

Healthcare sector

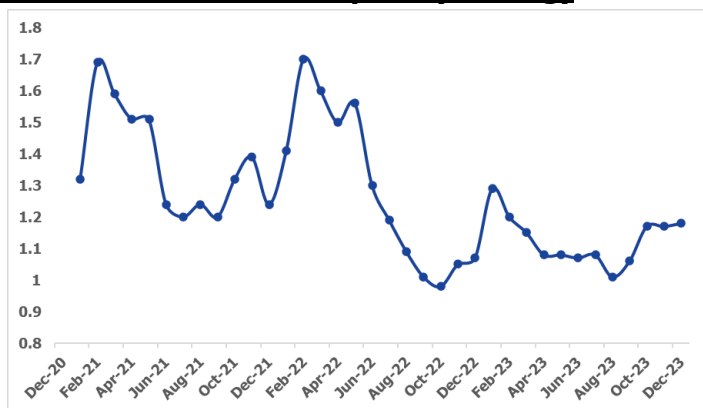
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Sprouting green shoots of recovery

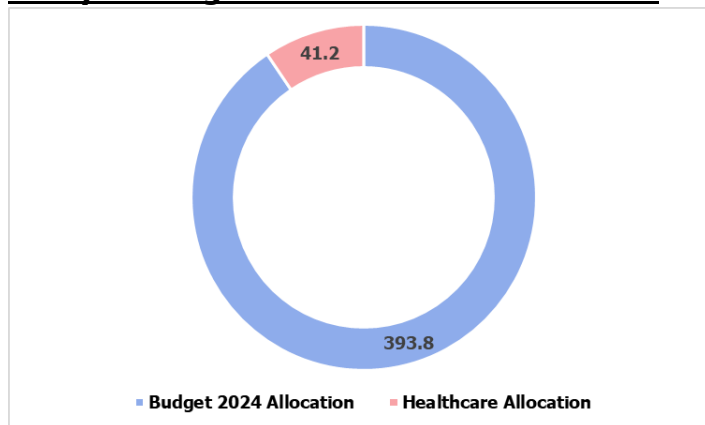
- Review.** After a downbeat performance in 1H23, sentiment over the healthcare sector turns more favourable, particularly within the gloves sector which continues to narrow their losses as well as chalking in marginal profit under the financial period under review. The said improvement was largely attributable to the cost rationalisation measures undertaken in bid to streamline operations efficiency as well as signs of stability in average selling prices (ASP). Demand is also on the mend with inventories tapered with purchasers reignited minor stockpiling activities. Meanwhile, we gather that natural rubber concentrated latex price has turned fairly stable at close to US\$1.20/kg towards end-2023.
- Elsewhere, healthcare services and equipment players will be reinforced by the higher budget allocation under Budget 2024 which saw 13.5% yoy rise in allocation to RM41.2bn. Healthcare-related projects such as development and upgrade of hospital facilities as well as equipment aligns with the Malaysia government goal to gradually uplift public health expenditure to 5.0% of gross domestic product (GDP) bodes well. All in, Bursa Malaysia’s healthcare sector added 9.7% yoy in 2023 to close at 1,903.93 pts.

NR Concentrated Latex price (USD/kg)



Source: Malaysia Rubber Board, Apex Securities

Malaysia Budget 2024 Healthcare Allocation



Source: Bloomberg, Apex Securities

- Outlook.** We expect ASP for rubber gloves to remain fairly stable at approximately US\$20-22/1,000 pieces in 1H2024 as pricing gap with peers from regional players narrows. Still, margins are expected to remain lukewarm as any upward in price adjustment may be met with potentially weaker demand, while the upward revision of natural gas prices are limiting margins improvement. For now, we reckon local gloves players will continue to focus onto on-going capacity rationalisation measures, while banking onto inventory replenishment from prospective purchasers. While, utilisation rate is expected to see mild uptick, moving in 1H2024, we reckon the aforementioned figure will remain a distance from pre-Covid-19 pandemic levels.
- On the other hand, we note that medical tourists are returning to Malaysia towards pre-pandemic levels, supported by reopening of borders, visa free travel for Chinese nationals, improved quality healthcare and competitive pricing. Back home, the ageing population, rising healthcare awareness and improving healthcare technology will be some of the key avenue drivers for the healthcare industry.
- Valuation & Recommendation.** While outlook for gloves players is turning brighter, we reckon that recent recovery in their share prices has reflected the prospects of improved fundamentals. While we do not have any top picks for the sector, we hold a favourable view of **Hartalega (SELL, TP: RM2.09)** due to its substantial net cash position of RM1.64bn and strong operational efficiency which able to weather further economic shocks.
- Key Risk.** Stiff competition from both local and regional players. Fluctuation in raw material costs may affect margins, while changes in utilisation rate will depend on demand and supply dynamics. Change in healthcare regulatory may impact industry operations landscape.
- Summary.** Amid the prospects of recovery, we upgrade the healthcare sector to **Neutral** as the recent recovery in share prices, particularly gloves players have reflected their fundamentals. Still, we do not discount for potential re-rating in the cards, should the pace of recovery shoots above our expectations.

Top Picks

Company	Price (RM)		P/E (x)		Dividend Yield (%)	Target Price (RM)	Potential Upside
	as at 31Dec23	2023	2024F	2025F			
Hartalega Holdings Bhd#	2.70	82.73	181.34	76.42	-	2.09	-22.6%
Top Glove Corporation Bhd#	0.90	-	-	43.16	-	0.73	-18.9%
Supercomnet Technologies Bhd*	1.22	32.97	24.90	21.03	1.72	1.58	29.5%
IHH Helathcare Bhd*	6.03	34.66	31.24	27.66	1.29	7.00	16.1%
Optimax Holdings Bhd*	0.63	26.04	21.55	17.36	3.84	0.82	31.2%

Hartalega Holdings Bhd & Top Glove Corporation Bhd data based on FYE Mar & FYE Aug respectively

* Denotes Bloomberg consensus data

Source: Apex Securities Bhd, Bloomberg