Navigating China investments amid disruptions

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Top-Down Disruption: The Changing Wind of Regulations

Extending yet moderating list of China regulations

Meltdown started with policy tightening cycle in 2H21, with many corrected in 2022

2021 Tightening

July 2nd

Cybersecurity review launched on Didi after the company hastily went IPO on June 28th, followed by YMM and BZ, new user registration was suspended for apps under these 3 companies

July 23rd

Guideline on afterschool tutoring leaked via social media, revealing that tutoring will be totally banned in China with **Chinese education companies** to become non-profit institutions

September 1st

Personal Information Protection Law (PIPL) first took effect and marks China's first comprehensive data regulatory regime landed

November 14th

SAMR plans to impose a roughly US$1bn fine on Meituan for alleged anti-competitive practices, a follow-up of SAMR **anti-monopoly** investigation since April 26th and Alibaba's "choose 1 from 2" probe completed within 107 days

March 30th

The economy hub and largest city **Shanghai entered 2-month fully lock-down** that gravely impaired China economic growth and supply chain disruption that spread impact globally

2022 Loosening

March 16th

China **Vice Premier Liu He gave speech on key market concerns,** pledging to"actively release policies favorable to markets and make sure regulation with significant impact on capital markets is coordinated in advance, driving the largest trading volume and notable short-squeeze in China equity market near-term.

April 11th

China restarted online game approvals after 8 months of licenses suspension, lifted gaming sentiments

July 19th

China ended a year-long probe on Didi, along with YMM and Boss Zhipin, at the cost of fining Didi $1bn before it can restore its main apps back to mobile stores in China to resume new user acquisition.

August 26th

News indicates China and US reached a preliminary agreement to **allow reviewing of Chinese company's audit documents,** setting at peace the year-long audit tension on US-listed Chinese companies that could have resulted in large scale delisting of Chinese companies in US markets under ADR rules.

August 30th

A number of the larger privately owned **property** developers have issued or are planning to issue **domestic bonds** guaranteed by the China Bond Insurance Company, a state-owned bond insurer

Timeline to watch: CCP 20th Congress in **October 16th 2022**, with politburo leadership and high-level roadmap to be finalized

Source: GAM, Bloomberg, Xinhua, Renmin.net

All eyes on 20th party congress

Roadmap for next five year and starting point for next centenary

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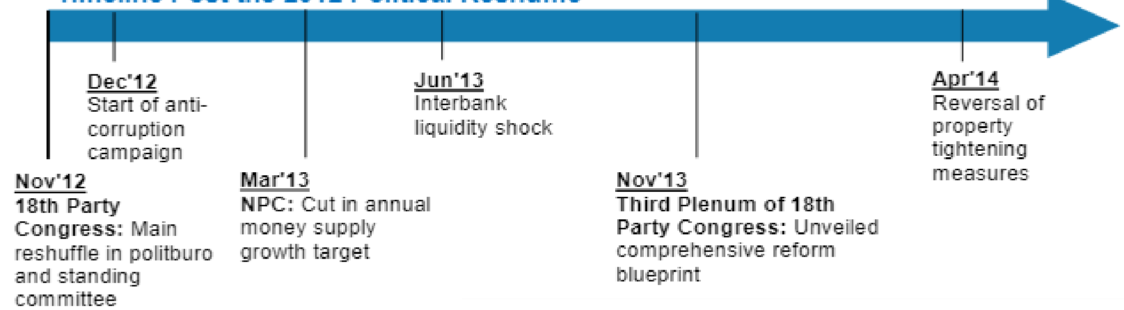
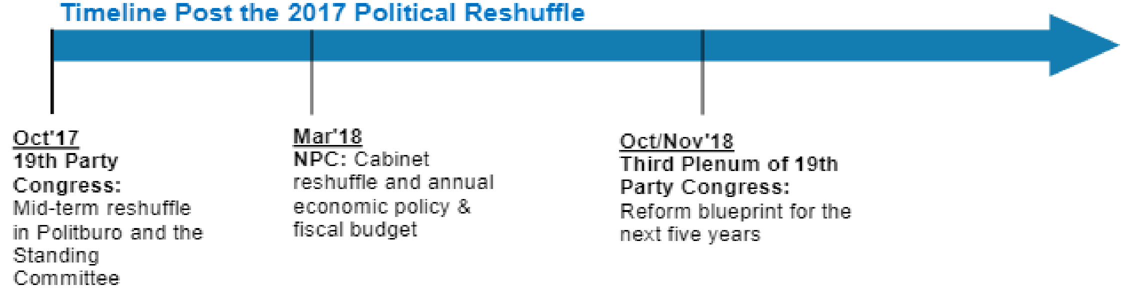
Anticipated discussion:

- Finalizing the 14th Five-year-plan (2021-2025) and *Dual Circulation*
- Increased focus on ‘*common prosperity*’
- GDP growth target for double economy by 2035
- 3060: reaffirm the *2030/2060* environmental targets

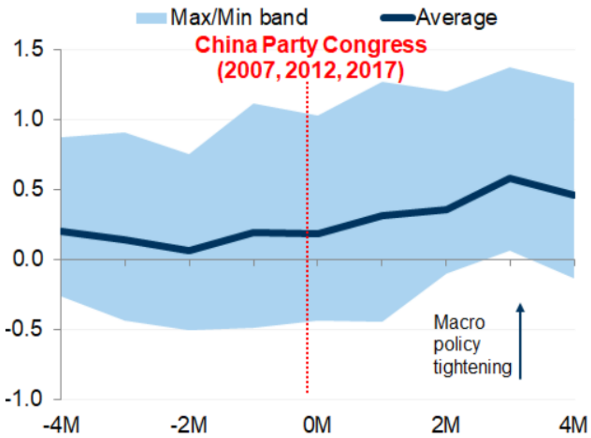
Timeline Post the 2012 Political Reshuffle

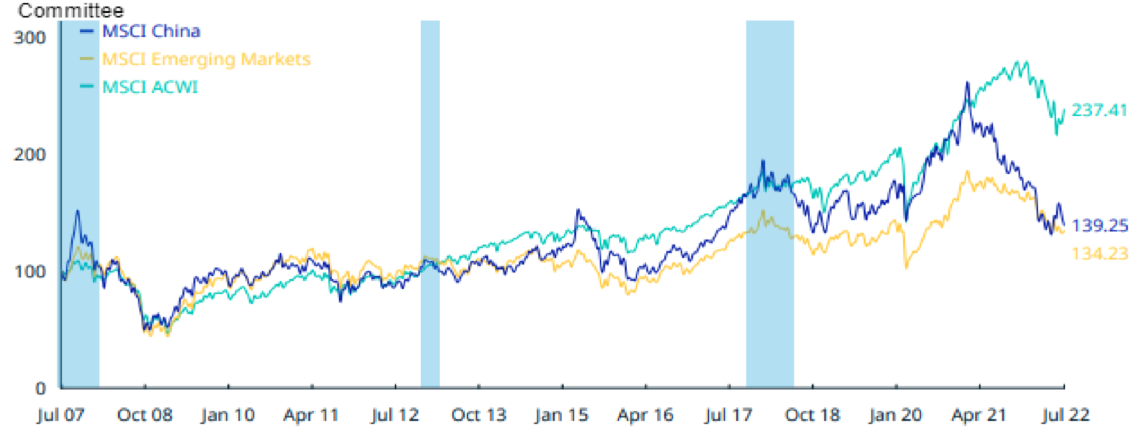


Timeline Post the 2017 Political Reshuffle



Domestic Policy Proxy





Source: GAM, MSCI, Goldman Sachs Investment Research. As of August 2022.

China Inc: the pulling and pushing factors

Multiple drags result in decreasing confidence over China's **5.5% growth** target for 2022

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Net-zero Covid policy

Business was forced to reopen and reclose for multiple rounds amid covid variant strikes

Real estate deleveraging

The prolonged crackdown and deleveraging towards entire real estate sector hurdled growth driver

Consumption ↓

Exit plan from Covid-zero

Repeated shutdown of large cities+ elevated test cost → local pressure

Investment ↓

Snowball chain reaction

Default transmission: corporates → residents → banks → governments

Government ↑

Level-up fiscal stimulus

Fiscal and monetary policy were tighter than expected for 2021, and below level inflation left enough buffer for more flow

Export ↑

Dual Circulation

While China's exports growth beat as the world closed on covid, gov is eager to insulate domestic market with international market

Source: GAM

Changing priorities for China decision makers

Speed of growth → sustainability of growth → stability of governing

Delay population conundrum:

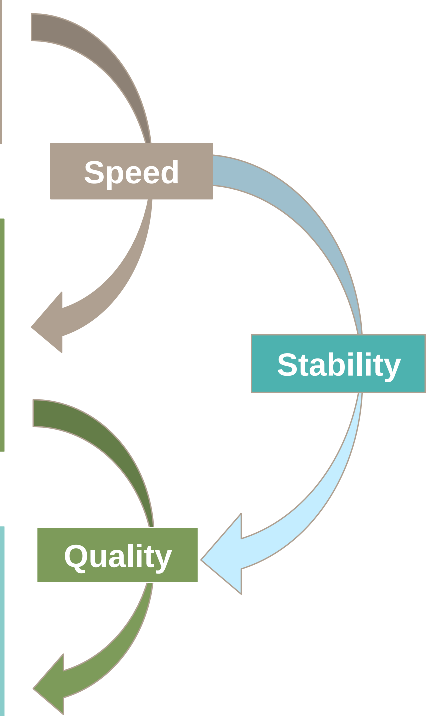
The world's largest industrial workforce that breeds the manufacturing miracle is now aging and slowing

Improve quality of growth:

Change growth engine: de-leveraging property industry
Sustainable growth: "dual-carbon" and "dual-circulation"

Govern under the new norm:

Domestic: rise of social media and world largest middle-class
International: US-China trade war and geopolitical tensions



Source: GAM

Bottom-Up Disruption: The Constant Evolution of Industries

Disruptions can also create opportunities

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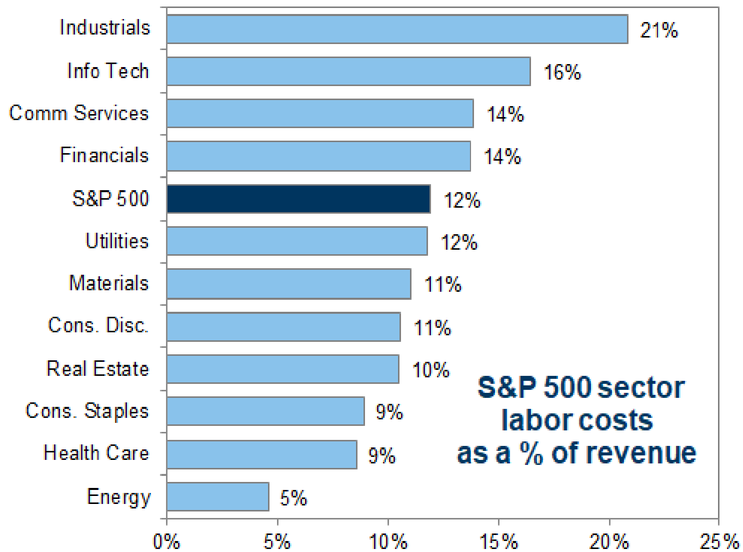
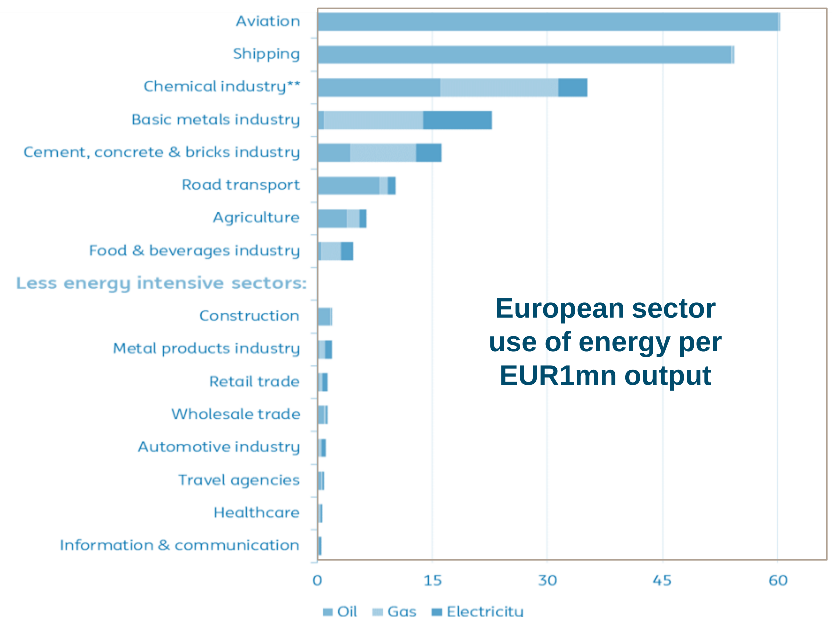
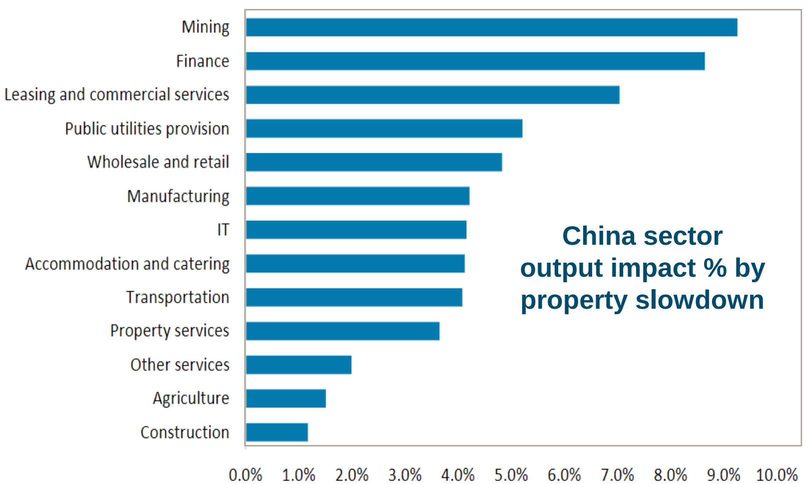
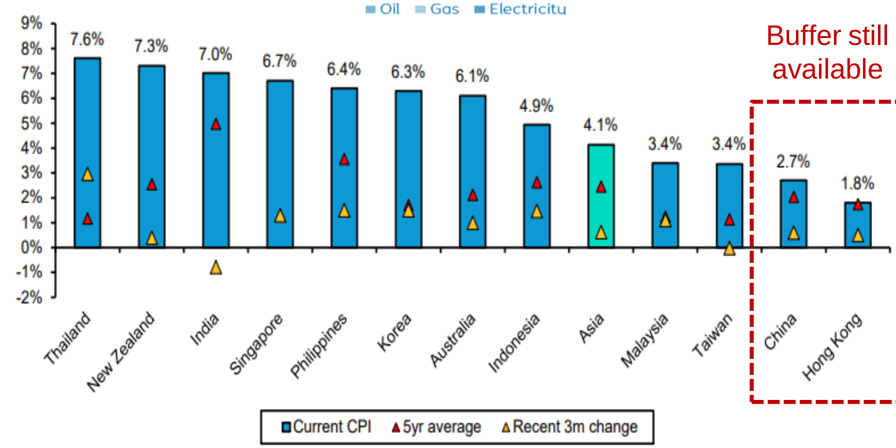
Amid inflation frustration and recession obsession





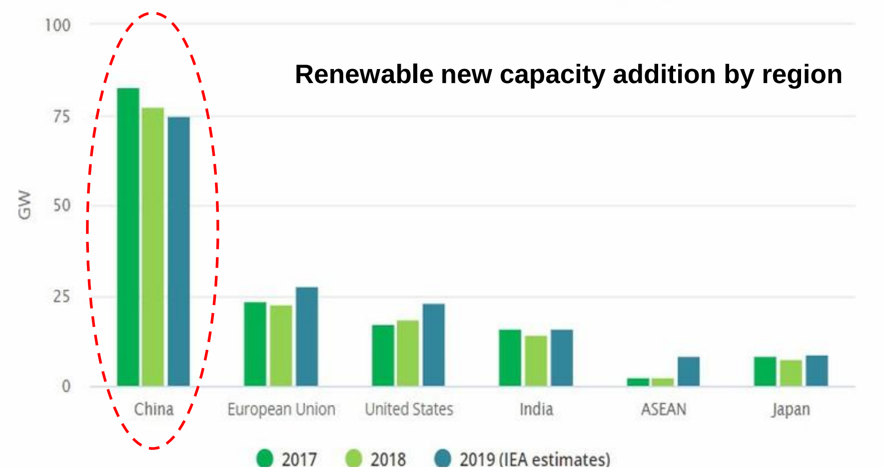


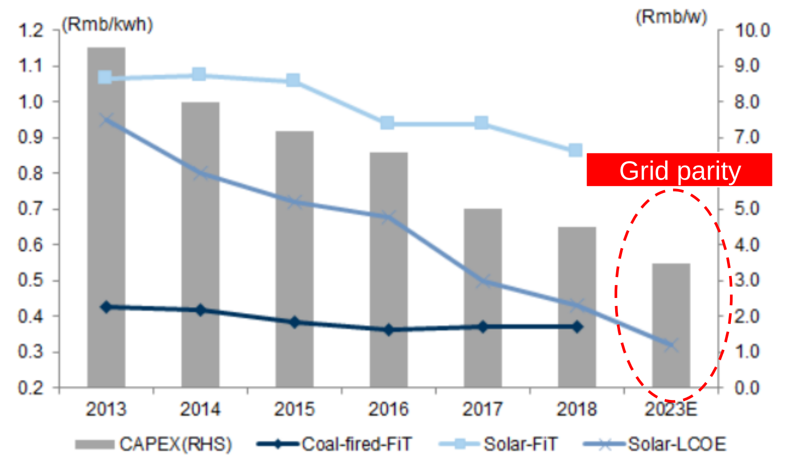


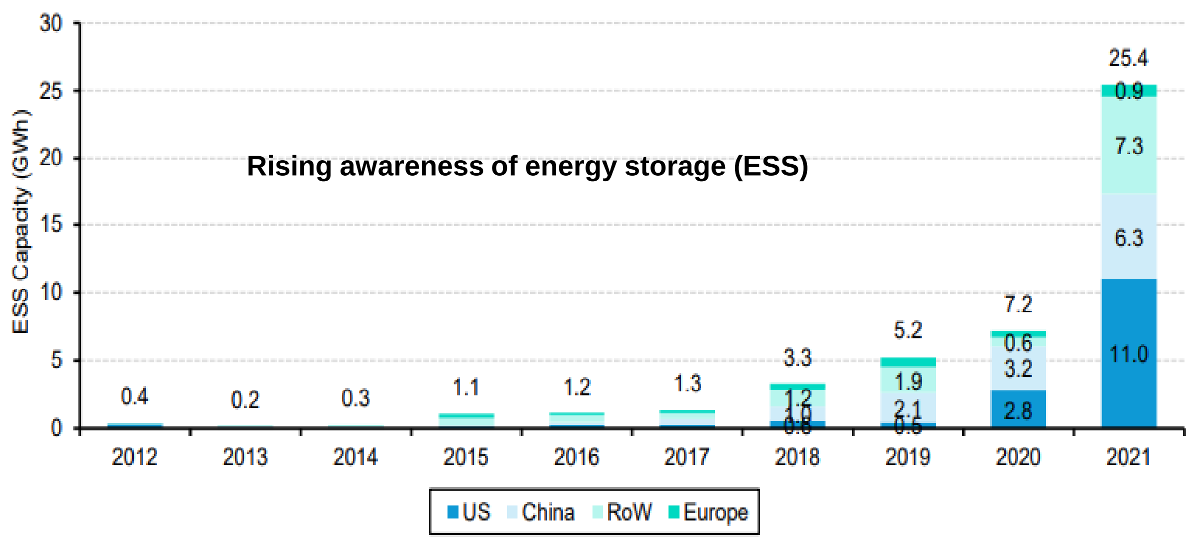
Source: Morgan Stanley Research, Goldman Sachs Investment Research, ING Research

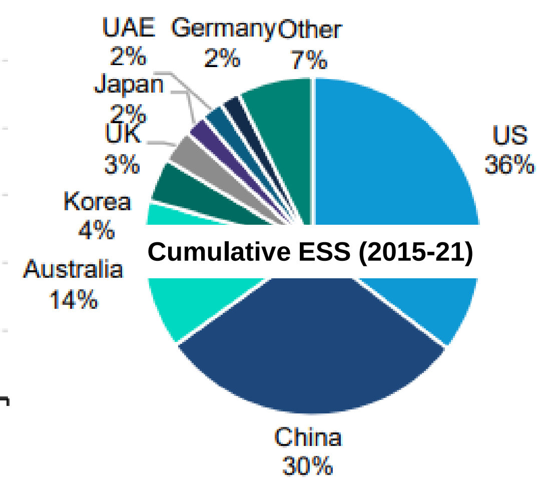
Disruptive forces resonate with sustainability

China dominates solar market share guarded by irreversible cost advantage









Disruptive forces through ground observations

China duel diligence feedbacks: renewable, Internet and consumer

EV and renewables

- **EV proliferation** in China:
  - EV penetrated 10% of new car sales, well on-track towards 20% gov target in 2025
  - Car plate quota for tor tier cities helps incentivize EV adoption
  - Domestic EV brands riding the patriotic tide and seeing greater adoption among youth
- **Renewable** leads the green wave:
  - Energy storage a top of mind with renewable grid adaption and roaring demand abroad
  - Still strong solar demand home and abroad (e.g., EU demand from higher oil/gas price)
  - Poly price on the rise while supply chain disruption to moderate in coming year

QR code for everything

- **Mobile internet** has penetrated into every aspect of life
  - Dinning: no waiters and no cashier, everything self-serve via QR codes
  - Public facilities: scan QR code to rent bikes, power banks, even toilet paper
  - Transportation: One's ID card functions as air/train/ship ticket + covid pass

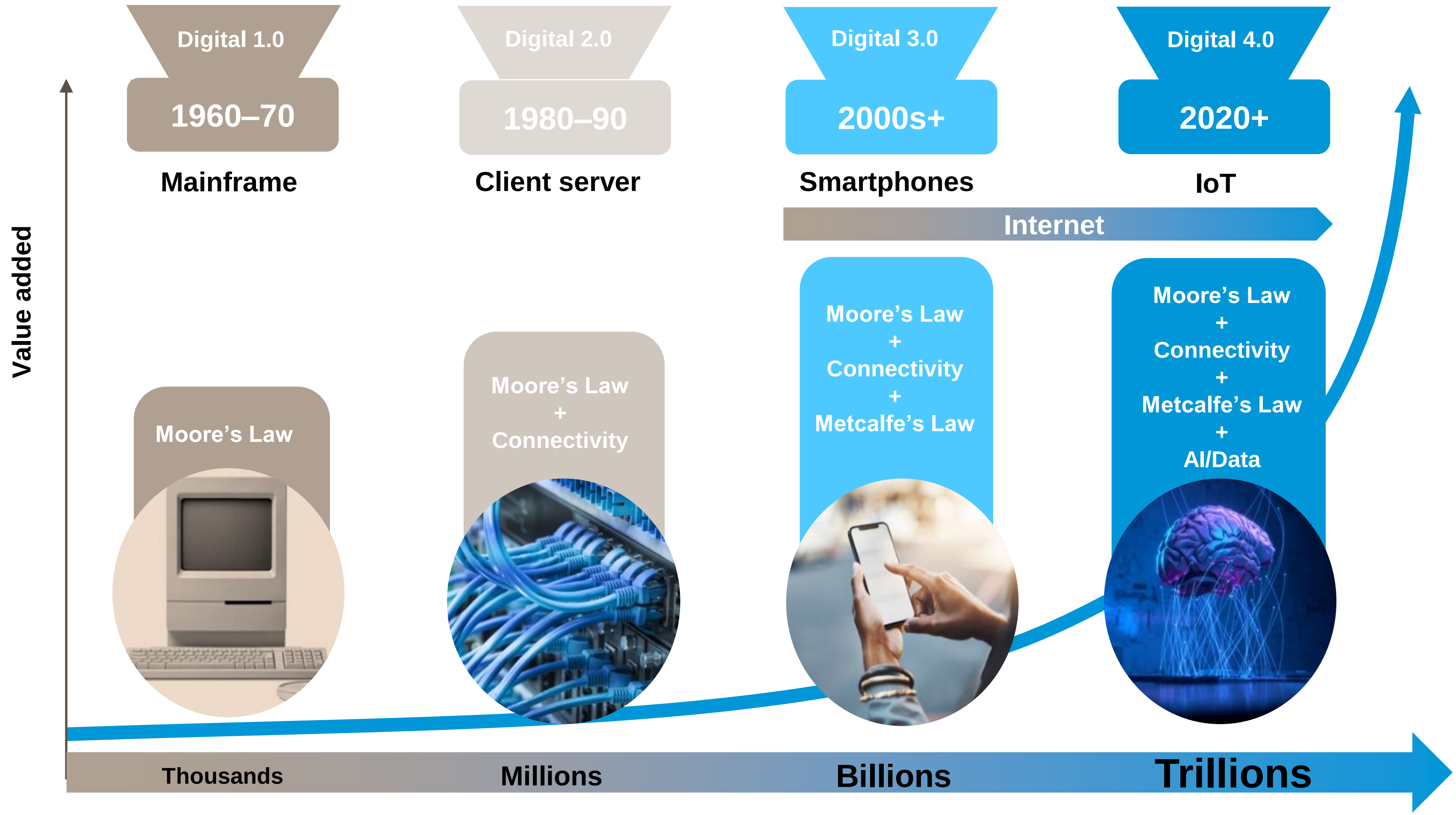
Next generation of consumption

- **New brands**:
  Gen-Z is embracing **domestic brands** more than millennials, helping emerging brands to surpass their vertical incumbents (incl. international ones) in 1-2 years time
  Valuation skyrocketed in primary market with per store value >$15mn (Starbuck $4mn)
- **New channels**:
  Content-driven and social-driven consumption is the new mainstream, KOLs are taking great consumer mindshare and incubating new brands in unprecedented speed

Source: GAM.

Digital drives disruptive growth ever faster

Digital tech is a deflationary force in an inflation economy --- Satya Nadella



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