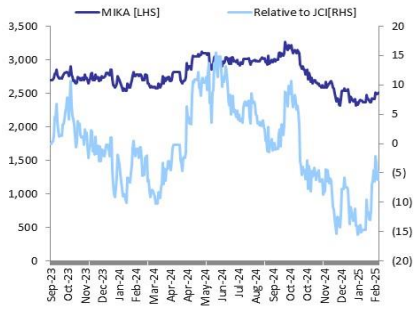
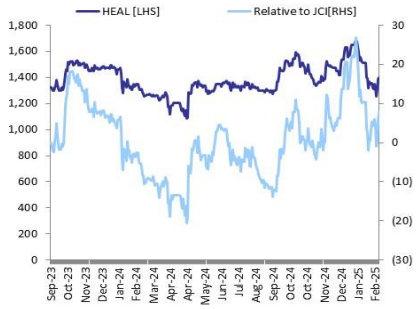
Overweight

(Maintained)

MIKA relative to JCI Index



HEAL relative to JCI Index



Source: Bloomberg

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Healthcare

Navigating The Implementation of KRIS

- **Plans to implement KRIS by Jun25 remain on-track. DJSN is finalizing new JKN Tariff, while MoH plans to change INACBG to iDRG.**
- **KRIS and CoB could be an opportunity to further expand hospitals' revenue/patient yet risks loom on gov't policy execution.**
- **We maintain OW rating in the sector as Indo hospitals' profitability consistently improving in an underserved market. Top Picks MIKA.**

Update on KRIS Implementation: Only 19% of National Hospitals Prepared
Recent meeting between Ministry of Health (MoH), DJSN and the House of Representatives (DPR RI) reveals that only 19% out of 3,113 hospitals in Indonesia are fully prepared for the standardized inpatient rooms (KRIS) implementation. Most of the hurdles came from bathroom accessibility for wheelchair users and other in-rooms equipment. However, plans to implement KRIS by Jun25 remain on track, based on MOH indication.

Inflation Triggers Changes from INA-CBG; DJSN Finalizing New JKN Tariff
MoH acknowledges the increases in medical costs inflation due to pricing information asymmetry, as the cost of similar treatments can vary between providers and is largely controlled by healthcare service providers as suppliers. MoH tries to uplift bargaining power to the service providers by aiming to increase contributions of JKN and Private Insurances as payor mix, thereby reducing out-of-pocket spending and medical cost inflation. For the case of JKN, MoH is planning to change the current pricing system to hospitals, INA-CBG, which is primarily adopted from Malaysian healthcare system to Indonesian Diagnosis Related Group (iDRG) by Mar25, which will provide more detailed and suitable service packages according to Indonesian patient cases and healthcare costs. Meanwhile, DJSN are currently finalizing the calculation for the new premium tariff of JKN in effort to address JKN deficit, planned to be announced by Feb25. However, on a separate interview, MoH stated that the implementation is under discussion with MoF and predicted to be fully applicable by FY26.

KRIS and CoB Managed Care Offers a Net Positive Impact in The Long-Run
While the new structure of JKN tariff remains unclear, our simulation shows that if the govt implements a new tariff in a single rate that is equal to Class II tariff, this could positively increase the output of JKN hospitals by ~8%. Nonetheless, the govt may need to add subsidy budget of up to Rp67tr/year to cover the gov't assisted JKN members (*Penerima Bantuan Iuran/PBI*). The new tariff, if singular, we believe should range between the existing Class II-Class III tariffs to keep national private hospitals margin intact. The potential conversion of Class I JKN users to use the CoB scheme could also potentially improve revenue/patient by 8-15%, based on our estimation. However, the limited product offering of CoB could limit this potential to materialize.

Maintain OW in the Sector; Top Picks Switched to MIKA
We maintain our OW rating in the sector as Indo hospitals' profitability consistently improving in an underserved market. We switched our top picks preference to MIKA> HEAL> SILO, as we saw less noises coming from unclarity in KRIS Implementation and JKN's deficit to MIKA's earnings, while valuation already reached -2SD of its 5-yr. average EV/EBITDA with better profitability and patient volume compared to 5-yrs. ago.

Company	Ticker	Rec	Target Price (Rp)	Market Cap. (Rp bn)	P/E (x) 2024F	P/E (x) 2025F	P/BV (x) 2024F	P/BV (x) 2025F	ROE (%) 2025F
Medikaloka Hermina	HEAL IJ	BUY	2,000	20,598.3	34.6	26.7	4.7	4.1	16.5
Siloam Hospitals	SILO IJ	BUY	3,300	38,845.8	43.5	30.5	4.6	4.2	14.4
Mitra Keluarga	MIKA IJ	BUY	3,400	35,332.0	31.4	27.6	5.4	4.8	18.5

Contents

List of Exhibit

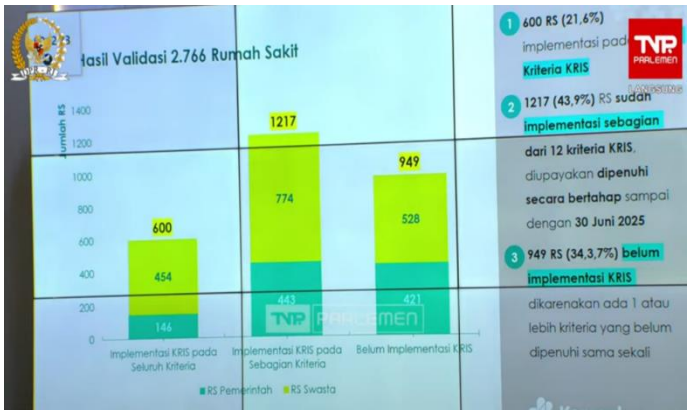
Latest Development

Summary of MoH Meeting with House of Representatives (Feb.11,2025): Updates on Progress of KRIS and JKN's New Premium Tariff

Recent meeting between Ministry of Health, DJSN, BPJS Kesehatan and the House of Representatives yielded several updates as below;

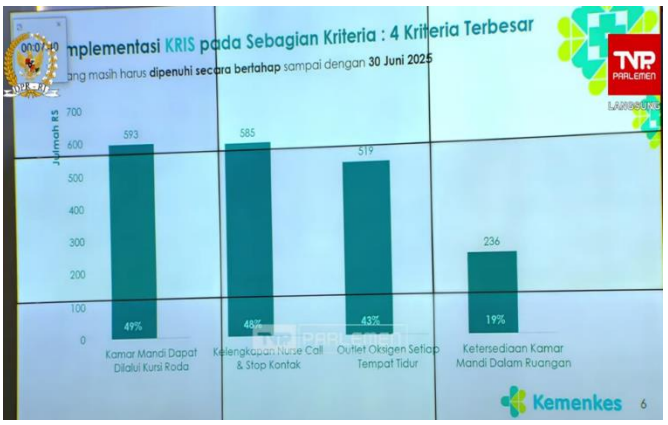
- The preparedness of KRIS: Out of 3,113 hospitals in Indonesia, 2,766 have been validated for KRIS implementation, yet only 600 (21.6% out of validated hospitals; 19.2% out of total hospitals) are already fully comply with KRIS Implementation. Most of the hurdles came from the accessibility to the bathroom for wheelchair users.

Exhibit 1. Progress of KRIS Implementation



Source: DPR RI YouTube Channel

Exhibit 2. Progress of KRIS Implementation

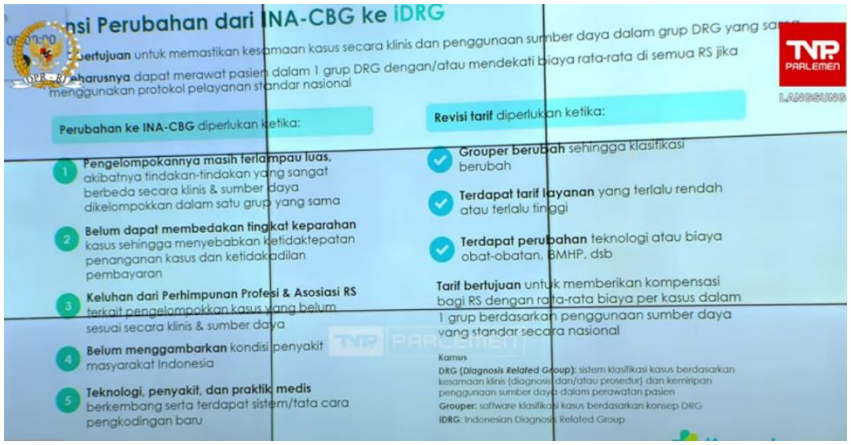


Source: DPR RI YouTube Channel

- MoH acknowledges the increases in medical inflation due to pricing information asymmetry, as the cost of similar treatments can vary between providers and is largely controlled by healthcare service providers as suppliers. MoH aims to increase the contribution of both private insurance (5% to national health expenditures aimed to be upgraded to 30%) and JKN (27% to national health expenditures aimed to be upgraded to 50%) as the healthcare payor mix, which could give bargaining power for both the payor for future healthcare services pricing.

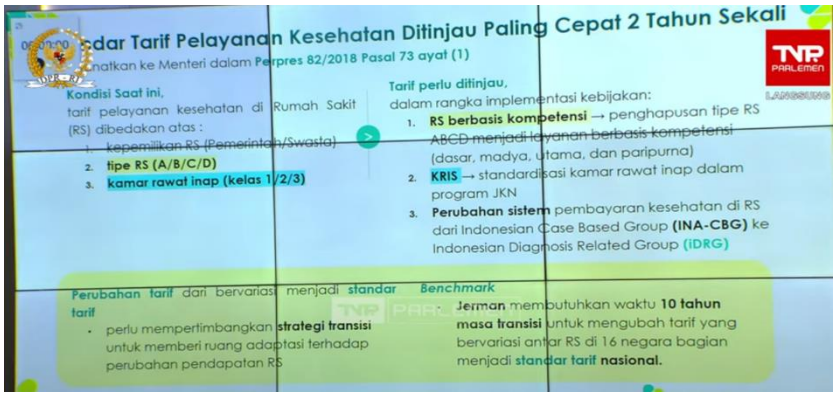
- MoH also aim to change the current Indonesia Case Based Group (INA-CBG) system, which is mostly adopted from the Malaysian healthcare system, to become Indonesian Diagnosis Related Group (iDRG) by Mar25 which will create service packages more detailed, suitable to Indonesian healthcare providers and patient cases. Hospital referral basis for JKN will be changed to competency-based rather than bed-capacity based.

Exhibit 3. Reasoning for Changes from INA-CBG to iDRG



Source: DPR RI YouTube Channel

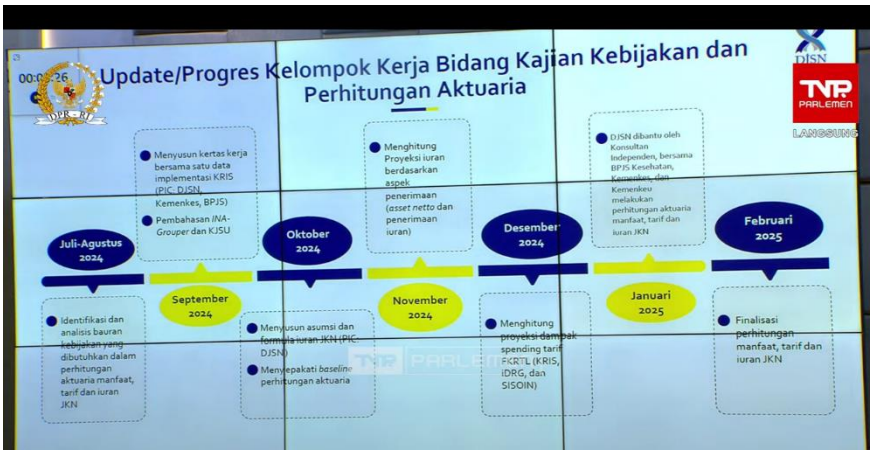
Exhibit 4. Hospital Referral Changes to Competency-based from Previously Capacity-based



Source: DPR RI YouTube Channel

- DJSN are currently finalizing the new calculation for the new premium tariff of JKN, planned to be announced by Feb25.

Exhibit 5. New JKN Tariff Timeline Development

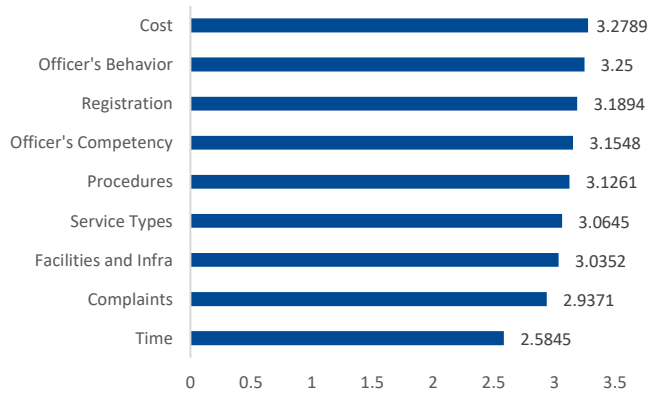


Source: DPR RI YouTube Channel

KRIS as a Potential Opportunity to Improve Revenue/Patient Amid Increasing JKN Utilization

Latest research by Kompas LITBANG (FY23) shows that Indonesia's national satisfaction score of primary care facilities (*FKTP/Puskesmas*) are relatively satisfactory at 3.0/4.0, with best aspect being the cost, and worst aspect being time. **The three main issues in Indonesia's healthcare problem, addressed during our discussion with special advisor to Minister of Health (MoH) are affordability, access, and quality. While access and quality improvement will take time to improve through the government's transformation program, the affordability has been partly addressed through the presence of Puskesmas and JKN. Especially amid the persistent food inflation (averaging 4.3%yoy during FY24) hitting purchasing power, the utilization of JKN also arises. The trend is also further supported by the digitalization of services in JKN's patient queue and hospital-partners compliance on minimum doctor's consultation duration per patients being tightened.**

Exhibit 6. Puskesmas Satisfaction: 3.07/4, Costs being The Most Satisfactory Aspect as Affordability are Key Issues

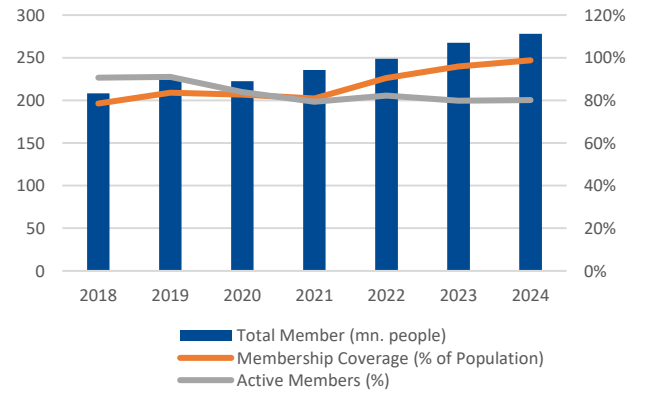


Source: LITBANG Kompas

Exhibit 7. Example of Queue-Taking Process through JKN Mobile in One of Regional Hospitals

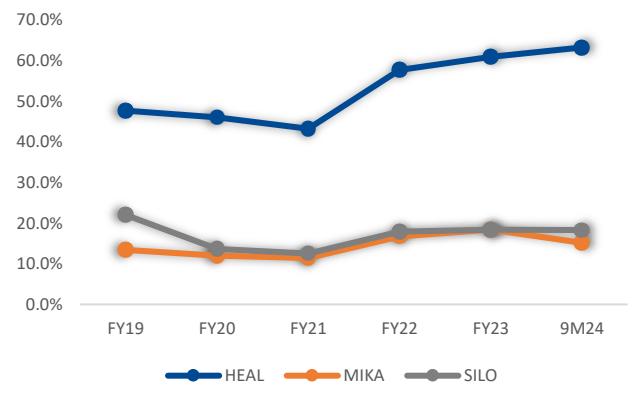
Source: rsurembang.co.id

Exhibit 8. Leap in JKN Coverage After Pandemic with room for membership activation presents potential higher future JKN usage



Source: Sismonev DJSN

Exhibit 9. The Leap in JKN Coverage also reflected in JKN Portion to Revenue in Listed hospital Operators.



Source: Company, BRIDS

To further improve service for its members, particularly those in Class III, the MoH introduced the standardization of inpatient rooms in 1H24 through Presidential Regulation *(Perpres)* No. 59/2024. This standardization, known as KRIS, mandates that all JKN users will have the same room standard, with a 4-bed-per-room layout and other specifications, such as lighting, temperature, and ventilation **(Exhibit 10).**

This new standard will replace the existing room standards of 2-3 beds per room for Class I, 4-5 beds per room for Class II, and 5-6 beds per room for Class III. **In short, this change will upgrade the service quality for previously Class III patients, while downgrading the services for Class I patients. The expectation is that Class I patients will be encouraged to opt for upgraded services through Coordination of Benefits (CoB) with private insurance, thereby reducing JKN's financial burden and thus, will shift its focus towards serving middle-lower-class patients from Class II and Class III.**

Exhibit 10. Standard of KRIS

12 Standard of KRIS *(Kelas Rawat Inap Standar)*	
Aspects	**Standard**
Building Components	Low level of porosity
Air Ventilation	Regular treatment room meets at least 6 (six) air changes per hour
Room Lighting	Minimum 250 lux for lighting and 50 lux for sleeping lighting
Bed Equipments	Includes 2 (two) contact boxes and a nurse call on each bed
Nightstand	Minimum 1 nightstand per bed
Room Temperature	Able to maintained between 20-26 Celsius degree
Room Division	Divided into gender, age and type of disease (infectious and non-infectious)
Maximum Density	Maximum of 4 beds per inpatient rooms; with a minimum distance of 1.5 meters between bed edges.
Partitions	Curtains/partitions with embedded rails attached to the ceiling or hanging.
Bathroom	Minimum 1 bathroom per inpatient room
Bathroom Accessibility	Comply with Accessibility standards
Oxygen	Oxygen outlet availability

Source: Perpres No.59/2024

Exhibit 11. Example of KRIS Layout Implemented in Hermina Hospitals

Source: Company, BRIDS

While the setup of standardized inpatient rooms triggers a need for a standardized single-tariff, **the last statement by JKN's director indicates that the implementation of single-tariff is unlikely, as the program would lost its cross-subsidy mechanisms through layered tariff system.**

Despite the above indication, our simulation indicates that if the new tariff were implemented as a single rate equal to the current Class II tariff, it could potentially increase the output of JKN hospitals by approximately 8% (Exhibit 12). However, a tariff increase would likely require additional government subsidies to cover members under government assistance *(PBI/Penerima Bantuan Iuran)*, which we estimate could amount to Rp67tr per year, representing around 31% of the central government's healthcare budget allocation (Exhibit 13). This is also why implementation would create an urgent need for burden-sharing of claims with private insurance partners through CoB.

Other scenarios would be to keep the layered tariff system, with a marginal increase in Class III tariffs while keeping the Class I tariff constant to compensate for the difference in upgraded cost of services especially in handling the Class III patients. As a result, cost control and service adjustments for hospitals will be key to maintaining margins under the KRIS framework.

Exhibit 12. Impact of JKN's Single-Tariff Implementation to Hospitals' Revenue

Regional 1 Class B Hospitals - Inpatient			
Samples of 10 Highest INA CBG Cases (Rp'000/treatment)	**Class 3**	**Class 2**	**Class 1**
Operasi Pembedahan Caesar (Ringan)	5,251	6,118	6,984
Nyeri Abdomen & Gastroenteritis Lain-Lain (Ringan)	1,809	2,107	2,405
Penyakit Infeksi Bakteri Dan Parasit Lain-Lain (Ringan)	2,388	2,783	3,177
Simple Pneumonia & Whooping Cough (Ringan)	3,804	4,431	5,059
Penyakit Kencing Manis & Gangguan Nutrisi/Metabolik (Ringan)	3,688	4,296	4,904
Blended Avg.Output (Rp'000/treatment)	3,388	3,947	4,506
JKN Users (mn.)	155.5	29.5	35.0
Potential Total Output (Rpbn)	526,649	116,551	157,602
Aggregate Potential Total Output (Rpbn)			**800,802**
Scenario if Avg. Output using Class 2			3,946.76
JKN Users (mn.)			220.0
Aggregate Potential Total Output (Rpbn)			**868,146**
Difference			8.4%
Declining Output from Downgraded Class 1 (Rpbn)			(19,553)
Increasing Output from Upgraded Class 3 (Rpbn)			86,897
Net Changes in Output (Rpbn)			**67,344**
Difference			8.4%

Source: INACBG Tariff: Permenkes No.3/2023, BRIDS Estimates

Exhibit 13. Impact of JKN's Single-Tariff to Additional Subsidy Budget

Table of BPJS Kesehatan Tariffs		
Class I		150,000
Class II		100,000
Class III - PBI (Fully Paid by Central Gov't)		42,000
Class III - PBPU and BP (Paid by Members)		35,000
Class III - PBPU and BP (Jointly Paid by Central & Regional Gov't)		7,000
Total		42,000

Estimates of Additional Subsidy - for PBI Only (Fully Paid by Central Gov't)		
Class III Tariffs current (Rp/member)	(1)	42,000
Class II Tariffs (Rp/member)	(2)	100,000
Difference (Rp/member)	(3) = (2)-(1)	58,000
PBI Total Active Members (actual Sep24)	(4)	96,601,181
Additional Subsidy (Rpbn)	(5) = (3) x (4) x 12 months	**67,234**
Healthcare Budget APBN FY25	(6)	**217,300**
Additional Subsidy as% of Central Gov't Budget	(7) = (5) / (6)	31%
Expenditure Realization for PBI (11M24)		42,270
Anlz. (Rpbn)		46,113
Subsidy per month (Rpbn)		*3,843*
Additional subsidy per month (Rpbn)		*5,603*

Source: DJSN, BRIDS

Overall, the implementation of KRIS in the long run shall benefit hospital operators with greater JKN partnership network as it will increase the standard of services, overall claim reimbursement value (as we believe the new tariffs should at least be between existing Class II and Class III tariffs, considering most of the JKN users are Class III, either it is single-tariff or layered-tariff, in order to keep national private hospitals margin intact) and an opportunity to yield higher revenue/patients from diversion of Class I patients towards CoB Managed Care Implementation, which we estimate could increase by 8-15% (Exhibit 14). Assuming cost control execution runs well, this will generate a structurally higher overall EBITDA margin.

Exhibit 14. Impact of CoB Managed Care Implementation: Analysis on HEAL

Old Structure		New Structure (50% Conversion Rate*)		New Structure (100% Conversion Rate*)	
IP Days HEAL (9M24) ('000)	1,521	IP Days HEAL (9M24)	1,521	IP Days HEAL (9M24)	1,521
with Estimated Mix of		*with Estimated Mix of*		*with Estimated Mix of*	
JKN Class I	40%	JKN Class I	20%	JKN Class I	0%
JKN Class II-III	34%	JKN Class II-III	34%	JKN Class II-III	34%
Private	26%	JKN CoB Selisih Tarif	20%	JKN CoB Selisih Tarif	40%
		Private	26%	Private	26%
Coding per patient (Rp'000)					
Light Caesarean Section (INA CBGO-6-10-I) - Referring to Permenkes No.3/2023					
Inpatient - Private Class B Hospitals at Regional 1					
JKN Class I	6,984	JKN Class I	6,984	JKN Class I	6,984
JKN Class II-III Median	5,684	JKN Class II-III Median	5,684	JKN Class II-III Median	5,684
Private (Class I Tariff + 40%)	9,777	JKN CoB Selisih Tarif	9,777	JKN CoB Selisih Tarif	9,777
		Private (Class I Tariff + 40%)	9,777	Private (Class I Tariff + 40%)	9,777
Wgt.average Rev/patient	7,268	Wgt.average Rev/patient	7,827	Wgt.average Rev/patient	8,386
		Variance from Old Structure	7.7%	Variance from Old Structure	15.4%
*Conversion Rate meaning the % of Class I JKN Patients Chose to Upgrade its Service using CoB Selisih Tarif					

Source: Old Mix of JKN's Patients: HEAL, BRIDS Estimates

Delays in JKN New Tariff could Limit Potential to Materialize KRIS-CoB Benefit to Hospital Operators

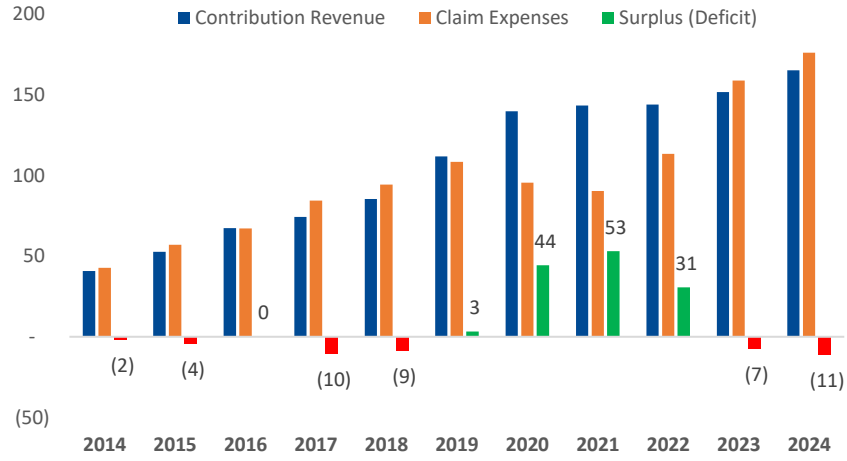
As JKN's utilization have been increased, the claim ratio also linearly increases. JKN's operational conditions of its healthcare coverage activity have been running deficit since FY23 and continued in FY24 **(Exhibit 16)**, primarily due to; 1) Increasing inactive membership rate which creates a non-optimal premium revenue collection 2) There has been no premium tariff increase since FY21, despite of according to Perpres No.64/2020 this should be evaluated every two years **(Exhibit 15)** 3) On the other hand, INA-CBG tarif have been increased 9.5% in 1Q23, following the issuance of Permenkes No.3/2023, which should also increase JKN's reimbursement cost to its healthcare facility partners.

While JKN's net asset surplus is still at 3.59 months of claim **(Exhibit 18)**, well-above minimum adequacy of 1.5 months of claim (according to PP No.53/2018), the consistently increasing claim ratio level could accelerate the decline in overall net assets. Our historical data check **(Exhibit 17)** indicates that the current claim ratio level should be the early signs of declining net assets. Back in FY20, deficit reversal was partly helped by the new tariff introduction and COVID-19 claims were fully reimbursed by MoH. DJSN predicted that the net asset surplus will only be sufficient to cover claim until 4Q25 if the current claim ratio trend persists.

Exhibit 15. History of JKN Tariff

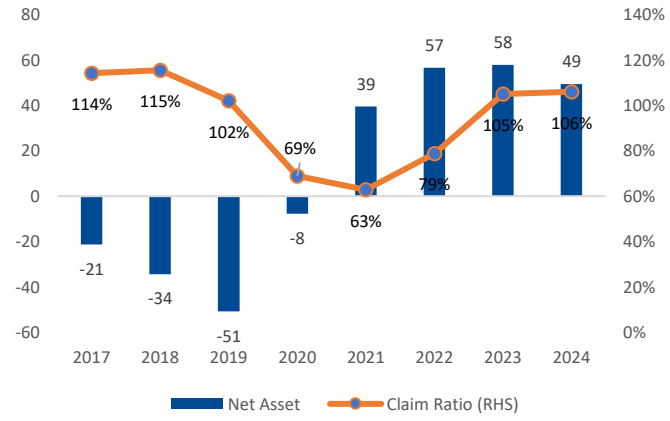
Source: Various, Perpres No.64/2020

Exhibit 16. Operational Deficit



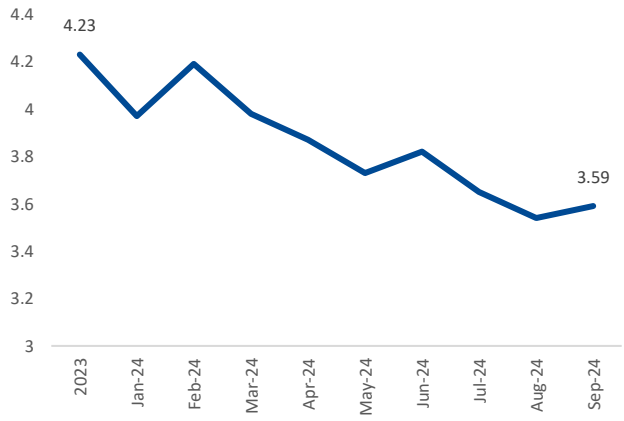
Source: Sismonev DJSN, BPJS Kesehatan

Exhibit 17. Net Asset and Claim Ratio of JKN: Current Claim Ratio Level are Early Signs of Decelerating Net Assets



Source: Sismonev DJSN, BPJS Kesehatan

Exhibit 18. Fund Adequacy of JKN (Net Asset ability to Pay Claim in Months) – Min.adequacy is at 1.5 month of claims



Source: Sismonev DJSN, BPJS Kesehatan

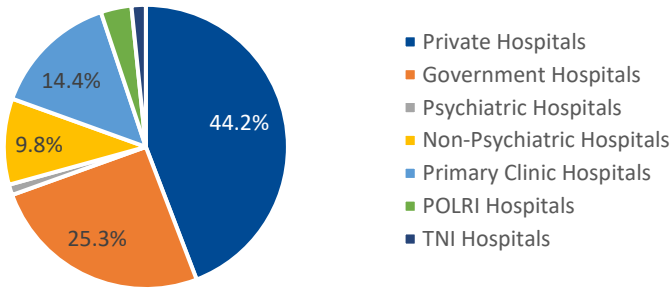
Given that the concentration of JKN users is on class III (71.4%, 198mn.members) and dominated by those handed gov't assistance in monthly premium (Penerima Bantuan Iuran - 58% of Class III, 115mn. members), the KRIS implementation could increase the cost of overall hospital services. This is why we think that premium tariff adjustments should also be the ideal scenario to keep BPJS partner hospitals' margin not compressed.

According to our discussion with ARSSI (Indonesian Private Hospital Association), the business of solitary hospitals (non-chain/non-group) remains highly dependent on JKN patients, and this trend is expected to continue in FY25F. Private hospitals serving JKN patients typically operate with an EBITDA margin of up to 15%, significantly lower than HEAL's 27-28%, which benefits from higher economies of scale and a greater contribution from private patients (~40% of total revenue).

In the short term (1Q-2Q25), any delay in the announcement of new JKN tariffs (both for member premiums and iDRG new tariff) could pose risks to overall profit margins if KRIS remains implemented by Jun-25. This is due to rising overall service costs. Additionally, hurdles in the limited product offerings of CoB Managed Care, stemming from the single-billing process, could pose credit risks to private insurance companies, as they would face challenges in collecting payments from BPJS Kesehatan. This, in turn, limits the potential for CoB to materialize, as actuarial forecasts for private insurers would remain unclear.

Patient dissatisfaction could arise if they are forced to shift to private care without proper socialization or if service quality deteriorates due to hospitals being unable to maintain the same cost structure for Class III patients while still receiving Class III-equivalent reimbursements. Additionally, JKN's ongoing operational deficits are driving tighter claim verification processes, which could further extend hospital receivable days, adding cashflow strain to private healthcare providers.

Exhibit 19. Share of Advanced Care Facilities in Coordination with JKN (Private Hospitals Dominating)



Source: DJSN

Long-Term Sector Drivers

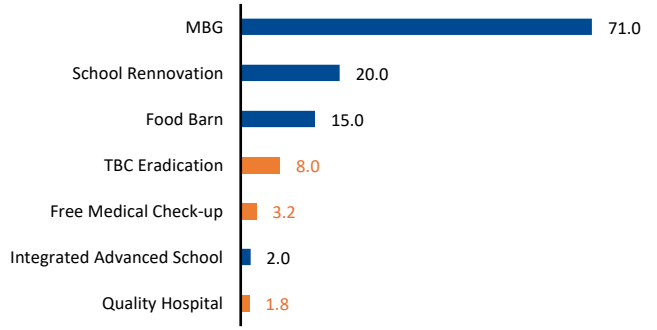
High Bargaining Power Arises from Healthcare Facilities Distribution Issues

The current government has prioritized three health issues in its seven quick-win programs: TBC eradication, free medical check-ups (MCU), and the development of hospital capacity and quality in rural areas (particularly upgrading Type D hospitals to Type C). **While these initiatives will contribute to overall public health improvements in Indonesia, we expect their direct impact on listed hospital operators to be limited.** For instance, with the free MCU program starting in Feb25, utilization is likely to increase gradually. Moreover, follow-up treatments resulting from MCU examinations, which may be referred to Advanced Care Facilities (*Faskes Rujukan Tingkat Lanjut/FKRTL*), will depend on each patient's willingness to incur additional costs and allocate time for further medical care.

In the long run, however, this could create an ideal scenario where FKRTL facilities receive a potentially higher patient volume driven by MCU results. Increased spending on preventive healthcare efforts could, in turn, improve revenue intensity through greater utilization of advanced medical tools. Beneficiaries of this trend include hospitals with a higher proportion of JKN patients, such as HEAL.

Overall, continuity in the government's budget allocation and policy of transforming the healthcare system through its six-pillar program **(Exhibit 21)** should also support the realization of this scenario. However, **risks for private hospital operators could arise from increasing competition with government-owned hospitals. That said, we see this as less likely to materialize within the next 3–5 years for listed operators, as the quality and capacity improvements of government-owned hospitals will take time, allowing private hospitals to maintain their bargaining power through high-quality service provision.**

Exhibit 20. Gov't Budget for 7 Quick Win Programs (Rptr)



Source: BRIDS Economic Research

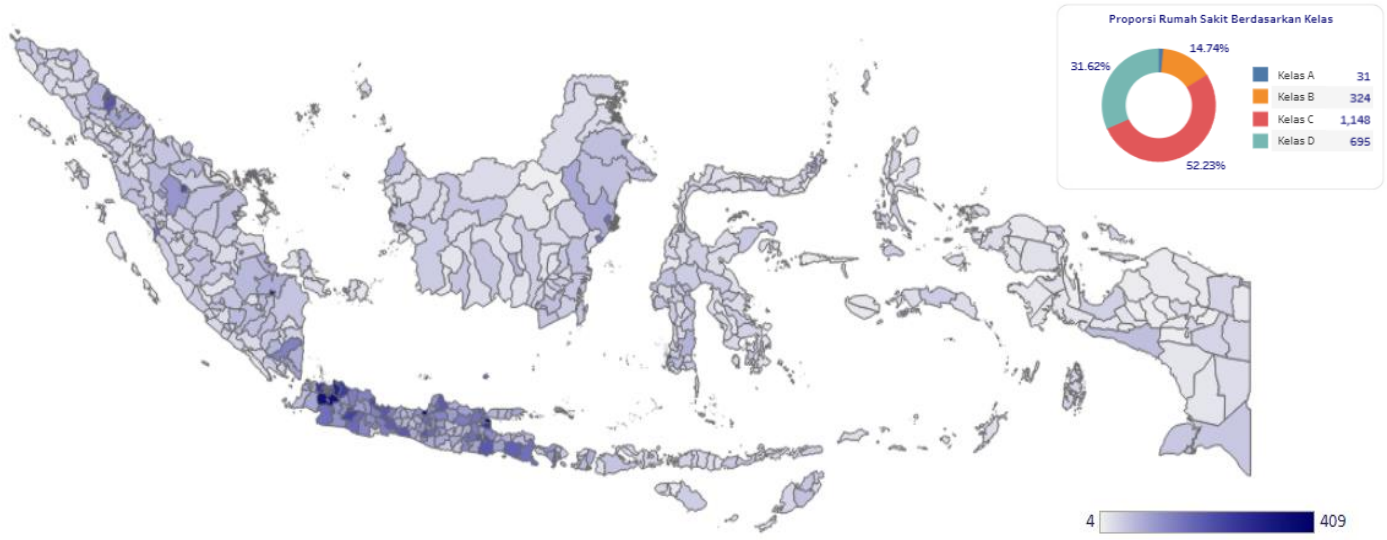
Exhibit 21. Six Pillars of Healthcare Transformation

6 Pillars of Healthcare Transformation	
Transformation Goals	Key Programs
Primary Care	Revitalization of Facilites; Re-Direction towards Promotive & Preventive
Advanced Care	Access and Quality Extensification
Health Resilience System	Self-sufficiency of domestic pharma and med-devices industry
Health Financing System	Strengthening of JKN System
Healthcare Officers	Quantity and Quality Extensification
Healthcare Tech	Platform Integration

Source: Buku Kinerja Kemenkes RI 2022-2023

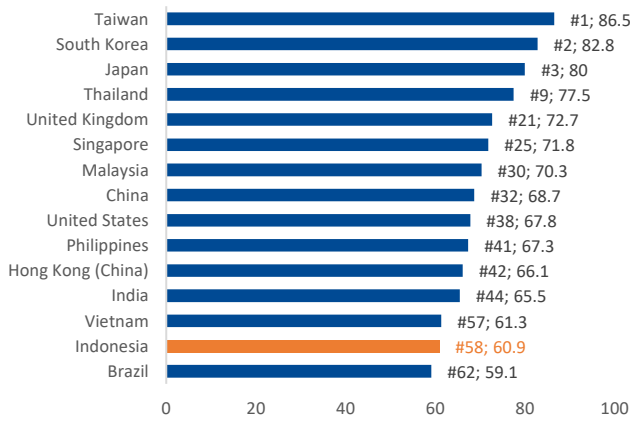
For FY25, we believe the growth story of Indonesia's hospital operators will continue to be driven by the disparity in distribution of healthcare facilities and medical personnel. Indonesia's naturally underserved market presents opportunities for both increased demand and improvements in service quality. According to healthcare index data from Numbeo, which surveys overall healthcare system quality—including factors such as healthcare professionals, equipment, staff, doctors, and costs—Indonesia still lags behind its ASEAN peers. This disparity naturally drives patient preference toward higher-quality services offered by private hospitals. **Risks for the listed operators could come from competition with overseas peers, yet we believe that this will only affect the upper-middle class market which make less than 20% of the population.**

Exhibit 22. Distribution of Healthcare Facilities: Concentrated in Java with Majority at Class C capacity (100beds/hospital)



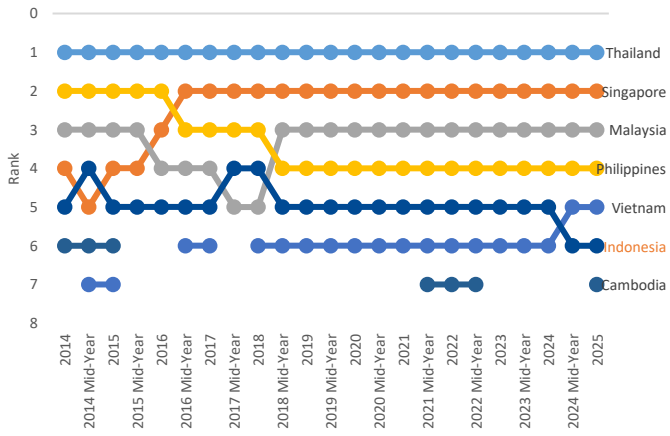
Source: Sismonev DJSN

Exhibit 23. Healthcare Index (#Global Rank, Score): Indonesia Still Has Significant Room for Improvement



Source: Numbeo, BRIDS

Exhibit 24. Healthcare Index ASEAN Rank: Room to Catch-Up to Peers

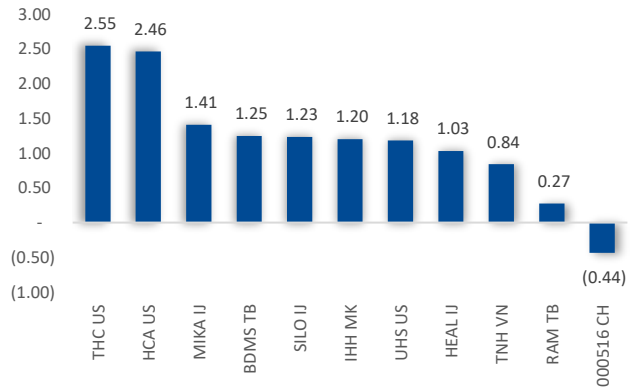


Source: Numbeo, BRIDS

Healthy Profitability Sustain Valuation Level Post COVID Peak and Attracts New Investors' Interests

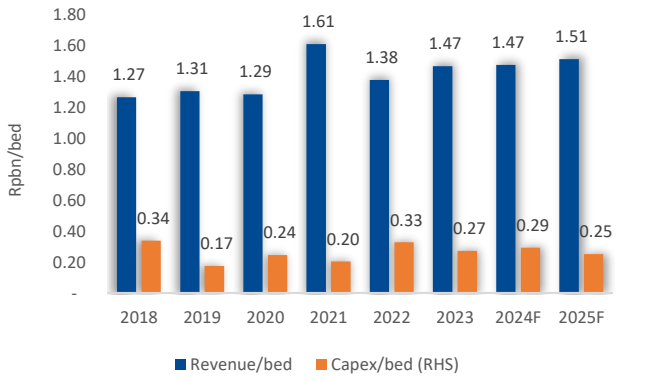
We observed that the current profitability of Indo hospitals reviewed from the ROIC/WACC perspective remains competitive compared to its emerging market peers **(Exhibit 25)**. We also found that ROE is improving gradually through a better net margin of the overall players vs. pre-pandemic, propelled by increasing volume through bed expansion, labor-cost efficiency through IT implementation and a more efficient drug procurement which creates better operating profit margin **(Exhibit 35)**. We believe this is also what drives overall sector's valuation steady post-COVID peak period, alongside improvement in revenue/bed if compared to company's capex/bed **(Exhibit 26)**. We expect this trend to continue in FY25F.

Exhibit 25. 3Q24 ROIC/WACC (x) – Global Comparison



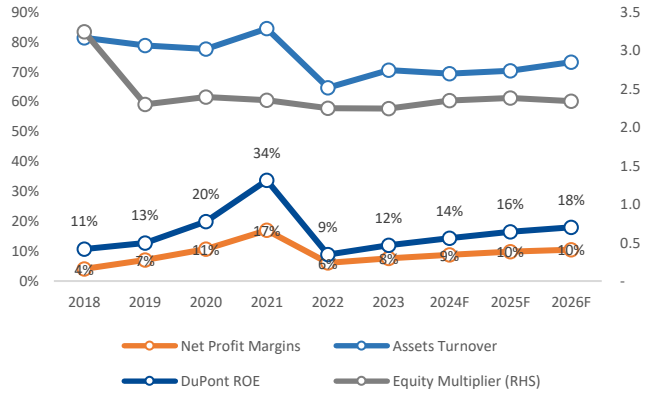
Source: Bloomberg

Exhibit 26. Indonesia Hospitals: Inpatient Revenue/Bed vs. Capex/Bed Development



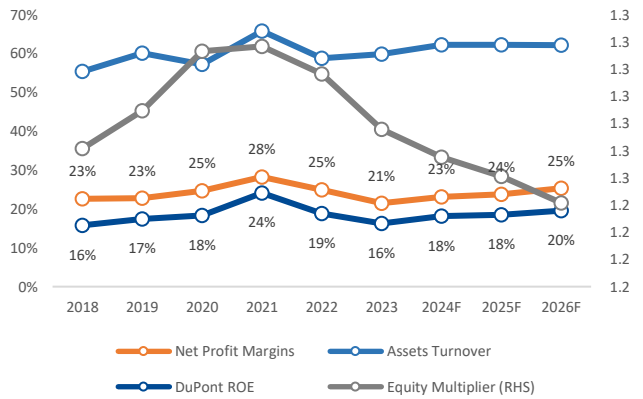
Source: Company, BRIDS

Exhibit 27. DuPont Analysis HEAL



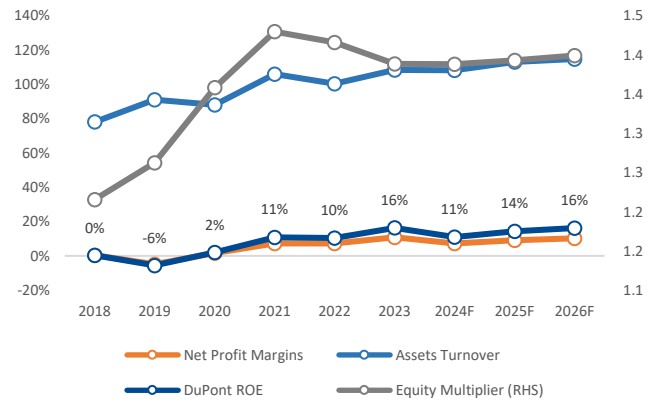
Source: Company, BRIDS

Exhibit 28. DuPont Analysis MIKA



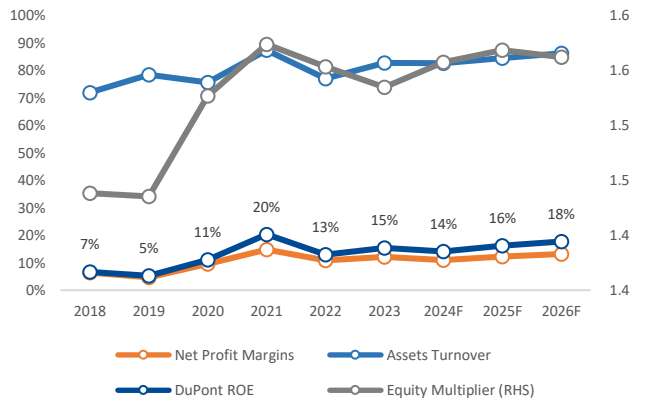
Source: Company, BRIDS

Exhibit 29. DuPont Analysis SILO



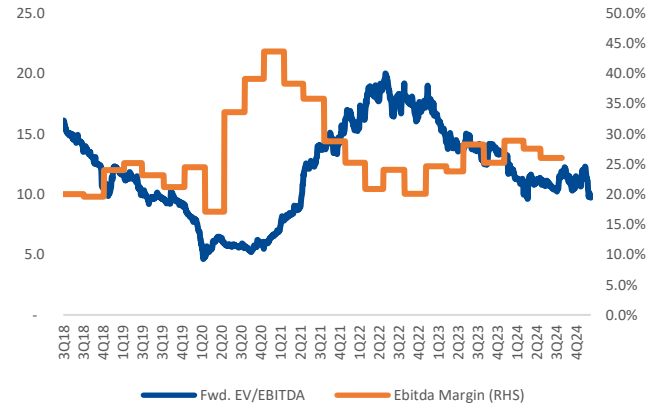
Source: Company, BRIDS

Exhibit 30. DuPont Analysis Overall Sector



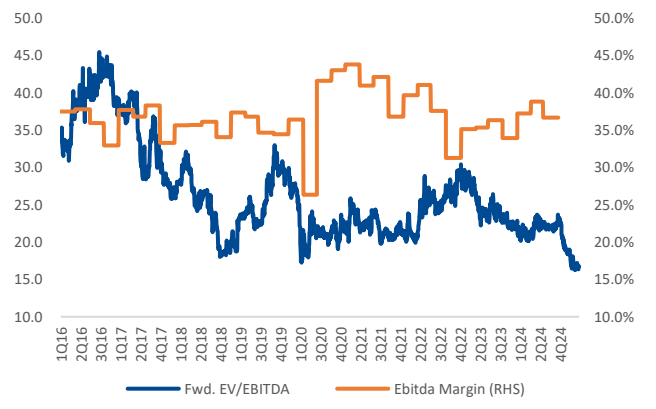
Source: Companies, BRIDS

Exhibit 31. EV/EBITDA HEAL vs. EBITDA Margin



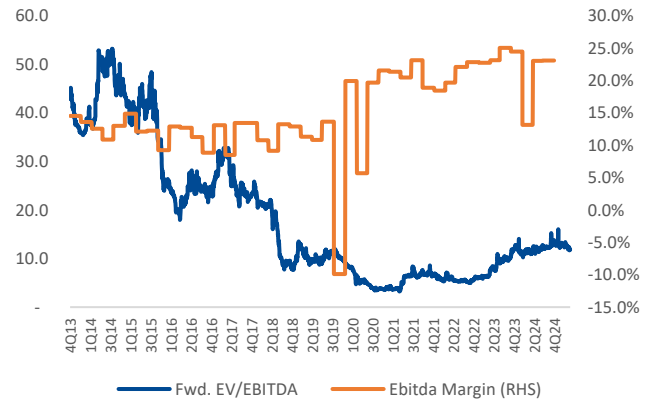
Source: Company, Bloomberg, BRIDS Estimates

Exhibit 32. EV/EBITDA MIKA vs. EBITDA Margin



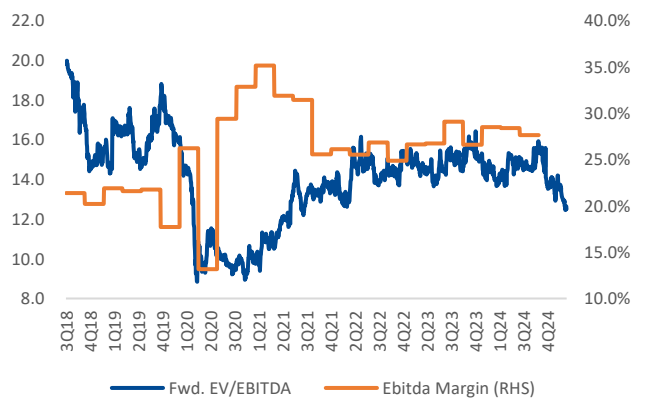
Source: Company, Bloomberg, BRIDS Estimates

Exhibit 33. EV/EBITDA SILO vs. EBITDA Margin



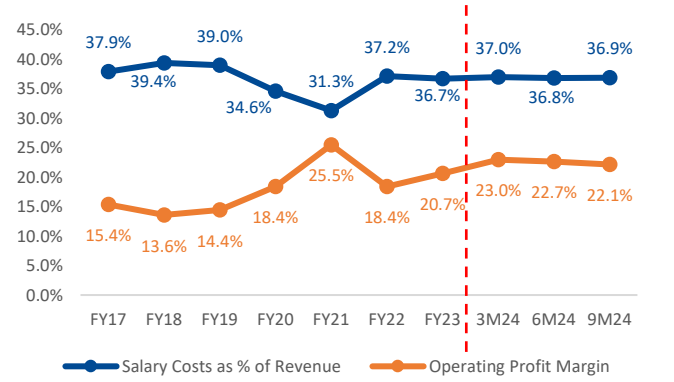
Source: Company, Bloomberg, BRIDS Estimates

Exhibit 34. EV/EBITDA Sector vs. EBITDA Margin



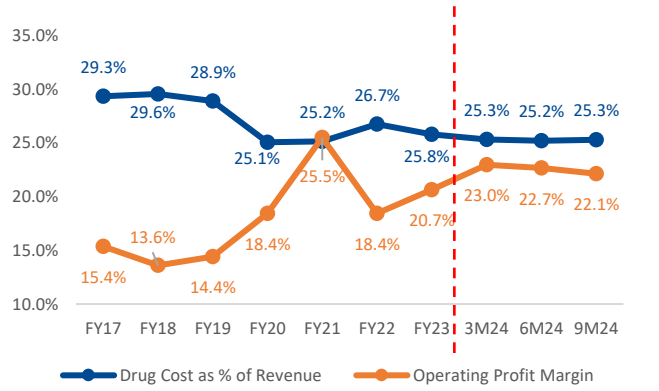
Source: Company, Bloomberg, BRIDS Estimates

Exhibit 35. Overall Salary Cost to Sales vs. Operating Margin



Source: Companies, BRIDS

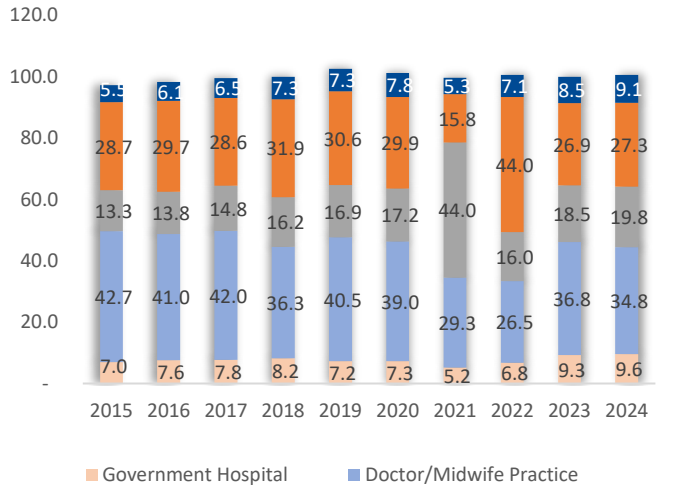
Exhibit 36. Overall Drug Cost to Sales vs. Operating Margin



Source: Companies, BRIDS

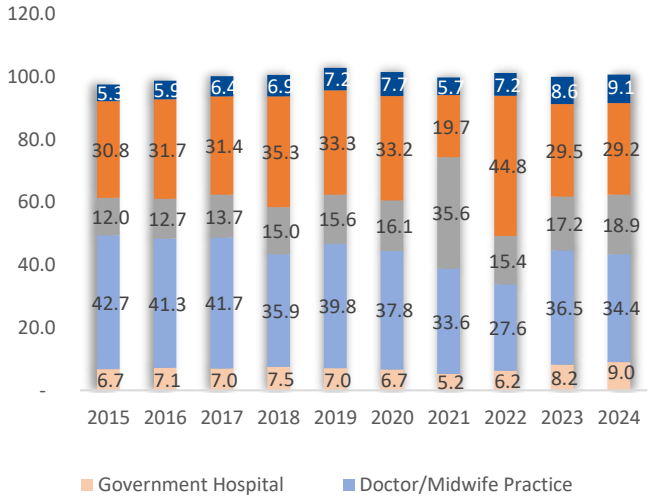
The healthy sector's profitability is also what attracts new investors in the hospital operators. **Most recent acquisition by Bain Capital to Mayapada Hospital, which we estimate was valued at around 16.6x/13.1x FY24F/25F EV/EBITDA.** We expect that the healthy sector's profitability shall propel more acquisitions in the future. The concurrent effort of companies to equate the device or services standard even to developed market peers such as Singapore (MIKA: CT Scan Machines Addition, Cathlab, Nuclear Medicine in Oncology Center, Hearing Center, Pediatric Center, and Initiatives of Diversification to Pet Hospitals; SILO: continue enhancing CONGO Services; HEAL: Kidney Transplant Program in Coordination with Hiroshima University), could also drives better margin going forward. We noted that the higher quality of private hospitals service is also mirrored in the increasing portion of patients going to private hospitals, which is at a 10-year high level in 2024.

Exhibit 37. Share of Patients' Destination for Medical Treatment (Male Patients, %)



Source: BPS

Exhibit 38. Share of Patients' Destination for Medical Treatment (Female Patients, %)



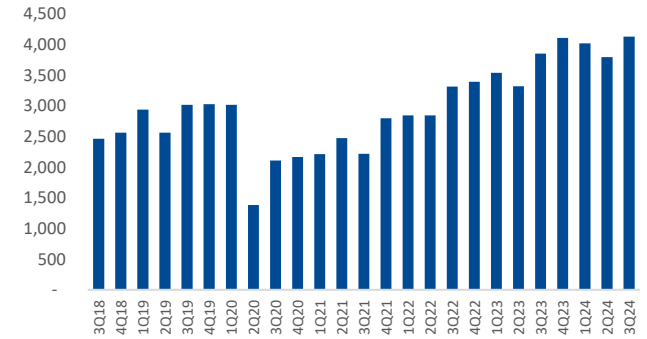
Source: BPS

Risks

High-base effect of patient volume

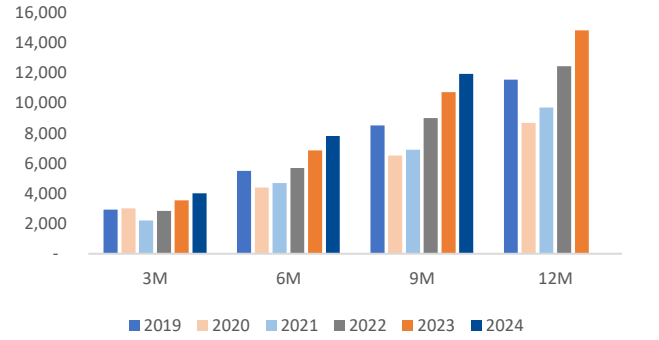
Potential risk to the sector's outlook, at least in 1H25, is the high base of patient volume from 1H24, which is potentially lower in 1H25, as there have been dengue outbreak last year. All companies have thus far guided for a modest volume growth so far in 1H25.

Exhibit 39. Quarterly OP Volume Development ('000)



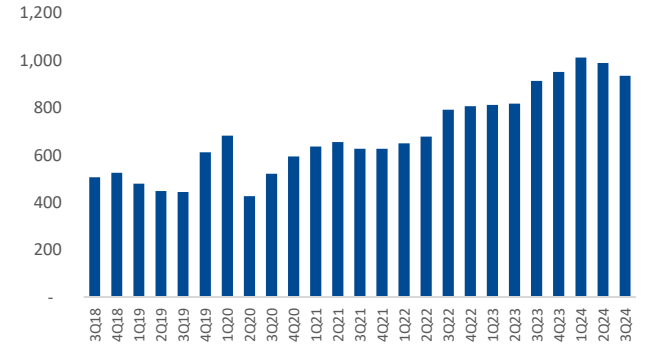
Source: Company, BRIDS

Exhibit 40. Cummulative OP Volume Development ('000)



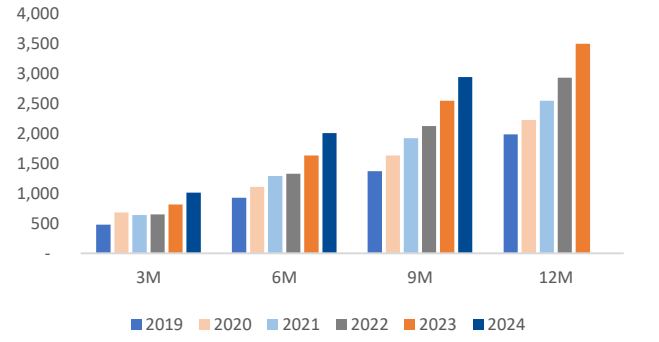
Source: Company, BRIDS

Exhibit 41. Quarterly IP Volume Developmement ('000)



Source: Company, BRIDS

Exhibit 42. Cummulative IP Volume Development ('000)



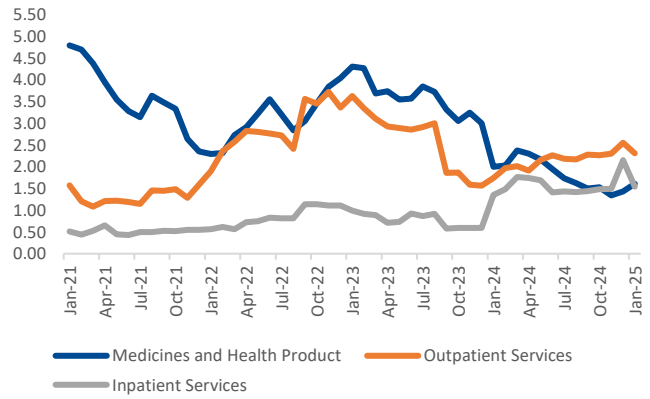
Source: Company, BRIDS

Operating in a Tighter Insurances Claim Ratio Environment could Limit Future Price-Increase Power

The continued medical costs inflation rises poses threat to private insurance claim ratios hike. Overall, all hospital operators are now operating in a tighter claim ratios environment for both public/private insurance, which, if persists could limit future pricing power for hospital operators.

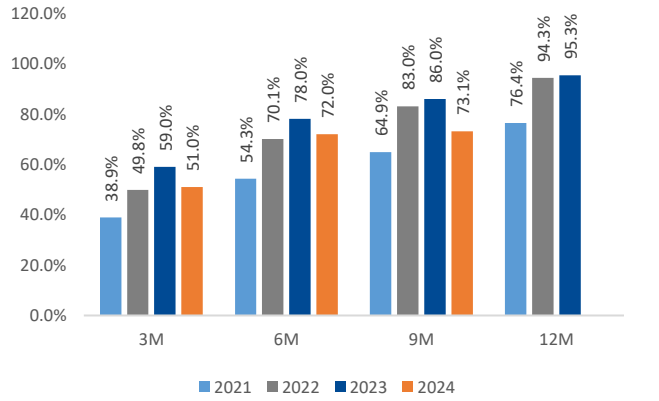
Industry monitoring done by Indonesia's Private Insurance Association (*Asosiasi Asuransi Umum Indonesia/AAUI*) shows that claim ratio has been on an upward trajectory since FY21-23 and normalizing during FY24 due to several pricing renegotiation efforts to hospitals and requests for clearer clinical pathways **(Exhibit 44)**. Despite the minimum impact on revenue/net profit, with listed hospital operators locked its renegotiated pricing for the next 1-2 years, any follow-up action from other smaller insurance could create noises and trigger negative sentiment to the share price. **Our discussion with hospitals also shows that *the "as-charge/outer limit" product* are still being offered in the market, whereby its policyholders can claim any treatment as long as it does not exceed their annual claim ceiling (up to Rp2bn/year), of which the usage has been the main contributors to the increasing claim ratio post-pandemic. Previously, most of the product offered was based on an *Inner-Limit* policy, which imposed a claim limit on a service-by-service basis. The as-charge product also does not offer a cost-sharing mechanism with policyholders.**

Exhibit 43. Inpatient service inflation has been growing continously since early FY21



Source: BPS, BRIDS Economic Research

Exhibit 44. Private Health Insurance Claim Ratio Trend



Source: Asosiasi Asuransi Umum Indonesia, BRIDS

Investment Thesis Summary and Valuation Overview

Overall, we view that the sector's resilient profitability to continue to be driven by effort to increase intensity and labor and drug cost efficiency. Meanwhile, valuation discount vs. EM peers shows the underappreciation of the sector's intrinsic value. We believe the implementation of KRIS could potentially improve the overall output of hospitals reimbursement value from JKN. Furthermore, the best-case scenario on JKN adjustment could trigger the conversion of Class I JKN patients to utilize CoB Managed Care, which will improve revenue/patients, especially those with higher JKN profile. Cost-control execution will be the key for private hospitals to benefit from KRIS-CoB implementation.

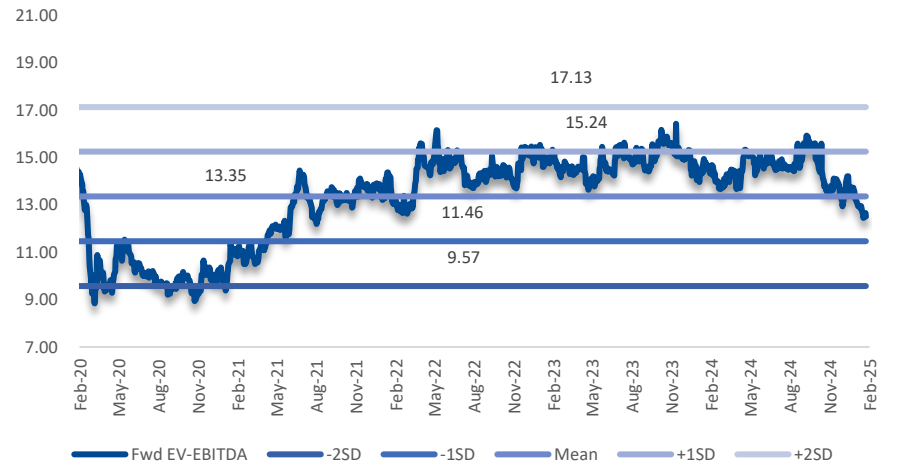
We expect overall sector to book +16%/+22% FY25F/FY26F Core EPS growth. We maintain our OW rating on the sector, but we switch our top picks to MIKA>HEAL>SILO (from HEAL>MIKA>SILO prev.), as we seek for less risks and uncertainty looming from delays in govt policies regarding JKN's KRIS Implementation and new tariffs which potentially could impact HEAL's receivables days and overall bottom-line achievement, especially in 1H25. Currently, the sector trades at 13x FY25F EV/EBITDA, approaching the -1SD of its 5-yr. average and at a -23% discount to EM peers.

Exhibit 45. Peers Valuation

Ticker	Company	Mkt.Cap (US$ mn.)	EV/EBITDA			EBITDA Margin
			FY24F	FY25F	FY26F	25F
Healthcare Indonesia						
HEAL IJ*	MEDIKALOKA HERMINA TBK PT	1,316	12.4	10.5	8.9	29%
MIKA IJ*	MITRA KELUARGA KARYASEHAT TBK	2,136	19.8	17.3	14.8	38%
SILO IJ*	SILOAM INTERNATIONAL HOSPITAL	2,372	15.7	12.6	10.5	29%
Emerging Market Peers						
000516 CH	XIAN INTERNATIONAL MEDICAL-A	1,874	n.a	n.a	n.a	n.a
NARH IN	NARAYANA HRUDAYALAYA LTD	3,223	24.6	23.3	20.0	22%
MEDANTA in	GLOBAL HEALTH LTD/INDIA	3,559	35.7	33.6	28.4	24%
301239 CH	CHENGDU BRIGHT EYE HOSPITA-A	958	n.a	n.a	n.a	n.a
ASTERDM IN	ASTER DM HEALTHCARE LTD	2,395	11.1	26.8	21.4	19%
KIMS IN	KRISHNA INSTITUTE OF MEDICAL	2,476	35.4	29.5	23.8	27%
RAM TB	RAMKHAMHAENG HOSPITAL PUB CO	724	24.0	21.4	19.4	19%
IHH MK	IHH SINGAPORE	14,309	14.0	13.0	11.8	22%
TNH VN	THAI NGUYEN INTL HSPTL JSC	113	21.8	15.1	11.2	40%
BH TB	BUMRUNGRAD HOSPITAL PCL	4,381	14.0	13.5	13.1	40%
BDMS TB	BANGKOK DUSIT MED SERVICE	10,952	14.8	13.8	12.8	24%
KPJ MK	KPJ HEALTHCARE BERHAD	2,349	15.4	14.1	13.2	23%
OPTIMAX MK	OPTIMAX HOLDINGS BHD	72	10.5	9.0	8.4	28%
RFMD SP	RAFFLES MEDICAL GROUP LTD	1,142	10.7	10.1	9.2	17%
MPARK TI	MLP SAGLIK HIZMETLERI AS	2,018	9.8	7.0	7.0	27%
Developed Market Peers						
HCA US	HCA HEALTHCARE INC	78,652	8.9	8.4	8.0	20%
UHS US	UNIVERSAL HEALTH SERVICES-B	12,074	7.6	7.0	6.6	14%
THC US	TENET HEALTHCARE CORP	12,833	7.0	6.8	6.4	19%
CYH US	COMMUNITY HEALTH SYSTEMS INC	465	8.2	7.8	7.5	13%
RHC AU	RAMSAY HEALTH CARE LTD	5,106	8.9	8.6	8.0	13%
Indonesia						
Median		2,136	15.7	12.6	10.5	29%
Simple Average		1,941	16.0	13.5	11.4	32%
Weighted Average		2,047	16.4	13.8	11.7	32%
Emerging Market Peers						
Median		2,136	14.8	14.1	13.1	24%
Simple Average		3,073	18.6	17.7	15.4	25%
Weighted Average		7,213	16.5	15.9	14.1	23%
Developed Market Peers						
Median		12,074	8.2	7.8	7.5	14%
Simple Average		21,826	8.1	7.7	7.3	16%
Weighted Average		59,772	8.5	8.0	7.6	19%

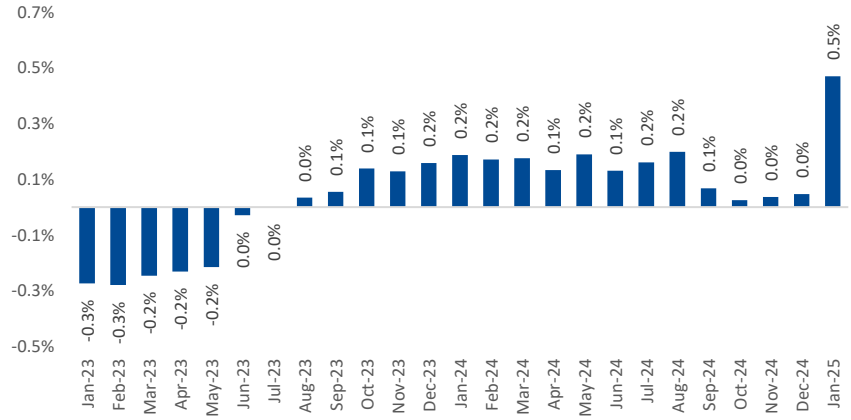
*Source: Bloomberg, *BRIDS Estimates*

Exhibit 46. EV/EBITDA Band Healthcare Sector



Source: Company, Bloomberg, BRIDS Estimates

Exhibit 47. Fund Positioning in Healthcare Sector



Source: KSEI, Bloomberg, BRIDS

HEAL (Maintain Buy, TP Rp2,000)

We believe HEAL's favorable long-term prospects for improving its EBITDA margin remain intact, driven by: 1) potentials for higher revenue intensity from the KRIS and CoB Managed Care Implementation 2) volume growth from existing and new hospitals 3) continuous cost-saving efforts (labor and drug costs) benefiting from IT Implementation and 4) additional revenue from operatorship business.

However, risks coming from the delay in JKN's new tariff announcement, KRIS Implementation, could further tighten JKN's claim verification which acts as largest payor of HEAL, thus, could impact bottom-line development especially in 1H25 coming from allowance of receivables. The impact of new international standard hospital costs coming from IKN also remains to be seen to overall net profit. We believe 2H25 would be a better entry-point for HEAL as clarity on JKN policies will be more visible.

MIKA (Maintain Buy, TP Rp3,400)

The company expects another double-digit top-line growth for FY25F, with a balanced contribution between volume and ASP/intensity growth, while the EBITDA margin is expected to expand further from the FY24 level of 37-38%. MIKA also anticipates a relatively modest volume achievement in 1H25 due to the high-base effect from the 1H24 dengue outbreak. Our expectation for FY25F revenue growth stands at 11.3% to Rp5.4tr, with volume growth remaining the primary driver. Meanwhile, we expect the EBITDA margin to expand by 99bps in FY25F, driven by cost-saving initiatives.

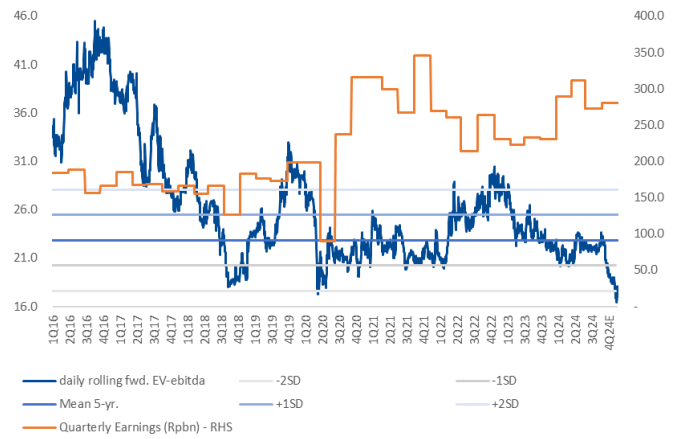
We believe the completion of the insurance renegotiation process and indicative FY24 results are in line with expectations. We think this suggests headwinds to the share price in 4Q24 (-19%), which were primarily related to volume disruptions and top-line growth concerns, should be priced in. The stock trades at an attractive 17.3x FY25F EV/EBITDA at a -2SD of its 5-yr. mean and at a -2% disc. to regional peers. Additionally, quarterly IP volume and net profit have improved compared to historical level **(Exhibit 48)**. With the highest EBITDA margin in the region, and the potential for further expansion over the next 1-2 years, we view MIKA as a well-managed and undervalued operator. Key risks: 1) weaker volume/intensity growth 2) cost-control execution 3) share price liquidity.

Our latest note on MIKA:

https://link.brights.id/brids/storage/37247/20250131-MIKA.pdf

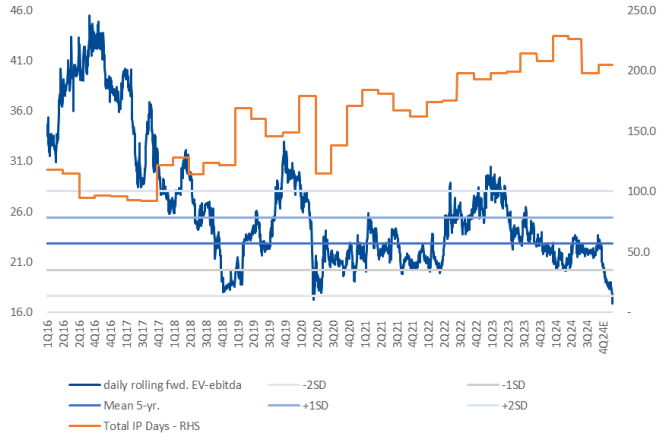
January patient volume trend shows an overall growth yoy in Inpatient yet declining trend in outpatient on a yoy basis due to decreasing JKN's segment. MIKA expects that the impact to revenue will be offset by higher revenue intensity coming from the increasing contribution by private patients.

Exhibit 48. MIKA is now trading at a relatively lower multiple vs. pre-pandemic despite higher quarterly earnings.



Source: Company, Bloomberg, BRIDS Esitmates

Exhibit 49. supported also by a better quarterly IP volume



Source: Company, Bloomberg, BRIDS Esitmates

SILO (Maintain Buy, TP Rp3,300)

The company's strong brand equity and margin expansion potentials over the next 2-3 years from the continous focus on personnel, cost management, complex treatments shall remain intact. We also see upside potentials from: 1) CVC's global experience in hospital operation, 2) potential buyback of hospital assets from REITS to lower depreciation by 20-50%, creating upside in LT EBIT margin by 6-10% (despite a potentially heightened gearing ratio of up to ~1.0x vs. current 0.1x). Downside risks: 1) cost-control execution, 2) declining volume/intensity. Jan25 patient volume trend shows an increase compared to Dec24 yet a flat trend on a yoy basis.

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INVESTMENT RATING	
BUY	Expected total return of 10% or more within a 12-month period
HOLD	Expected total return between -10% and 10% within a 12-month period
SELL	Expected total return of -10% or worse within a 12-month period