What are the investible themes in China?

Key Takeaways

- Opportunities have emerged in China's key long-term trends of technological advancement, broadening consumption and carbon neutrality.
- Growing domestic demand and import substitution continue to accelerate these structural changes.
- China is also increasing its adoption of electric vehicles (EV) and expanding its capabilities across the renewable energy supply chain.
- Chinese policy should be shifting from de-risk to pro-growth. We recommend that investors take a longer term view, despite short term volatility.

Structural trends in China have continued to evolve in the post-pandemic world. The three main trends that we think are the most transformative are domestic technological advancement, broadening consumption and carbon neutrality. We think these long-term developments are likely to take hold even as economic growth in China stabilises. Additionally, the Chinese government is continuing to introduce new pro-growth policies while deepening reform measures that support these trends.

1. Technology:

Tech has gone beyond smart phones and eCommerce in China. Artificial intelligence and cloud computing are becoming a part of everyday life. China's tech industry is embracing an inward economic pivot, and looking to make breakthroughs in core technologies to reduce its reliance on imported software and hardware.

Semiconductor manufacturing:

The global semiconductor shortage has fast-tracked the drive to improve China's onshore capabilities. Semiconductor and other hardware industries have benefitted from the Chinese government's drive for import substitution, while the relentless trend towards digitalisation and now the electrification of many industries has created even more demand.

24% by 2030

China's share of global semiconductor manufacturing capacity, the largest of any single country.[1]

1. VLSI Research projections; SEMI second quarter 2020 update; Boston Consulting Group analysis.

Stock examples mentioned are held in the JPMorgan Greater China Fund as at 18/03/2022.

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Software application:

Software companies are also benefitting from the digitalisation trend and the government's support for the creation of domestic champions. Cybersecurity, for example, currently accounts for a relatively small portion of Chinese corporate spending, but could gradually take up a larger share in the overall tech spend.

~RMB
110 billion
in 2024

China's cybersecurity market size is expected to increase by more than four times from about RMB20 billion in 2014.[2]

Leading in automation:

Industrial automation is another area of structural growth as Chinese companies are increasingly concerned about labour supply and labour cost, as a "greying" workforce and rising wages make workers more expensive.

45%

China's share of the global robotics market in 2020, when over 160,000 robot shipments were made.[3]

BOE Tech

- Leading TFT-LCD display panel maker in China with over 50% market share.
- BOE is an important supplier to top TV brands including Samsung, LG and Sony. We expect it will continue to grow market share both domestically and internationally by aggressively building out leading edge TFT-LCD fabs, the supply chain, and investing in AMOLED technology and capacity, with exceptional support and resources from the State.
- Supply-demand dynamic is favourable thanks to overall supply discipline and increasing competitiveness of tier one players under the current (and expected prolonged) integrated circuit chip shortage.

[2] Bernstein analysis, China Association of Automobile Manufacturers, Morgan Stanley, company data. J.P. Morgan Asset Management. Data as of end-May 2019.
[3] International Federation of Robotics. Data as of end-May 2019.

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2. Consumption:

As the Chinese middle class continues to expand, demanding better and healthier products, companies capturing premiumisation and industry consolidation opportunities can compound growth for many years to come.

'Premiumisation'

Wealth accumulation, the resulting lifestyle upgrades and greater demand for quality products and services have created a constructive backdrop for industry leaders in consumer staples such as dairy products, snacks and condiments. China's consumption 'premiumisation' is gradually driving growth.

Up >2x

Condiments market size in China is estimated to increase to about RMB300 billion in 2023 from RMB128 billion in 2013.[4]

Online entertainment:

Chinese consumers across generations are increasingly shifting to online entertainment services, aided by higher adoption of broadband services. Wireless, or accessing the internet through mobile devices, is also gaining traction. We believe demand for 'live' streaming and online entertainment platforms could grow rapidly.

US$ 14.7 billion in revenue by 2023

China's over-the-top video market is expected to maintain a compound annual growth rate (CAGR) of 20% in the five years from 2018, increasing revenue from US$5.8 billion.[5]

Longer-term healthcare demand:

Healthcare spending will also likely continue to increase, and we see attractive investment opportunities in areas such as medical equipment.

7.9%

China's estimated healthcare expenditure as percentage of GDP in 2026, versus 6.2% a decade ago.[6]

Anta Sports Products

- A leading domestic sportswear brand and a national champion in China. It was the official sportswear partner of the Beijing Winter Olympics, providing uniforms and equipment for the Winter Olympics staff.
- Anta adopts a multi-brand strategy (e.g. FILA, Descente) with store opening of new brands as the key growth drivers, while its traditional ANTA brand generates good cash flows. Over the years, it has been increasing brand recognition, investing in R&D as well as introducing various operational upgrades.
- It fits perfectly into the patriot theme, especially among the young generation who has grown up in an environment that domestic products and brands started to carry more fashion elements.

4. The World Bank, HSBC, company data. J.P. Morgan Asset Management. Data as of end-May 2019.
5. "China Entertainment & Media Outlook 2019-2023", PWC, May 2019.
6. PWC, Frost & Sullivan, company data. J.P. Morgan Asset Management. Data as of end-May 2019.

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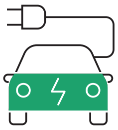
3. Energy transition and carbon-neutral related sectors:

This should remain one of the core investment themes given the strong commitment from the Chinese government. We expect rising electric vehicle (EV) penetration, stricter emission standards and control, faster adoption of renewable energy to continue in the next few years which should support revenue and earnings growth of related segments.

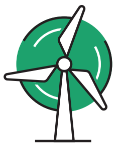


Clean energy application:

China is moving towards greater consumption of cleaner energy, and has become a leader in the use and manufacturing of electric vehicles. EV sales are expected to grow further on the back of supportive government policies, and increasing demand for environmental-friendly vehicles.

19%

Annual new energy vehicle sales in China is estimated to reach 5.9 million units in 2025 with a penetration of 19%, up from 1% in 2015.[7]



Renewable energy:

China is a clear global leader in a number of raw materials or components required for the generation of renewable energy, such as polysilicon, solar glass and water. This makes Chinese manufacturers well positioned for the global decarbonisation trend.

90%+

China's market share in solar glass and wafer production and 80% share of the polysilicon market.[8]

China Yangtze Power

- One of the largest hydro-power generating companies in China.
- Globally, China has one of the most abundant theoretical and technically exploitable hydropower reserve, thanks to its high topographical differences (due to Tibetan Plateau) and the huge vertical gap in rivers. Given its clean and renewable nature, hydropower enjoys a higher priority of dispatch over coal-fired power and nuclear power i.e. it will continue to be a critical green energy source in China.
- The key growth driver for hydropower companies is the addition of installed capacity and Yangtze continues to increase its capacity through acquisition of other hydro-power assets.

[7] Bernstein analysis, China Association of Automobile Manufacturers, Morgan Stanley, company data. J.P. Morgan Asset Management. Data as of end-May 2019.
[8] WIND, J.P. Morgan Asset Management, data as of September 2021.

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Capturing robust opportunities in Chinese equities with a professional team

China has entered a new economic cycle with opportunities evolving from several long-term structural growth trends. China's onshore equity markets offer a wider set of opportunities including more innovative ideas as compared with the offshore market. Nonetheless, this would also mean a prudent approach is needed to capture quality opportunities.

Leveraging our on-the-ground research which focuses on company fundamentals, our investment professionals integrate bottom-up stock selection with structural themes, seeking to capture opportunities with long-term growth potential.

Local expertise

1,600+

Company meetings annually[9]

In-depth coverage

590+

Greater China stocks, of which over 270 are A-Shares[9]

Dedicated Investment Team

20+

Investment professionals dedicated for Greater China Team[9]

[9] J.P. Morgan Asset Management as of 16.03.2022.

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