forecast.** No changes made to our earnings forecasts pending more information on the potential contribution coming from the Bulgarian units. The key risks to our earnings are: i) volatility in the currency market, ii) lower than expected inpatient admissions and revenue per patient, and iii) increasing cost of operations in its key home markets.

**Maintain NEUTRAL with an unchanged Target Price (TP) of RM7.10.** As no changes were made to our earnings forecasts, we are reiterating our NEUTRAL recommendation on IHH at this juncture with an unchanged DCF-based TP of RM7.10 per share (TG: 4.5%, WACC: 9.0%). The proposed acquisitions are expected to be completed within a 3-month timeframe. 

## INVESTMENT STATISTICS

FYE Dec (RM 'm)	FY12	FY13	FY14	FY15	FY16F	FY17F
Revenue	6,962	6,756	7,344	8,431	9,398	10,664
EBITDA	1,561	1,767	1,914	2,077	2,359	3,033
Core PATAMI	619	649	782	899	1,087	1,339
Basic EPS (sen)	8.9	7.8	9.2	11.1	13.2	16.3
PATAMI growth (%)	65.8	4.8	20.6	15.0	20.8	23.2
PER (x)	75.1	85.6	72.6	60.2	50.6	41.0
Dividend per share (sen)	-	2.0	3.0	3.0	5.0	6.0
Dividend yield (%)	-	0.3	0.4	0.4	0.7	0.9

Source: Company, Forecasts by MIDFR

## DAILY PRICE CHART



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

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 (Bank Pelaburan)  
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## MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.