

COMPANY RESULTS

IHH Healthcare (IHH MK)

2Q22: Blip As Admissions See An Unequal Recovery

IHH saw an uneven recovery in patient volume admission as COVID-19-related contributions moderated as expected. Acibadem's solid domestic performance was dented by its hyper-inflationary environment as earnings were curtailed. This confluence of factors dragged on earnings, below our expectations. However, eventual admission recovery should support its earnings going forward. Maintain BUY with a target price of RM7.10.

2022 RESULTS

Year to 31 Dec (RMm)	2022	qoq % chg	yoy % chg	1H22	qoq % chg	Comments
Revenue	4,373.6	5.1	2.4	8,536.6	3.9	Inpatient admissions offset moderating COVID-19 contributions as revenue registers flattish growth.
Singapore	1,271.9	1.7	0.8	2,522.4	4.3	
Malaysia	759.8	7.8	14.7	1,464.4	14.9	
Acibadem	1,055.0	4.0	0.2	2,069.3	(2.1)	
Others	1,389.6	16.4	7.5	2,583.4	7.2	
EBITDA	1,308.7	31.0	1.4	2,307.6	2.3	
Singapore	408.3	3.2	(6.0)	804.0	(5.6)	
Malaysia	223.0	15.2	20.2	416.6	26.9	
Acibadem	195.5	(27.3)	(35.0)	464.6	(19.9)	
Others	132.5	(4.2)	(29.6)	270.8	(13.3)	
Net profit	612.1	24.1	26.6	1,105.4	28.7	
Core profit	317.5	(22.1)	(31.5)	725.0	(9.3)	Below ours but within consensus expectations.
Margins (%)	%	qoq +/- ppt	yoy +/- ppt	%	qoq +/- ppt	
EBITDA	29.9	5.9	-0.3	27.0	-0.4	
Core profit	7.3	-2.5	-3.6	8.5	-1.2	

Source: IHH, UOB Kay Hian

RESULTS

• **2Q22 below our estimate but within consensus expectations.** IHH Healthcare's (IHH) 2Q22 core profit of RM318m contracted 22.1% yoy (-31.5% qoq). It brought 1H22 core profit to RM725m (-9.3% yoy). It is below our estimate but within consensus full-year estimates at 42% and 45% of full-year earnings respectively. The negative variance is hyper-inflationary conditions weighing more than expected on Acibadem's contributions and shortfall in inpatient admission recovery to offset moderating COVID-19-related contributions.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	13,405	17,132	18,849	20,172	21,967
EBITDA	2,618	4,425	4,029	4,071	4,168
Operating profit	1,254	3,060	2,659	2,722	2,832
Net profit (rep./act.)	289	1,863	1,520	1,668	1,809
Net profit (adj.)	715	1,595	1,520	1,668	1,809
EPS (sen)	8.2	18.2	17.3	19.0	20.6
PE (x)	78.1	35.0	36.8	33.5	30.9
P/B (x)	2.6	2.5	2.4	2.2	2.1
EV/EBITDA (x)	23.9	14.2	15.6	15.4	15.0
Dividend yield (%)	0.6	0.6	0.6	0.6	0.6
Net margin (%)	2.2	10.9	8.1	8.3	8.2
Net debt/(cash) to equity (%)	25.2	17.1	5.5	(1.8)	(8.5)
Interest cover (x)	3.7	8.1	9.3	8.7	8.9
ROE (%)	1.3	8.4	6.6	6.9	7.1
Consensus net profit	-	-	1,642	1,868	2,083
UOBKH/Consensus (x)	-	-	0.93	0.89	0.87

Source: IHH Healthcare, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM6.37
Target Price	RM7.10
Upside	+11.5%
(Previous TP)	RM7.30

COMPANY DESCRIPTION

IHH Healthcare provides healthcare services. The company operates hospitals as well as medical centres, clinics and ancillary healthcare businesses across multiple countries, including Singapore, Malaysia, Turkey, The People's Republic of China, India, Hong

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	IHH MK
Shares issued (m):	8,802.7
Market cap (RMm):	58,185.9
Market cap (US\$m):	13,453.4
3-mth avg daily t'over (US\$m):	6.1

Price Performance (%)

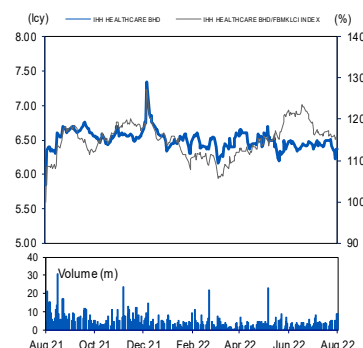
52-week high/low		RM7.34/RM5.17		
1mth	3mth	6mth	1yr	YTD
(1.2)	(0.9)	(1.7)	9.3	(13.2)

Major Shareholders

	%
Mitsui & Co.	32.8
Khazanah Nasional	25.6
EPF	9.7

FY22 NAV/Share (RM)	2.70
FY22 Net Debt/Share (RM)	0.16

PRICE CHART



Source: Bloomberg

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- **Malaysia almost back to pre-pandemic levels as moderating COVID-19 contributions weigh on Singapore.** Singapore operations' top-line was flattish at 0.8% yoy. This was amid flattish inpatient admission (-0.7% yoy) but higher revenue intensity (+21.9% yoy) attributed to better case mix with a higher proportion of acute patients seeking treatment. Inpatient admission remains 20% below pre-pandemic levels. The tapering of COVID-19-related revenue to 5% of revenue (1Q22: 22%) was a contributing factor to flattish revenue. EBITDA earnings contracted 6.0% yoy off lower margins. In contrast, Malaysia continues to realise a swift recovery in inpatient admission (+31.2% yoy). The higher elective case mix diluted revenue intensity (-7.1% yoy) as COVID-19 contributions moderated to 3% revenue (from 8% in 1Q22). EBITDA earnings grew 20% yoy off enhanced margins from the positive operating leverage.
- **Solid domestic performance but hyper-inflation translation weighs on Acibadem's contributions.** Meanwhile, Acibadem's revenue was flattish (+0.2% yoy) as patient volume (+11%) and revenue intensity in ringgit terms (+16% yoy, in local currency terms: +46%) grew. However due to the hyper-inflationary environment, earnings in ringgit terms contracted by 35%. Acibadem's operations contributed between 25-30% of EBITDA earnings previously. Meanwhile in India, absence of COVID-19-related contributions weighed on revenue (-2.0% yoy) despite registering positive inpatient volume (21.7% yoy).

SOTP VALUATION

	Value (RM m)	Value per share (RM)	Remarks
Sum of parts valuation			
Parkway Pantai Limited (100% equity stake)	39846	4.54	NPV of FCFF (7.3% WACC, 1.5% LTG)
Acibadem (90% equity stake)	11259	1.28	NPV of FCFF (17.6% WACC, 2.5% LTG)
Fortis (31.1% equity stake)	6424	0.73	NPV of FCFF (9.4% WACC, 3.0% LTG)
IMU Health (100% equity stake)	1509	0.17	25x 2022F PE; in line with SEG International's five-year mean
Parkway Life REIT (35.7% equity stake)	2846	0.32	
SOP Equity Value	61884	7.10	

Source: UOB Kay Hian

EARNINGS REVISION/RISK

- We cut our 2022-24 earnings forecasts by 12/7/10% to account for lower patient volume admission and Acibadem contributions. Key downside risks are: a) execution risk, b) shortfall in turning around Fortis, and c) heightened regulatory hurdles.

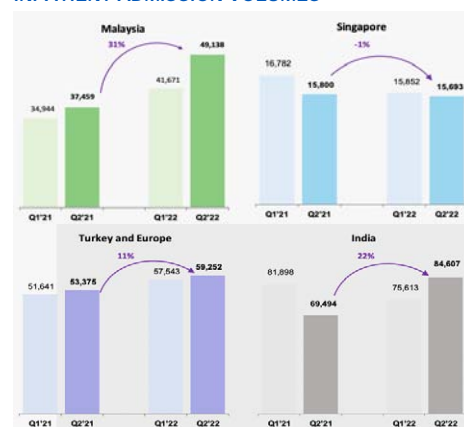
VALUATION

- **Maintain BUY with a lower SOTP-based target price of RM7.10 (from RM7.30).** Although we trimmed our earnings forecasts, our target price is unchanged as we roll over our earnings to 2023. Our SOTP-based target price implies 37.4x 2022F PE, or close to its -1SD of its five-year mean PE. Valuations appear attractive with: a) resilient yet defensive three-year earnings (2021-24F) CAGR of 4.2%, and b) IHH's sound track record. The attractive valuations outweigh the hyper-inflationary risks associated with Acibadem.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

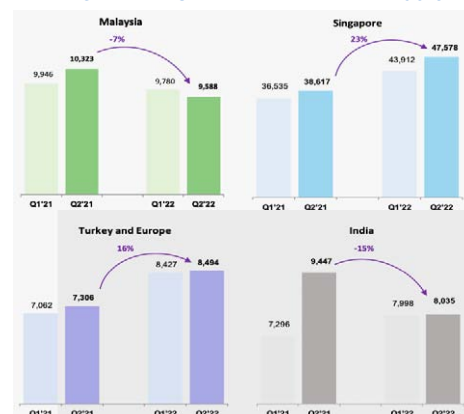
<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - Waste management. 15% of non-scheduled waste generated was diverted from landfills in 2020. Ensures that all medical waste and other toxins are treated before discharge or incinerated to protect public health. • Social <ul style="list-style-type: none"> - Diversity & inclusion. Hiring practices are non-discriminatory and equal opportunity is practiced at the workplace. • Governance <ul style="list-style-type: none"> - Board composition. IHH has a majority of Independent Non-Executive Directors (INED) on the board. INEDs make up 54% of the board composition.
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INPATIENT ADMISSION VOLUMES



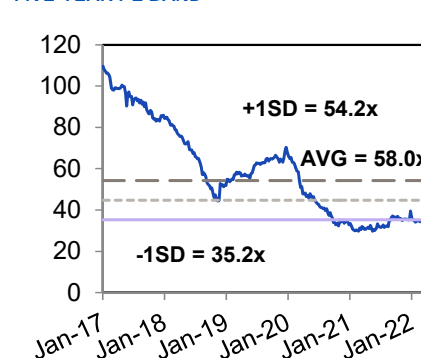
Source: IHH

AVERAGE REVENUE PER INPATIENT ADMISSION



Source: IHH

FIVE-YEAR PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	17,132	18,849	20,172	21,967
EBITDA	4,425	4,029	4,071	4,168
Deprec. & amort.	1,365	1,370	1,350	1,336
EBIT	3,060	2,659	2,722	2,832
Associate contributions	40	44	47	51
Net interest income/(expense)	(544)	(431)	(470)	(470)
Pre-tax profit	2,556	2,272	2,299	2,413
Tax	(379)	(547)	(512)	(572)
Minorities	(314)	(205)	(119)	(32)
Net profit	1,863	1,520	1,668	1,809
Net profit (adj.)	1,595	1,520	1,668	1,809

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	3,532	4,232	3,539	3,645
Pre-tax profit	2,556	2,272	2,299	2,413
Tax	(490)	(547)	(512)	(572)
Deprec. & amort.	1,484	1,370	1,350	1,336
Associates	(40)	(44)	(47)	(51)
Working capital changes	(240)	1,033	262	331
Non-cash items	544	431	470	470
Other operating cashflows	(282)	(282)	(282)	(282)
Investing	(822)	(1,003)	(1,057)	(1,111)
Capex (growth)	(1,027)	(1,100)	(1,150)	(1,200)
Investments	175	1	0	0
Others	31	96	93	89
Financing	(1,793)	(796)	(741)	(740)
Dividend payments	(594)	(351)	(351)	(351)
Issue of shares	0	0	0	0
Proceeds from borrowings	(540)	(93)	0	0
Others/interest paid	(659)	(352)	(390)	(389)
Net cash inflow (outflow)	917	2,434	1,742	1,794
Beginning cash & cash equivalent	4,188	5,018	7,451	9,193
Changes due to forex impact	(87)	0	0	0
Ending cash & cash equivalent	5,018	7,451	9,193	10,987

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	10,841	13,722	13,582	13,505
Other LT assets	26,137	23,357	23,673	23,999
Cash/ST investment	5,018	7,451	9,193	10,987
Other current assets	3,515	3,846	4,094	4,426
Total assets	45,510	48,376	50,542	52,917
ST debt	1,237	940	940	940
Other current liabilities	4,812	6,178	6,687	7,351
LT debt	7,609	7,814	7,814	7,814
Other LT liabilities	4,575	4,575	4,575	4,575
Shareholders' equity	22,425	23,594	24,911	26,368
Minority interest	4,852	5,276	5,615	5,869
Total liabilities & equity	45,510	48,376	50,542	52,917

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	25.8	21.4	20.2	19.0
Pre-tax margin	14.9	12.1	11.4	11.0
Net margin	10.9	8.1	8.3	8.2
ROA	4.1	3.2	3.4	3.5
ROE	8.4	6.6	6.9	7.1
Growth				
Turnover	27.8	10.0	7.0	8.9
EBITDA	69.0	(9.0)	1.1	2.4
Pre-tax profit	350.3	(11.1)	1.2	5.0
Net profit	544.7	(18.4)	9.7	8.5
Net profit (adj.)	122.9	(4.7)	9.7	8.5
EPS	122.9	(4.7)	9.7	8.5
Leverage				
Debt to total capital	24.5	23.3	22.3	21.4
Debt to equity	39.5	37.1	35.1	33.2
Net debt/(cash) to equity	17.1	5.5	(1.8)	(8.5)
Interest cover (x)	8.1	9.3	8.7	8.9

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