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China



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Economic Overview

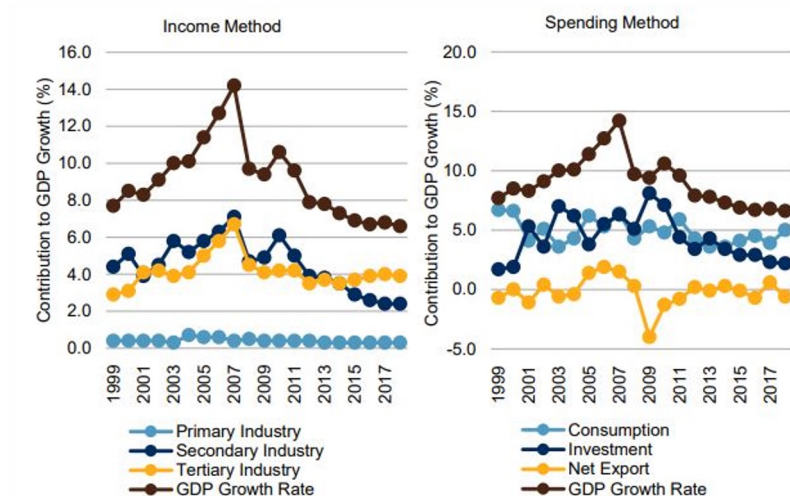
- **Real GDP** increased by **4.0%** since 4Q2021
- **Consumer Confidence** in China decreased to **120.50** points in February 2022 after a **7 month high** in January of **121.5** points
- **Annual Inflation** rate rose to a **three month high** of **1.5%** in March 2022 from **0.9%** to above market estimation of **1.2%**
- People's Bank of China kept interest rate on its medium term load **unchanged** for third month straight at **2.85%**
- Growing Concerns
 - Real Estate Sector Debt Crisis
 - Covid Resurgence 2022
 - Regulatory Clampdown on Technology
 - Ageing Population



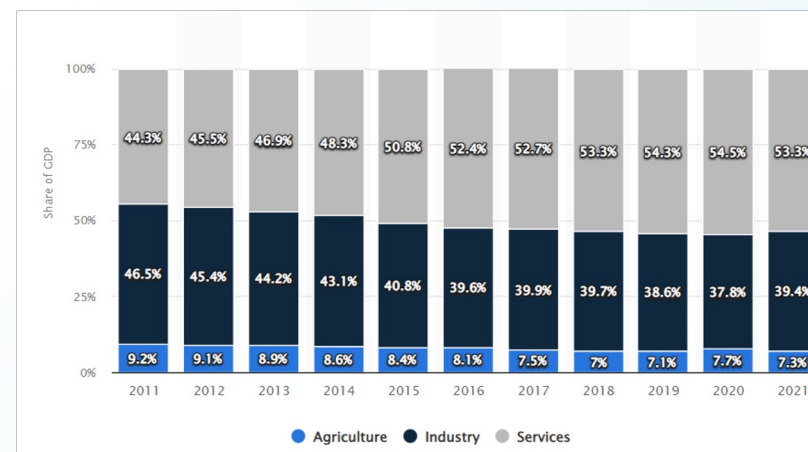
China's GDP Shift Away From Industrial Production

- China's Industrial Production and Investment which were the two engines of China's momentous economic growth geared down since 2010
- Structural Reforms and various Government Policies were introduced to support more sustainable economic growth other sectors

Contribution to China's GDP Growth from 1999



Distribution of China GDP from 2011 to 2021



China's Low Household Consumption %

GDP Composition of Major Economies

Country	% of GDP by Income			% of GDP by Spending			
	<u>Agriculture</u>	<u>Industrials</u>	<u>Services</u>	<u>Household Consumption</u>	<u>Government Expenditure</u>	<u>Investment</u>	<u>Net Export</u>
US	0.9	18.2	77.4	68.2	14.1	21.1	-2.9
China	7.2	40.7	52.2	39.4	14.9	44.8	0.8
Japan	1.2	29.1	69.1	55.5	19.7	23.9	0.9
Germany	0.9	30.5	68.6	52.1	19.9	21.8	6.2
UK	0.6	18	70.5	66.1	18.2	17.2	-1.5

- Contributions to GDP from **household consumption** and **services** were **low** compared to other developed countries such as United States and United Kingdom
- Household consumptions include **cars, washing machines, computers and etc**
- China's new sectoral priorities has a large upside potential due to its **rising middle class** promoting opportunities in **motor vehicles, internet software and services**

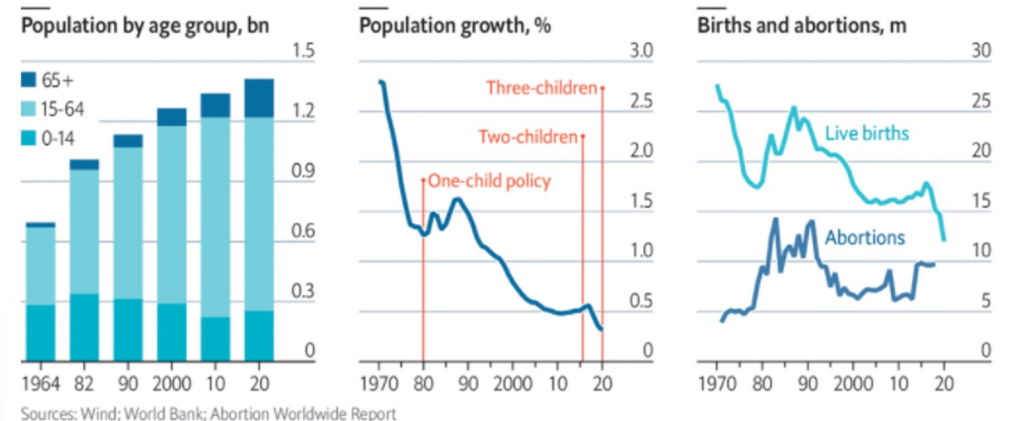


China's Ageing Population

- China is on the face of a **looming demographic crisis** with a record low birth rate of 7.5 births per 1000 people
- Rapidly Ageing Population vs Declining Working Population

Implications :

- **Future Workforce supporting large number of old people**
- **Slower Real Economic Growth** expected due to lower labour productivity
- Greater **Inflation Pressures** & Higher Future **Interest rates** due to forecasted 2 trillion yuan budget stimulus and other corporate cash incentives to couples **to promote growth rate**



Worsening Income Inequality

- Since China opened up and reformed its economy in 1978, income inequality has risen over the years.
- Gini coefficient stood at 42.1%, the highest amongst the world's top five economies.
- Rising GDP and Gini coefficient suggest that majority of population may not be experiencing increased income.

Implications :

- Resource misallocation has led to China not fulfilling its potential growth.
- There is a need to redistribute wealth through social programmes and taxation policies.
 - Common Prosperity Plan.



China Eyes Green Transition in Economy

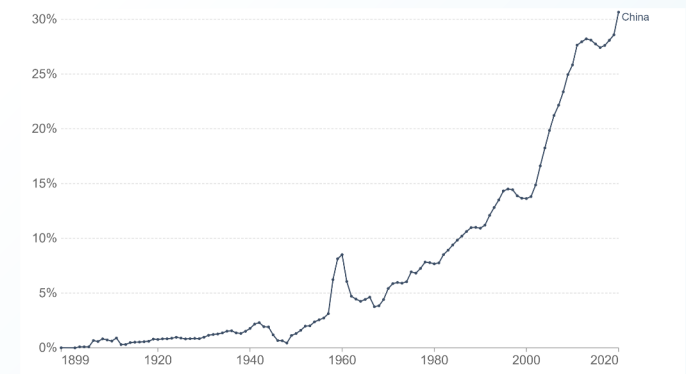
China's Pledge

- To peak carbon emissions by 2030 (requires \$2.2 trillion USD)
- To become carbon neutral by 2060

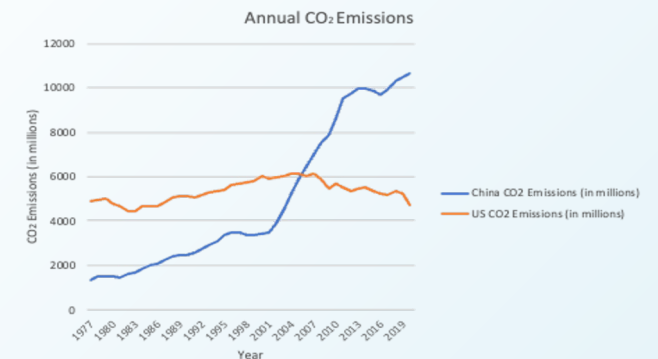
Path to Carbon Neutrality: 14th Five Year Plan (2021-2025)

- Binding targets for energy & carbon intensity, non-fossil fuel use
- National, sectoral and technology plans to be adopted
- Focus on GDP increase of emerging sectors from 12% to 17% by 2025

30.65% Share of Global CO2 Emissions in 2020



Source: Our World in Data



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Green Finance in China

Building a Green Financial System

- supporting green and low carbon investments and projects
- against investments that cause pollution

National Emissions Trading System (ETS)

- Incentivise businesses, investors and other market participants to contribute to China's decarbonisation and clean energy transition
- Gradual expansion of sectoral coverage to steel, non-ferrous metals and cement expected

Decarbonisation Guidelines

- Requiring communities and enterprises to go green
- Force **production methods** to change

Implications

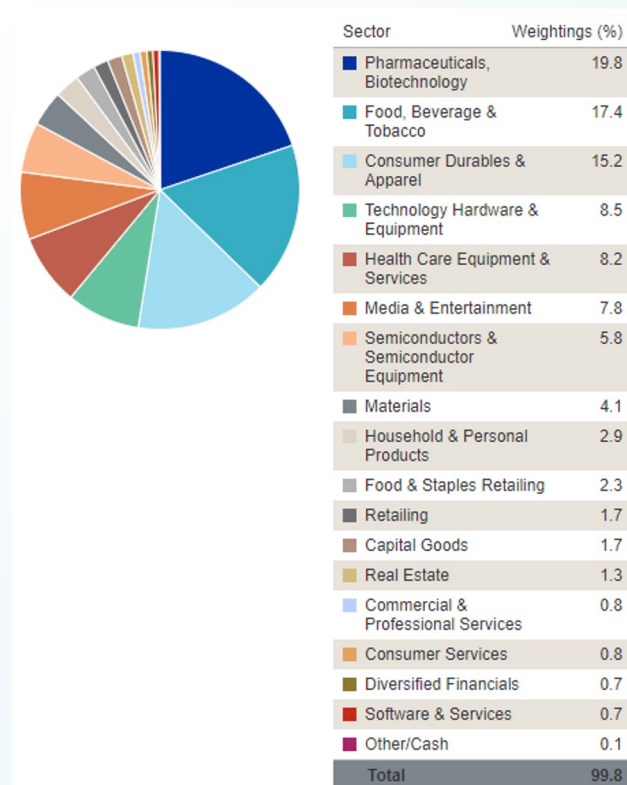
- Requires all social sectors to prioritise sustainability in their **financial activities**
- Low carbon soon incorporated in **daily lifestyle**
- Green funding towards **renewable energy** technologies and **green transportation**
- Domestic green sectors will likely benefit



China's New Economy ETF by VanEck

- **CNEW : VanEck China New Economy ETF** has a portfolio of fundamentally sound companies in China
- Invest in **growth sectors** making up 'the **New Economy**' of China
 - Technology
 - Healthcare
 - Consumer Staples
 - Consumer Discretionary
- Risks
 - Regulatory
 - Global Ties with the West

Sector Weightage & Holdings (%)



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KURE MSCI All China Health Care Index ETF

- China is the **second largest** healthcare market globally with total healthcare expenditures reaching \$1.1 trillion in 2019, increasing at an average annual growth rate of 11% over the last 5 years (2019)
- China's healthcare market with **per capita health spending** at just **\$501**, compared to an average of over **\$5,700** for the world's top eight healthcare markets.
- KURE ETF focuses on **Large Cap Equity** for **Healthcare** mainly pharmaceutical sectors
- Invest in:
 - Generic Pharmaceuticals
 - Hospital Administration
 - Biotechnology
 - Medical Equipment Production
 - Healthcare

KURE Holdings & Weightage (%)

KURE Top 10 Holdings [\[View All\]](#)



Shenzhen Mindray B...	6.88%	CSPC Pharmaceutic...	3.57%
Wuxi Biologics (Cay...	6.85%	Zhangzhou Pientzeh...	3.47%
WuXi AppTec Co., Lt...	4.61%	BeiGene Ltd Sponso...	2.82%
Jiangsu Hengrui Pha...	4.46%	Aier Eye Hospital Gr...	2.81%
Chongqing Zhifei Bi...	3.87%	Sino Biopharmaceut...	2.07%
		Total Top 10 Weight...	41.40%



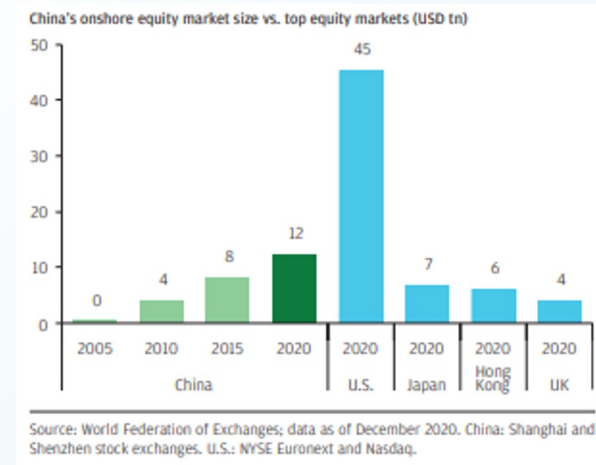
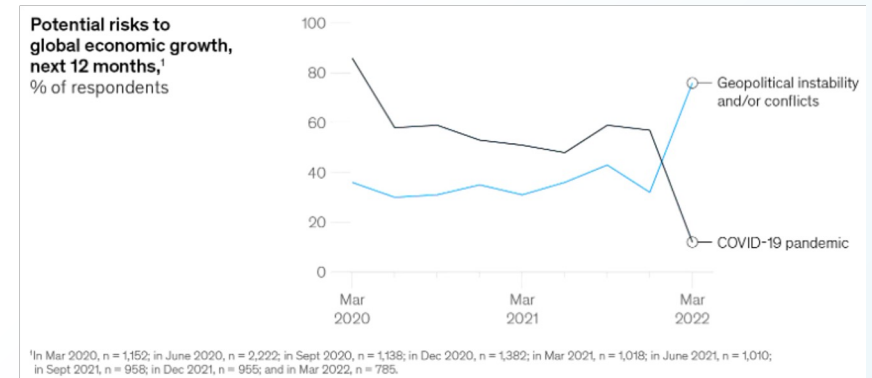
Our Forecasts & Recommendation

Short Term, we forecast :

- Current Geopolitical Conflicts continues to overshadow all other risks to growth
- More downbeat & Uncertainty is expected until China is done settling their prime economical issues

Long Term, we forecast :

- On shore Chinese Equity and government bonds returning to a substantial premium over developed markets
- Further Capital Market Reforms and Openings
- Growth of Green Bonds and Social Impact
- Great long term upside potential **BUY** opportunity



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