

Malaysia Company Update

IHH Healthcare

Bloomberg: IHH MK | Reuters: IHHH.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Feb 2022

BUY

Last Traded Price (25 Feb 2022): RM6.48 (KLCI : 1,591.72)
Price Target 12-mth: RM7.90 (22% upside) (Prev RM7.20)

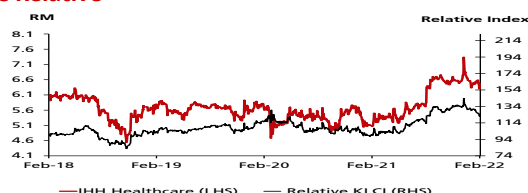
Analyst

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What's New

- Stellar FY21 results, in line; Gleneagles HK posted positive EBITDA in 2H; rebound in non-COVID business
- Key positives: i) strong rebound in non-COVID business in Malaysia and India held up for 2 consecutive quarters, ii) higher dividend of 6 sen
- Key negatives: i) Malaysia and Singapore occupancy below pre-COVID, ii) COVID-19 services tapering off
- Maintain BUY; raise TP to RM7.90

Price Relative



Forecasts and Valuation

FY Dec (RMm)	2020A	2021A	2022F	2023F
Revenue	13,405	17,132	17,597	18,351
EBITDA	2,670	4,584	4,518	4,685
Pre-tax Profit	568	2,556	2,515	2,589
Net Profit	289	1,863	1,631	1,679
Net Pft (Pre Ex.)	289	1,863	1,631	1,679
Net Pft Gth (Pre-ex) (%)	(47.6)	544.7	(12.5)	3.0
EPS (sen)	3.29	21.2	18.6	19.1
EPS Pre Ex. (sen)	3.29	21.2	18.6	19.1
EPS Gth Pre Ex (%)	(48)	544	(12)	3
Diluted EPS (sen)	2.28	20.2	17.6	18.1
Net DPS (sen)	4.00	6.00	6.00	6.00
BV Per Share (sen)	248	255	267	279
PE (X)	196.9	30.6	34.9	33.9
PE Pre Ex. (X)	196.9	30.6	34.9	33.9
P/Cash Flow (X)	23.3	16.1	15.4	15.8
EV/EBITDA (X)	25.3	14.3	14.1	13.2
Net Div Yield (%)	0.6	0.9	0.9	0.9
P/Book Value (X)	2.6	2.5	2.4	2.3
Net Debt/Equity (X)	0.2	0.1	0.1	CASH
ROAE (%)	1.3	8.4	7.1	7.0
Earnings Rev (%):			3	-
Consensus EPS (sen):			18.3	21.2
Other Broker Recs:		B: 16	S: 1	H: 4

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Springing back to health!

Investment Thesis

Tapping into Asia's strongest growth markets – China and India. With strong platforms in India and China, IHH now has exposure to Asia's two largest economies with the highest growth potential in the healthcare sector.

Gleneagles HK has achieved EBITDA breakeven, en route for its next leg of growth. Gleneagles HK, which opened in Mar 2017, finally achieved EBITDA breakeven in May 2021 and should start to contribute positively to IHH's next leg of growth.

Attractive valuation at -2 standard deviation. IHH is currently trading at a very attractive FY22F EV/EBITDA of 14x, close to -2 standard deviation (SD) of its historical range and is positioned to ride on the strong pent-up demand from foreign patients when borders reopen.

Valuation:

We maintain our BUY rating and raise our TP to RM7.90 / S\$2.55 from RM7.20 / S\$2.32, based on sum-of-parts (SOP) valuation methodology. We applied EV/EBITDA multiples ranging from 10-20x based on its various geographical markets.

Where we differ:

Expansion into Asia's strongest growth markets – China and India are both risky but could be rewarding. IHH's medium-term outlook is bright as it rides out near-term headwinds and gestation period for the new hospitals. With potentially strong platforms in India and China, IHH now has exposure to Asia's two largest economies with the strongest growth potential in the healthcare sector. We believe this further elevates IHH's long-term prospects.

Key Risks to Our View:

i) New waves of COVID-19 infections causing another lockdown, ii) economic slowdown, ii) weaker-than-expected performance, especially in new markets, iii) government policy changes.

At A Glance

Issued Capital (m shrs)	8,798
Mkt. Cap (RMm/US\$m)	57,014 / 13,567
Major Shareholders (%)	
Mitsui & Co	32.8
PULAU Memutik Ven Sdn Bhd	26.0
Employees Provident Fund Board	9.6
Free Float (%)	24.9
3m Avg. Daily Val (US\$m)	9.2
GIC Industry:	Health Care / Health Care Equipment & Services



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WHAT'S NEW

Springing back to health!

Stellar FY21 results; Gleneagles HK contributed positive EBITDA in 2H21; non-COVID revenue is close to pre-COVID levels.

- IHH recorded stellar FY21 net profit of RM1,863m vs RM289m in FY20. Excluding exceptional items, FY21 core profits more than doubled y-o-y to RM1,595m, in line with our estimate, mainly due to revenue contribution from COVID-19 related services, pick-up in patient volumes post the various lockdowns and lower gestation losses from Gleneagles HK.
- FY21 revenue grew 28% y-o-y to RM17.1bn as all key markets recorded higher y-o-y revenue ranging from 25% to 40%. Excluding COVID-19 related services, we estimated that FY21 revenue grew by 10% y-o-y (COVID-19 related services from key markets is estimated to contribute c.12% of the Group's revenue).
- We estimate that FY21 revenue (ex-COVID-19 related services) is close or has marginally surpassed pre-COVID levels (FY19).
- FY21 EBITDA +49% y-o-y to RM4.3bn as all key markets saw strong growth especially India (RM667m vs RM201m in FY20), Turkey & EU (+51% y-o-y), and lower gestation losses from Greater China (+53% y-o-y).
- Similarly, 4Q21 core net profit +19% y-o-y to RM441m. 4Q21 core net profit was 52% above pre-COVID levels (4Q19).
- On q-o-q basis, 4Q21 saw revenue and EBITDA growing by 1% and 2% respectively. Excluding COVID-19 related services, revenue grew 3%, with strong recovery from non-COVID-19 related businesses especially from Malaysia (+17% q-o-q).
- 4Q21 EBITDA margins was stable q-o-q at 25%. All key markets saw improved margins with Singapore recording the highest improvement from 28% to 37% mainly due to higher revenue intensity (+17.5%) with more acute cases in 4Q21.
- Compared to pre-COVID levels, 4Q21 and FY21 revenue was 17% each above pre-COVID levels (vs 4Q19 and FY19). However, if we exclude revenue from COVID-19 related services in key markets, 4Q21 and FY21 revenue is estimated to be 2.2% above and flat compared to pre-COVID respectively. Like the trend in 3Q21 for India, Malaysia posted strong recovery as the Delta wave stabilised
- We note that in 4Q21, IHH made a writeback of RM11.5m on Gleneagles Chengdu. As such, total impairment in FY21 would be RM230m.
- Following the strong results, ROE continues to trend upwards to 8.4% vs 8.2% in 3Q21 and 4.5% in 1Q21, which is already above the 5-year target of > 5%.
- Raised FY21 dividend to 6 sen, +50% vs 4 sen in FY20.

Key Operational Highlights

- 4Q21 occupancy stable q-o-q; Malaysia and Turkey saw good jumps in occupancy led by rebound post lockdown in Malaysia; strong revenue intensity in Singapore (+17.5% y-o-y)
 - COVID-19 services -15% q-o-q held up by Singapore; expect to taper off as the world emerges from the pandemic.
 - Gleneagles HK EBITDA contribution expanded q-o-q to RM2.4m vs RM2.2m in 3Q21
 - Parkway Shanghai Hospital expected to open in 3Q2022
- 4Q21 occupancy remained relatively stable q-o-q; Malaysia (rebounded post MCO) and Turkey saw a jump in occupancy. 4Q21 occupancy remained relatively stable q-o-q except Malaysia and Turkey saw a jump to 52% and 81% vs 48% and 75% respectively. Malaysia and Singapore were still below pre-COVID levels (-19% and -12ppt respectively). 4Q21 inpatient volume saw double digit y-o-y growth across all key markets except Singapore (-11% y-o-y). On a q-o-q, Malaysia and Turkey saw strong growth at 18% q-o-q and 11% q-o-q respectively. Malaysia saw strong rebound after MCO ended in 3Q21.
 - Singapore was held up by strong revenue intensity. All key markets saw higher revenue intensity particularly Singapore (+17.5% y-o-y), Turkey (+7.3% y-o-y; partly from price increase for inflation), led by more acute cases (more MOH COVID-19 patients with more acute cases were warded in Singapore).
 - 4Q21 COVID-19 services -15% q-o-q; likely to taper off as the world emerges from the pandemic. Contribution from COVID-19 related services fell 15% q-o-q contributing c.25% of total revenue vs 15% in 3Q21 and 12% in 1Q21. Singapore remained high at 29% while the rest of the key markets has dropped to single digit. IHH continues to support the government in its key markets on COVID-19 efforts. However, as the world emerges from the pandemic, COVID-19 services will likely taper off.
 - Gleneagles HK EBITDA contribution expanded q-o-q to RM2.4m. Gleneagles HK 4Q21 EBITDA increased to

IHH Healthcare

RM2.4m from RM2.2m in 3Q21. Operational metrics remained stable with occupancy up at 65% vs 63% in 3Q21 and revenue intensity improved 6.5% y-o-y.

- Revenue from Turkey's foreign patients grew marginally to 13% of total revenue. Turkey's foreign patients' contribution expanded marginally to 13% vs 12% in 3Q21. Its European operations continued to expand, making up 28% of revenue vs 23% in FY2019 (pre-COVID).
- New developments.** Acibadem Atasehir Hospital (180-bed) and Parkway Shanghai Hospital (450-bed) are expected to open in 3Q2022. IHH is building a one-stop multi-disciplinary medical centre at Woodleigh Mall in Singapore which will feature an in-house radiological unit, expected to open by 2023.
- IHH celebrates its 10th year anniversary as a listed company in 2022.** IHH celebrates its 10th year anniversary as a listed company in 2022 with a new "Care. For Good" strategy, driven by five growth engines, anchored on trust, supported by operational synergy on a global scale and made sustainable.

Maintain BUY; raise TP to RM7.90. We maintain our BUY rating; raise our TP to RM7.90 from RM7.20. We revised

our FY22F earnings by 3% and estimate 2-year earnings CAGR of 3%. IHH currently trades at an attractive 15x FY22F EV/EBITDA, close to -1.5 std dev of the mean.

Despite COVID-19 services tapering off, IHH saw markets rebounding strongly post lockdown or stabilization of new variants. As such, we believe IHH is poised to benefit from reopening and recovery from the pandemic with a potential booster from medical tourism returning with a vengeance. In addition, earnings drag from Turkish Lira fluctuations have been significantly minimised and Gleneagles HK has turned EBITDA positive, thus potentially driving a quicker pace of earnings growth.

Company Background

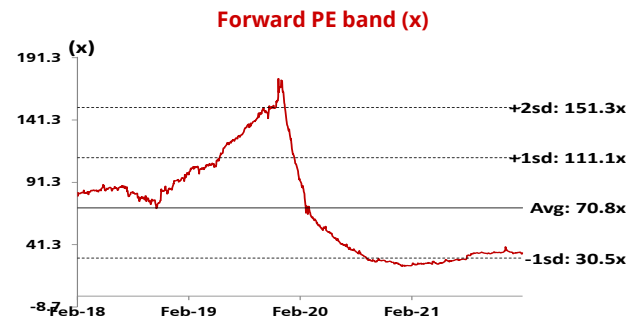
IHH Healthcare Berhad (IHH) is a leading international provider of premium healthcare services in Asia and Central & Eastern Europe, the Middle East and North Africa. As at end-2019, it operated over 12,000 licensed hospital beds in 73 hospitals. There are plans to add over 830 beds from two greenfield hospitals currently under construction and expansion of two hospitals.

Quarterly / Interim Income Statement (RMm)

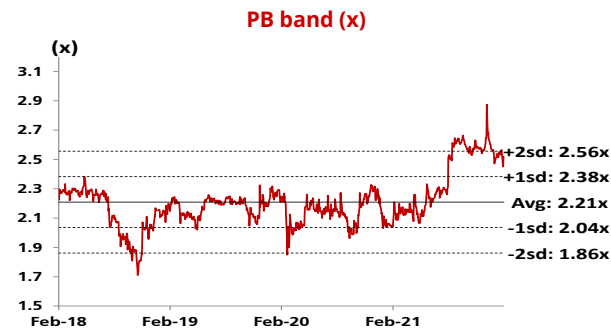
FY Dec	4Q2020	3Q2021	4Q2021	% chg yoy	% chg qoq
Revenue	3,766	4,445	4,471	18.7	0.6
Other Oper. (Exp)/Inc	(3,053)	(3,729)	(3,584)	17.4	(3.9)
Operating Profit	713	716	887	24.3	23.8
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	14.7	5.87	7.62	(48.1)	29.8
Net Interest (Exp)/Inc	(67.0)	(106)	(210)	(214.0)	(98.9)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	661	617	684	3.5	11.0
Tax	(165)	59.0	(162)	(2.0)	nm
Minority Interest	(76.1)	(126)	(68.4)	10.2	(45.6)
Net Profit	419	550	454	8.2	(17.5)
Net profit bef Except.	419	550	454	8.2	(17.5)
EBITDA	1,075	1,085	1,217	13.2	12.2
Margins (%)					
Opg Profit Margins	18.9	16.1	19.8		
Net Profit Margins	11.1	12.4	10.1		

Source: Company, DBS Bank

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

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Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
SGP inpatients adm	74,878	74,878	74,878	74,878	74,878
SGP avg patient rev (\$)	3,800	4,028	4,269	4,525	4,797
Msia inpatient adm	158,944	151,944	151,944	151,944	157,262
Msia avg patient rev	2,515	3,045	3,698	3,883	3,999
Turkey adm	186,662	235,701	235,701	246,504	246,504

Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMm)					
PPL-Total	10,745	9,534	12,371	12,583	13,169
Acibadem	3,765	3,462	4,347	4,590	4,746
IMU Health	259	249	258	265	273
Plife REIT	139	155	153	156	159
Others	4.07	4.85	2.59	2.59	2.59
Total	14,912	13,405	17,132	17,597	18,351
EBITDA (RMm)					
PPL-Total	2,319	1,989	2,935	3,086	3,206
Acibadem	854	796	1,199	1,239	1,281
IMU Health	87.2	75.7	86.7	85.5	88.0
Plife REIT	137	96.8	131	141	143
Others	(78.7)	(81.4)	(72.8)	(74.8)	(78.0)
Total	3,318	2,876	4,279	4,477	4,641
EBITDA Margins (%)					
PPL-Total	21.6	20.9	23.7	24.5	24.3
Acibadem	22.7	23.0	27.6	27.0	27.0
IMU Health	33.7	30.4	33.7	32.2	32.2
Plife REIT	98.1	62.5	85.8	90.0	90.0
Others	n/a	n/a	n/a	n/a	n/a
Total	22.2	21.5	25.0	25.4	25.3

Income Statement (RMm)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	14,912	13,405	17,132	17,597	18,351
Other Opng (Exp)/Inc	(3,292)	(2,853)	(2,855)	(2,682)	(2,832)
Operating Profit	1,741	1,254	3,060	2,949	3,040
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	74.1	18.4	39.9	41.7	43.6
Net Interest (Exp)/Inc	(772)	(705)	(544)	(476)	(494)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	1,043	568	2,556	2,515	2,589
Tax	(528)	(362)	(379)	(604)	(621)
Minority Interest	36.6	83.0	(314)	(281)	(289)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	551	289	1,863	1,631	1,679
Net Profit before Except.	551	289	1,863	1,631	1,679
EBITDA	3,170	2,670	4,584	4,518	4,685
Growth					
Revenue Gth (%)	29.4	(10.1)	27.8	2.7	4.3
EBITDA Gth (%)	27.0	(15.8)	71.7	(1.4)	3.7
Opg Profit Gth (%)	12.8	(28.0)	144.0	(3.6)	3.1
Net Profit Gth (Pre-ex) (%)	(12.1)	(47.6)	544.7	(12.5)	3.0
Margins & Ratio					
Opg Profit Margin (%)	11.7	9.4	17.9	16.8	16.6
Net Profit Margin (%)	3.7	2.2	10.9	9.3	9.1
ROAE (%)	2.5	1.3	8.4	7.1	7.0
ROA (%)	1.2	0.6	4.1	3.5	3.5
ROCE (%)	2.1	1.1	6.5	5.4	5.4
Div Payout Ratio (%)	63.6	121.5	28.3	32.3	31.4
Net Interest Cover (x)	2.3	1.8	5.6	6.2	6.1

Source: Company, DBS Bank

Quarterly Income Statement (RMm)

FY Dec	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021
Revenue	3,766	3,946	4,270	4,445	4,471
Other Oper. (Exp)/Inc	(3,053)	(3,308)	(3,452)	(3,729)	(3,584)
Operating Profit	713	638	818	716	887
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	14.7	16.6	9.80	5.87	7.62
Net Interest (Exp)/Inc	(67.0)	(68.3)	(160)	(106)	(210)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	661	587	668	617	684
Tax	(165)	(154)	(122)	59.0	(162)
Minority Interest	(76.1)	(57.3)	(62.8)	(126)	(68.4)
Net Profit	419	376	483	550	454
Net profit bef Except.	419	376	483	550	454
EBITDA	1,075	981	1,301	1,085	1,217

Growth

Revenue Gth (%)	7.0	4.8	8.2	4.1	0.6
EBITDA Gth (%)	4.7	(8.8)	32.6	(16.6)	12.2
Opg Profit Gth (%)	9.2	(10.5)	28.2	(12.4)	23.8
Net Profit Gth (Pre-ex) (%)	35.3	(10.4)	28.7	13.8	(17.5)

Margins

Opg Profit Margins (%)	18.9	16.2	19.2	16.1	19.8
Net Profit Margins (%)	11.1	9.5	11.3	12.4	10.1

Balance Sheet (RMm)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	17,932	18,182	17,370	16,773	16,037
Invts in Associates & JVs	305	266	164	206	249
Other LT Assets	19,190	18,774	19,443	19,396	19,349
Cash & ST Invts	4,715	4,188	5,018	7,219	9,386
Inventory	350	420	455	422	440
Debtors	2,108	1,953	2,498	2,565	2,675
Other Current Assets	453	751	563	563	563
Total Assets	45,053	44,534	45,510	47,145	48,699
ST Debt	760	1,019	1,262	1,262	1,262
Creditor	3,858	3,892	4,053	4,138	4,322
Other Current Liab	731	704	735	987	1,005
LT Debt	8,266	8,665	7,609	7,609	7,609
Other LT Liabilities	3,344	3,219	4,575	4,575	4,575
Shareholder's Equity	24,498	23,898	24,583	25,599	26,663
Minority Interests	3,596	3,137	2,694	2,974	3,263
Total Cap. & Liab.	45,053	44,534	45,510	47,145	48,699
Non-Cash Wkg. Capital	(1,678)	(1,472)	(1,272)	(1,575)	(1,649)
Net Cash/(Debt)	(4,311)	(5,496)	(3,853)	(1,652)	515
Debtors Turn (avg days)	49.8	55.3	47.4	52.5	52.1
Creditors Turn (avg days)	162.9	179.0	149.0	143.2	141.9
Inventory Turn (avg days)	15.0	17.8	16.4	15.3	14.5
Asset Turnover (x)	0.3	0.3	0.4	0.4	0.4
Current Ratio (x)	1.4	1.3	1.4	1.7	2.0
Quick Ratio (x)	1.3	1.1	1.2	1.5	1.8
Net Debt/Equity (X)	0.2	0.2	0.1	0.1	CASH
Net Debt/Equity ex MI (X)	0.2	0.2	0.2	0.1	CASH
Capex to Debt (%)	11.3	9.6	13.3	10.0	9.2
Z-Score (X)	2.3	2.2	2.3	2.3	2.3

Source: Company, DBS Bank

Cash Flow Statement (RMm)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	1,043	568	2,556	2,515	2,589
Dep. & Amort.	1,355	1,397	1,484	1,527	1,601
Tax Paid	(575)	(330)	(490)	(351)	(604)
Assoc. & JV Inc/(loss)	(74.1)	(18.4)	(39.9)	(41.7)	(43.6)
Chg in Wkg.Cap.	(524)	(146)	(261)	50.6	55.6
Other Operating CF	1,223	974	283	0.0	0.0
Net Operating CF	2,447	2,445	3,532	3,700	3,599
Capital Exp.(net)	(1,023)	(933)	(1,180)	(883)	(818)
Other Invt.(net)	(2,049)	(1,134)	(41.9)	0.0	0.0
Invt. in Assoc. & JV	43.6	3.23	225	0.0	0.0
Div from Assoc & JV	538	8.19	41.8	0.0	0.0
Other Investing CF	(105)	(21.9)	133	0.0	0.0
Net Investing CF	(2,595)	(2,078)	(822)	(883)	(818)
Div Paid	(263)	(351)	(351)	(527)	(527)
Chg in Gross Debt	(1,169)	588	(923)	0.0	0.0
Capital Issues	0.0	(88.6)	(87.7)	0.0	0.0
Other Financing CF	(1,462)	(1,151)	(434)	(87.7)	(87.7)
Net Financing CF	(2,894)	(1,003)	(1,796)	(615)	(615)
Currency Adjustments	(7.3)	109	(84.6)	0.0	0.0
Chg in Cash	(3,049)	(527)	830	2,202	2,166
Opg CFPS (sen)	33.9	29.5	43.2	41.6	40.3
Free CFPS (sen)	16.2	17.2	26.8	32.1	31.7

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	27 Aug 21	6.35	7.20	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Rachel TAN

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 28 Feb 2022 12:28:04 (SGT)
Dissemination Date: 28 Feb 2022 13:22:01 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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