

08 October 2018 | Sector Update

# Healthcare

*Revolutionising healthcare services***Maintain Positive****INVESTMENT HIGHLIGHTS**

- **Malaysia's current public spending on healthcare at 4.4% of GDP is among the lowest in the region**
- **In contrast, inflation for healthcare costs in the past few years is the highest in the region**
- **As such, the healthcare industry is ripe for disruption especially via digital healthcare**
- **Doctor2U is currently at the forefront of providing digital healthcare service in Malaysia**
- **Maintain Positive on the sector**

**Malaysia's public spending on healthcare among the lowest in the region.** Malaysia's public spending on healthcare as a percentage of GDP had breached 4.0% level since 2015. Nonetheless, with the current rate at about 4.4%, it is still one of the lowest in the region. To put things into perspective, Malaysia's neighbouring emerging economies such as Cambodia and the Philippines recorded higher healthcare expenditure as a percentage of GDP at a rate close to 6.0% of their GDP. According to the benchmark set by World Health Organisation (WHO), public spending on healthcare is recommended at 7.0% as a percentage of GDP. Premised on this, Health Minister Dr Dzulkefly Ahmad targets to increase healthcare spending to between 6.0% and 7.0% of the GDP in the near term.

**Escalating healthcare costs.** The pressure to increase healthcare spending arises due to the significant increase in medical and healthcare costs in Malaysia especially in recent years. In 2016 and 2017 for instance, medical and healthcare costs grew at rates highest in the region of +11.5%yoy and +12.7%yoy respectively. The inflationary pressure for healthcare costs is projected to jump at +17.0%yoy in 2018. One of the reasons for the escalating healthcare costs is due to the structural inefficiency which leads to wasteful spending. For instance, in the current ecosystem, clinics and hospitals work in a fragmented fashion where patients' medical records are not shared between the two entities. This leads to a lot of layers in medical diagnoses and treatments. Investments to reduce these wastages will ensure cost-effective and sustainable healthcare spending.

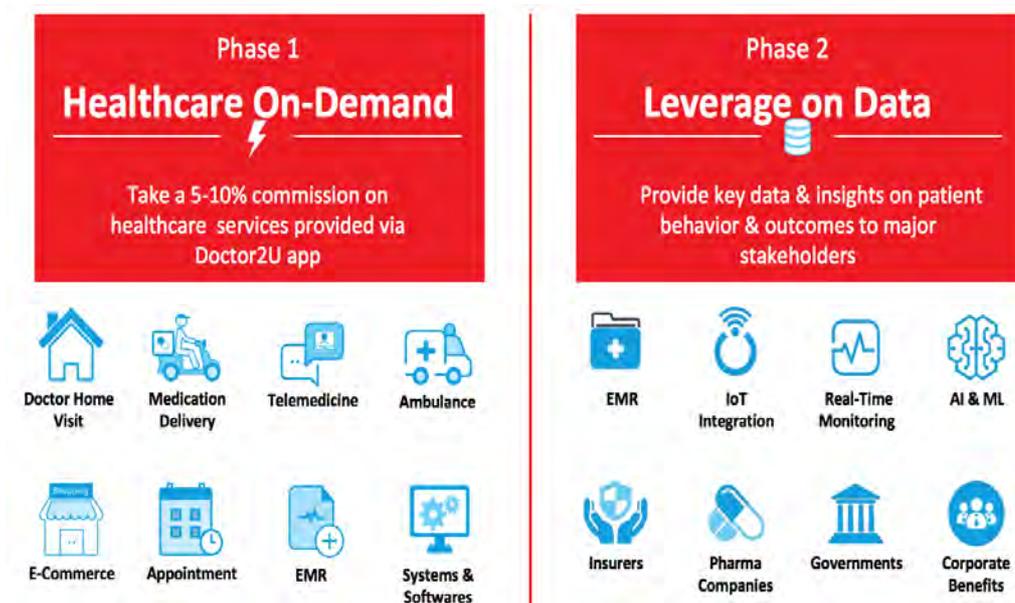
**Advocating healthcare savings via digital healthcare.** Due to the shortcomings of traditional healthcare space, this industry is ripe for disruption especially via the introduction of digital healthcare. This refers to the use of information and communication technologies to help address the health problems and challenges faced by patients. It also helps reduce inefficiencies and costs in healthcare delivery, whilst also improving access, increasing quality, and making medicine more personalised and precise. Given that government spending is insufficient to cover the escalating healthcare costs, this leaves a large gap to be filled by innovative private healthcare solutions. In addition, it is estimated that Malaysia's digital healthcare market represents about USD2.1b based on 2014 data which suffice to entice start-ups to explore this space.

**Digital healthcare is growing in Malaysia.** Post meeting with Doctor2U, a local start-up company which is at the forefront of providing digital healthcare service in Malaysia, we are encouraged by the development of the digital healthcare scene in Malaysia. Supported by BP Healthcare Group, Doctor2U is an on-demand mobile app that provides healthcare services directly to customer. At present, Doctor2U has seven main services, namely tele-medicine, homecare, medication delivery, electronic medical record, appointment booking, e-commerce, and systems & softwares. In telemedicine for instance, private hospital such as Institut Jantung Negara (IJN)'s patients use Doctor2U's live chat feature to consult healthcare professional on their medical records. With the breadth of services on offer, Doctor2U is the leader locally as well as regionally for on-demand healthcare service. **KPJ Healthcare Bhd (NEUTRAL, TP: RM1.16)** is using Doctor2U's E-commerce platform to provide its healthcare products and services. **Pantai Hospitals, a subsidiary of IHH Healthcare Bhd (BUY; TP: RM7.00)**, is also currently in talk with the start-up to subscribe to its services.

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**The rise of Artificial Intelligence in healthcare.** Now with over 700,000 users registered on their app, Doctor2U aims to leverage on Big Data for their next phase of growth. This entails consolidating data from all user touchpoints and existing systems to conduct data mining and machine learning which will provide insights on patient's behaviour and demands to improve operational effectiveness and outcomes as well as increase patient satisfaction. For instance, there are more than 800 medicines and vaccines currently available as an option for cancer treatment. This holds a negative impact on the doctors, as there are too many options to choose from. This choice ends up making it more difficult to choose the right drugs for the patients. Using Artificial Intelligence to analyse all the papers necessary to cancer diagnoses will help predict which combinations of drugs will be most effective for each patient.

**Figure 1: Doctor2U's two growth phases**



Source: Doctor2U

**Maintain Positive.** We are reiterating our **positive** stance on the sector as we are encouraged by the development of the digital healthcare services which is expected to contribute positively to the demand for healthcare services. This is as we believe digital healthcare will: (i) increase efficiency in healthcare services; (ii) provide quality and personalised healthcare services to patients; and (ii) bring greater accessibility to healthcare services for patients in the suburban areas. 

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### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.