The China Rambler

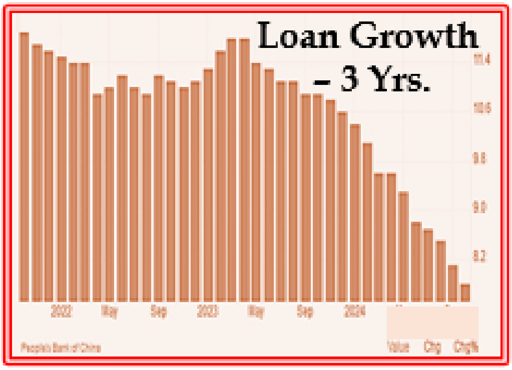
An Occasional Letter On Topics Of Interest To China Investors

Issue #1. “Seek Truth From Facts” **Dec. 3rd, 2024**

In this edition: Why the China stimulus hasn’t worked (yet), a closer squint at Yihai #01579, how I’m getting involved again and a look at recent macro data.

Why The China Stimulus Has, So Far, Failed to Recover Confidence

The first package of measures aimed at ginning up the Chinese economy was rolled out on September 24th, at the same time a commitment to a growth rate of 5% for 2024 was reiterated. This was followed by another round of measures on October 12th.



Stock markets reacted positively to and slightly in anticipation of package #1 and with less enthusiasm to package #2. Since then, stocks have eased such that many are back to where they were before the first stimulus and most all are a long way off tops established in October.

It may be, in time, these measures will have the desired effect; but it’s clear for now they’ve failed to excite the citizenry or fully convince overseas investors that China is breaking out of its post-COVID funk.

The Problem Being?

Chinese individuals, and companies, are scared.

We don’t need to dwell on the reasons why, we just need to know fear is present, ubiquitous and real; and until it goes away markets, most likely, will continue to footle around current levels.

On the previous page I've picked out two 'fear gauges', consumer confidence and outstanding loan growth to reflect individual and corporate fear respectively. Neither need elaboration, the pictures are crystal clear in both cases.

Keep an eye on these aggregates. I'd bet markets make no real progress until one, and preferably both, turn convincingly up.

Also Not Helping

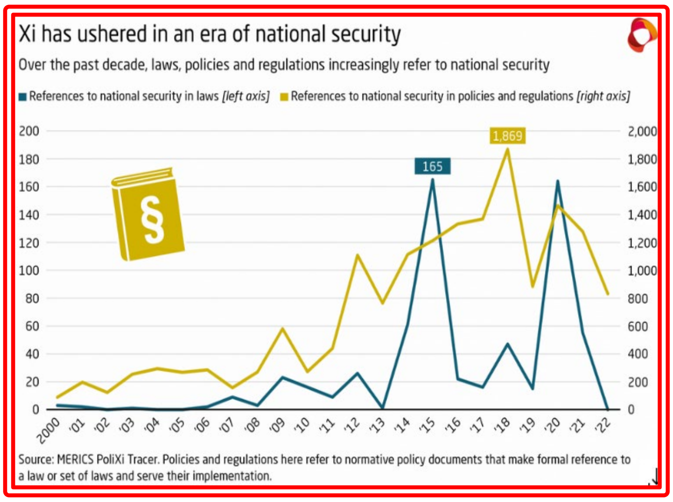
The Chinese government have been on campaigns in recent years emphasising the need for greater 'National Security'. This is a recurring leitmotiv in China but the amplitude seems to have been dialled up in the last few years as noted in a study two years ago by the Mercator Institute for China Studies from which both the graphics below have been lifted.

The cheeky summary on the left reminds the issue of 'security' isn't new, it also highlights the obvious problem of trying to manage such a comprehensive range of perceived threats. You can't.

You'll always find yourself as coming up short somewhere here hence the rolling nature of the campaign(s).

This graphic on the right is out of date and erratic. However, I'd bet an updated version would confirm trends that seem to have accelerated and be associated with the present regime.

It's obvious in this process frightened cadres, most likely, aren't/haven't been making bold decisions.



In summary. This is why the stimulus hasn't led to a confidence lift. It's not addressing the basic fears that are keeping consumer's wallets shut, corporate borrowing buttoned up and nervous planners close to familiar-policy-shores. A trifecta of change isn't necessary to improve animal spirits, but for the moment I can't see any of these groups emerging from the shells of fear each are currently parked in.

Stockwatch: Yihai #01579

Summary of a recent closer look

Basically: P/E 14x. Yield 6%. P/B 2.7x. Market cap. H$14bn (U$1.8bn). 3m Average Daily Volume 4.2m shares. Business: Chinese hot pot soup base and other condiments.

The closer look revealed a stable, profitable business that's done nothing since listing in 2016 to raise corporate governance red flags.

What's new is their recent change in approach to dividend payout. When listed they committed to a regular 20% but recently that's been bumped up to over 80%.

They're controlled by listed hotpot chain operator Haidilao #06862 and in the past relied on them for most of their sales. Dependence has decreased some in recent years.

2024 interim sales were up but net profit dipped 14%. For the full year perhaps an EPS of around 15% below that of 2023's Rmb0.875 (H$0.80) would be a safe guess?

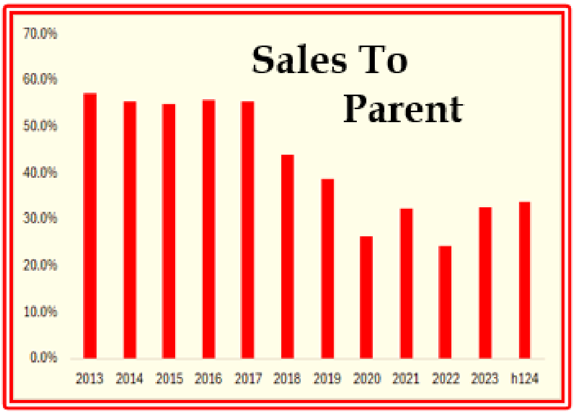
Not to like: They're through a very fast growth period post IPO and progress ahead can only be organic. Competition is ferocious and branding doesn't count for much in the space.

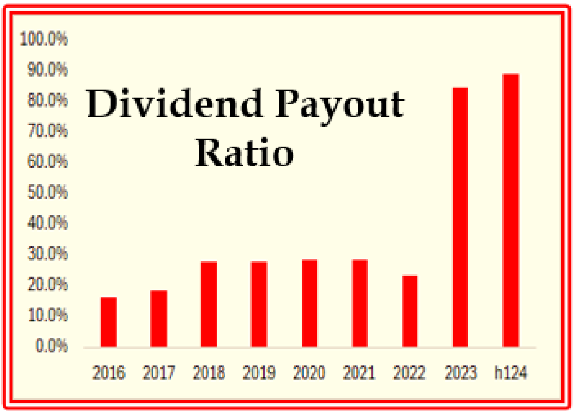
To like: Fortress balance sheet, a decade of observable sound operation. Good interaction. Questions mailed to a responsive IR department were answered in full the next day.

Would I buy them? Yes. At the lower end of either a fair P/E or yield range. Fair being? P/E 8x~12x, yield 8%~5%. That'd be H$6.40~H$9.60 or (@ 80% payout) H$10.00~H$16.00.

The company wouldn't confirm the higher payout stays, so I'm compelled for now to focus on P/E. At a price of <u>**H$7.00**</u> I'd get a 1:4 downside/upside ratio and be happy to enter.

At the time of writing the stock is around H$13.80 so it may be a while before I get to join this party. If my prediction for the 2024 EPS is optimistic though, well, you never know.





How’s My Investing?

Performance summary, review of recent trading and thoughts on the road ahead

November Performance:	+0.3%
Performance Since Inception:	+0.3%
Cash Percentage Of Total Portfolio:	70%

Having liquidated my institutional Fund at some of the top prices of the year it’s been a butter-side-up experience (two times!) to follow that good fortune by buying some of those stocks back at significant discounts to levels realised only six weeks or so ago.

In November I reacquired the following and added to some legacy holdings as follows:

Stock	Argument
03983 China BlueChemical	Yield and balance sheet
00688 COLI	Best developer in China. Period
00014 Hysan	H$65.0 of value for H$13.0? All day long
01122 Qingling Motors	H$2.0+ of cash for H$0.50? All year long!
00386 Sinopec	Yield, legacy, franchise and governance

Performance data won’t mean much for a month or two as I get back into the market. My plan is to take cash down to 50% very soon and thereafter bide my time.

Ahead: China’s stimulatory measures aren’t working, yet; but initial failure make more and more-meaningful efforts a strong possibility in the New Year. China-bashing in the U.S. is beginning to take on shades of McCarthyism and will most likely get worse and a major, say 30% or more, correction in the U.S. tech complex is now a when not if issue. So?

Valuations more than adequately reflect the risks. In markets it’s the bullet you don’t hear that gets you; but, with 70% cash now I’m feeling pretty bulletproof.

Datawatch

Key Releases In The Last Month

Mostly 🙁 Some 😐 No 😊

Trade 😐: Oct. Exports +12.7% (Sep. +2.4%), Imports -2.3% (Sep. +0.3%). The pre-tariff stock up appears to be continuing

Prices 🙁: Oct. CPI +0.3% (Sep. +0.4%), PPI -2.9% (Sep. -2.8%). Deflation remains a real possibility.

Credit 🙁: Oct. M2 +7.5% (Sep. +6.8%), Total Social Financing +7.8% (record low, Sep. +8%). Looks like the animal in 'animal spirits' died.

Consumption 🙁: Oct. Retail Sales +4.8% (Sep. +3.2%). This should at least equal GDP growth, and it's not.

Industrial Activity 🙁: Oct. Industrial Production +5.3% (Sep. +5.4%). Industrial Profits -10% (Sep. -7.1%). Not even a flicker of hope here.

New Home Prices 🙁: Oct. -5.9% (Sep. -5.8%). 16th down month. Prices rose in 3/70 cities surveyed, which means they didn't in 67 others.

Business Confidence 😐: Nov. Purchasing Managers Indices. Manufacturing 50.3 (Oct. 50.1), Services 50 (Oct. 50.2). Mixed messages.

That wraps it up for my first Letter as an unaffiliated private investor. What's here isn't advice or recommendation, it's what I've been up, how I'm looking at the world and a small piece of the market puzzle which, combined with yours, may be of some use.

"He who receives an idea from me, receives instruction himself without lessening mine; as he who lights his taper at mine, receives light without darkening me". Thomas Jefferson.

Good Luck with ***your*** investing. Feedback please! to me at nial@nialgooding.com