The China Rambler

An Occasional Letter On Topics Of Interest To China Investors

Issue #6. "Seek Truth From Facts" **Apr. 1st, 2025**

In this edition: A Tale of Two Cities, how pessimists are holding a door open for hesitant China investors. Golden Throat #06896, the agony and the ecstasy of micro-caps and some examples of unappreciated quality for the ditherati.

A Tale of Two Cities

For the purpose of illustration let's call overseas China stock investors 'New Yorkers' and regionally based peers 'Shanghainese'. Since last year these two camps have been on different paths as optimism has guided one, and cynicism the other.

https://finance.yahoo.com/news/chinese-shares-premium-hong-kong-014806640.html - Bloomberg March 20th

The AI-fever that's gripped China's new-economy behemoths has led the Hong Kong Hang Seng TECH Index on a tear. Old school China names have been left in the dust (I'm using the CSI-300 on the right as a cipher but specifically referring to unloved Hong Kong listed laggards).

These AI-driven moves have been reported as 'proof' China is becoming investible once more (er, it was *never* 'uninvestible') and is, again, a go-to market. What's really happened though is China's stock markets have bifurcated with faith-driven New Yorkers now ruling one set of valuations and the dourer fact-driven Shanghainese another.

In this process risks present themselves, but at the same time opportunities have opened up for investors on the dither wondering whether to join the China party, or not.

“It was the best of times, it was the worst of times,..” Charles Dickens, A Tale of Two Cities.

The best of times is expressed by the New Yorkers in the stock prices of companies believed to be beneficiaries of the AI revolution. There’s no need for a list; we all know the names. There’s always a risk buying stocks that have gone up a lot, but not where an earnings outlook has changed. A company whose profits have doubled but whose stock price has only risen 50% could fairly be described as having gotten cheaper. But this is not the case for the AI-fever infected. In most cases there’s been guidance on capex, but no guidance on expected revenue gains. That the faith-based philosophy driving stock prices in this area so regularly leads to disappointment makes further discussion of risks here unnecessary.

The worst of times is captured in the stock prices run by the dourer Shanghainese. Following the government’s first real attempt to stabilize sentiment post-COVID last September follow through has been feeble. Since then, the authorities have produced more commitments to gin the economy up to which the Shanghai crowd have responded with metaphorical Bronx-cheers. Last month this process continued. Then, what I believe **was a substantive policy announcement** appeared in the form of a Special Action Plan. New here was planners at last addressing the elephant in the room, consumption, or the lack thereof. However, and again, the fact-based Shanghainese failed to get on board.

Fence-sitters now have a choice. Follow the New Yorkers, buy the high-priced names and hope for higher or join the Shanghainese cynics and look out depressed stocks with the likelihood the next sentimental iteration will be a turn to the positive. To remind, the glums have the government fully committed and on their side now whilst New Yorkers have only the confidence of peers supporting bets. I know where I prefer to be.

A Last Word: Poor Sentiment *Will* Turn

That the local population, who control over 200 million stock trading accounts, are brassed off is in no contention. Property prices have slammed nearly ALL household’s net worth, memories are still fresh of a flubbed COVID exit and until recently the government seemed to just not ‘get it’.

But they’re on the case now and a sentiment recovery is a when not if event. **That the stock prices of many first-rate companies** (some examples further on) **fail to reflect this presents, IMHO, a great risk-skewed opportunity for the ditherati.**

Stockwatch: Golden Throat #06896

Summary of a recent closer look

Basically: (All historic) Market cap.: U$386mn, P/E: 10.3x, Yield: 12.3%, P/B: 1.8x. Avg. daily T/O (3m) 187k shares. **Business: throat lozenges.**

Believe it or not, according to industry research, throat lozenges are a growth market, China and worldwide. Oldies, of whom China has not a few, are particularly keen it seems.

This is the most recognized brand in China and the company was listed in 2015 at a price of H$4.60 (c. 16x) before all things China were pitched into the global valuation sin-bin.

A take-private attempt in August 2021 at H$2.80 (c. 9x) failed. From which time the senior management have rewarded themselves ever more handsomely and dividends have risen.

The patent for their best seller expired last year. As the product is a palliative I don't feel this should be a concern. Competition, with their own 'secret' recipes, will always be there.

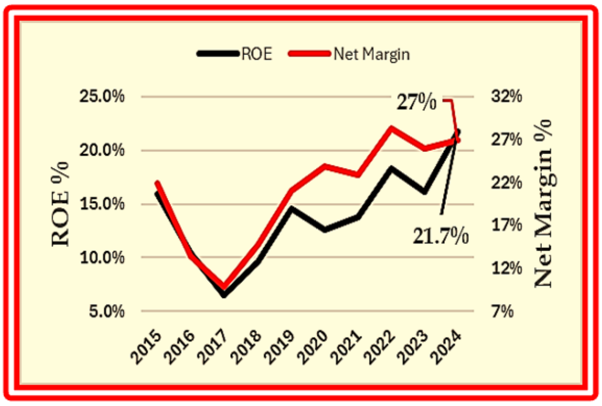
In line with other cash rich companies in China they may be involved in back-to-back deposits and loans with friendly banks. This is a shabby practice but not a shooting offense.

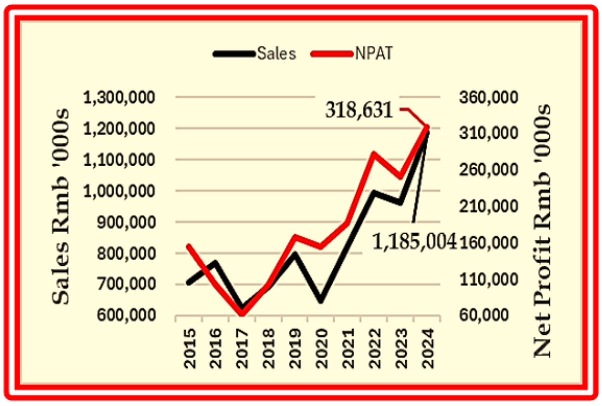
Notwithstanding the observation on growth this is a dividend play. Growth, if it turns up, will be nice but the regular flow of fat dividends is the #1 reason to get involved.

Not to like: It's a teeny company and dealing is a 'mare. Direct communication has been impossible. Reporting is perfunctory. A single bad-product batch could ruin them.

To like: It's a simple prospect. It's cheap, cash rich and has a hard to dislodge legacy market dominance. Growth potential, at the current stock price, represents a free option.

Would I buy them? I have. Last month I flagged Bosideng #03988 as offering value between yields of 5%~8%. Fair in this case then should be higher and I'm going with 7%~10%. My 1:4 ratio for safety margin comes out at 9.2%. Assuming a stable long-term dividend of H$0.35 (last H$0.50, 108% payout) translates to a target entry level of H$3.80.





How's My Investing?

Performance summary, review of recent trading etcetera

March Performance:	**+0.4%**
Performance Since Inception (Nov. '24):	**+2.8%**
Cash Percentage of Portfolio:	**24%**

Golden Throat is an experiment I'm unlikely to repeat in terms of a foray into micro-caps. There's value down there but the risks are (for me at least) unacceptable in terms of liquidity. If it works out, huzzah! But if it doesn't I may be stuck with a lemon that can't be sold, at any price. Due to a happy accident of timing my entry price came out to H$3.67 as I'd acquired some stock before they put out a profit alert. The position was completed at post-pop levels but even acquiring my tiddly size was a multi-day slog. Lesson learned.

Most of my investee companies provided updates on their 2024 performance over the course of the month and 2024 turns out to have been, for most, a snore. This sets us up nicely for 2025. Business continues on the same even keel, valuations remain attractive, dividends provide ample justification for engagement, there are worse things. Or business improves, dividends increase, valuations track higher earnings, win-win, nice**. I remain nervous in the extreme about the possibility for calamity in other markets,** but China stocks seem, to me at least, a place where coupon-clipping callouses represent the highest risk for the rest of 2025 (apart from the AI-fever infected already flagged).

Below I've picked out some names to illustrate the point about first-rate companies not seeing much love presently but likely to benefit as domestic China sentiment improves.

Although these companies have some of the characteristics of my holdings, to be clear, **these are NOT stocks I own*, nor am I recommending them.** They're just real-world examples of underappreciated, reasonably valued, solid enterprises; and there are many more like these listed on the Hong Kong Exchange (there's no need to thrash about in A-share-land. It's hard and they're mostly expensive).

[*All are welcome, anytime, to a full list of my holdings. I'm not trying to be opaque; I just don't want to be seen to be 'tipping.']

Stock	Tkr.	To Note	3m %Δ	M. Cap. U$
Hengan	01044	Dogged thumper	-3.8%	3.2bn
Mengniu	02319	Multi-year re-rating complete?	9.2%	9.6bn
Petrochina	00857	Proxy on now-cheap oil prices	3.1%	17bn[1]
Ping An Ins.	02318	Bargain-basement priced beast	0.8%	44.3bn
Swire Props.	01972	Great China business for free	8.1%	12.7bn
Vanke	02202	Now an SCE*, worth a 2nd look	4.7%	1.6bn

[*State Controlled Enterprise] **[[1]H-Only]**

Datawatch

Key Releases In The Last Month

Two 🙁 Two 😐 Three 😊

Trade 🙁: Jan.+Feb. combined data. Exports +2.3%, Imports -8.4%. Exports suggest pre-tariff stockpiling over, imports, domestic caution.

Prices 🙁: Feb. CPI -0.7% (Jan. +0.5%), PPI -2.2% (Jan. -2.3%). Enthusiasm last month about an end to deflation seems now premature.

Credit 😐: Feb. M2 +7.0% (Jan. +7.0%), Total Social Financing +8.2% (Jan. +8.0%). Nothing to see here.

Consumption 😊: Jan.+Feb. combined data. Retail sales +4% (Dec. +3.7%). A small beat to forecasts.

Industrial Activity 😊: Jan.+Feb. combined data. Industrial output +5.9% (Dec. +6.2%). Down from December but a big beat of forecasts.

New Home Prices 😐: Feb. -4.8% (Jan. -5.2%). Some had hoped for better, secondary data also unhelpfully weak. But the trend is slowing.

Business Confidence 😊: Mar. Manufacturing PMI rose to 50.5 (Feb. 50.2), biggest gain in a year. Services PMI rose to 50.8 (Feb. 50.4).

That wraps it up for March. What's here isn't advice or recommendation, it's what I've been up to, how I'm looking at the world and a small piece of the market puzzle which, combined with yours, I hope 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