

Embracing Renewables – and the Energy Transition in China



CRYSTAL CHAN
Principal Asset Management

“If we believe that China is where you want to invest into, you will definitely want to invest into somewhere that is supported by unwavering policy tailwind, and we feel like China’s new energy sector is one of those.”

Why is China interesting from an asset allocation perspective in the second half of 2023?

From an asset allocation perspective, when you think about where to invest in 2023, you would want somewhere with decent economic growth and positive fundamentals, and that is, I think, what China can offer today.

From an economic growth standpoint, we are talking about an above 5.5% GDP growth in 2023, which is led by the consumption that is growing again in China. China’s economy is still supported by different kinds of policies - monetary policies, and fiscal policies, et cetera.

From a fundamental standpoint, when we think about CSI 300 Index as an example, we are talking about current valuation of about 12 times forward P/E, which is relatively cheap from its past 10 years landscape, as well as when you compare this figure with some of our developed market counterparts.

From a valuation standpoint, it is attractive.

From earning standpoint, when we are thinking about the S&P 500 Index, we are forecasting a slight decrease in earnings. We are forecasting a double-digit growth in earnings for the CSI 300 Index in both 2023 and 2024.

So, with that all together, the economic backdrop, the fundamentals that we are talking about here, we are quite optimistic on China this year, especially on China A-shares.

What makes the new energy sector stand out?

If we believe that China is where you want to invest into, you will definitely want to invest into somewhere that is supported by unwavering policy

GET IN TOUCH

[View Crystal Chan LinkedIn’s Profile](#)

[Find out more about Principal Asset Management](#)

tailwind, and we feel like China's new energy sector is one of those.

So, speaking of the new energy sector, it is composed of several sub-sectors within that landscape, that includes renewable energy, which includes solar photovoltaic (PV), wind power, electric vehicles, and energy storage systems. We are talking about very diversified sub-sectors that could be potentially benefiting from different cyclical backdrops.

The second thing is that this sector is supported by China government's policies. We are talking about 2030 emissions peak, and we are talking about 2060 heating neutrality during that timeframe. China has been pushing out policies to support these initiatives, which includes shifting its energy mix, for instance, from 60% coal to 80% renewable by 2060. And we are talking about wind power further growing by fivefold by the same year and solar energy growing by tenfold

by 2060. Therefore, China is investing heavily into energy transition.

The new energy sector is therefore a sector supported by policy tailwinds. Investing in this fast-growing sector may diversify the risk in the broader market, which could be more vulnerable to slowing economic growth and geopolitical risks.

Furthermore, while the new energy sector in China exhibits high growth potentials, its valuation is relatively cheap. Using the CSI New Energy Index as a reference, no matter if it is compared to global peers or its own historical P/E, figures show that, right now, it is a very attractive entry point.

How is your strategy positioned to maximise the opportunity for investors?

Principal is launching the CCB Principal China New Energy Innovation

Strategy. This will be one of the first offshore active strategies targeting China new energy sub-sectors in the China A-shares market. And this is going to offer investors access to a sustainable thematic equity investment opportunity within China. This strategy leverages the local investment capability that Principal has onshore. So, we have built an onshore joint venture with CCB, which is CCB Principal Asset Management, and leveraging its capability of its affiliate as well.

We have extensive experience and established track record in managing the new energy sector by a dedicated team of specialists. We utilize a top-down industry lifecycle model followed by a bottom-up stock selection, combined with a proprietary ESG integration framework throughout the investment process. All these combined create the value proposition of the CCB Principal China New Energy Innovation Strategy. ■

