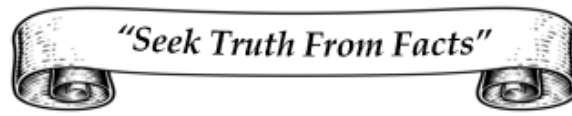


The China Rambler

An Occasional Letter On Topics Of Interest To China Investors

Issue #9.



August 1st, 2025

In this issue: how China stocks have become, again, investible. How the HSI makes it back to 30,000, why MTRC 00066 is a ho-hum prospect but a buy lower down and how an over-abundance of caution has been an expensive mistake so far this year.

~~UN~~-INVESTABLE

March 2022, researchers at JP Morgan referred to certain China stocks as 'uninvestable'. The term stuck and was thereafter (often out of context) used as the one-word justification to either push sell-buttons on China stocks or move them into the 'just-too-hard' bin.

Recently, being out of China has been a mistake. Perma-pessimists must be especially ticked that stock price moves last year and this aren't the product of irrational exuberance but instead the not unreasonable response to a tangible improvement in fundamentals. The China macro environment **IS** improving, domestic interest **HAS** revived, and private sector corporate earnings **ARE** recovering.

Investment theory tells us the higher a stock's valuation/price the higher its risk; *but investors, mostly, behave as if the opposite were true.* In daily practice this means an uptrend often triggers more enthusiasm with higher prices being read as the harbinger of higher ones to come.

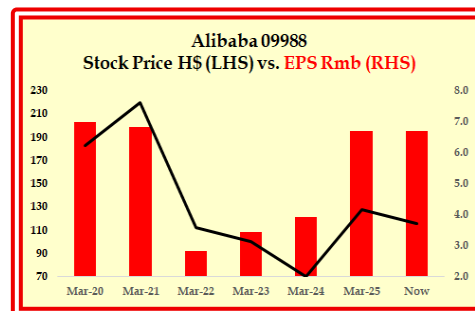
China stocks are therefore at a crossroads. Having rallied from lows, if the past is a guide, from here bears may quickly volte-face, opinions shift, and a real bull-market commence. Counterintuitively, it's because of the recent rally China stocks are on the cusp, again, of being 'investible'. Funny old world, eh?



The Road Back To 30,000, And Beyond

Like it or not the Hang Seng Index (HSI) is the lens through which a lot of attention on China stocks is focussed. This index has been retarded in recent years by the inclusion, from 2019, of China's largest new-economy companies. The problem being most were introduced at high valuations which have been correcting since. Earnings for many have been either stable or rising but a stock on a P/E of 100x with an income of \$10 will decline 50% if the income doubles but it's P/E rerates to 25x. One of the most relatable examples is Alibaba (09988).

Listed in November 2019 at H\$176 the stock price made a high of over H\$300 nearly a year later in October 2020. Since then, it's come back to earth and was H\$116 at the end of July. Look at the red bars in the chart and you'll see its income over the period has barely changed. This has been a poor outcome for IPO investors but provides a good base for newbies. Having settled at a more



realistic valuation, future earnings growth is now much more likely to be reflected in an improved stock price; and the same goes for others like it.

To prospects for the HSI specifically. At the end of June, according to the [index compiler](#), the aggregate P/E of the index was c. 12x. At the end of July, it'll have been a bit higher, let's say 13x, and the index was 24,773. In order to get the index back to 30,000 therefore based on valuation and excluding the propellant of increased earnings the P/E will have to shimmy up to around 15.7x. Hardly a reach in the context of other [global stock market valuations](#), viz., the U.S. 33x, Japan 25x, the U.K. 19x etcetera.

Code	Short Name	P/E x	Weight
00005	HSBC	9.9	8.1%
00700	Tencent	24.8	7.8%
09988	Alibaba	15.9	7.5%
01810	Xiaomi	52	7.1%
00939	CCB	5.8	5.6%
01299	AIA	15.3	4.9%
03690	Meituan	19.5	4.5%
00941	C. Mobile	12.5	3.5%
01398	ICBC	5.7	3.4%
		17.9	52%
	(Average)		(Total)

For the index to do it's stuff, the largest components will have to lead. With only the exception of Xiaomi, the other members that make up 50% of the HSI are all on fair-ish ratings. If we were to remove Xiaomi's rating the aggregate would fall to the index-average level. So, at the micro-stock-level, not only is there no valuation impediment to further progress, there's ample scope for improvement just toward norms prevailing in the rest of the world.

I feel queasy airing this view in light of the rally in the last 18-months; and, *as always*, remain vigilant to the possibility, at any moment, of unforeseen-calamity. However, as I write, the base that's been formed, historical precedent, improving sentiment and better micro and macro fundamentals all seem to be now describing a very investible market with reasonable odds of further gains.

Stockwatch: MTR Corporation #00066

Summary of a recent closer look

Basically: (All historic) Market cap.: U\$22.5bn, P/E: 11.0x, Yield: 4.6%, P/B: 1.0x. Avg. daily T/O (3m) 5.8m shares. **Business:** HK monopoly subway operator, property development and investment, overseas rail operator, retail mall operator, infrastructure development.

As I peeled away the layers of this surprisingly complex company I became more and more disappointed. Their 'flexible' mandate and government control being the root problems.

The management appear to operate more like a Board of Trustees than anxious strivers for increased shareholder worth. This is not, nor has been, good for investors.

Each of the various enterprises, rail, property development, retail mall management etcetera are OK businesses; but string a bunch of just-OK businesses together and what do you get?

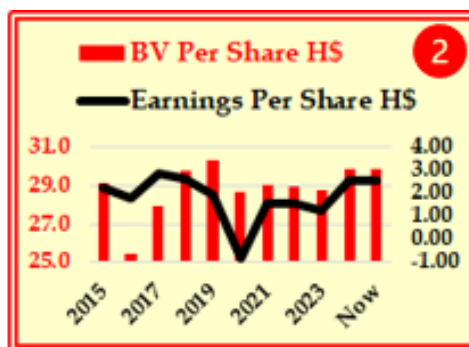
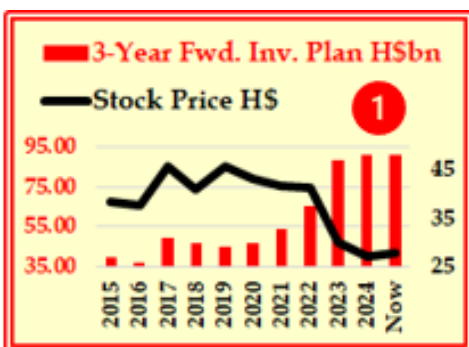
The big-problem is clear from ❶ below. As obligations have been piled on (and this process is ongoing) investors don't believe new projects will be future-value accretive.

This brings us to ❷. In the last decade neither the book value nor the earnings per share of the company has increased. Investors therefore have good reason to be sceptical.

Not to like: They'll never get out of the government's clutches so there'll never be an epiphany from which point they begin to extract more value from their franchise(s). 'Government' used to just mean Hong Kong but there's increasingly a Northern-influence.

To like: The management are honest, of good character and run their businesses, as much as they're allowed to, well. There's nothing wrong with a collection of just-OK business as long as they stay that way (here they will) and can be acquired at the right price.

Would I buy them? Yes. They're close to a valuation low ❸, but I want lower. Despite the historic inability to value-up their operations a lot of future projects *are* likely to be value accretive. If I can buy the stock at a sustainable 5.5% yield that'd be adequate compensation for the patience required for investments to bear fruit. That'd be at a price of just under H\$24.00 assuming the present dividend of H\$1.31 can be maintained, which I'd bet it can.



How's My Investing?

Performance summary, review of recent trading etcetera

July Performance:	+6.8%
Performance Since Inception (Nov. '24):	+17.1%
Cash Percentage of Portfolio:	25%

The Negative Consequence Of An Over-Abundance Of Caution

I've been wrong so far this year expecting global markets, especially the United States, to have a comeuppance. Not just-wrong, very-wrong. Just-wrong, would have been to brace for turbulence and have none arrive. Very-wrong, has been readied for upsets at the same time as markets powered to higher, and then higher-highs.

Trump-tariffs have neither harmed the U.S., global trade, nor China's export machine. They've proved also to be non-inflationary and thus interest rates have remained tame to the point that consensus forecasts for the next policy-rate move in the U.S. are down.

With a cash balance of c. 25% this has meant every dollar made could've been a dollar and 33-cents if 100% of funds had been deployed.

Some Rules Aren't Made To Be Broken

Being wrong can be useful if, a) it didn't hurt too badly and, b) one can find teachable moments from the mistakes. At my blog I set out my [Investment Philosophy](#) and a review reveals this year's specific missteps. They are: NEVER do anything on somebody else's advice, NEVER think you can time markets and NEVER imagine you can outthink the crowd. I know, I know, but, well, here we are, sadly, nonetheless.

In fairness I didn't exactly do something on somebody else's advice. I listened to worrywarts at the beginning of the year and believed, because they were saying what I wanted to hear, they must be right. Note to self; nobody, nobody can predict the future. Yes, you can call 'heads' and sometimes be right, which is what paid-for-forecasters do; but nobody calls heads reliably.

What to do? Reverse the error, go all-in? At the beginning of this note I flagged the potential for a powerful rally being the next iteration of China stocks' rehabilitation to investability; but this is only one of several possibilities (albeit it one I'm prepared to weigh heavily).

A house that hasn't burnt down is also a house that hasn't burnt down, yet. So, I'm happy to continue being insured. Moreover, the fact my premium-cost is that of the opportunity rather than the sunk variety makes the decision to stick with the strategy easier. Unlike those 'mostly' investors referred to above, *I believe the higher prices go the riskier things become.*

Datawatch

Key Releases In The Last Month

Two 😞 Two 😞 Four 😊

Trade 😊: June exports +5.8% (May +4.8%), imports +1.1% (May -3.4%). Exports beat forecasts and imports grew for the first time in 2025.

Prices 😞: June. CPI +0.1% (May, -0.1%), PPI -3.6% (May -3.3%). First rise in 5-months for the CPI, PPI largest drop since July 2023.

Credit 😊: June M2 +8.3% (May +7.9%), Total Social Financing (TSF) +8.9% (May +8.7%). A 15m high for M2, a 16m high for TSF. Nice.

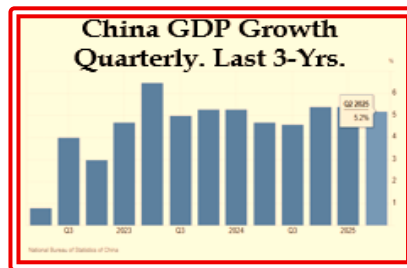
Consumption 😞: June Retail Sales +4.8% (May +6.4%). An unexpected drop following last month's unexpected gain.

Industrial Activity 😊: June Industrial Output +6.8% (May +5.8%). An unexpected gain following last month's unexpected drop.

New Home Prices 😞: June -3.2% (May -3.5%). We'll flip positive by year end <https://tradingeconomics.com/china/housing-index>.

Business Confidence 😞: July Manufacturing PMI fell to 49.3 (June, 49.7). Services PMI also fell to 50.1 (May, 50.5). Disappointing.

Q2 GDP Growth 😊: Speaking of improving macros. At +5.2%, this was a pleasant surprise and highlighted, after the wobbly COVID-exit quarters, how the economy is regaining its poise. +5% is beginning to look like a 'new-normal'.



That wraps it up for July. 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.