

EEMEA Healthcare

Red Sea disruptions: smooth sailing for hospitals

Industry Overview

Air freight remains more important in MENA

Pharmaceuticals (including vaccines) and medical technology are the key inventory that MENA hospitals import from abroad. They account for more than 95% of imported goods that are required for day-to-day operations. It is mainly shipped via air and hence we see limited direct impact on MENA hospital operators from the Red Sea disruptions.

It's worth noting that local regulators control the pricing of pharma products at a country-wide level. Thus, potentially higher costs are likely to fall on local distributors, in our view. Furthermore, long shelf-life medicines are usually procured in advance for a minimum of six months.

MENA hospitals have renewed most of their medical technology post other supply-chain issues during COVID and we don't expect the next big cycle in at least next five years for most of the hospitals.

Lastly, MENA companies under our coverage confirmed no visible impact so far, and see minimal headwinds, given the protective nature of the regulator in the healthcare sector, which was proved well during the pandemic.

S. African hospitals face challenges but outside of Red Sea

The current method of medical goods transportation into South Africa is still very much dependent on sea. The air freight is also utilised, but only when it comes to products with short life spans and/or lower weight, and emergency items. Thus, local operators are exposed to most maritime disruptions, however, the Red Sea and the related supply-chain issues are unlikely to be the primary ones.

South Africa faces various logistical bottlenecks including those from COVID, local ports congestion, as well as the recent floods in KwaZulu-Natal, which slows down delivery of medical inventory. We, however, do not anticipate major negative impact on South African hospitals' operations, thanks to availability of some of the pharma products locally (by producers like Aspen and Adcock). Moreover, given that the insured population in the country has been stagnant for over a decade – the operators under our coverage do not have near-term heavy expansion plans that would require medical technology either.

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