

1 November 2021

Consumer Non-cyclical | Healthcare

Siloam International Hospitals (SILO IJ)

Buy (Maintained)

3Q21 Results KTA: A Sterling 3Q21; Keep BUY

Target Price (Return): IDR11,000 (+28%)
Price (Market Cap): IDR8,600 (USD987m)
ESG score: 2.90 (out of 4)
Avg Daily Turnover (IDR/USD) 2,359m/0.16m

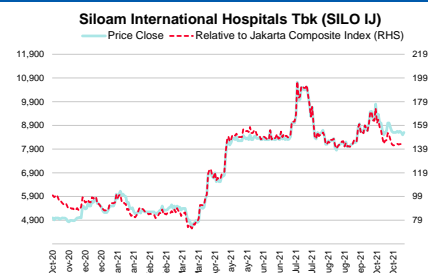
Analyst

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- **Keep BUY and IDR11,000 TP, 28% upside with c.2% FY21F yield.** Siloam International Hospitals booked 3Q21 earnings of IDR229bn (+43.8% QoQ, +181.7% YoY). Its net margin was 9.1% (vs 4-6% for 2Q21 and 3Q20). This took earnings to IDR532bn in 9M21 – a significant improvement from 9M20's loss of IDR49bn. SILO's 9M21 earnings are also stronger than estimated, at 86% and 103% of our and Street full-year projections.
- **Measured expansion pace, supported by strong net cash position.** The company aims to maintain its plan of expanding at a pace that is more measured. It admitted that previous aggressive expansion strategies have impacted margins. As such, we pencil in our expectation of two new hospitals opening from 2021 onwards. SILO aims to have more brownfield-type expansion plans, which should enable it to grow more rapidly. This is made more plausible by its solid liquidity – it has about IDR900bn in cash reserves as of end-Sep 2021. It is also considering buying the space on which several of its hospitals are situated from landlords, which should cut rental expenses ahead.
- **Managing the impact of government intervention.** The Government recently decided to further reduce the price of COVID-19 test kits. This could adversely impact SILO's performance, even though revenue from COVID-19-related testing only makes up about 16% of total turnover. Nonetheless, SILO believes the impact of this price cut could be manageable, as it can negotiate with suppliers to reduce kit-buying costs. Margins were maintained, even though SILO adjusted its projections four times over the last 18 months. Also, SILO believes that cutting the price of testing kits may also push smaller players out of the industry – which could trigger a consolidation. This, if it happens, will benefit larger players like SILO.
- **Still upbeat on 2022F.** Management believes COVID-19 will still be around, as the pandemic becomes endemic. SILO may continue to benefit from people needing booster shots for vaccines, and continued testing (albeit on a smaller scale). Also, it noted that due to travel restrictions, some people who normally travel overseas for medical treatment have resorted to local healthcare facilities instead. Meanwhile, SILO's telemedicine business – which incurs lower costs while making it more convenient for patients to access services – has done well. Management is positive on the growth of its hospital network and upgrade in facilities, which should bear fruit faster than expected due to increased medical needs stemming from COVID-19. Note that 12 out of its 18 previously non-profitable hospitals have turned around into the black.
- **Higher focus on digitalisation.** The company has increased its focus on IT development. SILO has created a centralised database for its entire network to improve margins. This also enables it to operate more efficiently, while having a clearer picture of costs and patient histories. It recently launched MySiloam, its proprietary telemedicine platform. Around 10% of the outpatient visits are managed through this mobile application, creating room for further monetisation. It also invested in Pixa, which is a medical diagnostics assistant using artificial intelligence, which may help bolster business ahead.

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	56.4	(6.0)	2.7	4.9	72.0
Relative	46.2	(13.0)	(5.0)	(4.7)	43.5
52-wk Price low/high (IDR)	4,600 – 10,725				



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. It has clear policies on waste management procedures, given the hazardous nature of its medical waste. SILO also conducts water waste management activities and a number of energy-saving initiatives. However, we have not obtained detailed insights on energy, electricity reduction, and future targets.

S: Good

SILO conducts corporate social responsibility activities for surrounding communities, especially on healthcare services. It maintains that healthcare services are intertwined with the welfare of the people – 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 governance issues, as earnings were negative before. There have also been prior related party issues.

Note:

Small cap stocks are defined as companies with a market capitalization of less than USD1bn.

Forecasts and Valuation	Dec-18	Dec-19	Dec-20	Dec-21F	Dec-22F
Total turnover (IDRb)	5,965	7,018	7,110	7,947	8,740
Recurring net profit (IDRb)	33	619	157	732	641
Recurring net profit growth (%)	(75.2)	1,767.3	(74.7)	367.4	(12.4)
Recurring P/E (x)	421.48	22.57	89.19	19.08	21.79
P/B (x)	2.2	2.4	2.3	2.2	2.0
P/CF (x)	89.80	20.69	11.22	7.00	7.36
Dividend Yield (%)	na	na	na	1.6	0.7
EV/EBITDA (x)	19.76	14.73	10.85	6.29	6.54
Return on average equity (%)	0.3	(5.5)	1.9	10.0	7.8
Net debt to equity (%)	0.7	0.1	net cash	6.6	14.1

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (IDR)	Dec-18	Dec-19	Dec-20	Dec-21F	Dec-22F
Indonesia	Recurring EPS	20.40	381.02	96.43	450.73	394.68
Consumer Non-cyclical	DPS	-	-	-	139.07	57.34
Siloam International Hospitals	BVPS	3,868.61	3,656.17	3,700.18	3,947.49	4,206.72
SILO IJ	Return on average equity (%)	0.3	(5.5)	1.9	10.0	7.8
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	421.48	22.57	89.19	19.08	21.79
Our 12M TP of IDR11,000 is based on a 10-year DCF (WACC: 10.6%, terminal growth: 5%).	P/B (x)	2.2	2.4	2.3	2.2	2.0
	FCF Yield (%)	(12.2)	(0.3)	(1.7)	(3.0)	(2.6)
	Dividend Yield (%)	-	-	-	1.6	0.7
Key drivers	EV/EBITDA (x)	19.76	14.73	10.85	6.29	6.54
i. Rising COVID-19 cases;	EV/EBIT (x)	47.07	42.53	27.81	11.28	13.50
ii. Prudent expansion plan;						
iii. Underpenetrated healthcare industry in Indonesia.						
	Income statement (IDRb)	Dec-18	Dec-19	Dec-20	Dec-21F	Dec-22F
Key risks	Total turnover	5,965	7,018	7,110	7,947	8,740
i. Faster-than-expected slowdown of new COVID-19 cases;	Gross profit	1,929	2,200	2,331	3,490	3,575
ii. Timely execution risks;	EBITDA	711	953	1,260	2,300	2,292
iii. Trading liquidity.	Depreciation and amortisation	(413)	(623)	(768)	(1,017)	(1,181)
	Operating profit	299	330	492	1,283	1,110
Company Profile	Net interest	(25)	(49)	(80)	(138)	(153)
Siloam International Hospitals is one of Indonesia's leading hospital players. The company has a vast presence nationwide and offers a comprehensive range of medical services.	Pre-tax profit	166	(150)	310	986	782
	Taxation	(140)	(183)	(185)	(296)	(219)
	Reported net profit	16	(339)	116	621	515
	Recurring net profit	33	619	157	732	641
	Cash flow (IDRb)	Dec-18	Dec-19	Dec-20	Dec-21F	Dec-22F
	Change in working capital	(208)	305	358	197	182
	Cash flow from operations	156	675	1,245	1,997	1,898
	Capex	(1,861)	(713)	(1,478)	(2,411)	(2,266)
	Cash flow from investing activities	(916)	(591)	(878)	(2,509)	(2,343)
	Dividends paid	0	0	0	(226)	(93)
	Cash flow from financing activities	46	14	226	(20)	294
	Cash at beginning of period	930	216	314	908	376
	Net change in cash	(714)	98	593	(531)	(151)
	Ending balance cash	216	314	908	376	225
	Balance sheet (IDRb)	Dec-18	Dec-19	Dec-20	Dec-21F	Dec-22F
	Total cash and equivalents	216	314	908	376	225
	Tangible fixed assets	4,080	4,170	4,880	6,274	7,359
	Total assets	7,695	7,742	8,428	9,635	10,662
	Short-term debt	66	159	103	137	202
	Total long-term debt	196	164	502	668	992
	Total liabilities	1,378	1,754	2,409	3,155	3,782
	Total equity	6,317	5,988	6,018	6,480	6,880
	Total liabilities & equity	7,695	7,742	8,428	9,635	10,662
	Key metrics	Dec-18	Dec-19	Dec-20	Dec-21F	Dec-22F
	Revenue growth (%)	12.4	17.7	1.3	11.8	10.0
	Recurrent EPS growth (%)	(75.2)	1767.3	(74.7)	367.4	(12.4)
	Gross margin (%)	32.3	31.3	32.8	43.9	40.9
	Operating EBITDA margin (%)	11.9	13.6	17.7	28.9	26.2
	Net profit margin (%)	0.3	(4.8)	1.6	7.8	5.9
	Dividend payout ratio (%)	0.0	0.0	0.0	36.4	18.1
	Capex/sales (%)	31.2	10.2	20.8	30.3	25.9
	Interest cover (x)	7.23	6.30	5.39	8.73	6.91

Source: Company data, RHB

Figure 1: Summary of results

	3Q20	2Q21	3Q21	QoQ (%)	YoY (%)	9M20	9M21	YoY (%)	FY21/ 2021F	FY21/ Cons
Sales	1,826	2,727	2,505	(8.1)	37.2	5,001	7,144	42.8	90%	91%
COGS	1,205	1,846	1,527	(17.3)	26.7	3,425	4,377	27.8		
Gross profit	620	881	978	11.0	57.6	1,577	2,766	75.4	62%	82%
Operating expenses	430	577	605	4.8	40.9	1,335	1,757	31.6		
Operating profit	191	303	373	22.8	95.4	242	1,009	317.1	79%	91%
Net interest income/(expense)	(39)	(13)	(11)	(16.2)	(70.9)	(120)	(36)	(70.0)		
Interest income	3	4	6	33.6	73.4	7	13	86.1		
Interest expense	(42)	(18)	(17)	(4.5)	(60.0)	(128)	(50)	(61.2)		
FX gain (expense)	-	-	-							
Other income/(expense)	(23)	(63)	(33)	(47.5)	42.0	(70)	(175)	152.1		
Total other income (costs)	(62)	(76)	(44)	(42.0)	(28.5)	(190)	(211)	11.3		
Pretax profit	129	227	328	44.6	154.8	52	798	1,435.5		
Taxation	(43)	(64)	(89)	40.3	110.4	(95)	(245)	158.0		
Minority interest	(5)	(4)	(10)	142.1	98.0	(6)	(21)	257.7		
Net profit	81	159	229	43.8	181.7	(49)	532	(1,190.2)	86%	103%
<u>Margins(%)</u>										
Gross margin (%)	34.0	32.3	39.0			31.5	38.7			
Operating margin (%)	10.4	11.1	14.9			4.8	14.1			
Pretax margin (%)	7.1	8.3	13.1			1.0	11.2			
Net margin (%)	4.5	5.8	9.1			(1.0)	7.4			
<u>Turnover days</u>										
Inventory Days	17	13	16			18	17			
Receivable Days	56	39	46			61	48			
Payable Days	24	16	22			25	23			
CCC days	49	35	39			54	42			

Source: Company data, RHB

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Recommendation Chart

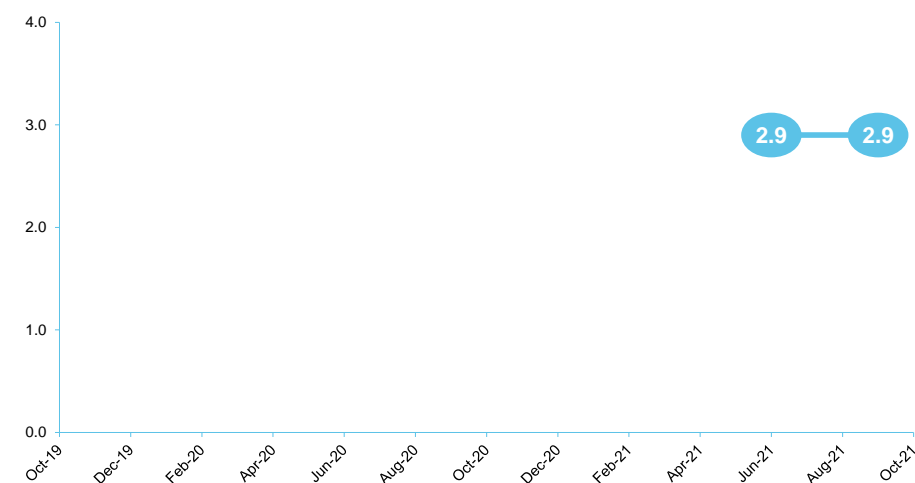


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-10-21	Buy	11,000	8,600
2021-07-08	Not Rated	na	9,000

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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