

SECTOR UPDATE

Healthcare – Malaysia

Policy Overhang But Sector Offers Other Jewels

Maintain MARKET WEIGHT on the healthcare sector due to limited upside in the hospital segment, with forecasted earnings growth at 7.6% amid elevated valuations. Despite structural positives from IHH's and KPJ's brownfield focus, these are balanced by policy overhang. Alpha IVF and Duopharma stand out as top picks, driven by Alpha IVF's regional expansion and Duopharma's expected cost-led recovery in 2025.

WHAT'S NEW

- Medical insurance premium uproar.** Amid the public outcry over steep adjustments of 40-70% to medical insurance premiums, Bank Negara is limiting premium increases to 10% for the vast majority of its policyholders. This measure will remain in place until the end of 2026. As a result, at least 80% of policyholders are expected to experience yearly premium adjustments due to medical claims inflation of less than 10%.
- DRG to keep medical inflation in check.** In return, to keep medical inflation in check, the Ministry of Health (MoH) is expected to shift private hospital charges from the existing fee-for-service payment system to the diagnosis-related groups (DRG) payment system. The latter involves paying a fixed amount based on the complexity of a case, rather than itemising each charge.
- Knee-jerk reaction.** The announcement caused pre-emptive knee-jerk selling in KPJ and IHH, which both dipped by an average of 6.5%. Both have since recovered 3.4%. Until further details are revealed by MoH's DRG policy, it is too premature to assess the outcome.
- Sentiment likely to remain cautious until there is clearer visibility.** We take cue from Thailand's introduction of price ceilings on a range of medical services in 2019. The three largest Thailand private hospitals' 2023 operating margins grew 2.2ppt vs before the policy was implemented. During the year of implementation, margins only declined by 0.3% yoy to 26.5%. While it is a very simplistic comparison, there are similar parallels in terms of increased regulation and limits to free market forces in Malaysia. Fears of DRG implementation in Malaysia may be overblown. However, we acknowledge that investors could remain on the sidelines as they await further policy visibility and assess the impact on private hospitals.

ACTION

- Maintain MARKET WEIGHT, skewed towards subdued hospital segment.** The hospital segment's earnings growth outlook of 7.6% for 2025 appears decent, but hospitals trade at an average one-year forward PE of 30.7x, above their regional peers. The premium valuations appear to be pricing in both IHH's and KPJ's switch to a more brownfield focus which is a structural positive for margins. Furthermore, due to the policy overhang and an anticipated risk-on environment, the sub-sector is likely to underperform. As hospitals are heavyweights in the sector, the segment anchors our MARKET WEIGHT rating on the healthcare sector.
- Alpha IVF and Duopharma are our top picks for the sector.** Alpha IVF and Duopharma offer more appealing opportunities that have yet to be reflected in their valuations. Alpha IVF is undertaking exciting regional expansion while Duopharma is expected to see a sharp input cost-led recovery in 2025.

REGIONAL PEER COMPARISON

Name	Ticker	Rec	Currency	Price @ 31		Mkt Cap (US\$m)	PE (x)		EV/EBITDA (x)		Div Yield (%)		P/B (x)
				Dec 24 (lcl)	Target Price (lcl)		2025F	2026F	2025F	2026F	2025F	2025F	
IHH Healthcare	IHH MK	BUY	RM	7.30	8.05	14277	30.5	27.5	13.2	12.2	1.4	2.0	
BKK. Dusit	BDMS TB	BUY	THB	24.50	33.00	11380	22.6	20.7	14.5	13.3	3.1	3.7	
Bumrungrad Hosp	BH TB	BUY	THB	199.50	303.00	4636	20.1	19.5	14.3	13.7	2.7	5.1	
KPJ Healthcare	KPJ MK	HOLD	RM	2.43	2.30	2376	30.8	27.9	14.6	13.6	1.8	4.0	
Raffles Medical	RFMD SP	HOLD	SGD	0.85	1.01	1141	21.4	19.4	10.4	9.5	2.9	1.4	
BKK. Chain Hosp.	BCH TB	BUY	THB	15.30	20.00	1115	22.4	20.1	11.7	10.8	2.4	2.7	
Regional hospitals avg						4129	23.5	21.5	13.1	12.2	2.6	3.4	
APEX Healthcare	APEX MK	NR	RM	2.47	n.a.	402	17.8	16.6	13.9	13.7	2.3	1.7	
Duopharma	DBB MK	BUY	RM	1.25	1.39	365	23.6	18.7	14.6	11.5	2.2	1.5	
Alpha IVF	ALPHA MK	BUY	RM	0.34	0.40	269	13.9	12.9	8.7	8.1	2.2	1.5	
Malaysia healthcare avg						345	18.4	16.1	12.4	11.1	2.3	1.6	

Source: Bloomberg, UOB Kay Hian

MARKET WEIGHT

(Maintained)

HEALTHCARE INDEX VS FBMKLCI INDEX



Source: Bloomberg, UOB Kay Hian

Healthcare Index is an equal weighted index consisting of IHH Healthcare, KPJ Healthcare, Duopharma Biotech, Pharmaniaga, Apex Healthcare, Kotra Industries, Optimax, Cengild Medical, DC Healthcare, YSP Southeast Asia and TMC Life Sciences

SECTOR PICKS

Company	Rec	Share Price (RM)	Target Price (RM)
Alpha IVF	BUY	0.34	0.40
Duopharma	BUY	1.25	1.39
KPJ	HOLD	2.43	2.30
IHH	BUY	7.30	8.05

Source: UOB Kay Hian

KEY EVENTS IN 1H25

- Duopharma due to realise significant cost savings on its cost inputs in 1Q25.
- Pharmaniaga's potential PN17 uplift.
- Multiple regional clinics to come on-stream for Alpha IVF in 1H25.
- KPJ's latest greenfield hospital, KPJ Kuala Selangor, turns operational in 1Q25.

Source: UOB Kay Hian

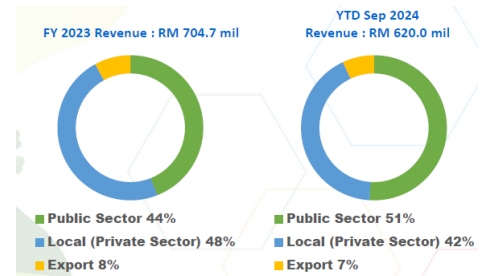
ANALYST(S)

Philip Wong
+603 2147 1996
philipwong@uobkayhian.com

ESSENTIALS

- Duopharma set to reap gains as API costs drop and forex stays favourable.** Duopharma has indicated that its key input cost, active pharmaceutical ingredients (API) price, has reverted to pre-pandemic levels. We gather the cost is at least 10-20% cheaper and API generally constitutes at least 40% of COGS. Based on its six-month inventory levels, Duopharma's gross margin should expand considerably in 1Q25. To add on, only its public sector sales are exposed to long-term forex risk. The current USD/RM forex rate appears close to its previous forex hedge of US\$1/RM4.50 that expired at end-24.
- Duopharma poised to hold ground amid Pharmaniaga's insulin entry.** Pharmaniaga's upcoming biopharmaceutical plant is said to enable the company to produce enough insulin dosages for the MoH's annual requirement. The batch validation and targeted commercialisation by early-25 coincides with the expiry of Duopharma's government insulin contract in Apr 25. Duopharma indicated that the government is likely to have multiple suppliers of insulin, and the current alternative supplier, Novo Nordisk, is no longer supplying insulin. Given the situation, we believe Duopharma should largely retain its current insulin contract (RM125m p.a. but only realised RM80m in 2023 due to supply constraints) even with Pharmaniaga emerging in the equation.
- Alpha IVF's colossal undertaking is gaining momentum.** Alpha IVF operates one fertility centre each in Malaysia, Indonesia and Laos/Cambodia (which has since pivoted to the Philippines), along with two satellite clinics in Indonesia and two sales representative offices in China. All are on track to commence operations by end-FY25 (May year-end). The monumental undertaking comes off its recently-launched Malaysia facility, Alhaya, in April that broke even within its first month of operations and has tracked the fertility success rates of the overall group. More recently, Alpha IVF has gained momentum with its representative office in China and satellite clinic in Indonesia commencing operations. These expanded operations will be key to Alpha IVF's FY26 sales growth of 26.4% (FY25: 16.5%).
- Alpha IVF Group (ALPHA MK/BUY/RM0.40).** We like Alpha IVF for its: a) attractive three-year earnings CAGR (FY24-27) outlook of 20.3%, b) reasonable valuations given its leading clinical success rates in the region and offering of a regional platform for growth, and c) lucrative average profit margin of 30.3% for FY25-27. Alpha IVF's new fertility clinic launched in April had broken even within the month and achieved similar fertility success rates as the group, reflecting Alpha IVF's ability to replicate its success with its expansion. Over the coming months, the gradual on-streaming of its regional operations in the Philippines and Indonesia could well catalyse its valuations. Our target price is pegged to 28.0x FY25F PE, a 20% premium to its peers trading at a historical 22.8x FY25F PE.
- Duopharma Biotech (DBB MK/BUY/RM1.39).** Our target price is based on a PE peg of 16.7x on 2025 earnings. The PE peg is the five-year pre-pandemic PE mean. 2024 earnings growth is uninspiring due to: a) Duopharma's consumer healthcare sales continuing to normalise from pandemic highs; b) replacement of an agency; and c) the establishment of a new production plant, K3, that overlaps with K1. This confluence of factors has weighed on both 2024 sales and earnings. 2025 represents a significantly more upbeat outlook with more secure growth as its key input cost, API, is now at least 10-20% cheaper. This is expected to underpin Duopharma's 42% earnings growth for 2025. Duopharma's current valuation is trading close to -1SD to its five-year mean, suggesting deep value.

DUOPHARMA'S REVENUE BREAKDOWN



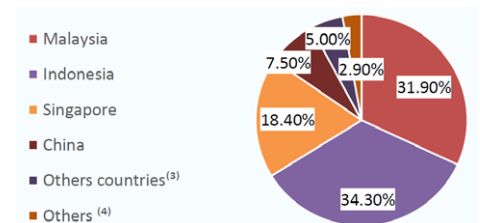
Source: Duopharma

ALPHA IVF'S STATUS AND PIPELINE OF FACILITIES

Facilities	2Q25 (until Sept 2024)
Alpha IVF KL	In Operation
Genesis IVF PG	In Operation
Alpha IVF SG	In Operation
Alhaya IVF KL	In Operation
Sales Rep Office in China No 1 (Shanghai)	In Operation
Sales Rep Office in China No 2	Pending Rental Agreement
Satellite Clinics in Indonesia No 1	Pending Rental Agreement
Satellite Clinics in Indonesia No 2	Sites Shortlisted
IVF Centre in SEA No 1 (Manila, Philippines)	Pending Rental Agreement
IVF Centre in SEA No 2	Final Planning Stage
IVF Centre in SEA No 3	Prelim Planning Stage
IVF Centre in Malaysia No 1	Pending Rental Agreement
IVF Centre in Malaysia No 2	Prelim Planning Stage
Total Facilities in Operation	5
Total Facilities in Operation / under Reno	5

Source: Alpha IVF

ALPHA IVF'S PATIENTS BY GEOGRAPHY



Source: Alpha IVF

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