

Company Report

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IHH HEALTHCARE

(IHH MK EQUITY, IHHH.KL)

HEALTHCARE

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Turning the corner as Mount Elizabeth reopens

BUY

(Maintained)

Rationale for report: Company Result

Price RM6.79
Fair Value RM8.60
52-week High/Low RM7.56/RM6.27

Key Changes

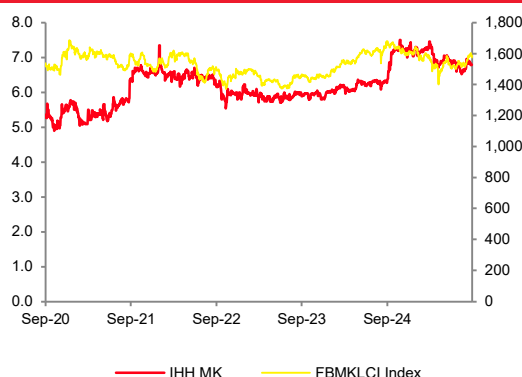
Fair value ⇄
EPS ⇄

YE to Dec	FY24	FY25F	FY26F	FY27F
Revenue (RMmil)	24,383.0	26,546.1	28,306.8	29,879.1
Core net profit (RMmil)	1,685.0	1,823.2	2,103.5	2,357.6
FD Core EPS (Sen)	19.1	20.7	23.8	26.7
FD Core EPS growth (%)	31.7	8.2	15.4	12.1
Consensus Net Profit (RMmil)	-	1,973.0	2,233.0	2,516.0
DPS (Sen)	10.0	10.8	12.5	14.0
PE (x)	35.6	32.9	28.5	25.4
EV/EBITDA (x)	13.1	12.0	10.9	10.0
Div yield (%)	1.5	1.6	1.8	2.1
ROE (%)	9.0	6.0	6.7	7.2
Net Gearing (%)	37.9	34.0	31.8	29.3

Stock and Financial Data

Shares Outstanding (million)	8,826.0
Market Cap (RMmil)	59,928.5
Book Value (RM/Share)	3.80
P/BV (x)	1.8
ROE (%)	9.0
Net Gearing (%)	37.9
Major Shareholders	Mitsui & Co Ltd (32.7%) Khazanah Nasional (25.9%) EPF (11.2%)
Free Float	26.4
Avg Daily Value (RMmil)	35.8

Price performance	3mth	6mth	12mth
Absolute (%)	(1.6)	(8.9)	8.3
Relative (%)	(5.8)	(8.9)	15.4



Investment Highlights

We maintain our **BUY** recommendation on IHH Healthcare Berhad (IHH) with an unchanged TP of RM8.60, based on 14x FY26F EV/EBITDA and a 3% ESG premium. IHH's 1HFY25 EBITDA of RM2.7bil (flat YoY) and key metrics tracked in line with our expectations. However, 1HFY25 core net profit of RM844mil (flat YoY), was below expectations due to higher-than-expected minority interest. On a constant-currency basis, however, EBITDA recorded a solid 10% growth. The group declared a higher interim dividend of 5sen (1HFY24 : 4.5sen). In 1HFY25, Malaysia's acquisitions helped offset Singapore's renovation drag, and IHH now appears to be turning the corner, with management guiding that Mount Elizabeth will reopen in phases starting 3QFY25 and full operations resume by 2QFY26. Meanwhile, the shift towards daycare and strong foreign patient growth should continue to cushion payor pressures.

- **Maintain BUY with unchanged TP of RM8.60.** We maintain our BUY recommendation on IHH with an unchanged TP of RM8.60, based on 14x FY26F EV/EBITDA and a 3% ESG premium, backed by a 4-star ESG rating. As earnings came in below expectations, we cut our forecast for FY25F/FY26F/FY27F by 8.5%/5.5%/10.4% to reflect higher-than-expected minority interest (refer to Exhibit 2).
- **EBITDA tracking expectations.** IHH's 1HFY25 EBITDA of RM2.7bil (flat YoY) and key metrics tracked in line with our expectations. However, 1HFY25 core net profit of RM844mil (flat YoY), was below expectations at 42.3% and 42.8% of our and consensus full-year estimates respectively, which was due to higher-than-expected minority interest. On a constant-currency basis, EBITDA recorded solid growth of 10%, driven by growth across all segments except Singapore. The group declared a higher interim dividend of 5 sen (1HFY24 : 4.5sen).
- **Malaysia acquisitions offset Singapore renovation drag.** In 1HFY25, Malaysia revenue and EBITDA rose 16.1% and 14.2% respectively, mainly boosted by Island Hospital acquisition (completed in 4QFY24), while Singapore revenue slipped 2.5% YTD due to renovation works at Mount Elizabeth. Positively, IHH is turning the corner, with management guiding the renovations completed on schedule in Jun 2025. Phased reopening and ramp-up underway in 3QFY25 with stabilised performance from 2QFY26.
- **Daycare shift and foreign patient growth offset payor pressures.** Payor pressures will continue to weigh, but management is in constant dialogue with payor to mitigate the impact. Meanwhile, IHH is adapting to structural shifts from inpatient to daycare, freeing up bed capacity and enhancing revenue per bed. In Malaysia, medical tourism momentum remained strong in 2QFY25 with double-digit growth and is expected to further lift revenue per bed.

EXHIBIT 1: 2QFY25 EARNINGS SUMMARY

FYE Dec 31 (RM mil)	2QFY24	1QFY25	2QFY25	QoQ (%)	YoY (%)	1HFY24	1HFY25	YoY (%)
Revenue	6,093	6,294	6,298	0.1%	3.4%	12,048	12,592	4.5%
EBITDA	1,351	1,343	1,354	0.8%	0.2%	2,715	2,697	-0.7%
Net interest expenses	(173)	(225)	(188)	-16.4%	8.5%	(352)	(413)	17.3%
D&A	(426)	(470)	(462)	-1.7%	8.4%	(840)	(932)	11.0%
Associates	6	6	8	33.3%	28.1%	13	14	7.7%
Share of profits from JV	0	1	0	-100.0%	-100.0%	1	1	0.0%
Net monetary gain arising from hyperinflationary economy	127	103	15	-85.4%	-88.2%	273	118	-56.8%
PBT	900	762	727	-4.6%	-19.3%	1,831	1,489	-18.7%
Tax	(154)	(137)	(160)	16.8%	4.0%	(159)	(297)	86.8%
NCI	(124)	(111)	(124)	11.7%	0.3%	(281)	(235)	-16.4%
Net Profit	623	514	443	-13.8%	-28.9%	1,391	957	-31.2%
EI	(186)	(89)	(24)	-73.0%	-87.1%	(551)	(113)	-79.5%
Core net profit	437	425	419	-1.4%	-4.2%	840	844	0.5%
Basic EPS (sen)	5.0	4.8	4.8	-1.4%	-4.2%	9.5	9.6	0.5%
FD EPS (sen)	5.0	4.8	4.8	-1.4%	-4.2%	9.5	9.6	0.5%
Gross DPS (sen)	4.5	0.0	5.0	na	11.1%	4.5	5.0	11.1%
EBITDA margin (%)	22.2	21.3	21.5	0.2 ppt	-0.7 ppt	22.5	21.4	-1.1 ppt
PBT margin (%)	14.8	12.1	11.5	-0.6 ppt	-3.2 ppt	15.2	11.8	-3.4 ppt
Effective tax rate (%)	17.1	18.0	22.0	4.0 ppt	4.9 ppt	8.7	19.9	11.3 ppt
Core net profit margin (%)	7.2	6.8	6.7	-0.1 ppt	-0.5 ppt	7.0	6.7	-0.3 ppt
Segmental revenue								
Singapore	1,561	1,520	1,514	-0.4%	-3.0%	3,112	3,034	-2.5%
Malaysia	1,012	1,118	1,166	4.3%	15.2%	1,967	2,284	16.1%
India	1,027	994	1,050	5.6%	2.2%	2,008	2,044	1.8%
Greater China	403	413	397	-3.9%	-1.5%	772	810	4.9%
Turkiye & Europe	1,719	2,003	1,990	-0.6%	15.8%	3,513	3,993	13.7%
Hospital & Healthcare	5,722	6,048	6,117	1.1%	6.9%	11,372	12,165	7.0%
Labs	258	248	256	3.2%	-0.8%	513	504	-1.8%
Plife REIT	36	45	45	0.0%	25.0%	75	90	20.0%
Others	2	0	4	na	100.0%	3	4	33.3%
Hyperinflation adjustment	75	(47)	(124)	>100%	<-100%	85	(171)	<-100%
Total	6,093	6,294	6,298	0.1%	3.4%	12,048	12,592	4.5%
Segmental EBITDA								
Singapore	492	431	428	-0.7%	-13.0%	961	859	-10.6%
Malaysia	253	273	289	5.9%	14.2%	492	562	14.2%
India	169	187	193	3.2%	14.2%	355	380	7.0%
Greater China	44	45	34	-24.4%	-22.7%	69	79	14.5%
Turkiye & Europe	336	362	359	-0.8%	6.8%	712	721	1.3%
Hospital & Healthcare	1,294	1,298	1,303	0.4%	0.7%	2,589	2,601	0.5%
Labs	89	85	95	11.8%	6.7%	186	180	-3.2%
Plife REIT	83	86	87	1.2%	4.8%	166	173	4.2%
Others	(33)	(33)	(26)	-21.2%	-21.2%	(59)	(59)	0.0%
Elimination	(71)	(69)	(67)	-2.9%	-5.6%	(142)	(136)	-4.2%
Hyperinflation adjustment	(13)	(24)	(38)	58.3%	>100%	(25)	(62)	>100%
Total	1,349	1,343	1,354	0.8%	0.4%	2,715	2,697	-0.7%

Source: Company

Company profile

IHH Healthcare Berhad (IHH) operates as an integrated healthcare business and related services and has leading market positions in its home markets of Singapore, Malaysia and Turkey, and it also has healthcare operations and investments in the People's Republic of China, India, Hong Kong and Europe. The company's integrated healthcare network provides the full spectrum of healthcare services, from primary healthcare clinics to secondary and tertiary hospitals, to quaternary care and post-operative rehabilitation centres, complemented by a wide range of ancillary services including diagnostic laboratories, imaging centres, ambulatory care, medical education facilities, hospital project management and other related services. The company was incorporated in Malaysia on 21 May 2010 as a holding company for Khazanah's healthcare investments in Parkway, Pantai, IMU Health and Apollo.

Investment thesis and catalysts

We have a Buy recommendation on IHH. Rising income and ageing population are contributing to a rise in noncommunicable diseases, leading to a structural increase in demand for advanced medical treatments. Additionally, Island Hospital acquisition is value accretive, as there will cost savings of RM200 million over five years due to the synergy benefits. We believe the implementation of diagnosis-related group (DRG) is unlikely to have a significant impact to IHH as only c.20% of IHH's revenue and EBITDA are derived from IHH Malaysia.

Valuation methodology

The stock is valued based on a target FY26F EV/EBITDA of 14x, which is in line with its 5Y historical average EV/EBITDA. Our target price also includes a 3% ESG premium based on a 4-star ESG rating.

Risk factors

Downside risks to our estimates include more than expected decrease in average revenue per inpatient due to the roll out of diagnosis-related group or unable to realise synergies from Island Hospital acquisition.

EXHIBIT 2: CHANGE IN EARNINGS

RMmil	FY25			FY26			FY27		
	Old	New	%	Old	New	%	Old	New	%
Revenue	26,541.6	26,546.1	-	28,306.8	28,306.8	-	29,879.1	29,879.1	-
Earnings	1,993.6	1,823.2	-8.5%	2,224.9	2,103.5	-5.5%	2,631.2	2,357.6	-10.4%
Minority Interest	310.4	486.7	56.8%	355.4	530.9	49.4%	422.6	572.0	35.4%

Source: AmlInvestment Bank

EXHIBIT 3: VALUATIONS

Target EV/EBITDA (x)	14x
CY26 EBITDA	RM6.4 bil
ESG premium	3%
12-month target price	8.60

EXHIBIT 4: PE BAND CHART



Source: Bloomberg

EXHIBIT 5: ESG RATING

Environmental assessment		Parameters	Weightage	Rating					Rationale
1	Carbon emissions reduction	45% CO2 reduction by 2030	15%	*	*	*	*		Emissions intensity per patient bed-day decreased by 3.2% compared to 2023
2	Scope 1 GHG Emissions	lCo2e reduction	15%	*	*	*	*		11.5% reduction from 2023
3	Scope 2 GHG Emissions	lCo2e reduction	15%	*	*	*			3.5% increase YoY
4	Scope 3 GHG Emissions	lCo2e reduction	15%	*	*				96k - 410% increase from 2023
5	Water usage	megallitres	20%	*	*	*			3,378 megallitres used - reduction of 5% from 2023
6	Waste generation	Minimise waste generation	20%	*	*	*	*		>90% reduction of single-use virgin plastic in non-clinical areas across Malaysia, Türkiye, Singapore and Hong Kong
Weighted score for environmental assessment			100%	*	*	*			
Social assessment									
1	Health, safety & well-being	Recorded injuries	25%	*	*	*	*		91% reduction in lost time injuries across the Group
2	Women in workforce	% of total workforce	25%	*	*	*	*		72% in workforce & 47% in senior management
3	Investment in employee training	Total hours	25%	*	*	*	*		1,262,887 hours of training provided to employee
4	CSR programmes	No. of programmes organized	25%	*	*	*	*		946 patients have received free cancer treatment since 2023
Weighted score for social assessment			100%	*	*	*			
Governance assessment									
1	Board age diversity	% under 60 years old	20%	*	*	*			40%
2	Board women representation	% of total board directors	20%	*	*	*			20% representation
3	Directors with tenure below 6 years	% below 6 years category	20%	*	*	*	*		80%
4	Independent board directors	% of total board directors	20%	*	*	*			40% - independent non-exec
5	Corruption investigations	Confirmed incidents	20%	*	*	*			4 incidents in FY24
Weighted score for governance assessment			100%	*	*	*			
Environmental score			35%	*	*	*			
Social score			35%	*	*	*	*		
Governance score			30%	*	*	*			
Overall ESG Score			100%	*	*	*	*		

Source: AmlInvestment Bank Bhd

EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	20,934.8	24,383.0	26,546.1	28,306.8	29,879.1
EBITDA	4,645.6	5,439.0	5,873.7	6,406.3	6,933.4
Depreciation	(1,510.9)	(1,734.0)	(1,869.8)	(1,960.1)	(2,058.2)
Operating income (EBIT)	3,134.8	3,705.0	4,003.9	4,446.1	4,875.3
Other income & associates	26.3	29.0	31.9	35.1	38.6
Net interest	(838.6)	(792.0)	(966.6)	(980.3)	(1,020.5)
Exceptional items	(1,672.6)	(972.0)	-	-	-
Pretax profit	4,049.3	3,756.0	3,069.2	3,500.9	3,893.4
Taxation	(658.3)	(594.0)	(759.3)	(866.5)	(963.7)
Minorities/pref dividends	(439.1)	(505.0)	(486.7)	(530.9)	(572.0)
Net profit	2,951.9	2,657.0	1,823.2	2,103.5	2,357.6
Core net profit	1,279.2	1,685.0	1,823.2	2,103.5	2,357.6
Balance Sheet (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Fixed assets	13,413.9	16,229.0	17,321.3	18,484.7	19,695.7
Intangible assets	14,296.0	16,302.0	16,302.0	16,302.0	16,302.0
Other long-term assets	15,769.4	17,357.0	17,371.7	17,423.5	17,507.7
Total non-current assets	43,479.3	49,888.0	50,995.0	52,210.2	53,505.4
Cash & equivalent	2,379.1	1,510.0	1,886.6	2,490.6	3,455.4
Stock	639.8	681.0	806.7	860.2	907.9
Trade debtors	3,084.0	3,598.0	3,910.6	4,170.0	4,401.7
Other current assets	609.9	1,082.0	1,082.0	1,082.0	1,082.0
Total current assets	6,712.9	6,871.0	7,685.9	8,602.8	9,847.0
Trade creditors	4,951.7	5,128.0	6,242.8	6,656.9	7,026.7
Short-term borrowings	1,660.8	3,560.0	2,488.2	2,532.4	2,629.9
Other current liabilities	844.3	888.0	888.0	888.0	888.0
Total current liabilities	7,456.8	9,576.0	9,619.0	10,077.3	10,544.6
Long-term borrowings	6,650.6	9,366.0	9,952.6	10,129.6	10,519.8
Other long-term liabilities	3,726.1	3,909.0	3,846.4	3,810.6	3,797.7
Total long-term liabilities	10,376.7	13,275.0	13,799.0	13,940.2	14,317.5
Shareholders' funds	29,105.5	30,140.0	31,008.2	32,009.9	33,132.6
Minority interests	3,253.1	3,768.0	4,254.7	4,785.6	5,357.7
BV/share (RM)	3.68	3.80	3.90	4.01	4.14
Cash Flow (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Pretax profit	4,049.3	3,756.0	3,069.2	3,500.9	3,893.4
Depreciation	1,463.2	1,681.0	1,794.7	1,884.1	1,981.0
Net change in working capital	(366.8)	(715.0)	676.5	101.2	90.4
Others	(1,386.2)	(437.0)	187.8	119.1	82.5
Cash flow from operations	3,759.4	4,285.0	5,728.3	5,605.2	6,047.2
Capital expenditure	(2,241.5)	(7,904.0)	(2,471.8)	(2,635.7)	(2,782.1)
Net investments & sale of fixed assets	-	-	-	-	-
Others	1,305.2	(343.0)	(473.1)	(504.5)	(532.6)
Cash flow from investing	(936.3)	(8,247.0)	(2,944.9)	(3,140.3)	(3,314.7)
Debt raised/(repaid)	(470.0)	5,097.0	(485.2)	221.2	487.7
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(2,037.0)	(1,224.0)	(955.0)	(1,101.8)	(1,234.9)
Others	(1,491.7)	(840.0)	(966.6)	(980.3)	(1,020.5)
Cash flow from financing	(3,998.6)	3,033.0	(2,406.7)	(1,861.0)	(1,767.7)
Net cash flow	(1,175.4)	(929.0)	376.6	604.0	964.8
Net cash/(debt) b/f	3,662.4	2,301.2	1,427.2	1,803.9	2,407.8
Net cash/(debt) c/f	2,301.2	1,427.2	1,803.9	2,407.8	3,372.6
Key Ratios (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Revenue growth (%)	16.4	16.5	8.9	6.6	5.6
EBITDA growth (%)	14.7	17.1	8.0	9.1	8.2
Pretax margin (%)	19.3	15.4	11.6	12.4	13.0
Net profit margin (%)	14.1	10.9	6.9	7.4	7.9
Interest cover (x)	3.7	4.7	4.1	4.5	4.8
Effective tax rate (%)	16.3	15.8	24.7	24.7	24.8
Dividend payout (%)	69.0	46.1	52.4	52.4	52.4
Debtors turnover (days)	50	50	52	52	52
Stock turnover (days)	10	10	10	11	11
Creditors turnover (days)	80	75	78	83	84

Source: Company, AmlInvestment Bank Bhd estimates

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