

9 August 2019

Healthcare | Hospitals

## Siloam Hospitals (SILO IJ)

### Not Rated

### Postcard From SILO x RHB Luncheon

Target Price (Return)	N/A
Price:	IDR6,400
Market Cap:	USD732m
Avg Daily Turnover (IDR/USD)	3.4bn/ 0.3m

- Highlights from the Siloam Hospitals x RHB luncheon.** We recently hosted a small group meeting with SILO, featuring its top management: Caroline Riady (deputy chief executive officer), Varun Khanna (chief commercial officer), Daniel Phua (chief financial officer), Joel Ellis (head of investor relations) and Wily Tjandra (investor relations). Management shared the company's current key priorities and capabilities on improving efficiency and hospital productivity, as well as the development of more strategic digital initiatives.
- 4-pillar game plan.** SILO emphasised on the four key focus strategies over the next five years. The first pillar is to improve efficiencies and further monetise its existing hospitals. The second pillar is a more selective network expansion, ie being more deliberate and objective in developing new hospitals, similar to recent the successful openings of hospitals in Palangkaraya and Cirebon. The third pillar is improving clinical programme to enhance the quality of care patients receive through the mapping their needs and trends. The fourth is digital healthcare, with the firm looking to bring new capabilities to the scene while aiming to reach more patients via digital solutions.
- More selective expansion going forward.** Post its aggressive expansion of 15 hospitals over the past three years, management pointed out that SILO will be more targeted towards adding bed capacity. In choosing which cities to unlock, management is undertaking a macro approach in analysing its options. It will then selectively choose only the top cities in each category – this will be based on population, competitors, availability of doctors, and GDP. We view this less aggressive expansion strategy as positive, and it should support SILO's bottomline. This is because its 13 out of 37 hospitals are still loss-making, dragging down the company's earnings – particularly the newly ramped-up medical facilities. Nevertheless, SILO praised the strong growth of its flagship hospitals and corporate insurance business.
- Continued initiatives to improve efficiencies and productivity.** Management said there was much room for improvement, particularly on end-to-end processes and cost management. Stricter internal regulation of minimum monthly productivity of IDR2m/sqm is required for the respective hospitals to add more beds capacity. SILO has also been proactively engaging with consultants and one of its' shareholders – CVC – on improving hospital efficiency. Other initiatives include re-negotiating with pharmaceutical principals, and centralising headcounts and medical procurement.
- Digital healthcare: New capabilities coming to the scene.** Envisioning the future of healthcare, several initiatives have been taken by SILO. These include the collaboration with digital payment platform OVO and strategic partnerships with insurance providers. The company also launched a medical-check-up website recently to speed up the patient bookings process and be a provider for online consultation for 1.8m Mandiri Inhealth customers through *Mi-Doctor* feature within the *Mi-Mobile* app. This is similar with Indonesian health tech start-up *HaloDoc*, which just received USD100m in funding – this app has successfully connected >22,000 doctors and 1,000 drugs suppliers with 7m patients/month nationwide.
- Rental expenses overhang to be resolved soon.** This has been one of the most concerning issues for investors, given the substantial rental subsidies borne by SILO's parent: Lippo Karawaci (LPKR IJ, NR). According to management, JLL is currently appraising the fair market rental yield – bringing the possibility of renegotiating a lower lease rate vis-à-vis the current fixed yield of 8.3%. Note that there will be four hospital leases expiring in 2021 under First REIT. In addition, management said the new agreement will only be between SILO and First REIT, excluding LPKR.

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	78.3	29.3	39.1	92.2	111.2
Relative	77.0	30.5	39.1	96.0	108.3
52-wk Price low/high (IDR)					2,290 – 6,650

#### Siloam Hospitals (SILO) - IDR



Source: RHB, Bloomberg as at 8 Aug 2019

Figure 1: SILO's 4-year historical EV/EBITDA



◆ SILO is currently trading at +1SD of its 4-year mean

Source: Bloomberg as at 8 Aug 2019, RHB

Figure 2: SILO x RHB luncheon on 8 Aug 2019



◆ It is a wrap! A big thank you to those who came

Source: RHB

Figure 3: SILO x RHB luncheon on 8 Aug 2019



◆ SILO's management shared the four key pillars of the company for the next five years

Source: RHB

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