

March 25, 2015

# PW Medtech

## 2H14 Missed; Lowering PT on Weaker Organic Growth Outlook

Industry View	Stock Rating	Price Target
<b>Attractive</b>	<b>Overweight</b>	<b>HK\$4.40</b>

We are cutting our PT to HK\$4.40 from HK\$5.80, mainly due to slower growth in organic businesses in 2015, although the acquired biomaterial company should maintain healthy growth. That said, trading at 14x our new 2015e P/E, we find the stock undervalued.

What's Changed?	From:	To:
<b>PW Medtech</b>		
Price Target	HK\$5.80	HK\$4.40

**Valuation looks attractive at 14x 2015e P/E:** We project 28% YoY sales growth in 2015, with orthopedics and Tianxinfu likely growing in the low double-digits and infusion in the low single-digits. We estimate normalized net profit to increase at a faster pace of 33% YoY, helped by better gross margin. This is slightly ahead of guidance of 30% YoY. Our new price target of HK\$4.40 suggests 22x 2015e P/E and 51% upside potential from current levels.

**2015 guidance of at least 30% for bottom line, implying weak organic growth:** Management guided to over 30% YoY bottom-line growth and slower top-line growth in 2015. Recall that Tianxinfu was consolidated for five months in 2014. Thus, excluding the acquisition, the net profit of the organic businesses (infusion sets and orthopedic) are expected to grow by only low single digit in 2015 as the progress of penetrating new hospitals and regions is slower than expected. Thus, we cut our sales estimate by 17-25% and EPS by 20-23%, to reflect the weaker infusion sets and orthopedic sales, and higher selling expenses despite better gross margin.

**AR lengthens again:** AR days of 161 for 2014 was 28 higher than in 2013, despite better trends at Tianxinfu, mainly due to long-duration for infusion sets given the direct sales model. Management has now included AR days as one of the KPIs for 2015, aiming to keep them relatively stable.

**2H14 recap:** Sales and EPS missed our estimates by 10% and 16%, respectively, in 2H14, but were in line with the guidance announced in late December 2014, mainly due to the slower growth of both infusion sets and orthopedic business. Gross margin improved 580bp YoY thanks to better product mix as well as improving segment margin. However, selling expenses moved up significantly, by over 500bp, due to new business at Tianxinfu and intensive investments in orthopedics for training and education programs. See inside for more takeaways from the NDR.

With this note, Yolanda Hu assumes lead coverage of PW Medtech.

MORGAN STANLEY ASIA LIMITED+

**Yolanda Hu**

Yolanda.Hu@morganstanley.com

+852 2848-5649

**Bin Li**

Bin.Li@morganstanley.com

+852 2239-7596

**Isabella Zhao**

Isabella.Zhao@morganstanley.com

+852 2848-5887

**PW Medtech ( 1358.HK , 1358 HK )**

China Healthcare / China

<b>Stock Rating</b>	<b>Overweight</b>
<b>Industry View</b>	<b>Attractive</b>
Price target	HK\$4.40
Up/downside to price target (%)	51
Shr price, close (Mar 25, 2015)	HK\$2.91
52-Week Range	HK\$5.04-2.76
Sh out, dil, curr (mn)	1,670
Mkt cap, curr (mn)	Rmb3,889
EV, curr (mn)	Rmb3,811
Avg daily trading value (mn)	HK\$21

Fiscal Year Ending	12/14	12/15e	12/16e	12/17e
ModelWare EPS (Rmb)	0.11	0.15	0.21	0.26
Prior ModelWare EPS (Rmb)	0.12	0.20	0.26	0.32
EPS (Rmb)**	0.11	0.14	0.19	0.25
Consensus EPS (Rmb)§	0.12	0.19	0.23	-
Revenue, net (Rmb mn)	608	776	922	1,096
EBITDA (Rmb mn)	253	343	424	528
ModelWare net inc (Rmb mn)	177	258	342	435
Net income (Rmb mn)*	177	238	322	415
P/E	26.3	15.1	11.4	8.9
P/BV	2.2	1.6	1.4	1.3
RNOA (%)	18.9	11.6	14.3	17.0
ROE (%)	9.3	12.2	14.5	16.1
EV/EBITDA	18.0	10.7	8.2	5.9
Div yld (%)	0.0	0.0	0.0	0.0
FCF yld ratio (%)	0.4	3.3	5.4	9.6
Leverage (EOP) (%)	(3.7)	(8.6)	(14.9)	(24.3)

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework

\*\* = Based on consensus methodology

§ = Consensus data is provided by Thomson Reuters Estimates

\* = GAAP or approximated based on GAAP

e = Morgan Stanley Research estimates

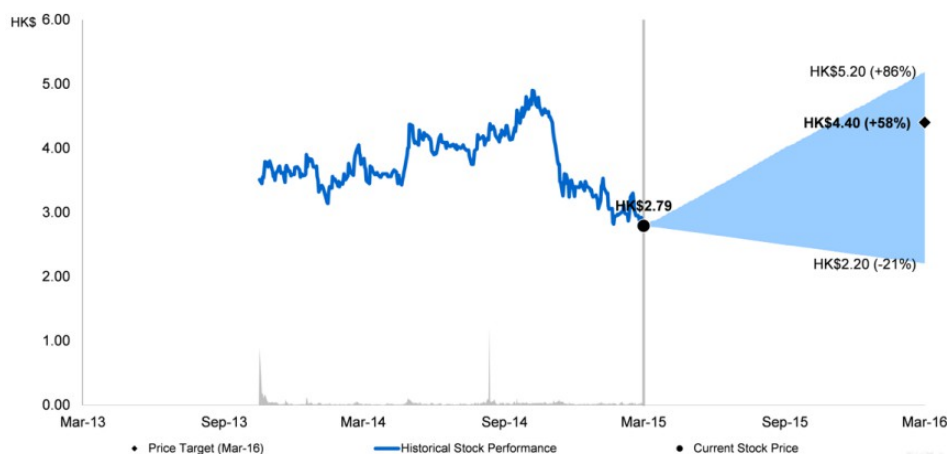
Morgan Stanley does and seeks to do business with companies covered in Morgan Stanley Research. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of Morgan Stanley Research. Investors should consider Morgan Stanley Research as only a single factor in making their investment decision.

**For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.**

+ = Analysts employed by non-U.S. affiliates are not registered with FINRA, may not be associated persons of the member and may not be subject to NASD/NYSE restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

## Risk Reward

### Market leadership and high growth/margins to sustain value



Source: Thomson Reuters, Morgan Stanley Research

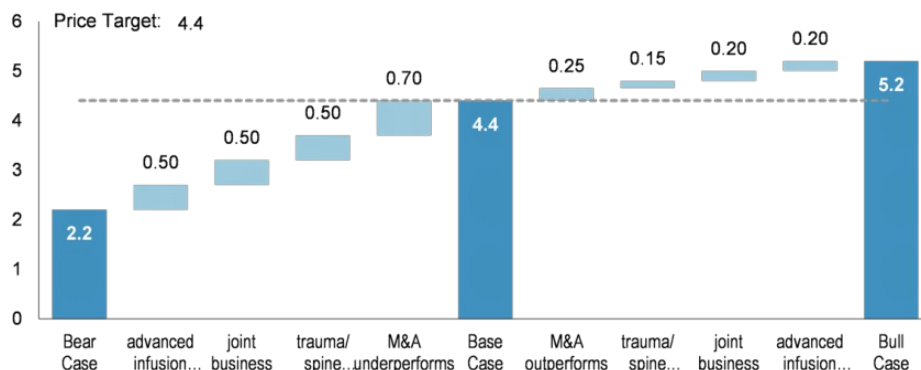
**Price Target HK\$4.40** Derived from base-case scenario, DCF analysis.

**Bull HK\$5.20**  
23.7x Bull Case 2015e EPS  
**Network expansion and new product launches drive growth well ahead of rivals:** 1) advanced infusion sets deliver strong performance; 2) joints business beats expectation; 3) trauma/spine segment outperforms; and 4) accretive M&A.

**Base HK\$4.40**  
22.1x Base Case 2015e EPS of Rmb0.16  
**Maintains leading position via network expansion, new product launches:** 1) performance of advanced infusion sets meets company expectations; 2) joints distribution network expansion on track; 3) stable growth in trauma/spine; 4) M&A on track.

**Bear HK\$2.20**  
12.3x Bear Case 2015e EPS  
**Network expansion encounters fierce competition and new product launches fail:** 1) advanced infusion sets business deteriorates; 2) joints distribution network expansion is slower than expected; 3) profitability of trauma/spine business declines; 4) M&A below expectations.

**Exhibit 1: Bear to Bull: Network expansion and pipelines and M&As are key drivers**



Source: Thomson Reuters, Morgan Stanley Research

### Investment Thesis

- As an industry leader, PW Medtech offers exposure to the rapid growth in China's high-end medical consumables.
- Potential benefits stem from increasing demand for advanced infusion sets and orthopedic products.
- The company has extensive product offerings, including leading advanced infusion sets and promising joints products, and ...
- ... a rich pipeline to complement the existing product portfolio.
- It is also poised to maintain growth/margin momentum with expansion of distribution network and deeper penetration of existing hospital coverage.
- 2015e P/E of 14.0x on our new estimates looks attractive. Our new price target of HK\$4.40 suggests 22.1x 2015e P/E.

### Key Value Drivers

- New product launches;
- Distribution network and hospital coverage expansion.

### Potential Catalysts

- Conclusion of provincial tenders for high-end medical consumables;
- Announcement of government policy that favors advanced infusion sets;
- New product approvals and launches;
- Encouraging earnings results;
- Announcement of M&A activity, in line with the company's stated strategy.

### Risks to Achieving Price Target

- Downside: Orthopedic segment underperforms because of fierce competition; network expansion is slower than expected; new product launches disappoint; government implements price controls over key products.

## Analysis

---

**Sales restructuring may suggest near-term hiccups:** PW Medtech recently replaced the head of sales for its infusion sets business. Its sales team will now be more involved in penetrating new hospitals and clinical departments vs. the past strategy of leveraging distributors by adding new accounts. In addition, the company combined the two teams for trauma/spine and joint products into one, and divided the country into three regions, with three managers – one each for trauma, spine and joint – which management believes will create synergies. We remain cautious on the sales restructuring efforts in the near term, as we think it could take some time for the sales restructuring to bear fruit, which could have a negative impact on organic growth.

**New KPI and incentive plans for infusion sets:** The new head of the infusion sets business was previously the R&D manager at the company, and is very familiar with the market dynamics. The business is now delayering and will be divided into seven sales regions compared to three in the past. The company is also improving its incentive plans and bonus scheme for sales managers to encourage them to actively add more new accounts.

**New product launches in the near term:** Management has hired two R&D experts for each of the three business segments, which in our view demonstrates its long-term commitment to new product development. Tianxinfu's anti-adhesion membrane, which has significant market potential, was just approved; the company expects Rmb5mn in sales in 2015. The ex-factory price is Rmb1,000, while the retail price is Rmb4,000-5,000, with no insurance coverage. Two other new products also started clinical trials and are expected to receive CFDA approvals in late 2017 or 2018. In addition, its light-resist and self-venting infusion sets with non-PVC materials will likely receive approvals in late 2015.

## Valuation

---

### Valuation Methodology: DCF

Our primary valuation method is discounted cash flow (DCF). In this analysis, we use a cost of equity (COE) of 10%, which is a rough estimate because PW Medtech stock has not been trading for a long enough time to generate a reliable beta figure for the COE estimate based on the capital asset pricing model (CAPM). We assume a perpetual growth rate of 4%. These assumptions are unchanged.

Our model produces a base-case value of HK\$4.40 per share in 12 months (was HK\$5.80), which we take as our 12-month price target. This is mainly due to our lower sales assumptions (17-22% lower in 2015-17), higher selling cost ratio (about 150-450 b.p. higher in 2015-17), and longer AR days. We expect the sales restructuring of infusion sets and orthopedic businesses to have a negative impact on the company's business performance in the near term. Our EPS estimates in 2015-17 are 20-23% lower than our previous expectations.

Our other key assumptions are: 1) an optimal capital structure with 25% long-term debt; 2) a long-term corporate tax rate of 25%; and 3) a long-term ROE on new investments of 12.5%.

These assumptions are also unchanged. The value derived from the DCF model is sensitive to our perpetual growth rate and COE. We show a sensitivity analysis in our DCF valuation (Exhibit 2).

Our bear case falls from HK\$3.50 to HK\$2.20 while our bull case declines from HK\$6.80 to HK\$5.20, both reflecting the lower sales, higher selling expenses ratio, and longer AR days, especially for the infusion sets segment. Our sales estimates for the newly acquired Tianxinfu business go up slightly to include the potential new product launches in the future. However, we cut the G&A and R&D costs in 2015-17 to reflect the trend seen in 2H14.

### Downside Risks to Our Price Target

**Company-specific risks:** Network expansion may encounter unexpected difficulties – the business is subject to intense competition, especially in the top-tier market. The distribution and sales model may cause uncertainty regarding net revenue performance

**Financial and performance risks:** Products may face pricing pressure and reduced margins. New products from the pipeline may not compensate for maturing products experiencing stagnant or even declining sales.

**Industry risks:** The possibility exists that the government could propose regulating prices of implantable medical devices and their use by public hospitals. The government may also decide to set a maximum specific premium range for the difference between the ex-factory price and the retail price for implantable medical devices, with any violation resulting in government sanctions.

**Exhibit 2: PW Medtech: DCF Analysis**

Cost of equity	10.0%	<b>Price</b>		<b>2.79</b>				
Long-term ROE on new investments	12.5%	<b>IV Per Share (12 Month), Ex. Div</b>		<b>Mar-16</b>	<b>4.40</b>			
Years to reach steady-state growth	10	Expected share price return			57.87%			
Steady-state revenue growth rate (%)	4%	Expected dividend yield		0.00%	0.00%			
Shares Outstanding	1,670	<b>Expected total return</b>		<b>57.87%</b>				
Steady-state borrowing cost (net of tax)	5.0%	WACC		9.9%				
Steady-state leverage (Net debt/Equity)	25%	Long-term RNOA on new investments		11.0%				
Price target horizon (months)	12	Explicit forecast period (years)		4				
Conv. factor - Model to traded Ccy	1.25	Fiscal Year Ending		0				
Decimals	2							
		F2015e	F2016e	F2017e	F2018e	F2019e	F2020e	F2021e
<b>Operating Level</b>								
Operating revenue		776	922	1,096	1,304	1,520	1,734	1,934
<i>Operating revenue growth</i>			18.7%	18.9%	19.1%	16.5%	14.0%	11.5%
<i>Operating asset turnover</i>		0.38	0.43	0.48	0.55	0.61	0.54	0.53
NOPAT		236	308	390	493	513	634	700
<i>NOPAT margin</i>		30.4%	33.4%	35.6%	37.8%	33.8%	36.6%	36.2%
Net operating assets		2,161	2,293	2,353	2,478	3,234	3,645	4,003
<i>RNOA</i>		11.6%	14.3%	17.0%	21.0%	20.7%	19.6%	19.2%
FCFO		107	177	330	369	(242)	223	341
PVFCFO		98	146	248	252	(151)	127	176
Residual income (operating)		34.50	93.54	162.00	259.79	267.36	313.11	338.00
PVRI (operating)		31	77	122	178	167	177	174
<b>Financing and Other</b>								
Net financial expense (income)		4	2	2	2	(58)	(47)	(27)
Other nonoperating expense (income)		(26)	(36)	(46)	(59)	(59)	(59)	(59)
Net debt (cash)		(203)	(401)	(757)	(1,163)	(936)	(543)	(144)
Other nonoperating liabilities (assets) (ONOLA)		1	1	1	1	1	1	1
Leverage EOP (net debt/equity)		-9%	-15%	-24%	-32%	-22%	-13%	-3%
<b>Equity Level</b>								
Net income		258	342	435	551	631	740	786
Equity		2,363	2,692	3,109	3,640	4,169	4,186	4,146
<i>ROE</i>		12.2%	14.5%	16.1%	17.7%	17.3%	17.8%	18.8%
Dividends and net rep		-	-	-	-	102	723	826
PV div and net rep		-	-	-	-	63	408	424
Residual income		42.12	92.82	146.85	220.17	266.69	323.27	367.54
PVRI		38	77	110	150	166	182	189

Source: Morgan Stanley Research estimates

**Exhibit 3: PW Medtech: DCF Sensitivity Analysis**

		<b>Perpetual Growth</b>		
<b>COE</b>		3%	4%	5%
9.0%		4.26	4.35	4.48
10.0%		4.31	4.40	4.53
11.0%		4.36	4.45	4.58

Source: Morgan Stanley Research

## Exhibit 4: Changes to Our Model (Reported)

	2015E			2016E			2017E		
	New	Old	delta	New	Old	delta	New	Old	delta
<b>Net sales</b>	<b>776,291</b>	<b>933,997</b>	<b>-17%</b>	<b>921,629</b>	<b>1,175,370</b>	<b>-22%</b>	<b>1,095,692</b>	<b>1,463,110</b>	<b>-25%</b>
Cost of Sales	(207,354)	(260,005)	-20%	(251,467)	(351,697)	-28%	(305,334)	(454,237)	-33%
<b>Gross profit</b>	<b>568,937</b>	<b>673,993</b>	<b>-16%</b>	<b>670,163</b>	<b>823,673</b>	<b>-19%</b>	<b>790,359</b>	<b>1,008,874</b>	<b>-22%</b>
Selling expenses	(120,963)	(103,987)	16%	(123,989)	(118,876)	4%	(125,358)	(146,139)	-14%
Administrative expenses	(87,711)	(126,762)	-31%	(94,793)	(140,112)	-32%	(103,420)	(164,266)	-37%
Stock option expenses	(15,000)	(14,000)	7%	(6,700)	(6,700)	0%	(1,500)	(1,500)	0%
IPO & M&A related expenses	-	-		-	-		-	-	
Amortization	(20,000)	(20,000)		(20,000)	(20,000)		(20,000)	(20,000)	
R&D expenses	(30,098)	(37,829)	-20%	(33,731)	(45,398)	-26%	(40,416)	(57,473)	-30%
<b>Operating income</b>	<b>295,165</b>	<b>371,416</b>	<b>-21%</b>	<b>390,950</b>	<b>492,587</b>	<b>-21%</b>	<b>499,665</b>	<b>619,494</b>	<b>-19%</b>
Finance costs – net	(5,000)	4,000	-225%	(2,000)	(1,000)	100%	(2,000)	(1,000)	100%
<b>Profit before tax</b>	<b>290,165</b>	<b>375,416</b>	<b>-23%</b>	<b>388,950</b>	<b>491,587</b>	<b>-21%</b>	<b>497,665</b>	<b>618,494</b>	<b>-20%</b>
Income tax expense	(52,026)	(65,507)	-21%	(66,504)	(82,926)	-20%	(83,066)	(102,399)	-19%
Tax rate	17.9%	17.4%	3%	17.1%	16.9%	1%	16.7%	16.6%	1%
<b>Net income Attributable to owners</b>	<b>238,138</b>	<b>309,909</b>	<b>-23%</b>	<b>322,446</b>	<b>408,661</b>	<b>-21%</b>	<b>414,599</b>	<b>516,095</b>	<b>-20%</b>
<b>Diluted EPS (Rmb)</b>	<b>0.14</b>	<b>0.19</b>	<b>-23%</b>	<b>0.19</b>	<b>0.25</b>	<b>-21%</b>	<b>0.25</b>	<b>0.31</b>	<b>-20%</b>
Diluted Shares Outstanding	1,670,397	1,663,598	0%	1,670,397	1,663,598	0%	1,670,397	1,663,598	0%
<b>Margin Analysis</b>	<b>New</b>	<b>Old</b>	<b>delta</b>	<b>New</b>	<b>Old</b>	<b>delta</b>	<b>New</b>	<b>Old</b>	<b>delta</b>
<b>Gross profit</b>	<b>73.3%</b>	<b>72.2%</b>	<b>113</b>	<b>72.7%</b>	<b>70.1%</b>	<b>264</b>	<b>72.1%</b>	<b>69.0%</b>	<b>318</b>
Selling expenses	15.6%	11.1%	445	13.5%	10.1%	334	11.4%	10.0%	145
Administrative expenses	15.8%	17.2%	(140)	13.2%	14.2%	(101)	11.4%	12.7%	(130)
R&D expenses	3.9%	4.1%	(17)	3.7%	3.9%	(20)	3.7%	3.9%	(24)
<b>Operating margin</b>	<b>38.0%</b>	<b>39.8%</b>	<b>(174)</b>	<b>42.4%</b>	<b>41.9%</b>	<b>51</b>	<b>45.6%</b>	<b>42.3%</b>	<b>326</b>
Profit before tax	37.4%	40.2%	(282)	42.2%	41.8%	38	45.4%	42.3%	315
<b>Net margin</b>	<b>30.7%</b>	<b>33.2%</b>	<b>(250)</b>	<b>35.0%</b>	<b>34.8%</b>	<b>22</b>	<b>37.8%</b>	<b>35.3%</b>	<b>257</b>
<b>% YOY Change</b>	<b>New</b>	<b>Old</b>	<b>delta</b>	<b>New</b>	<b>Old</b>	<b>delta</b>	<b>New</b>	<b>Old</b>	<b>delta</b>
<b>Net sales</b>	<b>28%</b>	<b>45%</b>	<b>-17%</b>	<b>19%</b>	<b>26%</b>	<b>-7%</b>	<b>19%</b>	<b>24%</b>	<b>-6%</b>
Cost of Sales	26%	42%	-16%	21%	35%	-14%	21%	29%	-8%
<b>Gross profit</b>	<b>28%</b>	<b>46%</b>	<b>-18%</b>	<b>18%</b>	<b>22%</b>	<b>-4%</b>	<b>18%</b>	<b>22%</b>	<b>-5%</b>
Selling expenses	28%	32%	-4%	3%	14%	-12%	1%	23%	-22%
Administrative expenses	10%	38%	-28%	8%	11%	-2%	9%	17%	-8%
Research and development expense	-14%	27%	-42%	12%	20%	-8%	20%	27%	-7%
<b>Operating income</b>	<b>38%</b>	<b>65%</b>	<b>-27%</b>	<b>32%</b>	<b>33%</b>	<b>0%</b>	<b>28%</b>	<b>26%</b>	<b>2%</b>
Profit before tax	37%	63%	-26%	34%	31%	3%	28%	26%	2%
<b>Net income Attributable to owners</b>	<b>35%</b>	<b>65%</b>	<b>-30%</b>	<b>35%</b>	<b>32%</b>	<b>4%</b>	<b>29%</b>	<b>26%</b>	<b>2%</b>
<b>Diluted EPS</b>	<b>35%</b>	<b>65%</b>	<b>-30%</b>	<b>35%</b>	<b>32%</b>	<b>4%</b>	<b>29%</b>	<b>26%</b>	<b>2%</b>
Diluted shares outstanding	0%	0%	0%	0%	0%	0%	0%	0%	0%

Note: Reported net income includes one-time expenses such as stock option expenses, IPO & M&A expenses and amortization costs for Tianxinifu.

Source: Morgan Stanley Research (E) estimates

**Exhibit 5: PW Medtech: Annual Income Statement (Normalized)**

Currency (Rmb in thousands)	2010A	2011A	2012A	2013A	2014A	2015E	2016E	2017E
<b>Net sales</b>	<b>60,816</b>	<b>175,267</b>	<b>331,541</b>	<b>457,083</b>	<b>608,059</b>	<b>776,291</b>	<b>921,629</b>	<b>1,095,692</b>
Cost of Sales	(16,629)	(66,150)	(112,694)	(146,656)	(165,170)	(207,354)	(251,467)	(305,334)
<b>Gross profit</b>	<b>44,187</b>	<b>109,117</b>	<b>218,848</b>	<b>310,427</b>	<b>442,889</b>	<b>568,937</b>	<b>670,163</b>	<b>790,359</b>
Selling expenses	(13,071)	(23,405)	(46,821)	(61,942)	(94,224)	(120,963)	(123,989)	(125,358)
Administrative expenses	(10,621)	(17,708)	(35,603)	(59,597)	(80,037)	(87,711)	(94,793)	(103,420)
Research and development expense	(1,153)	(7,064)	(9,512)	(23,210)	(35,181)	(30,098)	(33,731)	(40,416)
Other gains- net	30	866	1,570	5,579	8,310	-	-	-
<b>Operating income</b>	<b>19,372</b>	<b>61,806</b>	<b>128,481</b>	<b>171,257</b>	<b>241,757</b>	<b>330,165</b>	<b>417,650</b>	<b>521,165</b>
Finance costs – net	(2,104)	(4,478)	(8,760)	(4,514)	(2,435)	(5,000)	(2,000)	(2,000)
<b>Profit before tax</b>	<b>17,268</b>	<b>57,328</b>	<b>119,721</b>	<b>166,743</b>	<b>239,322</b>	<b>325,165</b>	<b>415,650</b>	<b>519,165</b>
Income tax expense	(2,936)	(7,982)	(19,538)	(26,060)	(34,692)	(52,026)	(66,504)	(83,066)
Tax rate	17.0%	13.9%	16.3%	15.6%	14.5%	16.0%	16.0%	16.0%
<b>Net income</b>	<b>14,332</b>	<b>49,346</b>	<b>100,183</b>	<b>140,683</b>	<b>204,630</b>	<b>273,138</b>	<b>349,146</b>	<b>436,099</b>
Non-controlling interests	(7,215)	(27,243)	(55,515)	(13,098)	-	-	-	-
<b>Net income Attributable to owners</b>	<b>7,117</b>	<b>22,103</b>	<b>44,668</b>	<b>127,585</b>	<b>204,630</b>	<b>273,138</b>	<b>349,146</b>	<b>436,099</b>
<b>Diluted EPS (Rmb)</b>	<b>0.0059</b>	<b>0.0184</b>	<b>0.0404</b>	<b>0.1022</b>	<b>0.1193</b>	<b>0.1592</b>	<b>0.2036</b>	<b>0.2542</b>
Diluted Shares Outstanding	1,200,000	1,200,000	1,106,726	1,247,860	1,715,265	1,715,265	1,715,265	1,715,265
<b>Margin Analysis</b>	<b>2010A</b>	<b>2011A</b>	<b>2012A</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
Cost of Sales	27.3%	37.7%	34.0%	32.1%	27.2%	26.7%	27.3%	27.9%
<b>Gross profit</b>	<b>72.7%</b>	<b>62.3%</b>	<b>66.0%</b>	<b>67.9%</b>	<b>72.8%</b>	<b>73.3%</b>	<b>72.7%</b>	<b>72.1%</b>
Selling expenses	21.5%	13.4%	14.1%	13.6%	15.5%	15.6%	13.5%	11.4%
Administrative expenses	17.5%	10.1%	10.7%	13.0%	13.2%	11.3%	10.3%	9.4%
Research and development expense	1.9%	4.0%	2.9%	5.1%	5.8%	3.9%	3.7%	3.7%
<b>Operating margin</b>	<b>31.9%</b>	<b>35.3%</b>	<b>38.8%</b>	<b>37.5%</b>	<b>39.8%</b>	<b>42.5%</b>	<b>45.3%</b>	<b>47.6%</b>
Profit before tax	28.4%	32.7%	36.1%	36.5%	39.4%	41.9%	45.1%	47.4%
<b>Net margin</b>	<b>11.7%</b>	<b>12.6%</b>	<b>13.5%</b>	<b>27.9%</b>	<b>33.7%</b>	<b>35.2%</b>	<b>37.9%</b>	<b>39.8%</b>
<b>% YOY Change</b>	<b>2010A</b>	<b>2011A</b>	<b>2012A</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
<b>Net sales</b>		<b>188%</b>	<b>89%</b>	<b>38%</b>	<b>33%</b>	<b>28%</b>	<b>19%</b>	<b>19%</b>
Cost of Sales		298%	70%	30%	13%	26%	21%	21%
<b>Gross profit</b>		<b>147%</b>	<b>101%</b>	<b>42%</b>	<b>43%</b>	<b>28%</b>	<b>18%</b>	<b>18%</b>
Administrative expenses		67%	101%	67%	34%	10%	8%	9%
Research and development expenses		513%	35%	144%	52%	-14%	12%	20%
<b>Operating income</b>		<b>219%</b>	<b>108%</b>	<b>33%</b>	<b>41%</b>	<b>37%</b>	<b>26%</b>	<b>25%</b>
Profit before tax		232%	109%	39%	44%	36%	28%	25%
<b>Net income Attributable to owners of the Compa</b>		<b>211%</b>	<b>102%</b>	<b>186%</b>	<b>60%</b>	<b>33%</b>	<b>28%</b>	<b>25%</b>

Note: Normalized net income does not include one-time expenses such as stock option expenses, IPO & M&A expenses and amortization costs for Tianxinifu. Source: Company data, Morgan Stanley Research (E) estimates

**Exhibit 6: PW Medtech: Annual Income Statement (Reported)**

Currency (Rmb in thousands)	2010A	2011A	2012A	2013A	2014A	2015E	2016E	2017E
<b>Net sales</b>	<b>60,816</b>	<b>175,267</b>	<b>331,541</b>	<b>457,083</b>	<b>608,059</b>	<b>776,291</b>	<b>921,629</b>	<b>1,095,692</b>
Cost of Sales	(16,629)	(66,150)	(112,694)	(146,656)	(165,170)	(207,354)	(251,467)	(305,334)
<b>Gross profit</b>	<b>44,187</b>	<b>109,117</b>	<b>218,848</b>	<b>310,427</b>	<b>442,889</b>	<b>568,937</b>	<b>670,163</b>	<b>790,359</b>
Selling expenses	(13,071)	(23,405)	(46,821)	(61,942)	(94,224)	(120,963)	(123,989)	(125,358)
Administrative expenses	(10,621)	(17,708)	(35,603)	(59,597)	(80,037)	(87,711)	(94,793)	(103,420)
Stock option expenses				(19,856)	(24,100)	(15,000)	(6,700)	(1,500)
IPO & M&A related expenses				(33,024)	(3,900)			
Amortization					-	(20,000)	(20,000)	(20,000)
Research and development expense	(1,153)	(7,064)	(9,512)	(23,210)	(35,181)	(30,098)	(33,731)	(40,416)
Other gains- net	30	866	1,570	5,579	8,310	-	-	-
<b>Operating income</b>	<b>19,372</b>	<b>61,806</b>	<b>128,481</b>	<b>118,377</b>	<b>213,757</b>	<b>295,165</b>	<b>390,950</b>	<b>499,665</b>
Finance income	38	201	329	6,774	22,228	4,000	4,000	4,000
<b>Profit before tax</b>	<b>17,268</b>	<b>57,328</b>	<b>119,721</b>	<b>113,863</b>	<b>211,322</b>	<b>290,165</b>	<b>388,950</b>	<b>497,665</b>
Income tax expense	(2,936)	(7,982)	(19,538)	(26,060)	(34,692)	(52,026)	(66,504)	(83,066)
Tax rate	17.0%	13.9%	16.3%	22.9%	16.4%	17.9%	17.1%	16.7%
<b>Net income</b>	<b>14,332</b>	<b>49,346</b>	<b>100,183</b>	<b>87,803</b>	<b>176,630</b>	<b>238,138</b>	<b>322,446</b>	<b>414,599</b>
Non-controlling interests	(7,215)	(27,243)	(55,515)	(13,098)	-	-	-	-
<b>Net income Attributable to owners</b>	<b>7,117</b>	<b>22,103</b>	<b>44,668</b>	<b>74,705</b>	<b>176,630</b>	<b>238,138</b>	<b>322,446</b>	<b>414,599</b>
<b>Diluted EPS (Rmb)</b>	<b>0.0059</b>	<b>0.0184</b>	<b>0.0404</b>	<b>0.0599</b>	<b>0.1057</b>	<b>0.1426</b>	<b>0.1930</b>	<b>0.2482</b>
Diluted Shares Outstanding	1,200,000	1,200,000	1,106,726	1,247,860	1,670,397	1,670,397	1,670,397	1,670,397
<b>Margin Analysis</b>	<b>2010A</b>	<b>2011A</b>	<b>2012A</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
<b>Gross profit</b>	<b>72.7%</b>	<b>62.3%</b>	<b>66.0%</b>	<b>67.9%</b>	<b>72.8%</b>	<b>73.3%</b>	<b>72.7%</b>	<b>72.1%</b>
Selling expenses	21.5%	13.4%	14.1%	13.6%	15.5%	15.6%	13.5%	11.4%
Administrative expenses	17.5%	10.1%	10.7%	24.6%	17.8%	15.8%	13.2%	11.4%
Research and development expense	1.9%	4.0%	2.9%	5.1%	5.8%	3.9%	3.7%	3.7%
<b>Operating margin</b>	<b>31.9%</b>	<b>35.3%</b>	<b>38.8%</b>	<b>25.9%</b>	<b>35.2%</b>	<b>38.0%</b>	<b>42.4%</b>	<b>45.6%</b>
Profit before tax	28.4%	32.7%	36.1%	24.9%	34.8%	37.4%	42.2%	45.4%
<b>Net margin</b>	<b>11.7%</b>	<b>12.6%</b>	<b>13.5%</b>	<b>16.3%</b>	<b>29.0%</b>	<b>30.7%</b>	<b>35.0%</b>	<b>37.8%</b>
<b>% YOY Change</b>	<b>2010A</b>	<b>2011A</b>	<b>2012A</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
<b>Net sales</b>		<b>188%</b>	<b>89%</b>	<b>38%</b>	<b>33%</b>	<b>28%</b>	<b>19%</b>	<b>19%</b>
Cost of Sales		298%	70%	30%	13%	26%	21%	21%
<b>Gross profit</b>		<b>147%</b>	<b>101%</b>	<b>42%</b>	<b>43%</b>	<b>28%</b>	<b>18%</b>	<b>18%</b>
Selling expenses		79%	100%	32%	52%	28%	3%	1%
Administrative expenses		67%	101%	67%	34%	10%	8%	9%
Research and development expenses		513%	35%	144%	52%	-14%	12%	20%
<b>Operating income</b>		<b>219%</b>	<b>108%</b>	<b>-8%</b>	<b>81%</b>	<b>38%</b>	<b>32%</b>	<b>28%</b>
Profit before tax		232%	109%	-5%	86%	37%	34%	28%
<b>Net income Attributable to owners of the Compa</b>		<b>211%</b>	<b>102%</b>	<b>67%</b>	<b>136%</b>	<b>35%</b>	<b>35%</b>	<b>29%</b>

Note: Reported net income includes one-time expenses such as stock option expenses, IPO & M&A expenses and amortization costs for Tianxinifu.

Source: Company data, Morgan Stanley Research (E) estimates



## Disclosure Section

The information and opinions in Morgan Stanley Research were prepared or are disseminated by Morgan Stanley Asia Limited (which accepts the responsibility for its contents) and/or Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore (which accepts legal responsibility for its contents and should be contacted with respect to any matters arising from, or in connection with, Morgan Stanley Research), and/or Morgan Stanley Taiwan Limited and/or Morgan Stanley & Co International plc, Seoul Branch, and/or Morgan Stanley Australia Limited (A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents), and/or Morgan Stanley Wealth Management Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents), and/or Morgan Stanley India Company Private Limited, and/or PT Morgan Stanley Asia Indonesia and their affiliates (collectively, "Morgan Stanley").

For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures), or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY, 10036 USA.

For valuation methodology and risks associated with any price targets referenced in this research report, please contact the Client Support Team as follows: US/Canada +1 800 303-2495; Hong Kong +852 2848-5999; Latin America +1 718 754-5444 (U.S.); London +44 (0)20-7425-8169; Singapore +65 6834-6860; Sydney +61 (0)2-9770-1505; Tokyo +81 (0)3-6836-9000. Alternatively you may contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY 10036 USA.

### Analyst Certification

The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Yolanda Hu.

Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

### Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at [www.morganstanley.com/institutional/research/conflictolicies](http://www.morganstanley.com/institutional/research/conflictolicies).

### Important US Regulatory Disclosures on Subject Companies

As of February 27, 2015, Morgan Stanley beneficially owned 1% or more of a class of common equity securities of the following companies covered in Morgan Stanley Research: CSPC Pharmaceutical Group, Shanghai Pharmaceutical, Sihuan Pharmaceutical Holdings Group Ltd, Sinopharm Group.

Within the last 12 months, Morgan Stanley managed or co-managed a public offering (or 144A offering) of securities of China Biologic Products, CSPC Pharmaceutical Group, Lijun International, **PW Medtech**, Sihuan Pharmaceutical Holdings Group Ltd, Sinopharm Group.

Within the last 12 months, Morgan Stanley has received compensation for investment banking services from China Biologic Products.

In the next 3 months, Morgan Stanley expects to receive or intends to seek compensation for investment banking services from Beijing Tongrentang, Biosensors International, China Biologic Products, China Medical System, China Traditional Chinese Medicine, Concord Medical Services Holdings Ltd, CSPC Pharmaceutical Group, Fosun Pharmaceutical, Guangzhou Pharma, Jintian Pharma Group, Lee's Pharmaceutical, Lijun International, Mindray, **PW Medtech**, Shandong Weigao, Shanghai Pharmaceutical, Sihuan Pharmaceutical Holdings Group Ltd, Sino Biopharmaceutical, Sinopharm Group, Sinovac Biotech Ltd., Tasly Pharmaceutical Group Co. Ltd, The United Laboratories, Tongrentang Technologies, WuXi Pharmatech.

Within the last 12 months, Morgan Stanley has received compensation for products and services other than investment banking services from China Nepstar Chain Drugstore Inc., Concord Medical Services Holdings Ltd, Fosun Pharmaceutical, Mindray, The United Laboratories, WuXi Pharmatech.

Within the last 12 months, Morgan Stanley has provided or is providing investment banking services to, or has an investment banking client relationship with, the following company: Beijing Tongrentang, Biosensors International, China Biologic Products, China Medical System, China Traditional Chinese Medicine, Concord Medical Services Holdings Ltd, CSPC Pharmaceutical Group, Fosun Pharmaceutical, Guangzhou Pharma, Jintian Pharma Group, Lee's Pharmaceutical, Lijun International, Mindray, **PW Medtech**, Shandong Weigao, Shanghai Pharmaceutical, Sihuan Pharmaceutical Holdings Group Ltd, Sino Biopharmaceutical, Sinopharm Group, Sinovac Biotech Ltd., Tasly Pharmaceutical Group Co. Ltd, The United Laboratories, Tongrentang Technologies, WuXi Pharmatech.

Within the last 12 months, Morgan Stanley has either provided or is providing non-investment banking, securities-related services to and/or in the past has entered into an agreement to provide services or has a client relationship with the following company: China Nepstar Chain Drugstore Inc., Concord Medical Services Holdings Ltd, Fosun Pharmaceutical, Mindray, **PW Medtech**, The United Laboratories, WuXi Pharmatech.

An employee, director or consultant of Morgan Stanley is a director of Sihuan Pharmaceutical Holdings Group Ltd. This person is not a research analyst or a member of a research analyst's household.

Morgan Stanley & Co. LLC makes a market in the securities of China Biologic Products, Mindray, Sinovac Biotech Ltd., WuXi Pharmatech.

The equity research analysts or strategists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

Morgan Stanley and its affiliates do business that relates to companies/instruments covered in Morgan Stanley Research, including market making, providing liquidity and specialized trading, risk arbitrage and other proprietary trading, fund management, commercial banking, extension of credit, investment services and investment banking. Morgan Stanley sells to and buys from customers the securities/instruments of companies covered in Morgan Stanley Research on a principal basis. Morgan Stanley may have a position in the debt of the Company or instruments discussed in this report.

Certain disclosures listed above are also for compliance with applicable regulations in non-US jurisdictions.

### STOCK RATINGS

Morgan Stanley uses a relative rating system using terms such as Overweight, Equal-weight, Not-Rated or Underweight (see definitions below). Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold and sell. Investors should carefully read the definitions of all ratings used in Morgan Stanley Research. In addition, since Morgan Stanley Research contains more complete information concerning the analyst's views, investors should carefully read Morgan Stanley Research, in its entirety, and not infer the contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

### Global Stock Ratings Distribution

(as of February 28, 2015)

For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)		
	COUNT	% OF TOTAL	COUNT	% OF TOTAL	% OF RATING IBC CATEGORY
Overweight/Buy	1161	35%	321	41%	28%
Equal-weight/Hold	1459	44%	370	47%	25%
Not-Rated/Hold	101	3%	10	1%	10%
Underweight/Sell	609	18%	88	11%	14%
<b>TOTAL</b>	<b>3,330</b>		<b>789</b>		

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

### Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

### Analyst Industry Views

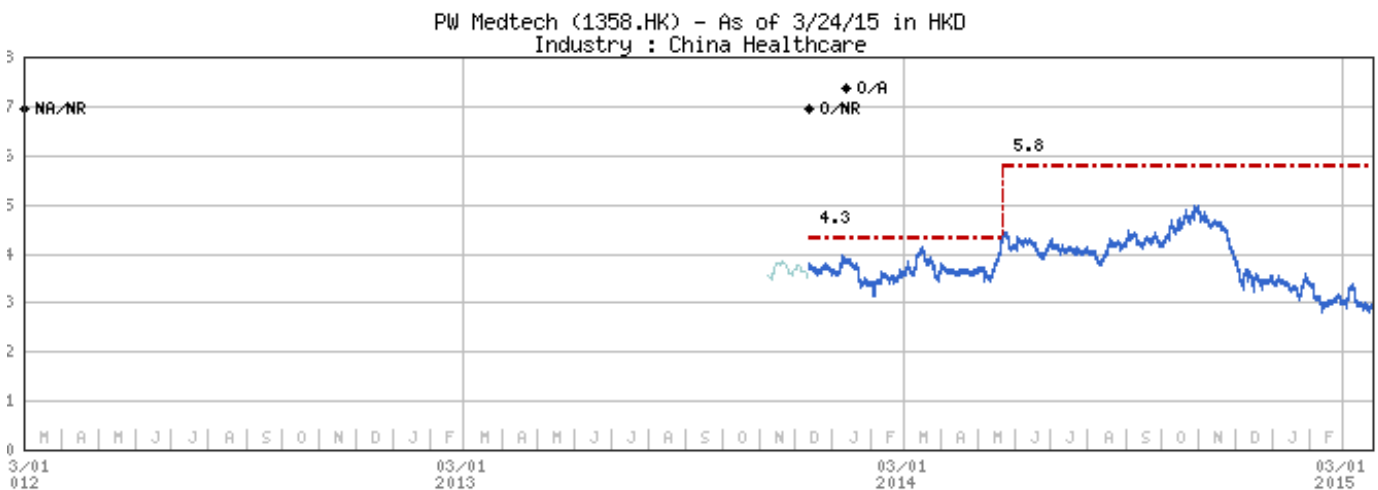
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

### Stock Price, Price Target and Rating History (See Rating Definitions)



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 Ratings/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)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

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.

## Important Disclosures for Morgan Stanley Smith Barney LLC Customers

Important disclosures regarding the relationship between the companies that are the subject of Morgan Stanley Research and Morgan Stanley Smith Barney LLC or Morgan Stanley or any of their affiliates, are available on the Morgan Stanley Wealth Management disclosure website at [www.morganstanley.com/online/researchdisclosures](http://www.morganstanley.com/online/researchdisclosures). For Morgan Stanley specific disclosures, you may refer to [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures).

Each Morgan Stanley Equity Research report is reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval is conducted by the same person who reviews the Equity Research report on behalf of Morgan Stanley. This could create a conflict of interest.

### Other Important Disclosures

Morgan Stanley is not acting as a municipal advisor and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Morgan Stanley produces an equity research product called a "Tactical Idea." Views contained in a "Tactical Idea" on a particular stock may be contrary to the recommendations or views expressed in research on the same stock. This may be the result of differing time horizons, methodologies, market events, or other factors. For all research available on a particular stock, please contact your sales representative or go to Matrix at <http://www.morganstanley.com/matrix>.

Morgan Stanley Research is provided to our clients through our proprietary research portal on Matrix and also distributed electronically by Morgan Stanley to clients. Certain, but not all, Morgan Stanley Research products are also made available to clients through third-party vendors or redistributed to clients through alternate electronic means as a convenience. For access to all available Morgan Stanley Research, please contact your sales representative or go to Matrix at <http://www.morganstanley.com/matrix>.

Any access and/or use of Morgan Stanley Research is subject to Morgan Stanley's Terms of Use (<http://www.morganstanley.com/terms.html>). By accessing and/or using Morgan Stanley Research, you are indicating that you have read and agree to be bound by our Terms of Use (<http://www.morganstanley.com/terms.html>). In addition you consent to Morgan Stanley processing your personal data and using cookies in accordance with our Privacy Policy and our Global Cookies Policy ([http://www.morganstanley.com/privacy\\_pledge.html](http://www.morganstanley.com/privacy_pledge.html)), including for the purposes of setting your preferences and to collect readership data so that we can deliver better and more personalized service and products to you. To find out more information about how Morgan Stanley processes personal data, how we use cookies and how to reject cookies see our Privacy Policy and our Global Cookies Policy ([http://www.morganstanley.com/privacy\\_pledge.html](http://www.morganstanley.com/privacy_pledge.html)).

If you do not agree to our Terms of Use and/or if you do not wish to provide your consent to Morgan Stanley processing your personal data or using cookies please do not access our research.

Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the circumstances and objectives of those who receive it. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of an investment or strategy will depend on an investor's circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. Morgan Stanley Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

The fixed income research analysts, strategists or economists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues (which include fixed income trading and capital markets profitability or revenues), client feedback and competitive factors. Fixed Income Research analysts', strategists' or economists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

The "Important US Regulatory Disclosures on Subject Companies" section in Morgan Stanley Research lists all companies mentioned where Morgan Stanley owns 1% or more of a class of common equity securities of the companies. For all other companies mentioned in Morgan Stanley Research, Morgan Stanley may have an investment of less than 1% in securities/instruments or derivatives of securities/instruments of companies and may trade them in ways different from those discussed in Morgan Stanley Research. Employees of Morgan Stanley not involved in the preparation of Morgan Stanley Research may have investments in securities/instruments or derivatives of securities/instruments of companies mentioned and may trade them in ways different from those discussed in Morgan Stanley Research. Derivatives may be issued by Morgan Stanley or associated persons.

With the exception of information regarding Morgan Stanley, Morgan Stanley Research is based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue equity research coverage of a subject company. Facts and views presented in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley Research personnel may participate in company events such as site visits and are generally prohibited from accepting payment by the company of associated expenses unless pre-approved by authorized members of Research management.

Morgan Stanley may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report. To our readers in Taiwan: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments. To our readers in Hong Kong: Information is distributed in Hong Kong by and on behalf of, and is attributable to, Morgan Stanley Asia Limited as part of its regulated activities in Hong Kong. If you have any queries concerning Morgan Stanley Research, please contact our Hong Kong sales representatives.

Certain information in Morgan Stanley Research was sourced by employees of the Shanghai Representative Office of Morgan Stanley Asia Limited for the use of Morgan Stanley Asia Limited.

Morgan Stanley is not incorporated under PRC law and the research in relation to this report is conducted outside the PRC. Morgan Stanley Research does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. PRC investors shall have the relevant qualifications to invest in such securities and shall be responsible for obtaining all relevant approvals, licenses, verifications and/or registrations from the relevant governmental authorities themselves.

Morgan Stanley Research is disseminated in Brazil by Morgan Stanley C.T.V.M. S.A.; in Japan by Morgan Stanley MUFG Securities Co., Ltd. and, for Commodities related research reports only, Morgan Stanley Capital Group Japan Co., Ltd; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents) and by Bank Morgan Stanley AG, Hong Kong Branch; in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore (which accepts legal responsibility for its contents and should be contacted with respect to any matters arising from, or in connection with, Morgan Stanley Research) and by Bank Morgan Stanley AG, Singapore Branch (Registration number T11FC0207F); in Australia to "wholesale clients" within the meaning of the Australian Corporations Act by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents; in Australia to "wholesale clients" and "retail clients" within the meaning of the Australian

Corporations Act by Morgan Stanley Wealth Management Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents; in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited; in Indonesia by PT Morgan Stanley Asia Indonesia; in Canada by Morgan Stanley Canada Limited, which has approved of and takes responsibility for its contents in Canada; in Germany by Morgan Stanley Bank AG, Frankfurt am Main and Morgan Stanley Private Wealth Management Limited, Niederlassung Deutschland, regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin); in Spain by Morgan Stanley, S.V., S.A., a Morgan Stanley group company, which is supervised by the Spanish Securities Markets Commission (CNMV) and states that Morgan Stanley Research has been written and distributed in accordance with the rules of conduct applicable to financial research as established under Spanish regulations; in the US by Morgan Stanley & Co. LLC, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized by the Prudential Regulatory Authority and regulated by the Financial Conduct Authority and the Prudential Regulatory Authority, disseminates in the UK research that it has prepared, and approves solely for the purposes of section 21 of the Financial Services and Markets Act 2000, research which has been prepared by any of its affiliates. Morgan Stanley Private Wealth Management Limited, authorized and regulated by the Financial Conduct Authority, also disseminates Morgan Stanley Research in the UK. Private UK investors should obtain the advice of their Morgan Stanley & Co. International plc or Morgan Stanley Private Wealth Management representative about the investments concerned. RMB Morgan Stanley (Proprietary) Limited is a member of the JSE Limited and regulated by the Financial Services Board in South Africa. RMB Morgan Stanley (Proprietary) Limited is a joint venture owned equally by Morgan Stanley International Holdings Inc. and RMB Investment Advisory (Proprietary) Limited, which is wholly owned by FirstRand Limited.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (DIFC Branch), regulated by the Dubai Financial Services Authority (the DFSA), and is directed at Professional Clients only, as defined by the DFSA. The financial products or financial services to which this research relates will only be made available to a customer who we are satisfied meets the regulatory criteria to be a Professional Client.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (QFC Branch), regulated by the Qatar Financial Centre Regulatory Authority (the QFCRA), and is directed at business customers and market counterparties only and is not intended for Retail Customers as defined by the QFCRA.

As required by the Capital Markets Board of Turkey, investment information, comments and recommendations stated here, are not within the scope of investment advisory activity. Investment advisory service is provided exclusively to persons based on their risk and income preferences by the authorized firms. Comments and recommendations stated here are general in nature. These opinions may not fit to your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated here may not bring about outcomes that fit your expectations. The trademarks and service marks contained in Morgan Stanley Research are the property of their respective owners. Third-party data providers make no warranties or representations relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages relating to such data. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and S&P. Morgan Stanley Research or portions of it may not be reprinted, sold or redistributed without the written consent of Morgan Stanley.

Morgan Stanley Research, or any portion thereof may not be reprinted, sold or redistributed without the written consent of Morgan Stanley.

#### INDUSTRY COVERAGE: China Healthcare

COMPANY (TICKER)	RATING (AS OF)	PRICE* (03/17/2015)
<b>Hu, Yolanda</b>		
China Biologic Products (CBPO.O)	O (07/08/2014)	US\$87.97
<b>Li, Bin</b>		
Beijing Tongrentang (600085.SS)	U (11/03/2014)	Rmb26.98
Biosensors International (BIOS.SI)	U (04/11/2014)	\$S0.75
China Medical System (0867.HK)	O (01/27/2014)	HK\$12.70
China Nepstar Chain Drugstore Inc. (NPD.N)	U (08/22/2013)	US\$1.77
China Shineway Pharmaceutical (2877.HK)	U (08/22/2013)	HK\$11.36
Concord Medical Services Holdings Ltd (CCMN)	U (04/11/2014)	US\$6.28
Consun Pharma (1681.HK)	O (05/07/2014)	HK\$5.19
CSPC Pharmaceutical Group (1093.HK)	O (08/15/2012)	HK\$6.40
Fosun Pharmaceutical (2196.HK)	O (12/12/2014)	HK\$26.20
Fosun Pharmaceutical (600196.SS)	O (12/12/2014)	Rmb25.29
Jiangsu Hengrui (600276.SS)	E (08/22/2013)	Rmb45.18
Lee's Pharmaceutical (0950.HK)	O (01/27/2011)	HK\$11.50
Lijun International (2005.HK)	O (10/20/2014)	HK\$3.55
MicroPort Scientific Corp. (0853.HK)	U (08/22/2013)	HK\$3.74
Mndray (MR.N)	U (12/12/2014)	US\$26.94
PW Medtech (1358.HK)	O (12/12/2013)	HK\$2.91
Shandong Weigao (1066.HK)	++	HK\$6.46
Shanghai Pharmaceutical (601607.SS)	E (06/05/2012)	Rmb21.77
Shanghai Pharmaceutical (2607.HK)	E (06/05/2012)	HK\$19.00
Sihuan Pharmaceutical Holdings Group Ltd (0460.HK)	O (12/08/2010)	HK\$4.47
Sino Biopharmaceutical (1177.HK)	O (05/14/2010)	HK\$7.49
Sinopharm Group (1099.HK)	O (01/05/2010)	HK\$30.00
Tasly Pharmaceutical Group Co. Ltd (600535.SS)	O (11/28/2012)	Rmb47.50
WuXi Pharmatech (WX.N)	O (09/15/2008)	US\$37.15
Yunnan Baiyao Group (000538.SZ)	O (04/11/2014)	Rmb67.48
<b>Zhao, Isabella</b>		
Beijing Tongrentang Chinese Medicine (8138.HK)	O (01/14/2015)	HK\$11.14
China Traditional Chinese Medicine (0570.HK)	O (03/17/2015)	HK\$4.78
Guangzhou Pharma (0874.HK)	O (09/25/2013)	HK\$25.75
Guangzhou Pharma (600332.SS)	E (05/14/2012)	Rmb33.78
Jintian Pharma Group (2211.HK)	O (03/19/2015)	HK\$2.88
Sinovac Biotech Ltd. (SVA.O)	O (03/20/2014)	US\$4.98
The United Laboratories (3933.HK)	E (04/04/2014)	HK\$3.56
Tongrentang Technologies (1666.HK)	E (04/11/2014)	HK\$10.72

Stock Ratings are subject to change. Please see latest research for each company.

\* Historical prices are not split adjusted.

© 2015 Morgan Stanley