

21 July 2022

Consumer Non-cyclical | Healthcare

Siloam International Hospitals (SILO IJ)

Buy (Maintained)

All Efforts On Weathering The Storm; Stay BUY

Target Price (Return):	IDR1,150 (15.6%)
Price (Market Cap):	IDR995 (USD864m)
ESG score:	2.90 (out of 4)
Avg Daily Turnover (IDR/USD)	1,985m/0.14

Analyst

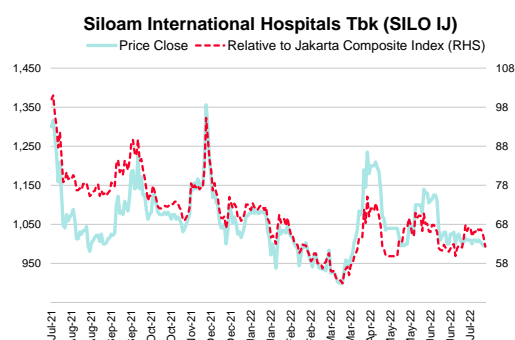
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.2)	(0.5)	(16.7)	2.4	(23.5)
Relative	(11.7)	1.0	(11.8)	(1.3)	(37.7)
52-wk Price low/high (IDR)				900 – 1,356	



Source: Bloomberg

Overall ESG Score: 2.90 (out of 4)

E: GOOD

SILO is constantly aware of the increasing responsibilities of environmental conservation. The company partners with responsible organisations to ensure all requirements are fulfilled. SILO has clear policies on waste management procedures, given the hazardous nature of its medical waste. The company also conducts water waste management activities and a number of energy-saving initiatives. We have not yet obtained detailed insights on energy, electricity reduction, and future targets.

S: GOOD

SILO conducts CSR activities for surrounding communities, especially on healthcare services. It maintains that healthcare services are intertwined with the welfare of the people, whether they be patients, hospital staff, visitors, or the surrounding community. The company is committed to ensuring employee safety and welfare, for both internal and outsourced employees.

G: GOOD

SILO continues to comply with current regulations, such as regularly conducting shareholder meetings and ensuring equal distribution of public information to all stakeholders. Nonetheless, we have concerns over its governance issues, as SILO's earnings were negative before. There have also been prior related party issues.

- **Keep BUY, new IDR1,150 TP from IDR11,800 post 1:8 stock split, 15% upside with c.1% yield.** We trim our FY22F-24F earnings by 26.6%, 18.5%, and 17.7%. We think the high number of COVID-19 cases in 2021 provided a high base for Siloam International Hospitals that will be hard to replicate in 2022, though the traffic of non-COVID-19 patients remains solid. Several strategies to promote growth – eg digitalisation and centres of excellence to enhance intensity – remain in place. This bodes well for SILO's long-term potential.
- **Minimal margins impacts from rising COVID-19 cases.** Despite a surge in COVID-19 cases of late, we see the impact as minimal for hospital players, including SILO. The fatality and severity of cases remain under control thanks to a high vaccination rate (81.4% of the targeted population is fully vaccinated). Bed occupancy – specifically for COVID-19 – remains low, at 3-4% for isolation and intensive care chambers. This should translate into a minimal impact to SILO's 3Q22 results. Note: During the Omicron infections in 1Q22, COVID-19-related revenue only made up c.2.9% vs 18.3% a year ago. We deem the lower government reimbursements on COVID-19 cases could further decrease margins in 2022. We estimate EBITDA margins to contract 5-6% YoY in 2022.
- **All efforts to boost non-COVID-19 patients.** The pick-up in non-COVID-19 patients has been solid, albeit remaining low in February on Omicron infections. SILO expects the positive trajectory to persist. However, we have concerns over its recovery in 2Q22 due to the long holiday during *Lebaran*. It managed to benefit from the easing tourism restrictions, particularly from its hospitals in Bali, as hospitals there recorded their best quarter in 1Q22 since 1Q20. Additionally, the company plans to add more centres of excellence in oncology, cardiology, neurology, fertility, and kidney transplants, which should increase the number of patients and enhance margins in our view.
- **Multitude avenues of growth.** SILO integrated its hospital information system with MySiloam apps, which enables patients to access their medical records and results in a more efficient way. In 1Q22, the number of patients using this digital channel increased by 273% YoY. This digital initiative should help SILO reach even more patients. In addition, the company also employs a work for managed services model where external investors provide capital and hospital facilities whilst SILO only takes a percentage of revenue. This might help the company to expand with a lower capex. We have not factored this initiative into our model given the unclear details.
- **We apply a 2% ESG discount** – based on our ESG proprietary model – to SILO, given its ESG score of 2.9, which is below the country median of 3.0.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (IDRb)	7,110	9,382	8,508	9,887	11,103
Recurring net profit (IDRb)	157	804	495	690	833
Recurring net profit growth (%)	(74.7)	412.8	(38.4)	39.4	20.8
Recurring P/E (x)	82.55	16.10	26.15	18.76	15.52
P/B (x)	2.2	2.0	1.9	1.8	1.7
P/CF (x)	10.39	6.05	10.46	9.74	7.40
Dividend Yield (%)	na	1.7	0.8	0.6	1.3
EV/EBITDA (x)	10.03	5.48	6.78	5.56	4.53
Return on average equity (%)	1.9	10.8	5.7	7.8	9.0
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (IDR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Indonesia	Recurring EPS	12.05	61.81	38.05	53.04	64.09
Consumer Non-cyclical	DPS	-	17.28	7.78	5.81	12.63
Siloam International Hospitals	BVPS	462.52	496.97	518.61	554.77	593.81
SILO IJ	Return on average equity (%)	1.9	10.8	5.7	7.8	9.0
Buy						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Valuation basis	Recurring P/E (x)	82.55	16.10	26.15	18.76	15.52
Our 12M TP is based on a 10-years DCF	P/B (x)	2.2	2.0	1.9	1.8	1.7
	FCF Yield (%)	(1.8)	10.5	15.0	5.6	8.5
Key drivers	Dividend Yield (%)	-	1.7	0.8	0.6	1.3
i. Recovery of Non-COVID-19 patients;	EV/EBITDA (x)	10.03	5.48	6.78	5.56	4.53
ii. Prudent expansion plan;	EV/EBIT (x)	25.70	9.64	13.14	9.58	7.24
iii. Underpenetrated healthcare industry in Indonesia.						
	Income statement (IDRb)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Key risks	Total turnover	7,110	9,382	8,508	9,887	11,103
i. Lower than expected margin of non-COVID-19 patients;	Gross profit	2,331	3,617	2,946	3,468	3,927
ii. Execution risk.	EBITDA	1,260	2,108	1,475	1,712	1,919
	Depreciation and amortisation	(768)	(909)	(713)	(718)	(720)
Company Profile	Operating profit	492	1,199	762	995	1,199
SILO remains as one of the Indonesia leading hospital players. The company has a vast presence across Indonesia. It offers comprehensive medical services.	Net interest	(80)	(46)	(18)	(20)	(20)
	Pre-tax profit	310	973	581	784	965
	Taxation	(185)	(273)	(165)	(196)	(241)
	Reported net profit	116	674	378	547	673
	Recurring net profit	157	804	495	690	833
	Cash flow (IDRb)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	358	238	131	(18)	279
	Cash flow from operations	1,245	2,137	1,236	1,328	1,748
	Capex	(1,478)	(773)	706	(605)	(642)
	Cash flow from investing activities	(878)	(773)	587	(764)	(731)
	Dividends paid	0	(225)	(101)	(76)	(164)
	Cash flow from financing activities	226	(356)	(733)	(42)	(128)
	Cash at beginning of period	314	908	1,915	3,005	3,527
	Net change in cash	593	1,007	1,090	522	888
	Ending balance cash	908	1,914	3,005	3,527	4,416
	Balance sheet (IDRb)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	908	1,915	3,005	3,527	4,416
	Tangible fixed assets	4,880	4,744	3,325	3,212	3,134
	Total assets	8,428	9,304	9,387	10,489	11,194
	Short-term debt	103	190	8	15	22
	Total long-term debt	502	303	28	56	87
	Total liabilities	2,409	2,780	2,603	3,230	3,419
	Total equity	6,018	6,524	6,785	7,259	7,776
	Total liabilities & equity	8,428	9,304	9,387	10,489	11,194
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	1.3	32.0	(9.3)	16.2	12.3
	Recurrent EPS growth (%)	(74.7)	412.8	(38.4)	39.4	20.8
	Gross margin (%)	32.8	38.6	34.6	35.1	35.4
	Operating EBITDA margin (%)	17.7	22.5	17.3	17.3	17.3
	Net profit margin (%)	1.6	7.2	4.4	5.5	6.1
	Dividend payout ratio (%)	0.0	33.3	26.8	13.8	24.4
	Capex/sales (%)	20.8	8.2	(8.3)	6.1	5.8
	Interest cover (x)	5.39	18.44	13.55	15.22	16.34

Source: Company data, RHB

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Figure 1: DCF valuation

IDRbn	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
EBIT	762	995	1,199	1,407	1,630	1,879	2,145	2,429	2,731	3,022	3,333
EBIT (1-t)	596	798	958	1,118	1,291	1,485	1,691	1,912	2,146	2,372	2,616
Depreciation & amortisation	713	718	720	721	721	707	691	670	645	646	640
Change in WC	(116)	(419)	223	(241)	(177)	(208)	(218)	(228)	(238)	(251)	(272)
Capex	(706)	(605)	(642)	(685)	(727)	(637)	(647)	(652)	(650)	(1,500)	(1,626)
Net free cash flow to firm	1,900	492	1,259	914	1,109	1,347	1,517	1,702	1,903	1,267	1,358
Terminal value											12,930
PV	1,900	436	991	638	687	741	740	737	731	431	4,317
Total discounted firm value	12,347										
Less: Net debt	(2,987)										
Less: Minority interest	93										
Equity value	15,242										
Number of shares (bn)	13.0										
Equity value per share (IDR)	1,172										

Source: Company data, RHB

Figure 2: Changes in estimates

Income statement (IDRbn)	New			Old			New/old (%)		
	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F
Total turnover	8,508	9,887	11,103	8,740	10,304	11,781	(2.7)	(4.0)	(5.8)
Gross profit	2,946	3,468	3,927	3,575	4,247	4,889	(17.6)	(18.3)	(19.7)
Operating profit	762	995	1,199	1,110	1,353	1,619	(31.4)	(26.5)	(25.9)
EBITDA	1,475	1,712	1,919	2,292	2,715	3,084	(35.6)	(36.9)	(37.8)
Pre-tax profit	581	784	965	782	962	1,173	(25.7)	(18.5)	(17.7)
Net profit	378	547	673	515	671	818	(26.6)	(18.5)	(17.7)
Key metrics									
EPS (IDR)	233	337	415	317	413	504	(26.7)	(18.4)	(17.7)
Revenue growth (%)	(9.3)	16.2	12.3	10.0	17.9	14.3			
EPS growth (%)	(44.1)	44.8	23.1	(17.0)	30.1	21.9			
EBITDA margin (%)	17.3	17.3	17.3	26.2	26.3	26.2			
Net profit margin (%)	4.4	5.5	6.1	5.9	6.5	6.9			

Source: Company data, RHB

Figure 3: RHB vs Street estimates

IDRbn	RHB			Consensus			RHB/consensus (%)		
	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F
Net revenue	8,508	9,887	11,103	8,487	9,456	10,529	100.2	104.6	105.5
Gross profit	2,946	3,468	3,927	3,153	3,544	4,085	93.4	97.8	96.1
EBITDA	1,475	1,712	1,919	1,830	2,081	2,356	80.6	82.3	81.5
EBIT	762	995	1,199	964	1,111	1,347	79.1	89.5	89.0
Profit before tax	581	784	965	792	942	1,141	73.3	83.2	84.6
NPAT	378	547	673	478	579	682	79.1	94.5	98.7

Source: Company data, RHB

Recommendation Chart

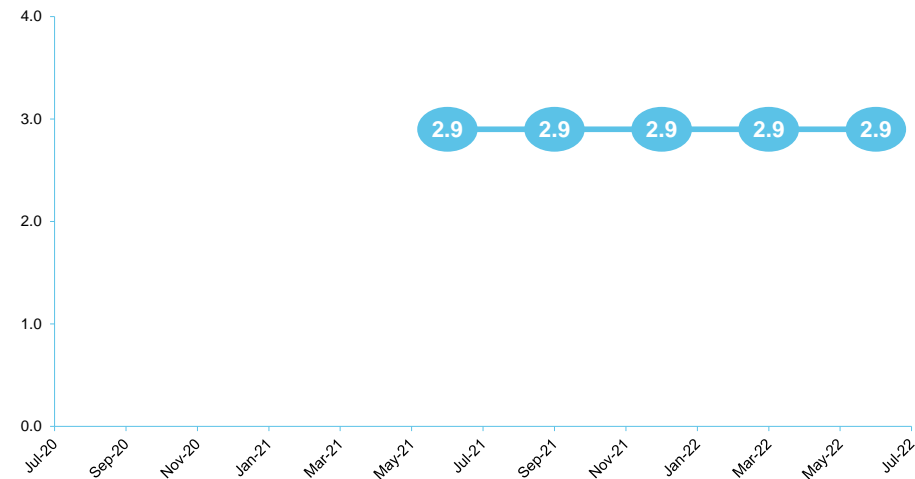


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-11-19	Buy	11,800	1,166
2021-10-21	Buy	11,000	1,075
2021-07-08	Not Rated	na	1,125

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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