

PP14767/09/2012(030761)

## IHH Healthcare Bhd

### “Fazed by Escalating Operational Costs”

#### Results Review

- **Actual vs. expectation.** IHH Healthcare Bhd (IHH) registered double-digit growth in topline in 1H16 after booking RM4.9 billion in revenue (+21% y-o-y) boosted by new hospitals contribution in Parkway Pantai Limited (PPL) as well the inclusion of India hospitals to the segment. Two new hospitals were also added into Acibadem Holdings (Acibadem) which subsequently pushed the segment sales by 17% y-o-y for 1H16. In short, PPL and Acibadem both registered 23% and 17% y-o-y revenue growth in 1H16 that collectively bagged in additional RM823 million sales compared to 1H15. YTD net profit came in line with our expectation, making up 47% of our FY16 earnings forecast.
- **Dividend.** No dividends declared during the quarter.
- **Modest growth in 2Q16.** New hospitals such as Gleneagles Kota Kinabalu, Gleneagles Medini, Gleneagles Hong Kong, Acibadem Taksim and Acibadem Altunizade have expanded the group’s revenue from RM2.1 billion to RM2.5 billion (+18% y-o-y). However, EBITDA only grew 2% y-o-y to RM554 million weighed by start-up costs from the new hospitals, pre-operation expenses in Hong Kong and higher staff costs. PATMI edged higher to RM246 million (+8% y-o-y) in 2Q16 (including RM72.2 million exceptional items and contribution from associate PLife Reit). In other words, operational PATMI, in fact dropped 20% y-o-y compared to RM234.6 million in 2Q15.

Compared to strong 1Q16 results, IHH managed to sustain its earnings intensity by registering positive growth albeit at a negligible scale. Sales inched down

Friday, August 26, 2016

#### HOLD (TP: RM6.49)

Current Price (RM)	RM6.65
New Fair Value (RM)	RM6.49
Previous Fair Value (RM)	RM5.19
Previous Recomm.	SELL
Upside To Fair Value	-2.4%
Dividend Yield	0.5%

#### Stock Code

Bloomberg	IHH MK
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#### Stock & Market Data

Listing	MAIN MARKET	
Sector	Healthcare	
Shariah Compliance	Yes	
Issued Shares (mn)	8,231.6	
Market Cap (RM mn)	54,740mn	
YTD Chg In Share Price	1.1%	
Beta (x)	0.89	
52-week Hi/Lo (RM)	RM6.79	RM5.32
6M Average Volume (mn shares)	6.9mn	
Estimated Free Float	19%	

#### Major Shareholders

Khazanah	41.15%
Mitsui & Co	20.04%
EPF	8.39%

slightly by RM2 million (-0.1% q-o-q) while bottom-line edged RM10.1 million higher (+5% q-o-q). EBITDA shaved 10% q-o-q from RM617 million to RM554 million due to higher operational costs aforementioned while EBITDA margin still stayed steadily above 20% level.

- **Robust inpatient growth in Acibadem.** PPL-Malaysia remained the highest inpatient volume in 2Q16 with 47,067 (-0.4% y-o-y) patients while the second highest Acibadem recorded incredible 16% y-o-y increment from 32,636 to 37,750. PPL-Singapore, on the other hand, registered healthy inpatient growth of 7.5% y-o-y to 18,698, ahead of India of which recorded at 14,919 (-0.1% y-o-y). In sum, inpatient volume in 2Q16 in home markets achieved 118,434 patients (-1.7% q-o-q ; +5.5% y-o-y). More encouraging growth was seen in 1H16 of which the inpatient volume grew +8.2% y-o-y to 238,883 patients.
- **Modest growth in average revenue per inpatient (ARPI).** Overall ARPI in 2Q16 improved marginally assisted by PPL-Malaysia (+5.5% y-o-y to RM5,936) and PPL-India (+8.9% y-o-y to RM7,332). The increment of ARPI in PPL-Malaysia was partly due to the decline in inpatient volume while positive growth seen in PPL-India was attributable to the inclusion of new hospitals. The leader PPL-Singapore recorded flattish growth of -0.4% y-o-y to RM26,447 ARPI followed by Acibadem of RM10,463 (+1.3% y-o-y). The mild increase of ARPI in Acibadem was due to the cost inflation and more complex cases undertaken in 2Q16.
- **Changes of forecast.** No changes in earnings forecast for now. We maintain our FY16F/17F/18F PATMI at RM1,023 million, RM1,240 million and RM1,475 million, respectively. We expect EPS to grow 3-6 sen over the next 3 years coupled with sustainably decent earnings margins.
- **Outlook.** A number of greenfield and brownfield projects in the pipeline are currently progressing well. That include 6 hospital projects in PPL and 4 in Acibadem which are collectively expected to ramp up >2,200 bed capacity in 1-2 years down the road. Among which, the 60-40% JV Gleneagles Hong Kong and Acibadem Altunizade are targeted to complete construction works by early 2017 and expected to increase bed capacity by 500 and 325, respectively.
- **Valuation & recommendation.** We maintain our target price at RM6.49 based on SOTP method. Maintain **HOLD**. While new hospitals are set to grow the top line base, we are cautiously optimistic on the bottom line growth which could potentially get limited by escalating cost pressures arising from pre-operating and start-up costs for 2-3 years of gestation period. Wage inflation and competition in premium healthcare industry should not be overlooked as well which could erode earnings margins moving forward.

Chart 1: Peers Comparison

Company	Year End	Country	Market Cap (RM'million)	Price (Local Currency)	EPS (sen)		P/E (x)		ROE (%)	Dividend Yield (%)	Target Price	Call
					FY14	FY15	FY14	FY15				
Domestic												
IHH HEALTH	Dec	MY	53,568	6.53	9	11	52	58	4	0	6.49	HOLD
KPJ	Dec	MY	4,385	4.21	14	13	26	32	9	2	4.27	HOLD
Abroad												
HCA Holding	Dec	US	124,269	77.56	1,408	2,009	16	12	NA	NA	NA	NA
BANGKOK DUSIT	Dec	TH	43,063	24.10	5	6	36	44	15	1	NA	NA
RAMSAY HEALTHCARE	Jun	AU	42,815	71.89	429	533	32	33	26	1	NA	NA
BUMRUNGRAD HOSPITAL	Dec	TH	15,903	190.00	38	54	38	45	27	1	NA	NA
HEALTHSCOPE	Jun	AU	15,136	2.96	-33	25	NA	29	8	2	NA	NA
APOLLO HOSPITALS	Mar	IN	11,503	1,356.20	121	134	40	61	11	0	NA	NA
RAFFLES MEDICAL	Dec	SG	7,962	1.55	10	11	32	34	12	1	NA	NA
FORTIS HEALTHCARE	Mar	IN	4,780	169.70	14	-17	NA	NA	-3	NA	NA	NA
CHULARAT HOSPITAL	Dec	TH	3,563	2.76	0	1	41	54	19	1	NA	NA
SILOAM INTERNATIONAL	Dec	ID	3,205	9,200.00	2	2	220	161	4	0	NA	NA
BANGKOK CHAIN	Dec	TH	3,122	10.90	2	2	38	43	12	1	NA	NA
Average (Ex-IHH)	-	-	23,309	-	168	231	52	50	13	1	-	-

Source: Bloomberg, M&amp;A Securities

Chart 2: SOTP Valuation

	Valuation Basis	Value (in Million)	Multiples/Stake	Effective EV (RM'million)	Per IHH Share (RM)
PPL	FY17F EV/EBITDA	1,823	25x	45,573	5.54
Acibadem	FY17F EV/EBITDA	609	22x	13,390	1.63
IMU Health	FY17F EV/EBITDA	94	15x	1,404	0.17
PLifeREIT	Consensus TP	4,150	36%	1,484	0.18
Apollo	Consensus TP	11,714	11%	1,271	0.15
Less: Net Debt	FY17F	4,372	-	-	-0.53
Less: Minority Interest	FY17F	5,356	-	-	-0.65
Share outstanding	-	8,224	-	-	-
Target Price	-	-	-	-	6.49

Source: Bloomberg, M&amp;A Securities

Chart 3: Results Analysis

FYE DEC (RM million)	2Q16	1Q16	2Q15	Q-o-Q	Y-o-Y	6M15	6M16	Y-o-Y
Revenue	2,473	2,475	2,093	0%	18%	4,096	4,949	21%
EBITDA	554	617	546	-10%	2%	1,051	1,171	11%
D&A	(203)	(200)	(164)	2%	24%	(323)	(404)	25%
EBIT	413	408	392	1%	5%	749	820	9%
Net interest income	(39)	(52)	(49)	-26%	-20%	(173)	(91)	-47%
PBT	374	355	343	5%	9%	576	729	27%
Tax	(89)	(83)	(76)	7%	18%	(128)	(173)	35%
PAT	284	272	267	5%	6%	448	556	24%
MI	38	37	39	5%	-2%	48	75	55%
PATMI	246	235	228	5%	8%	400	482	21%
EPS	2.99	2.86	3	4%	8%	5	6	20%
EBITDA margin	25%	25%	27%	0%	-2%	26%	25%	-1%
EBIT margin	17%	16%	19%	0%	2%	18%	17%	-2%
PBT margin	15%	14%	16%	1%	1%	14%	15%	1%
PATMI margin	10%	10%	11%	0%	1%	10%	10%	0%

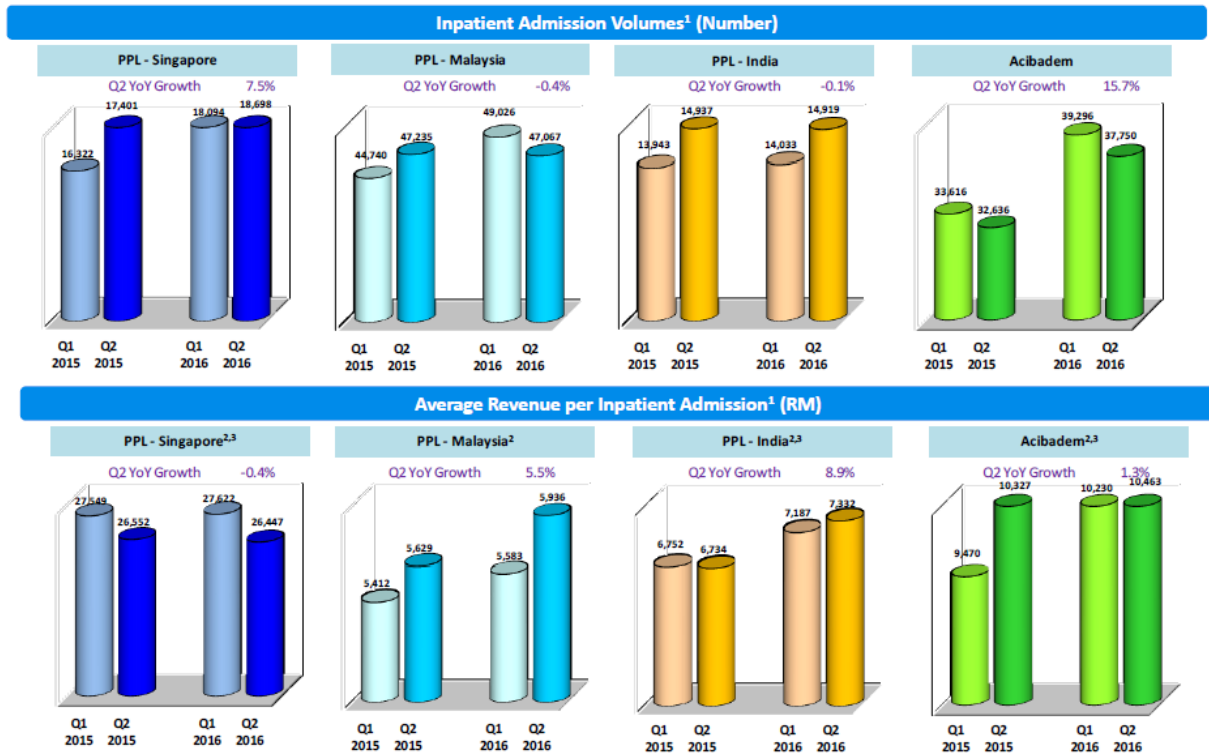
Source: Bloomberg, M&amp;A Securities

Chart 4: Financials

FYE Dec (RM million)	FY14A	FY15A	FY16F	FY17F	FY18F
Revenue	7,344	8,455	9,469	10,702	12,214
EBITDA	1,936	2,142	2,564	2,915	3,346
Depreciation	(541)	(629)	(732)	(852)	(991)
Amortisation	(67)	(60)	(64)	(62)	(63)
Net forex gain	7	23	0	0	0
Net interest income	(124)	(326)	(310)	(294)	(280)
Profits from associates & JV	10	14	12	13	13
Others	0	54	0	0	0
PBT	1,221	1,218	1,470	1,720	2,025
Tax	(278)	(165)	(294)	(344)	(405)
Non-controlling interest	(189)	(118)	(154)	(136)	(145)
PATMI	754	934	1,023	1,240	1,475
EPS	9	11	12	15	18
EBITDA margin	26%	25%	27%	27%	27%
PBT margin	17%	14%	16%	16%	17%
PATMI margin	10%	11%	11%	12%	12%

Source: Bloomberg, M&amp;A Securities

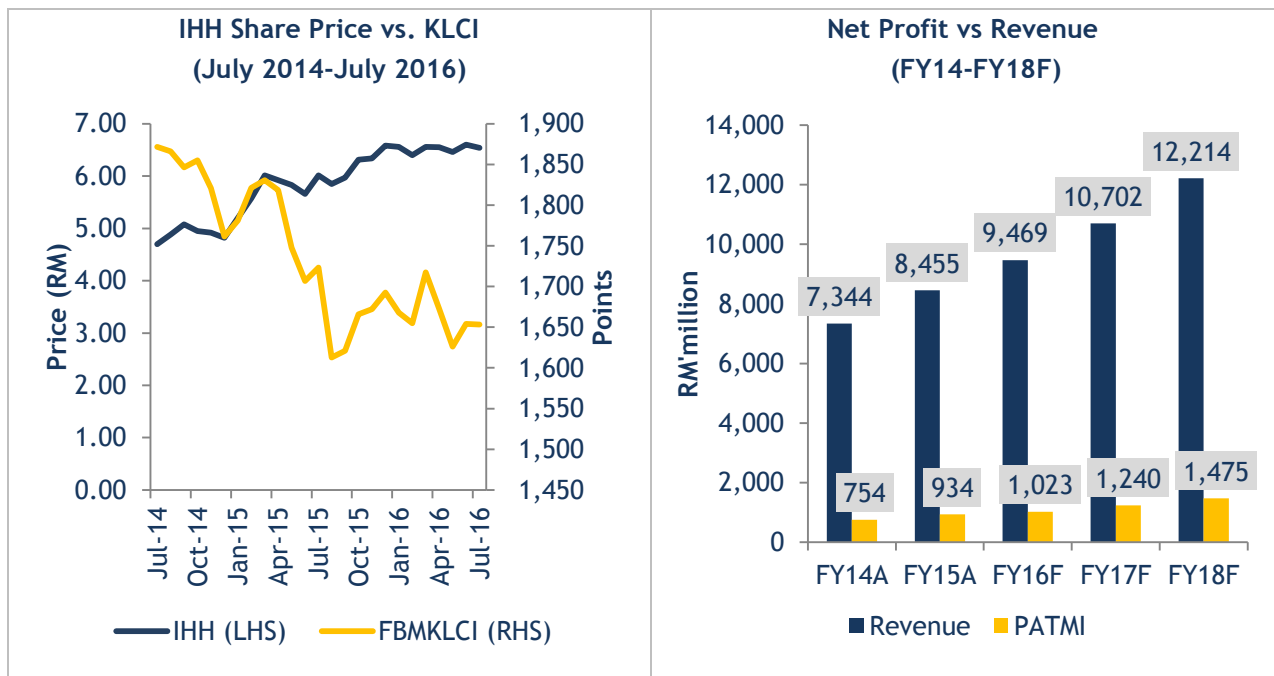
Chart 5: Inpatient Volume & Average Revenue Per Patient



The above charts are not drawn to scale.

1. Based on Singapore, Malaysia, India and Acibadem Holdings hospitals only. Excludes hospitals operated by joint venture companies, hospitals under hospital management agreements and other international hospitals.
2. Specialist fees not included in Singapore's and Malaysia's average revenue per inpatient admission
3. Based on a uniform exchange rate throughout the periods shown (SGD: 3.0312; INR:0.0600; TL:1.3974)

Source: Company



Source: M&A Securities

# M&A Securities

## STOCK RECOMMENDATIONS

<b>BUY</b>	Share price is expected to be $\geq +15\%$ over the next 12 months.
<b>TRADING BUY</b>	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
<b>HOLD</b>	Share price is expected to be between $-10\%$ and $+10\%$ over the next 12 months.
<b>SELL</b>	Share price is expected to be $\geq -15\%$ over the next 12 months.

## SECTOR RECOMMENDATIONS

<b>OVERWEIGHT</b>	The sector is expected to outperform the FBM KLCI over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform the FBM KLCI over the next 12 months.

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