

07 September 2016 | Sector Update

Healthcare

Maintain POSITIVE

High on Zika alert

INVESTMENT HIGHLIGHTS

- **Zika virus finally hits Malaysia**
- **Spreading its wings via vector and bodily fluids exchange**
- **No cure for now**
- **Minimal impact on private healthcare players**
- **Maintain POSITIVE on the sector**

Zika virus finally hits Malaysia. The first case of zika virus infection in Malaysia has been confirmed by the Ministry of Health (MOH) on the 30th of August following the infected's visit to Singapore. There is also a second case which was reported on Monday in Kota Kinabalu, Sabah. The virus which is well-known to cause birth defect of the brain called microcephaly and neurological syndrome in adults called Guillain-Barre was first detected late last year in Brazil and subsequently in the US. In February 2016, the World Health Organization (WHO) has declared a Public Health Emergency of International Concern (PHEIC) following the widespread of microcephaly and Guillain-Barre cases in Brazil. The virus is now detected in neighbouring South East Asian countries with Singapore reported of having 242 cases in a span of one week.

Spreading its wings via vector and bodily fluids exchange. The zika virus spreads mainly through: (i) aedes mosquito bites (*aedes aegypti* and *aedes albopictus*), (ii) from a pregnant mother to foetus, and (iii) bodily fluids exchange, i.e. blood transfusion. The virus, once infected will cause a mild symptom of dengue and chikungunya such as (i) fever, (ii) rash, (iii) joint pain, (iv) conjunctivitis (red eye), (v) muscle pain, and (vi) headache which can last for several days to a week. Blood and urine tests are being used to diagnose the disease currently.

No cure for now. As of today, there is no cure for the zika infection. We note that Malaysia has a long standing fight against aedes mosquito and the dengue disease, as the breeding grounds for aedes mosquitos in Malaysia are still wide spread. Therefore, we think there is a possibility that the disease might spread wider and faster if it is not well-contained. That said, the potential saving grace is that, according to the National Public Health Laboratory of Singapore and Agency for Science, Technology and Research (A*Star), the zika virus genome found in two patients in Singapore is likely to be of South East Asian (SEA) strain. It was discovered that the virus is linked to a strain that has already been circulating around the region for decades in parts of SEA. This presents a probability that people in the region would have developed immunity against the SEA strain compared to the South American strain. Additionally, according to the Centre for Disease Control and Prevention (CDC) in the US, if a person is infected, it is very likely they will be protected from future infections. Also, there is no evidence that a past zika infection could affect future pregnancies.

Minimal impact on private healthcare players. That said, we are expecting minimal impact to the private healthcare players under our coverage as we expect treatments for those infected with zika virus to be more concentrated in public hospitals instead of private. This is as per the current experience of treating the dengue disease. However, we do acknowledge should the virus spreads even further, the screening for the viral infection as well as treatment for zika symptoms could be conducted at private hospitals. This, we think would contribute marginally to the revenue of the operators as treatments for both zika and dengue do not require any complex procedures to be undertaken. We also note on the recent knee-jerk reaction on the stock prices of both hospital players which saw about 2% increase in share prices of IHH and KPJ respectively. However, we view it as a temporary reaction to the zika news flow.

Maintain POSITIVE on the sector. Following this, we are still maintaining our POSITIVE stance on the sector due to its robust medium to long term outlook. Within the sector, IHH Healthcare (TP: RM6.95) is our Top Pick due to its: (i) strong earnings growth of 21-23% forecasted for FY16-17, (ii) strong management team, (iii) robust balance sheet, and (iv) well-diversified revenue base. At present, even though the zika virus epidemic is expected to have minimal impact on the private healthcare players, we are expecting both IHH and KPJ to deliver a healthy double digit growth in earnings for FY17F as future demand for private healthcare remains robust. This is despite the slower growth seen this year which is mainly attributed to the: (i) soft consumer sentiment, (ii) increasing operational costs, and (iii) a weaker Ringgit against USD.

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.