

China Traditional Chinese Medicine

Bloomberg: 570 HK Equity | Reuters: 0570.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 Apr 2022

HOLD

 (Upgraded from FULLY VALUED)

Last Traded Price (1 Apr 2022): HK\$4.23 (HSI : 22,040)

Price Target 12-mth: HK\$4.50 (6% upside) (Prev HK\$3.00)

Analyst

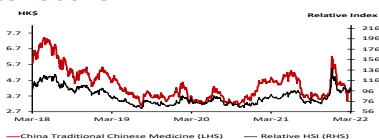
Mark Kong +852 36684187 mark_kong@dbs.com

Nico Chen +852 36684171 nicochen@dbs.com

What's New

- Raised FY22F/23F earnings by 35%/70% and TP by 50%; upgrade to HOLD to factor in sales volume increase driven by release of favourable policies in 1Q22
- Threatened by intensifying competition for concentrated Chinese medicines granules segment (CCMG, 69% of FY21 sales) with competitors increased from 4 in 2021 to 47 in Mar 2022
- Price pressure increasing for finished Chinese medicines segment (18% of FY21A sales) as joint-province tender of these products began in 1Q22 with average price cut of 42%. The tender will continue in future

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2021A	2022F	2023F	2024F
Turnover	19,053	23,085	28,045	34,155
EBITDA	3,529	3,850	4,158	4,516
Pre-tax Profit	2,520	2,794	3,105	3,408
Net Profit	1,933	2,135	2,372	2,604
Net Pft (Pre Ex) (core profit)	1,933	2,136	2,374	2,607
Net Profit Gth (Pre-ex) (%)	16.2	10.5	11.1	9.8
EPS (RMB)	0.38	0.42	0.47	0.52
EPS (HK\$)	0.47	0.52	0.58	0.64
Core EPS (RMB)	0.38	0.42	0.47	0.52
Core EPS (HK\$)	0.47	0.52	0.58	0.64
EPS Gth (%)	16.2	10.5	11.1	9.8
Core EPS Gth (%)	16.2	10.5	11.1	9.8
Diluted EPS (HK\$)	0.47	0.52	0.58	0.64
DPS (HK\$)	0.14	0.16	0.17	0.19
BV Per Share (HK\$)	4.82	5.18	5.59	6.04
PE (X)	9.0	8.1	7.3	6.6
CorePE (X)	9.0	8.1	7.3	6.6
P/Cash Flow (X)	nm	7.2	nm	33.2
P/Free CF (X)	nm	12.0	nm	nm
EV/EBITDA (X)	6.3	5.7	5.9	5.8
Net Div Yield (%)	3.4	3.7	4.1	4.5
P/Book Value (X)	0.9	0.8	0.8	0.7
Net Debt/Equity (X)	0.1	0.1	0.2	0.2
ROAE (%)	10.2	10.4	10.8	10.9
Earnings Rev (%)		35	70	New
Consensus EPS (RMB)		0.44	0.50	0.54
Other Broker Recs:		B:11	S:1	H:0

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Cloudy prospects from potential price cuts

Investment Thesis

Upgrade to HOLD on favourable policies released in 1Q22 to boost industry sales volume. An example is "Development of Chinese medicine industry in the 14th five-year plan" released on 29 Mar 2022. The number of Chinese medicines medical institutes will increase from 72.3k to 95k in 2020-25, and the number of beds in the Chinese medicines ward in public hospitals will surge from 67.5k to 84.3k in the period. This would drive sales volume.

Drastic increase in competitors after Nov 2021 in the concentrated Chinese medicine granule (CCMG) industry. CCMG made up 69% of group sales in FY21. The number of players has increased from 5 in the beginning of 2021 to 52 as of Mar 2022. Intensifying competition will increase price pressure and marketing costs.

Potential price cuts imposed by National or joint-province tender for products made up 95% of FY21 sales. The collective procurement of Chinese medicines kicked off in 2022. There were 19 provincial governments that called for tenders of finished Chinese medicines in 1Q22, and the average price cut was 42%. The National Healthcare Security Administration will continue this sort of tender.

Valuation:

Our previous TP was based on 50% discount to average PE of Chinese medicine producers, to reflect potential price cuts. We trimmed the discount to 35% due to favourable policies released in 1Q22 to raise sales volume. Accordingly, we derive a TP of HK\$4.5 for CTCM, based on 9x FY22F PE.

Where we differ:

While the market is excited about the favourable policies for industry sales volume released in 1Q22, we remain cautious about the share price performance going forward as it will be impacted by potential price cuts resulting from intensifying competition and National / joint-province tenders.

Key Risks to Our View:

Major shareholders increasing their stakes.

At A Glance

Issued Capital (m shrs)	5,036
Mkt Cap (HK\$/US\$m)	21,302 / 2,719
Major Shareholders (%)	
China National Pharmaceutical Group Corporation	32.5
Ping An Life Insurance Company of China, Ltd	12.0
Free Float (%)	55.5
3m Avg. Daily Val. (US\$m)	28.44
GICS Industry: Health Care / Pharmaceuticals, Biotechnology	



Watchlist the stock on Insights Direct to receive prompt updates



Live more, Bank less

China Traditional Chinese Medicine

WHAT'S NEW

Cloudy prospects from potential price cuts

Raised FY22F - 23F earnings by 35% and 70% and upgrade to HOLD for favourable policies to boost industry sales volume. We raise our annual sales growth in FY22F-23F assumption from 9% and 2% to 21% for both years, and FY22F-23F net margin from 8.3% and 7.2% to 9.2% and 8.5%. This is because we believe the following favourable policies released in Mar 2022 and Dec 2021 can boost the sales volume of Chinese medicines industry.

On 29 Mar 2022, the State Council issued "Development of Chinese medicines industry in the 14th five-year plan" ("The Plan"). We believe various measures in the plan will boost the sales volume of Chinese medicines. For example, the number of Chinese medicine medical institutes will increase from 72.3k in 2020 to 95k in 2025. Another example, the number of beds allocated to Chinese medicines ward in public hospitals will increase from 67.5k in 2020 to 84.3k in 2025. These measures would drive the demand of Chinese medicines.

On 14 Dec 2021, National Healthcare Security Administration issued "Chinese medicines industry: guidance to support inheritance of tradition and innovation" ("The Guidance"). While the price of medical products in public hospitals are not allowed to be marked up over procurement cost when sold to patients, the Guidance stipulates that herbal decoction pieces are allowed to be marked up by 25%. CCMG is classified under herbal decoction pieces. The Guidance encourages public hospitals to sell more of these products.

Previously, our TP was based on a 50% discount to average industry PE due to regulatory risk. The release of favourable policies on industry sales volume has prompted us to believe the risk is reduced. Thus, we have trimmed the discount to 35%. Rolling over to 2022F, and based on 35% discount to industry PE, we derive a target PE of 9x (22F) and TP of HK\$4.5. Thanks to the supportive policies, we upgrade to HOLD.

However, share price is still clouded by potential price cuts. We upgrade to HOLD instead of BUY because we believe the potential price cuts on CCMG, herbal decoction pieces, finished Chinese medicines will be a drag on the share price performance.

In 2021, CCMG, herbal decoction pieces, finished Chinese medicines made up 69%, 18%, 7% of revenue, or 95% in

aggregate. These are all facing increasing price pressure due to:

Firstly, intensifying competition, particularly CCMG. The Government is allowing more players to participate in this industry. The number of players approved by the central government has increased from 5 at the beginning of 2021 to 52 as of Mar 2022 (see: [湖北中药配方颗粒备案企业和品种数量居全国第一、第三 - 湖北省人民政府门户网站 \(hubei.gov.cn\)](http://hubei.gov.cn)), and competition has drastically intensified. The pricing pressure should increase due to this, and thus we expect gross margin of CCMG to drop 0.5ppt annually in 2022-24. Also, the marketing cost will increase to gain or retain market share. Thus, we expect distribution cost as a % of sales to rise 1ppt annually in 2022-24.

Secondly, the National or joint-province tenders imposed by government. This would impact finished Chinese medicines first. In 1Q22, public medical institutes in 19 provinces jointly completed the tender for 182 Chinese medicines, with average price cut of 42%. The National Healthcare Security Administration re-iterated that they will continue this sort of tender. CCMG is classified under herbal decoction pieces. We believe National or joint-province tender will be imposed on this too because:

- There are provinces already doing it. The Shanxi provincial government in Mar 2022 initiated a tender for 21 kinds of herbal decoction pieces, Beijing government started the tender for both herbal decoction pieces and CCMG in Feb 2022;
- Sufficient competition is a criteria for National or joint-province tenders. In terms of number of players in CCMG, finished Chinese medicines, herbal decoction pieces, there are 52, >1600, and >1000. We believe this is sufficient.

Company Background

China Traditional Chinese Medicine (CTCM) is the largest concentrated Chinese medicine granule maker (CCMG) with a 50% market share. CTCM's parent company is a state-owned enterprise directly under the State-owned Assets Supervision & Administration Commission: China National Pharmaceutical Group Corp (which owns a 32% stake in CTCM).

China Traditional Chinese Medicine

Interim Income Statement (RMBm)

FY Dec	2H2020	1H2021	2H2021	% chg_yoy	% chg_hoh
Revenue	8,151	8,149	10,903	33.8	33.8
Cost of Goods Sold	(3,042)	(3,147)	(4,077)	34.0	29.6
Gross Profit	5,109	5,003	6,826	33.6	36.5
Other Oper. (Exp)/Inc	(3,823)	(3,718)	(5,533)	44.7	48.8
Operating Profit	1,287	1,285	1,293	0.5	0.6
Other Non Opg (Exp)/Inc	70	17	95	34.5	441.1
Associates & JV Inc	(11)	(8)	(3)	73.3	(62.3)
Net Interest (Exp)/Inc	(106)	(86)	(74)	30.5	13.7
Exceptional Gain/(Loss)	0	(11)	11	nm	nm
Pre-tax Profit	1,241	1,200	1,325	6.8	10.5
Tax	(209)	(191)	(206)	(1.7)	7.5
Minority Interest	(99)	(77)	(114)	(14.6)	48.0
Net Profit	931	930	1,003	7.7	7.9
Net profit bef Except.	932	932	1,006	6.5	5.4
EBITDA	1,347	1,297	1,388	3.0	7.0
Margins (%)					
Gross Margins	62.7	61.4	62.6		
Opg Profit Margins	15.8	15.8	11.9		
Net Profit Margins	11.4	11.4	9.2		

Source: Company, DBS HK

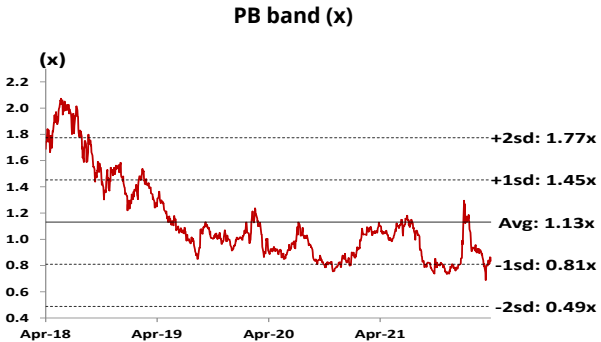
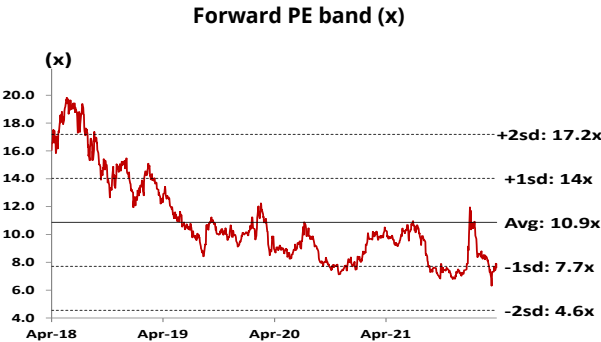
Income Statement (RMB m)

FY Dec	2020A	2021A	% chg_yoy
Revenue	14,806	19,053	28.7
Cost of Goods Sold	(5,680)	(7,224)	27.2
Gross Profit	9,126	11,829	29.6
Other Opng (Exp)/Inc	(6,844)	(9,251)	35.2
Operating Profit	2,282	2,578	13.0
Other Non Opg (Exp)/Inc	161	112	(30.5)
Associates & JV Inc	(16)	(11)	32.3
Net Interest (Exp)/Inc	(197)	(159)	19.1
Exceptional Gain/(Loss)	0	0	nm
Pre-tax Profit	2,230	2,520	13.0
Tax	(369)	(397)	7.4
Minority Interest	(197)	(191)	3.5
Net Profit	1,663	1,933	16.2
Net Profit before Except.	1,663	1,933	16.2
EBITDA	3,111	3,529	13.4
Margins & Ratio			
Gross Margins (%)	61.6	62.1	
Opg Profit Margin (%)	15.4	13.5	
Net Profit Margin (%)	11.2	10.1	

Source: Company, DBS HK

China Traditional Chinese Medicine

Historical PE and PB band



Source: Thomson Reuters, DBS HK

China Traditional Chinese Medicine

Key Assumptions

FY Dec	2020A	2021A	2022F	2023F	2024F
Finished drugs - revenue growth %	(12.5)	13.8	10.0	10.0	10.0
Concentrated Chinese medicine granule - revenue growth %	8.5	32.2	25.0	25.0	25.0
Finished drugs - gross margin %	57.2	61.0	60.0	59.0	58.5
Concentrated Chinese Medicine Granule - gross margin %	70.5	70.0	69.5	69.0	68.5

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenues (RMB m)					
Finished drugs	3,067	3,489	3,838	4,222	4,644
Concentrated Chinese Medicine Granules	10,013	13,234	16,542	20,678	25,847
TCM decoction pieces	1,237	1,418	1,702	2,042	2,450
Others	489	912	1,003	1,103	1,213
Total	14,806	19,053	23,085	28,045	34,155
Gross margin (RMB m)					
Finished drugs	1,753	2,129	2,303	2,491	2,717
Concentrated Chinese Medicine Granules	7,059	9,268	11,497	14,268	17,705
TCM decoction pieces	188	245	289	337	404
Others	126	187	206	226	249
Total	9,126	11,829	14,295	17,322	21,075
Gross margin Margins (%)					
Finished drugs	57.2	61.0	60.0	59.0	58.5
Concentrated Chinese Medicine Granules	70.5	70.0	69.5	69.0	68.5
TCM decoction pieces	15.2	17.3	17.0	16.5	16.5
Others	25.8	20.5	20.5	20.5	20.5
Total	61.6	62.1	61.9	61.8	61.7

Source: Company, DBS HK

China Traditional Chinese Medicine

Income Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenue	14,806	19,053	23,085	28,045	34,155
Cost of Goods Sold	(5,680)	(7,224)	(8,790)	(10,723)	(13,080)
Gross Profit	9,126	11,829	14,295	17,322	21,075
Other Opng (Exp)/Inc	(6,844)	(9,251)	(11,484)	(14,219)	(17,624)
Operating Profit	2,282	2,578	2,811	3,103	3,451
Other Non Opg (Exp)/Inc	161	112	143	143	143
Associates & JV Inc	(16)	(11)	0	0	0
Net Interest (Exp)/Inc	(197)	(159)	(161)	(143)	(189)
Dividend Income	0	0	1	2	3
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	2,230	2,520	2,794	3,105	3,408
Tax	(369)	(397)	(447)	(496)	(545)
Minority Interest	(197)	(191)	(211)	(234)	(257)
Preference Dividend	0	0	0	0	0
Net Profit	1,663	1,933	2,135	2,372	2,604
Net Profit before Except.	1,663	1,933	2,136	2,374	2,607
EBITDA	3,111	3,529	3,850	4,158	4,516
Growth					
Revenue Gth (%)	3.4	28.7	21.2	21.5	21.8
EBITDA Gth (%)	3.9	13.4	9.1	8.0	8.6
Opg Profit Gth (%)	(1.5)	13.0	9.0	10.4	11.2
Net Profit Gth (%)	4.7	16.2	10.5	11.1	9.8
Margins & Ratio					
Gross Margins (%)	61.6	62.1	61.9	61.8	61.7
Opg Profit Margin (%)	15.4	13.5	12.2	11.1	10.1
Net Profit Margin (%)	11.2	10.1	9.2	8.5	7.6
ROAE (%)	9.6	10.2	10.4	10.8	10.9
ROA (%)	5.1	5.6	5.7	6.0	6.1
ROCE (%)	6.9	7.5	7.8	8.1	8.4
Div Payout Ratio (%)	0.0	30.1	30.1	30.1	30.1
Net Interest Cover (x)	11.6	16.2	17.4	21.6	18.3

Source: Company, DBS HK

Interim Income Statement (RMB m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	7,384	6,655	8,151	8,149	10,903
Cost of Goods Sold	(2,995)	(2,638)	(3,042)	(3,147)	(4,077)
Gross Profit	4,389	4,017	5,109	5,003	6,826
Other Oper. (Exp)/Inc	(3,294)	(3,022)	(3,823)	(3,718)	(5,533)
Operating Profit	1,095	995	1,287	1,285	1,293
Other Non Opg (Exp)/Inc	87	91	70	17	95
Associates & JV Inc	(3)	(5)	(11)	(8)	(3)
Net Interest (Exp)/Inc	(164)	(91)	(106)	(86)	(74)
Exceptional Gain/(Loss)	0	0	0	(11)	11
Pre-tax Profit	1,014	990	1,241	1,200	1,325
Tax	(195)	(160)	(209)	(191)	(206)
Minority Interest	(90)	(98)	(99)	(77)	(114)
Net Profit	729	732	931	930	1,003
Net profit bef Except.	729	732	932	932	1,006
Growth					
Revenue Gth (%)	27.4	(4.1)	10.4	22.4	33.8
Opg Profit Gth (%)	35.7	(18.5)	17.5	29.1	0.5
Net Profit Gth (%)	7.4	(14.8)	27.7	27.0	7.7
Margins					
Gross Margins (%)	59.4	60.4	62.7	61.4	62.6
Opg Profit Margins (%)	14.8	15.0	15.8	15.8	11.9
Net Profit Margins (%)	9.9	11.0	11.4	11.4	9.2

Source: Company, DBS HK

China Traditional Chinese Medicine

Balance Sheet (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	7,769	8,135	8,421	8,634	8,829
Invt in Associates & JVs	22	18	18	18	18
Other LT Assets	10,166	10,034	9,802	9,579	9,364
Cash & ST Invt	3,440	2,895	3,203	674	53
Inventory	4,908	5,043	7,387	8,133	11,954
Debtors	4,553	8,343	7,618	11,779	11,954
Other Current Assets	2,230	1,923	1,923	1,923	1,923
Total Assets	33,088	36,389	38,372	40,740	44,095
ST Debt	2,665	2,156	2,665	2,665	3,064
Creditors	1,393	1,464	2,078	2,524	3,074
Other Current Liab	3,477	5,145	5,145	5,145	5,145
LT Debt	2,452	2,810	2,011	2,011	2,311
Other LT Liabilities	2,205	2,153	2,153	2,153	2,153
Shareholder's Equity	18,064	19,719	21,168	22,855	24,704
Minority Interests	2,832	2,942	3,153	3,387	3,643
Total Cap. & Liab.	33,088	36,389	38,372	40,740	44,095
Non-Cash Wkg. Capital	6,822	8,699	9,705	14,165	17,612
Net Cash/(Debt)	(1,677)	(2,071)	(1,472)	(4,001)	(5,322)
Debtors Turn (avg days)	92.4	123.5	126.2	126.2	126.8
Creditors Turn (avg days)	112.4	81.8	81.9	85.6	84.0
Inventory Turn (avg days)	350.7	284.9	287.3	288.6	301.5
Asset Turnover (x)	0.5	0.5	0.6	0.7	0.8
Current Ratio (x)	2.0	2.1	2.0	2.2	2.3
Quick Ratio (x)	1.1	1.3	1.1	1.2	1.1
Net Debt/Equity (X)	0.1	0.1	0.1	0.2	0.2
Net Debt/Equity ex MI (X)	0.1	0.1	0.1	0.2	0.2
Capex to Debt (%)	33.5	17.4	20.3	19.3	16.7
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	2,230	2,520	2,793	3,103	3,405
Dep. & Amort.	684	850	895	910	919
Tax Paid	(369)	(397)	(447)	(496)	(545)
Assoc. & JV Inc/(loss)	16	11	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(2,114)	(3,854)	(1,006)	(4,460)	(3,447)
Other Operating CF	(218)	159	161	143	189
Net Operating CF	228	(711)	2,397	(801)	522
Capital Exp.(net)	(1,713)	(863)	(950)	(900)	(899)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	2	4	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	48	63	52	58	12
Net Investing CF	(1,663)	(796)	(898)	(842)	(887)
Div Paid	(219)	(280)	(686)	(685)	(755)
Chg in Gross Debt	(551)	(151)	(291)	0	700
Capital Issues	0	0	0	0	0
Other Financing CF	32	1,392	(214)	(201)	(201)
Net Financing CF	(739)	961	(1,191)	(886)	(256)
Currency Adjustments	0	0	0	0	0
Chg in Cash	(2,173)	(545)	308	(2,529)	(621)
Opg CFPS (RMB)	0.47	0.62	0.68	0.73	0.79
Free CFPS (RMB)	(0.29)	(0.31)	0.29	(0.34)	(0.07)

Source: Company, DBS HK

China Traditional Chinese Medicine

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	25-Aug-21	HK\$3.82	HK\$3.00	Fully Valued

Source: DBS HK

Analyst: Mark Kong
Nico Chen

China Traditional Chinese Medicine

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 4 Apr 2022 13:40:14 (HKT)

Dissemination Date: 4 Apr 2022 15:33:03 (HKT)

Sources for all charts and tables are DBS HK unless otherwise specified.

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Bank (Hong Kong) Limited ("DBS HK"). This report is solely intended for the clients of DBS Bank Ltd., DBS HK, DBS Vickers (Hong Kong) Limited ("DBSV HK"), and DBS Vickers Securities (Singapore) Pte Ltd. ("DBSVS"), its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS HK.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd., DBS HK, DBSV HK, DBSVS, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "DBS Group") have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

- (a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- (b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets. Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBS Vickers Securities (USA) Inc ("DBSVUSA"), a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

China Traditional Chinese Medicine

Neither DBS Bank Ltd nor DBS HK market makes in equity securities of the issuer(s) or company(ies) mentioned in this Research Report.

ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate¹ does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests² in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES


1. DBS Bank Ltd, DBS HK, DBSVS or their subsidiaries and/or other affiliates do not have a proprietary position in the securities recommended in this report as of 31 Mar 2022.
2. **Compensation for investment banking services:**
DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.
3. **Disclosure of previous investment recommendation produced:**
DBS Bank Ltd, DBSVS, DBS HK, their subsidiaries and/or other affiliates of DBSVUSA may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed on page 1 of this report to view previous investment recommendations published by DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates of DBSVUSA in the preceding 12 months.

¹ An associate is defined as (i) the spouse, or any minor child (natural or adopted) or minor step-child, of the analyst; (ii) the trustee of a trust of which the analyst, his spouse, minor child (natural or adopted) or minor step-child, is a beneficiary or discretionary object; or (iii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

² Financial interest is defined as interests that are commonly known financial interest, such as investment in the securities in respect of an issuer or a new listing applicant, or financial accommodation arrangement between the issuer or the new listing applicant and the firm or analysis. This term does not include commercial lending conducted at arm's length, or investments in any collective investment scheme other than an issuer or new listing applicant notwithstanding the fact that the scheme has investments in securities in respect of an issuer or a new listing applicant.

China Traditional Chinese Medicine

RESTRICTIONS ON DISTRIBUTION

General	This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.
Australia	<p>This report is being distributed in Australia by DBS Bank Ltd, DBSVS or DBSV HK. DBS Bank Ltd holds Australian Financial Services Licence no. 475946.</p> <p>DBS Bank Ltd, DBSVS and DBSV HK are exempted from the requirement to hold an Australian Financial Services Licence under the Corporation Act 2001 ("CA") in respect of financial services provided to the recipients. Both DBS Bank Ltd and DBSVS are regulated by the Monetary Authority of Singapore under the laws of Singapore, and DBSV HK is regulated by the Hong Kong Securities and Futures Commission under the laws of Hong Kong, which differ from Australian laws.</p> <p>Distribution of this report is intended only for "wholesale investors" within the meaning of the CA.</p>
Hong Kong	This report is being distributed in Hong Kong by DBS Bank Ltd, DBS Bank (Hong Kong) Limited and DBS Vickers (Hong Kong) Limited, all of which are registered with or licensed by the Hong Kong Securities and Futures Commission to carry out the regulated activity of advising on securities. DBS Bank Ltd., Hong Kong Branch is a limited liability company incorporated in Singapore.
Indonesia	This report is being distributed in Indonesia by PT DBS Vickers Sekuritas Indonesia.
Malaysia	<p>This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd ("ADBSR"). Recipients of this report, received from ADBSR are to contact the undersigned at 603-2604 3333 in respect of any matters arising from or in connection with this report. In addition to the General Disclosure/Disclaimer found at the preceding page, recipients of this report are advised that ADBSR (the preparer of this report), its holding company Alliance Investment Bank Berhad, their respective connected and associated corporations, affiliates, their directors, officers, employees, agents and parties related or associated with any of them may have positions in, and may effect transactions in the securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other services for the subject companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies.</p> <p style="text-align: right;">  Wong Ming Tek, Executive Director, ADBSR </p>
Singapore	This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) or DBSVS (Company Regn No. 198600294G), both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 6878 8888 for matters arising from, or in connection with the report.
Thailand	<p>This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd.</p> <p>For any query regarding the materials herein, please contact [Chanpen Sirithanarattanaku] at [research@th.dbs.com]</p>
United Kingdom	<p>This report is produced by DBS HK which is regulated by the Hong Kong Monetary Authority</p> <p>This report is disseminated in the United Kingdom by DBS Vickers Securities (UK) Ltd ("DBSVUK"). DBSVUK is authorised and regulated by the Financial Conduct Authority in the United Kingdom.</p> <p>In respect of the United Kingdom, this report is solely intended for the clients of DBSVUK, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBSVUK. This communication is directed at persons having professional experience in matters relating to investments. Any investment activity following from this communication will only be engaged in with such persons. Persons who do not have professional experience in matters relating to investments should not rely on this communication.</p>

<p>Dubai International Financial Centre</p>	<p>This communication is provided to you as a Professional Client or Market Counterparty as defined in the DFSA Rulebook Conduct of Business Module (the "COB Module"), and should not be relied upon or acted on by any person which does not meet the criteria to be classified as a Professional Client or Market Counterparty under the DFSA rules.</p> <p>This communication is from the branch of DBS Bank Ltd operating in the Dubai International Financial Centre (the "DIFC") under the trading name "DBS Bank Ltd. (DIFC Branch)" ("DBS DIFC"), registered with the DIFC Registrar of Companies under number 156 and having its registered office at units 608 - 610, 6th Floor, Gate Precinct Building 5, PO Box 506538, DIFC, Dubai, United Arab Emirates.</p> <p>DBS DIFC is regulated by the Dubai Financial Services Authority (the "DFSA") with a DFSA reference number F000164. For more information on DBS DIFC and its affiliates, please see http://www.dbs.com/ae/our--network/default.page.</p> <p>Where this communication contains a research report, this research report is prepared by the entity referred to therein, which may be DBS Bank Ltd or a third party, and is provided to you by DBS DIFC. The research report has not been reviewed or authorised by the DFSA. Such research report is distributed on the express understanding that, whilst the information contained within is believed to be reliable, the information has not been independently verified by DBS DIFC.</p> <p>Unless otherwise indicated, this communication does not constitute an "Offer of Securities to the Public" as defined under Article 12 of the Markets Law (DIFC Law No.1 of 2012) or an "Offer of a Unit of a Fund" as defined under Article 19(2) of the Collective Investment Law (DIFC Law No.2 of 2010).</p> <p>The DFSA has no responsibility for reviewing or verifying this communication or any associated documents in connection with this investment and it is not subject to any form of regulation or approval by the DFSA. Accordingly, the DFSA has not approved this communication or any other associated documents in connection with this investment nor taken any steps to verify the information set out in this communication or any associated documents, and has no responsibility for them. The DFSA has not assessed the suitability of any investments to which the communication relates and, in respect of any Islamic investments (or other investments identified to be Shari'a compliant), neither we nor the DFSA has determined whether they are Shari'a compliant in any way.</p> <p>Any investments which this communication relates to may be illiquid and/or subject to restrictions on their resale. Prospective purchasers should conduct their own due diligence on any investments. If you do not understand the contents of this document you should consult an authorised financial adviser.</p>
<p>United States</p>	<p>This report was prepared by DBS HK. DBSVUSA did not participate in its preparation. The research analyst(s) named on this report are not registered as research analysts with FINRA and are not associated persons of DBSVUSA. The research analyst(s) are not subject to FINRA Rule 2241 restrictions on analyst compensation, communications with a subject company, public appearances and trading securities held by a research analyst. This report is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. This report may only be distributed to Major U.S. Institutional Investors (as defined in SEC Rule 15a-6) and to such other institutional investors and qualified persons as DBSVUSA may authorize. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate.</p>
<p>Other jurisdictions</p>	<p>In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.</p>

DBS Bank (Hong Kong) Limited

13th Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

Tel: (852) 3668-4181, Fax: (852) 2521-1812

China Traditional Chinese Medicine

DBS Regional Research Offices

HONG KONG

DBS Bank (Hong Kong) Ltd

Contact: Carol Wu

13th Floor One Island East,
18 Westlands Road, Quarry Bay, Hong Kong

Tel: 852 3668 4181

Fax: 852 2521 1812

e-mail: dbsvhk@dbs.com

SINGAPORE

DBS Bank Ltd

Contact: Janice Chua

12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982

Tel: 65 6878 8888

e-mail: groupresearch@dbs.com

Company Regn. No. 196800306E

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif

DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia

Tel: 62 21 3003 4900

Fax: 6221 3003 4943

e-mail: indonesiaresearch@dbs.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul

989 Siam Pivat Tower Building,
9th, 14th-15th Floor

Rama 1 Road, Pathumwan,

Bangkok Thailand 10330

Tel. 66 2 857 7831

Fax: 66 2 658 1269

e-mail: research@th.dbs.com

Company Regn. No 0105539127012

Securities and Exchange Commission, Thailand