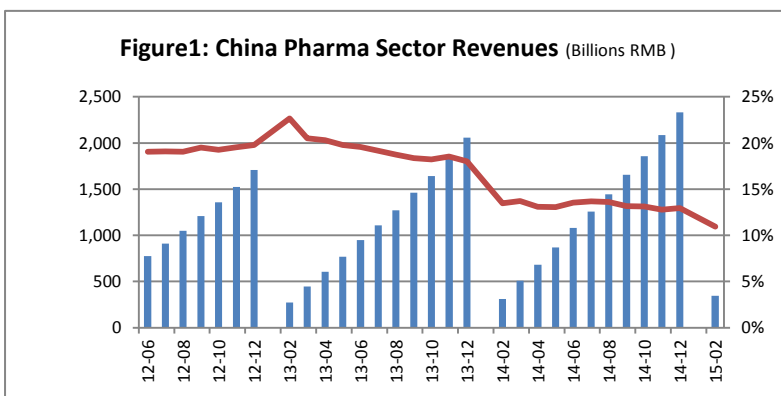


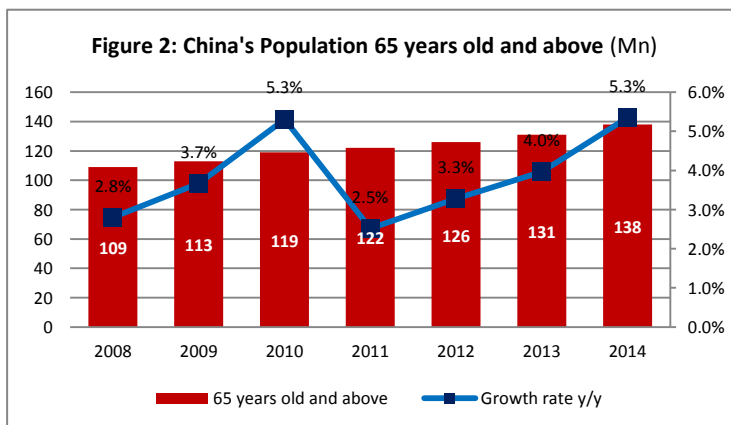
Equity Research
Pharmaceuticals
Attractive valuation making case for re-rating
Solid long term growth prospects

China pharmaceutical sector has recorded revenue of Rmb2.3Tn in 2014. After 5 years of rapid growth (24% CAGR during 2009-13), the overall growth of the Pharma sector in China slowed down to 12.9% Y/Y in 2014 and 10.9% Y/Y in Feb 2015, according to NBC (National Bureau Statistics). The slowing growth was mainly due to declining prices amidst tightened government budgets and delayed tenders.

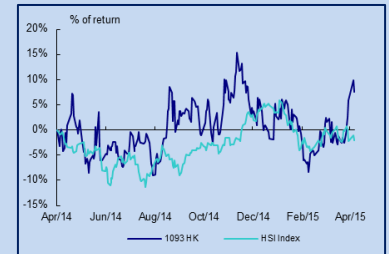
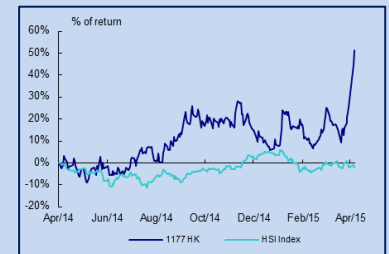
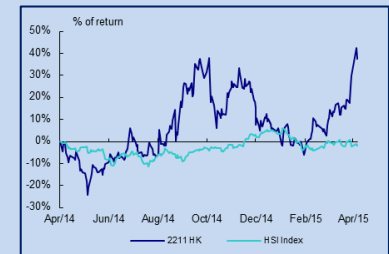
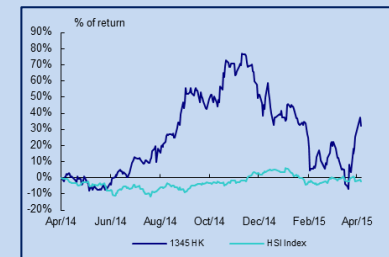


Source: NBS, CSCI Research

Though there is market concern over continuous pricing pressure, we believe that lower prices and ongoing provincial drug tenders will drive sales volume of new products while a recovery in drug consumption in China is likely to be seen from 2H15. We believe the sector's long-term growth remains solid, underpinned by accelerating urbanization, aging population and increasing household income.



Source: NBS, CSCI Research

Industry Quick Note
CSPC (1093.HK)

Sino Biopharm (1177.HK)

Jintian (2211.HK)

Pioneer (1345.HK)

Analyst:

Wei Li

(CE No.: BEJ394)

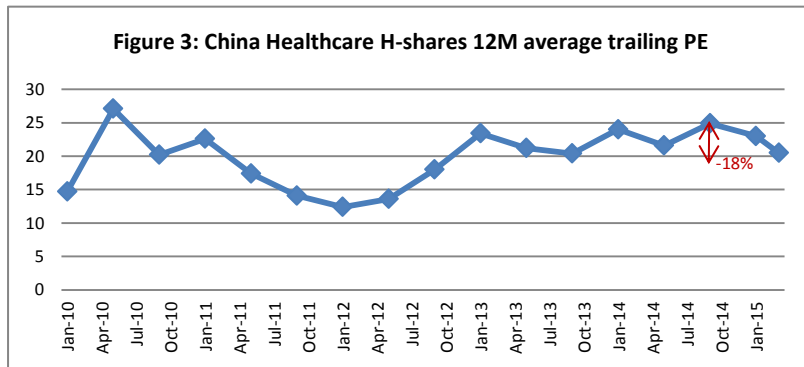
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9. April 2015

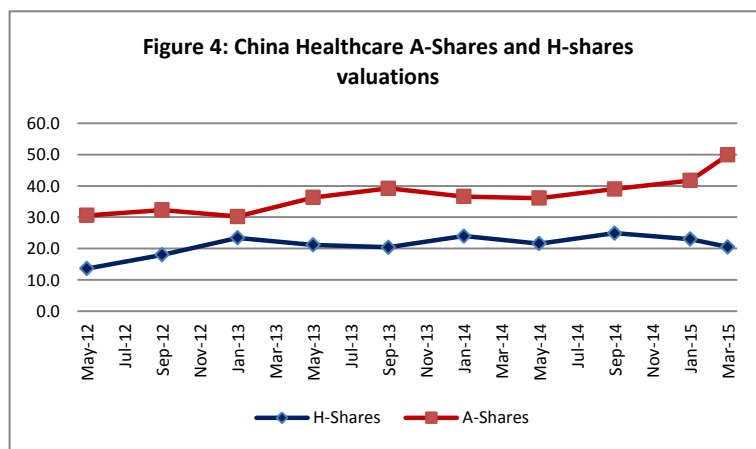
Concern over price cuts overdone, valuation at historical low end

The past few months saw substantial prices correction with most of the pharmaceutical stocks, which was likely triggered by the lower-than-expected tender prices in Hunan and Zhejiang and the cautious hardline comments by a government official on the sector's near term outlook (See link: <http://www.yiyaojie.com/article-77121.html>).



Source: Wind, CSCI Research

Looking forward, we think pricing pressure will persist in view of the government mandate to control medical reimbursement expenses as well as the likelihood for other provinces use Hunan results as a benchmark for setting up their own reference pricing. However, we believe the near-term price pressure should have been priced in, with a sector-wide re-rating likely to be driven by its solid long-term growth prospects.



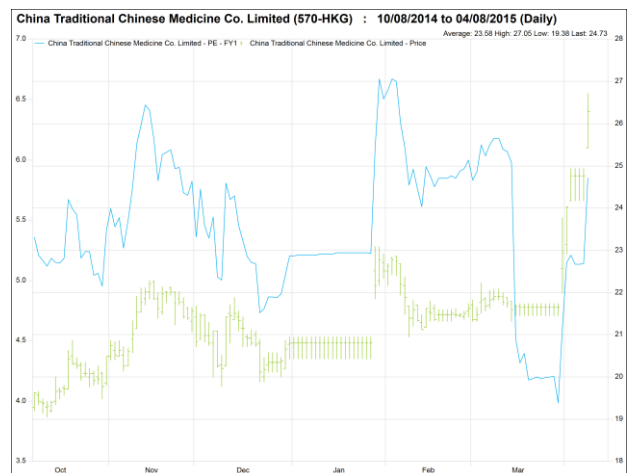
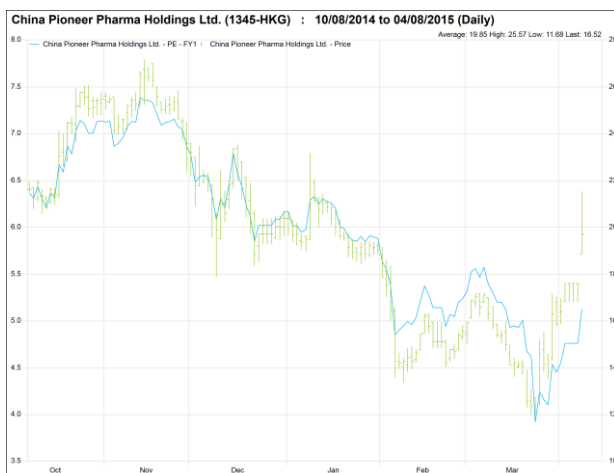
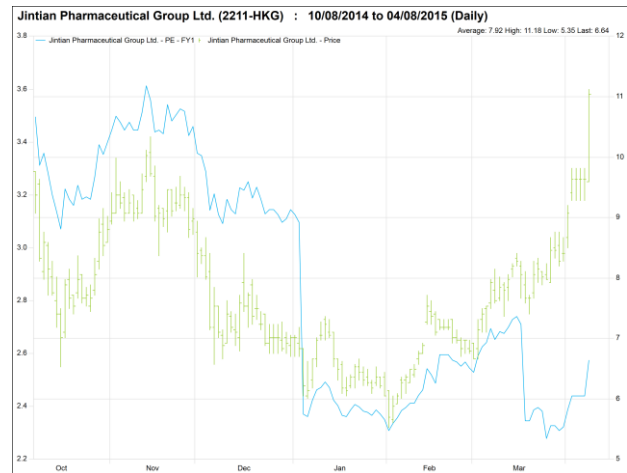
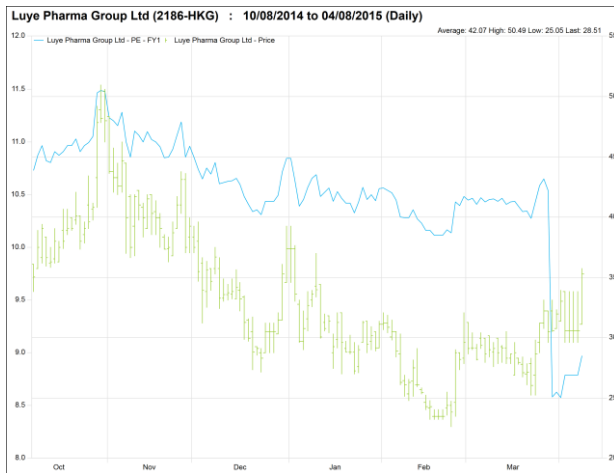
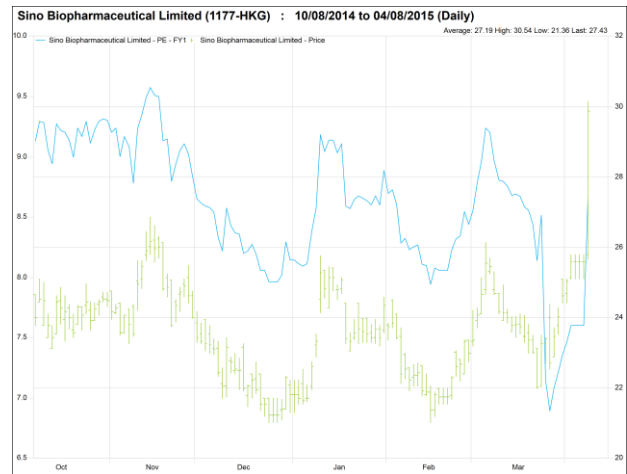
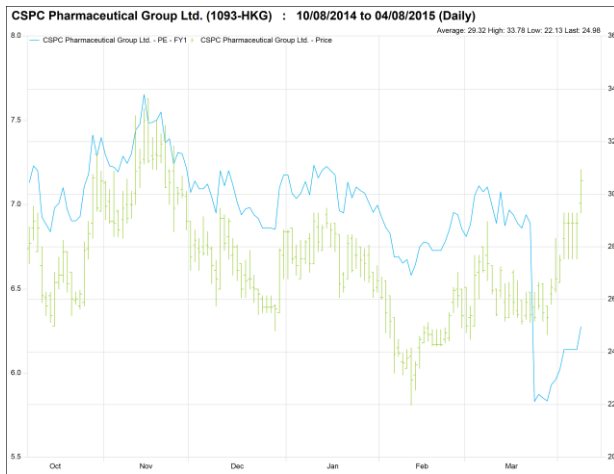
Source: Wind, CSCI Research

HK-SHG stock connect likely to trigger sector-wide re-rating

The China Securities Regulatory Commission announced measures allowing mutual funds in mainland to invest directly in Hong Kong listed stocks via the mutual market access (MMA) scheme last week. We expect this will bring huge amount capital into H-shares and the trading volume will further explode. At the moment, we prefer market leaders with strong R&D and fundamentals, given their deep valuation discount to A-share peers. Despite continuous near-term pricing pressure and low near-term earnings visibility of the pharmaceutical sector in China, we believe market leaders will better off in the long run, in view of their strong capability for acquisitions and rich R&D pipeline. For smaller players, we suggest investors to keep a close eye on companies with clear growth prospects.

Besides, we also expected that CFDA will allow online sales of prescription drugs in the near future. As the new opportunities are opening up, the existing fragmented Chinese pharmacy retail market will experience consolidation.

More drugstores will be incorporated into the country's medical insurance system. We think large chain qualified drugstores will be beneficiary and may partly take the place of hospital pharmacies.



Source: FactSet, CSCI Research

Peer comparison table – H-share listed healthcare names

Ticker	Company Name	Last price(HKD)	Div yield (%)	Mkt Cap(Bn HKD)	EPS FY1	PE FY1	P/B	YTD Share price perf
1177-HKG	Sino Biopharmaceutical	10.14	0.57	46,351	0.34	29.53	7.8	42.53%
2186-HKG	Luye Pharma Group Ltd	10.50	0	32,380	0.34	30.7	2.41	4.70%
1093-HKG	CSPC Pharmaceutical Group	7.60	1.34	42,183	0.29	26.52	5.92	10.82%
950-HKG	Lee's Pharmaceutical	12.58	0.78	6,542	0.44	28.86	7.9	11.99%
570-HKG	CTCM	6.15	0	16,217	0.26	23.68	4.48	36.83%
1099-HKG	Sinopharm Group	38.20	1.01	95,741	1.58	24.11	3.57	39.34%
2211-HKG	Jintian Pharmaceutical	3.86	1.59	7,160	0.54	7.05	2.38	42.86%
1345-HKG	China Pioneer Pharma	6.34	3.45	7,907	0.36	17.44	5.85	2.62%
867-HKG	China Medical System	13.96	1.24	31,199	0.54	25.65	6.78	8.58%
1066-HKG	Shandong Weigao	8.32	1.09	31,379	0.33	25.3	2.77	32.27%
2196-HKG	Fosun Pharmaceutical	25.85	1.35	69,423	1.37	18.82	2.87	-7.35%
1358-HKG	PW Medtech Group.	3.90	0	6,044	0.19	20.7	2.47	12.10%
853-HKG	MicroPort Scientific	4.69	0	6,414	-0.06	--	2.46	42.81%
460-HKG	Sihuan Pharmaceutical	4.41	0.68	45,706	0.26	16.78	4.24	-15.03%
1035-HKG	BBI Life Sciences Corp.	3.90	0.2	1,836	--	--	3.8	128.40%
587-HKG	Hua Han Bio-Pharmaceutical	2.65	1.09	12,287	0.14	18.74	2.11	31.38%
963-HKG	Bloomage Biotechnology	20.45	0.13	6,296	0.78	25.21	7.95	53.12%
1513-HKG	Livzon Pharmaceutical	59.90	0.21	21,933	2.54	23.61	3.84	26.72%
1666-HKG	Tong Ren Tang Technologies	13.80	1.3	16,804	0.51	26.91	3.89	38.92%
1011-HKG	China NT Pharma Group	2.34	0	2,778	--	--	9.44	81.89%
801-HKG	Golden Meditech	1.54	1.68	2,697	--	--	0.62	40.91%
2877-HKG	China Shineway	15.00	2.7	10,900	1.11	13.51	2.12	27.16%
719-HKG	Shandong Xinhua	8.10	0.32	5,855	--	--	1.64	112.40%
3933-HKG	United Laboratories	4.94	0	7,890	0.39	12.97	1.19	10.38%
1858-HKG	Beijing Chunlizhengda	18.80	0.59	341	--	--	1.27	--
1061-HKG	Essex Bio-Technology	5.03	0.42	2,611	--	--	10.01	50.75%
6118-HKG	Austar Lifesciences Ltd.	3.10	1.59	1,538	0.23	13.43	6.25	50.00%
503-HKG	Lansen Pharmaceutical	3.38	5.35	1,349	--	--	1.66	22.91%
2607-HKG	Shanghai Pharmaceuticals	24.40	1.54	77,941	1.33	18.12	1.89	38.00%
1681-HKG	Consun Pharmaceutical	6.43	0	5,960	0.34	19.03	4.04	10.77%
512-HKG	China Grand Pharma& H	1.88	0	3,375	--	--	3.68	22.08%
2348-HKG	Dawnrays Pharmaceutical	7.30	1.65	5,186	0.42	17.3	3.76	41.82%
1515-HKG	Phoenix Healthcare	15.88	1.1	12,440	0.38	41	6.15	9.23%
2005-HKG	Lijun	3.93	0.77	11,548	0.23	16.88	3.73	10.39%
1110-HKG	Kingworld Medicines	2.05	0.96	1,214	--	--	2.14	-0.49%

Source: FactSet, CSCI Research

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 12 months

Buy	Relative Performance >15%;
Accumulate	Relative Performance is 5% to 15%;
Neutral	Relative Performance is -5% to 5%;
Reduce	Relative Performance is -5% to -15%;
Sell	Relative Performance is <-15%;

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