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China Healthcare Sector

Release of NRDL negotiation results; overhang removed for domestic PD-1 drugs

- **Significant price cuts for NDRL inclusion/extension.** National Healthcare Security Administration (NHSA) announced the results of NDRL price negotiations. A total of 150 drugs participated in the negotiations, including 119 drugs joining negotiations for the first time and 31 drugs aiming to extend NRDL contracts. 97 out of the total 150 drugs successfully reached agreement with the government, implying a success rate of 65%. 70 drugs are newly added into the NRDL with an average price cut of 60.7% while 27 drugs extend contracts with an average price cut of 26.5%. Especially, the average price cut for three hepatitis C drugs is as high as 85%, given the fierce competition. Besides, oncology and diabetes drugs experienced an average 65% price cut.

- **Overhang removed for domestic PD-1 drugs.** 4 PD-1 drugs participated in the negotiations, including Merck's Keytruda, BMY's Opdivo, Innovent's sintilimab (达伯舒) and Junshi's toripalimab (拓益). It turns out that Innovent's sintilimab is the only PD-1 drug entered into the NRDL. We think Keytruda and Opdivo failing to receive reimbursements for NSCLC indication benefits domestic PD-1 drugs. Domestic PD-1 drugs will have better opportunities to compete with Keytruda and Opdivo in NSCLC indication thanks to significant price advantages. Hengrui Medicine (camrelizumab)'s (艾瑞卡) didn't join this round of negotiation because it just received approval this year. Beigene's tislelizumab (anti-PD-1 mAb) completed all technical reviews by the NMPA and will soon become the sixth commercialized PD-1 product in China. Given current development progress, we believe camrelizumab will receive approval for 1L NSCLC in 2020E while the other three domestic PD-1 drugs will receive NMPA approvals for 1L/2L NSCLC in 2021/22E.

- **Volume ramp up to offset the price decline.** For drugs that are added into the NRDL for the first time, we think sales revenue will accelerate significantly despite large price cuts. For instance, 17 oncology drugs that were added into the NRDL in 2018 with an average 57% price cut. Yet, these 17 drugs achieved an average 20 folds sales growth in 1H19 vs 47 folds volume growth during the same period. NHSA stated that 12 domestic innovative drugs joined this round of negotiation while 8 out of the 12 drugs were included into NRDL. We think domestic innovative drugs will see fast sales ramp-up thanks to early inclusion of NRDL.

- **Hengrui Medicine, SBP, Innovent, Chi-Med, Livzon Pharma benefits from the NRDL revision.** Hengrui Medicine's blockbuster drugs, pyrotinib and 19K, were included into NRDL with price undisclosed. SBP's raltitrexed and lidocaine patch were added into NRDL with 55% and 78% price cut, respectively. Innovent's sintilimab, Chi-Med's fruquintinib and Livzon Pharma's ilaprazole passed the negotiation with 64%, 67% and 39% price cut, respectively. We also notice that Luye Pharma's Lipusu (paclitaxel liposome), Ascletis' Ganovo (danoprevir) failed to pass the negotiation while three of its competing HCV drugs got reimbursement coverage at an average 85% price cut. 3SBio faces competing pressure from Humira which entered into NRDL by sacrificing 59% of price.

MARKET PERFORM (Maintain)

China Healthcare Sector

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- **Remain long-term positive on companies with strong R&D.** We think innovation is still the key success factor for Chinese pharmaceutical companies. Innovative drugs enjoy good reimbursement coverage and fast review process and favorable competition environment. We believe companies with strong R&D capabilities, such as SBP and Hengrui Medicine, will continue to outperform peers in the long term. Nevertheless, we remain cautious for the near term given that potential roll-out of "volume-based procurement" could hurt pharmaceutical companies' generic business.

Figure 1: 17 cancer drugs added to 2018 NRDL through price negotiation achieved significant growth in both sales and volumes

Generic name	Chinese name	1-2Q 2019 sales YoY	1-2Q 2019 volume YoY
Ibrutinib	伊布替尼	6379%	18074%
Afatinib	阿法替尼	9139%	15947%
Regorafenib	瑞戈非尼	6425%	11830%
Osimertinib	奥希替尼	1225%	4474%
Axitinib	阿昔替尼	808%	3028%
Crizotinib	克唑替尼	398%	1672%
Pazopanib	培唑帕尼	361%	1015%
Cetuximab	西妥昔单抗	92%	471%
Sunitinib	舒尼替尼	29%	240%
Nilotinib	尼洛替尼	-16%	164%
Pegaspargase	培门冬酶	23%	57%
Octreotide	奥曲肽	12%	10%
	Average:	**2073%**	**4748%**

Source: PDB and CMBIS

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