Recommendation:

BUY

TARGET PRICE:

SGD 2.40 (+32%)

CURRENT PRICE:

SGD 1.83



IHH HEALTHCARE BERHAD

SGX: Q0F



3 key growth drivers



ACQUISITIONS IN UNDERSERVED MARKETS, INCREASING PROFITS

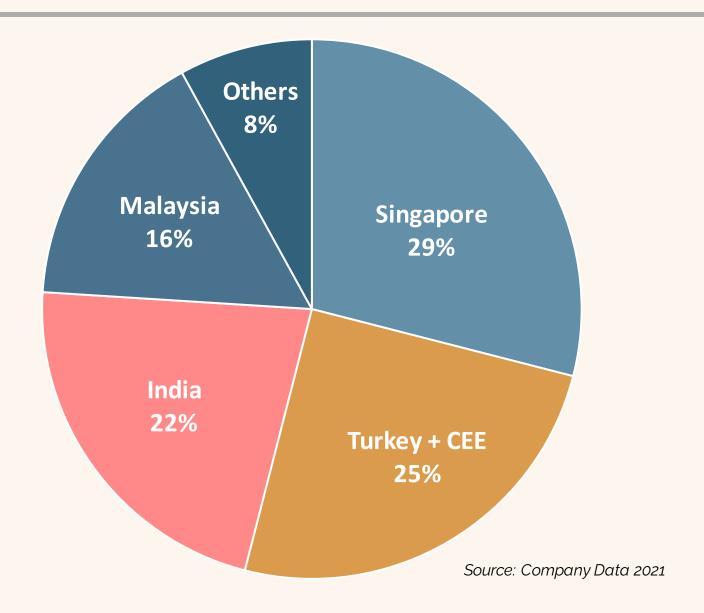


FIRST ADOPTER OF ADVANCED TREATMENTS, MAKING IHH A PREFERRED PARTNER FOR SPECIALISTS



FOCUS ON SPECIALISED TREATMENT CAPTURES MED TOURISM

Diversified revenues of RM17.1bn from dominance in 4 key regions



IHH one of few players able to treat any complexity of illness

Primary Care clinics

General medication

Secondary Care hospitals

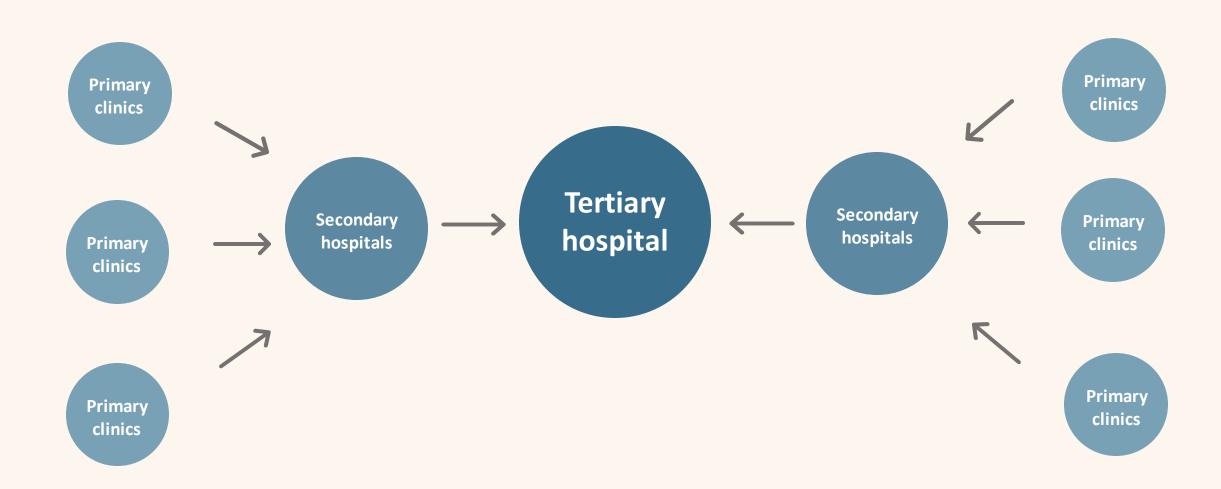
Common procedures

Tertiary Care hospitals

Complex procedures

INTEGRATED SERVICES

Hub-and-spoke strategy → entrenches patients in ecosystem



1st growth driver: first-mover acquisitions



ACQUISITIONS IN UNDERSERVED MARKETS, INCREASING PROFITS



FIRST ADOPTER OF ADVANCED TREATMENTS, MAKING IHH A PREFERRED PARTNER FOR SPECIALISTS



FOCUS ON SPECIALISED TREATMENT CAPTURES MED TOURISM

Large underserved market in CEE & India

Lack of specialists

Lack of updated Equipment

New drugs unavailable

Large, underserved customer base

Unable to get high quality advanced treatment

Acquisitions increases revenues per patient

Largest in combined region

Channel underserved patients to specialist hospitals

Increased revenue per patient

Increased profits

Economies of scale

2nd growth driver: the preferred partner for specialists



ACQUISITIONS IN UNDERSERVED MARKETS, INCREASING PROFITS



FIRST ADOPTER OF ADVANCED TREATMENT, MAKING IHH A PREFERRED PARTNER FOR SPECIALISTS

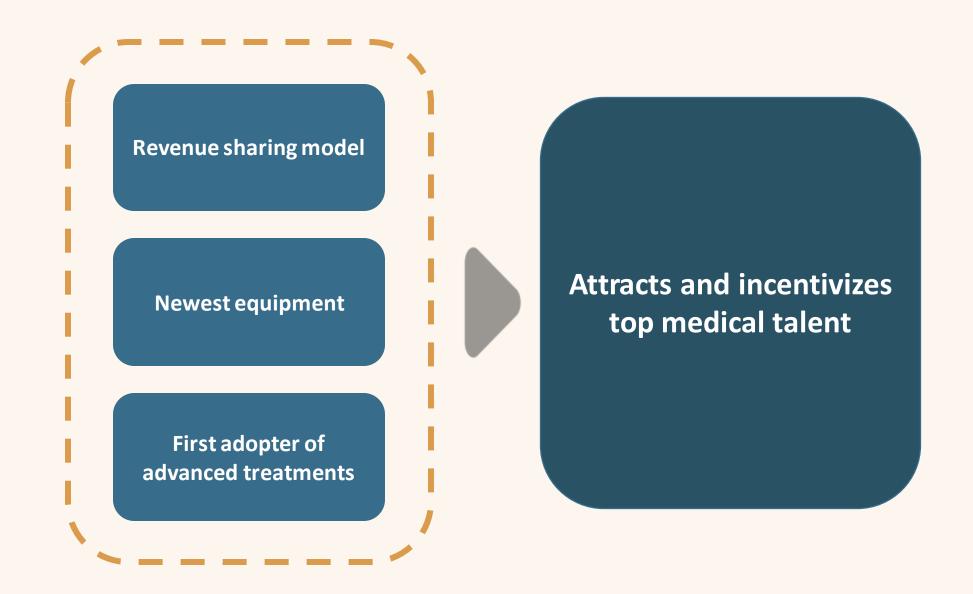


FOCUS ON SPECIALISED TREATMENT CAPTURES MED TOURISM

IHH the only provider of newest medical equipment & facilities



IHH is the preferred partner for specialists



Best equipment and doctors increase pricing power

Sustainable higher prices



New equipment & Incentivized specialists

3rd growth driver: capturing med tourism



ACQUISITIONS IN UNDERSERVED MARKETS, INCREASING PROFITS



FIRST ADOPTER OF ADVANCED TREATMENTS, MAKING IHH A PREFERRED PARTNER FOR SPECIALISTS



FOCUS ON SPECIALISED TREATMENT CAPTURES MED TOURISM

Projected increase in medical tourism expenditure into India + Malaysia

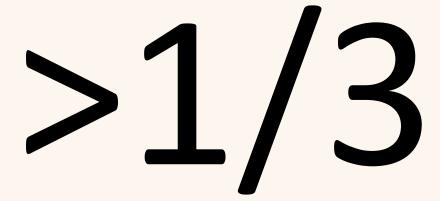
RM **41.3**Billion
(2021)



Source: ResearchAndMarkets.com

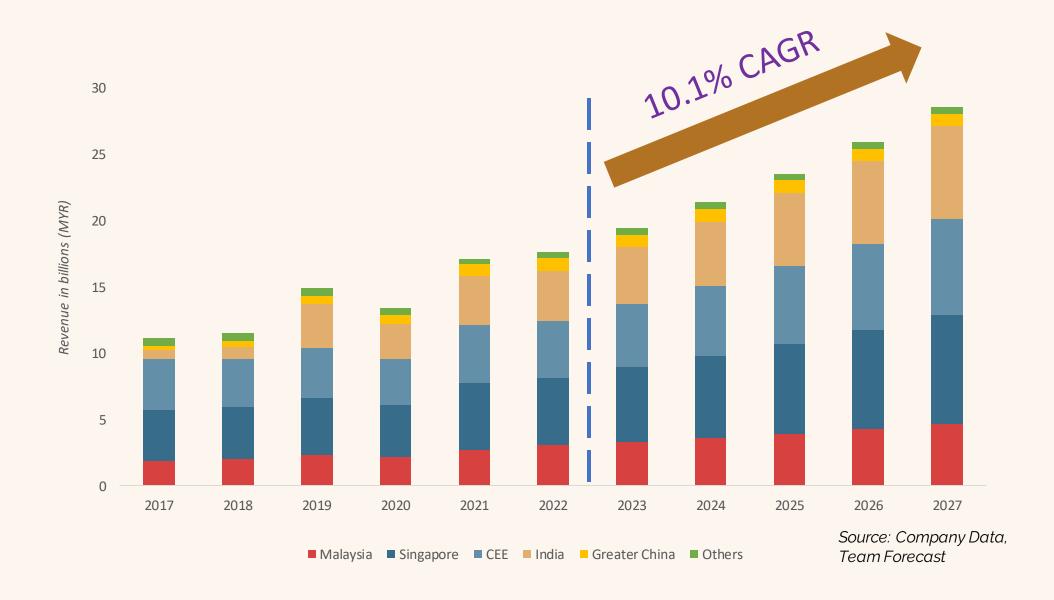
Expected to have a large impact on IHH's EBITDA

India + Malaysia is

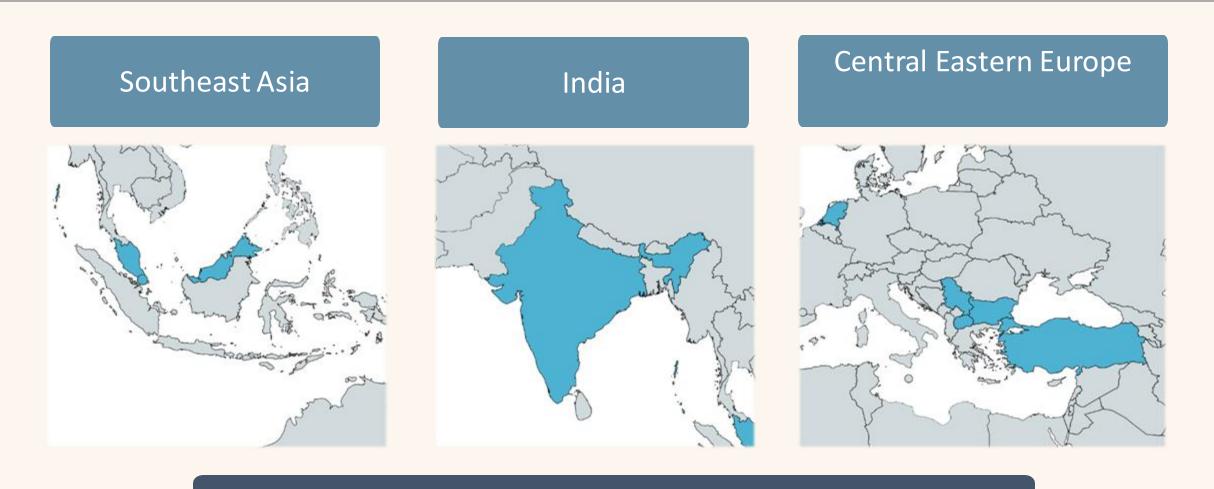


of IHH's EBITDA

Improving revenue growth after COVID disruption

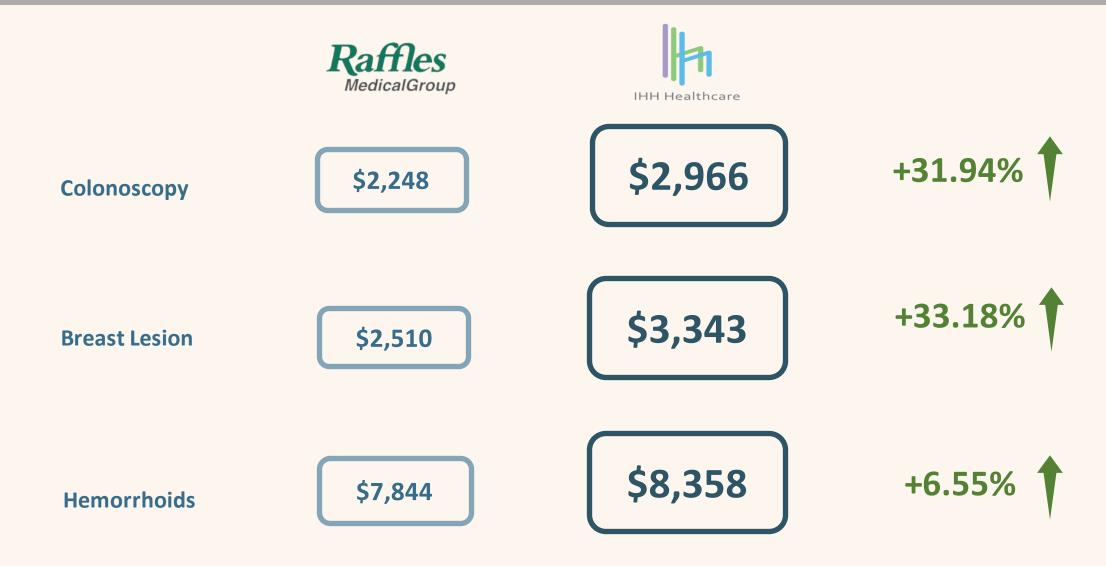


Expansion of hub-and-spoke network driving revenue growth



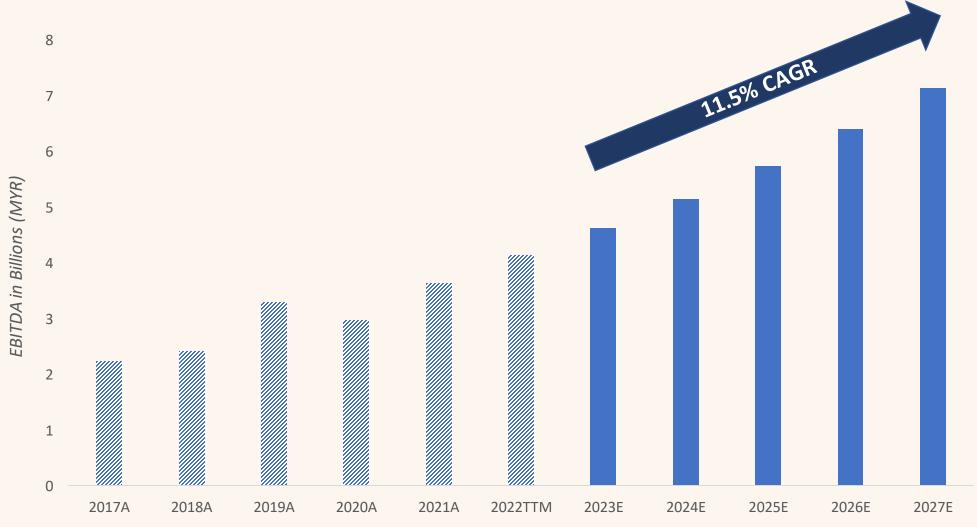
Expansion of its network in operating regions

Higher revenue from higher prices



Source: MOH, 2022

EBITDA growth on the back of strong revenue growth



Sale of low EBITDA margin assets and economies of scale to expand group margins

Divestment of underperforming assets

Gleneagles Chengdu



Parkway Shanghai



International Medical University



Cost savings across group post acquisition

Group procurement initiative

Acquisitions of hospital landlords

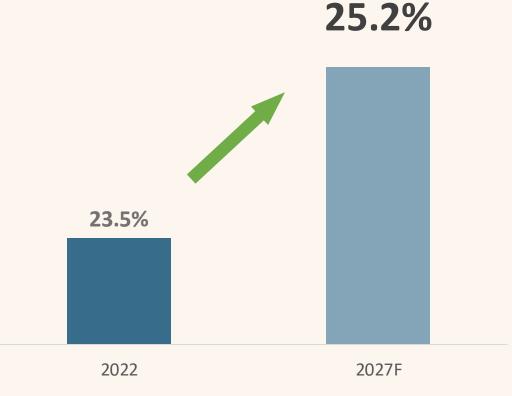
Operational

expenses

COGS

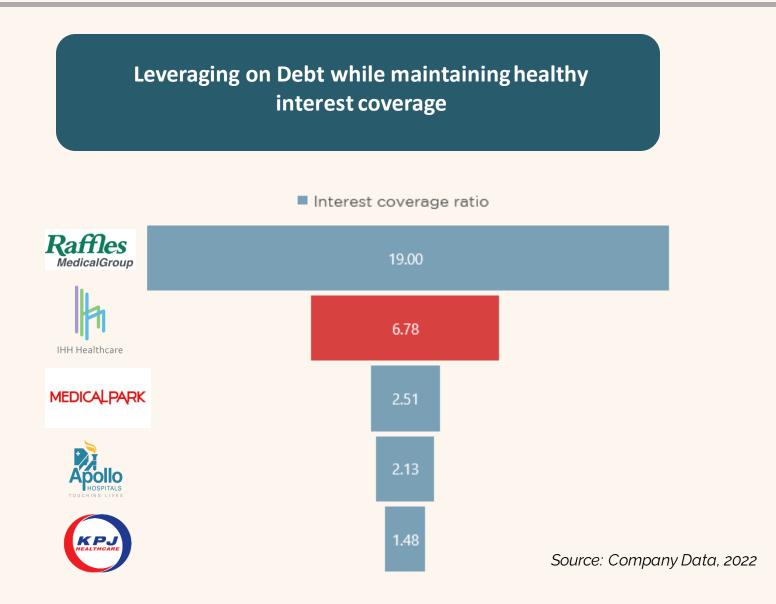


EBITDA margins to increase

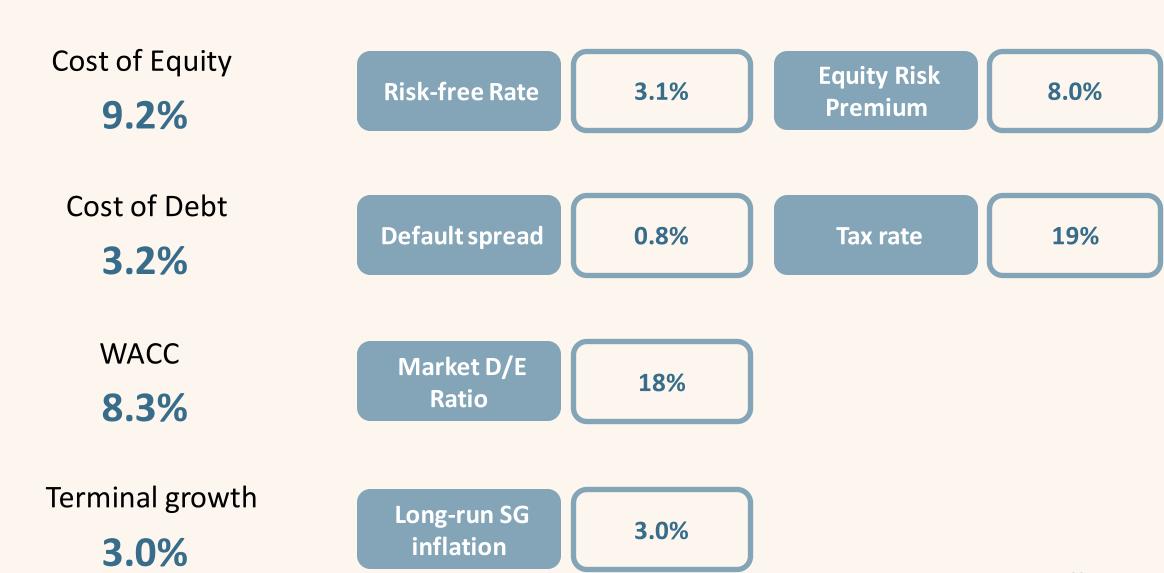


Source: Team Forecast

Healthy liquidity amongst its peers



DCF analysis shows a positive upside

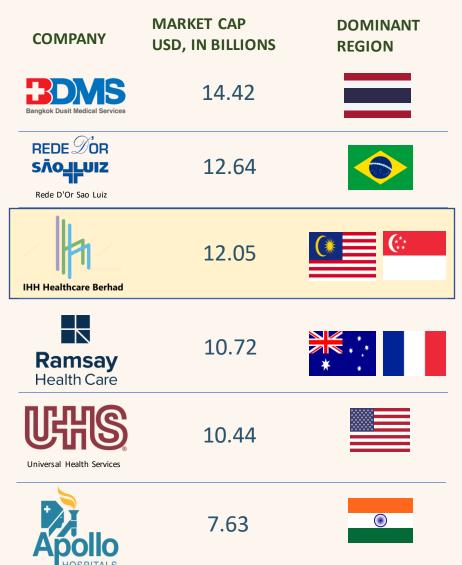


DCF analysis shows a positive upside

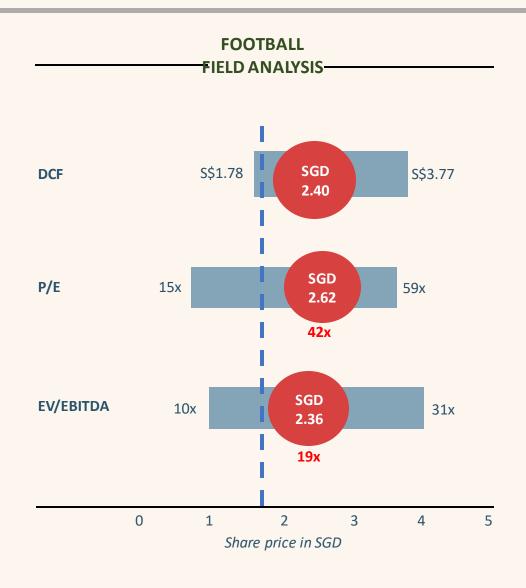


| | —————————————————————————————————————— | | | | | | | | |
|----------|--|------|------|------|------|------|--|--|--|
| | | 2.0% | 2.5% | 3.0% | 3.5% | 4.0% | | | |
| | 7.3% | 2.38 | 2.62 | 2.91 | 3.28 | 3.77 | | | |
| | 7.8% | 2.19 | 2.39 | 2.63 | 2.93 | 3.30 | | | |
| WACC | 8.3% | 2.04 | 2.20 | 2.40 | 2.64 | 2.94 | | | |
| X | 8.8% | 1.90 | 2.04 | 2.21 | 2.41 | 2.65 | | | |
| | 9.3% | 1.78 | 1.91 | 2.05 | 2.22 | 2.42 | | | |

Relative valuation reaffirms our BUY recommendation



TOUCHING LIVES



Source: Bloomberg, 2022

Investment risk 1: nursing shortages may lead to increasing staff cost









Reallocation of job roles





Nurse recruitment pipeline

Investment risk 2: IHH is exposed to the depreciation of the Lira









Increasing non-Lira revenue







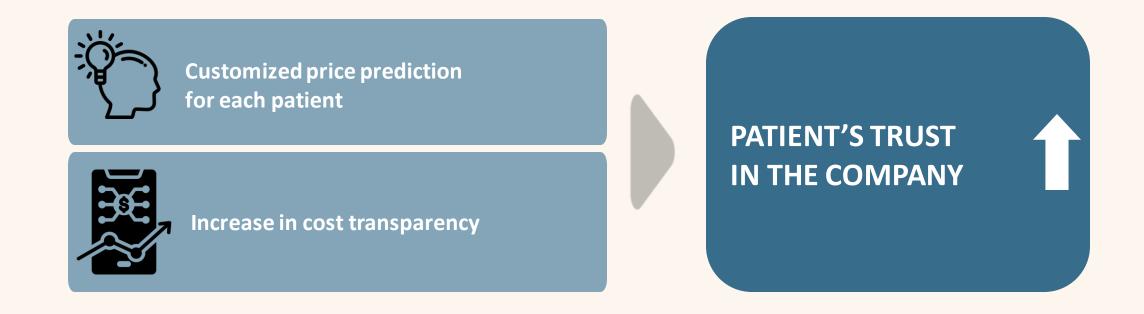


Cross-currency swaps on loans

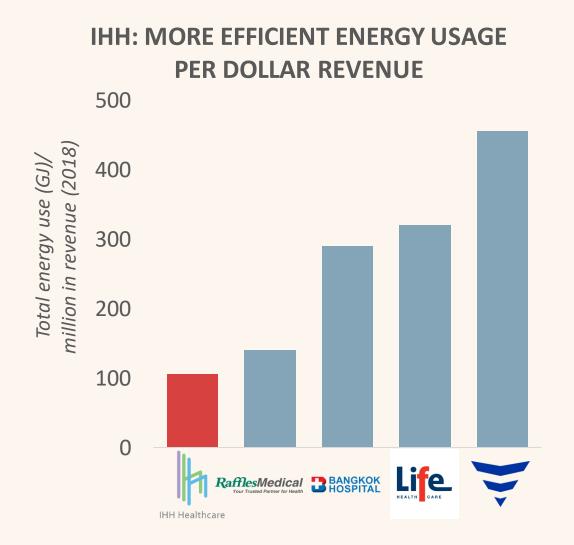
ESG governance: no one party holds too much power

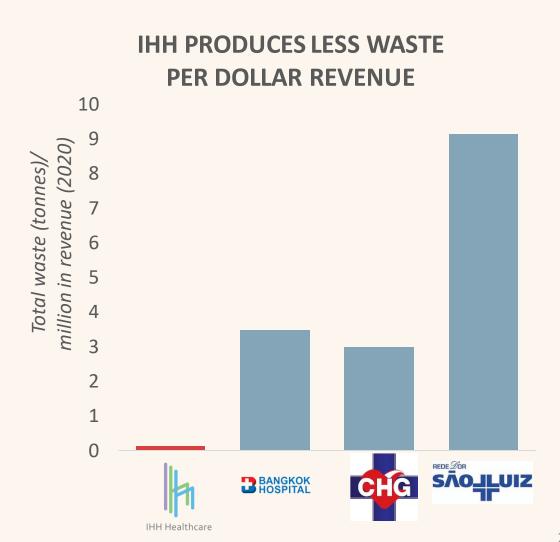
| Top 2 shareholders | Percentage of total shares | |
|----------------------|----------------------------|--|
| MITSUI & CO.,LTD. | 32.8% | |
| KHAZANAH NASIONAL | 25.7% | |

ESG social: greater trust in the company by patients



ESG environment: more energy & resource efficient than peers





Reiterating our buy call



ACQUISITIONS IN UNDERSERVED MARKETS, INCREASING PROFITS



FIRST ADOPTER OF ADVANCED TREATMENTS, MAKING IHH A PREFERRED PARTNER FOR SPECIALISTS



SPECIALIZED FOCUS TO CAPITALIZE ON MED TOURISM

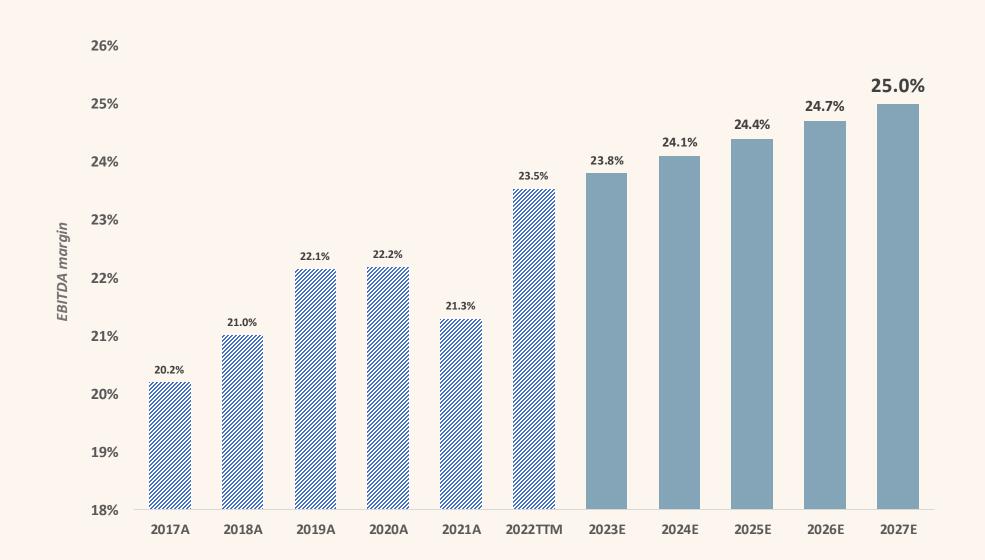
IHH

BUY

Target price:

SGD 2.40

EBITDA margin expansion to gradually increase



General hospital data

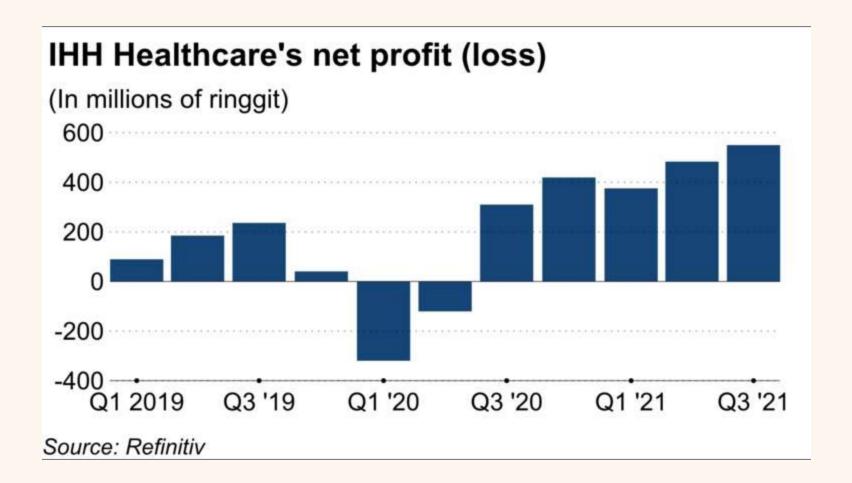
| Countries | Number of Hospitals | | |
|-----------------|---------------------|--|--|
| Malaysia | 16 | | |
| Singapore | 4 | | |
| India | 31 | | |
| Turkey & Europe | 22 | | |

Divestment of low EBITDA margin segments to expand group margins

| Assets | Revenue(2021) | % of Group Revenue EBITDA(2021) | | % of Group EBITDA |
|---|-----------------|---------------------------------|-------------------|-------------------|
| Gleneagles Chengdu Parkway Shanghai Gleneagles CHENGDU | RM 165 Million | 0.96% | - RM 46.6 Million | -1.09% |
| IMU | RM257.6 Million | 1.50% | RM 86.7 Million | 2.03% |

Financial Highlights

| Financial Year Ended 31 December | 2022 | 2021 | 2020 | 2019 | 2018 |
|--|-----------|-----------|-----------|-----------|-----------|
| Revenue (RM mil) | 13,131.90 | 17,131.80 | 13,404.60 | 14,912.50 | 11,520.90 |
| Earnings Before Interest, Tax, Depreciation & Amortisation (EBITDA) (RM mil) | 2,978.00 | 4,279.40 | 2,876.30 | 3,317.70 | 2,477.70 |
| EBITDA margin (%) | 22.7 | 25 | 21.5 | 22.2 | 21.5 |
| Net Income (RM mil) | 1,357.10 | 1,862.50 | 288.9 | 551.5 | 627.7 |
| Net Income Margin (%) | 10.3 | 10.9 | 2.2 | 3.7 | 5.4 |
| Net Operating Income (excluding exceptional Items)) (RM mil) | 1,040.30 | 1,594.80 | 715.3 | 920.7 | 1,027.60 |
| Net Income Margin (excluding exceptional items)) (%) | 7.9 | 9.3 | 5.3 | 6.2 | 8.9 |
| Total Shareholders' Equity(excluding non-controlling interests) (RM mil) | 26,126.00 | 22,424.90 | 21,739.80 | 22,339.50 | 21,994.00 |
| Net Tangible Assets (excluding non-controlling interests) (RM mil) | 10,038.40 | 8,231.60 | 7,626.30 | 7,683.60 | 7,907.90 |
| Net Borrowings (RM mil) | 7,785.50 | 5,856.00 | 7,441.00 | 4,311.00 | 2,807.30 |
| Net Debt / NTA (times) | 0.78 | 0.71 | 0.98 | 0.56 | 0.35 |
| Net Assets Per Share (RM) | 2.97 | 2.55 | 2.48 | 2.55 | 2.51 |
| Basic Earnings Per Share (excluding exceptional items) *(sen) | 11.23 | 17.15 | 7.13 | 9.49 | 11.36 |



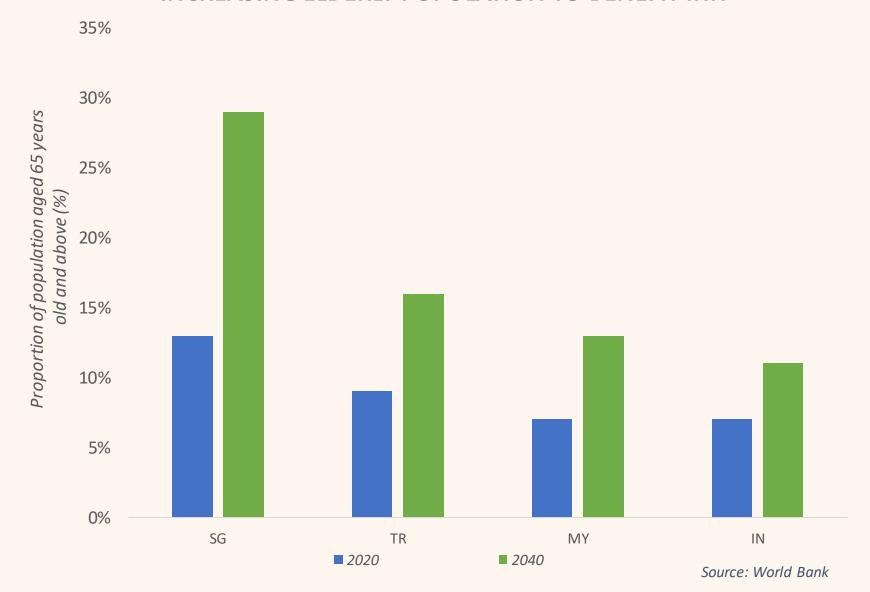
HISTORICAL SHARE PRICE



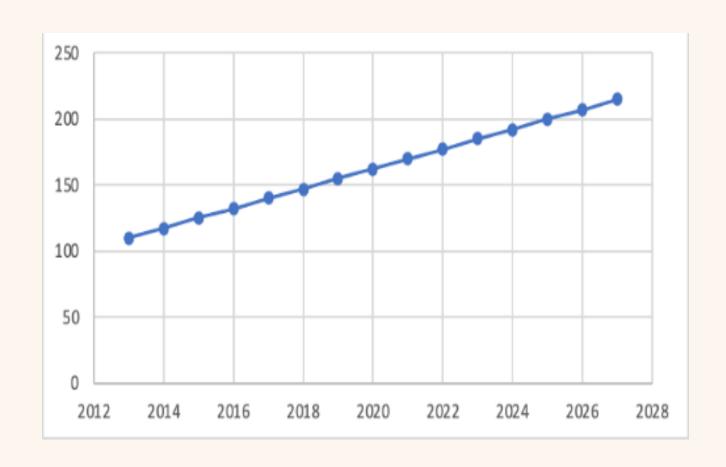
MEDICAL TOURISM EXPENDITURE INTO INDIA AND MALAYSIA TO RISE



INCREASING ELDERLY POPULATION TO BENEFIT IHH

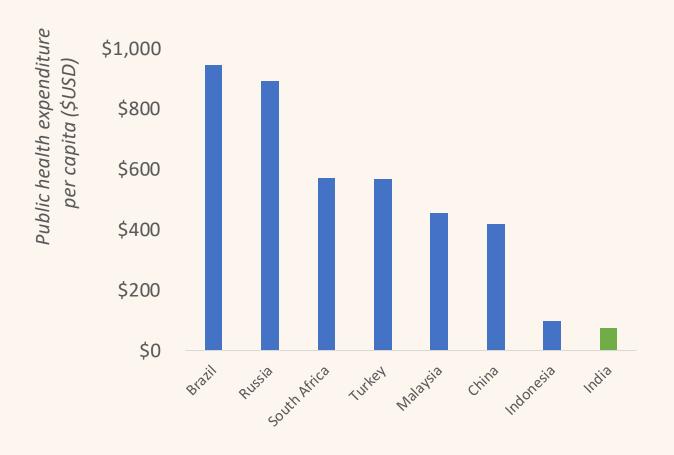


PROJECTED INCREASE IN WAIT TIMES



Source: NUS School of Public Health Forecast

INDIA LOWEST GOVT HEALTH EXPENDITURE AMONG BRICS NATIONS



Source: World Health Organization

STRUCTURAL DELAY IN PROCUREMENT OF MEDICAL DRUGS WITHIN CEE

CEE governments spend less on pharmaceuticals per capita than the EU5



On average, only 34% of new drugs authorised by the European Medicines Agency (EMA) were available in CEE countries.

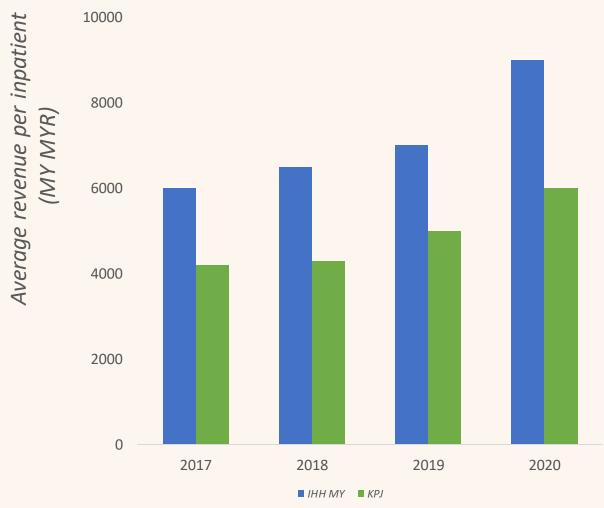
[Data for 2016-2019]

It takes an extra **304 days** on average for a drug to be made available in CEE than in the EU5.



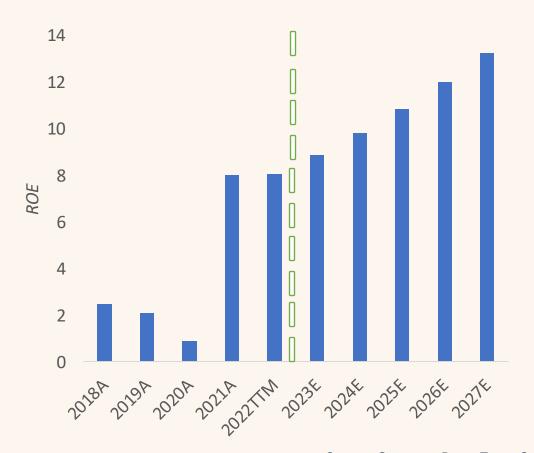
Source: EFPIA

IHH GENERATES HIGHER REVENUE PER INPATIENT THAN KPJ



ROE TO INCREASE TO 13.2% BY 2027F

IHH DRIVING ROE TO WEIGHTED INDUSTRY AVERAGE

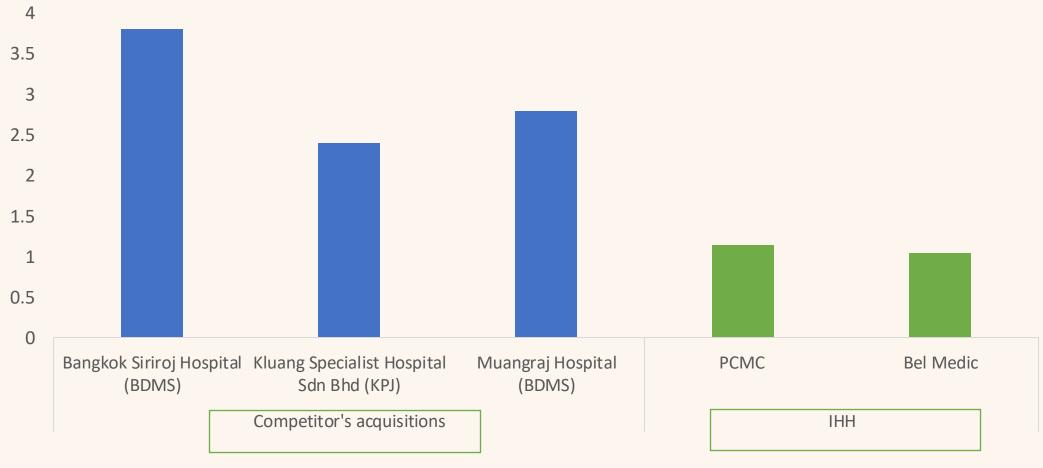


| Operating region | EBITDA contribution to group | Average ROE for hospitals industry | Region sampled |
|------------------|------------------------------|--|------------------|
| Singapore | 40% | 15.65% | Global |
| Malaysia & CEE | 46% | 10.79% | Emerging markets |
| India | 16% | 14.03% | India |
| Total | 102% | 13.20% | NA |

Source: Damodaran

Source: Company Data, Team Consensus

IHH HAS ACQUIRED HOSPITALS AT A CHEAPER PRICE COMPARED TO PEERS



Source: KPJ, IHH & BDMS Company Data

BRAIN DRAIN IN BULGARIA, SERBIA & MACEDONIA

| Country | Outflow of medical talent |
|-----------|---|
| Bulgaria | - Every year Bulgaria loses between 500 and 600 doctors to emigration |
| Serbia | - Country lacks 13000 medical workers in various areas. |
| Macedonia | Estimated that 1200 doctors left the country between the period from 2010 and 2018 Around 300 medics leave Macedonia every year. |

Source: Aljazeera, obserwatorfinansowy, China-IEE institute

RMG TYPICALLY PROVIDES CHEAPER TREATMENT THAN IHH

| Treatment Name | Raffles Hospital | Gleneagles Hospital | Mount Elizabeth Novena Hospital | Parkway East Hospital | Mount Elizabeth Hospital |
|---|---------------------|------------------------|--|-----------------------------|-----------------------------|
| Colonoscopy | \$2,248 | \$2,725 | \$3,038 | \$3,377 | \$2,725 |
| Nasoendoscopy | \$6,932 | \$10,265 | \$8,651 | \$8,849 | \$6,926 |
| Breast, Various Lesions (Day Surgery) | \$2,510 | \$2,710 | \$3,849 | Na | \$3,469 |
| Intestine/Stomach (Day Surgery) | \$3,080 | \$3,210 | \$3,215 | \$3,400 | \$2,982 |
| Hemorrrhoids (Day Surgery) | \$7,844 | \$8,210 | \$9,209 | Na | \$7,655 |
| Fibreoptic with Removal of Polyp (Day Surgery) | \$3,210 | \$3,571 | \$3,837 | \$4,143 | \$3,416 |
| Gallbladder surgery (1 bedded ward) | \$19,650 | \$20,419 | \$20,266 | \$17,301 | \$19,390 |

Source: Ministry of Health, Singapore