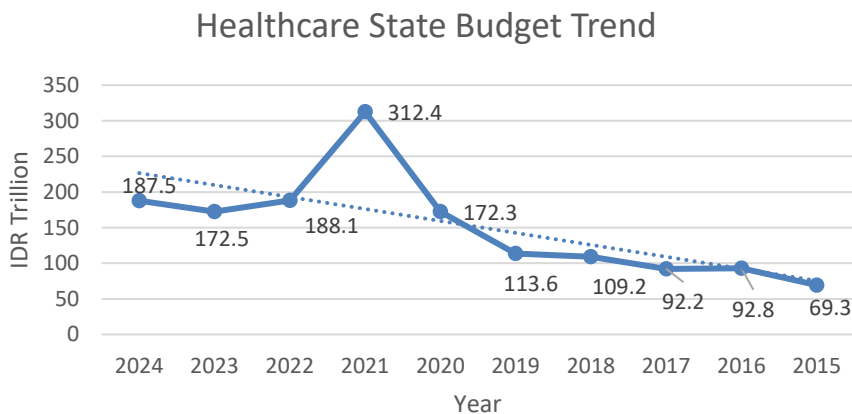


Healthcare Sector Outlook

Analyst: Agung Iskandar

PEFINDO is of the view that the local healthcare industry will remain stable and has the potential to develop further in 2024 onwards. The healthcare industry has proven to be resilient against the challenging economic environment compared to other industries given its defensive characteristics. Although players in the sector experienced a decline in revenue in 2022, it was expected as the industry was facing with normalization after period of high revenue during the pandemic. After the revocation of the Covid-19 pandemic on June 21, 2023, the performance of players in the healthcare industry has shown exceptional business and financial growth in 2023 as shown by increasing numbers of hospitals, beds, medical personnel, and facilities. Moreover, the government has allocated a health budget of IDR187.5 billion in 2024, an increase of 8.7% year-on-year (YoY), or equivalent to 5.6% of the total state budget to further develop and accelerate the growth of the healthcare industry. This also showed the commitment from the government to increase accessibility and quality of health services, health workers, as well as strengthen health technology and domestic pharmaceutical independence. The increasing state health budget is also to strengthen the benefits of the *Jaminan Kesehatan Nasional (JKN)* or *Badan Penyelenggara Jaminan Sosial Kesehatan (BPJS)* which had become the core healthcare program from the government in the past ten years.

Chart 1



Source: Ministry of Health, processed by PEFINDO

The positive growth of the healthcare sector is also underpinned by the fact that Indonesia has low healthcare penetration within the region which is estimated to be below 5% of total gross domestic product (GDP) allocated to healthcare spending. Indonesia’s healthcare spending in 2023 per capita is at USD132 or around IDR2 million, far below the global average of approximately USD2,500 per capita, which translates into a life expectancy of 72 years. The local healthcare spending per capita continued to grow in the past five years, particularly during the pandemic, which showed higher awareness of their physical health conditions. We estimate that the local healthcare spending per capita will reach USD200 in the next five years along with the higher disposable income induced by stable and sustainable economic growth.

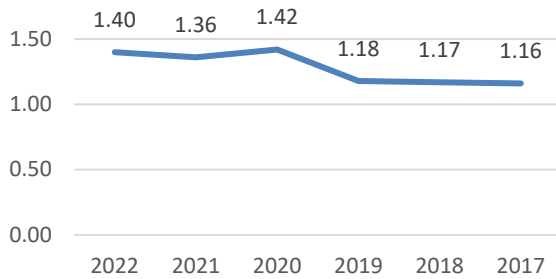
Increasing bed capacity trend, but remains short

We view the bed capacity in Indonesia showed steady growth in the past five years, as both the government and private sectors continue to build hospitals to serve the increasing demand for healthcare services. According to the

Ministry of Health, Indonesia currently has approximately 3,100 hospitals and 385,000 operational beds to serve a population of about 275 million people in 2022. This translates into about 1.4 operational beds per 1,000 population, already above the World Health Organization (WHO) standard of 1 bed per 1,000 population. However, this number is still below that of neighboring countries such as Malaysia, Singapore, Vietnam, and Thailand. We view these figures show opportunities for the healthcare players to further expand their hospital networks across the country, particularly outside of Java which has considerably less developed healthcare services.

Chart 2

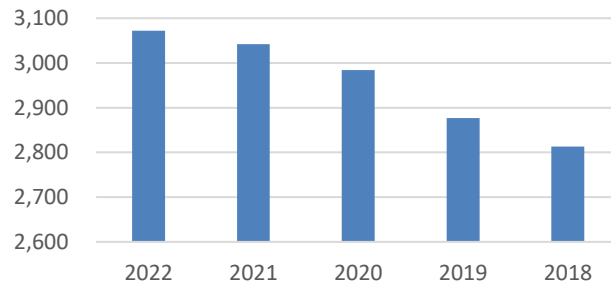
Ratio of Hospital Beds per 1,000 Populations in Indonesia



Source: Ministry of Health, processed by PEFINDO

Chart 3

Number of Hospitals in Indonesia

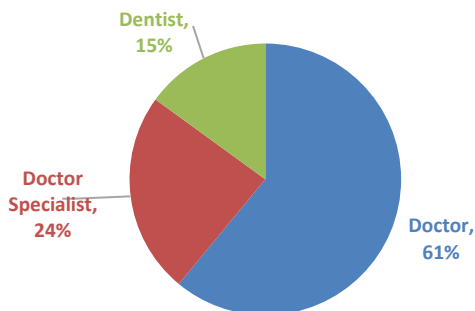


Source: Ministry of Health, processed by PEFINDO

The availability of doctors remains a constraint in Indonesia’s healthcare industry. In terms of medical personnel, there were approximately 175,000 doctors (±105,000 general doctors, ±27,000 dentists, and ±43,000 specialists) in 2022, which translates to an average of 0.64 doctor serving 1,000 population, which is still lower than the WHO recommendation of 1 doctor for a thousand citizens. In addition, the distribution of medical personnel still shows disparities between the Java-Bali region and outside the region. Currently, about 62% of doctors are concentrated in Java-Bali region, and most of them are in West Java, East Java, and DKI Jakarta provinces. Meanwhile, other regions such as Sulawesi, Kalimantan, Maluku, and Papua have limited doctors to accommodate the healthcare demands of their populations. We view this condition poses a challenge to the country to increase the number of doctors and equally distribute them to areas of greater need. This may be achieved through collaborative action from both the government and private sectors by increasing the health budget and spending, hence healthcare industry in Indonesia could be developed further which eventually benefits the entire society.

Chart 4

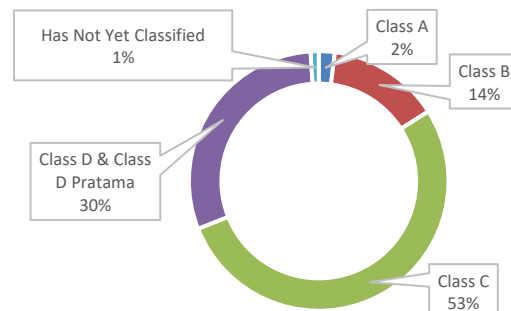
MEDICAL PERSONNEL IN INDONESIA 2022



Source: Ministry of Health, processed by PEFINDO

Chart 5

Hospitals by Class in 2022



Source: Ministry of Health, processed by PEFINDO

Improving performance of major players in the industry

There are several listed private hospital companies that we view as major players in the local healthcare industry, namely PT Medikaloka Hermina Tbk (HEAL, [idAA/Stable](#)), PT Siloam International Hospitals Tbk (SILO), PT Mitra Keluarga Karyasehat Tbk (MIKA), and PT Sejahtera Anugrahjaya Tbk (SRAJ, [idA/Stable](#)). These players continued to expand their hospital networks by continuously opening new hospitals in the past five years to gain market shares and capture the demand for healthcare services. They have also allocated significant capital expenditures in 2024 to open new hospitals. In our portfolio, HEAL and SRAJ plan to open new hospitals in the new capital city in IKN which are expected to commercially open in the second semester of 2024. Meanwhile, SILO and MIKA plan to gradually open new hospitals and improve existing assets. The funding to finance capital expenditures will be obtained by the combination of internal cash and external debt which is usually done by HEAL and SRAJ. On the other hand, SILO and MIKA usually finance their capital expenditures by utilizing internal funds. We view they can utilize internal funds for expansion mostly due to good hospital management which resulted in a good financial performance in the past years.

Table 1

Capital Expenditures Plan in 2024			
HEAL	SILO	MIKA	SRAJ
IDR1.5 trillion	IDR1.4 - 2 trillion	IDR800 billion - IDR1 trillion	IDR500 billion

Source: the Companies' publication, processed by PEFINDO

In terms of revenue, these players booked an average revenue growth of 18% YoY in 2023, mostly due to increments in patient volumes from both BPJS and privates. Their financial performance in 2023 was significantly different compared to 2022 when their revenue dropped by an average of 5% YoY following the normalization of the healthcare industry from the pandemic. In terms of financial leverage, most of them also have low leverage levels due to strong operating management resulting in high-income generation amid the increasing debt position to build new hospitals. This could be achieved due to a faster-than-expected payback period from new hospitals combined with the high bed occupancy rate from existing hospitals. As a result, these players have a large room and flexibility to spend high capex in the future while maintaining a high profitability and low leverage position.

Table 2

Financial Highlights	HEAL	SILO	MIKA	SRAJ
	FY2023			
Total Adjusted Assets [IDR Bn]	8,802.7	10,495.6	6,909.7	5,356.7
Total Adjusted Debt [IDR Bn]	2,256.1	647.1	3.1	1,650.2
Total Adjusted Equity [IDR Bn]	5,198.3	7,561.2	6,168.6	1,607.9
Total Adjusted Sales [IDR Bn]	5,784.1	11,190.5	4,264.3	2,503.2
Net Income After MI [IDR Bn]	1,426.7	2,670.6	1,452.1	395.5
EBITDA [IDR Bn]	437.3	1,211.3	916.1	-38.5
EBITDA Margin [%]	24.7	23.9	34.1	15.8
Adjusted Debt/EBITDA [X]	1.6	0.2	0.0	4.2
Adjusted Debt/Adjusted Equity [X]	0.4	0.1	0.0	1.0
FFO/Adjusted Debt [%]	51.1	340.6	40,430.0	13.6
EBITDA/IFCCI [X]	10.1	31.9	93.7	2.3

Source: the Companies' financial statements, processed by PEFINDO

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