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Sector Update

Healthcare

Gaining a Global Flavour

Last week, Khazanah's healthcare investment arm Integrated Healthcare Holdings (IHH) created headlines following its acquisition of Turkey-based hospital chain Acibadem, which also stirred speculation of its potential listing in 2H2012. This report examines the potential impact of IHH and its upcoming listing on the local and regional healthcare sectors. We think the heavy news flow on IHH will indirectly raise the profile of the fast growing local and regional private healthcare segments. On the belief that IHH's eventual listing will spur an upward rerating on this sector, we maintain our Overweight sector call, with KPJ remaining as our Top Buy.

OVERWEIGHT ↔

Background on IHH. IHH first came into the limelight in June 2010 when Khazanah, through IHH, was locked in a battle with Fortis Healthcare to gain the control of then-listed Singapore-based Parkway Holdings. Following a series of counter offers, IHH eventually won the tussle, which led to the privatization of Parkway in 3Q2010. In April 2011, less than a year later, IHH was in the spotlight again when Japan-based conglomerate Mitsui & Co acquired a 30% stake in the group from Khazanah for RM3.3bn, valuing IHH's equity value at RM11bn. Following Mitsui's stake acquisition, Khazanah had announced plans to float IHH within 3 years.

The potential listing. While the details of IHH's IPO have not been made public, Khazanah is reportedly considering the options of listing IHH in Malaysia or Singapore, with a potential dual listing in both stock exchanges. It was reported that IHH will raise about USD3bn from the IPO to pare down borrowings as well as for future expansion and acquisition purposes. While Khazanah has stated that the timing of the potential listing is subject to market conditions, speculation is rife that IHH will go public in 2H2012 amid reports that Khazanah has appointed several investments banks to undertake the IPO.

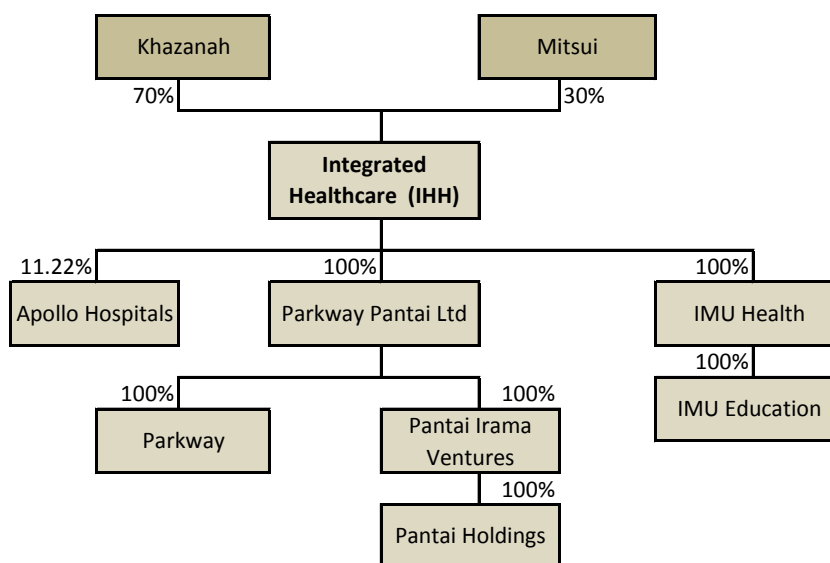
What IHH's listing will do for the sector? With Khazanah remaining tight-lipped on the details on IHH's potential listing, we are of the view that its listing would indirectly boost the profile of the fast growing local as well as regional healthcare sectors. Given the high premium and rather expensive valuation IHH paid for its previous acquisitions of Parkway followed by Acibadem, we think it is highly likely that IHH will be listing at a rather expensive and high valuation in order for Khazanah and other IHH shareholders to unlock the value of their investment in IHH. Nevertheless, despite the high valuation, we see strong response to the potential IPO given that IHH offers broad exposure to untapped growth potential in the fast growing private healthcare sector in emerging markets. Subsequently, the group's listing may indirectly be an upward valuation rerating catalyst for other listed healthcare companies in Malaysia and in the region. As such, we maintain our Overweight call on the sector, with KPJ as our Top Buy. While our FV remains RM5.21 for now, we are revisiting our valuation in light of the potential sector rerating come the listing of IHH.

IHH AT A GLANCE

Down memory lane. IHH first came into the spotlight in June 2010 when Khazanah, through IHH, was locked in a battle with Fortis Healthcare to gain the control of then-listed Singapore-based, Parkway Holdings. Following a series of counter offers, IHH eventually won the tussle, which led to the privatization of Parkway in 3Q2010. In April 2011, less than a year after buying Parkway, IHH was in the news again when it was announced that Japan-based conglomerate Mitsui & Co bought a 30% stake in the group from Khazanah for RM3.3bn, putting IHH's equity value at RM11bn. Following the 30% acquisition by Mitsui, Khazanah announced plans for IHH to public within 3 years.

IHH's portfolio before Acibadem acquisition. Following the privatization of Parkway, IHH underwent internal restructuring whereby the holding companies of Parkway and Pantai were merged under Parkway Pantai Ltd. The Parkway Pantai Group operates a total of 16 hospitals across Asia, with a total capacity of more than 3000 beds. By 2013, Parkway Pantai will have eight new hospitals with more than 2,000 additional beds. Other than Parkway Pantai, IHH also owns a 11.22% stake in an India-based hospital group, Apollo Hospitals, which has 5,842 owned and 2,875 managed beds across 37 owned and 17 managed hospitals across India. IHH also owns a 100% stake in IMU Education, which is the operator and owner of a leading private medical school in Malaysia.

Figure 1: Shareholdings structure in IHH prior to Acibadem acquisition



Source: OSK, Khazanah

A quick take on Parkway Pantai Group. In Singapore, Parkway Pantai has Gleneagles Hospital, Mount Elizabeth Hospital and Parkway East Hospital under its stable. It is set to open another hospital, Mount Elizabeth Novena Hospital, in the republic in 2H2012. In Malaysia, Parkway Pantai owns Gleneagles in Kuala Lumpur and Penang, and nine Pantai Hospitals in Malaysia. In Brunei, it owns Gleneagles JPMC while in India, it is a joint-venture shareholder in Apollo Gleneagles Hospital, Kolkata and ParkwayHealth Khubchandani Hospital. In China, the group operates a chain of seven clinics located in Shanghai and is set to operate the Shanghai International Medical Centre, which is due to open by March 2014. The group will be managing the Danat Al Emarat Hospital in the United Arab Emirates, and the City International Hospital in Ho Chi Minh City, Vietnam which are set to open in 2012/13. In 1HFY11, Parkway Pantai recorded SGD621.2m (~RM1.5bn) in revenue, which was up by 11% y-o-y, while its 1HFY11 core net profit of SGD78.3m (~RM189.4) was 18% higher y-o-y.

Apollo Hospitals in short. Apollo Hospitals, which started operation in 1983, is one of the largest hospitals groups in Asia with a combined total bed capacity of around 8700 beds in 37 owned and 17 managed hospitals located across India. The group has a large network of 1,199 pharmacies in 20 states across India. The group also operates 62 primary clinics offering consultation, diagnostics and preventive health check-ups. For 1HFY12 (as at end-Sept 2011), the group recorded revenue of around INR15bn (~RM924.8m), a 21.3% jump y-o-y while net profit grew 17.4% y-o-y to INR1.1bn (RM67.6m).

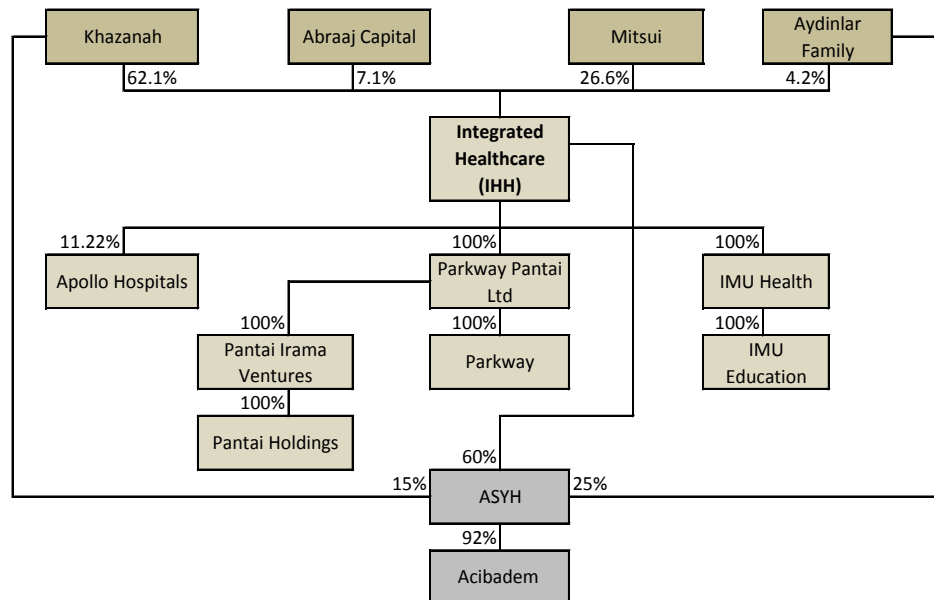
Figure 2: Apollo Hospitals' network across India



Source: OSK, Apollo

The acquisition of Acibadem. In late 2011, it was reported that Khazanah and IHH were in negotiations to acquire a hospital chain in Turkey. Last week, IHH announced that it had acquired a 60% stake in Acibadem Saglik Yatirimlari Holdings A.S. (ASYH), which in turn owns 92% of Turkey's leading private hospital, Acibadem Saglik Hizmetleri ve Ticaret A.S (Acibadem). IHH bought its ASYH stake from Mehmet Ali Aydinlar & family (the founder of Acibadem) and Abraaj Capital (a private equity firm). Concurrently, Khazanah through its other subsidiary Bagan Lalang Ventures SB, acquired a 15% direct stake in ASYH, with the remaining 25% in ASYH owned by the Aydinlar family. As part of the exercise, Khazanah and IHH will pay RM3.66bn in shares and cash for Acibadem, as well as make a general offer for the remaining shares in the Turkish hospital group. It will cost RM425m to buy up the remaining 8% shares in Acibadem. Upon completion of the exercise (but excluding the 8% take up), Khazanah will end up with a 62.1% stake in IHH versus 70% previously while Mitsui will own 26.6% from 30% before, and the new shareholders –Abraaj and the Aydinlar family - will end up with 7.1% and 4.2% stakes respectively.

Achieving global reach. It was reported that Acibadem's acquisition will make IHH one of the world's largest healthcare groups in terms of number of beds and profitability. The acquisition will add 1,800 beds to IHH's stable, which together with its own hospitals, will put the total number of beds to 12,000 while enlarging IHH's footprint beyond Asia and to India, the Middle East, Central and Eastern Europe. Acibadem has 14 hospitals - 13 in Turkey and one in Macedonia - and nine clinics. It plans to open three hospitals and one clinic this year. Based on the estimated bed capacity of more than 12,000, IHH undoubtedly be one of the biggest hospitals group in the region in terms of beds capacity. Apart from being one of the biggest in the region, IHH will also have exposure that is wider than that of other sizeable hospitals group in the region. Based on the financial numbers available across its subsidiaries, we estimate that IHH will have a group net profit at about RM500m, which will rank it among the top in terms of profitability.

Figure 3: IHH's shareholdings structure after Acibadem's acquisition

Source: OSK, Khazanah

Figure 4: IHH vital statistics vs its regional peers

Hospitals Group	Bed Capacity	No of hospitals [^]	Major Geographical Exposure
IHH*	12,000	88	Malaysia, Singapore, Brunei, Turkey, China, India
Ramsay Health Care	9,000	117	Australia, UK, France, Indonesia
Apollo Hospitals	8,717	54	India
Fortis Healthcare	6,881	51	India, Asia
Bangkok Dusit Medical	4,987	28	Thailand, Cambodia
KPJ Healthcare	2,700	22	Malaysia, Indonesia
Bangkok Chain	1,012	6	Thailand

* Estimates & includes Apollo Hospitals

[^]Total capacity for both owned and managed hospitals

Source: OSK, Various

The potential listing of IHH. As we mentioned earlier, Khazanah announced in April last year that it intends to list IHH within 3 years. While the details of the IPO are yet to be made public, Khazanah is reportedly considering the options of float IHH in Malaysia or Singapore, with a potential dual listing in both stock exchanges. IHH will reportedly raise around USD3bn from the IPO to pare down its borrowings as well as for future expansion and acquisition needs. While Khazanah has said the timing of the potential listing is subject to market conditions, current speculation has it that IHH would be listed in 2H2012 amid reports that Khazanah has appointed several investments banks to undertake the IPO.

What IHH's listing will mean for the sector. Although Khazanah is keeping the IPO details close to its chest, we believe that IHH's listing will indirectly enhance the profile of the healthcare sector as a fast growing sector with huge potential. Given the high premium and rather expensive valuation IHH paid for its two earlier acquisitions of Parkway and Acibadem, it is highly likely that IHH will be listed at lofty valuations to ensure that Khazanah and other shareholders are able to unlock the value of their investment in IHH. Despite the high valuation, we still believe the response to the potential IPO would be strong given that IHH presents wide exposure to untapped growth potential in the fast growing private healthcare sector in emerging markets. As such, the impending listing will indirectly provide an upward re-rating catalyst for other listed healthcare companies in Malaysia and the region. We maintain our Overweight call on the sector, with KPJ remaining as our Top Buy. Our FV currently remains RM5.21 but we are revisiting our valuation in light of the upcoming IHH listing.

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