IHH Healthcare Berhad

(5225 | IHH MK) Healthcare | Healthcare Providers

Maintain BUY

FY22 ended lower on higher cost and impairment loss

***Revised* Target Price: RM6.91**

(previously RM7.65)

KEY INVESTMENT HIGHLIGHTS

- **FY22 earnings fell -17%yoy to RM1.6b; below expectation**
- **Revenue increased slightly by 3%yoy to RM4.4b**
- **Lower earnings due to lower contribution from Covid-19 services, disposal of PPE and higher staff cost**
- **Revise FY23-24 earnings estimates down -20% and -32%**
- **Maintain BUY with revised TP of RM6.91 per share**

RETURN STATISTICS	
Price @ 28th February 2023	5.79
Expected share price return (%)	+19.3
Expected dividend yield (%)	+0.9
Expected total return (%)	**+20.2**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-2.2	-0.1
3 months	-6.9	2.4
12 months	-11.9	-3.3

KEY STATISTICS	
FBM KLCI	1,454.19
Syariah compliant	Yes
F4GBM Index	No
ESG Grading Band	☆☆☆
Issue shares (m)	8796.72
Estimated free float (%)	13.42
Market Capitalisation (RM'm)	50,986.99
52-wk price range	RM5.44 - RM6.76
Beta vs FBM KLCI (x)	0.96
3-mth average daily volume (m)	4.60
3-mth average daily value (RM'm)	27.36
Top Shareholders (%)	
Mitsui & Co Ltd	32.80
PULAU MEMUTIK VEN SDN BHD	25.94
Employees Provident Fund Board	10.42

Earnings down -90%yoy. In 4QFY22, IHH Healthcare Berhad (IHH) reported a drop in earnings by -57.8%yoy and -24%qoq to RM191.3m. For FY22, earnings declined -16.9%yoy to RM1.55b, which came in below our one-year earnings forecast at 85% but within consensus at 97%. Earnings declined due the RM1.5b impairment loss relating to its assets and goodwill in China. Meanwhile, revenue added +8.6%yoy and +5.7%qoq to RM4.86b in 4QFY22. For FY22, revenue gained +5%yoy to RM18b.

Hospital and Healthcare. In 4QFY22, revenue rose +114%yoy and +7.4%qoq, while EBITDA slipped -1.6%yoy but gained +14.9%qoq to RM1.18b. For FY22, revenue increased +5.8%yoy to RM17.7b, but profit dropped -1.4%yoy to RM4.19bx. 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 DDRC SRL, Bel Medic and Ortopedia. These were offset by: (i) lower contribution from Covid-19 related services, (ii) disposal of Continental Hospitals, (iii) temporary China's clinic closure, and (iv) China's partial lockdowns per its local Covid-19 measures.

IMU Health. In 4QFY22, revenue was up by +17.4% to RM70m, while earnings added +14.2%yoy and +24.2%yoy. For FY22, revenue was up +1.5%yoy but profit dropped by -2.3%yoy to RM84.8m. The decline in profit was mainly due higher expenses since there were more campus activities with students returning to campus for physical classes post-pandemic.

PLife REIT. In 4QFY22, revenue slipped -2.5%yoy but gained +5.8%qoq to RM37.7m, while earnings gained +20.9%yoy and +16.7%qoq to RM60.8m. For FY22, revenue dropped -2.4%yoy to RM149.5m, while earnings slid -20.4%yoy to RM278.4m. The lower earnings was mainly due to a higher base in FY21 with RM16.3m gain on divestment of P-Life Matsudo and valuation gains on investment properties of RM40.2m recorded, compared to valuation loss of RM19.5m in FY22.

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Table 1: IHH Healthcare's Hospital Inpatient Admission

Location	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)
Singapore	15,610	15,396	15,010	-3	-4	64,429	61,951	-4
Malaysia	38,328	57,444	57,206	-1	+33	133,548	205,459	+35
India	85,012	89,096	83,345	-7	-2	319,355	332,661	+4
Turkey & Europe	59,807	53,727	64,309	+20	+7	218,393	234,831	+7

Source: Company, MIDFR

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

Location	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)
Singapore	38,300	48,082	53,944	+12	+29	36,234	48,965	+26
Malaysia	10,062	9,266	9,769	+5	-3	10,258	9,587	-7
India	7,536	8,500	8,564	+1	+12	7,860	8,103	+3
Turkey&Europe	5,647	10,101	10,268	+2	+45	6,272	9,090	+31

Source: Company, MIDFR

Others. In 4QFY22, revenue declined -6.9%yoy but surged +62.3%qoq to RM1.6m. Earnings recorded a bigger deficit of -RM77.7m vis-à-vis -RM35.6m in 3QFY22 but improved from -RM95m in 4QFY21. For FY22, revenue slipped -34.3%yoy to RM5m, while earnings improved to a deficit of -RM170.6m. The lower revenue was due to lower dividends received from investments in MMF following partial redemption made in December CY21 and full redemption in April CY22. In addition, there was lower management fee income from Gleneagles JPMC Sdn Bhd. Meanwhile, losses were due to higher staff costs.

Cautious optimistic going into FY23. With the return of local and foreign patients to its hospitals, we are cautiously optimistic of IHH's robust operations in its core segments. In line with the rising demand for high-quality healthcare services, the group reportedly will continue to: (i) increase its bed occupancy rate, (ii) maximise the capacity of its current operations, and (iii) expand its operations further in Malaysia, India, and Turkey. Additionally, IHH is set to develop its own laboratories as a separate platform to broaden its reach and offer patients and clients such services, most notably for R&D. The group is also pivoting its strategies towards growth, by seeking opportunities to acquire strategic assets and improve synergies among its operational facilities.

Macroeconomic and manpower challenges ahead. Nevertheless, the industry remains vulnerable to near-term macroeconomic headwinds. The majority of expenditures are anticipated to rise due to rising global inflation and rising interest rates, as well as higher energy prices. The healthcare market is currently facing nursing shortages, which puts pressure on staff cost and bed occupancy. At this juncture, we do expect IHH to continue monitoring its spending through mitigating and networking globally.

Moving forward. The Company anticipates to conclude the sale of IMU Group in CY23. The sale of Gleneagles Chengdu Hospital Company Ltd – a 49% owned subsidiary – was finalised on February CY23. The sale was in line with IHH's objective of regularly review its Chinese asset portfolio to reduce future losses. We believe the group's long-term growth will be supported by positive healthcare megatrends, as well as by its operational resilience and strong financial position.

Revise FY23-24 earnings forecasts. In consideration of IHH's earnings coming below our expectation, we revise our earnings forecast for FY23 and FY24 downwards by -20% and -32% respectively. We also **revise our target price to RM6.91 per share** (previously RM7.65); pegging a PER of 35.1x to a revised EPS23 of 19.7sen. The PER is based on Asian Healthcare sector's 5-year average.

Maintain BUY. All in, we maintain our **BUY** call with a revised target price of **RM6.91 per share** for IHH. Despite our optimism regarding IHH's prospects in FY23, in light of the rise of demand for general healthcare post-pandemic in line with the growing aging population, we believe that the global inflation and rising interest rates, IHH's China's assets, as well as shortages in medical equipment and staff, will continue to have a significant impact to the group's operation costs. Nevertheless, we reiterate our positive stance on IHH for its financial resiliency and proven capability to mitigate against headwinds.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm unless stated otherwise)	2021A	2022E	2023F	2024F	2025F
Revenue	**17,131.8**	**17,988.7**	**18,604.2**	**19,203.4**	**25,424.7**
EBITDA	4,279.4	4,158.0	4,030.5	4,115.2	5,097.3
PBT	2,555.7	2,217.1	1,749.9	2,390.6	3,447.5
PATANCI	**1,862.5**	**1,645.1**	**1,725.6**	**1,750.9**	**2,525.0**
Normalised PATANCI	**1,594.8**	**1,548.4**	**1,725.6**	**1,750.9**	**2,525.0**
Normalised Basic EPS (sen)	17.2	17.0	19.7	20.0	28.8
Normalised EPS growth (%)	141.2	(1.2)	15.7	1.5	44.2
PBT margin (%)	14.9	12.3	9.4	12.4	13.6
Normalised PATANCI margin (%)	10.9	9.1	9.3	9.1	9.9
PER (x)	40.2	40.6	35.1	34.6	24.0
Dividend per share (sen)	6.0	6.0	6.0	7.0	8.0
Dividend yield (%)	0.9	0.9	0.9	1.0	1.2

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		
	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)
Revenue	**4,470.7**	**4,595.2**	**4,856.8**	**5.7**	**8.6**	**17,131.8**	**17,988.7**	**5.0**
Other operating income	186.1	148.1	133.8	(9.6)	(28.1)	722.4	497.8	(31.1)
Other operating expenses	(595.8)	(642.1)	(856.4)	33.4	43.7	(2,010.3)	(2,530.9)	25.9
Finance income	373.6	(68.5)	6.0	(108.8)	(98.4)	543.6	113.4	(79.1)
Finance costs	(583.9)	(138.1)	(207.5)	50.2	(64.5)	(1,087.6)	(657.4)	(39.6)
Profit Before Tax	**684.2**	**513.3**	**204.2**	(60.2)	(70.2)	**2,555.7**	**2,217.1**	(13.3)
Income tax expense	(162.2)	(189.0)	(187.7)	(0.6)	15.7	(379.2)	(571.9)	50.8
Profit After Tax	**522.0**	**324.3**	**16.4**	(94.9)	(96.9)	**2,176.6**	**1,645.1**	(24.4)
Non-controlling interests	68.4	72.5	(174.8)	(341.1)	(355.8)	314.1	96.7	(69.2)
PATANCI	**453.6**	**251.8**	**191.3**	**(24.0)**	**(57.8)**	**1,862.5**	**1,548.4**	**(16.9)**
Exceptional Items	(12.8)	(63.7)	(149.1)	134.2	1,060.5	(267.8)	(593.2)	121.5
Normalised Earnings	**440.8**	**188.1**	**42.2**	**(77.6)**	**(90.4)**	**1,594.8**	**955.2**	**(40.1)**
Basic EPS (sen)	2.8	2.2	(21.9)	(55.7)	20.2	17.0	(15.9)	(3.1)
Fully diluted EPS (sen)	2.8	2.2	(21.9)	(55.7)	20.2	17.0	(15.9)	(3.1)
				+/(-) ppts				*+/(-) ppts*
PBT margin (%)	11.2	4.2	(7.0)	(11.1)	14.9	12.3	(2.6)	0.5
PAT margin (%)	7.1	0.3	(6.7)	(11.3)	12.7	9.1	(3.6)	(0.7)
PATANCI margin (%)	5.5	3.9	(1.5)	(6.2)	10.9	8.6	(2.3)	(0.8)
Effective tax rate (%)	36.8	92.0	55.1	68.2	14.8	25.8	11.0	7.5
Revenue								
Hospital and Healthcare	4,360.3	4,524.7	4,859.5	7.4	11.4	16,713.3	17,674.7	5.8
IMU Health	70.0	59.6	70.0	17.4	0.0	257.6	260.8	1.2
Plife REIT	38.7	35.6	37.7	5.8	(2.5)	153.2	149.5	(2.4)
Others	1.7	1.0	1.6	62.3	(6.9)	7.6	5.0	(34.3)
EBITDA								
Hospital and Healthcare	1,196.7	1,025.4	1,177.9	14.9	(1.6)	4,246.6	4,186.3	(1.4)
IMU Health	16.9	15.6	19.3	24.2	14.2	86.7	84.8	(2.3)
Plife REIT	50.3	73.0	60.8	(16.7)	20.9	349.9	278.4	(20.4)
Others	(95.0)	(35.6)	(77.7)	(42.1)	(18.2)	(185.5)	(170.6)	(8.0)

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 *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