

COMMENT: Hospital groups feel the pinch as virus puts elective surgeries on hold

Liza Eustace: Business Day, 15 May 2020

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Though the healthcare sector is normally seen as a defensive investment and on the surface should benefit from the coronavirus pandemic, it is also feeling the effects from the lockdown and other remedial measures, which have curtailed most revenues other than those from Covid-19 treatment. The loss of electives for the duration of the pandemic should translate into demand deferred, as opposed to lost, but in the short-term this puts pressure on income, and in the absence of being able to cut staff given the dire need of nurses for the pandemic, it leaves private hospitals exposed to pressure on liquidity and covenant levels. However, there have been calls from various medical societies to motivate the lifting of the restrictions on some elective surgeries that could lead to possible fatalities should they continue to be postponed.

While it is believed that under strict hygiene protocol there may be some progress in this regard, the exact stance to be taken by the government as the lockdown is eased is still uncertain. The peak of Covid-19 cases is expected to come in September, and that is still a long way off for some patients who require necessary but elective surgeries. The pressure for surgeries to recommence relates primarily to medically necessary time sensitive (MeNTS) procedures. This includes treatment of malignancies and other potentially life or limb-threatening medical conditions, alleviation of pain, improvement of function and quality of life, and prevention of serious complications of disease progression associated with surgically treated conditions. Elective also refers to the fact that surgeon and patient can choose the timing and scheduling of surgery without a negative effect on the outcome of the disease's progression, yet such surgery is still essential.

In the meantime, with the restriction on electives, private hospitals are relatively empty; Covid-19 patient numbers vary from 10-150 people in total in some hospitals. Private hospitals have submitted pricing proposals to the government for the treatment of Covid-19 public patients, but there has been little clarity on the process and reimbursement scales. The geographic distribution of private hospitals is also likely to drive the volume of Covid-19 occupancies, which will influence how management reorganise their services in each of those facilities. Overall, it is expected that the admission of public patients to private hospitals will be a net positive for the hospital groups, though they are not expecting to recoup more than the basic cost of stay. It is estimated that the all-in cost of a 20-day stay for a Covid-19 patient would be between R100 000 and R300 000, depending on the allocation to a general ward, ICU or high-care ward.

Opportunities for consolidation

A concern in some parts of the country is the shortage of personal protection equipment (PPE) and ventilators, which are mostly imported from China with some also from Europe. While companies are increasing spend on PPE predominantly from offshore, the government is taking steps to support and encourage local manufacture.

The public sector now has about 1 000 ventilators and the private sector double that. Expectations are that 7 000 ventilators will be required - the balance of about 2 300 for the public sector and 4 700 for the private sector need to be sourced. While the hospital groups are taking measures to prepare themselves, there will be a need to balance longterm demand and avoid overcapacity post the pandemic - a ventilator can cost up to R300 000, depending on the type and specifications. In addition, given the debate on the efficacy of ventilators, companies will be mindful of over-investment at this point.

There will be opportunities for consolidation post Covid-19 as smaller players in the private healthcare sector may not be able to withstand the suppressed revenue and consequent liquidity pressures. There is also an expectation of a demand spike after lockdown on account of delayed procedures. Some private hospital groups are exploring how to build this into their schedules through possible weekend and night surgeries.

However, on the whole, aside from the pressures that increased funder case management and restricted hospital networks will produce, the new normal for the private hospital groups will be about right sizing their businesses to a smaller and slower growth sector. The private medical insurance trajectory and its sustainability will be crucial in driving the private healthcare sector's growth. The viability of medical aid providers is critical as they remain the largest contributors to these smaller firms. The pharmaceutical companies have been less affected. While experiencing a change in demand in product streams, they have not yet seen large interruptions to supply chains, despite border closures, regional lockdowns and flight restrictions. Logistics channels within and out of Europe and the East are slower than normal, causing delays in incoming raw materials and finished goods. However, production sites and third-party makers of active pharmaceutical ingredients are in full production. There are some restrictions on a range of ingredients required from India, particularly paracetamol.

China and India are the main suppliers, since local production is just too expensive, with less than 20 percent manufactured locally. In general, pharmaceutical companies have several months' supply of active pharmaceutical ingredient products, but sustained restrictions by India could be challenging. On the demand side, there has been an elevated need out of Europe for locally produced anaesthetic products used for sedation and muscle relaxation, which are important in the treatment of Covid-19 patients. Demand has also increased for products related to the treatment of Covid-19 symptoms such as pain, cold- and flu-like aches, and respiratory products. Pharma firms are acutely aware that there is a risk of a "second wave" of infections that could result in increased demand for medicines relating to Covid-19. The pandemic is unprecedented, and while everyone examines the data no-one has a clear forecast view. Delays in elective surgeries will affect short-term demand for related products, but companies need to balance demand for operating theatre requirements related to Covid-19. In SA, the rate of infection continues marginally upwards, but the real trend will only be seen as the country enters this next phase of gradual lockdown release.