The China Rambler

An Occasional Letter On Topics Of Interest To China Investors

Issue #8. "Seek Truth From Facts" **June 2nd, 2025**

In this issue: what really works in China and how/why margins-of-safety matter, why the U.S. is giving off a World- '08/Japan- '89 vibe, why CIMC-Enric (03899) is a BUY lower, why SINOPEC (00386) was sold and the evergreen importance of patience.

Silent-Knights, Margins-Of-Safety And Déjà Vu

To the end of May, the MSCI-China-Index tracking ETF (MCHI) driven by China's shiniest new-economy companies had produced a 5-year total return* of minus 5%. Some of its celebrity constituents have taken investors on even less rewarding rides. Alibaba (BABA), for instance, is down 43% over the same period. [*Numbers here and below include dividends (gross).]

At the same time many old-economy household names have plodded along nicely. In both cases, new and old, earnings have (mostly) been persistent. It's not the absence of these that's retarded the new or their sudden appearance that's propelled the old. What's revealed is a masterclass in the **importance of valuation.**

Highlighting the point on the right are two 'Silent-Knight' olds from my portfolio. Bank of China (03988) and China Shenhua (01088) which have produced total returns of 150% and nearly 300% in the last 5-years.

Sell-siders and the press rarely highlight plodders. Rather, they focuses attention only *after* gains have eroded the margin-of-safety that made them attractive in the first place. Bottom line: owning Silent-Knights will always be a safer bet than decisions based onf zeitgeist pertaining to stocks whose notoriety will have had the concomitant effect of crushing their margins-of-safety.

Speaking of margin(s)-of-safety…

This Letter is intended to focus on "..Topics Of Interest to China Investors" so bear with me as I digress into thoughts on the U.S. If my gut-feeling about what's coming proves half-right events there will rapidly become a topic very much of interest to China investors.

Since I started this Letter (last November) I've flagged caution about the effects a major-correction in U.S. markets would have on China investors. That caution is rooted in several observations: first, the recurrent nature of financial calamity (a regular big-kicking is a feature not a bug of markets). Second, the absence of a margin-of-safety implied by U.S. assets' valuations and, more recently, the anticipation of negative economic consequences from policies promulgated by the new administration.

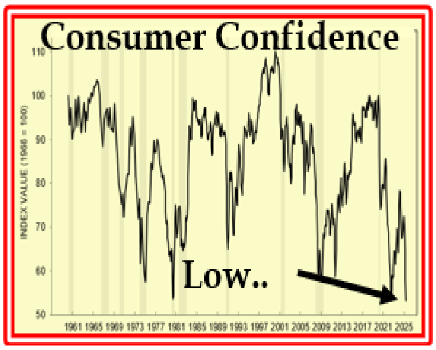
Last month, as points of concern continued to accrue, U.S. stock markets sailed on unperturbed. In this process I was first reminded of 2008, and then Japan c. 1989.

To 2008. In August 2007 I wrote a note about how the impairment of banks' balance sheets would lead inevitably to asset price declines and problems in the financial system. I then cashed myself up, bought puts and waited. The puts expired worthless, and the bad news rolled in. But markets didn't seem to care. For a while, until they did.

To 1989, I was in Japan and by the end of the '80s a self-referential hubris (sound familiar?) had taken hold. Japan was great because it was run by exceptionally capable Japanese. Asset prices merely reflected this superior model, until they didn't.

To 2025. Last month the U.S. lost its last AAA-credit rating. Bond yields rose to multi-year highs. The U.S. dollar index YTD had fallen 8%. Politicians voted for a tax bill likely to exacerbate a worrying deficit. The University of Michigan's Index of Consumer Sentiment fell to its second lowest level, ever. Walmart (WMT), America's largest retailer, flagged impossible-to-contain price rises. Target (TGT), a smaller but significant retailer, badly missed Q1 earnings expectations and cut 2025 earnings guidance by c.20%. U.S. Q1 corporate profits fell U$118bn and Q1 GDP contracted 0.2%. Surely ***some*** of this matters?

We may not be on the cusp of Japan- '89 or World- '08, but U.S. asset prices in six months' time won't be at the same level they are today. They'll be up or down, and I see a down leg more clearly than the potential for further rampant gains.



Stockwatch: CIMC-Enric #03899

Summary of a recent closer look

Basically: (All historic) Market cap.: U$1.6bn, P/E: 10.5x, Yield: 5.0%, P/B: 1.0x. Avg. daily T/O (3m) 2.4m shares. **Business: pressure vessels, cryo-tanks, gas carrying ships etc.**

The company is closely tapped-into the LNG market. Oil is the only part of the global energy complex I'm not keen on. Everything else energy related, IMHO, is a growth market.

There's a 20+-year clean listing track record. They're government owned/controlled which provides reliable stewardship and a high level of counterparty trust (but may cap margins).

They've no debt and steadily increased their dividend payout ratio. Strong cashflow has led to a consistent increase in book-value and thus shareholder value.

No losses over COVID provides comfort in terms of what might happen if either the cycle turns against them, or some other calamity were to stress the business.

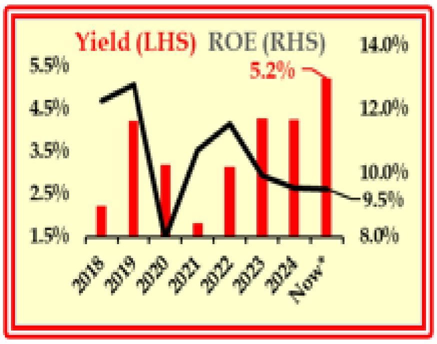
There's excitement around hydrogen at the moment (I think it's misplaced) and they're very involved in that value chain. There's no fluff in the share price for this so it's a free option.

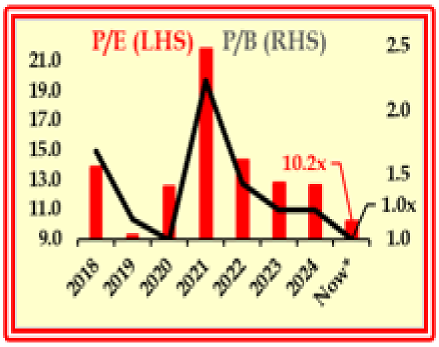
Not to like: Always, ALWAYS a red flag, they issued a CB in 2021 which matures next year. It's unlikely to convert, but that's not the point. There have also been 'National Service' acquisitions in the past of distressed peers. Other deals remain an ongoing possibility.

To like: Low margins are a natural moat and a barrier to entry for new competition. My FV calculation is on a fully diluted basis. There'll be an automatic FV kick up if the CB doesn't convert (the strike is over H$11.00). The order backlog is also a handy insurance policy.

Would I buy them? Yes, but. A P/E valuation is appropriate given the nature of their business and I believe a range of 8x~15x is 'fair'. I'll buy where upside exceeds downside by 4x and in this case that's a P/E of 9.4x or a price of H$5.55 (e2025 EPS H$0.59 = a2024 +5%). At the end of May the stock price was H$6.03 or nearly 9% above that. For the time being then an addition to a rainy-day-list, not the portfolio.

[* 'Now' numbers below are based on a 5% lift for '25 sales, EPS and DPS. This is conservative. Check out the Q1 update.]





How's My Investing?

Performance summary, review of recent trading etcetera

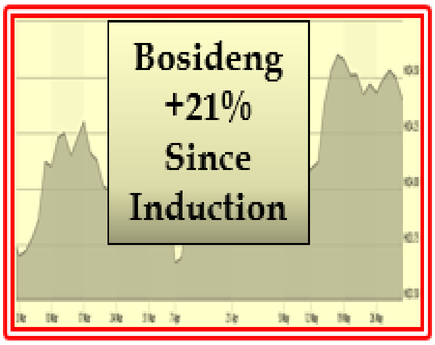
May Performance:	**+4.9%**
Performance Since Inception (Nov. '24):	**+5.4%**
Cash Percentage of Portfolio:	**29%**

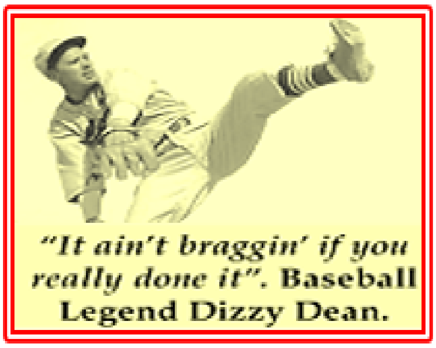
Sayonara Sinopec

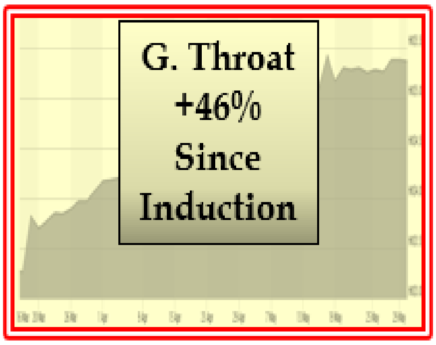
Whilst deep-diving into CIMC-Enric I took a closer look at oil-market dynamics. I discovered oil is a vulnerable asset, and that led to the sale of my position in Sinopec (00386). The future for autos is electric or hybrid and this is the biggest component of demand for oil globally. Electric cars can't substitute for Internal Combustion Engine vehicles yet but they're getting better, and range-anxiety is a concern for a smaller and smaller number of potential buyers. Sinopec in addition have a portfolio of around 30k gas stations across China that I'd thought might be valuable (they were going to IPO them at one stage), now I don't. Finally, based on Q1 reporting, a reduced 2025 dividend is almost a certainty. This divestment is why the cash balance above has risen to 29% (from 25%).

Waiting For The Fat Pitches

From Yogi Berra let's continue the baseball theme. Warren Buffet advises waiting for 'fat pitches' i.e. a pitch so easy to hit you just have to swing. Eighteen months ago, I'd have described the China market as being awash with such opportunities (I did, in fact, here). Banks on P/Bs of less than 0.4x, industrial companies trading below cash, retailers on less than 10x P/Es for growing businesses and so on. Many of these have proved to be great Silent-Knights and I own more than a few, but I'm struggling to find replacements. In the February Letter I fingered Bosideng (03998) as a new acquisition focusing on margin-of-safety and in the March summary Golden Throat (06896) was inducted for much the same reason; but as you see, those margins have been significantly eroded.







The Hardest Thing

The late Charles T. Munger would remind at a time like this; ***"The big money is not in the buying or selling, but in the waiting".*** We're out of fat pitches, so what? If I'm right about markets then turbulence in time should throw off plenty of opportunities (CIMC-Enric at the right price for example). If I'm wrong? I'll be punished for an over-abundance of caution with a bit of cash-drag. There are worse things. In the meantime, what to do? What to do? The answer is clear; the hardest thing, **nothing** whilst we wait for the next fat pitch(es).

Datawatch

Key Releases In The Last Month

One 😟 Three 😐 Four 😊

Trade 😊: Apr. exports +8.1% (Mar. +12.4%), imports -0.2% (Mar. -4.3%). Exports are supposed to be collapsing, but they're not. Yet?

Prices 😟: Apr. CPI -0.1% (Mar. -0.1%), PPI -2.7% (Mar. -2.5%). Both as expected with the PPI drop the biggest in the last 6-months.

Credit 😊: Apr. M2 +8.0% (Mar. +7.0%), Total Social Financing (TSF) +8.7% (Mar. +8.2%). M2 a pleasant surprise, TSF growth a 13m high.

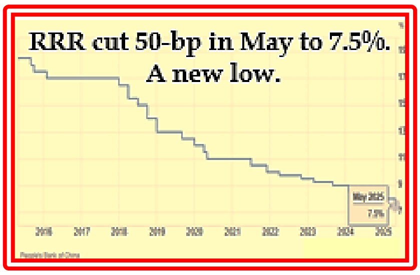
Consumption 😐: Apr. Retail Sales +5.1% (Mar. +5.9%). A disappointment compared to the forecast of +6%, but still, not bad.

Industrial Activity 😊: Apr. Industrial Output +6.1% (Mar. +7.7%). Down from March, but a significant beat to forecasts.

New Home Prices 😐: Apr. -4.0% (Mar. -4.5%). A decelerating trend of falls, begun last October, continued.

Business Confidence 😐: May Manufacturing PMI rose to 49.5 (Apr. 49.0). Services PMI fell to 50.3 (Apr. 50.4). Meh.

FLASH 😊: China cut the Reserve Requirement Ratio (RRR) for large banks on May 15th from 8% to 7.5% adding approximately Rmb1trn (U$139bn) of liquidity to the system. Auto-finance and leasing company RRRs were cut to zero.



That wraps it up for May. 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