Healthcare Sector – Neutral

News update

Siriporn Arunothai | Email: Siriporn.aru@thanachartsec.co.th

Overhang concern on UCEPCOVID issue

- **We see uncertainty risk from UCEPCOVID cancellation.**
- **This will put pressure on healthcare stocks' share prices.**
- **But it doesn't change hospitals' long-term fundamentals.**
- **BDMS and CHG are still our top two pick BUYs.**

- On yesterday morning, there was news that the Cabinet had a resolution to cancel the free COVID treatment under the UCEPCOVID. Thai people who are infected to COVID-19 disease can move to use the right that they have such as UCEP (Bt30 scheme), Social Security Scheme (SSS) and Civil Servant Scheme (CSS).
- According to the new rule, private hospitals will provide COVID treatment only to mild cases under their participating healthcare scheme such as SSS (private hospitals are still waiting for SSS' reimbursement rate guidance for COVID-19 treatment) and CSS. Yellow and red cases can receive medical treatment at private hospitals, but the billing charge will be applied to the new reimbursement rate under UCEP which was announced in late November 2021 (rate is cut around 5-10% from previously).
- For the worst-case scenario that private hospitals under our coverage don't have any income from mild case treatment under the UCEPCOVID, we see downside risk to our earnings forecast. Details are shown in exhibit 1. BCH, CHG, RJH and THG will have a negative impact higher than hospitals that are less focus on COVID-19 services.
- The news provided negative impact to hospitals' share prices during the day. However, before stock market closed on yesterday, government spokesperson denied the news and mentioned that the issue is still under the consideration.
- In my view, the uncertainty of the UCEPCOVID cancellation will put pressure on healthcare stocks' share prices. We see risk of the reimbursement rate falling in 2022F as many private hospitals still make very high profitability from COVID services. Meanwhile, government has limited budget.
- However, in terms of long-term fundamentals, although we see downside risk to our earnings forecast, hospitals' 2022-23F earnings after adjusting the negative impact are still higher than their earnings base in 2019. If there is a sharp drop in share price, it provides an opportunity to accumulate buy for long-term investors.

Ex 1: Impact To Earnings

	Our earnings forecast		% Downside risk to earnings	
	2022F	2023F	2022F	2023F
BCH	2,411	2,183	-23%	-13%
BDMS	8,110	9,563	-3%	0%
BH	1,622	2,424	0%	0%
CHG	1,577	1,426	-15%	-3%
LPH *	186	195	—	—
PR9 *	252	310	—	—
RJH	489	470	-14%	-3%
RPH *	125	141	—	—
THG	494	479	-16%	-5%

Source: Thanachart estimates

Note: * No downside to earnings due to its stronger-than-expected performance and we don't yet revise up our numbers.

Ex 2: Healthcare Sector Valuations

	Rating	Current price (Bt)	Target price (Bt)	Upside/ (Downside) (%)	Market cap (Bt m)	Norm EPS growth 2021F (%)	Norm EPS growth 2022F (%)	Norm PE 2021F (x)	Norm PE 2022F (x)	Yield 2021F (%)	Yield 2022F (%)
BCH	BUY	19.50	31.00	59.0	48,628	373.8	(58.6)	8.3	20.2	6.6	2.7
BDMS	BUY	22.40	27.00	20.5	355,981	15.6	16.1	51.0	43.9	1.1	1.3
BH	HOLD	141.00	136.00	(3.5)	112,037	(20.0)	69.0	116.8	69.1	2.2	2.2
CHG	BUY	3.58	4.80	34.1	39,380	176.2	(34.9)	16.3	25.0	4.3	2.8
LPH	HOLD	5.90	6.50	10.2	4,248	49.6	(13.0)	19.9	22.8	4.0	3.5
PR9	BUY	10.80	11.60	7.4	8,492	3.9	20.0	40.4	33.7	1.1	1.3
RJH	HOLD	33.75	37.00	9.6	10,125	164.4	na	10.3	20.7	7.1	3.5
RPH	BUY	6.10	7.20	18.0	3,331	13.0	18.2	31.4	26.6	2.4	2.9
THG	SELL	37.00	30.00	(18.9)	31,416	na	na	27.7	63.5	2.5	1.1

Sources: Bloomberg; Thanachart estimates

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