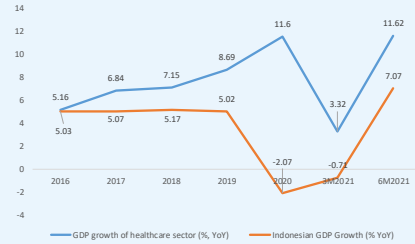


HOSPITAL

Healthcare Sector | Indonesia | September 24, 2021

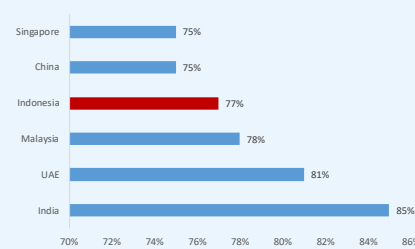
KEY INDEX

Graph 1: GDP growth of healthcare sector vs national GDP growth (% YoY)



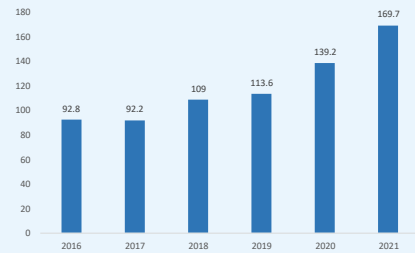
Source: Central Bureau of Statistics

Graph 2: Percentage of persons with trust in healthcare in 2021, by country (%)



Source: Statista

Graph 3: Allocated budget for healthcare (Rp, Tn)



Source: Ministry of Health

Achmad Kurniawan Sudjatmiko

PT Kredit Rating Indonesia
+62 21 3983 4411

Hospital Industry: Positive Outlook Ahead

- Higher room tariff for COVID-19 patients caused an increase of hospital's margins
- New regulations from the Government to support the industry
- Growing digital healthcare application business

Growing margins, although the number of outpatients and inpatients days are not significantly increase

Based on the data gathered until the end of June 2021, the growing daily positive COVID-19 cases in the 1Q2021 and 2Q2021 did not automatically translate into a higher number of outpatient and inpatient days. The total positive COVID-19 cases in 1Q2021 and 2Q2021 were 768,905 cases, and 749,829 cases, respectively, while in the 4Q2020 the total positive COVID-19 cases were only 462,212 cases. But, based on the data gathered from four public listed hospitals, HEAL, MIKA, CARE, and SILO, only MIKA's number of inpatient days in 1Q2021 climbed the highest during the 1Q2019 – 2Q2021 periods. However, margin-wise, all of these four hospitals saw their gross profit and EBITDA margins improved. A higher tariff of a treatment room in a hospital for COVID-19 patients is one of the causes for such improvement. Going forward into 3Q2021, we expect the hospitals' profit margins to expand further as the second wave of COVID-19 cases reached its peak in this quarter.

New regulation to spur demand and investment in the hospital industry

Based on Presidential Decree No.64/2020, the Indonesian Government plans to gradually simplify the classification of benefits received by patients using BPJS. The three classes of benefit will be erased and changed into one class of benefit in 2022. We believe that the changed in the class will benefit the C-Class and D-Class hospitals as more people will come to get treatment with better service standards. And, to tackle the current hospital's insufficiency of facilities, the Government has issued Presidential Decree No.47/2021 that permits foreign entities to own up to a maximum of 100% shares of Class A and B hospitals in Indonesia. This will spur investment into the Indonesian hospital industry.

Healthtech Business is getting larger

Many hospitals and healthtech companies in Indonesia have launched digital health applications, recently. Halodoc is the leading digital health application based on a survey conducted in 2021. In just a short period of time, this business has grown into USD47.6 mn total industry size in 2020.

Increasing Daily Positive Case and Positivity Rate of COVID-19 in the First and Late Second Quarter of 2021

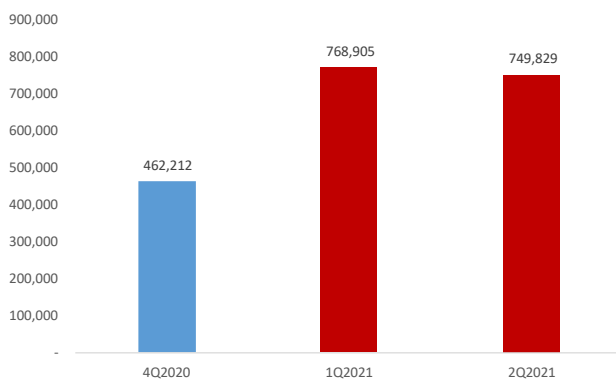
After showing a decreasing trend since the beginning of 2021, the infection rate shows a repeated trend where it noticeably gets worse after every long public holiday. In the first quarter of 2021 or after the Christmas and New Year holidays, and after the Eid-Al Fitr holidays that took place in the second half of 2021, the daily positive case and positivity rate increased. This is also coupled with a new type of COVID-19 Virus, known as Delta Variant, that pushed the daily positive case of COVID-19 to touch 168,780 weekly positive COVID-19 cases in the fourth week of June 2021. The positivity rate also hiked and reached 22.40% as of June 30, 2021, higher than WHO’s 5% maximum indication level of manageable COVID-19 cases in one particular country. On July 15, 2021, the number of positive COVID-19 cases per day reached its record of 56,757 cases. The total positive COVID-19 cases in 1Q2021 and 2Q2021 were 768,905 cases and 749,829 cases, respectively, while in 4Q2020 the total positive COVID-19 cases were only 462,212 cases.

Graph 4: Daily Positive Case of COVID-19 from March 1, 2020 – September 15, 2021



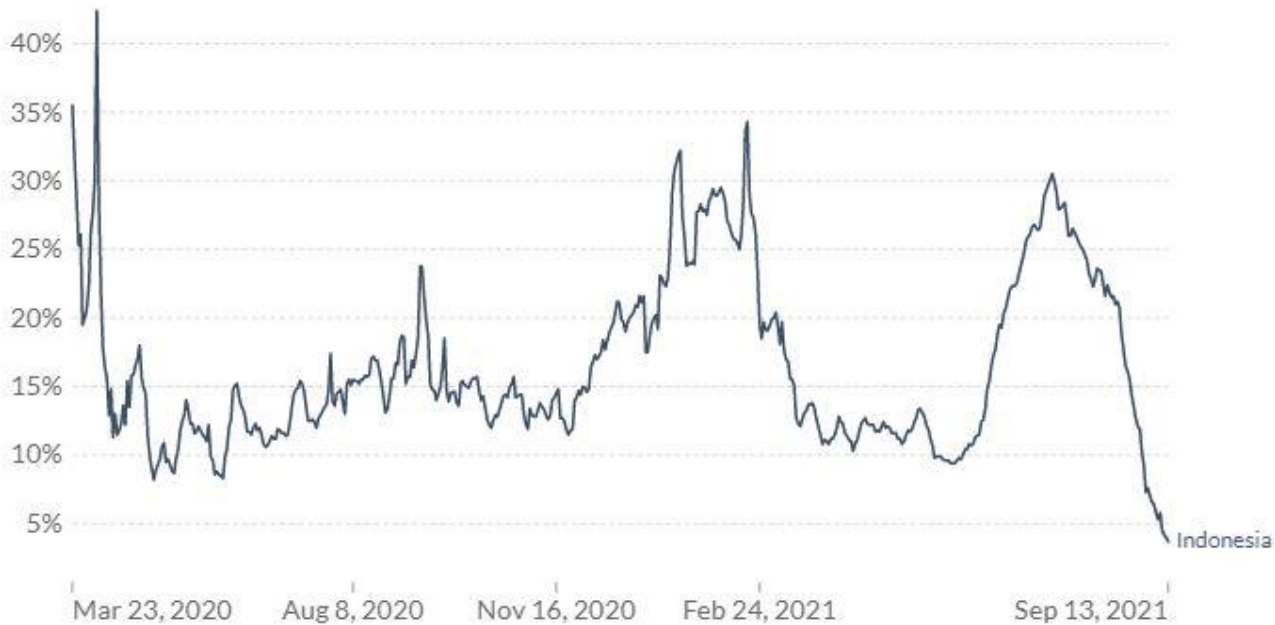
Source: Ministry of Health

Graph 4: Total Daily Positive Case of COVID-19 in 4Q2020, 1Q2021, and 2Q2021



Source: Ministry of Health

Graph 5: COVID-19's Positivity Rate in Indonesia, March 23, 2020 – September 13, 2021

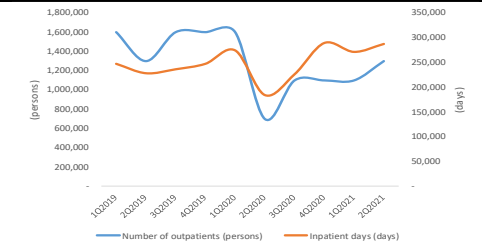


Source: Ministry of Health

Increasing Daily Positive Case Does Not Automatically Translate into Higher Number of Outpatients and Inpatient Days in Hospitals

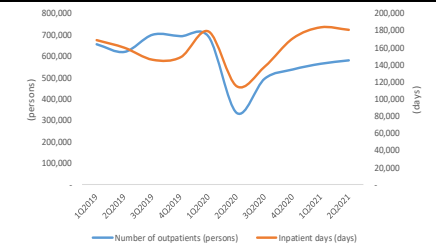
Based on the data gathered from four hospitals, namely PT Medikaloka Hermina Tbk (“HEAL”), PT Mitra Keluarga Karyasehat Tbk (“MIKA”), PT Siloam International Hospitals Tbk (“SILO”), and PT Metro Healthcare Indonesia Tbk (“CARE”), we see that the increasing daily positive case of COVID-19 does not automatically translate into a higher number of outpatients and inpatient days in these hospitals. From these four hospital companies, which in total had 115 hospitals in Indonesia, only MIKA’s number of inpatient days in 1Q2021 climbed the highest during 1Q2019 – 2Q2021 periods. Given this, we are of the view that although the number of the daily positive case of COVID-19 increases, it does not automatically trigger the increasing number of outpatients and inpatients days in the hospitals as most of the infected people are prefer to be self-isolated to cure themselves, and other people that were sick because of other causes choose not to go to hospitals when the daily positive case increased.

Graph 6: HEAL's number of outpatients and inpatient days



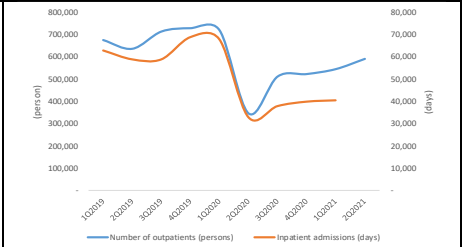
Source: HEAL

Graph 7: MIKA's number of outpatients and inpatient days



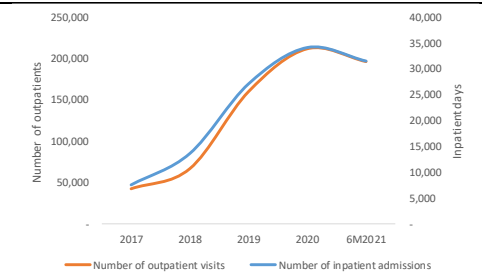
Source: MIKA

Graph 8: SILO's number of outpatients and inpatient days



Source: SILO

Graph 9: CARE's number of outpatients and inpatient days



Source: CARE

Better Margins Going Forward

Although the increasing number of positive COVID-19 cases does not automatically translate into a higher number of outpatients and inpatient days in the hospitals, we notice some improvements in hospitals' margins during the increasing case periods. A higher tariff of a treatment room in a hospital for COVID-19 patients that comes with a ventilator is one of the causes for such improvement. Going forward into 3Q2021, we expect that the hospitals' profit margins to expand further as the second wave of COVID-19 cases reached its peak in this quarter. And in the medium-term, we see this margins expansion to sustain as COVID-19 patients that need treatment or testing will continue to come to the hospitals.

Table 1: Comparison of Revenue, Gross Profit Margin, EBITDA Margin, 1Q2020 – 2Q2021

HEAL

	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021
Revenue (IDR, Bn)	983.9	748.3	1,150.6	1,533.2	1,584.9	1,513.4
Gross profit margin (%)	39.6	39.6	38.2	40.1	43.5	49.6
EBITDA margin (%)	20.8	20.6	19.4	22.3	30.0	37.3

Source: S&P Capital IQ

MIKA

	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021
Revenue (IDR, Bn)	874.7	566.6	874.5	1,103.5	1,203.8	1,186.0
Gross profit margin (%)	46.6	40.5	49.9	53.0	53.1	51.8
EBITDA margin (%)	35.0	23.3	39.6	41.6	42.8	40.0

Source: S&P Capital IQ

SILO

	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q201
Revenue (IDR, Bn)	1,443.3	1,069.9	1,825.6	2,108.8	1,912.1	1,899.4
Gross profit margin (%)	40.8	26.9	32.0	33.6	44.9	43.6
EBITDA margin (%)	19.4	9.5	19.3	15.7	26.9	23.8

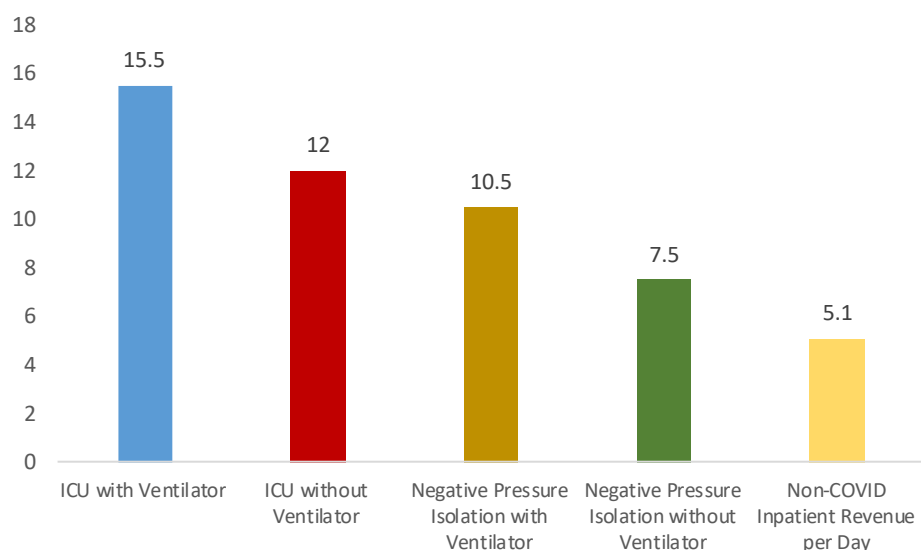
Source: S&P Capital IQ

CARE

	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q201
Revenue (IDR, Bn)	54.5	49.9	55.4	56.5	72.9	73.4
Gross profit margin (%)	n.a	46.0	40.4	48.4	47.0	50.9
EBITDA margin (%)	n.a	10.0	4.1	10.9	-1.7	7.1

Source: S&P Capital IQ

Graph 9: Average Inpatient Revenue per Day is Higher for COVID-19 Treatments



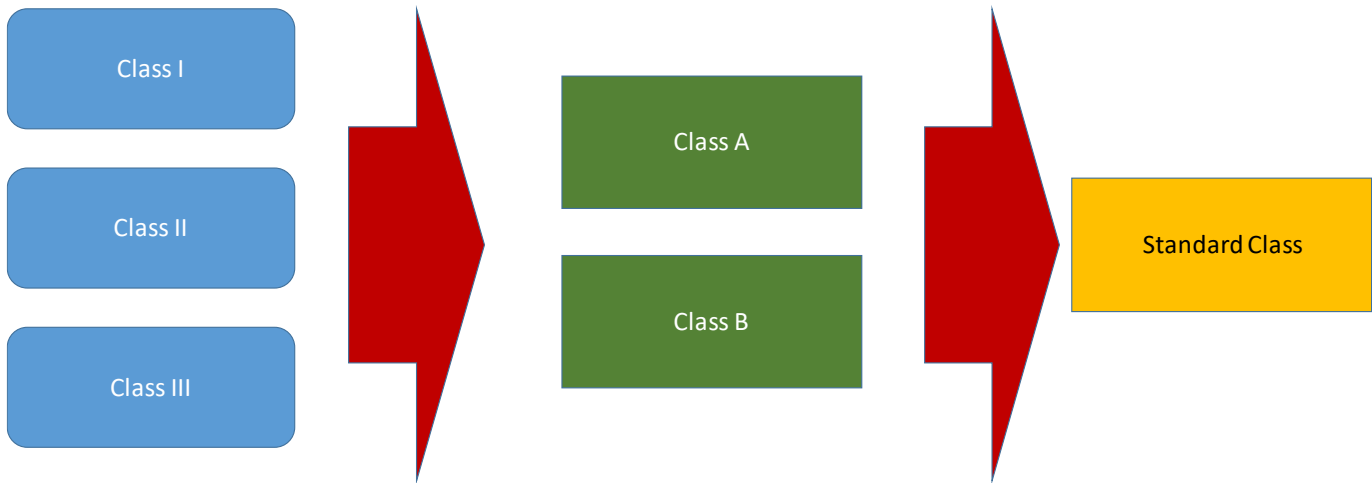
Source: S&P Capital IQ

New Regulation to be Implemented in 2022

Based on Presidential Decree No.64/2020, the Indonesian Government plans to gradually simplify the classification of National Health Insurance benefits to just one class from the current three classes of benefits. This one type of insurance will uniform the type of classroom and service standardization, and is expected to be enacted in 2022. But, from being drastically changed the three types of insurance benefits to one, the Government opt to change it gradually by providing two types of benefits, classified as Class A and Class B. The minimum size of room standard for Class A is 7.2 sqm with a maximum of 6 operational beds, a better service standardization compared to a Class III room that can be filled with more than 6 operational beds. As such, we believe that the new regulation will attract more Indonesians to come to the hospitals as they will get better treatment. This will also benefit the C-Class and D-Class hospitals, as they will treat more patients and could offset the impact of low tariffs covered by BPJS with a higher volume of patients. These types of hospitals could also secure higher profit margins as they could purchase medicines with lower prices given the higher demand.

On the flip side, there is a quality downgrade for the current Class I BPJS beneficiaries. From the standard room size of 10 sqm filled with a maximum of 2 operational beds, the beneficiaries would get the same size of rooms with 4 operational beds offered by Class A's standard. This new standardization will likely to shy away the Class I beneficiaries due to the quality standard setback and encourage them to get other insurance from private health insurance companies to obtain a better quality healthcare standard. This is expected to benefit the Class A and Class B type of hospitals which provide better healthcare service standards to their patients.

Graph 10: Government's Plans to Gradually Simplify the BPJS's Benefits Classification

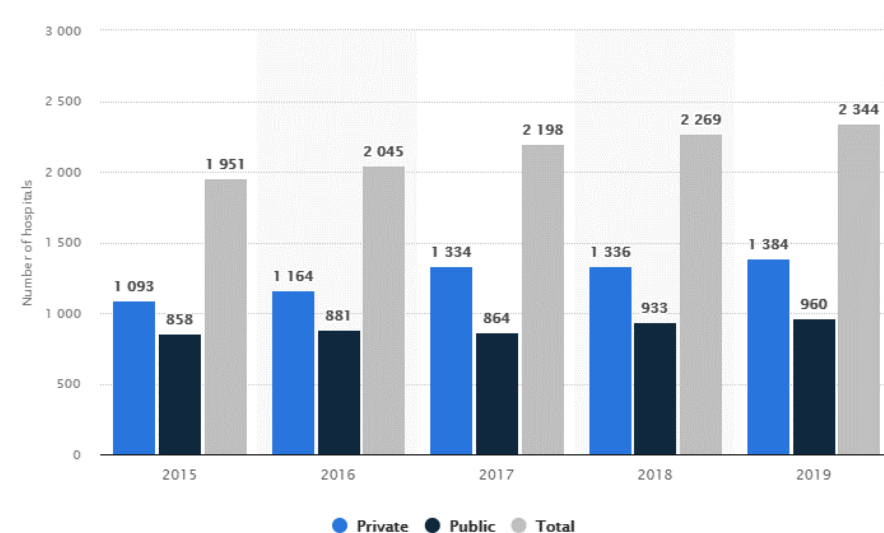


Source: BPJS Kesehatan

Growing Number of Hospitals

The number of general hospitals in Indonesia grows as the number of BPJS's participant's increase. As many Indonesians are now aware that they own health insurance from BPJS, the general hospitals in Indonesia grow exponentially, as Indonesians are now not afraid to go to the hospitals. As of 2019, there were 2,344 general hospitals in Indonesia, comprised of 1,384 private general hospitals, and 960 public general hospitals.

Graph 11: Number of General Hospital in Indonesia by Type, 2015 - 2019

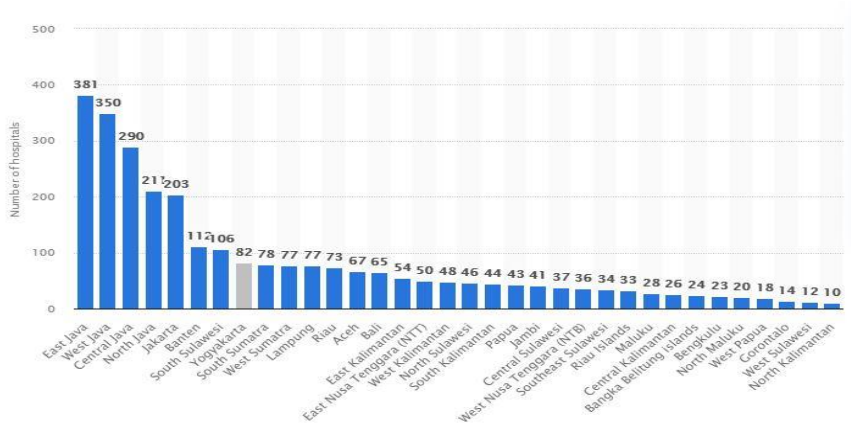


Sources: Statista

Uneven Hospital Locations in Indonesia

Although the number of hospitals in Indonesia keep building in the last five years, the hospital’s locations are not evenly distributed throughout Indonesia. North Kalimantan, one of the largest provinces in Indonesia only has ten general hospitals. Meanwhile, Jakarta, one of the smallest provinces in Indonesia, had around 203 hospitals in 2018.

Graph 12: Number of Hospitals in Each Province, 2018

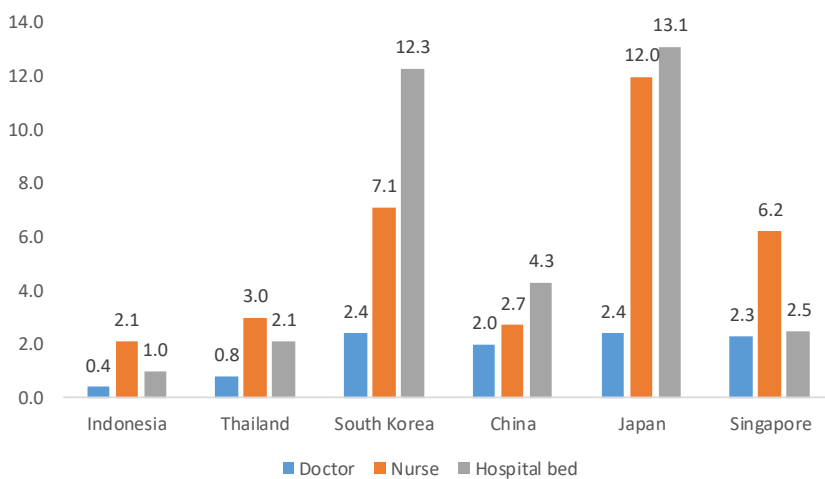


Sources: World Bank

Indonesian Hospitals Facilities Are Still Below Other Asia Pacific Countries

Although building, but the facilities provided by Indonesian hospitals are still below other Asia Pacific countries. The number of doctors, nurses, and hospital beds per 1,000 citizens were only 0.4, 2.1, and 1.0, respectively, in 2020. While Thailand, Indonesia’s closest competitors, had 0.8, 3.0, and 2.1, of doctors, nurses, and hospital beds per 1,000 people in 2020.

Graph 13: Comparison of Health Facilities



Source: WHO, World Bank

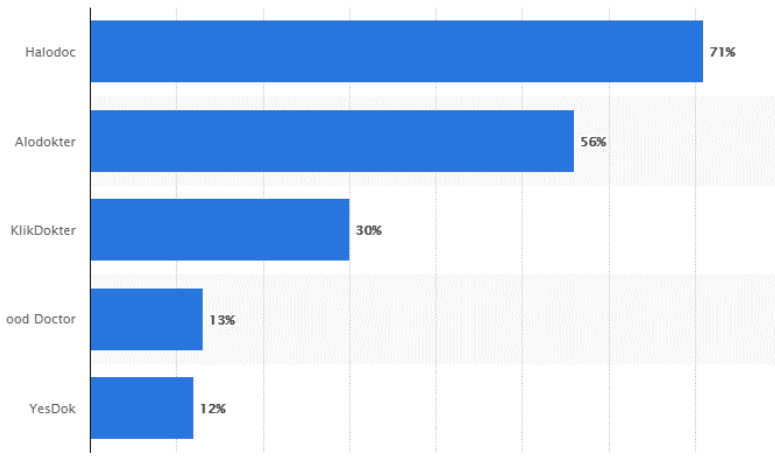
Another New Regulation to Tackle the Hospital’s Insufficiency of Facilities

To tackle the insufficiency of healthcare facilities in Indonesia, the Indonesian Government has issued Presidential Decree No.47/2021 that permits foreign entities to own up to a maximum of 100% shares of Class A and Class B hospitals in Indonesia. The permit has increased from the previously 67% shares of Indonesian hospitals.

Growing Healthtech Business

Many hospitals, such as Hermina Hospital and Bunda Hospital, have launched their digital health applications to better serve patients. This business is not managed by hospitals only, but also other health tech companies in Indonesia, with several widely known digital health applications such as Halodoc, Alodokter, SehatQ, etc. A survey on digital health applications conducted in Indonesia in 2021 found that 71% of respondents used Halodoc, a healthcare network platform founded in 2016 that connects users to licensed doctors online. Health tech apps such as Halodoc are usually available on smartphones where users can consult with doctors via chat, or calls, read health articles, or order medicine.

Leading digital health apps in Indonesia as of February 2021



Source: Statista

Robust Growth of Healthcare Sector in Indonesia

The revenue of Indonesia’s healthcare sector jumped by 11.62% year-on-year (“YoY”) in the second quarter of 2021, from only 3.32% YoY in the first quarter of 2021. These growths were contrarily significantly above Indonesia’s GDP growth in the first and second quarter of 2021, which contracted by -0.71% YoY and grew by only 7.07% YoY, in the 1Q2021 and 2Q2021 (please see the chart on Page 1).