Securities

AFFIN HWANG CAPITAL

Out**think.** Out**perform.**

Results Note

IHH Healthcare

IHH MK

Sector: Healthcare & Pharmaceuticals

RM6.00 @ 19 May 2017

HOLD (maintain)

Upside: 9%

Price Target: RM6.56

Previous Target: RM6.47

Price Performance

	1M	3M	12M
Absolute	0.0%	-3.2%	-7.1%
Rel to KLCI	-1.6%	-6.5%	-14.2%

Stock Data

Issued shares (m)	8236.261
Mkt cap (RMm)/(US$m)	49417.6/11431.8
Avg daily vol - 6mth (m)	5.0
52-wk range (RM)	5.78-6.73
Est free float	18.4%
BV per share (RM)	2.67
P/BV (x)	2.25
Net cash/ (debt) (RMm) (1Q17)	(5,043.92)
Derivatives	Nil
Shariah Compliant	yes

Key Shareholders

Khazanah Nasional Bhd	41.1%
Mitsui & Co Ltd	18.0%
Employee Provident Fund	9.8%

Source: Affin Hwang, Bloomberg

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Darkest hour before dawn

1Q17 net profit doubled to RM470m, but core net profit was -15%yoy if we exclude gains from the partial divestment of non-core assets. IHH's core hospital operations were dragged down by new hospital start-up costs and pre-operating costs, which we had highlighted in a recent company update. We think these headwinds may persist in the near term, posing the risk of a downward consensus earnings revision. Maintain HOLD rating, with a slightly higher TP of RM6.56.

New hospital openings drag down profitability

1Q17 revenue rose by 8% yoy to RM2.684bn, but EBITDA declined by 6% yoy due to higher pre-opening and start-up losses from new hospitals. The 500-bed Gleneagles Hong Kong (GHK) and 350-bed Altunizade Hospital commenced operations in March 2017. Pre-operation losses for GHK were RM81.1m compared to RM38.4m in 4Q16. Core net profit declined by 15% yoy to RM201.8m due to incremental depreciation, amortization and finance costs with the opening of the 2 new hospitals. However, headline net profit doubled to RM470m due to an RM313.4m gain on the disposal of a 6.07% interest in Apollo Hospital Enterprise Limited done in early March.

The 1Q17 core net profit accounted for 21% and 18% of our and consensus full-year estimates, respectively. While it was slightly below consensus expectations, we view it as in line with our forecast as we expect stronger profit in the remaining 3 quarters when GHK and the Altunizade Hospital start to ramp up.

Maintain HOLD with slightly higher TP of RM 6.56

We fine-tune our FY17-19 net profit forecasts upon the release of IHH's 2016 annual report. We maintain our Hold rating with a slightly higher 12-month TP of RM6.56 (from RM 6.47). We like IHH for its aggressive expansion into regions where healthcare demand is underserved, and believe 2018 could be a better year when new hospitals start to contribute more meaningfully. Downside risk: geopolitical risk in Turkey; upside risk: lower-than-expected start-up costs.

Segmental 1Q17 results commentary

i. **PPL – Singapore.** Revenue grew 5% yoy to RM961.5m in 1Q17, driven by 4.1% yoy growth in inpatient admissions and revenue intensity growth of 2.9% yoy.

Earnings & Valuation Summary

FYE 31 Dec	2015	2016	2017E	2018E	2019E
Revenue (RMm)	8,455.5	10,021.9	11,685.3	13,541.6	15,166.9
EBITDA (RMm)	2,164.4	2,267.2	2,624.9	3,218.3	3,752.8
Pretax profit (RMm)	1,217.5	877.6	1,754.7	1,929.4	2,395.8
Net profit (RMm)	933.9	612.4	1,272.7	1,315.6	1,652.3
EPS (sen)	11.4	7.4	15.5	16.0	20.1
PER (x)	52.7	80.7	38.8	37.5	29.9
Core net profit (RMm)	899.2	866.0	960.8	1,315.6	1,652.3
Core EPS (sen)	11.0	10.5	11.7	16.0	20.1
Core EPS growth (%)	14.3	(4.0)	11.0	36.9	25.6
Core PER (x)	54.8	57.0	51.4	37.5	29.9
Net DPS (sen)	3.0	2.0	4.1	4.2	5.3
Dividend Yield (%)	0.5	0.3	0.7	0.7	0.9
EV/EBITDA (x)	25.9	24.9	21.3	17.2	14.3
Chg in EPS (%)			0.8	1.1	0.5
Affin/Consensus (x)			0.9	1.0	1.0

Source: Company, Affin Hwang estimates

ii. **PPL – Malaysia.** Revenue grew by 13% yoy to RM441.4m, on 3.1% yoy growth in inpatient admissions and revenue intensity (+10.3% yoy) driven by more complex cases and pricing adjustments.

iii. **PPL – India and Hong Kong.** India's operation saw a rise of 14.1% yoy in inpatient admissions and 3.1% yoy in revenue intensity. Pre-operational costs for Gleneagles Hong Kong were RM81.1m (vs. RM38.4m in 4Q16) as it commenced operations in late March and the top line contribution was minor.

iv. **Acibadem Holdings.** Revenue grew 9% yoy to RM914.8m. The consolidation of Bulgaria hospitals contributed to 33.8% yoy inpatient admissions growth and revenue intensity increased by 4.0%yoy. EBITDA declined by 7% yoy due to RM5.2m pre-operation losses of Acibadem Altunizade, higher operating costs and the depreciation of the Turkish Lira against the USD.

Fig 1: Results Comparison

FYE Dec (RMm)	1Q17	QoQ % chg	YoY % chg	Comments
Revenue	2,684.8	*2.0*	*8.5*	Growth mainly driven by organic inpatient volume growth across hospitals in all regions.
Op costs	(2,117.8)	*(2.2)*	*13.2*	
EBITDA	567.0	*1.3*	*(6.2)*	
EBITDA margin (%)	*21.1*	*-0.1ppt*	*-3.3ppt*	Margin eroded due to higher pre-opening costs of 2 new hospitals which commenced operations in March.
Depn and amort	(215.6)	*6.5*	*7.7*	
EBIT	351.4	*(1.6)*	*(13.0)*	
EBIT margin (%)	13.1	*-0.5ppt*	*-3.2ppt*	
Int expense	(90.1)	*(34.7)*	*40.2*	
Int and other inc	43.3	*(45.5)*	*142.9*	
Associates & JVs	2.1	*(50.4)*	*(40.6)*	
EI	219.4	*nm*	*nm*	IHH recorded an RM313.4m gain on the disposal of a 6.07% interest in Apollo Hospital Enterprise Limited. However, this was partially offset by an RM94m forex loss on Acibadem's borrowing.
Pretax profit	**526.1**	***nm***	***48.1***	
Core pretax	**306.7**	***1.2***	***(15.1)***	
Tax	(81.8)	*151.3*	*(1.8)*	
Tax rate (%)	15.5	*nm*	*-7.9ppt*	
MI	25.8	*(60.2)*	*nm*	
Net profit	**470.0**	*nm*	*99.6*	
EPS (sen)	5.7	*nm*	*99.3*	
Core net profit	**201.8**	*(9.3)*	*(15.3)*	Accounted for 21% of our full-year estimate of RM960.8m.

Source: Affin Hwang, Company data

Fig 2: Segmental Breakdown

FYE Dec	1Q16	2Q16	3Q16	4Q16	1Q17	QoQ % pt chg	YoY % pt chg
Revenue (RMm)	**2,475.4**	**2,473.2**	**2,441.8**	**2,631.5**	**2,684.8**	***2.0***	***8.5***
PPL - Singapore	913.5	873.0	882.1	894.7	961.5	*7.5*	***5.3***
PPL - Malaysia	391.3	397.6	417.6	414.1	441.4	*6.6*	***12.8***
PPL - North Asia	67.3	67.1	56.3	68.6	65.6	*-4.4*	***-2.5***
PPL - India	127.8	133.0	149.3	150.1	161.4	*7.5*	***26.3***
PPL - Others	44.2	36.0	37.9	43.7	44.2	*1.1*	***0.1***
Acibadem Holdings	836.0	867.9	808.7	967.6	914.8	*-5.5*	***9.4***
IMU Health	58.2	65.9	55.0	58.0	62.9	*8.5*	***8.1***
Plife REIT	30.9	32.3	34.4	34.0	32.5	*-4.3*	***5.1***
Others	6.3	0.5	0.6	0.6	0.5	*-12.5*	***-91.7***
EBITDA (RMm)	**604.2**	**556.6**	**546.8**	**559.6**	**567.0**	***1.3***	***-6.2***
PPL - Singapore	237.3	216.8	213.7	245.3	283.2	***15.4***	***19.3***
PPL - Malaysia	106.7	99.6	129.0	95.5	128.9	***34.9***	***20.9***
PPL - North Asia	10.8	2.3	-12.1	-28.8	-73.9	***61.0***	***nm***
PPL - India	-3.1	7.7	8.7	14.0	2.1	***-85.2***	***nm***
PPL - Others	21.8	16.9	15.1	6.9	11.8	***70.5***	***-46.0***
Acibadem Holdings	157.8	159.6	83.8	136.9	146.3	***6.9***	***-7.3***
IMU Health	23.2	26.8	19.5	16.0	27.4	***71.1***	***18.4***
Plife REIT	65.0	65.0	67.8	89.0	69.0	***-22.5***	***6.1***
Others	-15.3	-38.2	21.3	-15.3	-27.7	***45.0***	***44.9***
EBITDA Margin (%)	**24%**	**23%**	**22%**	**21%**	**21%**	***0%***	***-3%***
PPL - Singapore	26%	25%	24%	27%	29%	***2%***	***3%***
PPL - Malaysia	27%	25%	31%	23%	29%	***6%***	***2%***
PPL - North Asia	16%	3%	-22%	-42%	-113%	***-71%***	***nm***
PPL - India	-2%	6%	6%	9%	1%	***-8%***	***4%***
PPL - Others	49%	47%	40%	16%	27%	***11%***	***-23%***
Acibadem Holdings	19%	18%	10%	14%	16%	***2%***	***-3%***
IMU Health	40%	41%	35%	28%	44%	***16%***	***4%***
Plife REIT	210%	201%	197%	262%	212%	***-50%***	***2%***
Others	-242%	-7727%	3624%	-2542%	-5284%	***-2742%***	***-5042%***

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

This report is printed and published by:
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