IHH Healthcare Berhad

***Maintain* BUY**

(5225 | IHH MK) Healthcare | Healthcare Providers

Weak Turkish Lira dragged 3Q22 earnings

***Revised* Target Price: RM7.65**

(previously RM7.96)

KEY INVESTMENT HIGHLIGHTS

- **3QFY22 earnings dropped -54%yoy; came in below our expectation**
- **Revenue increased slightly by 3%yoy to RM4.4b**
- **Higher inpatient volume and BoR, declining Covid-19 services, lower student admission, and weak Lira**
- **Revise FY23-24 earnings estimates down -8% and -4%**
- **Maintain BUY with revised TP of RM7.65 per share**

Earnings down -54%yoy. IHH Healthcare Berhad (IHH) reported a slip in earnings by -54.2%yoy and -58.9%qoq to RM251.8m. For the cumulative 9 months, earnings dropped -3.7%yoy to RM1.36b, which came in below our expectation at 65% of one-year earnings forecast but above consensus' at 83%.

Revenue increase +3%yoy. Revenue added +3.4%yoy and +5.1%qoq to RM4.6b. For the cumulative 9 months, revenue gained +3.7%yoy to RM13.13b.

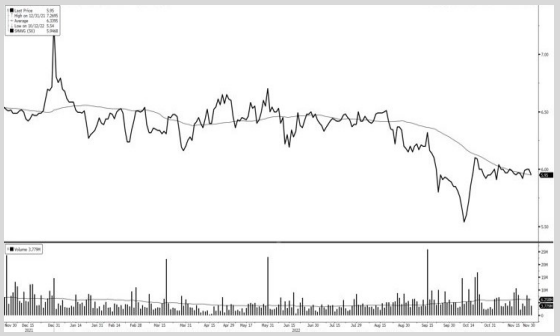
Hospital and Healthcare. This division reported a rise in revenue by +3.7%yoy and +5.5%qoq to RM4.5b, while EBITDA slipped -16.6%yoy but gained +189%qoq to RM1.81b. Cumulative for 9MFY22, revenue increased +3.8%yoy to RM12.83b, but profit declined -3.3%yoy to RM2.95b. The growth in revenue was mainly due to (i) strong recovery from non-COVID-19 revenues, (ii) continuous ramp-up of operations at GHK Hospital, and (iii) acquisitions of Bel Medic and Ortopedia. These were offset by: (i) lower contribution from Covid-19 related services, (ii) disposal of Continental Hospitals, (iii) China lockdowns, and (iv) weakening Turkish lira.

IMU Health. Revenue slipped -9.3%yoy and -13.3%qoq to RM60m, while earnings dropped -24.5%yoy but increased 64.8%qoq to RM32.2. Cumulatively for 9MFY22, revenue was up by +1.2%yoy to RM191.7m but earnings declined -6.3%yoy to RM65.4m. The decrease in revenue was mainly due to a lower student admission, offset by increased campus activities.

PLife REIT. Revenue slipped -2.3%yoy and -0.7%qoq to RM92.3m, while earnings slipped -49.9%yoy but gained +10.2%qoq to RM81.2m. Cumulatively for 9MFY22, revenue increased +1%yoy to RM279.9m, while earnings dropped -27.4%yoy to RM217.6m. The lower revenue was mainly attributed to lower revenue contribution from its properties in Japan with the depreciation of the Japanese Yen.

RETURN STATISTICS	
Price @ 29th November 2022	5.95
Expected share price return (%)	+28.6
Expected dividend yield (%)	+0.8
Expected total return (%)	**+29.4**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.0	-2.0
3 months	0.8	-4.7
12 months	-9.8	-7.7

KEY STATISTICS	
FBM KLCI	1,476.96
Syariah compliant	Yes
F4GBM Index	No
ESG Grading Band	☆☆☆
Issue shares (m)	8796.72
Estimated free float (%)	13.83
Market Capitalisation (RM'm)	56,395.96
52-wk price range	RM5.44 - RM7.34
Beta vs FBM KLCI (x)	0.96
Monthly velocity (%)	0.00
Monthly volatility (%)	8.76
3-mth average daily volume (m)	6.32
3-mth average daily value (RM'm)	38.02
Top Shareholders (%)	
Mitsui & Co Ltd	32.80
PULAU MEMUTIK VEN SDN BHD	25.94
Employees Provident Fund Board	10.02

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Table 1: IHH Healthcare's Hospital Inpatient Admission

Location	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)
Singapore	16,038	15,693	15,396	-2	-4	48,393	46,941	-3
Malaysia	36,589	49,138	57,444	+17	+57	109,010	148,253	+36
India	84,053	84,607	89,096	+5	+6	235,204	249,316	+6
Turkey & Europe	54,270	59,252	53,727	-9	-1	159,366	170,522	+7

Source: Company, MIDFR

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

Location	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)
Singapore	36,426	47,578	48,082	+1	+32	37,473	46,841	+25
Malaysia	11,031	9,588	9,266	-3	-16	10,458	9,517	-9
India	7,870	8,035	8,500	+6	+8	8,124	8,205	+1
Turkey&Europe	6,966	8,494	10,101	+19	+45	6,888	8,679	+26

Source: Company, MIDFR

Others. Revenue surged nearly 11-fold year-on-year and 6-fold quarter-on-quarter to RM527.2m from RM28.3m in 3QFY21 and RM49.2m in 2QFY22. Likewise, earnings added 7-fold year-on-year and quarter-on-quarter to RM185.2m from RM25m in 3QFY21 and RM27.1m in 2QFY22. Cumulatively for 9MFY22, revenue gained +375%yoy to RM406m, but profit dropped -34.1%yoy to RM217m. The lower revenue was due to lower dividends received from investments in Money Market Funds (MMF), while the lower earnings were mainly due to higher other operating expenses, including professional fees, project costs, travel expenses and recruitment expenses, offset by lower staff costs.

Cautious optimism amid economic uncertainty. Moving forward, IHH anticipates an increase in patient volume and BoR for non-Covid-19 related treatments. The number of foreign patients has reportedly nearly reached pre-pandemic levels, which has offset the decreased revenues for Covid-19-related services. The group is expected to continue strengthening its international partnership and utilise its network to better manage costs, as well as to increase its operational efficiencies. In order to innovate and digitalize more of its activities, the Group is implementing its digital transformation plans in all of its hospitals. Conversely, Turkey is expected to maintain its hyperinflationary economy, hence affecting its performance in the near term. Challenges to IHH's operations remain to be: (i) rising global inflation and hiking energy prices causing higher expenditures, (ii) workforce shortage increasing pressure on staff cost and bed capacity, (iii) volatile investment market in China.

Revise FY23-24 earnings forecasts. In consideration of IHH's earnings coming below our expectation, we revise our earnings forecast for FY23 and FY24 slightly downwards by -8% and -4% respectively. We also **revise our target price to RM7.65 per share** (previously RM7.96); pegging a PER of 31.3x to a revised EPS23 of 24.5sen. The PER is based on the company's 5-year average.

Maintain BUY. All in, we maintain our **BUY** call with a revised target price of **RM7.65 per share**. Despite our optimism regarding IHH's financial performance in the coming quarters, in light of the rise of inpatient visits and increased BoR attributable to the full uplift of border restrictions, we believe that global inflation and rising interest rates, as well as shortages in the medical equipment supplies, continues to have significant impact to its operation costs. Nevertheless, we reiterate our positive stance on IHH for its financial resiliency and capability to mitigate against headwinds.

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**	**18,261.4**	**19,459.8**	**20,306.0**
EBITDA	2,876.3	4,279.4	3,501.8	3,930.7	4,813.3
PBT	567.5	2,555.7	2,217.9	2,546.2	3,034.9
PATANCI	288.9	1,862.5	**1,812.1**	**2,146.1**	**2,558.1**
Normalised PATANCI	**715.3**	**1,594.8**	**1,812.1**	**2,146.1**	**2,558.1**
Normalised Basic EPS (sen)	7.1	17.2	20.7	24.5	29.2
Normalised EPS growth (%)	(24.9)	141.2	20.1	18.4	19.2
PBT margin (%)	4.2	14.9	12.1	13.1	14.9
Normalised PATANCI margin (%)	2.2	10.9	9.9	11.0	12.6
PER (x)	111.6	46.3	37.0	31.3	26.2
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		
	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)
Revenue	**4,445.0**	**4,373.6**	**4,595.2**	**5.1**	**3.4**	**12,661.0**	**13,131.9**	**3.7**
Other operating income	135.1	116.4	148.1	27.3	9.6	536.3	364.0	(32.1)
Other operating expenses	(494.1)	(537.2)	(642.1)	19.5	29.9	(1,414.6)	(1,674.6)	18.4
Finance income	(19.0)	125.6	(68.5)	(154.5)	260.8	170.0	107.4	(36.8)
Finance costs	(86.8)	(185.2)	(138.1)	(25.4)	59.2	(503.7)	(449.9)	(10.7)
Profit Before Tax	**616.6**	**878.5**	**513.3**	(41.6)	(16.8)	**1,871.6**	**2,012.9**	7.6
Income tax expense	59.0	(144.1)	(189.0)	31.1	(420.1)	(216.9)	(384.2)	77.1
Profit After Tax	**675.7**	**734.4**	**324.3**	(55.8)	(52.0)	**1,654.6**	**1,628.7**	(1.6)
Non-controlling interests	125.7	122.3	72.5	(40.7)	(42.3)	245.7	271.6	10.5
PATANCI	**550.0**	**612.1**	**251.8**	**(58.9)**	**(54.2)**	**1,408.9**	**1,357.1**	**(3.7)**
Exceptional Items	(195.4)	(294.6)	(63.7)	(78.4)	(67.4)	(254.9)	(444.1)	74.2
Normalised Earnings	354.6	317.5	188.1	(40.7)	(47.0)	1,154.0	913.0	(20.9)
Basic EPS (sen)	6.0	6.7	2.8	(58.4)	(53.7)	15.3	14.8	(3.1)
Fully diluted EPS (sen)	6.0	6.7	2.8	(58.4)	(53.7)	15.3	14.8	(3.1)
				+/(-) ppts				*+/(-) ppts*
PBT margin (%)	13.9	20.1	11.2	(8.9)	(2.7)	14.8	15.3	0.5
PAT margin (%)	15.2	16.8	7.1	(9.7)	(8.1)	13.1	12.4	(0.7)
PATANCI margin (%)	12.4	14.0	5.5	(8.5)	(6.9)	11.1	10.3	(0.8)
Effective tax rate (%)	(9.6)	16.4	36.8	20.4	46.4	11.6	19.1	7.5
Revenue								
Hospital and Healthcare	4,338.5	4,267.8	4,500.8	5.5	3.7	12,354.5	12,829.3	3.8
IMU Health	66.1	69.2	60.0	(13.3)	(9.3)	189.5	191.7	1.2
Plife REIT	94.4	92.9	92.3	(0.7)	(2.3)	277.1	279.9	1.0
Others	28.3	49.2	308.7	527.2	992.0	85.5	406.0	375.0
EBITDA								
Hospital and Healthcare	2,172.8	627.3	1,812.8	189.0	(16.6)	3,050.5	2,950.5	(3.3)
IMU Health	42.7	19.6	32.2	64.8	(24.5)	69.8	65.4	(6.3)
Plife REIT	162.1	73.7	81.2	10.2	(49.9)	299.6	217.6	(27.4)
Others	25.0	27.1	185.2	158.1	640.9	329.3	217.0	(34.1)

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