

1 August 2023

Health Care Facilities & Svcs

Painting a Greater Picture Of Malaysia's Healthcare

- **Still OVERWEIGHT; Top Pick: KPJ Healthcare (KPJ).** We organised our inaugural Healthcare Sectoral Sharing session in collaboration with Bursa Malaysia on 26 Jul. Key takeaways include: i) The importance of private-public partnership (PPP) in the healthcare system; ii) opportunities, challenges, and digital transformation in the health tourism (HT) sector, and iii) discussions on the post-pandemic industry landscape. Our sector rating is underpinned by structural inelastic demand, which offers earnings resilience going forward.
- **Health tourism.** Malaysia Healthcare Travel Council's (MHTC) senior manager of corporate strategy, Shalani Pandian spoke on the outlook for HT. Asia's HT sector is estimated to be worth USD54.4bn by 2026, as the region is the most sought-after destination due to its cost advantages, increasing awareness, rising standards of services provided, and the availability of high-quality treatment. Malaysia's HT revenue is expected to recover to pre-pandemic levels this year. MHTC unveiled three key strategies for the sector: i) Strengthening the healthcare digital ecosystem, ii) developing a healthcare technology sandbox programme, and iii) initiatives by Malaysia Healthcare Intel (MHI) and Malaysia Healthcare Resources (MHR) to spur the HT sector's growth by fast-tracking digital adoption.
- **PPP – the future of healthcare.** Datuk Dr Kuljit Singh, President of the Association of Private Hospitals Malaysia (APHM) said PPP initiatives remain lacklustre due to the dichotomy system (ie difference in funding sources). He said the PPP model could lead to better operating efficiency via resource and expertise sharing to better serve patients who face long waiting times due to the shortage of medical officers or medical equipment in the public sector. He said the obstacles for the PPP model are the cost-sharing mechanism and "trust issues" between the parties. To future-proof Malaysia's healthcare system, Dr Kuljit said there is a need to further strengthen preventive care (more screening services needed in the public sector), adopt the PPP model (potentially reducing healthcare costs), and reform the nursing workforce (for better career prospects, reasonable pay).
- **Outlook.** We stay OVERWEIGHT on the healthcare sector, given its relatively inelastic demand, which offers investors a defensive play amid ongoing macro challenges that could adversely affect the resilience of consumer demand going forward. We also maintain KPJ as our sector Top Pick, based on: i) Its organic expansionary strategy to drive patient growth, ii) being less impacted by nursing staff shortages, and iii) the gradual increase in HT. As we remain sanguine on the outlook for healthcare service providers, we think KPJ's greater domestic focus offers earnings stability.
- **Key downside risks:** Higher-than-expected operating costs, lower-than-expected patient visits/revenue intensity growth, and unfavourable drug pricing mechanism from the Ministry of Health (MOH).

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Overweight (Maintained)

Stocks Covered 4
Rating (Buy/Neutral/Sell): 3 / 0 / 1
Last 12m Earnings Revision Trend: Negative

Top Pick **Target Price**
KPJ Healthcare (KPJ MK) – BUY MYR1.46

Analyst

Oong Chun Sung
+603 9280 2181
chun.sung@rhbgroup.com



ESG scores of healthcare companies under our coverage

Company	ESG scores
IHH	3.0
KPJ	3.0
Duopharma	2.8
Kotra Industries	3.3

Source: RHB

Company Name	Rating	Target (MYR)	% Upside (Downside)	P/E (x) Dec-24F	P/B (x) Dec-24F	ROAE (%) Dec-24F	Yield (%) Dec-24F
Duopharma Biotech	Buy	1.59	22.5	12.5	1.6	14.4	2.7
IHH Healthcare	Buy	6.80	14.3	31.5	1.9	6.2	1.1
Kotra Industries	Sell	4.90	(11.4)	11.7	2.5	3.8	4.3
KPJ Healthcare	Buy	1.46	27.0	17.8	2.0	11.6	2.8

Source: Company data, RHB

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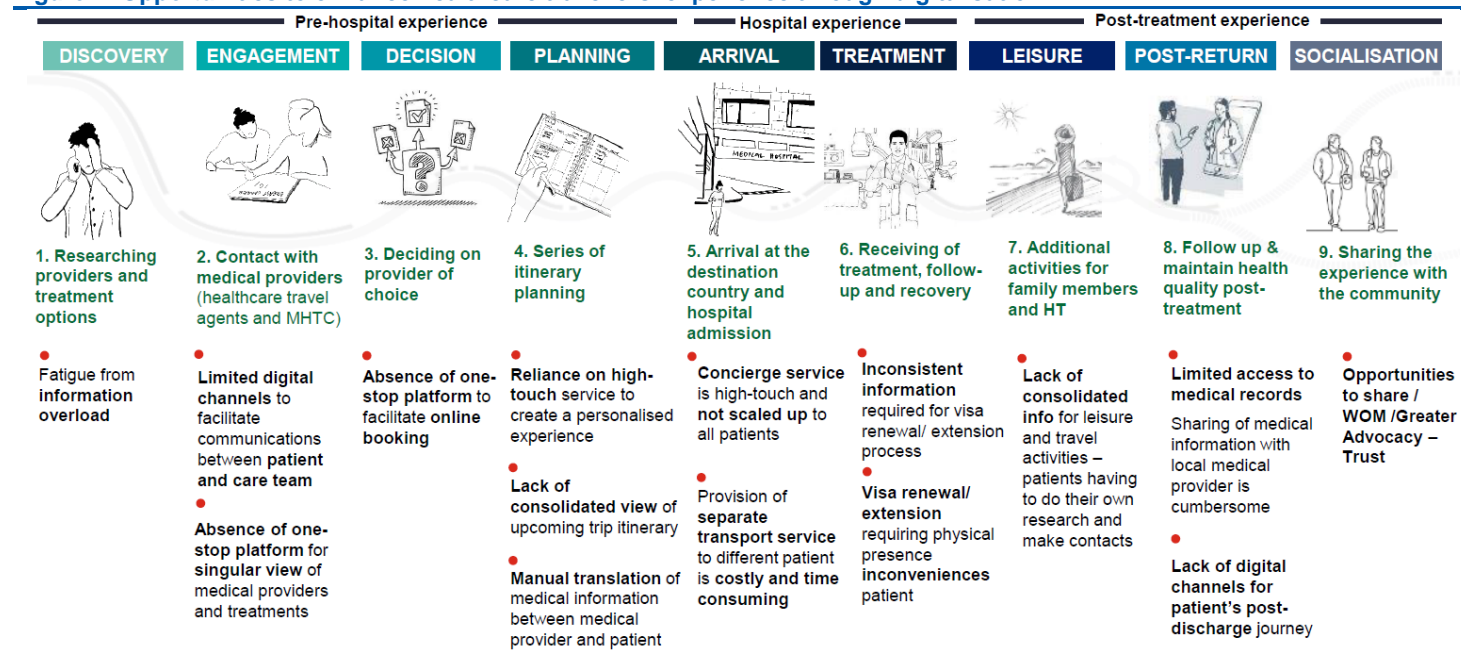
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Additional takeaways from the briefings

MHTC: There are multiple digitalisation opportunities to tap into along the healthcare traveller's journey. The pre-hospitalisation stage is of utmost priority for digital inclusion, as it serves as the primary touch point to potentially attract tourist visits to Malaysia. Three key initiatives in this area are: i) Strengthening the healthcare digital ecosystem (bookings via apps, digital translator devices, e-VISAs), ii) developing a healthcare technology sandbox programme (selected hospitals will be designated as sandbox sites for start-up companies and solution providers to test-bed medical and healthcare technologies), and iii) MHI and MHR initiatives to spur HT sector growth by fast-tracking digital adoption.

Growing hand-in-hand with regional peers. The success of Thailand's HT sector has a long history tied to the country's outstanding tourism and hospitality services. Thailand tops Asian countries in terms of the number of hospitals accredited by the Joint Commission International (JCI), which is the top global standard for healthcare quality and patient safety. The country has 60 JCI-accredited medical sites, while India has 37, Japan has 31, Malaysia has 17, and Singapore has five (as of 2021). The JCI accreditation has become a key stamp of approval for hospitals in developing countries seeking medical tourists. Rather than competing head-to-head with the regional competitors, MHTC believes that: i) All patients should receive necessary treatments at affordable prices; ii) HT in the Asia-Pacific region should continue to grow sustainably for the betterment of the regional HT industry.

Malaysia has key competitive advantages such as a regulated fee structure (the Thirteenth Fee Schedule: Federal Government Gazette of the Private Healthcare Facilities and Services (Amendment) Order 2013) which ensures all patients (including foreign patients) are charged below a maximum rate. Other advantages include a low language barrier, as well as value-for-money treatments available. Moving forward, MHTC is looking to diversify towards different market regions such as the Middle East and Bangladesh, by attracting the elite and affluent customer groups to diversify from the current heavy reliance on Indonesia tourists (c.80% of Malaysia's HT receipts).

Figure 1: Opportunities to enhance healthcare travellers' experience through digitalisation

Source: Malaysia Healthcare Travel Council (MHTC), RHB

APHM: The idea of private healthcare was first initiated by a group of retired doctors from the public sector in the 1970s, with the objective of providing medical services to the public. This idea evolved into multiple chains of privately owned hospitals. With private healthcare continuing to thrive, Malaysia's public healthcare sector remains under pressure with a shortage of nurses, lack of resources, overworked and underpaid medical practitioners, as well as long waiting times for patients. The concept of PPP has been suggested by various groups – including the MOH – as a key driving factor to improve Malaysia's healthcare system and enhance the country's reputation as a hub for world-class healthcare services. In fact, the PPP model was put to test during the pandemic, where private hospitals worked together with public hospitals to offer vaccinations as well as treatments and isolation services for COVID-19 patients.

To put things into perspective, the PPP model is capable of helping the Government, particularly in the decanting process (such as public hospital outsourcing a portion of patients to be treated at private hospitals at an agreed lower fee). To recap, the Government outsourced thousands of non-COVID-19 patients to private hospitals at the height of the pandemic in 2021, at a cost of at least MYR128.8m, according to the MOH's 2021 Annual Report. Under the COVID-19 PPP, the MOH – through its not-for-profit company, Protect Health Corporation SB – spent a total of MYR393.4m for COVID-19 vaccine doses administered at more than 2,200 vaccination centres (PPVs) in 2021. The PPVs administered more than 25.2m doses of vaccines, including over 5m doses by general practitioners and 2.9m via private hospitals.

What are the key obstacles? We think it is crucial to accelerate the PPP initiative to brace for any potential impact from a new wave of diseases. The lesson learnt in 2020-2021 from the COVID-19 pandemic underscores the need to further strengthen Malaysia's healthcare system. The primary hindrance to the lack of integration is the dichotomy system, as the public sector is primarily tax-funded, whereas the private sector is covered by out-of-pocket payments, corporate coverage, or for-profit private insurance. In view of this, the public sector is often reluctant to outsource patients to the private sector, given the relatively higher fees charged by the latter.

Secondly, APHM notes that the dichotomy system has also meant that information is not easily shared, leading to delays in diagnosis and treatment, unnecessary repeated investigations, and added costs. Resources across the public sector and private sector need to be more effectively and efficiently utilised. Less dichotomy and more partnerships or integration will reduce the pressures on public sector facilities, while increasing access for patients – and ultimately facilitating a seamless flow of care between providers, whether in the public, private, or non-profit sector.

Key points from the Health White Paper (HWP). The HWP was published on 13 Jun, outlining the various challenges and gaps in Malaysia's healthcare system, as well as the reformation agenda for the next 15 years. PPP was mentioned as a key transformation pillar to better widen healthcare services, and reduce crowds and waiting times at the public healthcare facilities, with high-demand procedures also brought closer to the people.

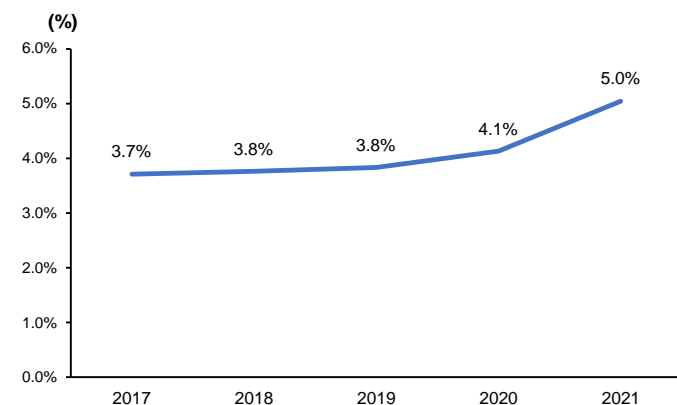
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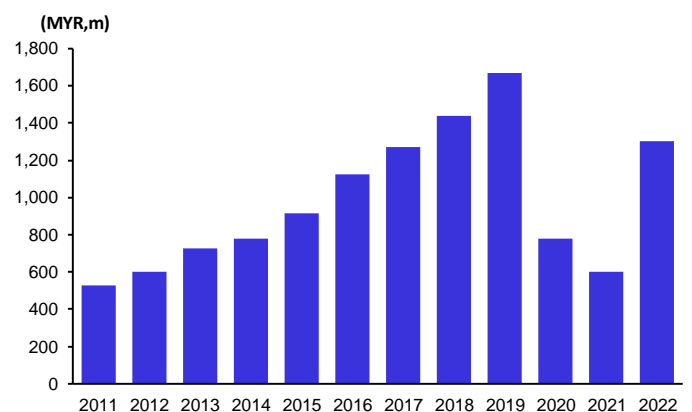
Figure 2: Summary on PPP as stated in the HWP

Objectives	Key initiatives
To improve access to healthcare services, including at the community level, involves addressing the imbalance in workload and resource utilisation across the public, private, and not-for-profit sectors.	PPP can address the issue of workload imbalance by enabling the public sector to outsource its patients to the private sector (at an agreed lower fee), resulting in shorter waiting time
To embrace medical record sharing	PPP service delivery will be further enabled by the implementation of shareable medical information and records with clear referral and follow-up guidelines. This will allow inter-sectoral referrals and feedback processes to operate efficiently.
To deepen PPP initiatives apart from COVID-19 vaccination and PeKa B40 screening	Implementation of secure shareable Electronic Medical Record (EMR) and Lifetime Health Record (LHR), with inter-operability between healthcare providers.
To enhance the resource sharing mechanism	Developing a comprehensive framework for procurement and PPP in healthcare service provision including the establishment of value-based payment models, demand-supply mapping, and strengthening of the strategic purchaser function.
To address staff shortages in the public sector	Developing and implementing human resource requirements for the optimisation of hospital care, including defining new positions and training.
	Procurement of hospital care services from the private sector will be progressively and strategically implemented.
	PPP model will be enhanced for pre-hospital care and ambulance services, towards making these services more responsive.
	The Government should develop and implement the human resource requirements for the optimisation of hospital care, including defining new positions and training.

Source: Health White Paper (HWP), RHB

Figure 3: Malaysia's total healthcare spending (as a percentage of GDP)

Source: Department of Statistics Malaysia (DOSM), Organisation for Economic Co-operation and Development (OECD), RHB

Figure 4: Malaysia's health tourism revenue

Source: MHTC, RHB

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Roundtable discussion with IHH

Our sectorial session ended with a panel discussion with the CFO of IHH Healthcare (IHH MK, BUY, TP: MYR6.90), Joerg Ayrlle. Here is a quick wrap-up on the various points highlighted during the session:

Expansion plans and near-term outlook. The group intends to roll out 2,000 beds over the course of the next three years in regions such as Malaysia, India, and Turkey. The shortage of nurses was one of the major issues highlighted collectively by the panel speakers, as well as IHH. Ayrlle also noted the need for policy reform to ensure a better pay structure and career progression before Malaysia loses its local talent to foreign countries (primarily Singapore, the Middle East, and New Zealand).

Fortis. Post the High Court hearing in Sep 2022, IHH has reiterated that it is no longer liable for any legal encumbrance after the Supreme Court of India declared IHH not guilty of any wrongdoing pertaining to the Fortis investment. Post final court order, IHH is ready to pursue a mandatory takeover offer (MTO) of the remaining 26% stake in Fortis once it receives approval from the Securities Exchange Board of India.

Greater China. The disposal of its Chengdu hospital was completed in 4Q22, and the impairment of Parkway Shanghai Hospital was reflected in 4Q22 due to the later-than-expected opening, as the progress of construction was hampered by the zero-COVID policy in China. A de-risking exercise remains its key priority in the near term, as IHH is looking to exit its China venture. Nevertheless, Gleneagles Hong Kong (achieved EBITDA positive in 2022) is expected to achieve another year of excellence after the pick-up in patient footfall following the lifting of the cross-border travelling restrictions in early Jan 2023.

Turkey. IHH remains confident on its Turkey business, underpinned by its organic expansion strategy (via acquisition of Kent Health Group in Feb 2023), commendable patient growth (as the primary patients are coming from affluent backgrounds), and HT traction picking up (has surpassed pre-pandemic levels). Despite Turkey continuing to face headwinds arising from the hyperinflationary environment, the group believes its swift response in passing through costs to customers, as well as its current practice of eliminating non-TRY (Turkish Lira) revenue (1Q23: 27% non-TRY revenue, 2019: 23%) could offer some respite.

To sum things up:

While we recognise the various challenges faced by private healthcare service providers, we are rather upbeat on the outlook for the healthcare sector, thanks to the inelastic nature of demand for healthcare services, pick-up in international patient visits, and the aging society trend, which could potentially open up new avenues of growth (ie wellness and geriatric services). Government policy reforms should aid in fast-tracking the advancement of the healthcare industry and future-proof the industry from any pandemics in the future. With the introduction of the HWP, there are many details and action plans that will need to be worked out in the years ahead. The recommendation under the HWP, which suggests that MOH should focus primarily on its role of governance and relinquish its role as a purchaser and healthcare service provider could contribute to a more transparent function. With a clear separation between the two roles, the HWP aims to introduce appropriate competition and innovation in the healthcare space and ensure more consistent monitoring and evaluation of all health facilities, including public health facilities. In our view, not only would this strengthen the morale and political position for the next 15 years of proposed reforms, it would also symbolise MOH's will for a future-proofed healthcare system.

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470