20 December 2022

Hold

SeekingOmega[SG]

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IHH Healthcare

Stock

Ticker	Q0F
Exchange	SGX
Date	20Dec22Y
Current Price	SGD1.80
52-Week Low	SGD1.68
52-Week High	SGD2.23
Target Price	SGD1.96
Upside	+8.9%
Recommendation	Hold

Source: Bloomberg

Company

Incorporated	Malaysia
Industry	Health Care
Sector	Providers & Services
Exchange	Bursa and SGX
MarketCap	SGD15.9B
Shares Outstanding	8 806M
Free float	13.9%
ATDV60d	0.08%
IPO Date	25Jul12Y

Source: Bloomberg

Highlights, 22E

EBITDA	RM4.2B
EBITDA Margin	23.2%
NTM EV/EBITDA	14.0x
NTM P/CFO	15.5x
Return on Equity	6.04%
Benchmark	SGXHC
Beta	0.21
Cost of Equity	6.68%
Dividend Yield	0.94%
Leverage	2x
Bloomberg ESG	32.7

Source: Bloomberg

Executive Summary

We initiate coverage on IHH Healthcare with a HOLD recommendation based on DCF analysis using levered free cash flow valuation model, with a target price of SGD1.96 per share. The price represents an upside of 8.9% on the last closing price of SGD1.80, indicating that the current market prices accurately reflect the fair price. Valuation was conducted based on the following factors:

ROE Improvement as a core strategy fosters quality, not quantity

Mitsui's activism ensures focus on enhancing shareholder return through the revised strategy comprising of cluster strategy and capital efficient growth. The ROE is projected to be 6.0% in 22Y, representing a substantial advancement from 2.7% in 17Y. This stems from the robust cycle of raising capital through disposal of nonperforming assets and acquiring new ones in accordance with their cluster strategy.

Fortis Court Case remains a question mark, dragging on investor confidence

The acquisition cycle, on which ROE Improvement depends on, can be distorted. As a case in point, the ongoing conflict between the Singh Brothers and Daiichi Sankyo has jeopardised the IHH-Fortis acquisition deal. IHH is claiming this issue will be resolved in the near future, but considering the problem has already dragged further investments in the region for over 4Y, market is starting to lose faith, as shown in the September 22Y 6% price drop – a response to the Indian Supreme Court order of a forensic audit into the matter. Ultimately, IHH expansion and ROE Improvement are exposed to vulnerability and are not foolproof.

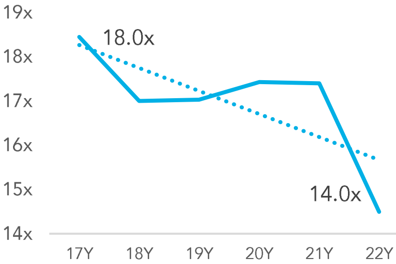
Governance and other ESG considerations raise concerns and needs to be clarified

The Board and Management consists of experienced professionals in the healthcare business, yet there are some details that pose an issue with regards to governance. The CEO, CFO, and COO hold shares in PLife REIT, an indirect subsidiary of IHH. As more than 50% of the REIT's revenue comes from Parkway Health, a direct subsidiary of IHH, the lack of clarification into any safeguard measures to address this potential conflict of interest raises concerns. Moreover, CEO's cash bonuses are not capped, which may lead to excessive risk taking. Furthermore, excessive ownership concentration with Mitsui and Khazanah holding more than 58% of IHH exposes minority shareholders to risks. Other concerns include gender composition of directors and lack of overall ESG data disclosure.

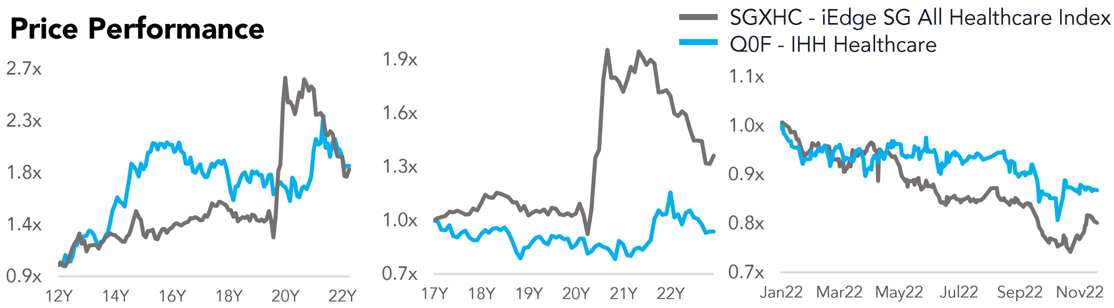
Improved financials indicate IHH is converging with industry, yet a way to go

Initially falling behind in terms of performance and operational efficiency, IHH has been catching up with its peers since the ownership shift in the late 18Y. Specifically, lagging behind the 5Y industry average of 7.5%, IHH's 5Y average profit margin of 5.9% is expected to grow to 9.4% in 23-25Y. However, though an uptrend is observed and further advancement is expected, its pace and magnitude are limited. The reasons behind are the company's size and geography, plans to continue expansion, tight economic conditions, and the saturated market. In parallel, the apt price multiples, EV/EBITDA and P/CFO, indicates that IHH's price-to-earnings dynamic, though moves align with the industry, has outperformed it in the 17-22Y period, meaning the company's market price has been approaching its fair value ground.

Forward EV/EBITDA



Price Performance



Sources: Refinitiv, Team Analysis.