

Egypt's Universal Healthcare Act

December 12, 2017

Why are we positive on Egypt's Healthcare and Pharma sectors?

The Egyptian healthcare system is currently in a poor state, due to lack of compliance with international standards. This is one of the many reasons behind the deterioration it has witnessed in the past. With proper implementation, we stress that if medical institutions comply with international standards (which the Universal Healthcare Act enforces), we can expect a forward leap in the Egyptian healthcare system for the following reasons:

- From a customer point-of-view, the introduction of Universal Healthcare Act will entice subscribers to spend more money to ensure a healthier lifestyle as a result of easier medical access.
- We believe that higher selling prices, as a result of raising the cost of registering new medicines under Article 40, will be diminished by the introduction of the Universal Healthcare Act's impact on health awareness and accessibility as mentioned earlier.
- The new consumer entrants, who currently live below the minimum wage along with their family members, will provide a much needed sales boost for both pharmaceuticals and hospitals since they could afford medical treatment following the introduction of the Act.
- Any fears of government healthcare regulators inaugurating their own pharmacies have been put aside in Article 23 as it would have negatively affected an already congested market of over 70,000 pharmacies. The article enforces regulators to purchase their medical needs directly from those private pharmacies to alleviate market conditions.
- Sanctions up to a year in prison and a fine of EGP 200,000 for manipulators and violators strongly sends a firm message of the government's belief and insistence that the Universal Healthcare Act will be a success.
- Foreigners visiting or residing in Egypt have the right to be considered as subscribers; proving to be a reassuring for FDI and tourism.
- The Act does not enforce private sector entities to supply healthcare under the proposed scheme, but those participating will be obliged to offer prices set out by the Social Healthcare Insurance Authority. There appears to be no provisions in the bill which sets a price caps for private sector players not involved in the system. Such independence from the private sector establishes the Act's adaptability.
- An attempt to unify the nation's healthcare institutions could be in place through a price control imposition on private hospitals. The goal of this imposition is to align private hospitals with the Act's goal of equal healthcare treatment for all Egyptians against unjustified random pricing. The suggested plan would segregate hospitals into brackets founded on specific standards that take into account both staff competence and services accessible.

Over a year has passed when we first heard about the impending Universal Healthcare Act. Varying opinions on how much will be needed to fund this act, how it will be funded, at what cost consumers will bear, duration for full implementation and many more were raised.

The Universal Healthcare Act, what is it?

The Egyptian government is targeting to eradicate the current difficulties witnessed in the Egyptian health sector by improving the quality of health services and infrastructure provided to all Egyptians. Therefore, the Universal Healthcare Act proposes the implementation of an incorporated database for all insurers; which will allow subscribers to decide the most suitable institution to be treated at instead of being forced to below par clinics. Other major goals include:

- Upgrading of medical facilities with the latest medical instruments.
- Coverage extension to all family members as opposed to breadwinners only.
- Creation of a smart card system that will tie-up recipients with their insurance claims.

More information has been shed following the recent announcement that the House of Representatives' Health Committee signed it off and are awaiting for the general assembly's vote.

Acting Bodies

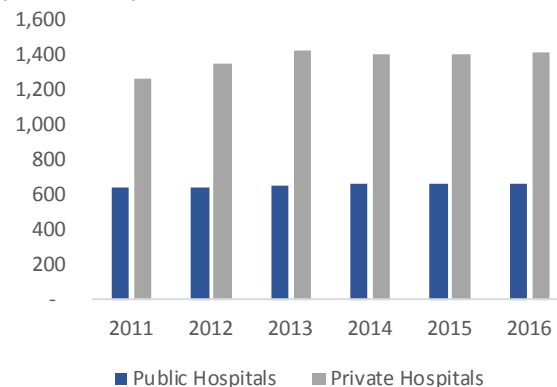
The newly proposed act will introduce 3 new bodies.

1. The Social Health Insurance Authority, a legally independent body with its self-governing budget under the supervision of the Prime Minister, will be responsible for funding the service.
2. The Healthcare Authority will be handling healthcare services.
3. The Quality Control body will be appointed to ensure all healthcare services and infrastructures meet international standards.

Cost & Implementation Duration

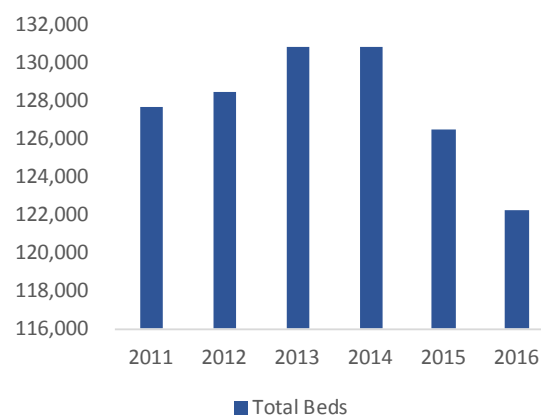
The cost of the Universal Healthcare Act for one citizen will range from EGP 1,300-EGP 4,000, from a mere figure EGP112 in the current insurance system. It is expected to be rolled out in June 2018 in the Port Said Governorate and will increasingly cover all Egypt by 2032.

Chart 1| Number of Hospitals by Category (2011-2016)



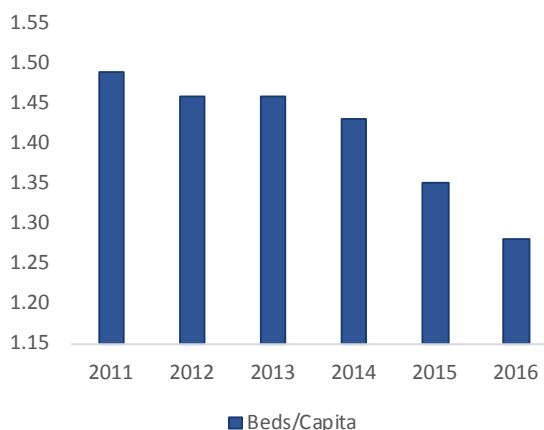
Source: BMI

Chart 2| Number of Beds (2011-2016)



Source: CAPMAS, BMI

Chart 3| Number of Beds per Capita (2011-2016)



Source: CAPMAS, BMI

Funding

The Universal Healthcare Act will cost EGP 588 billion per annum; of which EGP10-11 billion will be covered by an emergency funding provided to the healthcare system from the state's budget.

Source of Funding

Source	Amount in EGP billions
Citizen-paid Premiums	292
State Budget	125
Tobacco Tax	51
Additional Funding	109
TOTAL	577

1. Citizen-paid Premiums

Employers would be required to pay a 3% premium of each employee's salary into the fund, while employees pay a further 1% premium, which would be deducted from employees' salary. In addition, breadwinners would pay premiums of an extra 1% for each child and 3% for housewives; sanctioning all family members to be insured.

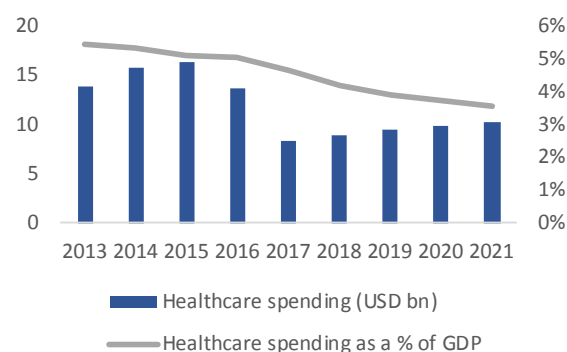
2. State Budget

The Minister of Health explained that the State is responsible for the costs of treatment of those who are unable to be fully determined by the Ministry of Social Solidarity, pointing out that those unable to identify so far reach the proportion of between 30 and 40%. Therefore, the State treasury will bear 5% of those who cannot afford medical coverage. The families under this category will be determined by a committee, formed by the Ministries of Social Solidarity and Finance, to develop the criteria which will be guided by the minimum wage declared by the government and inflation rates. It will be periodically adjusted at intervals not exceeding three years. The law will be applied in 6 stages, with a maximum of 15 years.

3. Tobacco Tax

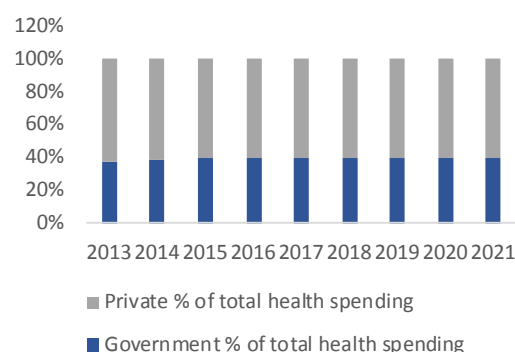
The Egyptian government returns from cigarette taxes stood at EGP 43 billion in FY16/17 and expects to garner EGP51 billion in FY17/18. The House of Representatives voted on Tuesday 21st November 2017 to increase the scheduled fixed taxes on tobacco; c.27% rise from previous scheme. In addition, a new 'Sin' tax will be imposed at EGP 0.75/per local and foreign brand packs. Remaining intact, the 50% tax of retail price further accumulates tax collection. As a result, tobacco companies have increased cigarette pack prices by c.17% to accommodate for the tax increase.

Chart 4| Healthcare spending (2013-2021)



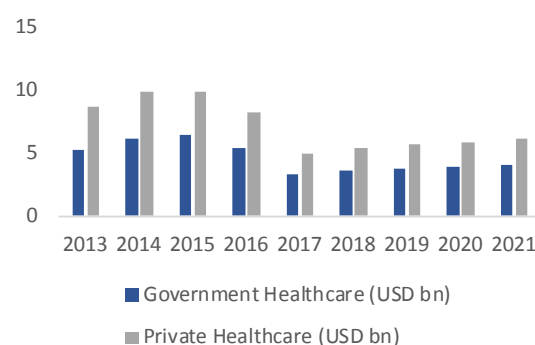
Source: BMI

Chart 5| Public vs Private Healthcare Spending Contribution (2013-2021)



Source: BMI

Chart 6| Public vs Private Healthcare Spending Value (2013-2021)



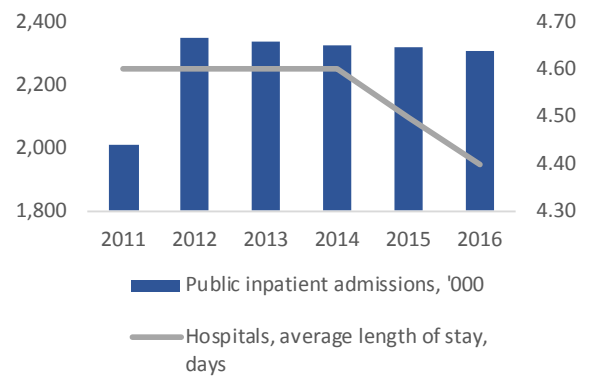
Source: BMI

4. Additional Funding

No official details were provided regarding this source. However, from recent media reports we could assume the following:

- In agreement with the Ministry of Health and the French Development Agency, over 709 medical facilities will be upgraded.
- Registration fees for establishing new pharmacies and private clinics range between EGP 1,000-15,000.
- Licensing fees on the healthcare sectors range between EGP 500-3,000.
- Fees from private hospitals shall be LE 1,000 for each bed when the licenses are issued.
- Portion fee of 0.5% of the sales value of the pharmaceutical and food companies.
- Tax on cement and steel companies are expected to reach 0.5% of the value of every tonne sold, with a minimum baseline tax of EGP 5 per tonne. For porcelain, marble and granite manufacturers it is expected to be at EGP 5/sqm sold.
- The 3 acting bodies mentioned earlier will be permitted to invest some of their funds and use the proceeds to fund the system.
- Article 40 Act raises the cost of registering new medicines.
- Raising fees for obtaining and renewing drivers licenses.

Chart 7 | Patient Hospital Admission (2011-2016)



Source: BMI

Egypt's Unverisal Healthcare Act

Pharma Companies	Country	Current P/B	Current P/E	P/E 17e	P/E 18e	Current ROE	ROE 17e	ROE 18e	FY EV/ EBITDA	EV/ EBITDA 17e	EV/ EBITDA 18e
MYLAN NV	Israel			8.1	6.9	6.9	15.3	15.5		8.9	7.4
SUN PHARMACEUTICAL INDUS	India	3.3	17.5	17.1		20.0	20.3	9.5	16.1	10.4	19.2
TEVA PHARMACEUTICAL IND LTD	Israel	0.6		3.9	5.2	(21.1)	13.1	10.3	11.1	7.8	8.8
PERRIGO CO PLC	Israel	1.9	24.7	16.9	15.4	(19.4)	10.4	10.1	14.8	13.3	12.2
ASPEN PHARMACARE HOLDINGS LT	South Africa	3.0	22.2	19.8	17.0	11.9	14.6	17.0	14.7	14.1	13.3
CIPLA LTD	Poland	3.8		32.7	28.1	8.4	11.9	12.6	20.4	18.9	16.4
CADILA HEALTHCARE LTD	India	6.2	28.9	33.2	23.1	23.5	21.5	24.1		23.2	16.5
AUROBINDO PHARMA LTD	India	4.2	17.0	16.5	14.9	27.6	28.7	24.2	12.1	11.4	10.3
DR. REDDY'S LABORATORIES	India	2.9	30.3	26.4	28.6	9.6	10.7	9.8	18.5	14.2	14.5
LUPIN LTD	India	2.7	14.4	13.0	21.0	20.7	22.9	12.5	15.3	8.9	12.1
RICHTER GEDEON NYRT	Hungary	1.7	18.1	20.2	16.4	9.9	8.4	9.5	12.2	11.1	9.3
TORRENT PHARMACEUTICALS LTD	India	5.1	23.9	23.3	25.6	23.8	25.0	18.9	19.5	15.8	17.7
SHIJIAZHANG YILING PHARMA-A	China	2.7	33.7	29.4	25.9	9.2	10.2	10.0	22.4	18.8	16.2
GLENMARK PHARMACEUTICALS LTD	India	3.0	16.4	10.1	14.0	19.9	30.0	20.8	13.6	6.9	9.4
KRKA	South Africa	1.2	12.4	11.7	10.9	9.7	10.0	11.2	7.3	5.5	5.1
SHANGHAI SHYNDEC PHARMACEU-A	China	2.2	14.3	16.6	14.1	21.9	11.4	11.8			
JUBILANT LIFE SCIENCES LTD	India	3.2	18.8	18.5	17.0	18.0	18.4	17.6	11.9	10.4	9.6
ZHEJIANG JINGXIN PHARMACEU-A	China	2.4	30.0	31.3	25.3	8.7	9.1	10.0			
GUIZHOU YIBAI PHARMACEUTIC-A	China	2.2	22.1	19.3	15.8	10.2	10.8	11.8		12.4	10.7
WOCKHARDT LTD	India	2.3		41.6	27.8	(5.5)	7.1			17.6	
SHANXI ZHENDONG PHARMACEUT-A	China	1.3	20.7	18.1	14.3	6.5	6.6	7.7			
STRIDES SHASUN LTD	India	2.6	16.0	20.3		16.6	11.2	9.7	17.4	12.8	15.0
CHANGZHOU QIANHONG BIOPHAR-A	China	2.9	32.9	26.0	22.2	8.8	9.4	12.4			
IPCA LABORATORIES LTD	India	2.8	35.0	33.9		8.3	8.6	8.4	18.4	15.2	16.7
HEBEI CHANGSHAN BIOCHEMICA-A	China	2.6	29.4	25.8	20.2	9.2	9.3	10.9			
HENAN LINGRUI PHARMACEUTIC-A	China	2.7	29.5	26.2	19.8	9.3	9.4	11.4			
GULF PHARMACEUTICAL IND PSC	UAE	1.2	17.6	13.1	11.7	6.6	9.1	9.7		12.1	11.7
ADCOCK INGRAM HOLDINGS LTD	South Africa	2.6	17.3	17.0	14.1	16.5	15.4	17.3	10.8	9.8	9.1
JINLING PHARMACEUTICAL-A	China	1.7	25.9	25.6	22.1	6.7	6.7	7.2		11.8	11.0
SAUDI PHARMACEUTICAL INDUSTR	Saudi Arabia	1.3	9.4	15.3	14.5	13.7	7.4	7.6		16.3	14.4
Average		3.0	22.2	21.8	18.2	10.7	13.4	12.7	15.6	12.8	12.5
EIPICO	Egypt	4.1	15.4	13.4	10.5	30.0	32.3	34.5	11.6	8.1	6.5
IbnSina Pharma	Egypt	9.6	48.2	18.0	11.3	36.0	47.0	51.0	21.0	12.5	9.5
Alexandria Co for Pharmaceuticals	Egypt	1.7	6.6	5.0	6.3	24.8	27.4	18.7	3.0	2.9	3.3
Arab Pharmaceuticals Co	Egypt	1.2	5.3			22.8			2.3		
Cairo Pharmaceuticals	Egypt	0.8	4.5			21.0			1.9		
October Pharma	Egypt	2.8	7.5			40.7			(0.0)		
Minapharm Pharmaceuticals	Egypt	0.8	15.1			6.7			2.8		
El-Nile Co. For Pharmaceutical	Egypt	0.6	8.7			7.4			3.0		
Memphis Pharmaceuticals	Egypt	3.6	2.0			(76.1)			20.8		
Average		2.8	12.6	12.1	9.4	12.6	35.6	34.7	7.4	7.8	6.4

Egypt's Unverisal Healthcare Act

Hospitals	Country	P/B 2017e	P/B 2018e	P/E 2017e	P/E 2018	ROE 2017e	ROE 2018e	EV/ EBITDA 2017e	EV/ EBITDA 2018e
MITRA KELUARGA KARYASEHAT TB	INDONESIA	6.7	6.3	36.1	34.2	19.5	19.6		24.1
PRODIA WIDYAHUSADA TBK PT	INDONESIA	2.8	2.8	28.6	25.3	8.9	10.0	13.7	11.9
SARANA MEDITAMA METROPOLITAN	INDONESIA	4.1	3.9	28.3	16.6	5.9	5.0	19.3	16.0
BANGKOK DUSIT MED SERVICE	THAILAND	5.4	5.0	40.3	36.3	15.4	14.2	24.5	22.4
APOLLO HOSPITALS ENTERPRISE	INDIA	4.4	4.2			7.7	6.2	23.1	23.6
BUMRUNGRAD HOSPITAL PCL	THAILAND	8.7	7.7	39.4	36.0	25.4	24.4	23.7	21.7
MEDICLINIC INTERNATIONAL PLC	SOUTH AFRICA	1.2	1.0	19.0	20.5	6.3	4.7	12.7	11.8
IHH HEALTHCARE BHD	MALAYSIA	2.0	2.0		45.6	3.5	4.5	21.6	18.2
BANGKOK CHAIN HOSPITAL PCL	THAILAND	7.7	6.6	44.1	38.0	18.0	18.1	21.8	19.2
LIFE HEALTHCARE GROUP HOLDIN	SOUTH AFRICA	2.4	2.5	20.8	17.0	14.0	14.9	10.4	8.9
VIBHAVADI MEDICAL CENTER PCL	THAILAND	4.6	4.4	36.4	34.0	11.5	12.4		22.3
THYROCARE TECHNOLOGIES LTD	INDIA		8.1		38.3	18.8	22.4		23.8
NETCARE LTD	SOUTH AFRICA	2.6	2.7	13.3	12.7	20.3	22.3	8.7	8.1
ASIRI HOSPITALS HOLDINGS PLC	SRI LANKA	4.4	3.8	29.5	23.5	15.8	17.7		
CHULARAT HOSPITAL PCL	THAILAND	7.3	6.6	42.3	34.5	18.3	19.5	24.6	21.8
FLEURY SA	BRAZIL	4.5	4.0	24.2	19.8	20.7	24.0	13.1	11.0
MOUWASAT MEDICAL SERVICES CO	SAUDI ARABIA	5.4	4.7	25.2	22.6	22.6	22.2	19.7	17.6
RAJTHANEE HOSPITAL PCL	THAILAND	4.4	4.1	32.7	29.1	14.3	14.9	18.6	16.3
DALLAH HEALTHCARE CO	SAUDI ARABIA	3.6	3.3	20.7	22.2	18.5	15.9	17.8	17.7
LADPRAO GENERAL HOSPITAL PCL	THAILAND	3.6	3.4	35.2	29.1	10.8	11.9	21.3	18.1
MIDDLE EAST HEALTHCARE CO	SAUDI ARABIA	2.7	2.4	14.2	12.8	18.3	18.8	12.0	10.4
AL HAMMADI DEVELOPMENT AND I	SAUDI ARABIA	2.9	2.7	37.3	25.6	7.8	10.1	24.9	19.0
INSTITUTO HERMES PARDINI SA	BRAZIL	7.3	6.3	28.6	21.5	29.1	30.8	15.3	12.3
KPJ HEALTHCARE BERHAD	MALAYSIA	2.3	2.2	25.7	23.1	9.5	9.9	12.6	11.6
DENTAL CORP CO LTD	THAILAND	4.2	4.1	36.5	30.5	17.4	13.8	18.7	15.1
NATIONAL MEDICAL CARE CO	SAUDI ARABIA	1.9	1.7	23.2	18.4	8.3	9.7	13.6	11.4
CENTRO DE IMAGEM DIAGNOSTICO	BRAZIL	1.4	1.3		23.3	2.3	6.3	10.5	8.6
MED LIFE SA	ROMANIA	6.7	5.2		27.9	14.3	22.2	12.1	10.1
POLSKI BANK KOMOREK MACIERZY	POLAND	4.0	3.1	10.4	9.2	37.0	33.3	6.4	5.7
Average		4.3	4.0	28.8	26.0	15.2	15.9	16.8	15.7
NOZHA HOSPITAL	Egypt	3.9	2.8	13.5	11.0	37.0	35.0	7.4	6.0
CLEOPATRA HOSPITALS	Egypt	6.7	6.4	60.0	30.0	22.0	35.0	15.7	9.5
Average		5.3	4.6	36.8	20.5	29.5	35.0	11.6	7.8

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Pharos Securities

Essam Abdel Hafiez
Managing Director
+202 27393687
essam.abdelhafiez@pharosholding.com

Ahmed Raafat
VP Local Institutional Sales
+202 27393627
ahmed.raafat@pharosholding.com

Seif Attia
Head of Local Sales
+202 27393682
seif.attia@pharosholding.com


Ahmed Abutaleb
Head of Foreign Sales
+202 27393632
ahmed.abutaleb@pharosholding.com



Sherif Shebl
AVP of Foreign Sales
+202 27393634
sherif.shebl@pharosholding.com

Omar Nafie
Associate of Foreign Sales
+202 27393635
omar.nafie@pharosholding.com

Sally Refaat
Head of Online Trading
+202 27393675
sally.refaat@pharosholding.com

 **16665**

 7 Abu El Feda Street,
Zamalek 11211, Cairo, Egypt

 pharoslive.com
 pharosholding.com