



Bin Yuan Capital All China Strategy – February 2024

Performance Attribution

After panic selling in January, the Chinese market made a robust recovery of 9.17% in February. This rebound was fueled by an uptick in investor confidence, buoyed by a series of broad-based government initiatives aimed at bolstering economic and market stability.

State-owned large-cap entities continued their upward momentum, while the rally started to expand to include mid-cap companies. During the month, our portfolio demonstrated a positive return of 8.43%, albeit slightly trailing the benchmark by 74 basis points. Within our portfolio, the Healthcare and Industrials sectors performed well while Consumer Discretionary lagged. Our underweight position in large-cap internet names detracted from our relative performance.

At the stock level, iRay Technology outperformed in February on the receding impact from previous medical anti-corruption campaigns. iRay's products are key components for medical image clarity and industrial inspection accuracy. Going forward, its products can be used more and more broadly in a variety of industries, such as medical, security checks, semiconductor chip testing, etc. The import substitution trend in the domestic market with product expansion in dental, industrial and non-detector products, and breakthroughs in overseas markets should continue to act as long-term growth drivers.

Haichang Ocean Park underperformed in February even while the company has benefited from the recovery of the tourism industry. Following strong reported H1 earnings growth of 190% YoY and EBITDA moving from losses to profitability, the company reported strong visitor traffic during the New Year and Spring Festival holidays, with visitor flow growth of 100% and 130%, respectively, compared to 2019 levels. The company's business is on track to have a strong recovery in earnings this year compared to last year. However, the share price has been falling due to some large secondary market investors selling portions of their stakes to meet their own cash needs. Our understanding is that the end of the selling phase is near, and we should see the stock price recover in the near future. The company is transforming from a traditional park owner to an asset-light park operator, which should improve their balance sheet. Merchandise sales related to Ocean Park's intellectual property of ocean animals and cartoon characters are driving up in-park spending. A new theme park opened in Zhengzhou, Henan province in 23Q4 and a new park being planned for Beijing should act as growth drivers in the longer run. As the largest ocean theme park operator in China, Haichang caters to the emerging middle class and is expected to benefit from the growth in domestic tourism.



Bin Yuan Comments

The government successively introduced a series of policies to boost the economy and market confidence.

Monetary policy adjustments surpassed market expectations both in terms of pace and extent. After the central bank's 50 basis points reduction in the reserve requirement ratio at the close of January, injecting approximately 1 trillion yuan of long-term liquidity into the market, further measures were announced on February 20. The central bank reduced the 5-year and longer-term Loan Prime Rate (LPR) from 4.2% to 3.95%, marking the most significant decrease in recent years. The Chinese government continues to lower financing costs for business and homeowners to ease their burden. The increased financing available and the decrease in financing costs will significantly alleviate the debt pressure on real estate companies, further reducing systemic risk in the financial system. The cuts to new and existing mortgage interest rates will also stimulate spending in the consumption sector.

Regarding stock market regulations, the China Securities Regulatory Commission (CSRC) reaffirmed its commitment to a strict crackdown on misconduct by listed companies to boost investor confidence, sending a strong signal of increasing the cost of such illegal activities. Meanwhile, the CSRC has taken actions to regulate insider trading and rapid short selling that impacted market sentiment.

On the consumption front, a plan to encourage a new round of equipment upgrading and consumer goods replacement has been approved, thus spurring investment and consumption. The government also implemented visa-free arrangements in February with 23 countries, including Thailand, Singapore, Maldives, and the UAE. Outbound travel recovery has been boosted, with domestic airlines opening new international passenger routes and increasing the number of flights. The effects have already been seen during the Spring Festival holiday, with a significant YoY increase in Chinese tourist trips to south Asia, as well as a surge in orders from tourists from these countries to travel to China.

During the Chinese New Year holiday, the performance of the consumer sector exceeded expectations. 474 million people travelled during the holiday, a YoY growth of 34.3% compared to the same period in 2023 and a 19% increase over 2019. Total domestic tourist consumption amounted to RMB 6,327 billion, reflecting a YoY growth of 47.3%, and a 7.7% increase compared to the same period in 2019. The sectors below stood out:

- Daily airline passenger volume increased by 19% compared to the same period in 2019, surpassing the expected 10%
- Ticket prices were anticipated to grow by 12% but actually increased by 20%
- The hotel industry's RevPAR recovered to 95% of the same period in 2019, showing a YoY growth of about 20-30%
- Gold and jewelry sales increased by more than 10% YoY.

From a bottom-up perspective, several of our holdings have begun to release preliminary reports for 2023, indicating robust growth momentum. As we enter the earnings season in March and April, we anticipate that the annual data disclosed by our holdings will be better than expected.



- ✓ Autowell (a solar equipment manufacturer)
 - 2023 revenue RMB 6.3 bn +78.11% YoY
 - 2023 net profit RMB 1.3 bn +76.15% YoY
 - These were 7% higher than the market expected, mainly due to the company's strong expansion of product categories, which brought additional growth in 2023 and should continue to drive growth in next several years.
 - Order growth in the first two month of 2024 continued with positive momentum.
- ✓ Joyson Electronic (an auto intelligence and safety solution provider)
 - 2023 revenue RMB 55.6 bn +12% YoY
 - 2023 Net profits RMB 989 mn +215% YoY
 - Q4 2023 Net profits were RMB 318 mn +420% YoY.
 - These results demonstrated steady revenue growth and the positive effects from economies of scale with cost reduction and increasing efficiency. As the company systematically delivers its current orders on hand and continuously improves its order structure within its safety business, profitability should progressively rise.
- ✓ BOCHU (previously Friendess, a laser-processing solution provider)
 - 2023 revenue RMB 1.4 bn +56.6% YoY
 - 2023 net profit RMB 824 m +50.9% YoY
 - These were 10% higher than the market expected, mainly due to the strong demand for laser equipment from downstream manufacturing customers as it takes more market share from foreign peers.
- ✓ Maxscend Microelectronics (a RF solution provider)
 - 2023 revenue RMB 4.4 bn +19.06% YoY
 - 2023 net profit RMB 1.2 bn +8.92% YoY, which was 10-20% better than expected.
 - Q4 revenue RMB 1.3 bn +97.6% YoY
 - Q4 net profit RMB 346 m + 310% YoY
 - This showed that the company has taken market share from foreign players on strong product competitiveness.
- ✓ SG Micro (an analog chip designer)



- Q4 23 reported YoY net income of 155 m 26% YoY, +129%~262% QoQ
- ✓ Chaozhou Three Circle (electronic component and advanced material)
 - Q4 23 reported YoY net income growth of close to 40%
 - This was due to the recovery of demand in the electronics industry, and the company's increasing competitiveness with new product breakthroughs.
- ✓ Semiconductor equipment manufacturers delivered strong earnings growth benefiting from the import substitution trend.
 - AMEC: 2023 net profits RMB 1.7 bn +52.64% YoY, 2023 etching equipment revenues RMB 4.7 bn +49.4% YoY
 - Pio Tech: 2023 net profits RMB 0.66 bn +80.3% YoY, 2023 revenues RMB 2.7 bn +58.6% YoY



Bin Yuan Opinion

Chaozhou Three-Circle Group (CCTC)

- Leading Chinese Electronic Ceramic Company

Electronic ceramic materials have become a critical material across industries such as consumer electronics, communication and automotive due to their excellent functional properties. With ongoing technological advancements and the expansion of application fields, electronic ceramics will likely continue to play an essential role in driving the development and innovation of various industries, demonstrating significant investment opportunities in this industry.

Superior Material Properties are Driving Rapid Growth of the Electronic Ceramics Market

Electronic ceramics are produced by sintering inorganic powder materials and developing ceramics with novel functions through precise control of surface treatments, grain boundaries, and structural dimensions. Table 1 shows that this material has considerable advantages in these five aspects:

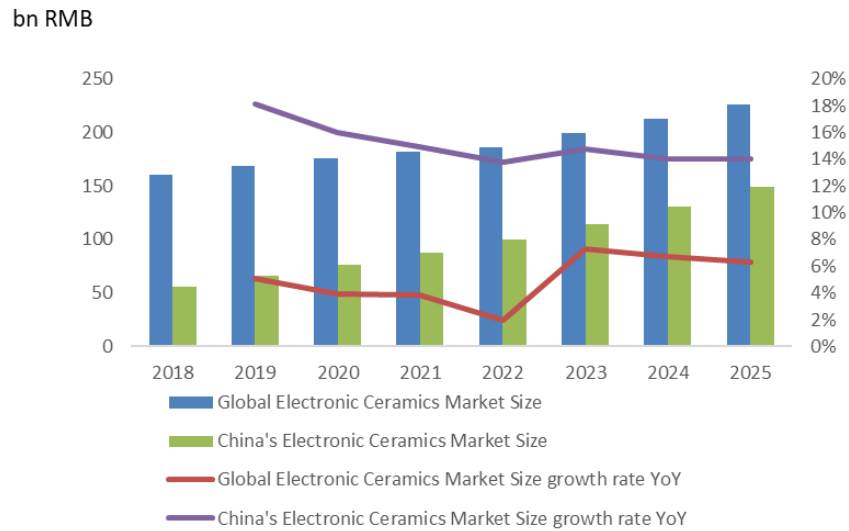
Table 1. Advantages of Electronic Ceramics

Property	Electronic Ceramic Materials	Metal Materials	Plastic Materials
Insulating Property	Excellent	Poor	Good
High Temperature Resistance	Excellent	Good	Poor
Chemical Stability	Excellent	Poor	Average
Mechanical Strength	High	High	Moderate
High Frequency Performance	Excellent	Good	Poor

Source: Bin Yuan Capital

Due to these clear advantages, electronic ceramics can be applied in fields such as optical communication, wireless communication, industrial lasers, consumer electronics, and automotive electronics. With the development of artificial intelligence, the Internet of Things (IoT), and increasing interest in new energy vehicles, the applications for electronic ceramics will continue to grow.

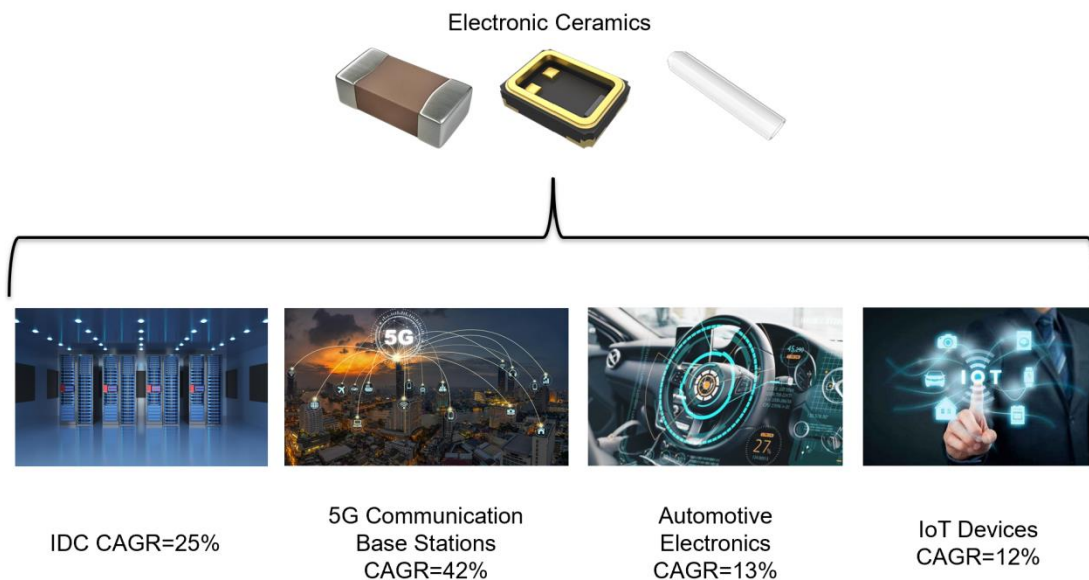
Chart 1. The Electronic Ceramics Market Size



Source: Bin Yuan Capital, Markets & Markets, China Commercial Industry Research Institute

Chart 1 shows that the global electronic ceramic industry market size increased from RMB 160.8 billion to RMB 186 billion from 2018 to 2022 and is expected to reach RMB 226.4 billion by 2025, a CAGR of 7%. During the same period, the market size of China’s electronic ceramic industry increased from RMB 55.7 billion to RMB 99.8 billion, a CAGR of 15.7%, and is expected to reach RMB 148.9 billion by 2025, a CAGR of 14% from 2023 to 2025, owing to the rapid growth of downstream applications of electronic ceramics in China (Diagram 1).

Diagram 1. The Growth Rate of Applications of Electronic Ceramics in China (2020-2022)

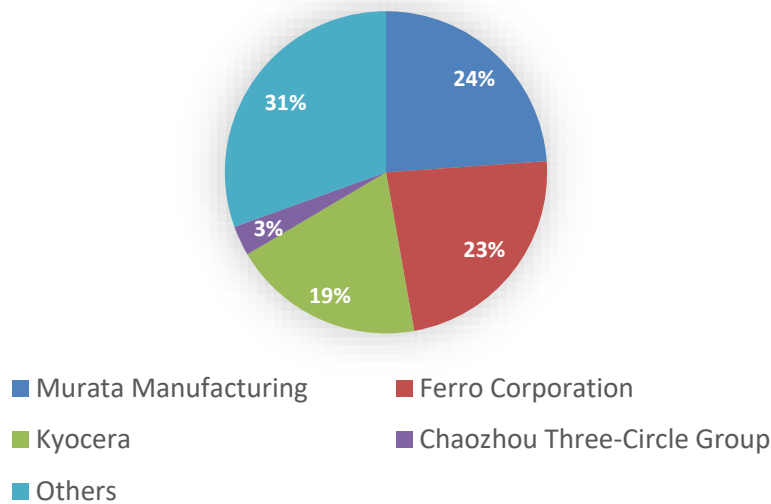


Source: Bin Yuan Capital, China Commercial Industry Research Institute

Accelerated Growth in Import Substitution:

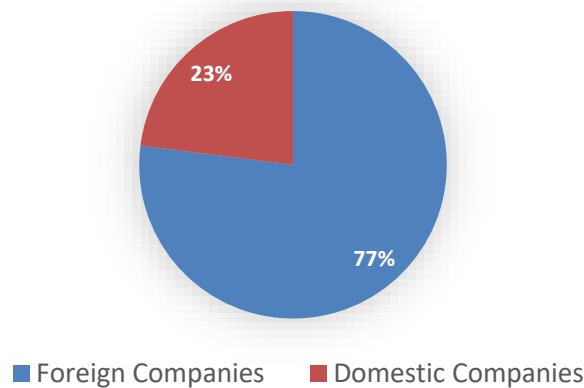
As seen in Chart 2, the electronic ceramics industry globally is dominated by Japan and United States with circa 50% and 30% respective market shares. By comparison, as shown in Chart 3, the market share of China's electronic ceramics companies is relatively small. Products are mainly concentrated in the mid- to low-end, with domestic companies accounting for only a 23% market share in China, suggesting huge scope for high end import substitution. Chinese companies are strengthening core technology research and development. We are seeing technological advances and breakthroughs in all processes from ceramic powders to sintering, which is gradually enhancing their competitiveness (Chart 4).

Chart 2. Global Market Share of Leading Electronic Ceramics Companies



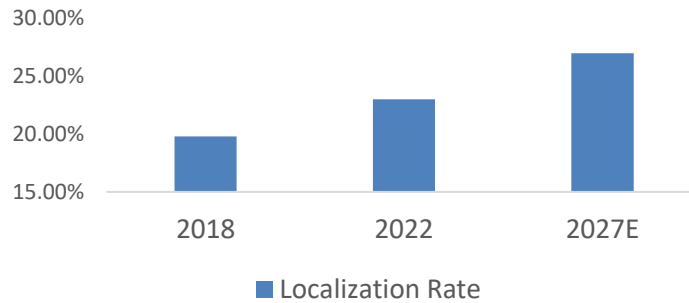
Source: Bin Yuan Capital, China Commercial Industry Research Institute

Chart 3. Foreign vs Domestic Market Share of Electronic Ceramics in China



Source: Bin Yuan Capital, China Commercial Industry Research Institute

Chart 4. Increasing Localization Rate

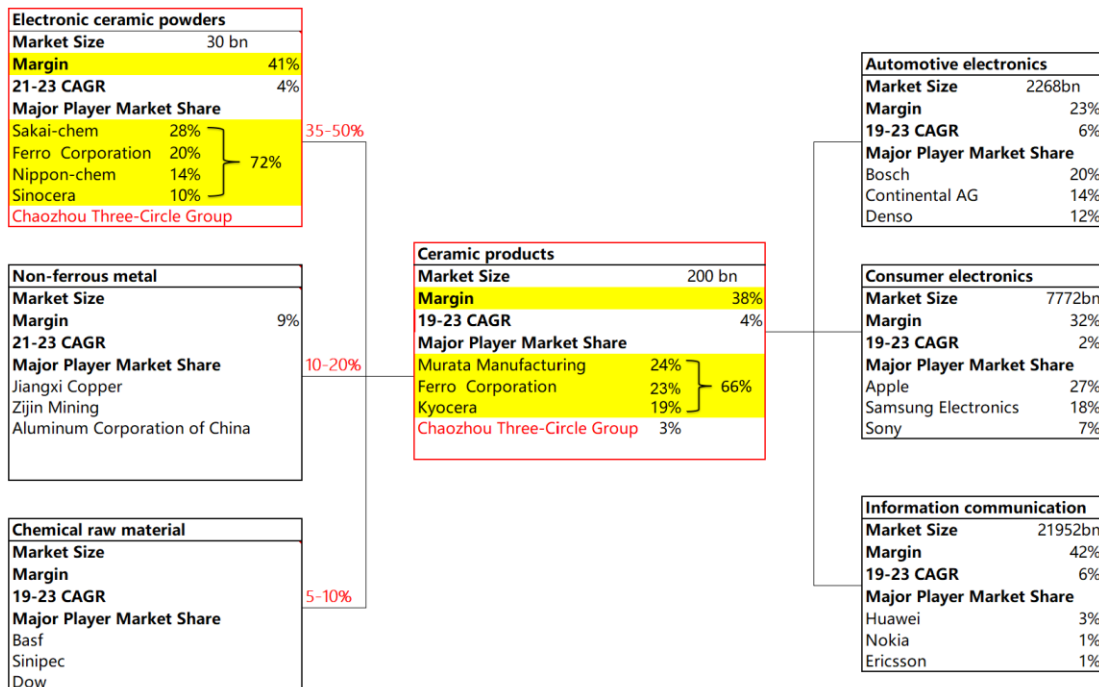


Source: Bin Yuan Capital, China Commercial Industry Research Institute

Chaozhou Three-Circle Group (CCTC) – Leading Chinese Ceramic Electronics Company

The preparation technology of high-purity, ultrafine, high-performance ceramic powders is the core technology of the electronic ceramics industry. Electronic ceramic products are difficult to process due to their high precision requirements. Materials, processes, and equipment are critical, requiring long-term accumulation of knowledge and technology, leading to high technical barriers. The high technical barriers of electronic ceramic powders and ceramic products have led to high market concentration, strong bargaining power and high gross margins (Diagram 2).

Diagram 2. Ceramic Electronics Industry Value Chain



Source: Bin Yuan Capital, Companies' Annual Reports, China Commercial Industry Research Institute

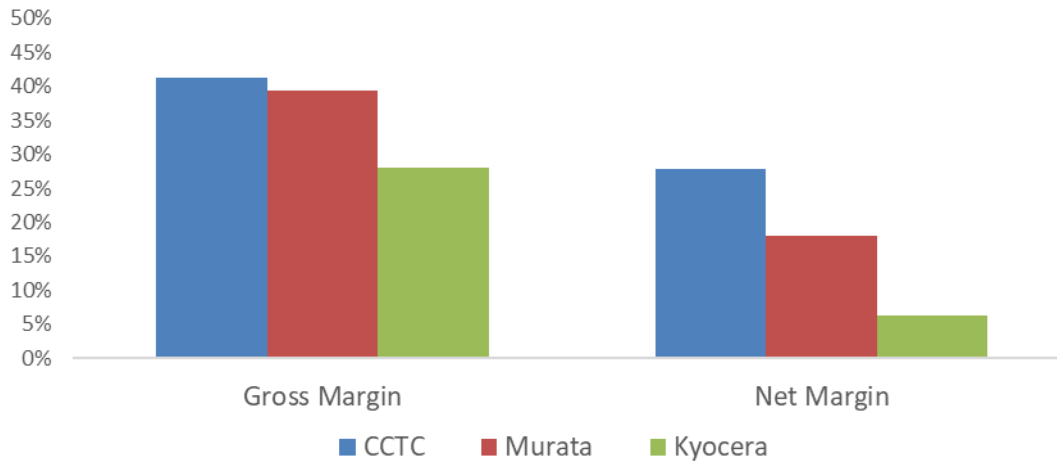
As shown in Table 2, with 50 years of accumulated expertise in electronic ceramics technology and process knowledge, Chaozhou Three-Circle Group (CCTC) has mastered the key steps in the process, including powder preparation, molding, sintering, and post-processing. The formation of **vertically integrated process technology** has significantly reduced production chain costs, as shown in Chart 5. This strategic implementation translates into a real and tangible competitive advantage in the industry with a gross margin of 44% and a net profit margin of 29%. This makes it a very attractive investment target compared to its Japanese peers.

Table 2. Advantages of CCTC

Basic materials	Mastering the preparation technology for new materials, electronic slurries, functional glass, and nano powders
Process technology	Mastering various technologies such as dry pressing, injection molding, roll-to-roll processing, screen printing, high-temperature co-firing in protective atmospheres, and ceramic metallization for miniaturized and high-precision products
Equipment	Mastering various forms of precision grinding technology and the design and fabrication of precision molds

Source: Bin Yuan Capital

Chart 5. Comparison of Electronic Ceramic Companies 2023



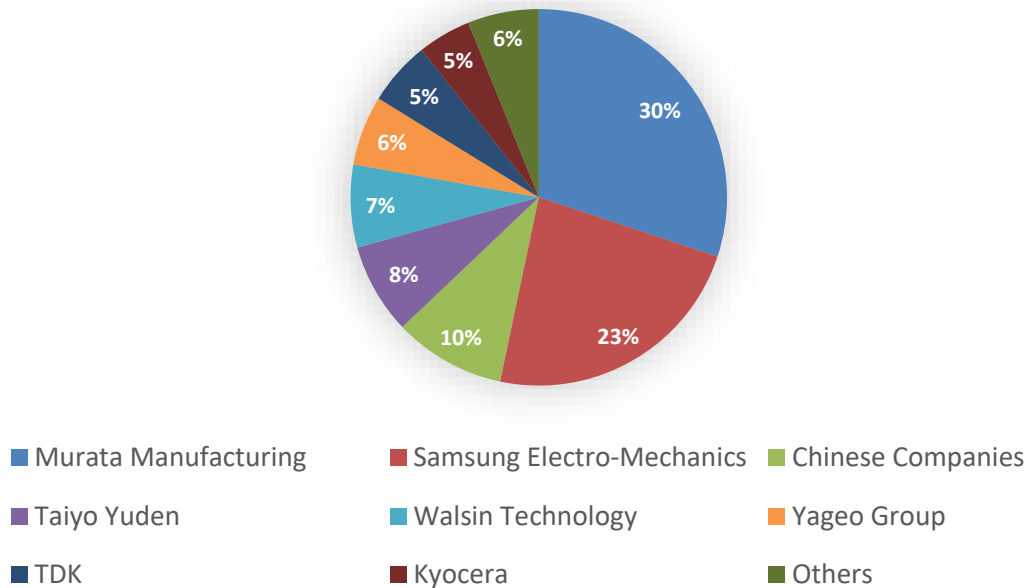
Source: Bin Yuan Capital, Companies' Annual Reports

MLCCs: Huge Market Potential and Low Localization Rate:

Multilayer ceramic capacitors (MLCCs) account for approximately 20% of the entire electronic ceramics market. This represents a significant development opportunity for CCTC. Known for their compact size, resilience to high temperatures and voltages, versatile capacity, ease of installation, and stellar performance, MLCCs are the most prevalent and rapidly expanding type of ceramic capacitors in use today. In 2022, the global MLCC market size reached RMB 120.4 billion, while China’s MLCC market size was RMB 53.7 billion.

However, the localization rate of MLCCs is very low due to high technological entry barriers. We can see from Chart 6 that the major MLCC manufacturers are mainly concentrated in Japan, South Korea, and Taiwan. In 2022, Japanese companies (including Murata, Kyocera and TDK) had the high market share of 40%, followed by Samsung Electro-Mechanics with a market share of 23%, and Taiwan players (including Taiyo Yuden, Walsin Technology and Yageo) with a combined market share of 21%. Chinese manufacturers accounted for only 10% of the market. This means that if CCTC can produce products that meet customer demand, there is a great potential for import substitution in the future.

Chart 6. China’s Market Share of MLCCs in 2022



Source: Bin Yuan Capital, CECA, China Commercial Industry Research Institute

CCTC has established its expertise in the high-end MLCC segment by offering reliable products with increased capacitance and miniaturization features. This achievement is evidenced by gaining substantial market acceptance from key local clients. Notably, sales of high-end products now constitute more than half of the total MLCC sales, highlighting the company's significant potential to ascend the value chain and capture a considerable portion of the premium market currently dominated by foreign competitors.

CCTC sales of MLCCs were RMB 1.2 billion in 2023 and are expected to reach RMB 3.7 billion by 2027, with a CAGR of 32% from 2024 to 2027, implying that CCTC’s domestic electronic ceramics market share will increase from 2% to 5%.

Summary

Electronic ceramics’ applications will grow rapidly as technology develops. CCTC, as the leader in China’s electronic ceramics industry, has built a deep reservoir of technological and process knowledge. By mastering key aspects such as materials, processes, and equipment, CCTC has cultivated a significant competitive edge and accumulated successful experience in the materials sector. For instance, in the ceramic ferrule field, CCTC has achieved a 70% market share by continually enhancing its product competitiveness. Our research has revealed significant similarities in the production technology and processes between ceramic ferrule and MLCCs. Therefore, we believe that the company can also achieve success in the MLCC industry, propelling the company towards further development and presenting long-term investment value.

We estimate that CCTC’s net profit will grow at a CAGR of 18% between 2024 and 2027, reaching RMB 3.0 billion in 2027. Using a multiple of 25x PE, based on the average PE valuation ratio of comparable companies, we believe CCTC’s valuation will reach RMB 76 billion in 2027, implying 55% upside, and an annual return of 16%.

Chart 7. CCTC’s 10 Year Share Price Chart



Source: Bloomberg.



彬元资本

Investing for Better Life



Signatory of:



Sincerely,

Ping and the Team

March 7, 2024

Bin Yuan on the Road



February 13, 2024

The research team made field trip observations over the Spring Festival holidays, to better understand consumer spending trends following the macro changes last year.

Consumers are spending more cautiously in general, both in urban and rural areas due to less confidence in income growth amid the weak macro environment. The trend of ‘value for money’ spending has become popular. But expenditures in some sectors are increasing, such as on the experience economy, which was confirmed by upbeat passenger, box office and entertainment park visits data after the holiday. Gold jewelry also posted good sales. We saw a structural change in, rather than a direct cut of, household spending.

"I like to buy gold jewelry, it is not only an accessory, but also an investment." – A Generation Z girl.



February 2, 2024

We visited an integrated mining service provider and learned about the ongoing transformation of the industry, and the potential opportunities in the global market.

The mining service industry used to be scattered and the competition intense. However, the core material – explosives – is under strict supply side reform and capacity continues to shrink, consolidating to the top companies. As one of the largest integrated mining service provider in China, the company keeps taking market share through merging with smaller players and expand its global footprint at the request of its customers.

" We have enough cash and are ready to buy smaller companies at any time." – Company Secretary.



January 29, 2024

We visited a newly opened membership store of a top retail group to learn about the company’s business transformation initiative and crosscheck upstream supplier companies.

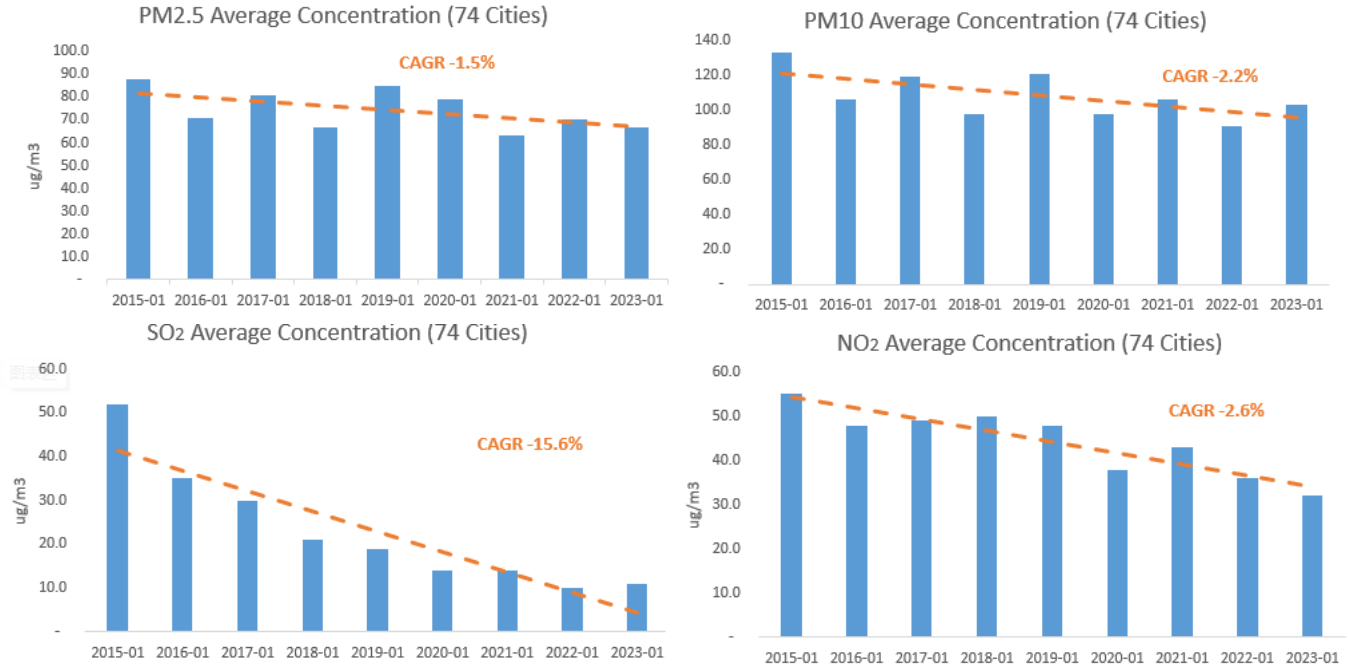
The store charges membership fees annually like Sam’s Club and aims to offer a better grocery shopping experience with value-for-money private label products and value packs that bring savings. There’s a long way to go for the company to transform its hundreds of traditional supermarkets and continuously improve profitability. But the changes are positive, and worth further monitoring. Also, the growing private-label business under the value-for-money trend should bring opportunities for upstream players with advantages of economies of scale, such as our holding Anjoy Food.

" I think the products here are good, and the price is low." – A customer in the store.

Bin Yuan Environment Tracking

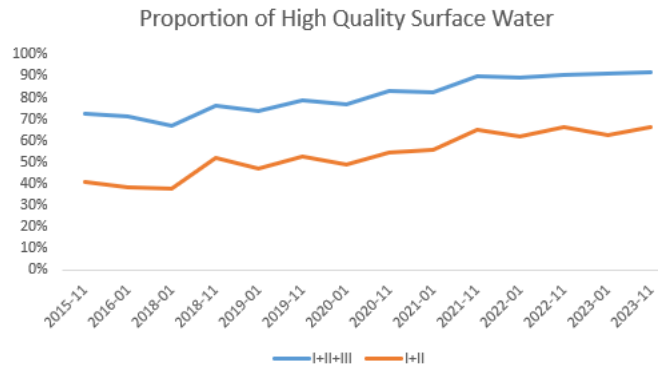
This tracking includes monthly air and water quality data, both showed steady improving trend in the last 5 years. Air pollution concentration dropped due to reduced coal combustion, increased proportion of new energy vehicles, and tightened emission control measures. Water quality improved mainly from the strengthen control of wastewater emissions since 2017.

China air pollutant concentration data December 2015-2023



*PM_{2.5}, PM₁₀ and SO₂ are mainly from fossil fuel combustion, and NO₂ is mainly from vehicle emissions.

The proportion of high-quality water in China data December 2015-2023



*Water quality in China breaks down to 5 levels, with level I being the best and level V being the worst. Level I+II represents water that can be used for drinking purpose. Level I+II+III represents water that can directly contact human body.

*Source: Ministry of Ecological Environment in China.



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