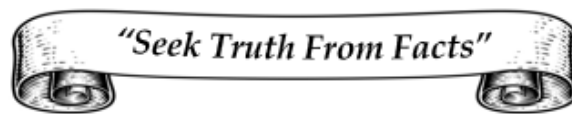


The China Rambler

An Occasional Letter On Topics Of Interest To China Investors

Issue #11



Sept. 1st, 2025

In this edition: why 'stimulating consumption' means more than stimulating consumption, what not to care too much about anymore, why China Feihe #06186 is a 'shut-up-and-buy' 12% lower and how to avoid shin kicks from Mr. Market.

China's Next 'Big Thing'

The majority of the China-commentariat are usually focussing on or vexing about the wrong things.

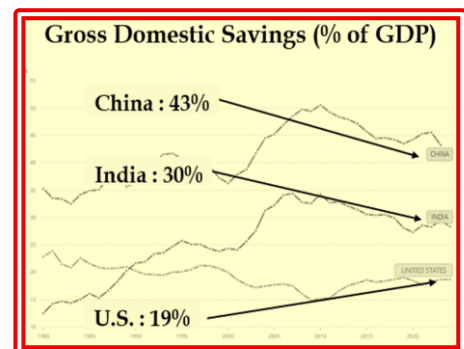
Whilst China has been progressing the multi-decade Belt and Road Initiative (BRI), watchers jeered or yawned in equal measure. As China built its innovation and research capabilities old tropes of 'Asian's can't think, they're just copycats' were, for many, predictable go-to responses.

Today, China's imports and exports are around 50% from BRI countries and their lead in EVs, clean energy, robotics, high speed rail etc. is manifest. So, these initiatives were, and remain, really important.

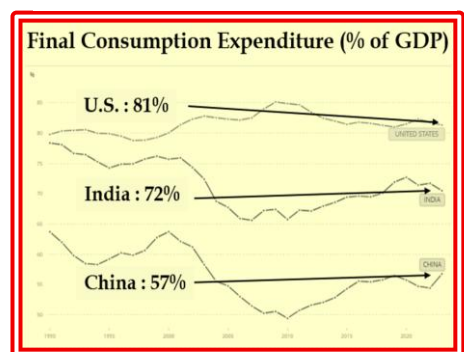
The next 'big thing' for China is 'consumption' and expect the commentariat to miss the wider implications of this too. Most likely they'll focus on just, well, consumption. The bigger story is the political and social changes that'll be required to affect a mind-shift necessary to facilitate the new policies.

In short, the compact between China's governed and its governors will need an overhaul; a thrilling, or troubling prospect depending on your view. This isn't a forecast, [the process will begin shortly](#). Just don't expect armchair-seers to be flagging the importance of these changes for a while.

The big saver needs to..



..become the big spender.



Consumption Boost

To-Do List

Arrest deflation, free the internet, overhaul social security, deconstruct the hukou system, 'fix' rural property rights, increase respect for and trust in the Party, improve medical services and access, reform the provision and types of savings products, address youth unemployment, introduce more transparency into the legal system, promote entrepreneurialism, allow...

Let It Go, Let It Go...

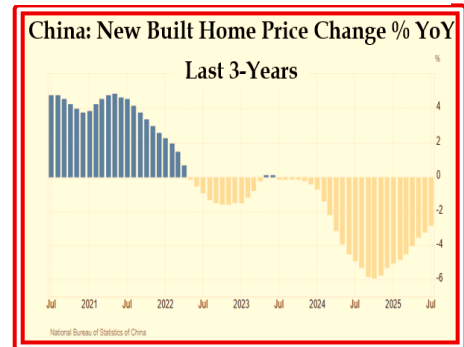
To continue the point above, to get a better understanding of China it'd help if commentators could shed light on issues other than the few they, pack-like, pursue.

To remind, not one prophet of doom on China has been right, about almost anything. From Gordon Chang's 2001 ['The Coming Collapse of China'](#), through to Acemoglu and Robinson who devoted a sub-chapter to China in ['Why Nations Fail'](#) in 2013 to Dinny McMahon's recent ['China's Great Wall of Debt'](#), none of the analysis presented in these books (and many more in the same vein) has provided a useful roadmap for China's subsequent progress.

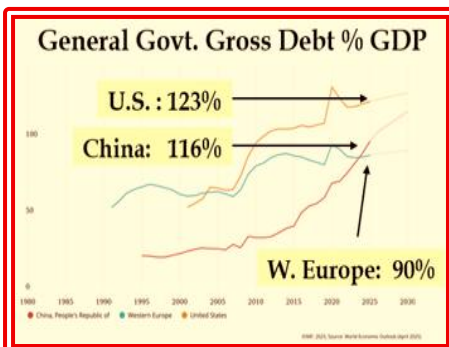
To the present. Two issues continue to be raked over as existential problems for China, and they're just not.

One is fixing itself, that's property, and the other, debt has ceased to be a concern in the context of where the rest of the world has taken itself. A quick look right settles the property argument. It's well and truly on the mend [N.B. markets in the medium-term are more about rates of change than absolute levels].

Property: heaving-to nicely



Debt: look who's talking



Debt? Seriously? Yes, post the 2008 stimulus there were issues. Local governments binged and yes, some overbuild took place. But this is yesterday's news. As for the government's balance sheet it could be better but it's hardly an outlier. Moreover, on the other side of China's balance sheet are large and profitable SOEs, infrastructure, land and related assets. On the other side of most developed economies' balance sheets are collections of enervating liabilities.

We find faults in others often as a reflection of our own shortcomings and sloppy China analysis fails because it does this. We have a debt problem; China must have one too, only worse. Our lenders are weak, China's must be on the brink, and so on.

To be sure, investing in China is risky. Political and legal systems are still works in progress; lively-entrepreneurialism has yet to be entirely replaced by professional management and corporate governance is evolving. But whilst the lumpen-commentariat continue parsing old or now-problems of little relevance, China will press ahead regardless.



Or, as Elsa of Arendelle might have said: "The twin notions that debt is a limiting variable in China's long-term growth equation and/or that the property market wouldn't respond to government intervention, when considered in the context of a broader analysis of China's future prospects - never bothered me anyway."

Stockwatch: China Feihe #06186

Summary of a recent closer look

Basically: (All historic) Market cap.: U\$5.1bn, P/E: 10.5x, Yield: 7.4%, P/B: 1.4x. Avg. daily T/O (3m) 39m shares. **Business:** China's largest domestic infant formula producer.

China, big place, lots of people, not many babies. Many will fall at this fence; but it doesn't matter. The babies that China does have are looked after better than ever before.

A look at the NPAT and sales figures in ① tell the story of why investors have lost interest. The stock is a classic pre-IPO-pump, post-IPO-dump story (listed Nov. 2019 @ H\$7.50).

They have legacy and trace their DNA back to 1962. They were attacked by short sellers, twice, in 2019 and 2020, but by now we assume then-accusations were/are baseless.

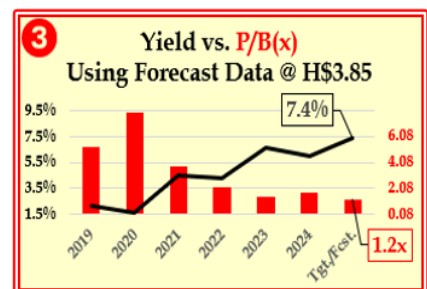
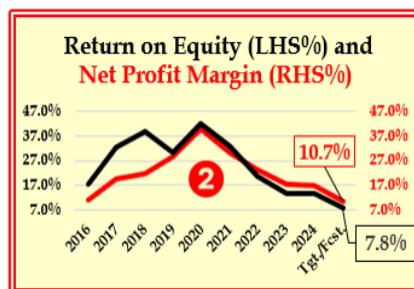
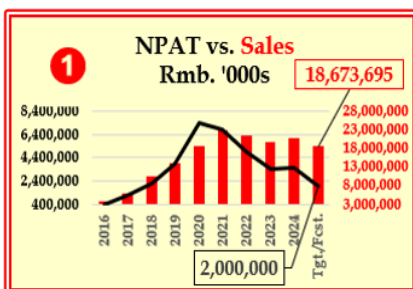
The dividend policy (30% from day-1) has been progressive and recently moved to 100%. With a pile of net cash and a still profitable business, payouts ahead should remain good.

They've repurchased stock in the past and introduced a share award plan in 2023, both of which signal good governance. INEDs also pick up 'sensible' cheques, another CG to-like.

Not to like: The ROE and NPAT margins have been hammered to, at H125, all-time lows ②. Despite requests I was unable to arrange a call, but I'll have a guess the company are a) not happy about this and, more importantly, b) determined to do something about it?

To like: A lot. A China market leader is always interesting. A leader that's been, and is being, tested like this one is especially interesting; and a leader available on knocked out valuations ③ should, subject to due-diligence and valuation, be a simple shut-up-and-buy.

Would I buy them? Yes. Ahead of poor H1 results on August 28th they put out a profit warning in July guaranteeing a 2025 dividend of "...no less than [H\$0.24/share].." (they also announced a share repurchase plan). I'm going assume a recovery dividend of between 2024's aH\$0.33 and the bad 2025 of eH\$0.24 or H\$0.285 [I'm using yield as an ingress guide, if I get lucky I'll switch to P/E later.] A fair-yield range would be 8%~5% with a 4:1 safety margin at 7.4% or H\$3.85. That's only around 12% lower than the August close of H\$4.39; after a bad day, or three, hey you never know?



[For sales and NPAT forecasts I'm using a2024 less 10% and the guaranteed dividend payment respectively. ROE is based on H125 book. The NPAT is likely too cautious, but I'd rather be surprised than disappointed next March.]

How's My Investing?

Performance summary, review of recent trading etcetera

August Performance:	+2.0%
Performance Since Inception (Nov. '24):	+19.4%
Cash Percentage of Portfolio:	23%

The Surest Way To A (Metaphorical) Kick In The Shin?

There's no quicker way to bad news than brag about how well you're doing. In the March-wrap Rambler I fingered Golden Throat #06896 as a good idea, took my own advice and bought some. In the May-wrap I noted how quickly that idea had gained traction (bragging, it'd gone up) and in August I paid the price for that immodesty; it fell 24%. Ouch!

On the way in I'd noted 2024 was an exceptional year. 2025 couldn't be as good and I was ready to hear about an earnings pull-back, maybe 20%? At the interim reporting they revealed an H1 NPAT decline of nearly 40%. Due to those initial concerns I'd left firepower aside and used it to right-size the position. It remains a multi-year earnings fountain, and I saw no reason to pass up the chance for a second bite. If it goes well from here though you won't be hearing from me again on this subject!

Mr. Market left, me right



Other interim reports over the month were a dull procession, and nothing wrong with that. Chinese companies these days are much better communicators than in the past, a trend that got a boost over COVID when they suspended face to face meetings. Therefore, the absence of surprises isn't as remarkable as it once would have been.

The picture painted overall was one of a tepid economy. I don't doubt headline GDP growth numbers which suggest we'll see 5+% this year, but I'm at a loss to know where this is coming from? My picks are doing OK, but none are finding it easy going or likely to be big contributors to national top-line growth.

Advantage China?



Interesting contrast. In the U.S. corporate profitability is barrelling along in an economy that's puttering. In China, the economy barrels along whilst corporate profits (ex a few bright spots) are puttering.

This growth versus profits disconnect in China is nothing new and as the economy matures perhaps this long-standing conundrum will rectify itself. If not, business as usual. I can live with either outcome. But

China stocks' persistent cheapness won't change if investors believe this long-standing disconnect is likely to persist. Ticking off a few items on that P.1 'Consumption Boost To Do List' might help. Here's hoping.

Datawatch

Key Releases In The Last Month

Two 😞 Three 😞 Three 😊

Trade 😊: July exports +7.2% (June +5.8%), imports +4.1% (June +1.1%). Big, and unexpected beats.

Prices 😞: July CPI +0.0% (June, +0.1%), PPI -3.6% (June -3.6%). 'Core' CPI a 17-month high. PPI MoM improved from -0.4% in June to -0.2%.

Credit 😊: July M2 +8.8% (June +8.3%), Total Social Financing (TSF) +9.0% (June +8.9%). A 16m high for M2, a 17m high for TSF. Nice.

Consumption 😞: July Retail Sales +3.7% (June +4.8%). Forecasters were hoping for better after June's spurt.

Industrial Activity 😞: July Industrial Output +5.7% (June +6.8%). The absence of momentum, not the top-line, was the not-to-like here.

New Home Prices 😞: July -2.8% (June -3.2%). We'll flip positive by year end <https://tradingeconomics.com/china/housing-index>.

Business Confidence 😞: August Manufacturing PMI rose to 49.4 (July, 49.3). Non-Mfg. PMI also rose, to 50.3 (July, 50.1). Small steps.

July Electricity Consumption 😊: A China and global record. No nation ever consumed as much in a single month. That's twice the number a decade ago and equal to [ASEAN's](#) annual total. A record that'll be beaten in 2026 no doubt.

**One
Trillion-kWh
1,000,000,000,000**

That wraps it up for August. 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.