

February 2019: China, through the US Looking Glass

Having just returned from a fortnight in the US, we were struck by the headlines relating to China. Not so much the ones about the continuing Sino/US trade friction, for these have been around for months, but rather those focusing on the perceived slowdown in China.

On several occasions during the trip, the Wall Street Journal drew attention to slowing sales at US companies with exposure to the market, with some of these firms struggling with weaker demand from export focused Chinese manufacturers. A double page spread cited the fall in sales experienced by a US company that manufactures batteries for forklift trucks, as a prime example of this trend.

However, as our investment approach concentrates solely on the Chinese consumer, what Chinese exporters are doing is not our number one concern. Admittedly, the fall in car sales at GM is of more relevance to our take on things, but there are some specific reasons why auto sales have been soft (the removal of incentives by the government: see our piece on China - [December 2018: Our View from China](#)). Meanwhile Proctor & Gamble, Estee Lauder, Starbucks, Tiffany, LVMH, L'Oreal, Nike, Fast Retailing and Sketchers to name a few, all highlighted China as an area of strength in Q4, particularly in e-commerce sales.

On our final day in the US, we noticed Nestle announced its results with pet food and KitKats apparently flying off the shelves in China, adding the Swiss giant's name to the list of companies for whom the Chinese consumer is very definitely alive and well.

But as you know, our approach is to invest in local champions (North Americans investors are more than capable of buying shares for themselves in US companies and global multinationals with some business in China) and here the picture remains very robust. In fact, one of our investments, Baozun (end-to-end e-commerce solutions), counts many of those listed above as clients and will be enjoying this strength.

Two of the major holidays in China made for interesting reading. Last November, year-over-year (YoY) sales growth on Singles Day was down, but still up a very healthy 27%. Chinese New Year saw more tourists visit the hotspots of Macau, up 27%, and Hong Kong up 36%. So, while retail sales growth may be softening somewhat on a YoY basis, we read it more as a change in consumption behaviour. Services, experiences and convenience are superseding merchandise as the consumption driver, as exemplified by strong results from Huazhu (hotels), China International Travel (tourism), and Alibaba (e-commerce) in January.

"Premiumization" (the upgrading of goods and services purchased as incomes and aspirations grow) is also in evidence as shown by companies such as Robam (extractors/fancy range hoods), Mengniu and Health & Happiness (both dairy). So too consumption growth in China's second and third tier cities, as experienced by our holding Greentree (hotels).

We spent a lot of time testing our forecasts in China and elsewhere in the Emerging Markets universe over the past year. With one or two exceptions, the local champions in which we invest for our shareholders remain in a very robust position with the result that our portfolio is trading on one of the lowest price/earnings to growth ratio we have seen in the last seven years.

Of course, cheap stocks can always get cheaper if sentiment remains toxic. Whilst the headlines in the US do not suggest any boost to sentiment, evidence on the ground looks to be turning up, and we would argue that the companies in our portfolio offer a very good medium-term proposition.

Mark Martyrossian, Chief Executive Officer



Mark has been involved with Asian equities in a number of capacities since 1987. Initially in equity sales at Hoare Govett he then established and managed a trading book at Crosby Securities in Hong Kong before initiating a corporate finance business focused primarily on China. After the sale of Crosby Securities, he joined Warburgs with his China team.

On his return to London Mark founded a FCA registered fund management business which in 2003 started managing a number of Asian equity funds. He managed that business until 2016 when he sold his interest. Having known Andrew Dalrymple for 20 years and worked with him in Hong Kong, Mark joined Aubrey in 2017 as CEO.

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