

Shenzhen-Hong Kong Stock Connect Series

Sector Overview - Healthcare

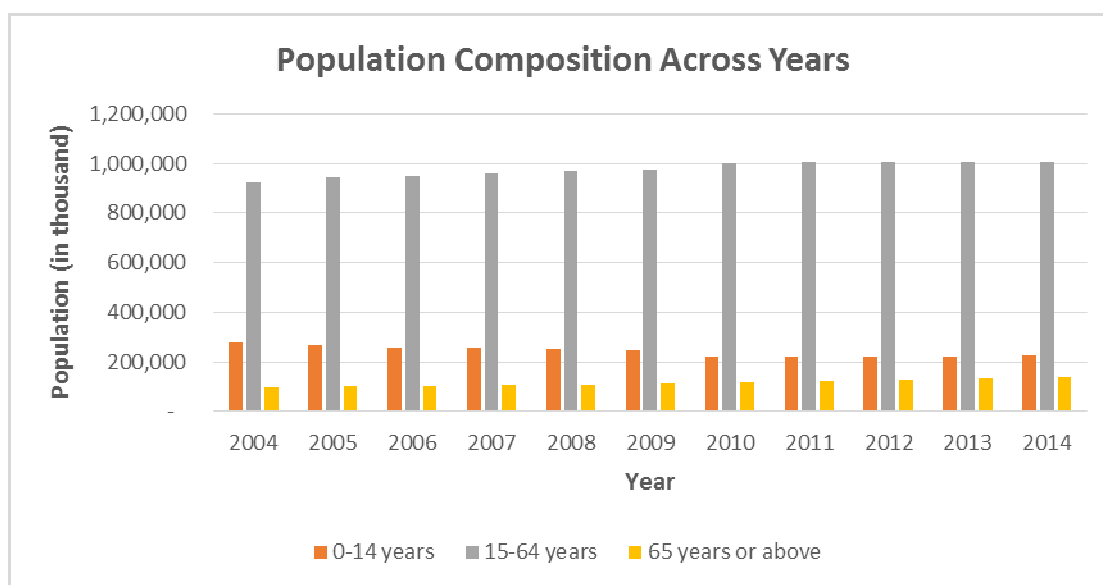
Hong Kong | Shenzhen-Hong Kong Stock Connect | Market report

Overview

Healthcare industry can be broadly categorized into three main sectors, namely Medicine Production, Healthcare Services, and Equipment Production. The recent Chinese Government policy has been supportive to the healthcare industry as a whole, from healthcare service provider to medicine production and equipment production. Healthcare industry has been one of the hot sector in China and Chinese Government has started adopting long term supportive policies, such as `Healthy China 2030`, to improve not only the healthcare service industry and the medicine production industry, but also the overall health of the population.

Demographic Changes

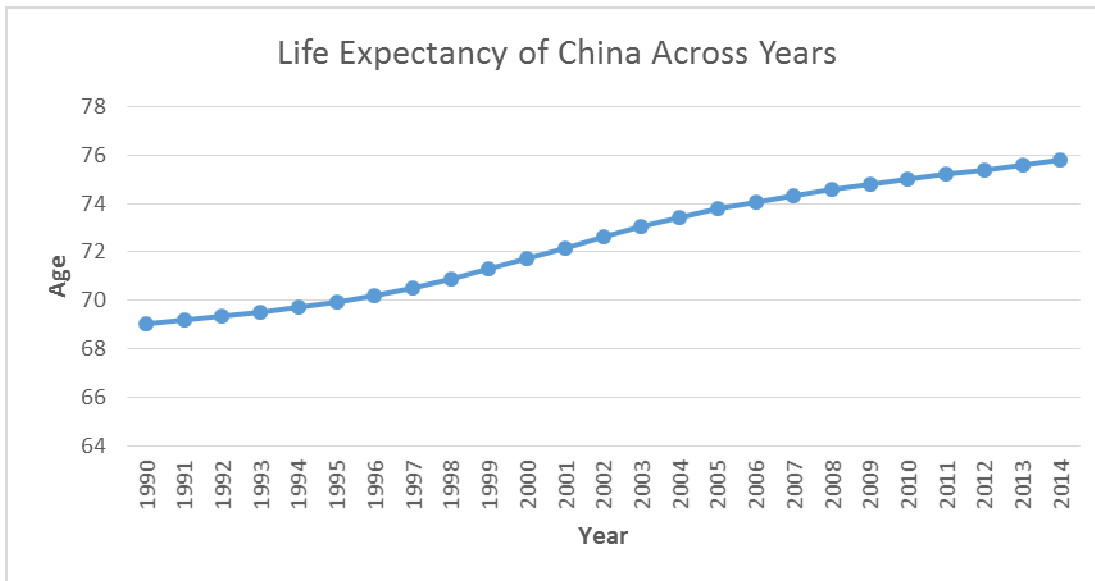
China has an aging population, with 10.5% of the population, or 143.9 million people with age 65 years or above in 2015. This is a significant increase in comparison with the figure in 2011, which was stated that there were 9.1% of the population, or 122.9 million people, with age 65 years or above. According to Frost & Sullivan, the figure will further increase to 13.2%, i.e. 186.6 million people, by 2020.



Source: National Bureau of Statistics of China

The chart above shows that the dominant part of Chinese population is the 15-64 years group while the 0-14 years group is slowly decreasing despite the increasing population. Therefore, as time progresses, 65 years or above group will slowly become a significant part of the population when 15-64 years group people ages.

Moreover, the life expectancy of the Chinese population is also increasing. Life expectancy rises from 68.6 years in 1990 to 76.3 years in 2015. With the rising life expectancy and the increasing elderly population, the demand for both healthcare products and services will increase. The increase in affordability to healthcare products and services, contributed by the rising disposable income, will also increase the demand, as evident by healthcare related expenditure increasing from CNY1,807 to RMB 2,856 per capita from 2011 to 2015.

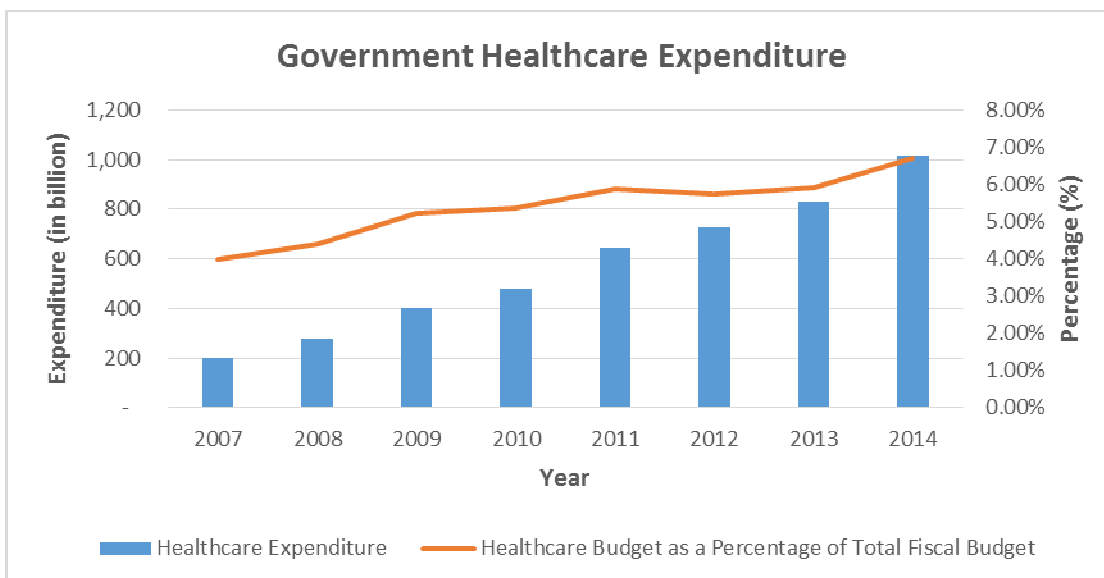


Source: World Bank

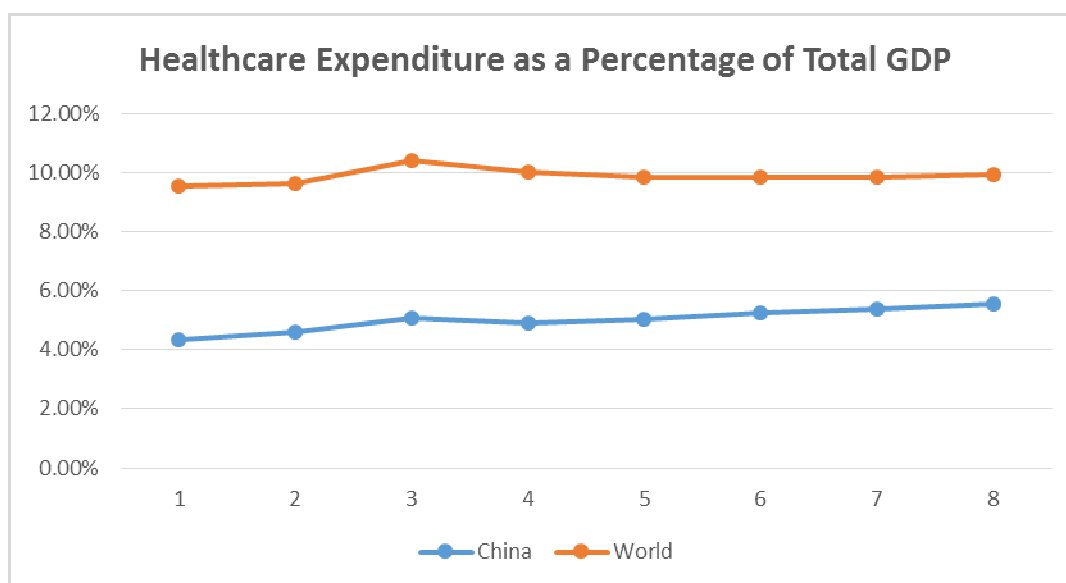
China successfully raised the average life expectancy by almost 8 years in 15 years. With the increase in coverage of social medical insurance across the population, the increase in expenditure to improve the medical system as a whole, and the continued growth of the Chinese economy and hence higher disposable income, we expect Chinese population to experience a further increase in life expectancy and hence the healthcare industry will continue to expand.

Government Support

The Chinese Government has adopted several measures that promote the development of the healthcare industry. In particular, the 'Guiding Opinions on Promoting the Healthy Development of the Pharmaceutical Industry' was adopted in March 2016 and proposed measures such as providing financial support for innovation in drug industry as well as optimizing the approval process for innovative drug development. Apart from policy, the Chinese Government has a rising awareness to the health of the general public. In 2014, the social medical insurance covered 97.5% of the total population of China. The coverage of the social medical insurance will make healthcare service and products more affordable to the general public of China.



Source: National Bureau of Statistics of China



Source: World Bank

Healthcare expenditure is becoming increasingly significant in the fiscal budget and the total GDP of China. In particular, the healthcare expenditure as a percentage of the total GDP (5.55%) is still behind the average of the world (9.95%) and China still has a large gap before converging with the world standard of healthcare quality. On October 26, 2016, 'Healthy China 2030' was approved and the bill seeks to improve the overall healthcare industry from the perspective of optimizing healthcare service system and protection, developing healthcare industry, and medical science development and innovation. 'Healthy China 2030' is expected to benefit the entire healthcare industry

The following stocks are part of the healthcare sector stocks potentially eligible for Shenzhen-Hong Kong Stock Connect. The final eligible stocks for the Stock Connect will be announced by HKEX.

| Stock | MktCap | P/E | Stock | MktCap | P/E |
|--------------------------------------|--------|--------|---------------------------------|--------|--------|
| Sihuan Pharmaceutical (460.HK) | 18.9Bn | 8.08x | China Trad Chinese Med (570.HK) | 17.7Bn | 20.15x |
| CK Life Sciences (775.HK) | 6.6Bn | 23.00x | China Medical System (867.HK) | 31.0Bn | 26.23x |
| Weigao Group (1066.HK) | 9.6Bn | 17.38x | CSPC Pharmaceutical (1093.HK) | 49.5Bn | 28.97x |
| Sinopharm Group (1099.HK) | 45.5Bn | 23.86x | Sino Biopharma (1177.HK) | 41.4Bn | 16.44x |
| Phoenix Healthcare (1515.HK) | 10.4Bn | 53.19x | 3SBio (1530.HK) | 19.9Bn | 28.93x |
| Lijun Int'l Pharmaceutical (2005.HK) | 7.5Bn | 18.99x | Luye Pharma (2186.HK) | 17.7Bn | 19.96x |
| Shanghai Fosun Pharma (2196.HK) | 9.7Bn | 19.12x | Shanghai Pharma (2607.HK) | 15.7Bn | 16.26x |
| Universal Medical (2666.HK) | 11.9Bn | 13.40x | China Shineway Pharma (2877.HK) | 6.6Bn | 8.49x |
| Town Health Int'l Medical (3886.HK) | 9.7Bn | 32.89x | | | |

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

| Total Return | Recommendation | Rating | Remarks |
|--------------|----------------|--------|---|
| >+20% | Buy | 1 | >20% upside from the current price |
| +5% to +20% | Accumulate | 2 | +5% to +20% upside from the current price |
| -5% to +5% | Neutral | 3 | Trade within $\pm 5\%$ from the current price |
| -5% to -20% | Reduce | 4 | -5% to -20% downside from the current price |
| <-20% | Sell | 5 | >20% downside from the current price |

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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