Healthcare

POSITIVE (Maintain)

International Healthcare Week (Part 2)

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HIGHLIGHTS

- Pharmaceuticals market expected to see rapid growth, supported by increased socio-economic development and aging population
- SEA remains a net importer while overlooking the potential on regional R&D and manufacturing
- Generics continue to be the backbone of pharma trade, but biologics and biosimilars are catching up in demand
- Trade tariffs will see significant impact on pharmaceutical market moving forward, with potential mitigation through in-house R&D and manufacturing as well as regional collaborations, supported by government initiatives and investments
- All in all, we maintain positive on the pharmaceutical sector, attributing to the healthcare fundamentals supporting the demand for medical ancillaries, in tandem with continuous new drug discoveries and advancement of medical technology

KEY TAKEWAWAYS – ASEAN PHARMA MARKET

Rapid growth of ASEAN pharmaceuticals market. Southeast Asia (SEA) presents a substantial future prospect for the pharmaceutical market. Its projected growth rate significantly outpaces the global average and other major established markets. As of CY24, global total market size for pharmaceuticals is estimated at USD1.5t, with a 5Y CAGR of +4.3%. In comparison, SEA's total market size is estimated at USD27b with a 5Y CAGR of +8.1%. The significant growth for SEA indicates that ASEAN is a prime growth engine for the global pharmaceutical industry. This makes it an attractive destination for investment and market expansion. For pharmaceutical companies, success in this region will require a nuanced strategy that balances innovation with affordability, leverages digitalization, understands diverse market needs, and potentially focuses on local manufacturing and strategic partnerships.

The key drivers and constraints for the growth are highlighted in Table 1.

Future market encouraged by urbanization and old age dependency. Urbanization in ASEAN countries are projected to reach up to 90% by 2030 – with exception of Singapore which has reached 100% since the 1990s. This urban populations necessitate significant investments in concentrated and more sophisticated healthcare demand, largely stimulated by better access to advanced healthcare facilities, higher prevalence of lifestyle diseases, and pollution-related health issues. Additionally, rapid aging population growth (i.e. rising life expectancy vs declining birth rates) also stood out as one of the main catalysts to increased healthcare demand, subsequently leading to increased healthcare expenditure for specialised healthcare facilities (i.e. long-term care, chronic disease management, geriatric medicine). All ASEAN countries are heading to an aged population, with Thailand and Singapore leading the ratio at a higher pace. Nevertheless, this opens for an opportunity for specialised aged care and pharmaceuticals targeting age-related diseases, such as Alzheimer's.

COMPANY *IN FOCUS*

Duopharma Biotech Bhd

Non-rated
Price @ 22 July 2025: RM1.39

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

SHARE PRICE CHART



TABLE 1: GROWTH DRIVERS AND CONSTRAINTS IN ASEAN PHARMACEUTICALS MARKET

KEY DRIVERS	REMARKS
Aging population	• Many ASEAN countries experience demographic shift with increasing elderly populations • Older populations typically have a higher burden of chronic diseases and require more long-term medication, driving pharmaceutical demand.
Increasing burden of non-communicable diseases **(NCDs)**	• Lifestyle changes, urbanization, and changing dietary habits contribute to a rising prevalence of NCDs such as diabetes, cardiovascular diseases, hypertension, and various cancers. • NCDs often require continuous medication, contributing to sustained pharmaceutical consumption.
Rising **affordability** and growing **middle class**	• Economic growth and an expanding middle class in ASEAN countries lead to increased disposable income. • This translates into greater ability and willingness to spend on healthcare, both out-of-pocket and through improved insurance coverage.
Improvements in **healthcare infrastructure**	• ASEAN governments are increasingly investing in healthcare infrastructure, including hospitals, clinics, and diagnostic facilities. • This leads to broader access to medicines, especially through public procurement and universal healthcare initiatives.
Launch of **innovative drugs**	• The region is seeing an increased introduction of novel, high-value, and innovative drugs, particularly in therapeutic areas like oncology, immunology, and rare diseases. • While these drugs are expensive, their therapeutic benefits drive demand in segments where affordability allows, or where governments prioritize access.
Growing demand for **biologics and specialty products**	• Biologics (medicines derived from living organisms) and specialty products are high-growth segments globally due to their targeted action and efficacy for complex diseases. • As healthcare systems in ASEAN mature and diagnostic capabilities improve, the demand for these advanced therapies is rising. • Biosimilars (generic versions of biologics) are also poised for significant growth, offering more affordable access to these complex drugs.
KEY CONSTRAINTS	**REMARKS**
Concern on **rising drug prices**	• As pharmaceutical spending increases, there's growing pressure from governments, healthcare payers, and the public to contain drug costs. • This can lead to policies aimed at reducing drug prices, which might impact the profitability of pharmaceutical companies, especially those relying on high-priced innovator drugs.
Increased focus on generics and low-cost drugs (due to **cost-containment** measures)	• Governments and healthcare providers are increasingly prioritizing the use of generic drugs and promoting low-cost alternatives. • This can intensify price competition, particularly for branded drugs whose patents have expired, and can affect the market share of innovator products. • Such measures are evident in policies like Malaysia's emphasis on generic procurement for public hospitals and discussions around drug price regulations.

Upward pharma sales trends are country specific. The upward trend in pharmaceutical sales across SEA countries underscores the region's overall market expansion. Vietnam and Indonesia appear as the emerging powerhouse for overall pharmaceuticals sales, mainly reflecting their larger population and increasing healthcare needs. However, growth drivers for each country varied, indicating different focus on the type of drugs traded and/or manufactured (see Table 2). Nevertheless, this uptrend indicated a sustained growth in pharmaceutical needs, particularly influenced by demographic and lifestyle changes, as well as the governments' initiatives for the healthcare sector, including medical tourism.

Diabetes and cancer drugs dominate new launches. Despite cardiovascular drugs consistently holding the largest share of sales (~USD3.2b in CY24), cancer (~USD2.5b) and diabetes (~USD1.1b) drugs are expected to see a significant growth in new launches, in line with the growing demand for said drugs. Oncology (cancer treatment) showcased the largest category of for new drug launches (up to 38% of total new launches). The high disease burden of cancer, the increasing global R&D investment in oncology, the potential for high-value specialized treatments, and the shift towards precision medicine contribute to this dominance. A review of the top pharmaceutical players in SEA (see Chart 7) reveals that SEA portfolios for drug launches are streamlined to focus on high-value assets, prioritizing molecules with strong global data packages and greater access leverage. However, we noted that there are still opportunities for new respiratory and cardiovascular drugs. This creates a "white space" for pharmaceutical players to develop and introduce value-based (i.e. affordable, effective generics or biosimilars) to serve these areas.

CHART 1: SEA URBAN POPULATION (%)

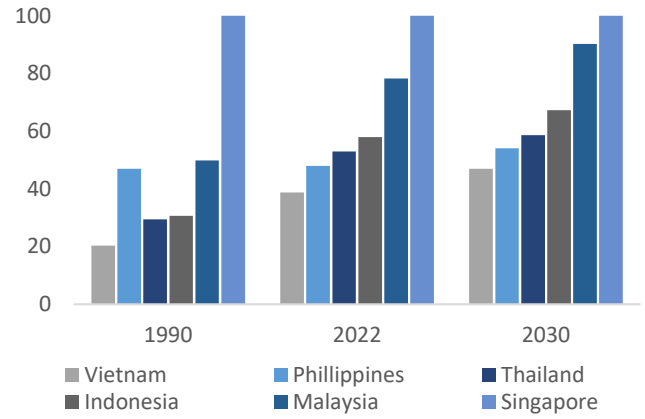


CHART 2: SEA OLD AGE DEPENDENCY RATIO (%)

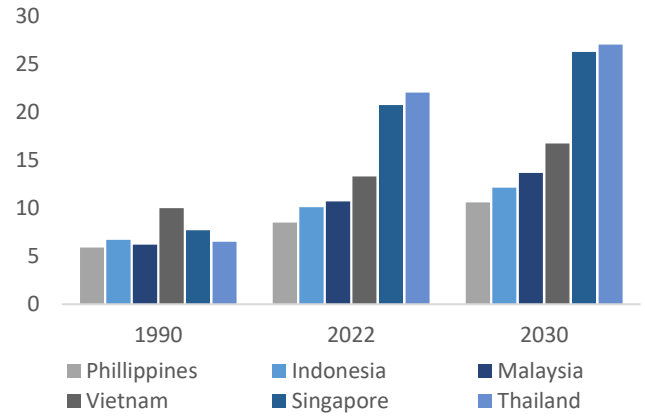


CHART 3: SEA POPULATION SIZE (MIL) VS HEALTHCARE EXPENDITURE (USD BIL) (2024)

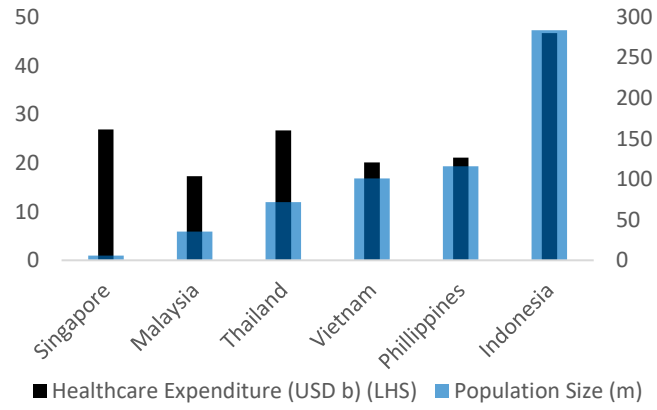
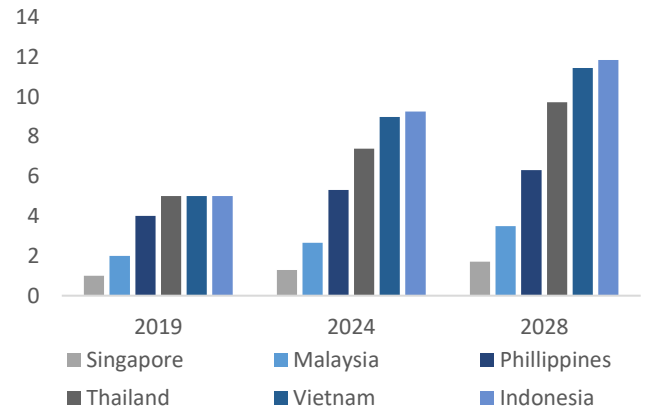


CHART 4: SEA PHARMACEUTICAL SALES (USD BIL)



Source: EIU, IMF, MATRADE, MBSBR

TABLE 2: COUNTRY-SPECIFIC GROWTH DRIVERS FOR PHARMA SALES

COUNTRY	GROWTH DRIVERS
Malaysia	Increase in **healthcare awareness and NCD burden**, which will generate demand for pharmaceutical products
Indonesia	Expansion of **universal healthcare**, which leads to greater access and utilization of medicines for its vast population
Singapore	**Integrated healthcare models**, which suggests a focus on combining different levels of care and utilizing technology for seamless patient journeys, leading to more efficient drug utilization.
Philippines	Strengthened **public healthcare programs** concerted by government efforts to improve accessibility and quality of healthcare services, including utilisation of medicines
Thailand and Vietnam	Expansion of **health tourism**, which will drive high-value medical products within their private healthcare sectors.

Source: MOH, MOPI, IQVIA, MBSBR

CHART 5: SEA THERAPEUTIC DRUG SALES (USD BIL)

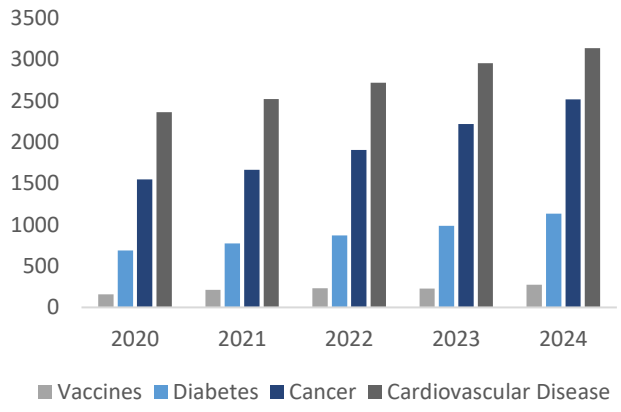


CHART 6: SEA THERAPEUTIC DRUG LAUNCHES (%)

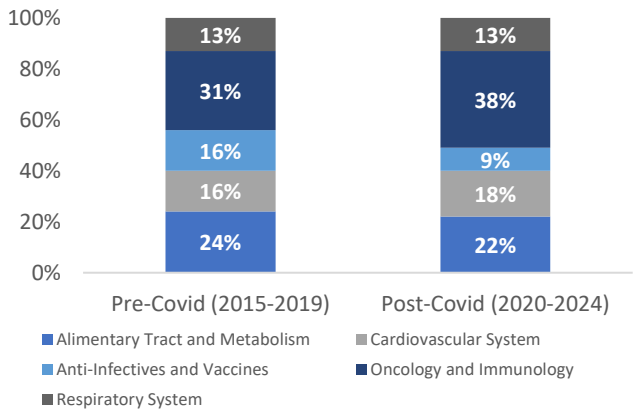
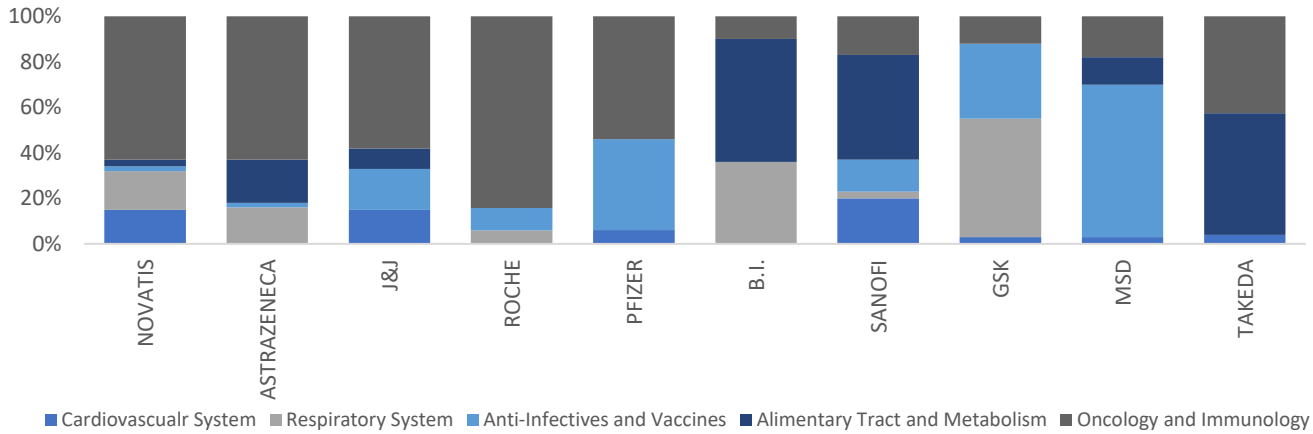


CHART 7: INNOVATIVE DRUG LAUNCHES BY COMPANY VS THERAPEUTIC AREAS (%) (2015-2024)



Source: EIU, IMF, MATRADE, IQVIA, MBSBR

Unlocking New Avenues in SEA: Biosimilars. The Philippines and Malaysia show steady growth in a biosimilar export potential, reaching USD 111 million and USD 70 million respectively by 2027. Malaysia's growth, though robust, is relatively smaller in absolute terms compared to Thailand, Vietnam, and Indonesia. However, companies like Duopharma (non-rated) and Pharmaniaga are actively developing Halal-certified biosimilars. Overall, biosimilars is an untapped potential due to increasing healthcare demands and cost pressure. We believe that investing in local manufacturing of biosimilars can open avenues for SEA countries to export. Countries that prioritize and invest in local biosimilar production are likely to become stronger exporters in this field. This aligns with the broader trends of high pharmaceutical market growth in SEA driven by demographics, NCDs, and the increasing sophistication of healthcare systems, all of which necessitate tailored and creative market strategies.

KEY TAKEAWAYS – MALAYSIAN PHARMA MARKET

Local pharma in dynamic state of growth and maturation. Malaysia's pharmaceutical sector boasts a strong and strategically recognized local manufacturing base that significantly contributes to medicine security, especially for generics and essential medicines. While Malaysia demonstrates capabilities in exporting to highly regulated markets like the USA, it remains heavily reliant on imports for patented drugs, biologics, vaccines, and key APIs. The main challenge for Malaysia lies in bridging this gap by further boosting local R&D, attracting more sophisticated manufacturing capabilities (especially for APIs and high-value biologics), and strengthening its position in the global pharmaceutical value chain beyond just generics.

The major challenges to the industry and our recommendations are elaborated in Table 3.

TABLE 3: MALAYSIA'S PHARMACEUTICALS - CHALLENGES AND RECOMMENDATIONS

CHALLENGES	REMARKS	SOLUTIONS/RECOMMENDATIONS

High Import Dependency	• Malaysia still imports:
	  ○ prescription medicines around RM8b annually
	  ○ approx. 47% of essential medicines
	  ○ 95% of Active Pharmaceutical Ingredients (APIs) and excipients
	  ○ 75% of biologics and vaccines
	• This heavy reliance on imports exposes Malaysia to geopolitical risks, currency fluctuations, and global supply chain vulnerabilities
		• Fully leverage the "Off-Take Plus" policy, providing guaranteed procurement contracts from the MOH for locally manufactured essential and high-value "greenfield products" to de-risk investment.
		• Offer attractive incentives to multinational corporations (MNCs) willing to establish manufacturing facilities in Malaysia and engage in genuine technology transfer, especially for APIs, biologics, and innovative drugs.
		• Provide targeted incentives and funding for local companies to invest in API manufacturing
		• Maintain national strategic reserves of critical medicines and raw materials to buffer against immediate supply disruptions.

Regulatory Hurdles and Compliance Costs	• Malaysia's rigorous drug registration guidelines and compliance with international standards (like GMP and BE requirements) can be costly and time-consuming • The dynamic nature of regulatory requirements necessitates continuous adaptation • The existence of unregistered or non-compliant manufacturing and distribution facilities can undermine the credibility of the industry. • A weak or inconsistently enforced Intellectual Property (IP) regime can deter innovation and foreign direct investment (FDI) in high-value products.	• Continue the digitalization of regulatory processes to enhance efficiency and reduce administrative burden. • Fully implement and expand the reliance framework, leveraging approvals and inspections from trusted international regulatory bodies (USFDA, EMA, PIC/S) to expedite product registration without compromising safety. • Strengthen enforcement mechanisms against unregistered facilities and ensure consistent adherence to GMP and GDP across the supply chain.

CHALLENGES	REMARKS	SOLUTIONS/RECOMMENDATIONS
	• Concerns exist regarding "patent clustering" by innovator firms and the need for stricter adherence to patentability criteria.	• Regularly review and update IP laws to balance innovator rights with generic competition and public access, ensuring fair pricing and preventing patent misuse.
Intense Market Competition and Price Sensitivity	• Malaysian pharmaceutical market is highly competitive with numerous local and multinational players. • Local generic manufacturers face stiff price competition from imported generics. • Proposed pricing reforms by the Ministry of Health (MoH) to regulate medicine prices, while aiming for transparency and affordability, could reduce profit margins for drugmakers and impact their operations and investment plans. • Patients often have limited choice and information asymmetry with doctors, making it difficult to foster price-based competition outside of the public procurement system.	• Implement transparent and fair pricing policies that balance affordability for the public with sustainability for the industry. • Engage in open dialogue with industry players to find mutually beneficial solutions. • Encourage doctors to prescribe generic drugs by their International Non-Proprietary Name (INN) to increase generic utilization and cost-effectiveness. • Encourage local players to conduct thorough market research to identify underserved therapy areas and develop customized product portfolios that meet specific Malaysian healthcare priorities.
Logistical Complexities and Supply Chain Vulnerabilities	• Malaysia's diverse geography, with both urban centres and remote rural areas, presents significant logistical hurdles for efficient transportation and distribution. • Temperature-sensitive medications require stringent cold-chain management, adding complexity and cost. • Insufficient advanced infrastructure can lead to delays and increased costs, affecting medicine availability. • Many distributors have been slow to adopt modern supply chain management tools, leading to inefficiencies.	• Develop advanced cold-chain logistics, warehousing, and transportation infrastructure, particularly connecting urban centres with remote areas. • Encourage and incentivize pharmaceutical distributors to adopt modern supply chain management tools, including AI-powered analytics, real-time tracking, and inventory optimization software. • Foster closer collaboration between government, manufacturers, distributors, and independent pharmacies to enhance last-mile delivery and supply chain visibility.
Limited R&D Investment and Innovation	• Historically, Malaysian domestic pharmaceutical companies have focused primarily on generic drugs, with relatively low investment in R&D activities for novel drugs. • While there's a push towards biosimilars and high-value products, the overall capacity for innovative drug development is still nascent compared to global leaders. • A shortage of highly skilled researchers and scientists in cutting-edge pharmaceutical R&D hinder innovation.	• Increase government R&D grants and incentives specifically for high-value research areas like biosimilars, cell & gene therapies, and development of new chemical entities. • Promote strong linkages between academia and industry to drive innovation, translate research into commercial products, and address industry-specific R&D challenges. • Leverage Malaysia's diverse population and growing healthcare infrastructure to become a regional hub for clinical trials, attracting more international studies and building local expertise.
Talent Shortages and Skill Gaps	• A critical shortage of talent, particularly in specialized areas (R&D, clinical trials, regulatory affairs, quality assurance for advanced manufacturing (biologics, sterile products), and supply chain management).	• Collaborate with universities and TVET institutions to develop specialized curricula and training programs for pharmaceutical manufacturing, R&D, regulatory affairs, and digital health.

CHALLENGES	REMARKS	SOLUTIONS/RECOMMENDATIONS
	• Competition for skilled talent can lead to attrition from local companies. • The pharmaceutical sales landscape is transforming from sales-centric to customer-centric, requiring new skill sets in digital engagement and customer relationship management.	• Implement programs for upskilling and reskilling the existing workforce to meet evolving industry demands. • Streamline visa processes and offer attractive incentives for highly skilled foreign talent (researchers, specialists) to work and contribute in Malaysia, particularly in niche areas where local expertise is scarce. • Raise the profile of high-tech manufacturing and pharmaceutical careers among young students to encourage STEM subject uptake.
Outdated Facilities and Low Utilization (for some older local players):	• Some older local manufacturers may have archaic facilities (20+ years old) that require significant investment to meet current Good Manufacturing Practice (GMP) standards, leading to high operating costs. • Portfolio overlap among numerous local players and small batch sizes can result in low-capacity utilization.	• Provide specific grants or tax breaks for local manufacturers to upgrade their facilities to meet the latest GMP standards and adopt Industry 4.0 technologies (automation, digitalization). • Encourage smaller local players to consider consolidation or specialize in niche areas to improve efficiency, increase utilization rates, and achieve economies of scale.

Reducing import dependency encourages localised products. 79% of total volume of generic medicines and 47% of items listed in National Essential Medicines List (NEML) are locally produced. However, most drugs – notably patented medicaments, immunoglobulins, human vaccines and insulins – are still dependent on imports. Malaysia consistently shows widening trade deficit underscores Malaysia's high reliance on imported pharmaceuticals. While local production is strong in generics, the country still depends heavily on foreign sources for innovative, patented, and specialized medicines. This reinforces the government's strategic focus on local manufacturing and technology transfer to enhance medicine security and reduce import dependency in the long run.

More room for pharma growth. The overall trend in the regional and local pharmaceutical market suggests that both domestic and foreign investors will see growing opportunities in Malaysia. The 51% FDI / 49% DDI ratio suggests a healthy balance between local commitment, and global capital and expertise. FDI indicates that Malaysia is highly attractive to foreign pharmaceutical companies, bringing in capital, technology, and global best practices, while DDI signifies robust local entrepreneurship and investment from Malaysian companies, demonstrating confidence in the domestic market and capabilities. We opine that the untapped drug manufacturing ecosystem will continue to follow the megatrend of new innovative drugs – including biologics, biosimilars and cell & gene therapy drugs – and open more opportunities for Malaysia to be a major healthcare hub in the region.

CHART 8: MALAYSIA'S PHARMACEUTICAL MARKET OVERVIEW (2024)

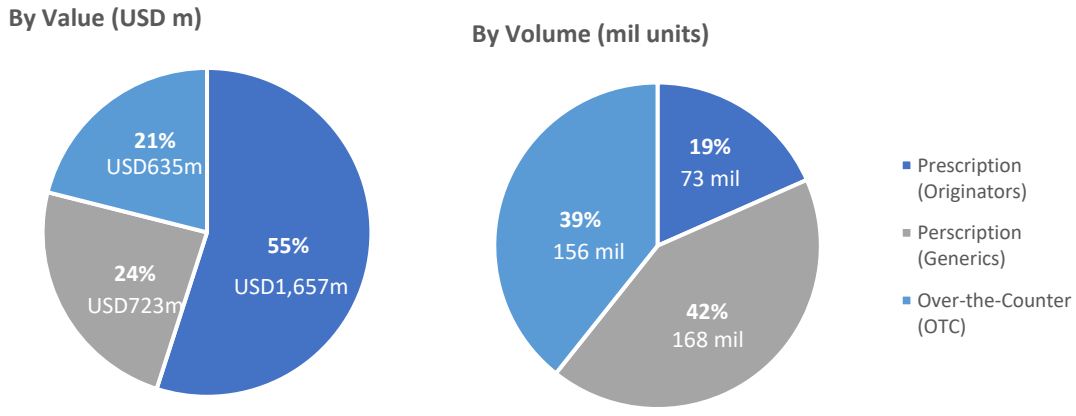


CHART 9: MALAYSIA'S PHARMA SALES (USD BIL)

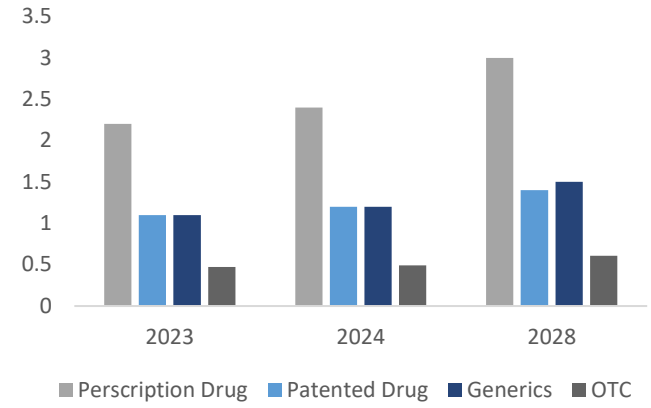


CHART 10: MALAYSIA'S PHARMA DDI V FDI (RM MIL)

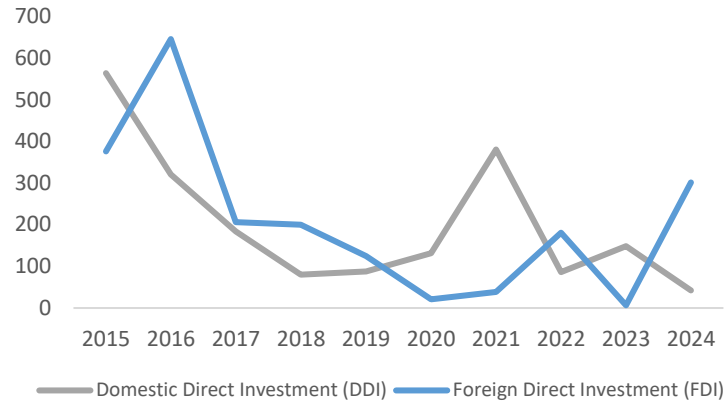
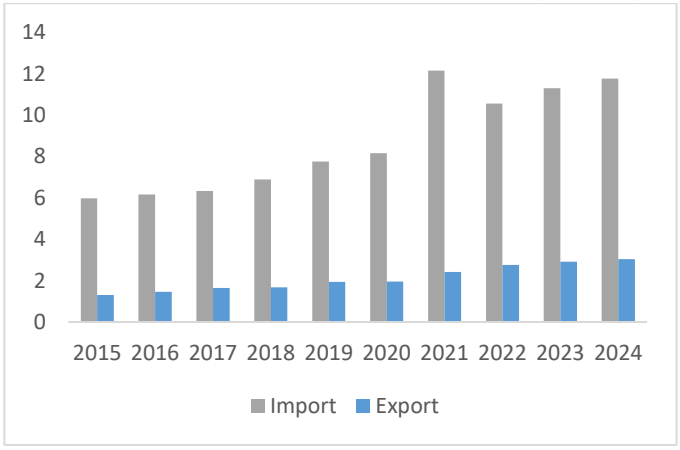


CHART 11: MALAYSIA'S PHARMA TRADE (RM BIL)



Top 5 Export from Malaysia	USD m	%
USA	132.0	18.5
Singapore	132.0	10.3
Brunei	51.7	7.2
Australia	50.0	6.9
Mexico	44.2	6.1
Top 5 Import to Malaysia	**USD m**	**%**
Germany	367.1	13.6
USA	253.8	9.2
China	235.1	8.4
Singapore	232.0	8.4
France	192.0	7

Source: EIU, IMF, MATRADE, MOPI, MIDA, MBSBR

CASE STUDY: NOVUGEN PHARMA SDN BHD

Novugen Pharma is an excellent example of a successful foreign investment in Malaysia's pharmaceutical sector, particularly due to its strategic focus, advanced capabilities, and ability to meet stringent international standards. Its success story highlights Malaysia's potential as a hub for high-value pharmaceutical manufacturing and R&D. Below is a breakdown of the case study:

KEY ELEMENTS	SUCCESS HIGHLIGHTS
Strategic vision and vertical integration	• Established in 2015 as a wholly owned subsidiary of UAE-based SciTech International, a group with over 30 years of global healthcare experience. • Asia's first vertically integrated pharmaceutical, from Active Pharmaceutical Ingredient (API) research and development (R&D) to finished dosage products. This is a significant competitive advantage, offering greater control over quality, supply chain, and cost.
State-of-the-Art facilities and high investment	• State-of-the-art manufacturing facilities which include facilities for general pharmaceutical manufacturing and highly potent oncology drugs. • Invested approximately RM500m in Malaysia to build the R&D and manufacturing facilities, with plans to accumulate up to RM2.2b by 2030. • Facilities are equipped with cutting-edge technology, including fully automated, high containment finished product manufacturing for oncology drugs, making them the first of their kind in SEA.

KEY ELEMENTS	SUCCESS HIGHLIGHTS
Achieving stringent international regulatory approvals	• Received U.S. Food and Drug Administration (USFDA) approval for its general pharmaceutical manufacturing facility, making it as **Malaysia's first pharmaceutical company** and the **only in Southeast Asia** to achieve this accreditation for a general pharmaceutical manufacturing facility. This approval allows them to export solid oral formulations to the highly regulated US market. • **Received** USFDA approval for its manufacturing facility specializing in **high potent oncology drugs**. • **Impact of USFDA Approvals:** ○ certify that its manufacturing processes and quality systems meet the highest global standards. ○ provide direct access to the lucrative US market, the world's largest pharmaceutical market. ○ elevate Malaysia's standing on the global pharmaceutical map as a producer of high-quality, complex drugs.
Product commercialization and pipeline:	• Successfully commercialized products in the US, including Abiraterone 250mg and 500mg tablets (an oncology product) and Midodrine 2.5mg, 5mg, and 10mg, after receiving Abbreviated New Drug Application (ANDA) approvals from USFDA. • Strong pipeline of over 25 ANDAs in filing and late-stage development, indicating continuous future growth and market penetration. • Specialize in complex, niche, and technology-intensive products, often those lacking robust generic alternatives due to their complexity.
Strong support from Malaysian authorities	• Malaysian Investment Development Authority (MIDA) has been a consistent and strong support base • Its success aligns with Mission 1 of the New Industrial Master Plan (NIMP) 2030, aiming for advanced economic complexity in high-technology manufacturing. • Received GMP accreditation from Malaysia's National Pharmaceutical Regulatory Agency (NPRA) prior to USFDA approval, showcasing local regulatory compliance.
Contribution to Malaysia's economy and talent development	• Employs more than 500 professionals, including international scientists and medical experts, working alongside local talent. • Projected to create more than 2,000 professional and skilled jobs in Malaysia by 2030. • Trains local employees in intricate pharmaceutical operations and exposes them to stringent global regulations, fostering a sustainable ecosystem of highly skilled talents. • Collaborate with local universities to provide world-class manufacturing expertise. • Contributes to reducing Malaysia's reliance on imported high-value drugs, including those for chronic care and cancer treatment. • Promotes Malaysia as a manufacturing hub for technology-intensive pharmaceutical and oncology products for global markets.
Global ambition and outlook	• Vision to be the largest and fastest-growing pharmaceutical company in Southeast Asia by 2025, competing in global markets. • By 2030, they aim to export over 320 products from their Malaysian operations to over 75 countries. • Products are Halal-certified by JAKIM, making them attractive to the growing global Halal pharmaceutical market.

Source: NOVUGEN, MBSBR

Essentially, Novugen's success in Malaysia is a testament to its strategic investment in advanced manufacturing, commitment to global quality standards (especially USFDA), and effective collaboration with Malaysian government agencies. It positions Malaysia as a significant player in the high-value pharmaceutical manufacturing space, particularly for complex generics and oncology drugs, and contributes substantially to job creation and talent development within the country. Additionally, its successful investment in Malaysia's pharmaceutical ecosystem underscores the untapped potential of establishing a manufacturing hub for locally created innovative drugs, for both localised use and exports.

SPECIAL MENTION – US TARIFF IMPACT ON MALAYSIAN PHARMACEUTICALS INDUSTRY

Bracing for tariff impact on pharma subsector. The US is a significant trading partner for Malaysia for the pharmaceutical subsector. In 2024, Malaysia's pharmaceutical exports to the US were valued at RM560m, accounting for 18.5% of Malaysia's total pharmaceutical exports (RM3.0b)., while large multinational pharmaceutical companies (MNCs) like Pfizer, Schering Plough, Novartis, Eli Lilly, and Astra Zeneca are mainly licensed importers in Malaysia, distributing branded drugs from their global supply chains. Some local pharmaceutical companies in Malaysia also procure APIs from abroad, which could include US sources. Hence, the trade tariffs that are planned to be imposed on Malaysia may see significant impacts across the subsector value chain, which includes:

IMPACT	DESCRIPTION
Malaysian pharmaceutical exporters (Moderate to High)	• Reduced competitiveness through increased cost for US buyers – reduced demand and lower sales volume • Cancellations of orders from US-based importers • Malaysian exporters will be pressured to diversify their export markets beyond the US to mitigate reliance
Malaysia's healthcare costs (Potentially Significant)	• Price increases from major international pharmaceutical suppliers (including those from China, India, and the EU) who might face pressure to prioritize US-bound shipments or pass on their own increased costs • Higher costs in procuring APIs from abroad • Increased procurement costs for the MOH and private hospitals would likely be passed on, leading to higher medicine prices for patients or reduced availability of certain treatments
Supply chain reconfiguration and resilience efforts (Opportunity & Challenge)	• MOH is already taking proactive steps to diversify its healthcare supply chains, exploring alternative sources for generic medicines and medical devices from countries like China and India to reduce reliance on US and European imports. • Indirectly incentivize greater local production of pharmaceuticals and APIs in Malaysia to reduce import dependency.

While direct pharmaceutical exports from Malaysia to the US might face immediate headwinds from tariffs, the broader impact on Malaysia's healthcare subsector could come from indirect effects on global pharmaceutical supply chains and procurement costs. This would affect the affordability and availability of medicines within Malaysia for all citizens and healthcare providers. The Malaysian government and industry players are already responding by prioritizing supply chain diversification and exploring domestic production enhancements to mitigate these risks. Meanwhile, we believe a multi-pronged approach involving government action, industry adaptation, and consumer awareness will be crucial:

APPROACH	RECOMMENDATIONS
Government-Level (Macro & Policy)	
Diplomatic engagement & negotiation	• Intensify direct negotiations with US authorities, stressing the potential negative impact on healthcare access and affordability in Malaysia • Advocate for specific exemptions for pharmaceutical products, especially essential medicines and medical devices.
Supply chain diversification & resilience	• Expedite efforts to explore and secure alternative sources for generic medicines and APIs from countries like China and India, reducing over-reliance on traditional US and European suppliers. • Provide a "green lane" for fast-tracking registration applications for generic products from new, reliable international suppliers.

APPROACH	RECOMMENDATIONS
Government-Level (Macro & Policy)	
	• Build strategic reserves of essential medicines and critical medical devices to buffer against sudden supply disruptions or price shocks.
Strengthening local manufacturing & R&D	• Enhance tax incentives, grants, and subsidies for local pharmaceutical companies increase their manufacturing capacity for both finished products and APIs. • Invest more in local pharmaceutical R&D, particularly for high-demand generics, biosimilars, and potentially innovative drugs, to reduce import dependency in the long run. • Facilitate technology transfer and partnerships between local and international pharmaceutical companies to boost local capabilities.
Fiscal and regulatory support for industry	• Reassess the Sales and Service Tax (SST) on export-related inputs for manufacturers to ease cost pressures. • Offer subsidized electricity rates or other operational cost relief for strategic industries like pharmaceuticals. • Renegotiate contract prices with pharmaceutical suppliers if global trade disruptions lead to significant fluctuations in procurement costs. The Malaysian Pharmacists Society (MPS) has stressed the urgent need for this.
Economic diplomacy & trade diversification	• Continue pursuing and finalizing Free Trade Agreements (FTAs) with various countries and maximize trade with ASEAN member states and RCEP/CPTPP signatories to expand export markets beyond the US. • Position Malaysia as an attractive hub for pharmaceutical manufacturing and R&D, potentially even for US companies looking to diversify their own supply chains out of higher-tariff countries.
Industry-Level (Private Sector & Hospitals):	
Supply chain optimization & risk management	• Conduct thorough assessments of their current supply chains to identify vulnerabilities to US tariffs, including indirect impacts on APIs. • Seek and qualify new international suppliers from low-tariff or non-tariff countries for APIs and finished products. • Review existing contracts with US importers and international suppliers for clauses related to force majeure, price adjustment, or duty liability to understand cost-sharing mechanisms. • Develop robust contingency plans for potential supply disruptions, including alternative sourcing, buffer stocks, and alternative product formulations if possible.
Product & market diversification	• Diversify their export markets to ASEAN, Middle East, and other countries where Malaysian products might have a competitive edge due to quality, Halal certification, or existing trade agreements. • Prioritize the production of essential and high-demand generic medicines for the domestic market to reduce Malaysia's own import dependency. • Shift in demand towards more affordable, quality generic medicines, benefiting local manufacturers.
Efficiency & cost control	• Implement lean management principles, automation, and digitalization to improve manufacturing and operational efficiency and absorb potential cost increases without significant price hikes. • Explore options for bulk purchasing of medicines and medical devices, potentially through industry consortia or increased government-private sector collaboration, to gain better bargaining power.
Collaboration with government	• Industry associations to maintain strong engagement with the MoH and MITI, providing real-time feedback on tariff impacts and contributing to policy discussions. • Identify critical medicines and devices most vulnerable to supply disruptions or price hikes due to tariffs.
Consumer/Public Level	
Promote Generic Drug Acceptance	• Intensify public awareness campaigns on the safety, efficacy, and cost-effectiveness of generic medicines • Encourage better medicine adherence to reduce wastage and optimize existing resources.
Health Literacy	• Educate the public on the factors influencing medicine prices and the potential impact of global trade policies, to manage expectations.

CONCLUSION

Pharmaceuticals poised for sustained growth. The Southeast Asian pharmaceutical market is poised for significant and sustained growth, driven by a powerful combination of urbanization and an aging population. This dual demographic shift is creating a vast and expanding need for healthcare services and medicines, particularly for the rising burden of non-communicable diseases like cancer, diabetes, and cardiovascular conditions. While the region is characterized by a diverse market landscape with varying levels of healthcare expenditure and different paces of development, the overall trend points to vast untapped potential. This growth dynamic necessitates a strategic focus on both generics, to ensure affordability and access, and on specialized geriatric care to meet the needs of the aging population.

Booming biologics to bolster future trajectory. NCD therapeutic areas will remain a central driver of demand, ensuring a stable and growing market for pharmaceutical products. Looking ahead, a major trend is the booming biologics market and the emergence of biosimilars as the next key growth engine. As high-cost biologics' patents expire, biosimilars will offer a more affordable alternative, creating significant export opportunities for countries that can invest in local manufacturing and prioritize speed to market. Ultimately, success in this dynamic subsector requires a sophisticated, multi-faceted approach. Pharmaceutical companies must move beyond a "one-size-fits-all" model and implement creative market access strategies, engaging closely with a wide range of stakeholders from government bodies to patient groups. A localized go-to-market model tailored to the specific cultural, economic, and regulatory nuances of each country is essential to capitalize on the immense growth potential of SEA and Malaysia's pharmaceutical market.

Advanced medtech to aid in pharmaceutical challenges. While the region offers immense growth opportunities, a strategic dichotomy exists. On one hand, there is a strong focus on high-value, innovative therapies, with oncology leading in terms of new drug launches and market share. This trend is further amplified by the booming biologics market. On the other hand, a persistent need for affordability and cost-containment measures is driving an increasing emphasis on generics and biosimilars. This creates significant opportunities for countries to invest in local manufacturing, not just to meet domestic demand but also to become key exporters of biosimilars, a market segment poised for rapid expansion as patents for high-cost biologics expire. Additionally, the involvement of advanced technology and AI-based operations is positioned to further improve the pharmaceutical market. We will share and discuss this in Part 3 of the report.

MAINTAIN POSITIVE

Overall, we maintain positive on the healthcare sector. The pharmaceutical market is fundamentally driven by robust demographic trends, which naturally increases the demand for healthcare services and medicines. The growing prevalence of NCDs such as cancer, diabetes, and cardiovascular conditions, which require long-term medication and fuel sustained pharmaceutical consumption, is expected to continue support all levels of the healthcare sector. Hence, we believe the growth in the pharmaceutical market will continue to grow in tandem with the expansion of investments in healthcare infrastructure (assets, accessibility and affordability). Additionally, the shift towards advanced biologics and the emergence of more affordable biosimilars are creating new, high-growth market segments in the near term. The pharmaceutical industry is gradually being recognised as a strategic industry, buoyed by the government's ongoing offering in investment facilitations, tax incentives, and support for R&D.

While we do not rate any pharmaceutical companies at the moment, we are optimistic on **Duopharma Biotech Bhd** and **Pharmaniaga Bhd**'s prospects in the local pharmaceutical ecosystem.

Duopharma and Pharmaniaga are well-positioned to capitalize on their strong domestic presence as well as a stable and reliable revenue base. The companies have historically secured and are likely to continue securing contracts with MoH, giving them a strong advantage in ensuring a steady stream of revenue. Their product portfolios include generics drug, which aligned perfectly with the government's cost-containment measures. Both companies are also actively moving beyond traditional generics. Pharmaniaga's focus on its halal-certified vaccine and insulin, and Duopharma's investment in oncology drugs and other biosimilars position them to capture the rapidly growing biologics and biosimilars market. Local pharmaceutical companies like these are actively reinvesting and expanding their capabilities, including in advanced AI-based technology for drug discoveries, which is crucial for long-term growth and competitiveness.

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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