

China / Hong Kong Industry Focus

China Healthcare Sector

Refer to important disclosures at the end of this report

DBS Group Research . Equity

16 February 2015

Opportunities from public hospitals' financial reform

- Gradual removal of price mark-ups over procurement cost of drugs will slash public hospitals' net income
- To compensate for the net income's drop, we expect hospitals to offer more medical services
- Beneficiaries: 1) in-vitro diagnosis (IVD) devices supplier like Yestar (2393 HK) as performing medical services requires IVD; 2) hospital operators like Phoenix (1515 HK), as it helps public hospitals to improve services
- Substantial pressure on ASP on removal of mark-ups in public hospitals. But expect exclusive drugs maker Consun (1681 HK) to grow steadily with low ASP risk

Public hospitals to shift reliance towards medical services instead of drug sales. In China, >50% of drugs are sold in public hospitals. They are allowed to mark up prices by 15% on procurement cost when selling drugs. We estimate this enables them to generate >50% of their net income from drug sales. But China is removing the mark-up, starting at hospitals at the county level in 2014. Hospitals at higher levels may follow suit as Beijing has already asked each province to pick a city to conduct trial runs to remove the mark-ups in all public hospitals there in 2014. Without the mark-up, net income of many hospitals would slump. To compensate, they should increase medical services. Actually, many services are in short supply (e.g. only 40% of final stage kidney failure patients receive dialysis). Phoenix, the largest private hospitals group, can thrive by helping them to improve services.

Increasing medical services drive demand for IVD devices. Roche (ROG VX), the largest global IVD supplier with >20% market share, pointed out that 70% of medical decisions are influenced by IVD tests. So, increasing medical services will drive demand for IVD devices. Yestar, as a major IVD device distributor for Roche in China (the largest IVD brand in PRC with 20% market share), will enjoy strong growth. We expect Yestar's EPS in 15F to grow by 44% on IVD and other medical device segments. It plans to acquire an IVD supplier in 2015 to accelerate profit growth.

Exclusive drug makers can grow steadily with low ASP risk. The removal of price mark-ups for drugs in public hospitals will lead to price pressure for drug makers. Consun is one of the few that faces lower price pressure and grows its earnings steadily (27% CAGR in 14F-16F) as: 1) exclusive drugs as a % of total sales is high (70%). China encourages exclusive drugs development which would lower ASP risk; 2) its exclusive drug uremic clearance granule is used to treat kidney failure. Its annual cost is >85% below traditional method of treatment which would further lower ASP risk.

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Recommendation & valuation

Company	Price HK\$	Target	Recom	PE 15F x	Mkt cap HK\$bn
		Price HK\$			
Yestar (2393 HK)	2.04	3.18	Buy	20.4	3.8
Consun Pharmaceutical (1681 HK)	5.45	7.70	Buy	14.8	5.5
Sinopharm Group (1099 HK)	27.1	31.00	Buy	17.5	75.0
China Shineway Pharm (2877 HK)	11.5	15.00	Hold	9.2	9.5
Microport Scientific (853 HK)	3.55	2.96	Fully Valued	22.9	5.0
Shandong Weigao (1066 HK)	6.3	6.40	Fully Valued	21.4	28.2
China Medical System (867 HK) *	12.14	n.a	Not Rated	22.4	29.3
CSPC Pharm (1093 HK) *	6.2	n.a	Not Rated	21.4	36.6
Luye Pharm (2186 HK) *	8.62	n.a	Not Rated	24.0	28.6
Phoenix Healthcare (1515 HK) *	12.78	n.a	Not Rated	35.4	10.7
Sihuan Pharm (460 HK) *	4.37	n.a	Not Rated	17.0	45.3
Sino Biopharm (1177 HK) *	7.05	n.a	Not Rated	21.4	34.8

* consensus

Source: Thomson Reuters, DBS Vickers

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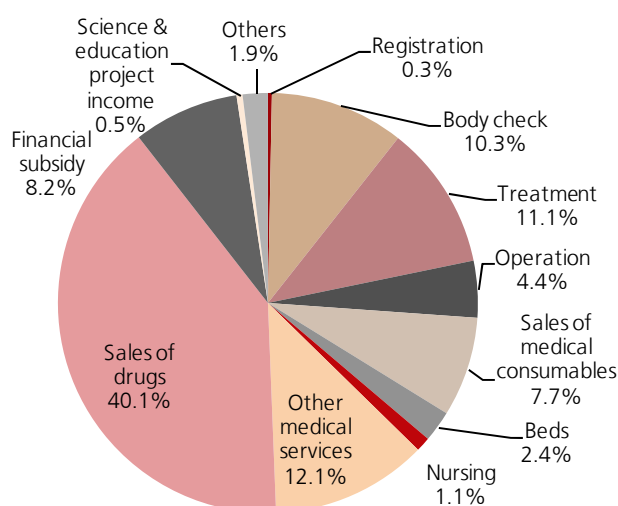
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Public hospitals to shift reliance towards medical services instead of drug sales

Public hospitals form the core of healthcare industry. In China, 47% of doctors, 65% of nurses, and 54% of pharmacists were working in public hospitals, according to 2013 China health & family planning statistic prepared by National Health & Family Planning Commission (NHFPC). We also estimate >50% of drug sales and >70% sales of medical consumables/devices are generated from public hospitals.

Public hospitals rely heavily on drug sales due to price mark-ups on procurement costs. For public hospitals, sales of drugs is the single largest revenue item, accounting for 40% of total revenue (see the following chart). Based on 2013 China health & family planning statistics, each public hospital generated a net income of Rmb5.1m on average. Sales of drugs alone generated a net income of Rmb6.7m (based on drug income minus drug expense). The reason why public hospitals can generate substantial net income from drug sales is that drugs can be marked up by up to 15% (relative to procurement costs). Without the mark-up, many public hospitals could be in deficit.

Revenue breakdown of public hospitals in China



Source: 2013 China health & family planning statistic

However, price mark-ups on procurement cost has created many problems. As a result of the mark-up, the more drugs the hospitals sell, the more net income it can generate. Therefore, it is well-known that many public hospitals intentionally encourage patients to buy expensive drugs or an excessive amount of drugs. An obvious example are antibiotics. Based on a news report from Wenweipo (文匯報) released in Sep 2014,

the annual antibiotic consumption per patient in China is 10x higher than in the U.K.

Overuse of drugs leads to drug resistance of certain bacteria. For example, according to a survey conducted by China Bacteria Drug Resistance Monitor Net (CHINET) released in 2014, the antibiotic drugs Gentamicin and Piperacillin are used to tackle Escherichia Coli (a bacteria that can cause abdominal infections and urinary tract infections). There is resistance to these drugs in 50% of the patients surveyed which means Gentamicin and Piperacillin cannot be used to treat these patients with Escherichia Coli infection. We think this percentage is rather high.

As a result, the Central government has decided to remove the mark-up. Based on "Planning and embodiment of deepening healthcare system reform in the 12th five-year plan (十二五) 期间深化医药卫生体制改革规划暨实施方案" issued by the State Council in 2012, it is an ultimate long-term target for China to cancel all the mark-up in drug sales at public hospitals.

Central government is taking action now. According to "Opinion on public hospitals reform advancement at county level (关于推进县级公立医院综合改革的意见)" issued by NHFPC in 2014, 50% of public hospitals at county level were required to remove the mark-ups and sell the drugs at procurement costs in 2014. The mark-up removal will be expanded to 100% of county-level public hospitals in 2015. We estimate that these hospitals account for c.10% of total drug sales and their motivation to drive drug sales will be impacted.

We believe the government will require public hospitals at higher levels to follow suit in the future. Based on "Major missions to further reform healthcare system in 2014 (深化医药卫生体制改革 2014 年重点工作任务)" issued by the State Council, the Central government has already asked each province to pick a city to trial run the removal of the drug price mark-up in all public hospitals there in 2014.

To make up for the income loss, we expect public hospitals to offer more medical services. With the gradual removal of the mark-up, public hospitals would find it difficult to generate net income on sales of drugs in the long run. They must increase other streams of revenue to compensate and it appears that they have only two choices:

- Increasing financial subsidy from the government which currently account for 8% of the total revenue;
- Increasing income from medical services (including body check, treatment, operation, nursing, beds) which in aggregate account for 29% of the total revenue currently.

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In our view, increasing income from medical services is a better choice. This is because:

- 1) Troubled by local government debt, many provincial governments are in financial difficulties, and it would not be easy for them to increase subsidy. According to National Audit Office, as of Mar 2014, nine provinces needed to raise new debts to repay their original debts as they were unable to generate sufficient cash flows for debt repayments. Even after financing, there were still Rmb821m of local government debts that were overdue.
- 2) The price of many medical services is too low now which does not adequately reflect its cost. For example, in Shanghai, the charges for a urinary catheterization is only Rmb4, clyster Rmb5, and gastric lavage Rmb35. The premier Li Keqiang has expressed his opinion that the prices of medical services in China are too low. Hence, there is plenty of room to raise prices.
- 3) There is a supply shortage of medical services in China and hence, there is abundant room for development.

Example 1: Dialysis for kidney failure patients. Based on our discussion with a dialysis device maker Blolight (300246 CH), there are c.2m kidney failure patients in need of dialysis but only less than 40% of them receive dialysis;

Example 2: Cancer treatment. The utilisation of beds in cancer hospitals was 107% according to 2013 China health & family planning statistics. We think they are over-utilised.

- 4) The gross margin of medical services could be higher than drug sales. Based on our discussion with the hospital operator Phoenix Healthcare (1515 HK), gross margins of medical services and drug sales are 20-22% vs 14-15% respectively.

Due to the above reasons, after removal of mark-ups on drug procurement costs in county level hospitals, many provincial governments compensate them mostly by increasing revenue of medical services. Looking at the compensation in many provinces, a high portion of it is from medical services income: Guangdong 80%, Sichuan 70%, Fujian 82%, Jiangxi 80%, Guizhou 70%, Anhui 75%, Gansu 75%, Hunan 80% and Hebei 60%.

Increase in number of private hospitals will also boost medical services development. Central government encourages the development of private hospitals. According to "National healthcare service system planning (2015-2020) – draft for public comment (全国医疗卫生服务体系规划纲要 [2015—2020年] [公开征求意见稿]) issued by NHFPC, China intends to

increase the number of beds in hospitals from 4.8m in 2013 to 6.8m in 2020, in which the portion contributed by private hospitals will increase from 11% to 25%. We believe those private hospitals will focus on providing specialised medical services with great demand. This serves as another factor to boost the development of medical services industry.

In-vitro diagnostic industry will benefit from increasing medical services

Definition of in-vitro diagnostic (IVD). IVD are diagnostic tests of tissue or bodily fluids outside of a living body. Examples include checking the blood for signs of infections, or urine for the presence of glucose. Their purpose is to provide valuable information on a patient's health status. They are in contrast with in-vivo diagnostic, which are diagnostic tests within a living body, such as clinical testing of new pharmaceuticals in human volunteers.

In-vitro diagnostic market mainly consists of two parts:

- 1) Reagents. They are biological or chemical substances that are able to react with target substances in the samples from the body. This process will result in an outcome that can be measured or seen; and
- 2) Analytical instruments. They are the equipment that automate the process and bring samples and reagents together. The instruments measure the result or other qualities and parameters in the samples.

Why can IVD benefit from increasing investments in medical services ? Roche (ROG VX), the largest global IVD supplier with >20% market share, pointed out that 70% of medical decisions are influenced by IVD tests. Therefore, we believe increasing investments in the medical services industry will definitely drive up investments in IVD as well.

Overview of China IVD market. Total market size of IVD globally was US\$46bn or Rmb282bn in 2013 with a CAGR of 5% (2009-13). We estimate that China accounts for 8% of the global IVD market. Its IVD market had been growing at 22% p.a. from 2009-13, which was 17ppts faster than global market growth (see the following charts). The stronger growth of China's IVD market is due to two reasons:

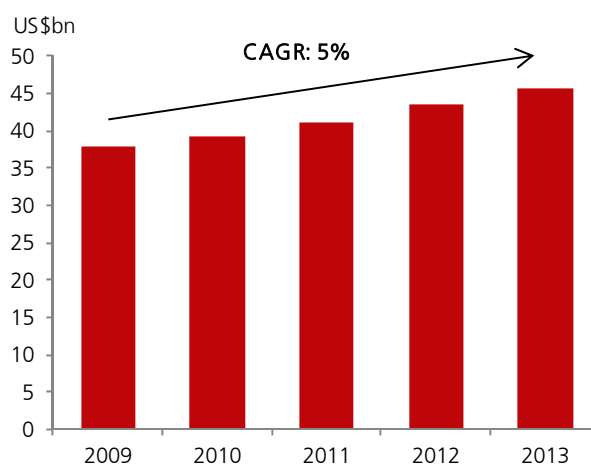
- 1) The penetration of IVD in China is much lower than many other countries. Even after years of development, China only accounts for 8% of global IVD market, although it makes up 19% of the global population. IVD expenditure per capita in China is only c.US\$2.50 while the average of the Organisation for Economic Co-operation & Development's countries (comprising 30 developed countries) is >US\$28. This low penetration rate offers huge room for growth; and
- 2) Much stronger growth of healthcare expenditure per capita (see the following table), thanks to increasing disposal incomes and government subsidies;

In terms of market share, international players account for c.75%, according to the Boston Consulting Group. The largest player in China is Roche (ROG VX) with c.20% market share,

while the 2nd largest player is Abbott (ABT US) with c.12% market share. The 3rd largest player is Siemens (SIE GY) with c.10% market share.

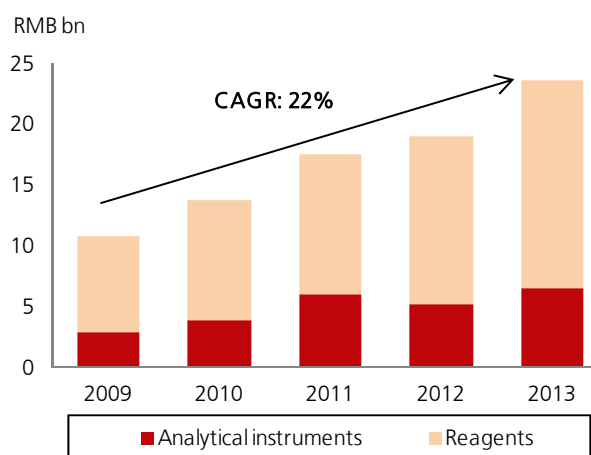
In terms of market segments, there are four major ones (see the following graph and table).

Global IVD market size (US\$ bn)



Source: GlobalData: In Vitro Diagnostics Markets; EvaluateMedTech

China IVD market size (Rmb bn)



Source: Kalorama Information, McEvoy&Farmer, Huidian Research

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Healthcare expenditure per capita – comparison

	2008 US\$	2012 US\$	CAGR %
China	161	333	19.9
Australia	5,058	7,598	10.7
Brazil	735	1,041	9.1
Japan	3,238	4,491	8.5
Canada	4,769	5,927	5.6
U.S.	7,980	9,262	3.8
Germany	4,739	4,930	1.0
France	5,107	4,942	(0.8)
U.K	3,970	3,732	(1.5)
Italy	3,404	3,010	(3.0)

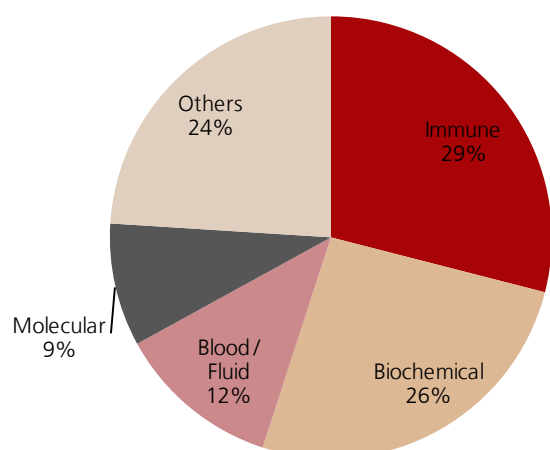
Source: OECD, WHO, National Bureau of Statistics, Espicom and EIU

Introduction of major IVD market segments

	Objects extracted from human body for testing	Functions
1. Immune	Antibody, Antigen	Diagnosis of cancers, infectious diseases etc
2. Biochemical	Chemicals (e.g. sugar)	Normal body checking
3. Blood / Fluidic	Cell	Normal body checking
4. Molecular	DNA	Diagnosis of hepatitis, sexually transmitted diseases, lung infections etc.

Source: Prospectus of Sichuan Maccura

China IVD market segments



Source: Kalorama Information

What kind of IVD companies are in favourable positions? We believe the companies with the following strengths are in advantageous positions:

- Ability to provide IVD products in segments with great demand and high entry barrier.** This warrants strong sales volume growth and price stability due to limited competition.
- A well-recognised brand.** Top tier and 2nd tier hospitals are major sales channels for IVD products. In top tier hospitals, IVD devices are widely used to diagnose serious diseases such as cancer. A mistake could cause a life and hence, they cannot afford to make any mistakes. So, we believe they tend to trust and choose well-recognised brands. That is why international brands account for 75% market share in China. For 2nd tier hospitals, they usually transfer patients to top tier hospitals for further treatment. In order to ensure the diagnostic report of the patient transferred from the 2nd tier hospital is recognised by the top tier hospital, we believe they also tend to choose the IVD brands that are accepted by the top tier hospital. As a result, both top tier and 2nd tier hospitals are more likely to choose well-recognised brands.
- A well-established customer base (mainly hospitals).** This is to guarantee the sale of products. It is not easy to build such a base, as the customers / hospitals need comprehensive and continuous technical support. Thus, once the trust is built, the business relationship is not easy to break. This kind of customer base is invaluable.

Yestar (2393 HK) will benefit from growing demand for in-vitro diagnostic devices

Yestar is the producer of medical films and colour photographic paper for Fujifilm (4901 JT). Its largest shareholder, the Hartono family (71% stake), has been co-operating with Fujifilm for >43 years. In Q4 last year, Yestar acquired a 70% stake in Jiangsu Uno, a distributor for Roche's (ROG VX) IVD products in Jiangsu and Anhui provinces (revenue breakdown: Jiangsu 80%, Anhui 20%). The following tables show Jiangsu Uno's financials, peer comparison and terms of M&A. It is a major distributor in Jiangsu and Anhui for Roche. We think this is a good business as it possesses the favourable criteria as discussed above:

- 1) **A strong sales network.** It has direct sales network to >80% and >20% of top tier hospitals in Jiangsu and Anhui respectively. They have been in a business relationship for over five years. We believe those hospitals will stick to Jiangsu Uno as:
 - a) It provides timely technical support to them, e.g. when the IVD equipment malfunctions and the hospital needs a diagnostic report within two hours (this often happens in intensive care units), Roche may not be able to provide the necessary timely support but Jiangsu Uno will do so. It has >10 technicians particularly for this purpose;
 - b) It helps those hospitals to save cost, e.g. hospitals do not want to keep excessive inventories of IVD reagents/consumables, although they need to guarantee sufficient supply. So, Jiangsu Uno connects its computer system with major customers. Once it detects that they are running out of IVD reagent/consumables, it will deliver to them automatically. This direct sales network secures a continuous flow of business.
- 2) **A well-recognised brand.** Jiangsu Uno distributes the IVD products of Roche, which is largest and most recognised global brand and also in China (Roche's has 20% market share in China, while 2nd ranked Abbott has c.12%). It is easier to gain trust from hospitals with these leading products. We believe Roche will also stick to Jiangsu Uno due to its direct sales network to top tier hospitals. For Roche, Jiangsu Uno generates c.50% and c.70% of its IVD device sales in Jiangsu and Anhui provinces; and
- 3) **Strong presence in segments with great demand and high entry barrier.** Roche is strong in segments with great demand and high entry barrier, such as Chemiluminescence Immuno Assay (CLIA) in immune diagnosis. There are two methods in immune diagnosis, the other being Enzyme Linked Immunosorbent Assay (ELISA). In the U.S and Europe, CLIA is dominant with >95% market share in immune diagnosis. Relative to

ELISA, CLIA can detect substances at much smaller quantities (10^{-18} mol/L vs 10^{-13} mol/L) and hence, it is more effective in disease diagnosis. It is becoming increasingly popular in China (see the following chart) and Roche is a leader in this field with almost no domestic competitors. This helps Roche and its distributors to avoid intense competition.

We expect Yestar's earnings to grow by 44% or Rmb46m in 2015; c.65% of the earnings increase will come from the newly acquired IVD business. The earnings of the IVD business is expected to grow by at least 20% each year from 2014-16 and this is guaranteed by the seller (see the following table "Terms of Jiangsu Uno's acquisition"). The business will grow in two ways:

- 1) **By increasing exposure in Anhui** as the IVD penetration there is low. It is in contact with 10 top tier hospitals (>20% of top tier hospitals in Anhui) aiming to initiate/increase its procurement of IVD devices;
- 2) **By expanding its product portfolio**
 - Example 1: Devices to identify bacteria in the human body before antibiotic injection. That helps the hospitals to pick the right antibiotic to tackle the targeted bacteria. Currently, in China, only 30% of patients will undergo this procedure before the injection (100% in Hong Kong). We believe the ratio will increase and drive demand;
 - Example 2: Devices to pre-treat human fluids/tissues before medical analysis such as centrifugation of blood;

On 26 Jan 2015, Yestar announced that it has commenced due diligence on a potential acquisition target which is also an IVD device supplier. A successful acquisition could strengthen its IVD business and accelerate earnings growth.

In addition to the IVD business, Yestar will also grow its profit through 1) market share gain in medical film industry (from 18% to 30% in two years), leveraging on the assistance from Fujifilm; 2) grabbing market share from weakening competitor Kodak in the colour photographic paper industry (from 43% to 60% in two years).

There are other Hong Kong-listed stocks related to IVD. But we think Yestar is in a better position to leverage on the growth in the IVD industry (see the following table). In terms of valuation, it is now trading at 20x 15F PE. In view of 32% earnings CAGR (14F-16F) and potential M&A to accelerate earnings growth, there is still upside for its share price. Our TP of HK\$3.18 is based on 32x 15F PE which is pegged to the healthcare sector's average in HK and Mainland China.

Concerns: 1) If Yestar completes one more M&A in 2015, its balance sheet may become more stretched. There is potential

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for fund raising through bank loans or equity; 2) as at 27 Jan 2015, the Hartono family holds a 71% stake in Yestar, another 16 investors have 21%. In total, they hold 92% in Yestar. The concentration of shareholding is high. The share price could be volatile due to this.

Income statement of Jiangsu Uno

Rmb m	2013	1H14
Revenue	188	157
Gross profit	45	31
Profit before tax	37	25
Net profit	28	19

Source: Company

Peers comparison for Jiangsu Uno

	Jiangsu Uno	Dian diagnostic (300244 CH)'s IVD distribution
Revenue (Rmb m)		
2013	188	396
1H14	157	230
Gross margin %		
2013	23.8%	19.4%
1H14	20.1%	19.7%
Net profit (Rmb m)		
2013	28	28**
1H14	19	16**
Net margin		
2013	14.8%	7.2%
1H14	11.8%	7.0%

* Same as Jiangsu Uno, Dian mainly distributes Roche's IVD products in Zhejiang province.

** Estimated net profit

Source: Companies

Terms of Jiangsu Uno's acquisition

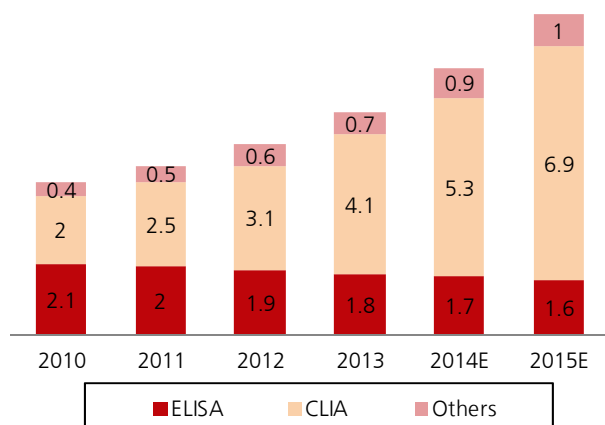
The company to be acquired	Jiangsu Uno
The stake to be acquired	70%
Total consideration	Rmb245m
Valuation of the deal	FY14F PE: 8x FY15F PE: 6x
	*The above PEs are based on 1) Total valuation of the company at Rmb350m (Rmb245m / 70% = Rmb350m); 2) Guaranteed earnings by the seller for 2014 & 15 are Rmb54m & Rmb64m respectively.
Business of the company	Mainly markets and distributes the in-vitro diagnostic products of Roche (ROG VX) in Jiangsu and Anhui provinces. Direct sales to hospitals generate c.80% of revenue while sales to secondary distributors account for the rest.
Sales network coverage	Close to 300 top tier hospitals in Jiangsu & Anhui provinces
Number of sales personnel	50 to 60
Financials	Loss after tax (2012): Rmb0.1m Profit after tax (2013): Rmb26m (estimated net margin by DBS: 10%) Guaranteed profit (2014): Rmb45m Guaranteed profit (2015): Rmb54m Guaranteed profit (2016): Rmb64m
The sellers	Ms. Hang Wenxia (杭文霞), aged 47. Stake before & after the deal: 69% & 30% Ms. Xu Di (徐迪), aged >30, niece of Ms. Hang. Stake before & after the deal: 31% & 0%
Terms to protect the buyer (Yestar)	1. The seller (Ms. Hang) guarantees the net profit of the company (2014-16) as described above. She will compensate for the shortfall if the actual earnings are below the guaranteed profits. 2. Within 5 years after the deal, the sellers shall not be involved in any business in competition with Yestar. 3. All borrowings of Jiangsu Uno must be fully settled before the completion of the deal. 4. Before the deal, the sellers own two companies, namely Jiangsu Uno and Nanjing Uno. Within one year after the deal, the sellers must transfer all the businesses of Nanjing Uno to Jiangsu Uno and close Nanjing Uno. Otherwise, Yestar will not distribute any profit of Jiangsu Uno to the seller (Ms. Hang will still hold a 30% stake of Jiangsu Uno). Nanjing Uno mainly distributes the diagnostic products of BD (Becton, Dickinson & Company (Shanghai)). Its profit after tax in 2013 was Rmb10m. 5. Yestar will assign a financial controller to Nanjing Uno to ensure the business transfer. All relevant authorised stamps of Nanjing Uno shall be kept by the financial controller.
Terms to protect the seller	1. Yestar has to distribute 32-34% of Jiangsu Uno's profit to the seller (Ms. Hang) in 2015-17. 2. When the guaranteed profits (2014-16) are all achieved, the seller (Ms. Hang) shall have the right to require Yestar to acquire her remaining 30% stake at 10x FY16 PE or to a maximum of Rmb250m.

Source: Company

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Immune diagnosis (IVD) market share in China (Rmb bn)



Source: Kalorama, McEvoy&Farmer, Huidian Research

Other IVD-related companies listed in HK

	IVD business	Shortcomings
Mingyuan (233 HK)	Protein chips for body check (accounted for 70% of its sales in 1H14)	Intense competition. Even though labor and material costs have been rising, ASP of protein chip had dropped by close to 6% yoy in 1H14. This is mainly due to intense competition.
Biosina (8247 HK)	Production of mid-low end IVD reagents	Facing intensifying competition from local players
Livzon Pharm (1513 HK)	IVD reagents made up 8% revenue in 1H14. It has three major products: HIV testing reagents, MYCOII testing reagent, TPPA testing reagent.	One of the three major products: HIV testing reagents are ELISA reagents in immune diagnosis. ELISA is an outdated technology in U.S and Europe and being replaced by CLIA reagents. We believe they face the same fate in China ultimately. Also, as a drugs maker with >50% sales contributed from drugs, Livzon will inevitably impacted by overall drugs' sales slowdown and price cut.
Fosun Pharm (2196 HK)	As a pharmaceutical conglomerate, it holds stakes in several IVD companies. They contributed c.3% of earnings in 1H14.	IVD's contribution to total earnings is too small which cannot enjoy the uptrend of IVD industry for the company as a whole. Also, IVD is not a focus area of Fosun Pharm.

Source: Companies

Private hospitals like Phoenix (1515 HK) can grow by helping public hospitals to improve services

Our analysis above suggests that public hospitals need to provide more medical services. But, most public hospitals in China are poorly run. Based on 2013 China health & family planning statistics (prepared by National Health & Family Planning Commission), each public hospital generated net income of Rmb5.1m on average in 2012. But, excluding the government subsidy (Rmb8.9m), they should be in deficit.

Looking more closely at public hospitals, in 2012, c.27% were non-government run and mostly held by state-owned enterprises. On average, each of them incurred a net loss of Rmb50k in 2012. In shifting reliance from drug sales to medical services, these hospitals will be faced with more difficulties and would need external help. Phoenix Healthcare (1515 HK, Not Rated) could capture this opportunity.

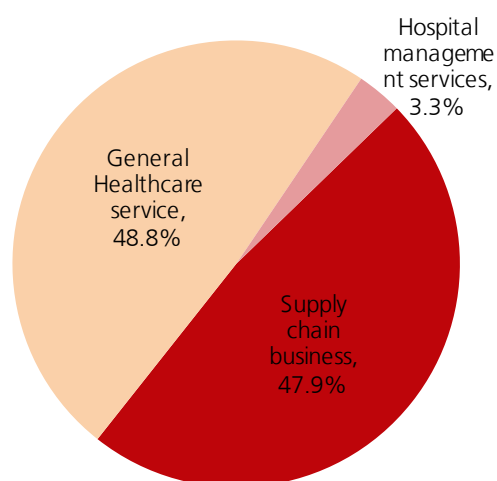
In terms of number of beds in operation and total patient visits, Phoenix Healthcare (PH) is the largest private hospital group in

China, managing 12 hospitals and 28 community clinics located in Beijing (as at Jun 2014). In 1H14, PH's revenue came from offering hospital services to the public (49%), management services to other hospitals (3%) and sales of drugs & medical consumables (48%)

Among PH's three business segments, offering management services to other hospitals is most profitable (see the following tables). By collaborating with public hospitals and offering management services to improve operational quality, its number of in-network hospitals grew from 3 to 12 (2010-14). Riding on the trend of increasing medical services in public hospitals, we believe PH can grow at a similar rate.

In Jan 2015, PH announced three new projects (co-operation with Baoding government, and two Beijing hospitals) that will allow PH to increase its number of beds from the current 3,400 to 10,000 in 2019. Consensus is projecting EPS growth of 24%, 27%, 38% in FY15F, FY16F, FY17F, respectively. The counter is trading at 35x 15F PE based on consensus estimates.

2014 1H revenue by segments (total: Rmb507 m)



Source: company

*Supply chain business is sales of drugs and medical consumables. In this segment, drugs made up 70% of revenue. The rest came from medical consumables.

Hospital management services segment performance

(Rmb m)	2010	2011	2012	2013	1H13	1H14
Revenue	16.3	19.4	40.3	40.8	9.9	16.7
Gross profit	14.8	16.2	27.9	26.7	2.9	9.6
Segment results	13.9	19.3	26.6	13.4	2.5	12.5
Gross margin	91%	84%	69%	65%	29%	57%
Segment margin	85%	99%	66%	33%	25%	75%

Source: company

General hospital services segment performance

(Rmb m)	2010	2011	2012	2013	1H13	1H14
Revenue	288	324	403	470	215	247
Gross profit	60.2	64.8	74.3	85.5	37	42
Segment results	39	41	41	49	16	20
Gross margin	21%	20%	18%	18%	17%	17%
Segment margin	14%	13%	10%	10%	7%	8%

Source: company

Industry Focus

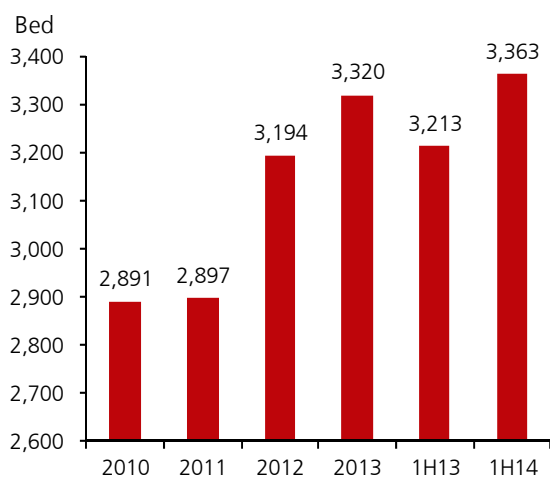
China Healthcare Sector

Supply chain segment performance

(Rmb m)	2010	2011	2012	2013	1H13	1H14
Revenue	151	264	431	480	248	310
Gross profit	18	42	83	100	48	68
Segment results	16	37	103	142	64	83
Gross margin	12%	16%	19%	21%	19%	22%
Segment margin	11%	14%	24%	30%	26%	27%

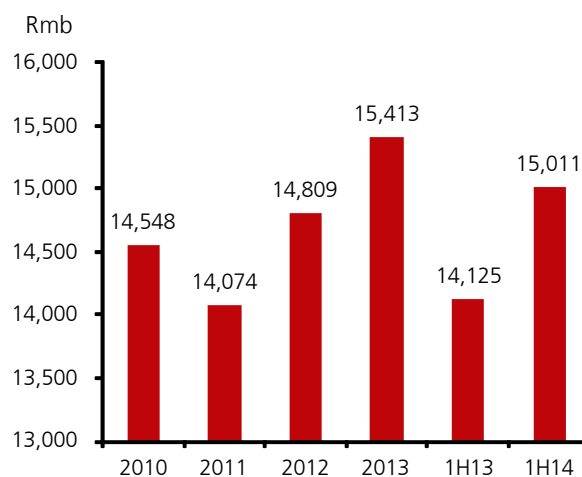
Source: company

Total number of beds in operation



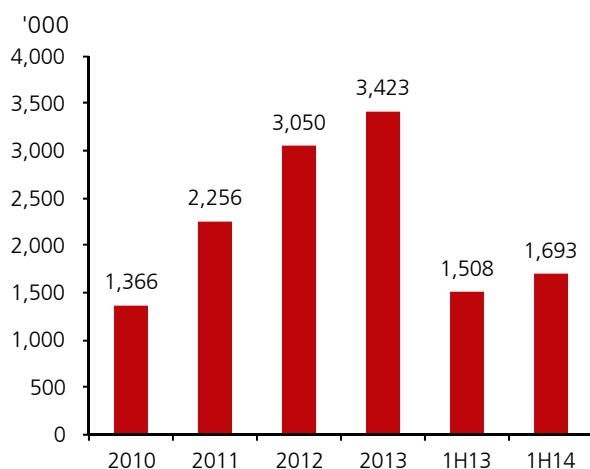
Source: company

Group average out-patient spending per visit (Rmb)



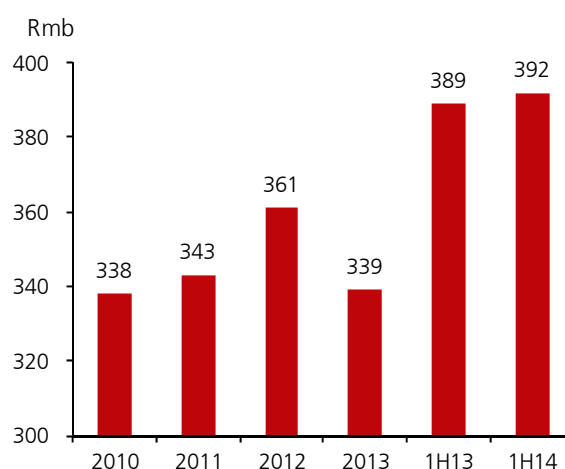
Source: company

Total out-patient & in-patient visit ('000)



Source: company

Group average in-patient spending per visit (Rmb)

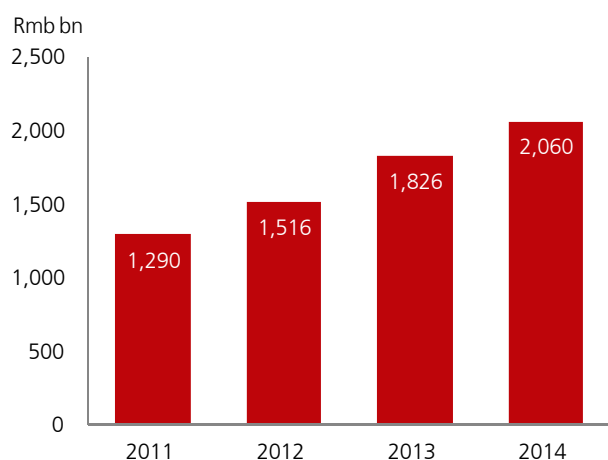


Source: company

2015 outlook of drug sales in China

In 2014, pharmaceutical sales growth (y-o-y) has slowed down, both in money amount and percentage (see the following charts). We believe it is because of the anti-corruption campaign and price cuts resulting from the government's intention to control medical expenses.

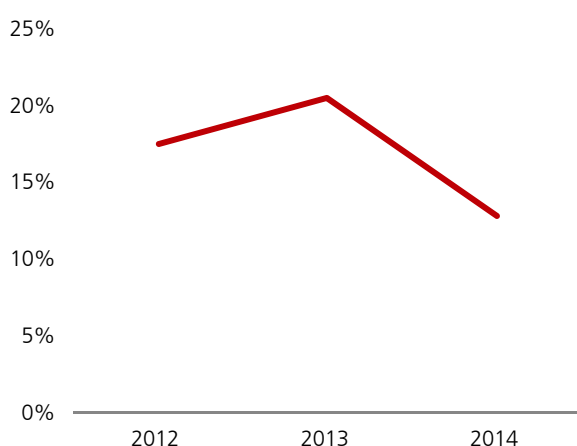
Pharmaceutical sales (Rmb bn)



Source: Wind

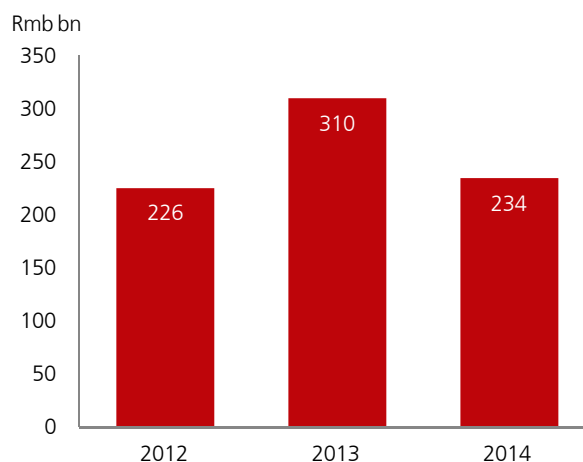
*The sales consisted of chemical bulk drugs, chemical finished drugs, processed herbs, modern Chinese medicines, biological drugs.

Pharmaceutical sales increase (%)



Source: Wind

Pharmaceutical sales increase (Rmb bn)



Source: Wind

In 2015, we believe the slowdown will continue. We expect the growth to be 10-13%, because:

1. **Gradual removal of price mark-up on drugs' procurement cost in public hospitals.** Public hospitals make up the largest channel for drug sales in China, estimated to account for >50% of total sales. When selling drugs these hospitals are allowed to mark up 15% at most (relative to their procurement costs). This motivates them to boost drug sales. But, as mentioned above, the government is now gradually removing the mark-up, starting from public hospitals at county level. This may impact hospitals' motivation to sell and hence total industry sales volume as well.
2. **Deepening of anti-corruption campaign.** In China, it is well-known that many medical staffs in public hospitals generate significant income for themselves from drug sales, though most of those incomes are grey areas. That motivates them to boost drug sales. In our view, their motivation will decrease in the future.

In Dec 2013, the NHFPC issued "Prohibition on 9 unethical conducts to strengthen the moral in healthcare industry (加强医疗卫生行风建设 "九不准")" (see the following table). The policy is intended for anti-corruption. The requirement of the policy will be included in the key performance indicators for appraisal of medical staffs in public healthcare institutions. Those are crucial for their promotion and career. Thus, we believe medical staffs in public healthcare institutions will be more careful in the procurement and sales of drugs. This might impact the sales growth of drugs.

Industry Focus

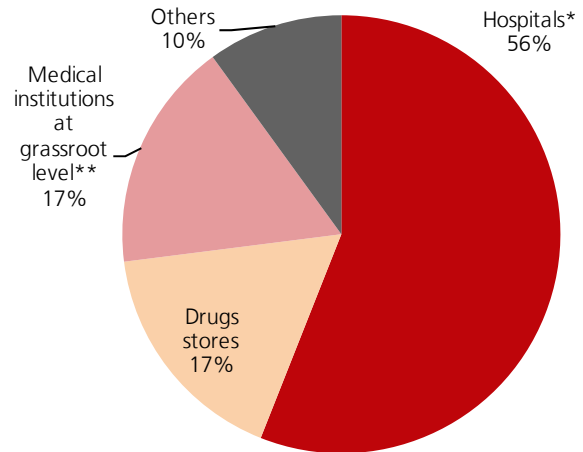
China Healthcare Sector

3. **Consolidation of drugstores.** Drugstores form another important channel, accounting for 17% of total drug sales. The government had issued a new version of "Good Supply Practice (GSP) (药品经营质量管理规范)" for all drug stores in 2013, imposing more stringent operating requirements for them. All drugstores must meet the requirement by 31st Dec 2015. There are around 430k drug stores in China, 37% of them are chain stores and 63% are single stores. We estimate that a significant number of single stores will be closed because of the GSP for two reasons:

- a) The GSP stipulates all drug stores must have their own licensed pharmacists. According to 2013 China health & family planning statistic prepared by NHFPC, there were 377k pharmacists as of 2012; 61% of them were working in hospitals and 34% working in medical institutions at grass root level. That implies there were only 5% or c.19k pharmacists available for over 400k drugs stores which is absolutely insufficient. Single drug stores that are unable to recruit pharmacists might be forced to close.
- b) Higher operating requirements imposed by the GSP will increase operating costs. Mr. Xie Zi Long, the chairman of Lao Bai Xing Pharmacy (老百姓大藥房) estimates that operating cost of drug stores will increase by 30% due to the GSP. Single drug stores without sufficient financial resources will have to close.

With a significant number of drug stores on the verge of closing down, we believe the sales growth of drugs in this segment will decelerate.

Sales channels of drugs in China



Source: DBS Vickers

*Public hospitals account for >90% of total hospital drug sales.

**Medical institutions at grass-root level include: community health service centres, urban & township health centres, village clinics, outpatient departments.

Prohibition on 9 unethical conducts to strengthen the moral in healthcare industry

1. Relating medical staffs' income to drugs' sales / revenue from body check.
2. Medical staffs taking a portion of medical service fee as their own income.
3. Charging patients at will or not in accordance with standard set by the government.
4. Accepting illegal donation from other organizations
5. Participating into marketing & promotion activities
6. Medical staffs generating statistic about their own organization for commercial purpose.
7. Procuring drugs / medical devices at will or not in accordance with legal procedure.
8. Receiving rebate from sales of drugs / medical devices
9. Receiving extra reward (money / securities / luxury goods) from patients

Source: National Health & Family Planning Commission, DBS Vickers

Increased risk for drug makers: Stock picking with extra prudence

As mentioned above, we expect overall drug sales volume growth in China to slow down due to gradual removal of price mark-ups on procurement costs in public hospitals, deepening of anti-corruption campaign, substantial numbers of single drug stores being closed due to implementation of new GSP.

Another risk for drugs makers in 2015 is price cut. More than 60% of drugs sales in China go through public medical institutions, namely public hospitals and medical institutions at grass-root level. Their procurement price of drugs are decided by provincial tenders. In 2013 and 2014 (as at Dec 2014), out of 31 provinces, eight have not completed tenders for drugs on Essential Drugs List (EDL), 19 of them have not completed tenders for drugs on National Reimbursement Drug List (but non-EDL) (see the following table). Normally, provinces call for tenders every two years. So, we believe most of them will begin another round of tenders this year. That implies the procurement prices of commonly used drugs in many provinces will be reset. We believe provincial governments will cut drug prices through tenders.

The reason behind: healthcare expenditure in China is mainly paid by three parties: 1) individuals; 2) governments (mainly local ones); and 3) public medical insurance system (mainly funded by employees, employers, urban & rural residents). In our view, two of them have strong incentive to control medical expenditure.

For local governments, as mentioned above, we believe many of them are in financial difficulties due to local government debt. For public medical insurance system, according to "Guidance regarding to control on basic medical insurance reimbursement (关于开展基本医疗保险付费总额控制的意见)" issued by Ministry of Human Resources & Social Security in Nov 2012, Central government requires local governments at each level to set a budget for medical insurance reimbursement each year. We view that "budget" as a ceiling for the reimbursement. So, we believe the government wants to control total medical expenditure. Cutting drug prices through provincial tenders would be a major mean to achieve it.

Under the backdrop of sales volume growth slowing down and price cut pressure, 2015 would not be an easy year for the pharmaceutical industry.

But, we believe drug makers with the following features could face lower price-cutting risk and enjoy decent earnings growth:

- 1) High portion of exclusive drugs in product portfolio. Relative to generic drugs, the price-cutting risk for exclusive drugs is much lower because China encourages innovation and development of exclusive drugs. Also, as

there is only one player for an exclusive drug, there will be no price competition like generic drugs that are produced by many players;

- 2) The exclusive drugs provided by the player are at low prices. This will further decrease the government's incentive to cut prices; and
- 3) After taking that exclusive drug, the government and patients can save a lot of medical expenditure arising from other aspects. This can further stabilise prices.

Provinces which have completed tender in 2013 & 14 (Dec 2014)

	EDL	Non-EDL
Anhui	✓	
Beijing	✓	
Chongqing		
Fujian	✓	✓
Gansu	✓	
Guangdong	✓	✓
Guangxi		
Guizhou	✓	✓
Hebei	✓	
Heilongjiang		
Hainan	✓	
Henan	✓	
Hubei	✓	✓
Hunan	✓	✓
Inner Mongolia		
Jiangsu		
Jiangxi	✓	✓
Jilin	✓	✓
Liaoning	✓	
Ningxia	✓	✓
Qinghai	✓	
Shaanxi	✓	
Shandong	✓	
Shanghai	✓	✓
Shanxi	✓	
Sichuan	✓	✓
Tianjin		
Xinjiang	✓	✓
Xizang		
Yunnan		
Zhejiang	✓	✓

Source: Provincial government centralized tender platforms, DBS Vickers,

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Consun Pharm (1681 HK) should record steady growth with lower price-cutting risk

The gradual removal of price mark-ups for drugs in public hospitals will lead to price pressure for drug makers. Also, we expect the removal to impact the motivation of public hospitals to sell drugs, which may drag down the sales volume growth.

For Consun, we believe the pressure on price and sales volume is lower than other drug makers. The key product of Consun is uremic clearance granule (an exclusive drug used to delay the onset of kidney failure, estimated to make up c.70% of its earnings). It has several features which helps it to lower the pressure on price and sales volume:

- 1) **Daily dosage cost of key product is low.** Under the removal of price mark-up, drugs are gradually evolving from a net income source for public hospitals into a cost item. So, the lower the cost, the lower the pressure that hospitals will exert on drug makers. In China, drugs with daily dosage costs of over Rmb100 are generally regarded as expensive. The daily dosage cost of uremic clearance granule is only Rmb20. So, we believe the risk is lower;
- 2) **It is an exclusive drug.** China encourages the development of exclusive drugs. So, the price-cutting risk of an exclusive drug is lower than a generic drug's. As uremic clearance granule makes up 70% of Consun's sales, that allows it to have the highest portion of sales contributed by exclusive drugs among peers (see the following table), reducing the price-cutting risk for the company as whole;
- 3) **The key product can help the government to save on medical expenses.** Its key product uremic clearance granule is used to delay the onset of kidney failure before it reaches the final stage. Kidney failure is an incurable disease. Western medical practitioners will only prescribe that the patients undergo dialysis when they reach the final stage of kidney failure. In China, it costs Rmb40,000-80,000 annually which is a big burden for many patients and also the government (who subsidises the treatment). Uremic clearance granule is a modern Chinese medicine. Taking it could effectively delay the onset of kidney failure and it costs only Rmb6,000 a year. As such, we believe the Chinese government has strong incentive to promote this drug rather than cut its price;
- 4) **Limited future competition.** Currently, no new drugs for kidney failure treatment (in the oral form) is under the government registration process., This implies limited competition in the foreseeable future;

Lower price cutting risk allows Consun to grow steadily. Actually, there is another listed company in HK producing drug used to delay onset of kidney failure. It is Jilin Changlong (8049

HK). The medicine is called Haikunshenxi capsule, which we believe accounts for >50% of the company's profit.

Compared to Jilin Changlong, we like Consun more because:

- 1) Uremic clearance granule of Consun is much cheaper than Haikunshenxi capsule of Jiling Changlong (annual expense: Rmb6,000 vs Rmb10,000);
- 2) Uremic clearance granule is included in the National Reimbursement Drugs List, National Essential Drugs List, and Medicine Catalogue of People's Liberation Army. However, Haikunshenxi capsule is not included in the above lists. Also, the formulation of uremic clearance granule is classified as a state secret. We believe uremic clearance granule is more recognised by the industry;
- 3) Jilin Changlong has changed its auditor at least twice historically. The 1st time took place in 2009, from Shu Lun Pan Hong Kong Limited to BDO limited. The 2nd time took place in 2010, from BDO limited to Reanda Lau & Au Yeung (HK) CPA. Both are non-big-4 firms The changes may raise investors doubts about its financial numbers.

We expect an earnings CAGR of 27% in 2014F-16F for Consun, driven by further market penetration of uremic clearance granule and launch of new products. It has seven pharmaceutical products in the pipeline, expected to be launched in 2015-2020. One exclusive drug for treatment of the digestive system should be launched in 2015. Also, we believe the company is in talks with several M&A targets. A successful M&A could be a catalyst for its share price.

In terms of valuation (15F PE), Consun is lower than average but in terms of earnings CAGR (14F-16F), it is above average (see the following table). This increases its attractiveness as an investment. Our TP of HK\$7.70 implies an upside of >35%.

Estimated % of exclusive drugs in total revenue

Company	Estimated % of exclusive drugs in total revenue	Period
Consun (1681 HK)	70%	1H14
Sihuan (460 HK)	67%	1H14
CMS (867 HK)	57% - 60%	1H14
Pioneer pharm (1345 HK)	55%	1H14
Luye (2186 HK)	58% - 60%	1H14
Fudan Zhangjiang (1349 HK)	49%	1H14
Sinobiopharm (1177 HK)	42% - 45%	9M14
CSPC (1093 HK)	16%	9M14
United Lab (3933 HK)	<1%	1H14

Source: Companies, DBS Vickers.

Comparison of 15F PE and earnings CAGR

	15F PE (x)	Earnings CAGR 14F-16F
Consun (1681 HK)	16	27%
Sihuan (460 HK)	19	23%
CMS (867 HK)	24	26%
Pioneer Pharm (1345 HK)	14	31%
Luye (2186 HK)	25	52%
Fudan Zhangjiang (1349 HK)	38	17%
Sinobiopharm (177 HK)	24	19%
CSPC (1093 HK)	22	28%
United Lab (3933 HK)	9	3%
Average	21	25%

Source: Bloomberg Finance L.P., DBS Vickers.

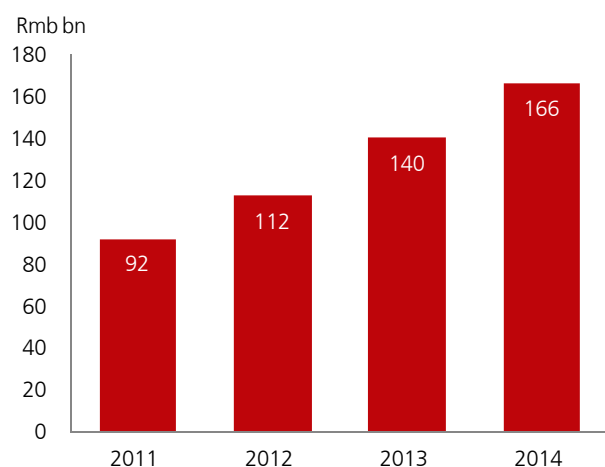
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2015 outlook of medical devices sales

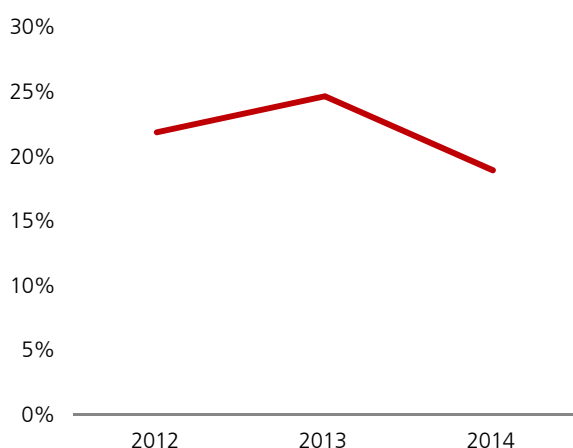
In 2014, the sales growth of medical consumables & devices has slowed down, both in monetary amount and percentage (see the following charts). We believe it is because of anti-corruption campaign and price cuts resulting from intensifying competition, particularly in low-end products.

Sales of medical consumables & devices (Rmb bn)



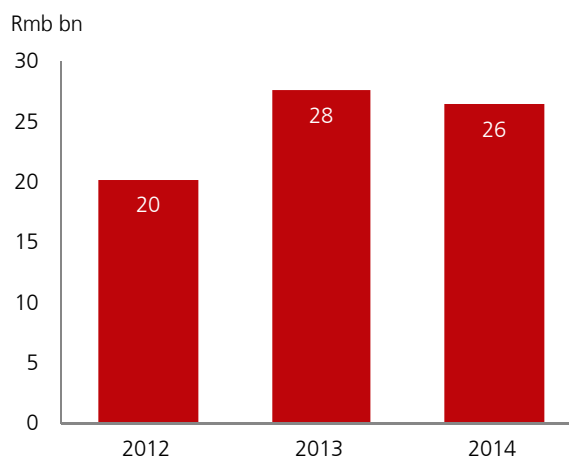
Source: Wind

Increase in sales of medical consumables & devices (%)



Source: Wind

Increase in sales of medical consumables & devices (Rmb bn)



Source: Wind

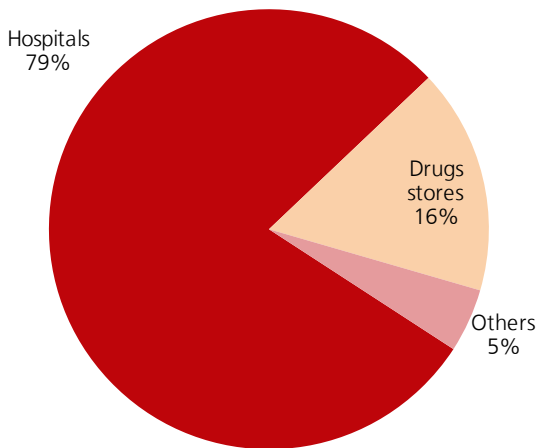
We estimate the growth in 2015 to slow down to mid-to-high teens because:

- ASP pressure resulting from popularity of provincial tender.** Before 2012, medical institutions procured most medical consumables/devices from producers individually, unlike drugs which are procured through provincial tenders. In late 2012, the central government issued "Centralized procurement practices for high valued medical consumables (高值医用耗材集中采购工作规范)" to require medical institutions to procure high-value medical consumables (mainly consumables implanted in the human body) through provincial tenders.

According to China Medical Pharmaceutical Material Association, 10 provinces implemented the new policy in 2013. The collective arrangement of procurement increased the purchase size and bargaining power of local governments, which resulted in ASP cuts from producers. In Zhejiang and Henan provinces, the average price cut of medical consumables in tenders relative to previous prices were 15% and 25% respectively in 2013. We believe provinces adopting the new policy are gradually increasing, so is price pressure on medical consumables. That will drag the revenue growth of the medical consumables & devices industry.
- Deepening of anti-corruption campaign in public hospitals as described above.** We estimate that public hospitals account for c.70% of medical device sales in China. Due to the deepening of anti-corruption campaign described above, we believe medical staffs in public hospitals would be more prudent in procuring medical devices, which may impact the sales;

- 3) **Consolidation of drug stores as described above.** This channel accounts for 17% of total medical device sales. So, we believe the consolidation would affect the sales too.

Sales channels of medical consumables & devices in China



Source: China Medical Pharmaceutical Material Association

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Peer Table

Company Name	Code	Price HK\$	Mkt Cap HK\$m	Fiscal Yr	PE		Yield		P/Bk		EV/EBITDA		ROE	
					15F x	16F x	15F %	16F %	15F x	16F x	15F x	16F x	15F %	16F %
Distributor & Retailer														
Sinopharm Group 'H'*	1099 HK	27.1	74,988	Dec	17.5	14.4	1.5	1.9	1.9	1.8	7.1	6.0	11.6	12.8
Shanghai Pharms.Hldg. Co.'H'	2607 HK	16.3	43,829	Dec	12.4	10.9	2.0	2.2	1.2	1.1	7.5	6.6	9.8	10.3
Guangzhou Bysh.Phmhd.'H'	874 HK	26.5	34,221	Dec	20.2	16.8	1.6	1.9	3.1	2.6	17.4	14.2	14.7	13.6
China Med.Sy.Hdg.(Di)	867 HK	12.14	29,315	Dec	22.4	17.8	1.4	1.8	5.2	4.4	3.1	2.5	24.6	25.3
Beijing Tgrt.Chs.Mdcin.	8138 HK	10.5	8,715	Dec	23.5	20.6	1.2	1.5	5.0	4.4	16.8	14.3	23.0	22.7
China Pion.Pharma Hdg.	1345 HK	4.86	6,480	Dec	11.9	9.8	4.2	4.8	3.5	2.8	10.4	8.1	29.4	32.6
Average					16.2	14.0	2.1	2.5	3.1	2.7	9.5	7.9	18.9	19.2
Finished Drugs														
Sihuan Pharm.Hdg.Gp.	460 HK	4.37	45,291	Dec	17.0	13.9	2.1	2.3	3.6	3.1	15.6	13.4	23.0	24.4
Sino Biophm.	1177 HK	7.05	34,837	Dec	21.4	17.9	1.6	1.8	4.1	3.5	11.8	10.4	20.6	21.1
Tong Ren Tang Techs.'H'	1666 HK	9.6	12,296	Dec	18.5	16.3	2.4	2.8	2.6	2.4	9.4	9.7	14.7	15.1
Cspc Pharmaceutical Gp.	1093 HK	6.2	36,630	Dec	21.4	17.0	1.0	1.2	3.5	3.3	14.0	11.7	18.9	20.9
Lijun Intl.Pharm.(Hldg.)	2005 HK	3.19	9,470	Dec	12.9	10.6	2.8	3.4	2.6	2.2	12.9	11.2	20.7	21.7
CH Traditional Chinese Medicine	570 HK	4.77	12,087	Dec	20.7	16.7	0.2	0.2	2.8	2.4	14.0	11.7	14.0	15.0
Hua Han Biophm.Hdg.	587 HK	1.62	7,962	Jun	12.2	n.a.	1.7	n.a.	1.4	n.a.	n.a.	n.a.	11.8	n.a.
Dawnrays Pharm.(Hdg.)	2348 HK	4.48	3,600	Dec	10.9	8.8	3.7	4.6	2.1	1.8	n.a.	n.a.	20.1	21.7
Lee'S Pharm.Hdg.	950 HK	10.36	5,715	Dec	22.9	18.1	1.2	1.4	4.9	4.0	17.1	13.4	22.9	23.9
Lansen Pharm.Hdg.*	503 HK	2.49	1,033	Dec	7.8	6.8	3.8	4.4	1.0	0.9	6.8	6.2	13.6	14.0
Shai.Fosun Pharm.(Group) 'H'	2196 HK	25.45	58,830	Dec	18.3	15.7	1.3	1.7	2.5	2.2	19.2	15.4	14.2	15.0
Consun Pharmaceutical Gp.*	1681 HK	5.45	5,450	Dec	14.8	11.4	1.0	1.3	2.5	2.1	7.9	5.6	18.3	20.0
Livzon Pharm.Group 'H'	1513 HK	39.1	11,563	Dec	14.4	11.6	1.5	2.2	2.2	1.9	n.a.	n.a.	16.4	18.0
Luye Pharma Group	2186 HK	8.62	28,628	Dec	24.0	17.9	0.1	0.1	3.9	3.2	17.2	13.5	18.9	21.5
Average					16.9	14.1	1.7	2.1	2.8	2.5	13.3	11.1	17.7	19.4
Biotech Medicine														
Lee'S Pharm.Hdg.	950 HK	10.36	5,715	Dec	22.9	18.1	1.2	1.4	4.9	4.0	17.1	13.4	22.9	23.9
Bloomage Biotechnology	963 HK	11.28	3,758	Dec	13.3	10.8	n.a.	0.0	3.3	2.5	n.a.	n.a.	28.5	26.8
Average					18.7	14.5	0.9	1.0	4.4	3.5	17.1	13.4	25.4	25.7
Chinese Medicines														
Tong Ren Tang Techs.'H'	1666 HK	9.6	12,296	Dec	18.5	16.3	2.4	2.8	2.6	2.4	9.4	9.7	14.7	15.1
China Shineway Pharm*	2877 HK	11.5	9,511	Dec	9.2	8.4	4.4	4.8	1.4	1.3	4.5	3.8	16.3	16.1
CH Traditional Chinese Medicine	570 HK	4.77	12,087	Dec	20.7	16.7	0.2	0.2	2.8	2.4	14.0	11.7	14.0	15.0
Hua Han Biophm.Hdg.	587 HK	1.62	7,962	Jun	12.2	n.a.	1.7	n.a.	1.4	n.a.	n.a.	n.a.	11.8	n.a.
Consun Pharmaceutical Gp.*	1681 HK	5.45	5,450	Dec	14.8	11.4	1.0	1.3	2.5	2.1	7.9	5.6	18.3	20.0
Average					15.1	13.8	2.2	2.6	2.1	2.0	9.3	8.4	14.2	15.4
Bulk Drugs														
CSPC Pharmaceutical	1093 HK	6.2	36,630	Dec	21.4	17.0	1.0	1.2	3.5	3.3	14.0	11.7	18.9	20.9
United Labs.Intl.Hdg.	3933 HK	3.56	5,792	Dec	8.4	7.3	2.5	3.0	0.7	0.7	5.3	4.9	8.3	9.1
Average					14.9	12.2	1.8	2.1	2.1	2.0	9.7	8.3	13.6	15.0
Medical Devices														
Lijun Intl.Pharm.(Hldg.)	2005 HK	3.19	9,470	Dec	12.9	10.6	2.8	3.4	2.6	2.2	12.9	11.2	20.7	21.7
Microport Scientific*	853 HK	3.55	5,049	Dec	22.9	14.8	0.0	0.0	1.5	1.4	14.3	10.3	6.9	9.9
Pw Medtech Group	1358 HK	2.94	4,930	Dec	12.3	9.8	0.8	0.0	1.6	1.4	7.4	6.1	15.1	16.6
Shandong Weigao*	1066 HK	6.3	28,201	Dec	21.4	19.1	1.4	1.6	2.2	2.0	13.2	11.6	10.5	10.9
Yestar Intl.Hdg.*	2393 HK	2.04	3,810	Dec	20.4	17.0	2.4	2.9	6.1	5.0	10.7	8.8	33.1	32.5
Average					17.4	13.6	1.3	1.2	2.0	1.7	12.0	9.8	13.3	14.8
Medical Service														
Phoenix Healthcare Group	1515 HK	12.78	10,655	Dec	35.4	27.3	0.7	0.4	3.8	3.9	26.4	20.2	11.5	14.7
Average					35.4	27.3	0.7	0.4	3.8	3.9	26.4	20.2	11.5	14.7
Intravenous infusion solution makers														
Lijun Intl.Pharm.(Hldg.)	2005 HK	3.19	9,470	Dec	n.a.	n.a.	2.8	3.4	2.6	2.2	12.9	11.2	20.7	21.7
Qingdao Huaren Pharm.'A'	300110 CH	7.7	5,178	Dec	25.4	18.9	1.0	1.4	3.0	2.6	n.a.	n.a.	8.9	10.3
China Res.Dble.-Crane Pharm.'A'	600062 CH	24.33	13,909	Dec	15.9	15.7	2.0	1.9	2.2	2.0	11.0	9.8	13.0	13.2
Sichuan Kelun Pharm.'A'	002422 CH	32.58	23,458	Dec	15.0	15.5	2.7	n.a.	1.5	1.7	n.a.	n.a.	10.5	11.4
Average					18.8	16.7	2.1	2.2	2.3	2.1	12.0	10.5	13.3	14.1

Source: Thomson Reuters, *DBS Vickers

STOCK PROFILES

Yestar International

Bloomberg: 2393 HK | Reuters: 2393.HK

Refer to important disclosures at the end of this report

BUY HK\$2.04 HSI : 24,683

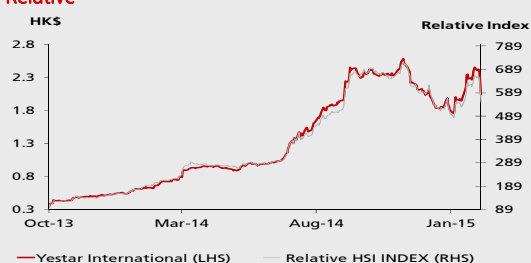
Price Target : 12-Month HK\$3.18

Potential Catalyst: M&A

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2013A	2014F	2015F	2016F
Turnover	1,173	1,598	2,308	2,697
EBITDA	112	170	285	333
Pre-tax Profit	94	152	238	285
Net Profit	65	104	150	180
Net Pft (Pre Ex.)	65	104	150	180
EPS (RMB)	0.04	0.06	0.08	0.10
EPS (HK\$)	0.06	0.07	0.10	0.12
EPS Gth (%)	6.3	25.2	44.3	20.1
Diluted EPS (HK\$)	0.06	0.07	0.10	0.12
DPS (HK\$)	0.03	0.03	0.05	0.06
BV Per Share (HK\$)	0.28	0.27	0.33	0.40
PE (X)	36.9	29.5	20.5	17.0
P/Cash Flow (X)	64.7	47.5	18.4	13.6
P/Free CF (X)	162.5	nm	26.0	14.0
EV/EBITDA (X)	20.1	18.1	10.7	8.8
Net Div Yield (%)	1.4	1.7	2.4	2.9
P/Book Value (X)	7.2	7.6	6.1	5.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	27.5	28.2	33.1	32.5

Earnings Rev (%)	Nil	Nil	Nil
Consensus EPS (RMB):	0.05	0.07	0.10
Other Broker Recs:	B: 2	S: 0	H: 1

ICB Industry: Industrials

ICB Sector: Support Services

Principal Business: Healthcare

Source of all data: Company, DBSV, Thomson Reuters, HKEX

In-vitro diagnostic business to drive strong growth in 2015

- In-vitro diagnostic (IVD) segment to drive 44% EPS growth in FY15F
- Expect 25% EPS growth in FY14F, mainly driven by medical film segment
- Potential M&A a major catalyst in 2015
- Re-iterate BUY with TP of HK\$3.18

IVD to drive 44% EPS growth in 2015. After acquiring a 70% stake in Jiangsu Uno (IVD business) in 2H14 for Rmb245m (60% was paid), it becomes a major earnings driver in 2015 (expected contribution to earnings growth: >60%). Our recent discussion with Yestar revealed more on its growing strategies: 1) it now generates 80% & 20% sales from Jiangsu & Anhui provinces respectively. It will accelerate the exposure in Anhui as the IVD penetration there is low. It is in contact with 10 top tier hospitals (>20% of top tier hospitals in Anhui) aiming to initiate/increase their procurement of IVD devices; 2) product portfolio expansion, e.g. devices to identify bacteria in human body, devices to pre-treat human's fluid/tissue before medical analysis.

Expect 25% EPS growth in FY14F, driven by medical film segment. We believe that it can achieve a 25% EPS growth in FY14F, driven by market share gain in the medical film industry (from 18% in 1H14 to >20% in 2H14). The strong cash flow of this segment would allow Yestar to remain in a net cash position after acquisition of Jiangsu Uno.

Re-iterate BUY. To accelerate earnings growth, we believe Yestar is in talks with 2-3 M&A targets. Successful M&A will be a major catalyst for the share price. We re-iterate BUY with TP of HK\$3.18.

At A Glance

Issued Capital (m shrs)	1,868
Mkt. Cap (HK\$m/US\$m)	3,810 / 491
Major Shareholders	
Hartono family (%)	71.1
Free Float (%)	28.9
Avg. Daily Vol. ('000)	6,097

Income Statement (RMB m)

FY Dec	2013A	2014F	2015F	2016F
Turnover	1,173	1,598	2,308	2,697
Cost of Goods Sold	(964)	(1,316)	(1,882)	(2,194)
Gross Profit	209	283	425	503
Other Opng (Exp)/Inc	(111)	(127)	(179)	(210)
Operating Profit	98	156	247	293
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	(5)	(4)	(9)	(8)
Dividend Income	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	94	152	238	285
Tax	(28)	(46)	(71)	(86)
Minority Interest	0	(2)	(16)	(19)
Preference Dividend	0	0	0	0
Net Profit	65	104	150	180
Net Profit before Except.	65	104	150	180
EBITDA	112	170	285	333
Sales Gth (%)	22.8	36.2	44.4	16.9
EBITDA Gth (%)	22.7	52.8	67.2	16.9
Opg Profit Gth (%)	21.4	58.9	58.1	18.9
Net Profit Gth (%)	15.1	59.9	44.3	20.1
Effective Tax Rate (%)	30.2	30.0	30.0	30.0

Cash Flow Statement (RMB m)

FY Dec	2013A	2014F	2015F	2016F
Pre-Tax Profit	94	152	238	285
Dep. & Amort.	14	16	40	43
Tax Paid	(43)	(46)	(71)	(86)
Assoc. & JV Inc/(loss)	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0
Chg in Wkg.Cap.	(34)	(62)	(49)	(31)
Other Operating CF	6	3	9	15
Net Operating CF	37	65	167	226
Capital Exp.(net)	(22)	(196)	(49)	(7)
Other Invs.(net)	0	0	0	0
Invs in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	1	4	3	4
Net Investing CF	(21)	(192)	(46)	(3)
Div Paid	(81)	(33)	(52)	(75)
Chg in Gross Debt	72	84	0	0
Capital Issues	129	0	0	0
Other Financing CF	(6)	(7)	(12)	(12)
Net Financing CF	114	44	(64)	(87)
Currency Adjustments	0	0	0	0
Chg in Cash	131	(84)	57	136

Interim Income Statement (RMB m)

FY Dec	1H2013	2H2013	1H2014	2H2014E
Turnover	515	658	694	904
Cost of Goods Sold	(426)	(538)	(585)	(731)
Gross Profit	89	120	109	173
Other Oper. (Exp)/Inc	(45)	(66)	(55)	(71)
Operating Profit	44	54	54	102
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	(2)	(3)	0	(4)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	42	52	53	98
Tax	(13)	(15)	(16)	(29)
Minority Interest	0	0	0	(2)
Net Profit	29	37	38	67
Net profit bef Except.	29	37	38	67
Sales Gth (%)	N/A	N/A	34.7	37.4
Opg Profit Gth (%)	N/A	N/A	22.2	88.7
Net Profit Gth (%)	N/A	N/A	31.6	82.0
Gross Margins (%)	17.3	18.3	15.7	19.2
Opg Profit Margins (%)	8.5	8.2	7.7	11.3
Net Profit Margins (%)	5.5	5.6	5.4	7.4

Balance Sheet (RMB m)

FY Dec	2013A	2014F	2015F	2016F
Net Fixed Assets	104	287	298	259
Invs in Assocs & JVs	0	0	0	0
Other LT Assets	26	26	25	24
Cash & ST Invs	287	202	256	390
Inventory	273	368	531	620
Debtors	17	56	69	81
Other Current Assets	28	28	28	28
Total Assets	736	966	1,208	1,402
ST Debt	117	80	80	80
Creditors	215	288	415	486
Other Current Liab	48	48	48	48
LT Debt	0	121	121	121
Other LT Liabilities	13	13	13	13
Shareholder's Equity	333	404	502	608
Minority Interests	9	11	28	47
Total Cap. & Liab.	736	966	1,208	1,402
Non-Cash Wkg. Cap	55	116	165	196
Net Cash/(Debt)	170	0	55	189

Rates & Ratio

FY Dec	2013A	2014F	2015F	2016F
Gross Margins (%)	17.8	17.7	18.4	18.7
Opg Profit Margin (%)	8.4	9.8	10.7	10.9
Net Profit Margin (%)	5.5	6.5	6.5	6.7
ROAE (%)	27.5	28.2	33.1	32.5
ROA (%)	9.8	12.2	13.8	13.8
ROCE (%)	20.2	19.8	25.1	25.4
Div Payout Ratio (%)	50.2	50.0	50.0	50.0
Net Interest Cover (x)	21.8	37.2	27.1	35.5
Asset Turnover (x)	1.8	1.9	2.1	2.1
Debtors Turn (avg days)	18.3	8.3	9.9	10.2
Creditors Turn (avg days)	88.2	70.5	69.6	76.3
Inventory Turn (avg days)	86.5	89.8	88.9	97.5
Current Ratio (x)	1.6	1.6	1.6	1.8
Quick Ratio (x)	0.8	0.6	0.6	0.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Capex to Debt (%)	19.1	97.5	24.4	3.2
Z-Score (X)	N/A	N/A	N/A	N/A
N.Cash/(Debt)PS (RMB)	0.14	0.00	0.04	0.13
Opg CFPS (RMB)	0.05	0.07	0.12	0.14
Free CFPS (RMB)	0.01	(0.07)	0.06	0.12

Segmental Breakdown (RMB m) / Key Assumptions

FY Dec	2013A	2014F	2015F	2016F
Revenues (RMB m)				
Color photographic paper	531	604	665	731
Medical imaging products	474	674	811	979
In-vitro diagnostic products	N/A	75	540	640
Others	168	245	292	347
Total	1,173	1,598	2,308	2,697
Gross margin (RMB m)				
Color photographic paper	119	139	154	171
Medical imaging products	65	88	108	136
In-vitro diagnostic products	N/A	16	116	141
Others	25	39	47	56
Total	209	283	425	503
Gross margin Margins (%)				
Color photographic paper	22.5	23.1	23.2	23.3
Medical imaging products	13.7	13.1	13.4	13.9
In-vitro diagnostic products	N/A	21.0	21.5	22.0
Others	15.0	16.0	16.0	16.1
Total	17.8	17.7	18.4	18.7
Key Assumptions				
Color photographic paper - revenue growth %	(11.5)	13.9	10.0	10.0
Medical imaging products - revenue growth %	60.9	42.0	20.4	20.7
In-vitro diagnostic products - revenue growth %	N/A	N/A	620.0	18.5
SG&A % in total sales	10.0	8.3	8.0	8.0

Source: Company, DBS Vickers

China Healthcare Sector

Consun Pharmaceutical Group

Bloomberg: 1681 HK | Reuters: 1681.HK

Refer to important disclosures at the end of this report

BUY HK\$5.45 HSI : 24,683

Price Target : 12-Month HK\$ 7.70

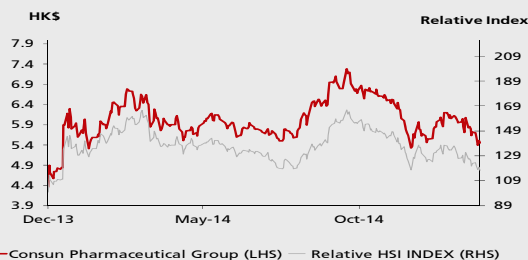
Potential Catalyst: launch of new drugs

DBSV vs Consensus: Higher mainly due to higher sales growth estimates

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2013A	2014F	2015F	2016F
Turnover	572	816	1,023	1,440
EBITDA	219	319	396	516
Pre-tax Profit	210	320	396	516
Net Profit	153	240	297	387
Net Pft (Pre Ex.)	153	240	297	388
EPS (RMB)	0.20	0.24	0.30	0.39
EPS (HK\$)	0.25	0.30	0.37	0.48
EPS Gth (%)	10.9	19.1	23.8	30.1
Diluted EPS (HK\$)	0.25	0.30	0.37	0.48
DPS (HK\$)	0.06	0.04	0.06	0.07
BV Per Share (HK\$)	1.56	1.86	2.18	2.61
PE (X)	21.8	18.3	14.8	11.4
P/Cash Flow (X)	18.7	22.4	15.0	12.3
P/Free CF (X)	31.7	34.8	19.8	15.3
EV/EBITDA (X)	11.1	10.5	7.9	5.6
Net Div Yield (%)	1.2	0.8	1.0	1.3
P/Book Value (X)	3.5	2.9	2.5	2.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	19.0	17.4	18.3	20.0

Earnings Rev (%):	Nil	Nil	Nil
Consensus EPS (RMB):	0.22	0.28	0.36
Other Broker Recs:	B: 4	S: 0	H: 0

ICB Industry: Health Care

ICB Sector: Pharmaceuticals & Biotechnolog

Principal Business: Healthcare

Source of all data: Company, DBSV, Thomson Reuters, HKEX

Sustainable market share gains

- Expect EPS of 2H14F/15F/16F to surge by 31/24/30% on market gains of key product uremic clearance granule (UCG)
- UCG should remain dominant in oral kidney drugs market for its cost advantage & limited competition
- More stringent account receivables policy is leading to stronger cash flows
- Reiterate BUY with TP unchanged at HK\$7.70

Expect 2H14 earnings to rise 31% y-o-y. We believe Consun's exclusive drug UCG (used to delay onset of kidney failure) is still its largest profit contributor (c.70%). Based on our discussion with Consun, UCG's coverage in top / 2nd tier hospitals has expanded by 11% and 19%, respectively, in 2014. To support the growth, UCG's capacity in 2H14 has increased by 33% y-o-y. We believe its utilization is >100%, and stable ASP and gross margin should help to boost earnings in 2H14F by 31% y-o-y to Rmb149m, compared to its core earnings in 2H13 excluding listing expenses. In Feb, Consun has issued positive profit alert, expecting strong earnings growth in 2014.

Long term growth potential intact. Based on our industry checks, UCG is still the best selling drug in the oral kidney drugs market, and its share has risen by 2ppts (to c.26%) in 2014. UCG's dominant presence is sustainable as: 1) currently, no new drugs in the oral form for kidney failure treatment is under the government registration process; this implies limited competition in the foreseeable future; 2) cost advantage (>40% below other ways of treatment). Supported by UCG sales, Consun's earnings can continue to grow strongly by 24%/30% in 2015/16.

Stronger operating cash flow (OCF) management. Since 2014, Consun requires a higher portion of cash payment from distributors (customers) before products delivery (2013: 10% vs 2H14: 60%). As such, its OCF surged by 2.4x y-o-y in 1H14. This trend should continue into 2H14. Trading at 15x FY15F PE, (25% discount to industry average), Consun's valuation is attractive given that FY15/15F EPS is estimated to grow by 24/30%. Reiterate BUY with TP unchanged at HK\$7.70.

At A Glance

Issued Capital (m shrs)	1,000
Mkt. Cap (HK\$m/US\$m)	5,450 / 703
Major Shareholders	
Consun's Chairman & CEO (%)	33.7
Zhao John Huan (%)	18.7
Young Wai Po Peter (%)	16.0
Greenwoods Asset Management Limited (%)	6.1
Free Float (%)	25.6
Avg. Daily Vol.('000)	804

Consun Pharmaceutical Group

Income Statement (RMB m)

FY Dec	2013A	2014F	2015F	2016F
Turnover	572	816	1,023	1,440
Cost of Goods Sold	(120)	(174)	(210)	(283)
Gross Profit	452	643	813	1,157
Other Opng (Exp)/Inc	(246)	(341)	(438)	(667)
Operating Profit	206	302	375	490
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	4	18	21	25
Dividend Income	0	0	0	1
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	210	320	396	516
Tax	(58)	(80)	(99)	(129)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
Net Profit	153	240	297	387
Net Profit before Except.	153	240	297	388
EBITDA	219	319	396	516
Sales Gth (%)	24.9	42.8	25.3	40.8
EBITDA Gth (%)	16.3	45.7	24.2	30.2
Opg Profit Gth (%)	16.7	46.4	24.3	30.7
Net Profit Gth (%)	12.2	57.0	23.8	30.1
Effective Tax Rate (%)	27.4	25.0	25.0	25.0

Cash Flow Statement (RMB m)

FY Dec	2013A	2014F	2015F	2016F
Pre-Tax Profit	210	320	396	515
Dep. & Amort.	14	19	23	28
Tax Paid	(44)	(80)	(99)	(129)
Assoc. & JV Inc/(loss)	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0
Chg in Wkg.Cap.	2	(45)	(7)	(32)
Other Operating CF	(4)	(18)	(21)	(25)
Net Operating CF	178	196	292	357
Capital Exp.(net)	(73)	(70)	(70)	(70)
Other Invs.(net)	76	0	0	0
Invs in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	4	18	21	25
Net Investing CF	8	(52)	(49)	(45)
Div Paid	(52)	0	(36)	(45)
Chg in Gross Debt	0	0	0	(1)
Capital Issues	769	0	0	0
Other Financing CF	(82)	0	0	0
Net Financing CF	636	0	(36)	(46)
Currency Adjustments	0	0	0	0
Chg in Cash	821	144	207	266

Interim Income Statement (RMB m)

FY Dec	2H2012	1H2013	2H2013	1H2014
Turnover	276	228	343	303
Cost of Goods Sold	(65)	(50)	(70)	(64)
Gross Profit	211	178	274	238
Other Oper. (Exp)/Inc	(112)	(99)	(147)	(126)
Operating Profit	99	80	126	112
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	2	1	3	7
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	101	81	130	120
Tax	(24)	(22)	(36)	(30)
Minority Interest	0	0	0	0
Net Profit	76	59	94	89
Net profit bef Except.	76	59	94	90
Sales Gth (%)	N/A	25.5	24.5	32.6
Opg Profit Gth (%)	N/A	2.7	27.7	40.3
Net Profit Gth (%)	N/A	(1.7)	23.3	50.7
Gross Margins (%)	76.6	78.1	79.8	78.7
Opg Profit Margins (%)	35.9	35.0	36.8	37.0
Net Profit Margins (%)	27.6	25.9	27.3	29.4

Balance Sheet (RMB m)

FY Dec	2013A	2014F	2015F	2016F
Net Fixed Assets	232	286	335	381
Invs in Assocs & JVs	0	0	0	0
Other LT Assets	32	31	31	30
Cash & ST Invs	902	1,044	1,249	1,513
Inventory	49	57	72	101
Debtors	16	73	77	101
Other Current Assets	225	225	225	225
Total Assets	1,457	1,717	1,989	2,350
ST Debt	0	0	0	0
Creditors	21	41	51	72
Other Current Liab	130	130	130	130
LT Debt	0	0	0	(1)
Other LT Liabilities	49	49	49	49
Shareholder's Equity	1,257	1,497	1,758	2,100
Minority Interests	0	0	0	0
Total Cap. & Liab.	1,457	1,717	1,989	2,350
Non-Cash Wkg. Cap	141	186	193	226
Net Cash/(Debt)	902	1,044	1,249	1,514

Rates & Ratio

FY Dec	2013A	2014F	2015F	2016F
Gross Margins (%)	79.1	78.7	79.5	80.3
Opg Profit Margin (%)	36.1	37.0	36.7	34.0
Net Profit Margin (%)	26.7	29.4	29.0	26.8
ROAE (%)	19.0	17.4	18.3	20.0
ROA (%)	14.5	15.1	16.0	17.8
ROCE (%)	17.7	15.9	16.8	18.6
Div Payout Ratio (%)	33.8	15.0	15.0	15.0
Net Interest Cover (x)	NM	NM	NM	NM
Asset Turnover (x)	0.5	0.5	0.6	0.7
Debtors Turn (avg days)	23.2	20.1	26.8	22.5
Creditors Turn (avg days)	89.9	71.6	88.8	86.9
Inventory Turn (avg days)	122.2	123.7	124.3	121.6
Current Ratio (x)	7.9	8.2	9.0	9.6
Quick Ratio (x)	6.1	6.6	7.3	8.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	N/A	(7,000.0)
Z-Score (X)	13.2	15.7	15.3	14.6
N.Cash/(Debt)PS (RMB)	1.12	1.30	1.55	1.88
Opg CFPS (RMB)	0.23	0.24	0.30	0.39
Free CFPS (RMB)	0.14	0.13	0.22	0.29

Segmental Breakdown (RMB m) / Key Assumptions

FY Dec	2013A	2014F	2015F	2016F
Revenues (RMB m)				
Kidney medicines	446	621	796	1,176
Medical contrast medium	85	155	187	224
Others	40	40	40	40
Total	572	816	1,023	1,440
Gross profit (RMB m)				
Kidney medicines	364	507	652	964
Medical contrast medium	72	130	157	188
Others	16	5	5	5
Total	452	643	813	1,157
Gross profit Margins (%)				
Kidney medicines	81.6	81.7	81.8	82.0
Medical contrast medium	84.7	84.0	84.0	84.0
Others	40.0	12.0	12.0	12.0
Total	79.1	78.7	79.5	80.3

Key Assumptions

Uremic clearance granule - production capacity (tons)	740.0	940.0	1,278.0	2,290.0
Uremic clearance granule - utilization %	100.0	110.0	104.0	86.0
Uremic clearance granule - ASP (Rmb / ton)	591,040.	591,040.	591,040.	591,040.
Uremic clearance granule - gross margin %	82.4	82.4	82.4	82.4

Source: Company, DBS Vickers

China Healthcare Sector

Sinopharm Group

Bloomberg: 1099 HK | Reuters: 1099.HK

Refer to important disclosures at the end of this report

BUY HK\$27.10 HSI : 24,683

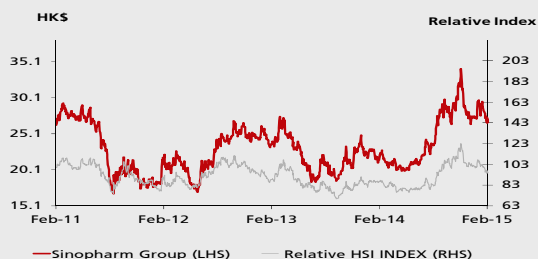
Price Target : 12-Month HK\$ 31.00

Potential Catalyst: further penetration into rural areas to outpace industry sales growth

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2013A	2014F	2015F	2016F
Turnover	166,866	198,571	237,292	282,377
EBITDA	6,961	8,429	10,283	12,478
Pre-tax Profit	4,621	5,802	7,102	8,597
Net Profit	2,250	2,824	3,456	4,184
Net Pft (Pre Ex.)	2,250	2,824	3,457	4,186
EPS (RMB)	0.89	1.12	1.25	1.51
EPS (HK\$)	1.11	1.39	1.55	1.88
EPS Gth (%)	8.2	25.5	11.6	21.1
Diluted EPS (HK\$)	1.11	1.39	1.55	1.88
DPS (HK\$)	0.30	0.38	0.42	0.51
BV Per Share (HK\$)	10.74	13.99	13.97	15.43
PE (X)	24.5	19.5	17.5	14.4
P/Cash Flow (X)	11.1	10.1	10.5	9.5
P/Free CF (X)	24.7	16.0	16.2	13.9
EV/EBITDA (X)	10.0	7.8	7.1	6.0
Net Div Yield (%)	1.1	1.4	1.5	1.9
P/Book Value (X)	2.5	1.9	1.9	1.8
Net Debt/Equity (X)	0.3	0.1	0.1	0.1
ROAE (%)	11.5	11.2	11.6	12.8

Earnings Rev (%)		Nil	Nil	Nil
Consensus EPS (RMB):		1.11	1.31	1.56
Other Broker Recs:		B: 13	S: 0	H: 4

ICB Industry: Health Care

ICB Sector: Pharmaceuticals & Biotechnology

Principal Business: The largest distributor of, and a leading provider of supply chain services for, pharmaceutical and healthcare products in China.

Source of all data: Company, DBSV, Thomson Reuters, HKEX

Steady market share gain to drive earnings growth

- Expect 27% y-o-y earnings growth in 4Q14 on penetration into 2nd / 3rd tier cities, better economies of scale, increasingly centralised procurement
- Expect 22% earnings CAGR in FY14F-16F on steady market share gain
- Maintain BUY

Expect 27% y-o-y earnings growth in 4Q14. The growth is driven by 1) 17% y-o-y sales growth which is 4ppts higher than the sales growth of the pharmaceutical industry, thanks to penetration into 2nd / 3rd tier cities and market share gain from smaller peers amid industry consolidation; 2) net margin increase of 0.1ppt y-o-y to 1.3% due to better economies of scale and increasing portion of centralised procurement (currently c.30%). We expect Sinopharm to earn Rmb676m in 4Q14 (up 27% y-o-y).

21% earnings CAGR in FY14F-16F on steady market share gain.

Market share gain through penetration into 2nd / 3rd tier cities allows Sinopharm to grow its sales at faster than the industry. Peers find it tough to emulate this growth as 1) Sinopharm is the only drug distributor with a nationwide sales network; 2) customers (hospitals) in 2nd / 3rd tier cities require longer account receivable days. Without strong working capital, it's hard to win over those customers. After its new share placement in Nov 2014 (raised net proceeds of HK\$5.5bn), its FY14F total equity has been enlarged by 18% which allows it to accelerate the market penetration. In 2014, the State-owned Assets Supervision & Administration Commission (SASAC) has picked Sinopharm's parent co - China National Pharmaceutical Group Corp (CNPGC) as one of the 6 pilot state-owned enterprises to carry out reform to improve operating efficiency. CNPGC's reform proposal has just been approved by SASAC recently. Sinopharm should benefit from the reform in the long run.

Maintain BUY. We maintain BUY on Sinopharm's 22% earnings CAGR (FY14F-16F). Our TP of HK\$31 is based on 20x 15F PE.

At A Glance

Issued Capital - H shares (m shs)	1,193
- Non H shrs (m shs)	1,574
H shs as a % of Total	43
Total Mkt. Cap (HK\$m/US\$m)	74,988 / 9,669
Major Shareholders	
CNPGC (%)	56.9
Major H Shareholders (%)	
JPMorgan Chase & Co. (%)	10.0
OppenheimerFunds, Inc (%)	9.1
BlackRock, Inc. (%)	8.0
Matthews International Capital Mgmt,	6.0
Mirae Asset Global Inv. (HK) Ltd. (%)	5.9
H Shares-Free Float (%)	61.1
Avg. Daily Vol.('000)	6,533

Income Statement (RMB m)

FY Dec	2013A	2014F	2015F	2016F
Turnover	166,866	198,571	237,292	282,377
Cost of Goods Sold	(153,488)	(182,685)	(218,309)	(259,787)
Gross Profit	13,379	15,886	18,983	22,590
Other Opng (Exp)/Inc	(7,277)	(8,465)	(9,888)	(11,484)
Operating Profit	6,102	7,421	9,096	11,106
Other Non Opg (Exp)/Inc	40	48	57	68
Associates & JV Inc	139	169	207	253
Net Interest (Exp)/Inc	(1,660)	(1,835)	(2,259)	(2,832)
Dividend Income	0	0	1	2
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	4,621	5,802	7,102	8,597
Tax	(1,041)	(1,307)	(1,599)	(1,936)
Minority Interest	(1,330)	(1,671)	(2,045)	(2,475)
Preference Dividend	0	0	0	0
Net Profit	2,250	2,824	3,456	4,184
Net Profit before Except.	2,250	2,824	3,457	4,186
EBITDA	6,961	8,429	10,283	12,478
Sales Gth (%)	22.2	19.0	19.5	19.0
EBITDA Gth (%)	18.8	21.1	22.0	21.3
Opg Profit Gth (%)	25.3	21.6	22.6	22.1
Net Profit Gth (%)	13.7	25.5	22.4	21.1
Effective Tax Rate (%)	22.5	22.5	22.5	22.5

Cash Flow Statement (RMB m)

FY Dec	2013A	2014F	2015F	2016F
Pre-Tax Profit	4,621	5,802	7,101	8,595
Dep. & Amort.	680	792	922	1,049
Tax Paid	(1,041)	(1,307)	(1,599)	(1,936)
Assoc. & JV Inc/(loss)	(139)	(169)	(207)	(253)
(Pft)/ Loss on disposal of FAs	0	0	0	0
Chg in Wkg.Cap.	(7,295)	(1,497)	(2,733)	(3,942)
Other Operating CF	8,115	1,835	2,259	2,832
Net Operating CF	4,941	5,456	5,743	6,346
Capital Exp.(net)	(2,714)	(2,005)	(2,005)	(2,006)
Other Invts.(net)	0	0	0	0
Invts in Assoc. & JV	0	0	0	0
Div from Assoc & JV	83	101	124	152
Other Investing CF	(1,435)	188	179	203
Net Investing CF	(4,066)	(1,715)	(1,702)	(1,651)
Div Paid	(642)	(601)	(763)	(933)
Chg in Gross Debt	9,002	1,257	1,320	1,386
Capital Issues	3,000	4,386	0	0
Other Financing CF	(7,950)	(2,389)	(2,974)	(3,657)
Net Financing CF	3,409	2,653	(2,417)	(3,204)
Currency Adjustments	(83)	0	1	2
Chg in Cash	4,200	6,394	1,626	1,493

Interim Income Statement (RMB m)

FY Dec	2H2012	1H2013	2H2013	1H2014
Turnover	69,939	80,066	86,800	94,836
Cost of Goods Sold	(64,405)	(73,742)	(79,745)	(86,979)
Gross Profit	5,534	6,324	7,054	7,857
Other Oper. (Exp)/Inc	(3,243)	(3,327)	(3,950)	(3,935)
Operating Profit	2,291	2,997	3,105	3,922
Other Non Opg (Exp)/Inc	296	23	17	12
Associates & JV Inc	70	64	75	77
Net Interest (Exp)/Inc	(650)	(777)	(884)	(1,006)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	2,006	2,308	2,312	3,004
Tax	(450)	(512)	(529)	(696)
Minority Interest	(536)	(644)	(685)	(843)
Net Profit	1,020	1,152	1,098	1,465
Net profit bef Except.	1,020	1,152	1,098	1,465
Sales Gth (%)	29.0	20.3	24.1	18.4
Opg Profit Gth (%)	26.3	16.3	35.5	30.8
Net Profit Gth (%)	31.5	20.1	7.6	27.2
Gross Margins (%)	7.9	7.9	8.1	8.3
Opg Profit Margins (%)	3.3	3.7	3.6	4.1
Net Profit Margins (%)	1.5	1.4	1.3	1.5

Balance Sheet (RMB m)

FY Dec	2013A	2014F	2015F	2016F
Net Fixed Assets	6,470	7,882	9,169	10,334
Invts in Assocs & JVs	731	798	881	982
Other LT Assets	8,539	8,412	8,313	8,213
Cash & ST Invts	17,045	23,439	25,065	26,556
Inventory	16,702	19,334	22,533	25,865
Debtors	51,825	55,893	66,329	77,568
Other Current Assets	4,141	4,466	5,300	6,198
Total Assets	105,453	120,226	137,588	155,715
ST Debt	21,007	22,058	23,161	24,319
Creditors	33,863	38,210	47,917	57,421
Other Current Liab	15,971	17,152	19,180	21,204
LT Debt	4,134	4,341	4,558	4,786
Other LT Liabilities	1,867	1,908	1,885	1,867
Shareholder's Equity	21,816	28,425	31,118	34,369
Minority Interests	6,796	8,133	9,769	11,749
Total Cap. & Liab.	105,453	120,226	137,588	155,715
Non-Cash Wkg. Cap	22,834	24,331	27,064	31,006
Net Cash/(Debt)	(8,096)	(2,959)	(2,654)	(2,548)

Rates & Ratio

FY Dec	2013A	2014F	2015F	2016F
Gross Margins (%)	8.0	8.0	8.0	8.0
Opg Profit Margin (%)	3.7	3.7	3.8	3.9
Net Profit Margin (%)	1.3	1.4	1.5	1.5
ROAE (%)	11.5	11.2	11.6	12.8
ROA (%)	2.4	2.5	2.7	2.9
ROCE (%)	9.8	9.5	10.4	11.7
Div Payout Ratio (%)	26.7	27.0	27.0	27.0
Net Interest Cover (x)	3.7	4.0	4.0	3.9
Asset Turnover (x)	1.8	1.8	1.8	1.9
Debtors Turn (avg days)	98.4	99.0	94.0	93.0
Creditors Turn (avg days)	72.1	72.3	72.3	74.3
Inventory Turn (avg days)	36.5	36.2	35.1	34.1
Current Ratio (x)	1.3	1.3	1.3	1.3
Quick Ratio (x)	1.0	1.0	1.0	1.0
Net Debt/Equity (X)	0.3	0.1	0.1	0.1
Capex to Debt (%)	10.8	7.6	7.2	6.9
Z-Score (X)	2.5	2.7	2.7	2.8
N.Cash/(Debt)PS (RMB)	(3.98)	(1.46)	(1.19)	(1.14)
Opg CFPS (RMB)	4.85	2.76	3.06	3.72
Free CFPS (RMB)	0.88	1.37	1.35	1.57

Segmental Breakdown (RMB m) / Key Assumptions

FY Dec	2013A	2014F	2015F	2016F
Revenues (RMB m)				
Pharmaceutical distribution	157,864	187,859	224,491	267,144
Retail pharmacy	4,833	5,751	6,873	8,179
Other business operations	4,169	4,961	5,928	7,054
Others	0	0	1	2
Total	166,866	198,571	237,293	282,379
EBIT (RMB m)				
Pharmaceutical distribution	5,548	6,748	8,271	10,099
Retail pharmacy	175	212	260	318
Other business operations	420	461	565	690
Others	N/A	N/A	N/A	N/A
Total	6,143	7,421	9,096	11,106
EBIT Margins (%)				
Pharmaceutical distribution	3.5	3.6	3.7	3.8
Retail pharmacy	3.6	3.7	3.8	3.9
Other business operations	10.1	9.3	9.5	9.8
Others	N/A	N/A	0.0	0.0
Total	3.7	3.7	3.8	3.9
Key Assumptions				
Revenue growth %	22.2	19.0	19.5	19.0
Gross Margin %	8.0	8.0	8.0	8.0
SG&A % in revenue	4.5	4.4	4.3	4.2

Source: Company, DBS Vickers

China Healthcare Sector

China Shineway

Bloomberg: 2877 HK | Reuters: 2877.HK

Refer to important disclosures at the end of this report

HOLD HK\$11.50 HSI : 24,683

Price Target : 12-Month HK\$ 15.00

Potential Catalyst: penetration into drug stores market

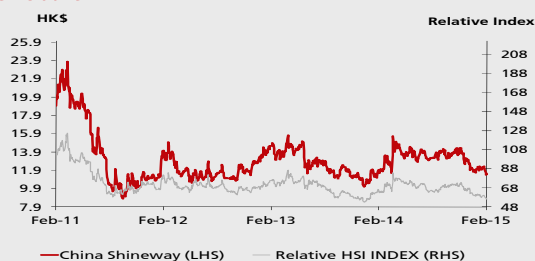
DBSV vs Consensus: slightly higher

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Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2013A	2014F	2015F	2016F
Turnover	2,187	2,406	2,646	2,911
EBITDA	903	1,002	1,100	1,207
Pre-tax Profit	860	940	1,032	1,132
Net Profit	684	761	836	916
Net Pft (Pre Ex.)	685	761	836	917
EPS (RMB)	0.83	0.92	1.01	1.11
EPS (HK\$)	1.03	1.14	1.26	1.38
EPS Gth (%)	5.5	11.3	9.8	9.6
Diluted EPS (HK\$)	1.03	1.14	1.26	1.38
DPS (HK\$)	0.46	0.46	0.50	0.55
BV Per Share (HK\$)	6.65	7.31	8.08	8.93
PE (X)	11.2	10.1	9.2	8.4
P/Cash Flow (X)	13.5	9.4	8.2	8.0
P/Free CF (X)	28.6	18.6	14.5	13.9
EV/EBITDA (X)	5.9	5.2	4.5	3.8
Net Div Yield (%)	4.0	4.0	4.4	4.8
P/Book Value (X)	1.7	1.6	1.4	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	16.2	16.4	16.3	16.1
Earnings Rev (%)		Nil	Nil	Nil
Consensus EPS (RMB):		0.90	0.96	1.02
Other Broker Recs:		B: 4	S: 3	H: 5

ICB Industry: Health Care

ICB Sector: Pharmaceuticals & Biotechnolog

Principal Business: One of the largest integrated pharmaceutical enterprises in modern Chinese Medicine market in China.

Source of all data: Company, DBSV, Thomson Reuters, HKEX

Slow but steady growth ahead

- Shineway is a modern Chinese medicines maker. We expect 10% earnings CAGR (2013-16F) on penetration into drug store market
- However, most products are facing price-cutting risks
- Maintain HOLD with TP unchanged at HK\$15.00

Steady but slow earnings growth. In 2013, the earnings growth was only 5.5%. In 1H14, the growth was still slow (+5.1% y-o-y). It was mainly driven by: 1) 4% sales growth, driven by soft capsules, granules and other product formats (accounting for 43% of total sales in aggregate); 2) 70% increase in investment income to Rmb66.8m, due to increase in short-term debt-related products; 3) decrease in total operating cost (Distribution + Admin + R&D) as a % of sales from 31% to 29%; With net cash of Rmb2.6bn, Shineway's balance sheet remains strong.

Penetration into drug stores market. The major driver for future earnings is penetration into the drugs store market. In 1H14, the sales generated through drug stores was c.Rmb120m (making up 11% of total sales), compared with estimated 1H13 sales of c.Rmb50m (accounting for c.5% of total sales). The growth is attributed to replacement of inefficient drug stores with new ones. The group targets to expand its drugs store coverage from the current 15,000 to 20,000 by end of 2014. The expansion, which will continue into the future, can drive the company's earnings to grow at 10% CAGR (2013-16F). However, the government's cutting of drug prices (mainly non-exclusive products) to control medical cost is a major risk for drug makers. Shineway is facing this risk, as many of its products are non-exclusive ones.

Maintain HOLD. In view of price-cutting risk, we maintain HOLD with TP unchanged at HK\$15.00 (based on 13x FY14F PE pegged to its historical average 1-yr forward PE).

At A Glance

Issued Capital (m shrs)	827
Mkt. Cap (HK\$/US\$m)	9,511 / 1,226
Major Shareholders	
Li Zhenjiang (%)	64.5
Free Float (%)	30.5
Avg. Daily Vol.('000)	455

Income Statement (RMB m)

FY Dec	2013A	2014F	2015F	2016F
Turnover	2,187	2,406	2,646	2,911
Cost of Goods Sold	(713)	(782)	(859)	(944)
Gross Profit	1,474	1,624	1,787	1,967
Other Opng (Exp)/Inc	(699)	(763)	(848)	(942)
Operating Profit	776	860	939	1,025
Other Non Opg (Exp)/Inc	30	26	26	26
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	56	53	67	80
Dividend Income	0	0	0	1
Exceptional Gain/(Loss)	(2)	0	0	0
Pre-tax Profit	860	940	1,032	1,132
Tax	(176)	(179)	(196)	(215)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
Net Profit	684	761	836	916
Net Profit before Except.	685	761	836	917
EBITDA	903	1,002	1,100	1,207
Sales Gth (%)	2.6	10.0	10.0	10.0
EBITDA Gth (%)	6.1	10.9	9.8	9.8
Opg Profit Gth (%)	7.1	10.9	9.1	9.2
Net Profit Gth (%)	5.5	11.3	9.8	9.6
Effective Tax Rate (%)	20.5	19.0	19.0	19.0

Cash Flow Statement (RMB m)

FY Dec	2013A	2014F	2015F	2016F
Pre-Tax Profit	860	940	1,032	1,131
Dep. & Amort.	98	115	135	154
Tax Paid	(156)	(178)	(193)	(211)
Assoc. & JV Inc/(loss)	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0
Chg in Wkg.Cap.	(181)	(16)	18	(46)
Other Operating CF	(54)	(49)	(63)	(76)
Net Operating CF	567	812	928	953
Capital Exp.(net)	(299)	(400)	(400)	(400)
Other Invs.(net)	0	0	0	0
Invs in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	(422)	14	83	90
Net Investing CF	(721)	(386)	(317)	(310)
Div Paid	(265)	(306)	(313)	(344)
Chg in Gross Debt	500	(500)	0	0
Capital Issues	0	0	0	0
Other Financing CF	0	0	0	0
Net Financing CF	235	(806)	(313)	(344)
Currency Adjustments	(2)	0	0	0
Chg in Cash	80	(380)	297	299

Interim Income Statement (RMB m)

FY Dec	2H2012	1H2013	2H2013	1H2014
Turnover	1,130	1,059	1,128	1,099
Cost of Goods Sold	(391)	(353)	(360)	(375)
Gross Profit	739	707	768	724
Other Oper. (Exp)/Inc	(391)	(288)	(411)	(295)
Operating Profit	348	419	357	430
Other Non Opg (Exp)/Inc	13	15	15	40
Associates & JV Inc	0	0	(1)	0
Net Interest (Exp)/Inc	22	25	31	17
Exceptional Gain/(Loss)	(2)	(1)	(1)	(3)
Pre-tax Profit	381	458	402	484
Tax	(88)	(73)	(103)	(78)
Minority Interest	0	0	0	0
Net Profit	293	385	298	405
Net profit bef Except.	295	386	299	409
Sales Gth (%)	20.7	5.7	(0.2)	3.8
Opg Profit Gth (%)	1.4	11.4	2.5	2.6
Net Profit Gth (%)	(7.7)	8.6	1.9	5.1
Gross Margins (%)	65.4	66.7	68.1	65.9
Opg Profit Margins (%)	30.8	39.5	31.6	39.1
Net Profit Margins (%)	25.9	36.4	26.4	36.8

Balance Sheet (RMB m)

FY Dec	2013A	2014F	2015F	2016F
Net Fixed Assets	1,599	1,884	2,150	2,396
Invs in Assocs & JVs	0	0	0	0
Other LT Assets	262	259	258	257
Cash & ST Invs	2,831	2,450	2,748	3,047
Inventory	244	270	295	325
Debtors	10	10	11	12
Other Current Assets	792	820	868	933
Total Assets	5,738	5,693	6,330	6,969
ST Debt	500	0	0	0
Creditors	208	220	251	267
Other Current Liab	472	498	563	599
LT Debt	0	0	0	0
Other LT Liabilities	129	104	123	135
Shareholder's Equity	4,429	4,871	5,393	5,967
Minority Interests	1	1	1	1
Total Cap. & Liab.	5,738	5,693	6,330	6,969
Non-Cash Wkg. Cap	367	382	361	404
Net Cash/(Debt)	2,331	2,450	2,748	3,047

Rates & Ratio

FY Dec	2013A	2014F	2015F	2016F
Gross Margins (%)	67.4	67.5	67.5	67.6
Opg Profit Margin (%)	35.5	35.8	35.5	35.2
Net Profit Margin (%)	31.3	31.6	31.6	31.5
ROAE (%)	16.2	16.4	16.3	16.1
ROA (%)	13.0	13.3	13.9	13.8
ROCE (%)	13.5	13.9	14.5	14.3
Div Payout Ratio (%)	44.8	40.0	40.0	40.0
Net Interest Cover (x)	NM	NM	NM	NM
Asset Turnover (x)	0.4	0.4	0.4	0.4
Debtors Turn (avg days)	2.5	1.6	1.5	1.4
Creditors Turn (avg days)	137.5	117.2	118.6	119.5
Inventory Turn (avg days)	133.2	140.7	142.3	143.4
Current Ratio (x)	3.3	4.9	4.8	5.0
Quick Ratio (x)	2.4	3.4	3.4	3.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Capex to Debt (%)	59.8	N/A	N/A	N/A
Z-Score (X)	5.9	8.3	7.6	7.3
N.Cash/(Debt)PS (RMB)	3.50	3.68	4.12	4.56
Opg CFPS (RMB)	0.90	1.00	1.10	1.21
Free CFPS (RMB)	0.32	0.50	0.64	0.67

Segmental Breakdown (RMB m) / Key Assumptions

FY Dec	2013A	2014F	2015F	2016F
Revenues (RMB m)				
Injections	1,335	1,468	1,615	1,777
Soft Capsules	438	482	530	583
Granules	342	376	413	455
Other Format Products	73	80	88	97
Others	0	0	0	1
Total	2,187	2,406	2,646	2,912
Gross Profit (RMB m)				
Injections	934	1,028	1,131	1,245
Soft Capsules	324	356	392	431
Granules	178	195	215	236
Other Format Products	39	44	49	54
Others	N/A	N/A	N/A	N/A
Total	1,475	1,624	1,787	1,967
Gross Profit Margins (%)				
Injections	70.0	70.0	70.0	70.1
Soft Capsules	74.0	74.0	74.0	74.0
Granules	52.0	52.0	52.0	52.0
Other Format Products	53.0	55.0	56.0	56.0
Others	N/A	N/A	N/A	0.0
Total	67.4	67.5	67.5	67.6
Key Assumptions				
Injections revenue growth %	7.8	10.0	10.0	10.0
Soft capsules revenue growth %	(2.0)	10.0	10.0	10.0
Granules revenue growth %	(6.8)	10.0	10.0	10.0
Other format products' revenue growth %	(9.8)	10.0	10.0	10.0

Source: Company, DBS Vickers

Microport Scientific

Bloomberg: 853 HK | Reuters: 0853.HK

Refer to important disclosures at the end of this report

FULLY VALUED HK\$3.55 HSI : 24,683

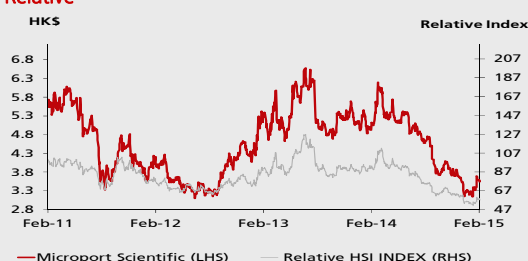
Price Target : 12-Month HK\$ 2.96

Potential Catalyst: turnaround of newly acquired orthopedic business
DBSV vs Consensus: in line

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (US\$ m)	2013A	2014F	2015F	2016F
Turnover	155	376	393	404
EBITDA	40	25	61	84
Pre-tax Profit	34	8	37	59
Net Profit	25	(1)	28	43
Net Pft (Pre Ex.)	25	(1)	28	44
EPS (US\$)	0.02	0.00	0.02	0.03
EPS (HK\$)	0.14	0.00	0.15	0.24
EPS Gth (%)	(57.7)	N/A	N/A	54.5
Diluted EPS (HK\$)	0.13	0.00	0.15	0.23
DPS (HK\$)	0.00	0.00	0.00	0.00
BV Per Share (HK\$)	2.16	2.15	2.31	2.55
PE (X)	26.2	(855.7)	22.9	14.8
P/Cash Flow (X)	10.9	(10.2)	254.2	13.7
P/Free CF (X)	103.8	nm	nm	321.3
EV/EBITDA (X)	11.9	32.5	14.3	10.3
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	1.6	1.6	1.5	1.4
Net Debt/Equity (X)	CASH	0.4	0.5	0.5
ROAE (%)	6.3	(0.2)	6.9	9.9
Earnings Rev (%)		Nil	Nil	Nil
Consensus EPS (US\$):		0.03	0.17	0.20
Other Broker Recs:		B: 2	S: 4	H: 2

ICB Industry: Health Care

ICB Sector: Health Care Equipment & Services

Principal Business: Leading medical devices manufacturer in China focusing on minimally invasive interventional products for the treatment of vascular diseases.

Source of all data: Company, DBSV, Thomson Reuters, HKEX

Earnings highly uncertain

- Integration cost after acquisition of OrthoRecon could be a substantial drag on Microport's earnings
- Earnings growth of Microport's current major product (drugs eluting stents) has been slower than expected
- Fully Valued for uncertain earnings outlook; TP is HK\$2.96

Integration cost after M&A is the largest uncertainty for Microport.

In Jan 14, Microport acquired OrthoRecon (an orthopedic devices maker focusing on hip & knee) from Wright for US\$290m. The deal has been a drag on Microport's earnings. In 1H14, Microport recorded a net loss of US\$10m because of net loss of OrthoRecon (US\$26.5m) and total operating cost (R&D + distribution + admin + others) to sales ratio increased by 15ppts y-o-y due to integration cost incurred after the M&A. We believe the integration process will take 1-2 years. The integration cost (e.g. rebranding, increased investment on R&D) is creating a high degree of uncertainty to Microport's earnings.

Growth of original major products slower than expected.

Drug eluting stents (DES) is still the largest profit contributor (>90%). After a 20% price cut in 2013, price and sales volume of its DES has been stable. Sales growth of the new DES Firehawk (ASP is 60% above original DES) was slower than expected. To penetrate each province, Microport will have to take part in tenders called by each province. In 1H14, Firehawk only participated in <5 provincial tenders, which accounted for 3-5% of DES sales only.

Fully Valued for uncertain earnings outlook. OrthoRecon has been making losses for years and it would take time for Microport to restructure and integrate the operations. The cost related to this adds uncertainty to Microport's earnings prospects. Meanwhile, sales growth of DES has been slower than expected and hence, may not offset integration costs. In view of the uncertain earnings outlook, our rating for Microport is Fully Valued with TP of HK\$2.96.

At A Glance

Issued Capital (m shrs)	1,422
Mkt. Cap (HK\$m/US\$m)	5,049 / 651
Major Shareholders	
Otsuka Holdings Co. Ltd (%)	33.0
Shanghai Zhangjiang S&T (%)	15.6
We'Tron Capital Limited (%)	15.4
GIC Private Limited (%)	8.7
Free Float (%)	27.3
Avg. Daily Vol.('000)	1,098

Income Statement (US\$ m)

FY Dec	2013E	2014F	2015F	2016F
Turnover	155	376	393	404
Cost of Goods Sold	(29)	(113)	(114)	(113)
Gross Profit	126	263	279	291
Other Opng (Exp)/Inc	(98)	(259)	(240)	(230)
Operating Profit	27	4	39	61
Other Non Opg (Exp)/Inc	5	10	5	5
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	1	(7)	(7)	(8)
Dividend Income	0	0	0	1
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	34	8	37	59
Tax	(9)	(8)	(9)	(14)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
Net Profit	25	(1)	28	43
Net Profit before Except.	25	(1)	28	44
EBITDA	40	25	61	84
Sales Gth (%)	0.8	142.6	4.6	2.6
EBITDA Gth (%)	(43.5)	(37.0)	140.6	39.5
Opg Profit Gth (%)	(52.3)	(85.0)	851.2	53.9
Net Profit Gth (%)	(58.0)	N/A	N/A	54.5
Effective Tax Rate (%)	27.6	110.0	25.0	24.6

Cash Flow Statement (US\$ m)

FY Dec	2013E	2014F	2015F	2016F
Pre-Tax Profit	34	8	37	58
Dep. & Amort.	7	11	16	18
Tax Paid	(9)	(8)	(9)	(14)
Assoc. & JV Inc/(loss)	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0
Chg in Wkg.Cap.	20	(100)	(51)	(20)
Other Operating CF	6	27	9	6
Net Operating CF	59	(63)	3	47
Capital Exp.(net)	(53)	(220)	(45)	(45)
Other Invs.(net)	0	0	0	0
Invs in Assoc. & JV	(2)	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	61	(158)	4	4
Net Investing CF	6	(378)	(41)	(41)
Div Paid	(15)	0	0	1
Chg in Gross Debt	48	343	0	0
Capital Issues	1	0	0	0
Other Financing CF	(6)	(10)	(11)	(11)
Net Financing CF	28	332	(11)	(10)
Currency Adjustments	(2)	0	0	1
Chg in Cash	92	(109)	(49)	(3)

Interim Income Statement (US\$ m)

FY Dec	1H2013	2H2013E	1H2014
Turnover	68	87	184
Cost of Goods Sold	(13)	(17)	(55)
Gross Profit	55	71	129
Other Oper. (Exp)/Inc	(39)	(59)	(134)
Operating Profit	16	12	(6)
Other Non Opg (Exp)/Inc	1	4	5
Associates & JV Inc	0	0	1
Net Interest (Exp)/Inc	2	0	(3)
Exceptional Gain/(Loss)	0	0	1
Pre-tax Profit	18	15	(1)
Tax	(4)	(6)	(6)
Minority Interest	0	0	0
Net Profit	15	10	(10)
Net profit bef Except.	15	10	(8)
Sales Gth (%)	N/A	N/A	171.6
Opg Profit Gth (%)	N/A	N/A	N/A
Net Profit Gth (%)	N/A	N/A	N/A
Gross Margins (%)	81.2	80.9	70.0
Opg Profit Margins (%)	23.2	13.5	(3.1)
Net Profit Margins (%)	21.8	11.2	(5.4)

Balance Sheet (US\$ m)

FY Dec	2013A	2014F	2015F	2016F
Net Fixed Assets	135	296	324	352
Invs in Assocs & JVs	0	0	0	0
Other LT Assets	84	161	159	157
Cash & ST Invs	216	220	170	168
Inventory	20	103	115	132
Debtors	63	153	192	206
Other Current Assets	0	0	0	0
Total Assets	519	933	961	1,016
ST Debt	30	215	215	215
Creditors	46	107	107	118
Other Current Liab	3	3	3	3
LT Debt	22	179	179	179
Other LT Liabilities	28	39	39	39
Shareholder's Equity	390	390	418	461
Minority Interests	0	0	0	0
Total Cap. & Liab.	519	933	961	1,016
Non-Cash Wkg. Cap	35	147	197	217
Net Cash/(Debt)	165	(174)	(224)	(227)

Rates & Ratio

FY Dec	2013E	2014F	2015F	2016F
Gross Margins (%)	81.0	70.0	71.0	72.0
Opg Profit Margin (%)	17.7	1.1	10.0	15.0
Net Profit Margin (%)	15.8	(0.2)	7.1	10.7
ROAE (%)	6.3	(0.2)	6.9	9.9
ROA (%)	5.1	(0.1)	3.0	4.4
ROCE (%)	4.5	(0.1)	3.5	5.2
Div Payout Ratio (%)	0.0	N/A	0.0	0.0
Net Interest Cover (x)	NM	0.6	5.7	7.8
Asset Turnover (x)	0.3	0.5	0.4	0.4
Debtors Turn (avg days)	158.9	105.0	160.0	180.0
Creditors Turn (avg days)	612.9	273.2	399.5	433.2
Inventory Turn (avg days)	293.8	221.7	408.4	475.9
Current Ratio (x)	3.8	1.5	1.5	1.5
Quick Ratio (x)	3.6	1.1	1.1	1.1
Net Debt/Equity (X)	CASH	0.4	0.5	0.5
Capex to Debt (%)	102.4	55.8	11.4	11.4
Z-Score (X)	5.4	2.2	2.3	2.4
N.Cash/(Debt)PS (US\$)	0.91	(0.96)	(1.24)	(1.25)
Opg CFPS (US\$)	0.03	0.03	0.04	0.05
Free CFPS (US\$)	0.00	(0.20)	(0.03)	0.00

Segmental Breakdown (US\$ m) / Key Assumptions

FY Dec	2013E	2014F	2015F	2016F
Revenues (US\$ m)				
Cardiovascular devices	123	129	142	156
Endovascular devices	13	10	10	0
Neurovascular devices	5	4	5	6
Orthopedics devices	0	218	218	218
Others	14	14	18	23
Total	155	376	393	404
Gross profit (US\$ m)				
Total	126	263	279	291
Gross profit Margins (%)				
Total	81.0	70.0	71.0	72.0
Key Assumptions				
Revenue growth (%)	0.8	142.6	4.6	2.6
Gross margin (%)	81.0	70.0	71.0	72.0
Total operating cost /	63.3	68.9	61.0	57.0

Source: Company, DBS Vickers

China Healthcare Sector

Shandong Weigao

Bloomberg: 1066 HK | Reuters: 1066.HK

Refer to important disclosures at the end of this report

FULLY VALUED HK\$6.30 HSI : 24,683

Price Target : 12-Month HK\$ 6.4

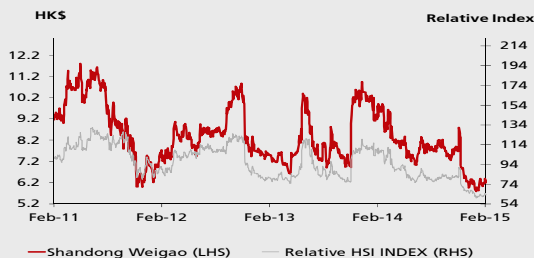
Potential Catalyst: launch of new products

DBSV vs Consensus: lower due to lower sales growth assumption

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2013A	2014F	2015F	2016F
Turnover	4,613	5,188	5,823	6,548
EBITDA	1,300	1,314	1,481	1,656
Pre-tax Profit	544	1,110	1,252	1,402
Net Profit	388	947	1,063	1,191
Net Pft (Pre Ex.)	953	947	1,063	1,192
EPS (RMB)	0.09	0.21	0.24	0.27
EPS (HK\$)	0.11	0.26	0.29	0.33
EPS Gth (%)	(61.1)	144.1	12.2	12.0
Diluted EPS (HK\$)	0.11	0.26	0.29	0.33
DPS (HK\$)	0.07	0.08	0.09	0.10
BV Per Share (HK\$)	2.51	2.70	2.91	3.14
PE (X)	58.5	24.0	21.4	19.1
P/Cash Flow (X)	31.7	21.6	19.3	17.2
P/Free CF (X)	nm	56.7	43.2	33.8
EV/EBITDA (X)	15.4	15.1	13.2	11.6
Net Div Yield (%)	1.2	1.3	1.4	1.6
P/Book Value (X)	2.5	2.3	2.2	2.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	4.3	10.1	10.5	10.9

Earnings Rev (%)		Nil	Nil	Nil
Consensus earnings (RMB m)		0.22	0.27	0.30
Other Broker Recs:		B: 5	S: 4	H: 6

ICB Industry: Health Care

ICB Sector: Health Care Equipment & Services

Principal Business: Shandong Weigao Group Medical Polymer Company limited researches and develops, produces and sells single-use aseptic polymer medical products

Source of all data: Company, DBSV, Thomson Reuters, HKEX

Intense competition impacts growth

- Following a cut in FY14 sales growth target in Aug-14, management had cut it again in Nov-14 (-5ppt to 12%)
- Due to intense competition, expect sales growth to fall from 25% in FY13 to c.12.5% p.a. in FY14F-16F and gross margins to be squeezed from 59% in FY13 to 58% in 14F-16F
- FULLY VALUED with TP of HK\$6.40

Weigao had cut FY14 sales growth target again in late 2014.

After cutting FY14 sales growth target in Aug (-3ppts to 17%), Weigao had cut it again in Nov-14 (-5ppts to 12%) due to intensifying competition in the consumables segment. We estimate that up to 50% of sales from this segment in 3Q14 would have come from the mid-low end conventional products which are vulnerable to competition from emerging local players. We expect ASP pressure on this segment to continue, which would drag down overall sales growth. Thus, we expect sales growth to drop from 25% in FY13 to c.12.5% p.a. in FY14F-16F and gross margins to be squeezed from 59% in 2013 to 58% over FY14F-16F. A turning point will emerge if Weigao accelerates the launch of high end products to alleviate the ASP pressure from mid-low end medical consumables.

3Q14 earnings below consensus by 30%. Excluding impact from disposal of associate Biosensors, 3Q14 earnings fell by 22% y-o-y to Rmb223m (30% below consensus). The drop was due to a decline in sales of consumables (-5% y-o-y, 73% of total sales), lower gross margin (-1.8ppt) due to ASP cut and a rise in selling & admin cost as % of sales (+4.7ppts). These factors were largely due to intensifying competition.

FULLY VALUED with HK\$6.40 TP. Due to sustained ASP pressure on the consumables segment, we recommend a Fully Valued rating for Weigao with TP of HK\$6.40.

At A Glance

Issued Capital - H shares (m shs)	1,884
- Non H shrs (m shs)	2,593
H shs as a % of Total	42
Total Mkt. Cap (HK\$m/US\$m)	28,201 / 3,636
Major Shareholders	
Weigao Holding (%)	48.3
Medtronic (%)	7.2
Major H Shareholders (%)	
JPMorgan Chase & Co (%)	9.3
Baillie Gifford & Co (%)	9.0
OppenheimerFunds, Inc. (%)	6.0
BlackRock, Inc. (%)	5.9
H Shares-Free Float (%)	69.9
Avg. Daily Vol.('000)	8,403

Income Statement (RMB m)

FY Dec	2013A	2014F	2015F	2016F
Turnover	4,613	5,188	5,823	6,548
Cost of Goods Sold	(1,886)	(2,168)	(2,434)	(2,737)
Gross Profit	2,727	3,019	3,389	3,811
Other Opng (Exp)/Inc	(1,680)	(1,902)	(2,143)	(2,417)
Operating Profit	1,047	1,117	1,247	1,394
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	65	(9)	2	2
Net Interest (Exp)/Inc	(3)	2	3	5
Dividend Income	0	0	0	1
Exceptional Gain/(Loss)	(565)	0	0	0
Pre-tax Profit	544	1,110	1,252	1,402
Tax	(156)	(162)	(187)	(210)
Minority Interest	0	(1)	(1)	(1)
Preference Dividend	0	0	0	0
Net Profit	388	947	1,063	1,191
Net Profit before Except.	953	947	1,063	1,192
EBITDA	1,300	1,314	1,481	1,656
Sales Gth (%)	25.1	12.5	12.2	12.5
EBITDA Gth (%)	5.0	1.1	12.7	11.8
Opg Profit Gth (%)	11.2	6.7	11.6	11.9
Net Profit Gth (%)	(61.1)	144.1	12.2	12.0
Effective Tax Rate (%)	28.8	14.6	15.0	15.0

Cash Flow Statement (RMB m)

FY Dec	2013A	2014F	2015F	2016F
Pre-Tax Profit	544	1,110	1,252	1,401
Dep. & Amort.	188	206	233	259
Tax Paid	(178)	(162)	(187)	(210)
Assoc. & JV Inc/(loss)	(65)	9	(2)	(2)
(Pft)/ Loss on disposal of FAs	0	0	0	0
Chg in Wkg.Cap.	(338)	(113)	(119)	(127)
Other Operating CF	565	0	0	0
Net Operating CF	717	1,050	1,176	1,322
Capital Exp.(net)	(988)	(650)	(650)	(650)
Other Invts.(net)	0	0	0	0
Invts in Assoc. & JV	1,862	0	0	0
Div from Assoc & JV	31	0	0	0
Other Investing CF	(46)	22	23	25
Net Investing CF	859	(628)	(627)	(625)
Div Paid	(278)	(276)	(301)	(337)
Chg in Gross Debt	400	0	0	0
Capital Issues	0	0	0	0
Other Financing CF	(23)	(20)	(20)	(20)
Net Financing CF	99	(296)	(321)	(357)
Currency Adjustments	0	0	0	1
Chg in Cash	1,675	126	228	340

Quarterly Income Statement (RMB m)

FY Dec	4Q2013	1Q2014	2Q2014	3Q2014
Revenue	1,213	1,168	1,377	1,253
Cost of Goods Sold	(502)	(484)	(564)	(533)
Gross Profit	711	684	813	720
Other Oper. (Exp)/Inc	(481)	(417)	(503)	(453)
Operating Profit	230	267	309	267
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	(24)	(8)	0	(1)
Net Interest (Exp)/Inc	4	(4)	(6)	(5)
Exceptional Gain/(Loss)	(565)	0	0	0
Pre-tax Profit	(356)	254	304	261
Tax	(39)	(39)	(44)	(37)
Minority Interest	5	1	(3)	(1)
Net Profit	(389)	216	257	223
Net profit bef Except.	176	216	257	223
EBITDA	205	258	310	266
Growth				
Revenue Gth (%)	(2.0)	(3.7)	17.9	(9.0)
EBITDA Gth (%)	(48.9)	25.7	20.0	(14.1)
Opg Profit Gth (%)	(33.0)	16.1	16.0	(13.7)
Net Profit Gth (%)	N/A	N/A	19.0	(13.1)
Margins				
Gross Margins (%)	58.6	58.6	59.0	57.5
Opg Profit Margins (%)	18.9	22.8	22.5	21.3
Net Profit Margins (%)	(32.1)	18.5	18.7	17.8

Balance Sheet (RMB m)

FY Dec	2013A	2014F	2015F	2016F
Net Fixed Assets	3,948	4,396	4,817	5,213
Invts in Assocs & JVs	236	234	233	233
Other LT Assets	851	842	842	839
Cash & ST Invts	3,159	3,283	3,508	3,845
Inventory	866	1,040	1,248	1,497
Debtors	2,228	2,505	2,812	3,162
Other Current Assets	0	0	0	0
Total Assets	11,288	12,301	13,460	14,787
ST Debt	300	300	300	300
Creditors	751	902	1,082	1,298
Other Current Liab	1,031	1,218	1,433	1,690
LT Debt	100	100	100	100
Other LT Liabilities	43	43	43	43
Shareholder's Equity	9,040	9,715	10,477	11,330
Minority Interests	23	23	25	26
Total Cap. & Liab.	11,288	12,301	13,460	14,787
Non-Cash Wkg. Cap	1,312	1,425	1,544	1,671
Net Cash/(Debt)	2,759	2,883	3,108	3,445

Rates & Ratio

FY Dec	2013A	2014F	2015F	2016F
Gross Margins (%)	59.1	58.2	58.2	58.2
Opg Profit Margin (%)	22.7	21.5	21.4	21.3
Net Profit Margin (%)	8.4	18.3	18.3	18.2
ROAE (%)	4.3	10.1	10.5	10.9
ROA (%)	3.6	8.0	8.3	8.4
ROCE (%)	8.1	9.7	10.0	10.4
Div Payout Ratio (%)	69.2	30.0	30.0	30.0
Net Interest Cover (x)	347.9	NM	NM	NM
Asset Turnover (x)	0.4	0.4	0.5	0.5
Debtors Turn (avg days)	153.5	166.5	166.7	166.5
Creditors Turn (avg days)	154.9	153.8	164.5	175.3
Inventory Turn (avg days)	182.3	177.3	189.6	202.1
Current Ratio (x)	3.0	2.8	2.7	2.6
Quick Ratio (x)	2.6	2.4	2.2	2.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Capex to Debt (%)	247.0	162.5	162.5	162.5
Z-Score (X)	7.6	6.9	6.2	5.7
N.Cash/(Debt)PS (RMB)	0.77	0.80	0.86	0.96
Opg CFPS (RMB)	0.24	0.26	0.29	0.32
Free CFPS (RMB)	(0.06)	0.09	0.12	0.15

Segmental Breakdown (RMB m) / Key Assumptions

FY Dec	2013A	2014F	2015F	2016F
Revenues (RMB m)				
Single use medical products	3,546	3,901	4,291	4,720
Othopaedic products Margin	506	582	669	769
Blood products / Other	561	705	863	1,059
Others	N/A	N/A	N/A	N/A
Total	4,613	5,188	5,823	6,548
EBIT (RMB m)				
Single use medical products	765	842	926	1,018
Othopaedic products Margin	257	296	340	391
Blood products / Other	15	19	23	28
Others	N/A	N/A	N/A	N/A
Total	1,037	1,156	1,289	1,438
EBIT Margins (%)				
Single use medical products	21.6	21.6	21.6	21.6
Othopaedic products Margin	50.8	50.8	50.8	50.8
Blood products / Other	2.6	2.6	2.6	2.6
Others	N/A	N/A	N/A	N/A
Total	22.5	22.3	22.1	22.0
Key Assumptions				
Revenue growth %	25.1	12.5	12.2	12.5
Gross margin %	57.3	59.1	59.2	59.3
SGA % in sales	34.1	36.5	37.8	37.8

Source: Company, DBS Vickers

China Healthcare Sector

China Medical System

Bloomberg: 867 HK | Reuters: 0867.HK

Refer to important disclosures at the end of this report

NOT RATED HK\$12.14 HSI : 24,683

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2010A	2011A	2012A	2013A
Turnover	132	210	282	363
EBITDA	36	69	101	124
Pre-tax Profit	35	68	94	111
Net Profit	31	62	85	103
Net Pft (Pre Ex.)	31	62	85	103
EPS (US\$)	0.02	0.03	0.04	0.04
EPS (HK\$)	0.13	0.21	0.27	0.33
EPS Gth (%)	(93.0)	62.2	33.0	20.9
Diluted EPS (HK\$)	0.02	0.03	0.04	0.04
DPS (HK\$)	0.05	0.08	0.11	0.13
BV Per Share (HK\$)	0.72	1.25	1.44	1.67
PE (X)	95.9	59.2	44.5	36.8
P/Cash Flow (X)	255.0	57.3	52.2	62.9
EV/EBITDA (X)	78.0	52.2	36.3	29.6
Net Div Yield (%)	0.4	0.7	0.9	1.1
P/Book Value (X)	16.8	9.7	8.4	7.2
Net Debt/Equity (X)	Cash	Cash	Cash	Cash
ROAE (%)	24.1	21.2	20.3	21.2

ICB Industry: Health Care

ICB Sector: Pharmaceuticals & Biotechnology

Principal Business: Drug makers

Source of all data: Company, DBSV, Thomson Reuters, HKEX

Biggest drug promoter in China

- Extensive sales network will enable the company to obtain more exclusive sales rights from foreign small- to mid-sized players with quality drugs
- Recent introduction of four new drugs to boost earnings growth
- Market is expecting 25% earnings CAGR from 2014F-16F on further market penetration from current and new drugs

China's biggest drug promoter. Based on Frost & Sullivan, China Medical System (CMS) has the biggest market share (>18%) in drugs promotion service industry (c.9ppts above the second largest player Pioneer (1345 HK)). With 2,700 sales professionals covering 21,000 hospitals, we believe CMS could continue to attract foreign players with quality drugs (particularly small- to mid-sized players) to grant it sales rights in China. Many small- to mid-sized foreign drug makers want to have a presence in China, but they may not have sufficient resources to build a dedicated sales & marketing team. Thus, they need to rely on company like CMS. CMS procures drugs from them and sell the drugs in China to generate revenue.

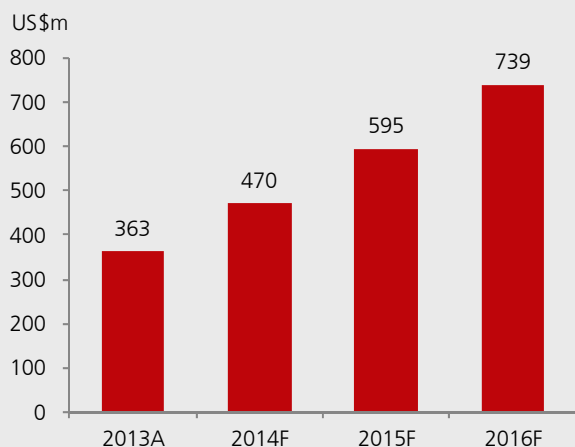
Recent introduction of four new drugs to help boost earnings growth. Apart from further market penetration of its current stable of products, CMS has introduced four new drugs to fuel its earnings growth. These drugs are used in the treatment of cardiovascular diseases, dermatological diseases and hyperprolactinemia. All of them are on the National Drug Reimbursement List. In total, these should be able to generate sales of around Rmb220m, which is about 10% of 2013 revenue.

Concerns. 1) Deanxit made up 28% of sales in 1H14. It was introduced by a Denmark manufacturer but is prohibited for sale in Denmark and the U.S. CMS' explanation for this was that Denmark prohibits the sale of compound preparations (e.g. Deanxit), while the U.S. does not approve old generation antidepressants; 2) 41% of its 1H14 revenue was from generic drugs, where price-cutting risk is higher than for exclusive drugs.

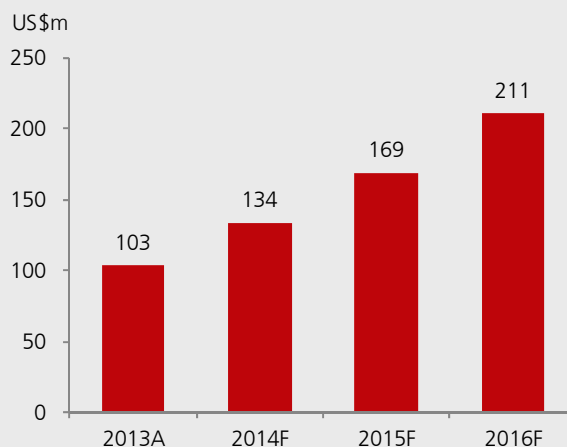
At A Glance

Issued Capital (m shrs)	2,415
Mkt Cap (HK\$m/US\$m)	29,315 / 3,781
Major Shareholders (%)	
Lam Kong	50.8
Chen Hongbing	5.2
Free Float (%)	44.0
Avg Daily Volume (m shrs)	6.5

Revenue

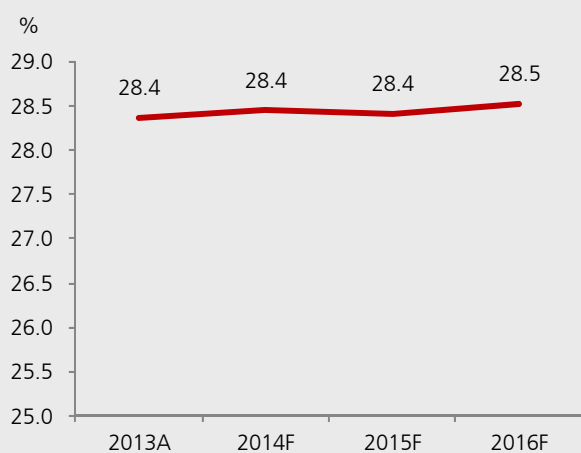


Net profit



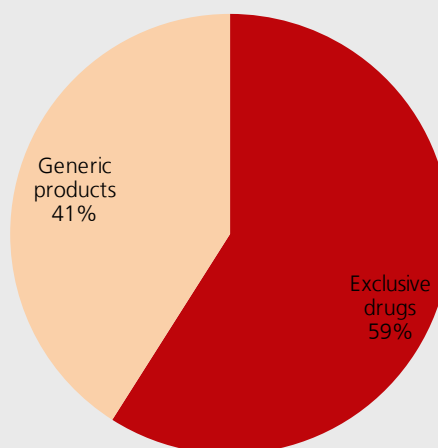
Source: Thomson Reuters

Net profit margin



Source: Thomson Reuters

Estimated exclusive drug % in sales (1H14)



Source: Company, DBS Vickers

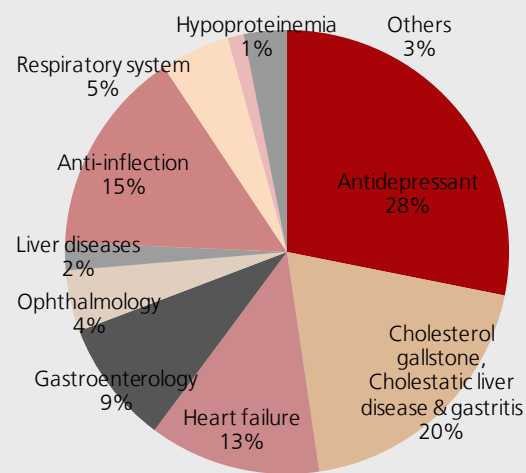
China Medical System

Drug portfolio

	Revenue (Rmb m, 1H14)	Therapeutic area	Exclusive or Generic	National EDL	Provincial EDL	National NRDL	Provincial NRDL
Dearxit	385	Antidepressant	E			V	
Uisofalk	267	Cholesterol gallstone, Cholestatic liver disease & gastritis	G			V	
XinHuoSu	171	Heart failure	E				
Salofalk	69	Gastroenterology	E			V	
Stulln	61	Ophthalmology	E				
Bioflor	54	Gastroenterology	E				
GanFuLe	26	Liver diseases	E			V	
ShaDuoLiKa	204	Anti-infection	G				>3
YiNuoShu	69	Respiratory system	G			V	
Xi DaKang	16	Hypoproteinemia	E				>3
Yin Lian Qing Gan Ke Li	2	Liver diseases	E			V	
Others	43						
Total	1,367						

Source: Company, DBS Vickers

Therapeutic areas (1H14)



Source: Thomson Reuters

Income Statement (US\$ m)

FY Dec	2010A	2011A	2012A	2013A
Turnover	132	210	282	363
Cost of Goods Sold	(54)	(91)	(116)	(165)
Gross Profit	78	119	166	198
Other Opg (Exp)/Inc	(44)	(55)	(70)	(80)
Operating Profit	34	65	96	118
Other Non Opg (Exp)/Inc	(0)	3	(3)	(10)
Associates & JV Inc				
Net Interest (Exp)/Inc	1	1	2	3
Exceptional Gain/(Loss)	-	-	-	-
Pre-tax Profit	35	68	94	111
Tax	(4)	(6)	(9)	(8)
Minority Interest	(0)	(0)	(0)	0
Preference Dividend	-	-	-	-
Net Profit	31	62	85	103
Net Profit before Except.	31	62	85	103
EBITDA	36	69	101	124
Sales Gth (%)	37.0	59.2	34.0	28.9
EBITDA Gth (%)	21.1	91.4	46.8	23
Opg Profit Gth (%)	24.3	88.0	48.2	23.7
Net Profit Gth (%)	47.9	103.6	36.6	20.9
Effective Tax Rate (%)	11.4	8.4	9.9	7.3

Cash Flow Statement (US\$ m)

FY Dec	2010A	2011A	2012A	2013A
Pre-Tax Profit	35	68	94	111
Dep. & Amort.	2	4	5	6
Tax Paid	(5)	(5)	(10)	(9)
Assoc. & JV Inc/(loss)	(0)	(0)	(0)	(0)
(Pft)/ Loss on disposal of FAs	0	0	0	0
Non-Cash Wkg. Cap.	(23)	(4)	(18)	(53)
Other Operating CF	3	1	1	5
Net Operating CF	12	64	72	60
Capital Exp. (net)	(1)	(14)	(6)	(22)
Other Invts. (net)	(3)	(50)	(19)	(14)
Invts. in Assoc. & JV	-	-	-	-
Div from Assoc. & JV	-	-	-	-
Other Investing CF	13	(34)	(34)	2
Net Investing CF	9	(98)	(58)	(34)
Div Paid	(5)	(25)	(28)	(39)
Chg in Gross Debt	-	-	-	-
Capital Issues	124	2	-	-
Other Financing CF	(9)	(10)	(1)	2
Net Financing CF	110	(34)	(29)	(37)
Net Cashflow	131	(67)	(15)	(11)

Interim Income Statement (US\$ m)

FY Dec	2H12	1H13	2H13	1H14
Turnover	150	167	196	222
Cost of Goods Sold	(60)	(77)	(89)	(102)
Gross Profit	89	90	108	120
Other Oper. (Exp)/Inc	(42)	(36)	(44)	(46)
Operating Profit	48	54	64	73
Other Non Opg (Exp)/Inc	(1)	(1)	46	(5)
Associates & JV Inc				
Net Interest (Exp)/Inc	1	2	1	3
Exceptional Gain/(Loss)	-	-	-	-
Pre-tax Profit	48	55	111	72
Tax	(4)	(5)	(3)	(5)
Minority Interest	(0)	0	0	0
Net Profit	44	50	108	67
Net profit bef Except.	44	50	108	67
EBITDA	-	-	-	77
Sales Gth (%)	31.3	26.5	31.0	32.7
EBITDA Gth (%)	-	-	-	-
Opg Profit Gth (%)	46.8	13.5	34.0	34.8
Net Profit Gth (%)	34.9	22.3	146.4	32.6
Gross Margins (%)	59.7	54.2	54.8	53.9
Opg Profit Margins (%)	31.9	32.6	32.6	33.1
Net Profit Margins (%)	29.2	30.2	54.9	30.2

Source: Company, DBS Vickers

Balance Sheet (US\$ m)

FY Dec	2010A	2011A	2012A	2013A
Net Fixed Assets	3	8	10	36
Invts in Assocs & JVs	2	1	1	1
Other LT Assets	14	234	252	270
Cash & ST Invts	139	137	180	154
Inventory	16	21	15	27
Debtors	30	40	51	63
Other Current Assets	20	33	43	78
Total Assets	223	474	553	629
ST Debt	4	40	65	52
Creditors	-	-	-	-
Other Current Liab	12	34	29	45
LT Debt	-	-	-	-
Other LT Liabilities	7	9	8	8
Shareholder's Equity	200	389	448	522
Minority Interests	-	3	3	2
Total Cap. & Liab.	223	474	553	629
Non-Cash Wkg. Cap	-	-	-	-
Net Cash/(Debt)	134	97	116	102

Rates & Ratio

FY Dec	2010A	2011A	2012A	2013A
Gross Margin (%)	59.1	56.6	58.8	54.5
Opg Profit Margin (%)	26.0	30.7	34.0	32.6
Net Profit Margin (%)	23.1	29.6	30.2	28.3
ROAE (%)	24.1	21.2	20.3	21.2
ROA (%)	19.5	17.9	16.6	17.4
ROCE (%)	21.1	18.3	18.0	19.9
Div Payout Ratio (%)	15.5	40.7	33.5	37.9
Interest Cover (x)	n.a.	n.a.	n.a.	n.a.
Asset Turnover (x)	0.8	0.6	0.5	0.6
Debtors Turn (days)	70.6	61.3	58.8	56.8
Creditors Turn (days)	n.m.	n.m.	n.m.	n.m.
Inventory Turn (days)	91.3	74.0	57.4	47.4
Current Ratio (x)	12.4	3.1	3.1	3.3
Quick Ratio (x)	11.5	2.8	2.9	3.0
Net Debt/Equity (X)	Cash	Cash	Cash	Cash
Capex to Debt (%)	19.5	34.5	8.9	42.8
N. Cash/(Debt)PS (HK\$)	0.49	0.31	0.37	0.33
Opg CFPS (HK\$)	0.05	0.21	0.23	0.19
Free CFPS (HK\$)	0.02	0.08	0.12	(0.00)

Segmental Breakdown (US\$ m)

FY Dec	2010A	2011A	2012A	2013A
Revenues				
Licensed Drug Sales	132	210	282	363
Deanxit	52	67	88	101
Ursolfalk	36	46	61	73
Shaduolika	-	16	23	52
XinHuoSu	13	18	27	37
Yinuoshu	-	16	26	29
Salofalk	4	7	11	16
Bioflor	1	5	9	15
Augentropfen Stulln	8	10	13	13
Mono Eye-drops				
Others	2	7	11	10
Ganfule	4	5	5	6
Exacin	11	11	4	4
Total	132	210	282	363

China Healthcare Sector

CSPC Pharmaceutical

Bloomberg: 1093 HK | Reuters: 1093.HK

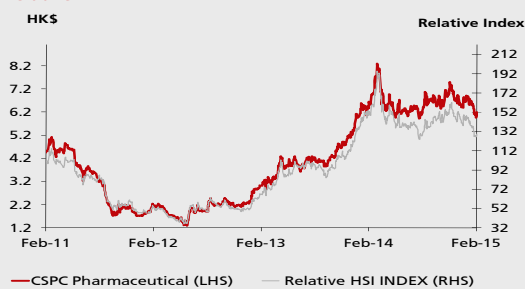
Refer to important disclosures at the end of this report

NOT RATED HK\$6.2 HSI : 24,683

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (HK\$m)	2010A	2011A	2012A	2013A
Turnover	7,774	2,407	4,146	9,949
EBITDA	1,659	505	943	1,824
Pre-tax Profit	965	418	2,301	1,248
Net Profit	752	355	2,162	973
Net Pft (Pre Ex.)	752	355	2,162	973
EPS (HK\$)	0.49	0.30	1.48	0.17
EPS Gth (%)	(22.6)	(39.3)	397.1	(88.2)
Diluted EPS (HK\$)	0.49	0.08	0.52	0.17
DPS (HK\$)	0.24	-	0.10	0.08
BV Per Share (HK\$)	3.74	0.62	2.42	1.33
PE (X)	12.7	20.9	4.2	35.4
P/Cash Flow (X)	10.0	25.2	17.9	42.0
EV/EBITDA (X)	6.3	14.8	11.5	19.2
Net Div Yield (%)	3.9	-	1.6	1.3
P/Book Value (X)	1.7	10.0	2.6	4.6
Net Debt/Equity (X)	0.2	0.1	0.2	0.1
ROAE (%)	13.8	10.6	57.4	13.9

ICB Industry: Health Care

ICB Sector: Pharmaceuticals & Biotechnology

Principal Business: Largest producer of vitamin C, penicillin and 7-ACA bulk pharmaceutical products in the world

Source of all data: Company, DBSV, Thomson Reuters, HKEX

Deep pipeline to drive long-term growth

- Further market penetration of top selling & most profitable drug – NBP, and three oncology drugs are the major earnings drivers
- Strong new drug pipeline to drive long-term progress
- Concerns: ASP pressure on bulk drugs & generic drugs

Further market penetration of top selling drug – NBP.

NBP (Butylphthalide, soft capsules & injections) is used to treat acute ischemic stroke. With 90% gross margin, it is CSPC's most profitable drug. We estimate that the drug accounted for 33% of CSPC's earnings in 9M14. NBP capsules are used in around 1,300 hospitals while NBP injections cover only 500. Leveraging on the network of NBP capsules, CSPC plans to extend its hospital coverage of NBP injections.

Three oncology drugs to accelerate earnings growth.

CSPC has three drugs for cancer treatment, namely Duomeisu, Jinyouli and Ailining. We estimate that they accounted for c.3% of earnings in 9M14. Their track record is relatively short in CSPC's drug portfolio. In 2015, c.50% of provinces are likely to call for tenders. This offers opportunity for the company to extend its provincial coverage through tenders, which is strong catalyst for sales growth.

Strong new drug pipeline to drive long-term progress.

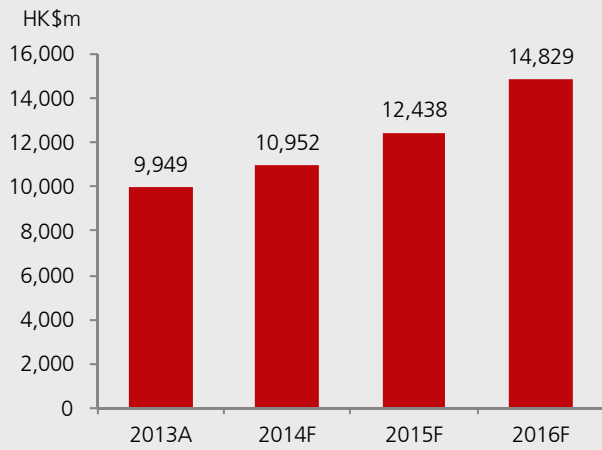
Among its patented innovative drugs, CSPC expects two to be granted approval in 2016 (for diabetes and stroke), while another two will be granted in 2017 (for hypertension and viral influenza). For generic drugs, CSPC targets 4-5 to be granted approval in 2015.

Key concerns. 1) Bulk drugs made up 40% of CSPC's sales in 9M14. There is overcapacity in the bulk drug industry, particularly for vitamin C and antibiotics (which make up 34% of total sales). ASP may be volatile due to huge supply; 2) Generic finished drugs (accounting for 44% of sales in 9M14) are subject to price-cutting risks in provincial tenders.

At A Glance

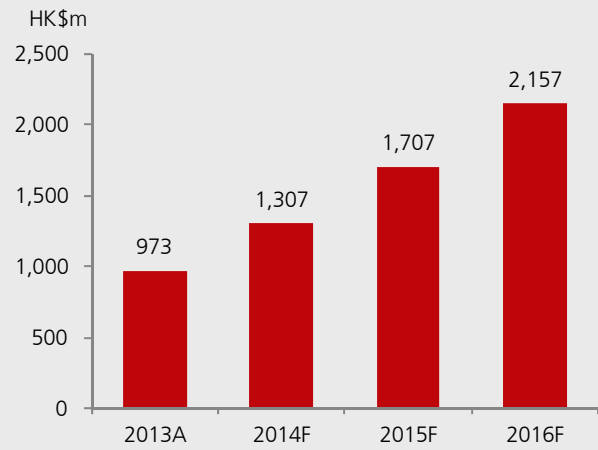
Issued Capital (m shrs)	5,908
Mkt Cap (HK\$m/US\$m)	36,630 / 4,724
Major Shareholders (%)	
Zhao John Huan	41.07
Cai Dong Chen	13.46
Free Float (%)	45.5
Avg Daily Volume (m shrs)	15.9

Revenue



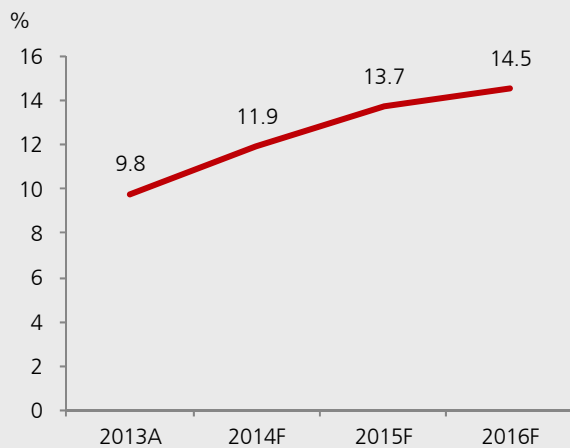
Source: Thomson Reuters

Net profit



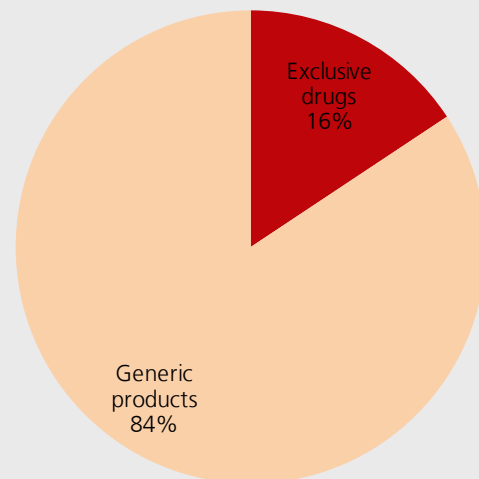
Source: Thomson Reuters

Net profit margin



Source: Thomson Reuters

Estimated exclusive drugs % in sales (9M14)



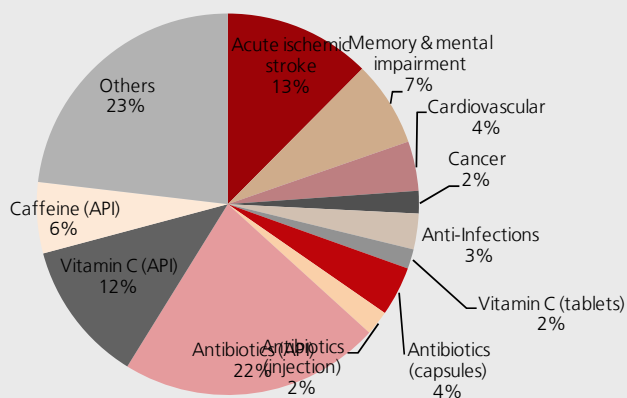
Source: company, DBS Vickers

Product portfolio

	Revenue (HK\$m, 9M14)	Therapeutic area	Exclusive or Generic	National EDL	Provincial EDL	National NRDL	Provincial NRDL
NBP capsules	659	Acute ischemic stroke	E			V	
NBP injection	349	Acute ischemic stroke	E				6
OLN capsules	126	Memory & mental impairment	G				12
OLN injection	463	Memory & mental impairment	G		1		21
Xuanning	241	Cardiovascular	E		3	V	
Duomeisu	100	Cancer	G				2
Jinyouli	30	Cancer	E				2
Ailineng	25	Cancer	G			V	
Ouyi	45	Anti-Infections	G			V	
Guoweikang	135	Vitamin C (tablets)	G				
Gubang	12	Osteoporosis	G			V	
Weihong	90	Anti-Infections	G			V	
Glimepiride	10	Diabetes	G			V	
Meropenem	110	Anti-Infections	G			V	
Shuxuening	100	Cardiovascular	G			V	
Amoxicilin capsules	340	Antibiotics (capsules)	G			V	
Ceftriaxone sodium injection	170	Antibiotics (injection)	G			V	
Antibiotics (API)	1,790	Bulk drugs	G				
Vitamin C (API)	977	Bulk drugs	G				
Caffeine (API)	488	Bulk drugs	G				
Others	1,878	Others					
Total	8,139						

Source: Company, DBS Vickers

Therapeutic areas (9M14)



Source: company

Income Statement (HK\$ m)

FY Dec	2010A	2011A	2012A	2013A
Turnover	7,774	2,407	4,146	9,949
Cost of Goods Sold	(5,501)	(1,371)	(2,341)	(6,816)
Gross Profit	2,274	1,037	1,805	3,133
Other Opg (Exp)/Inc	(1,189)	(600)	(1,054)	(1,965)
Operating Profit	1,084	436	752	1,168
Other Non Opg (Exp)/Inc	(189)	(59)	1,485	(139)
Associates & JV Inc	9	11	(4)	140
Net Interest (Exp)/Inc	60	30	68	79
Exceptional Gain/(Loss)	-	-	-	-
Pre-tax Profit	965	418	2,301	1,248
Tax	(190)	(61)	(132)	(258)
Minority Interest	(23)	(2)	(7)	(17)
Preference Dividend	-	-	-	-
Net Profit	752	355	2,162	973
Net Profit before Except.	752	355	2,162	973
EBITDA	1,659	505	943	1,824
Sales Gth (%)	10.6	(69.0)	72.2	139.9
EBITDA Gth (%)	(1.2)	(69.6)	86.8	93
Opg Profit Gth (%)	(7.9)	(59.8)	72.2	55.4
Net Profit Gth (%)	(22.6)	(52.7)	508.4	(55.0)
Effective Tax Rate (%)	19.7	14.6	5.7	20.7

Cash Flow Statement (HK\$ m)

FY Dec	2010A	2011A	2012A	2013A
Pre-Tax Profit	965	418	2,301	1,248
Dep. & Amort.	574	69	191	656
Tax Paid	(217)	(48)	(106)	(223)
Assoc. & JV Inc/(loss)	(9)	(11)	4	14
(Pft)/ Loss on disposal of FAs	23	1	5	33
Non-Cash Wkg. Cap.	(436)	(142)	(396)	(874)
Other Operating CF	56	7	(1,493)	(34)
Net Operating CF	956	294	506	821
Capital Exp. (net)	(747)	(292)	(194)	(597)
Other Invts. (net)	(149)	29	458	150
Invts. in Assoc. & JV	(28)	-	-	-
Div from Assoc. & JV	-	0	-	-
Other Investing CF	-	6	(10)	1,066
Net Investing CF	(925)	(257)	254	618
Div Paid	(368)	(47)	(408)	(383)
Chg in Gross Debt	-	-	-	-
Capital Issues	-	-	-	-
Other Financing CF	33	27	865	(371)
Net Financing CF	(336)	(20)	457	(754)
Net Cashflow	(305)	17	1,217	685

Interim Income Statement (HK\$ m)

FY Dec	2H12	1H13	2H13	1H14
Turnover	974	5,076	4,873	5,342
Cost of Goods Sold	-	(3,534)	(3,282)	(3,321)
Gross Profit	-	1,542	1,591	2,021
Other Oper. (Exp)/Inc	-	(961)	(1,004)	(1,224)
Operating Profit	848	581	587	797
Other Non Opg (Exp)/Inc	1,555	(75)	(30)	(57)
Associates & JV Inc	-	106	-	(1)
Net Interest (Exp)/Inc	16	40	39	32
Exceptional Gain/(Loss)	-	-	-	-
Pre-tax Profit	2,419	652	596	772
Tax	(120)	(124)	(135)	(162)
Minority Interest	(0)	(13)	(4)	(9)
Net Profit	2,299	515	458	601
Net profit bef Except.	2,299	515	458	601
EBITDA	-	946	879	1,109
Sales Gth (%)	-	250.3	400.3	5.3
EBITDA Gth (%)	-	170.9	-	17.2
Opg Profit Gth (%)	1,232.0	85.5	(30.8)	37.2
Net Profit Gth (%)	2,410.7	111.3	(80.1)	16.6
Gross Margins (%)	-	30.4	32.7	37.8
Opg Profit Margins (%)	87.0	11.4	12.0	14.9
Net Profit Margins (%)	236.0	10.2	9.4	11.2

Source: Company, DBS Vickers

Balance Sheet (HK\$ m)

FY Dec	2010A	2011A	2012A	2013A
Net Fixed Assets	4,656	1,039	6,671	5,509
Invts in Assocs & JVs	-	-	-	-
Other LT Assets	400	109	218	319
Cash & ST Invts	1,100	311	1,451	1,188
Inventory	1,205	304	2,022	1,855
Debtors	2,281	515	2,594	2,702
Other Current Assets	78	131	743	628
Total Assets	9,719	2,409	13,699	12,201
ST Debt	764	298	2,547	933
Creditors	1,766	143	1,172	936
Other Current Liab	62	939	2,521	1,970
LT Debt	1,206	62	499	680
Other LT Liabilities	44	7	196	85
Shareholder's Equity	5,741	949	6,587	7,453
Minority Interests	136	12	177	144
Total Cap. & Liab.	9,719	2,409	13,699	12,201
Non-Cash Wkg. Cap	1,735	(131)	1,667	2,279
Net Cash/(Debt)	(870)	(49)	(1,596)	(425)

Rates & Ratio

FY Dec	2010A	2011A	2012A	2013A
Gross Margin (%)	29.2	43.1	43.5	31.5
Opg Profit Margin (%)	13.9	18.1	18.1	11.7
Net Profit Margin (%)	9.7	14.8	52.1	9.8
ROAE (%)	13.8	10.6	57.4	13.9
ROA (%)	8.0	5.9	26.8	7.5
ROCE (%)	11.7	8.2	12.7	9.8
Div Payout Ratio (%)	49.0	13.2	18.9	39.3
Interest Cover (x)	n.a.	n.a.	n.a.	n.a.
Asset Turnover (x)	0.8	0.4	0.5	0.8
Debtors Turn (days)	96.3	212.0	136.8	97.1
Creditors Turn (days)	108.3	254.2	102.5	56.4
Inventory Turn (days)	72.4	201.0	181.4	103.8
Current Ratio (x)	1.8	0.9	1.1	1.7
Quick Ratio (x)	1.3	0.7	0.8	1.2
Net Debt/Equity (X)	0.2	0.1	0.2	0.1
Capex to Debt (%)	37.9	81.3	6.4	37.0
N. Cash/(Debt)PS (HK\$)	(0.57)	(0.03)	(0.59)	(0.08)
Opg CFPS (HK\$)	0.62	0.25	0.35	0.15
Free CFPS (HK\$)	(0.10)	(0.04)	(0.07)	(0.03)

Segmental Breakdown (HK\$ m)

FY Dec	2010A	2011A	2012A	2013A
Revenues				
Finished Drugs	2,276	-	2,652	5,754
Bulk Drugs	5,332	-	1,494	4,195
Others - Patent Drug	166	2,407	-	-
Total	7,774	2,407	4,146	9,949

China Healthcare Sector

Luye Pharma Group Ltd

Bloomberg: 2186 HK | Reuters: 2186.HK

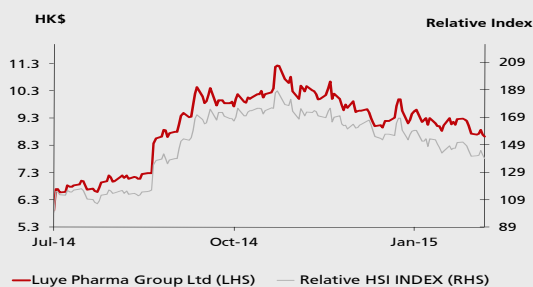
Refer to important disclosures at the end of this report

NOT RATED HK\$8.62 HSI : 24,683

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2011A	2012A	2013A
Turnover	1,774	2,136	2,515
EBITDA	298	367	508
Pre-tax Profit	201	255	383
Net Profit	156	169	310
Net Pft (Pre Ex.)	156	169	310
EPS (RMB)	0.32	0.34	0.63
EPS (HK\$)	0.39	0.43	0.78
EPS Gth (%)	n.a.	8.5	83.7
Diluted EPS (HK\$)	0.32	0.34	0.63
DPS (HK\$)	-	-	-
BV Per Share (HK\$)	3.25	3.69	4.46
PE (X)	21.9	20.2	11.0
P/Cash Flow (X)	10.7	21.8	7.7
EV/EBITDA (X)	12.5	9.9	7.8
Net Div Yield (%)	-	-	-
P/Book Value (X)	2.7	2.3	1.9
Net Debt/Equity (X)	0.2	0.1	0.2
ROAE (%)	n.a.	12.3	19.2

ICB Industry: Health Care

ICB Sector: Pharmaceuticals & Biotechnology

Principal Business: Healthcare

Source of all data: Company, DBSV, Thomson Reuters, HKEX

Leader in anti-cancer drugs in China

- According to IMS, in terms of 2013 sales, Luye is the 5th largest oncology drugs maker (c.5% market share) or 2nd largest domestic player in this field
- Acquisition of Beijing Jialin, launch of 22 new drugs in 2015-20 to drive earnings growth
- Concern: potential need of fund raising

Acquisition of Beijing Jialin (BJ) is the key earnings driver in 2015.

Consensus expects Luye's earnings to grow by 70.5% (or Rmb411m) to Rmb994m in 2015. We believe the growth is mainly attributable to BJ. In 2H14, Luye announced the acquisition of a 100% stake in BJ for Rmb6.1bn. BJ's largest earnings contributor is from the sales of the drug, Ale (atorvastatin, used to lower cholesterol). It is the closest domestic generic competitor to Pfizer's Lipitor. This deal would expand Luye's cardiovascular drugs portfolio. The seller has given a guarantee that BJ's earnings in 2015 will be >Rmb500m, which would help to boost Luye's profit in 2015.

Launch of new products to drive mid-long term growth.

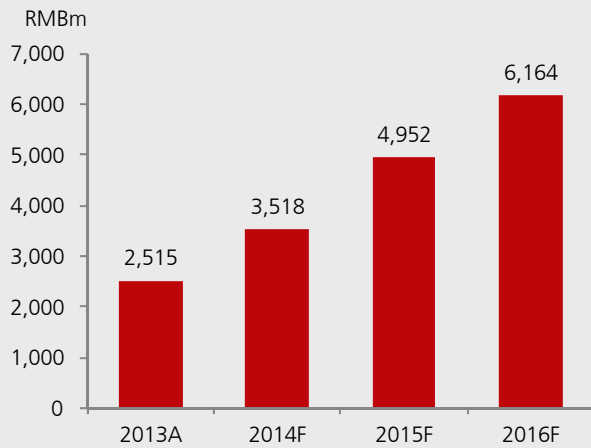
Luye plans to launch 22 new drugs before 2020, where 19 are exclusive drugs. In terms of therapeutic areas, 8 are oncology drugs, 10 are central nerve system drugs, 4 are alimentary canal & metabolism drugs which are the areas of Luye's current focus. These drugs would help to grow Luye's earnings in the mid-long term.

Concerns. After acquiring BJ, Luye's balance sheet will become more stretched. Consensus expects Luye's equity and net cash as of end-Dec 14 to be Rmb4.9bn and Rmb2.8bn, respectively. Assuming Luye pays for BJ (Rmb6.1bn) in 2015, its net debt to equity could reach 67% which is quite high. Luye may need to raise need funds for its future development.

At A Glance

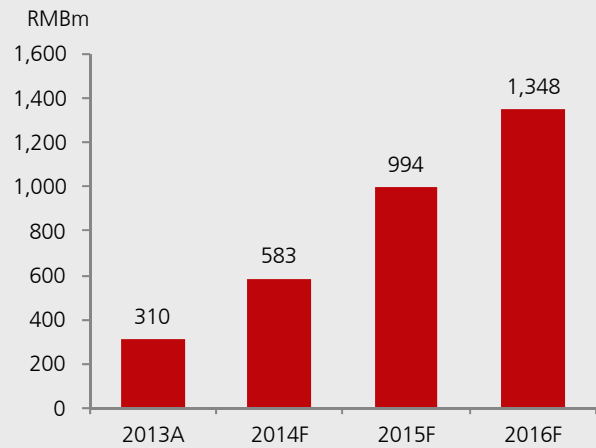
Issued Capital (m shrs)	3,321
Mkt Cap (HK\$m/US\$m)	28,628 / 3,692
Major Shareholders (%)	
Liu Dian Bo	44.0
Value Partners Group Limited	8.1
CITIC PE Funds Limited	5.9
Free Float (%)	42.0
Avg Daily Volume (m shrs)	6.9

Revenue



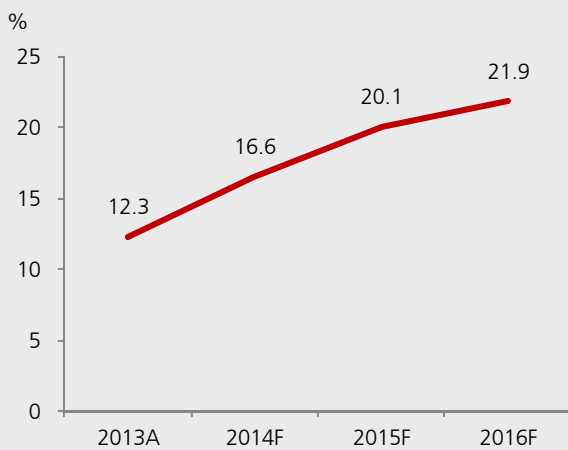
Source: Thomson Reuters

Net profit



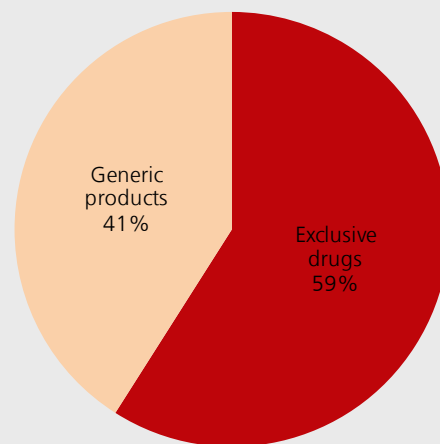
Source: Thomson Reuters

Net profit margin



Source: Thomson Reuters

Estimated exclusive drugs % in sales (1H14)

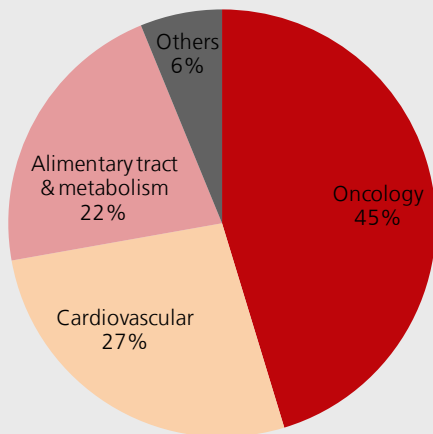


Source: Company, DBS Vickers

Drug portfolio

	Revenue (Rmb m, 1H14)	Therapeutic area	Exclusive or Generic	National EDL	Provincial EDL	National NRDL	Provincial NRDL
Lipusu	>540	Oncology	E				26
Tiandixin	c.108	Oncology	G				18
CMNa	c.31	Oncology	E			V	
Other oncology medicines	c.22	Oncology					
Xuezhikang	c.201	Cardiovascular	E	V		V	
Maitongna	c.201	Cardiovascular	G			V	
Other cardiovascular system medicines	c.15	Cardiovascular					
Bei Xi	c.139	Alimentary tract & metabolism	E	V		V	
Lutingnuo	c.139	Alimentary tract & metabolism	G			V	
Other alimentary tract & metabolism medicines	c.54	Alimentary tract & metabolism					
Others	96.3	Others					
	1,547.3						

Therapeutic areas (1H14)



Source: company, DBS Vickers

Income Statement (RMB m)

FY Dec	2011A	2012A	2013A
Turnover	1,774	2,136	2,515
Cost of Goods Sold	(301)	(352)	(414)
Gross Profit	1,473	1,784	2,102
Other Opg (Exp)/Inc	(1,254)	(1,501)	(1,694)
Operating Profit	219	283	407
Other Non Opg (Exp)/Inc	(42)	(61)	(52)
Associates & JV Inc	1	1	1
Net Interest (Exp)/Inc	24	32	27
Exceptional Gain/(Loss)	-	-	-
Pre-tax Profit	201	255	383
Tax	(35)	(80)	(55)
Minority Interest	(10)	(7)	(17)
Preference Dividend	-	-	-
Net Profit	156	169	310
Net Profit before Except.	156	169	310
EBITDA	298	367	508
Sales Gth (%)	-	20.4	17.8
EBITDA Gth (%)	-	23.3	38
Opg Profit Gth (%)	-	29.4	43.9
Net Profit Gth (%)	-	8.5	83.7
Effective Tax Rate (%)	17.4	31.3	14.4

Cash Flow Statement (RMB m)

FY Dec	2011A	2012A	2013A
Pre-Tax Profit	201	255	383
Dep. & Amort.	79	84	101
Tax Paid	(59)	(71)	(78)
Assoc. & JV Inc/(loss)	(1)	(1)	(1)
(Pft)/ Loss on disposal of FAs	0	2	1
Non-Cash Wkg. Cap.	101	(106)	38
Other Operating CF	(4)	(7)	(1)
Net Operating CF	318	157	443
Capital Exp. (net)	(297)	(146)	(265)
Other Invts. (net)	(351)	74	(493)
Invts. in Assoc. & JV	-	-	-
Div from Assoc. & JV	-	-	-
Other Investing CF	11	9	25
Net Investing CF	(637)	(62)	(732)
Div Paid	-	-	-
Chg in Gross Debt	-	-	-
Capital Issues	-	-	-
Other Financing CF	(8)	3	(16)
Net Financing CF	(8)	3	(16)
Net Cashflow	(327)	98	(305)

Interim Income Statement (RMB m)

FY Dec	1H13	2H13	1H14
Turnover	1,197	1,318	1,547
Cost of Goods Sold	(200)	(214)	(250)
Gross Profit	997	1,104	1,297
Other Oper. (Exp)/Inc	(824)	(870)	(931)
Operating Profit	173	235	366
Other Non Opg (Exp)/Inc	(28)	(24)	(52)
Associates & JV Inc	0	1	0
Net Interest (Exp)/Inc	15	12	32
Exceptional Gain/(Loss)	-	-	-
Pre-tax Profit	160	223	347
Tax	(22)	(33)	(61)
Minority Interest	(8)	(10)	(5)
Net Profit	130	180	281
Net profit bef Except.	130	180	281
EBITDA	224	285	421
Sales Gth (%)	-	-	29.3
EBITDA Gth (%)	-	-	88.4
Opg Profit Gth (%)	-	-	111.9
Net Profit Gth (%)	-	-	116.1
Gross Margins (%)	83.3	83.8	83.8
Opg Profit Margins (%)	14.4	17.8	23.7
Net Profit Margins (%)	10.9	13.7	18.2

Source: Company, DBS Vickers

Balance Sheet (RMB m)

FY Dec	2011A	2012A	2013A
Net Fixed Assets	863	966	1,113
Invts in Assocs & JVs	-	-	-
Other LT Assets	648	623	622
Cash & ST Invts	252	364	343
Inventory	106	143	235
Debtors	455	514	536
Other Current Assets	119	68	539
Total Assets	2,442	2,678	3,387
ST Debt	454	449	749
Creditors	34	50	56
Other Current Liab	391	385	498
LT Debt	2	26	9
Other LT Liabilities	157	184	177
Shareholder's Equity	1,288	1,460	1,769
Minority Interests	117	123	129
Total Cap. & Liab.	2,442	2,678	3,387
Non-Cash Wkg. Cap	255	290	755
Net Cash/(Debt)	(204)	(111)	(415)

Rates & Ratio

FY Dec	2011A	2012A	2013A
Gross Margin (%)	83.0	83.5	83.6
Opg Profit Margin (%)	12.3	13.3	16.2
Net Profit Margin (%)	8.8	7.9	12.3
ROAE (%)	n.a.	12.3	19.2
ROA (%)	6.4	6.6	10.2
ROCE (%)	n.a.	9.7	14.5
Div Payout Ratio (%)	n.m.	n.m.	n.m.
Interest Cover (x)	n.a.	n.a.	n.a.
Asset Turnover (x)	0.7	0.8	0.8
Debtors Turn (days)	93.7	82.8	76.2
Creditors Turn (days)	41.6	43.8	46.9
Inventory Turn (days)	128.8	129.1	166.6
Current Ratio (x)	1.1	1.2	1.3
Quick Ratio (x)	0.9	1.1	1.1
Net Debt/Equity (X)	0.2	0.1	0.2
Capex to Debt (%)	65.2	30.8	34.9
N. Cash/(Debt)PS (HK\$)	(0.52)	(0.28)	(1.05)
Opg CFPS (HK\$)	0.80	0.40	1.12
Free CFPS (HK\$)	0.05	0.03	0.45

Segmental Breakdown (RMB m)

FY Dec	2011A	2012A	2013A
Revenues			
Oncology Drugs	800	941	1,102
Cardiovascular Drugs	614	631	723
Alimentary tract and metabolism Drugs	280	451	575
Others	81	113	115
Total	1,774	2,136	2,515

China Healthcare Sector

Phoenix Healthcare

Bloomberg: 1515 HK | Reuters: 1515.HK

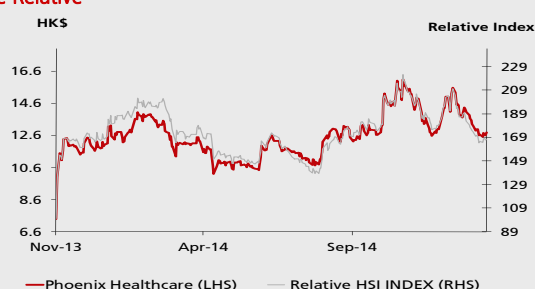
Refer to important disclosures at the end of this report

NOT RATED HK\$12.78 HSI : 24,683

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2010A	2011A	2012A	2013A
Turnover	394	509	758	887
EBITDA	84	110	200	211
Pre-tax Profit	65	79	147	143
Net Profit	43	48	101	90
Net Pft (Pre Ex.)	43	48	101	90
EPS (RMB)	n.a.	n.a.	n.a.	0.16
EPS (HK\$)	n.a.	n.a.	n.a.	0.20
EPS Gth (%)	n.a.	n.a.	n.a.	n.a.
Diluted EPS (HK\$)	n.a.	n.a.	n.a.	0.16
DPS (HK\$)	n.a.	n.a.	n.a.	-
BV Per Share (HK\$)	n.a.	n.a.	n.a.	2.41
PE (X)	n.a.	n.a.	n.a.	64.4
P/Cash Flow (X)	n.a.	n.a.	n.a.	42.6
EV/EBITDA (X)	n.a.	n.a.	n.a.	23.4
Net Div Yield (%)	n.a.	n.a.	n.a.	-
P/Book Value (X)	n.a.	n.a.	n.a.	5.3
Net Debt/Equity (X)	Cash	Cash	0.1	Cash
ROAE (%)	n.a.	11.0	18.8	8.6

ICB Industry: Health Care

ICB Sector: Health Care Equipment & Services

Principal Business: hospital operator

Source of all data: Company, DBSV, Thomson Reuters, HKEX

Capitalising on hospital industry reform

- The largest private hospital operator in China
- China encourages development of private hospitals. That allows the group to expand its number of beds from 3,400 currently to 10,000 in 2019
- Persistent efficiency improvement to enhance profitability. The consensus expects 52% earnings CAGR in 2013-16F

The largest private hospital operator in China. In terms of number of beds in operation and total patient visits, Phoenix Healthcare (PH) is the largest private hospital group in China, managing 12 hospitals and 28 community clinics located in Beijing (as at Jun 2014). In 1H14, PH generated its revenue by offering hospital services to the public (49%), management services to other hospitals (3%) and sales of drugs & medical consumables (48%).

Capturing opportunity from hospital industry reform. In 2012, c.27% of public hospitals were non-government run and mostly held by state-owned enterprises. On average, each of them incurred a net loss of Rmb50k in 2012. To improve their efficiency, China is encouraging the private sector to co-operate with them. That has created a huge opportunity for PH. By collaborating with those hospitals and offering management services, PH's number of in-network hospitals grew from three to 12 (2010-14). With net cash of Rmb1.17bn (Jun 14), PH has sufficient financial resources to capture future opportunities. In Jan 2015, PH announced three new projects (co-operation with Baoding government, and two Beijing hospitals) that will allow PH to increase its number of beds from the current 3,400 to 10,000 in 2019.

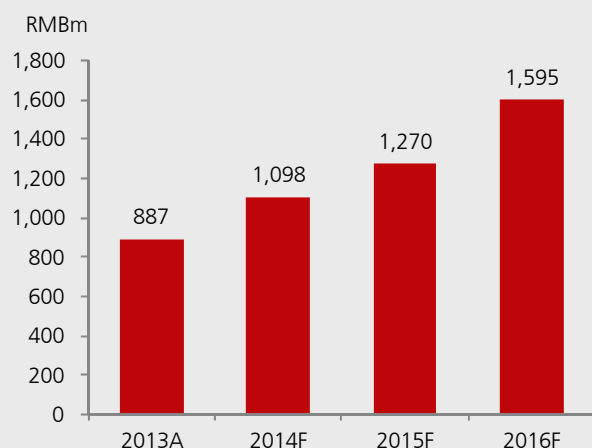
Persistent efficiency improvement to enhance profitability. PH is centralising all clinical tests, recruitments and procurements. Its net margin has already increased from 10.9% (2010) to 16.3% (1H14). Due to PH's persistent efforts, we believe its profitability can continue to improve.

Concerns. 1. Limited room for ASP surge, particularly drugs; and 2. Controls on national insurance reimbursement budget.

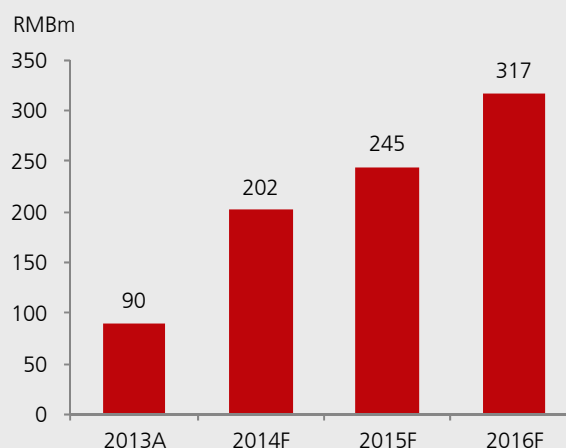
At A Glance

Issued Capital (m shrs)	834
Mkt Cap (HK\$/US\$m)	10,655 / 1,374
Major Shareholders (%)	
Xu Jie	33.3
Zhu Zhiwei	16.3
Tang Hua	7.0
Liang Hongze	5.9
JPMorgan Chase & Co.	5.0
Free Float (%)	32.6
Avg Daily Volume (m shrs)	2.5

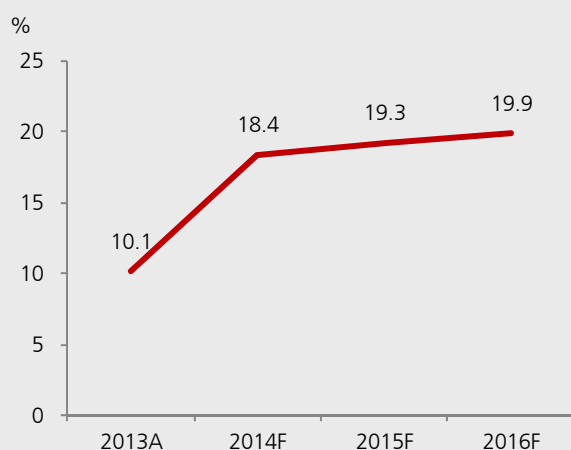
Revenue



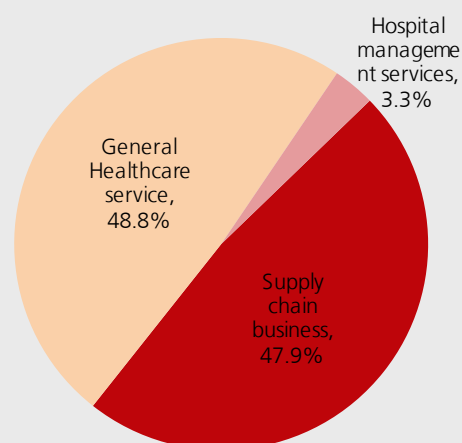
Net profit



Net profit margin



2014 1H Revenue by segments (total: Rmb507m)



*Supply chain business is sales of drugs and medical consumables. In this segment, drugs made up 70% of revenue. The rest came from medical consumables.

Hospital management services segment performance

(Rmb m)	2010	2011	2012	2013	1H13	1H14
Revenue	16.3	19.4	40.3	40.8	9.9	16.7
Gross profit	14.8	16.2	27.9	26.7	2.9	9.6
Segment results	13.9	19.3	26.6	13.4	2.5	12.5
Gross margin	91%	84%	69%	65%	29%	57%
Segment margin	85%	99%	66%	33%	25%	75%

General hospital services segment performance

(Rmb m)	2010	2011	2012	2013	1H13	1H14
Revenue	288	324	403	470	215	247
Gross profit	60.2	64.8	74.3	85.5	37	42
Segment results	39	41	41	49	16	20
Gross margin	21%	20%	18%	18%	17%	17%
Segment margin	14%	13%	10%	10%	7%	8%

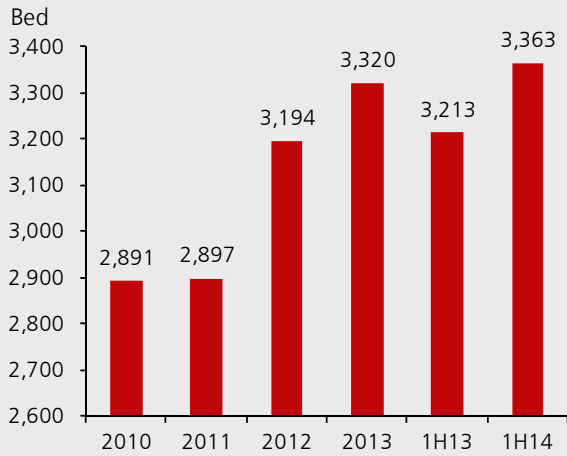
Supply chain segment performance

(Rmb m)	2010	2011	2012	2013	1H13	1H14
Revenue	151	264	431	480	248	310
Gross profit	18	42	83	100	48	68
Segment results	16	37	103	142	64	83
Gross margin	12%	16%	19%	21%	19%	22%
Segment margin	11%	14%	24%	30%	26%	27%

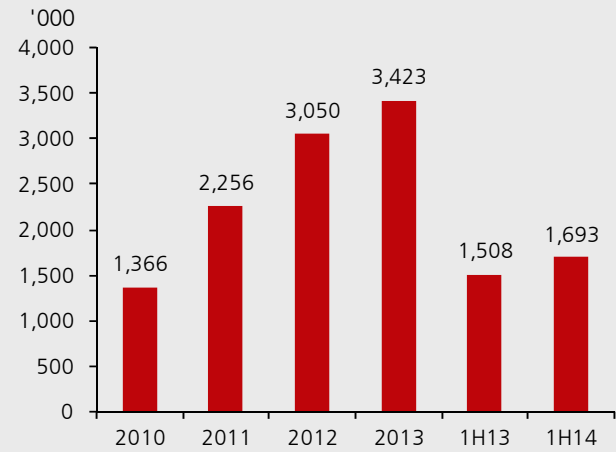
Source: Company, Thomson Reuters

Phoenix Healthcare

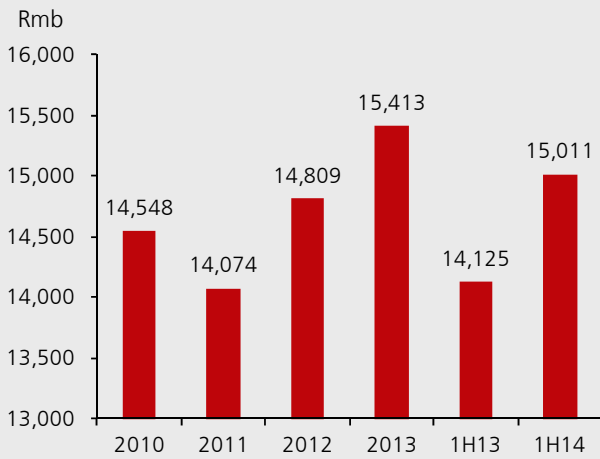
Total number of beds in operation



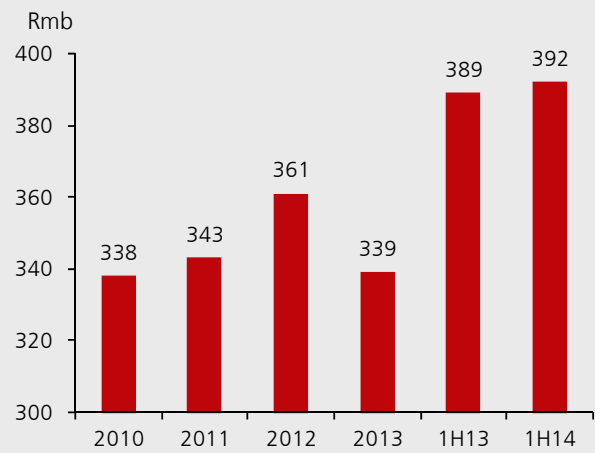
Total out-patient & in-patient visits ('000)



Group average out-patient spending per visit (Rmb)



Group average in-patient spending per visit (Rmb)



Source: Company

Income Statement (RMB m)

FY Dec	2010A	2011A	2012A	2013A
Turnover	394	509	758	887
Cost of Goods Sold	(301)	(387)	(573)	(675)
Gross Profit	93	123	185	213
Other Opg (Exp)/Inc	(26)	(33)	(21)	(38)
Operating Profit	67	90	164	175
Other Non Opg (Exp)/Inc	(5)	(31)	(39)	(77)
Associates & JV Inc				
Net Interest (Exp)/Inc	4	19	22	46
Exceptional Gain/(Loss)	-	-	-	-
Pre-tax Profit	65	79	147	143
Tax	(16)	(20)	(37)	(47)
Minority Interest	(6)	(10)	(10)	(6)
Preference Dividend	-	-	-	-
Net Profit	43	48	101	90
Net Profit before Except.	43	48	101	90
EBITDA	84	110	200	211
Sales Gth (%)	-	29.3	48.8	17.1
EBITDA Gth (%)	-	31.1	80.8	6
Opg Profit Gth (%)	-	35.4	81.2	6.8
Net Profit Gth (%)	-	12.4	110.0	(11.0)
Effective Tax Rate (%)	24.6	25.7	24.8	32.8

Cash Flow Statement (RMB m)

FY Dec	2010A	2011A	2012A	2013A
Pre-Tax Profit	65	79	147	143
Dep. & Amort.	18	20	36	37
Tax Paid	(11)	(21)	(28)	(41)
Assoc. & JV Inc/(loss)	-	-	-	-
(Pft)/ Loss on disposal of FAs	0	-	0	0
Non-Cash Wkg. Cap.	(4)	(28)	(6)	(0)
Other Operating CF	0	(2)	(4)	2
Net Operating CF	68	48	145	139
Capital Exp. (net)	(10)	1,297	967	680
Other Invt. (net)	(246)	(1,107)	(1,033)	(816)
Invt. in Assoc. & JV	-	-	-	-
Div from Assoc. & JV	-	-	-	-
Other Investing CF	(72)	(230)	(40)	(707)
Net Investing CF	(329)	(41)	(105)	(844)
Div Paid	-	-	-	-
Chg in Gross Debt	-	-	-	-
Capital Issues	-	-	(200)	1,392
Other Financing CF	100	249	(91)	(357)
Net Financing CF	100	249	(291)	1,035
Net Cashflow	(160)	256	(250)	330

Interim Income Statement (RMB m)

FY Dec	2H12	1H13	2H13	1H14
Turnover	436	420	468	507
Cost of Goods Sold	(327)	(332)	(342)	(388)
Gross Profit	110	87	125	119
Other Oper. (Exp)/Inc	(15)	(9)	(29)	(3)
Operating Profit	95	78	96	116
Other Non Opg (Exp)/Inc	(22)	(24)	(47)	(2)
Associates & JV Inc				
Net Interest (Exp)/Inc	13	16	24	1
Exceptional Gain/(Loss)	-	-	-	-
Pre-tax Profit	86	70	73	115
Tax	(21)	(18)	(29)	(30)
Minority Interest	(2)	(2)	(4)	(3)
Net Profit	62	50	40	82
Net profit bef Except.	62	50	40	82
EBITDA	112	97	114	135
Sales Gth (%)	-	30.5	7.1	20.8
EBITDA Gth (%)	-	11.0	1.5	39.3
Opg Profit Gth (%)	-	13.8	1.7	48.9
Net Profit Gth (%)	-	29.7	(36.3)	63.6
Gross Margins (%)	25.1	20.8	26.8	23.5
Opg Profit Margins (%)	21.7	18.6	20.6	22.9
Net Profit Margins (%)	14.3	12.0	8.5	16.3

Source: Company, DBS Vickers

Balance Sheet (RMB m)

FY Dec	2010A	2011A	2012A	2013A
Net Fixed Assets	92	259	283	281
Invt in Assocs & JVs	-	-	-	-
Other LT Assets	163	386	373	370
Cash & ST Invt	321	354	174	1,282
Inventory	22	23	35	31
Debtors	20	24	83	84
Other Current Assets	46	89	74	76
Total Assets	664	1,135	1,021	2,124
ST Debt	-	200	7	200
Creditors	78	90	122	124
Other Current Liab	67	38	73	79
LT Debt	200	-	232	-
Other LT Liabilities	13	10	9	5
Shareholder's Equity	283	592	485	1,617
Minority Interests	24	204	93	99
Total Cap. & Liab.	664	1,135	1,021	2,124
Non-Cash Wkg. Cap	(56)	8	(4)	(12)
Net Cash/(Debt)	121	154	(65)	1,082

Rates & Ratio

FY Dec	2010A	2011A	2012A	2013A
Gross Margin (%)	23.6	24.1	24.4	24.0
Opg Profit Margin (%)	16.9	17.7	21.6	19.7
Net Profit Margin (%)	10.9	9.4	13.3	10.1
ROAE (%)	n.m.	11.0	18.8	8.6
ROA (%)	6.4	5.4	9.4	5.7
ROCE (%)	n.m.	10.3	16.0	9.2
Div Payout Ratio (%)	n.m.	n.m.	n.m.	n.m.
Interest Cover (x)	n.a.	n.a.	n.a.	n.a.
Asset Turnover (x)	0.6	0.6	0.7	0.6
Debtors Turn (days)	18.6	15.7	25.7	34.3
Creditors Turn (days)	94.1	79.2	67.6	66.6
Inventory Turn (days)	27.0	21.5	18.6	17.9
Current Ratio (x)	2.8	1.5	1.8	3.7
Quick Ratio (x)	2.7	1.4	1.6	3.6
Net Debt/Equity (X)	Cash	Cash	0.1	Cash
Capex to Debt (%)	5.1	(648.3)	(404.7)	(339.8)
N. Cash/(Debt)PS (HK\$)	n.m.	n.m.	n.m.	1.61
Opg CFPS (HK\$)	n.m.	n.m.	n.m.	0.30
Free CFPS (HK\$)	n.m.	n.m.	n.m.	1.76

Segmental Breakdown (RMB m)

FY Dec	2010A	2011A	2012A	2013A
Revenues				
General Hospital Service	288	324	403	470
Supply Chain Business	89	166	315	376
Hospital Management Service	16	19	40	41
Total	394	509	758	887

China Healthcare Sector

Sihuan Pharmaceutical Holdings

Bloomberg: 460 HK | Reuters: 0460.HK

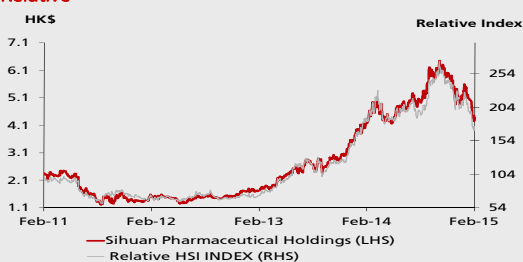
Refer to important disclosures at the end of this report

HK\$4.37 (not rated) HSI : 24,683

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2010A	2011A	2012A	2013A
Turnover	1,037	2,242	3,043	4,733
EBITDA	652	1,093	1,165	1,657
Pre-tax Profit	635	1,045	1,166	1,567
Net Profit	522	824	904	1,303
Net Pft (Pre Ex.)	522	824	904	1,303
EPS (RMB)	0.07	0.08	0.09	0.13
EPS (HK\$)	0.08	0.10	0.11	0.16
EPS Gth (%)	(81.2)	22.0	9.9	44.1
Diluted EPS (HK\$)	0.07	0.08	0.09	0.13
DPS (HK\$)	-	0.03	0.06	0.06
BV Per Share (HK\$)	0.80	0.83	0.85	0.95
PE (X)	53.6	43.9	39.9	27.7
P/Cash Flow (X)	70.0	47.2	30.9	22.7
EV/EBITDA (X)	33.9	29.5	29.0	20.5
Net Div Yield (%)	-	0.6	1.3	1.4
P/Book Value (X)	5.4	5.2	5.1	4.6
Net Debt/Equity (X)	Cash	Cash	Cash	Cash
ROAE (%)	13.8	12.1	12.9	17.4

ICB Industry: Health Care

ICB Sector: Pharmaceuticals & Biotechnology

Principal Business: Drug makers

Source of all data: Company, DBSV, Thomson Reuters, HKEX

A leader in China's cardiovascular drug market

- Based on IMS, Sihuan is the largest player in China's cardiovascular (CCV) prescription drug market with 10.83% share in 1H14
- Further market penetration of current drugs, launch of new drugs, acquisitions of hospitals in Dec 2014 to drive earnings growth
- Concerns: potential drop of government grant, ASP pressure on generic drugs

New drugs & further market penetration of current drugs are largest drivers.

Sales volumes of current products are expected to grow by 20% annually through further market penetration. For new products, the company has filed production license applications for >27 generic drugs, targeted to be launched in the next three years. Also, Sihuan targets to launch two exclusive CCV drugs before 2018.

Acquisitions of hospitals to accelerate profit growth.

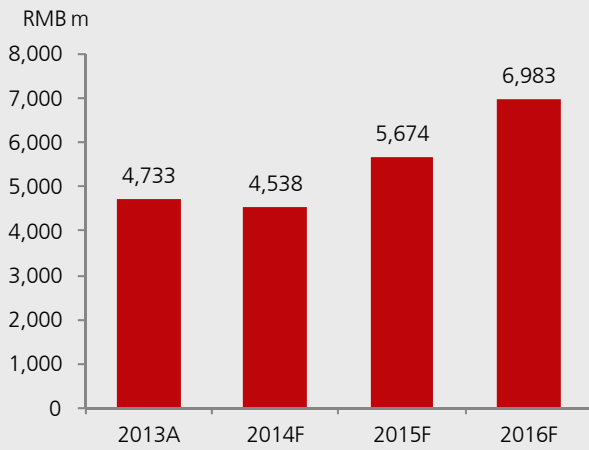
In Dec 2014, Sihuan acquired a 38% stake in Renfang JV for Rmb470m. The JV is holding stakes in two hospitals (69.21% in a private hospital JiangBei and 80% in a 2nd tier public hospital HuaiYin). Based on consensus estimates, the JV may contribute earnings of Rmb30m-60m to Sihuan in 2015, which would account for 1.4-2.8% of projected 15F earnings by consensus.

Major concerns. 1) Government grants make up a major part of Sihuan's earnings, accounting for 27% in 1H14. More than 50% of the grant are incentives paid by local governments to attract external investments. The State Council requires all local governments to control such incentives which may affect the government grant to Sihuan; 2) price-cutting risk for its generic drugs, particularly drugs with higher daily dosage costs, such as Danshen Chuanxiogqin and GM1 whose daily dosage costs exceed Rmb150. Together, they made up 9% of sales in 1H14.

At A Glance

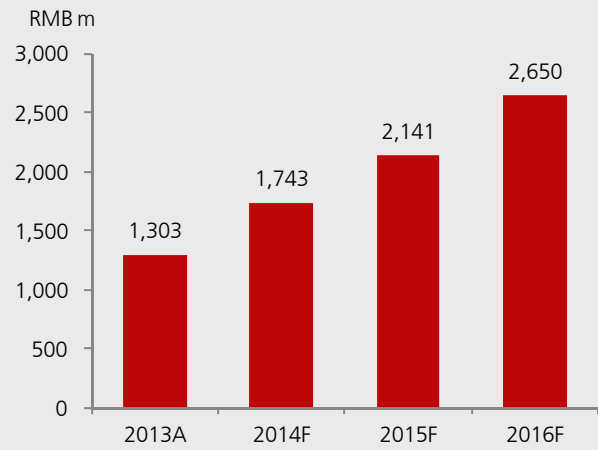
Issued Capital (m shrs)	10,364
Mkt Cap (HK\$/US\$m)	45,291 / 5,841
Major Shareholders (%)	
Guo Weicheng	66.8
MSPEA Pharma Holdings B.V.	7.5
Free Float (%)	25.7
Avg Daily Volume (m shrs)	32.9

Revenue



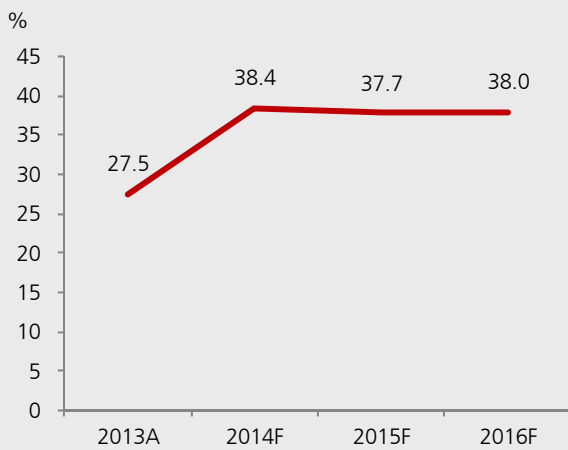
Source: Thomson Reuters

Net profit



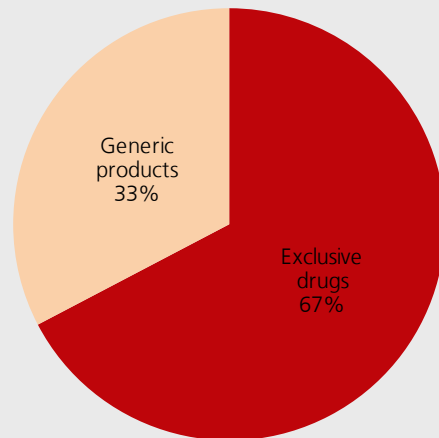
Source: Thomson Reuters

Net profit margin



Source: Thomson Reuters

Estimated exclusive drugs % in sales (1H14)



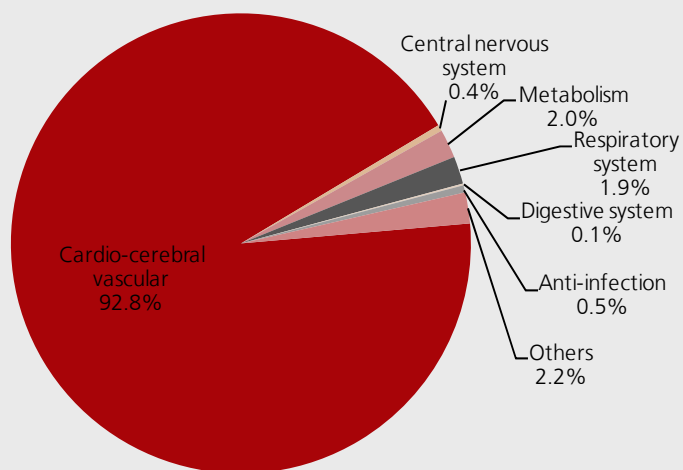
Source: Company, DBS Vickers

Sihuan Pharmaceutical Holdings

Drug portfolio

	Revenue (Rmb m, 1H14)	Therapeutic area	Exclusive or Generic	National EDL	Provincia l EDL	National NRDL	Provincial NRDL
Oudimei	655	Cardio-cerebral vascular	E				24
Kelinao	378	Cardio-cerebral vascular	E			V	
Anjeli	88	Cardio-cerebral vascular	E			V	
Yuanzhijiu	184	Cardio-cerebral vascular	E				23
Yeduojia	80	Cardio-cerebral vascular	G				<10
Yimaining	122	Cardio-cerebral vascular	G			V	
Danshen Chuanxiongqin	92	Cardio-cerebral vascular	G				17-18
GM1	90	Cardio-cerebral vascular	G				18-19
Quao	48	Cardio-cerebral vascular	G				22-23
Chuangqing	40	Cardio-cerebral vascular	G			V	
Qingtong	38	Cardio-cerebral vascular	G			V	
Guhong injection	32	Cardio-cerebral vascular	E				7 to 8
Salivae Miltiorrhizae Ligusp yragine Hydrochloride and Glucose Injection	9	Cardio-cerebral vascular	E				1 to 2
Renao	9	Central nervous system	G			V	
Luoanming	40	Metabolism	G				>10
Biao	28	Respiratory system	G			V	
Zhuoao	10	Respiratory system	G			V	
Roxatidine	2	Digestiv e system	G				1
Clindamycin	10	Anti-infection	G	V		V	
Others	44						
Total	2,000						

Therapeutic areas (1H14)



Source: company, DBS Vickers

Sihuan Pharmaceutical Holdings

Income Statement (RMB m)

FY Dec	2010A	2011A	2012A	2013A
Turnover	1,037	2,242	3,043	4,733
Cost of Goods Sold	(292)	(528)	(753)	(1,033)
Gross Profit	745	1,714	2,289	3,700
Other Opg (Exp)/Inc	(129)	(717)	(1,257)	(2,239)
Operating Profit	616	998	1,033	1,461
Other Non Opg (Exp)/Inc	(4)	(10)	5	1
Associates & JV Inc			(6)	
Net Interest (Exp)/Inc	24	57	134	106
Exceptional Gain/(Loss)	-	-	-	-
Pre-tax Profit	635	1,045	1,166	1,567
Tax	(128)	(245)	(244)	(257)
Minority Interest	15	24	(17)	(7)
Preference Dividend	-	-	-	-
Net Profit	522	824	904	1,303
Net Profit before Except.	522	824	904	1,303
EBITDA	652	1,093	1,165	1,657
Sales Gth (%)	46.3	116.2	35.7	55.6
EBITDA Gth (%)	47.0	67.7	6.6	42
Opg Profit Gth (%)	48.4	62.0	3.5	41.4
Net Profit Gth (%)	60.0	57.8	9.8	44.1
Effective Tax Rate (%)	20.2	23.4	20.9	16.4

Cash Flow Statement (RMB m)

FY Dec	2010A	2011A	2012A	2013A
Pre-Tax Profit	635	1,045	1,166	1,567
Dep. & Amort.	36	95	132	196
Tax Paid	(136)	(215)	(238)	(290)
Assoc. & JV Inc/(loss)	-	-	-	-
(Pft)/ Loss on disposal of FAs	0	-	4	1
Non-Cash Wkg. Cap.	(148)	(164)	107	98
Other Operating CF	13	6	(2)	17
Net Operating CF	400	767	1,170	1,590
Capital Exp. (net)	(108)	(115)	260	(846)
Other Invt. (net)	(275)	(2,802)	(3,100)	276
Invt. in Assoc. & JV	-	-	(47)	-
Div from Assoc. & JV	-	-	-	-
Other Investing CF	-	-	-	(7)
Net Investing CF	(383)	(2,917)	(2,888)	(578)
Div Paid	(174)	(502)	(662)	(523)
Chg in Gross Debt	-	-	-	(704)
Capital Issues	5,396	(35)	-	-
Other Financing CF	-	-	4	5
Net Financing CF	5,222	(537)	(658)	(1,221)
Net Cashflow	5,239	(2,687)	(2,376)	(209)

Interim Income Statement (RMB m)

FY Dec	2H12	1H13	2H13	1H14
Turnover	1,653	2,325	2,408	2,000
Cost of Goods Sold	(435)	(478)	(555)	(404)
Gross Profit	1,218	1,847	1,853	1,596
Other Oper. (Exp)/Inc	(707)	(1,205)	(1,034)	(642)
Operating Profit	511	642	818	954
Other Non Opg (Exp)/Inc	53	55	(51)	46
Associates & JV Inc		(4)		(1)
Net Interest (Exp)/Inc	5	5	100	9
Exceptional Gain/(Loss)	-	-	-	-
Pre-tax Profit	570	700	868	1,008
Tax	(123)	(79)	(178)	(175)
Minority Interest	(3)	(3)	(4)	(2)
Net Profit	443	618	685	830
Net profit bef Except.	443	618	685	830
EBITDA	552	834	-	1,053
Sales Gth (%)	32.1	67.3	45.7	(14.0)
EBITDA Gth (%)	(9.0)	36.1	-	26.3
Opg Profit Gth (%)	(6.7)	23.1	60.1	48.5
Net Profit Gth (%)	(0.1)	33.8	54.8	34.4
Gross Margins (%)	73.7	79.5	76.9	79.8
Opg Profit Margins (%)	30.9	27.6	34.0	47.7
Net Profit Margins (%)	26.8	26.6	28.5	41.5

Source: Company, DBS Vickers

Balance Sheet (RMB m)

FY Dec	2010A	2011A	2012A	2013A
Net Fixed Assets	271	515	1,121	1,814
Invt. in Assocs & JVs	-	-	-	-
Other LT Assets	467	3,265	4,318	3,035
Cash & ST Invt.	5,851	3,952	3,160	2,518
Inventory	53	58	91	101
Debtors	28	388	600	868
Other Current Assets	232	677	170	1,676
Total Assets	6,902	8,854	9,459	10,012
ST Debt	-	-	767	181
Creditors	31	29	36	37
Other Current Liab	202	1,712	1,047	1,587
LT Debt	-	6	6	6
Other LT Liabilities	10	113	416	204
Shareholder's Equity	6,657	6,946	7,084	7,882
Minority Interests	3	48	103	115
Total Cap. & Liab.	6,902	8,854	9,459	10,012
Non-Cash Wkg. Cap	80	(619)	(223)	1,022
Net Cash/(Debt)	5,851	3,946	2,387	2,331

Rates & Ratio

FY Dec	2010A	2011A	2012A	2013A
Gross Margin (%)	71.8	76.5	75.2	78.2
Opg Profit Margin (%)	59.4	44.5	33.9	30.9
Net Profit Margin (%)	50.3	36.8	29.7	27.5
ROAE (%)	13.8	12.1	12.9	17.4
ROA (%)	12.9	10.5	9.9	13.4
ROCE (%)	12.9	11.1	10.6	14.8
Div Payout Ratio (%)	33.3	60.9	73.2	40.1
Interest Cover (x)	n.a.	n.a.	n.a.	n.a.
Asset Turnover (x)	0.3	0.3	0.3	0.5
Debtors Turn (days)	5.3	33.8	59.2	56.6
Creditors Turn (days)	27.4	20.9	15.9	12.9
Inventory Turn (days)	60.2	38.4	36.1	34.1
Current Ratio (x)	26.4	2.9	2.2	2.9
Quick Ratio (x)	26.2	2.9	2.1	2.8
Net Debt/Equity (X)	Cash	Cash	Cash	Cash
Capex to Debt (%)	n.m.	1947.7	(33.6)	453.2
N. Cash/(Debt)PS (HK\$)	0.70	0.47	0.29	0.28
Opg CFPS (HK\$)	0.06	0.09	0.14	0.19
Free CFPS (HK\$)	0.02	0.02	0.09	0.03

Segmental Breakdown (RMB m)

FY Dec	2010A	2011A	2012A	2013A
Revenues				
Manufacture and Sale of	1,037	2,242	3,043	4,733
Pharmaceutical Products				
Cardio-cerebral Vascular Drugs	838	1,966	2,631	4,456
Oudimei	-	655	696	1,344
Kelinao	456	529	650	1,115
Yuanzhijiu	-	83	361	432
Aloiankang	-	94	205	328
Yeduoja	-	-	-	239
GM1	-	144	217	220
Yimaining	-	62	126	195
Anjiali	114	202	123	170
Danshen Chuanxiongqin	-	-	-	134
Qu Ao	59	68	92	104
Total	1,037	2,242	3,043	4,733

China Healthcare Sector

Sino Biopharmaceutical

Bloomberg: 1177 HK | Reuters: 1177.HK

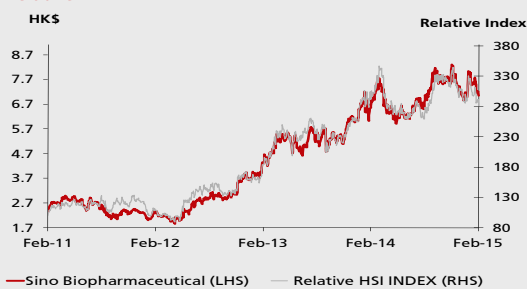
Refer to important disclosures at the end of this report

NOT RATED HK\$7.05 HSI : 24,683

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (HK\$m)	2010A	2011A	2012A	2013A
Turnover	4,086	5,782	8,327	9,901
EBITDA	978	1,302	1,905	1,998
Pre-tax Profit	1,088	996	1,789	2,137
Net Profit	567	463	891	1,037
Net Pft (Pre Ex.)	567	463	891	1,037
EPS (HK\$)	0.12	0.09	0.18	0.21
EPS Gth (%)	33.2	(19.9)	92.8	16.4
Diluted EPS (HK\$)	0.12	0.09	0.18	0.21
DPS (HK\$)	0.08	0.07	0.05	0.05
BV Per Share (HK\$)	0.74	0.78	0.93	1.11
PE (X)	60.4	75.4	39.1	33.6
P/Cash Flow (X)	65.0	30.8	20.9	20.4
EV/EBITDA (X)	32.9	25.9	17.4	16.8
Net Div Yield (%)	1.1	1.0	0.7	0.7
P/Book Value (X)	9.6	9.1	7.6	6.3
Net Debt/Equity (X)	Cash	Cash	Cash	Cash
ROAE (%)	18.5	12.4	21.2	20.6

ICB Industry: Health Care

ICB Sector: Pharmaceuticals & Biotechnology

Principal Business: Leading pharmaceutical company for hepatitis and cardio cerebral medicines. It is also engaged in the coal to chemical project in PRC

Source of all data: Company, DBSV, Thomson Reuters, HKEX

Largest liver drug maker in China

- Stronger presence in liver drugs market by launching two new drugs and dedicating 50% of sales force to promote liver drugs.
- Increasing demand of oncology drugs to drive mid-long term growth. The consensus expects earnings CAGR of 23% in 2013-16F

Largest liver drug maker in China with c.16% market share.

In 9M14, liver drugs made up 45% of the company's sales. According to IMS, the company is the largest liver drugs maker in China since 2008 with market share of c.16% in 2013. Demand for liver drugs is huge. For example, it is estimated that c.120m and 10m people in China are infected by hepatitis B & C, respectively. The condition for over 20m of those infected will become chronic, and they will continue to require liver drugs. Hence, the company has dedicated 50% of its sales force (c.3,000) to promote liver drugs. To strengthen its leadership in the field of liver drugs, the company plans to launch two generic drugs. We believe the company is applying for manufacturing approval for one of them and approval for clinical trial for the other.

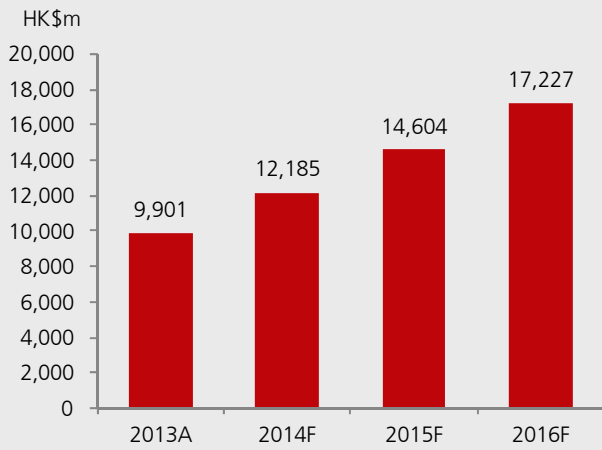
Launching more oncology drugs to drive mid-long term growth. Oncology is a major focus for the company in the future. In the pipeline, there are 12 drugs that are in the process of obtaining approval for launch before 2018. Out of which, 5 are oncology drugs to treat breast, prostate, liver and renal cancers. With net cash of HK\$3.5bn as of Sep-2014, the company has sufficient financial resource to expand in this area. Based on consensus estimates, the contribution of oncology drugs to sales will increase from <10% currently to c.20% in 2017.

Concerns. 1) 55% of its revenue in 9M14 came from generic drugs. Pressure on their ASP in provincial tenders is high; 2) As of Sep 2014, the company has equity investments worth HK\$574m. The change in value would impact the P/L. In 9M14, it incurred a loss of HK\$40.5m, which represented 3.5% of earnings during the period.

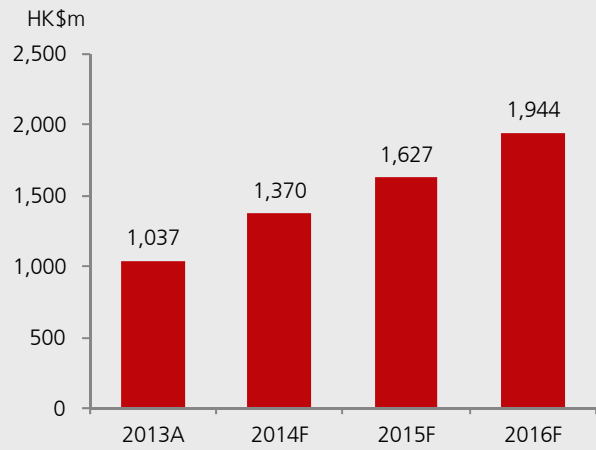
At A Glance

Issued Capital (m shrs)	4,941
Mkt Cap (HK\$m/US\$m)	34,837 / 4,493
Major Shareholders (%)	
Cheng Cheung Ling	24.28
Tse Ping	16.4
BlackRock, Inc.	6.4
Free Float (%)	52.9
Avg Daily Volume (m shrs)	12.5

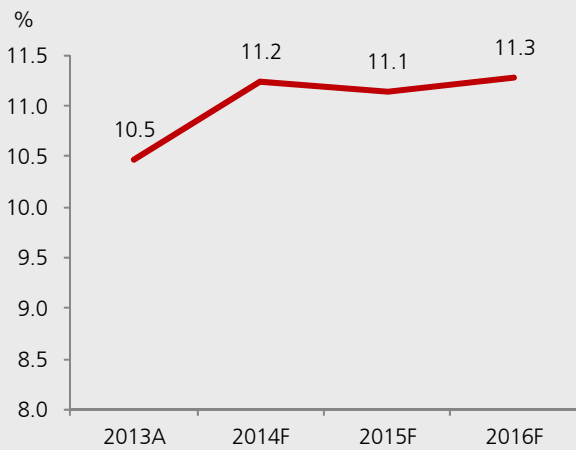
Revenue



Net profit



Net profit margin

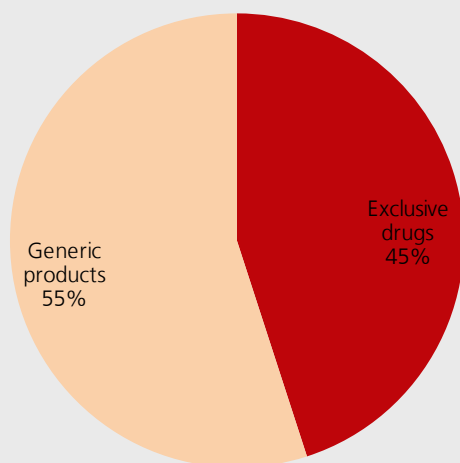


Source: Thomson Reuters

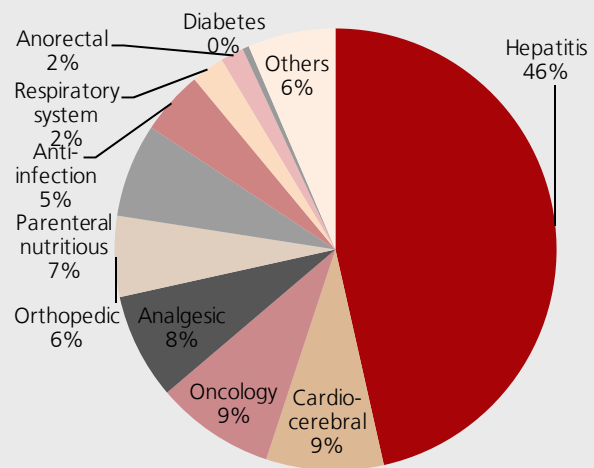
Drug Portfolio

	Revenue (HK\$m, 9M14)	Therapeutic area	Exclusive or Generic
Tianqingganmei injections	1,471	Hepatitis	G
Runzhong dispersible tablets	1,749	Hepatitis	E
Mingzheng capsules	588	Hepatitis	G
Tianqingganping enteric capsules	321	Hepatitis	E
Ganlixin injections and capsules	126	Hepatitis	G
Yilunping tablets	373	Cardio-cerebral	G
Tuotuo tablets	255	Cardio-cerebral	G
Tianqingning injections	160	Cardio-cerebral	G
Qingweike injections	63	Oncology	G
Kaifen injections	710	Analgesic	E
New ossified triol capsules	541	Orthopedic	E
Xinhaineng injections	453	Parenteral nutritious	E
Fenghaineng fructose injections	175	Parenteral nutritious	G
Tiance injections	428	Anti-infection	G
Tianqingsule inhalation powder, Tiotropium Bromide Powder for Inhalation	143	Respiratory system	G
Chia Tai Suke tablets	78	Respiratory system	E
Getai tablets	155	Anorectal	G
Taibai sustained release tablets	43	Diabetes	G
Others	1,322	Others	
Total	9,155		

Estimated exclusive drugs % in sales (1H14)



Therapeutic areas (1H14)



Source: Company, DBS Vickers

Income Statement (HK\$ m)

FY Dec	2010A	2011A	2012A	2013A
Turnover	4,086	5,782	8,327	9,901
Cost of Goods Sold	(785)	(1,243)	(1,722)	(2,228)
Gross Profit	3,301	4,539	6,605	7,673
Other Opg (Exp)/Inc	(2,411)	(3,376)	(4,895)	(5,902)
Operating Profit	890	1,163	1,710	1,770
Other Non Opg (Exp)/Inc	174	(211)	5	57
Associates & JV Inc	(1)	(4)	2	238
Net Interest (Exp)/Inc	24	48	73	71
Exceptional Gain/(Loss)	-	-	-	-
Pre-tax Profit	1,088	996	1,789	2,137
Tax	(228)	(167)	(371)	(355)
Minority Interest	(292)	(366)	(527)	(745)
Preference Dividend	-	-	-	-
Net Profit	567	463	891	1,037
Net Profit before Except.	567	463	891	1,037
EBITDA	978	1,302	1,905	1,998
Sales Gth (%)	26.3	41.5	44.0	18.9
EBITDA Gth (%)	16.4	33.0	46.3	5
Opg Profit Gth (%)	14.3	30.6	47.0	3.6
Net Profit Gth (%)	42.8	(18.4)	92.5	16.4
Effective Tax Rate (%)	21.0	16.7	20.8	16.6

Cash Flow Statement (HK\$ m)

FY Dec	2010A	2011A	2012A	2013A
Pre-Tax Profit	1,088	996	1,789	2,137
Dep. & Amort.	88	139	195	228
Tax Paid	(185)	(212)	(447)	(349)
Assoc. & JV Inc/(loss)	1	4	(2)	(238)
(Pft)/ Loss on disposal of FAs	46	10	29	19
Non-Cash Wkg. Cap.	(306)	(43)	114	(137)
Other Operating CF	(205)	242	(10)	44
Net Operating CF	527	1,135	1,669	1,704
Capital Exp. (net)	(362)	341	(391)	(501)
Other Invts. (net)	(715)	(94)	(269)	(263)
Invts. in Assoc. & JV	(24)	-	-	(120)
Div from Assoc. & JV	11	15	7	62
Other Investing CF	(287)	(306)	(20)	(1)
Net Investing CF	(1,376)	(45)	(673)	(823)
Div Paid	(389)	(396)	(198)	(247)
Chg in Gross Debt	-	-	-	-
Capital Issues	1,104	(33)	-	-
Other Financing CF	(122)	(165)	(272)	(260)
Net Financing CF	592	(594)	(470)	(507)
Net Cashflow	(258)	496	526	374

Interim Income Statement (HK\$ m)

FY Dec	2H12	1H13	2H13	1H14
Turnover	4,407	4,752	5,149	5,913
Cost of Goods Sold	(914)	(1,021)	(1,208)	(1,291)
Gross Profit	3,493	3,731	3,942	4,622
Other Oper. (Exp)/Inc	(2,472)	(3,057)	(2,846)	(3,679)
Operating Profit	1,021	674	1,096	943
Other Non Opg (Exp)/Inc	(3)	6	141	(35)
Associates & JV Inc	-	148	-	170
Net Interest (Exp)/Inc	36	28	43	56
Exceptional Gain/(Loss)	-	-	-	-
Pre-tax Profit	1,054	856	1,281	1,133
Tax	(163)	(161)	(194)	(223)
Minority Interest	(346)	(211)	(534)	(278)
Net Profit	545	484	553	632
Net profit bef Except.	545	484	553	632
EBITDA	1,137	766	1,232	1,051
Sales Gth (%)	43.3	34.5	16.8	24.4
EBITDA Gth (%)	49.0	20.8	8.4	37.2
Opg Profit Gth (%)	50.4	20.6	7.3	39.8
Net Profit Gth (%)	125.7	40.1	1.4	30.7
Gross Margins (%)	79.3	78.5	76.5	78.2
Opg Profit Margins (%)	23.2	14.2	21.3	15.9
Net Profit Margins (%)	12.4	10.2	10.7	10.7

Source: Company, DBS Vickers

Balance Sheet (HK\$ m)

FY Dec	2010A	2011A	2012A	2013A
Net Fixed Assets	1,384	1,835	2,077	2,300
Invts in Assocs & JVs	29	26	27	-
Other LT Assets	178	564	590	1,842
Cash & ST Invts	2,830	2,241	3,000	3,120
Inventory	369	452	591	805
Debtors	626	914	1,276	1,583
Other Current Assets	205	264	255	319
Total Assets	5,621	6,295	7,815	9,969
ST Debt	28	51	21	74
Creditors	160	221	301	475
Other Current Liab	908	1,099	1,560	2,031
LT Debt	127	35	20	-
Other LT Liabilities	97	114	129	164
Shareholder's Equity	3,648	3,836	4,582	5,487
Minority Interests	654	940	1,203	1,738
Total Cap. & Liab.	5,621	6,295	7,815	9,969
Non-Cash Wkg. Cap	133	310	261	201
Net Cash/(Debt)	2,674	2,156	2,959	3,046

Rates & Ratio

FY Dec	2010A	2011A	2012A	2013A
Gross Margin (%)	80.8	78.5	79.3	77.5
Opg Profit Margin (%)	21.8	20.1	20.5	17.9
Net Profit Margin (%)	13.9	8.0	10.7	10.5
ROAE (%)	18.5	12.4	21.2	20.6
ROA (%)	12.1	7.8	12.6	11.7
ROCE (%)	21.9	24.4	30.8	28.2
Div Payout Ratio (%)	68.6	85.6	22.2	23.8
Interest Cover (x)	n.a.	n.a.	n.a.	n.a.
Asset Turnover (x)	0.9	1.0	1.2	1.1
Debtors Turn (days)	49.4	48.6	48.0	52.7
Creditors Turn (days)	65.7	55.8	55.3	63.5
Inventory Turn (days)	135.0	120.5	110.5	114.4
Current Ratio (x)	3.7	2.8	2.7	2.3
Quick Ratio (x)	3.3	2.5	2.4	1.9
Net Debt/Equity (X)	Cash	Cash	Cash	Cash
Capex to Debt (%)	232.9	(400.5)	952.7	675.2
N. Cash/(Debt)PS (HK\$)	0.54	0.44	0.60	0.62
Opg CFPS (HK\$)	0.11	0.23	0.34	0.34
Free CFPS (HK\$)	(0.05)	0.22	0.22	0.19

Segmental Breakdown (HK\$ m)

FY Dec	2010A	2011A	2012A	2013A
Revenues				
Chinese Medicines	4,085	5,766	8,113	9,657
Others	1	17	214	244
Total	4,086	5,782	8,327	9,901

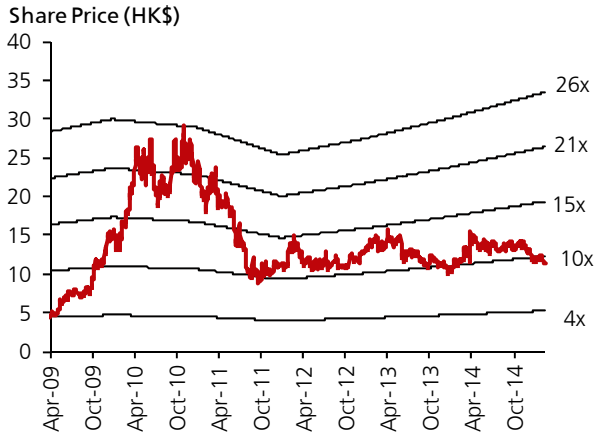
Industry Focus

China Healthcare Sector

Appendices: PE & PB band Charts

PE band charts

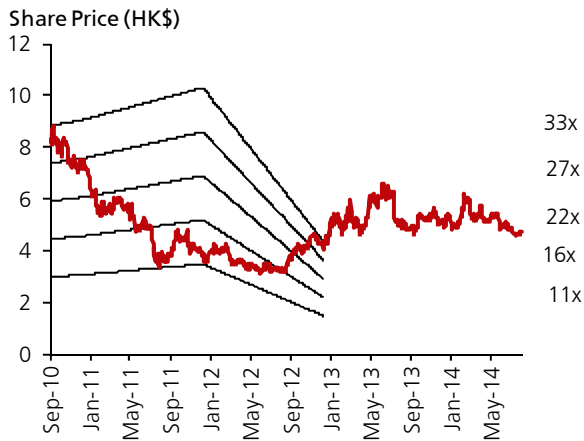
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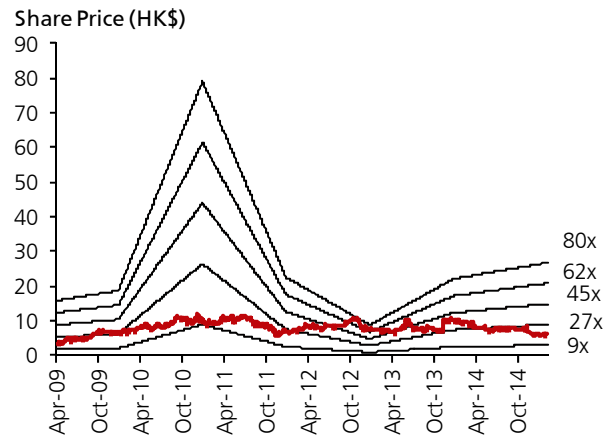
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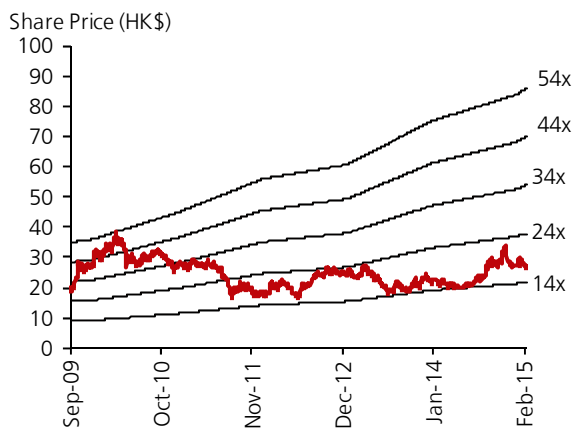
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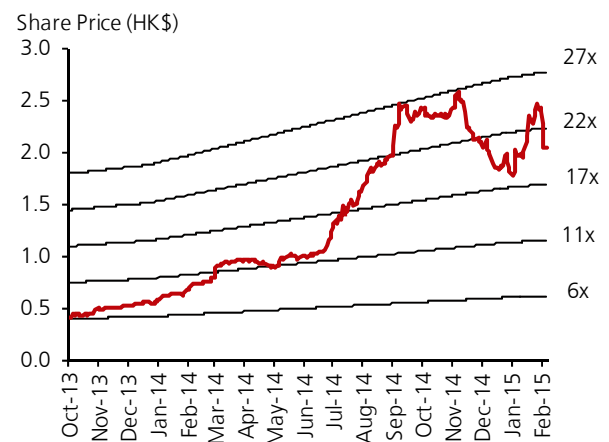
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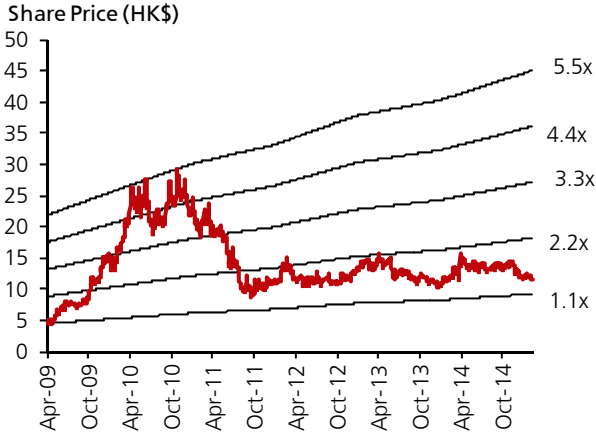
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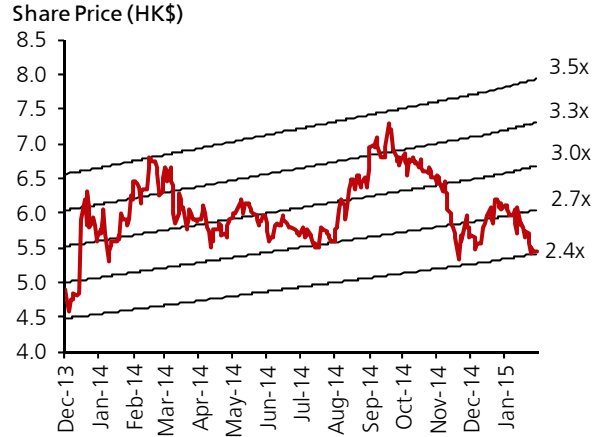
Source: Thomson Reuters, DBS Vickers

PB band charts

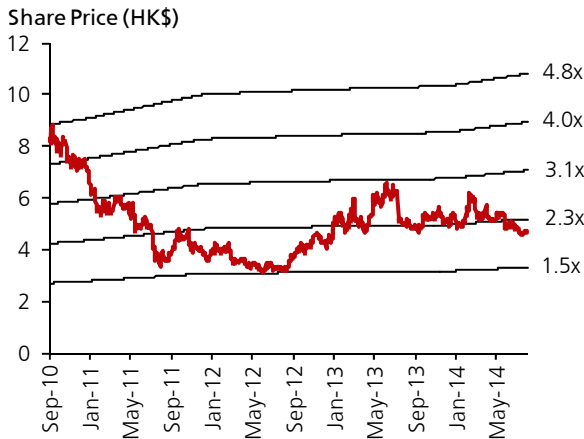
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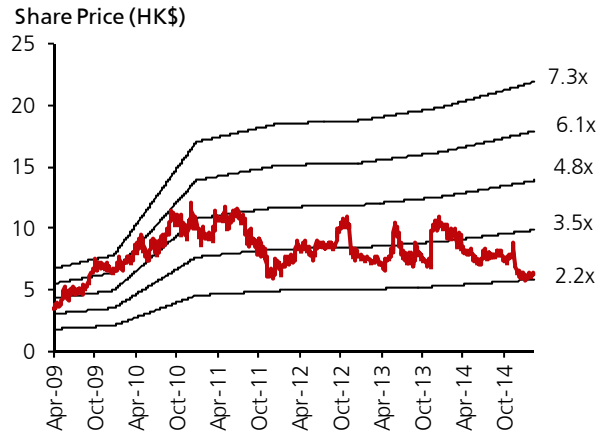
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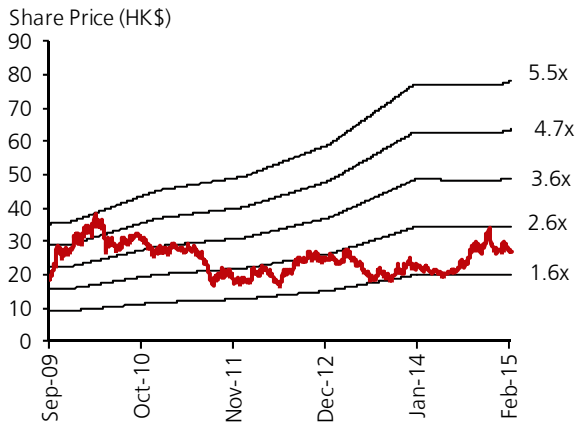
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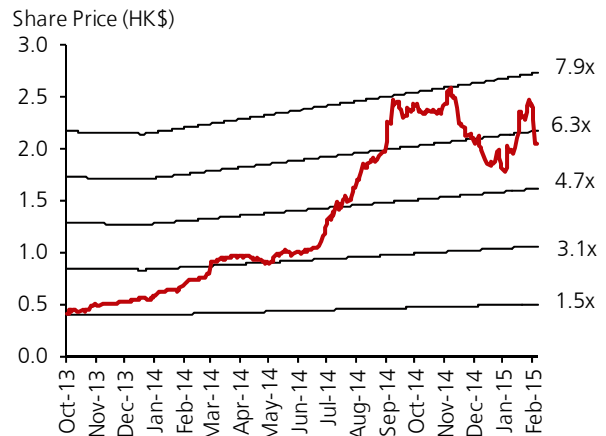
Shandong Weigao (1066 HK)



Sinopharm Group (1099 HK)



Yestar International (2393 HK)



Source: Thomson Reuters, DBS Vickers

Industry Focus

China Healthcare Sector

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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