

10 July 2023

Healthcare

A Picture of Health

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OVERWEIGHT



Reiterate **OVERWEIGHT**. We like private healthcare providers given the inelastic demand and growing global healthcare expenditure, projected to reach USD10t by 2026. We expect both domestic and international patient throughputs, and revenue intensity to continue to gain momentum moving into 2HCY23, driven by the return of elective surgeries over the immediate term, while the longer term prospects of private healthcare are underpinned by rising affluence and an aging population. All in, we see earnings resilience and catalysts from all three areas of healthcare under our coverage, i.e. (1) private hospitals (the return of elective surgeries), (2) pharmaceuticals and over-the-counter (OTC) drugs (rising health consciousness), and (3) immunotherapy (increasing adoption as a cancer treatment method). Our top picks are **KPJ (OP; TP: RM1.50)** and **KOTRA (OP; TP: RM7.00)**.

1. Private Hospitals

Global healthcare expenditures are projected to reach a total of USD10t by 2026, increasing from USD8.4t in 2022, representing a CAGR of 3.5% during the five-year period (see chart on next page). Amplifying the demand for private healthcare are surging chronic diseases across the globe. Specifically, WHO reported that almost half of the global healthcare expenditures (USD4t) will be spent on three leading causes of death, namely: (i) cardiovascular diseases, (ii) cancer, and (iii) respiratory diseases.

We project **IHH (OP; TP: RM7.00)**'s patient throughput growth and revenue intensity to drive 2023 earnings on sustained demand for elective surgeries.

For 2023, we expect IHH's revenue per inpatient growth of 10%-15% (vs. 18% in 2022 due to low base effect in 2021), inpatient throughput growth of 10%-15% (vs. 10% in 2022) and bed occupancy rate (BOR) of 60%-73% (vs. 56%-70% in 2022) for its hospitals in Malaysia, Singapore, India and Turkey. We believe the key growth factor for its inpatient throughput and BOR will be the return of elective surgeries and medical travel, the addition of new beds (previously constrained by staff shortages) and the first full-year contribution from Acibadem Atasehir hospital.

We also like IHH for its pricing power as the inelastic demand for private healthcare service allows providers such as IHH to pass on the higher cost amidst rising inflation, and its presence in multiple markets, i.e. Malaysia, Singapore, Turkey and Greater China.

Similarly, for **KPJ** we expect its patient throughput to grow 14% (vs. 12% in FY22) with BOR of 70% (vs. 58% in 2022) to be driven by recovery in demand for its services, particularly, non-Covid-related ones including elective surgeries. KPJ expects the recovery in demand for its services to accelerate in the remaining quarters, underpinned by pent-up demand for elective surgeries. Thanks to high patient throughput, two of its new hospitals have turned EBITDA-positive while the other two only recorded small operating losses.

We like KPJ for its pricing power as a private healthcare provider and its strong market position locally with the largest network of 28 private hospitals (vs. 16 of the next largest player IHH). We expect the stock to be re-rated following: (i) the divestment of its loss-making Indonesian operations, and (ii) its newer hospitals turning EBTDA positive post gestation period.

2. Health Supplements and OTC Drugs

Independent market researcher The Statista Consumer Market Outlook projects the OTC pharmaceuticals market in Malaysia to grow at a CAGR of 6% to an estimated USD715m (RM3.2b) by 2027 as consumers take a more proactive stance towards their health and well-being (including taking health supplements regularly), especially in the aftermath of the Covid-19 pandemic.

This augurs well for **KOTRA** which manufactures and sells OTC supplements and nutritional and pharmaceutical products with key flagship household brands such as *Appeton*, *Axcel* and *Vaxcel*. We also like **KOTRA** for: (i) its integrated business model encompassing the entire spectrum of the pharmaceutical value chain from R&D, product conceptualisation to manufacturing and sales, and (ii) the superior margins of its original brand manufacturing (OBM) business model (vs. low-margin contract manufacturing).

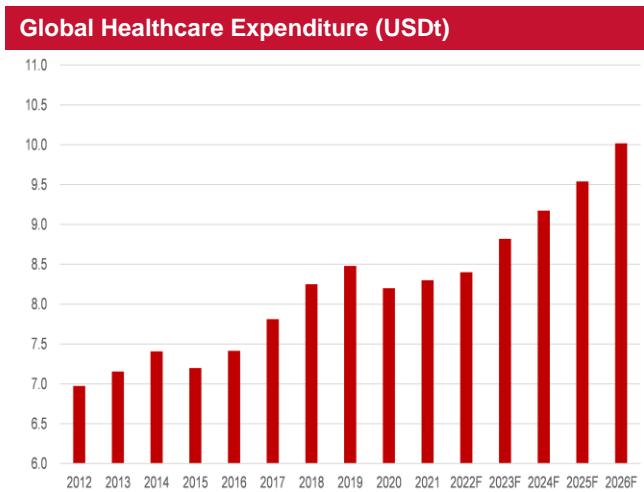
Meanwhile, backed by a new plant, widening distribution network and penetration into local public hospitals, we expect **NOVA (OP; TP: RM0.96)**'s FY23 volume to rise by 10%, fuelled by gradual ramp-up of its new plant and the full-year impact from 35 new SKUs introduced in FY22. We like **NOVA** also for its business model which encompasses the entire spectrum of value chain from product conceptualisation starting from R&D to manufacturing.

However, the same cannot be said for **PHARMA (UP; TP: RM0.33)** which is still under the PN17 status. The group is confident of its future prospects amid its strategic plan to exit the PN17 classification and is currently formulating a regularisation plan. We project pedestrian earnings growth in FY23 at level similar to pre-COVID, averaging RM40m-RM60m, driven by regular orders for medical supplies from the Ministry of Health concession. We are cautious due to: (i) the negative shareholders' equity of RM143m as at 31 Mar 2023 impeding its ability to frank out dividends, and (ii) the government seeking better value-for-money contracts and PHARMA might have to offer new rates that are more competitive (which we have reflected in our forecasts).

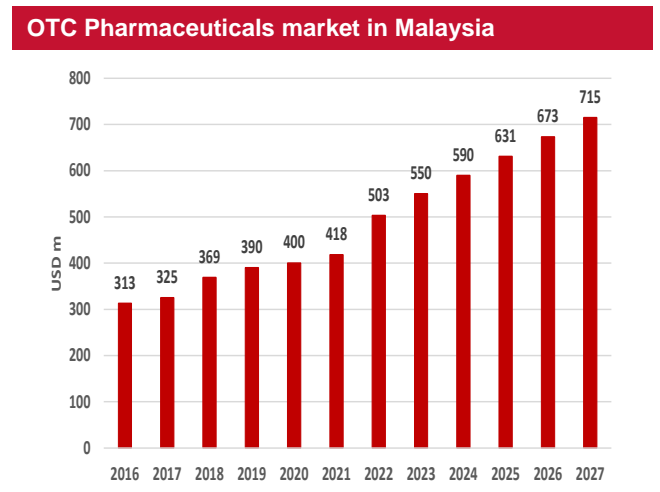
3. Immunotherapy

According to Immunotherapy Drugs Market by Type, Therapy Area, End User - Global Forecast to 2025 by an India-based market research firm, the size of the global immunotherapy market is projected to grow to USD275b by 2025 from USD163b in 2020, translating to a CAGR of 11%, driven largely by the rising adoption of immunotherapy in the treatment of diseases especially cancer, as well as post conventional treatments. Meanwhile, according to Verified Market Research, within the segment of cancer immunotherapy alone, the global CAR T-cell therapy market is expected to grow at a CAGR of 63.8% to USD51b by 2028 from USD590m in 2020.

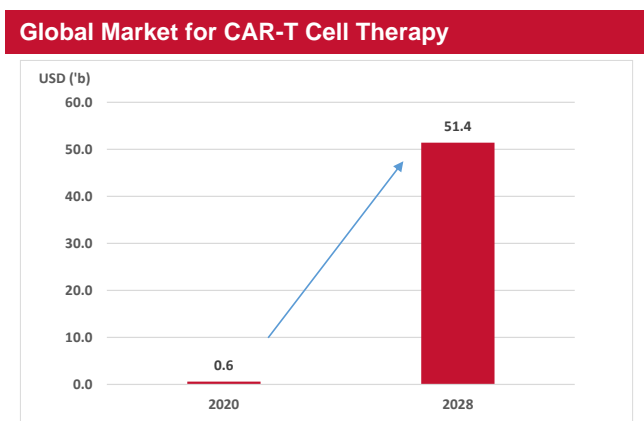
Earnings growth of **MGRC (OP; TP: RM0.80)** will gather momentum in the coming quarters, driven by maiden contributions from Thailand and the Middle East as it ramps up its distribution network and footprint overseas for its biopharmaceutical products. Already, the group had, its 1QFY23 (Jul-Sep), registered maiden contributions from Thailand and the Middle East and expect orders to continue in coming quarters. We like **MGRC** for its exclusive rights to deliver such immunotherapy treatment in the region under a long-term licensing agreement with reputable principals. In addition, it is also the leading provider of genetic sequencing and analysis in Southeast Asia.



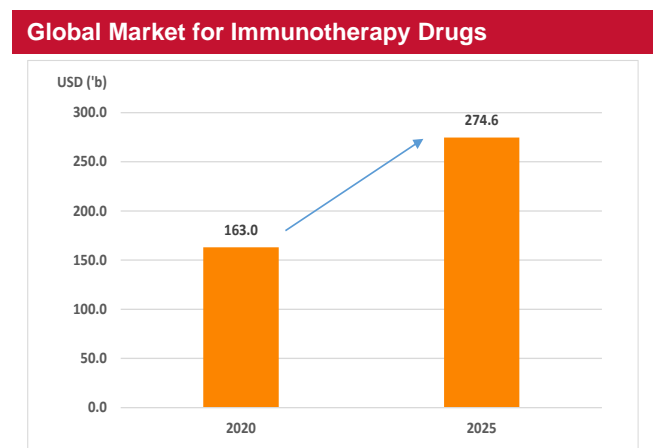
Source: Kenanga Research, WHO, various



Source: Kenanga Research, Various



Source: Kenanga Research, Verified Research Market, Various



Source: Kenanga Research, Various

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
IHH HEALTHCARE BHD	OP	5.79	7.00	21%	50,992	Y	12/2023	18.8	20.7	20%	10%	30.8	28.0	1.9	6.2%	15.5	2.7%
KOTRA INDUSTRIES BHD	OP	5.19	7.00	35%	768	Y	06/2023	46.6	46.7	11%	0%	11.1	11.1	2.5	24.8%	19.0	3.7%
KPJ HEALTHCARE BHD	OP	1.09	1.50	38%	4,757	Y	12/2023	4.9	5.3	28%	8%	22.1	20.5	2.1	9.7%	3.0	2.8%
MALAYSIAN GENOMICS	OP	0.460	0.800	74%	60	Y	06/2023	1.3	4.7	-75%	256%	34.6	9.7	1.3	4.3%	0.0	0.0%
RESOURCE CENTRE BHD																	
NOVA WELLNESS GROUP BHD	OP	0.690	0.960	39%	220	Y	06/2023	4.7	6.4	-11%	38%	14.8	10.7	2.0	14.1%	3.0	4.3%
PHARMANIAGA BHD	UP	0.360	0.330	-8%	472	Y	12/2023	3.9	3.7	-92%	-4%	9.3	9.7	(2.4)	-22.6%	0.0	0.0%

Source: Company, Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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