IHH Healthcare Berhad

***Maintain* BUY**

(5225 | IHH MK) Healthcare | Healthcare Providers

2Q22 profit up on improving patient volumes

***Maintain* Target Price: RM7.96**

KEY INVESTMENT HIGHLIGHTS

- **IHH Healthcare's 2QFY22 earnings up 27%yoy to RM612m, came in above expectations**
- **Revenue increased slightly by 2%yoy to RM4.4b**
- **Higher inpatient volume and student admission, offset by higher operational cost and declining Covid-19 services**
- **Revise up earnings estimates**
- **Maintain BUY with unchanged TP of RM7.96 per share**

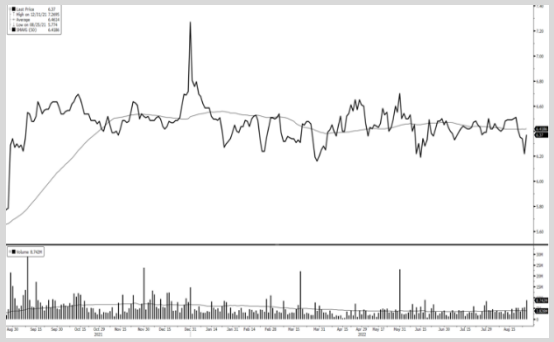
Earnings gained +27%yoy. IHH Healthcare Berhad (IHH) recorded improved profit by +26.6%yoy and +24.1%qoq to RM612.1m. For the cumulative first half, earnings went up by +28.7%yoy RM1.11b – which came in above our one-year earnings estimate by +11% and consensus' by +34%. The higher earnings were moderated by: (i) the decline in Covid-19 related services, (ii) higher operating expenses, and (iii) a debit adjustment of RM36.1 million relating to the application of MFRS 129.

Revenue increase +2%yoy. Likewise, revenue rose up +2.4%yoy and +5.1%qoq to RM4.37b. Cumulatively for 1HFY22, revenue improved +3.9%yoy to RM8.54b. Higher revenue was due to the recovery from core non-Covid-19 revenues as both local and foreign patients returned to seek treatment at the group's hospitals. The continuous ramp-up of operations at GHK Hospital, as well as the acquisitions of DDRC SRL Diagnostics Private Limited (DDRC SRL) and General Hospital Acibadem Bel Medic (Bel Medic) also contributed to the increase. These were partially offset by lower contribution from Covid-19 related-services, as well as the effects from: (i) disposal of Continental Hospitals Private Limited (Continental Hospitals), (ii) temporary closure of all clinics in China due to lockdowns, and (iii) weakening Turkish Lira.

Hospital and Healthcare. This division recorded a rise in revenue by +2.4%yoy and +5.1%qoq to RM4.27b, while earnings surged +23.5%yoy and +22.9%qoq to RM627.3m. For the cumulative first half, revenue was up +3.9%yoy to RM8.33b and profit gained +29.6%yoy to RM1.14b. The group continued to be in collaboration with the public healthcare sector of the countries it operates in to provide Covid-19 related services, albeit on a smaller scale. 2QFY22 saw strong recovery of foreign patient volumes for Singapore and Malaysia as border controls were eased.

RETURN STATISTICS	
Price @ 25th August 2022	6.37
Expected share price return (%)	+25.0
Expected dividend yield (%)	+0.8
Expected total return (%)	**+25.8**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.2	-3.0
3 months	-1.2	1.7
12 months	9.3	14.7

KEY STATISTICS	
FBM KLCI	1,495.49
Syariah compliant	Yes
F4GBM Index	No
ESG Grading Band	☆☆☆
Issue shares (m)	8796.72
Estimated free float (%)	14.19
Market Capitalisation (RM'm)	56,094.50
52-wk price range	RM5.8 - RM7.34
Beta vs FBM KLCI (x)	0.98
Monthly velocity (%)	0.00
Monthly volatility (%)	8.76
3-mth average daily volume (m)	4.03
3-mth average daily value (RM'm)	25.93
Top Shareholders (%)	0
Mitsui & Co Ltd	32.80
PULAU MEMUTIK VEN SDN BHD	25.94
Employees Provident Fund Board	9.4

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Table 1: IHH Healthcare's Hospital Inpatient Admission

Location	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	1HFY21	1HFY22	YoY (%)
Singapore	15,695	15,852	15,693	-1	-1	31,536	31,545	3
Malaysia	48,986	41,642	49,138	18	31	90,583	90,809	25
India	84,421	75,542	84,607	12	22	160,124	160,220	6
Turkey & Europe	59,187	57,526	59,252	3	11	160,044	160,220	11

Source: Company, MIDFR

Table 2: IHH Healthcare's Hospital Revenue per Admission (RM)

Location	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	1HFY21	1HFY22	YoY (%)
Singapore	38,681	44,054	47,578	8	23	39,128	47,736	22
Malaysia	10,310	9,784	9,588	-2	-7	10,185	9,676	-5
India	9,453	8,035	8,035	0	-15	8,265	8,017	-3
Turkey&Europe	7,322	8,410	8,494	1	16	7,170	8,461	18

Source: Company, MIDFR

IMU Health. Revenue for this segment increased +10.2%yoy and +10.6%qoq to RM69.2m, while earnings gained by +44.6%yoy and +43.5%qoq to RM19.6m. Cumulatively for 1HFY22, revenue was up by +6.8%yoy to RM131.8m and profit gained +22.4%yoy to RM33.2m. The increase in revenue was mainly due to higher student population; offset by higher expenses and higher campus activities.

PLife REIT. PLife REIT's revenue rose up by +1.8%yoy but slipped -1.9%qoq to RM92.9m, while earnings surged +26.3%yoy and +17.6%qoq to RM27.1m. For the cumulative first half, revenue for this segment was up +2.7%yoy to RM187.7m, while earnings dropped marginally by -0.8% to RM136.4m. The lower q-o-q revenue was mainly attributed to depreciation of the Japanese Yen, while earnings decreased due to higher professional fees incurred. The higher y-o-y revenue was contributed by three nursing homes acquired in 2021, partially offset by the divestment of P-Life Matsudo on and depreciation of the Japanese Yen.

Others. The group's other segment recorded a surge of over 7-fold y-o-y in revenue from a deficit of -RM317.7m in 2QFY21 to RM49.2m in 2QFY22. Meanwhile, q-o-q revenue is up +2.4%. Earnings increased +151.3%yoy and +22.4%qoq to RM27.1m. For 1HFY22, revenue shot up by +70.1%yoy to RM97.3m, but earnings lost -89.6%yoy to RM31.8m. Revenue decreased due to lower dividends received from investments in Money Market Funds (MMF), and lower management fees from Gleneagles JPMC Sdn Bhd. Earnings loss in 1HFY22 was due to higher staff costs and higher operating expenses.

Moving forward. 2QFY22 is set to be IHH's turning point for its hospital and healthcare segment. The group is expected to rally on the rising demand for elective medical procedures, as well as an increase in local and foreign patient volumes to its hospitals, attributable to the reopening of borders and the relaxation of Covid-19 restrictions. This has helped to mitigate the effects of lower revenues from Covid-19 related services, which have largely subsided since the shift to the endemic phase. Nevertheless, the risk to IHH's operations remain to be: (i) a rising global inflation and subsequently a hike in operational costs, (ii) shortages of nursing talent, and (iii) higher energy prices. The Group is controlling the impact of rising inflation on its operations, but MFRS 129 still classifies Turkey as having a hyperinflationary economy. MFRS 129 has been utilised starting with this quarter for the financial performance of its Turkish front. IHH will also continue to seek opportunities in acquiring strategic assets, as well as improve its laboratories and digital platforms as part of its growth strategy.

Revise FY23-24 earnings forecasts. In consideration of IHH's earnings coming above our expectations, we revise our earnings forecast for FY23 and FY24 upwards by +17% and +27% respectively. However, we are maintaining our target price at RM7.96, as we rollover our valuation to FY23. The target price is pegged at a PER of 30x (from earlier 35x) to an EPS23 of 26.6sen. The PER is based on the company's 5-year average.

Maintain BUY with unchanged TP. All in, we maintain our **BUY** call with an unchanged target price of **RM7.96 per share** for IHH. Although we are optimistic about IHH's prospects, especially given the increase in inpatient admissions that has come about as a result of the lifting of border restrictions, we anticipate that the challenges posed by global inflation and rising interest rates will continue to have an impact on the group's operations and staff costs, particularly in its Turkey and China fronts. Despite this, we are optimistic about the group's operational resilience and its capacity to react against short-term headwinds given its strong financial position and cash flow.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm unless stated otherwise)	2020A	2021A	2022E	2023F	2024F
Revenue	**13,404.6**	**17,131.8**	**18,133.3**	**19,159.1**	**19,737.8**
EBITDA	2,876.3	4,279.4	3,827.4	4,129.1	4,876.0
PBT	567.5	2,555.7	2,552.5	2,766.0	3,147.4
PATANCI	288.9	1,862.5	2,085.5	2,331.4	2,652.9
Normalised PATANCI	**715.3**	**1,594.8**	**2,085.5**	**2,331.4**	**2,652.9**
Normalised Basic EPS (sen)	7.1	17.2	23.8	26.6	30.2
Normalised EPS growth (%)	(24.9)	141.2	38.2	11.8	13.8
PBT margin (%)	4.2	14.9	14.1	14.4	15.9
Normalised PATANCI margin (%)	2.2	10.9	11.5	12.2	13.4
PER (x)	111.6	46.3	33.5	30.0	26.3
Dividend per share (sen)	4.0	6.0	6.0	6.0	7.0
Dividend yield (%)	0.5	0.8	0.8	0.8	0.9

Source: Company, MIDFR

Table 3: IHH Healthcare's Quarterly Result

Financial year ending 31st Dec (in RM'm unless stated otherwise)	Quarterly results					Cumulative results		
	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	1HFY21	1HFY22	YoY (%)
Revenue	**4,270.3**	**4,163.1**	**4,373.6**	**5.1**	**2.4**	**8,216.1**	**8,536.6**	**3.9**
Other operating income	306.0	99.5	116.4	17.0	(62.0)	401.2	215.9	(46.2)
Other operating expenses	(476.9)	(495.3)	(537.2)	8.5	12.6	(920.5)	(1,032.5)	12.2
Finance income	13.0	50.2	125.6	150.0	863.2	188.9	175.8	(6.9)
Finance costs	(172.7)	(126.6)	(185.2)	46.3	7.2	(416.9)	(311.7)	(25.2)
Profit Before Tax	**668.5**	**621.1**	**878.5**	41.4	31.4	**1,255.0**	**1,499.7**	19.5
Income tax expense	(122.4)	(51.1)	(144.1)	182.1	17.8	(276.0)	(195.2)	(29.3)
Profit After Tax	**546.1**	**570.1**	**734.4**	28.8	34.5	**979.0**	**1,304.4**	33.2
Non-controlling interests	62.8	76.8	122.3	59.2	94.8	120.0	199.1	65.8
PATANCI	**483.3**	**493.3**	**612.1**	**24.1**	**26.6**	**858.9**	**1,105.4**	**28.7**
Exceptional Items	(19.7)	(85.8)	(294.6)	243.3	1,394.0	(59.5)	(380.5)	539.3
Normalised Earnings	**463.6**	**407.4**	**317.5**	**(22.1)**	**(31.5)**	**799.4**	**724.9**	**(9.3)**
Basic EPS (sen)	5.3	5.4	6.7	24.8	27.2	9.3	12.1	29.6
Fully diluted EPS (sen)	5.3	5.4	6.7	25.0	27.2	9.3	12.0	29.6
				+/(-) ppts				*+/(-) ppts*
PBT margin (%)	15.7	14.9	20.1	5.2	4.4	15.3	17.6	2.3
PAT margin (%)	12.8	13.7	16.8	3.1	4.0	11.9	15.3	3.4
PATANCI margin (%)	11.3	11.8	14.0	2.1	2.7	10.5	12.9	2.5
Effective tax rate (%)	18.3	8.2	16.4	8.2	(1.9)	22.0	13.0	(9.0)
Revenue								
Hospital and Healthcare	4,169.5	4,060.6	4,267.8	5.1	2.4	8,016.0	8,328.5	3.9
IMU Health	62.8	62.6	69.2	10.6	10.2	123.4	131.8	6.8
Plife REIT	91.3	94.7	92.9	(1.9)	1.8	182.7	187.7	2.7
Others	(317.7)	48.1	49.2	2.4	(115.5)	57.2	97.3	70.1
EBITDA								
Hospital and Healthcare	507.9	510.4	627.3	22.9	23.5	877.7	1,137.7	29.6
IMU Health	13.5	13.6	19.6	43.5	44.6	27.1	33.2	22.4
Plife REIT	58.4	62.7	73.7	17.6	26.3	137.5	136.4	(0.8)
Others	(11.5)	4.7	27.1	22.4	(334.9)	304.3	31.8	(89.6)

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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology