

Week of 11th January 2021

What's on our mind this week?

A new rising star in the Chinese NEV space

NIO, a Chinese New Energy Vehicle (NEV) maker launched its first sedan model on 9h January at a public event in Chengdu. This is the first NIO Day event for the company since its operations turned around through successful fundraising efforts led by the Hefei provincial government in early 2020. NIO delivered 43,728 vehicles in 2020 and is currently the 5th largest automaker in the world by market capitalisation (USD 92bn), surpassing Daimler and BMW. It is currently selling three luxury SUV models built at a car factory in Hefei, aside from the newly launched ET7 sedan. The sedan model, ET7, was launched right after Tesla started selling its China-made Model Y sport-utility vehicle in China. In China's passenger car market, sedans and SUVs each make up around 46% of overall sales.

NIO's CEO William Li said NIO's new battery technology will give the ET7 a drive range of over 700km when the first cars are delivered in Q1 2022. The starting price will be RMB 378,000 (USD 58,000) without the battery pack, which can be leased from the company. The starting price is RMB 448,000 (USD 69,000) if the battery pack is included. NIO launched Battery as a Service (BaaS) in August 2020, which provides comprehensive services enabled by vehicle-battery separation, battery subscription and the chargeable, swappable and upgradable batteries. Under the scheme, NIO BaaS users can purchase a car without the battery, making it more price competitive, while also providing the flexibility to change battery capacity depending on their needs. The company announced that it will be able to offer batteries with 1,000km range by the end of 2022. BaaS represents a unique solution to the challenges that include battery degradation, battery upgradability and lower resale value.

Mr. Li also mentioned that ET7's main competing models will be BMW's 5-series, Audi's A6 and Mercedes-Benz E-class sedans, and he believed that it is "reasonable" for NIO to sell as many ET7s as BMW's 5-series sedans in China in the future, without giving a timeline. The starting price for the BMW 5-series is RMB 426,900 (USD 66,000) and more

than 10,000 are sold every month in China. The ET7 will be fitted with lidar sensors to help the car perceive its surroundings, which is crucial for autonomous cars.

NIO has achieved significant product success at a premium pricing point that local manufacturers historically struggled to break into and has also led the domestic industry's innovations around battery-as-a-service infrastructure. NIO also mentioned the possibility of entering the mass market segment in the future, but not with the NIO brand.

NIO's rebound from near bankruptcy led to an exceptional performance of its share price last year (+1900%). It is however not the only EV play in Asia and the sector has seen many news last week, including the rumour that Apple was working on an agreement with Hyundai to develop the first Apple electric car or the announcement by Baidu, the leading Chinese search engine, that it plans to establish a company to produce intelligent electric vehicles and that it has entered into a signed a strategic partnership with Geely Holding Group (one of the largest Chinese auto makers and the parent of Volvo Cars).

Government plans should help these companies succeed as China previously announced a 2025 NEV penetration target of 20%, to reach 50% by 2035. NEVs will remain critical and central to China's government agenda for emission reduction, national energy security and local advantage cultivation.

National Reimbursement Drug List (NRDL) 2021

Last month, the Chinese regulator finalised the updated NRDL list for 2021. The NRDL lists the drugs covered by Chinese national healthcare insurance. The process of getting on the list involves a negotiation with drug makers to get the prices as low as possible with the incentive of large volumes to cover the price cuts or being completely outcasted if the drugs are not selected to be part of the list. Once a drug is included in this list, roughly 50-70% of its cost will be covered by the National Health Insurance with patients paying for the balance.

The National Healthcare Security Administration (NHSA) said in its statement that 119 medicines would be added to the NRDL this year (out of over 700 considered) with an average price reduction of 50.64%. The NRDL has now over 2,800 drugs.

This year's biggest winners are Hansoh and Hengrui.

Hansoh's cancer drug Almonertinib was included in the list. Almonertinib is a 3rd generation EGFR tyrosine kinase inhibitor which was approved for the treatment non-small cell lung cancer. Since it will be the only local Chinese drug sold in China for this indication, the drug is expected to become a major revenue generator for the company in coming years.

Hengrui's Camrelizumab, a PD-1 antibody drug for cancer treatment has been also included. PD-1 inhibitor products are a fast-growing class of drugs that help the immune system attack cancer cells by blocking a mechanism cancer cells use to evade detection. PD-1s have been included in the list since last year, but Hengrui's product was only included this year for major indications including lung cancer, which is one of the biggest indications in China.

Although the NRDL announcements have led to some volatility for the drug makers, the process is healthy as it ensures the patients are not over-charged for drugs (most of the price reductions are about getting in line, if not a little below, the global prices for drugs) and most of the healthcare budget can be used on innovative drugs. Our equity portfolios own both Hansoh and Hengrui as they are leaders in the fast-growing oncology segment of China. The inclusion of their drugs adds to our conviction as it will be beneficial for the earnings growth of both companies.

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