The China Rambler

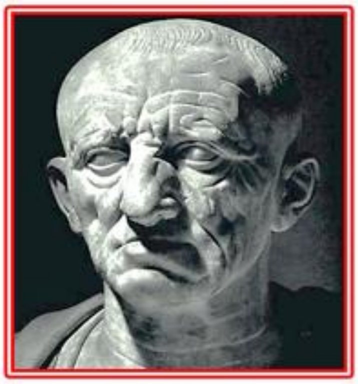
An Occasional Letter On Topics Of Interest To China Investors

Issue #7. *"Seek Truth From Facts"* **May 1st, 2025**

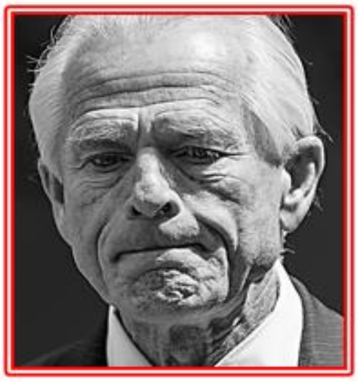
In this edition: How the war-mongering of a long-dead Roman chimes with the U.S.'s China policy; and what China's leadership should do about it. Topsports, (#06110), a victim of forces beyond their control and why cash "..gives me pleasure all the time.".

Sina Delenda Est

Rome, who'd fought two successful wars against Carthage, was persuaded to have a third and final go in 149~6 BC in part by relentless argument from Marcus Porcius Cato, or Cato the Elder. Despite Carthage having been de-fanged in earlier conflicts it was their persistent prosperity which is said to have angered Cato. In order to gain support for another campaign he took to ending all public speeches, on-topic or not, with 'Carthago delenda est' or 'Carthage must be destroyed'.



Ron Vara aka
Peter Navarro



Marcus Porcius Cato aka
Cato the Elder

Keep Calm and Carry On aka
Endure and Bide Your Time

In a 2011 book 'Death by China' Mr. Peter Navarro, now a senior White House advisor described the U.S. as "..a heavily armed, totalitarian regime intent on regional hegemony and bent on global domination". [My bad, that was China]. To bolster claims he enlisted the help of a fictional 'Ron Vara' and, like Cato, has pursued a relentless anti-crusade for many years. His, and many others' China-hating seems to have now become a front-and-centre pillar of U.S. foreign policy.

Last month gloves came off. From the Vice President's characterization of Chinese as 'peasants' to the Presidents' claim China and Vietnam were colluding to 'screw' the U.S. the agenda was laid bare; China must be destroyed.

Whilst pledging to "fight to the end" China's leaders seem to be, for the most part, keeping calm and carrying on. The world is forever changed though and that, as the U.S. President might have said some time ago, is SAD!

Believe in China, Believe in Tomorrow

At a meeting at the end of March President Xi met investors and told them walking with China was to walk with opportunities[1]. Moreover, **to believe in China was to believe in tomorrow[2]**. [[1]与中国同行就是与机遇同行, yǔ zhōng guó tóng háng jiùshì yǔ jīyù tóngxíng. [2]相信中国就是相信明天, xiāngxìn zhōngguó jiùshì xiāngxìn míngtiān]

The 'believe in China' line was repurposed in articles in the vernacular and English language China press and a welcome, hopeful riposte to the ugly and, since gloves are off let's call a spade a spade, racist tone that characterized criticism from the U.S. last month.

That the U.S. President is a proud vulgarian is a fact of life; but to use the word 'screw' (the barely-polite euphemism for f**k) in the context of international relations and then to hear Mr. J.D. Vance's 'peasants' reference (neither walked back nor apologized for) revealed deeply rooted misconceptions, prejudice and bald ignorance. To flaunt positions so poorly informed and reasoned, and so crudely, would be unacceptable in a high-school debate; to listen to world leaders doing this was beyond disappointing.

Most agree on the absurdity of the U.S.'s tariff tangle and even reflexively negative China pundits acknowledge the tricky position the U.S. has boxed itself into in this regard. A good example, the cartoon on the right is from The Economist magazine, never a big China fan (KAL, 10/4).

But to call out foolishness is not to remedy it.

It's not possible to reason someone out of a position they haven't reasoned themselves into. As a result, the die is now cast and a United States that's institutionally predisposed to curbing China's progress is a reality we'll have to accept for a long time.

What should China's leaders do? The good news to date seems to be what they're *not doing* and that's trying to fight fire with fire. The response, and the one likely to continue, has been one of reserve and firm resolve. Wolf-Warriors have been muzzled (mostly), and the citizenry seem to be supportive of this measured determination.

It's been noted 'America will always do the right thing, after they've exhausted all the alternatives', and the contradictions of current U.S. policy will force a course change eventually. In the meantime, China will press on and the powerful centripetalism of its self-sustaining economy will underpin this momentum.

Walk with the ignorant, the angry and the uninformed if you wish. I prefer to walk with opportunity and a belief in tomorrow; and that walk is **presently with China.**

Stockwatch: Topsports #06110

Summary of a recent closer look

Basically: (All historic) Market cap.: U$2.5bn, P/E: 8x, Yield: 12.3%, P/B: 1.8x. Avg. daily T/O (3m) 34m shares. **Business: sports apparel retailing (mainly Nike and Adidas).**

In time this may become a text-book study of how a PE/VC firm takes on a company, plumps it up for an IPO and subsequently manages the almost-inevitable post-IPO decline.

The PE/VC here was/is Hillhouse who acquired the business via a take-private deal for then troubled shoe retailer Belle in 2017. This company was listed at H$8.50 in 2019.

Hillhouse sold a block representing around 4.5% of the company in June 2020 for H$10.50 but since then appear not to have sold more and their stake remains a little over 55%.

In the last Annual Report there are 24-references to an 'omni-channel' business but the reality is nearly 86% of sales come from only two brands, Nike (NKE) and Adidas (ADDYY).

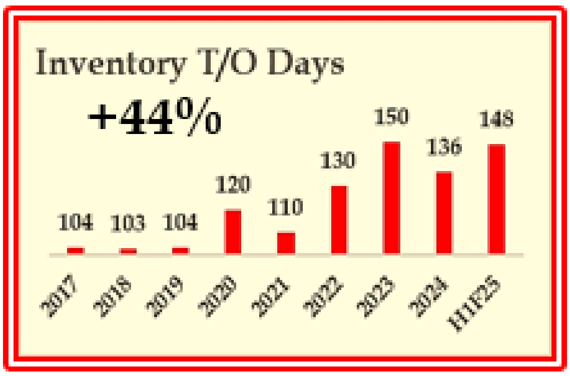
The company ***IS*** well managed, which is why investors/analysts like it. Dividend policy is clear and payouts generous. Metrics under their control also all show well.

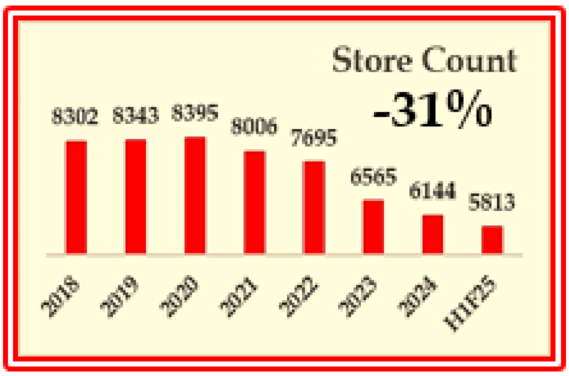
Market share in a report commissioned by the company for their IPO was 15.9% in 2018 but has fallen, according to an independent research report from 2023, to just under 8%.

Not to like: The 'well-managed' halo is an irrelevance in light of problems in China's retail sector and very specific problems at their top brands. All beyond their control.

To like: Hillhouse are still at the helm and can be trusted to do their best to right this ship. This is a very public problem so I've no doubt they'll have their A-team on deck.

Would I buy them? No, I can't fix a bead on future earnings. They put out a profit warning last September ahead of interim results (Feb. Y/E, so ignore P/E and Yield #s above) and final results at the end of May will show a significant revenue fall. Moreover, for obvious reasons I don't want exposure to foreign brands in China now, or in the future.





How's My Investing?

Performance summary, review of recent trading etcetera

April Performance:	**-2.3%**
Performance Since Inception (Nov. '24):	**+0.5%**
Cash Percentage of Portfolio:	**25%**

Cato-like I've wanged on about risks in overseas markets for months and meant the U.S. specifically. In April the S+P-500 Index finished virtually unchanged and is down 5.3% for the year. The NASDAQ Composite Index rose 1% over the month and is down 9.5% for the year; these are not the corrections we're looking for.

Valuations remain at absurd levels for many U.S. stocks and a glaring example is Tesla (TSLA). The stock is down 26% year to date and that might seem like quite a re-pricing, until we consider what a 'correct' price might be. Let's have a go at working that out.

First, we'll start with an estimate of a reasonable earnings multiple for an EV company operating in a cutthroat market run by a peripatetic founder. 10x? Too cheeky. 15x? Better. 20x? Too high, but let's be kind. Next, let's consider a forecast for Earnings Per Share (EPS) for 2025. Should the number be, a) higher than 2024, b) the same, or c) lower? Let's go nuts and say, 'the same'. The company made an EPS of U$2.05 in 2024 so the kinder-than-kind target price would therefore be 20x U$2.05 or U$41.00. As the stock closed on April 30th at U$282.16, 590% higher, it **remains vulnerable to further and very significant downward re-pricing**; and there are many other companies listed in the U.S. at similar risk.

I didn't have much of a month. Nor have I had, so far, much of a year. My high cash balance continues to be a comfort, and I'm pleased my stock picks are all wholly-domestic-China-consumption plays. Ahead lies the dividend paying season and as these roll in I'll add them to the cash-pile. A society hostess once famously remarked 'You can never be too rich or too thin'. I'd add, '.. and you can never have too much cash in uncertain times!'.

The last few months have been tiring but with over a quarter of my assets in cash and more on the way I'm sleeping well. As the month closed I was reminded of the following verse.

Fatigue

Hilaire Belloc (1870~1953)

I'm tired of Love: I'm still more tired of Rhyme.
But Money[3] gives me pleasure all the time.

[[3]Cash and dividends in my case!]

Datawatch

Key Releases In The Last Month

Two 🙁 Two 😐 Four 😊

Trade 😊: Mar. exports +12.4%, imports -4.3% (Jan.+Feb. combined, exports +2.3%, imports -8.4%). A series about to become nonsensical.

Prices 🙁: Mar. CPI -0.1% (Feb. -0.7%), PPI -2.5% (Feb. -2.2%). Tariff-tantrums likely to lead to persistent weakness in this series.

Credit 😐: Mar. M2 +7.0% (Feb. +7.0%), Total Social Financing +8.4% (Feb. +8.2%). M2 unchanged for the third month in a row.

Consumption 😊: Mar. Retail Sales +5.9% (Jan.+Feb. combined +4%) A significant beat to forecasts.

Industrial Activity 😊: Mar. Industrial Output +7.7% (Jan.+Feb. combined +5.9%). Another unexpected and big beat.

New Home Prices 😐: Mar. -5.0% (Feb. -5.2%). The 22nd straight month of falls but the decelerating trend continues.

Business Confidence 🙁: Apr. Manufacturing PMI fell to 49, below expansion (Mar. 50.5). Services PMI also dipped, to 50.4 (Mar. 50.8).

FLASH 😊: China's Q1 GDP barrelled in at +5.4% and The National Development and Reform Commission (NDRC) on Mon. 28th went 'all in' saying 2025 goals, which would include a 5% GDP growth target, are achievable. On the one hand it's hard to see this happening, but on the other it'd be imprudent to bet against an NDRC prediction.

That wraps it up for April. What's here isn't advice or recommendation, it's what I've been up to, how I'm looking at the world and a small piece of the market puzzle which, combined with yours, I hope may be of some use.

"He who receives an idea from me, receives instruction himself without lessening mine; as he who lights his taper at mine, receives light without darkening me". Thomas Jefferson.

Good Luck with ***your*** investing. Feedback please! to me at nial@nialgooding.com