Bin Yuan Capital All China Strategy – July 2024

Bin Yuan Healthcare Review and Update

The operating environment for the healthcare sector has been very difficult over the past three years, and it has been the worst performing sector YTD in 2024. Many investors have given up on healthcare. In this update we review the causes and why we think the sector deserves a rerating:

- WHAT HAPPENED: the 2021 VBP initiatives (Volume Based Purchasing Policy), 2022 Covid lockdown, the 2023 anti-corruption campaign, and increased geopolitical risks impacted business activity, profitability and investment sentiment.
- VALUATIONS: The sector's relative valuation is at historical lows (1.5x premium vs 2.3x). We will explore whether the sector still deserves a premium rating.
- FUNDAMENTALS: We will review the opportunities. The massive demand and the short supply for healthcare services in China has not changed. We estimate China will add approximately 5,000 private hospitals by 2030.
- IMPORT SUBSTITUTION: we estimate that the overall localization rate of medical equipment & consumables will increase from the current 42% to 55% in 2030. By 2030, the market for Chinese medical equipment & consumables companies should be RMB 1.2 trillion+ vs RMB 0.45 trillion in 2023.
- PORTFOLIO POSITIONING: We believe our core healthcare holdings offer investors substantial return opportunities as the sector gets rerated.

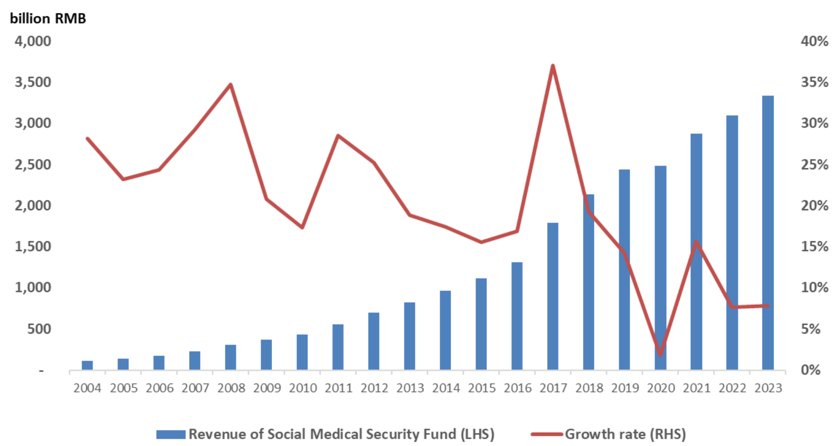
In summary, we strongly believe that the sector is due for a rerating driven by strong and resilient domestic healthcare demand. The market has fully discounted the negatives which have driven the stock prices of some of the highest quality companies below their intrinsic value by a wide margin. We estimate our top healthcare stocks, on conservative numbers, should achieve 28% annualized absolute returns over the next 3 years.

THE HEADWINDS

1) <u>The prolonged covid lockdown brought enormous pressure on the Social Medical Security Fund</u>

The covid epidemic which broke out in early 2020 disrupted regular healthcare services. With the gradual reopening of countries around the world beginning in 2021, China had misjudged the consequences of the spread of the Omicron variant virus in 2022. The government implemented very strict prevention and control measures, including a full-scale lockdown. These policies disrupted economic activity and put great pressure on the Social Medical Security Fund (SMSF) and consequentially reduced normal medical expenditures. RMB 3 trillion (2020-2022) was spent on virus testing, vaccine injections, etc., which impacted the remaining SMSF budget.
SMSF's revenues (coming from enterprises, government and individuals) were RMB 2.44 trillion in 2019, and reached RMB 3.34 trillion in 2023, an annual growth rate of only 8.1% compared to the annual growth rate of 20.3% in the five years 2014 to 2019 (Chart 1).

Chart 1: Revenue of Social Medical Security Fund



Sources: iFinD, China National Healthcare Security Administration, Bin Yuan Capital

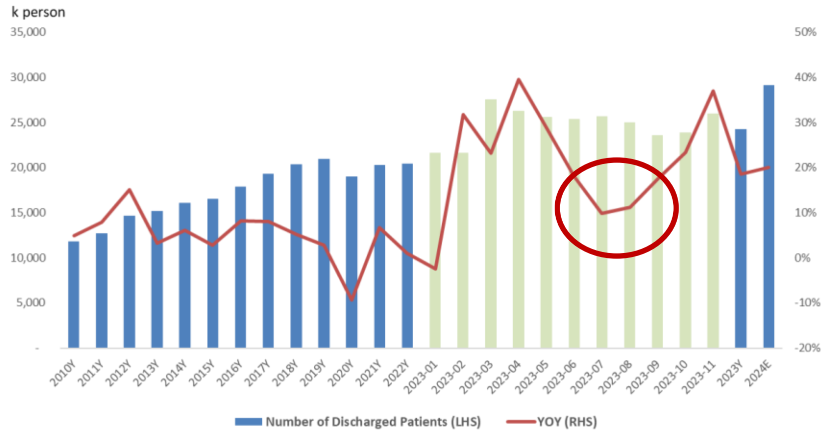
This significantly reduced healthcare sector related activities. This disruption carried on as the economy recovered in 2023 with the government anti-corruption campaign.

2) <u>The anti-corruption campaign impacted sentiment and postponed hospital equipment orders</u>

To deal with the enormous funding pressure on SMSF, the corruption and dereliction of duty among some hospitals and doctors became targets. A series of high-profile arrests of doctors and management of hospitals were announced. This impacted medical service demand and supply that should have been recovering post pandemic.

Chart 2 shows that the number of discharged patients recovered strongly at the beginning of 2023. This momentum slowed as the anti-corruption campaign started in July 2023. With healthcare demand pretty fixed, the growth of discharged patients was gradually recovering by the end of 2023. This trend will continue as healthcare services move back to the normal trend line.

Chart 2: Number of Discharged Patients YOY

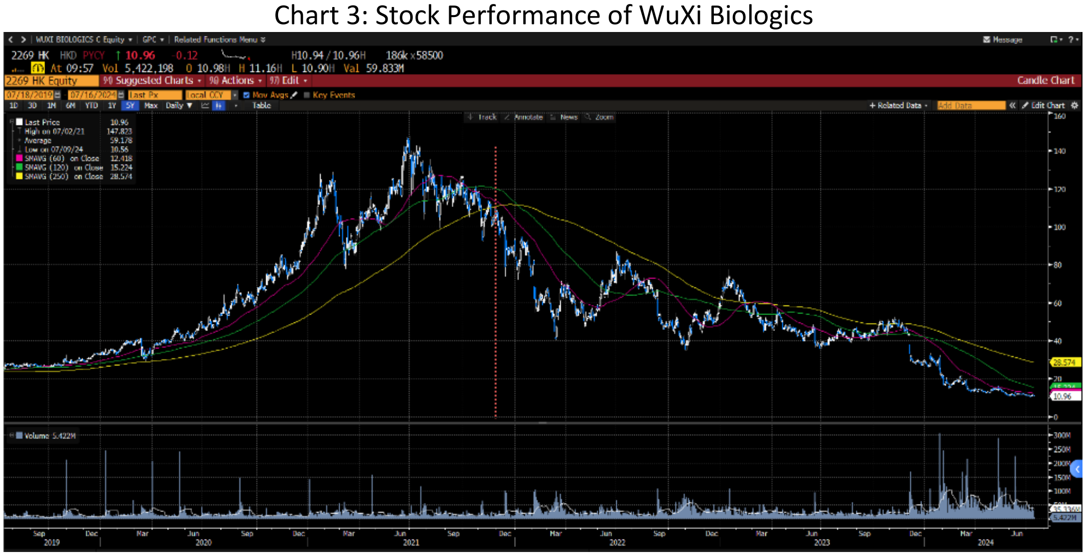


Sources: iFinD, Bin Yuan Capital

3) <u>Geopolitical risks</u>

Chinese biotech has been aggressively targeted by the US government. CXO companies, including CRO (Contract Research Organization)/CMO (Contract Manufacture Organization)/CDMO (Contract Development and Manufacture Organization)/CSO (Contract Sales Organization), represented by WuXi Biologics (2269.HK) and WuXi AppTec (603259.SH/2359.HK), were severely impacted. WuXi Biologics, a great CXO firm declined 77% over the past two and half years, due to these concerns (Chart 3).

Chart 3: Stock Performance of WuXi Biologics



We do not expect geopolitical risks to ease. The China Healthcare sector is comprised of not just CXOs. The sector has much broader segments that include equipment, consumables, domestic services, etc., which are less impacted by geopolitical risks and are the focus of our portfolio.

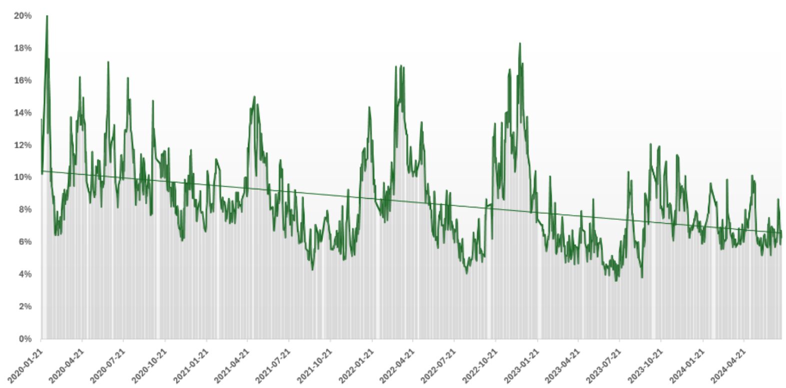
4) Healthcare sector out of favor

Local institutional investors are momentum investors using active sector rotation to achieve their short term performance objectives. The annual ranking of mutual funds is important for increasing AUM. This year the top funds are heavily concentrated (more than 50%) in banks, energy, and resource based commodities.

As an example, we attended an iRay (688301.SH) conference last week, and only about 10 investors attended the conference. In contrast, three years ago when the stock price of iRay reached its peak, at a similar conference at iRay there were over 100 attendees. This reinforces our conviction that we have hit the bottom.

We have seen a decline in the daily transaction volumes from an average of 10.8% pre-2022 to 6.8% in 2023 and 2024 (Chart 4).

Chart 4: Healthcare Trading Volume as % of Total



Sources: iFinD, Bin Yuan Capital

The valuation of the healthcare sector vs. the general market has also declined to historical lows (Chart 5). The sector had been trading at a 2.3X premium compared to the general market. Currently, it is at a 1.5X premium, but the sector's growth rate has been maintained at twice the market level. We believe the higher premium is therefore justified. Compared with global peers, Chinese Healthcare Equipment and Consumables also seem very attractive (Appendix 1).

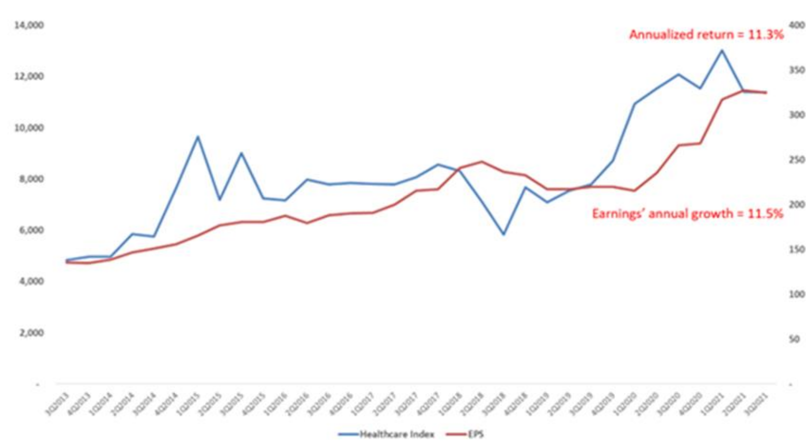
Chart 5: TTM PE Premium of Healthcare Sector vs. A-share Market (excl. Banks)

Sources: iFinD, CSSW, Bin Yuan Capital

OPPORTUNITIES

The annualized compounded earnings growth rate for the healthcare sector from 2013 to 2021 was 11.5%. Stock prices mirrored this and delivered 11.3% annualized returns (Chart 6).

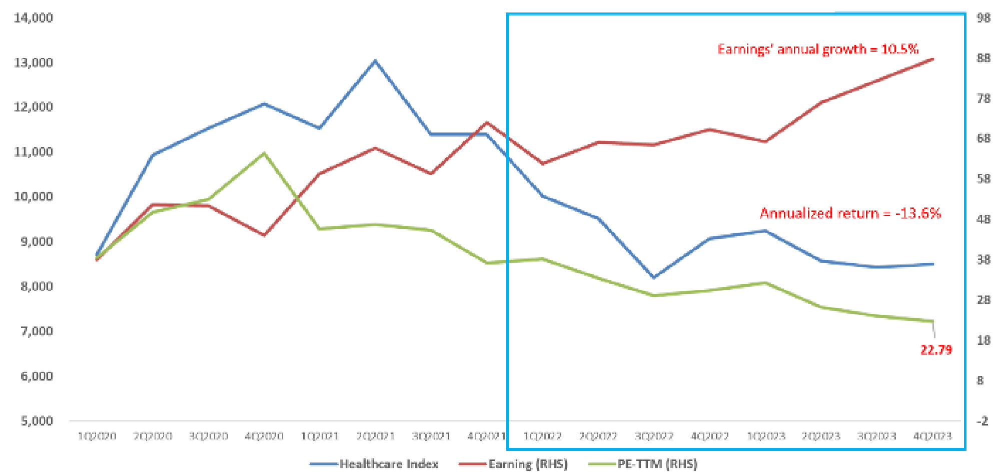
Chart 6: Stock Prices and Earnings are Highly Synchronized (2013-2021)



Sources: Wind, Bin Yuan Capital

From 2022 to 2023, the compounded growth rate for the healthcare sector was approximately 10.5% even with the series of negative events. The sector was down 25% over this period (Chart 7). The huge discrepancy (almost 50%) between growth and the performance of stock prices indicates the sector is now dramatically oversold and undervalued.

Chart 7: the Gap between Index Performance and Solid Earnings' growth (2022-2023)



Sources: Wind, Bin Yuan Capital

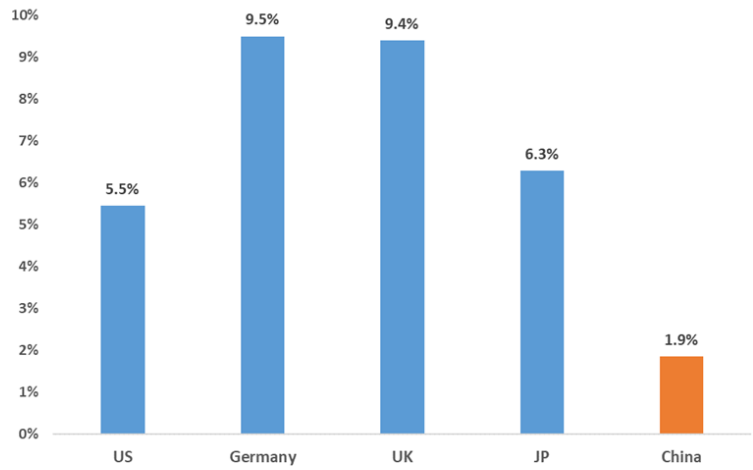
We believe the sector will recover its relative rating to the market.

The anti-corruption campaign has now largely run its course. Previously suspended equipment bids have resumed. Hospitals are actively reporting equipment replacement requirements. Doctors are getting back to their regular jobs.

Chinese entrepreneurs, including those in the healthcare business, are fully aware of and taking action to deal with the geopolitical risks, which we call the movement of competitiveness replacement. Chinese manufacturing capability is very competitive today and we believe the leading healthcare companies will not only survive in the global supply chain, but some of them will take global market share and become global leaders.

Fundamentally, the massive demand and the short supply for healthcare services in China has not changed. Living standards have seen dramatic improvement, benefiting from the past 40 years of fast economic growth. Yet the healthcare sector and healthcare equipment has been a notable laggard (examples in Appendix 2). The government has allocated only 1.9% of its annual budget in the healthcare sector compared to 5-10% for developed countries (Chart 8). The widening gap between the demand and supply will drive future growth.

Chart 8: Government Healthcare Budget / GDP



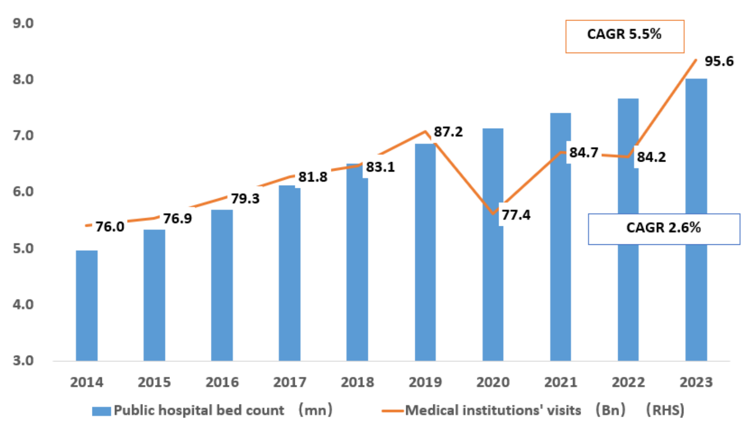
Sources: iFinD, Bin Yuan Capital

Structural opportunities:

1) <u>Private capital to drive hospital growth</u>

Government run hospitals face tight capacity due to fiscal constraints. Over the past decade, the number of hospital visits has increased from 76 million in 2014 to 95.6 million in 2023, a CAGR of 5.5%. In contrast, the number of beds in public hospitals has grown at a CAGR of 2.6% (Chart 9). In China, a 1,000-bed public hospital requires investment of RMB 2.5 billion. The approval process takes 1-2 years followed by 2 years of construction. High costs and lengthy timelines hinder rapid expansion. Therefore, despite increased government investment, these efforts have been outpaced by the large population and growing medical needs.

Chart 9: Public Hospital Beds vs. Medical Visits in China



Source: ifinD, Bin Yuan Capital

Misallocation is another key issue for the sector. Medical resources are concentrated in major cities, leaving lower-tier cities and rural areas underserved. Large tertiary hospitals and top medical experts are predominantly located in first- and second-tier cities. According to China Health Statistics Yearbook 2023, 80% of top-tier hospitals in China are concentrated in the eastern region covering 39% of the population. The remaining 20% of top-tier hospitals covers 61% of the population (Chart 10) with less advanced medical facilities.

Chart 10: Population vs. Top-Tier Hospital Allocation in China

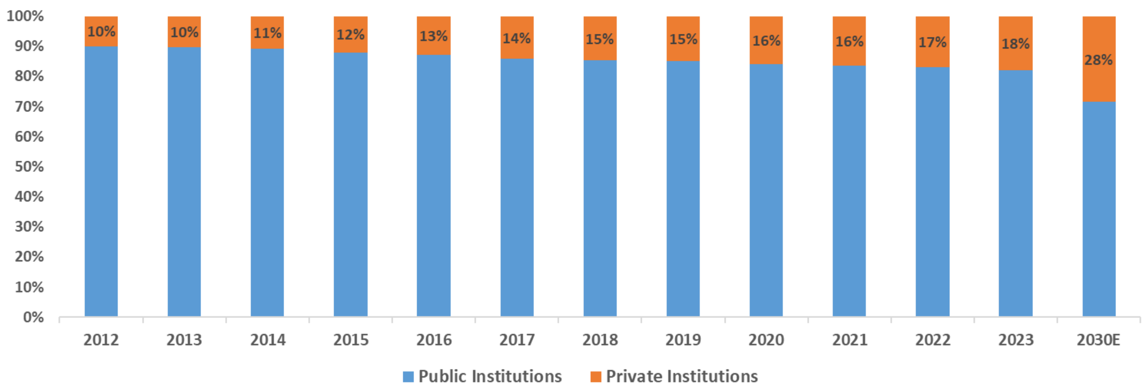
Source: ifinD, Bin Yuan Capital

To solve these supply-demand imbalances, encouraging private capital investment to participate is the most effective solution. Some long term private capital has always been interested in the operation of private hospitals. Once private hospitals are built, we expect there will be no issues about demand, and a long-term 15% EBITDA margin is very attractive. In the past, private capital faced many policy barriers when entering this field. Regulatory authorities have implemented numerous reforms over the decades to establish a more equitable and sustainable healthcare service system, including streamlining of admission processes, encouraging doctors to implement *Multi-site Practice*[1], and expanding Medical Insurance Coverage to private services.

Although government run hospitals still dominate in China, private hospitals are rapidly increasing. In terms of outpatient volume, the proportion of private hospitals has increased from 10% in 2012 to 18% in 2023 (Chart 11).

[1] In the past, only public hospitals had established doctor ranking systems and operated in a relatively closed manner, preventing the sharing of doctor resources. As a result, the shortage of doctors in private hospitals became a significant bottleneck limiting their development. However, with the introduction of the multi-site practice system by the government, coupled with improvements in the ranking systems of private hospitals, the resource imbalances and shortages has been greatly mitigated. This flexibility enhances doctors' skills and ensures more patients receive quality healthcare, particularly in remote areas, thus alleviating supply-demand imbalances.

Chart 11: Hospital Visits for Diagnosis and Treatment



Sources: iFinD, China National Healthcare Security Administration, Bin Yuan Capital

The better experience encourages consumers with purchasing power to choose private hospitals, which in turn alleviates the pressure on public hospitals (Picture 1). We estimate China will add approximately 5000 private hospitals by 2030. Total investment should reach RMB 12.5 trillion. RMB 2.5 trillion is forecasted to be allocated to equipment procurement, 5.5 times the equipment market size in 2023.

The majority of the equipment procurement budget should be allocated to domestic companies. We believe that over the next decade, private hospitals in China have great potential. Some large medical service groups will emerge.

Picture 1: Patient Experience in Public vs. Private Medical Institutions

2) <u>Import substitution growing strongly</u>

In our past investment letters we have emphasized that import substitution is one of the key trends in the healthcare sector. While the VBP negatively impacts global companies, locally qualified suppliers have benefited. VBP underscores the emphasis on cost effective products which is an opportunity for the leading domestic companies.

The price differentials between domestic and international manufacturers are listed below in Table 1.

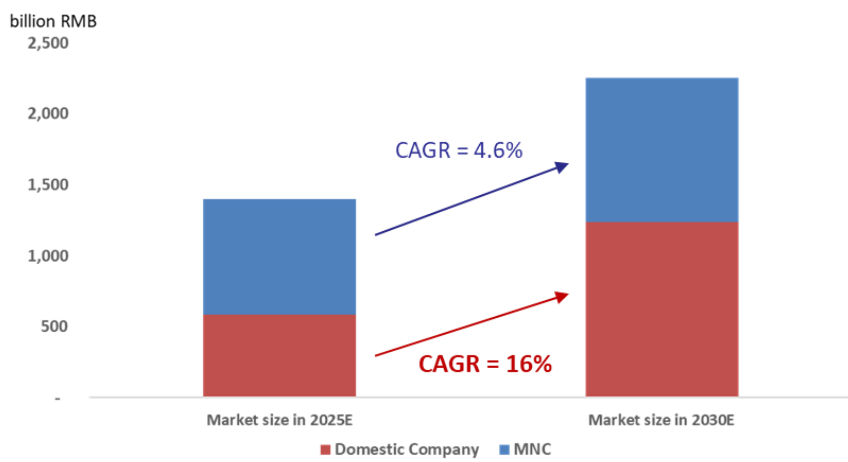
In terms of product quality, local products are catching up very fast to products from the international giants. Some of the sophisticated machines are even better in certain parameters and user experience. Last week, the weather in Shanghai was very hot. We received feedback from one of the largest hospitals in Shanghai that the CT and MR equipment made by two major global firms experienced overheating and shutdown after several days of continuous use. However, the Chinese products by United Imaging (688271.SH) continued to operate normally. In our conversations with surgeons, some surgical consumables produced domestically are more convenient and suitable for Chinese patients to use. In addition, to help control social medical security costs, import substitution are expected to accelerate.

Table 1: Price Differences & Localization Rate

	Price of Imported (thousand RMB)	Price of Domestic (thousand RMB)	Price Gap	Localization Rate
64~Row CT	6,000~15,000	3,000~6,000	2x	18%
320~Row CT	24,000	15,000	1.6x	7%
1.5T MRI	15,000	8,000~9,000	1.7x	29%
3.0T MRI	27,000~48,000	15,000~17,000	2.8x	7%
Laparoscopic Surgical Robot	24,000	9,000~18,000	1.3x	6%
Ultrasound Knife	12	1.4~1.8	6.7x	19%
Chemiluminescent Test Divice	300	40-100	3x	24%
Artificial Hip Joint	70	7	10x	59%
Artificial Knee Joint	60	5	12x	44%

We estimate that the overall localization rate of medical equipment and consumables will increase from the current 42% to 55% in 2030. This would support medical equipment companies to achieve annualized growth rates of at least 16% over the next 5 years, surpassing the industry growth of 10% and the 4.6% growth rate of global companies in China. By 2030, the market for Chinese medical equipment and consumables companies should be worth over RMB 1.2 trillion (Chart 12).

Chart 12: Market Potential for Chinese Medical Equipment Companies



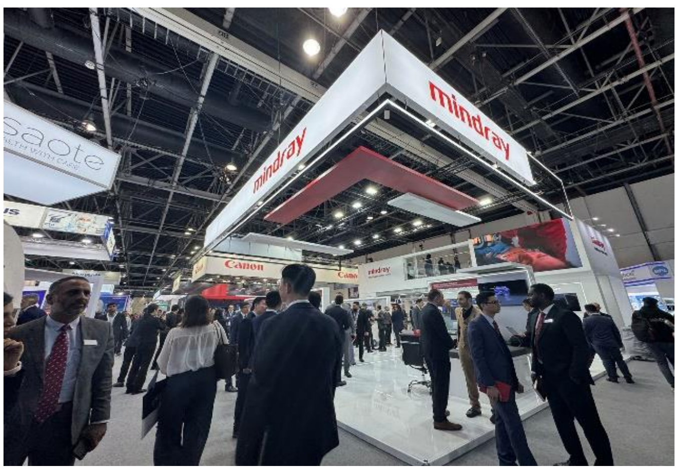
Sources: iFinD, Bin Yuan Capital

3) Even with trade friction there are offshore opportunities for Chinese companies

In line with improving Chinese manufacturing capability, Chinese medical components producers are supplying products to global players in the global supply network. Many Chinese healthcare companies have developed strategies to mitigate trade tariffs by rebalancing their position in the global supply network. Many are building production capacity outside of China to sell their products in those local markets. Chinese manufacturing technology is highly advanced compared to most less developed countries.

To improve brand awareness, we see more Chinese firms attending major global exhibitions. At the beginning of this year, we went to the ARAB Health Exhibition in Dubai where many Chinese companies were active (picture 2).

Picture 2: Mindray & BMC Showcase in ARAB Health Exhibition



While we focus on opportunities in the domestic market and those companies benefiting from import substitution, globalization remains an important long-term strategy for many Chinese healthcare companies. Those companies that have a globally competitive advantage and first mover advantage should also do well.

Based on the above analysis, we believe the core healthcare holdings in our portfolio will achieve high returns over the next three years. The key criteria for the selection of core holdings are:

- Leading position in their segment
- Strong moat
- Technology on track to catch up to global standards
- High barriers to entry
- High ROE, sustainable margins, strong cash flow, and good payout ratios

Table 2 highlights the 4 stocks we believe will achieve 28% annualized absolute returns over the next 3 years (earnings growth plus rerating). Even in our *bear case scenario*[2], the portfolio will achieve 16.5% annualized absolute returns (Table

[2] Bear case scenario assumption: 1) Anti-corruption campaign becomes stricter and impacts normal treatment activities. The annual number of hospital visits and surgeries grows at a rate of only 0-5% instead of 10%. 2) The procurement of large equipment becomes very sensitive. Expenditures on healthcare is just similar to GDP growth per year (5%). 3)

3). The key points of each company are listed in the Appendix.

Table 2: Core Healthcare Holdings for 3 years

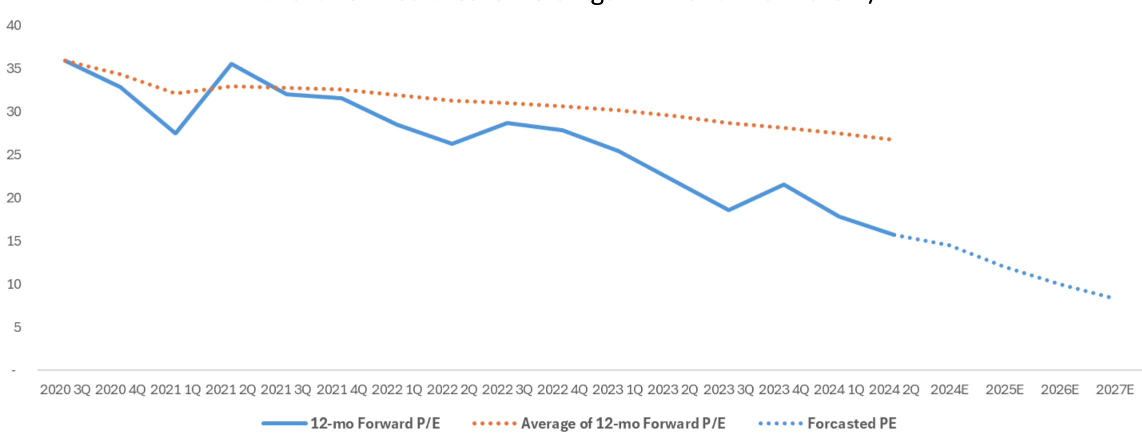
Name	Segment	Market cap (million RMB)	2019-2023 Earnings' CAGR	2024-2027 Earnings' CAGR	2024 ROE	2027 ROE	2024 Yield	2024 PB	2024 PE	2027 PE	PEGY	Expected Annualized Return
IRAY TECHNOLOGY	Upstream	14,659	58%	25%	16.3%	21.1%	1.8%	3.02	18.3	9.4	0.69	34.5%
Kangji Medical	Consumables	6,200	25%	22%	19.3%	26.0%	4.5%	1.62	10.9	6.0	0.41	30.7%
Sinopharm	Services	52,484	10%	9%	12.4%	12.3%	4.7%	0.64	5.4	4.1	0.39	30.1%
Mindray	Equipment	324,874	25%	20%	32.7%	30.2%	2.9%	7.84	23.3	13.6	1.03	16.5%
Average		**-11.7%**	**18%**	**16%**	**20.2%**	**22.4%**	**3.5%**	**3.28**	**14.46**	**10.2**	**0.74**	**28.0%**

Table 3: Core Healthcare Holdings - Most Likely & Bear case scenarios next 3 years

Company	Valuation		1 Yr Return - Most Likely				3 Year Total Return - Most Likely				1 Yr Return - Bear Case				3 Year Total Return - Bear Case			
	2024 PE	2024 Dividend Yield	Target 2025 PE	PE Expansion / Detraction	2025 Earnings Growth	Most Likely Return	Target 2027 PE	PE Expansion / Detraction	Annualized Earnings Growth to 2027	Most Likely Total Return	Target 2025 PE	PE Expansion / Detraction	2025 Earnings Growth	Bear Case Return	Target 2027 PE	PE Expansion / Detraction	Annualized Earnings Growth to 2027	Bear Case Total Return
Healthcare	**14.5**	**3.5%**	**16.9**	**16%**	**19.2%**	**52.4%**	**15.5**	**7%**	**18.9%**	**110.4%**	**13.7**	**-6%**	**14.9%**	**14.1%**	**13.3**	**-9%**	**14.9%**	**58.0%**
IRAY TECHNOLOGY	18.5	1.8%	25.0	35%	23.5%	**68.9%**	22.0	19%	24.7%	**141.0%**	18.5	0%	20.7%	**22.5%**	18.5	0%	20.7%	**83.7%**
Kangji Medical	10.9	4.5%	13.0	19%	23.4%	**51.7%**	12.0	10%	22.1%	**123.3%**	10.9	0%	16.1%	**20.6%**	11.2	3%	16.1%	**80.2%**
Sinopharm	5.4	4.7%	8.5	58%	9.6%	**78.3%**	8.0	49%	9.2%	**120.3%**	5.4	0%	7.2%	**11.9%**	5.4	0%	7.2%	**40.2%**
Mindray	23.4	2.9%	21.0	-10%	20.1%	**10.5%**	20.0	-15%	19.6%	**57.1%**	20.0	-15%	15.6%	**1.6%**	18.0	-23%	15.6%	**28.0%**

Chart 13 illustrates the deviation of current valuations relative to the historical mean. When the companies deliver expected earnings and the market sentiment reverts to normal, this gap should close.

Chart 13: Healthcare Holdings 12 Month Forward P/E



Source: Wind, Bin Yuan Capital

Volume based procurement (VBP) becomes more intense. The price cut on manufacturers' ex-factory prices is more than 25% instead of less than 15%. 4) Extreme situations happen due to geopolitical reasons, such as customers from the United States and Europe cannot purchase products from companies whose biggest shareholders are Chinese.

SUMMARY

Taking a cautious view, China's healthcare industry should be able to achieve a long-term growth rate at least 2 times higher than that of GDP. We believe the sector will be rerated and justifies a premium rating.

The massive imbalance between supply and demand for healthcare services in China has not changed. This creates great opportunities for domestic healthcare equipment companies. With a projected 5,000 additional private hospitals by 2030, total investment should reach RMB 12.5 trillion. The RMB 2.5 trillion RMB forecasted to be allocated in equipment procurement is 5.5 times the equipment market size in 2023. And the majority of this should be allocated to domestic companies where we see the overall localization rate increasing from the current 42% to 55% in 2030.By 2030, the market for Chinese medical equipment and consumables companies should be greater than RMB 1.2 trillion vs RMB 0.45 trillion in 2024.

We are focusing on four core healthcare names in the portfolio. Our most likely forecast is based on conservative assumptions including severe ongoing trade friction - and here we estimate this group of stocks should deliver 28% annualized returns over the next 3 years. Our bear case scenario assumes slightly lower revenue growth and some margin pressure. In the bear case scenario, we estimate the portfolio should deliver 16.5% annualized returns over the next 3 years. This assumes no increase in valuations from the current levels.

Sincerely,

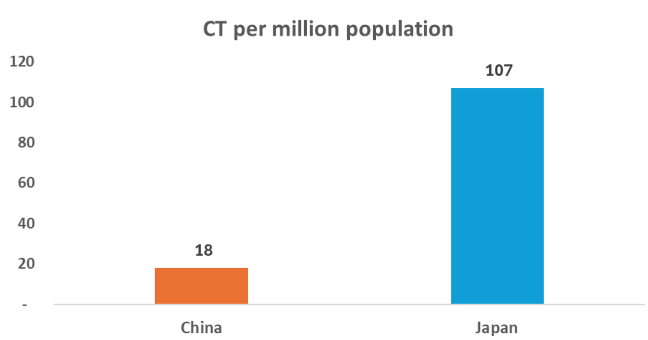
Ping and the Team

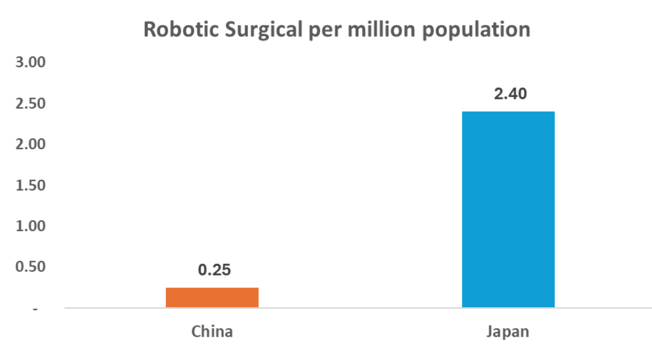
August 7, 2024

Appendix 1: Earnings Valuation Comparison vs Global Peers

			20240715	Revenue	OP income	Net Income	Net Margin	2024-2027	2025E	2025E
Bloomberg Ticker	NAME	Regic	Market Cap (MN USD	2023A	2023A	2023A	2023A	NI CAGF	PEGY	PE
Healthcare Equipment										
300760 CH Equity	MR	CN	46,407	4,818	1,803	1,598	33.1%	21%	0.9	20.3
GEHC US Equity	GE HEALTHCARE TECHNOLOGIES	US	36,645	19,552	2,435	1,568	8.0%	13%	1.3	16.8
RMD US Equity	RESMED	US	30,091	4,223	1,143	898	21.3%	13%	1.8	24.5
BDX US Equity	BECTON DICKINSON	US	66,214	19,372	2,214	1,484	7.7%	9%	1.5	15.9
ROG SE Equity	ROCHE HOLDING AG-GENUSSS	CH	230,492	71,839	17,832	13,666	19.0%	9%	1.1	13.8
HOLX US Equity	HOLOGIC	US	18,131	4,030	762	456	11.3%	8%	2.3	17.4
Healthcare Component										
688301 CH Equity	IRAY TECHNOLOGY	CN	2,063	257	94	84	32.4%	23%	0.6	15.1
VREX US Equity	VAREX IMAGING	US	595	893	77	48	5.4%	5%	2.9	14.5
4901 JP Equity	FUJIFILM	JP	30,140	21,507	2,054	1,651	7.7%	12%	1.5	19.3
4902 JP Equity	KONICA MINOLTA	JP	1,480	8,504	-765	-776	-9.1%	11%	2.7	29.8
DHR US Equity	DANAHER	US	182,727	23,890	5,202	4,764	19.9%	18%	1.7	31.5
7733 JP Equity	OLYMPUS	JP	19,848	6,634	1,326	1,079	16.3%	8%	1.6	12.8
Medical Consumables										
9997 HK Equity	Kangji Medical	HK	884	130	83	71	48.8%	19%	0.4	9.4
MDT US Equity	MEDTRONIC	US	99,953	31,227	5,830	3,758	12.0%	15%	0.8	14.0
ISRG US Equity	INTUITIVE SURGICAL	US	157,546	7,124	1,767	1,798	25.2%	20%	3.4	70.2
4543 JP Equity	TERUMO	JP	25,849	6,170	884	672	10.9%	17%	2.6	47.0

Appendix 2: Examples of large penetration gap of Healthcare Infrastructure between China and Japan





Appendix 3: Core holdings:

Kangji Medical (China's largest manufacturer of minimally invasive surgical instrument (MISIA) and robots, Market Cap USD 0.9 billion):

- ✓ In 2023, the penetration rate of minimally invasive surgery was 18%. This is forecasted to reach 26% by 2027. The total domestic market size is expected to be RMB 40 billion in 2024.
- ✓ The localization rate of MISIA is less than 10%. Kangji's products on average are one third the price of Medtronic and J&J. The market share of Kangji has increased from 1.8% in 2017 to 3.6% in 2023. We estimate this will grow to 5.5% by 2027.
- ✓ New products drive revenue growth: Ultrasonic Scalpels +109%, 4K Endoscope System +57%, Disposable Electrocoagulation Forceps +30%.
- ✓ With RMB 3 billion in cash on hand, Kangji should be able to maintain its annual dividend payout ratio at a level of 50-70%. It continues to engage in a stock repurchasing plan.
- ✓ Wiseking (surgical robots) has made good progress. The four-arm robot is undergoing phase three clinical trials and is expected to apply for product registration this year.

Iray Technology (Leading manufacturer of image detectors, Market Cap USD 2.2 billion):

- ✓ Increasing the addressable market by expanding downstream applications, from medical, dental and veterinary, to industrial imaging, and chip testing. The detectors' market size is about RMB 35 billion.
- ✓ Continue import substitution by price advantage (manufacturing cost is only 1/5th of GE and 1/3rd of Varex Imaging)
- ✓ We estimate their global market share will increase from 10% in 2023 to 45% by 2030.
- ✓ Vertical integration, from upstream CMOS chips, to downstream ODM. Since Q4 last year, iRay has been providing mobile Dental X-ray equipment ODM for GE and will collaborate with GE on additional products going forward.
- ✓ Customer recognition in the new product CT industry chain has reached a critical point, and we expect to see RMB 70 million revenue contribution this year.
- ✓ The impact of China's healthcare anti-corruption program is easing.
- ✓ EPS have increased from 1.77 (FY19) to over 6 (FY24) per our estimation – yet the share price is trading close to the IPO level of 2020.

Mindray Bio (Leading Global Medical Equipment Supplier, Market Cap USD 45 billion):

✓ As the most comprehensive medical equipment supplier in China, Mindray focuses on three product lines: Life Monitoring, In Vitro Diagnosis (IVD), and Ultrasound. All of these product lines have dominant positions in China and provide very solid and stable cash flow.

✓ Leveraging its existing channels, Mindray expanded its business scope to surgery consumables and cardiovascular interventional consumables by both internal R&D and M&A in recent years.

✓ With RMB 20 billion in cash on hand. The dividend payout ratio is increasing gradually, reaching 60%+ over the last 3 years (2.9% dividend yield).

Sinopharm (China's largest distributor of pharmaceuticals, healthcare products, and medical devices, Market Cap USD 7.5 billion):

✓ Sinopharm Group has 20% market share in pharmaceutical distribution and 16% market share in medical device distribution in China. The total domestic market size is RMB 3.3 trillion in 2024E.

✓ Their nationwide comprehensive distribution channels cannot be easily duplicated, covering 98% of the top hospitals. Leveraging its advantages of scale, Sinopharm continues to displace small and medium-sized distributors.

✓ Offering one-stop, total solutions for customers, including warehousing, distribution, marketing, and even manufacturing, to boost their addressable market. Net attributable profit has been growing since 2006 with a high correlation to the development of China's healthcare market, providing cash flow growth for dividend distribution (4.5% dividend yield).

Bin Yuan on the Road

Jul 8, 2024

We visited the regional manager for eastern China provinces of Dencare Chongqing Oral Care to learn more about the company's sales channel expansion strategies and progress.

The team is strong with experienced professionals. Positive progress has been made in sales channel expansion as effective online marketing and growing online sales improves brand recognition offline. They made quick response to changes in the sales channel and customers' demand. Strong performance of new products with higher price leads to better profitability. Synergy between online and offline is expected to help the company taking more market shares, especially in low-tier areas amid the trend of foreign brands losing shares to local brands.

"Sales channels that previously prefer foreign brands are inviting us to their markets." – Regional manager of Dencare

Jul 15, 2024

We attended the World Artificial Intelligence Conference, where we witnessed the efforts and achievements of companies from various industries in the field of artificial intelligence. Large models, generative AI, autonomous driving, robotics, and more are all developing rapidly, and these technologies are being widely and quickly applied in real life, greatly improving production efficiency and changing lifestyles.

In the past few years, the lack of innovation in new technology has led to weak replacement demand in consumer electronics. This time, we are seeing accelerating trend in the innovation in AI applications. It may lead to a more robust growth in the demand of consumer electronics and industry applications in the long term.

"In the future, AI will continuously improve operation efficiencies in various industries." – An exhibitor.

Jul 25, 2024

We visited Aidite and iRay to learn more about the potential opportunities in Chinese healthcare.

At Iray, we took an in-depth look at the company's progress in expanding upstream in medical imaging. The company is confident that it will use its new products CT Detector, CT tube, X-ray Total Solution to expand the market. And at Aidite, we learnt that the company's gross margins, as an upstream player in dental implants, have not been affected, even against the backdrop of price cuts in dental implant pooling. The company's extensive footprint in dental implants is impressive.

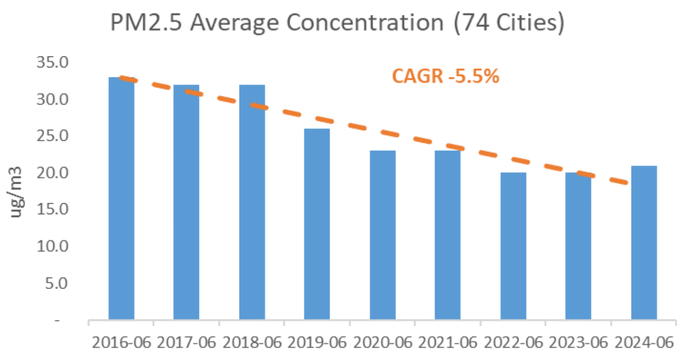
After visiting the above companies, we believe there are still many opportunities in the oral care subsector, both from industry consolidation and equipment upgrade needs. The market expansion of the big players is still in very early stage.

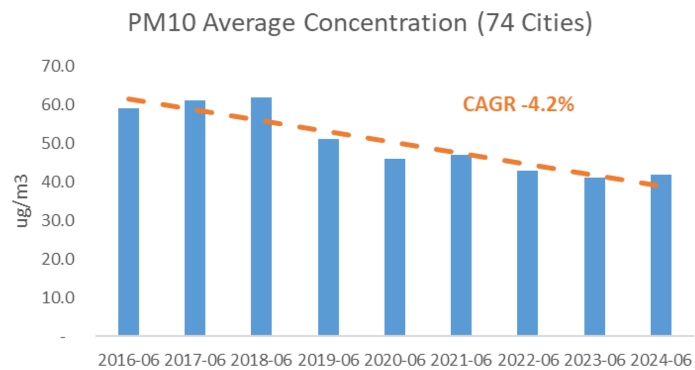
"The downstream fragmentation of dental implant industry has led to a relative fragmentation of the upstream as well. In the future, with the increase in the number of chain dental clinics, the increase in downstream concentration will also lead to an increase in upstream concentration." – Li Hongwen, Chairman of Aidite

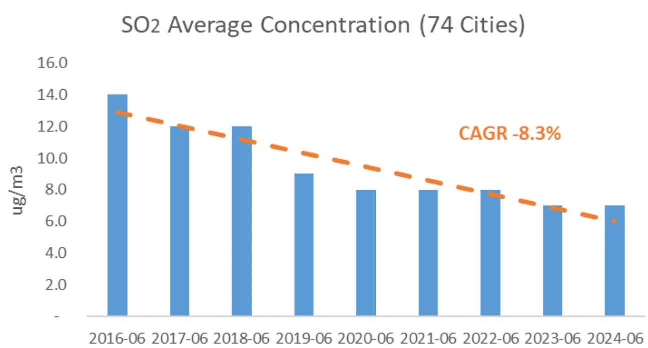
Bin Yuan Environment Tracking

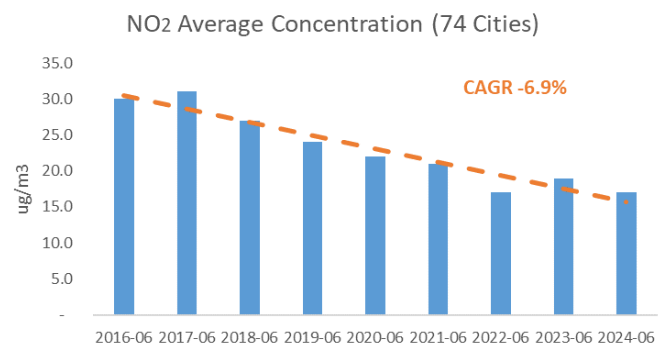
This tracking includes monthly air and water quality data, both showed steady improving trend in the last 5 years. Air pollution concentration dropped due to reduced coal combustion, increased proportion of new energy vehicles, and tightened emission control measures. Water quality improved mainly from the strengthen control of wastewater emissions since 2017.

China air pollutant concentration data June 2016-2024



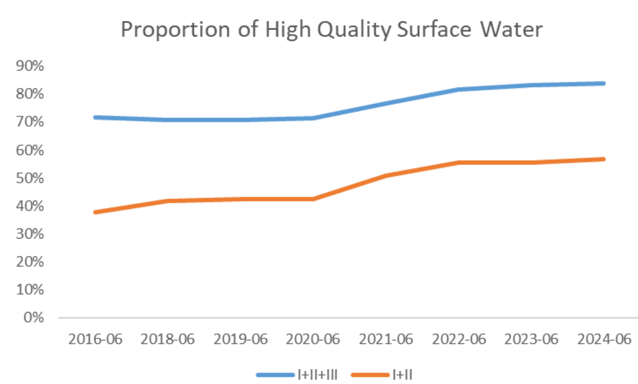






***PM2.5, PM10 and SO_2 are mainly from fossil fuel combustion, and NO_2 is mainly from vehicle emissions.*

The proportion of high-quality water in China data June 2016-2024



**Water quality in China breaks down to 5 levels, with level I being the best and level V being the worst. Level I+II represents water that can be used for drinking purpose. Level I+II+III represents water that can directly contact human body.*

**Source: Ministry of Ecological Environment in China.*

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