

Singapore Healthcare Sector -----Maintain OVERWEIGHT

Increase in Medisave withdrawal limits a boon for private healthcare?

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- An increase in Medisave withdrawal limits from June 2009, to be utilised for the full range of surgical procedures, with aims to reduce out-of-pocket expenses for patients in A/B1 wards, implies that a larger portion of private hospital bills could be subsidised.
- Our analyses of hospitalisation charges for selected procedures across various ward categories 1) indicates more significant cost differentials for complex surgeries (such as knee replacement), with these limits raised, and 2) suggests patients could be indifferent between utilising the subsidised and costlier A/B1/private hospital wards, for surgeries costing below the thresholds of Table 5 complexities (such as heart angiography or caesarean delivery).
- We believe Raffles Medical's flagship hospital (RH) could directly benefit through increased patient volumes, with its average hospital bill sizes just 6%-13% higher than the two most costly government-run hospitals (NUH and SGH). However, we view this development as relatively less beneficial for Parkway's (ME and Gleneagles) hospitals, given their higher average bill sizes, due to an operational focus on more complex procedures.

Medisave withdrawal limits to be raised from June 2009

The Medisave withdrawal limit for hospitalisation comprises two sub-limits, the first for daily hospital charges which includes treatment, medication and ward charges, and the second, for surgical operations. The withdrawal limit for the latter depends on the complexity of the procedure, as categorised into 21 tables. The Ministry of Health (MOH) had raised the per diem Medisave limit to S\$450 since 1 May 2007, and will raise the Medisave withdrawal limits for surgery from between S\$150 for Table 1A and S\$5,000 for Table 7C to between S\$250 and S\$7,550 from June 2009. This aims to reduce the out-of-pocket expenses of surgical patients, should they opt for private health care services.

Figure 1: Table of surgical operations (inpatient and day surgery)

| Table of operations | Medisave limits | |
|---------------------|-----------------|----------------|
| | Current | New |
| 1A-1C | S\$150-250 | S\$250-450 |
| 2A-2C | S\$350-600 | S\$600-950 |
| 3A-3C | S\$800-1,200 | S\$1,250-1,850 |
| 4A-4C | S\$1,400-1,800 | S\$2,150-2,850 |
| 5A-5C | S\$2,000-2,400 | S\$3,150-3,950 |
| 6A-6C | S\$2,800-3,600 | S\$4,650-5,650 |
| 7A-7C | S\$4,000-5,000 | S\$6,220-7,550 |

Source: Ministry of Health, Credit Suisse estimates.

Our analyses of hospitalization charges across selected surgical procedures (Fig 2-5) detail the reduction in a patient's out-of-pocket expenses, which varies from S\$150 for the simpler procedures (Table 1A-1C) to S\$1,950 to the more complex ones (Table 7A-7C).

Valuation metrics

| Company | Ticker | CS rating | Price | | EPS chg. (%) | | TP (%) | Up/dn (%) | EPS | | EPS grth. (%) | | P/E (x) | | Div. yld. (%) | ROE (%) | P/B (x) |
|-----------------|---------|-----------|-------|--------|--------------|-----|--------|-----------|-----|-----|---------------|-----|---------|------|---------------|---------|---------|
| | | | Local | Target | T+1 | T+2 | | | T+1 | T+2 | T+1 | T+2 | T+1 | T+2 | | | |
| Parkway | PWAY SP | O | 1.19 | 2.88 | 0 | 0 | 0 | 142 | 0.1 | 0.1 | (32) | 18 | 14.8 | 12.5 | 3.4 | 5.9 | 1.0 |
| Raffles Medical | RFMD SP | O | 0.69 | 1.65 | 0 | 0 | 0 | 141 | 0.1 | 0.1 | 39 | 20 | 11.8 | 9.8 | 6.8 | 14.3 | 1.7 |

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM

Source: Company data, Credit Suisse estimates

Figure 2: Knee replacement – Table 6B

| Type | Before | After | Savings |
|--------------------|------------------|-----------------|---------|
| Ward A | \$7,024 – 8,370 | \$5,074 – 6,420 | \$1,950 |
| Ward B1 | \$4,846 – 9,563 | \$2,896 – 7,613 | \$1,950 |
| Private (4-bedded) | \$3,717 – 11,714 | \$1,767 – 9,764 | \$1,950 |
| Ward B2/C | \$0 | \$0 | \$1,950 |

Source: Ministry of Health, Credit Suisse estimates.

Figure 3: Heart angiography – Table 5C

| Type | Before | After | Savings |
|--------------------|---------|---------|---------|
| Ward A | \$2,379 | \$829 | \$1,550 |
| Private (1-bedded) | \$2,681 | \$1,131 | \$1,550 |
| Private (2-bedded) | \$3,625 | \$2,075 | \$1,550 |
| Ward B1 | \$651 | \$0 | \$1,550 |
| Ward B2/C | \$0 | \$0 | \$1,550 |

Source: Ministry of Health, Credit Suisse estimates.

Figure 4: Delivery (caesarean section) – Table 4A

| Type | Before | After | Savings |
|--------------------|-----------------|-----------------|---------|
| Ward A | \$1,311 – 2,566 | \$311 – 1,566 | \$1,000 |
| Private (1-bedded) | \$2,752 – 4,205 | \$1,752 – 3,205 | \$1,000 |
| Private (2-bedded) | \$1,917 – 3,148 | \$917 – 2,148 | \$1,000 |
| Private (4-bedded) | \$1,295 – 3,241 | \$295 – 2,241 | \$1,000 |
| Ward B1 | \$1,155 – 2,024 | \$155 – 1,024 | \$1,000 |
| Ward B2/C | \$0 | \$0 | \$1,000 |

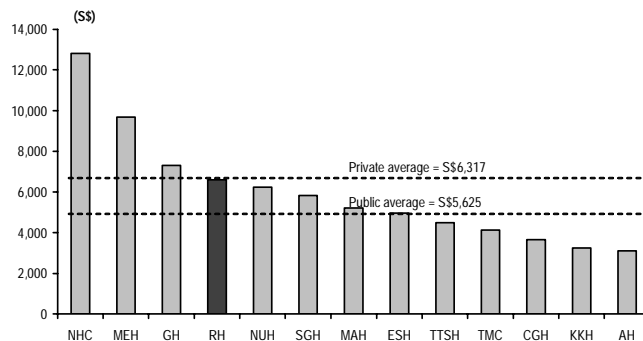
Source: Ministry of Health, Credit Suisse estimates.

Figure 5: Gastroscopy – Table 1B

| Type | Before | After | Savings |
|------------------|-------------|------------|---------|
| Day (private) | \$224 - 483 | \$74 - 333 | \$150 |
| Day (subsidised) | \$0 - 35 | \$0 | \$35 |
| RH | \$628 | \$478 | \$150 |
| ESH | \$479 | \$329 | \$150 |
| GH | \$531 | \$381 | \$150 |
| MEH | \$643 | \$493 | \$150 |

Source: Ministry of Health, Credit Suisse estimates.

Figure 6: Average hospital bill size for surgical specialties



Source: Ministry of Health, Credit Suisse estimates.

Companies Mentioned (Price as of 12 Feb 09)

Parkway Holdings (PARM.SI, S\$1.19, OUTPERFORM [V], TP S\$2.88)
 Raffles Medical Group (RAFG.SI, S\$.69, OUTPERFORM, TP S\$1.65)

Disclosure Appendix

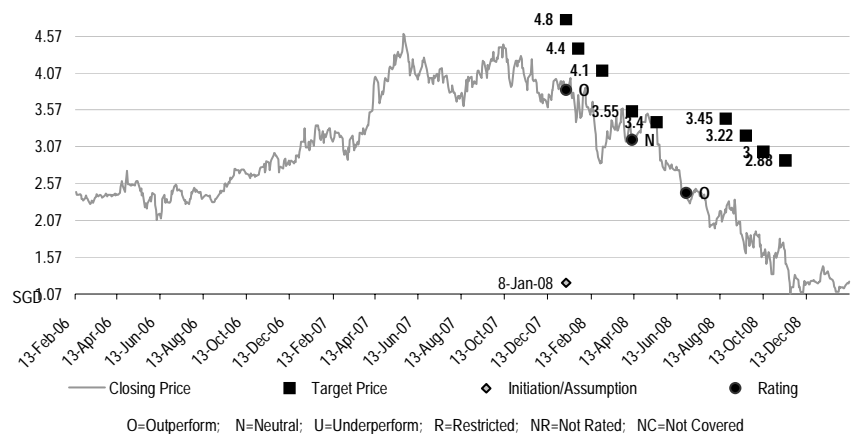
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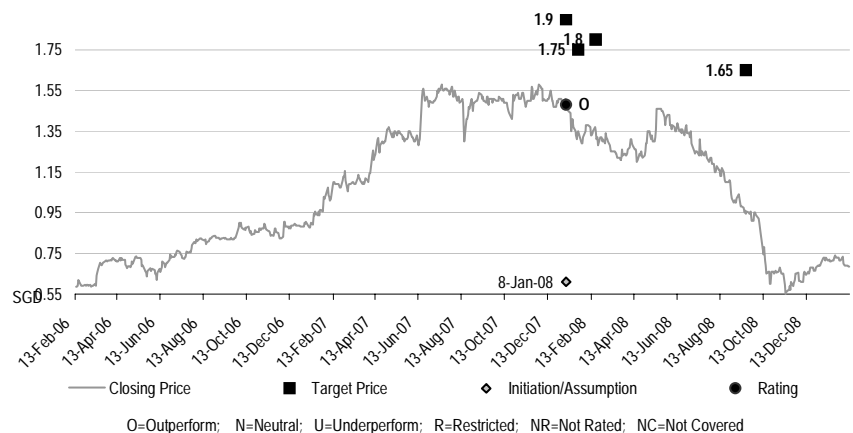
3-Year Price, Target Price and Rating Change History Chart for PARM.SI

| PARM.SI Date | Closing Price (SGD) | Target Price (SGD) | Rating | Initiation/ Assumption |
|-----------------|---------------------|--------------------|--------|------------------------|
| 08-Jan-08 | 3.84 | 4.8 | O | X |
| 25-Jan-08 | 3.77 | 4.4 | | |
| 28-Feb-08 | 3.01 | 4.1 | | |
| 10-Apr-08 | 3.16 | 3.55 | N | |
| 15-May-08 | 3.43 | 3.4 | | |
| 26-Jun-08 | 2.44 | | O | |
| 21-Aug-08 | 2.18 | 3.45 | | |
| 18-Sep-08 | 1.62 | 3.22 | | |
| 13-Oct-08 | 1.63 | 3 | | |
| 13-Nov-08 | 1.48 | 2.88 | | |



3-Year Price, Target Price and Rating Change History Chart for RAFG.SI

| RAFG.SI Date | Closing Price (SGD) | Target Price (SGD) | Rating | Initiation/ Assumption |
|-----------------|---------------------|--------------------|--------|------------------------|
| 08-Jan-08 | 1.48 | 1.9 | O | X |
| 25-Jan-08 | 1.35 | 1.75 | | |
| 19-Feb-08 | 1.35 | 1.8 | | |
| 18-Sep-08 | .945 | 1.65 | | |



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Method: Our S\$2.88 target price for Parkway is based on a Sum of the parts valuation with a \$0.16 marked to market valuation for its 37% stake in Parkway Life REIT, and a discounted cash flow (DCF) valuation, with a weighted average cost of capital (WACC) of 10.5% (a 3.5% risk-free rate, a 7.0% equity risk premium and a beta of 1), a terminal growth rate of 4%, and a medium-term growth rate of 8% over 2007 to 2030 for its hospital business, a DCF valuation for its Novena Hospital based on WACC of 8.0% on 75% debt structure and a terminal growth rate of 4%.

Risks: Key risks to our S\$2.88 target price for Parkway include: 1) regulatory changes driven by government policies 2) a potential macroeconomic slowdown, which would affect employment and population growth, 3) increased competition from regional healthcare providers, 4) risk of a pandemic outbreak, 5) execution risks.

Price Target: (12 months) for (RAFG.SI)

Method: Our S\$1.65 target price for Raffles Medical is based on a discounted cash flow (DCF) methodology of a weighted average cost of capital (WACC) of 10.5% (a risk-free rate of 3.5%, an equity risk premium of 7.0% and a beta of 1), a terminal growth rate of 3%, and a medium-term growth rate of 6% over 2007-2030.

Risks: Key risks to our S\$ 1.65 target price for Raffles Medical include: 1) Regulatory changes driven by government policies 2) Macroeconomic slowdown affecting employment and population growth 3) Increasing competition from regional healthcare providers 4) Risk of a pandemic outbreak 5) Inability to attract talent and Increased labour costs

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