IHH Healthcare Berhad

(5225 | IHH MK) Healthcare | Healthcare Providers

Higher Earnings from Sustained Demand

Downgrade **NEUTRAL**

(Previously BUY)

Revised **Target Price: RM7.56**

(Previously RM7.35)

KEY INVESTMENT HIGHLIGHTS

- **IHH's 9MFY24 normalised earnings up +42%yoy; came in above expectations**
- **Revenue up +13% from increased inpatient visits and higher revenue per admission across all hospitals**
- **Demand fundamentals for healthcare services remain robust, steady growth expected**
- **Downgrade NEUTRAL with revised TP: RM7.56**

Revised NEUTRAL, TP: RM7.35. IHH Healthcare (IHH)'s 9MFY24 results came in above our expectation at 83%. As such, we revised our **target price of RM7.56** (previously RM7.35) with a **NEUTRAL** call.

Improved 9MFY24 performance. IHH's revenue gained +13.1%yoy to RM17.7b in 9MFY24. Meanwhile, normalised earnings were up by +41.9%yoy to RM1.3b.

Hospital and Healthcare. 9MFY24 revenue for this segment gained +15.7%yoy to RM17.2b, and EBITDA added +17.4%yoy to RM3.9b. The growth in revenue and EBITDA was driven by: (i) sustained demand for quality healthcare services, (ii) case-mix of more acute patients, and (iii) price adjustments to counter inflation. This is offset by higher staff cost and other operating expense such as utilities.

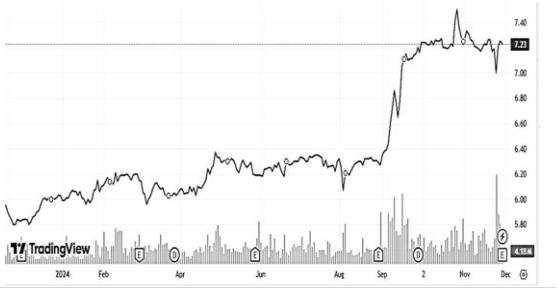
Labs. 9MFY24 revenue for this segment gained +5.6%yoy to RM1.3b, and EBITDA rose by +5.5%yoy to RM286m. Total test volumes increased +8%yoy to 76m in the reporting period.

Plife REIT. 9MFY24 revenue for this segment slipped -4.3%yoy to RM111m due to weakening JPY against MYR. Meanwhile, EBITDA increased +2.9%yoy to RM245m, mainly contributed from two nursing homes acquired in Oct CY23, and higher inter-segment rental income from the hospitals in Singapore.

Positive performance supported by demand. IHH is well-positioned to cater to the increasing healthcare demands locally and regionally, leveraging its extensive hospital network to enhance clinical services. The recent acquisition of Island Hospital bolsters the IHH's leadership in Malaysia, with expected synergies of over RM200m within 5 years. Additionally, PLife REIT's purchase of 11 nursing home properties in France, slated for 4QFY24, extends the group's European presence. IHH also acknowledged the challenges including inflation, rising energy prices, and higher staff costs. To mitigate these, the group aims to: (i) tighten cost controls, (ii) capitalize on operational synergies, (iii) adopt digitization, and (iv) optimising workflow efficiency.

RETURN STATISTICS	
Price @ 28th Nov 2024 (RM)	7.23
Expected share price return (%)	+4.6
Expected dividend yield (%)	+2.2
Expected total return (%)	**+6.8**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-0.8	0.6
3 months	0.4	14.8
12 months	22.1	9.5

INVESTMENT STATISTICS

FYE Dec	2024E	2025F	2026F
Revenue	22,526	25,437	26,860
Operating Profit	5,273	5,701	5,969
Profit Before Tax	3,460	3,598	4,392
Core PATAMI	1,726	1,877	2,470
Core EPS	19.6	21.3	27.9
DPS	16.7	16.9	17.1
Dividend Yield	2.2%	2.2%	2.3%

KEY STATISTICS	
FBM KLCI	1,597.49
Issue shares (m)	8,810.97
Estimated free float (%)	25.11
Market Capitalisation (RM'm)	63,350.87
52-wk price range	RM5.75-RM7.56
3-mth average daily volume (m)	9.0
3-mth average daily value (RM'm)	52.8
Top Shareholders (%)	
Mitsui & Co Ltd	32.78
PULAU MEMUTIK VEN SDN BHD	25.93
Employees Provident Fund Board	10.09

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Revised earnings estimates. In consideration of 9MFY24 earnings, we revised our earnings forecast for FY24 and FY25 upwards by +10% and +3% respectively. As such, we revised our **target price to RM7.56** (previously RM7.35), pegging a PER of 35.5x to a revised EPS25 of 21.3 sen. The PER is based on IHH's 4-Y historical PER of 35x, similar to the Malaysian Healthcare sector's 5-Y historical PER of 35.5x. The PER reflects IHH's recent strong performance, as well as our higher growth expectations for the group, in line with its recent acquisition of Island Hospital, which is currently commencing transaction financed through a RM4b unrated sukuk. We believe that the recent acquisitions, coupled with the bed capacity expansion plans in CY24 (Malaysia: +46%, India: +36%), are within IHH's growth trajectory.

Given the recent price appreciation of IHH and we foresee limited price increase in the near term, we downgraded our BUY call to **NEUTRAL.** However, we are still positive on IHH's prospects in the long run, the immediate downside risks persist, which includes: (i) economic instability and currency fluctuations from its Turkey operations, (ii) policy and regulation changes, notably in pricing controls, compliance requirements and usage of AI technology, (iii) rising operational costs which includes labour and medical supplies, (iv) increased competition and price pressures, and (v) geopolitical risks and political instabilities.

Table 1: IHH Healthcare Quarterly Result Review

Financial year ending 31st Dec (in RM'm unless stated otherwise)	Quarterly results					Cumulative results		
	3QFY23	2QFY24	3QFY24	QoQ (%)	YoY (%)	9MFY23	9MFY24	YoY (%)
Revenue	**5,826**	**6,093**	**5,643**	**(7.4)**	**(3.1)**	**15,642**	**17,691**	**13.1**
Other operating income	96	142	96	(32.4)	0.0	1,316	341	(74.1)
Inventories and consumables	(1,152)	(1,246)	(1,120)	(10.1)	(2.8)	(3,191)	(3,559)	11.5
Purchased and contracted services	(518)	(497)	(470)	(5.4)	(9.3)	(1,427)	(1,438)	0.8
Staff costs	(2,101)	(2,306)	(2,069)	(10.3)	(1.5)	(5,680)	(6,648)	17.0
Depreciation and impairment losses of PPE	(295)	(302)	(279)	(7.6)	(5.4)	(801)	(875)	9.2
Amortisation and impairment losses of intangible assets	(14)	(15)	(11)	(26.7)	(21.4)	(36)	(39)	8.3
Operating lease expenses	(33)	(31)	(26)	(16.1)	(21.2)	(85)	(88)	3.5
Other operating expenses	(687)	(787)	(755)	(4.1)	9.9	(1,971)	(2,264)	14.9
Finance income	(107)	69	75	8.7	(170.1)	115	223	93.9
Finance costs	(123)	(243)	(224)	(7.8)	82.1	(694)	(724)	4.3
Share of profits of associates (net of tax)	6	6	7	16.7	16.7	17	20	17.6
Profit Before Tax	**1,013**	**901**	**824**	(8.5)	(18.7)	**3,348**	**2,655**	(20.7)
Income tax expense	(375)	(154)	(172)	11.7	(54.1)	(773)	(331)	(57.2)
Profit After Tax	**638**	**747**	**652**	(12.7)	2.2	**2,575**	**2,324**	(9.7)
Non-controlling interests	106	124	118	(4.8)	11.3	351	399	13.7
PATANCI	**532**	**623**	**534**	**(14.3)**	**0.4**	**2,224**	**1,925**	**(13.4)**
Exceptional Items	(170)	(186)	(10)	(94.6)	(94.1)	(1,297)	(610)	(53.0)
Normalised Earnings	**362**	**437**	**524**	**19.9**	**44.8**	**927**	**1,315**	**41.9**
Basic EPS (sen)	6.0	7.1	6.1	(14.3)	0.3	25.3	21.9	(13.5)
Basic EPS ex-EI (sen)	4.2	5.0	6.0	21.0	43.2	11.5	9.5	30.0
				+/(-) ppts				*+/(-) ppts*
PBT margin (%)	17.4	14.8	14.6	(0.2)	(2.8)	21.4	15.0	(6.4)
PAT margin (%)	11.0	12.3	11.6	(0.7)	0.6	16.5	13.1	(3.3)
PATANCI margin (%)	9.1	10.2	9.5	(0.8)	0.3	14.2	10.9	(3.3)
Normalised Earnings margin (%)	6.2	7.2	9.3	2.1	3.1	5.9	7.4	1.5
Effective tax rate (%)	37.0	17.1	20.9	3.8	(16.1)	23.1	12.5	(10.6)

Table 2: IHH Healthcare's Segmental Review

Financial year ending 31st Dec (in RM'm unless stated otherwise)	Quarterly results					Cumulative results		
	3QFY23	2QFY24	3QFY24	QoQ (%)	YoY (%)	9MFY23	9MFY24	YoY (%)
Revenue								
Hospital and Healthcare	5,222	5,722	5,789	1.2	10.9	14,828	17,161	15.7
Singapore	1,468	1,561	1,547	(0.9)	5.4	4,131	4,659	12.8
Malaysia	967	1,012	1,073	6.0	11.0	2,719	3,040	11.8
India	952	1,027	1,034	0.7	8.6	2,643	3,042	15.1
Greater China	328	403	373	(7.4)	13.7	955	1,145	19.9
Turkey and Europe	1,507	1,719	1,762	2.5	16.9	4,380	5,275	20.4
Labs	259	258	264	2.3	1.9	736	777	5.6
Plife REIT	38	36	36	0.0	(5.3)	116	111	(4.3)
Others	1	2	2	0.0	100.0	4	5	25.0
EBITDA								
Hospital and Healthcare	1,197	1,294	1,298	0.3	8.4	3,310	3,887	17.4
Singapore	428	492	449	(8.7)	4.9	1,214	1,410	16.1
Malaysia	257	253	284	12.3	10.5	726	776	6.9
India	207	169	200	18.3	(3.4)	456	555	21.7
Greater China	8	44	31	(29.5)	287.5	50	100	100.0
Turkey and Europe	299	336	334	(0.6)	11.7	866	1,046	20.8
Labs	87	89	100	12.4	14.9	271	286	5.5
Plife REIT	80	83	79	(4.8)	(1.3)	238	245	2.9
Others	(6)	(33)	(22)	11.0	266.7	(83)	(81)	(2.4)
EBITDA margin (%)				*+/(-) ppts*				*+/(-) ppts*
Hospital and Healthcare	22.9	22.6	22.4	(0.2)	(0.5)	22.3	22.7	(0.3)
Labs	33.6	34.5	37.9	3.4	4.3	36.8	36.8	0.0
Plife REIT	210.5	230.6	219.4	(11.1)	8.9	205.2	220.7	(15.5)
Others	(600.0)	(1,650.0)	(1,100.0)	550.0	(500.0)	(2,075.0)	(1,620.0)	(455.0)

Source: Company, MIDFR

Table 3: IHH Healthcare's Hospital Inpatient Admission

Location	3QFY23	2QFY24	3QFY24	QoQ (%)	YoY (%)	9MFY23	9MFY24	YoY (%)
Singapore	15,476	15,875	15,792	-1	+2	46,152	47,094	+2
Malaysia	63,880	62,331	67,242	+7	+5	178,524	187,920	+5
India	79,767	76,943	84,858	+10	+6	225,554	234,952	+4
Turkey & Europe	58,070	62,066	59,255	-5	+2	184,481	188,246	+2

Table 4: IHH Healthcare's Hospital Revenue per Admission (RM)

Location	3QFY23	2QFY24	2QFY24	QoQ (%)	YoY (%)	9MFY23	9MFY24	YoY (%)
Singapore	57,659	63,280	63,362	+3	+9	51,118	59,439	+14
Malaysia	9,762	10,702	10,497	-1	+7	9,785	10,636	+8
India	8,416	10,619	9,049	-3	+7	8,396	9,226	+9
Turkey&Europe	8,201	14,372	13,445	-7	+39	6,912	12,567	+45

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2023A	2024E	2025F	2026F	2027F
Revenue	20,935	22,526	25,437	26,860	28,600
EBITDA	4,644	5,273	5,701	5,969	6,319
D&A	1,511	1,508	1,538	1,566	1,583
Profit before tax	4,049	3,460	3,598	4,392	5,147
Taxation	(658)	(500)	(494)	(521)	(549)
PATAMI	2,952	2,960	3,104	3,339	3,754
Normalised PATAMI	1,279	1,726	1,877	2,470	2,824

Balance Sheet (RM'm)	2023A	2024E	2025F	2026F	2027F
Fixed assets	13,414	15,566	14,566	13,150	11,438
Intangible assets	17,259	17,734	17,899	18,107	18,889
Non-current assets	**43,479**	**47,022**	**46,362**	**45,589**	**45,147**
Cash	2,301	2,608	3,142	4,121	5,809
Trade debtors	3,084	3,204	3,423	3,717	3,961
Current assets	**6,713**	**6,986**	**7,914**	**8,899**	**10,840**
Trade creditors	4,952	4,193	4,669	5,031	5,226
Short-term debt	2,531	2,899	2,851	2,722	2,769
Current liabilities	**8,327**	**7,820**	**8,250**	**8,494**	**8,738**
Long-term debt	10,126	9,446	9,183	8,786	8,771
Non-current liabilities	**13,852**	**13,409**	**13,060**	**12,842**	**12,922**
Share capital	19,692	19,692	19,692	19,692	19,692
Retained earnings	7,813	8,674	8,935	9,160	9,164
Equity	**32,331**	**32,779**	**32,966**	**33,153**	**34,328**

Cash Flow (RM'm)	2023A	2024E	2025F	2026F	2027F
PBT	4,049	3,460	3,598	4,392	5,147
Depreciation & amortisation	1,511	1,508	1,538	1,566	1,583
Changes in working capital	(367)	(261)	(208)	(205)	(197)
Operating cash flow	**3,760**	**3,355**	**4,566**	**4,344**	**5,131**
Capital expenditure	(4,005)	(4,635)	(2,488)	(3,039)	(3,324)
Investing cash flow	**(936)**	**(1,078)**	**(1,326)**	**(1,471)**	**(1,513)**
Debt raised/(repaid)	(470)	(415)	(81)	(215)	(151)
Dividends paid	(2,037)	(868)	(946)	(1,032)	(1,119)
Financing cash flow	**(3,999)**	**(1,970)**	**(1,706)**	**(1,894)**	**(1,930)**
Net cash flow	**(1,175)**	**307**	**534**	**979**	**1,688**
Beginning cash flow	**3,662**	**2,301**	**2,608**	**3,142**	**3,489**
Ending cash flow	**2,301**	**2,608**	**3,142**	**4,121**	**5,809**

Profitability Margins	2023A	2024E	2025F	2026F	2027F
EBITDA margin	22.2%	23.4%	22.4%	22.2%	22.1%
PBT margin	19.3%	15.4%	14.1%	16.4%	18.0%
PAT margin	14.1%	10.8%	10.2%	12.4%	13.1%
Normalised PAT margin	6.1%	7.4%	7.4%	9.2%	9.9%

Source: Bloomberg, 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