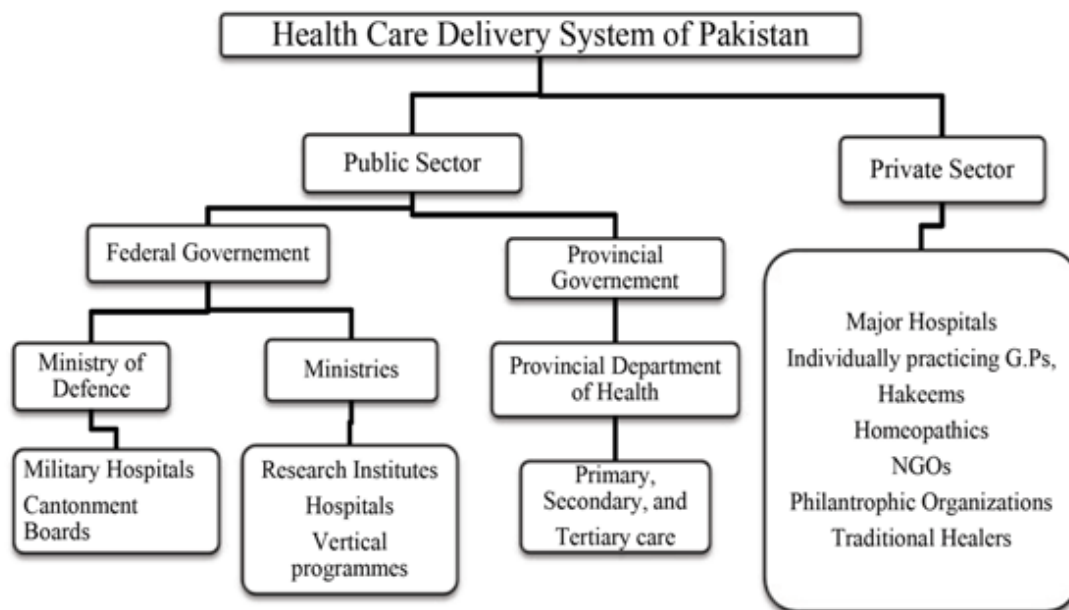


Healthcare sector is one of the world's largest and fastest growing industries with a market size of US\$ 7.6 trillion¹. By 2020, global healthcare spending is projected to reach US\$ 8.7 trillion². The healthcare market comprises hospitals, pharmaceutical, diagnostics, medical equipment & supplies and medical insurance, among others. Hospitals – being the primary delivery vehicle of medical services – form an integral part of any country's healthcare system.

Figure 1: Structure of healthcare delivery system of Pakistan



Pakistan significantly lags behind global and regional countries in terms of health care indicators. Deficit of health care infrastructure is evident from 6 beds per 10,000 individuals vis-à-vis world median of 30 beds while physicians per 10,000 individuals at 0.8 are almost half of global average. Regulatory hindrances in hospital construction, increasing equipment & operating costs and lack of adequate capital have limited the pace of bed addition. According to a report published by World Health Organization (WHO), total healthcare spending in relation to Pakistan's total GDP stood at 2.6% in 2014 leaving significant room for the sector to grow and meet market demand.

Figure 2: Key Healthcare Indicators

	World	Pakistan	India	Bangladesh	Sri Lanka
Total Population	7.6b ²⁰¹⁷	205m ²⁰¹⁷	1,282m ²⁰¹⁷	158m ²⁰¹⁷	22m ²⁰¹⁷
Life expectancy, total (yrs)	73 ²⁰¹⁶	68 ²⁰¹⁷	69 ²⁰¹⁷	73 ²⁰¹⁷	77 ²⁰¹⁷
Infant mortality rate (per 1,000 live births)	21 ²⁰¹⁶	52 ²⁰¹⁷	39 ²⁰¹⁷	32 ²⁰¹⁷	8 ²⁰¹⁷
Physicians (per 1,000 pop)	1.8 ²⁰¹⁶	0.8 ²⁰¹⁴	0.7 ²⁰¹⁴	0.4 ²⁰¹⁵	0.7 ²⁰¹⁰
Beds (per 1,000 pop)	3.0 ²⁰⁰⁵	0.6 ²⁰¹⁴	0.7 ²⁰¹¹	0.8 ²⁰¹⁵	3.6 ²⁰¹²
Public Healthcare spending (% of GDP)	6.0% ²⁰¹⁴	0.9% ²⁰¹⁴	1.4% ²⁰¹⁴	0.8% ²⁰¹⁴	2.0% ²⁰¹⁴
Private Healthcare spending (% of GDP)	3.9% ²⁰¹⁴	1.7% ²⁰¹⁴	3.3% ²⁰¹⁴	2.0% ²⁰¹⁴	1.5% ²⁰¹⁴
Total Healthcare spending (% of GDP)	9.9% ²⁰¹⁴	2.6% ²⁰¹⁴	4.7% ²⁰¹⁴	2.8% ²⁰¹⁴	3.5% ²⁰¹⁴

Sources: CIA World Factbook, World Bank

¹ Economist Intelligence Unit (2016) World industry outlook Healthcare and pharmaceuticals

² <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Life-Sciences-Health-Care/gx-lshc-2017-health-care-outlook-infographic.pdf>

The healthcare delivery industry in Pakistan is highly fragmented with 1,201 hospitals. Hospitals providing quality health care are particularly limited. The Pakistan Medical & Dental Council is the statutory regulating body of all medical education and practicing institutions, public and private. The country has a relatively underfunded public healthcare system. The private sector has been filling the gap and 87% of private healthcare spending is funded out-of-pocket. Some of the key players within the private space include Aga Khan University Hospital, Shifa International Hospitals Limited, Shaukat Khanum Cancer Hospital and Liaquat National Hospital.

Business Risk Factors

Market risk

JCR-VIS considers healthcare services as a low risk industry in view of limited demand cyclicity and favorable economic and demographic trends of the country. Globally, the healthcare services industry is considered to be a non-cyclical sector with relatively stable demand. Thus, impact of broad economic conditions on a hospital's revenues and profitability is likely to be low. However, emergence of competing medical facilities within a hospital's vicinity can lead to attrition in patient base and impact profitability. Entities with geographically diverse operations are likely to fare better in such a scenario.

Regulatory risk

Given the importance of affordable healthcare, the sector remains exposed to risk of interventions by the state and central governments along with other relevant regulatory authorities as has been witnessed in other South Asian countries. However, regulation on pricing remains difficult as quality of services provided differ widely in the country and there are no comprehensive statistics regarding prices charged by medical facilities. Nevertheless, imposition of price caps, or regulation of any other major area can have a material impact on the credit profile of a hospital.

Human capital risk

Doctors and medical consultants play a major role in governing patient flow and bed utilization in hospitals. Significant turnover in medical staff is likely to affect quality of services as well as occupancy level of a hospital. Entities having access to a captive source of talent pool through self-owned educational institutions are viewed positively by JCR-VIS.

Financial Risk Profile

JCR-VIS anticipates the healthcare industry to have one of the best long-term revenue prospects vis-à-vis other sectors in view of supportive demographic trends with ageing population, growth in income levels and anticipated continuous emergence of new diseases. In order to diversify revenue base, hospitals are focusing on expanding the diagnostics and pharmacies segments. Working capital cycle of hospitals is favorable on account of upfront cash receipts and comfortable payment terms with medical equipment suppliers. In view of the significant growth potential, foreign investment as well as capex for expansion has been witnessed in the industry over the past few years.

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