

# Untapped Wealth

*September 2010 Edition*

## **The Return To China**

For the month of September, I thought I would return to China for obvious reasons. As readers of Untapped Wealth, you've likely see quite a few recommendations come down from us that are Chinese based businesses.

Point it, China in my mind is one of the best places to potentially pick up serious profit and with our markets currently unsure, there isn't a better choice.

I'd like to get right into November's recommendation.....



**China Biologic Products**



China Biologic Products (CBPO.OB \$10.56\*) is a biopharmaceutical company and through their indirect majority-owned Chinese subsidiary, Shandong Taibang, the company is principally engaged in the research, development, production and manufacturing of plasma-based pharmaceutical products in China. Shandong Taibang operates from their manufacturing facility located in Taian City, Shandong Province.

The plasma-based biopharmaceutical manufacturing industry in China is highly restricted by both the state and central governments. Accordingly, the manufacturing process of China Biologic's products is strictly monitored from plasma collection from human donors to finished products.

The time required to build, furnish and obtain the operating permit for a plasma collection station could take up a year or more, depending on the time spent obtaining a plasma collection permit from the Health Department. In addition, it could take a prospective manufacturer between 2 - 5 years to build a manufacturing plant and obtain the relevant state and local approval to sell its plasma products.

A prospective manufacturer must first obtain a Production Permit from the Provincial Food and Drug Authority and a Good Manufacturing Practice, or GMP, certificate from the PRC State Food and Drug Authority, or the SFDA. Each product category has to be separately approved by the SFDA, and a manufacturer may not sell its product

before obtaining relevant SFDA approval.

The cost of obtaining state and local approval depends on the scale and technical ability of the manufacturer. China Biologic has been approved by the state to collect plasma from human donors and manufacture and sell plasma-based biopharmaceutical products in Shandong Province.

## **China Biologic's Industry**

CBPO's industry is competitive and subject to numerous government regulations. Retail prices of certain of their biopharmaceutical products in the PRC are subject to the control of the relevant State and provincial price administration authorities.

The actual price for any given price-controlled product set by manufacturers, wholesalers and retailers cannot exceed the price ceiling imposed in accordance with the applicable government price control rules. Only those pharmaceutical products which are included in the Insurance Catalogue administered at the State or provincial level are subject to price control.

Many competitive factors may affect their sales of products, including product efficacy, safety, price and cost effectiveness, marketing effectiveness, quality control and quality assurance of their manufacturing operations, and research and development of new products.

## **Competition**

According to a 2006 Hua Yuan Medicine Net survey of the profit ranking of companies in the Chinese biological products industry, China Biologic is ranked the 20<sup>th</sup> in 2006 and 25<sup>th</sup> in 2005, and in the plasma products area, they were ranked 5<sup>th</sup>.

The company believes that their past financial performance is attributable to their market position in the industry. Although PRC provincial and state regulatory requirements pose a competitive barrier to entry into the industry, over time there may be new entrants.

The company's major competitors in the albumin and immunoglobulin market in China are Hualan Biological Engineering, Shanghai Institute of Biological Products, Shanghai RAAS Blood Products Co. Ltd., Chengdu Rongsheng Pharmaceuticals, and Sichuan Yuanda Shuyang Pharmaceutical Co.

## Company Strategy

China Biologic's mission is to become a first-class biopharmaceutical enterprise in China. To achieve this objective, the company has implemented the following strategies: *(taken from company prospectus)*

- ***Securing the supply of plasma*** – Due to the shortage of plasma and the reform of the ownership of plasma stations, our immediate strategy is to negotiate and acquire plasma stations so as to secure our plasma supply.
- ***Acquisition of competitors and/or other biologic related companies*** – In addition to organic growth, acquisition is an important part of our expansion strategy. Although there are about 34 approved plasmabased biopharmaceutical manufacturers in the market, we are of the view that only about half of them will be competitive. In addition, due to recent Ministry of Health regulations, we believe that it is difficult for new manufacturers to enter into the industry.
- ***Further strengthening of research and development capability*** – We believe that, unlike other more developed countries like the US, China's plasma-based biopharmaceutical products are at the initial stage of development. We plan to increase our focus on research and development in order to give us a competitive advantage over our competitors.
- ***Market development and network expansion*** – Leveraging on the high quality and safety record of our products, we intend to (i) enhance our product penetration with our existing customers by introducing new products and (ii) extend the reach of our products from our current market to include other provinces where we envision significant market potential.”

## Forbes' List

On October 21<sup>st</sup>, China Biologic was named on Forbes Magazine's fifth annual list of Asia's "200 Best Under a Billion" for the year 2009. According to the press release:

“To assemble its Best Under a Billion for the Asia-Pacific region, Forbes considered only listed entities with under \$1 billion in sales that have posted solid top and bottom-line gains and appear to be headed for more.

The 200 Asia-Pacific companies were selected based on their: profitability, growth, modest indebtedness and future prospects this

year (for a more precise methodology, go online to <http://www.forbes.com/BUB> ).

According to Forbes, this year's selection were survivors of unprecedented dislocations in the global economy over the past 12 months, disrupted supply chains, frozen lines of credit, depleted consumer coffers and business spending hibernation, who seized opportunities rising from the economic uncertainty. China Biologic was one of only 78 companies in China and Hong Kong to make the prestigious list."

In The End

In the end I expect that China Biologic will prevail as a true market leader in China and its profits will continue to grow on a quarterly basis.

China is the place to be these days despite our economy growing stronger. China has been strong and will continue to be strong.

\*Represents initial recommended price.

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