

Yang Liu: three themes to follow in Chinese healthcare

By Chris Soley / 24 Jul, 2014



Chinese healthcare specialist [Yang Liu](#) has identified three major trends she expects to drive growth in the industry over the second half of 2014.

Liu made the comments in the latest update for her Dublin-domiciled [Atlantis China Healthcare](#) fund.

In the fund, which she has run since 2009, Liu recently [upped exposure to biotech stocks](#), but said there would be a repositioning of investment ideas over the next six months.

Liu identified three key themes she will look to exploit:

1. Increased tenders to affect drug sales

Liu expects an uptick in Essential Drug List (EDL) tenders, which are being completed by both local and major governments, such as Beijing, Shanghai and Guangdong.

‘The implementation of new EDL tenders should affect sales of major EDL drugs, given the mandated use of EDL drugs in higher tier hospitals. It remains to be seen whether volume expansion can make up for price cuts,’ Liu said.

‘We expect more provinces to conduct non-EDL tenders in 2H14. As most drugs from publicly listed companies are non-EDL drugs, the sales volume expansion from new non-EDL tenders, has yet to materialise.’

Slow growth in this area, Liu said, could benefit stocks in her portfolio such as Sino Biopharm, which would experience a price cut off the back of new tenders.

2. Medical tech to benefit from government plans

Liu said there is still limited penetration of small medical devices, such as stents, in the Chinese market compared with the US.

‘The penetration of small medical devices in China is very low, giving ample room for growth to companies such as Shandong Weigao,’ she said.

‘Based on the focus on EDL and non-EDL tenders, we do not expect widespread provincial tenders of medical consumables any time soon, implying modest pricing pressures on the sales of Medtech products compared to that on the drug sector.’

3. Picking up private hospitals

Based on supportive government policy, Liu expects private hospitals to develop strongly and to show the first signs of this in the second half of the year.

While full-scale privatisation of public hospitals is still a long way off, Liu said the attractiveness of high-end hospitals is clear, and they could prove strategically important in the future.

‘We expect many hospitals associated with SOEs to become early targets of privatisation as private equity and venture capital transactions foster an emergence of specialty hospital chains.’

The Atlantis China Healthcare fund has returned 48% in US dollar terms over the three years to the end of June 2014. Its Citywire benchmark, the FTSE China/Healthcare TR, fell 11.6% over the same period.

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