HealthInvestor Asia

round table

The Future of Healthcare in Asia

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The Future of Healthcare in Asia

With rapid demographic and societal change across the region, the private sector is perfectly placed to deliver sophisticated healthcare. At the first HealthInvestor Asia editorial board dinner in Singapore, we look at the opportunities and challenges facing the sector.

Although the double digit growth of Asia's economies might have slowed down recently, the rise of their middle classes remains unstoppable. With these huge demographic and societal changes has come a demand for ever more sophisticated healthcare. Governments across the region have been trying to meet this demand, but beds can be in short supply. Private healthcare has stepped into the breach. For the first HealthInvestor Asia editorial board dinner, participants looked into their crystal balls to see what challenges and opportunities the sector would face over the next decade.

Adrian Murdoch: Welcome to the inaugural HealthInvestor Asia round table. Tonight we are going to look at where healthcare is headed over the next 10 years. Where is growth going to come from? Is it really going to be organic or is it all going to be M&A?

Hareesh Nair: How growth will develop is based on policy and market forces – and those will differ from country to country. If you look at the Philippines or Indonesia, you'll see massive government intervention to drive private healthcare. Those will inherently drive large organic growth, because private businessmen and hospital operators will look to develop infrastructure and are encouraged by the government to do that. More developed markets such as Thailand and Singapore have more limited opportunities, so companies will grow by acquisition.

Adrian Murdoch: Cross border is clearly the theme that's been emerging. Myanmar wasn't really on the radar a year ago, but that seems to have changed dramatically hasn't it?

Tom Platts: A number of relatively large healthcare investments have gone on and Myanmar is a very interesting area for growth, but it will always be difficult. Regulations are changing constantly, and how they are going to be applied is difficult both from a legal and a regulatory perspective. But this is not just an issue for Myanmar, it is the same in Indonesia and the Philippines.

Adrian Murdoch: Can we say that any problems in Myanmar are just down to teething problems?

Tom Platts: Let's hope so. Over the last three years in Myanmar there have been peaks and troughs in investment, not just for healthcare, but across all sectors. [Former president] Thein Sein obviously made a huge difference, but other issues remain. The key question when investing both here and across the region is always to know your counterpart and know your joint venture partner.

Adrian Murdoch: The elephant in the room appears to be Indonesia. Everybody is desperate to invest, but there appears to be little movement. Are we seeing improvements?

Azman Jaafar: Indonesia is always full of surprises. Healthcare remains a closed industry that is quite regulated. We have come across a lot of joint ventures which have failed, because there's no real structure to it. People come up with all kinds of arrangements to overcome the limitations or restrictions that are imposed by the law. They are beginning to wise up, but you still see a lot of medical tourists from Indonesia coming to Singapore.

Adrian Murdoch: What is it like on the ground in Indonesia? Is there a sense of change?

Keith Lee: One of the biggest factors is [the healthcare insurance programme] BPJS. That has forced the infrastructure to improve. Because there are so many more new hospitals, there is increasing demand for more doctors. The healthcare associations have no choice but to agree to, for example, double the number of doctors. But they're forced to, they don't have a choice, so it's coming slowly.

Adrian Murdoch: Thailand remains the centre for medical tourism in the region. What are we seeing there?

John Lee: Thailand didn't go into medical tourism by choice; it was forced to by the 1997 economic crisis when local patients dropped by as much as 20%. Thailand will continue to have a major role to play in medical tourism, partly because its position as a destination in itself. It's not difficult to say: "I'll bring my wife over there, I'm going to surgery, my wife goes shopping".

Adrian Murdoch: You need money to stay on top, how do you do that?

Geoff Howie: If you take the trajectory that we're seeing in the companies coming to list in Asia Pacific over the last 10 years, you're talking about another 600 healthcare companies to list in Asia Pacific in the next 10 years or so. Over the last 10 years, market capitalisation has essentially tripled, but it's still pretty small. You're still talking at around S$1.5 trillion (US$1.1 trillion) market capitalisation. There certainly is an appetite for capital. We've raised, over the last three years, around S$700 million on the equity and debt markets for primary and secondary raisings and if you look at the 11 biggest stocks, five are in healthcare.

Globally we know that the healthcare sector is pretty small, but we are well placed in terms of aligning it with what we've got in Singapore so that it is a strategic move to increase the secondary market dissipation in the sector. Last year, six of the 10 world's top drugs were manufactured here and we have around 50 million factory plants and a biomedical centre. And we have government support through the economic development board to help build this sector.

Adrian Murdoch: Do you see the market as optimistically as that?

Ramesh Rajentheran: The dearth of investable companies is a challenge, because most are the same. Everyone understands how a hospital looks, right? You spend US$200 million, you build a hospital, you borrow money, you get a creditor and then you hope the patients come to fill your beds, or else you have problems if interest rates go up. That's pretty much it, right?

Our model is different. It doesn't exist anywhere in the world because integrated

Hareesh Nair, director, Quadria Capital

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John Lee, managing director & principal consultant, MuziHealth Consulting

Sherwin Loh, managing director, SIN Capital Group

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Jonathan Seow, equity research analyst, CIMB

managed care doesn't exist outside of the US. It becomes a challenge, because you have to educate investors properly how to look at our company.

Happily we are in a space where everyone asks: "What are you growing at?" And then, "what is IHH growing at?" and "what is Raffles growing at?" "You're going faster than them, so that's fine." As long as that continues, and people look at it as a growth sector we're fine.

Adrian Murdoch: How serious is the lack of target investments?

Andy Sim: There are two main groups that usually buy: the large group, made up of pension funds and insurance funds, that buy and hold. But there is also the other group that is trading for the upside. We are seeing less and less of this.

Adrian Murdoch: Is there a downside to that?

Jonathon Seow: The biggest pushback is valuations. But healthcare companies are still continuing to trade up. They have not disappointed in a big way in terms of earnings, so that obviously has helped to support the level of valuations. That is a function of healthcare companies growing rapidly, expanding overseas and incurring all of these escalating costs. The question is whether they can manage that effectively.

Adrian Murdoch: How are investors looking at valuations?

Goh Ann Nee: In today's volatile market, where can an investor put their money? Oil? No. Real estate? No. what else? It's healthcare. Today somebody said, "It is an evergreen industry, healthcare". I was wondering, is it evergreen because healthcare is quite fragmented? You have to sit back and ask: "What is healthcare?" If anybody invests in a healthcare company, they have to be mindful what they are investing in. At a recent seminar several funds said they don't look at numbers, they look at the people managing the company. You talk about qualitative management and profile, not numbers.

Adrian Murdoch: Are the industries that support healthcare able to keep up?

Mike Griffiths: We certainly do our best! I think it's a substantial challenge that we make ourselves more relevant. Our clients – the hospitals – are becoming far more demanding in terms of what they expect from their service providers. The CFOs of hospitals are becoming much tougher to satisfy. But can we keep up? Yes. The reality is that from a service point of view, up until fairly recently, hospitals in Asia were a pretty sleepy sector. Things are changing rapidly now.

Adrian Murdoch: What are your predictions for the next 18 months?

Sherwin Loh: You will see a lot of investors increasingly focus on certain sub-segments, for example non-tertiary elements. You'll see more capital trying to link up with local partners to build up that space.

Adrian Murdoch: Is that another way of saying that we might see a little less of the faster money?

Sherwin Loh: For China you need to remember there's been a re-education in how you seek healthcare treatment. It is small steps but some barriers will be broken down over the next 18 months.

Geoff Howie: Where Singapore can really add value and where we make a lot of money and margins is in expertise areas, such as pharmaceuticals and education. Singapore is highly trade dependant; it makes up 350% of our GDP. We have to find the areas where we can bulk up the margins and grow that. That's my prediction: more and more medical supplies, equipment, pharmaceuticals and potential trusts.

Hareesh Nair: I don't see a drastic reduction in valuations in Asia, at least south east Asia as a whole. Largely this is due to scarcity and potentially a reduction of public targets. There's a lot of value to be created in the private sector since many healthcare businesses are held by private families, private owners, and international appetite to get into those businesses is both very high and will continue to build up.

Rachel Tan: One interesting area that probably is aside from the normal healthcare area, is the retirement homes. Or what can you do for the ageing population, like palliative care and all these things? And whether retirements homes is a culture that eventually the Asians will have to adopt.

Mike Griffiths: The biggest looming challenge is the inability to attract and retain staff. We already have some clients who are being forced to close beds because they can't maintain the nurse-to-bed ratio. As the sector continues to expand and as the money continues to come in, I think one question that is overlooked is how to staff these hospitals – particularly when the pool of nurses that Singapore used to be able to rely on from the Philippines, Indonesia and Malaysia, is now looking to Dubai and the Middle East with tax free US dollar salaries. There's a structural imbalance in terms of supply and demand there, which is going to be a challenge in the short-term.

John Lee: More non-healthcare companies will go into healthcare: there's cash out there, investors are interested, and healthcare is such a complex industry. There'll be the unbundling and rebundling of healthcare components. Everything that is hospital-related will go into the hospital business, but some hospital services will be taken out to be set up as a separate business. A company I have worked with recently set up a unit within the company, called the non-hospital healthcare group. I predict it will eventually be listed as a separate company supporting themselves and other hospitals within the group.

Zafar Momin: Private hospitals in southeast Asia are on a rapid expansion

phase to address the gap in public hospital infrastructure and uneven hospital distribution in most countries. But even though the space is becoming increasingly competitive, medical tourism will remain an exciting space for private hospital players to capture growth from affluent medical tourists.

Ramesh Rajentheran: One of my old traders gave me a bit of advice: "Remember that all things are not cyclical until they are". Anytime you hear the word "evergreen" or "my sector is not cyclical", it's over. All things have cycles, hospitals have construction cycles and drug companies are in these cycles too. The logical next question to ask, is what happens to your business in a recession. Nobody ever asks that. You'll find that there are an awful lot of healthcare services companies in Asia whose business model rests solely on raising prices. And as Europe and the US have found, it's non-

sustainable. The real questions investors have to ask is: “Do I want to invest in a business whose business model is relatively more resilient in a recession, or do I pay the same multiple as something that is more cyclical?”

Goh Ann Nee: Healthcare is about actually making sure the patient is treated. We can talk about everything under the sun, supply chain, pharmaceuticals, even Fitbit, but what drives healthcare? The guy who comes to the hospital or to the clinic has to be treated. When one invests, one must know whether the business will continue, what drives the business? I’m in finance, I can do a very nice spreadsheet, but at the end of the day, the patients are driving it. Treat the patient first, patient gets well, give them reasonable pricing and they come back. That’s all. ■

The above is an edited transcript and is not reported verbatim. The panel met in Singapore on 14 April 2016.

For information on HealthInvestor Asia round tables, please email Andrew Cover at andrew.cover@healthinvestorasia.com

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