



Report:

Observations from China and USA Trip

**Paradise Australian
Equities Strategy**

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October 2024

Recently David Feng, a portfolio manager/analyst from the Australian equities team, undertook a three-week trip to China and the US. Below is an update on the local economy and a view of in-trend topics from those locations. The trip comprised of company visits, interviews with industry contacts and experts, meetings with sector analysts, and conferences with participants from both listed and unlisted companies.

China Observations:

In China meetings the subjects that were covered were broad and included Autos, Banks, Ferrous/Non-ferrous metals, Internet, Energy Transition, Policy, Property, Consumer, Infant Formula, Energy, and Battery materials.

As a consequence of the insights gained in China, we see positives such as:

- Strong demand in **domestic travel**, with outbound travel demand to exceed pre-covid level in 2025;
- **Banks' credit risk is manageable** with low non-performing loans and trades at big discounts to book value.
- **Growth for Internet players** such as Temu and Tencent is still strong driven by offshore expansion strategy.
- **Auto sales volume remains strong** driven by EV adoption but not necessarily profit, although it is growing.
- **Magnet production and rare earth demand** remain strong, driven by industrial electrification and home appliance upgrades.
- **Steel exports** from China continue to take market share in Southeast Asia and show no signs of stopping although volumes have stabilised.
- Power grid upgrade and investment to see **continuous growth** driven by power consumption and new completion of renewable energy.

We also had a few observations on the negative side:

- Interest from **offshore investors** in China assets has **declined** over the last few years, evidenced by low earnings multiples on China stocks despite some of their earnings growth being quite healthy.
- Low labour cost leads to questions on the **growth sustainability of the gig economy**. Youth unemployment issue remains challenging.
- **Demand is weak across the board** and most industries have excess capacity and are exporting deflation like the previous cycle.
- Consumer spending, especially on **luxury goods, continues** to be **under pressure** across the board except for a few brands, exacerbated by spending shifting back to offshore travel. Down trading is evident across the sector, with only a few sectors seeing upgrading such as sportswear, healthcare services and supplements, and infant formulas.
- The **property market** continues to be a drag on steel demand, driven by significantly reduced starts on new projects due to weak property prices and demand. Property upgrades are perhaps a bright spot, but we see inadequate supply in the near term.

US Observations

In the US, David met companies across Telco, Media, Advertising, Real Estate, Tech including AI and Data Centres, recruitment, accounting software, and Private Equity.

The positive feedback included:

- Despite cost of living inflation, **travel demand remains strong**, and lower airfare prices would lead to further demand growth.
- **Employment remains healthy** as participation rates are increasing. Job boards seeing new sources of revenue growth after job churn increased significantly in the last few years.
- **Accounting industry continues to see strong pricing environment**, and new features such as GenAI seeing strong adoption potential in future years. GenAI continues to help improving efficiencies for both SMEs and their accountants, for example automatic generation of emails to chase overdue receivables.

Some negative observations include:

- Even though The Fed has cut the official interest rate, there are a wide range of views on how low the mortgage rate needs to be to trigger property transactions to recover.
- **Telco operators** are seeing prospects of a healthy price increase, however, near-term **CAPEX will be shifted from 5G rollout to building fibre connections**.
- **Media and advertising continue to see sluggish demand** given low business confidence and consumer sentiment. However sectors such as Sports, Pharmaceuticals, Auto, Travel, and Financial Services continue to outperform.
- Increasing scepticism on the **timeframe of return from AI reinvestment** and the sustainability of current CAPEX spending in both Data Centre and the new AI business model.

Summary

Overall, we finished the China trip with increased conviction on the urgency of government stimulus, especially in property, and general confidence in the local economy. From the US trip we see a few bright spots in industry verticals, but also some concerns for the near future for sectors like traditional media and AI investments. Bright spots in industry such as cloud accounting software adoption and levels of online recruitment participation.

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