

## IHH Healthcare Berhad

(5225 | IHH MK) Healthcare | Healthcare Providers

### Robust Demand for High Quality Healthcare

#### KEY INVESTMENT HIGHLIGHTS

- **Maintain BUY with a revised TP of RM RM6.57**
- **Earnings down -19%yoy, came in below expectations**
- **Lower earnings due to MFRS 129, Turkey's earthquake, weak Lira**
- **Demand for medical care continues, cautious on higher cost and inflationary pressures**
- **Revised earnings forecast FY23 down -6% and FY24 down -4%**

**Maintain BUY, revised TP: RM6.57.** IHH Healthcare (IHH)'s 1QFY23 results came in below our expectations. We maintain a **BUY** call for IHH, on the basis of an expected support by healthcare megatrends, as well as IHH's operational resilience, and a solid financial position. We revised our target price to RM6.57 (previously RM6.91).

**Normalised earnings down -19%yoy.** IHH's 1QFY23 normalised earnings dropped -19%yoy to RM329.9m. Revenue was up +23.5%yoy to RM5.1b.

The lower earnings were attributable to the effects of MFRS 129 causing higher depreciation and impairment in its subsidiaries in Turkey. Higher cost of operations and donations for the recent earthquake in turkey, as well as the weakened Lira against Ringgit also led to the lower earnings.

**Hospital and Healthcare.** 1QFY23 EBITDA was up +23.1%yoy to RM1.1b, while revenue was up +28.5%yoy to RM4.8b.

The higher revenue was due to: (i) the recovery of inpatient visits, (ii) the continued operations at Atasehir Hospital and GHK Hospital, and (iii) the acquisitions of Ortopedia and Kent; offset by higher staff cost. Refer to Table 1 and 2 for details on inpatient admission and revenue by country.

**IMU Health.** 1QFY23 EBITDA dropped -40.6%yoy to RM13m, while revenue was down -12.8%yoy to RM54.5m.

Earnings dropped due to higher expenses for the increased activities in campus. Lower revenue was due to a change in the timing of the academic semester and student intake.

**Plife REIT.** 1QFY23 EBITDA added +1%yoy to RM77.8m, while revenue was up +6.6%yoy to RM101m.

EBITDA increased mainly due to contribution from five nursing homes acquired and higher inter-segment rental income from the hospitals in Singapore.

**Others.** 1QFY23 LBITDA losses increased to a deficit of RM41.4m from a deficit of RM16.8m despite revenue gained 5-fold to RM254.7m. The loss was due to higher staff cost and bonus recognized upon the divestment of IMU.

**Maintain BUY**

**Revised Target Price: RM6.57**  
(previously RM6.91)

#### RETURN STATISTICS

|  |       |
|--|-------|
| Price @ 31 <sup>st</sup> May 2023 (RM) | 5.77  |
| Expected share price return (%)        | +13.9 |
| Expected dividend yield (%)            | +0.9  |
| Expected total return (%)              | +14.8 |

#### SHARE PRICE CHART



| Price performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1 month               | 2.4      | 4.5      |
| 3 months              | 2.0      | 6.2      |
| 12 months             | -12.4    | -0.9     |

#### INVESTMENT STATISTICS


| FYE Dec           | 2023E  | 2024F  | 2025F  |
|-------------------|--------|--------|--------|
| Revenue           | 18,548 | 19,010 | 19,436 |
| Operating Profit  | 3,850  | 3,956  | 3,014  |
| Profit Before Tax | 2,181  | 2,249  | 2,752  |
| Core PATAMI       | 1,622  | 1,672  | 1,790  |
| Core EPS          | 18.5   | 19.1   | 20.4   |
| DPS               | 6.0    | 7.0    | 8.0    |
| Dividend Yield    | 0.9%   | 1.1%   | 1.2%   |

#### KEY STATISTICS

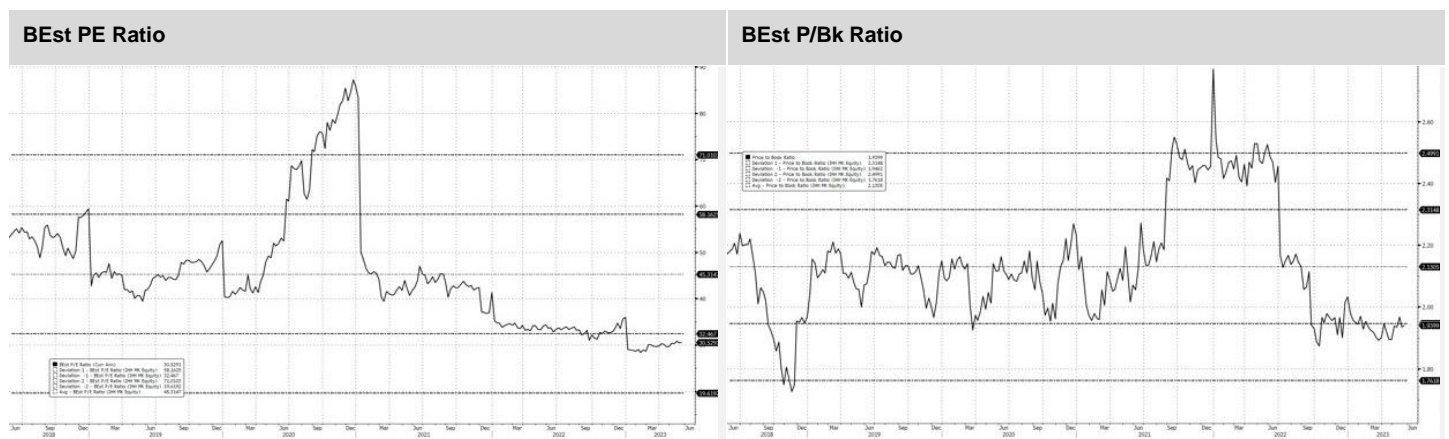
|                                  |               |
|----------------------------------|---------------|
| FBM KLCI                         | 1,387.12      |
| Issue shares (m)                 | 8806.0        |
| Estimated free float (%)         | 15.2          |
| Market Capitalisation (RM'm)     | 50,816.3      |
| 52-wk price range                | RM5.35-RM6.61 |
| 3-mth average daily volume (m)   | 4.6           |
| 3-mth average daily value (RM'm) | 27.0          |
| Top Shareholders (%)             |               |
| Mitsui & Co Ltd                  | 32.80         |
| PULAU MEMUTIK VEN SDN BHD        | 25.73         |
| Employees Provident Fund Board   | 10.26         |

**Demand for healthcare services on the rise.** The decline in Covid-19 related business and the recovery of patients seeking treatment are expected to continue for the healthcare providers in both local and international front. This trend is in tandem with the growing demand for high-quality healthcare from aging populations in IHH's operating regions. We opine that inpatient admission for IHH will surpass pre-pandemic levels in CY23-24. On this prospect, IHH plans to add over 2,000 new beds in Malaysia, India, and Turkey over the next three years.

**Challenges on cost still remain.** Key risks to IHH's future performance include: (i) higher cost pressures due to inflation, (ii) a shortage of nurses, and (iii) rising interest rates. Additionally, increased cost in expenditure for Turkey's recovery from the earthquake and the weakening Lira still weighed in on IHH's hospital and healthcare segment.

**Revised earnings estimates.** In consideration of IHH's 1QFY23 results not meeting our expectations, we are adjusting our earnings forecast for FY23 and FY24 slightly downwards by -6% and -4% respectively. We adjusted the revenue per segment accordingly to reflect the outlook on each segment. As such, we are revising our **TP** downwards to **RM6.57** from RM6.91 previously. This is based on pegging a PER of 35.5x to the revised EPS of 8.7sen. The PER is based on a 5-year average for the Asian Healthcare Service Providers subsector. 

## FORWARD BAND



Source: Bloomberg, MIDFR

**Table 1: IHH Healthcare's Hospital Inpatient Admission**

| Location        | 1QFY22 | 4QFY22 | 1QFY23 | QoQ (%) | YoY (%) | FY21    | FY22    | YoY (%) |
|-----------------|--------|--------|--------|---------|---------|---------|---------|---------|
| Singapore       | 15,882 | 15,010 | 15,564 | +4      | -2      | 64,429  | 61,951  | -4      |
| Malaysia        | 41,801 | 57,206 | 58,939 | +3      | +41     | 133,548 | 205,459 | +35     |
| India           | 75,955 | 83,345 | 82,031 | -2      | +8      | 319,355 | 332,661 | +4      |
| Turkey & Europe | 57,518 | 64,309 | 65,570 | +2      | +14     | 218,393 | 234,831 | +7      |

Source: Company, MIDFR

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

| Location      | 1QFY22 | 4QFY22 | 1QFY23 | QoQ (%) | YoY (%) | FY21   | FY22   | YoY (%) |
|---------------|--------|--------|--------|---------|---------|--------|--------|---------|
| Singapore     | 46,237 | 53,944 | 51,785 | -4      | +12     | 36,234 | 48,965 | +26     |
| Malaysia      | 9,788  | 9,769  | 9,690  | -1      | -1      | 10,258 | 9,587  | -7      |
| India         | 7,650  | 8,564  | 8,798  | -3      | +15     | 7,860  | 8,103  | +3      |
| Turkey&Europe | 7,972  | 10,268 | 11,480 | +12     | +44     | 6,272  | 9,090  | +31     |

Source: Company, MIDFR

**Table 3: IHH's 1QFY23 Financial Summary**

| Financial year ending 31st Dec (in RM'm unless stated otherwise) | Quarterly results |                |                |              |               | Cumulative results |                |               |
|--|-------------------|----------------|----------------|--------------|---------------|--------------------|----------------|---------------|
|  | 1QFY22            | 4QFY22         | 1QFY23         | QoQ (%)      | YoY (%)       | 3MFY22             | 3MFY23         | YoY (%)       |
| <b>Revenue</b>   | <b>4,163.1</b>    | <b>4,856.8</b> | <b>5,142.4</b> | <b>5.9</b>   | <b>23.5</b>   | <b>4,163.1</b>     | <b>5,142.4</b> | <b>23.5</b>   |
| Other operating income   | 99.5              | 133.8          | 1,104.4        | 725.3        | 1,010.3       | 99.5               | 1,104.4        | 1,010.3       |
| Inventories and consumables                                      | (862.2)           | (1,012.0)      | (1,043.3)      | 3.1          | 21.0          | (862.2)            | (1,043.3)      | 21.0          |
| Purchased and contracted services                                | (379.0)           | (460.3)        | (464.2)        | 0.8          | 22.5          | (379.0)            | (464.2)        | 22.5          |
| Staff costs  | (1,507.1)         | (1,668.4)      | (1,905.8)      | 14.2         | 26.5          | (1,507.1)          | (1,905.8)      | 26.5          |
| Depreciation and impairment losses of PPE                        | (222.5)           | (636.2)        | (266.0)        | (58.2)       | 19.5          | (222.5)            | (266.0)        | 19.5          |
| Amortisation and impairment losses of intangible assets          | (10.2)            | (23.2)         | (11.1)         | (52.1)       | 8.8           | (10.2)             | (11.1)         | 8.8           |
| Operating lease expenses   | (20.1)            | (24.7)         | (27.5)         | 11.3         | 37.1          | (20.1)             | (27.5)         | 37.1          |
| Other operating expenses   | (495.3)           | (856.4)        | (669.9)        | (21.8)       | 35.2          | (495.3)            | (669.9)        | 35.2          |
| Finance income   | 50.2              | 6.0            | 39.6           | 558.8        | (21.2)        | 50.2               | 39.6           | (21.2)        |
| Finance costs  | (126.6)           | (207.5)        | (185.2)        | (10.8)       | 46.3          | (126.6)            | (185.2)        | 46.3          |
| Share of profits of associates (net of tax)                      | 7.9               | 8.4            | 6.1            | (27.3)       | (22.2)        | 7.9                | 6.1            | (22.2)        |
| Share of profits of joint ventures (net of tax)                  | 0.6               | 0.4            | 0.5            | 15.7         | (11.9)        | 0.6                | 0.5            | (11.9)        |
| <b>Profit Before Tax</b>   | <b>621.1</b>      | <b>204.2</b>   | <b>1,792.5</b> | 777.9        | 188.6         | <b>621.1</b>       | <b>1,792.5</b> | 188.6         |
| Income tax expense   | (51.1)            | (187.7)        | (240.5)        | 28.1         | 370.8         | (51.1)             | (240.5)        | 370.8         |
| <b>Profit After Tax</b>  | <b>570.1</b>      | <b>16.4</b>    | <b>1,552.0</b> | 9,345.9      | 172.2         | <b>570.1</b>       | <b>1,552.0</b> | 172.2         |
| Non-controlling interests  | 76.8              | (174.8)        | 161.4          | (192.3)      | 110.2         | 76.8               | 161.4          | 110.2         |
| <b>PATANCI</b>   | <b>493.3</b>      | <b>191.3</b>   | <b>1,390.5</b> | <b>627.0</b> | <b>181.9</b>  | <b>493.3</b>       | <b>1,390.5</b> | <b>181.9</b>  |
| Exceptional Items  | (85.8)            | (149.1)        | (1,060.7)      | 611.4        | 1,135.7       | (85.8)             | (1,060.7)      | 1,135.7       |
| <b>Normalised Earnings</b>                                       | <b>407.4</b>      | <b>42.2</b>    | <b>329.9</b>   | <b>682.1</b> | <b>(19.0)</b> | <b>407.4</b>       | <b>329.9</b>   | <b>(19.0)</b> |
| Basic EPS (sen)  | 5.4               | 2.2            | 15.8           | 627.6        | 194.6         | 5.4                | 15.8           | 194.6         |
| Fully diluted EPS (sen)  | 5.4               | 2.2            | 15.8           | 627.6        | 195.1         | 5.4                | 15.8           | 195.1         |
| Basic EPS ex-EI (sen)  | 4.4               | 3.9            | 3.8            | (3.1)        | (14.4)        | 4.4                | 3.8            | (14.4)        |
| Fully diluted EPS ex-EI (sen)                                    | 4.4               | 3.9            | 3.8            | (3.1)        | (14.4)        | 4.4                | 3.8            | (14.4)        |
|  |                   |                |                | + / (-) ppts |               |                    |                | + / (-) ppts  |
| PBT margin (%)   | 14.9              | 4.2            | 34.9           | 30.7         | 19.9          | 14.9               | 34.9           | 19.9          |
| PAT margin (%)   | 13.7              | 0.3            | 30.2           | 29.8         | 16.5          | 13.7               | 30.2           | 16.5          |
| PATANCI margin (%)   | 11.8              | 3.9            | 27.0           | 23.1         | 15.2          | 11.8               | 27.0           | 15.2          |
| Effective tax rate (%)   | 8.2               | 92.0           | 13.4           | (78.5)       | 5.2           | 8.2                | 13.4           | 5.2           |

| Financial year ending 31st Dec (in RM'm unless stated otherwise) | Quarterly results |           |         |              |         | Cumulative results |         |              |
|--|-------------------|-----------|---------|--------------|---------|--------------------|---------|--------------|
|  | 1QFY22            | 4QFY22    | 1QFY23  | QoQ (%)      | YoY (%) | 3MFY22             | 3MFY23  | YoY (%)      |
| <b>Revenue</b>   |                   |           |         |              |         |                    |         |              |
| Hospital and Healthcare  | 3,743.4           | 4,859.5   | 4,811.0 | (1.0)        | 28.5    | 3,743.4            | 4,811.0 | 28.5         |
| IMU Health   | 62.6              | 70.0      | 54.5    | (22.1)       | (12.8)  | 62.6               | 54.5    | (12.8)       |
| Plife REIT   | 94.7              | 37.7      | 101.0   | 167.8        | 6.6     | 94.7               | 101.0   | 6.6          |
| Others   | 48.1              | 1.6       | 254.7   | 15,542.3     | 429.8   | 48.1               | 254.7   | 429.8        |
| <b>EBITDA</b>  |                   |           |         |              |         |                    |         |              |
| Hospital and Healthcare  | 873.0             | 1,177.9   | 1,068.4 | (9.3)        | 22.4    | 873.0              | 1,068.4 | 22.4         |
| IMU Health   | 21.9              | 19.3      | 13.0    | (32.6)       | (40.6)  | 21.9               | 13.0    | (40.6)       |
| Plife REIT   | 72.8              | 60.8      | 78.6    | 29.2         | 7.9     | 72.8               | 78.6    | 7.9          |
| Others   | (16.8)            | (77.7)    | (41.4)  | 36.3         | 146.4   | (16.8)             | (41.4)  | 146.4        |
| <b>EBITDA margin (%)</b>   |                   |           |         | + / (-) ppts |         |                    |         | + / (-) ppts |
| Hospital and Healthcare  | 23.3              | 24.2      | 22.2    | (2.0)        | (1.1)   | 23.3               | 22.2    | 1.1          |
| IMU Health   | 35.0              | 27.6      | 23.9    | (3.7)        | (11.1)  | 35.0               | 23.9    | 11.1         |
| Plife REIT   | 76.9              | 161.4     | 77.8    | (83.5)       | 1.0     | 76.9               | 77.8    | (1.0)        |
| Others   | (35.0)            | (4,772.4) | (16.3)  | 4,756.1      | 18.7    | (35.0)             | (16.3)  | (18.7)       |

Source: Company, MIDFR

## FINANCIAL SUMMARY

| Income Statement (RM'm)        | 2021A           | 2022A           | 2023E           | 2024F           | 2025F           |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Revenue                        | 17,131.8        | 17,988.7        | 18,547.5        | 19,009.7        | 19,436.0        |
| EBITDA                         | 4,279.4         | 4,158.0         | 3,850.0         | 3,955.8         | 3,013.6         |
| D&A                            | 1,116.1         | 1,374.5         | 1,433.0         | 1,483.5         | 1,529.3         |
| Profit before tax              | 2,555.7         | 2,217.1         | 2,180.7         | 2,248.5         | 2,752.4         |
| Core PATAMI                    | 1,594.8         | 1,548.4         | 1,621.6         | 1,672.1         | 1,790.4         |
| Balance Sheet (RM'm)           | 2021A           | 2022A           | 2023E           | 2024F           | 2025F           |
| Fixed assets                   | 10,840.6        | 11,882.7        | 11,664.4        | 12,214.1        | 12,504.7        |
| Intangible assets              | 2,022.6         | 2,737.8         | 2,241.2         | 2,267.7         | 2,283.2         |
| <b>Non-current assets</b>      | <b>36,977.2</b> | <b>40,185.2</b> | <b>41,626.7</b> | <b>42,036.3</b> | <b>42,313.6</b> |
| Cash                           | 5,017.7         | 3,663.5         | 3,843.9         | 4,374.1         | 4,820.6         |
| Trade debtors                  | 2,497.5         | 2,625.4         | 2,715.2         | 2,766.2         | 2,802.2         |
| <b>Current assets</b>          | <b>8,533.1</b>  | <b>8,282.3</b>  | <b>8,392.8</b>  | <b>8,764.3</b>  | <b>8,838.7</b>  |
| Trade creditors                | 4,052.6         | 4,208.5         | 4,483.4         | 4,429.7         | 4,550.9         |
| Short-term debt                | 1,237.4         | 1,592.8         | 1,661.8         | 2,169.6         | 2,971.6         |
| <b>Current liabilities</b>     | <b>6,049.3</b>  | <b>7,258.7</b>  | <b>7,672.2</b>  | <b>8,126.3</b>  | <b>8,149.4</b>  |
| Long-term debt                 | 7,609.5         | 7,566.0         | 6,766.0         | 5,966.0         | 5,166.0         |
| <b>Non-current liabilities</b> | <b>12,184.2</b> | <b>12,049.7</b> | <b>11,591.4</b> | <b>12,208.1</b> | <b>12,317.1</b> |
| Share capital                  | 19,614.9        | 19,684.9        | 19,684.9        | 19,684.9        | 19,684.9        |
| Retained earnings              | 5,656.4         | 6,665.2         | 7,758.5         | 8,078.3         | 8,428.4         |
| <b>Equity</b>                  | <b>27,276.8</b> | <b>29,159.1</b> | <b>25,520.5</b> | <b>26,840.4</b> | <b>29,190.5</b> |
| Cash Flow (RM'm)               | 2021A           | 2022A           | 2023E           | 2024F           | 2025F           |
| PBT                            | 2,555.7         | 2,217.1         | 2,180.7         | 2,248.5         | 3,752.4         |
| Depreciation & amortisation    | 1,116.1         | 1,374.5         | 1,433.0         | 1,483.5         | 1,529.3         |
| Changes in working capital     | 55.4            | -244.2          | -276.6          | -212.5          | -163.4          |
| <b>Operating cash flow</b>     | <b>3,531.9</b>  | <b>3,667.6</b>  | <b>4,047.4</b>  | <b>4,684.0</b>  | <b>5,303.0</b>  |
| Capital expenditure            | -312.9          | 206.9           | 254.5           | 262.1           | 274.5           |
| <b>Investing cash flow</b>     | <b>-821.69</b>  | <b>-1,853.9</b> | <b>-1,813.0</b> | <b>-1,529.9</b> | <b>-1,492.9</b> |
| Debt raised/(repaid)           | -540.2          | 429.0           | 399.7           | 472.3           | 479.5           |
| Dividends paid                 | -593.9          | -713.0          | -716.1          | -749.9          | -787.2          |
| <b>Financing cash flow</b>     | <b>-1,804.0</b> | <b>-2,920.0</b> | <b>-2,396.9</b> | <b>-2,662.0</b> | <b>-,965.9</b>  |
| <b>Net cash flow</b>           | <b>906.2</b>    | <b>-1,106.1</b> | <b>-162.5</b>   | <b>492.1</b>    | <b>844.2</b>    |
| <b>Beginning cash flow</b>     | <b>4,172.3</b>  | <b>4,993.5</b>  | <b>3,662.4</b>  | <b>3,499.9</b>  | <b>3,992.0</b>  |
| <b>Ending cash flow</b>        | <b>4,993.5</b>  | <b>3,662.4</b>  | <b>3,499.9</b>  | <b>3,992.0</b>  | <b>4,836.2</b>  |
| Profitability Margins          | 2021A           | 2022A           | 2023E           | 2024F           | 2025F           |
| EBITDA margin                  | 25.0%           | 23.1%           | 20.8%           | 20.8%           | 25.8%           |
| PBT margin                     | 14.9%           | 12.3%           | 11.8%           | 11.8%           | 19.3%           |
| Core PAT margin                | 9.3%            | 8.6%            | 8.7%            | 8.8%            | 14.4%           |

Source: Bloomberg, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

### 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. |

#### 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