Sector Update

Healthcare

Equity

3Q24 Earnings Review

OVERWEIGHT

Healthcare Providers Remain the Main Winner

- **Overall, the recently concluded 3Q24 corporate earnings season can be deemed favourable.**
- **Private hospital operators are poised for double-digit earnings growth, driven by steady inpatient and outpatient visits, rising healthcare spending and expanding health tourism supported by digitalization efforts. Malaysia's medical devices market is also projected to grow at a CAGR of 8.2% (2023-2028), fueled by modernization and rising chronic disease cases.**
- **We maintain an OVERWEIGHT call on the healthcare sector, with IHH (BUY, TP: RM8.60) as our top pick. Our positive outlook on hospital players is supported by (i) organic capacity expansion, (ii) growing demand for elective surgeries, (iii) improved adoption of healthcare digitalization, (iv) increased revenue from health tourism, and (iv) rising demand driven by an aging population.**

Private Hospitals Drive Double-Digit Growth

The recent corporate earnings season delivered positive results for healthcare companies. Out of the four companies under our coverage, two (KPJ and Nova Wellness) met expectations, while IHH outperformed, driven by stronger-than-expected revenue contributions across all markets. In contrast, Apex Healthcare underperformed due to weaker-than-expected contributions from associates. For private hospital players, both posted double-digit growth in revenue and earnings. IHH recorded a 34.9% YoY growth in earnings, while KPJ reported an 11.6% YoY increase, both fueled by increased hospital activity and steady growth in patient volumes. In the pharmaceutical segment, Apex Healthcare showed better top-line growth, supported by decent demand for pharmaceuticals, consumer healthcare products and medical devices. However, for our nutraceutical player, Nova Wellness earnings were pressured by higher raw material costs and subdued demand which weighed on overall performance in this segment.

Sustained Growth Ahead

We expect private hospital operators to sustain earnings growth of double-digit, supported by steady increases in both inpatient and outpatient visits. The recovery in inpatient admissions is likely to extend into 2025, aligning with the long-term growth in demand for private healthcare services in Malaysia. Healthcare spending is another key driver. Malaysians, on average, spent over RM2,022 per person on healthcare in recent years, up from around RM1,700 in 2020, a growth of more than 17%. This increase reflects higher demand for medical services and greater health awareness following the pandemic. Organic capacity expansion among private hospital operators is also expected to enhance income from health tourism. Although the contribution of medical tourism remains below 15% for both KPJ and IHH, we anticipate steady growth in this segment, supported by ongoing efforts in healthcare digitalization. It is worth to note that, according to BMI, FitchSolutions, Malaysia's medical devices market is projected to grow at a CAGR of 8.2% from 2023-2028, reaching MYR15.4bn by 2028. Growth drivers include modernization of healthcare facilities and a rising prevalence of chronic diseases. Aside to that increased patient volumes in private hospitals will also lead to better demand for pharmaceuticals, especially for chronic conditions and specialized medications. In the biopharmaceutical space, Pharmaniaga (Non-Rated) has made significant progress. Its recombinant human insulin, Wosulin, received National

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Pharmaceutical Regulatory Agency (NPRA) approval in November 2024 and is expected to be commercialized in 1Q25. This development will improve access to locally produced insulin, addressing a growing need in Malaysia's healthcare landscape.

OVERWEIGHT on the Sector

We maintain an **OVERWEIGHT** rating on the healthcare sector, supported by (i) organic capacity expansion, (ii) growing demand for elective surgeries, (iii) improved adoption of healthcare digitalization, (iv) increased revenue from health tourism, and (iv) rising demand driven by an aging population. Our **BUY** recommendation for **IHH (TP: RM8.60)** remains intact, driven by expectations of strong performance from increased hospital activities. For KPJ, we have revised our FY25 and FY26 earnings forecasts upward by 18% and 15%, respectively, following an increase in our revenue growth assumptions. This adjustment reflects a more aggressive approach, especially as the group achieves a historic RM1bn quarterly revenue milestone in the current quarter. We maintain a **HOLD** rating with a revised **TP of RM2.52** (up from RM2.11) as revised our earnings forecast. However, we believe further upside potential is limited, as the market has already priced in these expectations, with KPJ's share price up 89.2% YoY.

Table 1: KPJ's Change in Earnings Forecast

FYE June (RM mn)	Previous			After			Change (%)		
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
Revenue	**3603**	**3780**	**3908**	**3,603**	**3,961**	**4,059**	**0%**	**5%**	**4%**
EBITDA	900	950	971	900	1,049	1,054	0%	10%	9%
Pretax profit	475	532	545	475	631	629	0%	19%	15%
PATAMI	**302**	**339**	**359**	**302**	**400**	**412**	**0%**	**18%**	**15%**

Source: Company, BIMB Securities

Table 2: Telco Results Summary

Company	Reporting Period	Against Estimate	Core Profit Chg.			Earnings Forecast	Rating	TP (RM)	Company Commentary
			QoQ	YoY	YTD				
IHH Healthcare	3QFY24	Above	+20.8%	+43.1%	+34.9%	Upgrade	BUY	8.60	**Outlook:** We maintain a positive outlook on IHH, anticipating sustained demand growth fuelled by rising patient volumes and ongoing demand for surgical procedures. Looking at IHH's Turkey operation, it is worth to note that the group ramped up renovations across its Turkish network, resulting in a slight reduction in bed capacity (3-5%) but they maintained stable EBITDA margins. On top of that, there was an increase in medical tourism, with foreign patient business contributing 17% to the top line, up from 13% in 1Q24. This growth was partly driven by more complex cases and a 3% increase in foreign patient volume. Additionally, the company has not seen any impact from the geopolitical tensions in the Middle East and does not anticipate any issues. **Our Call**: We maintain a **BUY** call with a higher **TP of RM8.60** (up from RM7.88), in line with the earnings adjustment. Our valuation is based on a SOP approach with a WACC of 7% for Parkway Pantai Limited and 11% for Acibadem.
KPJ Healthcare	3QFY24	Inline	+23.7%	-4.5%	+11.6%	Maintain	HOLD	2.52	**Outlook:** We remain optimistic about KPJ, driven by its strong focus on organic expansion. Recently, DSH2 introduced its "Less Scars, Less Pain" campaign in October, running until 31 December 2024, to showcase its expertise in safe, precise, and minimally invasive surgical techniques. To recap, DSH2 offers advanced minimally invasive cardiac surgery (MICS) using cutting-edge endoscopic methods. Given Malaysia's reputation for excellence in cardiology, we believe this initiative will attract more medical tourists. However, we believe the potential for further upside is limited, as the market has already priced in these expectations, with KPJ's share price rising 82.0% YoY. **Our Call:** We maintain a **HOLD** rating with a revised **TP of RM2.52** (up from RM2.11) as revised our earnings forecast.
Apex Healthcare	3QFY24	Below	-16.5%	-16.9%	-8.4%	Downgrade	Non-Rated	Non-Rated	**Outlook:** Despite the expected resilient demand for pharmaceuticals, consumer healthcare products and the ongoing launches of new groupbranded products, we do not anticipate significant growth in the group's earnings in the near term due to the weak contribution from its associate. **Our Call:** We maintain our coverage on the Apex Healthcare with a **Non-Rated** recommendation as the group has been reclassified as a Shariah non-compliant counter.
Nova Wellness	1QFY25	Inline	>100%	-29.0%	-46.1%	Maintain	BUY	0.63	**Outlook:** We expect Nova's earnings to benefit from its intensified marketing strategy. However, the group's margins may face pressure due to higher material costs driven by fluctuations in foreign currency exchange rates. Despite this, we anticipate some relief in material costs next year as the MYR is expected to strengthen. Our economist projects the MYR to appreciate against the USD, reaching RM4.25 in 2025, compared to RM4.30 in 2024. Aside to that, Nova's share price has declined by 30.8% YoY. Hence, we maintain our BUY recommendation based on the price weakness. **Our Call:** Maintain a **BUY** call with an unchanged **TP of RM0.63** based on Nova's FY25F EPS of 4.4sen, pegged to a PER of 14.3x (-0.5SD its 5-year historical forward PE).

Source: Companies, BIMB Securities

Table 3: Peer Comparison – Healthcare Sector

Company	Rec.	RM		Mkt cap	EPS (sen)		PER (x)		PB (x)		ROE (%)		EBITDA margin (%)		Dividend Yield (%)	
		TP	Price^	(RM bn)	CY24	CY25	CY24	CY25	CY24	CY25	CY24	CY25	CY24	CY25	CY24	CY25
IHH Healthcare	BUY	8.60	7.32	64.5	21.1	22.9	34.0	31.4	2.0	1.9	5.9	6.0	24.2	23.7	1.1	1.1
KPJ Healthcare	HOLD	2.52	2.52	11.4	6.9	9.2	36.4	27.5	4.5	4.2	12.3	15.3	25.0	26.5	1.3	1.3
Apex Healthcare	Non-Rated	Non-Rated	2.48	1.8	12.6	14.5	19.6	17.0	2.7	2.5	13.9	14.7	12.3	12.4	2.3	2.7
Nova Wellness	BUY	0.63	0.43	0.1	2.6	4.4	16.9	10.0	1.3	1.2	12.7	12.7	31.1	35.1	2.8	2.8
				Weighted Average	10.8	12.8	26.7	21.5	2.6	2.4	11.2	12.2	23.1	24.4	1.9	2.0

Note: ^Closing price as at 6th December 2024
Source: Bloomberg, companies, BIMB Securities

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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