

China Healthcare

Observations on privatization in healthcare sector

Industry Overview

Privatization deals observed in healthcare sector

In the past several months, we have seen news about some healthcare companies from HKSE considering privatization, which is an option for the key shareholders when they believe current market cap isn't reflecting the intrinsic valuation of the company. We note that the sector has seen significant valuation corrections in past 2 years. In fact, China Traditional Chinese Medicine (CTCM), in Feb 2024, announced that its parent company Sinopharm (holding 32.46% of issued shares) has offered to buyout CTCM at a price of HKD4.6 in cash with a premium of approximately 34.11% compared with the closing price on the last trading day before the announcement. Regarding the announced privatization deal, CTCM believed that its shares were trading at a relatively low price with limited volume, and that its ability to raise funds from the capital markets had been restricted. Hence, CTCM expected the privatization to help streamline its governance and improve management's efficiency. Later, on 8 Mar 2024, Yichang HEC Changjiang Pharmaceutical announced that its parent company, Sunshine Lake Pharma, is considering a merger by absorbing Yichang HEC Changjiang Pharmaceutical via the stock exchange with its immediate shareholder (HEC HK, holding c.25.71% of its total share), at HKD 9.14 per share based on the daily closing price for the 20 trading days prior to the announcement. By studying the healthcare-sector-related privatization cases on HKSE, we found several companies have accomplished privatization in the past decade, including Pine Care Group (in 2024), Golden Meditech Holdings Limited (2020), BBI Life Science (2020), Luoxin Pharmaceuticals (2017) and Bloomage BioTechnology (2017). Among the mentioned companies, Luoxin and Bloomage have successfully relisted as A shares.

Companies that may have attributes for privatization

Following the recent announced privatization deals, many investors were curious about whether there would be more privatizations within the sector. Whilst there may be company-specific factors that make a company better positioned for privatization, we think there are two identifiable factors that make a company privatization easier to execute: 1) a relatively smaller market cap as less amount of cash is required than larger deals; and 2) 70% of total issue capital is owned by 5 large shareholders, as it would be easier to reach a privatization agreement among them. Note that there are mainly two methods for privatization of H-share listed companies: 1) a voluntary general offer, with no less than 90% shareholders' acceptance; and 2) a scheme of arrangement proposed by the listed company, with at least 75% disinterested shareholders' approval and no more than 10% disinterested shareholders' disapproval. Based on the above, we screened for HKSE-listed healthcare companies that fit the above criteria and could therefore be relatively better positioned for potential privatization. These are: Frontage (1521 HK), given its market cap of US\$429mn, with 79% of shares held by top-5 shareholders; Continue on next page...

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Abbreviations:

HKSE: Hong Kong Stock Exchange

Notes: "disinterested share" is defined to mean shares in the target company other than those which are owned by the bidder or persons acting in concert with it

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Shineway (2877 HK-not covered) with US\$1bn market cap and 71% holding among the top-5 shareholders; Tongrentang Chinese Medicine (3613 HK- not covered), Angelalign (6699 HK), SSY (2005 HK- not covered), and Simcere Pharma (2096 HK- not covered). Of course, it remains to be seen if any of the companies are considering privatization.

Recent privatization deals for HK listed healthcare companies

Exhibit 1: Recent Privatization deals for the HK listed companies among healthcare sector

Bloomage BioTechnology accomplished privatization from HKSE in 2017 and got relisted as A-share in 2019.

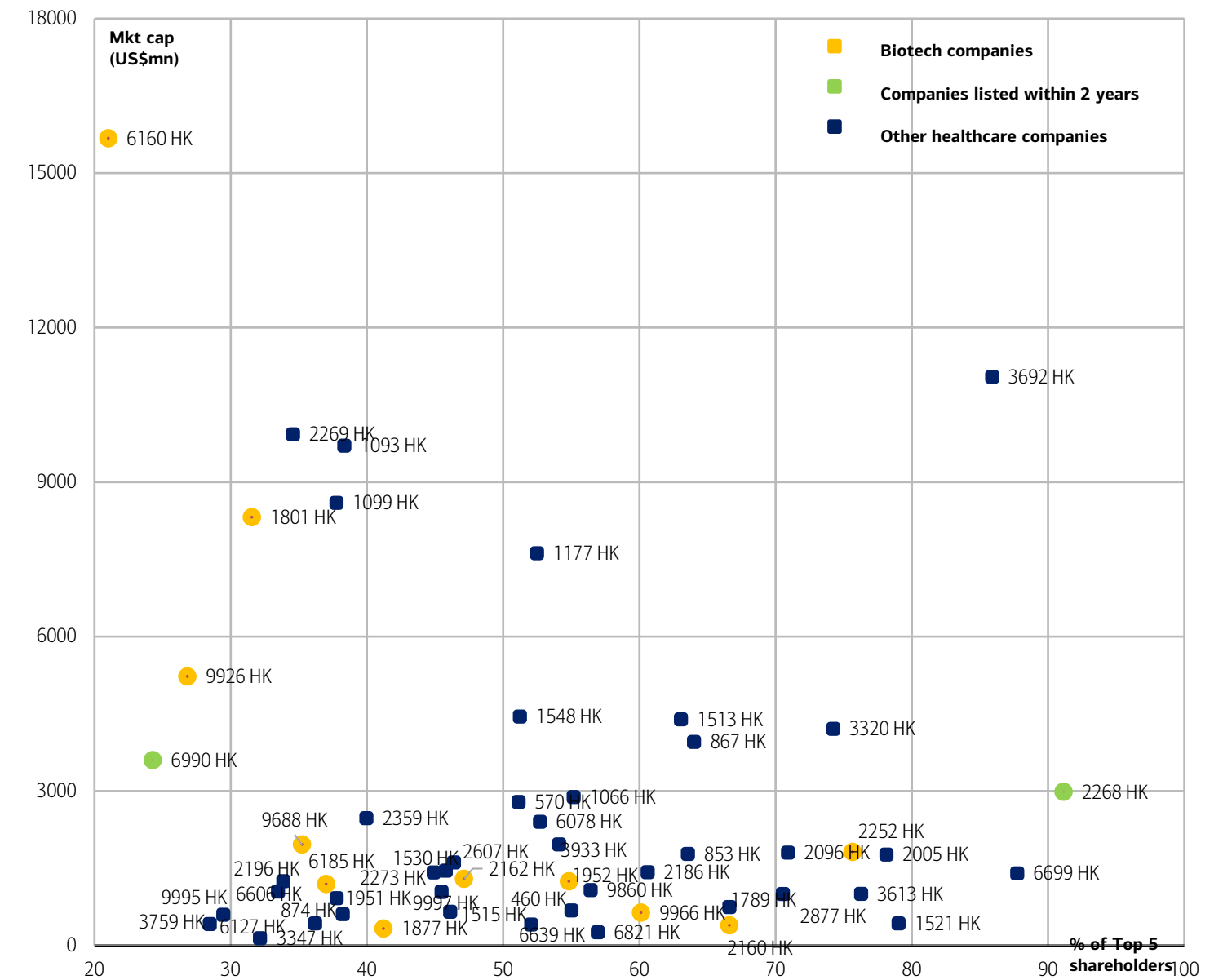
Name	Stock code	Privatizations completion time	Business	Offering price per share	Offering price vs. the closing price of last trading day prior to the announcement
China Traditional Chinese Medicine	570HK	-	TCM	HKD 4.6	34.11% higher
Pine Care group	1989 HK	Feb-24	Services	HKD 0.89	1.11% lower
Golden Meditech Holdings Limited	801 HK	Oct-20	Medical service and device	HKD 0.88	41.94% higher
BBI life science	1035 HK	Jun-20	Life science	HKD 3.5	16.28% higher
Luoxin Pharmaceutical	8058 HK	Jun-17	Pharmaceutical	HKD 17	31.78% higher
Bloomage BioTechnology	963 HK	Nov-17	Medical products.	HKD 16.3	13.99% higher

Source: Bloomberg, BofA Global Research

Notes: The privatization deal for China Traditional Chinese medicine is ongoing.

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Exhibit 2: The Market cap and % of the total shares owned by top 5 shareholders for some representative HK-listed healthcare companies
Frontage (1521 HK), Shineway (2877 HK), Tongrentang Chinese Medicine (3613 HK), Angelalign (6699 HK), SSY (2005 HK) and Simcere Pharma (2096 HK) are relatively better positioned for potential privatization



Source: Bloomberg, BofA Global Research

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