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## Beijing Health Check 237 | Asia Pacific

## Initial Take on DES VBP Results

Headline price cuts of 90%+ for the 10 winning products were deeper than market expected. Three MNC products made it to the list. MicroPort's Firebird 2 won third at Rmb590 and FireKingfisher sixth at Rmb750, but Firehawk did not make it, implying near-term sales and GM downside.

**Headline price cut was harsher than market expected; winning products all below Rmb800:** A total of 10 products from eight companies won, with the top four being JWMS' (Bluesail) EXCROSSAL (Rmb469, 9.4% of reported volume), Essen Tech's (Terumo) Tivoli (Rmb549, 3.9%), MicroPort's Firebird 2 (Rmb590, 23.1%), and Lepu's GuReater (Rmb645, 11.2%), all from domestic players. The price cut magnitudes at the retail level were deeper than the market expected at 90%+ for winners, while the actual ex-factory-level price cut will depend on negotiations with distributors. Three MNC products won (~13.4% of reported volume, one for Medtronic and two for Boston Scientific), while 18% share for MNCs based on submitted volumes were squeezed out by aggressive domestic bids, implying room for import substitution. The 10 winning products together had 68% of the submitted volumes, implying ~47% volume upside potential for winners by taking shares from lost products. Depending on the ex-factory price cut and hospital replacement choices, volume gains may be able to offset price cuts for some top winners, but margins will inevitably erode.

**Implications – MicroPort may still be a net volume gainer, albeit at deep price cuts:** MicroPort's Firebird 2 and FireKingfisher (Firebird 2 with improved delivery system) won third and sixth places at retail ASPs of Rmb590 and Rmb750, respectively, securing a minimum volume share of 24.2%, while Firehawk and FireConder (12.3% volume share) did not win. In theory, the top winner EXCROSSAL will be guaranteed at least 12.6% of VBP volume. Because hospitals will replace the lost products with winning ones, especially from the top 5 winners, however, we think MP may still capture 30%+ of volume share via the VBP channel given its good quality and Firebird 2's front ranking. Firehawk/FireConder may also continue to play in the remaining 20% non-VBP market. Also, overseas sales (8% of 1H20 DES sales) will not be affected. See our scenario analysis on company sales growth in [Exhibit 2](#) and we expect higher earnings impact. Salubris' AlphaStent did not win, but we expect limited earnings impact.

**Implementation likely to start in early 2021:** Manufacturers need to negotiate with distributors on the ex-factory price level, post which we can better assess the ASP and GM impact. The winning products will be listed on provincial procurement platforms for hospitals to make purchases based on their requested volumes and the VBP results. See [Exhibit 3](#) for bidding results.

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## China Healthcare

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**Exhibit 1:** Morgan Stanley's Beijing Health Check (BHC) provides insights into Chinese government policies, regulations, and other macro issues related to the healthcare industry

|         |  |
|---------|--|
| BHC 230 | <a href="#">More Analysis on National VBP for DES</a>                    |
| BHC 231 | <a href="#">Official List for Third Round of VBP Released</a>            |
| BHC 232 | <a href="#">Official Volumes for Third Round of VBP Unveiled</a>         |
| BHC 233 | <a href="#">Draft Guidelines for 2020 NDRL Adjustment Released</a>       |
| BHC 234 | <a href="#">Initial Take on Third Round of VBP Results</a>               |
| BHC 235 | <a href="#">Long-awaited Guidelines of National VBP for DES Unveiled</a> |

**BHC 236** [NHSA Released](#)  
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## More Analysis

### **The magnitude of ex-factory level price cut still depends on negotiation with respective distributors:**

The retail-level price cut magnitudes of 90%+ for all winning products were much deeper than the 50-60% level in provincial VBPs, also above market expectations, as companies are quite aggressive in placing bids given the large volume at stake in the national VBP. That said, the ex-factory level price cut to be born by DES manufacturers will likely be smaller than the headline numbers, in our view. The exact split between manufacturers and distributors will depend on their separate negotiations afterwards.

### **Volume split still uncertain, but top winning products are likely key share gainers:**

Unlike for drug VBPs, hospitals have some leeway in choosing between the other winning products if some of their requested products did not win, creating another layer of uncertainty. Under the guidelines, high-volume and front-ranking products are generally favored, suggesting volume upside for MP's Firebird 2 as well as Medtronic, Lepu and JWMS' (Bluesail) products. Production capacity is another constraint; thus, small domestic players may not be able to digest high demand. Also note that 18% volume share originally requested for MNC products, based on the submitted volumes, failed to win the bid. We think much of that volume may go to high-quality products on the winning list, such as MicroPort's Firebird 2 (ranked third) as well as Medtronic's Resolute Integrity (ranked fifth). Notably, the real procurement volume at hospital level should be larger than the submitted volume, and we also expect market share for stainless steel stents to be squeezed further, implying more volume upside for winning products.

**Impact on MicroPort:** MicroPort's Firebird 2 and FireKingfisher won the third and sixth places with a hospital procurement prices of Rmb590 and Rmb750, respectively. This implies 92% price cut for Firebird 2 vs. the national lowest tender price, or 83% cut vs. Jiangsu's VBP price. These two products' combined volume share based on submitted volumes were 24.2% of all 27 bidding products, or 35.6% of the 10 winning products. Meanwhile, Firehawk and FireCondor, with combined submitted volume share of 12.3%, did not win. As discussed, we expect much of Firehawk's requested volumes as well as some requested volumes for MNC's and other domestic products to go to Firebird 2. See *scenario analysis tables below*.

**Exhibit 2:** MicroPort Scenario Analysis: 2021 Company Sales Growth (vs. MS current estimate of +17%)

|                           |     | DES blended ASP cut in 2021 |      |      |      |      |
|---------------------------|-----|-----------------------------|------|------|------|------|
|                           |     | -60%                        | -65% | -70% | -75% | -80% |
| DES volume growth in 2021 | 60% | 3%                          | 0%   | -3%  | -5%  | -8%  |
|                           | 50% | 1%                          | -1%  | -4%  | -6%  | -9%  |
|                           | 40% | 0%                          | -2%  | -5%  | -7%  | -9%  |
|                           | 30% | -1%                         | -4%  | -6%  | -8%  | -10% |
|                           | 20% | -3%                         | -5%  | -7%  | -9%  | -11% |

Source: Morgan Stanley Research estimates

See [Exhibit 3](#) for bidding results. For more information on the official VBP guidelines, see

*Beijing Health Check 235: Long-awaited Guidelines of National VBP for DES Unveiled, October 18, 2020.*

**Exhibit 3: Bidding Results of National VBP for DES Products (Winning Products Are Yellow Shaded)**

| Company                    | Product            | Material                                      | Eluting drug    | Won/Lost   | Bidding Price (Rmb) | National lowest tender price (Rmb) | Price cut %           | First-year procurement volume ('000) | % of total |
|----------------------------|--------------------|---|-----------------|------------|---------------------|------------------------------------|-----------------------|--------------------------------------|------------|
| <b>DOMESTIC</b>            |                    |   |                 |            |                     |                                    |                       |                                      |            |
| <b>MicroPort</b>           | Firebird 2         | Cobalt-chromium alloy (Co-Cr) L605            | Rapamycin       | Won (3rd)  | <b>590</b>          | 7,500 (3,400 in Jiangsu's VBP)     | 92% (83% vs. Jiangsu) | 247.94                               | 23.1%      |
|                            | Firehawk           | Co-Cr L605                                    | Rapamycin       | Lost       | 7,000               | 13,280 (7,000 in Jiangsu's VBP)    | 47% (0% vs. Jiangsu)  | 128.631                              | 12.0%      |
|                            | FireCondor         | Co-Cr L605                                    | Rapamycin       | Lost       | 980                 | /                                  | /                     | 3.479                                | 0.3%       |
|                            | FireKingfisher     | Co-Cr L605                                    | Rapamycin       | Won (6th)  | <b>750</b>          | /                                  | /                     | 12.176                               | 1.1%       |
| <b>Lepu</b>                | GuReater           | Co-Cr L605                                    | Rapamycin, PLGA | Won (4th)  | <b>645</b>          | 8,400 (2,850 in Jiangsu's VBP)     | 92% (77% vs. Jiangsu) | 120.56                               | 11.2%      |
| <b>JWMS (BlueSail)</b>     | EXCROSSAL          | Co-Cr   | Rapamycin       | Won (1st)  | <b>469</b>          | 13,000~14,000                      | 96-97%                | 100.69                               | 9.4%       |
| <b>Salubris (Huanchen)</b> | Alpha              | Nickel-chromium-cobalt alloy (Ni-Cr-Co) MP35N | Sirolimus       | Lost       | 920                 | 11,800                             | 92%                   | 20.07                                | 1.9%       |
| <b>Shenzhen Kinheley</b>   | HELIOS             | Co-Cr L605                                    | Rapamycin, PLGA | Won (7th)  | <b>755</b>          | /                                  | /                     | 53.441                               | 5.0%       |
| <b>Essen Tech (Terumo)</b> | Tivoli             | Co-Cr L605                                    | Rapamycin       | Won (2nd)  | <b>549</b>          | 7,500                              | 93%                   | 41.865                               | 3.9%       |
| <b>Wanrui Feihong</b>      | NOYA               | Co-Cr L605                                    | Rapamycin       | Won (10th) | <b>798</b>          | /                                  | /                     | 9.774                                | 0.9%       |
| <b>IMPORTED</b>            |                    |   |                 |            |                     |                                    |                       |                                      |            |
| <b>Abbott</b>              | Xience V           | Co-Cr L605                                    | Everolimus      | Lost       | 2799                | 12,100 (6,655 in Jiangsu's VBP)    | 77% (58% vs. Jiangsu) | 12.158                               | 1.1%       |
|                            | Xience Prime       | Co-Cr L605                                    | Everolimus      | Lost       | 1569                | 13,280                             | 88%                   | 32.149                               | 3.0%       |
|                            | Xience Xpedition   | Co-Cr L605                                    | Everolimus      | Lost       | 1568                | 17,000                             | 91%                   | 57.133                               | 5.3%       |
|                            | Xience Alpine      | Co-Cr L605                                    | Everolimus      | Lost       | 4500                | /                                  | /                     | 4.623                                | 0.4%       |
|                            | Xience Sierra      | Co-Cr L605                                    | Everolimus      | Lost       | 6988                | /                                  | /                     | 0.83                                 | 0.1%       |
|                            | Everlink           | Co-Cr   | Everolimus      | Lost       | 4500                | /                                  | /                     | 2.051                                | 0.2%       |
| <b>Medtronic</b>           | Endeavor Sprint    | Ni-Cr-Co MP35N                                | Zotarolimus     | Lost       | 2680                | 12,760                             | 79%                   | 1.816                                | 0.2%       |
|                            | Endeavor Resolute  | Ni-Cr-Co MP35N                                | Zotarolimus     | Lost       | 2680                | 14,848 (8,666 in Jiangsu's VBP)    | 82% (69% vs. Jiangsu) | 52.472                               | 4.9%       |
|                            | Resolute Integrity | Co-Cr 35NLT                                   | Zotarolimus     | Won (5th)  | <b>648</b>          | /                                  | /                     | 51.667                               | 4.8%       |

|                           |                     |                                 |            |           |      |        |     |           |       |
|---------------------------|---------------------|---------------------------------|------------|-----------|------|--------|-----|-----------|-------|
| Boston Scientific         | Promus Element      | Platinum-chromium alloy (Pt-Cr) | Everolimus | Lost      | 2688 | /      | /   | 3.815     | 0.4%  |
|                           | Promus Element Plus | Pt-Cr                           | Everolimus | Won (9th) | 776  | 11,400 | 93% | 32.251    | 3.0%  |
|                           | Promus Element Long | Pt-Cr                           | Everolimus | Lost      | 2688 | 14,260 | 81% | 2.192     | 0.2%  |
|                           | Promus PREMIER      | Pt-Cr                           | Everolimus | Won (8th) | 776  | /      | /   | 59.842    | 5.6%  |
|                           | Synergy             | Pt-Cr                           | Everolimus | Lost      | 2588 | /      | /   | 22.336    | 2.1%  |
|                           | Synergy Monorail    | Pt-Cr                           | Everolimus | Lost      | 2788 | /      | /   | 0.19      | 0.0%  |
| Biotronik                 | Orsiro              | Co-Cr                           | Sirolimus  | Lost      | 1848 | /      | /   | 0.563     | 0.1%  |
| Micell                    | MiStent             | Co-Cr                           | Rapamycin  | Lost      | /    | /      | /   | 0.008     | 0.0%  |
| Total                     |                     |                                 |            |           |      |        |     | 1,074.722 | 100%  |
| Total of winning products |                     |                                 |            |           |      |        |     | 730.21    | 68.0% |

Source: Tianjin Procurement Office, Morgan Stanley Research

Note: MicroPort's FireCondor has the same stent design as Firehawk but improved delivery system. Firekingfisher has the same stent design as Firebird 2 but improved delivery system.

## Valuation Methodology and Risks

### MicroPort Scientific Corp.(0853.HK)

We adopt a sum-of-the-parts (SOTP) methodology, calculated by summing the NPVs of 1) the core business plus other businesses (cardiovascular, and other loss-making businesses such as surgical robots and corporate expenses), 2) endovascular, 3) neurovascular, 4) CRM and 5) heart valves, after applying MicroPort's ownership percentage for each segment.

### Risks to Upside

- Acquisition synergies kick in early
- Fast growth of Firehawk and lower-than-expected price cuts
- Pipeline launch faster than expected

### Risks to Downside

- CRM to incur more losses than expected
- Slow growth of Firehawk and higher price cuts
- Pipeline launch slower than expected
- International expansion slower than expected
- Unfavorable government policies
- Magnitude of price cuts greater than expected

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| <b>Overweight/Buy</b>    | <b>1358</b>       | <b>40%</b>    | <b>361</b>                       | <b>45%</b>        | <b>27%</b>                 | <b>597</b>  | <b>40%</b>                    |
| <b>Equal-weight/Hold</b> | <b>1462</b>       | <b>43%</b>    | <b>357</b>                       | <b>44%</b>        | <b>24%</b>                 | <b>681</b>  | <b>45%</b>                    |
| <b>Not-Rated/Hold</b>    | <b>4</b>          | <b>0%</b>     | <b>1</b>                         | <b>0%</b>         | <b>25%</b>                 | <b>3</b>  | <b>0%</b>                     |
| <b>Underweight/Sell</b>  | <b>539</b>        | <b>16%</b>    | <b>85</b>                        | <b>11%</b>        | <b>16%</b>                 | <b>220</b>  | <b>15%</b>                    |
| <b>TOTAL</b>             | <b>3,363</b>      |               | <b>804</b>                       |                   |                            | <b>1501</b>   |                               |

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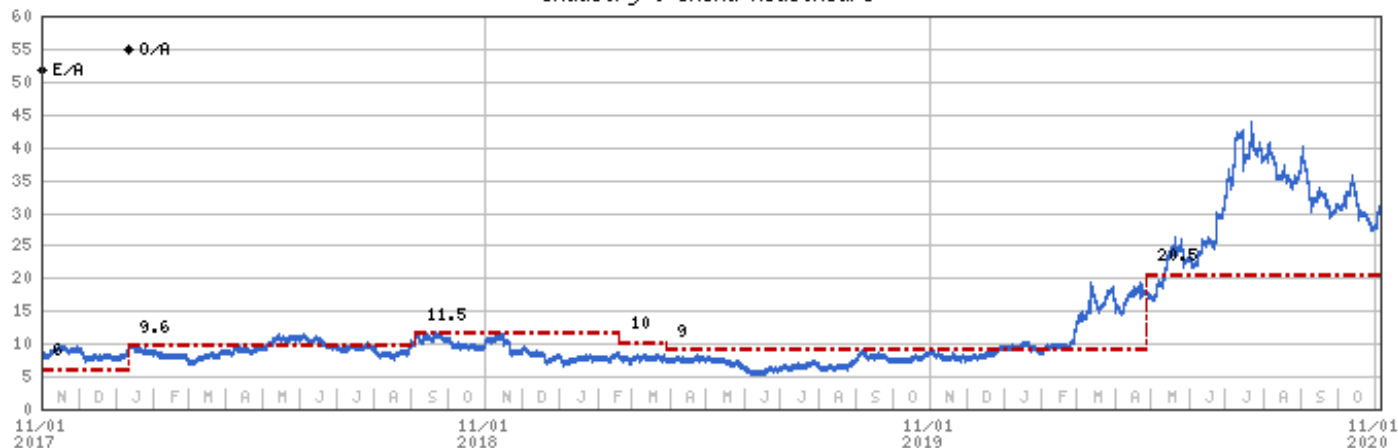
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Industry : China Healthcare

Stock Rating History: 11/1/15 : U/A; 2/1/17 : E/A; 1/11/18 : O/A

Price Target History: 4/8/15 : 3.7; 2/1/17 : 6; 1/11/18 : 9.6; 9/3/18 : 11.5; 2/19/19 : 10; 3/30/19 : 9; 4/27/20 : 20.5

Source: Morgan Stanley Research

Date Format : MM/DD/YY

Price Target --

No Price Target Assigned (NA)

Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —

Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View

Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)

Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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## INDUSTRY COVERAGE: China Healthcare

| COMPANY (TICKER)                                    | RATING (AS OF) | PRICE* (11/05/2020) |
|---|----------------|---------------------|
| <b>Laurence Tam</b>                                 |                |                     |
| Beijing Tongrentang (600085.SS)                     | U (11/03/2014) | Rmb27.37            |
| Beijing Tongrentang Chinese Medicine (3613.HK)      | O (01/14/2015) | HK\$8.40            |
| China Resources Sanjiu Medical & Pharma (000999.SZ) | O (08/30/2019) | Rmb27.56            |
| China Shineway Pharmaceutical (2877.HK)             | E (04/11/2018) | HK\$5.10            |
| China Traditional Chinese Medicine (0570.HK)        | O (08/23/2019) | HK\$3.21            |
| Concord Medical Services Holdings Ltd (CCMN)        | U (04/11/2014) | US\$2.12            |
| Dong E E Jiao Co. (000423.SZ)                       | U (07/17/2019) | Rmb42.50            |
| Fu Shou Yuan International Group Ltd (1448.HK)      | O (09/15/2020) | HK\$8.24            |
| Shenzhen Hepalink Pharmaceutical (002399.SZ)        | E (11/04/2020) | Rmb20.09            |
| Shenzhen Hepalink Pharmaceutical (9989.HK)          | O (11/04/2020) | HK\$12.38           |
| Tasly Pharmaceutical Group Co. Ltd (600535.SS)      | O (12/16/2019) | Rmb17.84            |
| Tongrentang Technologies (1666.HK)                  | E (04/11/2014) | HK\$4.65            |
| YiChang HEC ChangJiang Pharma (1558.HK)             | O (02/27/2020) | HK\$9.45            |
| Zhangzhou Pientzehuang Pharmaceutical (600436.SS)   | E (05/15/2019) | Rmb230.23           |
| <b>Sean Wu</b>                                      |                |                     |
| Akeso, Inc. (9926.HK)                               | O (05/28/2020) | HK\$26.60           |
| Alphamab Oncology (9966.HK)                         | O (01/16/2020) | HK\$17.00           |
| Asclepis Pharma Inc (1672.HK)                       | E (11/30/2019) | HK\$2.86            |
| Burning Rock Biotech Limited (BNR.O)                | O (07/07/2020) | US\$28.41           |
| China Resources Pharmaceutical Group Ltd (3320.HK)  | E (08/28/2018) | HK\$4.09            |
| CStone Pharmaceuticals (2616.HK)                    | O (04/02/2019) | HK\$10.32           |
| Fosun Pharmaceutical (2196.HK)                      | O (12/12/2014) | HK\$32.55           |
| Fosun Pharmaceutical (600196.SS)                    | E (04/06/2020) | Rmb52.84            |
| Guangzhou Baiyunshan Pharma (600332.SS)             | U (11/03/2015) | Rmb30.93            |
| Guangzhou Baiyunshan Pharma (0874.HK)               | E (07/16/2015) | HK\$18.96           |
| Hansoh Pharmaceutical Group Co Ltd (3692.HK)        | O (07/16/2019) | HK\$35.55           |
| Huadong Medicine Co Ltd (000963.SZ)                 | E (03/06/2019) | Rmb33.39            |
| Hutchison China MediTech Ltd (HCML)                 | O (03/13/2020) | 488p                |
| Hutchison China MediTech Ltd (HCMO)                 | O (03/13/2020) | US\$32.00           |
| InnoCare Pharma Ltd (9969.HK)                       | O (04/27/2020) | HK\$11.60           |
| Innovent Biologics Inc (1801.HK)                    | O (12/03/2018) | HK\$61.00           |
| Jiangsu Hengrui (600276.SS)                         | O (04/20/2015) | Rmb91.20            |
| Livzon Pharma (000513.SZ)                           | U (10/19/2018) | Rmb47.55            |
| Livzon Pharma (1513.HK)                             | E (12/30/2016) | HK\$33.05           |
| Luye Pharma Group (2186.HK)                         | U (05/25/2018) | HK\$4.43            |
| Ocumension Therapeutics (1477.HK)                   | O (08/13/2020) | HK\$19.50           |
| Shandong Weigao (1066.HK)                           | E (07/10/2020) | HK\$15.08           |
| Shanghai Pharmaceutical (601607.SS)                 | E (02/09/2018) | Rmb20.30            |
| Shanghai Pharmaceutical (2607.HK)                   | E (02/09/2018) | HK\$12.56           |
| Shenzhen Salubris Pharmaceuticals (002294.SZ)       | U (01/15/2020) | Rmb31.41            |
| Sichuan Kelun Pharmaceutical Co Ltd (002422.SZ)     | O (06/28/2019) | Rmb24.05            |
| Sinopharm Group (1099.HK)                           | O (03/27/2019) | HK\$17.78           |
| The United Laboratories (3933.HK)                   | E (06/13/2017) | HK\$6.98            |
| WuXi AppTec Co Ltd (603259.SS)                      | O (01/17/2019) | Rmb116.90           |
| WuXi AppTec Co Ltd (2359.HK)                        | O (01/17/2019) | HK\$133.10          |
| WuXi Biologics Cayman Inc (2269.HK)                 | O (07/17/2017) | HK\$237.80          |
| Yunnan Baiyao Group (000538.SZ)                     | O (04/02/2019) | Rmb102.21           |
| <b>Yolanda Hu</b>                                   |                |                     |
| 3SBio (1530.HK)                                     | O (07/16/2015) | HK\$7.53            |
| Aier Eye Hospital Group (300015.SZ)                 | O (02/19/2019) | Rmb67.01            |
| Alibaba Health Information Technology (0241.HK)     | O (03/25/2020) | HK\$21.60           |
| Cansino Biologics Inc (6185.HK)                     | O (05/02/2019) | HK\$161.10          |
| China Biologic Products (CBPO.O)                    | E (11/05/2018) | US\$116.12          |
| China Medical System (0867.HK)                      | O (01/27/2014) | HK\$8.56            |
| China Resources Medical (1515.HK)                   | O (04/20/2015) | HK\$4.95            |
| CSPC Pharmaceutical Group (1093.HK)                 | O (08/15/2012) | HK\$8.40            |
| Hangzhou Tigemed Consulting (300347.SZ)             | O (06/27/2019) | Rmb123.40           |
| Harmonicare (1509.HK)                               | U (02/19/2019) | HK\$2.04            |
| Hualan Biological Engineering Inc. (002007.SZ)      | E (06/21/2019) | Rmb46.47            |
| Hygeia Healthcare Holdings Co., Ltd. (6078.HK)      | O (07/30/2020) | HK\$57.50           |
| Jinxin Fertility Group Ltd (1951.HK)                | O (07/30/2019) | HK\$9.67            |
| Jointown Pharmaceutical Group (600998.SS)           | E (01/29/2016) | Rmb17.75            |
| Lee's Pharmaceutical (0950.HK)                      | O (07/13/2020) | HK\$4.60            |
| MicroPort Scientific Corp. (0853.HK)                | O (01/11/2018) | HK\$29.70           |
| Mindray Bio-Medical (300760.SZ)                     | O (07/15/2020) | Rmb390.82           |
| Peijia Medical Ltd (9996.HK)                        | O (06/18/2020) | HK\$25.70           |
| Ping An Healthcare & Technology Co Ltd (1833.HK)    | O (03/25/2020) | HK\$108.20          |
| Sino Biopharmaceutical (1177.HK)                    | O (04/09/2019) | HK\$8.15            |
| SSY Group Ltd (2005.HK)                             | O (02/19/2019) | HK\$4.52            |

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