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Research

Asia

Health Care
Pharmaceuticals /
Biotechnology

Industry
China Healthcare

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Industry Update

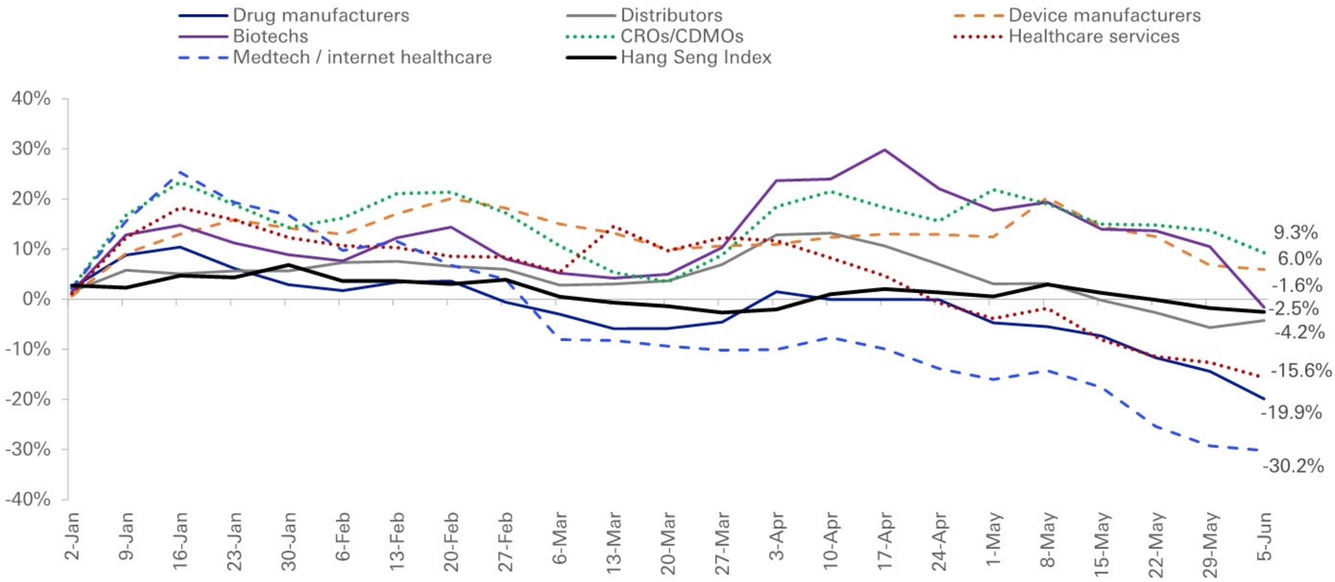
Market likely overreacted on geopolitical tensions, we think

Cyrus Ng, CFA
Research Analyst
+852-2203-6208

The healthcare sector has been relatively weak year-to-date. Even after the disclosure of promising clinical data during the ASCO meeting, investors have tended to sell-on-news following announcements. Apart from the uncertainty with the interest rate environment, we attribute the weakness in healthcare sentiment to **potential regulations on out-licensing deals given ongoing geopolitical tensions.**

In our view, these potential regulations would likely do more harm than good to the US biotech industry. Furthermore, the legislation would likely be a long and lengthy process, facing significant opposition from industry leaders. As such, we believe the market seems to have overreacted to the news.

Figure 1: YTD performance of HK-listed healthcare companies



Source : Bloomberg Finance LP, Deutsche Bank

US lawmakers have proposed tightening scrutiny of Chinese biotech investments

In February, some US officials sent a letter to the US Treasury Department, proposing to expand the coverage of the COINS Act to biotechnology, thereby prohibiting US investments in the Chinese biotechnology industry.

On May 21, Chairman John Moolenaar of the Select Committee on China wrote to Treasury Secretary Scott Bessent, requesting the inclusion of biotechnology as a prohibited technology under the COINS Act of 2025. This request stems from concerns over increased US investment and intellectual property transfer to China's biotech sector, highlighted by the deal between BMS and Hengrui.

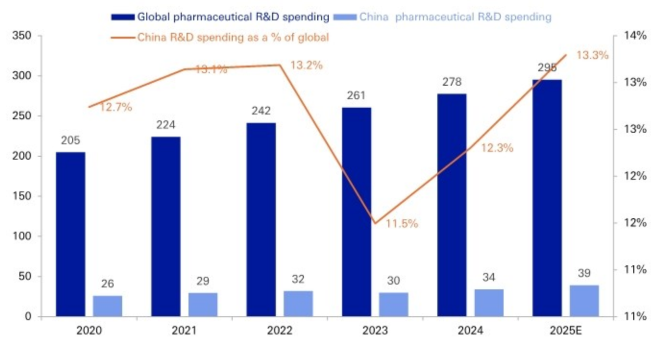
On June 2, John Moolenaar and Congresswoman Debbie Dingell introduced the Biotech Investment National Security Act (BINSA). This legislation proposes to include biotechnology in the COINS Act of 2025. Under this bill, licensing deals, joint ventures, and equity investments in China could be subject to review by the Treasury Department and Secretary of Defense.

Our take: May do more harm than good to US biotech industries

China has already become a global innovation hub in drug R&D, with its companies consistently investing in this area. Total pharmaceutical R&D spending in China grew from USD26bn in 2020 to an estimated USD39bn in 2025, representing an 8.5% CAGR during this period. Throughout 2020-2025, China's R&D expenditure consistently comprised approximately 11-13% of global pharmaceutical R&D spending. This sustained investment has fostered an R&D ecosystem characterized by efficiency, accumulated experience, successful candidates, and technical know-how. Despite China's relatively smaller share of global R&D spending, it has led the world in the number of innovative drugs entering clinical trials since 2020. Consequently, we believe China will likely continue to be a global R&D hub for the pharmaceutical industry.

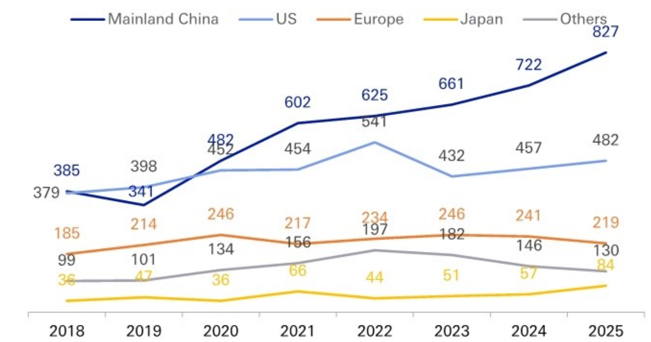
In other words, China possesses a significant number of new drug candidates. Avoiding cooperation with Chinese companies would mean missing out on a substantial number of potential drug candidates, especially in emerging areas like ADCs and multi-specific antibodies.

Figure 2: Global and China R&D spending (USD bn)



Source : Deutsche Bank estimates

Figure 3: Number of innovative drugs newly entered into clinical trials

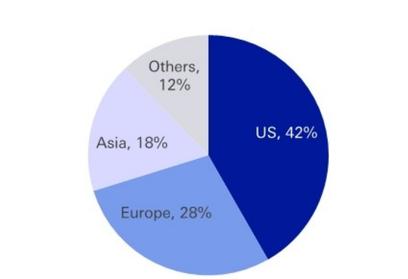


Source : Pharmcube

Deals will likely flow to companies from other regions. US-related out-licensing activities accounted for approximately 42% of the number of deals from 2020 to May 2026, and 57% of total upfront payments in the same period. If the US decides to wall off in-licensed assets from Chinese pharmaceutical and biotech companies, we expect some of these deals would shift to companies in other regions

Figure 4: Geographical breakdown of out-licensing deals

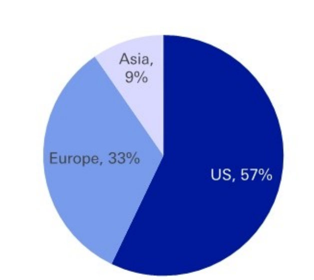
Geographical breakdown of out-licensing deals



Note: This includes the deals in 2020 and May 2026; Japan, South Korea, India, Indonesia, Vietnam, Pakistan, Philippines, Malaysia, Bangladesh, Thailand, Singapore are included in Aisa
Source: Pharmcube, Deutsche Bank

Figure 5: Geographical breakdown of upfront payments

Geographical breakdown of upfront



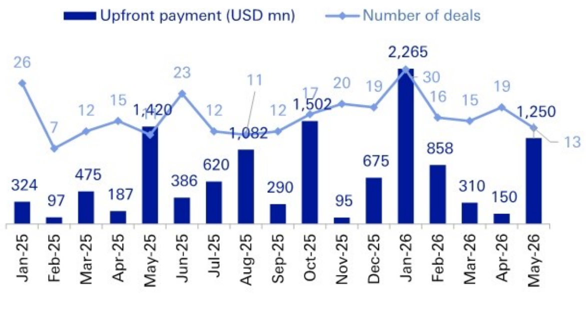
Note: This includes the deals in 2020 and May 2026; Japan, South Korea, India, Indonesia, Vietnam, Pakistan, Philippines, Malaysia, Bangladesh, Thailand, Singapore are included in Aisa
Source: Pharmcube, Deutsche Bank

Strong opposition from local industry players is expected. While some view Chinese biotechs as a threat to the US industry, others believe the potential legislation would actually harm Americans by restricting access to life-saving drugs. Moreover, while the public and government are demanding cheaper drugs in the US, this legislation would seemingly incur higher R&D expenses for pharmaceutical companies.

Continued out-licensing momentum in 5M26. Upfront payments reached USD4,833mn (+93% YoY) in 5M26, already representing approximately 68% of

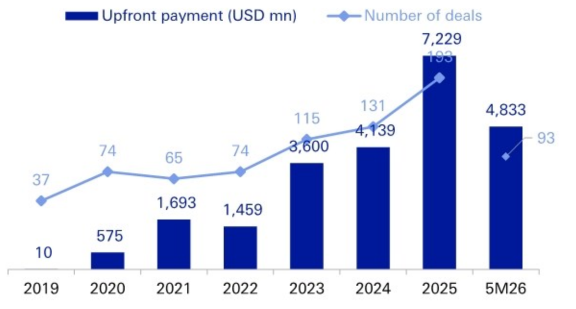
2025's total. There were 93 deals, an increase of 31% YoY. The upfront payment in May was significant, totaling USD1,250mn, mainly contributed by deals between Hengrui and BMS, and Innovent and Pfizer.

Figure 6: Out-licensing deals in China



Source : Pharmcube, Deutsche Bank

Figure 7: Out-licensing deals in China



Source : Pharmcube, Deutsche Bank

Figure 8: Companies under coverage

Company	Ticker	Recommendations	Price (LC)	Price target (LC)	Mkt cap (HK$ mn)	PER 2025	PER 2026E	PER 2027E	PBR 2025	PBR 2026E	PBR 2027E
WuXi AppTec Co Ltd	2359	BUY	124.50	167.40	338,925	13.5	18.0	15.3	3.4	3.5	2.9
BeOne Medicines Ltd	6160	BUY	163.00	213.00	261,805	156.3	41.0	27.7	7.6	5.8	4.6
Hansoh Pharmaceutical Group Co	3692	BUY	29.26	44.00	177,437	34.8	25.8	23.3	5.5	3.9	3.5
Shenzhen Mindray Bio-Medical E	300760	BUY	144.39	252.00	175,064	28.4	19.2	17.0	6.1	4.1	3.6
Wuxi Biologics Cayman Inc	2269	BUY	32.74	48.00	135,577	23.1	19.4	16.1	2.5	2.1	1.8
Innovent Biologics Inc	1801	BUY	76.60	126.00	133,149	142.6	48.0	30.3	6.1	5.2	4.3
Sino Biopharmaceutical Ltd	1177	BUY	4.65	8.50	87,166	42.8	18.2	15.8	3.4	2.1	1.8
Akeso Inc	9926	BUY	93.80	162.00	86,403	N/A	2,795.9	70.3	10.1	8.0	7.2
Remegen Co Ltd	9995	HOLD	70.60	95.00	56,517	50.1	10.5	38.6	10.1	4.8	4.4
Pharmaron Beijing Co Ltd	3759	BUY	16.48	26.90	45,241	30.1	12.5	10.1	3.4	1.5	1.3
XtalPi Holdings Ltd	2228	BUY	7.50	12.10	32,275	283.1	N/A	196.5	3.9	2.9	2.9
United Laboratories Internatio	3933	BUY	8.68	13.40	17,126	9.4	11.8	9.4	1.1	0.8	0.7
Guangzhou Innogen Pharmaceutic	2591	BUY	10.01	34.60	4,573	N/A	N/A	66.6	11.0	4.4	4.4
HUTCHMED China Ltd	HCM	BUY	11.17	24.40	1,949	N/A	43.3	22.3	N/A	2.0	1.9

Source : Deutsche Bank estimates, Bloomberg Finance LP; Based on closing price on 5 June 2026

Appendix 1

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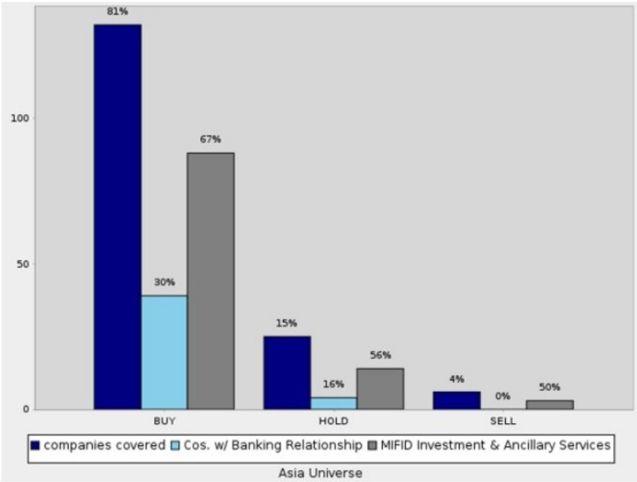

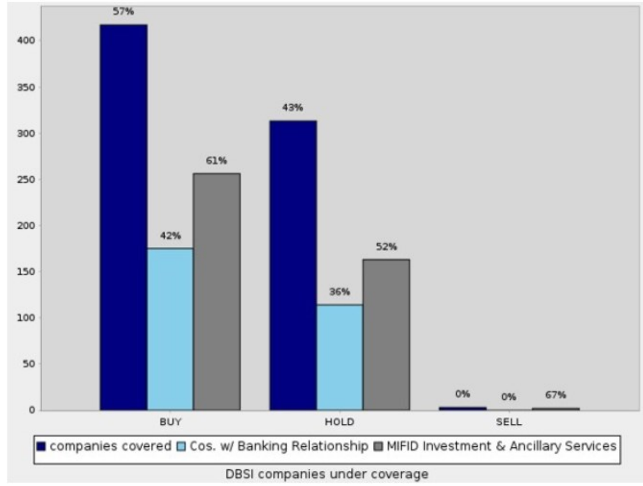

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The Equity Rating Dispersion Chart depicts the following:

The proportion of recommendations that are rated "buy", "sell" and "hold" over the previous 12 months. This is shown for securities issued in the stated region e.g. "Europe Universe". See rating definitions below. This is represented by the "Companies Covered" bars in the chart. The percentage value displayed above the bar is the proportion as a percentage. E.g. 50% above the “buy” / “Companies Covered” bar means that 50% of DB’s equity research covered companies over the past 12 months have a “buy” rating.

Next to each of the three respective bars showing the proportion of "buy", "sell" and "hold" recommendations we provide two additional bars to show:

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International Production Locations

Deutsche Bank AG
Deutsche Bank Place
Level 16
Corner of Hunter & Phillip
Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG
Equity Research
Mainzer Landstrasse 11-17
60329 Frankfurt am Main
Germany
Tel: (49) 69 910 00

Deutsche Bank AG
Filiale Hongkong
International Commerce
Centre,
1 Austin Road West,Kowloon,
Hong Kong
Tel: (852) 2203 8888

Deutsche Securities Inc.
1-3-1 Azabudai
Azabudai Hills Mori JP Tower
Minato-ku, Tokyo 106-0041
Japan
Tel: (81) 3 6730 1000

Deutsche Bank AG
21 Moorfields
London EC2Y 9DB
United Kingdom
Tel: (44) 20 7545 8000

Deutsche Bank Securities Inc.
The Deutsche Bank Center
1 Columbus Circle
New York, NY 10019
Tel: (1) 212 250 2500

Deutsche Bank AG
Filiale Singapur
One Raffles Quay, South
Tower,
Singapore 048583
TeL: +65 6423 8001