Healthcare

OVERWEIGHT

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Health is Wealth, Literally

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We reiterate our OVERWEIGHT call for the healthcare sector. Global healthcare expenditure is projected to grow at a CAGR of 3.5% to reach USD10t by CY26, underpinned by rising affluence and aging populations. The demand for healthcare, a basic necessity, is inelastic despite high inflation. For the players, we expect both domestic and international patient throughput to continue to grow while revenue intensity to improve, driven by higher yields from a case-mix with more acute cases. Also helping will be better operational efficiency, cost optimisation and overhead absorption thanks to a gradual ramp-up of new beds. Similarly, we see robust sales of pharmaceuticals and over-the-counter (OTC) drugs backed by increased health awareness. Our sector top pick is IHH (OP; TP: RM7.00).

1. Private Hospitals

Global healthcare expenditure is projected to grow at a CAGR of 3.5%, reaching USD10t by CY26, underpinned by rising affluence and aging populations (see chart on next page). The demand for healthcare, a basic necessity, is inelastic despite high inflation. Another key driver is rising chronic diseases across the globe. According to WHO, 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's** patient throughput growth and revenue intensity to drive FY24 earnings, propelled by more acute cases including elective surgeries.

In FY24, we project **IHH**'s revenue per inpatient growth of 12%−16% (vs. an estimated +19% in FY23 due to low base effect in FY22), inpatient throughput growth of 9%−12% (vs. an estimated +7% in FY23) and bed occupancy rate (BOR) of 65%−73% (vs. an estimated averaging 65% in FY23) for its hospitals in Malaysia, Singapore, India and Türkiye.

IHH plans to add >4,000 beds (+30%) over the next five years across Malaysia, India, Türkiye and Europe. It expects patient throughput to gradually recover in Singapore with the addition of new beds (previously constrained by staff shortages which are gradually easing). Meanwhile, Acibadem's operating environment in FY24 will be more favourable as compared to FY23 and it expects earnings drag to gradually ease in Türkiye (with the return of foreign patients). In 4QFY23, Acibadem's European operation has already recovered. We expect sustained performance in Malaysia. In Hong Kong, it is optimistic and targeting Gleneagles Hong Kong to be bottom-line positive in FY24 due to better operational efficiencies and overhead absorption rate as a result of strong ramp-up in its operations including opening new beds. There is also a return of Middle Eastern and Central Asian medical tourists to its hospitals in Türkiye and India.

We also like **IHH** for its: (i) 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 (ii) presence in multiple markets, i.e. Malaysia, Singapore, Türkiye and Greater China.

Similarly, in FY24, we expect **KPJ's (OP; TP: RM1.95)** patient throughput to grow at 9% (vs. an estimated 7% in FY23) with BOR at 72% (vs. 67% in FY23), driven by revenue intensity emanating from the recovery in demand for elective surgeries. **KPJ** is optimistic that its five hospitals under gestation with losses totalling RM137m in FY23 will be halved in FY24, which will work out to RM69m or 25% of our FY24F net profit. It expects earnings to gain momentum moving into FY24 on better operational efficiencies from its cost optimisation effort and overhead absorption by adding new beds (+10%), which we have factored into our forecasts. With incremental revenues from higher patient throughput, the group's three new hospitals, namely, KPJ Perlis, KPJ Bandar Dato Onn, and KPJ Batu Pahat have turned EBITDA-positive in FY23. The group expects these three hospitals to be profitable by end-FY24. Meanwhile, the other two new hospitals namely Miri and DSH2 remain EBITDA-negative. The group expects Miri and DSH2 to be EBITDA-breakeven by end-FY24 as their revenues rise.

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**). Thanks to high patient throughput, two of its new hospitals have turned EBITDA-positive while the other two only recorded small operating losses.

2. Health Supplements and OTC Drugs

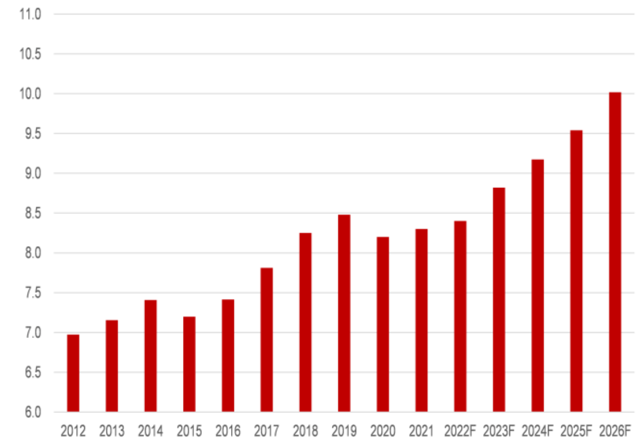
Independent market researcher The Statista Consumer Market Outlook projects the OTC pharmaceuticals market in Malaysia to grow at a CAGR of 6% to an estimated USD715m (RM3.2b) by 2027 as consumers take a more proactive stance towards their health and well-being (including taking health supplements regularly),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

The trend augurs well for **KOTRA (OP; TP: RM5.90)** which manufactures and sells OTC supplements and nutritional and pharmaceutical products under 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 the FY24 sales volume of **NOVA (OP; TP: RM0.74)** to rise by 8%, fuelled by gradual ramp-up of its new plant and the full-year impact from 35 new SKUs introduced in FY22. We also like **NOVA** for its business model which encompasses the entire spectrum of value chain from product conceptualisation starting from R&D to manufacturing.

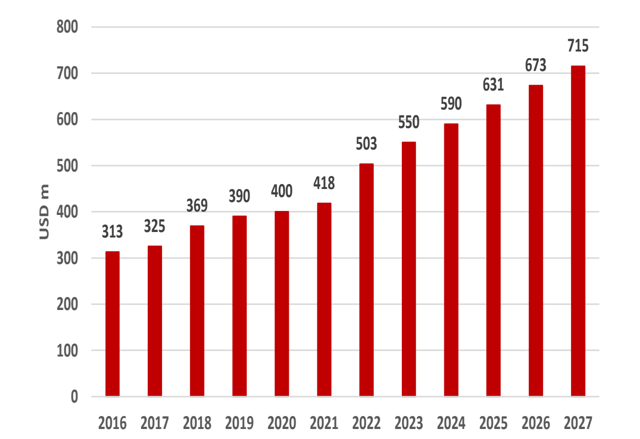
However, the same cannot be said for **PHARMA (UP; TP: RM0.31)** which is still under PN17 status. The group is currently awaiting approval of its regularisation plan to lift it out of the Practice Note 17 (PN17) status. We project pedestrian earnings growth in FY24 at level similar to pre-Covid era, averaging RM40m−RM60m driven by regular orders for medical supplies from the MoH concession. We remain cautious on PHARMA due to the negative shareholders' equity of RM296m as at 31 Dec 2023 impeding its ability to give out dividends. Looking ahead, it is building four new warehouses, being part of its RM220m capex plan to be funded with proceeds from a rights issue and a private placement of new shares. This is to meet the requirement in relation to the government concession to provide timely delivery of drugs and non-drugs products to government facilities throughout the country. In the biopharmaceutical space, it is establishing manufacturing facilities for vaccines and insulin to cope with the increasing needs in these therapeutic areas. The project is on track for commercialisation for vaccines in 2025 and insulin in 2026 namely Recombinant Human Insulin and Analogue Insulin.

Global Healthcare Expenditure (USDt)



Source: Kenanga Research, WHO, various

OTC Pharmaceuticals Market in Malaysia



Source: Kenanga Research, various

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	6.15	7.00	13.8%	54,163.0	Y	12/2024	20.6	21.6	41.6%	4.8%	29.8	28.4	1.8	6.1%	7.0	1.1%
KOTRA INDUSTRIES BHD	OP	4.66	5.90	26.6%	691.1	Y	06/2024	33.9	39.3	-23.2%	16.0%	13.8	11.9	2.1	16.9%	26.0	5.6%
KPJ HEALTHCARE BHD	OP	1.93	1.95	1.0%	8,423.1	Y	12/2024	6.2	6.9	7.4%	12.0%	31.3	28.0	3.4	11.2%	3.4	1.8%
NOVA WELLNESS GROUP BHD	OP	0.515	0.740	43.7%	164.1	Y	06/2024	4.9	5.5	9.1%	11.5%	10.5	9.4	1.4	14.0%	3.3	6.4%
PHARMANIAGA	UP	0.335	0.310	-7.5%	482.8	Y	12/2024	3.1	3.2	-41.9%	2.7%	10.7	10.4	(1.9)	-16.4%	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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