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Krige (Banor): the growth in profits is promising

by Antonio Lusardi

While the opportunities offered by China are clear to all investors just by looking at the Asian colossus's main macro data, truly understanding the dynamics and finding your way around the region's stock markets is not easy. To obtain an overview MF-Milano Finanza met Dawid Krige, manager of Banor SICAV's Greater China Long Short Equity fund.

Question. The Chinese market and economy are very different from those in Europe and the USA. What approach do you take to select the best securities?

Answer. If you look in particular at the consumer goods market, the differences become less marked and the overall picture is clearer. Household wealth in China is growing at a higher rate than in any other country in the world. The question we need to ask ourselves is: what do Chinese citizens want to do with this new wealth of theirs? The answer is that they love the most recognisable high-end brands, entertainment and travel. If we look at our fund's exposure, over 40% is on consumer goods. We focus on companies whose products are seen as status symbols and are immediately recognisable. These Chinese companies are growing at a rate that can't be compared with that of western countries.

For this reason, even if their market performance was already optimal, there's no reason their stocks should lose pace.

Q. In addition to consumer goods, where's your greatest exposure?

A. The other main area we invest in, with another 40% of the fund, consists of technology and web services companies. Some of the biggest digital giants are Chinese: Alibaba and Tencent, to name two.

An idea has taken root, and it's difficult to shift, that all that Chinese companies know how to do is copy. This isn't true any more, and if you look at Alibaba and Tencent you realise they're just as good as their western counterparts. The remainder of our investments, about 20%, is in a mix of financial companies and the healthcare sector.

Q. Where do you take a negative view?

A. At present we’re sceptical about the infrastructure and real estate sectors. We’re also keeping a close eye on specific governance problems in individual companies.

Q. The political authorities are still involved in the Chinese economy. Is that a threat?

A. Not at all. Political stability in China is an advantage for investors, especially if we compare the situation with the surprises we’ve seen in recent years on the western political stage. Anti-corruption policies are another factor. The situation had reached a point where it was no longer sustainable but the government has taken steps to limit the problem and reduce the imbalances.

Q. Many investors had their fingers burnt by the falls in the Chinese stock market in 2015 and early 2016. Are such slumps still possible?

A. Further corrections are not impossible; that’s the way the markets work. However, if we take a long-term view, the companies in our portfolio have seen a growth in profits per share of 32% a year. And taking into consideration that the multiples are still reasonable, even with profits growing at just half the current level we’d be achieving returns that we’re simply not seeing in the developed markets. The Chinese stock market is certainly more volatile, but our focus, with our strategy, is the long-term return.