

Equity Research
Healthcare
Tender process ramping up, more pricing pressure incoming
Industry Quick Note
What's new:

At the end of last year, the State Council Premier Li Keqiang pointed out that “drug prices are still artificially high”. He aims to set up a reasonable price mechanism that is based on market demand. Drug pricing system reaches the crossroad and the reform is going to settle. Now we see the tender process ramping up in Jan 2015. By the look of tenders in Shanxi, Hunan & Zhejiang, drug procurement cost control, particularly targeting patented and exclusive pricing drugs, will be an inevitable trend in 2015. Besides, the restriction on second-round price negotiations started to be lifted in some provinces such as Hubei&Jiangsu.

CSCI view:

- Although the details of the pricing regulation reform and how MOHRSS (Ministry of Human Resources and Social Security) will determine reimbursement prices are still under discussion, we estimate drug tenders and the price reform will further erode the drug prices (include patented and exclusive pricing drugs) and lead to less prescriptions of supplementary/little clinical benefit products (e.g. some TCM injection). This may bring some near-term pricing pressure on pharma companies.
- Healthcare services (hospitals), pharma distribution and retail pharmacies (online O2O/B2C platform) are relatively safe subsectors at this point.

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Valuation of comparable companies

Ticker	Currency	Price (27 Jan)	PE				PB				Market Cap Bn HKD
			13A	14F	15F	16F	13A	14F	15F	16F	
460 HK	HKD	5.02	21.9	24.1	19.6	15.9	3.6	4.7	4.1	3.5	52
2196 HK	HKD	28.45	21.8	24.1	20.5	17.4	2.9	3.1	2.8	2.5	66
570 HK	HKD	4.48	25.1	23.8	19.3	15.8	2.2	2.9	2.5	2.2	11
1093 HK	HKD	6.65	35.0	30.2	23.0	18.1	4.6	4.6	4.0	3.5	39
867 HK	HKD	13.34	25.1	30.2	23.9	19.1	4.9	6.9	5.8	4.8	32
1177 HK	HKD	7.48	29.3	27.7	23.4	19.2	5.5	5.0	4.2	3.6	37
1066 HK	HKD	6.26	90.7	22.7	19.0	16.7	4.0	2.3	2.1	1.9	28
874 HK	HKD	27.30	27.6	23.6	20.9	17.2	4.0	3.6	2.6	2.3	47
2186 HK	HKD	9.04	69.4	39.8	24.1	17.9	12.0	4.5	3.8	3.2	30
2877 HK	HKD	11.86	10.0	10.6	9.9	9.4	1.5	1.6	1.4	1.3	10
1515 HK	HKD	13.48	60.6	46.0	37.2	29.2	5.0	5.1	4.6	4.1	11
1099 HK	HKD	28.55	19.5	20.8	17.5	14.6	2.0	2.3	2.0	1.7	79
2607 HK	HKD	17.04	17.8	14.8	13.0	11.4	1.5	1.3	1.2	1.1	54
1345 HK	HKD	5.68	11.4	19.6	14.6	11.6	3.0	4.8	4.0	3.3	8

Source: Bloomberg, 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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