

18 September 2019

IHH Healthcare

Buying Prince Court For RM1b

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In an announcement to Bursa Malaysia, IHH is acquiring Prince Court Medical Centre Sdn Bhd for cash consideration of RM1.02bn which works out to an implied EV/EBITDA of 23.2x which is at the higher-end of peer KPJ's 14.7x valuation. The acquisition is expected to contribute less than 1% to our FY20 earnings forecast. No changes to our FY19E/FY20E earnings forecasts for now. Reiterate UP. TP is RM4.85 based on SoP valuation.

Acquiring Prince Court for RM1.02bn, works out to 23.2x EV/EBITDA and 39.2x PER. In an announcement to Bursa Malaysia, IHH has proposed to acquire Prince Court Medical Centre Sdn Bhd (Prince Court) for a cash consideration of RM1.02bn from Pulau Memutik Ventures Sdn Bhd, wholly-owned subsidiary of Khazanah Nasional Berhad. Based on the offer price of RM1.02bn, the deal works out to EV/EBITDA of 23.2x based on FY18 EBITDA of RM44m. Based on Prince Court's normalised net profit of RM26m, the deal works out to 39.2x PER. The acquisition appears expensive compared to KPJ's Healthcare EV/EBITDA and PER of 14.7x and 21x, respectively. However, Prince Court is one of the key strategic private hospitals in the Klang Valley which is expected to enable IHH to leverage on its wide network of hospitals to deliver potential synergies and offerings. Prince Court Medical Centre Sdn Bhd operates 277 licensed beds, offering a wide range of medical, surgical and hospital services including cancer, gastrointestinal diseases, interventional cardiology, in-vitro fertilisation, nephrology, occupational health, orthopaedic and rehabilitation medicine. The acquisition is expected to be completed by 1Q 2020.

Impact to financials. For illustrative purposes; (i) the acquisition is only expected to contribute <1% to IHH's group earnings based on Prince Court's normalised FY18 net profit of RM26m, and (ii) the acquisition will only put a small dent to IHH's net gearing of 0.2x as at 30 June 2019.

Outlook. The group has pared down US\$250m equivalent of its 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 the 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.

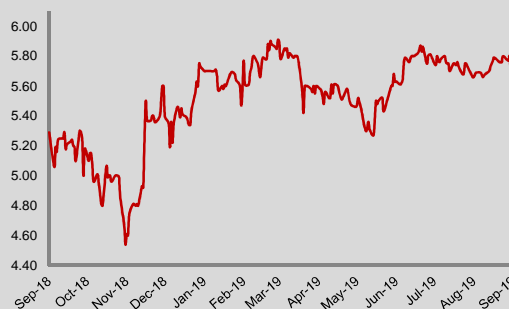
Maintain UNDERPERFORM. TP is RM4.85 based on SoP valuation, implying 38x FY20E EPS (-1.0SD below 5-year historical forward mean).

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

UNDERPERFORM ↔

Price : **RM5.69**
Target Price : **RM4.85** ↔

Share Price Performance



KLCI	1,604.30
YTD KLCI chg	-5.1%
YTD stock price chg	5.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IHH MK Equity
Market Cap (RM m)	49,924.0
Shares Outstanding	8,774.0
52-week range (H)	5.95
52-week range (L)	4.54
3-mth avg daily vol:	4,196,546
Free Float	18%
Beta	0.6

Major Shareholders

Mitsui & Co Ltd	32.9%
Pulau Memutik Ven Sdn Bhd	26.0%
Employees Provident Fund	7.5%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	11,520.0	12,903.4	14,233.2
PBT	752.5	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)	-	983.4	1241.4
Earnings Revision	-	-	-
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



Income Statement

FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Revenue	10,021.0	11,142.0	11,520.0	12,903.4	14,233.2
EBITDA	2,283.0	2,279.0	2,477.0	2,644.4	2,849.6
Dep & Amort	(799.8)	(978.08)	(939.16)	(945.10)	(950.61)
Op. Profit	1,864.4	1,770.2	1,537.9	1,699.3	1,899.0
PBT	1,353.0	1,129.9	752.5	1,582.7	1,697.2
Taxation	(299.0)	(334.6)	(262.6)	(379.9)	(407.3)
MI	(188.0)	(200.0)	137.8	(170.0)	(170.0)
Net Profit	612.4	970.0	627.7	1,032.9	1,119.9
Core net profit	866.0	595.3	1,027.6	1,032.9	1,119.9

Balance Sheet

FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Fixed Assets	13,140.5	13,141.6	14,605.2	14,700.1	14,789.5
Int. Assets	13,565.6	12,970.6	13,938.3	13,938.3	13,938.3
Other FA	5,883.2	4,668.5	6,035.2	6,035.2	6,035.2
Inventories	252.6	281.9	350.7	392.8	433.3
Receivables	1,241.7	1,489.6	1,960.0	2,195.2	2,421.4
Other CA	460.4	293.3	461.7	461.7	461.7
Cash	2,443.2	6,078.6	7,763.4	8,782.9	9,890.2
Total Assets	36,987.2	38,924.2	45,114.5	46,506.2	47,969.6
Payables	2,467.3	2,811.5	3,751.6	4,203.3	4,639.7
ST Borrowings	634.3	690.0	1,204.3	1,204.3	1,204.3
Ot. ST Liability	395.1	543.4	526.8	526.9	526.9
LT Borrowings	6,852.8	6,103.8	9,330.9	9,330.9	9,330.9
Ot. LT Liability	2,800.1	5,033.4	3,951.6	3,951.6	3,951.6
Minorities Int.	1,907.4	1,851.9	4,355.1	4,525.1	4,695.1
Net Assets	21,985.7	21,890.2	21,994.0	22,764.0	23,620.9
Share Capital	8,231.7	8,231.7	19,427.6	19,427.6	19,427.6
Reserves	5,568.9	5,427.2	4,231.9	5,001.9	5,858.8
Equity	21,985.7	21,890.2	21,994.0	22,764.0	23,620.9

Cashflow Statement

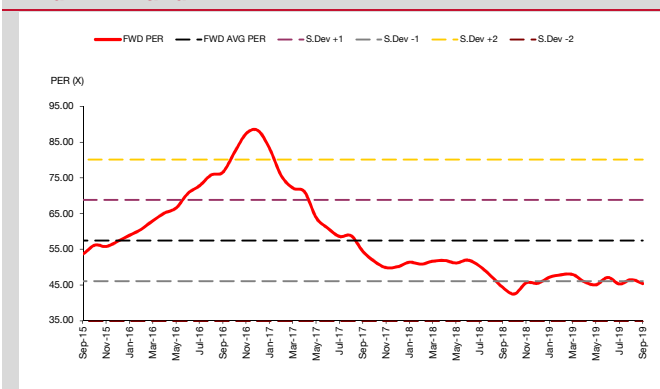
FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Operating CF	1,933.8	2,260.7	1,855.8	1,925.2	1,981.4
Investing CF	(1,671.4)	(98.6)	(1,250.2)	(1,000.0)	(1,000.0)
Financing CF	153.8	1,574.8	(1,041.4)	2,147.2	125.9
Change In Cash	416.1	3,736.9	(435.8)	3,072.4	1,107.3
Free CF	812.5	1,139.4	734.5	925.2	981.4

Source: Kenanga Research

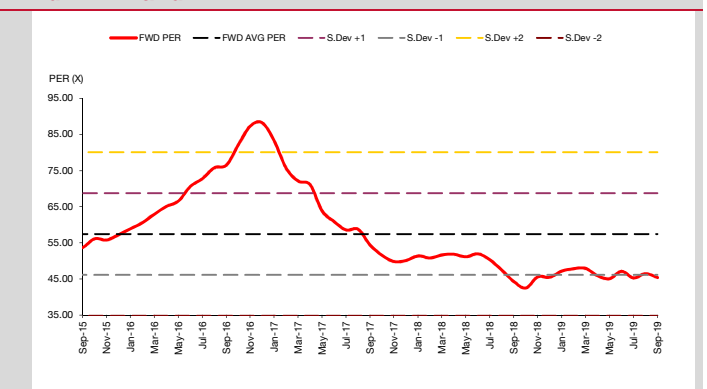
Financial Data & Ratios

FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Growth (%)					
Turnover	8.3	8.3	13.2	12.5	10.3
EBITDA	6.6	-0.2	8.7	6.7	7.8
Operating Profit	21.9	-5.1	-13.1	10.5	11.8
PBT	11.1	-16.5	-33.4	110.3	7.2
Net Profit /(loss)	-7.3	-31.3	72.6	0.5	8.4
Profitability (%)					
EBITDA Margin	22.8	20.5	21.5	20.5	20.0
Operating Margin	18.6	18.6	15.9	13.3	13.2
PBT Margin	13.5	10.1	6.5	12.3	11.9
Core Net Margin	8.6	5.3	5.4	8.0	7.9
Eff. Tax Rate	22.1	23.0	34.9	24.0	24.0
ROA	2.4	1.6	1.5	2.3	2.4
ROE	3.0	2.7	2.9	4.6	4.8
DuPont Analysis					
Net Margin (%)	8.6	5.3	5.4	8.0	7.9
Assets T/O (x)	3.7	3.5	3.9	3.6	3.4
Lev. Factor (x)	1.7	1.8	2.1	2.0	2.0
ROE (%)	3.9	2.7	2.9	4.6	4.8
Leverage					
Debt/Asset (x)	0.2	0.2	0.2	0.2	0.2
Debt/Equity (x)	0.3	0.5	0.5	0.5	0.4
Valuations					
EPS (sen)	10.7	7.2	7.2	12.0	13.2
NDPS (sen)	3.0	3.0	3.0	3.0	3.0
BVPS (RM)	2.73	2.66	2.51	2.60	2.70
PER (x)	53.9	80.1	49.4	49.1	45.3
Net Div. Yield(%)	0.5	0.5	0.5	0.5	0.5
EV/EBITDA (x)	22.3	20.9	21.2	19.5	17.7

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, 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	5.69	49924.0	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	0.90	3855.7	Y	12/2019	10.5	3.3	5.0	1.0	21.6	20.6	20.4	2.0	1.9	9.1	2.2	1.15	OP
PHARMANIAGA BERHAD	2.44	637.4	Y	12/2019	5.0	3.0	-1.6	-0.4	11.0	11.2	11.2	1.2	1.2	10.6	5.7	2.35	UP

Source: Bloomberg, Kenanga Research

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18 September 2019

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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