Healthcare

POSITIVE (Maintain)

International Healthcare Week (Part 1)

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HIGHLIGHTS

- IHW 2025 highlighted global, regional and domestic healthcare trends, challenges and outlook
- Malaysia is poised to be a major healthcare hub due to quality care, advancing technologies and hospitality growth
- However, challenges persisted due to the growing aging population, increasing prevalence of NCDs and CDs, and financing pressures
- As such, healthcare stakeholders had proposed reforms to reduce these risks, while ensuring regulations in subsectors are up to par to continue supporting the sector
- All in all, we maintain positive on the sector from its resilient support from the government, the drive from ongoing trends and the leverage of contributing to local and regional economies.

INTRODUCTION

We attended the International Healthcare Week 2025 (IHW 2025). The event aims to be a transformative platform that accelerates healthcare innovation, fosters regional collaboration, and drives economic growth throughout the healthcare sector. IHW 2025 integrates five flagship international trade exhibitions under one roof, covering the entire healthcare value chain:

(i) **CPHI Southeast Asia:** Focuses on the pharmaceutical production supply chain.

(ii) **Medtech Southeast Asia:** Specializes in the manufacturing and design of medical technologies and devices.

(iii) **WHX Kuala Lumpur and WHX Labs Kuala Lumpur:** Dedicated to hospital services, healthcare systems, medical devices, and medical laboratory regional events.

(iv) **HIMSS APAC:** A leading global conference exploring key themes in digital health, including Artificial Intelligence, Data Innovation, Workforce Transformation, and Equitable Care Delivery.

The event highlighted the following themes: (i) Malaysia as a regional healthcare hub, (ii) innovation and digital transformation including AI-based medical technology, (iii) regional collaboration and integration within ASEAN and global healthcare value chain, (iv) economic growth and investment opportunities, and (v) comprehensive healthcare ecosystem. Amid the showcase of advanced technologies and new discoveries, the event also provided the platform to address certain key challenges including technology adoption and healthcare financing.

In Part 1, we share and explore the challenges, ideas and recommendations, as well as the outlook of the Malaysian healthcare sector, according to trade agencies, regulatory bodies and key players.

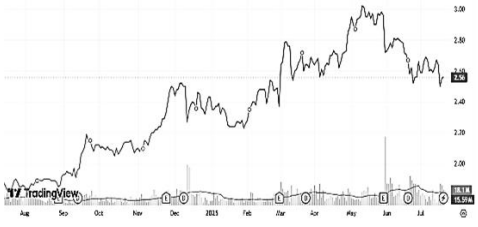
COMPANY *IN FOCUS*

KPJ Healthcare Bhd

BUY (previously NEUTRAL) | Target Price: RM3.00
Price @ 18 July 2025: RM2.56

- Strong earnings growth
- Long-term domestic expansion
- Robust strategic growth in medtech and specialist pool
- Stable insurer relationship

SHARE PRICE CHART

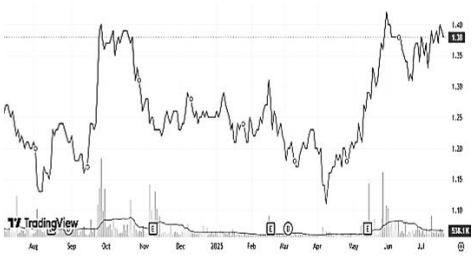


Duopharma Biotech Bhd

Non-rated
Price @ 18 July 2025: RM1.38

- Dominant local generic drug manufacturing
- Strategic investments in biosimilar/biologics
- Regional presence in halal market
- Strong financial momentum
- Strong ESG commitment

SHARE PRICE CHART



KEY TAKEAWAYS

Malaysia as a major regional healthcare hub. Malaysia has strategically positioned itself as a leading healthcare destination on the global stage, attracting a growing number of international patients seeking high-quality, affordable medical care combined with a pleasant travel experience. The country's healthcare sector is also attractive for investments, underpinned by several key factors:

(i) world-class quality medical care and advanced facilities,
(ii) high accreditation and standards that ensures adherence to global benchmarks for patient safety and quality of care,
(iii) high-skilled professionals trained in leading institutions globally,
(iv) state-of-the-art technology allowing advanced treatments across various specialties,
(v) affordable and competitive pricing for treatments, often offering savings of over 50% for similar procedures to Western countries and regional counterparts,
(vi) regulated cost on certain procedures and services,
(vii) transparent healthcare plans,
(viii) easy accessibility and connectivity to medical facilities,
(ix) easy communication due to multilingual and multicultural medical staff,
(x) Malaysia as a global halal hub, which promotes halal-certified medications and respect for patient modest, and
(xi) booming medical tourism, supported by upmost hospitality

Challenges in sector calls for a reform. Malaysia's healthcare system is a dual-tier model, encompassing both a public and a private sector, striving towards Universal Health Coverage (UHC). While it has made significant strides in providing accessible care, it faces mounting challenges that necessitate comprehensive reforms.

Below are the challenges of the Malaysian healthcare sector – driven by social, environmental and changing disease patterns – along with possible solutions to overcome them:

CHALLENGES	REMARKS	SOLUTIONS/RECOMMENDATIONS
Ageing Population	8.5% of Malaysian population already aged over 65 years; projected to be an aged nation by 2044. Demographic shift brings several healthcare challenges: • **Higher medical inflation:** Older populations require more frequent and complex medical care, driving up overall healthcare costs. • **Limited facilities and services:** Existing infrastructure and services may not be adequately equipped to handle the specific needs and increased demand from an elderly population. • **Increasing Non-Communicable Disease (NCD) risk factors:** As people age, they are more susceptible to NCDs, further contributing to the disease burden.	**(i) Expand geriatric care services:** • More dedicated geriatric wards, clinics, and day care centers within public hospitals and primary care facilities. • Training/upskill more geriatricians, geriatric nurses, allied health professionals (physiotherapists, occupational therapists, dietitians), and professional caregivers. • Expand local training facilities and collaborate with overseas institutions for advanced care training. • Develop integrated care pathways for older adults, ensuring seamless transitions between primary care, hospital, and long-term care settings. **(ii) Promote healthy ageing and prevention:** • Focus on lifestyle changes, screening for age-related conditions, and reducing consumption of unhealthy products from a younger age. • Make cities more accessible and supportive for older adults, including safe public spaces, accessible transportation, and community hubs for social interaction and health services. • Enhance digital literacy programs for older adults to improve their access to online health services.

CHALLENGES	REMARKS	SOLUTIONS/RECOMMENDATIONS
		(iii) **Long-term care (LTC):** • Mandatory, inclusive and affordable long-term care insurance scheme to provide financial security for older adults needing extended care, reducing the burden on families and the government. • Strengthen community-based care options, allowing older adults to age in place with appropriate support. • Fostering industries like healthcare technology for the elderly, elder tourism, and encouraging lifelong learning to keep older adults active and engaged, potentially reducing healthcare costs.
Rising NCDs	Malaysia saw 10% increase in the overall disease burden, with 90% attributed to NCDs. According to the National Health and Morbidity Survey (NHMS) 2023: • **Diabetes (DM):** 1 in 6 adults are diabetic, with 40% undiagnosed. • **Hypertension (HTN):** 1 in 3 adults have hypertension, with 11.9% undiagnosed. • **Mental Health:** 4.6% of adults suffer from depression. • **Hypercholesterolemia:** Prevalence of 33.3%. • **Obesity:** Affects 54.5% of the adult population. • **Physically inactive:** 1 in 3 adults are physically inactive.	**(i) Strengthen primordial and primary prevention:** • Intensify nationwide campaigns on healthy eating, regular physical activity, and smoking cessation. • Implement policies that support healthy choices (stricter regulations on unhealthy food marketing, promoting green spaces for physical activity, and creating more smoke-free environments). • Encourage and incentivize employers to implement comprehensive wellness programs for employees (health screenings, exercise programs, and healthy eating initiatives). **(ii) Early detection and management:** • Expand and promote health screening programs like PeKaB40 (which has shown improvement but still needs higher uptake, especially in urban areas) to ensure early detection of NCDs. • Equip primary care clinics (public and private) with the necessary resources, training, and multidisciplinary teams to effectively manage NCDs, including regular follow-ups, patient education, and lifestyle counselling. • Utilize digital health apps and platforms for NCD management (remote monitoring, medication reminders, and educational resources). **(iii) Multi-sectoral collaboration:** • Foster stronger collaboration between the Ministry of Health (MoH) and other ministries (e.g., Education, Agriculture, Housing) to address the social determinants of health that contribute to NCDs. • Leverage and train community health volunteers (CHVs) to deliver health promotion activities and provide support for lifestyle changes at the grassroots level.
Communicable Diseases **+** **Crisis & Disaster Preparedness / Planetary Health**	• **Emerging & Re-emerging Diseases:** Dengue, Malaria, Tuberculosis (TB), and HIV • **Vaccine-Preventable Diseases (VPDs):** While efforts are made, VPDs like Polio and Measles require continuous vigilance.	**(i) Robust surveillance and early warning systems:** • Strengthen disease surveillance systems to quickly detect and respond to emerging and re-emerging infectious diseases. • Enhance laboratory capacity for rapid diagnosis. **(ii) Vaccination Programs:** Maintain high vaccination coverage for vaccine-preventable diseases (VPDs) and address vaccine hesitancy through targeted communication and community engagement.

CHALLENGES	REMARKS	SOLUTIONS/RECOMMENDATIONS
	• **Public Health Emergencies of International Concern (PHEIC):** The threat of pandemics and public health emergencies necessitates robust preparedness and response mechanisms.	**(iii) Emergency preparedness and response:** • Develop and regularly update comprehensive national public health emergency preparedness and response plans. • Conduct regular drills and simulations to test the readiness of the healthcare system. • Ensure adequate stockpiles of essential medical supplies, equipment, and personal protective equipment (PPE). **(iv) "One Health" approach:** Promote inter-sectoral collaboration between human health, animal health, and environmental health sectors to address zoonotic diseases and climate change impacts.
Health Financing	• **Total Expenditure on Health (TEH) has outpaced GDP growth for over 10 years:** This is unsustainable trend indicates a growing strain on national resources allocated to healthcare. • **Expected to rise with ageing population and NCD burden:** The demographic and epidemiological shifts will continue to escalate healthcare costs. • **Government fiscal capacity to increase funding is relatively constrained:** This limits the ability of the government to significantly inject more funds into the public healthcare system. • **High Out-of-Pocket (OOP) payments (37%):** A substantial portion of healthcare costs is borne directly by individuals. This often occurs as people seek alternatives in the private sector due to capacity constraints, long waits, or perceived lower quality in the public sector, leading to financial hardship for some.	**(i) Diversify health financing sources:** • Implement a mandatory contributory national health financing scheme (e.g., National Health Fund (NHF)/ National Health Assurance (NHA)) to supplement tax-based funding. This could involve contributions from individuals, employers, and the government, similar to EPF or SOCSO. • Continue to advocate for increased government allocation to healthcare, aiming to reach closer to the upper-middle-income country (UMIC) average of 6-7% of GDP. **(ii) Reduce Out-of-Pocket (OOP) payments:** • By improving facilities and reducing waiting times in the public sector, more people will choose public services, thus reducing OOP payments for basic care. • Continue and expand initiatives like PeKaB40 and Skim Perubatan MADANI (SPM) which provide free or subsidized acute primary care and NCD screenings for lower-income groups, diverting them from costly private options. • Implement measures to control the escalation of private healthcare costs, such as price transparency, strengthening the bargaining power of private health insurers, and moving away from pure FFS models.
Healthcare Delivery	**Primary Care:** • **Public sector:** Facilities and staffing in public primary care clinics have not kept pace with high patient volumes, particularly in urban areas, leading to overcrowding and long waiting times. • **Private sector:** General Practitioners (GPs) in the private sector often have a limited scope of services, lacking multidisciplinary teams and not always	**(i) Increase resources and manpower:** • Build new primary healthcare clinics and expand existing ones, particularly in urban areas, to meet the high demand. • Recruit and train more doctors (especially Family Medicine Specialists), nurses, and allied health professionals for public primary care. • Develop and integrate multidisciplinary teams (doctors, nurses, dietitians, pharmacists, physiotherapists, social workers) within PHC settings to provide holistic, integrated care. **(ii) Expand scope of private GPs:**

CHALLENGES	REMARKS	SOLUTIONS/RECOMMENDATIONS
	helmed by Family Medicine Specialists (FMS), which can lead to fragmented care. **Hospital:** • **Public:** Underinvestment has contributed to poor patient experience, including long waits for appointments and procedures, and overcrowded facilities. • **Private sector:** ○ **Supplier-Induced Demand:** The FFS (fee-for-services) payment model incentivizes volume over value, potentially leading to unnecessary tests or procedures. ○ **Poor bargaining power of private health insurers:** This contributes to inflated billing and higher costs for patients. Lower-cost outpatient services are often not covered by private insurance, pushing patients towards more expensive hospital-based care. • **Geographical Distribution of Care:** There remains an imbalance in the distribution of healthcare facilities and professionals, with rural areas often underserved compared to urban centers.	• Provide incentives for private GPs to undergo further training in family medicine and NCD management. • Foster better integration between public and private primary care, allowing for seamless referrals and shared patient information. • Encourage the establishment of private primary care clinics that offer a broader scope of services, including basic diagnostic tests and minor procedures. **(iii) Community empowerment and intervention:** Empower communities to take ownership of their health through health literacy programs and community-based health initiatives. **(iv) Optimize public hospital operations:** • Increase investment in public hospitals for infrastructure upgrades, modern equipment, and maintenance. • Implement strategies to reduce waiting times for specialist appointments, surgeries, and diagnostic tests. This includes optimizing patient flow, appointment systems, and bed management. • Leverage and expand initiatives like Rakan KKM, which allows public hospital specialists to see private patients within public facilities during certain hours. This generates revenue for the public system, potentially retaining specialists, and offers more choice/faster access for those who can afford it, while ensuring public patients are not disadvantaged (by monitoring waiting times and quality of public services). • Continue and expand the Hospital Services Outsourcing Programme (HSOP) to outsource certain non-emergency procedures or diagnostic tests to private hospitals to alleviate congestion and reduce waiting times in public facilities. Ensure the program is cost-effective and beneficial for both parties (private hospitals have reported losses). **(v) Regulate private hospital practices:** • Implement and enforce Diagnosis-Related Group (DRG)-based payment systems across all healthcare providers (public and private). This incentivizes value over volume by paying a fixed amount per diagnosis, reducing over-servicing and controlling costs. • Mandate and improve price transparency in private hospitals to empower patients and insurers to make informed choices. • Support private health insurers in negotiating fair prices with private hospitals. • Encourage private health insurers to cover more outpatient services to prevent unnecessary hospitalizations. **(vi) Geographical distribution of care** • Provide incentives (financial, professional development, housing) for healthcare professionals to work in underserved rural and remote areas.

CHALLENGES	REMARKS	SOLUTIONS/RECOMMENDATIONS
		• Expand the use of telemedicine and mobile health clinics to reach remote populations, providing consultations, basic diagnostics, and medication delivery. • Establish more community health posts or satellite clinics in remote areas, staffed by community health workers and supported by telemedicine. • Offer incentives for private healthcare providers to establish facilities or offer services in rural and underserved areas.

Source: MOH, NHMS, MIDA, MMA, WHO, MIDFR

Moving towards healthcare excellence. To address the challenges and reform solutions in accordance to regional and local capabilities, we identified that improvements must be continuous and built on existing systems. Due to the complex healthcare systems across the sector, concerted efforts by the government, private sector, patients and providers must be recognised and implemented on a sustainable level. We identified the reforms towards healthcare excellence as follows:

REFORMS	DRIVERS	ELEMENTS
Healthcare System Governance	**Standards, legislation & regulation** (a strong regulatory environment builds public trust, protects patients, and ensures a level playing field for all healthcare providers)	• Establish a clear and comprehensive legal framework that dictates the quality, safety, and ethical conduct of all healthcare services and providers. • Review and update existing healthcare acts and regulations to reflect current needs and future challenges. • Develop new standards for emerging areas like digital health, telehealth, and AI in healthcare.
	Human resources (address the critical shortage, maldistribution, and brain drain of healthcare professionals, ensuring a sufficient, skilled, and motivated workforce across all sectors and regions)	• Expedite permanent appointments for contract doctors, improve remuneration, enhance career pathways, and create more conducive working environments in the public sector. • Invest in training programs to produce more specialists, nurses, and allied health professionals, especially in underserved areas and in specialties aligned with the country's disease burden (e.g., geriatrics, mental health, NCD management). • Optimize the skill mix within teams, allowing each professional to work to their full scope of practice. • Develop strong leadership capabilities within the MoH and healthcare institutions, fostering a culture of accountability, innovation, and continuous improvement. • Propose restructuring the MOH to split it into a national health service provider and a national health service purchaser, aiming to encourage accountability and efficiency. • Develop a comprehensive and integrated database for healthcare professionals to facilitate better workforce planning and management. • Recognise that healthcare talent migration is not solely an MOH issue, fostering a "whole-of-government" approach with collaboration across multiple agencies, potentially through an inter-ministerial Human Resource for Health (HRH) Governance Board.

REFORMS	DRIVERS	ELEMENTS
	Facility development (plan, invest in, and upgrade healthcare infrastructure to meet the growing demands of the population, ensuring equitable access to modern facilities)	• Identify areas with critical needs for new hospitals, clinics, and specialized centres. • Allocate sufficient funds for the construction of new facilities and the refurbishment and expansion of existing ones. • Implement robust maintenance programs to ensure the longevity and optimal functioning of healthcare infrastructure. • Invest in the necessary hardware and reliable network infrastructure to support the digitalization of health clinics and hospitals.
Healthcare Delivery	**Optimisation of hospital care** (improve the efficiency, patient flow, and overall quality of services within hospitals, particularly in the public sector, to reduce waiting times and enhance patient experience)	• Apply lean methodologies to streamline hospital processes, reduce waste, and improve patient flow from admission to discharge. • Implement sophisticated bed management systems to optimize bed utilization and reduce delays. • Utilize digital tools for appointment scheduling, patient tracking, and internal communication to improve efficiency. • Continuously evaluating and expanding initiatives like the Cluster Hospital Initiative (CHI), which promotes resource sharing among geographically proximate public hospitals to optimize resource allocation and service delivery.
	Equipment, technology and medicines (ensure that healthcare providers have access to modern medical technology, necessary equipment, and essential medicines to deliver high-quality care)	• Implement transparent and efficient procurement processes for medical equipment and medicines to ensure cost-effectiveness and timely availability. • Encourage local manufacturing of medical devices and pharmaceuticals to reduce reliance on imports and improve supply chain resilience. • Strengthen pharmacovigilance systems to monitor the safety and effectiveness of medicines. • Implement e-prescribing and digital dispensing systems to improve efficiency and reduce errors. • Address the affordability of essential medicines, particularly in the private sector, where OOP payments can be high.

	Enhanced Primary Healthcare (PHC)
	
	(strengthen primary healthcare as the cornerstone of the health system, shifting focus from "sick care" to preventive and promotional services, and providing comprehensive, integrated care closer to the community)
		• Shift a greater proportion of the healthcare budget and human resources towards primary care, acknowledging its critical role in preventive care and NCD management. This includes increasing the number of public health clinics and expanding their operational hours.
		• Actively engage communities in health promotion and disease prevention initiatives. This involves:
		• Educate the public on healthy lifestyles, NCD prevention, and early symptom recognition.
		• Train and support community health volunteers to act as health advocates and provide basic health support at the grassroots level.
		• Collaborate with non-governmental organizations (NGOs) and community groups to deliver targeted health interventions.
		• Move away from a doctor-centric model to a team-based approach where doctors, nurses, pharmacists, dietitians, physiotherapists, and other allied health professionals work collaboratively to provide holistic and coordinated care.
		• Types of (PHC) interventions:
		  ○ Electronic Medical Records (EMR) / Electronic Lifetime Health Record (ELHR)
		  ○ Telehealth/Virtual Consultations
		  ○ Data analytics

REFORMS	DRIVERS	ELEMENTS
Healthcare Financing	**Rakan KKM** (allow selected public hospitals to offer "premium economy" services (elective outpatient, daycare, inpatient) to paying patients, often for faster access or specialist choice)	• Provide better incomes and working conditions for healthcare professionals in the public sector, helping to reduce the brain drain to the private sector. • Generate additional revenue for the public healthcare system. • Excess revenue from Rakan KKM is reinvested back into the public healthcare services for all patients • Introduce elements of value-based care within the public system. • Provide value-based options for the M40 (middle-income) group. • Ease pressure on entirely free public services. • Potentially reduce high OOP payments for those who can afford a "premium economy" option.
	Public-Private Partnership (PPP): (collaborate with the private sector to leverage their resources, expertise, and capacity, especially to complement public healthcare services and reduce the burden on public facilities)	• **MHIT (Medical and Health Insurance/Takaful) with DRG (Diagnosis-Related Group) Payment** Bank Negara Malaysia and the Ministry of Health/Finance are collaborating to develop a "base MHIT product" that balances affordability and sustainability. This aims to make health insurance more accessible and predictable for consumers. • **DRG Payment System** ○ Hospitals are paid a fixed amount per admission based on the patient's diagnosis, rather than the traditional fee-for-service (FFS) to control costs by incentivizing efficiency and discouraging over-servicing. ○ It shifts the financial risk from the payer to the provider, encouraging hospitals to manage resources effectively. ○ Promotes value-based healthcare, where the focus is on outcomes and efficient care rather than just the volume of services provided. • **PeKaB40 (Skim Peduli Kesihatan for the B40 group)** ○ A government initiative that provides free health screenings and early intervention for non-communicable diseases (NCDs) to the lower-income B40 group. ○ These services are delivered through empanelled private General Practitioners (GPs), leveraging the existing private primary care network. ○ Improves access to preventive care for vulnerable populations, helps with early detection of NCDs (with 41% of those screened diagnosed with at least one NCD as of Jan 2025), and reduces the burden on public primary care for initial screenings. While screening rates have improved nationally (22% as of Jan 2025), there's still a need to increase uptake, especially in urban areas. • **Skim Perubatan MADANI (SPM):** ○ A pilot initiative for the B40 group to access acute primary care services (cough, cold, fever, mild trauma) at private GPs for free. ○ Alleviate congestion in public health clinics for minor ailments and provide quicker access to care for the B40 population. ○ Aims to improve accessibility to essential acute primary care, increase private GP participation in public health initiatives, and enhance the welfare of low-income groups. • **Hospital Services Outsourcing Programme (HSOP):** ○ An MOH initiative that outsources certain elective medical services (e.g., cardiothoracic surgery, specific radiology scans, nephrology procedures) from public hospitals to private healthcare facilities.

REFORMS	DRIVERS	ELEMENTS
		○ Reduce patient congestion and shorten waiting times in public hospitals for specific services. ○ HSOP has shown significant reductions in waiting times for certain procedures (e.g., 75% for AVF surgery, 20% for MRI/ultrasound as of Jan 2025).
	Provider payment mechanism: (reform how healthcare providers are reimbursed to incentivize high-quality, efficient, and value-driven care)	• Move away from the traditional fee-for-service (FFS) model, which can incentivize volume and over-servicing. • Diagnosis-Related Group (DRG) payments are being implemented, where a fixed payment is made for a specific condition or procedure, irrespective of the actual services rendered, encouraging cost-efficiency. • Explore capitation models for primary care, where providers receive a fixed payment per patient per period, encouraging preventive care and efficient management of chronic conditions.
	Value-based healthcare (emphasize delivering healthcare services that generate the best possible health outcomes for patients at the lowest possible cost, rather than simply paying for the volume of services)	Incorporating outcome measures into payment models, promoting integrated care, and focusing on patient-centered care plans. Rakan KKM and the DRG implementation are key drivers of this shift.
	National Health Fund (exploring the establishment of a national fund, potentially involving mandatory contributions from individuals, employers, and government to pool resources for healthcare financing)	• Provide a more sustainable, equitable, and resilient financing mechanism for the public healthcare system, reducing reliance on general taxation alone and mitigating the impact of high OOP payments. • Consolidate various funding sources, including taxes, non-tax revenues, and earmarked funds (e.g., sugar-sweetened beverage tax). • Increase awareness and participation from stakeholders in healthcare financing.

Source: MOH, NHMS, MIDA, MIDFR

OUR VIEW

Transitioning by evolving healthcare needs. Malaysia is moving from a developing to a high-income nation, and its healthcare system is grappling with the complexities that come with this transition. The epidemiological shift from communicable to NCDs, coupled with an aging population, reflects a maturing society that now faces diseases of affluence and lifestyle. The challenges are no longer just about basic access (which has largely been achieved in Peninsular Malaysia), but about quality, efficiency, equity, and sustainability in the face of rising costs and demand. Malaysia is not adhering rigidly to one ideological model (fully public or fully private). Instead, it's embracing a pragmatic, dual-tier system with increasing public-private partnerships (PPPs).

Strong government support - the backbone of the sector. The government's continued heavy subsidization of public healthcare and the active pursuit of UHC through various initiatives (PeKaB40, SPM, National Health Fund exploration) demonstrate a fundamental commitment to ensuring that healthcare remains a right for all citizens, not just a privilege. This is evident by the Budget 2025's allocation of RM45.3b for the local healthcare sector. The willingness to address high OOP payments also directly signifies a focus on financial risk protection for its citizens. MoH's emphasis on digitalization, data analytics, and value-based healthcare also indicates a forward-looking approach, recognizing that technology and efficiency are critical for future sustainability.

Leveraging healthcare as an economic engine. Beyond providing care for its citizens, Malaysia actively promotes itself as a leading healthcare destination. As of writing, Malaysia was announced as the number one destination for medical tourism, with over RM2b revenue generated per year on average from over 1.3b foreigners seeking medical help using local facilities and infrastructure for treatments and surgeries. This also demonstrates an understanding of healthcare's dual role as a social service and a significant contributor to the national economy, attracting foreign exchange and creating high-value jobs. The Global Halal Hub aspect further showcases a strategic niche marketing approach that caters to specific global demographics.

MAINTAIN POSITIVE

Defensive sector with strong earnings growth. All in all, Malaysia is in a critical phase of healthcare transformation. It has a strong foundation, a clear understanding of its complex challenges, and an ambitious roadmap for reform. The success of this journey will depend on its ability to effectively implement these strategic changes, foster collaboration between its public and private sectors, and sustain the political will to navigate the inherent difficulties of such comprehensive reforms, ultimately aiming for a truly equitable, high-quality, and sustainable healthcare system for all its people. We reiterate our POSITIVE call for the sector, backed by the strong drivers that will continue to feed the sector's growth in the near term:

(i) growing aging population requiring more extensive and frequent healthcare services,
(ii) increasing prevalence of NCDs contributing to demand for long-term care, specialist treatments, and regular health management,
(iii) increasing affluence and health awareness,
(iv) continuous support from the government with initiatives like the Health White Paper and NIMP 2030, and
(v) higher demand for medical tourism

Demand remains robust regardless of economic cycles. Malaysia's healthcare sector's overall revenue is expected to grow at a 5-year CAGR of 6-8% up to CY30. Private health services have shown robust growth (averaging +9.3% in CY22-24), consistently surpassing overall GDP growth. The hospital segment is expected to see strong earnings growth, with forecasts around 15.1% for CY25. This is driven by increased patient throughput, revenue intensity (more acute cases, higher-yield services), and brownfield expansions by major players. In the next part of the report, we will share our views on the two subsectors that drive the internal operations of healthcare service providers – pharmaceuticals and medical devices.

Our TOP PICK is KPJ Healthcare (upgrade to BUY, TP: RM3.00). KPJ is well-positioned to capitalize on the sector's positive outlook due to its established market presence, strategic growth initiatives, and improving financial performance. With its large network of private hospitals (30 hospitals and 4 ambulatory care centers), the group has a strong brand recognition across the country whilst serving the growing domestic demand for quality and affordable private healthcare services. We opine that KPJ also has the advantage in improving its operational efficiencies through their "KPJ Health System" framework, while heavily investing in digital capabilities (approx. RM400m capex allocated for digitalization and advanced medical technology). This includes AI-powered diagnostics, enhancements to the KPJ Cares mobile app, "one patient, one record" system, and smart hospital technologies. This digital push aims to improve patient experience and operational efficiency. Another leverage of KPJ is its strong relationship with insurers. As of writing, none of KPJ's 30 hospitals have been de-paneled by insurance companies, indicating strong and stable partnerships across its insurance panels. This ensures a consistent patient base from insured individuals.

Overall, KPJ's robust growth strategy, strong financial performance, and leading market position in a structurally growing sector make it an attractive proposition in the Malaysian healthcare landscape. Its commitment to modernization and integrated care positions it well for long-term sustainable growth. As such, we upgrade our **NEUTRAL** call for KPJ to a **BUY**, and maintain the **target price at RM3.00**, pending its 2QFY25 results.

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STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
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	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology