

# Flash Note



Refer to important disclosures at the end of this report

AllianceDBS Research, Malaysia Equity

9 Oct 2018

## IHH Healthcare (IHH MK) : BUY

Mkt. Cap: US\$10,499m | 3m Avg. Daily Val: US\$9.5m

Last Traded Price (8 Oct 2018): RM5.30

Price Target 12-mth: RM6.35 (20% upside)

### Analyst

Malaysian Research Team +603 2604 3333 general@alliancedbs.com

### Step-by-step

- IHH raises its stake in Acibadem to 90% (from 60%) by acquiring 15% each from Aydinlar and Khazanah via exercising conversion options
- IHH will issue a total of 524m new IHH shares (c. 6% of the enlarged total number of shares) at RM5.59 per share
- Implied valuation of c.23x 1H18 annualised EV/EBITDA, similar to IHH/Khazanah's acquisition of 60% stake in Acibadem in 2011
- Paves the way to capitalise the existing subordinate loans of US\$250m equivalent and reduces IHH's exposure to forex impact from Turkish Lira volatility

### What's New

**Aydinlar and Khazanah exercise options to convert Acibadem shares to IHH shares.** The founder / Chairman and CEO of Acibadem (IHH's 60%-owned Turkish hospital), Mehmet Ali Aydinlar and his wife Hatice Seher Aydinlar, have exercised their options to each convert around 15% equity interest in Acibadem Holdings for approximately 262.2m new IHH shares. Concurrently, Khazanah (via its subsidiary Bagan Lalang) has also exercised an identical option. The options were entered into in connection with IHH's acquisition of a 60% equity interest in Acibadem Holding in 2011.

The transaction is pending approvals from Bursa and SGX for the issuance of new shares and approval from BNM.

**IHH raises its stake in Acibadem to 90%; implied valuation of 23x 1H18 annualised EV/EBITDA.** IHH will issue a total of 524m new shares for the transaction above, approximately 6% of IHH's enlarged total number of shares, at a market value of RM5.59 per share (based on 5 market day volume weighted average price of IHH shares up to 29 Aug 2018). The conversion of shares falls at the lower end of the range of 262m to 393m IHH shares for each of the 15% equity interest. Following both of the transactions, IHH will own 90% of Acibadem while Mehmet Ali Aydinlar will own the remaining 10%.

Based on our ballpark estimates, the implied acquisition price is approximately 23x 1H18 annualised EV/EBITDA, close

### Forecasts and Valuation

FY Dec (RMm)	2017A	2018F	2019F	2020F
Revenue	11,143	11,042	11,673	12,598
EBITDA	2,222	2,396	2,655	2,788
Pre-tax Profit	1,164	641	1,257	1,336
Net Profit	931	311	711	723
Net Pft (Pre Ex.)	377	311	711	723
Net Pft Gth (Pre-ex) (%)	(47.6)	(17.6)	128.8	1.8
EPS (sen)	11.3	3.77	8.63	8.78
EPS Pre Ex. (sen)	4.58	3.77	8.63	8.78
EPS Gth Pre Ex (%)	(48)	(18)	129	2
Diluted EPS (sen)	11.3	3.77	8.63	8.78
Net DPS (sen)	3.00	1.09	2.16	2.20
BV Per Share (sen)	266	268	275	282
PE (X)	46.9	140.6	61.4	60.4
PE Pre Ex. (X)	115.8	140.6	61.4	60.4
P/Cash Flow (X)	19.3	37.0	19.3	19.3
EV/EBITDA (X)	21.8	20.3	18.0	16.4
Net Div Yield (%)	0.6	0.2	0.4	0.4
P/Book Value (X)	2.0	2.0	1.9	1.9
Net Debt/Equity (X)	0.0	0.0	0.0	CASH
ROAE (%)	4.2	1.4	3.2	3.2

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.



## Flash Note

to the estimated valuation of 21x - 22x when IHH / Khazanah acquired 60% in Acibadem in 2011.

Upon completion of the conversion, Aydinlar's shareholding in IHH will increase from 3.23% to 6.21% while Khazanah's shareholding will increase from 40.33% to 40.91%. The remaining shareholders will see a dilution of c.6% in total.

**Taking steps to reduce IHH's exposure to Turkish Lira forex impact.** We believe this paves the way for IHH to capitalise the existing subordinated loans of US\$250m equivalent, and that IHH almost fully owns Acibadem. Post the capitalisation of the subordinated loans, IHH's exposure to Turkish Lira forex translation losses will reduce by about a third. In addition, the capitalisation of the subordinated loans should alleviate the immediate concerns of the debt covenants impacted by the depreciation of TRY. Management will continue to explore options to further pare down its non-Turkish Lira borrowings and reduce forex translation volatility which includes delaying the capex on 2 new greenfield hospitals in Turkey and potential divestment of non-core assets.

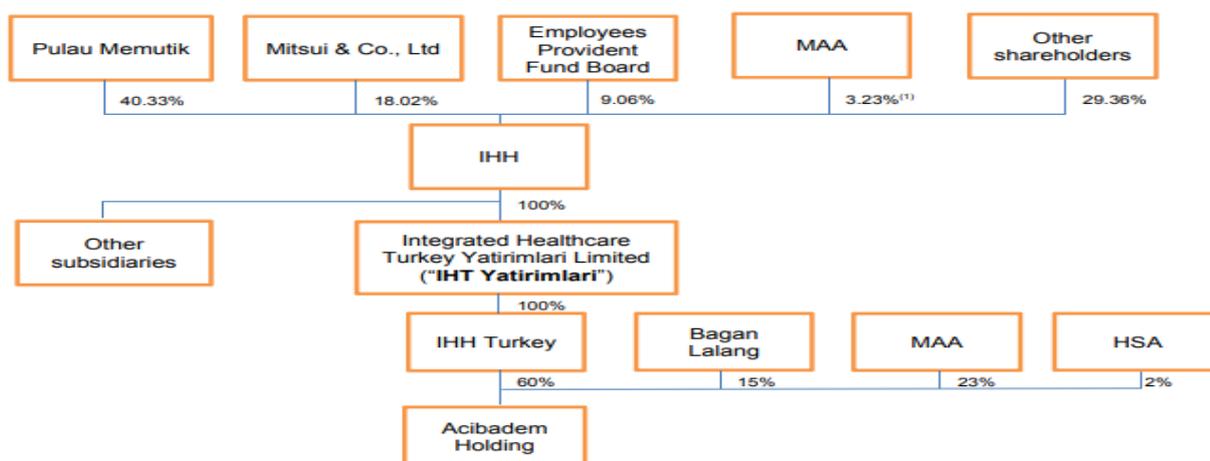
While we believe this addresses some concerns of the depreciation of TRY on IHH (potentially positive impact on net profit), this may subsequently raise some questions on

succession planning again should Aydinlar (who is now in his 60s) decide to take a back seat in the management of Acibadem. Aydinlar's contract ends at the end of 2018. However, this is known and management has been preparing for this.

**Maintain BUY; TP of RM6.35.** We maintain our BUY rating with TP of RM6.35. IHH currently trades at 18x FY19F EV/EBITDA, at 1 standard deviation below its historical average. While there may be potential near-term headwinds, we remain positive on IHH's long-term growth plans as it rides out its near-term headwinds and gestation period for the new hospitals. With a potential strong platform in India and China, IHH now has exposure to the two largest economies in Asia with the highest growth potential in the healthcare sector. We believe the ramp-up in Gleneagles HK and better economic prospects in home countries such as Malaysia and Singapore could offset some of the start-up losses in China and lead IHH onto its next phase of growth.

The key catalysts include: i) shorter-than-expected gestation period for Gleneagles HK and other new hospitals, ii) better-than-expected organic performance, iii) turnaround in the situation in Turkey, and iv) positive developments in new markets such as India.

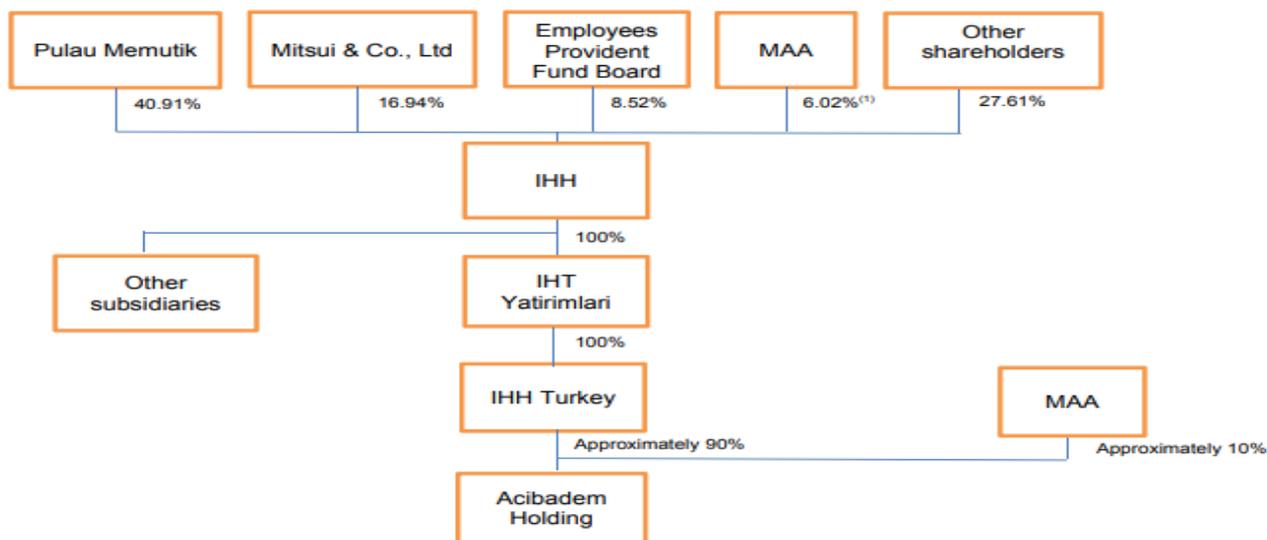
### Existing group structure of IHH before conversion.



Source: Company, AllianceDBS

Note: (1) Including indirect interest of his wife's shareholding in the Company and SZA Gayrimenkul Yatirim Insaat ve Ticaret A.S.'s shareholding in the Company, a company wholly-owned by MAA and his wife, pursuant to Section 8 of the act.

### Proforma group structure of IHH after the conversion



Source: Company, AllianceDBS

Note: (1) Including indirect interest of his wife's shareholding in the Company and SZA Gayrimenkul Yatirim Insaat ve Ticaret A.S.'s shareholding in the Company, a company wholly-owned by MAA and his wife, pursuant to Section 8 of the act.

### Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 Nov 17	5.65	6.81	BUY
2:	28 Feb 18	5.91	6.81	BUY
3:	20 Mar 18	6.20	6.81	BUY
4:	26 Apr 18	6.06	6.81	BUY
5:	21 May 18	6.17	6.81	BUY
6:	28 May 18	5.99	6.81	BUY
7:	16 Jul 18	6.01	6.81	BUY
8:	29 Aug 18	5.55	6.35	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Malaysian Research Team

### DISCLOSURE

---

#### Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

#### Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

**DISCLAIMER**

This report has been prepared for information purposes only by AllianceDBS Research Sdn Bhd ("ADBSR"), a subsidiary of Alliance Investment Bank Berhad ("AIBB") and an associate of DBS Vickers Securities Holdings Pte Ltd ("DBSVH"). DBSVH is a wholly-owned subsidiary of DBS Bank Ltd. This report is strictly confidential and is meant for circulation to clients of ADBSR, AIBB and DBSVH only or such persons as may be deemed eligible to receive such research report, information or opinion contained herein. Receipt and review of this report indicate your agreement not to distribute, reproduce or disclose in any other form or medium (whether electronic or otherwise) the contents, views, information or opinions contained herein without the prior written consent of ADBSR.

This report is based on data and information obtained from various sources believed to be reliable at the time of issuance of this report and any opinion expressed herein is subject to change without prior notice and may differ or be contrary to opinions expressed by ADBSR's affiliates and/or related parties. ADBSR does not make any guarantee, representation or warranty (whether express or implied) as to the accuracy, completeness, reliability or fairness of the data and information obtained from such sources as may be contained in this report. As such, neither ADBSR nor its affiliates and/or related parties shall be held liable or responsible in any manner whatsoever arising out of or in connection with the reliance and usage of such data and information or third party references as may be made in this report (including, but not limited to any direct, indirect or consequential losses, loss of profits and damages).

The views expressed in this report reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendation(s) or view(s) in this report. ADBSR prohibits the analyst(s) who prepared this report from receiving any compensation, incentive or bonus based on specific investment banking transactions or providing a specific recommendation for, or view of, a particular company.

This research report provides general information only and is not to be construed as an offer to sell or a solicitation to buy or sell any securities or other investments or any options, futures, derivatives or other instruments related to such securities or investments. In particular, it is highlighted that this report is not intended for nor does it have regard to the specific investment objectives, financial situation and particular needs of any specific person who may receive this report. Investors are therefore advised to make their own independent evaluation of the information contained in this report, consider their own individual investment objectives, financial situations and particular needs and consult their own professional advisers (including but not limited to financial, legal and tax advisers) regarding the appropriateness of investing in any securities or investments that may be featured in this report.

ADBSR, AIBB, DBSVH and DBS Bank Ltd, their directors, representatives and employees or any of their affiliates or their related parties may, from time to time, have an interest in the securities mentioned in this report. AIBB, DBSVH and DBS Bank Ltd, their affiliates and/or their related persons may do and/or seek to do business with the company(ies) covered in this report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell or buy such securities from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report.

AIBB, DBSVH, DBS Bank Ltd (which carries on, inter alia, corporate finance activities) and their activities are separate from ADBSR. AIBB, DBSVH and DBS Bank Ltd may have no input into company-specific coverage decisions (i.e. whether or not to initiate or terminate coverage of a particular company or securities in reports produced by ADBSR) and ADBSR does not take into account investment banking revenues or potential revenues when making company-specific coverage decisions.

ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, may beneficially own a total of 1% or more of any class of common equity securities of the subject company mentioned in this report. ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBSVUSA may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company. DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this report should contact DBSVUSA exclusively. DBS Vickers Securities (UK) Ltd is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Services Authority. Research distributed in the UK is intended only for institutional clients.

In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the overriding issue of confidentiality, available upon request to enable an investor to make their own independent evaluation of the information contained herein.



Wong Ming Tek, Executive Director

Published by  
**AllianceDBS Research Sdn Bhd (128540 U)**

19th Floor, Menara Multi-Purpose, Capital Square, 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia.  
Tel.: +603 2604 3333 Fax: +603 2604 3921 email: general@alliancedbs.com