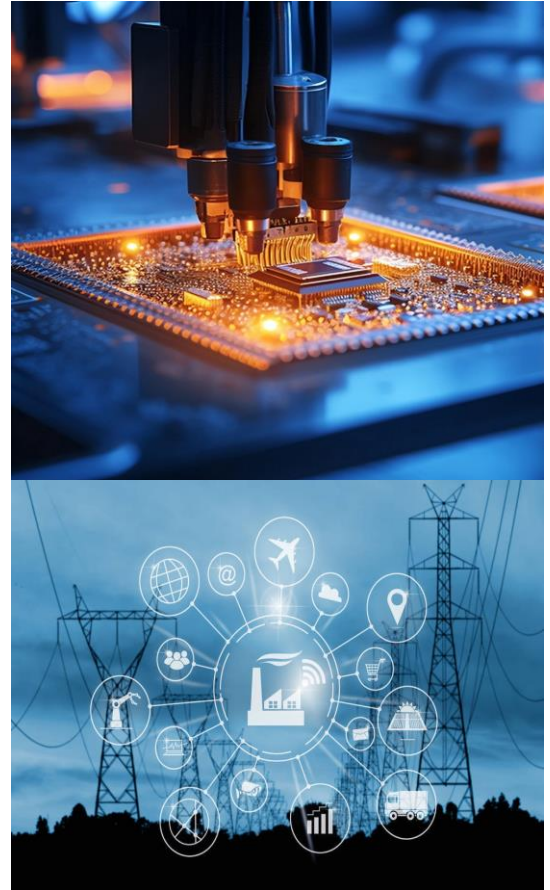




September 2024

Bin Yuan Capital



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# China Outlook – Risks and Opportunities



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# Key Concerns on China

- Trump 2.0 or Harris - marginally less geopolitical risk, trade friction unlikely to differ substantially from Biden policies
- Government policy - support the fundamental recovery and sustainable competitiveness of the economy
- Local government debt – central balance sheet still strong
- Property - revival of growth without property as a driving force will be a long-term process

Extremely low expectations



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# China Update

- **The Economy is getting back on track post Covid – slowly but seems to be bottoming:**
  - Resolving property issues will be a long-term process
  - Weak local government balance sheet – central government is working on solutions
  - Technology infrastructure will be the focus to improve productivity
  - The government is working on programs to stimulate consumer spending
- **Geopolitics relation will hit an equilibrium point**
  - Trade decoupling is happening - but not sustainable – *inflationary, hurts consumption and corporate earnings*
  - Rebalance of trades - exports to ASEAN (including ME) 47% vs 24% Americas & 22% Europe
  - Rebalance of competitiveness - technology and supply chain
  - Highly competitive technology companies have emerged (sanctions as two edge sword)
  - Import substitutions in huge domestic market have strongly accelerated
  - US-China relations overall remain tense - it is the normal process of rebalancing power
- **Valuations compelling**



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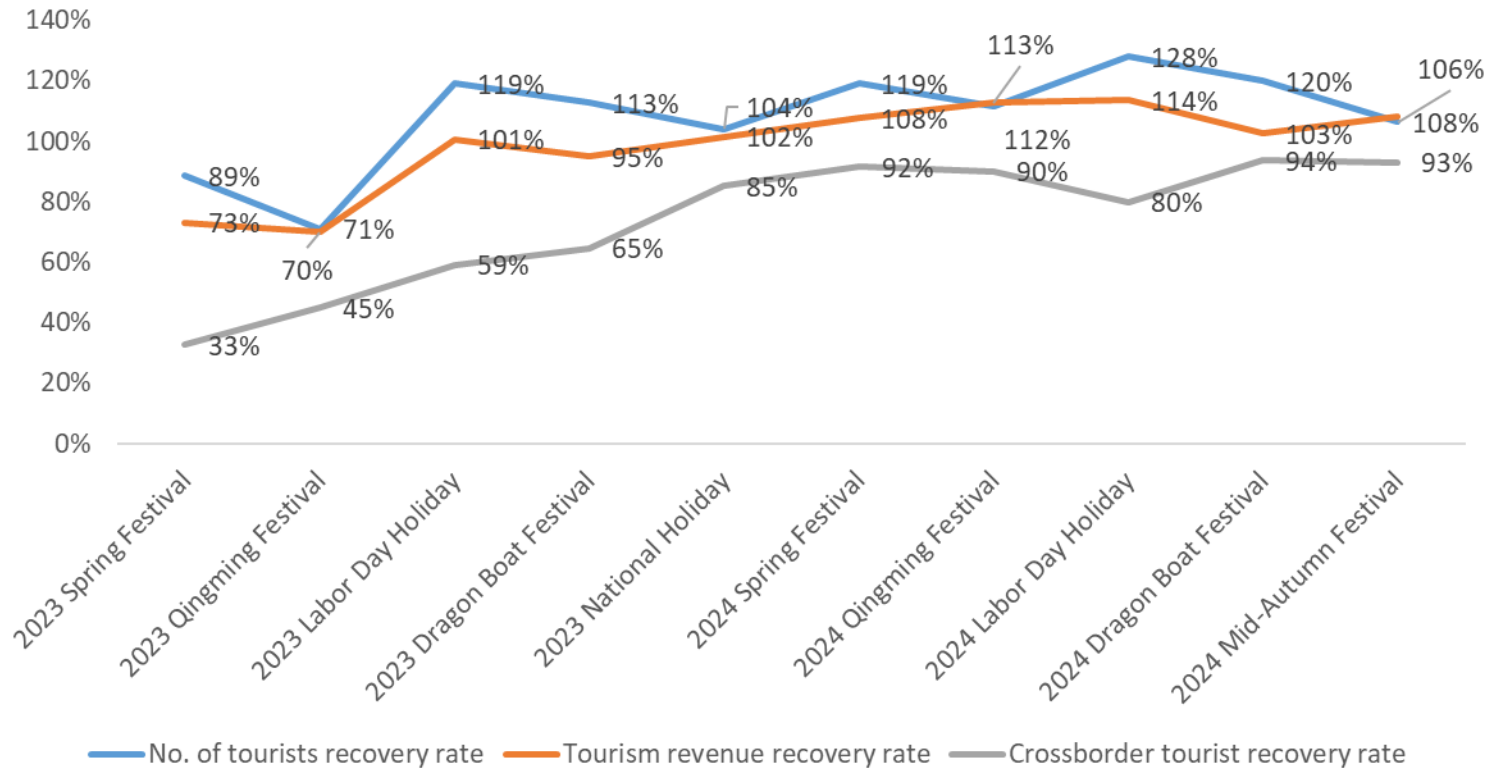
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# Tourism Strong but Spending per Capita Lower

Recovery of Domestic Tourism & Revenue during Major Holidays Since 2023 (vs 2019)



Source: Ministry of Culture and Tourism, Bin Yuan Capital

Services gradually recovering



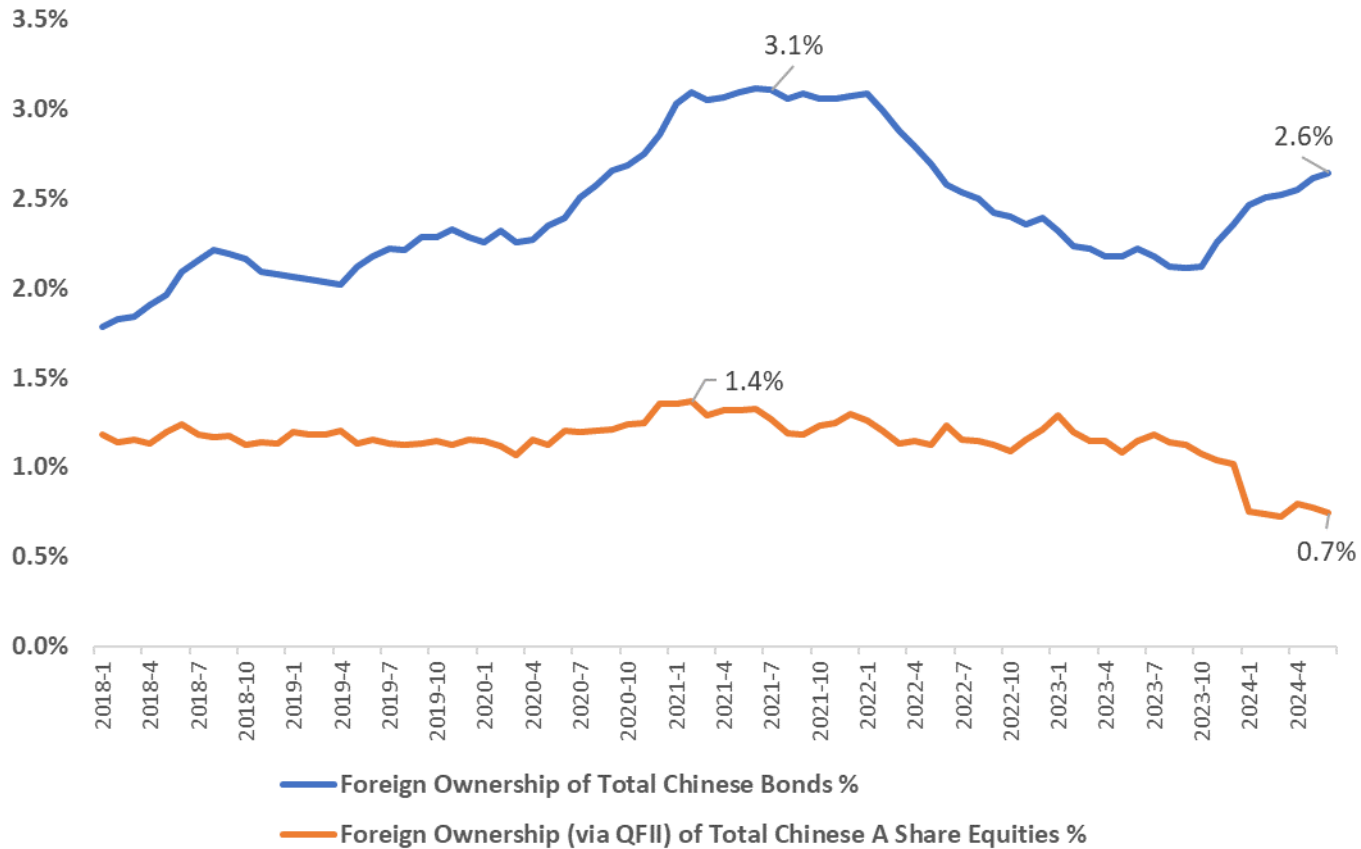
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# The Divergent Trend of Foreign Ownership of Chinese Equities and Bonds



Source: Bin Yuan Capital, Wind, iFind

# Key China Economic Drivers and Structural Opportunities

# Competitiveness Rebalancing

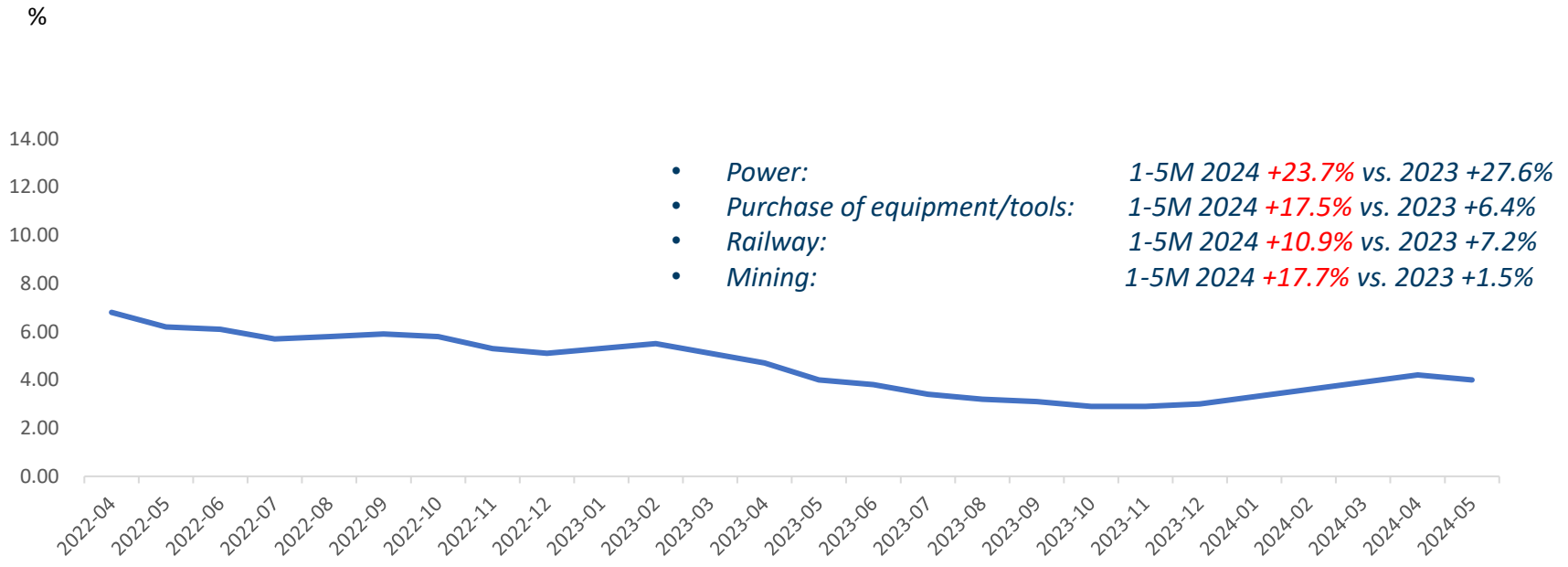
## Two pillar approach to improve productivity

- Infrastructure upgrades - key examples:
  - **Equipment replacement lifts productivity and energy efficiency**
  - **Grid upgrades: massive capex**
  - Healthcare investment
  
- Import substitution - key examples:
  - Semiconductor equipment
  - Healthcare equipment
  
- Government led sector consolidation



# Non-Property Investments Have Started to Pick Up

Fixed Assets Investment YoY Growth (Accumulative)

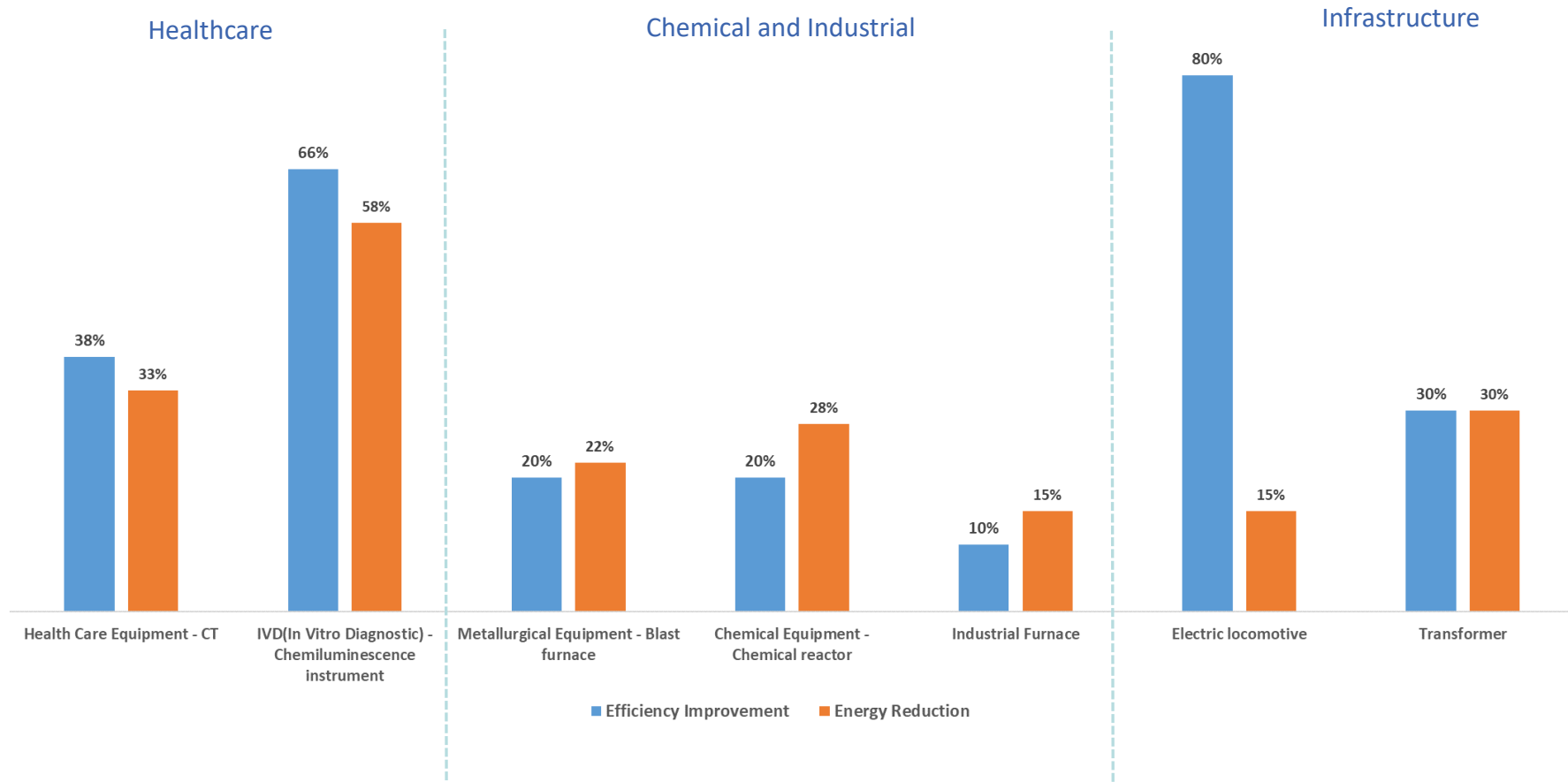


Sources: Bin Yuan Capital, Wind

- **New start:** 1-5M 2024 **-6.4%** vs. 2023 **-9.1%**

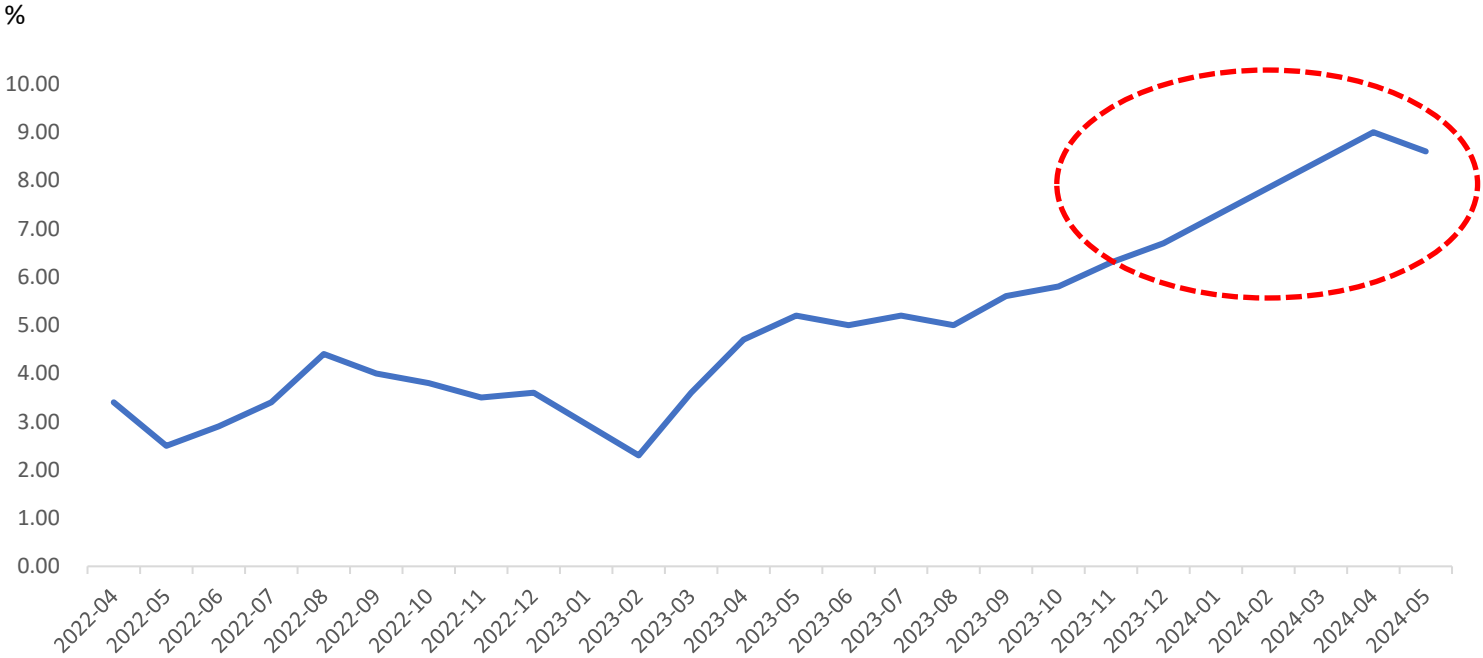
# Equipment Replacement Lifts Productivity and Energy Efficiency

## Efficiency Improvement of New Equipment



# Electrification, Digitalization, AI Impact on Power Consumption

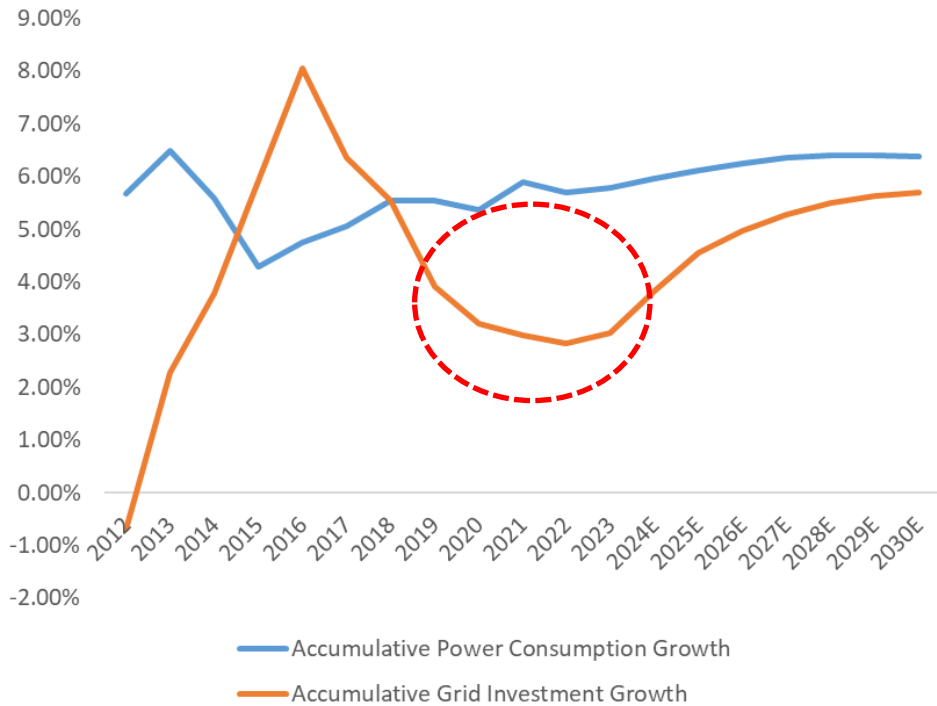
Power Consumption YoY Growth (Accumulative)



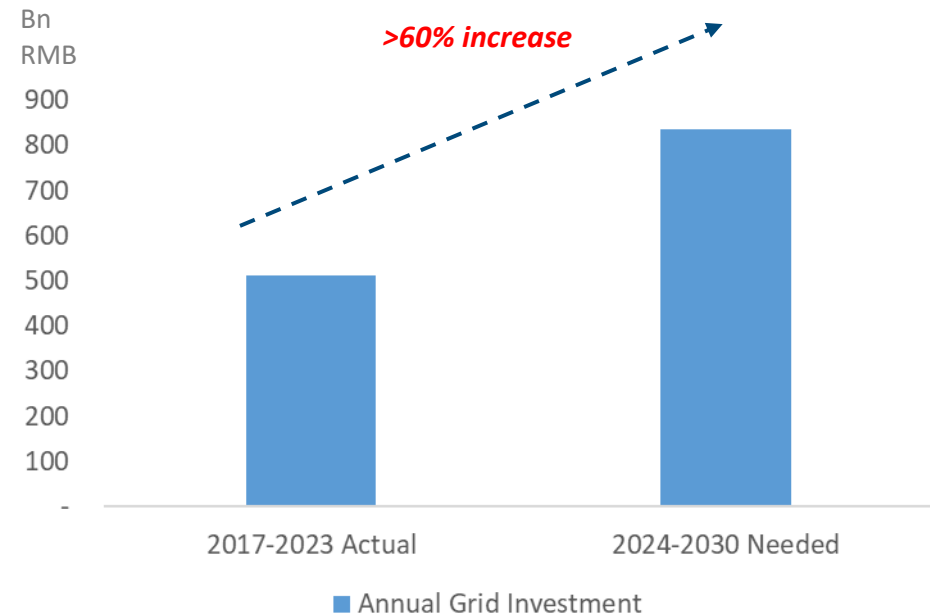
Sources: Bin Yuan Capital, Wind

# But Grid was under invested 2017-2023

CAGR Comparison of Power Consumption and Grid Investment



Huge Investment Needed to Reduce the Gap

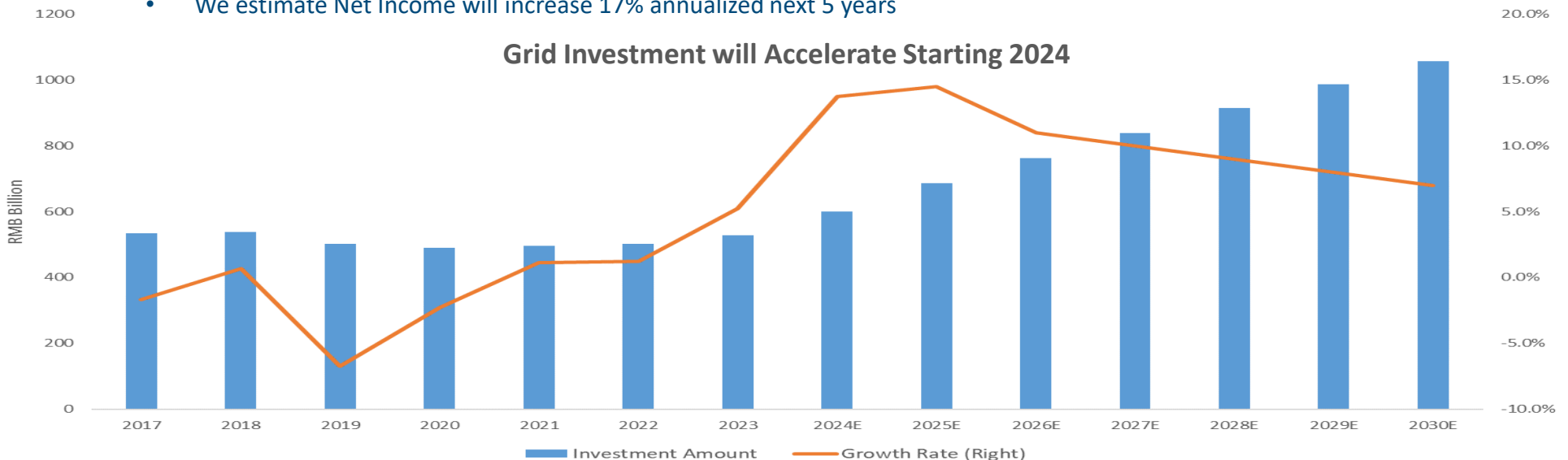


Sources: Bin Yuan Capital, Wind

# Huge Investment (~\$800bn) in the Electricity Grid 2024-30

- **China has targeted peak carbon emissions in 2030 and carbon neutrality by 2060:**
  - China already accounts for 40% of global wind capacity & 41% of global solar capacity by the end of 2023
  - Huge investment in power grid building, upgrading and modernization is required as solar & wind capacity expands
  - AI, data centers, EVs are also driving the rise in electricity's share of energy use - up from 5% in 2022 to 18% in 2030
  - Electricity demand growth in the first five months of 2024 was up 8.6% Y/Y
- **Software and UHVDC equipment are the key beneficiaries:**
  - Jan- May Rmb170bn (\$23.5bn) invested in power grid projects +21.6% Y/Y
  - Software will account for circa 15% of total grid apex
  - The construction of UHVDC Transmission is accelerating:
    - 3~4 DC lines in past 3 years vs. 10 DC lines in the next 3 years (~Rmb 200bn investment amount)
  - Overall capex to increase from \$102bn this year to \$157bn by 2030
- **Nari (600406.SH) a key beneficiary:**
  - Leading provider of software, key UHVDC equipments and system integration services for the power grid
  - We estimate Net Income will increase 17% annualized next 5 years

**Grid Investment will Accelerate Starting 2024**



## What Has Not Changed



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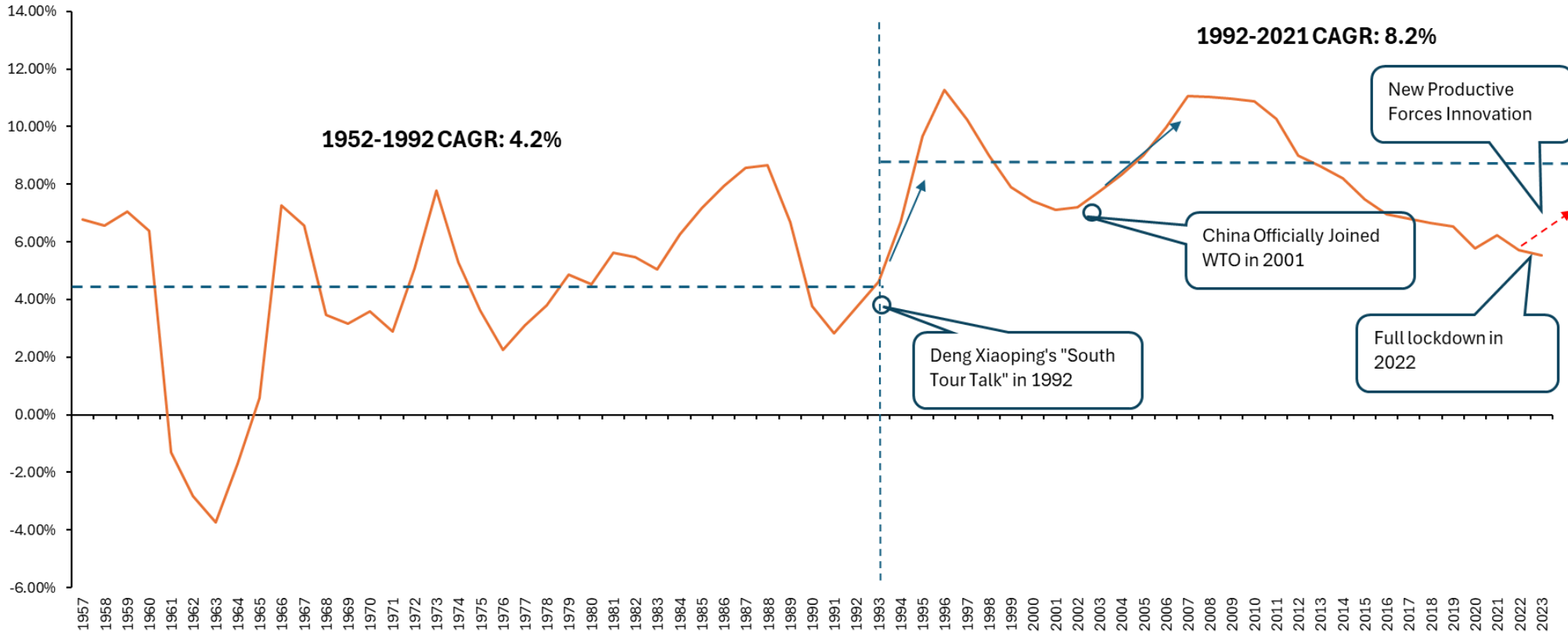


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# Evolution of the Productivity and Value Creation

Productivity Growth of China (Five Year Moving Average)



Source: Wind, Bin Yuan Capital

Innovation critical for productivity improvement



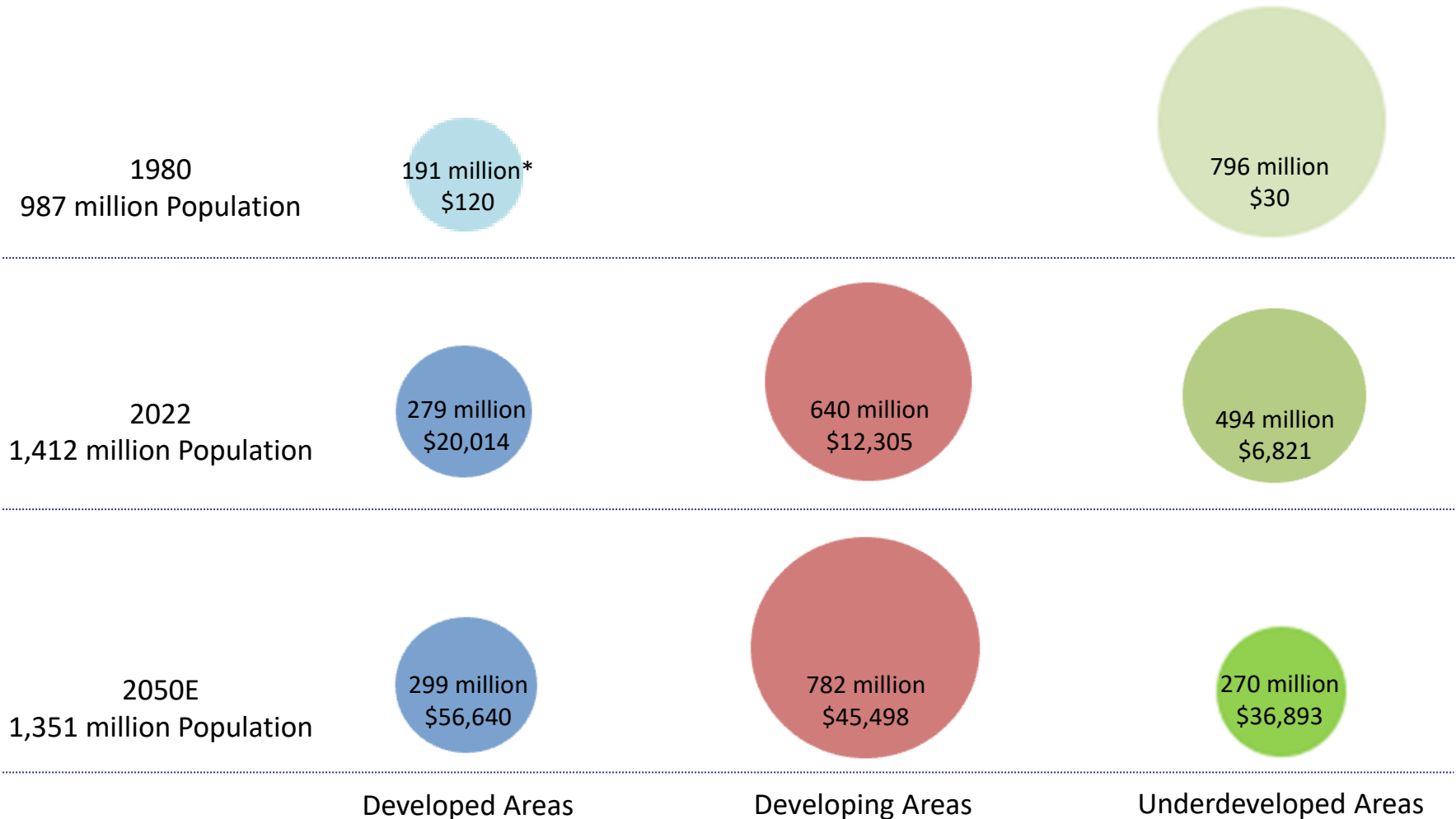
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# Evolving Chinese Social Structure

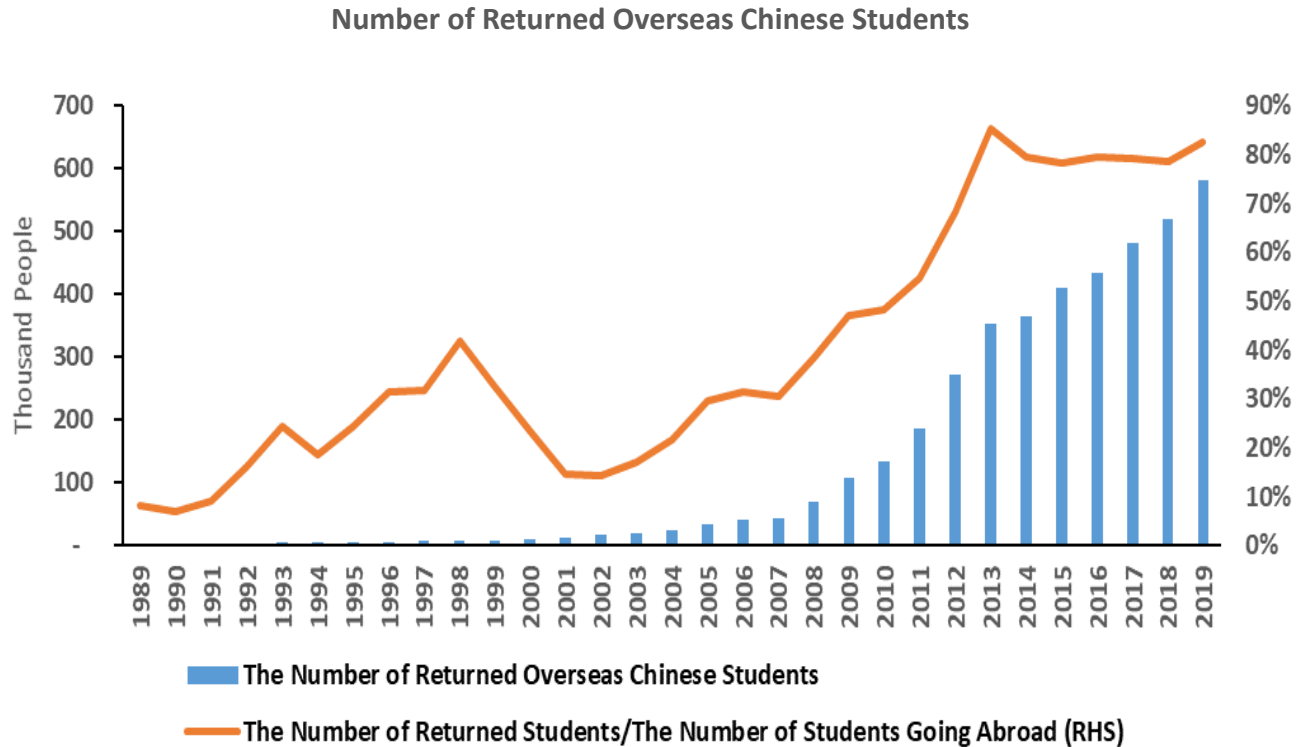


\*Population & GDP per Capita. The bubble size represents the population size.

Sources: Bin Yuan Capital, Wind



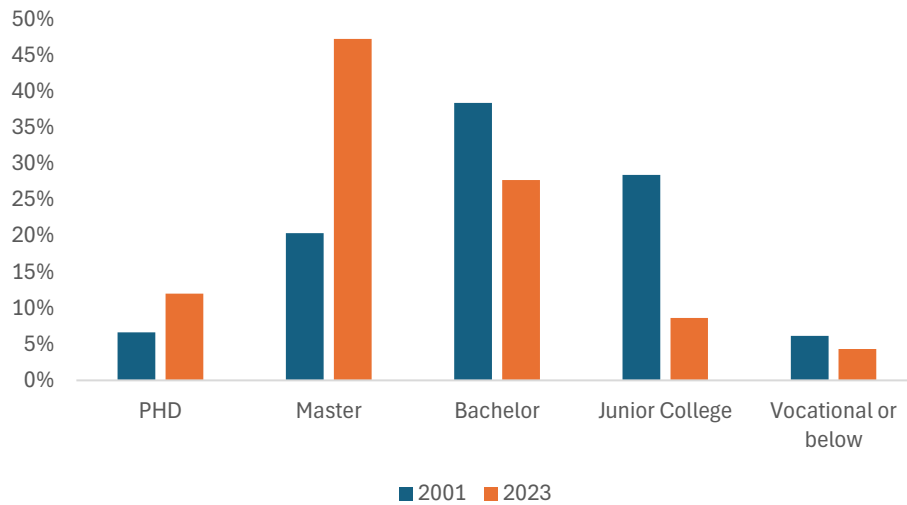
# The Reverse Brain Drain



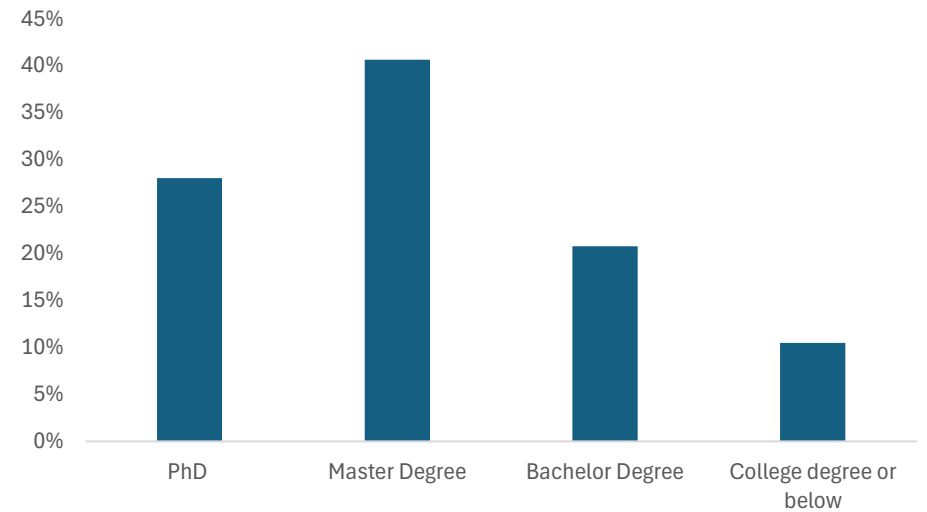
Source: Wind, Bin Yuan Capital

# Increasingly Well-educated Management

Evolution of Educational Background of the Chairman of A-share Listed Companies from 2001 to 2023



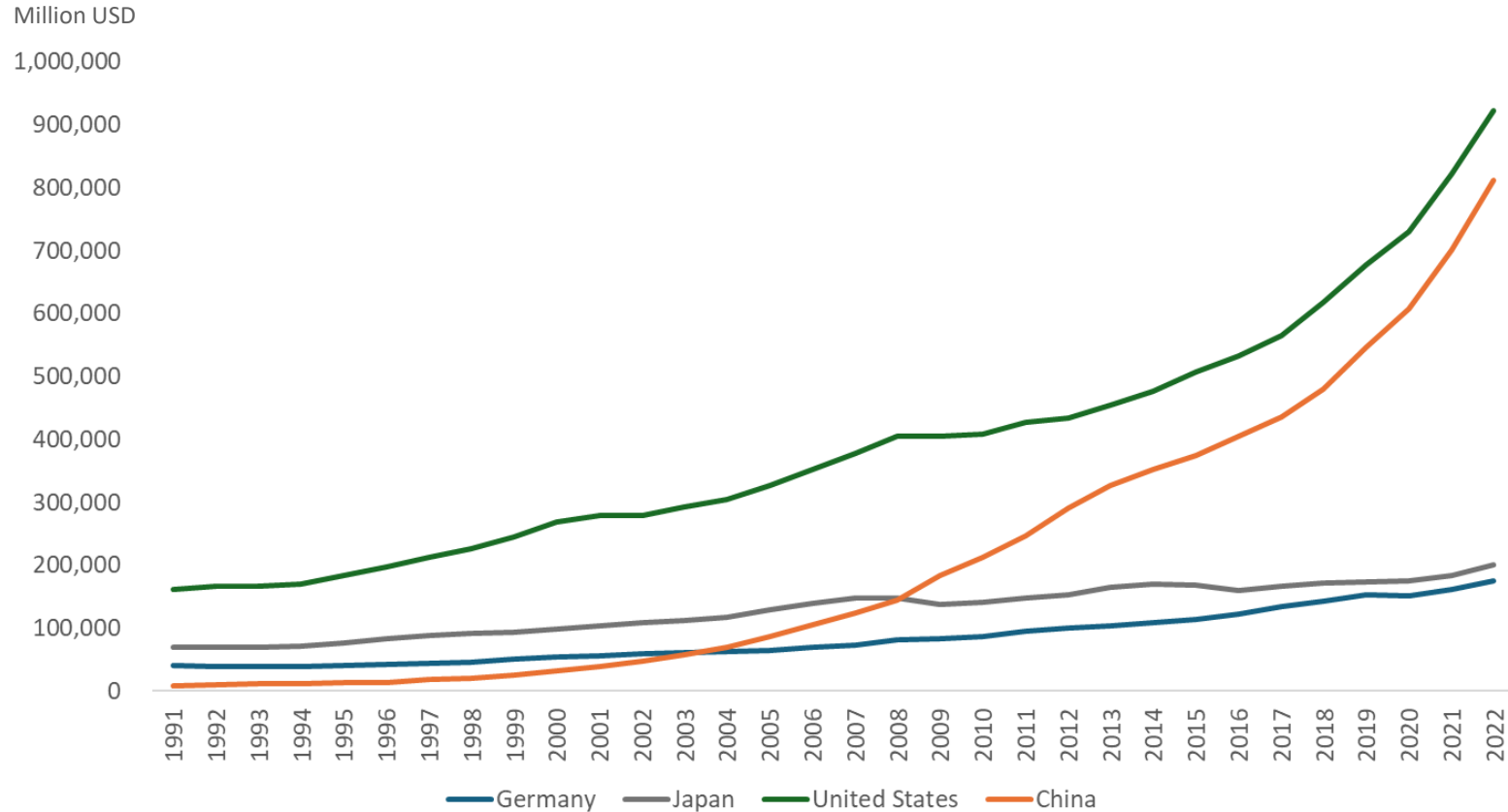
Distribution of the Educational Background of the Founders of Companies in Sci-Tech Innovation Board (2023)



Source: Wind, Bin Yuan Capital

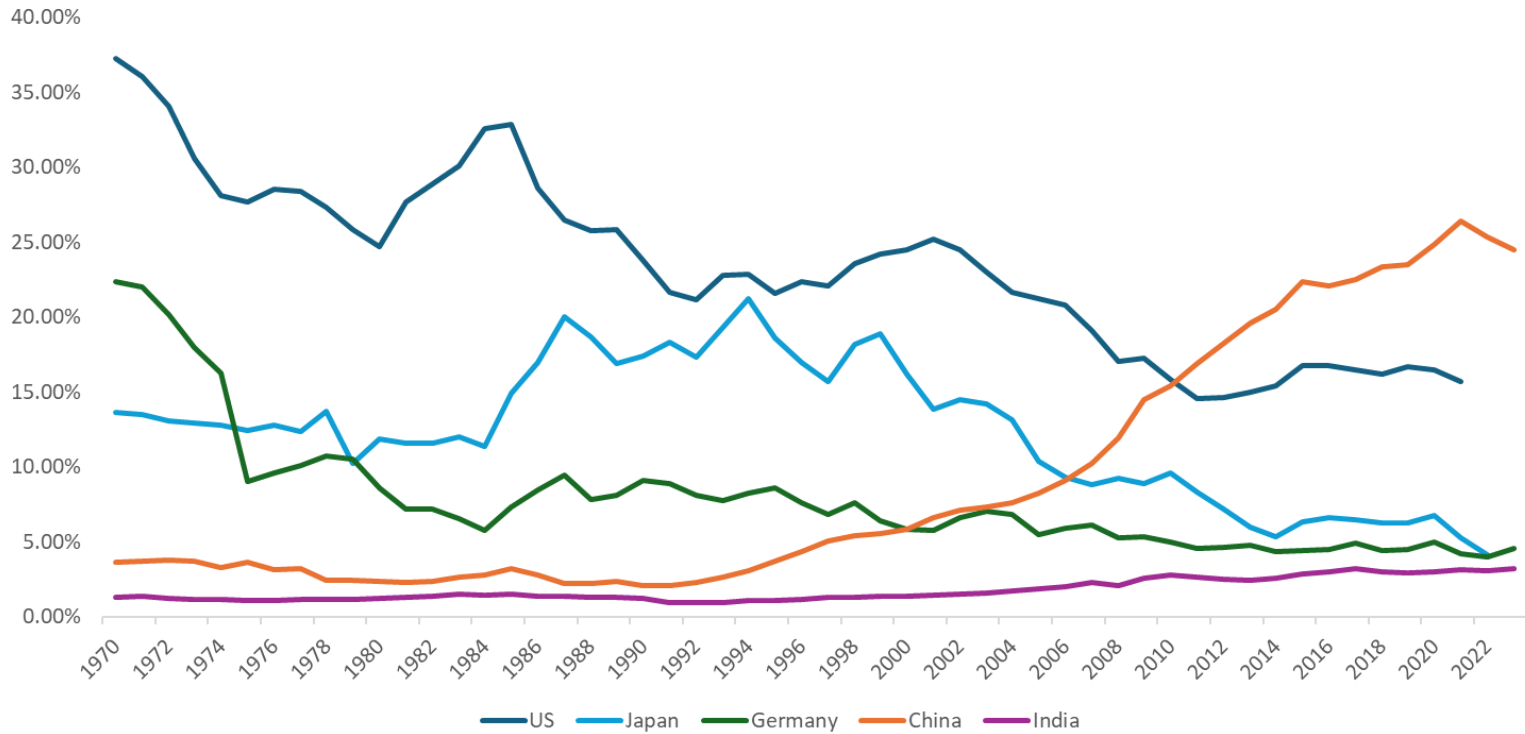
# Ambitious Capital to Invest in R&D

## R&D Spending by Countries



Sources: OECD (organization for economic cooperation and development), Bin Yuan Capital

# Evolution of Global Industrial Value-added Share by Countries



Sources: Wind, Bin Yuan Capital

China possesses the most advanced and globally integrated manufacturing supply chain



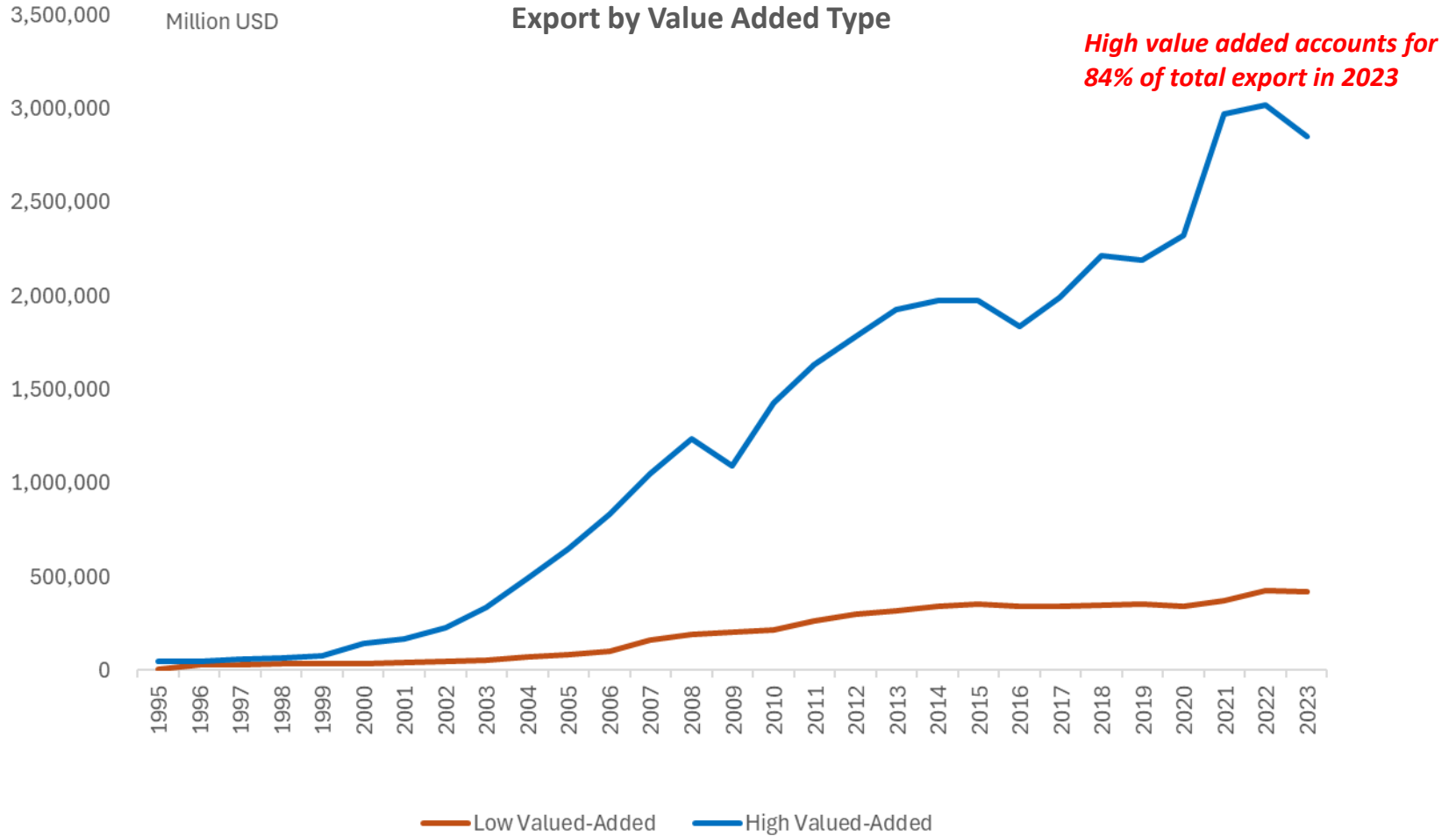
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# Fast Growing High Value Added Goods Export



\*Low value-added examples: apparel, toy, furniture...etc.

High value-added examples: electronics, high end equipment and high tech products...etc.

# China Manufacturing Sector is still the most Competitive

- *Extensive supply chain: 95+% supply chain coverage*
- *Quick delivery time: 50% shorter*
- *High quality service: 7 X 24*
- *Cost advantage: 20% - 50% lower*

Highly efficient manufacturing ecosystem



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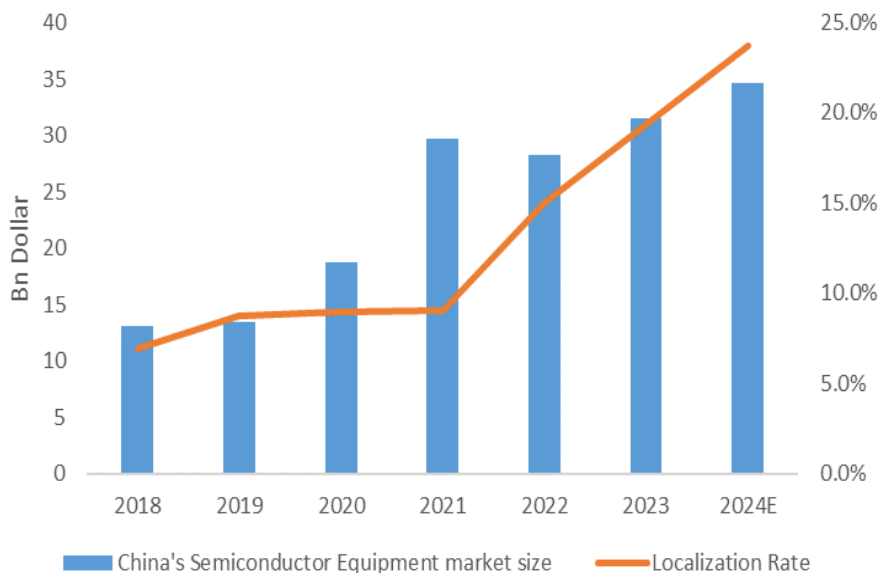


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# Import Substitution Opportunities in the Semiconductor Area

## Semiconductor Equipment Localization Rate and Market Size in China



## Market Size and Localization Rate of each Equipment Type in China

Equipment Type	Market Size in China (US\$ Billion)	Localization rate	Main Chinese players market share
Photolithography	5.7	0.5%	N.A.
Metrology	4.4	3.8%	Skyverse 2%
Ion implantation	1.0	5.5%	Swec 4%
Track	1.3	10.4%	Kingsemi 8%
Thin film deposition	7.7	14.4%	Piotech 5%, Naura 8%
Furnace	1.0	55.3%	Naura 30%
Etching	7.4	19.8%	AMEC 9%, Naura 10%
CMP	1.0	45.6%	Hwatsing 35%
Cleaning	1.7	60.5%	ACMSH 45%

## PEG Valuations: Chinese Equipment Manufacturers vs Global Manufacturers

	Company name	2024 PE	Earnings growth 2024-2027(E)	PEG
Chinese vendors	AMEC	37	30%	1.2
	Piotech	34	35%	0.9
	Naura	31	30%	1.0
Global vendors	AMAT	30	14%	2.1
	LAM Research	37	18%	2.1
	ASML	52	22%	2.4

Sources: Semi, Bin Yuan Capital, Listed Companies

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The CSI 300 Index is a free-float weighted index that consists of 300 A-share stocks listed on the Shanghai or Shenzhen Stock Exchanges. Index has a base level of 1000 on 12/31/2004.

The Fund is an actively managed portfolio as compared to the indices which are unmanaged. In addition, there may be significant differences between the Fund and indices including liquidity and volatility.