PATRIMONI	Monthly	Date 12-2019 Page 58/59 Sheet 1/2

CLASS/CNBC INTERVIEWS

Chinese stocks: Instructions for use

*Companies in the Celestial Empire enjoy good health, and business sentiment is positive. When betting on the stock market, opt for **A-shares** listed in Shanghai and Shenzhen rather than **H-shares** in Hong Kong.*
*In terms of sectors, **e-commerce**, healthcare, **luxury goods** and financial services are good bets. On the other hand, **real estate**, energy and companies geared towards **exports** are flat*

by Aldo Bolognini Cobianchi

With the trade war, a slowing GDP—yet always around 6%—and geopolitical issues, China as a world economy driver is cooling off slightly. But what is the true status of the system? **Dawid Krige**, Greater China Equity fund advisor at Banor Capital, describes a country in good health, on average, with a very good business sentiment, since revenues and profits improve year on year without particular outside interference. In China, many were surprised by the trade war with the United States, but despite this potential black swan, no particular impact has been recorded as of yet.

Beyond tariffs, what about the issue of Hong Kong? What repercussions does it have on China?
We invest very little in Hong Kong, but if we look at the Chinese sentiment, I must say there is a lot of vexation towards the citizens of the former British colony. On average, Hong Kong citizens are far richer and have access to many more services than the Chinese do, so they question the reason for the protests. Hong Kong makes up around 3% of the Chinese domestic product. But, in my opinion, and remember that I am a fund manager and not a politician, the real challenge lies in Taiwan. The Chinese government wants the island to be fully part of the country again, but the citizens of Taiwan are following events in Hong Kong carefully to see whether it is worth returning. In short, Hong Kong is a benchmark that requires maximum attention.

And the consumers?
Consumer confidence remains extremely high. Salaries and wages have grown by high single digits, and even in 2019 continued to rise, while unemployment remains around 4%. In short, they are very confident that things will be better in the future. The government has also implemented a series of measures to improve citizens' lives, for example regarding healthcare and welfare.

So how are you positioned?
Our portfolio is based on these guidelines: confidence creates consumer demand, and we are positioned on companies that operate on the domestic market, an audience of approximately 1.4 billion potential consumers, companies listed essentially as A-shares, i.e. the shares of securities in mainland China featured in the listings of Shanghai and Shenzhen.

How is the portfolio divided in terms of sectors?
At individual sector level, half of the portfolio is focused on consumer companies and 15% on companies linked to internet and e-commerce, another sector strongly linked to consumers. Plus, another 15% in healthcare and financial services. As you can see, we have practically no exposure to companies that export, that invest or operate in real estate, only those with domestic exposure.

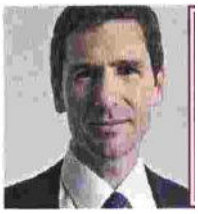
How do you invest?
We don't look for three-year histories, but we focus on 30-year investments, histories of companies that grow gradually yet endlessly. After all, the Chinese GDP per capita is around 9,000 dollars, whereas in America, it is six times as much.

Why don't you invest in real estate?
Generally, in China, developers purchase land from local governments and then build. We don't know how these companies obtained spaces in previous years or how they intend to build, so it's a sector we steer well clear of. It's too risky.

What is your opinion on the utility and energy sectors?
We don't have either. We try to generate a 15% return, and we certainly won't succeed in doing so with securities in those sectors. Gas and electricity are actually regulated sectors, so they have modest growth rates set by the government. As for energy, who can say how profitable it will be in five years' time? When in doubt, we prefer to avoid these securities.

What about the Hong Kong and Taiwan stock exchanges?
The portfolio has securities listed in Hong Kong—H-shares—for example Tencent, when there are no alternatives, but no shares in the city's assets. On the other hand, we have nothing from Taiwan in the portfolio.

THE MAIN PORTFOLIO POSITIONS
Alibaba Group Holding
Haidilao International Holding
Huazhu Group
Kweichow Moutai
Midea Group
Naspers
NetEase
New Oriental Education & Technology Group
Tencent Holdings
Yihai International Holding



Dawid Krige, Greater China Equity fund advisor at Banor Capital

The main reason is due to valuations that are too strained.

Is the entry of A-shares into the MSCI indices giving these securities a boost?
A-shares represent a large market, the second largest in the world after America. There are over 3,000 listed companies where private investors make up 70% of the daily turnover. The Chinese like to gamble, but it is prohibited, so they turn to the stock market instead. This means that the market is very inefficient, which I like, since it means that there are many opportunities to invest in excellent companies, often at attractive prices.

We focus on companies THAT GROW GRADUALLY YET ENDLESSLY

Currently, we have five securities, of the around 25 that we hold, that make up 20-25% of the portfolio.

And the rest of your assets?
They are mostly ADRs, securities representing Chinese companies listed on American markets, and they form a large part of our portfolio. Alibaba, for example, was only listed in New York before also being listed in Hong Kong as of a few days ago. But, in this historic time, they are an excellent opportunity, given that many sellers are worried about the trade war, while the Chinese are unlikely to be buyers due to restrictions imposed on capital movements.

What about Trump's threat to block Chinese company listings in the USA?
In my opinion, it's quite unlikely that this will happen, given that the large American banks are earning a lot from these transactions and blocking it all would be a blow to their profits.

What are your most important positions?
As mentioned, approximately 30% of the portfolio is in consumer companies. In beverages, we have Kweichow Moutai, the largest Chinese company in the sector, a kind of Chinese Campari, and Huiyuan. Plus, companies active in condiments, hotels and household appliances. In internet and e-commerce, we have Alibaba and Tencent, for example, while we don't have any other big names like Baidu. Then there's JD.com and other small positions in other securities. We also have a couple of financial services securities, such as the wealth manager, Noah. Then there are the Chinese luxury goods securities, companies unfamiliar to the West, but which are very popular among the country's new middle class and *nouveau riche*.

Your view on securities in automotive and components? The market is snowballing and, in 2018, China was the world's top electric car manufacturer…
We do not have car makers in the portfolio, nor shares in components, since they are too sensitive to pressures on sales prices.

How many multiples do you look at before deciding on an acquisition on the Chinese market?
Firstly, the enterprise value (sum of capitalisation and net financial debt) compared to margins such as EBITDA and EBIT, then the dividend yield, the return on capital, the cash flow generation and historic growth.

Do you believe that the balance sheets of listed companies are reliable?
Generally, yes, but we're very careful. For us, we're talking about companies that we monitor for years and whose growth we follow. I meet with dozens of listed companies. We talk with their managers, and also with employees, clients and suppliers, to get an overall and precise idea of how the company is going and an idea of its prospects, as well as its reputation with stakeholders.