

03 September 2019

IHH Healthcare

1H19 Missed Expectations

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1H19 Core Net Profit of RM428.5m (+14% YoY) came in below expectations at 41/40% of our/consensus full-year forecasts. The variance from our forecast was due to lower-than-expected contribution from Acibadem. As such, we cut our FY19E/FY20E net profit forecasts by 2%/3%. Our TP is also lowered, from RM4.90 to RM4.85, based on SoP valuation. Reiterate UP due to tough operating environment and concerns over issues in Fortis.

1H19 Core Net Profit of RM428.5m (+14% YoY) came in below expectations at 41/40% of our/consensus full-year forecasts. The variance from our forecast was due to lower-than-expected contribution from Acibadem. No dividend was declared as expected.

Key results' highlights. QoQ, 2Q19 revenue was flat QoQ while EBITDA fell 5% due to the high base effect in 1Q19 due to a one-off RM28.5m trustee management fee income from RHT relating to disposal of RHT assets. However, 2Q19 Core Net Profit (CNP) rose 27% from a low base in 1Q19 where the Group recorded forex loss (RM12.6m) in 1Q19 as compared to a forex gain (RM10.7m) in 2Q19. Overall, QoQ revenue per inpatient increased across the board, including Singapore (+1%), Malaysia (+3%), and Acibadem (+9%) which more than offset a 1% rise in inpatient admission.

YoY, 1H19 revenue and EBITDA increased 32% and 40%, respectively, underpinned by sustained organic growth from existing operations and the continuous ramp-up of Gleneagles Hong Kong Hospital and Acibadem Altunizade Hospital. The adoption of MFRS 16, also boosted the 1H19 EBITDA since the Group does not recognise operating lease expense but instead recognised depreciation on the right-of-use assets. 1H19 CNP rose 14% on stronger operational performance and boosted by narrower start-up losses at Gleneagles Hong Kong, which decreased from RM89.3m in 1H18 to RM67.8m in 1H19, as a result of better operating leverage. Overall, revenue per inpatient increased across the board, including Singapore (+5%), Malaysia (+7%), and Acibadem (+28%). However, Parkway Pantai's India hospitals revenue per inpatient admission decreased 16% as Fortis' revenue intensity is generally lower than Parkway Pantai's existing operations in India. As such, India losses continued to widen, to RM134m compared to RM19.6m in 1H18.

Outlook. The group has pared down US\$250m equivalent of non-Lira debt for Acibadem in April as part of on-going plan to reduce the exposure to Turkish Lira's volatility. The remaining balance of US\$300m is expected to be pared down sometime in 2020. We are concerned over issues at Fortis, including an auditor's qualified audit report in FY18, risk of more provisions, lapses in internal controls, which led to regulatory probing, which could well mean execution risk. Looking ahead, over the medium term, IHH is expected to face tough operating conditions on the back of: (i) the uncertain Turkish Lira which has depreciated significantly against USD, Euro and MYR with continued volatility, and (ii) execution risk at Fortis as well as uncertainty over its timeline in terms of a turnaround to profitability.

We downgrade FY19E/FY20E net profit by 2%/3% to take into account of lower contribution from Acibadem.

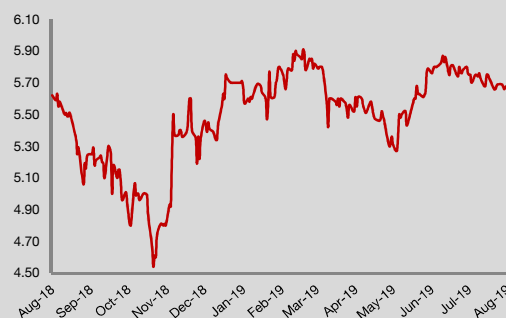
Maintain UP. Correspondingly, we downgrade our TP from RM4.90 to RM4.85 based on SoP valuation, implying 38x FY20E EPS (-1.5SD below 5-year historical forward mean).

Key risk to our call - faster-than-expected ramp-up in new hospitals.

UNDERPERFORM ↔

Price : RM5.79
Target Price : RM4.85 ↓

Share Price Performance



KLCI	1,612.14
YTD KLCI chg	-4.6%
YTD stock price chg	7.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IHH MK Equity
Market Cap (RM m)	50,801.4
Shares Outstanding	8,774.0
52-week range (H)	5.95
52-week range (L)	4.54
3-mth avg daily vol:	4,531,632
Free Float	34%
Beta	0.6

Major Shareholders

Mitsui & Co Ltd	32.9%
Pulau Memutik Ven Sdn Bhd	26.0%
Employees Provident Fund	7.9%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	11,520	12,903.4	14,233.2
PBT	1,028.1	1,582.7	1,697.2
Net Profit (NP)	627.7	1,032.9	1,119.9
Core NP	1,027.6	1,032.9	1,119.9
Consensus (NP)	-	1,053.8	1,303.1
Earnings Revision	-	-2%	-3%
Core EPS (sen)	11.7	11.8	12.8
Core EPS growth (%)	62.2	0.5	8.4
NDPS (sen)	3.0	3.0	4.0
BVPS (RM)	2.51	2.60	2.70
Core PER (x)	49.4	49.1	45.3
PBV(x)	2.3	2.2	2.1
Net Gearing (%)	12.8	12.8	13.8
Net Div. Yield (%)	0.5	0.5	0.5

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Result Highlight (YTD)			
FY Dec (RMm)	2017 6M	2018 6M	Y-o-Y Chg (%)
Turnover	5,514.7	7,288.0	32.2
Parkway Pantai	3,505.2	5,226.9	49.1
Acibadem Holdings	1,813.7	1,862.6	2.7
IMU Health	128.7	128.4	(0.3)
Plife REIT	165.6	171.9	3.8
Others (Plife REIT inter-segment revenue)	(98.5)	(101.7)	3.3
EBITDA	1,136.8	1,587.4	39.6
Parkway Pantai	689.5	1,015.8	47.3
Acibadem Holdings	297.1	420.6	41.5
IMU Health	49.9	50.5	1.3
Plife REIT	133.9	139.7	4.3
Others	(33.7)	(39.2)	16.5
Depreciation & amortisation	(451.5)	(651.8)	44.3
Other operating income	119.7	149.3	24.7
Finance cost	(500.9)	(539.6)	7.7
Finance income	79.9	88.7	10.9
Associates and JV	2.2	(19.3)	NM
Pretax profit	256.3	452.7	76.6
Taxation	(122.7)	(259.8)	111.8
Minority interest	88.7	81.5	(8.1)
PATAMI	222.3	274.5	23.5
Core net profit	377.0	428.5	13.7
Core EPS (sen)	4.1	4.4	7.3
EPS (sen)	2.2	2.6	20.1
EBITDA margin (%)	21	22	
Parkway Pantai	20	19	
Acibadem Holdings	16	23	
IMU Health	39	39	
Pretax margin (%)	5	6	
Effective tax rate (%)	48	57	

Source : Bursa Malaysia, Kenanga Research

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Result Highlight			
FY Dec	1Q	2Q	QoQ
(RMm)	2019	2019	%chg
Turnover	3,642.7	3,645.3	0.1
Parkway Pantai	2,578.9	2,648.0	2.7
Acibadem Holdings	967.1	895.5	(7.4)
IMU Health	61.7	66.7	8.1
PLife REIT	85.6	86.3	0.9
Others (PLife REIT inter-segment revenue)	(50.6)	(51.2)	1.2
EBITDA	813.7	773.7	(4.9)
Parkway Pantai	503.5	512.2	1.7
Acibadem Holdings	233.7	186.9	(20.1)
IMU Health	25.7	24.8	(3.5)
PLife REIT	69.3	70.4	1.5
Others	(18.6)	(20.6)	10.9
Depreciation & amortisation	(317.2)	(334.6)	5.5
Other operating income	83.1	66.2	(20.3)
Finance cost	(295.2)	(244.5)	(17.2)
Finance income	35.3	53.3	50.9
Associates and JV	(23.3)	4.0	(117.2)
Pretax profit	187.1	265.6	42.0
Taxation	(196.0)	(63.7)	(67.5)
Minority interest	98.5	(16.9)	(117.2)
Net profit	89.5	185.0	106.7
EPS (sen)	0.8	1.9	138.5
Core net profit	188.4	240.1	27.4
EBITDA margin (%)	22	21	
Parkway Pantai	20	19	
Acibadem Holdings	24	21	
IMU Health	42	37	
Pretax margin (%)	5	7	
Effective tax rate (%)	105	24	

Source : Bursa Malaysia, Kenanga Research

Sum-of-parts valuation

	Basis	Multiples (x)	Value (RM m)	Remarks
PPL	EV/EBITDA	18	30,416	18x which is inline with peers average.
Acibadem (60%)	EV/EBITDA	16	13,174	16x due to uncertain Turkey Lira
Fortis (57.1%)	Market value		310	Market value
IMU	EV/EBITDA	10	768	Premium to peers due to higher earnings base.
International	EV/EBITDA	12	3,456	In line with peers average.
PLife REIT (35.8%)			1,461	
Total			49,586	
Net debt			(7,136)	
Total			42,449	
No of shares			8,769	
Target price			4.85	

Source: Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
HEALTHCARE																	
IHH HEALTHCARE BHD	5.79	50801.4	Y	12/2019	12.0	10.3	0.5	8.4	49.4	49.1	45.3	2.3	2.2	4.5	0.5	4.85	UP
KPJ HEALTHCARE BERHAD	0.910	3900.6	Y	12/2019	10.5	3.3	5.0	1.0	21.9	20.8	20.6	2.0	1.9	9.1	2.2	1.15	OP
PHARMANIAGA BERHAD	2.49	650.5	Y	12/2019	5.0	3.0	-1.6	-0.4	11.2	11.4	11.5	1.3	1.2	10.6	5.6	2.35	UP

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published and printed by:

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