

Malaysia Healthcare

NEUTRAL

[Unchanged]

Not much to cheer for in 1H20

KPJ and Kossan: Attractive entry levels

Drug price control, a key overhang on private hospitals, could be off the table, but the certainty may only materialise from 2H20 onwards when alternative measure is being formally announced by the government. For the glove sector, demand-supply environment is balanced for now and glove players are able to adjust their ASPs to pass on the impact of a Ringgit appreciation. Our BUY picks are KPJ and Kossan.

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Hospitals: Fortis' court hearing, drug price control

Two key events to watch: (i) Fortis' court hearing on 3 Feb 2020. A positive outcome i.e. a ruling that Fortis did not violate its "status quo" court order, could see IHH's share price re-rate; and (ii) The proposed drug price control (Phase 1), which was expected to take place in early-2020, may not materialise after all, potentially because the drug prices at Malaysia are already fair vs. comparable countries. Instead, the private hospitals could be required to publish their prices. A formal announcement of the latter by the Ministry of Health would remove the overhang on KPJ.

Gloves: Balanced demand-supply for now

Demand-supply is balanced presently, and the glove manufacturers have been able to raise ASPs (c.+1%) to pass on the higher minimum wage (+9% from Jan 2020). Hence, the current operating environment would allow the glove players to adjust their ASPs to pass on the recent weakness in USD vs. MYR (-2% in 1 month). However, we note that the global glove purchases have picked up strongly since Sep 2019 and there is the risk of glove purchasers overstocking in 4Q19-1Q20. Hence, we caution that a temporary supply surplus may take place in 2Q20. For 2020, we estimate that the effective capacity growth from the Global Top 5 players is 15% (2019: 8%), with bulk of the new capacity commencing in 1H20.

Sector top BUYs

We have a BUY rating on KPJ: we project EPS growth of 4% in FY20E and 10% in FY21E, underpinned by its fast bed capacity growth of 8% in FY20E (FY19E: +3%). Our SOP-based TP of MYR1.05 is also conservative, implying 10x EV/EBITDA (-1SD to 5-year mean) as we impute for the drug price control concern. We also have a BUY rating on Kossan, on (i) we project EPS growth of 15% in FY20E on its sales volume growth of 16% in FY20E and stable margin as we expect its higher productivity to offset the potential ASP pressure; and (ii) its 12M forward P/E of 21x (mean: 22x, +1SD to mean: 27x) is a 21-46% discount to Top Glove/Hartalega.

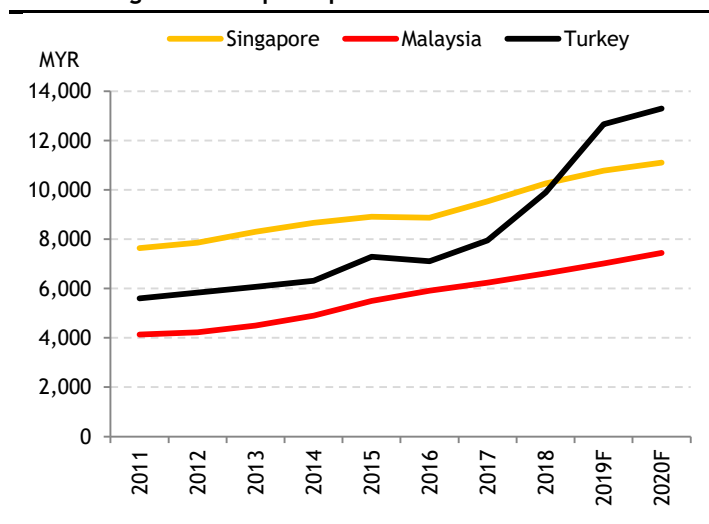
Healthcare sector - Peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	PBV (x)	PBV (x)	ROE (%)	ROE (%)	Net yield (%)
		(MYR)	(MYR m)	(MYR)	CY18A	CY19E	CY20E	CY19E	CY20E	CY19E	CY20E	CY19E
IHH	Hold	5.68	49,836.3	5.80	45.8	55.1	46.2	2.2	2.1	4.0	4.7	0.5
KPJ	Buy	0.95	4,063.0	1.05	22.6	25.0	23.8	2.0	1.9	8.5	8.5	1.9
Hartalega	Hold	5.55	18,736.8	5.75	40.9	41.7	39.4	7.7	7.1	18.5	18.2	1.4
Top Glove	Hold	4.82	12,339.3	4.75	29.6	31.0	26.6	4.6	4.2	15.9	17.0	1.7
Kossan Rubber	Buy	4.23	5,409.9	4.85	27.1	24.0	20.9	3.7	3.3	15.5	16.1	1.7
Simple average					33.2	35.4	35.0	2.1	2.0	6.3	6.6	1.2

Source: Bloomberg, Maybank KE

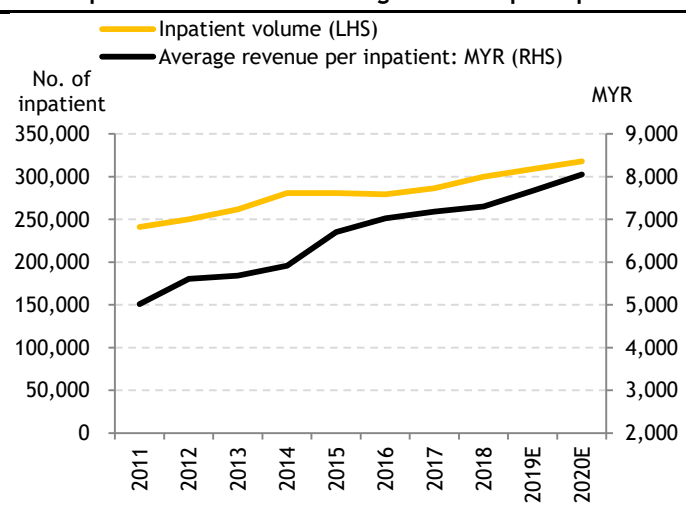
Risks. Key risks for the hospitals include: (i) inability to raise other non-regulated charges in order to offset the lower drug revenue, in the event that drug price control is implemented; (ii) shortage of healthcare workers faced by the whole industry may result in higher staff cost for the hospital operators. Key risks for the glove sector include: (i) a sharp drop in USD/MYR, which would adversely impact earnings as glove ASPs are usually adjusted on a gradual basis; (ii) undisciplined capacity expansion across the industry, which could lead to severe supply overhang of gloves and heated ASP competition; (iii) China's coronavirus becomes highly-contagious will spur demand and earnings of glove players.

IHH: Average revenue per inpatient



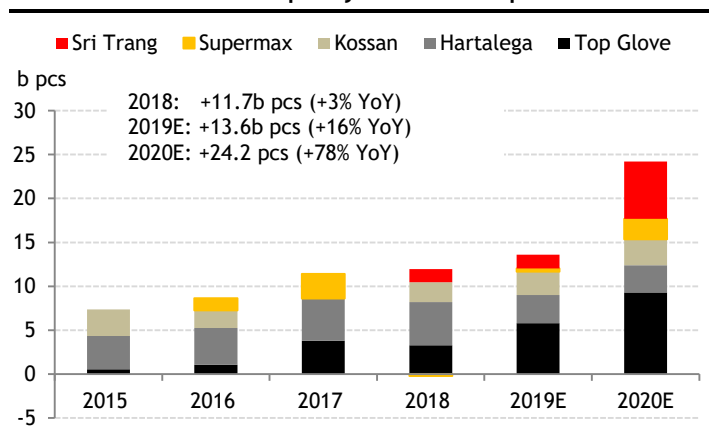
Source: Company, Maybank KE

KPJ: Inpatient volume and average revenue per inpatient



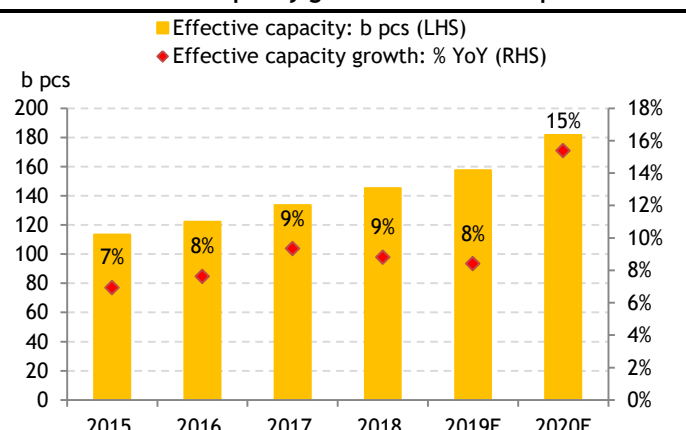
Source: Company, Maybank KE

Gloves: New effective capacity for Global Top 5



Note: Adjusted for timing of capacity
 Source: Companies, Maybank KE

Gloves: Effective capacity growth for Global Top 5



Note: Adjusted for timing of capacity
 Source: Companies, Maybank KE

Earnings sensitivity analysis

Company	Revenue in USD (%)	COGS in USD (%)	Base assumption for FY20E (USD/MYR)	Impact to NP from 1% chg in USD/MYR (%)
Top Glove	98	35	4.10	4.5
Kossan	97	45	4.10	3.2
Hartalega	98	55	4.10	2.1

Source: Company, Maybank Kim Eng

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