

## Equity Team Research Highlights

01/14/2022

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## 2022 China Healthcare Investment Strategy

### Key takeaways

1. In fast-aging China, the healthcare industry is expected to outpace GDP growth with a growth rate of 10%.
2. Affordable healthcare is favored by China's national medical insurance, as the government ramps up healthcare reform.
3. CRO, CDMO and other upstream equipment and consumables see opportunities in the era of innovative drug 2.0.
4. The import substitution will bring at least a 100 billion yuan market for high-end medical equipment.
5. Chain medical service providers in eye care, oral care and cancer treatment will see rapid growth.

### China's healthcare long-term outlook

In China, the total health expenditure will maintain a rapid growth trend that is higher than GDP growth, driven by the growing aging population. Therefore, in the long term, we are optimistic about China's healthcare industry development.

### Policy provides direction and will continue to shape China's healthcare industry

Innovation, medical insurance cost control, and cost-effective healthcare are the policy directions. We believe the demand for affordable healthcare, topped with people's increasing health awareness and payment ability will promote the rapid development of sub-sectors such as high-end medical devices, innovative drugs supply chain, and medical services.

**Innovative drugs and industry chain: upstream reagents and equipment, cell & gene therapy, CDMO/CRO**

At present, the new drug approval has reached a new high. In the future, the proportion of first-in-class innovative drugs will increase significantly, while the proportion of generic drugs will decline.

**1) Cell & gene therapy:** Cell & gene therapy is the new development direction for innovative drugs. Its research projects are growing rapidly, and domestic companies have begun to enter the IPO stage. We expect some companies in this sector to have gradually realized sales and updated technologies.

[Related companies: Genscript Boitech; Porton; CARsgen; OBiO Technology](#)

**2) CDMO/CRO:** The driving force for the development of CDMO/CRO comes from biomedical technology innovation and eased regulatory approval policies. High R&D investment, high outsourcing rate and capacity transfer will bring high industry growth.

[Related companies: Genscript Boitech; Porton; OBiO Technology](#)

**3) Upstream consumables, reagents, and equipment:** Downstream demand comes from the scientific research market and the industrial market. Most of the domestic products now are qualified for the industrial market. With the rapid growth of investment in innovative drugs, the upstream has a high certainty of growth.

[Related companies: Nano Technology; Lijun International Pharmaceutica; Shanghai OPM Biosciences; Vazyme Biotech; Acrobiosystems; Sino Biological](#)

### **Medical equipment: equipment import substitution, consumable centralized procurement**

According to Horizon Insights' weekly local research surveys with industry workers these years, the research and development capability gap between domestic companies and foreign companies is narrowing, which is reflected in the significantly shortened new product launch cycle.

**1) Medical equipment:** Going forward, import substitution will drive the growth of domestic equipment companies. Sectors like surgical robots, second-generation sequencers, and endoscopes that are currently dominated by foreign products, will expect the substitution opportunities brought by DRG and import equipment restriction policies.

**2) Medical consumables:** High-value consumables are still facing the price reduction risk amid China's centralized procurement program. Investment in this sector should be reconsidered after the policy is fully implemented.

[Related companies: Mindray, SonoScape Medical Corp; AoHua Photoelectricity Endoscope; MedBot; MGI](#)

## Medical services: leading companies are the main focus

The high-quality development of public hospitals caused a catfish effect on private hospitals. Private hospitals have fierce competition, but the value of leading enterprises is clearer.

**1) ARS (assisted reproductive services):** Benchmarking Japan, we expect the penetration rate to increase in the future as the market is 3X in size.

**2) Ophthalmic services:** The sector's prosperity has been continuing to improve. We expect some new products for dry eye and myopia will be launched in 2025-2027, boosting companies' profits.

**3) Oral services:** Chinese people's weak awareness of oral healthcare brings a potential space of 100-billion-yuan market for leading companies.

**4) Oncology service:** The scale of oncology services is 400 billion yuan, and private institutions are expected to form a competitive advantage over the oncology departments of public hospitals that are relatively weak.

Related companies: [Jinxin Fertility](#); [Aier Eye Hospital](#); [Topchoice](#); [Hygeia Health](#)

## 2022 China Healthcare Industry Outlook

2022 China Healthcare Industry Outlook					
Preclinical CRO 20bn WuXiAppTec; PharmaronBeijing	CRO 35bn Tigermid; R&G	CDMO 130bn WuXi Biologics; Asymchem; Porton	API (Active Pharmaceutical Ingredient) 550bn CSPC; Hisun; Huahai	Upstream Equipment & Material 50bn Nano Technology; Tofflon; Vazyme Biotech; Shandong Pharmaceutical Glass	<b>7.2 trillion !!!</b>
↓					
Chemical medicine 900 bn Yangtze River Pharmaceutical, HengruiMedicines, Fosun, Qilu Pharmaceutical	TCM (Traditional Chinese Medicine) 500 bn Tongrentang Chinese Medicine, Pien Tze Huang Pharmaceutical, Tasly	Biological drugs (mAb, vaccine, blood products) Vaccine 50bn + plasma 30bn + others 300 bn Hengrui Medicine, Junshi Biosciences, Biokangtai, Hualan Bio, KanghongPharmaceutical		Instruments (equipment + consumables) 750 bn United Imaging, Mindray, Wandong Medical, Yuyue, Jafron Biomedical, Lepu Medical, Kindly Medical Instruments, Autobio	
↓					
Distributors					
Drugs 2 trillion + devices 1.2 trillion					
SINOPHARM, Shanghai Pharmaceuticals, Jointown, Runda Medical, Thalys Medical, Cachet Pharmaceutical, Realcan					
↓					
Third-party laboratories 30 bn KingMed Diagnostics, DIAN Diagnostics, BerryGenomics	Hospitals Public 3.9 trillion + private 770 bn + grassroots clinics 1.1 trillion AIER Eye Hospital, Topchoice, Jingxin Fertility, Hygeia Health, Sanxing Medical		Retail pharmacies 560 bn Yifeng Pharmacy, LBX Pharmacy	Third-party medical examination agencies 50 bn Meinian Onehealth, iKang	
↑					
Government expenditures 2.2 trillion	Social expenditure 3 trillion		Individual expenditure 2 trillion	Patient	

## [Latest In-Depth Industry Research \(December\)](#)

### Healthcare

- In-depth Report: **2022 China Healthcare Investment Strategy**
- In-depth Report: **Market Situation of Analgesic Patch Industry**
- In-depth Report: **Jinxin Fertility In-depth Report**
- In-depth Report: **Cellular Gene Therapy Opens New Era of Precision Therapy**

### TMT

- 2022 **China TMT** Investment Strategy
- **Auto Repair Diagnostic** System Research
- **MLCC** Quarterly Report
- **Video Content** Research
- **PCB** Industry Tracking

### Consumer

- **2022 China Consumer Investment Strategy**
- In-depth Report: **Helens**
- **Frozen food channel research feedback**
- **Functional Clothing** Channel Research Feedback
- **Packaged Drinking Water** Channel Checks

### Machinery

- Industry Tracking - **Wind Power**: Waiting for Annual Bargaining Results (4Q 2021)
- In-depth Report: **Two-wheeled Electric Vehicles**
- In-depth Report: **Granular Silicon**
- In-depth Report: **Offshore Wind Power**
- **PV** Overseas Demand Tracking (4Q 2021)

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