

Date: 15 July 2019

## FTSE ST Healthcare Index (1)

FTSE ST Healthcare Index



Source: SAC Advisors, Bloomberg

(1) The FTSE Strait Times Healthcare Index is a modified market capitalisation weighted index measuring the performance of Healthcare sector of FTSE Straits Times All Shares Index

## Companies mentioned

Company	Market cap (S\$ m)	P/E (x)	Dividend yield (%)
Health Management International	598.7	35.9	0.9%
ISEC Healthcare	183.4	18.2	4.4%
Asian Healthcare Specialists	78.2	26.9	1.7%

Source: SAC Advisors, Bloomberg

## Analyst

Terence Chua, +65 6232 3236  
[tchua@saccapital.com.sg](mailto:tchua@saccapital.com.sg)

## Healthcare Sector see positive tailwinds

Recent spate of corporate actions in the healthcare sector have sparked investor's interest in the sector once again. ISEC Healthcare's announcement on the 2 July 2019 that they are at an advanced stage of negotiations with a third party purchaser for the sale of part of their shares along with Asian Healthcare Specialist's announcement on the 5 July 2019 announcing their proposed acquisition of a 51% stake in Cornerstone Asia Health Pte. Ltd. has increased interest in the sector. On the same day, Health Management International announced a joint bid with PanAsia Health Limited to privatise by way of scheme of arrangement that values Health Management International at approximately S\$611 million. The offer price represents significant premiums to the volume-weighted average price over the past few months.

Singapore's ageing population trend has been well documented, and the healthcare drivers have remained unchanged. Singapore's population is ageing rapidly due to declining birth rates and increasing life expectancies. The proportion of the resident population who are elderly citizens (aged 65 years and above) is expected to rise to 27% in 2030 from 13% in 2018 according to the Singapore Department of Statistics. All of this means that healthcare spending is expected to continue increasing. According to projections from the Ministry of Finance, actual annual healthcare spending is expected to increase to S\$13 billion in 2020 from S\$9.8 billion in 2016.

According to the Life Insurance Association Singapore, there is a continued demand for protection products and health coverage. Life insurers continue to make progress in supporting individuals in Singapore to bridge their protection gap, with the annual increase of total sum assured for new business achieving year-on-year growth of 7% to reach close to S\$140 billion in 4Q2018. By policy count, the industry recorded a notable year-on-year increase of 48% in the uptake of retirement policies designed to provide regular payouts to policyholders during their retirement years. An increased demand for protection products and health coverage and an uplift in purchase of policies for retirement may suggest increased coverage for the population.

The healthcare sector in Singapore is currently trading at an average price to earnings multiple of 24.9x on a trailing twelve months basis. When we look only at the P/E of healthcare specialists listed in Singapore, they are currently trading at 22.1x P/E, while hospitals command a P/E of 27.6x. Overall, the sector offers an average dividend yield of 2.8%.

## **Spate of corporate actions raises sector tailwinds**

We observed with interest the recent spate of corporate actions in the healthcare sector that have sparked investor's interest in the sector once again. ISEC Healthcare's announcement on the 2 July 2019 that they are at an advanced stage of negotiations with a third party purchaser for the sale of part of their shares along with Asian Healthcare Specialist's announcement on the 5 July 2019 announcing their proposed acquisition of a 51% stake in Cornerstone Asia Health Pte. Ltd. has increased interest in the sector. On the same day, Health Management International announced a joint bid with PanAsia Health Limited to privatise by way of scheme of arrangement that values Health Management International at approximately S\$611 million. The offer price represents significant premiums to the volume-weighted average price over the past few months.

### **ISEC CEO, shareholders in advanced talks for stake sale**

ISEC Healthcare's CEO and Executive Director Dr Wong Jun Shyan, Dr Lee Hung Ming (Executive Vice-Chairman of the Company) together with certain shareholders of the Company who collectively hold a majority announced that they are in advanced talks for the sale of part of their shares in the company. The potential transaction, if completed, is likely to lead to an offer for the shares of the company in due course.

Nonetheless, ISEC Healthcare also warned that no definitive sale-and-purchase agreement has been entered into in respect of the potential transaction and that there is no assurance that any potential transaction will be completed or that an offer will be made in due course.

Despite this however, ISEC Healthcare's share price has rallied post-announcement and is now 12.5% above their 1-month VWAP and 24.1% above their 3-month VWAP.

### **Asian Healthcare Specialists announced acquisition**

Catalist-listed Asian Healthcare Specialists announced that they have entered into a term sheet to acquire 51% of Cornerstone Asia Health, a provider of healthcare services across various specialisations. According to their announcement, the principal activities of the target lie in the provision of multidisciplinary healthcare services across different specialisations, offering key services in ophthalmology, urology, dermatology and gastroenterology as well as family medicine. The Target Group's operations in the five medical disciplines comprise eight specialists and family medicine clinics that are founded by doctors who each have over 20 years of experience in their respective fields. There are currently five specialists and medical doctors in the Target Group operating the eight specialists and family medicine clinics.

The consideration for the acquisition is expected to be 13x of Cornerstone Asia Health's profit after tax and will be fulfilled by a combination of cash and shares. Asian Healthcare is currently trading at 26x of their trailing earnings.

## Corporate developments revive interest in sector

### Health Management International privatisation offer

PanAsia Health Limited is a special-purpose vehicle incorporated in the Cayman Islands and indirectly controlled by EQT Mid Market Asia III GP BV. Under the scheme, each Health Management International shareholder will be entitled to receive for each Health Management International share either S\$0.73 in cash, or one new ordinary share at the same price in PanAsia Health.

Scheme consideration represents an attractive premium to prevailing market prices

	Premium
12-month VWAP to the last undisturbed trading day	27.8%
6-month VWAP to the last undisturbed trading day	29.7%
3-month VWAP to the last undisturbed trading day	27.4%
1-month VWAP to the last undisturbed trading day	24.8%
Closing price on the last undisturbed trading day	14.1%

Source: SAC Advisors, Company data

Health Management International also added in their announcement that since the company's listing in 1999, its closing share price has only exceeded the consideration offered by the scheme on one trading day.

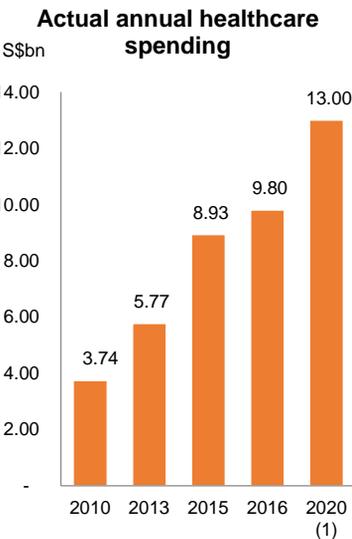
The acquisition price represents 30x of the Group's FY18 earnings.

## Industry Overview

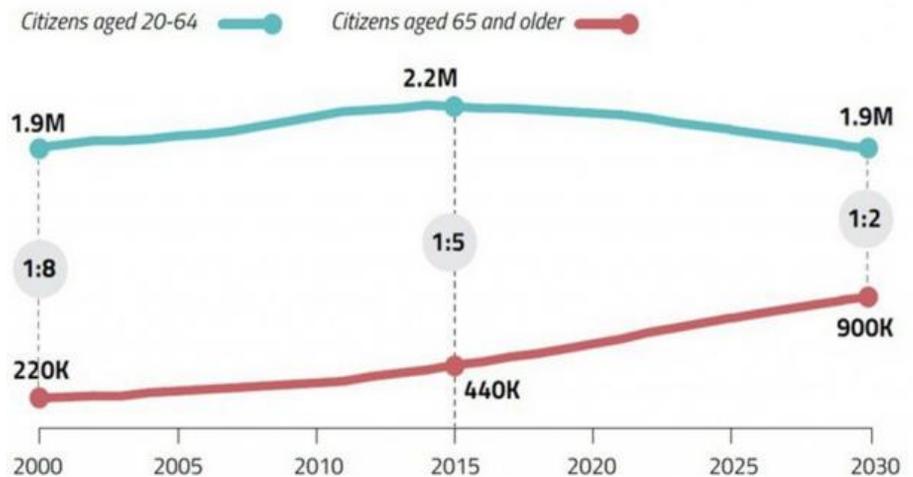
Singapore’s ageing population trend has been well documented, and the healthcare drivers have remained unchanged. Singapore’s population is ageing rapidly due to declining birth rates and increasing life expectancies. The proportion of the resident population who are elderly citizens (aged 65 years and above) is expected to rise to 27% in 2030 from 13% in 2018 according to the Singapore Department of Statistics. All of this means that healthcare spending is expected to continue increasing. According to projections from the Ministry of Finance, actual annual healthcare spending is expected to increase to S\$13 billion in 2020 from S\$9.8 billion in 2016.

### Number of working age residents has peaked

According to data from the National Population and Talent Division (“NPTD”), Singapore’s working age residents, defined as those aged between 20 to 64 years old, reached its peak of 2.2 million residents in 2015.



Source: Ministry of Finance, SAC Advisors  
(1) Projected figure



Source: National Population and Talent Division, Today Newspaper

This represents a 1:5 elderly citizen to working adult support ratio. According to estimates from the NPTD, the number of Singapore’s working age residents is set to decline from 2.2 million residents in 2015 to 1.9 million in 2030, while the number of elderly citizens, defined as those aged 65 and older is set to climb from 440,000 in 2015 to 900,000 by 2030. This means the elderly citizen to working adult support ratio is set to narrow from 1:5 to 1:2 by 2030.

The ageing population trend is not limited to Singapore: globally, the population of people aged 60 and older is projected to double to almost 2.1 billion by 2050. In Asia, the United Nations estimate that the population aged 60 and older is projected to increase from 549 million in 2017 to nearly 1.3 billion in 2050. As the population in Singapore and globally ages, such demographic changes and the prevalent conditions linked to an ageing population will drive demand for more and better healthcare services.

## Industry Overview

### Growing uptake of private healthcare insurance

According to the Life Insurance Association Singapore, there is a continued demand for protection products and health coverage. Life insurers continue to make progress in supporting individuals in Singapore to bridge their protection gap, with the annual increase of total sum assured for new business achieving year-on-year growth of 7% to reach close to S\$140 billion in 4Q2018.

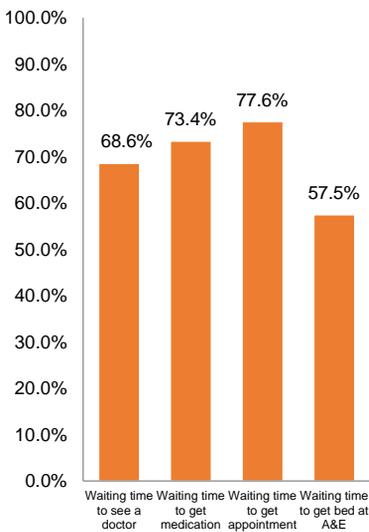
By policy count, the industry recorded a notable year-on-year increase of 48% in the uptake of retirement policies designed to provide regular payouts to policyholders during their retirement years. An increased demand for protection products and health coverage and an uplift in purchase of policies for retirement may suggest increased coverage for the population.

According to an annual survey published by the Ministry of Health (“MOH”), while overall patient satisfaction with public hospitals continues to see improvement, patients remain less impressed by waiting times to see a doctor or get medication. In the Patient Satisfaction Survey for 2015, the satisfaction level in waiting time to see a doctor was at 68.6%, while the satisfaction level in waiting time to get an appointment was at 77.6%. The less than satisfactory levels underscore the strain that public hospitals currently face with an ageing population.

### Rising affluence in Singapore have positive correlation with private healthcare spending

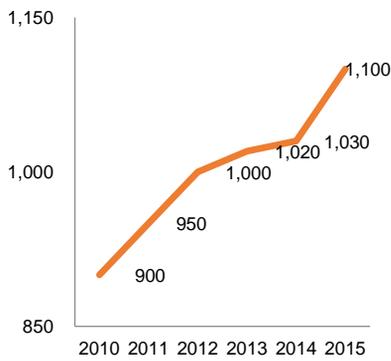
Between 2013 and 2018, the median household income from work per household member (among resident employed households) increased from S\$2,247 to S\$2,792. In line with the increase in household income, total private consumption expenditure on health has also increased from S\$8.2 billion in 2011 to S\$12.4 billion in 2017. Along with an ageing population, healthcare expenditure in Singapore is expected to rise. The rising affluence in Singapore increases the affordability of private healthcare services and higher educational standards may also increase awareness of and drive the demand for high quality specialist healthcare services.

#### Low satisfaction levels



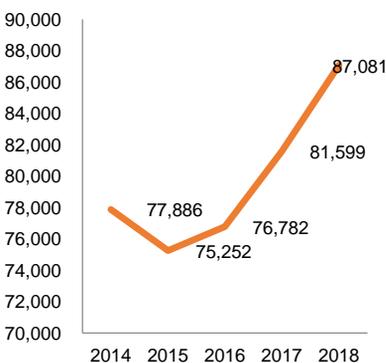
Source: Ministry of Communications and Information, SAC Advisors

#### Private healthcare expenditure per capita (Singapore)



Source: Singstat, SAC Advisors

#### GDP per capita (S\$)



Source: Singstat, SAC Advisors

### Valuation

The healthcare sector in Singapore is currently trading at an average price to earnings multiple of 24.9x on a trailing twelve months basis. When we look only at the P/E of healthcare specialists listed in Singapore, they are currently trading at 22.1x P/E, while hospitals command a P/E of 27.6x. Overall, the sector offers an average dividend yield of 2.8%.

Name	Ticker	Price (\$)	Current Mkt Cap (\$mn)	Revenue LFY*	Net Margin %	P/E (TTM*) (x)	ROE %	Dividend yield %
<b>Healthcare Specialists</b>								
Health Management Intl	HMI SP	0.72	598.7	154.1	13.0%	35.9	25.2%	0.9%
Singapore Medical Group	SMG SP	0.39	185.9	85.1	15.2%	14.2	10.8%	N/A
Singapore O&G	SOG SP	0.39	186.0	34.7	26.4%	18.2	20.8%	4.7%
ISEC Healthcare	ISEC SP	0.36	183.4	40.4	20.8%	18.2	12.4%	4.4%
HC Surgical Specialists	HSP SP	0.56	83.3	154.1	27.9%	19.1x	29.2%	3.6%
Asian Healthcare Specialists	AHSP SP	0.24	78.2	10.9	22.6%	26.9x	32.6%	1.7%
<b>Average (Healthcare specialists)</b>			<b>219.3</b>	<b>56.9</b>	<b>21.0%</b>	<b>22.1x</b>	<b>21.8%</b>	<b>3.1%</b>
<b>Hospitals</b>								
Raffles Medical	RFMD SP	1.05	1,919.2	489.1	14.5%	27.6	8.8%	2.4%
<b>Average (Hospital-related)</b>			<b>1,919.2</b>	<b>489.1</b>	<b>14.5%</b>	<b>27.6</b>	<b>8.8%</b>	<b>2.4%</b>
<b>Overall average</b>					<b>17.8%</b>	<b>24.9x</b>	<b>15.3%</b>	<b>2.8%</b>

*Source: Bloomberg (data extracted on 11 July 2019), SAC Advisors*

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