

6 December 2024

Consumer Non-cyclical | Healthcare

IHH Healthcare (IHH MK)

Buy (Maintained)

Healthcare In Action: A Day Trip To Penang

Target Price (Return): MYR9.10 (+25%)
 Price (Market Cap): MYR7.30 (USD14,446m)
 ESG score: 3.0 (out of 4)
 Avg Daily Turnover (MYR/USD) 61.6m/14.2m

- **Maintain BUY and MYR9.10 TP, 25% upside.** We came away feeling upbeat following our visit to IHH Healthcare's hospitals in Penang. To recap, IHH completed the acquisition of Island Hospital (IHSB) in November, solidifying its position alongside Gleneagles and Pantai Hospital in Penang. We expect IHH's assets in Penang to continue contributing positively to its Malaysia earnings driven by the affluent population and Penang's thriving health tourism (HT) sector. We incorporate a 0% ESG premium/discount to our TP.
- **Key takeaways from the visit.** We were pleasantly surprised by IHSB's pioneering role as the top HT hospital in Penang. Its foreign-to-local patient mix of 60:40% is a key testament to providing the best-in-class patient outcome for healthcare travellers. Given the proximity between IHSB and Gleneagles Hospital Penang (GHPG) being just a stone-throw away, management sees ample opportunity to transfer part of the high-intensity patients to IHSB given GHPG's bed occupancy rate (BOR) is already at 80%.
- **Penang's demographic.** Penang is one of Malaysia's most densely-populated states with 1.8m residents and has the fifth highest average [household income](#) in the country according to Department of Statistics Malaysia (DOSM). The state is not only a major tourist destination, but has also become the most established HT spot in Malaysia. Pre-COVID-19 pandemic, Penang generated HT revenue of MYR750m – accounting for 45% of the country's HT revenue. A key factor of Penang being a top HT destination is its cultural similarity to Medan, Indonesia (the majority of residents in both areas are descendants of immigrants from Fujian, China, and speak the Hokkien dialect). This is on top of the short travelling distance between the two cities, as well as the availability of medical tourist-friendly hotels.
- **Consolidation of Island Hospital.** The acquisition of IHSB was completed on 4 Nov, funded via the issuance of *sukuk* (100% debt) amounting to MYR4bn. We learned that the funding cost was sub-4% and we deem the rate to be competitive. All else being equal, we expect IHSB to contribute 20% of IHH's Malaysia EBITDA in 2025, driven by a projected 40% EBITDA growth next year. We expect IHSB to be earnings accretive by 2026 (after accounting for depreciation and finance cost of MYR260m).
- **Earnings revision and valuation.** We make no changes to our earnings for IHH as we had previously baked in IHSB to our estimates. Our SOTP-derived TP of MYR9.10 implies 16x FY25F EV/EBITDA, which is 0.4SD above its 5-year historical average. We still like IHH due to its reputable regional footprint across key regions, expansion pipeline (+33% bed capacity by 2028), and resilient demand for healthcare services. Key risks include lower-than-expected patient volumes and revenue intensity.

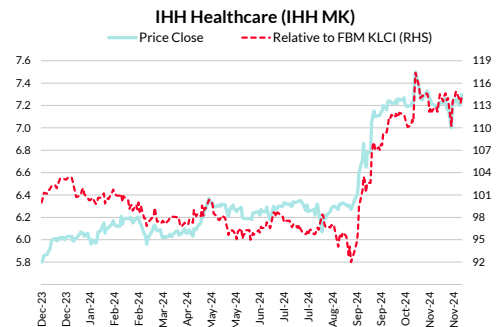
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	21.1	(0.4)	14.2	17.9	25.0
Relative	10.1	(0.2)	17.6	18.0	13.8
52-wk Price low/high (MYR)	5.80 – 7.50				



Source: Bloomberg

Overall ESG Score: 3.0 (out of 4)

E: 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: GOOD

IHH's CR Programme that aims to tackle disease burden of cancer and cardiovascular disease via health screening is expected to expand its footprint in at least 2 of its key market by 2023. The Group via its 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: 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.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	17,989	20,935	23,075	25,014	26,420
Recurring net profit (MYRm)	1,405	1,279	1,787	1,823	1,858
Recurring net profit growth (%)	(8.1)	(9.0)	39.7	2.0	1.9
Recurring P/E (x)	45.73	50.26	35.97	35.26	34.61
P/B (x)	2.5	2.2	2.1	2.0	2.0
P/CF (x)	17.52	17.10	12.32	14.56	14.25
Dividend Yield (%)	1.0	2.5	1.1	0.9	0.9
EV/EBITDA (x)	15.34	15.37	13.94	12.92	12.53
Return on average equity (%)	6.4	10.7	6.0	5.9	5.8
Net debt to equity (%)	23.6	22.6	25.9	19.5	13.4

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.16	0.15	0.20	0.21	0.21
Consumer Non-cyclical	DPS	0.07	0.19	0.08	0.06	0.06
IHH Healthcare	BVPS	2.98	3.30	3.43	3.57	3.72
IHH MK	Return on average equity (%)	6.4	10.7	6.0	5.9	5.8
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	45.73	50.26	35.97	35.26	34.61
SOP	P/B (x)	2.5	2.2	2.1	2.0	2.0
	FCF Yield (%)	3.0	2.8	(0.8)	4.0	4.2
Key drivers	Dividend Yield (%)	1.0	2.5	1.1	0.9	0.9
i. Inpatient volume;	EV/EBITDA (x)	15.34	15.37	13.94	12.92	12.53
ii. Revenue intensity;	EV/EBIT (x)	25.26	22.93	21.53	20.70	20.46
iii. SGD/MYR and TRY/MYR.						
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks	Total turnover	17,989	20,935	23,075	25,014	26,420
i. Mandatory takeover offer or MTO overhang on Fortis;	Gross profit	12,491	14,698	15,813	17,081	17,933
ii. Lower-than-expected patient volumes/revenue intensity;	EBITDA	4,558	4,578	5,171	5,455	5,492
iii. Higher-than-expected operating costs.	Depreciation and amortisation	(1,791)	(1,510)	(1,824)	(2,051)	(2,130)
	Operating profit	2,767	3,068	3,346	3,405	3,362
	Net interest	(544)	(839)	(679)	(684)	(589)
	Pre-tax profit	2,217	4,049	2,693	2,747	2,799
	Taxation	(572)	(658)	(640)	(653)	(666)
	Reported net profit	1,548	2,952	1,787	1,823	1,858
	Recurring net profit	1,405	1,279	1,787	1,823	1,858
	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	550	(472)	1,502	278	257
	Cash flow from operations	3,668	3,759	5,217	4,416	4,513
	Capex	(1,716)	(1,944)	(5,749)	(1,825)	(1,825)
	Cash flow from investing activities	(1,854)	(936)	(5,717)	(1,794)	(1,794)
	Dividends paid	(713)	(2,037)	(715)	(547)	(557)
	Cash flow from financing activities	(2,920)	(3,999)	1,899	(1,933)	(1,943)
	Cash at beginning of period	5,018	3,664	2,379	3,778	4,467
	Net change in cash	(1,106)	(1,175)	1,399	690	776
	Ending balance cash	3,541	2,302	3,778	4,467	5,243
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	3,913	2,665	4,064	4,753	5,529
	Tangible fixed assets	18,568	20,533	24,707	24,735	24,683
	Total investments	4,206	4,486	4,481	4,476	4,470
	Total assets	48,467	50,192	55,817	56,823	57,750
	Short-term debt	1,816	1,909	1,890	1,871	1,852
	Total long-term debt	8,974	8,063	10,907	9,751	8,594
	Total liabilities	19,308	17,834	22,120	21,579	20,930
	Total equity	29,159	32,359	33,697	35,244	36,821
	Total liabilities & equity	48,467	50,192	55,817	56,823	57,750
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	5.0	16.4	10.2	8.4	5.6
	Recurrent EPS growth (%)	(8.3)	(9.0)	39.7	2.0	1.9
	Gross margin (%)	69.4	70.2	68.5	68.3	67.9
	Operating EBITDA margin (%)	25.3	21.9	22.4	21.8	20.8
	Net profit margin (%)	8.6	14.1	7.7	7.3	7.0
	Dividend payout ratio (%)	39.8	55.5	40.0	30.0	30.0
	Capex/sales (%)	9.5	9.3	24.9	7.3	6.9
	Interest cover (x)	4.21	3.26	4.47	4.29	4.68

Source: Company data, RHB

Figure 1: Land (owned by IHSB) for future expansion



Source: Company

Figure 2: Medicine dispensary area at IHSB



Source: Company

Figure 3: Artist impression of Pantai Hospital Penang (Blocks A and B)



Source: Company

Figure 4: IHSB's radiotherapy machine - Varian's TrueBeam Linear Accelerator



Source: Company

Figure 5: SOP valuation

Segment	Basis	Multiple (x)	Value (MYR,m)
Hospital operations (MY, SG, CN, and Turkey)	EV/EBITDA	14	77,881
Fortis Healthcare	Market value (31.2% stake)		8,923
Parkway Life REIT	Market value (35.6% stake)		2,976
JV and Associates			141
Total			89,921
Net debt			(5,844)
Minority Interests			(3,790)
Equity value			80,287
Share outstanding (m)			8,807
Intrinsic value			9.10
ESG Premium/(Discount)		0%	0.00
Target Price			9.10

Source: RHB

Emissions And ESG

Trend analysis

Install renewable energy power system on the hospital's rooftop for energy generation while reducing carbon emission.

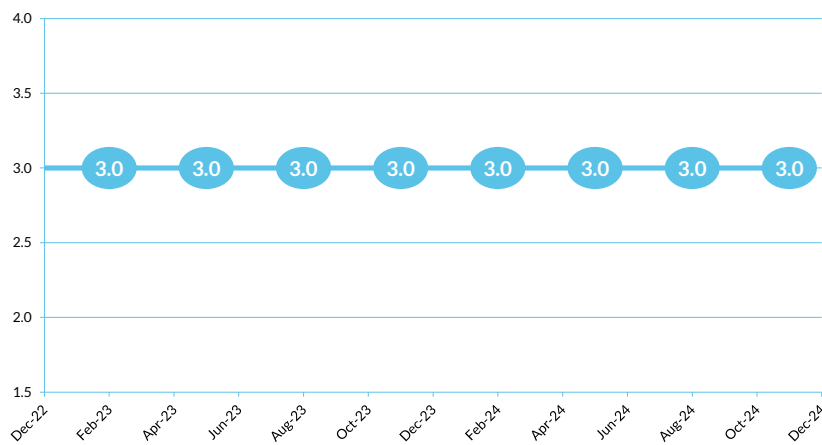
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	-	55,463	-
Scope 2	-	181,271	-
Scope 3	-	-	-
Total emissions	na	236,734	na

Source: Company data, RHB

Latest ESG-Related Developments

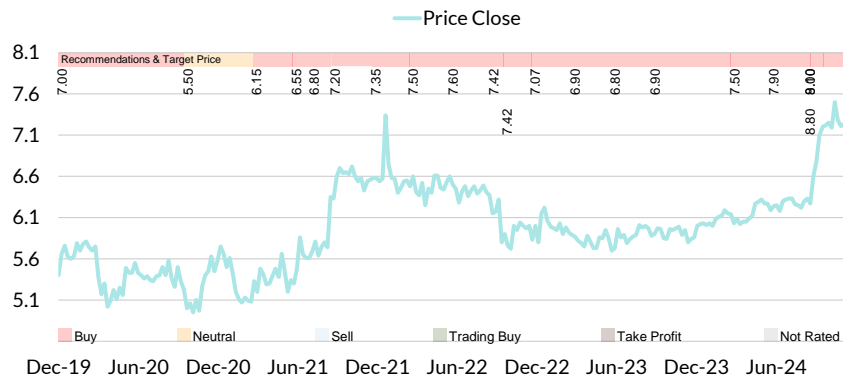
- The company is committed to reduce Scope 1 and 2 carbon intensity per patient bed-day

ESG Rating History



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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Analyst	Company
-	-

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