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Is China health care on the mend?

What we've been hearing

A CHALLENGING PERIOD FOR CHINA HEALTH CARE

China is a single-payer country where the government bears ~70% of health care spend, due to its focus on equal access to quality services via public hospitals. Over the past few years, the government has been squarely focused on cost optimisation to reduce an unnecessary burden on health care expenditure, with resulting harsh policies leading to a significant compression of health care multiples from the peak of 2021.

As a team, we strive to look beyond the most prominent narratives to seek to identify the most compelling long-term opportunities within emerging markets. The defined expertise of our local research function is instrumental in enabling unique access to what we believe to be the most relevant domestic opportunities that may differ from what the wider market sees.

Figure 1: Relative P/E of MSCI China Healthcare vs MSCI China



Source: Bloomberg. PAST INDEX OR THIRD-PARTY PERFORMANCE DOES NOT PREDICT FUTURE RETURNS.



What we're seeing

A CHANGE IN GOVERNMENT SENTIMENT?

We have seen an increased willingness from the government to support innovation. Moreover, biotech has been identified as one of the "new productive forces" to drive China's economy forward and local governments have started to experiment with different policies such as the exclusion of innovative drugs from budget controls.

For us, this signals that real change is coming as the government seeks to address the core issue of harsh pricing towards innovative drugs to incentivise greater investment in innovation.

INNOVATION REMAINS ALIVE AND WELL

Despite tough regulatory pressure and closure of capital markets, innovation has continued at attractive levels within the industry. Extremely competitive technology and reasonable valuations relative to other overseas targets has continued to attract top global pharmaceutical multinational corporations looking to license these technologies. Local biotech companies with best-in-class drugs have therefore been able to obtain



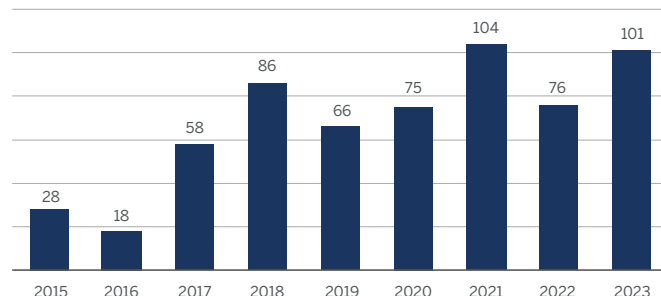
Innovation is not just within the biotech space. 3D endoscopy solutions offered by a leading health care equipment company in China...

LOOKING TO THE FUTURE

Will geopolitics have an impact?

The recent introduction of the BIOSECURE Act in the US could prove to be a significant headwind for Chinese contract development and manufacturing. However, we expect China-based biotech companies to be unaffected as they remain important drivers of local, and increasingly global, innovation via outbound licensing activities that are not impacted by US actions.

Number of innovative drugs approved in China



Source: Pharmcube.

financing via this alternative channel. Simultaneously, it opens the global addressable market for truly innovative players, where economics are also more attractive versus domestic markets, through royalty agreements within the range of single digit to double digit of revenues.



... as well as surgical robots!

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