

Healthcare Sector – Overweight

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News update

SSS reimbursement shortfall

- **SSO paid lower-than-expected reimbursement in Dec-22**
- **Hospitals to book small shortfalls in 4Q23F**
- **Market is concerned on future reimbursement rate**
- **We however see limited impact from the risk**

Healthcare stocks with large exposure to Social Security Scheme services were hit yesterday. That was due to the news that Social Security Office (SSO) would pay lower-than-expected reimbursement rate for high-intensity IPD cases (adj.RW ≥ 2) in December 2022 and hospitals will book the shortfall, or say, reversed revenue, in their 4Q23 results. The rate will be Bt10,000 per adj. RW rather than the maximum rate of Bt12,000/adj.RW paid in January to November 2022. Note that it is quite normal for SSO to delay payment of cases some months in the last quarter of the year as the office needs to make calculations and adjustments to meet its budget set earlier in the year.

The amount of the shortfall was very low at below Bt10m on our estimates for both CHG and BCH. The market's concern isn't on the past amount but on the risk of SSO's potential rate adjustment in the future. We however are not much concerned and see that the fallen share prices offer BUY opportunities for both CHG and BCH.

- We believe the payment shortfall is due more to too conservative assumption by SSO of number of cases which vary each year rather than SSO's fund positioning or issues that requires long-term cut in reimbursement rate.
- The impact of the shortfall to be booked is expected to be less than 3% of 4Q23F earnings or less than 1% of 2023F earnings for CHG. We also expect similar percentage scale impact to BCH.
- Assuming the same issue happens again with a shortfall booking in 4Q24F, a downside to our earnings forecasts for CHG and BCH can be just 2% p.a. in 2024-26F.
- In the worst case scenario of SSO adjusting the maximum reimbursement rate to Bt10,000/adj.RW vs. the current maximum rate of Bt12,000/adj.RW which would affect hospitals' revenue for a whole year, impacts to our earnings estimates for CHG and BCH would be about 7-8% p.a. in 2024-26F. However, we do not believe the worst case will happen given no serious issue of the Social Security Fund.
- We see both stocks' share price reactions yesterday as BUYing opportunities. We reiterate BUY on BCH to our TP of Bt26.0 and CHG to our TP of Bt3.70.

Ex 2: Healthcare Sector Valuations

	Rating	Current price (Bt)	Target price (Bt)	Upside/ (Downside) (%)	Market cap (Bt m)	Norm EPS growth		Norm PE		Yield	
						2023F	2024F	2023F	2024F	2023F	2024F
						(%)	(%)	(x)	(x)	(%)	(%)
BCH	BUY	22.20	26.00	17.1	55,361	(63.6)	23.8	38.6	31.2	1.7	2.1
BDMS	BUY	28.75	37.00	28.7	456,895	11.0	11.5	32.6	29.3	2.3	2.6
BH	BUY	242.00	300.00	24.0	192,362	41.6	8.5	27.5	25.3	2.0	2.4
CHG	BUY	2.98	3.70	24.2	32,780	(60.3)	16.0	29.7	25.6	2.7	3.3
PR9	BUY	18.20	19.50	7.1	14,311	(9.1)	15.6	27.7	24.0	1.6	2.1
THG	SELL	48.25	48.00	(0.5)	40,890	(38.2)	19.7	44.2	36.9	1.4	1.6

Sources: Bloomberg; Thanachart estimates

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