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ASIA EDITION

Medical tourism, ageing population widens scope for healthcare funding explosion in Singapore

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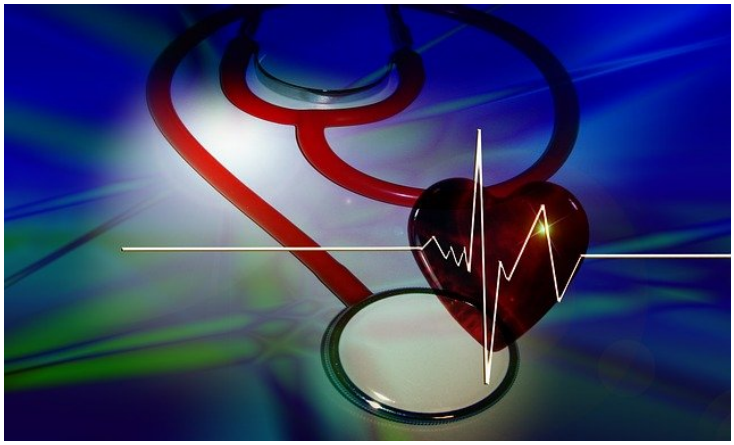

An in-depth analysis of the Singapore Healthcare market by Japanese market analysis firm Nomura Holdings has revealed that Singapore hospitals are set to gain from demand for private healthcare as they are bound expand in the region.

According to the Economist Intelligence Unit, Singapore ranks second globally for healthcare outcomes, despite spending less on healthcare as a fraction of GDP than any developed country. Singapore has historically managed costs by creating a hybrid system that allows both public and private hospitals to survive, ensuring that patients contribute towards their healthcare spending.

Some key pointers on Singapore's healthcare market:

- Healthcare in ageing Asia is an attractive investment theme
- Revenue and profits continue to rise as intensity and number of beds grow
- Evolution of the Singapore healthcare system by adoption new technologies
- Managing costs from escalating out of control by both Government and Private hospitals
- Private hospitals primarily focused on the affluent
- Singapore's world renowned healthcare system will boost medical tourism

Singapore is a good example of a nouveau riche economy coping with the effects of rapid development. The country's share of population aged 65 and older is at 11% and continuing to increase, while its life expectancy also continues to rise and is currently at ~83 years. With healthcare spending as a % of GDP being among the lowest in the world, Nomura's report observes room for further growth as an ageing population requires more healthcare services.

Nomura has analyzed that Singapore private hospital sector will also benefit from ageing demographics, rising population, crowded public hospitals and the impact of medical tourism. Revenue growth for hospitals will come from two key factors: 1) revenue intensity (price per patient per day) should continue to rise due to the ageing population requiring more expensive surgeries, increasing use of medical technology, growing expatriate population, changing mix of medical tourists and

healthcare inflation; and 2) increase in the number of operational beds as the hospitals cope with increasing demand.

Healthcare stocks with a proven track record are valued highly in Asia because of their extreme scarcity Conventional wisdom states that stocks with premium valuations compared to their industry peers and relative to the rest of the market will rationalize to more reasonable levels.

In the recent past, as markets evolve, Nomura has observed that certain sectors and companies are not just trading at premium valuations but are being able to sustain these valuations over a period of time. Nomura believes such companies have three features: 1) sustained earnings growth; 2) immunity to macro-economic conditions; and 3) market capitalization over a certain threshold (generally USD1bn) and liquidity.

Companies satisfying these conditions are rarely found in Asia with the result that investors crowd such companies when they are discovered leading to premium valuations - a phenomenon referred to as scarcity premium.

Nomura's analysis shows that Singapore hospitals meet each of these criteria, providing consistent and reliable operating profit growth, which is extremely rare in the Singapore market. The research indicates that this is the primary reason why such companies are highly valued by investors as they provide relative certainty in a sea of uncertainty.

Along with richer Singaporeans and permanent residents, private hospitals are also increasingly targeting medical tourists given their focus on patients willing to pay for more services, amenities and faster quality healthcare. Given Singapore's world-renowned healthcare system, the country has constantly ranked among the top destinations for medical tourism globally with 21 hospitals, medical centers and medical organizations in Singapore having Joint Commission International (JCI) accreditation. The 2013 PHD Chamber Medical and Wellness Tourism Report ranked Singapore as the global favorite medical tourism destination and Medical Tourism contributed over SGD 800mn in healthcare revenue in FY13.