Bin Yuan Capital

January 2024

Hereford Funds Bin Yuan Greater China Fund

Q4 & 2023 Review and 2024 Outlook

Investing for Better Life

Agenda

❖ Q4 and 2023 Performance & Portfolio review

❖ Key takeaways from the two-year Bear Market

❖ Catalysts

❖ 2024 Portfolio positioning

❖ Portfolio valuations

❖ Healthcare Strategy Update

❖ Q&A

Signatory of:

Principles for Responsible Investment

Investing for Better Life

Performance and Portfolio Review

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Performance

Inception Date	2018/04/16
Ending Date	2023/12/31

All China Strategy - Hereford Funds Bin Yuan Greater China Sub-Fund	Dec	Q4	YTD	2022	2021	2020	ITD
Bin Yuan Greater China Fund (Share Class L1) Net Performance	3.01%	0.27%	-21.17%	-29.45%	10.02%	83.51%	10.32%
Benchmark*	-1.98%	-2.63%	-11.53%	-23.61%	-12.91%	33.41%	-23.87%
Outperformance/(Underperformance)	**4.99%**	**2.91%**	**-9.64%**	**-5.84%**	**22.93%**	**50.10%**	**34.19%**

* Benchmark represents MSCI China All Shares Net Total USD Return Index (Bloomberg ticker MXCNANM Index). It is used as benchmark since November 27, 2019. Before that, MSCI All China Net Total USD Return Index (Bloomberg ticker M1ACN Index) was used as benchmark from the inception of May 2016 to November 26, 2019.

Reporting Currency: USD

Q4: 2.91% vs benchmark

- *Main Contributors:* Health Care, Information Technology, Industrials

- *Main Detractors:* Consumer Discretionary, Financials, Communication Services

YTD: -9.64% vs benchmark

- *Main Detractors:* Consumer Discretionary, Communication Services (underweight), Financials (underweight)

- *Main Contributors:* Industrials and Health Care

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Sector Attribution –2023

PORT Attribution Report: Attribution (12/31/2023 11:05:14)

Summary

Portfolio	HFBY
Benchmark	MSCI CHINA ALL SHARES INDEX
Start Date	12/30/2022
End Date	12/29/2023
Currency	USD

Detail

	Avg % Wgt		Contribution to Return (%)		Allocation Effect (%)	Selection and Interaction Effect (%)	Total Attribution %
	Port	Bench	Port	Bench			
HFBY	100.00	100.00	-20.63	-11.57	-2.19	-6.86	-9.06
Industrials	13.45	9.45	-0.73	-1.96	-0.46	2.03	1.57
Cash	5.27		-0.08		0.91	0.00	0.91
Real Estate	0.81	2.55	0.09	-0.83	0.35	0.04	0.39
Health Care	19.66	6.95	-2.02	-1.21	-0.95	1.19	0.24
Information Technology	17.56	9.83	-1.99	-0.87	-0.15	0.09	-0.06
Utilities		2.97		-0.13	-0.14	0.00	-0.14
Consumer Staples	7.01	9.38	-1.46	-1.80	0.13	-0.49	-0.36
Materials	2.43	6.71	-0.92	-1.14	0.36	-0.81	-0.45
Energy		2.96		0.50	-0.76	0.00	-0.76
Financials	9.71	16.71	-2.10	-0.76	-0.66	-1.35	-2.01
Communication Services	5.94	12.51	-2.68	-0.65	-0.83	-1.56	-2.39
Consumer Discretionary	18.16	19.97	-8.75	-2.73	0.00	-6.00	-6.00
Differnece*			-0.54	-0.04			
Fee			0.72				
HFBY Gross Return			-20.45	-11.53			-8.92
FX Impact			1.65	1.37			
HFBY Gross Return (without FX Impact)			-18.80	-10.16			-8.64

*The Attribution Report is the raw data directly generated by Bloomberg Port Function. The differences on the return of Portfolio
and Benchmark between Bin Yuan's data and Bloomberg's attribution report is caused by:
  1. Rounding Issue: Bloomberg calculation only allows 2 decimal points;
  2. Foreign Exchange Rate: Bloomberg applies in-house exchange rate;
  3. Uploading Frequency: Benchmark is uploaded on a monthly basis.

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PORT Attribution Report: Attribution (12/31/2023 20:15:31)

Summary

Portfolio	HFBY
Benchmark	MSCI CHINA ALL SHARES
Start Date	9/29/2023
End Date	12/29/2023
Currency	USD

Detail

	Avg % Wgt		Contribution to Return (%)		Allocation Effect (%)	Selection Effect (%)	Total Attribution %
	Port	Bench	Port	Bench			
HFBY	100.00	100.00	-0.19	-3.91	1.16	2.56	3.71
Health Care	19.15	6.96	3.48	-0.09	0.43	3.44	3.88
Information Technology	16.55	9.90	1.62	0.13	0.39	1.37	1.76
Industrials	14.93	8.92	0.17	-0.52	-0.14	1.12	0.97
Not Classified	7.08		0.09		0.62	0.00	0.62
Real Estate		2.27		-0.31	0.21	0.00	0.21
Materials	1.44	6.31	-0.12	-0.29	0.04	-0.04	0.01
Consumer Staples	6.21	9.03	-0.33	-0.38	0.01	-0.06	-0.05
Energy		3.12		-0.04	-0.07	0.00	-0.07
Utilities		2.98		0.11	-0.20	0.00	-0.20
Communication Services	4.19	13.01	-0.79	-0.75	-0.11	-0.42	-0.54
Financials	12.98	16.90	-1.53	-0.75	-0.05	-0.95	-1.00
Consumer Discretionary	17.47	20.60	-2.79	-1.03	0.04	-1.90	-1.86
Differnece*			0.46	1.28			
Fee			0.23				
HFBY Gross Return			**0.50**	**-2.63**			**3.13**
FX Impact			-1.98	-1.47			
HFBY Gross Return (without FX Impact)			**-1.48**	**-4.10**			**2.62**

*The Attribution Report is the raw data directly generated by Bloomberg Port Function. The differences on the return of Portfolio
and Benchmark between Bin Yuan's data and Bloomberg's attribution report is caused by:
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Stock Contributors –2023 Q4

Performance Attribution

HFBY vs. ALL CHINA

2023 Q4

USD

Top 3

	Name	Contribution	Sector
688301 CH Equity	IRAY TECHNOLOG-A	3.00	Health Care
301031 CH Equity	XI'AN SINOFUSE-A	0.78	Industrials
2382 HK Equity	SUNNY OPTICAL	0.68	Information Technology

Bottom 3

	Name	Contribution	Sector
CMB (A+H)	CHINA MERCH BK	-1.12	Financials
2255 HK Equity	HAICHANG OCEAN P	-0.98	Consumer Discretionary
9888 HK Equity	BAIDU INC-A	-0.55	Communication Services

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China Economic Recovery - Below Expectations

- Property decline

- Deleveraging

- Soft consumer confidence

- Geopolitical pressures

- Overcapacity and deflation

- Destocking

- Weak corporate earnings

Extreme bearish sentiment

China Market Movements

- Capital flows:
  - Foreign Selling
  - Passive > Active

- Macro and quantitative trading

- Market rotation around short-term "hot" themes

  - Cyclical commodities

  - SOE Revaluation

  - ChatGPT

- Fundamentals largely ignored last two years

Fund Flow Active vs. Passive USD billion
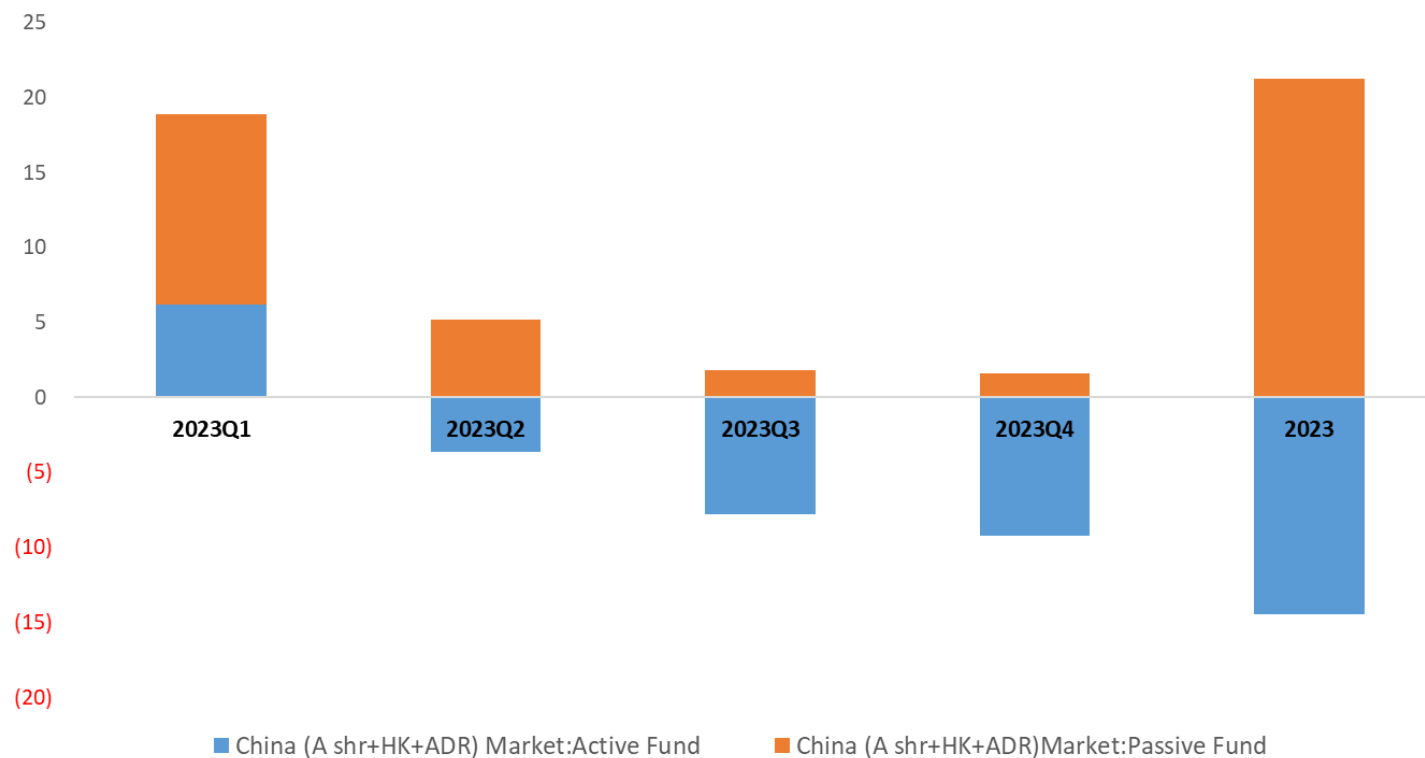
Sources: Huatai Securities, Bin Yuan Capital

Foreign Selling

Daily Cumulative Fund Flows (US$ million) on China/HK Equities by both US- and EU-domiciled Funds
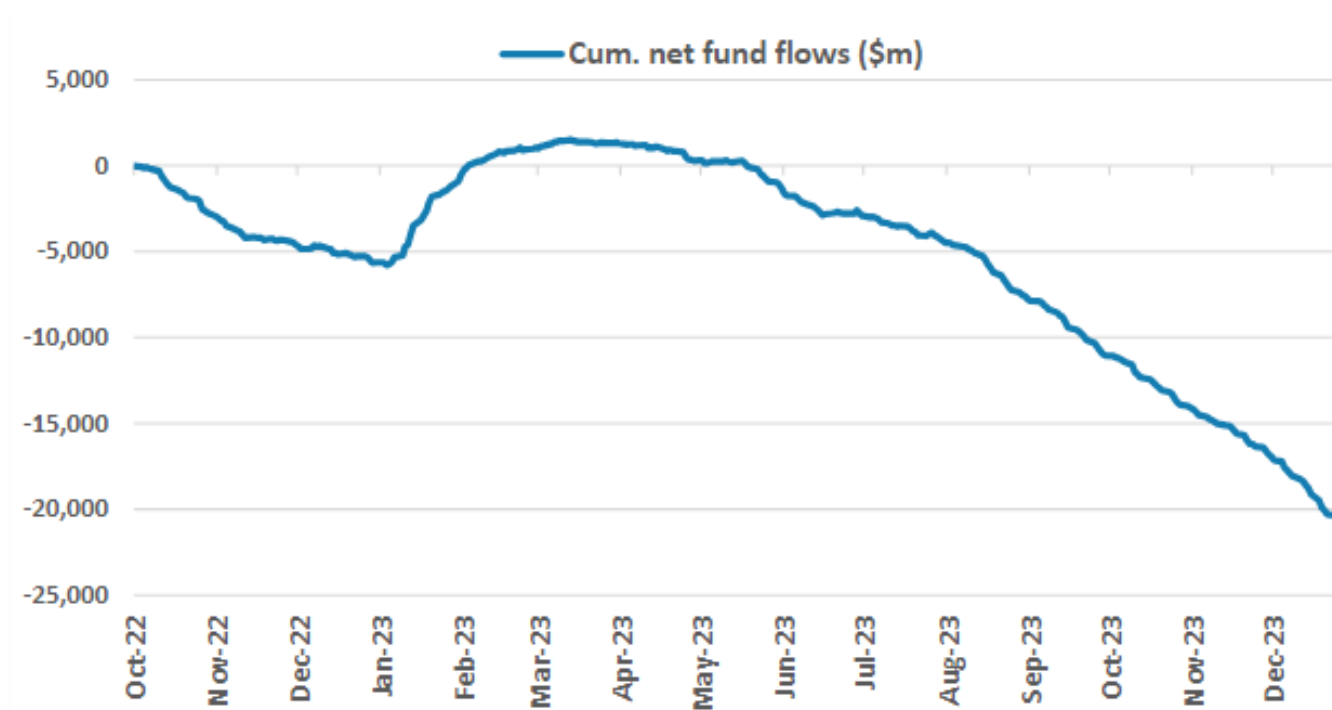
Source: EPFR, Morgan Stanley Research; notes: universe of fund flows here is referring to all US and EU-domiciled active mutual funds.

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10

Bin Yuan Portfolio - Robust Earnings Growth with High Visibility

For Holdings Reporting Q3 Result

	Bin Yuan		Market excluding financials	
	Revenue	Earnings	Revenue	Earnings
Q3	24.5%	28.1%	2.6%	4.4%
Q1-Q3	22.2%	22.7%	2.9%	-4.9%

Bin Yuan Portfolio Earnings Forecast

■ Bin Yuan Portfolio　　■ Market (Excluding Financials)

Sources: Bin Yuan Capital, Wind, Bloomberg

11
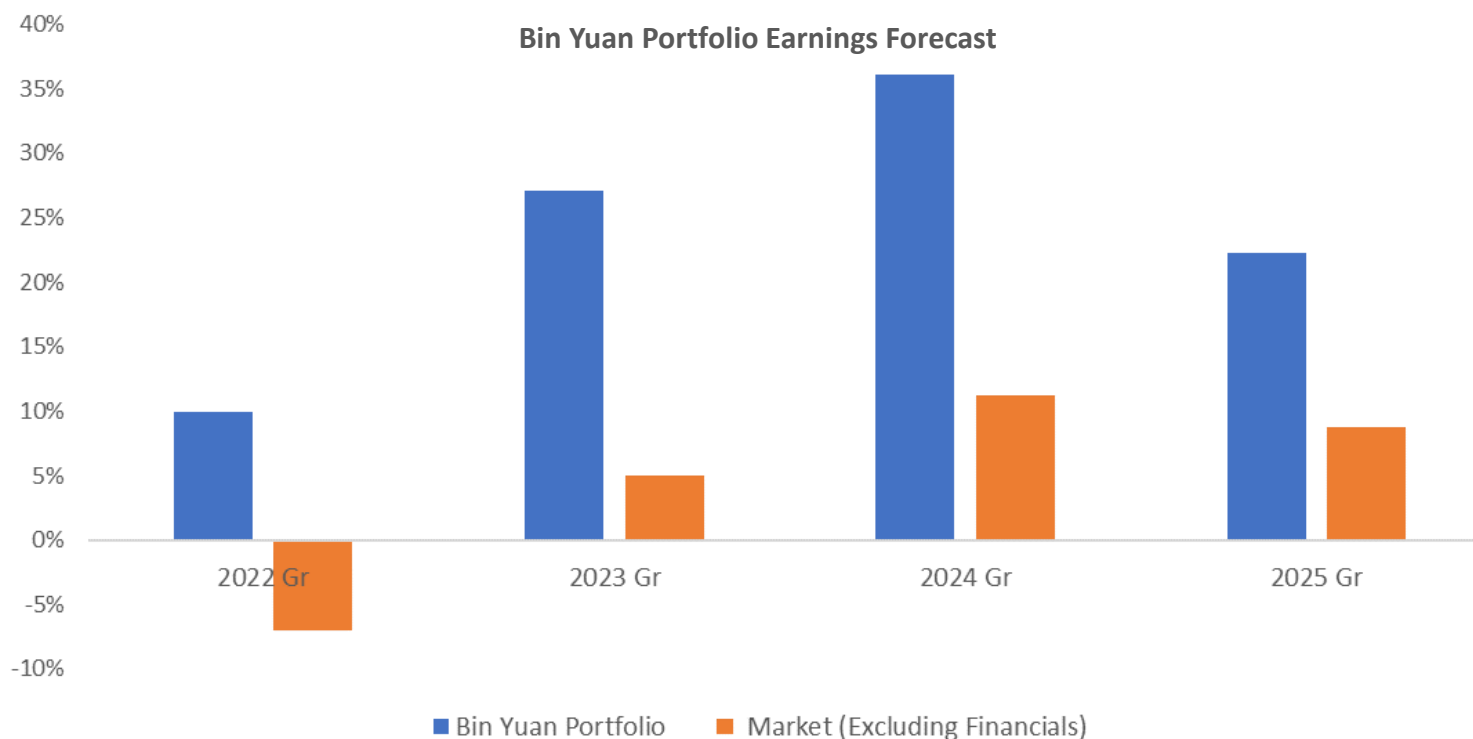
Portfolio Volatility

Portfolio Volatility and Tracking Error (Average since inception vs. Past 3 years)
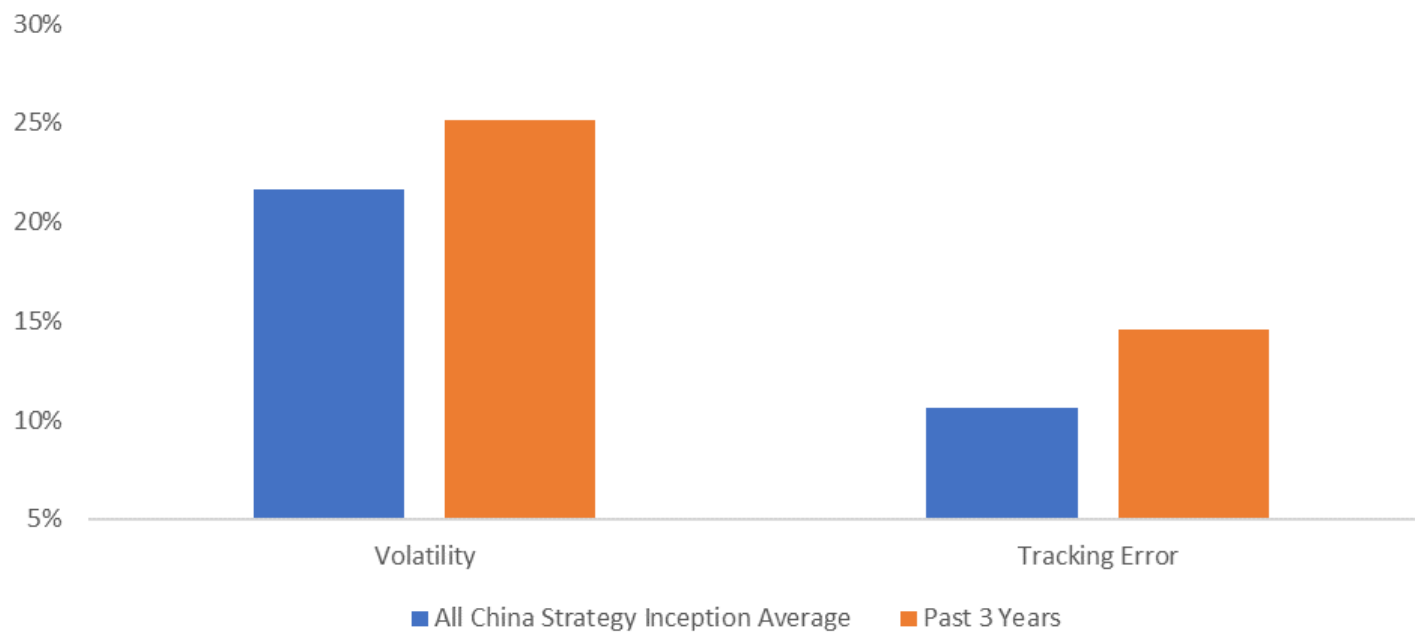
Sources: Bin Yuan Capital

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Downside Risk Management

Our style:

- "Buy and hold" strategy

- "Quality" companies with strong barriers

- Technology

Issues last two years:

- Increased volatility

- Momentum factors dominant

✓ Reinforced our Downside Risk Management and Portfolio Positioning processes

✓ More actively manage short-term volatility while maintaining our focus on the long-term value of our stocks

✓ Large portfolio movements will generate a "deep dive" including both company fundamentals and market sentiment / technical factors

✓ Enhance "Contrarian" selling approach

Strong belief in our approach with constant improvement

Signatory of:

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iRay Case Study

IRAY TECHNOLOGY 688301 CH
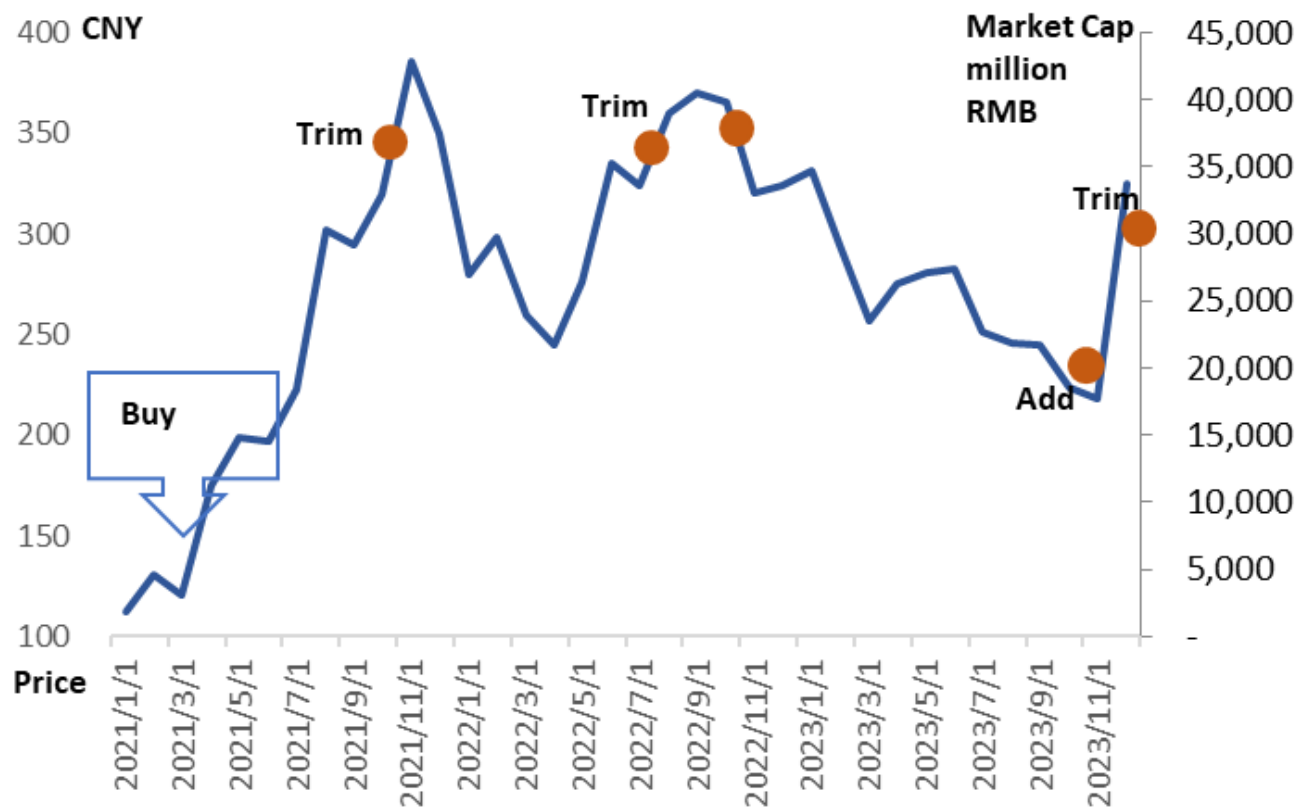
Sources: Bin Yuan Capital

On the ground Due Diligence of Mid Cap Companies

Total of 473 Meetings in 2023 – over 90% Mid Cap Companies
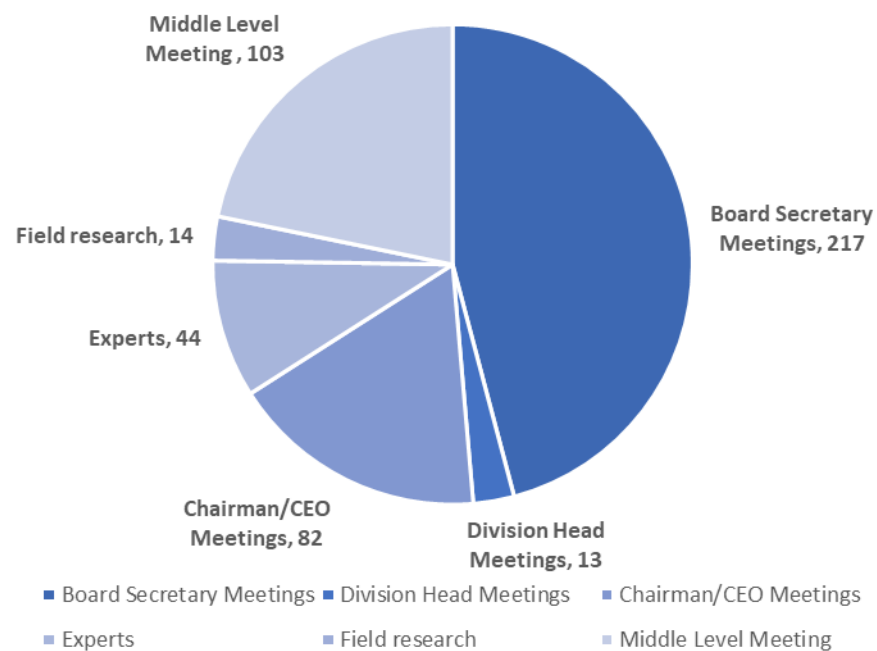
Middle Level Meeting, 103
Field research, 14
Experts, 44
Board Secretary Meetings, 217
Chairman/CEO Meetings, 82
Division Head Meetings, 13

- Board Secretary Meetings
- Division Head Meetings
- Chairman/CEO Meetings
- Experts
- Field research
- Middle Level Meeting

Sources: Bin Yuan Capital

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Remain sensitive to the trends and changes

Active Engagement

In 2023, we carried out **46** engagements with **43** companies in total.

Environment **28%**, Social **59%** and Governance **13%** by quantity

Engagement Breakdown by Category

Governance, 13%

Environmental, 28%

Social, 59%
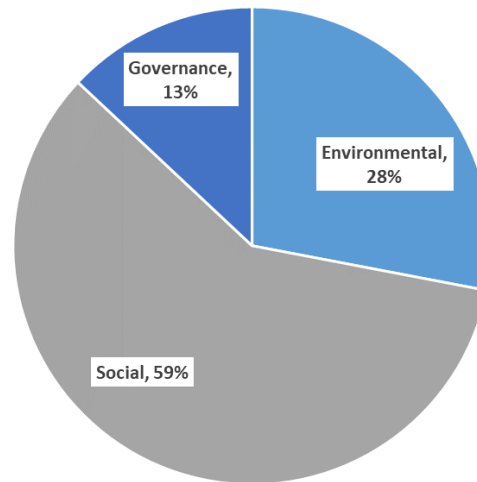
Source: Bin Yuan Capital

Direct engagements with management to assess quality and improve practices

Long Term Alpha Generators

We are adding to those areas that:

- Align with the structural opportunities of the economy

- Are future winners - with the ability to dominate their segment

- Have strong fundamentals with robust earnings

- Are oversold with highly attractive valuations

- Generate cash return to shareholders

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Catalysts

- Negatives well known and reflected in stock prices

- More market driven policies prioritizing growth – & less negative policies

- Long-term capital inflows – risk premium increasingly attractive to insurance and the national security fund

- Technology breakthroughs – Huawei high end processor (Kirin 9000) and AI

- Improving corporate earnings post de-stocking

Market Returning to Fundamentals

Highly Attractive Equity Market for Long-term Local Investors

CSI 300 Index Risk Premium* vs. CSI 300 Index Performance

* CSI 300 Index Risk Premium = Earnings/Price % - yield of 10-year government treasury bond

Sources: Bin Yuan Capital, Wind

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Portfolio Positioning

Portfolio Actions

- Focus on high conviction growth names and high cash dividend return stocks

- Retain overweight in healthcare, high end technology and digitalization

  - ✓ High value-added import substitution

  - ✓ Upstream focused - Vertical integration strategy

  - ✓ Productivity improvements - Beneficiaries of application innovation

- Add oversold consumption

  - ✓ Resilient demand

  - ✓ Domestic capacity consolidation

  - ✓ Value for money + Lifestyle upgrades

  - ✓ Cash flow even more important

Sector Weight Movement Q4
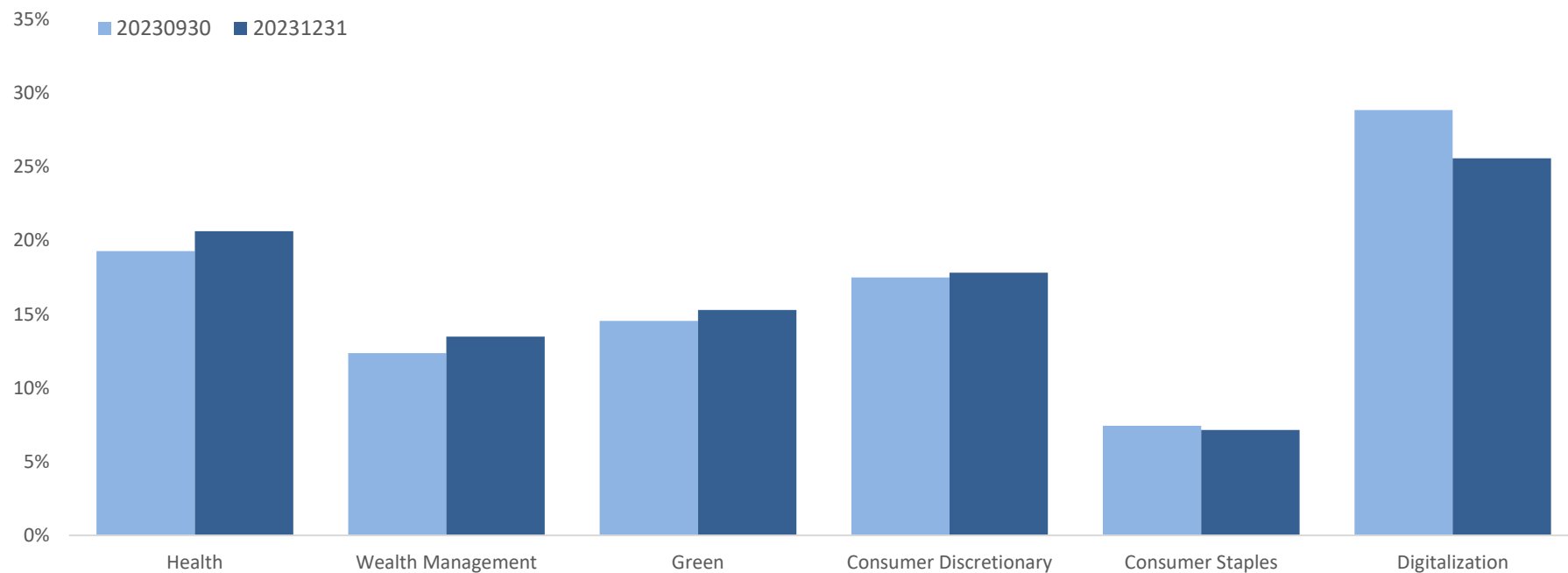
Equity portion normalized to 100%

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Portfolio Exposure to Opportunities

Opportunities		Portfolio Exposure
Healthcare		**20%**
Consumer Sectors		**24%**
Digitalization		**25%**
Green Sectors		**15%**
High End Technology (Digitalization + Green)	Equipment	4%
	Key Materials	5%
	Software	12%
	Core Components	19%

Signatory of:

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Portfolio Positioning

Sector/Theme Exposure
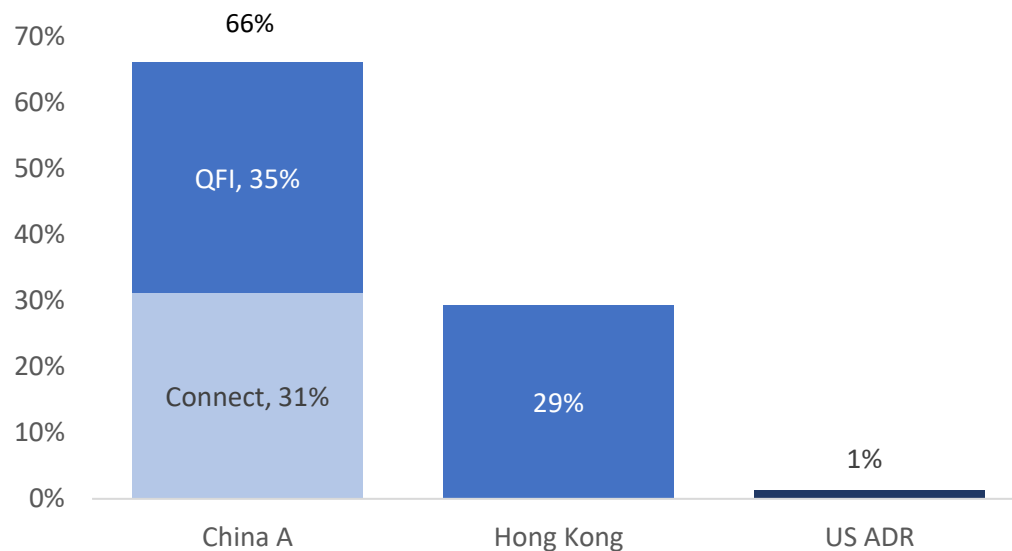
- Consumption/Service — **57%**
  - Consumer Staples , 7%
  - Wealth Management , 13%
  - Consumer Discretionary , 17%
  - Health , 20%
- Digitalization — **High End Technology 40%**
  - Material , 3%
  - Software and System , 7%
  - Components, 15%
- Green
  - Material , 3%
  - Equipment, 4%
  - Software and System , 4%
  - Components, 4%

Exchange Exposure

- China A — 66%
  - QFI, 35%
  - Connect, 31%
- Hong Kong — 29%
- US ADR — 1%

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Portfolio Positioning by Growth Stage

24%

Stable Growth

- Well known dominant leaders

- Stable cash flow and earnings growth

- Large cap

- High dividend yield

Core Positions

- SINOPHARM
- CHINA MERCHANT BANK

Valuation

- PE: 9.9
- PB: 1.9
- PEGY: 0.7
- ROE: 15%
- NI Growth: 12%
- Dividend yield: 4.3%
- Market Cap Average ($ Billion): 140.60
- Market Cap Median ($ Billion): 97.01

73%

Upcycle Growth

- Under discovered industry leaders

- Strong cash flow and earnings growth

- Mid cap

- Potential of growing to dominant leader

- iRAY... (STAR board - Sci-Tech innovAtion boaRd)
- FRIENDESS
- KANGJI
- CCTC-A

- PE: 21.1
- PB: 4.3
- PEGY: 0.9
- ROE: 21%
- NI Growth: 26%
- Dividend yield: 1.8%
- Market Cap Average ($ Billion): 25.89
- Market Cap Median ($ Billion): 4.33

*PE: 2024 PE
PEGY: Price to Earnings Ratio/(Earnings Growth + Dividend Yield)
NI: Net Income
Market Cap: Market Capitalization

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Earnings Valuation Outlook

Valuation	Portfolio	Benchmark (excluding Financials)	Benchmark
Period	**12/31/2023**	**12/31/2023**	**12/31/2023**
2024 PE (X) – Harmonic Avg. Method*	12.0	12.6	9.7
2024 PE (X) – Weighted Avg. Method	17.7	17.0	15.2
2024 PB (X)*	1.8	2.4	1.6
2024 Div. Yield (%)	2.4	1.9	2.6
2024 ROE (%)*	17.6	10.4	10.4
Earning Growth (%) Forward 3 YR	22.7	7.9	6.2
2024 PEGY	0.7	1.7	1.7
FCF Yield	2.6	-1.2	1.9

Note: Valuation dynamics impacted by corporate quality.

*Harmonic Avg. Method: The harmonic average, also known as the harmonic mean, is a type of average that is useful in situations where calculating an average rate or ratio. It's particularly effective when the values we are averaging are defined in terms of a ratio of two quantities (like speed, which is distance per unit of time).

The formula for the harmonic average is: Harmonic Mean = N / sum of (1/Value_i)

Where:

- (N) is the total number of values.
- $\({Value}\_i\)$ is each individual value in the set.

Sources: Bin Yuan Capital, Wind, Bloomberg

High quality portfolio trading at a discount

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Bin Yuan Capital Carbon Metrics

Carbon Emission Efficiency Trend

Source: Company Disclosure, K Tahara, M. Sagisaka, A Study of "CO2 Efficiency" for Industry and Company, J. Yi, Study on Carbon Emission Efficiency of China's Industrial Industry and Analysis of Its Influencing Factors, Trucost, Bloomberg, Wind, Bin Yuan Capital
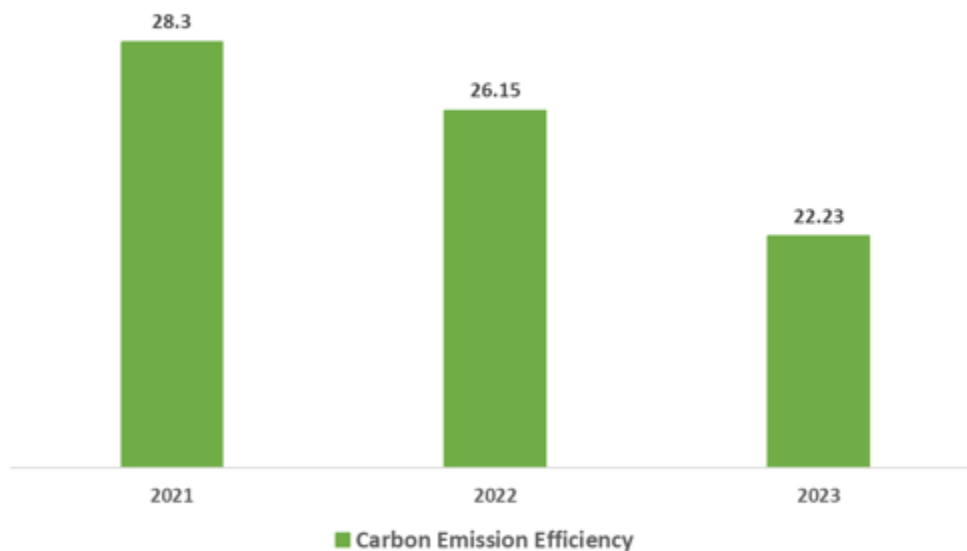
Portfolio Electricity Efficiency vs A-Share
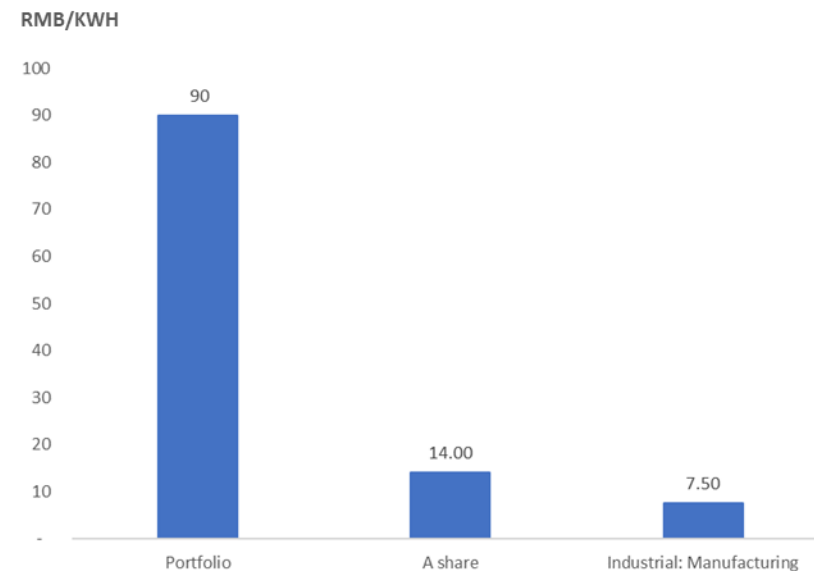
Source: Wind, Bin Yuan Capital

As member of NAZM*, Bin Yuan aims to halve its carbon intensity by 2030 and reach carbon neutrality by 2050.

Note: NZAM - Net-Zero Asset Managers Initiative

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FROM RABBIT TO DRAGON

➢ MARKET HAS PRICED IN THE NEGATIVES: the market has fully priced in the poor geopolitical environment, sluggish local economy, bursting of the property market bubble, and market-unfriendly government policies.

➢ MANY OF THESE NEGATIVES ARE STABILIZING and start to reverse

➢ POSITIVE CATALYSTS plus the expected returns on equity investments are at a historically high premium of close to 6% compared to risk-free assets like 10-year government treasury bonds. Historically, when the risk premium reaches such levels, the market has shown positive performance.

➢ VERY ATTRACTIVE VALUATIONS: our portfolio is now very cheap, has strong earnings growth, and represents very good value.

➢ ENHANCED DOWNSIDE RISK MGT

➢ We remain very confident in the portfolio's potential in 2024

Healthcare Strategy Update

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Performance ITD

Inception Date		**2021/12/03**
Ending Date		**2023/12/31**

All China Strategy - Hereford Funds Bin Yuan Health Care Sub-Fund	Q1	Q2	Q3	Q4	YTD	ITD
Bin Yuan Health Care Fund (Share Class L1) Net Performance	-3.07%	-14.40%	-2.02%	0.72%	-18.13%	-31.26%
MSCI China Health Care Index (Bloomberg Ticker MXCN0HC Index)	-6.34%	-13.21%	1.14%	-3.24%	-20.45%	-45.50%
Outperformance/(Underperformance)	**3.27%**	**-1.19%**	**-3.17%**	**3.96%**	**2.32%**	**14.24%**
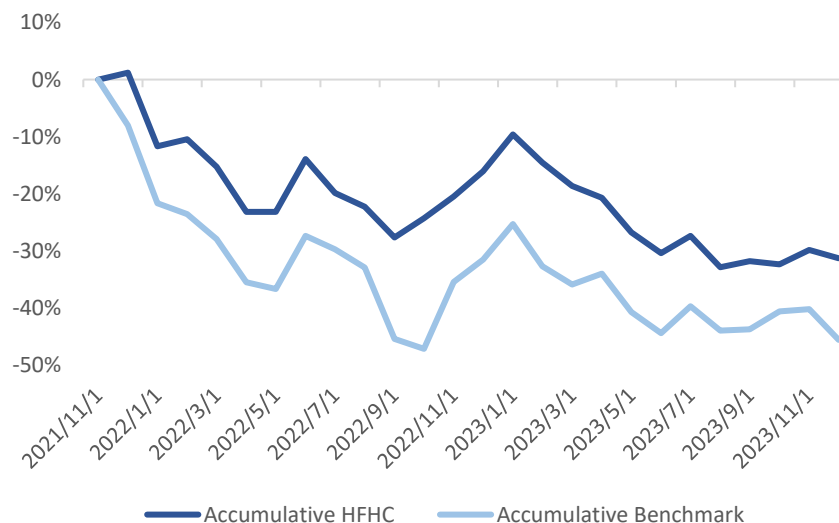
Legend: — Accumulative HFHC — Accumulative Benchmark

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Stock Contributors – 2023 Q4

Performance Attribution

HFHC vs. MSCI Health Care

2023 Q4

USD

Top 3

	Name	Contribution	Sector
688301 CH Equity	IRAY TECHNOLOG-A	3.02	Healthcare Equipment & Parts
688271 CH Equity	SHANGHAI UNITE-A	0.98	Healthcare Equipment & Parts
300832 CH Equity	SHENZHEN NEW-A	0.88	Healthcare Equipment & Parts

Bottom 3

	Name	Contribution	Sector
2269 HK Equity	WUXI BIOLOGICS C	-2.73	Services
603259 CH Equity	WUXI APPTEC CO-A	-1.01	Services
002821 CH Equity	ASYMCHEM LABOR-A	-0.64	Services

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Stock Contributors – 2023

Performance Attribution
HFHC vs. MSCI Health Care
2023
USD

Top 3

	Name	Contribution	Sector
300832 CH Equity	SHENZHEN NEW-A	1.64	Healthcare Equipment & Parts
688301 CH Equity	IRAY TECHNOLOG-A	0.85	Healthcare Equipment & Parts
688617 CH Equity	APT MEDICAL IN-A	0.63	Healthcare Equipment & Parts

Bottom 3

	Name	Contribution	Sector
2269 HK Equity	WUXI BIOLOGICS C	-4.03	Services
300347 CH Equity	HANGZHOU TIGER-A	-2.03	Services
688363 CH Equity	BLOOMAGE BIOTE-A	-1.57	Biotechnology

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The Ageing population drives highly resilient demand for healthcare services

Total Population above 60 in China

- 2022: 264 million
- 2027E: 325 million
- 2032E: 341 million
- 2037E: 355 million
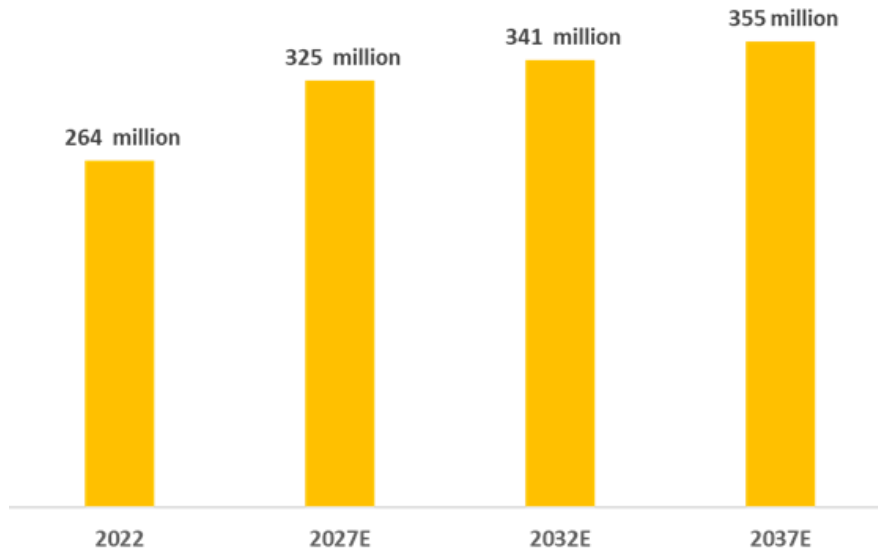
Sources: iFinD, Bin Yuan Capital, National population census

Population Structure in China

60+ years old:
- 2022: 18.9%
- 2027E: 24.0%
- 2032E: 26.7%
- 2037E: 29.8%

■ 0-20 years old　■ 20-40 years old　■ 40-60 years old　■ 60+ years old
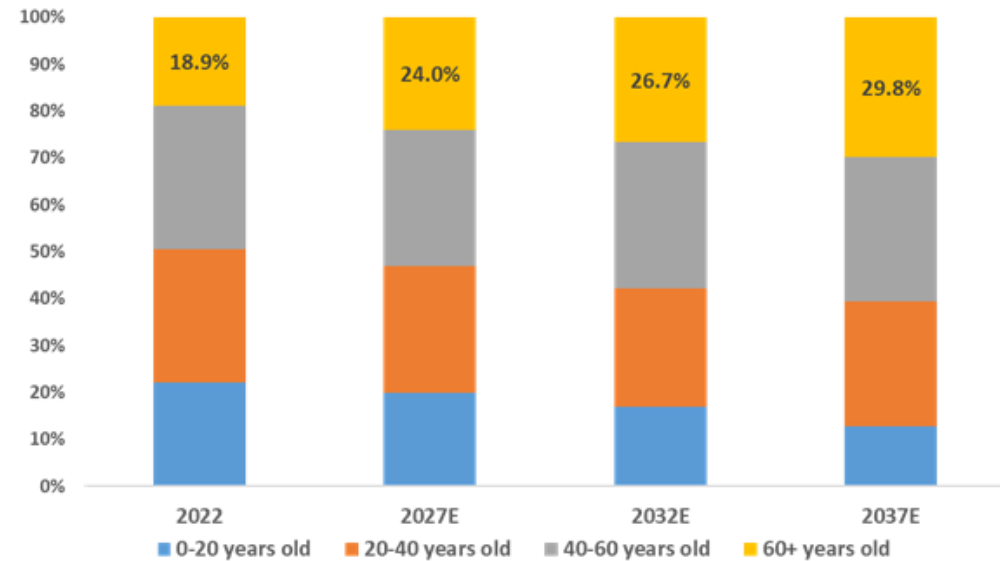
Sources: iFinD, Bin Yuan Capital, National population census

Patients are waiting a gastroscopy in China's large hospitals…

33

Government + BMI system + individual Payment Model can Meet the Demand

China's Medical Expenditure Participants

Sources: iFinD, Bin Yuan Capital

■ Government funding ■ Social contribution ■ Personal expenditure
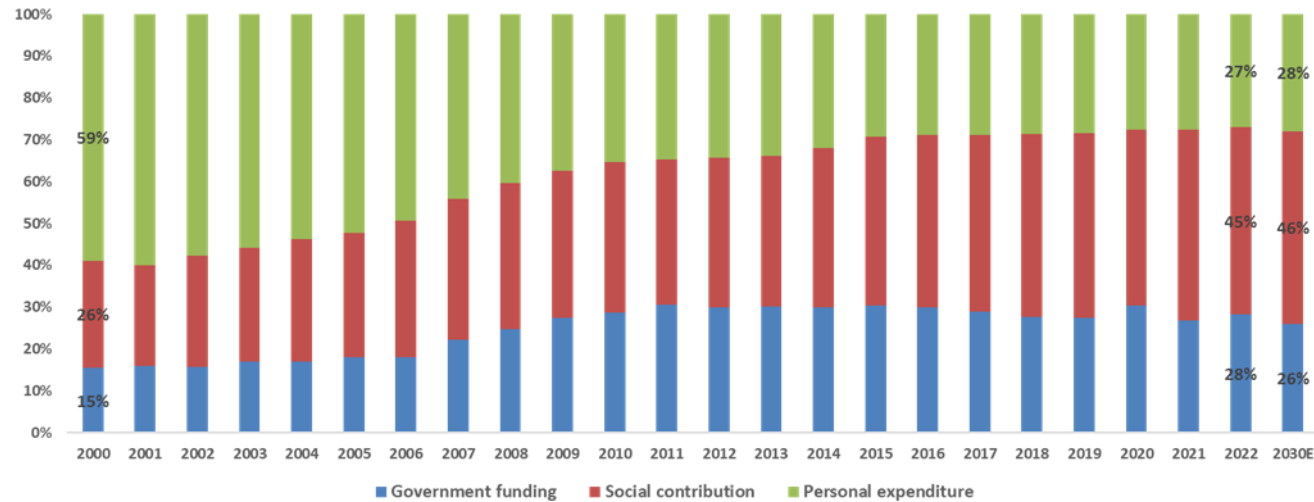
Total Healthcare Expenditure

billion RMB

Government funding Social contribution Personal expenditure
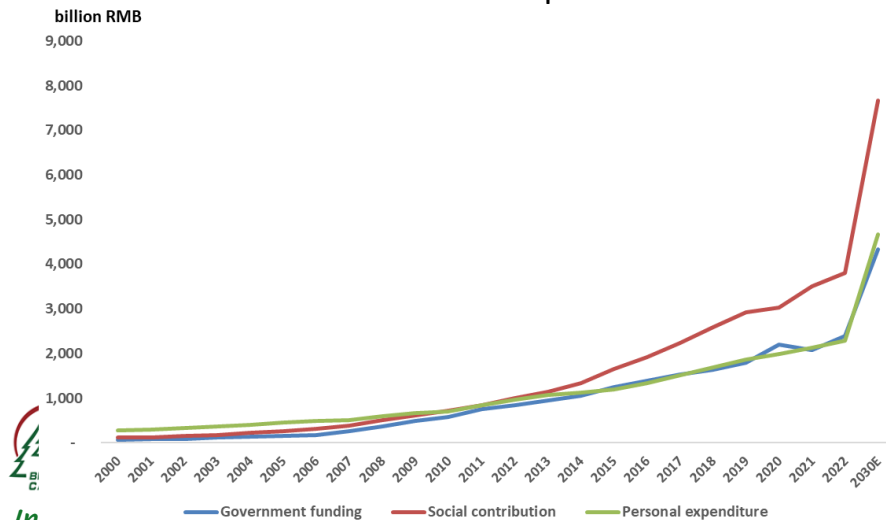
Sources: iFinD, Bin Yuan Capital

Social Medical Security & Commercial Medical Insurance

Commercial medical insurance Social medical security
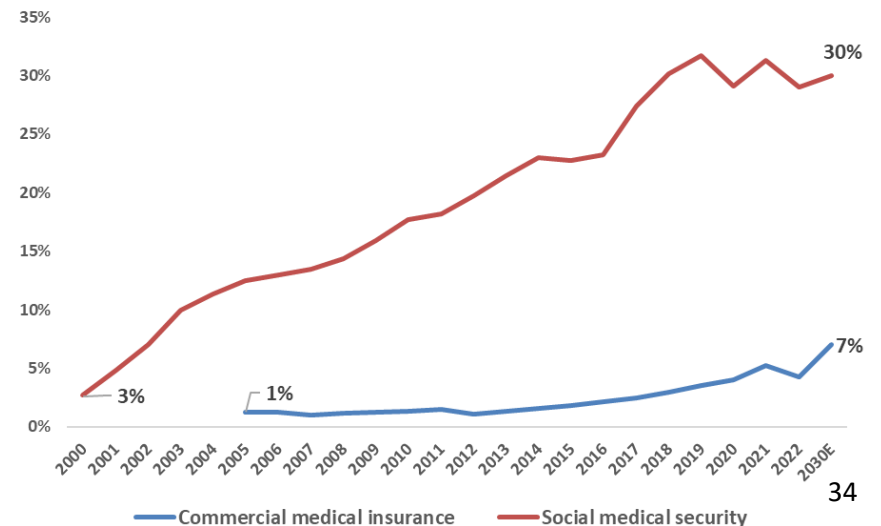
Sources: iFinD, China Banking and Insurance Regulatory Commission, Bin Yuan Capital

34

- Import substitution is irreversible

- More advanced technology and products emerging out to scale up productivity
  - ✓ Test before treatment
  - ✓ Improving turnover
  - ✓ Automation and intelligence

- Reshaping of distribution channels and processes also help improve efficiency
  - ✓ Channel consolidation
  - ✓ specialty hospitals
  - ✓ Homecare

Chinese companies are catching up

The Healthcare Market is very attractively priced for a rerating

Historical PE Band for Chinese Healthcare Sector

Sources: iFinD, Bin Yuan Capital

Earnings Valuation Outlook - Bin Yuan Healthcare Portfolio

Valuation	Portfolio	Benchmark
Period	**12/31/2023**	**12/31/2023**
2024 PE (X) – Harmonic Avg. Method*	19.7	28.9
2024 PE (X) – Weighted Avg. Method	20.3	19.2
2024 PB (X)*	3.4	2.7
2024 Div. Yield (%)	1.1	1.2
2024 ROE (%)*	18.1	7.9
Earning Growth (%) Forward 3 YR	21.6	14.5
2024 PEGY	0.9	1.2
FCF Yield	2.0	0.9

Note: Valuation dynamics impacted by corporate quality.

*Harmonic Avg. Method: The harmonic average, also known as the harmonic mean, is a type of average that is useful in situations where calculating an average rate or ratio. It's particularly effective when the values we are averaging are defined in terms of a ratio of two quantities (like speed, which is distance per unit of time).

The formula for the harmonic average is: Harmonic Mean = N / sum of (1/Value_i)

Where:
- (N) is the total number of values.
- $\{Value\}_i$ is each individual value in the set.

Sources: Bin Yuan Capital, Wind

High quality portfolio trading at a discount

Appendix – Portfolio Holding Examples

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Company 1: IRAY (688301 CH) - Market Cap US$ 4.1 Billion

Background:

iRay is a leading designer and manufacturer of key components for X-ray systems in medical, dental, veterinary, and industrial imaging.

Growth Drivers:

✓ One of the few digital X-ray detector manufacturers in the world that has mastered all major core technologies.
✓ Well-positioned to gain a larger market share due to its competitive R&D capabilities and cost advantages.
✓ Benefits from hospital construction
✓ Benefits from industrial non-destructive testing

Market:

•Strong earning growth (30+%) with great accessible market size (over $12bn).
•In the next two years, the company's products will expand from the upstream of DR to the upstream of CT, from detector to other components for X-ray , gaining exclusive domestic substitution dividends.

Valuation:

It is expected that the revenue of iRay will reach RMB 5.8 billion on its intrinsic growth and the net income will be RMB 1.7 billion in 2027. If at PE 25x, 70% upside by 2026.

Earning Forecast — CNY Million: NI FY21 484, FY22 641, FY23E 606, FY24E 884, FY25E 1074, FY26E 1316, FY27E 1660; Growth 32%, -5%, 46%, 21%, 23%, 26%

ROE Trend

Operating Cash Flow — CNY Million: FY21 246, FY22 387, FY23E 475, FY24E 642, FY25E 843, FY26E 996, FY27E 1080
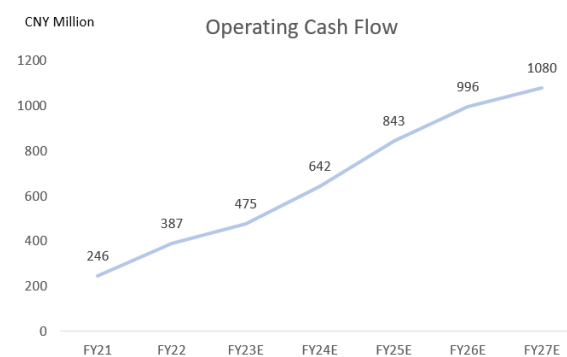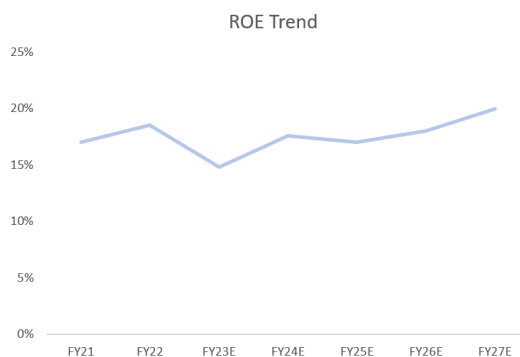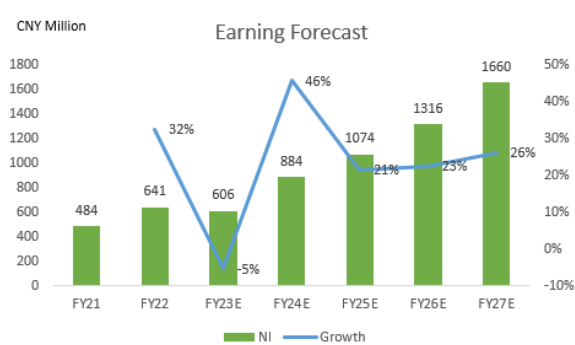
Company 2: KANGJI MEDICAL（9997 HK) - Market Cap US$1.0 Billion

Background:

Kangji Medical is China's largest domestic MISIA (Minimally Invasive Surgical Instrument and Accessories) manufacturer.

Growth Drivers:

✓ Strong R&D and accumulation of know-how
✓ Strong branding name with a quick response service mode
✓ Future volume-based procurement will promoting the company's domestic market share and accelerating import substitute.
✓ Surgical robots on the way. In the future, minimally invasive robots may become a growth driver for the company.

Market:

MISIA market will reach $56 billion in 2026, with a CAGR of 19%.

Valuation:

It is expected that the revenue of Kangji Medical will reach RMB 2.1 billion on its intrinsic growth and the net income will be RMB 0.97 billion in 2026. If at PE 15x, 88% upside by 2025 end.

Earning Forecast

ROE Trend

Operating Cash Flow

Company 3: NARI (600406 CH) – Market Cap US$ 24.8 Billion

Background:

NARI is a global leading solution provider for the energy internet based on energy power intelligence, which is also an excellent IT enterprise and leader in the field of power intelligence in China's energy power and industrial control industry. Based on advanced control technology and information technology, the company takes "big data, cloud computing, Internet of Things, mobile interconnection, artificial intelligence, blockchain" and other technologies as the core to provide software and hardware products, overall solutions and application services for customers in industries such as power grid, power generation, rail transit, water conservancy and water utilities, municipal utilities, and industrial and mining.

Growth Drivers:

✓ With the increase of renewable energy, the demand for grid automation will keep sustained grow
✓ Self developed IGBT components will help improve the company's gross profit margin
✓ UHVDC(ultra high voltage direct current) transmission has significant increasing growth in the next 3 years

Market:

NARI's addressable market size will be increased from 139 bn RMB in 2023 to 218 bn RMB in 2026, with a 3 yrs' CAGR of 16%. Its domestic market share is about 38% in 2023, and the number will continuously climb up in the next several years.

Valuation:

NARI's net income is expected to reach RMB 12.2 billion in 2026, applying a reasonable PE of 25x given its nature of business model, the fair market cap is RMB 305 billion, 70% upside by 2025 end.

Investing for Better Life

Background:

BOCHU is the leader of laser control software provider in China. The company not only mastered the five key technologies of CAD, CAM, sensor and hardware design technology but also have deep understanding of downstream application scenarios and expanding its technology into other industrial application areas.

Growth Drivers:

BOCHU will benefit from several big trends.

- **The globalization trend of the company's business is accelerating.** With the gradual replacement of traditional processing methods by laser processing methods in overseas markets, the application proportion of the company's products in export equipment is expected to maintain a growth trend.
- **The penetration rate of the high-power market continues to increase.** A surge in demand for high-power cutting systems in industries such as construction steel structures, and at the same time, there is a gradual trend of replacing high-power in overseas markets; As an industry pioneer, the company's leading advantage in the high-power market is expected to further expand.
- **Gradual expansion of welding robot systems.** In terms of welding robot systems, the company has established cooperative relationships with large steel structure enterprises such as Honglu Steel Structure, and the products are expected to gradually expand.

Market:

BOCHU's addressable market size will be increased from 7.3 bn RMB in 2023 to 16.7 bn RMB in 2026, with a 3 yrs' CAGR of 33%. Its global market share is about 18% in 2023, and the number will gradually climb up in the next several years.

Valuation:

BOCHU's net income is expected to reach RMB 1.63 billion in 2026, applying a reasonable PE of 30x given its nature of business model, the fair market cap is RMB 49 billion, 40% upside by 2025 end.

CNY Million — Earning Forecast

	FY22	FY23	FY24E	FY25E	FY26E
Net Income	480	634	843	1,065	1,323
Growth	-10%	32%	33%	26%	24%

ROE Trend

FY22	FY23E	FY24E	FY25E	FY26E
13%	14%	17%	19%	21%

CNY Million — Operating Cash Flow

FY22	FY23E	FY24E	FY25E	FY26E
533	613	803	1,026	1,288

Investing for Better Life

PRI Principles for Responsible Investment
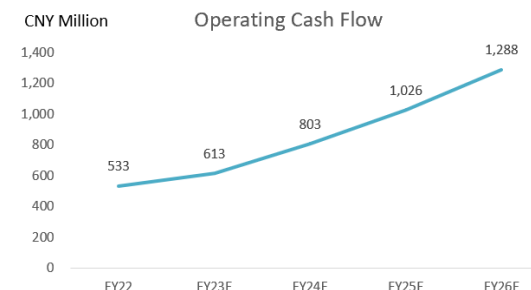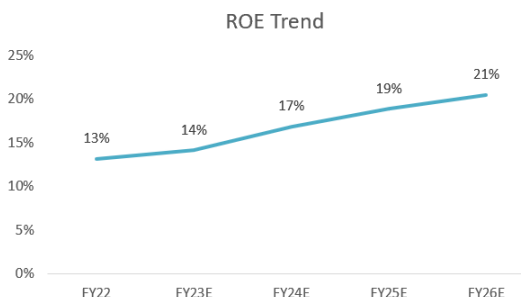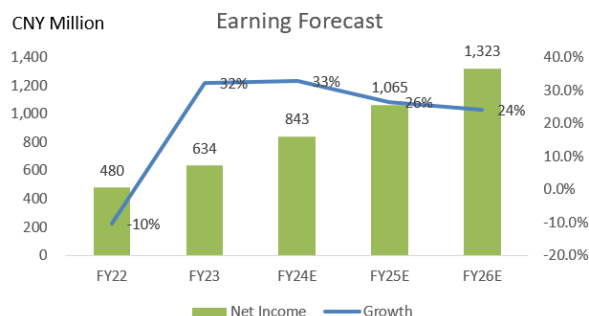
Company 5： SFY Home Collection (002572 CH) - Market Cap US$ 2.1 Billion

Background

Suofeiya (SFY) is the top two customized cabinetry maker in China. The company has established a brand portfolio targeting different groups of customers within various price ranges, and built a comprehensive sales network that covers distributors, furnishing companies, and SoE property developers. Products offered include wardrobes, doors, windows etc.

Growth drivers

- ✓ Rising cross-sales on a more comprehensive product portfolio
- ✓ Increasing partners in the home furnishing channel
- ✓ Market share increase amid industry consolidations

Market

The customized furniture grew at a CAGR of over 12% in the past five years on rising penetration from about 10% to 30%, and penetration is expected to continue to increase and act as a driver of growth in the future as it still has room to hike compared with the 60% level in mature markets. Industry was negatively impacted by the slowing-down real estate market, but industry consolidation will provide good opportunities for leaders like SFY to take market shares, as CR10 is still low at just around 10% and we are seeing small-and-medium players quitting the industry.

Valuation

SFY is expected to grow its earnings at a CAGR of about 10% in the next three years, even in the bear case. Given a proper value of 13X PE at PEG of 1.25, the stock still has an upside of about 40% by 2026, adding the dividend yield of 4.5%, the annualized return is expected to be 16%.

Earnings forecast

	FY22	FY23E	FY24E	FY25E	FY26E
Net Income	1,064	1,119	1,222	1,353	1,499
Growth		5.2%	9.2%	10.7%	10.8%

ROE Trend

Operating Cash Flow

Signatory of:

Principles for Responsible Investment

Investing for Better Life

Note* The abnormally high CAGR of OCF is caused by a low base in FY 21 which was affected by financial accounting rules following the asset restructuring in FY20.

43

Disclosure

Signatory of:

Investing for Better Life