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Domestic market growth helps Chinese med-tech market's positive performance

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HONG KONG – Leading med-tech companies in China delivered positive performances in their annual reports, thanks to a growing domestic market. However, analysts have warned that the market outlook is clouded by ongoing U.S.-China trade tensions.

Among the major players in the space are Hong Kong-listed Sinopharm Group Co. Ltd., Shenzhen-listed Realcan Pharmaceutical Group Co. Ltd., Shanghai-listed Jointown Pharmaceutical Group Co. Ltd. and Shenzhen-listed Mindray Medical International Co. Ltd., all of which recorded increased profits during the past year.

"China's the world's second-largest med-tech market and has been growing at a CAGR of 20% since 2009," Yinglong Wu, secretary of the China Association for Medical Devices Industry, told *BioWorld MedTech*.

The enormous market in China presents many growth opportunities for domestic companies. Management consulting firm McKinsey & Co. estimates that Chinese health care spending will hit $1 trillion by 2020.

"The domestic medical device industry has great potential," Baolin Liu, chairman of Jointown, told members of the press at a conference.

Liu pointed out the ratio of sales in drugs and medical devices are 50:50 globally. In China, it is about 80:20 currently; therefore, domestic medical devices have much room to grow.

Through its subsidiary Jointown Medical Equipment Group Co. Ltd., the company provides hospital medical equipment, homecare medical devices, in vitro diagnostic products, low- and high-value medical consumables and products for reproductive health.

Jointown saw its operating income jump 17.8% year-over-year to ¥87.1 billion ($789 million). The net profit attributable to shareholders was about ¥1.2 billion, an increase of 21.6% over the prior-year period.

Growth in the medical device segment outperformed, the earnings report showed. Compared with 2017, the growth rate was up by approximately 17.6%, while sales increased by about ¥6.4 billion in the past three years.

Also ending the financial year on a high note are Sinopharm and its subsidiaries, which saw an increase in net profit of 4.7% year-over-year to ¥5.8 billion. Meanwhile, operating income also rose 11.73% to roughly ¥344.5 billion.

The health care giant set up a med-tech subsidiary, known as China National Medical Device Co. Ltd., which is the country's largest med-tech circulation company.

The medical device business segment, which accounts for 14.2% of Sinopharm's total revenue, achieved revenue of approximately ¥49.5 billion, up about 30% from the same period a year ago.

The gain in the medical device business could partly be attributed to the purchase of 60% equity in China National Scientific Instruments & Materials Co. Ltd, for which Sinopharm paid ¥5.1 billion.

China National Scientific Instruments & Materials is the largest medical device distribution company in the nation, with an operating income of approximately ¥37.6 billion in 2018.

"The company will put more emphasis on developing its retail drug sales and medical device businesses, as they have higher gross margins than the other business segment," said Yong Liu, president of Sinopharm, of the company's outlook.

Realcan, a direct seller of medical consumables, also generated operating income of ¥12.9 billion, up 75.6% year-over-year, through its medical device segment. Total income reached ¥33.9 billion for the year, a year-over-year increase of 45.6%, while net profit jumped 22.8% year-over-year to ¥779 million.

Its peer Mindray also reported positive results. Revenue in 2018 was up 23.1% year-over-year to ¥13.8 billion, while total profit came in at ¥4.2 billion, up 44.6% over the same period last year, the report showed.

Mindray attributed the growth in revenue and profit to the "sustained and steady growth" of China's medical device market. It also noted that the demand for the health care industry would continue to increase amid problems of an aging population globally.

In China, 33% of the country's population is projected to be older than 60 by 2050, up from 20% in 2025.

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Other favorable factors to support China's med-tech industry are Beijing's commitment to "Made in China 2025." The macroeconomic strategy aims to reduce reliance on imported devices.

But analysts from market intelligence Fitch Solutions Macro Research cited the ongoing trade spat between China and the U.S. as a potential problem.

"Medical device import performance will likely moderate due to a slowing economy, the growing strength of the domestic manufacturing industry and ongoing U.S.-China trade tensions," the report said.

Similarly, they said medical device export performance would be constrained by the economic slowdown in key markets – such as Japan – as well as rising political risks and increased U.S. trade protectionism.

"We now project that the medical device market will grow at a 2018-2023 CAGR of 10%, down from the previously projected 10.2%, which will take the value to ¥166.8 billion," Fitch said. ♦