

Medical Tourism Takes Flight

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By Leslie P. Norton

IN THE PAST THREE MONTHS, THE CREAKY *Barron's* staff has replaced a hip, two knees and undergone various nips and tucks. Based on average prices, these cost a total of at least \$100,000. But abroad, say in Singapore, the tab would have been about \$50,000, including stays in a private room, airfare and a vacation for the patients and their companions. Elsewhere in Asia, medical care is even cheaper. That's why more U.S. insurers are considering financing treatment for Americans willing to travel abroad. In fact, "medical tourism" could help rein in the health-care costs that devour 16% of America's gross domestic product.



Tim Foley for *Barron's*
For many U.S. patients, Mexico is the favored destination. But more are now journeying to Asia.

That possibility is raising the profile of a few publicly traded companies you've probably never heard of: **Thailand's Bumrungrad Hospital** (ticker: BH.Thailand) and **Bangkok Dusit Medical Services** (BGH.Thailand), Singapore's **Parkway Holdings** (PWAY.Singapore) and **Raffles Medical** (RFMD.Singapore), and India's **Apollo Hospitals** (APHS.India). Says Prathap Reddy, the U.S.-trained cardiologist who founded Apollo in 1983 and is its chairman: "We bring excellent care at a cost benefit. If the U.S. were to cover all its people, there would be a demand/supply gap. India can step in with equivalent care at one-fifth the cost."

The table below, courtesy of Josef Woodman, author of *Patients Beyond Borders*, a handbook for medical tourists, shows costs of some common procedures in the U.S. and four other countries. The differentials are staggering. A 2008 study by McKinsey found an aortic-valve replacement that costs \$100,000-plus in the U.S. might go for \$38,000 in Latin America and \$12,000 in Asia.

MEDICAL TOURISM IS NOTHING NEW. Well-off foreigners regularly visited America in the past for treatment, and Americans went abroad when procedures, especially experimental or controversial ones, weren't available at home. Uninsured Americans often went to Mexico. In the 1990s, plastic-surgery procedures -- combined with vacations -- became popular. Call it the Joan Rivers World Tour.

Then came 9/11. Wealthy Arabs found themselves shut out of the U.S., and after the London bus bombings, doors closed in the U.K., too. Arabs began going to Asia, where hospitals developed Mideast specialties. For example, Parkway began transplanting stem cells to treat thalassemia, a blood disorder prevalent in the region.

For most Americans, Mexico is the favored destination because of its proximity. Increasingly, however, U.S. citizens are journeying to Asia for elective procedures, citing comparable care at lower cost, and with much less waiting time. Estimates of annual global medical tourism range broadly, from \$20 billion to \$60 billion. In Asia, the figure is put at \$500 million to \$1.3 billion. Deloitte Consulting believes the global medical-tourism market is growing by 30% a year and will hit \$100 billion in 2010.

It's very profitable for the hospitals. "Medical travelers don't fly in for simple problems," says Dr.

Big Differences

What some operations typically cost in the U.S. and in four other countries..

Procedure	COST IN THOUSANDS OF DOLLARS				
	U.S.	India	Thailand	Singapore	Panama*
Heart Bypass	\$70.0-133.0	\$7.0	\$22.0	\$16.3	\$10.5
Heart Valve**	75.0-140.0	9.5	25.0	22.0	13.5
Hip Replacement	33.0-57.0	10.2	12.7	12.0	5.5
Knee Replacement	30.0-53.0	9.2	11.5	9.6	7.0
Facelift	10.5-16.0	4.8	5.0	7.5	2.5
Gastric	35.0-52.0	9.3	13.0	16.5	8.5
Prostate Surgery	10.0-16.0	3.6	4.4	5.3	3.2

* Doctor's fees not included **Replacement with bypass

Source: Patients Beyond Borders

Goh Jin Hian, senior vice president at Parkway Holdings in Singapore and former chief of its Gleneagles Hospital. "They tend to be sicker and have more complex illnesses." As a result, bill sizes are higher than for local patients.

To court this well-heeled clientele, providers offer surprisingly luxurious facilities. At Bumrungrad's main medical center in downtown Bangkok, interiors are paneled with bamboo and accented with silent meditation pools. There are counters to make travel arrangements and a food court with menus including halal, kosher and Western options. Parkway's Gleneagles has private suites so family members can stay with patients. The big hospital companies are now expanding into the Persian Gulf and China. Expect new entrants, too: the Philippines just opened a facility in Subic Bay, site of the former U.S. naval base. Other nations that want to get into the game include South Korea, Taiwan and Japan.

To be sure, there are unresolved issues, including recourse when treatments go wrong. U.S. health-care reform might reduce potential customers. "If you're a complete idealist and think that things will get sorted out here, there won't be a need. But who subscribes to that view?" says Anthony Cragg of Wells Capital Management, manager of the [WFA Asia Pacific](#) Fund (SASPX) and an investor in medical-tourism providers.

None of the proposed health-care legislation mentions medical travel, but it emphasizes cost transparency, single pricing and assurances that consumers understand the promised quality of the care offered. "We offer clear price transparency, we categorize our networks by quality, and we've simplified the billing process," says Victor Lazzaro, chief of medical-travel coordinator BridgeHealth International, a private company that wants to go public someday. He hopes Medicare will fund certain procedures.

Slowly, insurers are beginning to offer the medical-tourism option. WellPoint introduced a pilot program in November to let members opt for procedures in India. Aetna and Blue Cross Blue Shield of South Carolina do the same. Comfort levels are rising as more hospitals are accredited by the Joint Commission, the Illinois-based nonprofit organization that evaluates and sets standards for health-care providers. Institutions such as Johns Hopkins and the Mayo Clinic are also offering advice and capital.

Some stocks have run up fairly sharply, helped by the mania for Asian investments. For example, through Thursday, Parkway Holdings was up 61% this year, to two Singapore dollars, for a market value of S\$2.3 billion (U.S.\$1.6 billion), and a forward price/earnings ratio of 23. Apollo Hospitals was up 15% to 519 Indian rupees, for a market value of INR32 billion (\$655 million) and a recent P/E of 30. Meanwhile, Bumrungrad had risen 22%, to 25.75 Thai baht, for a market value of THB18.8 billion (\$552 million) and a forward P/E of 16.

Cragg of Wells Capital is a fan of Bumrungrad, which has a Western management led by CEO Curt Schroeder. Bumrungrad was hit by the decline in tourism after widespread antigovernment demonstrations in Bangkok this year. Second-quarter results missed expectations; Bumrungrad is expected to earn THB1.61 a share this year on THB9.1 billion in revenue, versus THB1.64 on revenue of THB8.6 billion last year. But Cragg calls Bumrungrad shares inexpensive, and he sees tourism reviving in 2010.

Larry Ioffredo, who steers First Eagle Pacific, an offshore fund, likes Raffles Medical, one-third of whose patients are foreigners, and which aspires to be Singapore's Mayo Clinic. He is particularly attracted to Raffles' free cash flow and lack of debt. He says Singapore has thrown resources behind medical tourism, including a partnership among government agencies, fostering 11% growth in the number of patients from 2003 through 2006. Singapore aims to attract one million foreigners annually by 2012, up from about 350,000 in 2007.

Nomura Securities, which also favors Singapore providers, has price targets of S\$2.32 for Parkway and S\$1.30 for Raffles Medical.

And although the stocks have risen, the long-term trend is intact because cost pressures are still escalating. Says Cragg: "If you're patient, this is a very good story."

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