

# Bin Yuan Capital

JULY 2024

2024 Q2 REVIEW & OUTLOOK



*Investing for Better Life*

Signatory of:



A proud participant of:



**RACE TO ZERO**

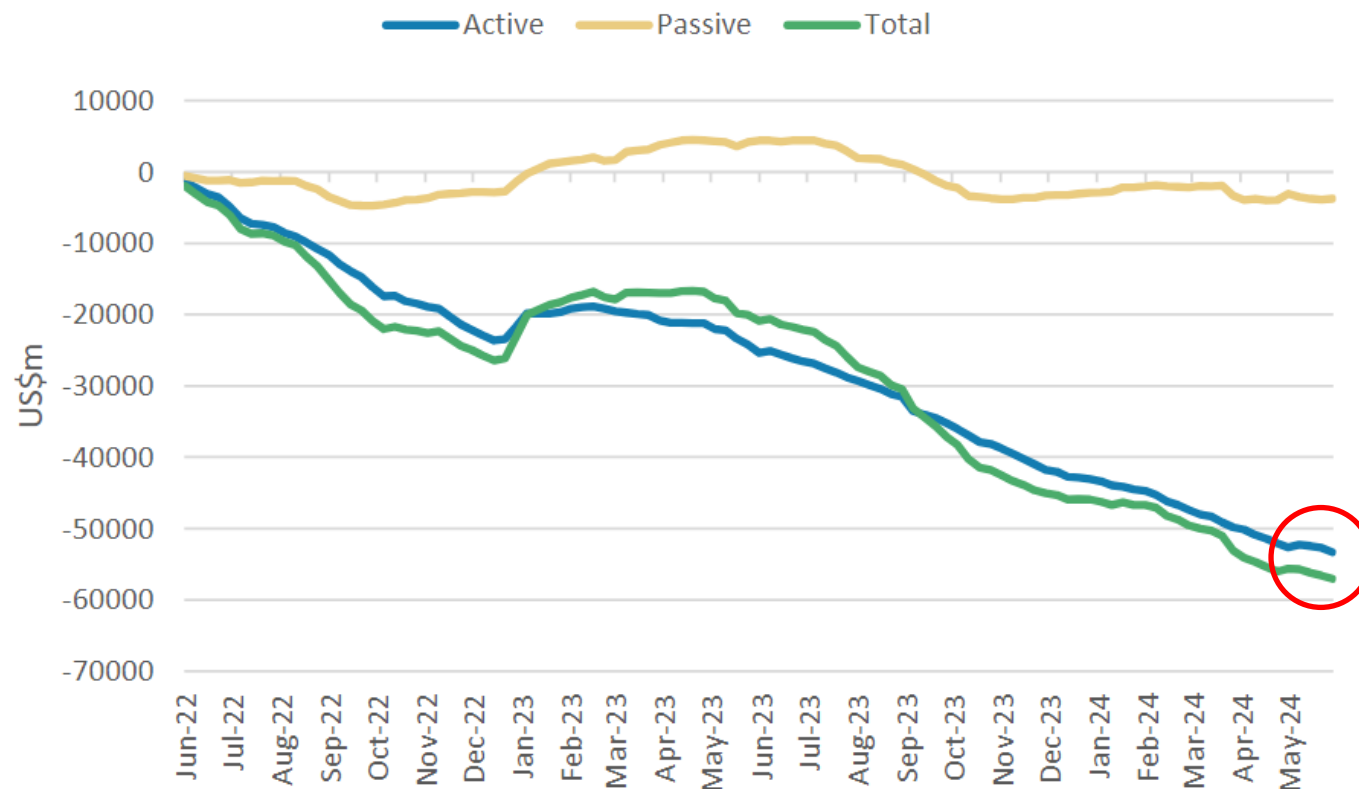
# AGENDA

- **Performance Review Q2:** Difficult market - outperformed CSI500 index
- **Portfolio Metrics:** Fundamentals vs. valuation as attractive as we have seen
- **Macro Update:** Extremely low expectations vs stabilization/marginal improvement
- **Key Drivers** – examples:
  - **Infrastructure upgrades:**
    - Equipment replacement lifts productivity and energy efficiency
    - Grid upgrades: massive capex
  - **Import substitution:**
    - Healthcare equipment: oversold, strong fundamentals
    - Semiconductor equipment
- **Wrap Up and Q&A**

## Portfolio Review Q2 & YTD

# Foreign Selling

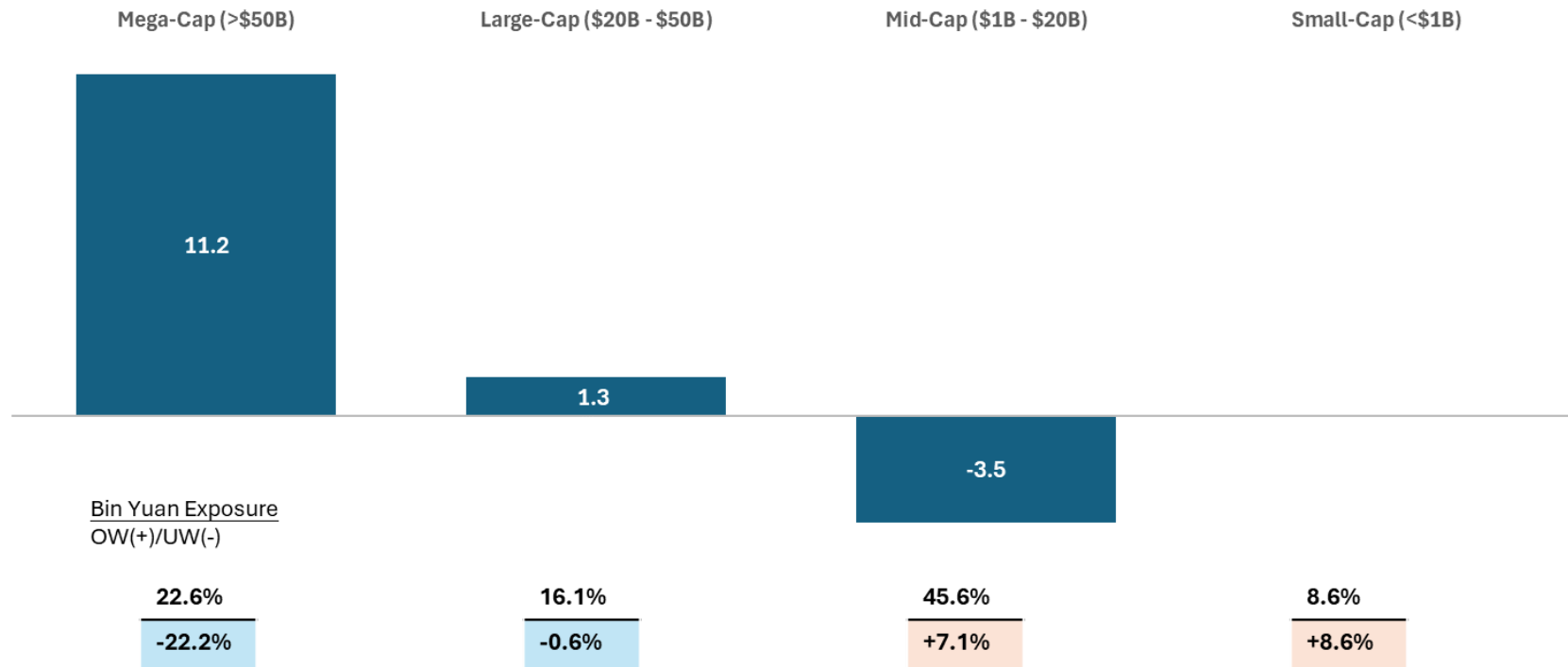
Weekly Cumulative Net Fund Flows (US\$m) of China Equities by Active and Passive Funds



Source: EPFR, Morgan Stanley Research. Note: Data as of June 19, 2024. Only GEM equity funds benchmarked against MSCI EM are included

# Highly Divergent Performance by Market Cap

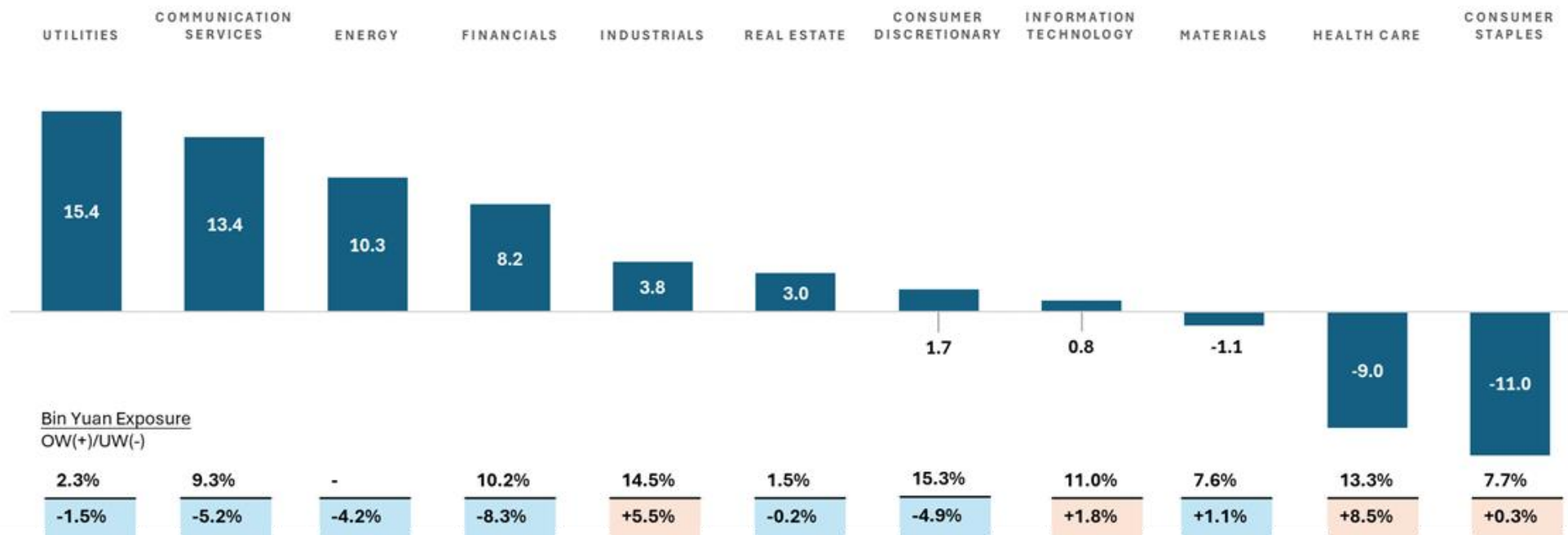
MSCI China All Shares Index Market Cap Performance (%) in 2Q 2024



Sources: MSCI All Share Index, Bin Yuan Capital

# Mixed Sector Performance

MSCI China All Shares Index Sector Performance (%) in 2Q 2024



Sources: MSCI All Share Index, Bin Yuan Capital

Market cap and sector bias negatively impact the performance

# Performance

Inception Date 2018/04/16

Ending Date 2024/06/30

All China Strategy - Hereford Funds Bin Yuan Greater China Sub-Fund	2Q	YTD	2023	2022	2021	ITD
Bin Yuan Greater China Fund (Share Class L1) Net Performance	-0.39%	-10.34%	-21.17%	-29.45%	10.02%	-1.09%
Benchmark*	3.68%	2.28%	-11.53%	-23.61%	-12.91%	-22.14%
<b>Outperformance/(Underperformance)</b>	<b>-4.07%</b>	<b>-12.62%</b>	<b>-9.64%</b>	<b>-5.84%</b>	<b>22.93%</b>	<b>21.05%</b>

\* 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

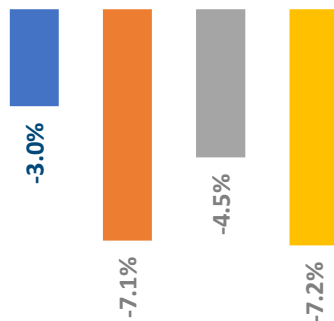
QTD: -4.07% vs benchmark

- Market Cap – underweight in large cap and overweight in mid cap **-3.1%**
- Sector – underweight in commodities, SOEs, mega cap internet  
overweight in healthcare, technology and consumer staples **-2.4%**

# But Better than Mid cap and Technology Focused Index

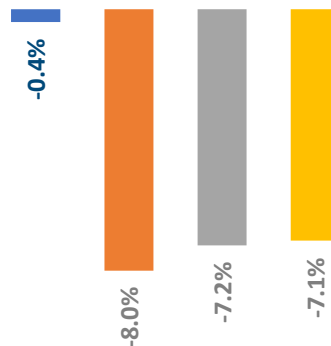
JUNE-2024

Outperformance:  
+4.1% +1.6% +4.3%



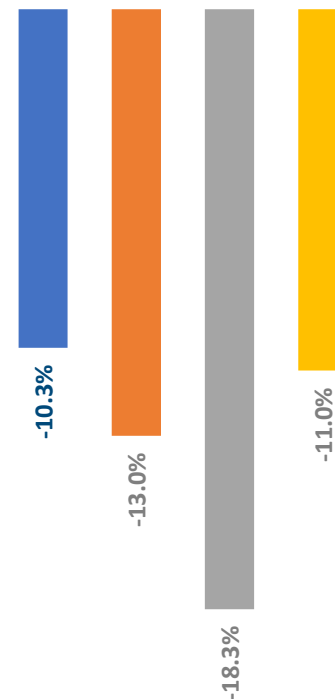
Q2-2024

Outperformance:  
+7.6% +6.8% +6.7%



H1-2024

Outperformance:  
+2.7% +8.0% +0.7%



■ Bin Yuan Capital

■ ChiNext Index

■ SSE Science and Technology Innovation Board 50 Index

■ CSI SmallCap 500 index



# Sector Attribution –2024 Q2

## PORT Attribution Report: Attribution (07/01/2024 10:18:06)

### Summary

Portfolio	HFBY
Benchmark	MSCI CHINA ALL SHARES INDEX
Start Date	3/29/2024
End Date	6/28/2024
Currency	USD

### Detail

	Avg % Wgt		Contribution to Return (%)		Allocation Effect (%)	Selection Effect (%)	Tot Attr
	Port	Bench	Port	Bench			
HFBY	100.00	100.00	-0.04	3.43	-2.35	-1.11	-3.47
Utilities	2.20	3.51	0.94	0.51	-0.15	0.64	0.49
Consumer Staples	10.37	8.24	-0.71	-0.91	0.06	-0.01	0.05
Materials	7.67	6.62	-0.11	-0.06	-0.10	0.12	0.02
Energy	2.12	3.98	0.29	0.38	-0.13	0.12	-0.01
Cash	3.40		0.01		-0.08	0.00	-0.08
Real Estate	1.09	1.85	-0.11	0.07	-0.04	-0.06	-0.10
Industrials	10.96	9.02	0.21	0.35	-0.19	0.05	-0.14
Communication Services	8.35	13.77	1.31	1.73	-0.97	0.75	-0.21
Financials	11.07	17.81	0.95	1.40	0.15	-0.46	-0.31
Consumer Discretionary	17.14	20.69	-0.08	0.39	0.28	-0.66	-0.38
Information Technology	10.07	9.21	-1.23	0.07	0.05	-1.26	-1.21
Health Care	15.56	5.30	-1.51	-0.47	-1.23	-0.35	-1.57
<b>Difference*</b>			-0.35	0.25			
<b>Fee</b>			0.24				
<b>HFBY Gross Return</b>			<b>-0.15</b>	<b>3.68</b>			<b>-3.83</b>
<b>FX Impact</b>			0.24	0.19			
<b>HFBY Gross Return (Without FX Impact)</b>			<b>0.09</b>	<b>3.87</b>			<b>-3.78</b>

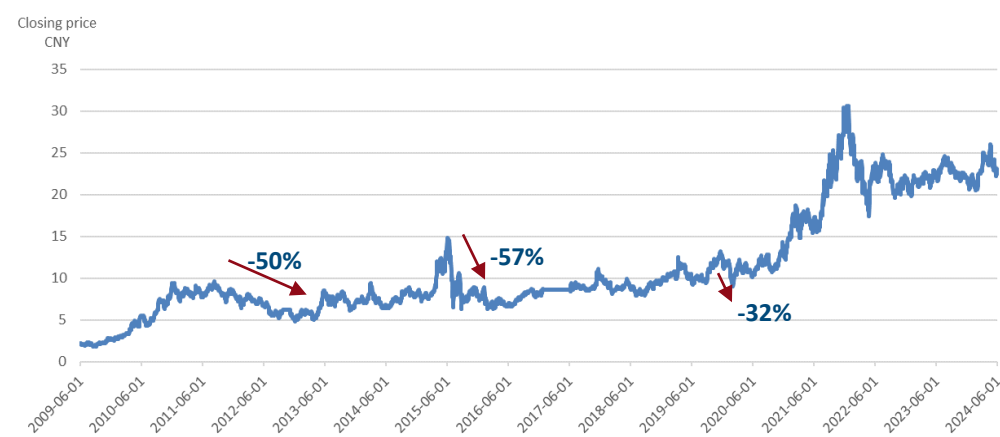
\*The Attribution Report is the raw data directly generated by Bloomberg Port Function. The differences on the return of Portfolio

and Benchmark between Bin Yuan's data and Bloomberg's attribution report is caused by:

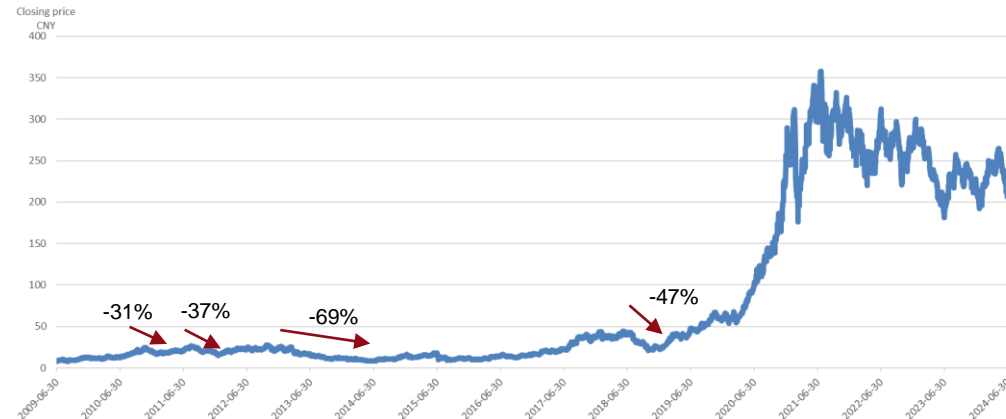
1. Rounding Issue: Bloomberg calculation only allows 2 decimal points;
2. Foreign Exchange Rate: Bloomberg applies in-house exchange rate;
3. Uploading Frequency: Benchmark is uploaded on a monthly basis.

# Long Term Winners but with Share Price Volatilities

NARI TECHNOLOG-A



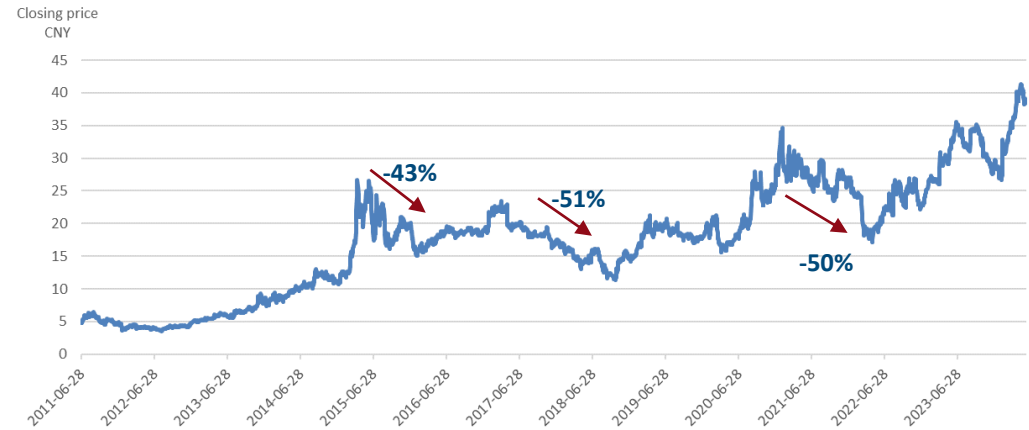
SHANXI XINGHUA-A



CHINA MERCH BK-A



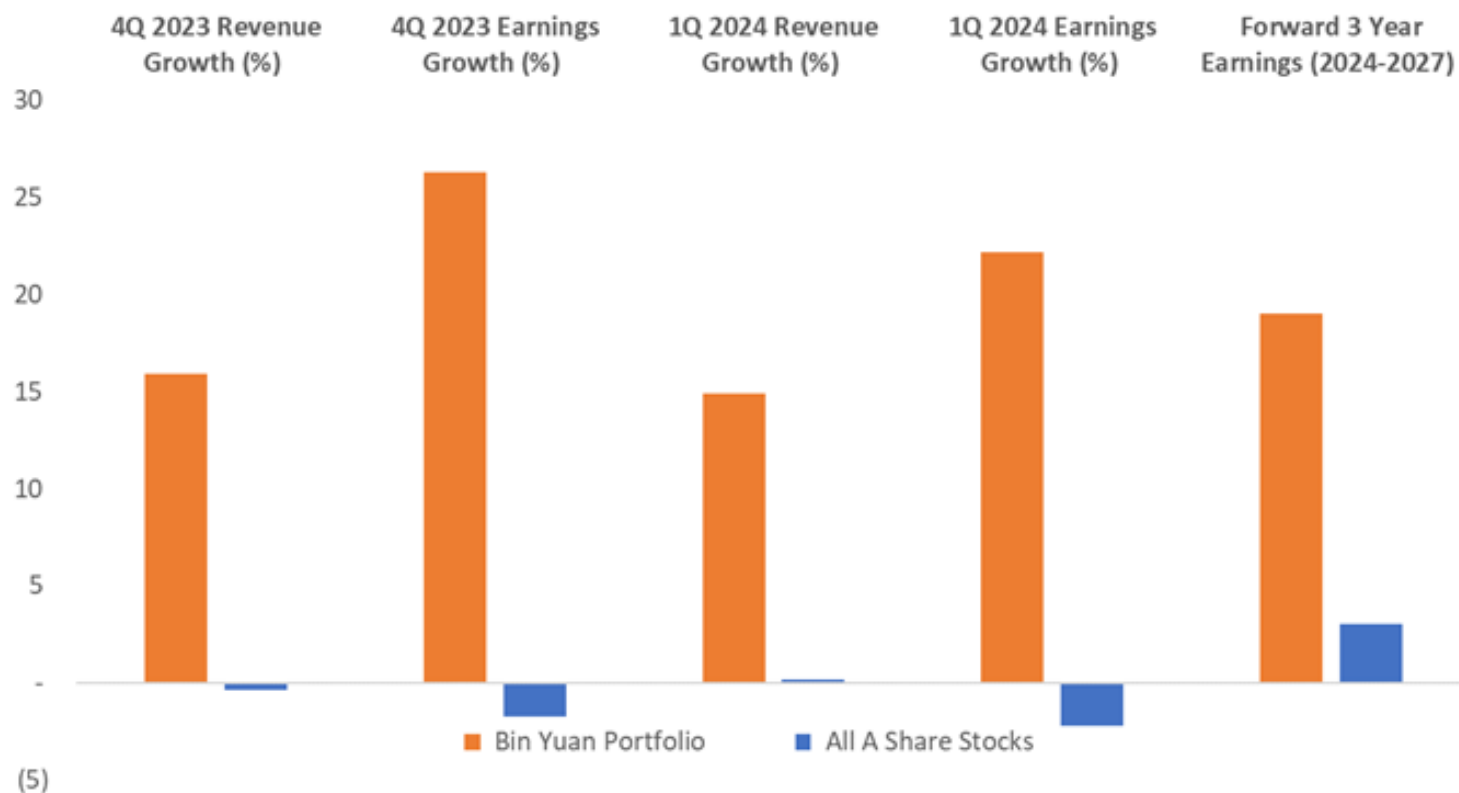
SHANDONG HIMIL-A



Our holdings should navigate short term volatilities and outperform longer term

## Portfolio Metrics

## Portfolio Earnings – Strong Growth Trend vs the Market



Sources: Bin Yuan Capital, Wind, Bloomberg

# Earnings Valuation Outlook

Valuation	Portfolio	Benchmark (excluding Financials)	Benchmark
Period	06/30/2024	06/30/2024	06/30/2024
2024 PE (X) – Harmonic Avg. Method*	12.3	13.8	10.8
2024 PE (X) – Weighted Avg. Method	15.4	17.8	16.3
2024 PB (X)*	1.8	2.6	1.7
2024 Div. Yield (%)	3.2	2.0	2.6
2024 ROE (%)	18.9	11.9	11.1
Earning Growth (%) Forward 3 YR	<b>20.1</b>	<b>7.4</b>	<b>5.2</b>
2024 PEGY	<b>0.7</b>	<b>1.9</b>	<b>2.1</b>
FCF Yield	2.8	-1.1	2.0

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:  $\text{Harmonic Mean} = N / \sum (1/\text{Value}_i)$

Where:

- (N) is the total number of values.

-  $\sum (1/\text{Value}_i)$  is each individual value in the set.

Sources: Bin Yuan Capital, Wind, Bloomberg

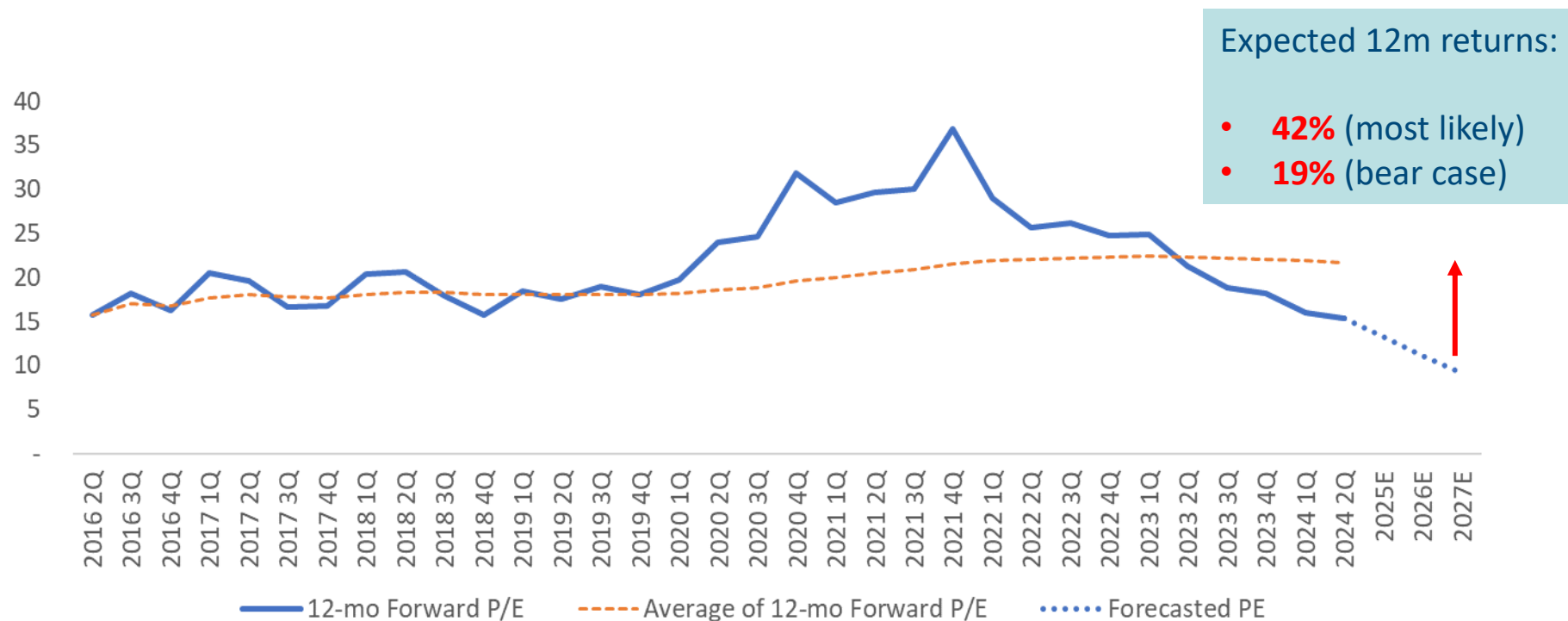
Bin Yuan PEG **0.7** vs.

MSCI World PEG **2.3**

High quality portfolio trading at a discount

# Portfolio 12 Month Forward P/E

Weighted Average Method



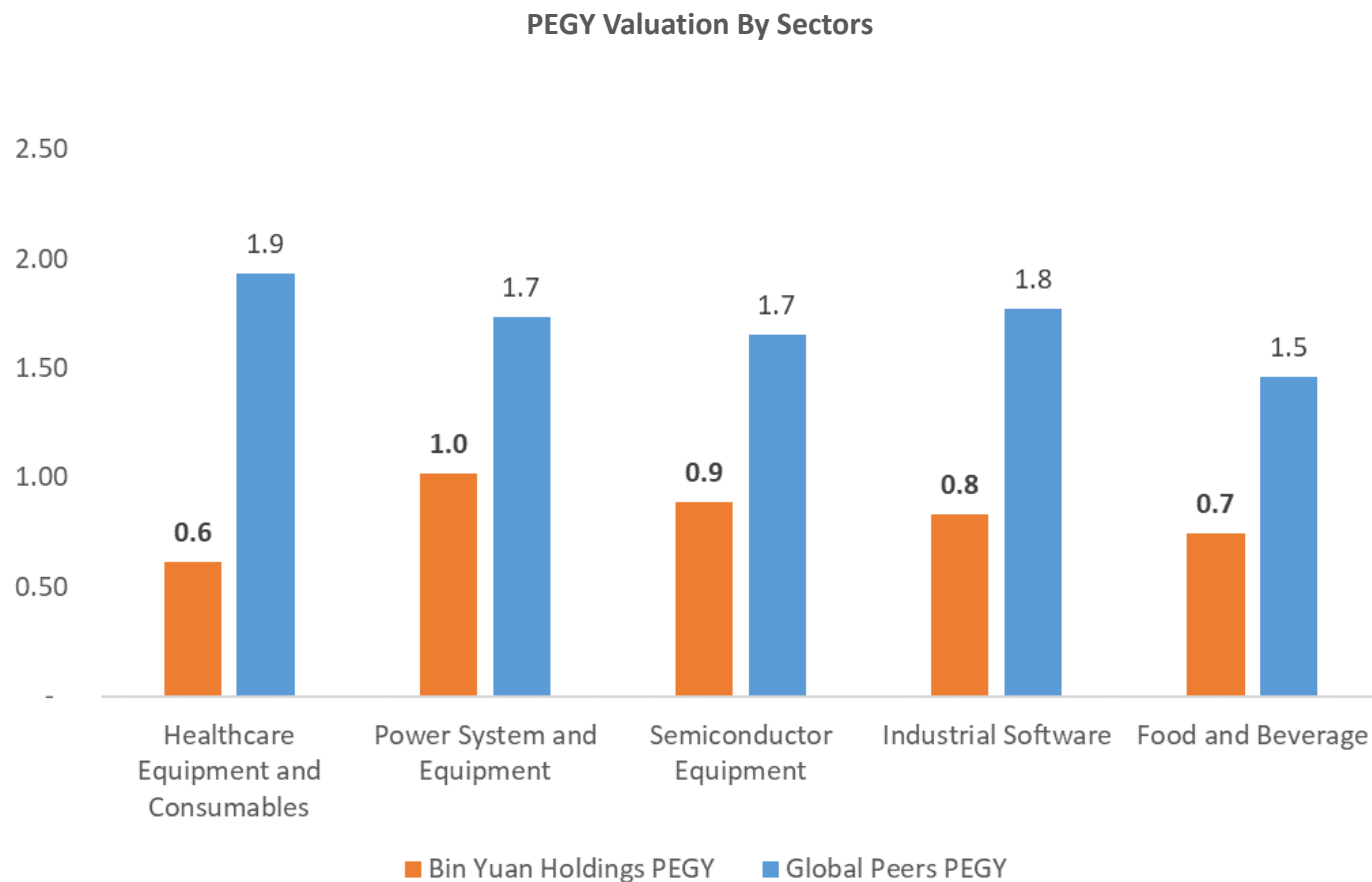
Sources: Bin Yuan Capital

We believe reversion to the mean will take place over time

# Expected Portfolio Return

Company	Valuation		1 Yr Return - Most Likely				3 Year Total Return - Most Likely				1 Yr Return - Bear Case				3 Year Total Return - Bear Case			
	2024 PE	2024 Dividend Yield	Target 2025 PE	PE Expansion / Detraction	2025 Earnings Growth	Most Likely Total Return	Target 2027 PE	PE Expansion / Detraction	Annualized Earnings Growth to 2027	Most Likely Total Return	Target 2025 PE	PE Expansion / Detraction	2025 Earnings Growth	Bear Case Return	Target 2027 PE	PE Expansion / Detraction	Annualized Earnings Growth to 2027	Bear Case Total Return
Portfolio	15.4	3.2%	17.5	14%	21.8%	41.9%	14.8	-4%	20.1%	79.8%	15.3	0%	16.4%	19.1%	12.7	-17%	15.8%	39.1%
Healthcare	13.9	3.4%	16.6	20%	20.5%	48.4%	15.0	8%	19.6%	110.0%	13.8	0%	16.4%	19.8%	13.8	0%	17.0%	83.4%
iRay	19.0	2.4%	24.8	30%	25.1%	65.2%	22.0	16%	22.5%	125.4%	19.0	0%	20.1%	22.5%	20.0	5%	20.3%	94.1%
Kangji	9.2	6.0%	11.0	19%	18.0%	46.9%	11.0	19%	19.1%	133.8%	9.2	0%	14.4%	20.4%	11.0	19%	15.3%	113.0%
Mindray	24.2	2.5%	25.6	6%	21.5%	31.3%	22.0	-9%	20.5%	69.5%	23.8	-1%	17.2%	18.0%	20.0	-17%	18.4%	46.5%
Green	19.0	2.8%	20.7	9%	22.0%	36.6%	18.5	-3%	17.6%	77.4%	18.5	-3%	18.0%	17.5%	16.2	-15%	15.2%	39.7%
Nari Tech	23.7	2.5%	24.3	2%	16.8%	22.2%	23.0	-3%	17.0%	65.6%	23.7	0%	13.4%	15.9%	20.0	-16%	14.3%	34.3%
CGN Power	13.0	3.2%	13.2	2%	16.0%	21.2%	13.0	0%	12.0%	53.3%	13.0	0%	14.4%	17.6%	12.0	-8%	9.6%	32.9%
Bao Steel	11.7	4.9%	11.7	0%	11.7%	16.6%	11.7	0%	8.6%	46.2%	11.5	-2%	9.4%	12.4%	11.0	-6%	6.5%	30.0%
Yantai Jereh	12.3	1.6%	14.0	13%	28.5%	47.3%	14.0	14%	18.7%	98.3%	12.3	0%	22.8%	24.4%	12.5	2%	15.7%	64.0%
Digitalization	24.8	1.0%	26.0	5%	25.2%	35.3%	21.5	-13%	23.7%	77.6%	23.3	-6%	20.7%	18.1%	19.1	-23%	20.7%	46.7%
CCTC	28.4	1.2%	28.4	0%	20.0%	21.2%	22.0	-22%	20.0%	38.1%	25.2	-11%	16.0%	4.2%	20.0	-29%	18.0%	19.4%
Ninestar	28.8	0.0%	28.8	0%	37.7%	37.7%	25.0	-13%	25.0%	69.6%	26.9	-7%	30.2%	21.6%	22.0	-24%	22.5%	40.5%
Piotech	34.2	0.4%	35.0	2%	34.4%	38.0%	28.0	-18%	35.0%	103.2%	31.5	-8%	31.0%	21.0%	25.0	-27%	29.4%	60.0%
AMEC	37.0	0.4%	35.0	-5%	30.0%	23.5%	28.0	-24%	30.0%	68.0%	31.5	-15%	24.0%	6.1%	25.0	-32%	25.8%	35.8%
Supcon	22.6	1.8%	25.1	11%	23.0%	38.6%	22.0	-3%	20.0%	76.0%	23.6	4%	18.4%	25.3%	18.0	-20%	18.4%	38.4%
Consumption	14.4	3.2%	16.3	13%	20.8%	37.7%	13.0	-10%	21.3%	58.3%	14.3	-1%	13.5%	19.1%	10.5	-27%	13.2%	20.3%
Tencent	17.8	4.4%	20.0	12%	12.4%	30.5%	17.0	-5%	11.6%	48.9%	17.8	0%	10.0%	14.3%	13.0	-27%	10.8%	11.5%
Shanxi Fenjiu	18.2	2.2%	18.2	0%	22.2%	24.4%	18.0	-1%	19.8%	79.4%	18.1	-1%	17.8%	19.3%	15.0	-18%	16.8%	38.8%
Trip.com	20.7	0.0%	23.4	13%	19.0%	34.4%	18.0	-13%	18.0%	42.7%	20.7	0%	15.2%	15.2%	15.0	-28%	15.3%	10.9%
Suofeiya	10.1	7.4%	14.8	46%	13.2%	73.0%	12.0	18%	11.4%	98.5%	13.4	32%	10.5%	53.6%	10.0	-1%	9.7%	58.3%
Anjoy	12.6	3.8%	16.3	29%	12.8%	49.3%	13.0	3%	13.0%	64.1%	14.6	16%	10.2%	31.7%	10.0	-21%	11.1%	20.0%
High Yield	4.7	6.2%	5.5	16%	5.9%	28.4%	5.4	15%	6.3%	64.5%	4.7	0%	4.7%	11.0%	4.7	0%	5.0%	38.0%
CMB	5.4	6.1%	6.5	21%	5.4%	33.2%	6.5	21%	5.4%	67.3%	5.4	0%	4.3%	10.4%	5.5	2%	4.3%	37.5%

# PEG Valuation Attractive than Global Peers



Source: Bin Yuan Capital, Wind, Bloomberg



# Earnings Valuation Comparison vs Global Peers

			20240715	Revenue	OP income	Net Income	Net Margin	2024-2027	2025E	2025E
Bloomberg Ticker	NAME	Region	Market Cap (MN USD)	2023A	2023A	2023A	2023A	NI CAGR	PEGY	PE
<b>Healthcare Equipment</b>										
300760 CH Equity	MR	CN	46,407	4,818	1,803	1,598	33.1%	21%	0.9	20.3
GEHC US Equity	GE HEALTHCARE TECHNOLOGIES	US	36,645	19,552	2,435	1,568	8.0%	13%	1.3	16.8
RMD US Equity	RESMED	US	30,091	4,223	1,143	898	21.3%	13%	1.8	24.5
BDX US Equity	BECTON DICKINSON	US	66,214	19,372	2,214	1,484	7.7%	9%	1.5	15.9
ROG SE Equity	ROCHE HOLDING AG-GENUSSS	CH	230,492	71,839	17,832	13,666	19.0%	9%	1.1	13.8
HOLX US Equity	HOLOGIC	US	18,131	4,030	762	456	11.3%	8%	2.3	17.4
<b>Healthcare Component</b>										
688301 CH Equity	IRAY TECHNOLOGY	CN	2,063	257	94	84	32.4%	23%	0.6	15.1
VREX US Equity	VAREX IMAGING	US	595	893	77	48	5.4%	5%	2.9	14.5
4901 JP Equity	FUJIFILM	JP	30,140	21,507	2,054	1,651	7.7%	12%	1.5	19.3
4902 JP Equity	KONICA MINOLTA	JP	1,480	8,504	-765	-776	-9.1%	11%	2.7	29.8
DHR US Equity	DANAHER	US	182,727	23,890	5,202	4,764	19.9%	18%	1.7	31.5
7733 JP Equity	OLYMPUS	JP	19,848	6,634	1,326	1,079	16.3%	8%	1.6	12.8
<b>Medical Consumables</b>										
9997 HK Equity	Kangji Medical	HK	884	130	83	71	48.8%	19%	0.4	9.4
MDT US Equity	MEDTRONIC	US	99,953	31,227	5,830	3,758	12.0%	15%	0.8	14.0
ISRG US Equity	INTUITIVE SURGICAL	US	157,546	7,124	1,767	1,798	25.2%	20%	3.4	70.2
4543 JP Equity	TERUMO	JP	25,849	6,170	884	672	10.9%	17%	2.6	47.0

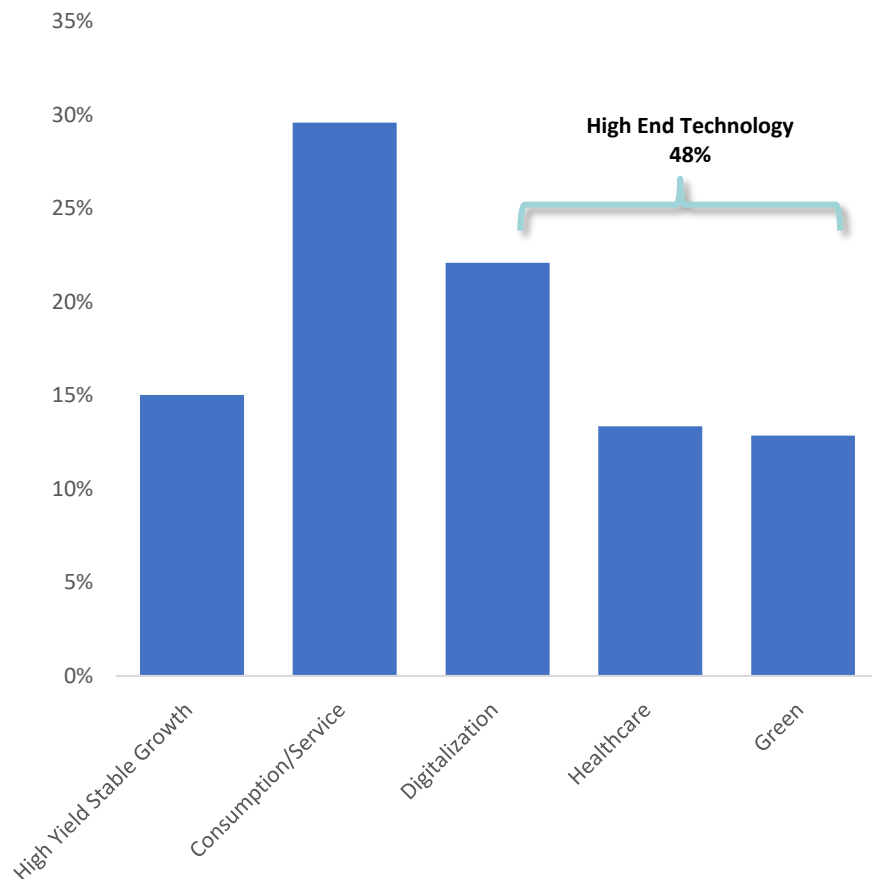
Source: Bin Yuan Capital, Wind, Bloomberg

# Earnings Valuation Comparison vs Global Peers

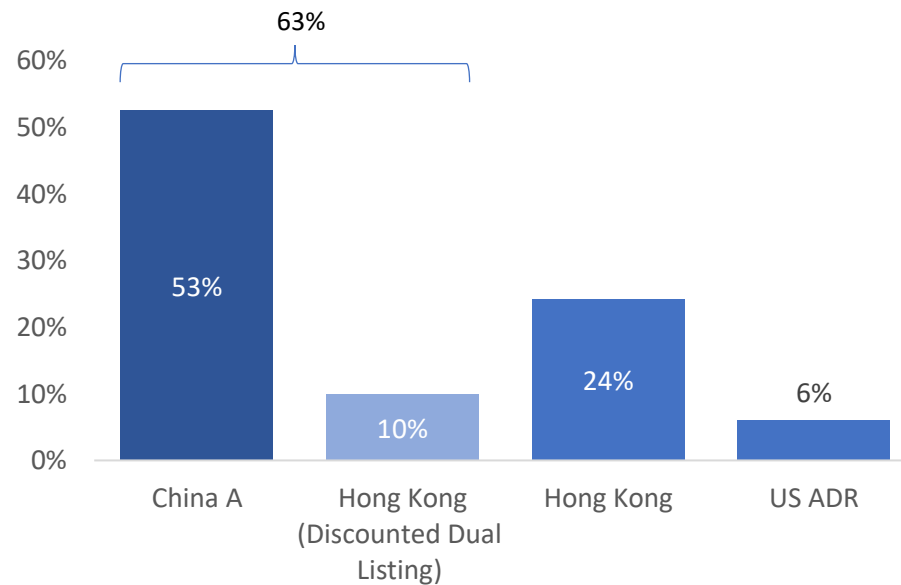
			20240715	Revenue	OP income	Net Income	Net Margin	2024-2027	2025E	2025E
Bloomberg Ticker	NAME	Region	Market Cap (MN USD)	2023A	2023A	2023A	2023A	NI CAGR	PEGY	PE
<b>Power System and Equipment</b>										
600406 CH Equity	NARI-TECH	CN	26,758	7,114	1,183	991	14.8%	17%	1.0	20.0
ONVV LI Equity	SCHNEIDER ELECTR	GB	147,506	39,838	6,638	4,442	11.1%	15%	1.7	26.0
<b>Semiconductor Equipment</b>										
688012 CH Equity	AMEC	CN	12,292	864	273	246	28.5%	30%	1.0	29.5
688072 CH Equity	PIOTECH	CN	4,760	373	101	91	24.5%	35%	0.8	28.5
AMAT Equity	Applied Materials	US	201,529	26,517	7,654	6,856	25.9%	14%	1.7	25.0
LRCX US Equity	Lam Research	US	139,869	17,429	5,217	4,511	25.9%	18%	1.6	30.0
<b>Industrial Software</b>										
688777 CH Equity	SUPCON	CN	3,951	1,189	163	152	13.0%	20%	0.8	18.0
HON US Equity	Honeywell	US	140,077	36,662	7,084	5,658	15.4%	9.30%	1.8	20.0
<b>Home Furnishing</b>										
002572CH Equity	SFY	CN	1,935	1,609	224	174	11.3%	11%	0.5	9.0
AMWD Equity	American Woodmark Corp	US	1,339	2,066	138	94	4.5%	5.0%	1	10.0
009240 KS Equity	Hanseem	ROK	1,057	1,531	2	-48	-3.2%	-5.0%	25	25.0
<b>Food and Beverage</b>										
603345 CH Equity	ANJOY FOOD	CN	2,949	1,937	257	204	10.7%	13%	0.8	12.0
600809 CH Equity	SHANXI FEN WINE	CN	32,964	4,404	1,962	1,440	32.8%	20%	0.7	15.4
DEO US Equity	Diageo	US	73,169	29,755	5,861	4,725	15.9%	10%	1.3	14.2
2871 JP Equity	Nichirei	JP	3,065	4,981	248	162	3.3%	8%	1.7	17.0

# Portfolio Positioning

Sector/Theme Exposure



Exchange Exposure



# Portfolio Positioning by Growth Stage

27%

## Stable Growth

- Well known dominant leaders
- Stable cash flow and earnings growth
- Large cap
- High dividend yield

## Core Positions

- SINOPHARM
- CHINA MERCHANT BANK

65%

## 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

## Valuation

- PE: 9.9
- PB: 1.5
- PEGY: 0.5
- ROE: 14%
- NI Growth: 12%
- Dividend yield: 5.4%
- Market Cap Average (\$ Billion): 117.2
- Market Cap Median (\$ Billion): 96.22

- PE: 19.4
- PB: 3.8
- PEGY: 0.8
- ROE: 19%
- NI Growth: 24%
- Dividend yield: 2.3%
- Market Cap Average (\$ Billion): 15.94
- Market Cap Median (\$ Billion): 5.15

\*PE: 2024 PE

PEGY: Price to Earnings Ratio/(Earnings Growth + Dividend Yield)

NI: Net Income

Market Cap: Market Capitalization

## China Macro update

## Extremely Low Expectations

- Trump 2.0 – marginally less geopolitical risk, trade friction unlikely to differ substantially from Biden policies
- Government policy – low expectations for July Plenum
- Property - revival of growth without property as a driving force will be a long-term process

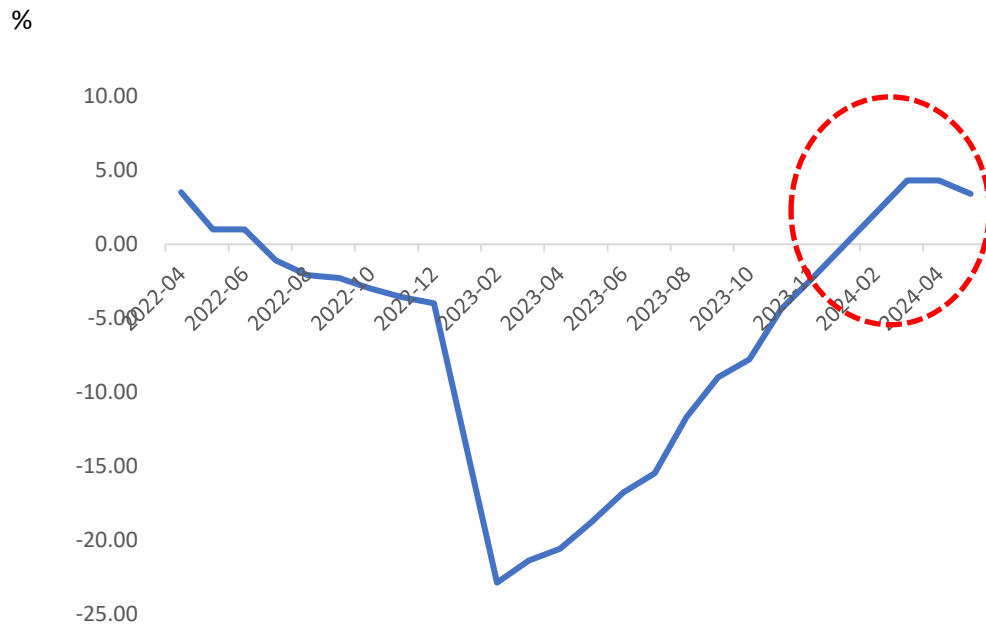
Any more negatives?

## Stabilization – Some Bright Spots

- Thoughts ref July Plenum
  - ✓ Technological innovation and industrial upgrading
  - ✓ Reform of the fiscal, land, and tax systems to efficiently allocate resources
  - ✓ Supply side reform - solve the over capacity issue
- Manufacturing resilience - Higher value added & higher tech
- Property sector stabilizing
- Non-property investments picking up
- Household spending see signs of bottoming
- Summary - structural opportunities in China

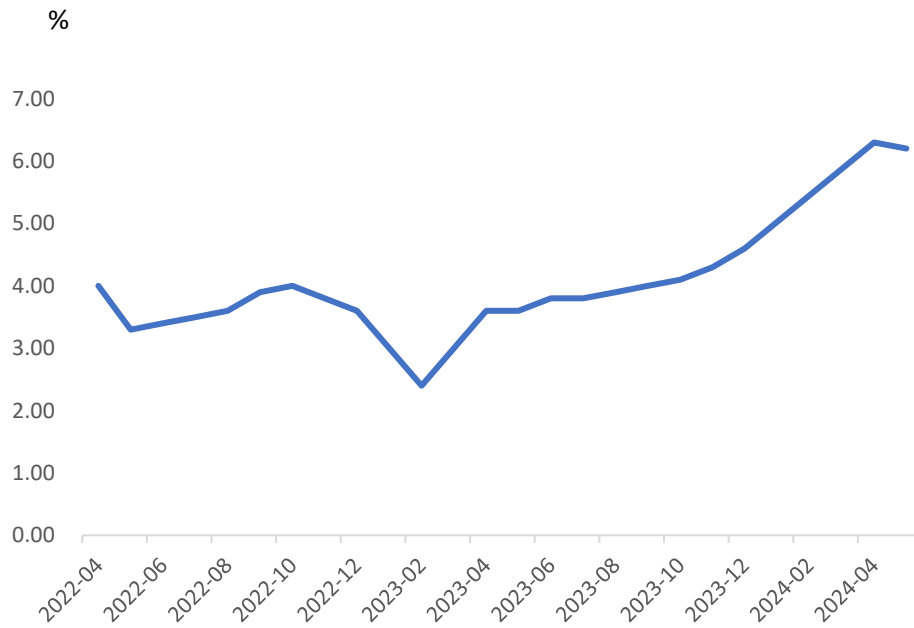
# Accelerating Trend of Higher Value Added & Higher Tech

## Industrial Profit YoY Growth (Accumulative)



Sources: Bin Yuan Capital, Wind

## Industrial Added Value YoY Growth (Accumulative)

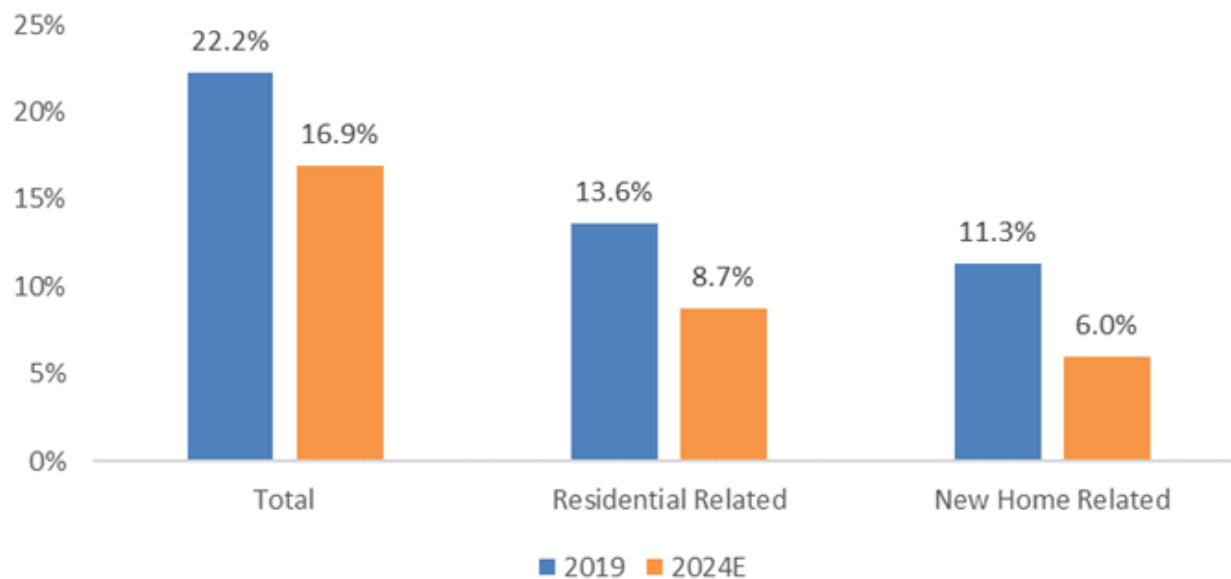


Sources: Bin Yuan Capital, Wind



# Property Market – Stabilizing

Property-Related Sectors' Contribution to GDP

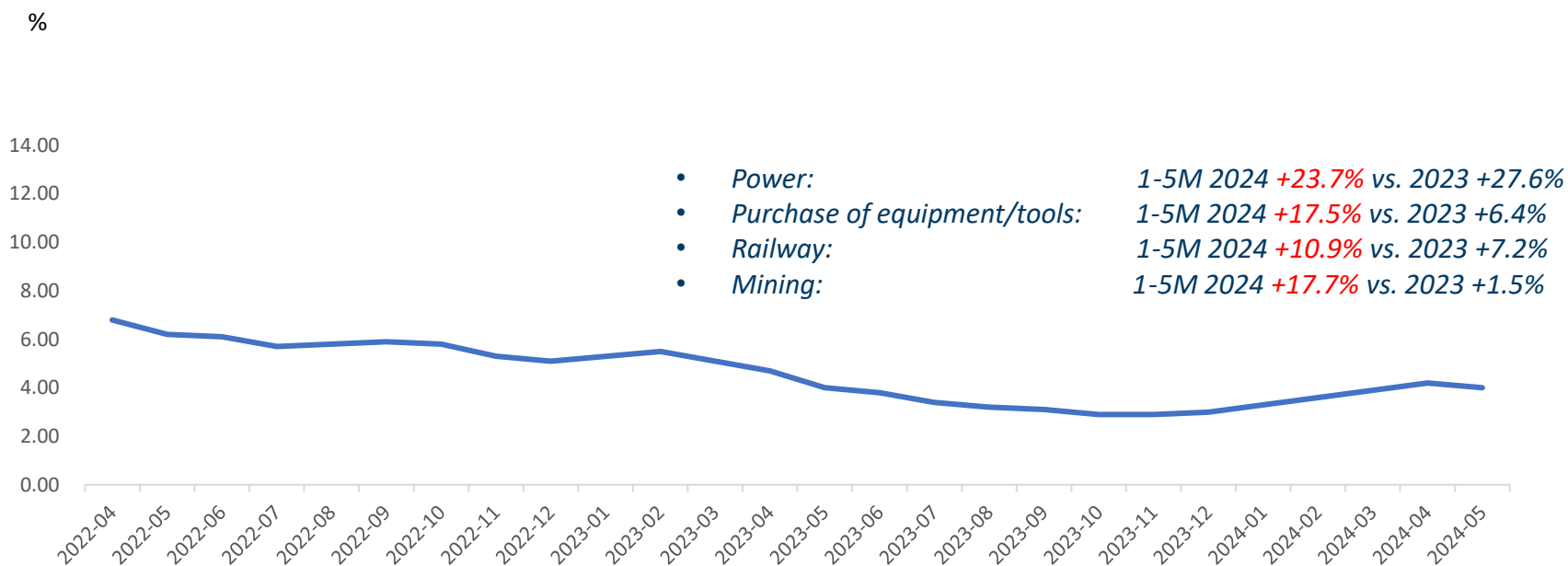


Source: NBS, Various Public Reports, Bin Yuan Capital

Less of a drag on the economy

# Non-Property Investments Have Started to Pick Up

Fixed Assets Investment YoY Growth (Accumulative)

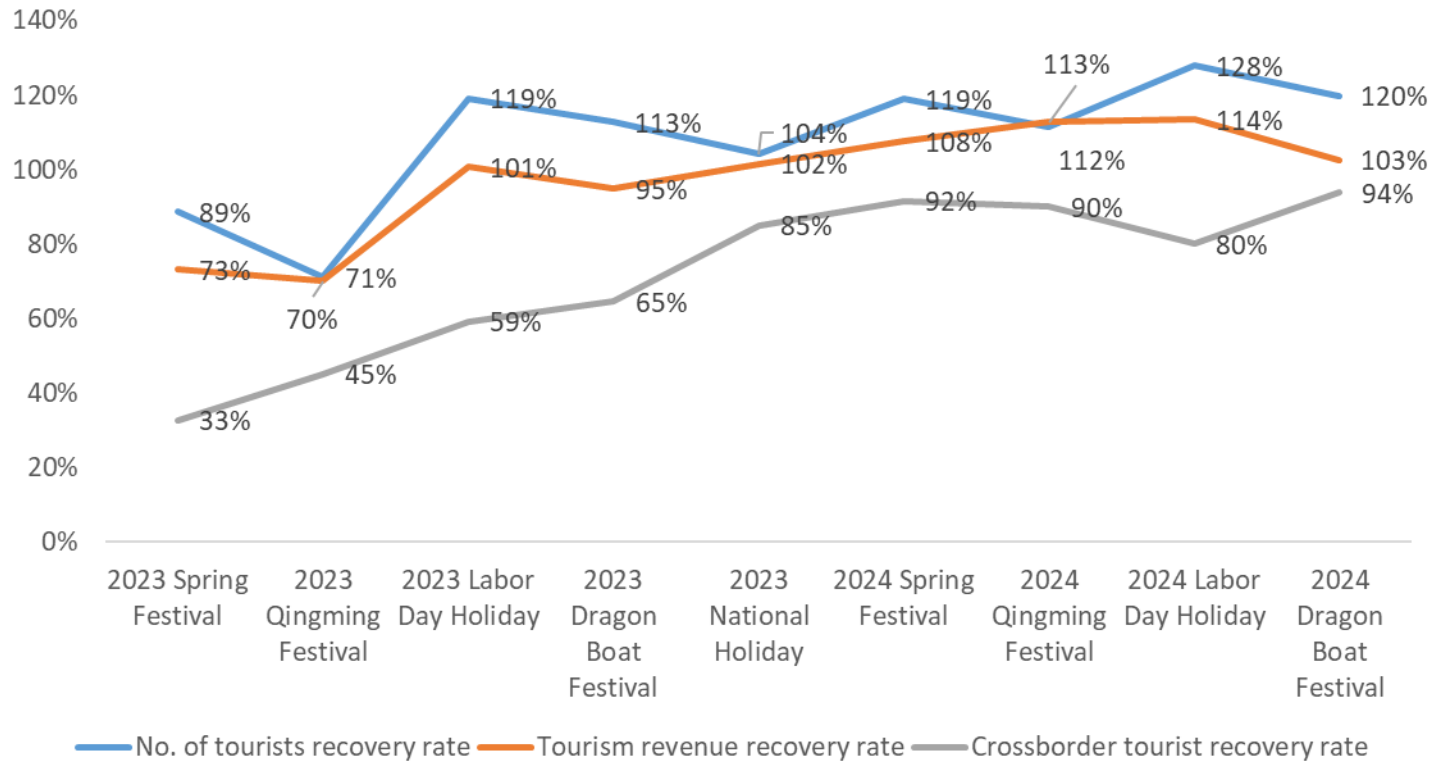


Sources: Bin Yuan Capital, Wind

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

# 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

Favorable base effect in 2H for consumption

# Structural Opportunities in China

- Domestic **upgrade** demand -  
Equipment/appliances replacement
  - ✓ Grid and railway
  - ✓ New energy and energy efficient equipment
  - ✓ Healthcare devices
  - ✓ Digitalization
- Import substitution
  - ✓ Semiconductor equipment
  - ✓ Electronics
  - ✓ Machine tools
  - ✓ Control systems
  - ✓ Healthcare
- AI-driven application innovation
  - ✓ Consumer electronics
  - ✓ AIoT
  - ✓ Safety of Smart Drive
  - ✓ Automation
- Consumption/Services
  - ✓ Lifestyle upgrade
  - ✓ Value for money
  - ✓ Industry consolidator
  - ✓ Low tier cities penetration

## Key Drivers – and examples

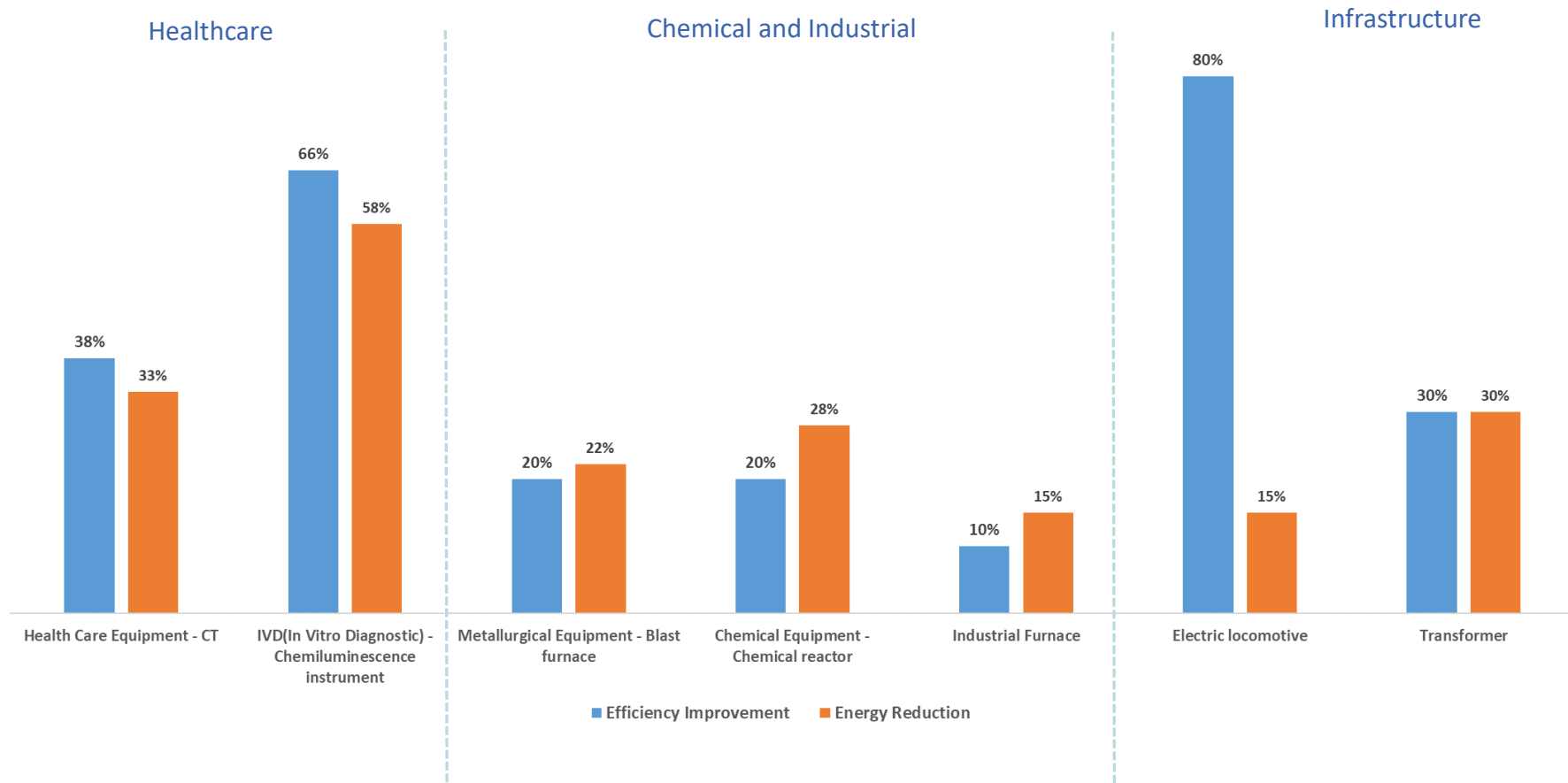
# Market Drivers – Competitiveness Rebalancing

## Two pillar approach to improve productivity

- Infrastructure upgrades - key examples:
  - Equipment replacement lifts productivity and energy efficiency
  - Grid upgrades: massive capex
- Import substitution – key examples:
  - Semiconductor equipment
  - Healthcare equipment: oversold, strong fundamentals

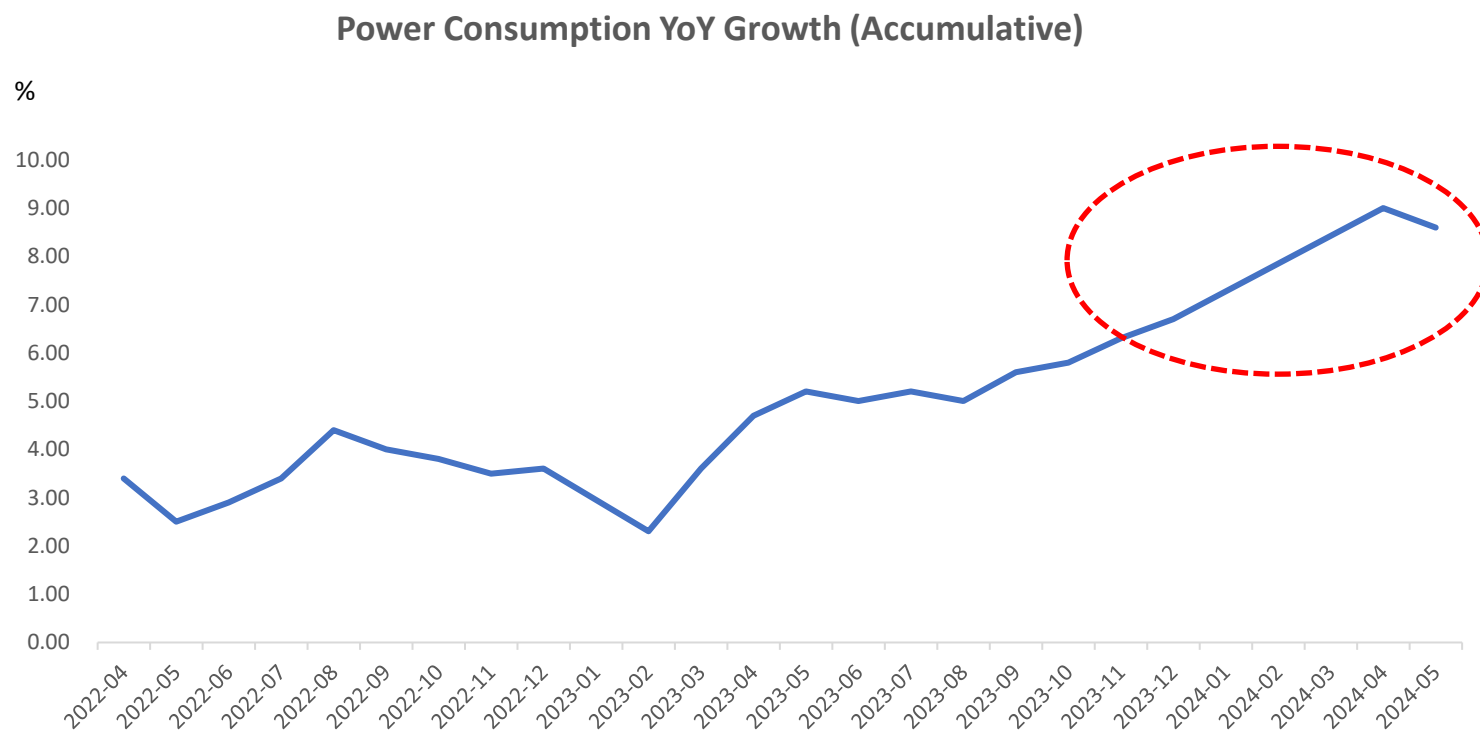
# Equipment Replacement Lifts Productivity and Energy Efficiency

## Efficiency Improvement of New Equipment



Sources: Bin Yuan Capital, Listed Companies

# Electrification, Digitalization, AI Impact on Power Consumption



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

# NARI (600406.SH) - Market Cap USD26.3 billion

## Background:

NARI is the leader of grid automation in China and the first tier player worldwide. The development of new energy and distributed power system will drive demand for grid automation and direct current(DC) upgrade with rising level of requirement.

## The competitiveness of NARI:

### Strong R&D team and accumulation of know-how:

- **Exclusive experience** from State Grid's world-leading projects help NARI with accumulating know-how about higher-barrier technologies like UHVDC or flexible DC transmission
- **Having experts in all kinds of subject areas**, including power electronics and communication engineering, which is especially important for the R&D of power grid equipment
- **Right incentive and training** system for their R&D team to grow up, especially NR Electrical

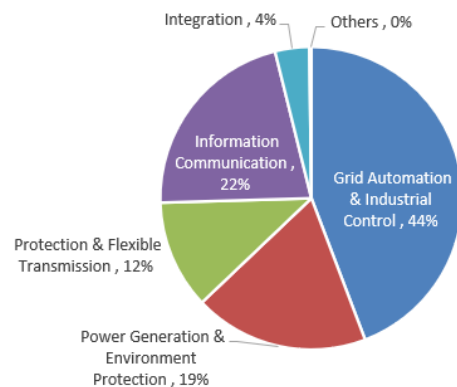
## NARI's Growth Drivers

- **Upgrade demand for smart grid driven** by development of renewable energy and distributed power. Amid the trend of 'getting smarter', the portion of Transmission & Distribution secondary equipment including software and control systems will rise from 26% to 35% during 14th Five-Year-Plan and the investment amount might reach RMB150 billion in 2025
- **Rapid growth of Ultra-High-Voltage Direct Current** for long distance transmission. According to the 14th Five-Year-Plan, investment of UHV transmission in China will be above RMB800 Bn. Technologies like flexible DC with round transmission structure will be the focus of investment. The demand of some key components like converter valves may triple the market size of traditional transmission line.

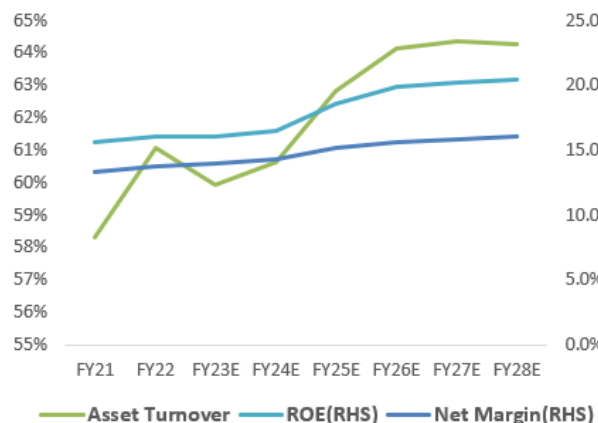
## How to value NARI:

NARI's net income is expected to increase at a CAGR of 17% in the next 5 years. The net income is expected to reach RMB13.1 billion in 2027, given a target PE of 23x as assumption, the target market cap is RMB 301 billion, representing an upside of **75%**.

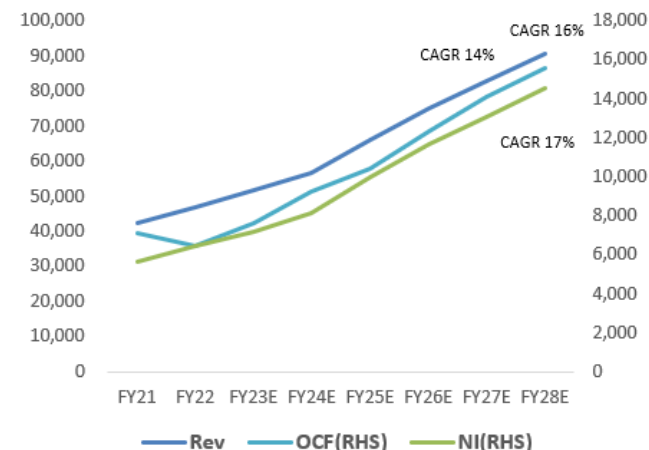
Revenue Breakdown



ROE Trend

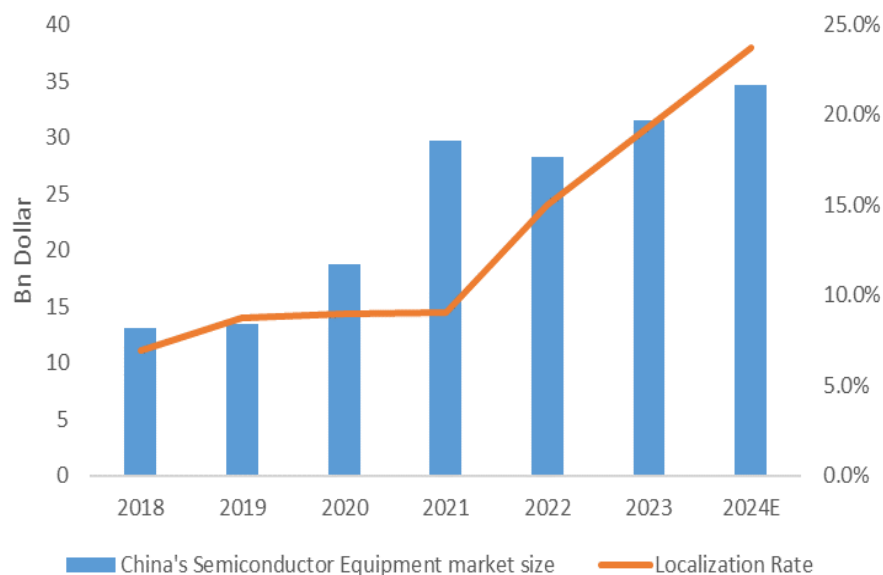


Forecast



# Import Substitution Opportunities in the Semiconductor Area

Semiconductor Equipment Localization Rate and Market Size in China



Sources: Semi, Bin Yuan Capital, Listed Companies

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

# AMEC (688012.SH) – Market Capitalization USD 11.8 Billion

## Background:

- Advanced Micro-Fabrication Equipment Inc. (AMEC) is a leading Chinese semiconductor equipment company that specializes in the R&D, manufacturing, and sales of etching and thin film deposition equipment used in the integrated circuit (IC) manufacturing industry. Established in 2004 and headquartered in Shanghai, China, AMEC has grown to become a significant player in the global semiconductor market.

## The Competitiveness of AMEC:

- International Background and extensive industry experiences:** Many members of AMEC's management and R&D teams have experience working in leading international semiconductor equipment companies, allowing AMEC to keep up with global industry trends and introduce advanced management concepts and technologies.
- Collaborative R&D:** AMEC is the top2 domestic player with a large customer base, empowering the company to conduct R&D based on customers' needs.
- Fast-responsive and high quality services:** AMEC provides quick and reliable supporting services to its customers, maintains good reputation among customers.

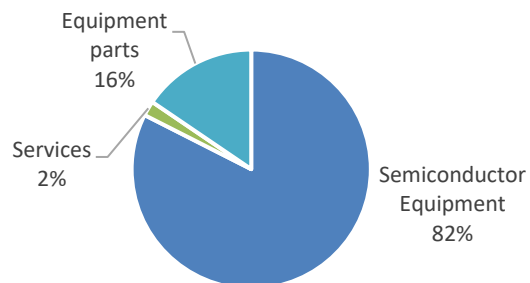
## AMEC's Investment Theme:

- Domestic substitution:** The market size & localization rate of etching and thin film deposition equipment is RMB 55 billion & 19.8% and RMB 53 billion & 14.4%, respectively. We expect AMEC's market share in etching will grow from 8.8% in 2023 to 16% in 2027 and its share in thin film deposition to grow from less than 1% in 2023 to 5% in 2027.
- Capability of extending to other types of equipment:** Apart from etching equipment, AMEC has the ability to R&D thin film deposition and metrology equipment, with market size of US\$ 7.6 billion and US\$ 4.1 billion, respectively.
- Potential access to high end equipment market:** AMEC has the highest potential to develop the most advanced etching equipment, for example, high aspect ratio etching, advanced process (< 7nm) equipment, etc. The market size of high end equipment is around US\$ 6 billion.
- High visibility of earning growth:** New order in Q12024 increased by more than 60%, and we expect the earnings will grow at a CAGR of 28% over the next 5 years.

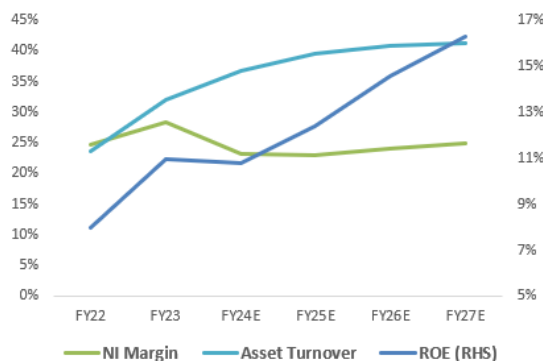
## How to Value AMEC:

- It is expected that the revenue of AMEC will reach RMB 17 billion on its intrinsic growth and the net income will be RMB 4.7 billion in 2027. If at PE 28x, **68%** upside by 2027.

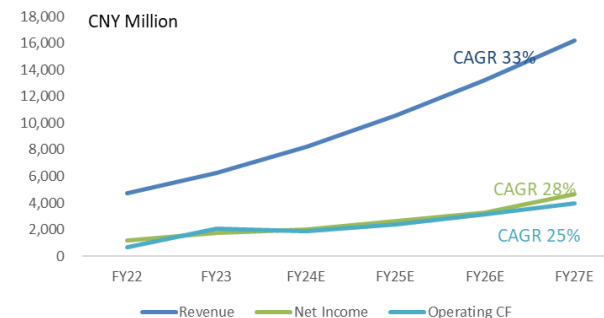
Revenue Breakdown



ROE Trend



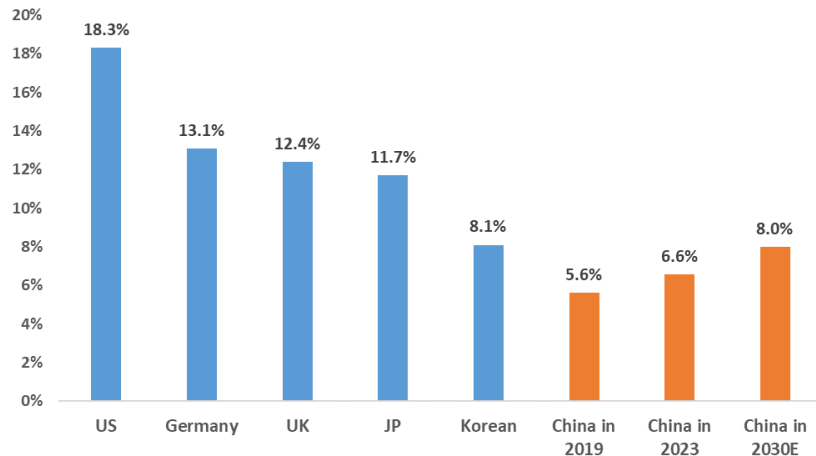
Forecast



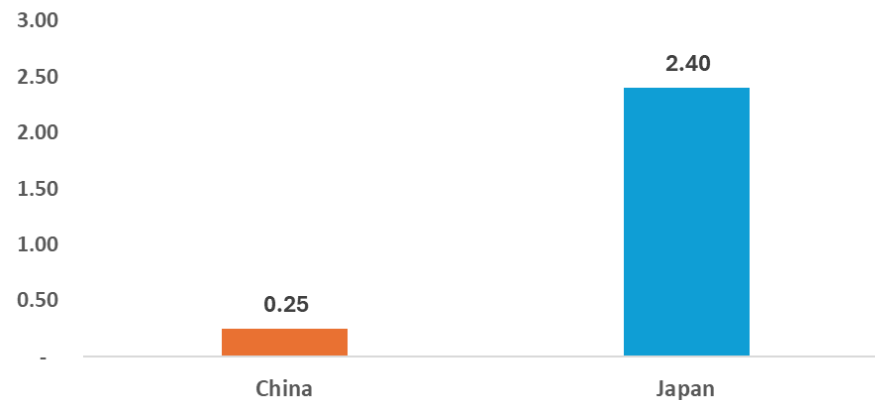
# Huge Space for China's Healthcare

+) Healthcare Equipment: support 'upgrading'

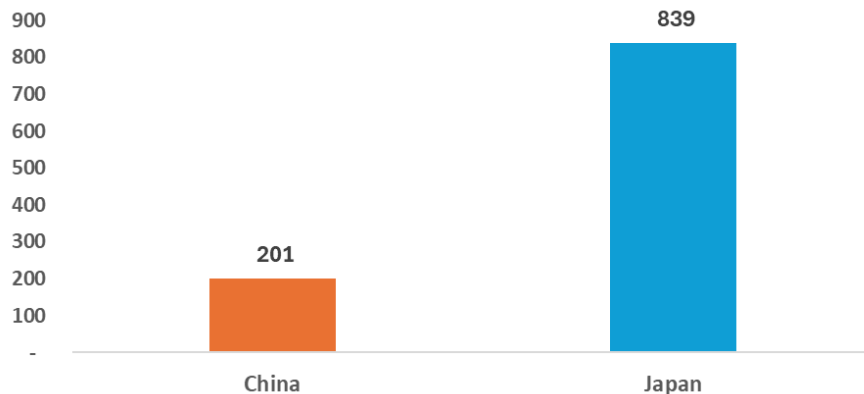
HC Spending/GDP



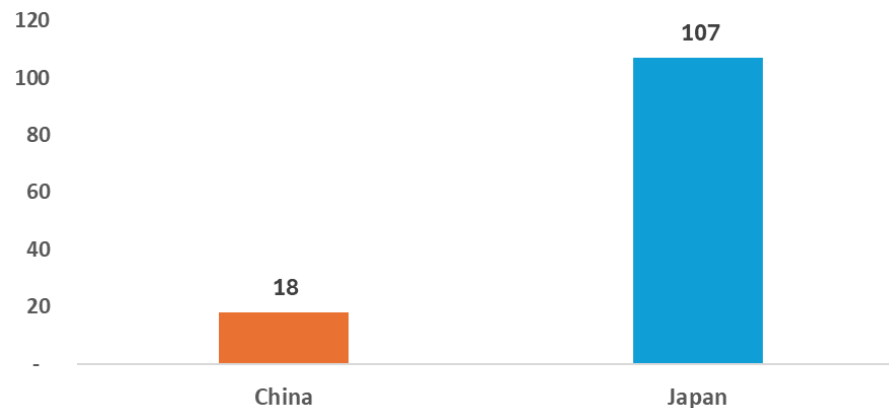
Robotic Surgical per million population



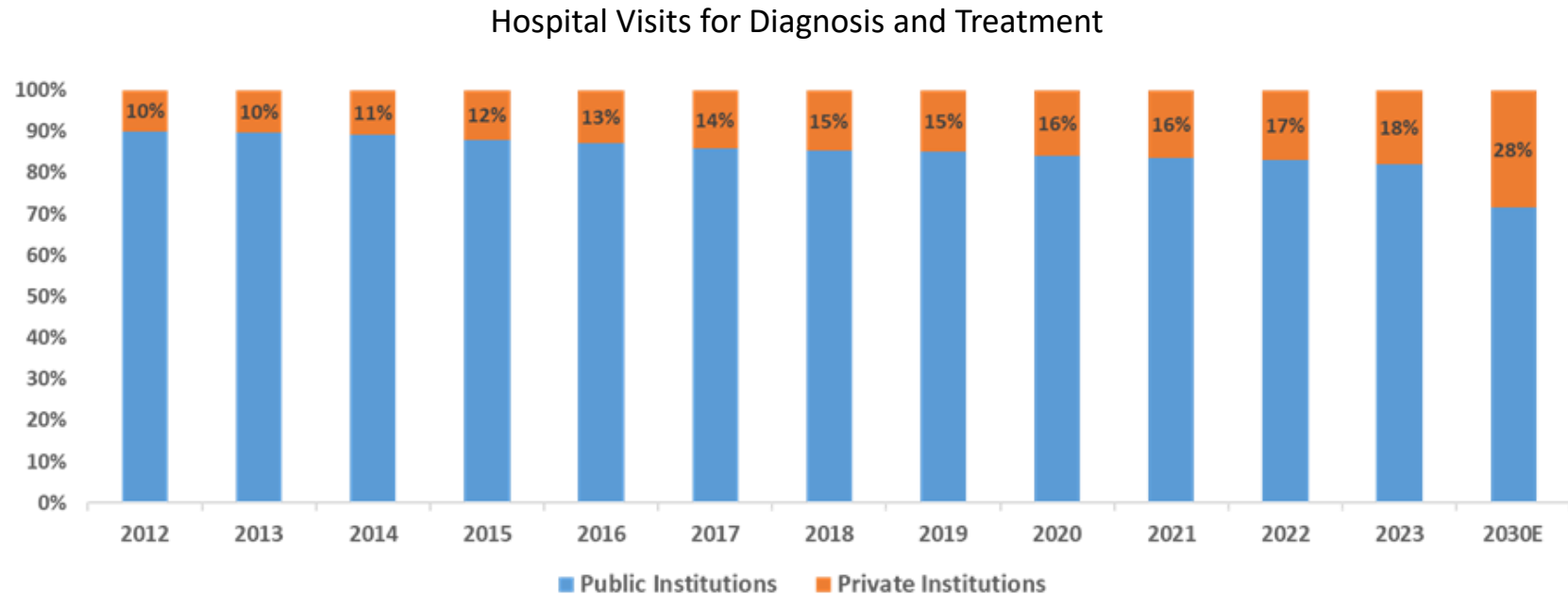
Dentist per million population



CT per million population



# Potential Investment in China's Healthcare



Sources: Wind, Bin Yuan Capital

✓ The total investment reaches 12.5 trillion RMB

Infrastructure investment reaches 5 trillion RMB

Equipment procurement reaches 2.5 trillion RMB (5.5X of equipment market size in 2024)

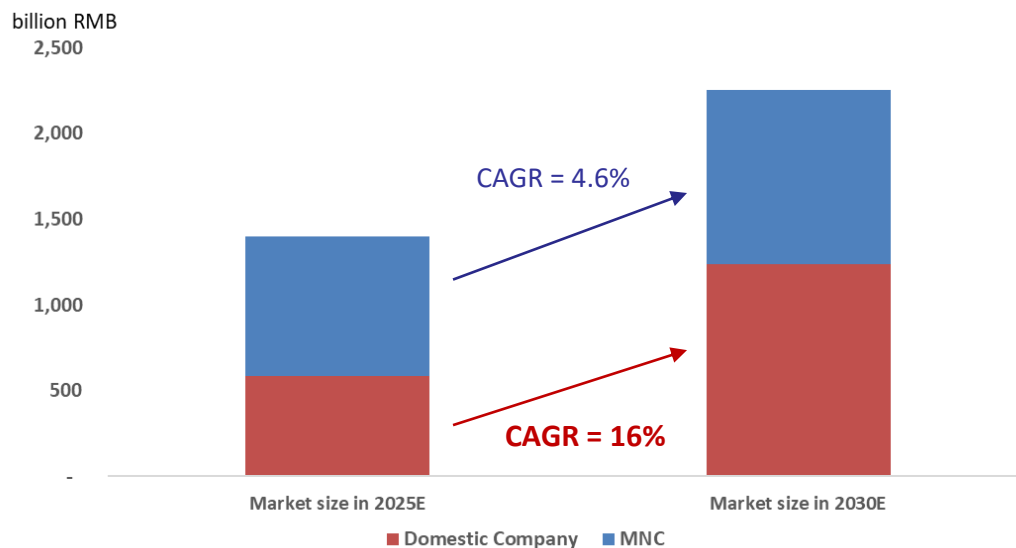
# Replacement Potential



# Import Substitution in Healthcare Equipment & Consumables Continues

Price Differences & Localization Rate

	Price of Imported (thousand RMB)	Price of Domestic (thousand RMB)	Price Gap	Localization Rate
64~Row CT	6,000~15,000	3,000~6,000	2x	18%
320~Row CT	24,000	15,000	1.6x	7%
1.5T MRI	15,000	8,000~9,000	1.7x	29%
3.0T MRI	27,000~48,000	15,000~17,000	2.8x	7%
Laparoscopic Surgical Robot	24,000	9,000~18,000	1.3x	6%
Ultrasound Knife	12	1.4~1.8	6.7x	19%
Chemiluminescent Test Device	300	40-100	3x	24%
Artificial Hip Joint	70	7	10x	59%
Artificial Knee Joint	60	5	12x	44%



✓ The total 2.5 trillion RMB annual market

1.24 trillion RMB for Chinese players

16% CAGR from 2025E to 2030E



# Largest Potential Growth Healthcare Consumption Market

New infrastructure in Healthcare

+

Replacement Potential

+

Import Substitution Potential

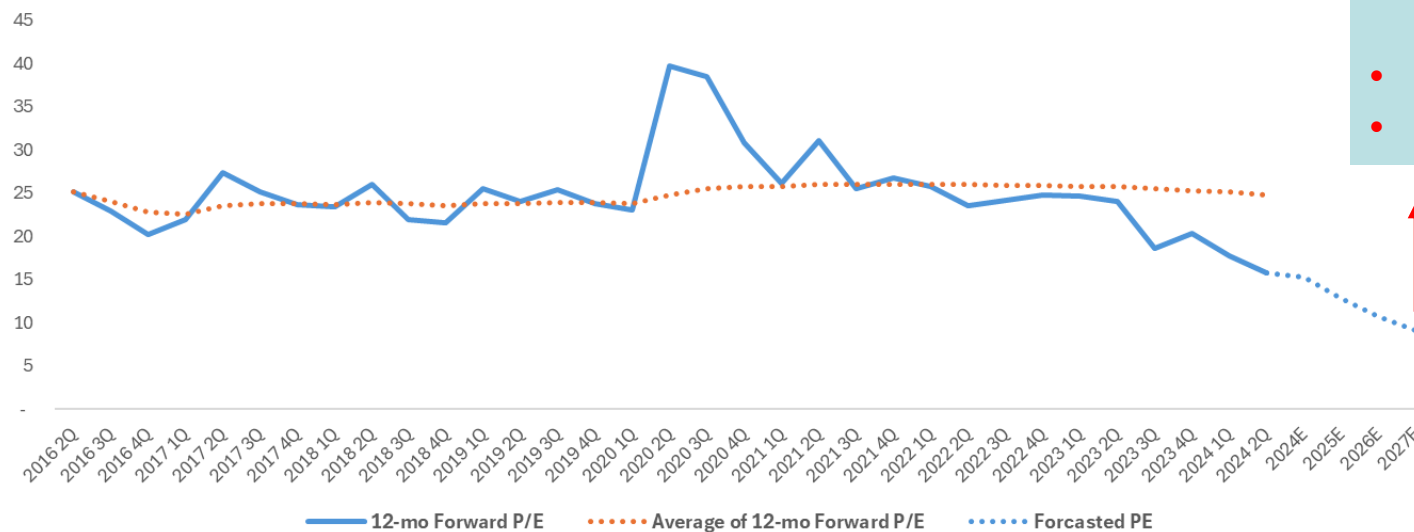
# Healthcare in China very attractively priced

PE of Healthcare Sector



Source: Wind, Bin Yuan Capital

Healthcare Portfolio 12 Month Forward P/E



Expected 12m returns:

- **53%** (most likely)
- **19%** (bear case)

Weighted Average Method  
Source: Wind, Bin Yuan Capital

We believe reversion to the mean will take place over time

# iRAY (688301.SH) - Market Cap USD 2.37 billion

## Background

iRay is a leading designer and manufacturer of key components for X-ray systems that is guided by the development trend of the entire industry chain and is in line with International technology. Its products are widely used in medicine diagnosis and treatment , Industry non-destructive Detection, security inspection and other fields.

## The Competitiveness of iRAY

### Leading technology :

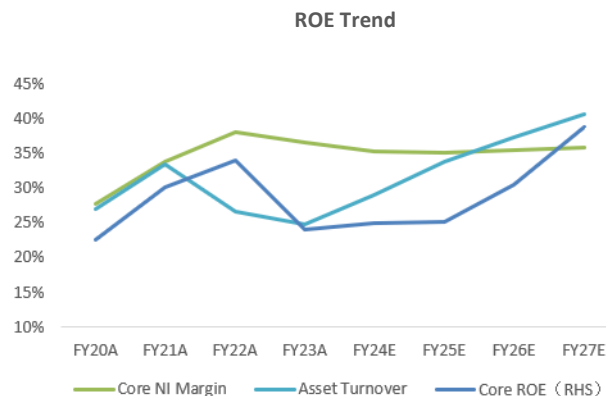
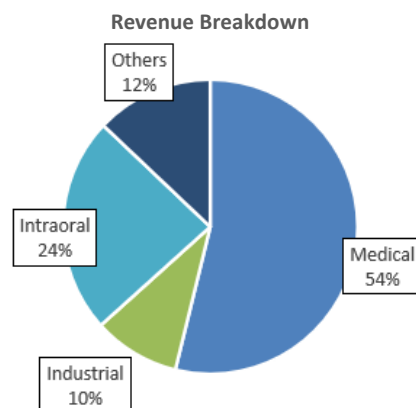
iRay is one of the few global companies that has mastered all sensor manufacturing technologies based on the four major materials of amorphous silicon, IGZO (Indium Gallium Zinc Oxide), CMOS (Complementary Metal-Oxide-Semiconductor) and flexible substrates.

### R&D capabilities and cost advantages:

- iRay's manufacturing cost is only 1/5 of GE and 1/3 of Varex Imaging. This helps the company maintain a very high gross margin of 57% in 2023. In contrast, as the largest independent third-party manufacturer of X-ray detectors, Varex's gross profit margin in the medical field is only 30%.
- continues to explore vertical integration, undertaking the construction of materials and wafers required upstream to ensure the stability of the supply chain.
- Faster R&D respond to new demand

### Strong leadership of founder Mr. Gu :

Dr. Tier Gu founded iRay in 2011. Mr. Gu has leveraged his leadership experience and accumulated network at GE's R&D Centre and Shanghai TianMa Microelectronics to build a very solid and comprehensive team at iRay.



## iRAY's Growth Drivers

**Increasing demand for X-ray related products :** It is estimated that the global digital X-ray detector market will reach \$2.9 billion in 2027, with a CAGR of 6%.

**Extend its application to different downstream:** iRay has been continuously penetrating into various fields, starting from the medical sector and expanding into industries such as industrial and dental applications. In the future, it will explore more downstream applications, including security checks and scientific instruments.

### Continuous product expansion :

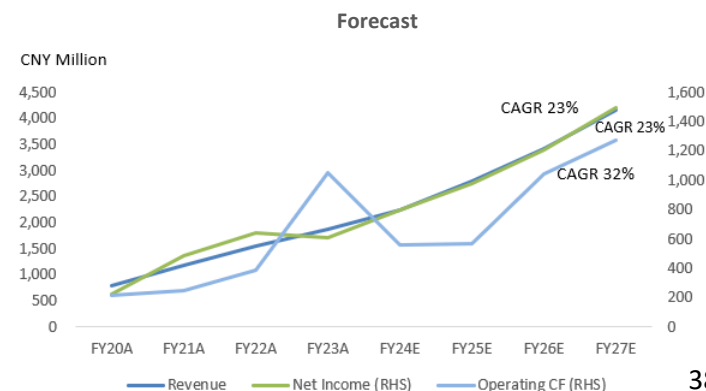
The company's products is expanding from the upstream of DR to the upstream of CT, from detector to other components for X-ray, gaining exclusive domestic substitution dividends.

### Gain market share both domestically and internationally :

Domestic medical imaging companies are pursuing full-chain localization, and iRAY has become an essential link. International companies seek a second supplier to ensure supply chain security, making iRay the top choice. iRay holds a 35% market share in China and a 15% market share globally. The company's goal is to achieve a 50% market share.

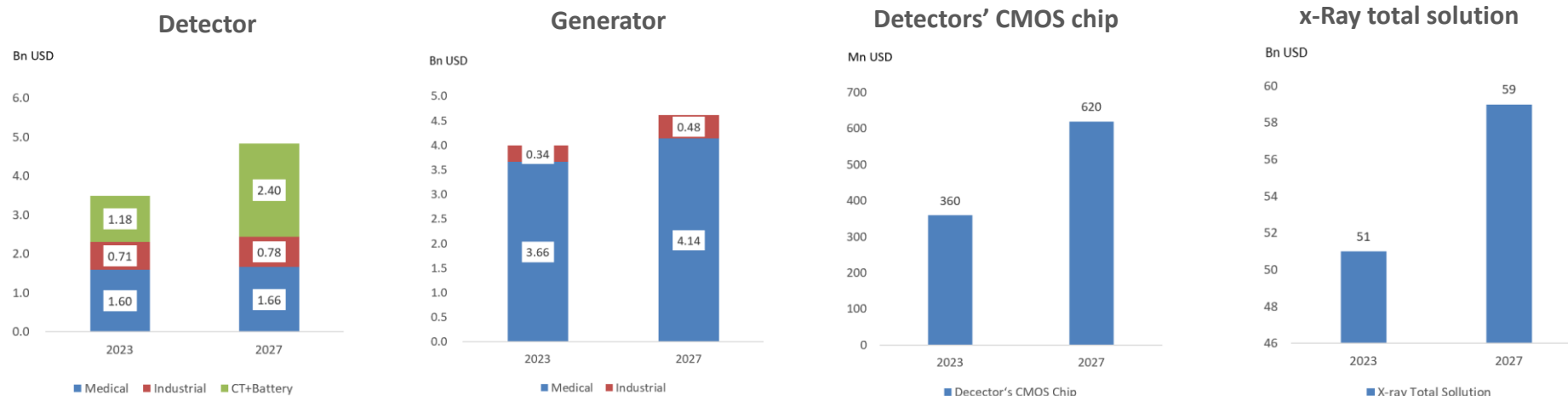
## How to Value iRAY

The domestic ratio of key components for X-ray systems will continue to increase. iRAY's net income is expected to increase at a CAGR of 22% during 2024-2027. The net income is expected to reach RMB 1,475 million in 2027, applying a reasonable PE of 23x given its nature of business model, the fair market cap is 5.89 Bn USD, **103%** upside.



# iRay Technology Growth Potential - Vertical Integration

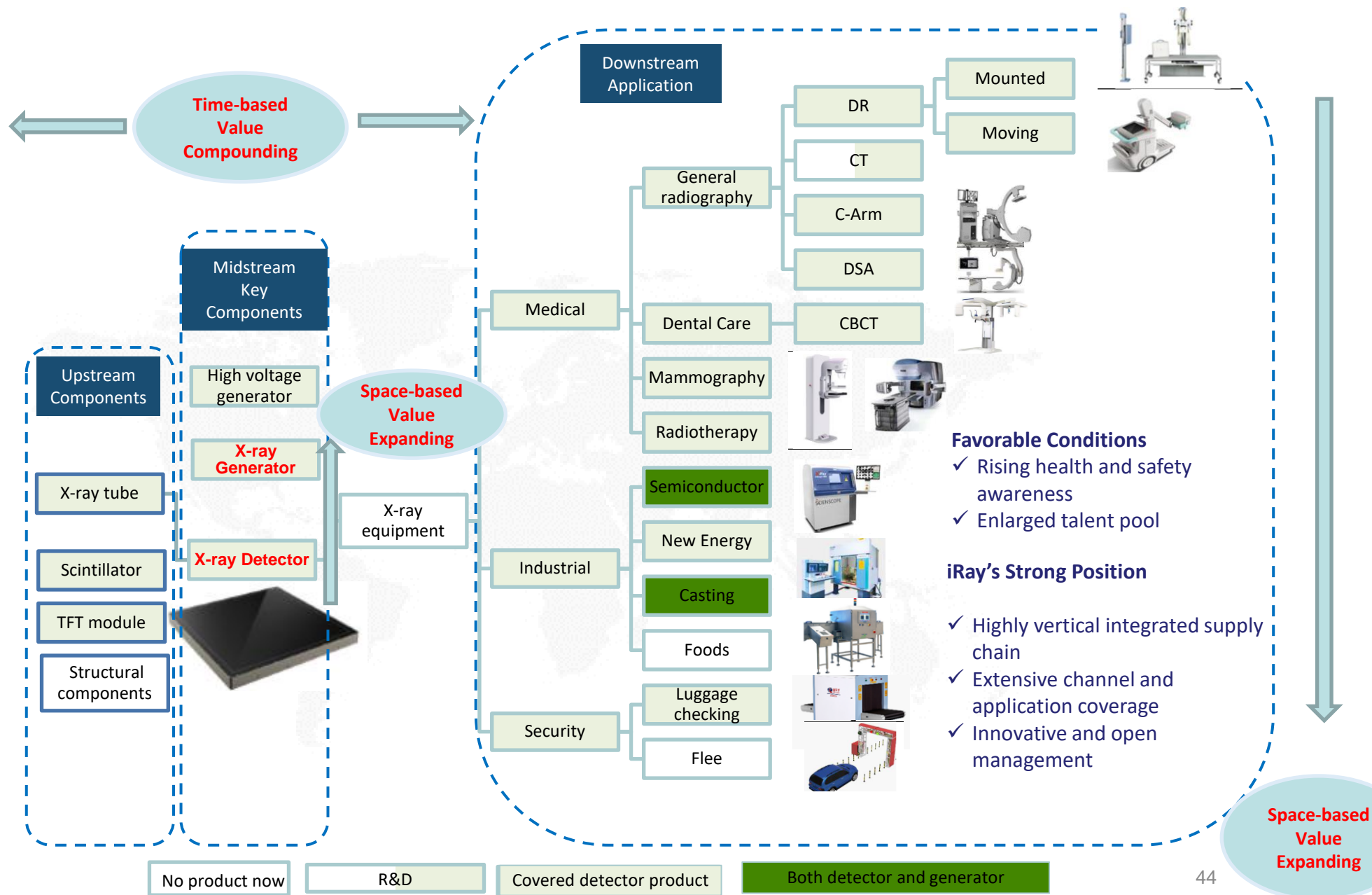
iRay's global addressable market size \$14 billion in 2027E



2027E	Detector	Generator	Detectors' CMOS chip	X-Ray Total solution
Market Size	\$ 4.8 Bn	\$ 4.6 Bn	\$ 620 Mn	\$ 59 Bn
iRay's global market share	8% (amount) 25% (volume)	3%	10% (for self use) + 10% (for sale)	0.2%
iRay's revenue	\$ 370 Mn	\$150 Mn	\$ 60 Mn	\$ 120 Mn

- ✓ \$ 700 million revenue in 2027 (CAGR=27%)
- ✓ \$ 250 million NI in 2027 (CAGR=28%)

# iRay Technology - Value Creation Ecosystem



# Kangji Medical (9997.HK) - Market Cap USD 0.94 billion

## Background

Kangji Medical is China's largest domestic minimally invasive surgical instrument and accessories (MISIA) platform. The company's mission is to provide doctors with high-quality products and services, and is committed to the cause of human health.

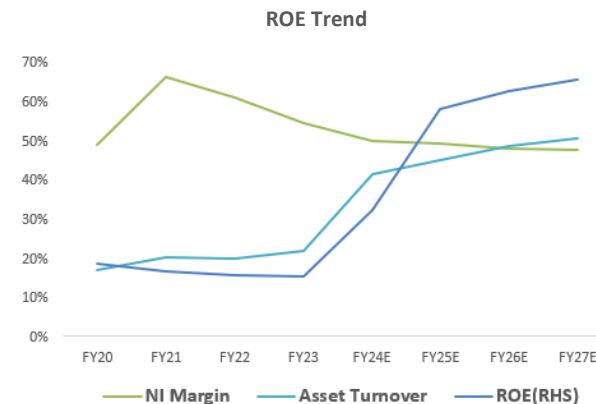
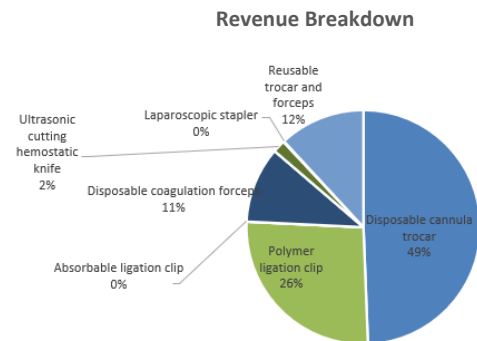
## The Competitiveness of Kangji Medical

### Strong R&D and accumulation of know-how:

- Design and development of MISIA for 20 years; research and development strategy is demand-oriented.
- Actively seek the comments of new product designs and potential uses from doctors and hospitals and solicit feedback. There is an "advisory committee", and active communication channels have been established with hospitals and discipline leaders, which can be jointly developed.
- The R&D strategy is well-defined: it proactively targets products that are currently under the radar of mass market demand, aiming to swiftly establish a dominant presence in the market.
- New products are coming out: ultrasonic cutting hemostatic knives, absorbable ligation clips, and laparoscopic staplers.

### Strong branding name with a quick response service mode

- Kangji is the No.1 leading domestic MISIA company with 4.3% market share in 2023. The company has built strong sales network, with more than 200 independent distributors, and products have covered more than 1,000 "Class-3" hospitals, accounting for more than 70% of hospitals with minimally invasive and minimally invasive surgery capabilities in China.
- The main products have successfully won the bid in many inter-provincial centralized procurement, taking market share from both domestic and global peers.



## Kangji Medical's Growth Drivers

### Increasing demand for surgical operations

- Per capita income levels and per capita health expenditures continue to increase, and the willingness to receive treatment through surgery increases. 2022-2027, Number of surgeries: 31.3 million-53.1 million.

### Increasing demand for minimally invasive surgery

- Compared with open surgery, minimally invasive surgery has obvious advantages for patients and hospitals, which can improve the efficiency of surgery and improve the clinical effect. In 2019, the penetration rate of minimally invasive surgery was 11%, predicted to reach 26% by the year 2027.

### Increasing use of single-use products

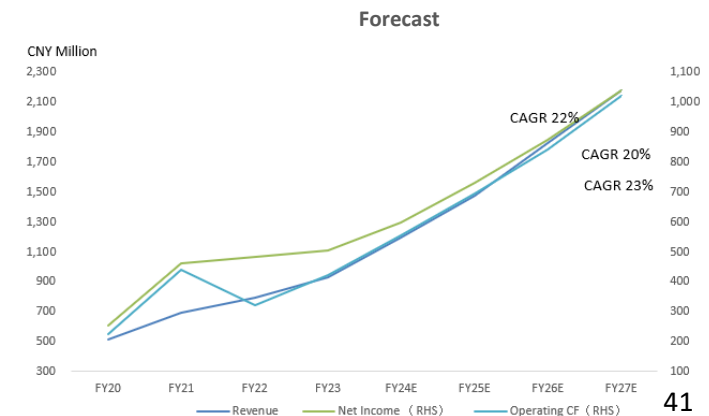
- To avoid intraoperative risks, the need for surgical equipment has shifted from re-use of single-use devices. 2019, 44.8%; expected 2027, 74%.

### Adequate space for import substitution

- Centralized procurement and medical insurance payment reform: accelerating import substitution and increasing industry concentration, intensifying market integration. The current domestication rate of MISIA is below 10%, with expectations to reach over 30% by the year 2027.

## How to Value Kangji Medical

The penetration ratio of minimally invasive surgery will continue to increase, from 44% in 2022 to 52% in 2027. Kangji Medical's net income is expected to increase at a CAGR of 20% during 2022-2027. The net income is expected to reach RMB 1040 million in 2027, applying a reasonable PE of 12x given its nature of business model, the fair market cap is 1.72 Bn USD, **124%** upside. The future dividend yield will continue to be maintained above 5%



## Wrap Up

- The market has fully discounted the most bearish views on China
- And... there are a lot of positive developments
- We see a turnaround this year
- Portfolio quality & earnings/valuation as attractive as we have seen



*Investing for Better Life*



## Q&A



*Investing for Better Life*

Signatory of:



**RACE TO ZERO**



## Appendix

# Very attractive Equity Market for Long-term Local Investors

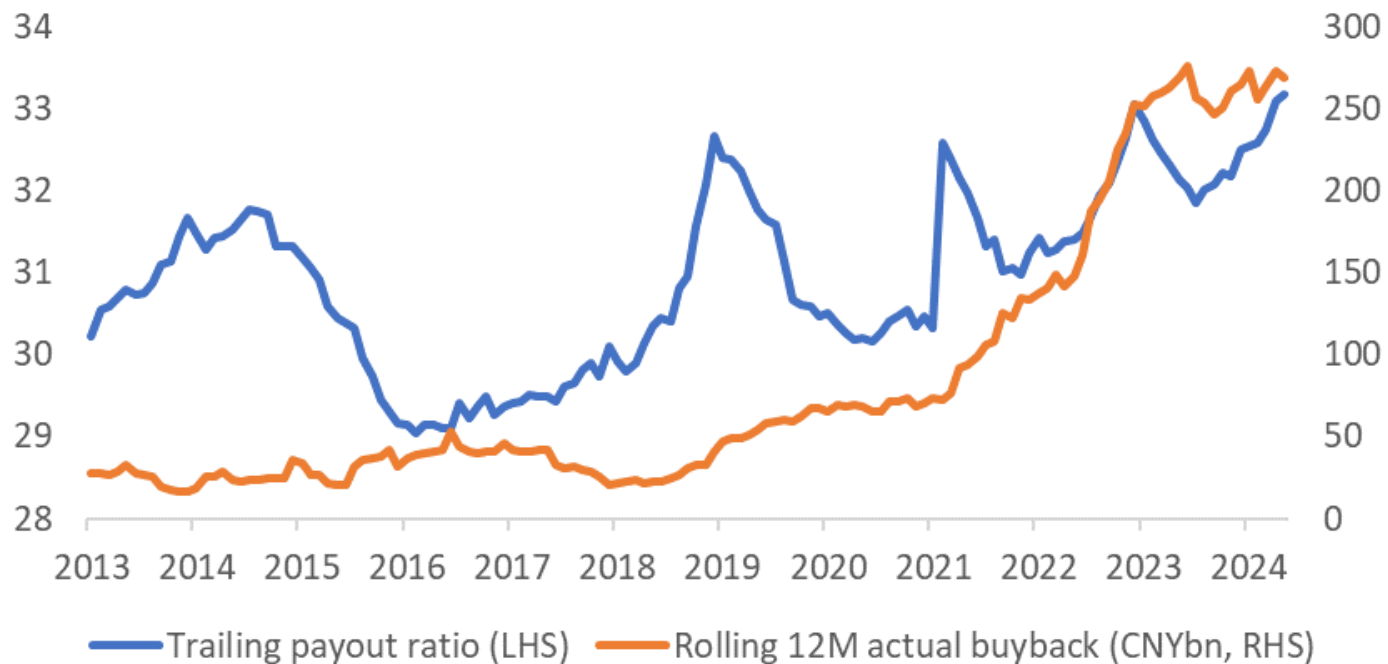
CSI 300 Index Risk Premium\* vs. CSI 300 Index Performance



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

Sources: Bin Yuan Capital, Wind

## Share Buybacks & Dividends have increased significantly

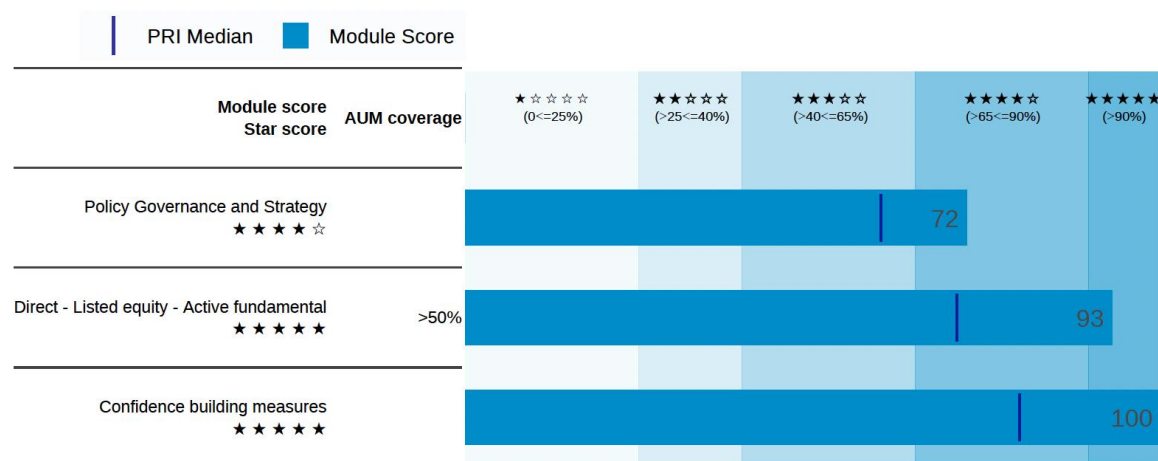


Source: Bloomberg, FactSet, UBS

# Rising ESG Awareness - Domestically and Overseas

- Integral to our Research Process
- On the ground engagement working:
  - ✓ Over **80%** of our holdings released independent ESG reports
  - ✓ Only 39% of the A share market and 70% of the H share market
- Well managed private companies focused, but those SOEs we invest in:
  - ✓ Pass our rigorous ESG criteria
  - ✓ Improving governance and enhanced operational efficiency
  - ✓ Average ROE >**15%**, dividend yield close to **4%** and R&D % of sales over **5%** (technology names)
- ✓ Strong rating UN PRI report (December 2023)

## SUMMARY SCORECARD



# Disclosure

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The MSCI China Index is a free-float weighted equity index. It was developed with a base value of 100 as of December 31, 1992.

The MSCI All China Index is a free float weighted equity index, capturing large/mid cap representation across all China securities listed in China, Hong Kong, US, and Singapore. The index was developed with a base value of 1000 as of May 30, 2008. The index has been discontinued as of November 27, 2019.

The MSCI China All Shares Index is a free float weighted equity index, based on the concept of the integrated MSCI China equity universe with China A-shares included. It was developed with a base value of 1000 as of November 25, 2008.

The MSCI China A Index is a free-float weighted equity index, designed to measure performance of China A share securities listed on either the Shanghai or Shenzhen Stock Exchanges. The index was developed with a base value of 1000 as of November 30, 2004.

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.