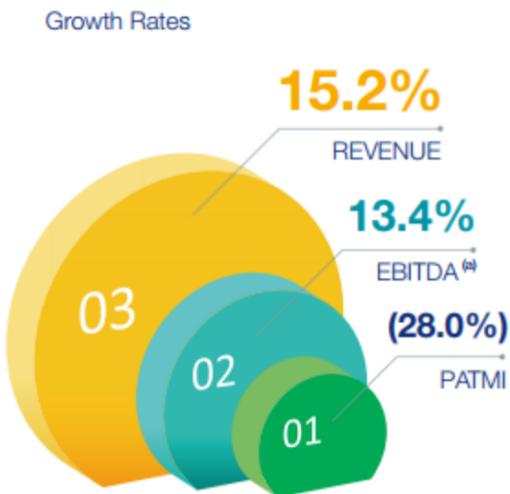


**Company Overview**

Figure 1. Growth Rates



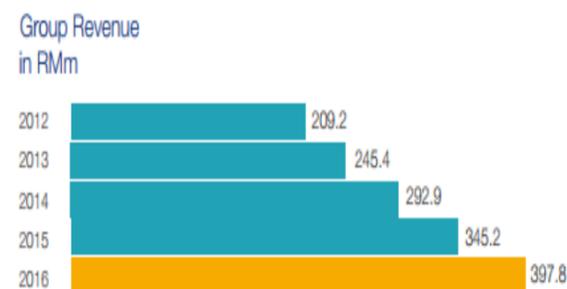
Source: HMI Annual Report, 2016

Established in 1998 and listed on SGX since 1999, Health Management International (HMI) is a healthcare provider with presence in Singapore, Malaysia and Indonesia. The company currently owns and operates two tertiary care hospitals in Malaysia with 500 bed capacity, as well as a healthcare training institute in Singapore. Supporting its healthcare operations is a network of 17 patient representative offices, mainly in Indonesia. The group has ~200 practicing consultants with 1,600 in employee strength.

(SGD\$ MYR)	FY16A	FY17A	FY18E	FY19E
Revenue	397.8	435.8	503.3	588.9
Gr Rate (%)	15.2	9.5	16.0	17.0
EBITDA	84.6	88.1	100.7	117.8
Margin (%)	21.3	20.2	20.0	20.0
Net Income	20.0	20.8	20.7	28.6
Margin (%)	5.02	4.77	4.11	4.85
ROA	5.2	5.15	3.9	4.4
ROE	12.6	12.1	12.06	9.6
EV/EBITDA	6.9	19.72	18.07	14.05
P/E Ratio	29.3	58.6	79.44	57.61

**Investment Thesis**

Figure 3. HMI Revenue Growth



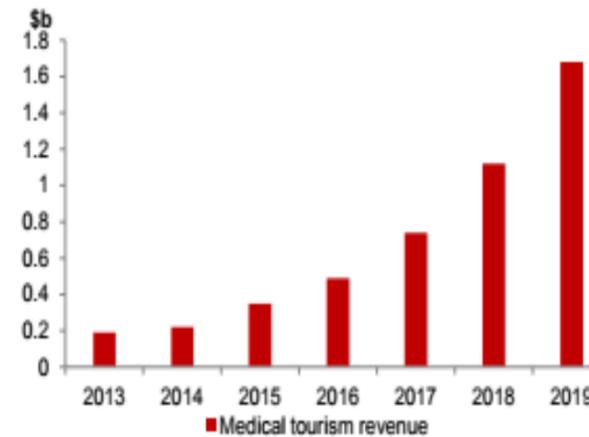
Source: HMI Annual Report, 2016

- Growing patient demand supported by favorable macro backdrop-** With the increase in average income of citizens in Indonesia, a favorable Malaysian Ringgit (ringgit/ rupiah trading at 90% of 2014/2015 price) and Indonesia's strong customer flow (GDP 5% growth), HMI's customer base and revenue are poised to increase. It is also the first and only one to install the PET-CT scan in Malacca, which is poised to meet the increase in cancer cases.
- Attracting and Retaining specialist doctors-** With only 9000 specialists serving the 30.33 Million population of Malaysia, HMI hopes to close the unmet demand gap by offering specialists an attractive partnership model of earning procedure fees and drug margins, which is higher than other private hospitals in Malaysia.
- Expanding capacity-** HMI is looking at expanding their current hospital wings by FY2020 and increasing bed capacity with 300 more inpatient beds by 1HFY18. HMI is poised to cater to increase in demand from the upcoming Melaka Gateway Project.

Please read our disclaimer at the end of this report

**12M Industry Outlook**

Figure 2. Malaysia's Medical Tourism Industry Revenue Forecast

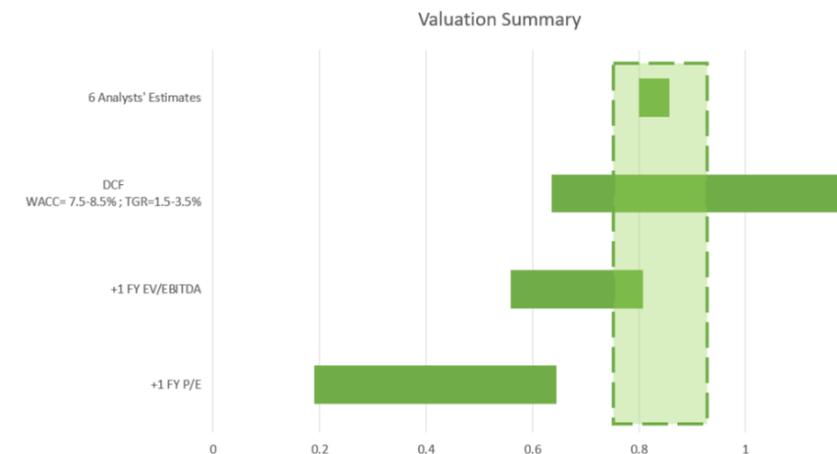


Source: Frost and Sullivan

- Malaysia's Healthcare Industry in Transformation** Frost & Sullivan awarded Makhota Medical Centre with the 2015 Malaysia Excellence Awards for the Medical Tourism Hospital of the Year. The government has also outlined initiatives under the 17 Entry Point Projects to restructure its tourism council and strategies to sustain healthcare tourism..
- Secular Trends supportive of long term sector growth-** An increasing GDP per capita in Malaysia (3% in 2016), Indonesia (5%) and Singapore (2%) will translate into increased demand for healthcare services, especially with the approval for Singaporeans to use Medisave in HMI's Regency branch.
- Attractive destinations for medical Tourism.-** The number of medical tourists to Malaysia, for instance is anticipated to grow at a CAGR of 15.2% over 2013 to 2019, according to Frost & Sullivan. Moreover, Makhota is up for review by Malaysian Society for Quality in Health (MSQH) Hospital Accreditation Standards, which none of the public hospitals have. It is also looking to undertake Joint Commission International accreditation, which would improve its international standing and attract customers from US, Europe and Middle East.

**Valuations**

Figure 4. Valuation Summary



Our 12 month price target from the date of coverage is S\$0.83, assuming a compounded annual growth rate of 15%, and long term growth rate of 3%. This is with consideration to the expansion activity of Health Management International's hospitals in Johor and Malacca, as well as the growing number of patients locally and from abroad. Near term growth is expected to dip due to anticipated increase in expenses as the hospitals expand but the completion of Mahkota Medical Centre will boost growth rates in FY18. Increasing regional affluence and sector expansion trends will support near term growth.

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