

### SECTOR UPDATE

## Healthcare – Malaysia

Prospects Appear Largely Priced In

While Turkey faces headwinds, IHH Acibadem's revenue intensity has consistently outstripped the high inflationary environment. Meanwhile, Duopharma is on the cusp of renewing its sizeable insulin contract with the government. Maintain MARKET WEIGHT as forward prospects appear largely priced in at this juncture. We like IHH as our top pick for the sector for its resilient, attractive and defensive earnings and increasingly diminished risk tied to operations in emerging markets.

### WHAT'S NEW

- Duopharma on the cusp of extending public sector supply agreement...** Duopharma's core supply agreement for its insulin contract to the government had expired in Dec 21. It is on the cusp of a renewal, with a Letter of Award already being issued to Duopharma. Salient details to the contract are being reviewed but positively, the contract is now worth significantly more at RM375m or RM125m p.a. vs the previous contract of RM91m p.a.. The proposed new contract supply expires in Dec 24. The renewal of the insulin contract is within expectations, but the increased value comes as a positive surprise. This however, could offset potentially lower margins commanded in the supply agreement.
- ...will realise COVID-19-related earnings in 4Q21 onwards.** Pfizer-BioNTech has been the vaccine of choice for the Malaysian adolescent population and for the booster shots. Only later were the Sinovac and Astra-Zeneca vaccines approved as booster shots but only for those who have previously received the same vaccine, while Pfizer-BioNTech is a heterologous booster. Meanwhile in the private sector, Duopharma offers the Sinopharm vaccine, having commenced distribution in mid-Oct 21. We understand uptake has been lukewarm and contributions to 4Q21 could be limited. But over 2022, Duopharma intends to achieve its RM50m vaccine sales target by targeting of foreign labour and the unvaccinated who are not comfortable with the choice of vaccines offered by the government. This could supplement 2022's earnings by 6.4%.

### ACTION

- Maintain MARKET WEIGHT.** The sector has seen its worst after having to navigate severe dips in patient volume. Despite this, valuations have held up well. Apart from the gradual recovery, we do not expect convincing catalysts ahead to spark a re-rating. Hospital operators KPJ and IHH are likely to have seen earnings bottom out in 2Q21. Domestic inpatient volume should recover, anchoring earnings for 2022, further aided by the return of foreign medical patients in the medium term. With the recovery off a low base, diminished risk factors and compelling valuations, we continue to like IHH as the top pick for the sector. Its local domestic peer, KPJ, appears to have its prospects priced in at this juncture. Meanwhile, we are buoyant over Duopharma, as it offers decent execution and attractive growth even though sentiment over its vaccine role has normalised.

### PEER COMPARISON

Name	Ticker	Rec	Currency	Price @ 5 Jan 22 (lcl)	Target Price (lcl)	Mkt Cap (US\$m)	----- PE (x) ----- 2020F	2021F	--- EV/EBITDA (x) --- 2020F	2021F	Div Yield (%) 2020F	P/B (x) 2020F
KPJ Healthcare	KPJ MK	HOLD	RM	1.04	1.15	1099	28.0	21.9	11.0	9.7	1.6	2.1
IHH Healthcare	IHH MK	BUY	RM	6.76	7.40	14483	36.9	34.5	15.5	16.2	0.8	2.5
Raffles Medical	RFMD SP	BUY	SGD	1.35	1.66	1884	31.3	31.1	17.5	17.6	1.7	2.6
BKK. Chain Hosp.	BCH TB	HOLD	THB	20.90	20.00	1511	20.1	29.8	11.8	15.7	2.5	4.4
BKK. Dusit	BDMS TB	BUY	THB	22.40	28.50	11021	41.6	35.1	19.8	17.6	1.2	4.2
Bumrungrad Hosp.	BH TB	BUY	THB	133.00	175.00	3378	47.8	34.1	24.9	19.4	1.1	5.9
<b>Regional hospitals avg</b>						<b>5563</b>	<b>34.3</b>	<b>31.1</b>	<b>16.8</b>	<b>16.0</b>	<b>1.5</b>	<b>3.6</b>
Duopharma	DBB MK	BUY	RM	1.61	1.94	372	19.9	17.4	11.5	10.4	3.9	2.3
APEX Healthcare	APEX MK	NR	RM	2.60	n.a.	299	21.9	20.2	13.7	12.4	1.4	3.1
Pharmaniaga	PHRM MK	NR	RM	0.76	n.a.	236	10.8	16.1	8.2	10.6	6.9	2.6
<b>Malaysia pharma avg</b>						<b>302</b>	<b>17.5</b>	<b>17.9</b>	<b>11.1</b>	<b>11.1</b>	<b>4.1</b>	<b>2.7</b>

Source: Bloomberg, UOB Kay Hian

## MARKET WEIGHT

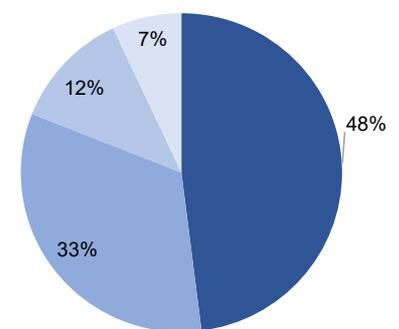
(Maintained)

### SECTOR PICKS

Company	Rec	Share Price (RM)	Target Price (RM)
Duopharma	BUY	1.61	1.94
KPJ	HOLD	1.04	1.15
IHH	BUY	6.76	7.40

Source: UOB Kay Hian

### DUOPHARMA PROJECTED REVENUE MIX (2021)



■ Private sector ■ Public sector  
■ Public sector (Insulin) ■ Export

Source: UOB Kay Hian

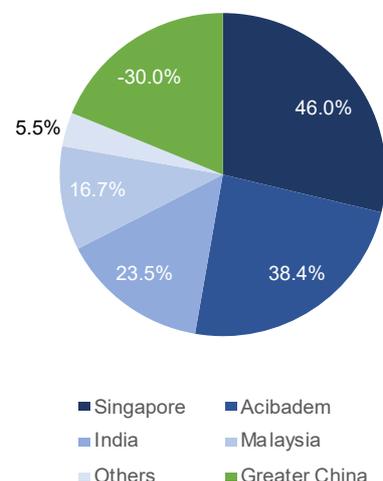
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### ESSENTIALS

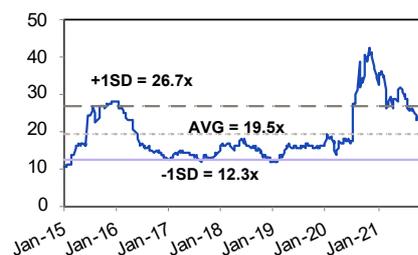
- Headwinds abound in Turkey but Acibadem has a proven track record.** Macroeconomic conditions in Turkey appear strained. Turkish Lira/RM has depreciated 21% against 2020's average. This largely stems from the country's high inflation. In 2015-20, inflation grew at a five-year CAGR of 13.4%. However, Acibadem is well insulated by its inflation-adjusted treatment cost, as reflected by inpatient revenue growing at a five-year CAGR (2015-20) of 18.1%, outstripping Turkey's inflation rate. Acibadem's inpatient revenue is resilient because: a) of its upmarket hospitals; and b) about 40% of its revenue is derived from its foreign patients and European operations. Against this backdrop, we are assured Acibadem will be able to navigate its domestic headwinds at this juncture.
- Inpatient volume due for a rebound.** The two years preceding the COVID-19 outbreak (2018 and 2019) saw robust inpatient admission growths of 4.0% and 6.3% respectively. The typically defensive healthcare sector was blindsided by minimal foreign medical tourism and fears of contracting COVID-19 in high-risk areas such as hospitals. This dragged down inpatient volume to 28.7%. It was not until 2Q21 that IHH saw inpatient volume turn steady. Laggard KPJ is only expected see inpatient volume growth from 4Q21 onwards. Now that the worst is over, 2022 will be further supported by inbound foreign medical patients. Given this robust backdrop, we anticipate patient volume to grow 20%. We believe this should well support earnings and by extension, valuations for the hospitals.
- IHH Healthcare (IHH MK/BUY/Target: RM7.40).** Our SOTP-based target price implies 39.8x 2022F PE, below its historical five-year, 12-month forward PE of 45x. Valuations appear attractive with IHH's: a) resilient yet defensive three-year earnings (2020-23F) CAGR of 34.7%, and b) sound track record. The operational earnings drag at IHH's North Asia operations have diminished while Acibadem's operations are being increasingly de-risked with an increasingly foreign patient mix. The diminished risks and attractive valuations far exceed the uncertainty over Fortis and IHH's initial 31% stake that has been brought into question.
- Duopharma Biotech (DBB MK/BUY/Target: RM1.94).** Duopharma's valuations have moderated over the year as it did not secure approval for its Sputnik V vaccine. However, it has delivered consistent earnings and offers an attractive growth outlook for a defensive company. Furthermore, it is on the verge of securing a larger and longer term insulin contract with the government. As such, we believe Duopharma's valuations are deserving of a premium to its historical valuations. As such, our target price is pegged to 23x 2022F PE, or +0.5SD to its five-year average PE mean.
- KPJ Healthcare (KPJ MK/HOLD/Target: RM1.15).** Our target price is based on 12x EV/EBITDA, a 20% discount to regional peers', and implies 34.3x 2022F PE. We believe the 20% discount is fair as: a) KPJ's growth is largely restricted to an increasingly saturated market in Malaysia, b) it has a stretched balance sheet (net gearing of 0.7x vs sector's 0.4x), and c) the stock is illiquid. At this juncture, KPJ's prospects appear to be fairly priced.

### IHH'S EARNINGS BREAKDOWN BY REGION (9M21)



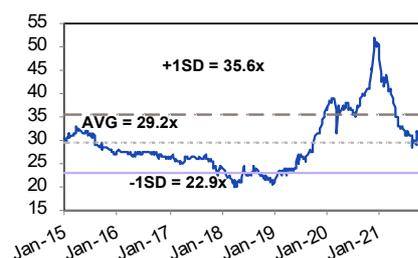
Source: IHH

### DUOPHARMA: 5-YEAR PE BAND



Source: Bloomberg, UOB Kay Hian

### KPJ: 5-YEAR PE BAND



Source: Bloomberg, UOB Kay Hian

### IHH: 5-YEAR PE BAND



Source: Bloomberg, UOB Kay Hian

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