

Healthcare sector resiliency during the pandemic

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The global coronavirus (COVID-19) pandemic has brought an unprecedented level of disruption to the world and created daunting challenges for all industries including healthcare sector. Shortly after the world economy recovered from the shock of the global financial crisis in 2008, the pandemic has hit hard which needs time to recover, in our view. Despite the formidable challenges during the pandemic, PEFINDO is of the view that the local healthcare industry will remain stable in 2021 onwards due to its resiliency against the pandemic.

We expect that the local healthcare sector will show positive growth over the near to medium term post the pandemic. This is based on the fact that Indonesia has low healthcare penetration within the region as only about 3% of total gross domestic product (GDP) is allocated to healthcare spending. Indonesia's healthcare spending is estimated below USD150 per capita, well below the global average of approximately USD2,500 per capita. We estimate that the healthcare spending per capita will reach USD200 in 2024-2025 along with the higher disposable income induced by the stable and sustainable economic growth.

Table 1

Year	Total Health Expenditures (THE) per Capita (USD)	THE to GDP
2014	114	3.2%
2015	108	3.2%
2016	120	3.3%
2017	125	3.2%

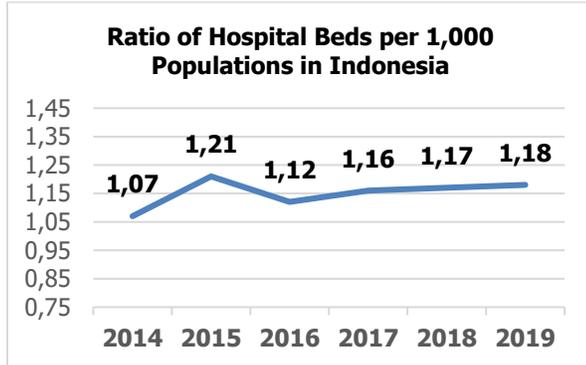
Source: Ministry of Health.

The growth of healthcare spending is in part underpinned by the demographic bonus in Indonesia and the expanding middle class with higher health awareness and affordability for better healthcare facilities. Moreover, the increase in aging population in Indonesia and the initiation of the government healthcare program referred to as *Jaminan Kesehatan Nasional (JKN)* or *Badan Penyelenggara Jaminan Sosial Kesehatan (BPJS)* have also contributed to spurring demand, in our view. The national program launched in 2014 aimed at providing healthcare services for Indonesians and higher life expectancy is funded through an allocation of the government's budget which keeps increasing every year. The achievement of this program is reflected in the nearly 100% of the population in Indonesia was covered with *BPJS* in 2019. This progress has created an opportunity to local healthcare players for further expansion as a huge potential demand exists in Indonesia. To take advantage of this opportunity, it calls for substantial investment in healthcare infrastructure by both the government and private sector.

Capacity constraints in the healthcare sector

Even before the pandemic, capacity constraints have been a major issue in Indonesia. We view that the supply of healthcare fell significantly short of supply as measured in terms of the number of hospitals, operational beds, and doctors. According to the Ministry of Health, Indonesia currently has only approximately 2,900 hospitals and 317,000 operational beds to serve a population of about 270 million people in 2019. This translates into about 1.2 operational beds per 1,000 population, which is well below that in the neighbor countries, such as Malaysia, Vietnam, and Thailand.

Chart 1



Source: Ministry of Health, processed by PEFINDO.

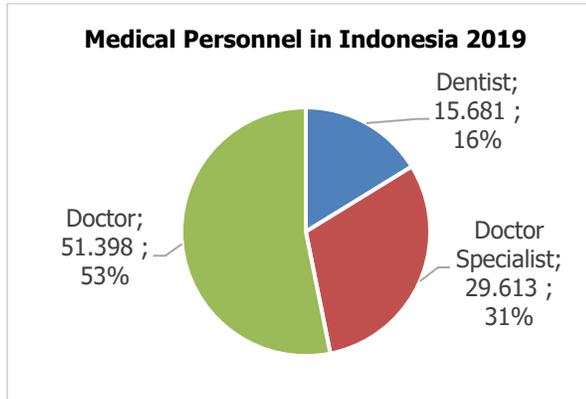
Chart 2



Source: Ministry of Health, processed by PEFINDO.

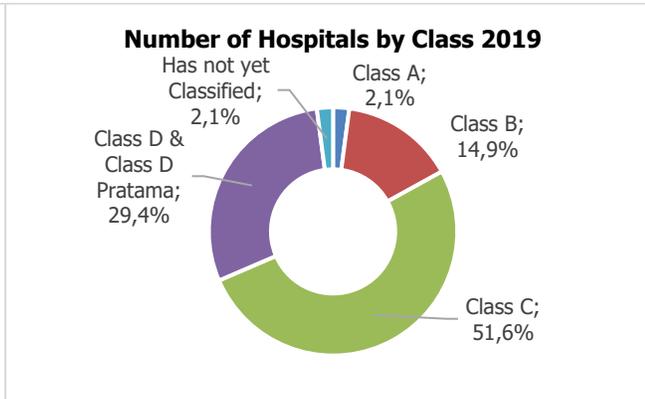
Similarly, there were approximately 97,000 doctors ($\pm 50,000$ general doctors, $\pm 15,000$ dentists, and $\pm 30,000$ specialists) in 2019, which translates on average only 0.36 medical personnel serving per 1,000 population, one of the lowest globally. In addition, about 50% of doctors are concentrated in Jakarta, while only 3% are located in Papua. This shows a wide gap of medical facilities between major and small cities. We expect this constraint to remain in the future due to insufficiency in the number of medical schools and the long-span of medical education, which limits the capacity to graduate adequate and highly-qualified doctors. The low ratio of operational beds and doctors also indicates the potential opportunity for future developments in the healthcare sector, induced by an increase in government health spending and business expansion of private hospitals.

Chart 3



Source: Ministry of Health, processed by PEFINDO.

Chart 4



Source: Ministry of Health, processed by PEFINDO.

Major players in the industry

We identify three major private players in the local healthcare industry, namely PT Medikaloka Hermina Tbk (HEAL, ^{id}AA-/Stable), PT Siloam International Hospitals Tbk (SILO), and PT Mitra Keluarga Karyasehat Tbk (MIKA). As of September 30, 2020, HEAL operated 39 hospitals, followed by SILO (38 hospitals), and MIKA (15 hospitals). These players continued to expand their operational bed capacity by opening new hospitals in the past three years to expand its market share. In our portfolio, HEAL has allocated capital expenditure to open additional 4 hospitals each year going forward in order to promptly capture the demand for better healthcare service.

In terms of revenue and net income, HEAL and MIKA showed strong growth in the past three years mostly due to

higher volume of BPJS patient, while SILO still focused on serving private payers. However, these players booked negative revenue growth in the first nine months of 2020 (9M2020) compared to 9M2019 because of lower patient volume (inpatient and outpatient) as people tend to postpone their medical treatment during the pandemic. The contraction in growth was partly offset for by treating Covid-19 patients at their hospitals. We expect this sector to recover quickly post the pandemic as healthcare is considered a primary need for all individuals from the low and most notably the middle to high income class. The quick recovery is also facilitated by the expansion of hospitals' access to the low-class segment resulting from the fast BPJS penetration in the past three years. In addition, the acceleration of economic growth will directly raise households' disposable income which will lead to an increase spending, including healthcare, hence benefiting these healthcare players.

Table 2

Financial Highlights	HEAL	SILO	MIKA
	Sep-20		
Total Adjusted Assets [IDR Bn]	5,812.6	8,242.6	5,692
Total Adjusted Debt [IDR Bn]	1,589.3	1,375.4	-
Total Adjusted Equity [IDR Bn]	3,110.6	5,435.4	4,870
Total Adjusted Sales [IDR Bn]	2,882.8	5,001.3	2,316
Net Income After MI [IDR Bn]	261.7	(43.0)	525
EBITDA [IDR Bn]	693.8	797.4	763
EBITDA Margin [%]	24.1	15.9	33.0
Adjusted Debt/EBITDA [X]	1.7	1.3	-
Adjusted Debt/Adjusted Equity [X]	0.5	0.3	-
FFO/Adjusted Debt [%]	40.2	56.5	-
EBITDA/IFCCI [X]	6.7	6.2	100.0

Source: the Companies' financial statements, processed by PEFINDO.

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