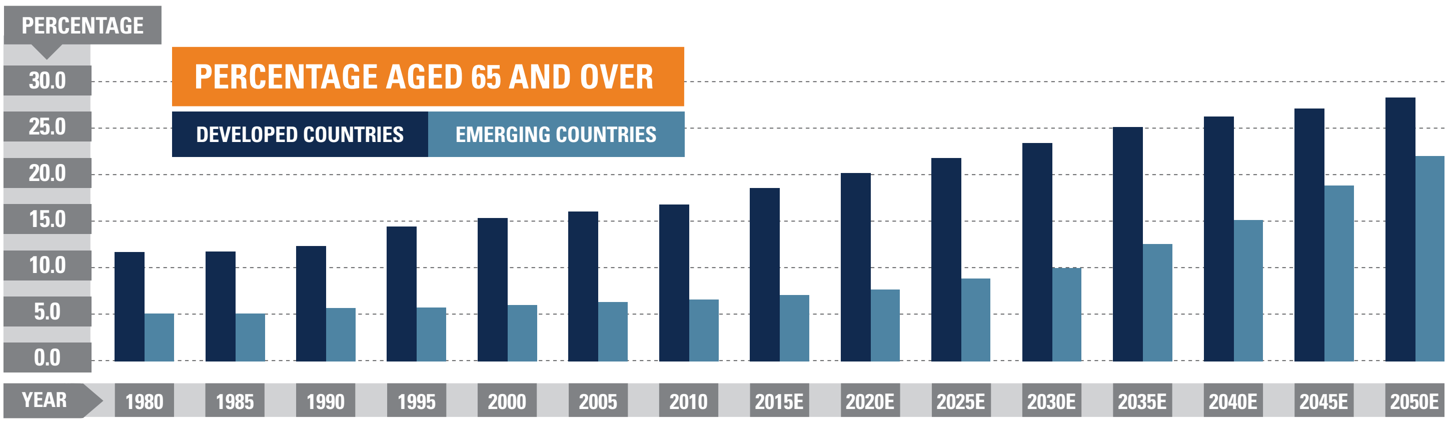
EMERGING MARKET REPORT: HEALTH CARE

MIRAE ASSET

According to a study conducted by the United Nations, the senior population in the emerging markets will double over the next thirty years, rising from 7% of the population to 16%. This statistic, coupled with rising income rates, will lead to increased spending on health care products and services, especially in India and Indonesia.



Source: UN Population Prospects: The 2010 Revision, Mirae Asset Global Investments, as of December 2012

However, emerging market countries, in particular the Association of Southeast Asian Nations (ASEAN) and India are under-served and under-supplied in terms of health care-related workforce and infrastructure. Density of physicians (the number of physicians per 10,000 people) in ASEAN and India are well below the world median of 16.0, with Indonesia ranking the lowest. In India and Indonesia, the number of hospital beds per 10,000 people is well short of the world average of 26.

To meet these workforce shortages, emerging market governments are increasing their spending on the health care sector. India plans to double their spending over the next 5 years. And instead of cutting hospital reimbursement rates and increasing taxes, emerging market governments are gaining private capital though investment incentives:

- India is accelerating the depreciation of hospitals to reduce taxable income
- Thailand is increasing coverage for civil servants to receive inpatient procedures in private hospitals
- Malaysian governments are promoting medical tourism and liberalization of procedures
- Indonesia is introducing universal social health coverage, as well as reimbursement for public and private inpatient procedures

HEALTH WORKFORCE AND INFRASTRUCTURE

COUNTRY	PHYSICIANS PER 10K 2006-2010 AVG	HOSPITAL BEDS PER 10K 2005-2010 AVG
Australia	29.9	38
Canada	19.8	32
Japan	21.4	137
UK	27.4	33
US	24.7	30
Median	16	26
Brazil	17.6	24
China	14.2	42
India	6.5	9
Indonesia	2.9	6
Korea	20.2	103
Malaysia	9.4	18
Thailand	N/A	21

Source: WHO "World Health Statistics 2012"

Apart from the growth potential of the health care sector alone, higher profitability of emerging Asian health care companies adds greater appeal. In the U.S., private hospitals are required to admit and treat any patient who comes in with an ailment, regardless of their ability to pay. Hospitals are then saddled with bad debt, which can be as high as 20% of revenues. Furthermore, hospitals are required to accept Medicare as payment, which holds a discounted rate for services rendered, thus forcing hospital income to be highly dependent on privately insured patients. Accordingly, U.S. hospitals have low operating margins compared to that of the emerging Asian countries. In emerging Asia, approximately 75% of payments received are in cash, which minimizes bad debt and days of sales outstanding. Moreover, private hospitals are not legally required to treat patients who cannot pay for services rendered, which may reduce charity care write-offs and bad debt. Cash payments for medical expenses will create an environment that is preparing Asia for a period rapid growth in the near future.

EBITDA[1] MARGIN COMPARISON

COUNTRY	2011	2010	2009	2008	2007	2006	2005
Germany	13.6	12.2	12.3	12.4	12.3	11.5	14.7
U.S.	14.3	14.8	14.0	13.5	13.2	13.3	15.5
India	19.3	20.4	15.4	14.6	9.1	13.1	12.6
Malaysia	11.8	11.5	12.3	12.3	11.6	15.6	14.2
Singapore	21.7	22.8	22.9	18.7	10.1	18.5	19.8
Thailand	25.9	24.9	24.1	24.4	24.3	25.3	23.2

Note: The figures are the mean of publicly listed companies in the respective markets
Source: Bloomberg, Company data, as of December 2012

[1] Earnings before interest, taxes, depreciation, and amortization.