

PP14767/09/2012(030761)

IHH Healthcare Bhd

“Integrating Newly Acquired Assets”

Results Review

- **Actual vs. expectation.** IHH Healthcare Bhd (IHH) registered a strong 1Q16 revenue of RM2.5 billion (+24% y-o-y), reflecting organic growth at existing hospitals across all home markets as well as contributions from newly acquired Continental Hospitals (in March 2015) and Global Hospitals (in December 2015). Hence, Parkway Pantai segment saw the biggest improvement in the topline contribution which grew 30% y-o-y from RM1.2 billion to RM1.5 billion. First quarter net profit came in line with our expectation, making up 23% of our earnings forecast. EPS jumped 37% y-o-y from 2.1 sen to 2.9 sen.
- **Dividend.** No dividends declared during the quarter.
- **30% topline growth in Parkway Pantai.** Singapore division posted the strongest growth in revenue on quantum basis (from RM752 million to RM914 million; +21% y-o-y) mainly contributed by Mount Elizabeth Novena and strong S\$/RM (see Chart 5). This was followed by the second best performer of Malaysian division that saw revenue lifted from RM347 million to RM391 million (+13% y-o-y) cheered by the newly opened Gleneagles Kota Kinabalu and Gleneagles Medini Hospital. It is also worth to note that India has been listed as the fourth home market after Malaysia, Singapore and Turkey, which saw the newly acquired hospitals, as mentioned, contributing RM128 million or >8% of the entire Parkway Pantai segment revenue in 1Q16.
- **Turkey remained key revenue driver.** Acibadem Holdings (Acibadem) came into the second biggest revenue contributor after PPL Singapore, making up 34%

Friday, May 27, 2016

HOLD (TP: RM6.49)

Current Price (RM)	RM6.52
New Fair Value (RM)	RM6.49
Previous Fair Value (RM)	RM5.19
Previous Recomm.	SELL
Upside To Fair Value	-0%
Dividend Yield (12-month)	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)	8,228.6	
Market Cap (RM mn)	53,651mn	
YTD Chg In Share Price	-0.9%	
Beta (x)	0.89	
52-week Hi/Lo (RM)	RM6.79	RM5.32
6M Average Volume (mn shares)	6.9mn	
Estimated Free Float	20%	

Major Shareholders

Khazanah	42.95%
Mitsui & Co	20.05%
EPF	8.59%

of the total group's sales in 1Q16. During the quarter, Acibadem registered an encouraging topline growth of 14% y-o-y to RM836 million, driven by continued ramping up of Acibadem Atakent as well as newly opened Acibadem Taksim.

- **Robust Inpatient growth & revenue intensity seen.** As usual, PPL Malaysia continued to achieve highest inpatient volume, drawing more than 49,000 admission volumes in 1Q16 (+9.6% y-o-y), followed by Acibadem which took a leap of 17% y-o-y from 33,616 in 1Q15 to 39,296 in 1Q16. PPL Singapore also chalked up steady inpatient volumes growth of 11% y-o-y, chalking-up more than 18,000 patients in 1Q16. The higher admission was the result of taking more complex cases and price adjustment to mitigate cost inflation.

In terms of average revenue per inpatient admission, Singapore and Acibadem remained the leading segments after achieving RM26,857 (+0.3% y-o-y) and RM10,281 (+8.0% y-o-y) per patient spending respectively, more than double that of in Malaysia and India which revealed modest growth of 3.2% y-o-y and 6.4% y-o-y to RM5,583 and RM7,235, respectively. Among all, Acibadem made the biggest improvement after seeing its inpatient volume lifted by 17% coupled with 8% rise in its average revenue per inpatient.

- **Insulated from escalating operating costs.** Manageable cost pressures emerged in 1Q16, particularly the escalating staff costs which inflated by RM134 million (+17% y-o-y) to nearing RM1 billion level as well as other operating expenses that bloated by 44% y-o-y or >RM80 million to RM260 million, resulting in slight fall in EBITDA margin by 1% y-o-y to 25%, which was still deemed positive, greatly bolstered by the strong top-line growth. We understand that wage inflation is inevitable in the industry especially on the expansion mode due to higher demand for trained healthcare professionals. Moreover, staff costs from Acibadem got a hike up following the roll-out of higher minimum wage policy implemented by the Turkish government, effective 1st January 2016.
- **Healthy gearing level.** Thanks to stronger cash flow generated from continued ramp up in existing hospitals and new hospitals, IHH's debt gearing level was still healthily stood at 0.19x in 1Q16 with a growing cash position of >RM2.0 billion, making up almost half of the unincurred CAPEX of RM4.8 billion from Q2 2016 to 2018. We expect IHH's debt gearing to stay lower in FY18 due to other fresh revenue contribution from newly acquired hospital assets in India coupled with 2 greenfield projects (namely Acibadem Altunizade and Hong Kong Gleneagles Hospitals) to come on stream in early 2017.
- **Flexing muscles in Bulgaria.** On 21 April 2016, IHH has proposed an acquisition of 100% stake in Bulgaria-based hospital Tokushukai-Sofia EOOD for RM286 million. It simultaneously announced a merger with City Clinic for RM48 million for the latter's 1/3 equity stake, which is also a leading healthcare operator in the country, via IHH's 60%-owned subsidiary Acibadem Sağlık Hizmetleri ve Ticaret A.Ş. The remaining 2/3 stake in City Clinic will be rolled over into a new entity of which Acibadem Group has a controlling stake of 76.5%. Of note, Tokuda Group is the largest private hospital operator in Bulgaria while City Clinic owns 3 hospitals and one of them is the only Joint Commission International (JCI) accredited hospital in the country.

Upon completion of the acquisition, IHH will emerge as the leading private healthcare operator in Bulgaria with 4 hospitals totalling 750 beds and 4 medical centres. We are positive on the deal as Bulgaria is an emerging market economy in the upper income range (GDP per capita of US\$ 6,832 ahead of Peru, Thailand and Indonesia) where private sector drives >80% of the GDP.

- **Valuation & recommendation.** We maintain **HOLD** on IHH with a target price of RM6.49 based on SOTP valuation. The home markets (including newly-added India) are expected to add at least 1,500 new beds in the next 2-3 years which could see the total licenced bed under IHH to exceed 10,000 bed capacity worldwide. We are upbeat on the international operations to further set up a footprint in China, India and Myanmar via multiple channels such as acquisition, JV and hospital management agreement.

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&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

Chart 3: Results Analysis

FYE DEC (RM million)	1Q16	4Q15	1Q15	Q-o-Q	Y-o-Y
Revenue	2,475	2,295	2,003	8%	24%
EBITDA	608	670	517	-9%	18%
D&A	(200)	(195)	(159)	2%	26%
EBIT	408	475	357	-14%	14%
Net interest income	(52)	88	(125)	-160%	-58%
PBT	355	563	233	-37%	53%
Tax	(83)	(29)	(52)	192%	59%
PAT	272	534	181	-49%	51%
MI	37	118	9	-69%	298%
PATMI	235	416	171	-43%	37%
EPS	3	5	2	-43%	37%
EBITDA margin	25%	29%	26%	-5%	-1%
EBIT margin	16%	21%	18%	-4%	-1%
PBT margin	14%	25%	12%	-10%	3%
PATMI margin	10%	18%	9%	-9%	1%

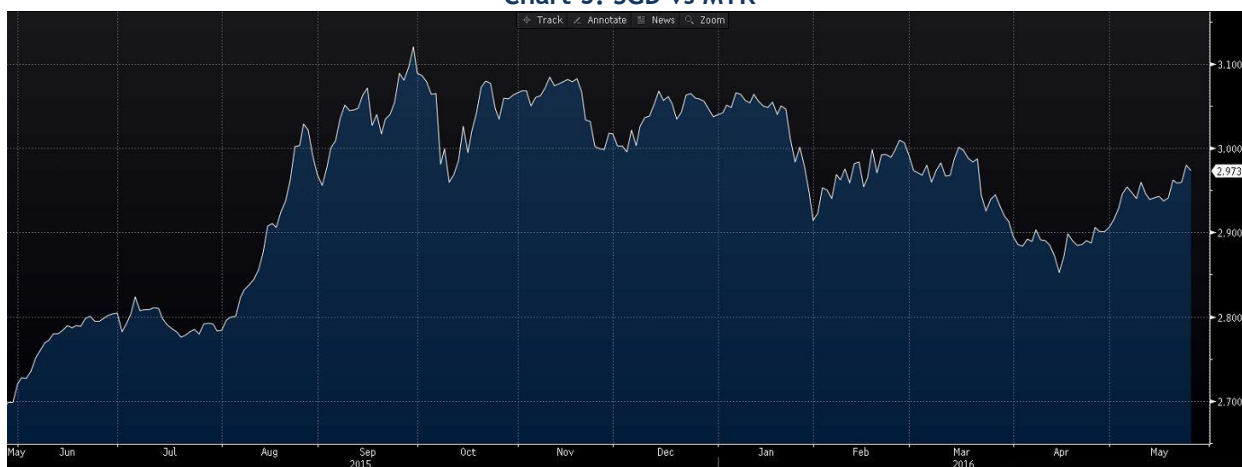
Source: Bloomberg, M&A Securities

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%

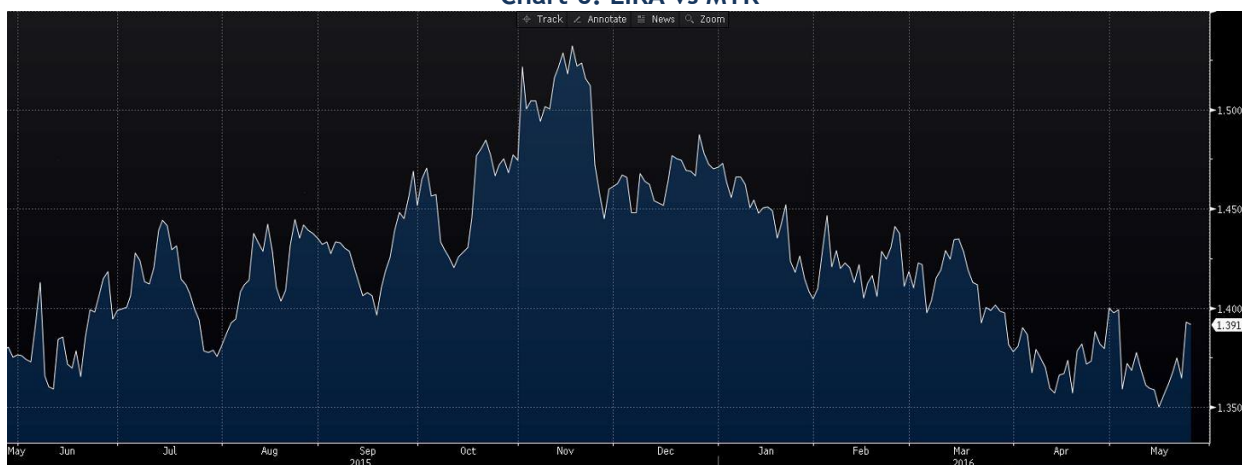
Source: Bloomberg, M&A Securities

Chart 5: SGD vs MYR



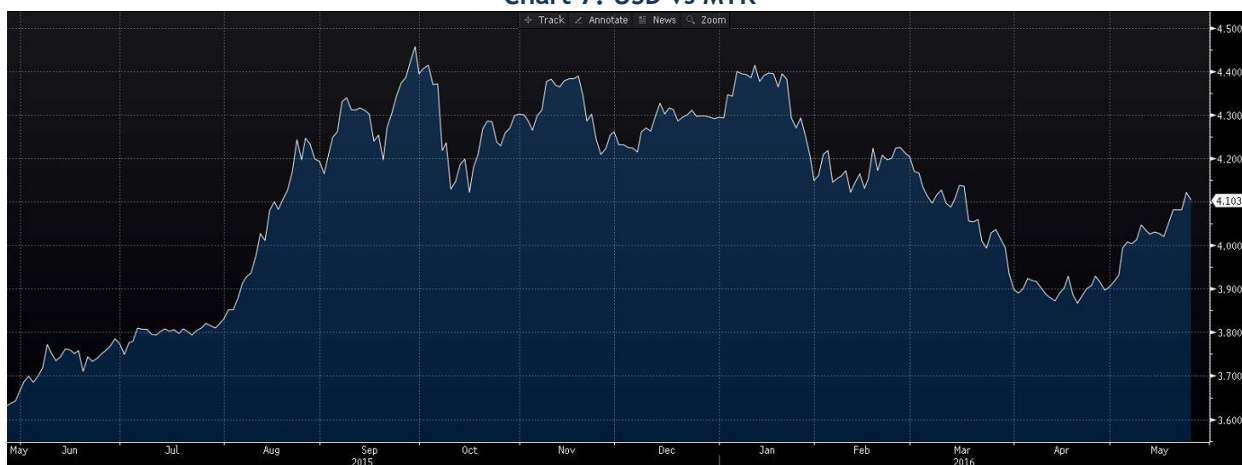
Source: Bloomberg

Chart 6: LIRA vs MYR



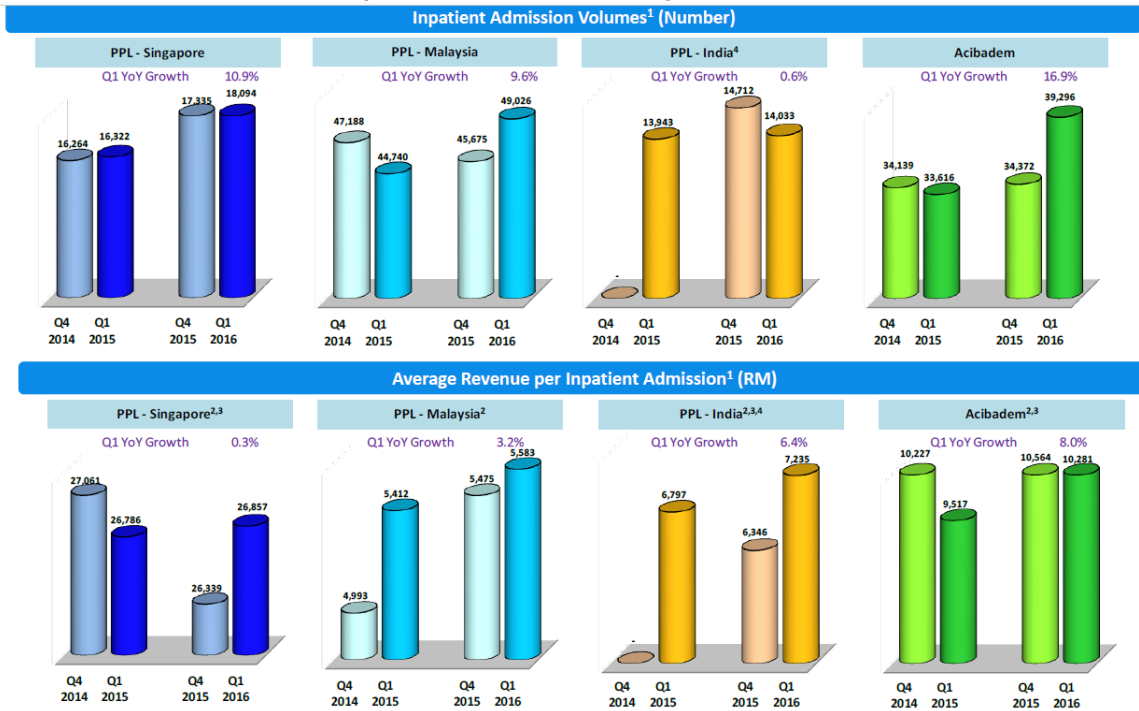
Source: Bloomberg

Chart 7: USD vs MYR



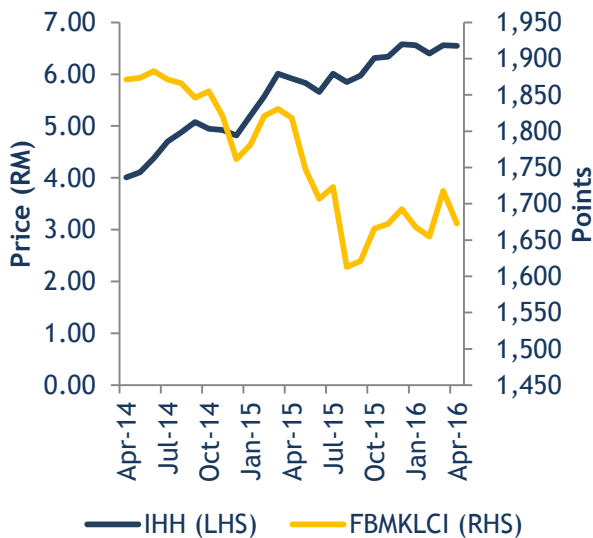
Source: Bloomberg

Chart 8: Inpatient Volume & Average Revenue Per Patient

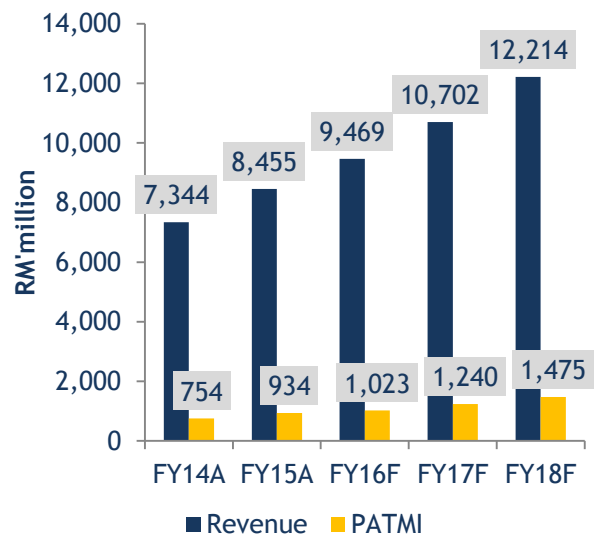


Source: Company

IHH Share Price vs. KLCI
(April 2015-April 2016)



Net Profit vs Revenue
(FY14-FY18F)



M&A Securities

STOCK RECOMMENDATIONS

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

SECTOR RECOMMENDATIONS

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

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M & A Securities SdnBhd (15017-H)

(A wholly-owned subsidiary of INSAS BERHAD)

A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:

Level 1,2,3 No.45 & 47, 43-6

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: www.mnaonline.com.my