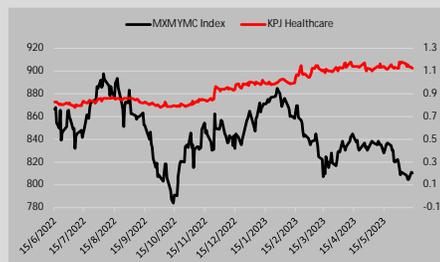
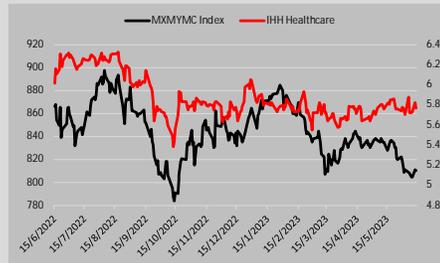




HEALTHCARE

Overweight

RELATIVE PERFORMANCE



Healthcare Remain Resilient

The healthcare sector under our coverage namely KPJ Healthcare (KPJ), IHH Healthcare (IHH) and Apex Healthcare (ApexH) remained resilient in the recent 1QFY23 results. KPJ's 1QFY23 net profit jumped 134.4% YoY to RM51.9m, mainly due to higher bed occupancy rate (BOR) and better performance in patients visit. A rise in inpatient days and a higher share of profit from associates also attributed to the increase in net profit. Meanwhile, IHH's 1QFY23 revenue rose 24% YoY to RM5.1bn attributed to the strong recovery in both local and foreign patients seeking treatment in the Group's hospitals. For ApexH, the group's 1QFY23 net profit increased by 54% YoY to RM24.3m, driven by higher market demand for pharmaceutical products. We believe there is still room for growth given the favourable demography and a growing trend of healthcare tourism in Malaysia. All told, we upgrade the healthcare sector to **Overweight**, with outperform calls on both KPJ and IHH in view a rising number of inpatient volumes and bed occupancy rate, while maintaining neutral on ApexH as we are concerned with the slowing demand for its core respiratory illness product.

§ **Growing number of inpatient volumes and BOR.** We observed that hospitals are experiencing an increase in both inpatient volume and BOR following the reopening of international borders. The trend is driven by a growing number of patients seeking non-acute medical services and regular check-ups. KPJ Healthcare (KPJ) has delivered a strong growth of 35% in its number of inpatient visits while BOR increased YoY to 70% in 1QFY23 from 47%. Meanwhile, IHH Healthcare (IHH) reported a higher inpatient admission in their core operation at Malaysia (+41% YoY), Turkey and Europe (+14% YoY) and India (+8% YoY).

§ **Bed additions in FY23.** Aligned with the upward trajectory of patient volumes and BOR, hospitals are strategically positioning themselves to pursue expansion through the addition of beds. KPJ expects to add a total of 300 new beds in FY23 in which 230 beds are expected to be operational. Meanwhile, IHH has proposed 2000 beds expansion plan in the next 3 years across its major operations in Malaysia (~600 beds) and India (~1,500 beds). Without M&A, this will translate to 15-50% growth in IHH's current capacity.

RECOMMENDATION TABLE

	Current (RM)	Target (RM)	Upside (%)	Call
IHH	5.96	7.63	+28.0	O
KPJ	1.17	1.35	+15.4	O
APEXH	2.36	2.52	+6.8	N

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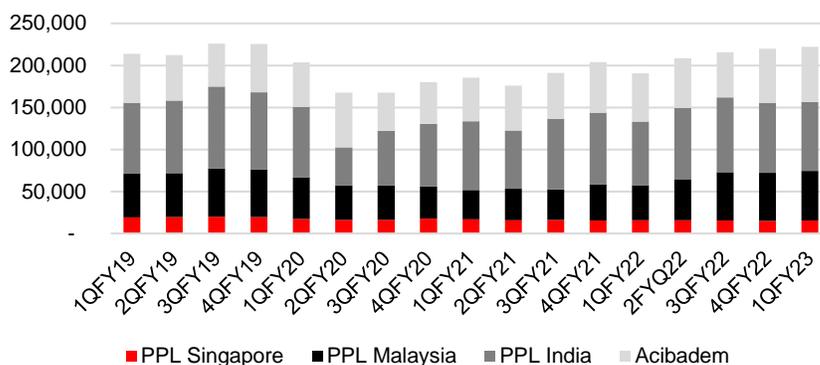
FINANCIAL SUMMARY

Company	Price (RM)	Mkt Cap (RMm)	EPS (sen)		EPS Growth (%)		P/E (x)		P/B (x)		ROE (%)		Dividend Yield (%)	
	@16 June		2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
IHH Healthcare	5.96	52,489.6	19.9	21.9	17.1	10.1	30.0	27.2	1.7	1.6	6.5	6.8	1.7	1.2
KPJ Healthcare	1.17	5,296.1	4.6	5.5	15.0	19.6	25.4	21.3	1.9	1.8	8.7	9.8	2.1	2.5
Apex Healthcare	2.36	1,694.5	10.8	12.7	-23.9	17.2	21.9	18.6	3.3	3.0	12.7	13.5	1.3	1.5

Source: PublicInvest Research estimates

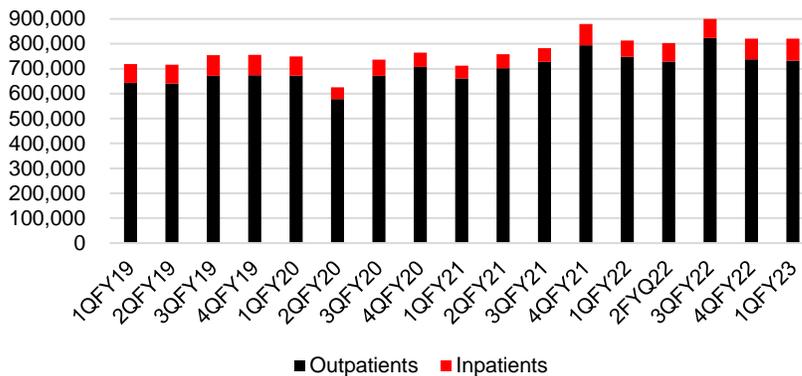
- § **Demand for COVID-related products is expected to normalize.** We believe that the demand for COVID-related products will slow down in the next few quarters. Apex Healthcare has seen a decline of demand for consumer healthcare and pandemic related products but medical treatment and chronic products were less affected due to a more stabilized demand. Nevertheless, hospitals are expected to benefit from increased demand in elective surgeries and procedures that were postponed or delayed during the pandemic.
- § **Nurse shortages issue continues.** The persistent issue of nurse shortages remains a significant concern in the healthcare industry. The limited availability of qualified nurses poses challenges to healthcare providers, as it impacts their ability to deliver optimal patient care and maintain operational efficiency. To address nurse shortages, KPJ has taken steps in recruiting more students through KPJ University nursing courses to cater new beds additions, whereby ~300 nurses will be graduating in 2023. Meanwhile, IHH has introduced the Patient Care Assistants (PCAs) in Singapore which reduces the number of beds blocked by 50% due to nurse shortage.
- § **Health tourism remains a spotlight.** The Malaysia Healthcare Travel Council (MHTC) expects health tourism to generate more than RM1.7bn revenue once the healthcare services are fully recovered as medical tourists started returning to the country following the reopening of borders. Malaysia healthcare traveller revenue has recovered in 2022 to RM1.3bn from RM555m in 2021. MHTC is also working on developing a flagship medical tourism hospital programme, aiming to recognize selected private hospitals to be on par with renowned international hospitals, which will benefit IHH and KPJ. KPJ's health tourism revenue which has shown improvement of 120% from RM19.3m to RM42.5m in 1QFY23, accounting to 5.1% of total revenue, whereby the portion of health travellers compared with foreign expatriate has increased to 45% in 1QFY23 from 14% in 1QFY22.

Figure 1: IHH Number of Inpatient Admission



Source: PublicInvest Research

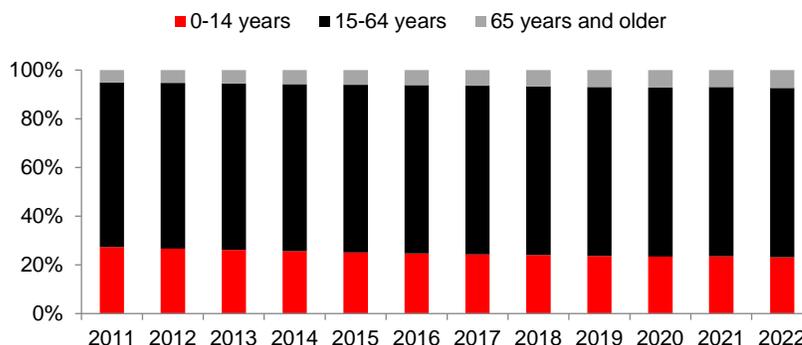
Figure 2: KPJ Number of Patients Visits



Source: PublicInvest Research

§ **Growth supported by ageing population.** Moving into 2HCY23, the ageing population aged 65 years and above is expected to reach 7.3% of national population in Malaysia. Based on the Department of Statistics, Malaysia is projected to reach a 15% of ageing population above 65 years old of total population by 2035. We believe the ageing population will bring a positive impact on the healthcare industry with higher demand for medical attention, specialized care, treatment for age-related conditions and chronic diseases.

Figure 3: Malaysian Population, By Age



Source: Department of Statistics Malaysia, PublicInvest Research

We like KPJ as the group's strategic focus on medical health tourism has allowed the group to command premium pricing, and we expect KPJ to further benefit from the opening of international borders which should result in higher influx of inpatients. Meanwhile, given that we are already in the endemic phase, we remain cautious on the decrease in demand on COVID related products and cost pressure due to rising imported raw material prices, which could affect Apex Healthcare's profit margin. On a side note, ApexH has issued a 1:2 bonus issue with ex-date on 8 June 2023, translating to a revised TP of RM2.52. We view this positively as the bonus issue will enhance the marketability and liquidity of its shares, thereby making it more appealing to a wider base of shareholders. Long term outlook for the healthcare sector remains intact, underpinned by the favorable demographic trends such as ageing population and growing middle income population.

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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