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J.P.Morgan

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China Healthcare

Are rates impacting stock valuations? Assessing sensitivities

Healthcare

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With global interest rates, especially 10-year and 30-year treasury yields, moving higher, the risk-free interest rate used in our DCF models and stock valuations based on DCF is under more pressure than before. Hence, we revisit the potential impact of interest rates on our China Healthcare valuations, particularly across the Biotech and CXO sub-sectors. If we use higher risk-free interest rates in our DCF (see Figure 1), the valuations of Insilico in AIDD, Genscript and WuXi Apptec in CXO, Junshi in Biotech and MP Endo in Medtech seem to be less sensitive than their respective peers. On the other hand, the valuations of Kelun-Biotech in Biotech, WuXi XDC in CXO and MicroPort in Medtech appear to be more sensitive. However, more careful analysis suggests that: **1)** There is no consistent correlation pattern between interest rates and China Healthcare stock valuations (Figures 2 and 3). For example, the correlation between the 10-year treasury yield and the market cap-weighted average P/FY5S (price over sales in five years) of China Biotech stocks is negative since January 2025 but slightly positive since July 2026. **2)** Interest rates are more relevant to long-duration Biotech assets. By contrast, CXO valuations appear less directly tied to interest rate moves, with performance more driven by earnings. In addition, our U.S. Economics research team expects the current rate hiking cycle to conclude with one more hike in December, rather than extending into a prolonged tightening cycle next year. Hence, we are not very concerned about China Healthcare valuations from the perspective of rising interest rates. In our coverage, we continue to favor the Biotech and CXO sub-sectors. Innovent and Kelun Biotech are our top picks in Biotech, while Innovent's valuation appears to be less sensitive to rates vs. Kelun Biotech. WuXi Bio and WuXi Apptec are our top picks in CXO, while WuXi Apptec's valuation appears to be less sensitive to rates vs. WuXi Bio.

- **In theory, rate hikes could bring valuation pressure on China Healthcare stocks valued using DCF, especially Biotech stocks.** This is because rate hikes pressure Healthcare shares, especially Biotech, by raising investors' required returns with higher risk-free rates, and making the capital needed to fund drug development more expensive and less readily available, which increases the discount rates used in DCF. The historical experience illustrates this mechanism: During the 2022 Federal Reserve tightening cycle—when the Fed aggressively raised its benchmark interest rate target range from 0–0.25% to 4.25–4.50%—the SPDR S&P Biotech ETF (XBI) experienced a massive peak-to-trough drawdown of over 45%. In Figure 1, we demonstrate that if the risk-free rate in our DCF increases from the current 3.8% to 4%+ and 5%+, valuations of our covered stocks will drop by low teens to more than 20% at a risk-free rate of 5.25%, all else being the same.
- **However, our analysis suggests that there is no clear correlation pattern between treasury yields and China Healthcare stock valuations**. We calculated the correlation between 10-year treasury yields and the market cap-weighted P/FY5S of China Biotech stocks during different periods. The correlation coefficient is -0.448 from January 2025 to the present and 0.027 from July 2026 to the present, suggesting that the China Biotech stock valuation multiple has not gone down with rising yields in recent months.

See page 5 for analyst certification and important disclosures, including non-US analyst disclosures.

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Similarly, the correlation between 10-year treasury yields and the market cap-weighted average P/Es of China CXO stocks demonstrates a similar pattern. The correlation coefficient is -0.218 from January 2025 to the present, and 0.414 from July 2026 to the present, suggesting the P/E has increased with rising yields during recent months.

- **Even if there is actual pressure on China Healthcare from rising interest rates, higher interest rates could pressure long-duration Biotech more, while CXO stocks remain less correlated to interest rates but more earnings-driven:** We think the Biotech stocks remain relatively more vulnerable to higher risk-free rates, particularly for long-duration assets where cash flows are further out and therefore more sensitive to discount-rate assumptions. This is consistent with the Biotech valuation chart (Figure 2), which demonstrates that market cap-weighted average P /FY5S multiples of the Biotech stocks moderated to 4.36x (from the 2025 peak of 5.84x) as treasury yields moved higher. Relatively more mature Biotech companies with healthy balance sheets, positive cash flows, or clearer near-term commercial visibility should be less affected, while sector performance could still be supported by company-specific catalysts such as licensing deals, clinical readouts, or approvals. For the CXO stocks, we think the impact of higher yields is more indirect and uneven across business lines. CROs and preclinical projects could face more direct pressure if higher rates slow Biotech funding and early-stage R&D spending. CDMOs, by contrast, should be more resilient, as they are more exposed to late-stage and commercial projects, global demand, and commercial contracts with multinational biopharma companies. This view is supported by the CXO valuation chart (Figure 3), which shows that the market cap-weighted average P/E of CXO stocks remains largely range-bound at 20–30x, suggesting sector strength is less tied to yield moves and more likely driven by earnings revisions and operating fundamentals.
- **J.P. Morgan's U.S. Economics team expects one more rate hike in December, but doesn't foresee a protracted hiking cycle extending into next year, which suggests the rate hike pressure on DCF valuations could be temporary.** In its September 18 note, J.P. Morgan Economics and Policy Research forecasts the hiking cycle will conclude with one more hike in December, though a stronger-than-expected labor market or continued sticky inflation could lead to additional tightening, following September's increase to 3.75–4.00%. More recently, the softer-than-expected September U.S. labor report appears to have lowered the near-term probability of a Fed rate hike. Our US Economics team noted that the market cut the implied probability of an October hike from roughly 70% at the start of last week to around 20% by week-end, while the team still expects the next hike in December barring an especially hot September CPI print (see our US Economics team's note). Persistent inflation supports additional tightening, but the team considers inflation substantially supply-shock-driven and does not foresee a prolonged hiking cycle extending into 2027.

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Figure 1: We currently use 3.8% as the risk-free rate across DCFs in our coverage; in a 5.25% scenario, our valuations would decline by 10-22%, all else being equal

		Valuation sensitivity (%) on rfr*			
Subsector	Company	4.60%	5.00%	5.25%	5.50%
AIDD	XtalPi	(9%)	(14%)	(16%)	(18%)
	Insilico	(5%)	(8%)	(10%)	(11%)
CXO	WuXi AppTec	(8%)	(12%)	(14%)	(16%)
	WuXi Bio	(9%)	(14%)	(16%)	(19%)
	WuXi XDC	(9%)	(14%)	(17%)	(19%)
	Genscript	(8%)	(12%)	(14%)	(16%)
	Tigermed	(9%)	(14%)	(16%)	(19%)
Biotech/pharma	Kelun Biotech	(11%)	(16%)	(19%)	(22%)
	Innovent	(8%)	(12%)	(14%)	(16%)
	Akeso	(9%)	(13%)	(15%)	(17%)
	Hansoh	(8%)	(12%)	(14%)	(16%)
	Hengrui	(7%)	(11%)	(13%)	(15%)
	Remegen	(7%)	(10%)	(12%)	(14%)
	Junshi	(6%)	(9%)	(10%)	(12%)
	Ascentage	(7%)	(11%)	(13%)	(15%)
Medtech	Mindray	(9%)	(14%)	(16%)	(18%)
	Medbot	(10%)	(15%)	(17%)	(20%)
	MicroPort	(12%)	(18%)	(22%)	(25%)
	MP Endo	(8%)	(12%)	(15%)	(17%)
	MPEP	(10%)	(15%)	(17%)	(20%)
Pharmacy	Dashenlin	(6%)	(9%)	(11%)	(12%)
	Yifeng	(8%)	(11%)	(13%)	(15%)
	Laobaixing	(8%)	(11%)	(13%)	(15%)
Healthcare service	Topchoice	(9%)	(12%)	(14%)	(16%)
	Aier Eye	(9%)	(13%)	(15%)	(18%)
	Gushengtang	(10%)	(13%)	(16%)	(18%)

Source: J.P. Morgan estimates. Note: * Risk-free rate.

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Figure 2: Since early 2025 Biotech P/FY5S multiple derated as yields rose; however, the pattern appears to have broken in recent months



Source: Bloomberg Finance L.P. Bloomberg Finance L.P., J.P. Morgan.

Figure 3: CXO valuation appears more earnings-driven, with the P/E range-bound at 20-30x



Source: Bloomberg Finance L.P., J.P. Morgan.

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Companies Discussed in This Report (all prices in this report as of market close on 02 October 2026, unless otherwise indicated)
Innovent Biologics (1801)(1801.HK/HK$96.25/OW), Kelun Biotech(6990.HK/HK$472.20/OW), WuXi AppTec - A(603259.SS/Rmb167.34[30 September 2026]/OW), WuXi AppTec - H(2359.HK/HK$210.00/OW), WuXi Biologics(2269.HK/HK$54.55/OW)

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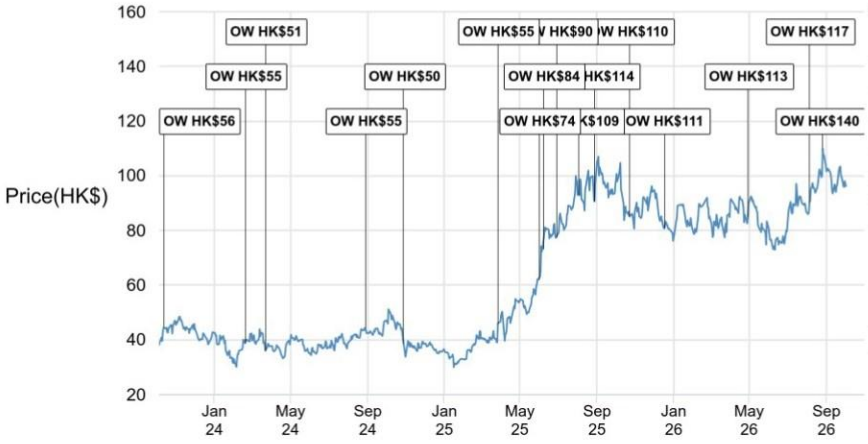
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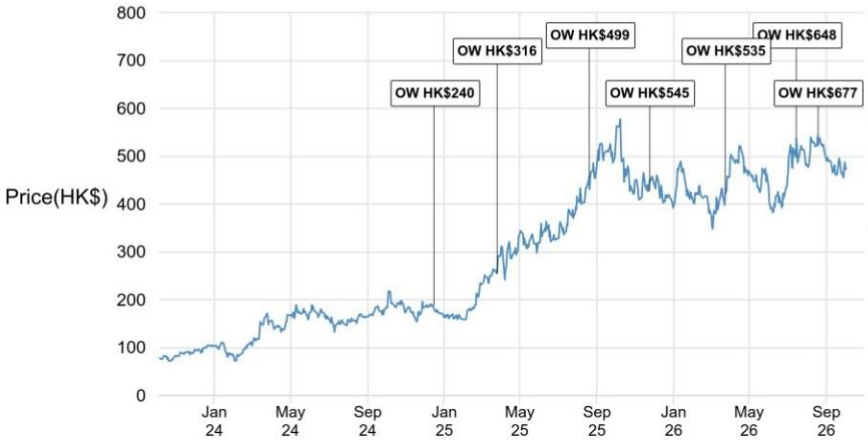
Innovent Biologics (1801) (1801.HK, 1801 HK) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Dec 02, 2018. All share prices are as of market close on the previous business day.

Date	Rating	Price (HK$)	Price Target (HK$)
14-Oct-23	OW	44.50	56
20-Feb-24	OW	38.75	55
23-Mar-24	OW	36.00	51
29-Aug-24	OW	44.10	55
29-Oct-24	OW	38.70	50
28-Mar-25	OW	45.85	55
02-Jun-25	OW	61.95	74
08-Jun-25	OW	73.15	84
30-Jun-25	OW	77.35	90
04-Aug-25	OW	93.00	109
29-Aug-25	OW	90.65	114
23-Oct-25	OW	85.20	110
18-Dec-25	OW	80.75	111
30-Apr-26	OW	84.90	113
06-Aug-26	OW	90.30	117
27-Aug-26	OW	109.80	140

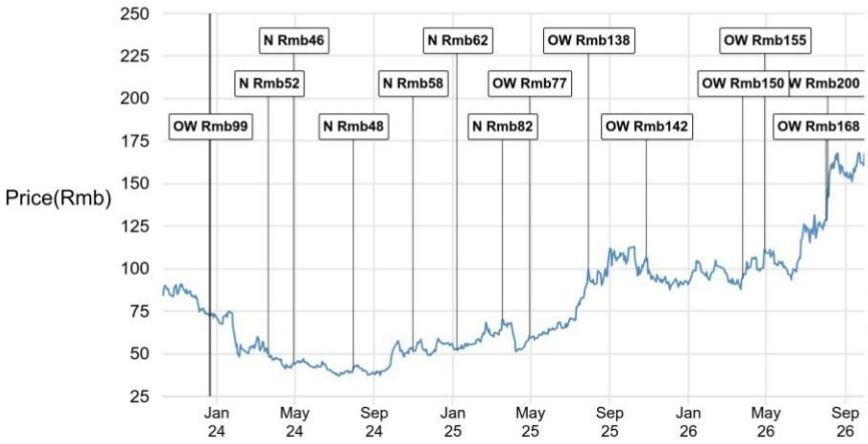
Kelun Biotech (6990.HK, 6990 HK) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Dec 16, 2024. All share prices are as of market close on the previous business day.

Date	Rating	Price (HK$)	Price Target (HK$)
16-Dec-24	OW	187.60	240
26-Mar-25	OW	255.00	316
20-Aug-25	OW	456.00	499
24-Nov-25	OW	426.60	545
25-Mar-26	OW	421.00	535
16-Jul-26	OW	536.50	648
19-Aug-26	OW	542.50	677

WuXi AppTec - A (603259.SS, 603259 CH) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage May 02, 2019. All share prices are as of market close on the previous business day.
Break in coverage Mar 14, 2022 - Dec 21, 2023.

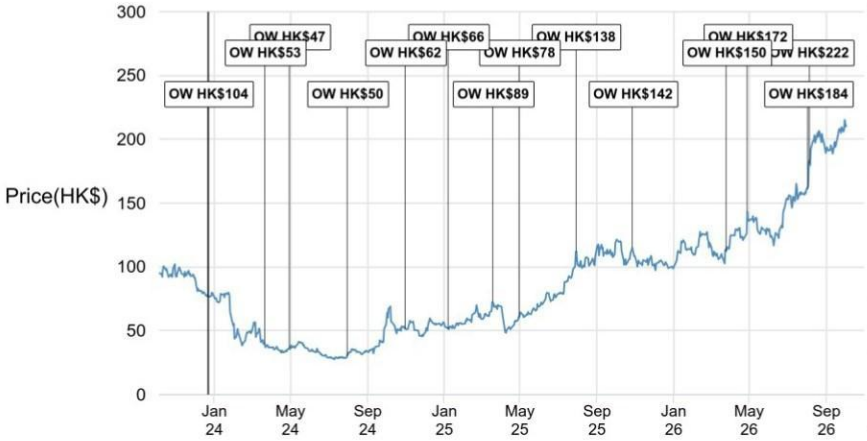
Date	Rating	Price (Rmb)	Price Target (Rmb)
22-Dec-23	OW	73.25	99
22-Mar-24	N	50.02	52
30-Apr-24	N	44.57	46
31-Jul-24	N	40.69	48
31-Oct-24	N	52.14	58
08-Jan-25	N	52.38	62
19-Mar-25	N	69.68	82
30-Apr-25	OW	60.45	77
30-Jul-25	OW	98.69	138
28-Oct-25	OW	106.64	142
26-Mar-26	OW	94.02	150
29-Apr-26	OW	110.57	155
03-Aug-26	OW	128.43	168
05-Aug-26	OW	141.35	200

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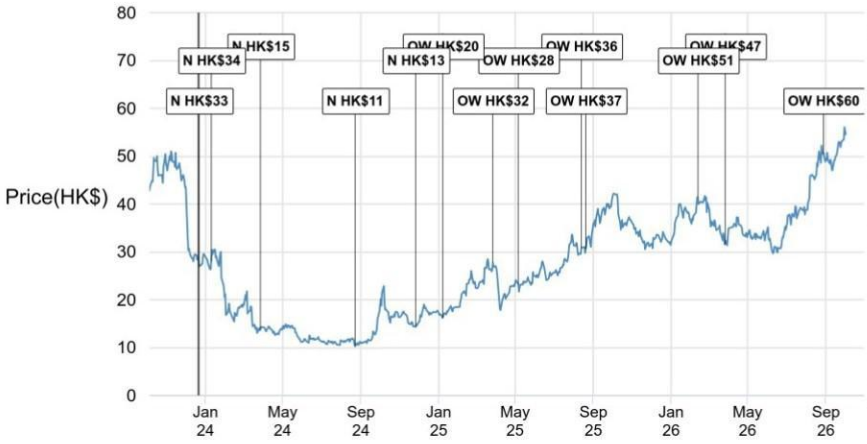
WuXi AppTec - H (2359.HK, 2359 HK) Price Chart



Date	Rating	Price (HK$)	Price Target (HK$)
22-Dec-23	OW	78.00	104
22-Mar-24	OW	40.15	53
30-Apr-24	OW	36.30	47
31-Jul-24	OW	29.85	50
31-Oct-24	OW	51.70	62
08-Jan-25	OW	51.50	66
19-Mar-25	OW	72.35	89
30-Apr-25	OW	60.65	78
30-Jul-25	OW	111.70	138
28-Oct-25	OW	115.00	142
26-Mar-26	OW	112.20	150
29-Apr-26	OW	143.10	172
03-Aug-26	OW	160.70	184
05-Aug-26	OW	181.10	222

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage May 02, 2019. All share prices are as of market close on the previous business day.
Break in coverage Mar 14, 2022 - Dec 21, 2023.

WuXi Biologics (2269.HK, 2269 HK) Price Chart



Date	Rating	Price (HK$)	Price Target (HK$)
22-Dec-23	N	28.45	33
11-Jan-24	N	28.00	34
28-Mar-24	N	13.76	15
23-Aug-24	N	10.40	11
26-Nov-24	N	14.42	13
08-Jan-25	OW	16.18	20
28-Mar-25	OW	27.75	32
07-May-25	OW	23.25	28
14-Aug-25	OW	30.80	36
21-Aug-25	OW	30.62	37
13-Feb-26	OW	41.34	51
27-Mar-26	OW	31.54	47
28-Aug-26	OW	50.50	60

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
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(6990.HK), Laobaixing Pharmacy Chain - A (603883.SS), Mindray - A (300760.SZ), RemeGen - A (688331.SS), RemeGen - H (9995.HK), Shanghai Junshi Biosciences - A (688180.SS), Shanghai Junshi Biosciences - H (1877.HK), Tigermed - A (300347.SZ), Tigermed - H (3347.HK), WuXi AppTec - A (603259.SS), WuXi AppTec - H (2359.HK), WuXi Biologics (2269.HK), WuXi XDC (2268.HK), XtalPi - H (2228.HK), Yifeng - A (603939.SS)

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IB clients**	95%	93%	88%

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