

28 February 2025

Consumer Non-cyclical | Healthcare

## IHH Healthcare (IHH MK)

**Buy** (Maintained)

### Dragged By Higher Finance Cost; Keep BUY

Target Price (Return): MYR8.70 (19.0%)  
 Price (Market Cap): MYR7.31 (USD14,498m)  
 ESG score: 3.0 (out of 4)  
 Avg Daily Turnover (MYR/USD) 36.8m/8.26m

- **Maintain BUY with a lower MYR8.70 TP (SOP) from MYR9.10, 19% upside.** IHH Healthcare reported 2024 core earnings of MYR1,685m – below expectations – accounting for 94% and 87% of our and consensus’ estimates. The weaker-than-expected results were largely due to higher staff and finance costs (from higher prevailing interest rates and borrowings taken to finance the purchase of Island Hospital Penang). IHH is currently trading at 12x EV/EBITDA, 0.2SD below its 5-year historical mean.
- **Results overview.** Revenue from the hospital and healthcare (H&H) division increased 13% YoY to MYR5.9bn, driven by sustained demand for quality healthcare services (with hospitals in all four countries reporting YoY revenue growths), a better patient case mix with more acute patients, and timely price adjustments to counter inflation. On a sequential basis, the H&H segment managed to churn out 2% QoQ growth despite the seasonally weaker period, supported by higher inpatient volume from Malaysia and Turkey.
- **Segmental breakdown.** IHH’s all key geographic regions (except Singapore) posted robust YoY growth in revenue intensity and inpatient admissions. Singapore’s inpatient admission fell 1% YoY as [Mount Elizabeth Hospital](#) underwent its first major refurbishment. Its Malaysia patient admission volume grew 2% QoQ following the consolidation of Island Hospital Penang on 4 Nov 2024. IHH Laboratories reported 20% YoY growth in EBITDA on the back of higher test volumes (+8% YoY).
- **Outlook.** We remain upbeat on IHH’s strategic plan for both organic and inorganic growth over the mid-to-long terms. As at Dec 2024, the group had added 1,004 beds on top of its total bed expansion target of 4,000 beds (by 2028). The remaining expansion pipeline will focus primarily on the developing market (ie Malaysia and India), providing the opportunity for IHH to tap into regions where quality healthcare is scarce. We maintain our positive view on IHH’s long-term prospects as we like the group’s solid execution strategy, reputable regional footprint across key regions driven by its strong brand awareness, inelastic demand nature towards healthcare services, and focus on affluent clientele to provide earnings resiliency.
- **Earnings estimate and valuation.** Post results, we lowered our 2025-2026 earnings by 3% and 1% to take into account higher finance cost. Our SOP-derived TP is revised lower to MYR8.70, implying 14x FY25F EV/EBITDA – 0.9SD above its 5-year historical average. We continue to like IHH for its reputable regional footprint across key regions, robust expansion pipeline, and resilient demand for healthcare services. We incorporate a 0% ESG to our intrinsic value as IHH’s ESG score is the same as the country median.
- **Key downside risks:** Lower-than-expected patient volume/revenue intensity, unfavourable regulatory measures, and higher-than-expected operating costs.

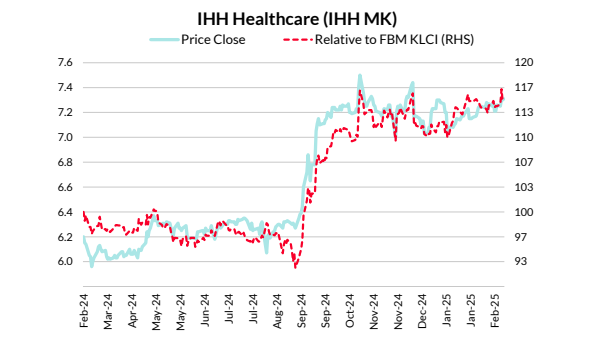
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.1	1.1	0.8	16.0	17.9
Relative	3.5	(0.7)	1.9	20.0	16.1
52-wk Price low/high (MYR)	5.96 – 7.50				



Source: Bloomberg

Forecasts and Valuation	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Total turnover (MYRm)	20,935	24,383	26,053	27,725	29,358
Recurring net profit (MYRm)	1,279	1,685	1,768	1,835	1,877
Recurring net profit growth (%)	(9.0)	31.7	4.9	3.8	2.3
Recurring P/E (x)	50.32	38.25	36.46	35.12	34.33
P/B (x)	2.2	2.1	2.1	2.0	1.9
P/CF (x)	17.12	15.04	10.28	13.92	13.57
Dividend Yield (%)	2.5	1.4	0.8	0.9	0.5
EV/EBITDA (x)	15.39	14.25	11.89	11.61	11.26
Return on average equity (%)	10.7	9.0	5.7	5.7	5.6
Net debt to equity (%)	22.6	36.5	24.3	17.6	10.6

Source: Company data, RHB

**Overall ESG Score: 3.0 (out of 4)**

**E Score: 3.0 (GOOD)**  
**S Score: 3.0 (GOOD)**  
**G Score: 3.0 (GOOD)**

Please refer to the ESG analysis on the next page

## Emissions And ESG

Trend analysis	Emissions (tCO2e)	Dec-22	Dec-23	Dec-24	Dec-25
Installed renewable energy power system on the hospital's rooftop for energy generation while reducing carbon emissions.	Scope 1	55,463	-	-	-
	Scope 2	181,271	-	-	-
	Scope 3	-	-	-	-
	Total emissions	236,734	na	na	na

Source: Company data, RHB

## Latest ESG-Related Developments

The group is committed to reduce Scope 1 and 2 carbon intensity per patient bed-day.

## ESG Unbundled

Overall ESG Score: 3.0 (out of 4)

Last Updated: 21 Dec 2024

E Score: 3.0 (GOOD)

IHH has set a net zero carbon plan by 2050, which entails initiatives such as reducing carbon footprint per patient, establishing a carbon footprint baseline from hospital operations, and increasing energy efficiency. The group also adopted the 3R method (Reduce, Reuse, and Recycle) in handling general waste.

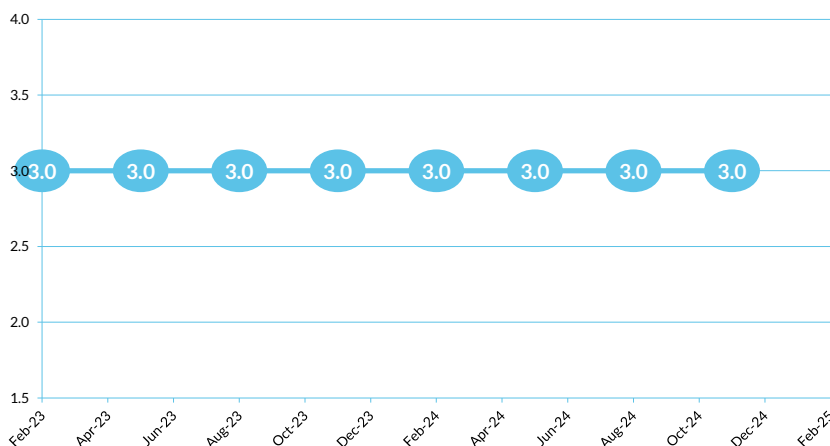
S Score: 3.0 (GOOD)

IHH's CR Programme that aims to tackle disease burden of cancer and cardiovascular diseases via health screening is expected to expand its footprint in at least two of its key market by 2023. The group's community-oriented hospitals allow it to better capture the fast-growing middle-income segment in Asia and offer patients in the region affordable quality care.

G Score: 3.0 (GOOD)

45% of its board members are independent, and 27% are female. The female percentage of total directors is below the Malaysian Code on Corporate Governance requirement of 30%. Additionally, IHH provides full disclosure on its directors' remuneration. The group holds investor briefings regularly, embodying good transparency and disclosure practices.

## ESG Rating History



Source: RHB

## Financial Exhibits

Asia	Financial summary (MYR)	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Malaysia	Recurring EPS	0.15	0.19	0.20	0.21	0.21
Consumer Non-cyclical	DPS	0.19	0.10	0.06	0.06	0.04
<b>IHH Healthcare</b>	BVPS	3.30	3.42	3.56	3.70	3.88
IHH MK	Return on average equity (%)	10.7	9.0	5.7	5.7	5.6
Buy						
	<b>Valuation metrics</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
<b>Valuation basis</b>	Recurring P/E (x)	50.32	38.25	36.46	35.12	34.33
SOP	P/B (x)	2.2	2.1	2.1	2.0	1.9
	FCF Yield (%)	2.8	1.6	6.9	4.4	4.5
	Dividend Yield (%)	2.5	1.4	0.8	0.9	0.5
<b>Key drivers</b>	EV/EBITDA (x)	15.39	14.25	11.89	11.61	11.26
i. Inpatient volume;	EV/EBIT (x)	22.96	21.73	17.97	17.89	17.69
ii. Revenue intensity;						
iii. SGD/MYR and TRY/MYR.						
	<b>Income statement (MYRm)</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
<b>Key risks</b>	Total turnover	20,935	24,383	26,053	27,725	29,358
i. Mandatory takeover offer (MTO) overhang on Fortis;	Gross profit	14,698	17,563	17,947	18,941	19,915
ii. Lower-than-expected patient volumes/revenue intensity;	EBITDA	4,578	5,300	6,066	6,066	6,075
iii. Higher-than-expected operating costs.	Depreciation and amortisation	(1,510)	(1,824)	(2,051)	(2,130)	(2,209)
	Operating profit	3,068	3,475	4,015	3,936	3,866
	Net interest	(839)	(792)	(1,281)	(1,097)	(960)
	Pre-tax profit	4,049	3,756	2,760	2,866	2,932
	Taxation	(658)	(594)	(656)	(681)	(697)
	Reported net profit	2,952	2,657	1,768	1,835	1,877
	Recurring net profit	1,279	1,685	1,768	1,835	1,877
	<b>Cash flow (MYRm)</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
	Change in working capital	(472)	(341)	2,160	320	309
	Cash flow from operations	3,759	4,285	6,267	4,630	4,748
	Capex	(1,944)	(3,239)	(1,825)	(1,825)	(1,825)
	Cash flow from investing activities	(936)	(8,247)	(1,783)	(1,783)	(1,783)
	Dividends paid	(2,037)	(882)	(530)	(551)	(353)
	Cash flow from financing activities	(3,999)	3,033	(1,916)	(1,936)	(1,738)
	Cash at beginning of period	3,664	2,379	1,510	4,078	4,988
	Net change in cash	(1,175)	(929)	2,568	910	1,227
	Ending balance cash	2,302	1,505	4,078	4,988	6,215
	<b>Balance sheet (MYRm)</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
	Total cash and equivalents	2,665	2,319	4,887	5,797	7,024
	Tangible fixed assets	20,533	23,778	23,805	23,754	23,623
	Total investments	4,486	5,070	5,054	5,039	5,023
	Total assets	50,192	56,759	59,165	60,264	61,594
	Short-term debt	1,909	3,803	3,784	3,765	3,747
	Total long-term debt	8,063	10,894	9,738	8,581	7,425
	Total liabilities	17,834	22,851	23,683	23,149	22,597
	Total equity	32,359	33,908	35,482	37,115	38,997
	Total liabilities & equity	50,192	56,759	59,165	60,264	61,594
	<b>Key metrics</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
	Revenue growth (%)	16.4	16.5	6.8	6.4	5.9
	Recurrent EPS growth (%)	(9.0)	31.6	4.9	3.8	2.3
	Gross margin (%)	70.2	72.0	68.9	68.3	67.8
	Operating EBITDA margin (%)	21.9	21.7	23.3	21.9	20.7
	Net profit margin (%)	14.1	10.9	6.8	6.6	6.4
	Dividend payout ratio (%)	55.5	33.2	30.0	30.0	18.8
	Capex/sales (%)	9.3	13.3	7.0	6.6	6.2
	Interest cover (x)	3.26	3.26	3.03	3.24	3.50

Source: Company data, RHB

Figure 1: IHH's results snapshot

	4Q23	3Q24	4Q24	QoQ (%)	YoY (%)	2023	2024	YoY (%)	Comments
Revenue	5,292.6	5,643.0	6,692.0	18.6	26.4	20,934.8	24,383.5	16.5	Revenue growth was driven by higher inpatients admission, consolidation of newly acquired hospitals and higher revenue intensity
EBITDA	1,069.6	1,299.0	1,425.0	9.7	33.2	4,645.1	5,439.0	17.1	
EBITDA margin (%)	20.2	23.0	21.3	(1.7)	1.1	22.2	22.3	0.1	
Depreciation	(387.0)	(384.0)	(510.0)	32.8	31.8	(1,510.9)	(1,734.0)	14.8	
EBIT	682.6	915.0	915.0	0.0	34.0	3,134.3	3,705.0	18.2	
EBIT margin (%)	12.9	16.2	13.7	(2.5)	0.8	15.0	15.2	0.2	
Interest expense	(246.3)	(224.0)	(341.0)	52.2	38.5	(940.7)	(1,065.4)	13.3	
Associates	8.8	8.0	7.0	(12.5)	(20.0)	26.3	28.4	8.4	
EI	495.4	10.0	434.0	4,240.0	(12.4)	1,793.1	1,043.9	(41.8)	
Pretax profit	701.6	824.0	1,101.0	33.6	56.9	4,049.3	3,756.6	(7.2)	
Pretax margin (%)	13.3	14.6	16.5	1.9	24.1	19.3	15.4	(3.9)	
Tax	114.7	(172.0)	(263.0)	52.9	(329.4)	(658.3)	(594.2)	(9.7)	
Effective tax rate (%)	16.5	(21.1)	(24.0)	(3.0)	(245.3)	(16.4)	(15.9)	0.4	
Minority interest	(88.8)	(118.0)	(106.0)	(10.2)	19.4	(439.1)	(505.4)	15.1	
Net profit	727.5	534.0	732.0	37.1	0.6	2,951.9	2,657.0	(10.0)	
Net margin (%)	13.7	9.5	10.9	1.5	(2.8)	14.1	10.9	(3.2)	
Core net profit	265.5	528.0	317.0	(40.0)	19.4	1,279.2	1,684.8	31.7	FY24 results were within our expectation, accounting for 94% of our expectation (87% of Street's estimate)
Core net margin (%)	5.0	9.4	4.7	(4.6)	(0.3)	6.1	6.9	0.8	

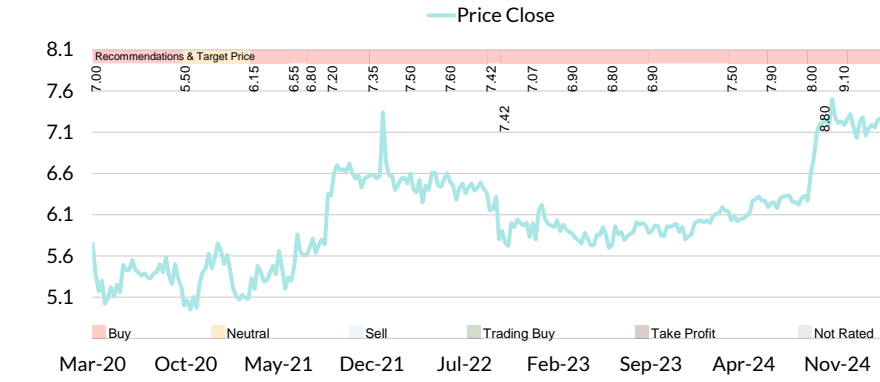
Source: Company data, RHB

Figure 2: SOP valuation

Segment	Basis	Multiple (x)	Value (MYR,m)
Hospital operations (Malaysia, Singapore, China, and Turkey)	EV/EBITDA	14	78,225
Fortis Healthcare	Market value (31.2% stake)		7,312
Parkway Life REIT	Market value (35.6% stake)		3,036
JV and Associates			138
<b>Total</b>			<b>88,727</b>
Net debt			(7,848)
Minority Interests			(4,104)
<b>Equity value</b>			<b>76,759</b>
Share outstanding (m)			8,817
<b>Intrinsic value</b>			<b>8.70</b>
ESG Premium/(Discount)		0%	0.00
<b>Target price</b>			<b>8.70</b>

Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-11-29	Buy	9.10	7.26
2024-09-30	Buy	8.80	7.16
2024-08-30	Buy	8.00	6.27
2024-05-30	Buy	7.90	6.19
2024-03-01	Buy	7.50	6.14
2023-09-01	Buy	6.90	5.88
2023-06-01	Buy	6.80	5.74
2023-03-02	Buy	6.90	5.89
2022-12-01	Buy	7.07	5.79
2022-09-28	Buy	7.42	5.93
2022-08-28	Buy	7.42	6.37
2022-05-27	Buy	7.60	6.60
2022-02-25	Buy	7.50	6.48
2022-02-24	Buy	7.35	6.40
2021-12-01	Buy	7.35	6.57

Source: RHB, Bloomberg

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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
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