The China Rambler

An Occasional Letter On Topics Of Interest To China Investors

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

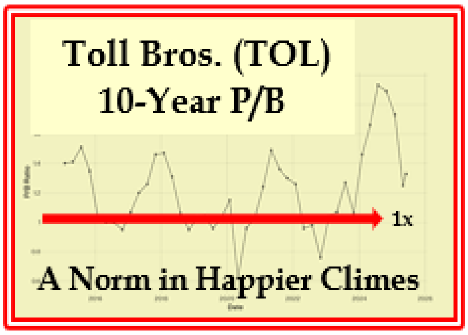
In this issue: why it's time to revisit China property stocks, thoughts from a recent Shenzhen-Shanghai trip, why SITC #01308 is a good company but whose stock I can't buy and how I've actioned my newfound enthusiasm for the Chinese real estate market.

China Property – Time To Reengage

In April 2019 I discovered the Chairman of KWG (01813) had acquired a private jet, on the company's dime. I'd been looking for a sell-signal, liquidated my position and took other exposure to the Chinese property market way down. Of course, KWG's stock then shot up but, as you can see, it trades today gratifyingly close to zero (gratifying for me at least).

With a good deal of uncertainty in this space past, it's time to reengage. We know the rogues (I don't think KWG were/are), we know problems won't cause havoc in the finance complex and domestic investors have learned the valuable lesson of circumspection. All of which bodes well for future stability.

Rather than ask what'll make things better it helps to invert the question and ask why things won't get any worse? Well, over-build won't be permitted again, urban migration isn't stopping, banks have absorbed problems and are moving on, urban renewal remains a necessity even in Tier-1 cities and home prices won't decline at the rate they have been in the past. In summary, I can't be sure things get better from here, but **I am sure** they're not getting any worse.



'Good' companies in the space (of which more later) are cheap and unloved and from here the chances of an upward revision of prospects seem greater than the chances of a further pummelling.

Shen-Hai 深海 Trip – Centripetal Forces

Last month I travelled to Shenzhen and Shanghai. This was my first visit to the latter post-COVID (the former, a de facto suburb of Hong Kong, I'm in every other week) and I was particularly struck by signs, everywhere, of economic and creative centripetalism.

The Dafen Oil Painting Village in Shenzhen is famous as the world's largest conurbation of artists knocking out Van Gough's-by-the-yard. Today there are ateliers where original works are for sale at grown-up prices and a museum adjacent displays an impressive selection of local talent. The piece on the left made me smile and is now my screensaver.

On to Shanghai where the town was heaving with domestic tourists, and they look good. Not quite Omotesando or Gangnam-good, but not far off. Western faces were an insignificant minority. China wants more foreign tourists but it's from the domestic tourist the greatest number of future dollars will be prised.

The nicer cars are all local brands and EVs, especially in Shenzhen where E-busses are the norm, make for much quieter, cleaner and more pleasant city streets. On the subject of clean, the city fathers in Shanghai have done a great job renovating pavements, replacing or providing new outdoor furniture, sprucing up public spaces and adding trees where there were none. Despite the compression of sightseers Shanghai is more charming than ever. Go.

Sure, it's a work in progress. The two views of the same street, one at night from below and the other during the day from above could be a metaphor (you'll need to enlarge that some). It all works, but it's far from done; but who wants 'done'?

Speaking of metaphors. China's coffee shops are like their cars. Cheap and cheerful Luckin, Luckin spin-off Cotti, great tasting Manner or Japanese implant %Arabica are all better, cheaper, or both than Pete's, Tim's or Starbucks. The latter's China business, in light of this competition and without a rebrand, I'd judge unrecoverable.

The foolishness of trying to retard China's progress via its exports couldn't be plainer. China has, and clearly, achieved the kind of centripetal dynamic America had made it to in, say, 1890 or Japan in 1970. But many want to believe it's still all somehow a Potemkin Village. Look right.

If it is, it's one that now goes on for a very long way!

Stockwatch: SITC #01308

Summary of a recent closer look

Basically: (All historic) Market cap.: U$8.7bn, P/E: 8.3x, Yield: 10.0%, P/B: 3.6x. Avg. daily T/O (3m) 6.6m shares. **Business: maritime freight. Mainly inter-Asia with smaller vessels.**

The company has grown out of an SOE established in 1991, the Shandong International Transportation Corporation and was listed in Hong Kong in 2010 at H$4.78.

Since listing the share price has performed well and the dividend policy has rewarded holders handsomely. Payout, which started at 36%, has risen steadily and was last at 84%.

Progress has been persistent, and the company has developed, one brick atop the other, via enlarging its initial business with no diversions into unrelated businesses along the way.

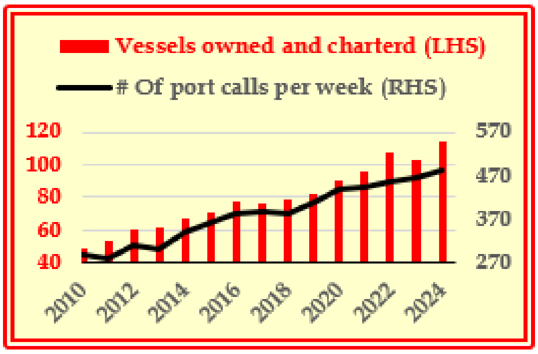
The management team have remained a constant since listing. Net margins in the last 5-years have ranged between 21% and 41%. Prior to this they were mid-teens or single digit.

The expansion of margins in recent years corresponds to a big rise in freight rates that's occurred during COVID. A change which appears not to have fully reversed itself.

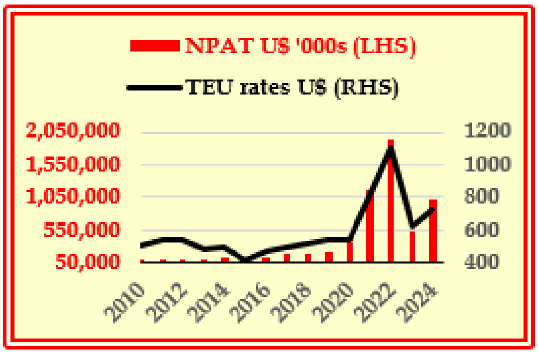
Not to like: The business, in failing to diversify, remains vulnerable to a single dynamic i.e. freight rates. For an industry specialist this might be an opportunity to trade around but for an outsider like me represents unmanageable risk.

To like: This is a solid, reliable, well-managed, consistently profitable and stable enterprise. Starting with the 2010 listing prospectus right up to their 2024 Annual Report I couldn't find a single not-to-like or ah-ha! development. This is eerily uncommon.

Would I buy them? No. Since 2010 the P/E has rarely been in double digits and therefore today's level doesn't represent a departure from trend. Why would such a good company trade so consistently cheap? For the same reason I suspect I can't find a way in, back to those impossible to predict freight rates. The company's fleet has also grown a lot since its IPO which adds asset-price revaluation risk in the event of an industry downturn.



There's that steady growth…



…and here's that key return driver.

How's My Investing?

Performance summary, review of recent trading etcetera

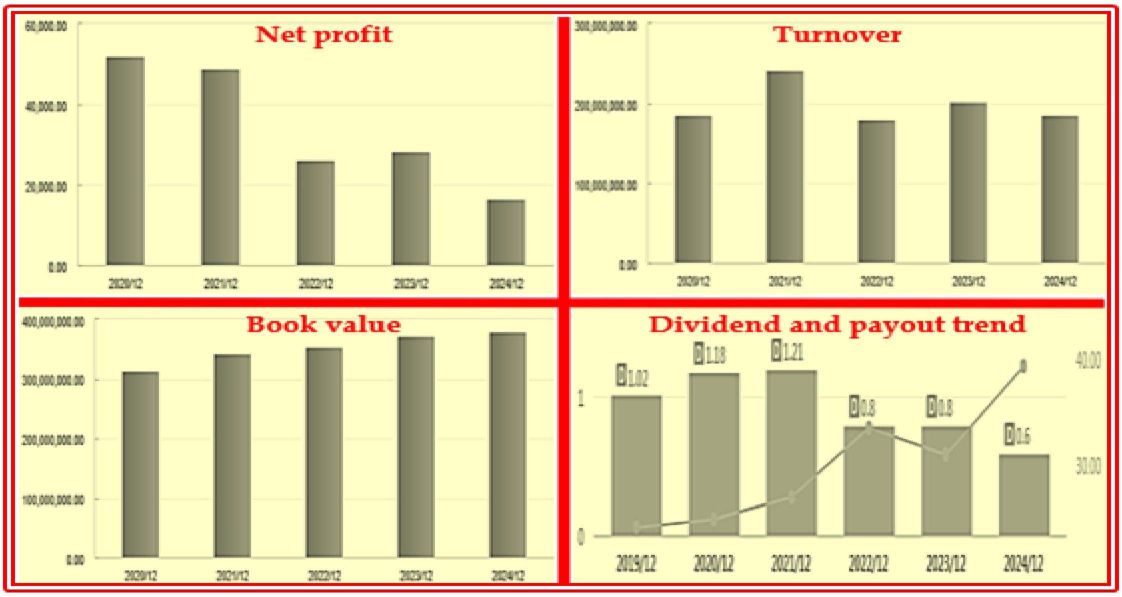
June Performance:	**+3.7%**
Performance Since Inception (Nov. '24):	**+9.2%**
Cash Percentage of Portfolio:	**26%**

Dialling Up The China Property Bet

I can find only two stocks that offer the combination of safety (via state control), balance sheet strength, scale and liquidity that a cautious investor looking to increase exposure to this sector might be interested in. They are, China Resources Land (CR Land, 01109) and China Overseas Land and Investment (COLI, 00688).

Stock	Last	P/E	Gearing	P/B	Yield	Mkt. Cap. U$
CR Land	H$26.6	7.0x	47%	0.7x	5.3%	24bn
COLI	H$13.62	9.0x	31%	0.4x	4.4%	19bn

I've owned COLI for some time but last month increased my position to a heavy overweight (c.10%). My preference is based in part on their lower gearing and price to book. I've also been impressed with how the business has been run in the recent difficult times. Of course, profits have been under pressure, not their fault. A look at the turnover though shows a willingness to shift inventory at lower prices (Hong Kong peers just ball-up, hoard and wait in similar circumstances). Maintaining profitability has resulted in a rise in firm value or book and whilst dividend cuts have occurred the payout ratio has risen significantly. This shows prudence and sincere consideration for affected holders.



What's the upside? A rise to a Toll Brothers P/B of around 1x is hoping for too much; but to a sizeable percentage of that, to perhaps 0.8x~0.9x book isn't out the question. That's 100%~125% above the end-June level. There's downside of course there always is but, as noted earlier, I believe from this level it's limited.

Datawatch

Key Releases In The Last Month

Two 🙁 Four 😐 Two 😊

Trade 😐: May. exports +4.8% (Apr. +8.1%), imports -3.4% (Apr. -0.2%). Exports disappointed but didn't look too bad to me, considering.

Prices 🙁: May. CPI -0.1% (Apr. -0.1%), PPI -3.3% (Apr. -2.7%). Fourth month of declines for the CPI. 31st consecutive month of falls for the PPI.

Credit 😐: May. M2 +7.9% (Apr. +8.0%), Total Social Financing (TSF) +8.7% (Apr. +8.7%). Nothing to see here, again.

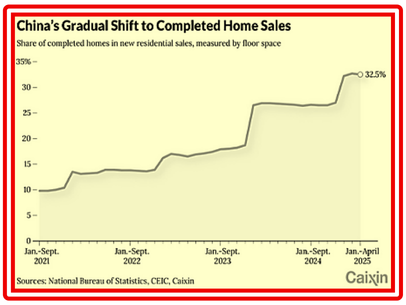
Consumption 😊: May. Retail Sales +6.4% (Apr. +5.1%). An unexpected jump.

Industrial Activity 🙁: May. Industrial Output +5.8% (Apr. +6.1%). An unexpected dip.

New Home Prices 😐: May. -3.5% (Apr. -4.0%). Some confusion on this series. I'm using https://tradingeconomics.com/china/housing-index.

Business Confidence 😐: June Manufacturing PMI rose to 49.7 (May, 49.5). Services PMI rose to 50.5 (May, 50.3). Thin cheer.

OF NOTE 😊: Since 2022 sales of completed homes, as opposed to the problematic off-plan type, have been encouraged. The chart is from Caixin who ran a story in detail June 25th and shows the trend. Another plus-point for the property-market-stabilizing thesis.



That wraps it up for June. 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.