



Bin Yuan Capital All China Strategy – August 2024

EARNINGS REVIEW:

The Q2 earnings season concluded with all A-share companies reporting a decline in revenue (-1.7% compared to -1% in Q1) and earnings (-0.9% compared to -4.4% in Q1). The decrease in earnings has stabilized, showing a modest improvement from Q1. Differentiation between sector performances has increased:

- Real estate development revenue -27%, earnings -130%
- Building materials revenue -9%, earnings -55%
- Electronics revenue +19%, earnings +24%
- Auto revenue +6%, earnings +25%

Our portfolio however posted Q2 revenue up 25% and earnings up 34% YoY for holdings that release quarterly results. H1 revenue increased by 20% and earnings rose 25% YoY for holdings that release semi-annual results. We expect the portfolio’s fundamentals to remain solid and continue to deliver upbeat earnings over the next several quarters.

	2024 Q1		2024 Q2		2024 H1	
	Rev Gr	Profit Gr	Rev Gr	Profit Gr	Rev Gr	Profit Gr
A share market	-1.0	-4.4	-1.7	-0.9	-1.4	-2.6
Bin Yuan portfolio	17.5	15.4	24.5	34.5	19.9	24.5

- **Infrastructure:** Demand has been increasing for new infrastructure projects like enhancements to the power grid, railways, and rural infrastructure like irrigation systems. Old infrastructure projects like building construction were negatively impacted by sliding government revenue which largely relied on land sales. Our high value-added capital goods and machinery holdings benefited from, and should remain beneficiaries of, the rising demand for new infrastructure upgrades: NARI Technology & Xuji Electric (power grid equipment), Jiangsu Hengli Hydraulic (machinery and parts) and CRRC Corporation (railway equipment), among others. Bidding on power grid tenders accelerated in the first half of the year, and revenue and earnings should follow over the next few quarters (Please see our comments on “Ultra-High Voltage (UHV) – The Bridge to China’s Carbon Neutrality” below for more details).
- **Technology:** The import substitution trend continued, as evidenced by the increased orders for semiconductor equipment manufacturers and MLCC (Multilayer Ceramic Capacitors) player Chaozhou Three-Circle. The US sanctions on Chinese corporations and restrictions on technology exports to China is a two-edged sword. While it has slowed down China’s acquisition of new technology in certain areas, Chinese technology companies have been gaining momentum in capturing local market share and moving up the technology curve. The demand for consumer electronics led by optical lens leader Sunny Optical, EV fuse provider Sinofuse, and consumer electronics brand Anker has been recovering. This has been driven by upgrades and replacements fueled by AI innovations in smartphones, smart cars and smart IoTs. Leaders with global competitiveness such as tire molds and large mechanical parts leader Himile Mechanical Science, industrial control system provider SUPCON and laser motion control system leader Shanghai BOCHU have been expanding their market share in overseas markets.



- Healthcare:** Medical consumables saw a pickup. Surgical and medical instrument manufacturer Kangji Medical posted resilient growth with easing pressure from volume-based procurement policies and gradual price recovery of some segments. Medical equipment relatively underperformed, impacted by last year's high base and a delayed bidding process. This is expected to improve in the following quarters with receding impact from the previous anti-corruption campaigns.
- Consumer:** Consumer demand and sentiment was weak as consumers looked for value-for- money consumption ideas and cut unnecessary spending amid the challenging macro environment. Experience consumption like travel and entertainment consumption like gaming remained strong. Trip.com (online travel reservation agency) and Bili (leading video platform) delivered upbeat earnings results. We also see leaders in some traditional sectors like Suofeiya (built-in furniture leader), Anjoy (quick-frozen food leader) and Baiya (sanitary products leader) growing their market share by making quick adjustments to the challenging environment during the industry consolidation.

Please see below for the earnings comments of some of our holdings.

Key Holdings Earnings Result

Name	1Q 2024	1Q 2024	2Q 2024	2Q 2024	1H 2024	1H 2024	2024 PE	Yield
	Sales Gr	Core Earnings Gr	Sales Gr	Core Earnings Gr	Sales Gr	Core Earnings Gr		
TENCENT	6.34	9.01	8.00	55.00	7.16	54.00	17.8	4.4%
CHINA MERCH BK-A	-4.65	-1.99	-1.48	-0.67	-3.09	-1.14	5.8	6.0%
IRAY TECHNOLOG-A	11.48	6.00	3.56	-10.51	7.20	-3.05	16.3	1.5%
NARI TECHNOLOG-A	24.25	16.38	2.73	6.95	10.02	9.30	22.0	2.5%
KANGJI MEDICAL H					13.58	11.89	9.0	5.3%
HAICHANG OCEAN P					6.82	22.00		
PIOTECH INC-A	17.25	-325.07	32.22	67.43	26.22	-69.38	37.4	
JIANGSU HENGLI-A	-2.70	-2.30	22.05	46.00	8.56	18.00	23.6	1.5%
BILIBILI INC-Z	11.74	Loss	16.00	Loss	13.67	Loss		
		reduction		reduction		reduction		
SHANXI XINGHUA-A	20.94	30.08	17.06	10.23	19.65	24.41	16.0	2.6%
XUJI ELECTRIC-A	-15.09	57.09	3.38	-4.26	-5.10	15.90	21.0	1.1%
SHENZHEN MINDR-A	12.06	20.08	10.35	13.69	11.12	16.39	19.4	3.1%
SUPCON TECHNOL-A	20.25	57.00	14.49	56.00	16.78	56.00	23.8	2.1%
YANTAI JEREH-A	-6.52	4.89	-10.01	28.60	-8.54	8.80	10.3	1.9%
GUANGDONG HONG-A	10.89	30.35	12.12	25.10	11.63	25.41	17.7	3.0%
ANJOY FOODS GR-A	17.67	21.56	2.31	-2.51	9.42	11.11	12.9	3.8%
SUNRESIN NEW -A	25.99	27.97	30.98	30.00	28.50	29.00	23.5	1.6%
TRIP.COM GROUP L	29.42	27.76	14.00	507.00	20.69	103.00	20.0	1.8%
SUOFEIYA HOME-A	16.98	73.81	-4.11	0.97	3.91	13.41	9.4	8.0%
XI'AN SINOFUSE-A	16.10	-19.39	23.37	57.00	19.97	13.91	31.0	
CHAOZHOU THREE-A	31.49	57.40	29.42	62.60	30.36	60.46	28.9	1.2%
WUXI AUTOWELL -A	89.06	61.25	65.94	48.00	75.48	53.70	5.2	4.5%
SUNNY OPTICAL					32.09	147.07	23.2	0.7%
CHONGQING BAIY-A	46.40	30.63	79.56	49.37	61.31	38.59	28.5	3.3%

Source: Bin Yuan Capital, Listed Companies



Infrastructure construction related

- ✓ NARI (a leading player in power grid construction)
 - 1H revenue YoY +10%, 2Q QoQ +61.2%
 - 1H net profit YoY +9.3%, 2Q QoQ +254.7%
 - New orders in H1 reached RMB 28,700 mn. We expect new orders and revenue to accelerate as UHV bidding and construction kick in 2024H2 and 2025, especially for ultra-high voltage direct current segment in which Nari has dominant position.
- ✓ Hengli Hydraulic (leading hydraulics manufacturer)
 - Q2 revenue RMB 2,471 mm, +22%, net profit RMB 686 mm, +5% YoY (+46% YoY excluding the FX impact).
 - The company relies on the competitiveness of its own products to increase market share in both the domestic and overseas markets.

Technology related

- ✓ Sinofuse (an integrated solution supplier of energy protection systems)
 - Q2 net profit RMB 38 mm, + 56.5% YoY, +41% QoQ
 - Their high growth was mainly due to the penetration of EVs in China and the application of high voltage power charge solutions in new EV cars which made the ASPs of its products rise more than 20%. Meanwhile, the company can also benefit from the strong global energy storage demand.
- ✓ Montage (a leading global memory interface chip provider)
 - Q2 revenue RMB 928 mm, +82.6% YoY, +25.8% QoQ
 - Q2 net profit RMB 330 mm, + 9133% YoY, +50% QoQ
 - Increasing demand for AI servers has driven the penetration of DDR5 (new memory chips), which has led to an increase in the volume and price of the company's memory interface chips. We expect the company will fully benefit from the AI trend and estimate high growth over the next quarters.
- ✓ Autowell (a leading manufacturer of photovoltaic equipment)
 - 2024Q2 revenue RMB 2,453 mn, + 66% YoY; NI RMB 434 mn, YoY 48%
 - New orders in 2024 are expected to remain positive compared to 2023, much better than the industry average.



- ✓ Chaozhou Three Circle (CCTC) (a leading manufacturer of electronic components and advanced materials)
 - Q2 revenue RMB 1,864 mm, +29%, net profit RMB 593 mm, +44% YoY
 - This growth is driven by continued demand from downstream industries such as consumer electronics and optical communications. Additionally, the market recognition of the company's MLCC products is rising, with broader coverage in downstream applications and significant share expansion to substitute for imports.
- ✓ Sunny Optical (a leading optical and related product supplier)
 - H1 revenue RMB 18,860 mm, +32%, net profit RMB 1,079 mm, +147% YoY
 - This was due to the recovery in the smartphone market. The improved product mix has led to a year-on-year increase in shipments of smartphone lenses and camera modules, as well as higher average selling prices and improved gross margins. We expect the company to maintain high growth in the second half of the year.
- ✓ Anker Innovations (a globally recognized consumer electronics brand)
 - Q2 revenue RMB 5,271 mm, +42%, recurring net profit RMB 450 mm, +50% YoY
 - The company adapts quickly to user needs and creates high value products, earning customer recognition. With continuous product innovation and channel optimization, the company's performance should keep growing.
- ✓ Piotech (a leading semiconductor equipment manufacturer)
 - Q2 revenue RMB 795 mm, +32.2% YoY, +68.4% QoQ
 - Q2 net profit RMB 119 mm, + 67.4% YoY
 - Q2 new orders +93% YoY, and we expect new order growth will exceed 50% in 2024 due to the rapid expansion plan of downstream fab capacity, especially in the advanced node field.
- ✓ SUPCON (a top player providing industrial control products)
 - Q2 revenue RMB 2,500 mm, YoY +14.5%;
 - Q2 net profit RMB 370 mm, core business profits ex-FX gain/loss increased by 56%;
 - SUPCON has taken market share from foreign brands. It also released its unique new product UCS to replace DCS in the future and is about to launch the subscription mode for its industrial software. We expect the new product and the new mode will help boost earnings and improve cash flow. It is becoming globally competitive with higher penetration into the Middle East market.
- ✓ Himile Mechanical Science and Technology (a leading manufacturer in high-end mechanical equipment)
 - Q2 revenue 2,372 mm RMB, +25% YoY, +34.2% QoQ



- Q2 net profit 560 mm RMB, +20.7% YoY, +40% QoQ
- The company's tire mold business benefits from the expansion of overseas capacity by downstream Chinese tire manufacturers. The company has entered the CNC machine tool industry and has advanced technology levels for independently developing machine tools and core components. We expect both business segments to show strong growth.
- ✓ Jereh (leading oil field service provider)
 - Q2 revenue RMB 2,826 mm, -10%, net profit RMB 713 mm, +3% YoY (+28.6% YoY excluding FX impact)
 - The demand for orders in the domestic market was better than expected, and overseas continues to maintain high growth at 30%+, particularly in the Middle East. Due to the improvement of the company's product competitiveness, we expect this trend will continue.

Healthcare related

- ✓ Kangji Medical (China's largest domestic MISIA (Minimally Invasive Surgical Instrument and Accessories) manufacturer)
 - H1 revenue RMB 458 mn, +13.6%, net profit RMB 286 mn, +11.9% YoY
 - Its full-year guidance confirmed at 15-20% (closer to 20%)
 - Sales of laparoscopic staplers and ultrasonic cutting hemostatic knives are expected to maintain a high growth rate
 - New product surgical sutures should start to increase market share next year
 - The new VBP policy is continuing to promote domestic substitution without hurting ex-factory prices
- ✓ iRay technology (a leading designer and manufacturer of key components for X-ray systems)
 - 1H revenue up 7%. Q2 revenue RMB 535mn, a historical high.
 - Flat 1H core earnings due to the high base last year, but they have confirmed their 800mm core full-year earnings target (16x PE).
 - Q2 operating cash flow RMB 228 mn, best quarter ever
 - OEM business began to grow rapidly, increasing >100%
 - Dental products were recognized by overseas customers, and we estimate volume increases in H2.
- ✓ Sunresin New Materials (a leading manufacturer of high-end resin materials)



- Q2 revenue RMB 664 mn, +31%. Excluding the FX impact, the company's 2024 H1 core net profit growth was 30%, with Q2 core net profit growth of 38%.
- In 2024 H1, the life sciences segment revenue grew +33%, the water purification segment revenue grew +30%
- We expect continued strong growth in their life sciences and water purification segments.

Consumer related

- ✓ Trip.com (a leading travel online reservation agency)
 - Q2 net profit RMB 3,833 mm, + 507% YoY
 - The high growth was mainly due to the full recovery of the Chinese tourist market as well as increased online penetration in the travel reservation market. Meanwhile, the company also benefits from outbound travel which is steadily recovering.
- ✓ Bilibili (a leading video platform)
 - Q2 revenue RMB 6,127 mm, +15.5% YoY
 - Q2 net loss RMB 608 mm, loss narrowed 60% YoY
 - Bilibili continues to show its influence in the z generation. The platform is beginning to increase its monetization, and advertisement revenue saw a 30% YoY increase in Q2, exceeding market expectations. Its new game Sanguo SLG became an unexpected hit, based on the platform's knowledge of the young generation's interests.
- ✓ Suofeiya Home Collection (leading manufacturer of built-in furniture)
 - H1 revenue RMB 4.9 bn, +3.9% YoY; net profit RMB 564.6 mm, +13% YoY
 - Q2 revenue was in line with expectations due to the high base in the previous year. But earnings were better than expected with gross margins improving 2.4% and selling expenses remained stable, indicating better economies of scale on increasing leadership with rising market share.
 - We expect market leaders like Suofeiya to benefit from gradual demand recovery on better supply chain and operating leverage once the market stabilizes.
- ✓ Haichang Ocean Park (a leading aquarium and amusement park)
 - H1 revenue RMB 800 mn, +6.8% YoY
 - EBITDA H1 300mn, +22% YoY



- The company has several aquariums in pipeline that will operate under light-asset model, thus will improve the balance sheet, and reduce interest burden in the long term.



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