Insurance

The Tug-of-War Continues

POSITIVE (Maintain)

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HIGHLIGHTS

- **A delay in the DRG system rollout remains the latest blip in the long road toward curbing healthcare inflation**
- **It remains to be seen whether some form of balance can be struck between insurers seeking cost-effective solutions and healthcare providers advocating for patient choice and maintaining quality care standards**
- **Healthcare inflation remains a tricky issue to fix – especially when higher spending on the healthcare sector seems inevitable**
- **Nevertheless, there are also signs of progress: we are confident that healthcare inflation will show some degree of improvement, particularly due to the efforts of insurers**
- **Maintain POSITIVE call: Despite its headwinds, the insurance sector has attractive valuations and dividend yields**

Our Verdict	**The sector continues to be plagued by headwinds. Our primary concern remains: If healthcare inflation is still rampant, what will happen at the end of BNM's three-year cap on medical insurance premium hikes?** **But there are multiple tailwinds: A cheap price point, attractive dividend yields, a possible windfall in investment income and encouraging progress by insurers in working towards the healthcare inflation problem make the sector due for a positive rerating.** **Companies under our coverage are market leaders, which helps them weather some challenges better than most.**
Core Themes	1. ▲ Sector dividends are attractive, with all 3 companies under our coverage boasting >5% dividend yields. 2. ▲ Sector valuations are attractive, especially when compared to regional peers. 3. ▲ Recent declines in MGS yields imply a possible investment income windfall. 4. ► A milder economic outlook caps growth prospects. The resultant weaker stock market performance may impact investment-linked policy take-up. 5. ► Hardening of reinsurance premiums remains a structural issue, though there are fewer flood incidents this year. 6. ▼ The insurance industry remains highly competitive and bound for consolidation. 7. ▼ Healthcare inflation overhang exists. However, insurers seem to be making good progress in resolving healthcare inflation issues.

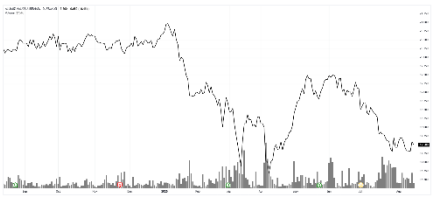
COMPANY *IN FOCUS*

Allianz

Maintain BUY | Target Price: RM21.59
Price @ 14 August 2025: RM17.50

- AGIC continues to aggressively capture market share, capitalising on its economies of scale.
- ALIM seems to be tackling healthcare inflation well, with health loss ratios outperforming the industry in 1QFY25.

SHARE PRICE CHART

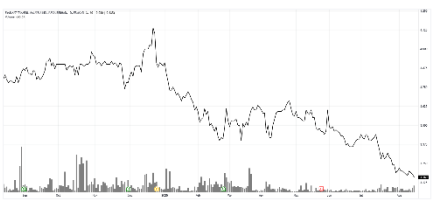


STMB

Maintain BUY | Target Price: RM4.59
Price @ 14 August 2025: RM3.16

- General segment to perform stronger, after portfolio restructuring.
- Family segment to see double-digit GWP growth.
- Kaotim app performance exceeds expectations.

SHARE PRICE CHART



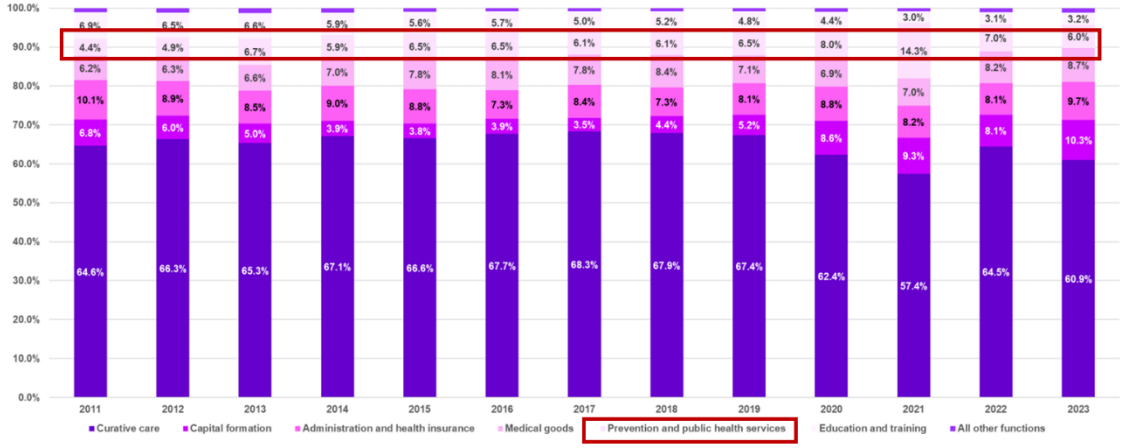
As expected, the government has delayed mandating a diagnosis-related groups (DRG) payment system for private hospitals once again. Originally set for mid-2025, Malaysia will now only roll out the DRG system by 2027 – delaying an effective means of curbing healthcare inflation. Some notable points:

1. **Instead, an interim version of the DRG will start at selected private hospitals this year.** This version comprises a basic Medical and Health Takaful Insurance (MHIT) in 2026, which serves as a standardised platform to ensure the continuity and effectiveness of the DRG-based payment system.
2. **DRG system rollout has been "delayed" before.** Initially slated for implementation in private hospitals by end-2025, the government has deferred this plan, only intending to implement the DRG at select public hospitals. This is due to challenges arising from private hospitals' "varied service levels and pricing".
3. **In essence, DRG is a patient classification system that standardises reimbursement based on the diagnosis and treatment provided.** This reimbursement model uses fixed payments per episode of care, contrasting with fee-for-service (FFS) models, where each individual service is charged. This system has already been implemented in several Asian countries, including Thailand, Indonesia and the Philippines for many years.

Insurers are taking drastic measures towards curbing medical inflation – unfortunately, higher spending on and by the healthcare sector seems inevitable.

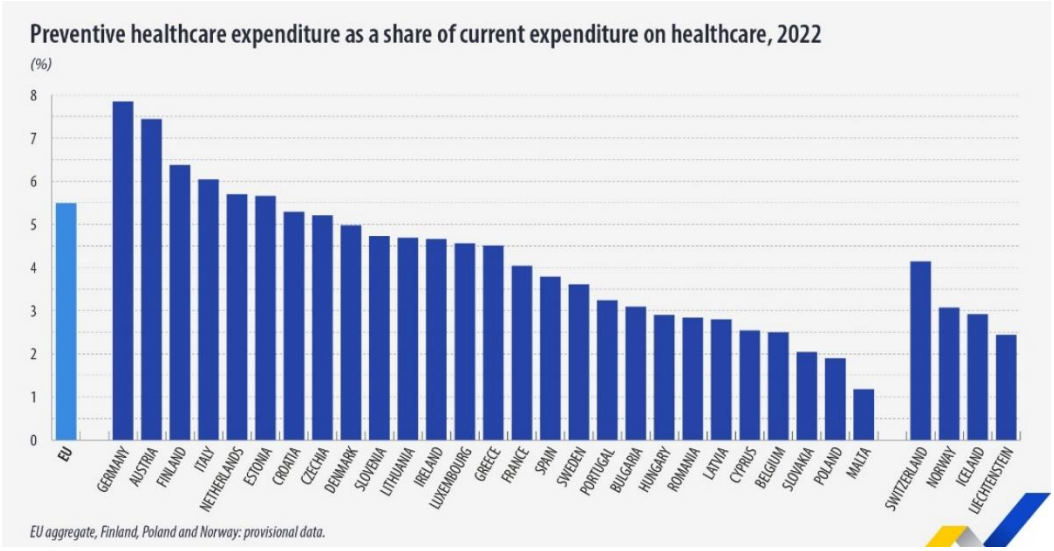
1. **Malaysia's healthcare tourism industry needs to compete with regional peers.** Healthcare tourism has become one of Malaysia's targeted economic drivers. Heavy spending on infrastructure catering towards the healthcare tourists, particularly luxury private hospitals, has been the trend in the last couple of years. The industry faces growing competition from other countries in the region, particularly Thailand (relaxing medical visas, memorandum of understanding with other countries) and Singapore (providing more complex procedures).
2. **The Association of Private Hospitals Malaysia (APHM) continues to advocate for patient choice and maintaining quality care standards.** Some choice cuts from a tumultuous couple of years:
    a. **Rejecting the insurance and takaful operators' (ITOs) proposal for private hospitals to freeze costs for three years.** APHM cites challenges stemming from rising staff wages, supplier input costs, utilities, and medico-legal expenses. It points to Malaysia's success in containing baseline costs for patients in comparison to the rest of the world, despite similar input costs to hospitals.
    b. **Rejecting ITO's proposal for the MOH to regulate the pricing of pharmaceuticals of medications.** While APHM promotes generic drug use, it also states that direct price controls could limit access to new treatments in Malaysia's small market.
    c. **Rejecting insurers' claims of "buffet table syndrome".** Instead, APHM attributes rising health insurance claims to hospitals seeing an increase in more severe cases with no clear explanation (e.g. incidences of pneumonia or dengue seem to result in more medically adverse outcomes than in previous years) – perhaps due to complications arising from Covid-19.
3. **A failure of preventive healthcare initiatives, which has led to a non-communicable disease (NCD) crisis – currently, treatment expenses far outweigh prevention costs.** APHM has previously criticised the fact that only 6-7% of the MOH's budget goes to prevention, while the rest funds treatment (Note that this is higher than the EU average of 5.5% in 2022). We feel that part of this is due to the "hospital-heavy" nature of Malaysia's healthcare system, lacking the ambulatory and primary care centres that often serve the first line of defence and detection of community healthcare.

FIG 1: Malaysia's Total Expenditure of Health by Function, 2011-2023



Source: MOH, MBSBR

FIG 2: EU's preventive healthcare expenditure as a share of current expenditure on healthcare, 2022



Source: Eurostat, MBSBR

It's not all doom and gloom – some progress is still being made towards resolving medical inflation.

1. **The Price Control and Anti-Profiteering (Price Marking for Drug) Order 2025 will enforce mandatory medicine price display in the private sector by 2026.** The initiative aims to enable the public to make informed choices by knowing the prices they need to pay and to encourage competitive medical pricing. Note that there has been some resistance to the ruling – a judicial review bid was filed by several medical groups.
2. **Active pharmaceutical ingredients (API) raw material prices are falling back to pre-pandemic levels.** Recall that API prices shot up during the pandemic and remained at elevated levels for several years. This was due to logistical and transport constraints, factory closures and increased demand for healthcare products.
3. **While still in the early stages, insurers are seeing some progress in co-pay uptake and managing health loss ratios.** Most notably, Allianz reported promising co-pay plan uptake. Healthcare insurance providers seem to be taking a harder stance towards high-spending healthcare providers – across the board, they reported lower health loss ratios in 1QCY25 on a sequential year basis.

Maintain POSITIVE call. (Our comprehensive list of sector drivers is on the first page).

Top downside risks include:

1. Economic downturn, leading to weaker premium growth.
2. Rapid healthcare insurance persists.

Top Picks: Allianz (BUY, TP: RM21.59) and **STMB (BUY, TP: RM4.59).**

PEER COMPARISON

Companies	Rec	Share P*	Target P	Upside	Mkt Cap	P/E (x)		P/B (x)		ROE (%)		Div Yield (%)	
		(RM)	(RM)	(%)	(RM b)	FY25	FY26	FY25	FY26	FY25	FY26	FY25	FY26
LPI	BUY	14.84	15.25	2.8	5.9	15.3	14.2	2.4	2.3	15.8	16.5	5.6	6.0
ALLIANZ	BUY	17.50	21.59	23.4	6.0	7.5	7.1	1.0	0.9	13.3	13.0	5.3	5.6
STMB	BUY	3.16	4.59	45.3	2.8	6.7	6.4	1.2	1.1	20.1	18.6	5.6	5.8
Simple avg						**9.8**	**9.3**	**1.5**	**1.4**	**16.4**	**16.0**	**5.5**	**5.8**
Weighted avg						**10.5**	**9.9**	**1.6**	**1.5**	**15.6**	**15.5**	**5.5**	**5.8**

**Closing prices from 14 Aug 2025.*

Source: MBSBR

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MBSB INVESTMENT BANK (formerly known as MIDF Amanah Investment Bank): GUIDE TO RECOMMENDATIONS

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