TradeTalks with TradePlus

10 May 2019

OLD CHINA or *NEW CHINA*
Which should you be invested in?

Government shifts focus to drive economy through consumption

There has been much talk about China government's shift of focus away from its manufacturing-centric economy towards one that is consumption-centric. Concentration is now turned towards its massive population, as well as its rising middle-class. Having built its reputation as the go-to country for manufacturing during its developing stage, we are now witnessing a transition towards the service and consumption sector as it looks towards cementing its status as a developed economy. Gone will be the days where you will see "Made in China" stamped on every product packaging you pick up.

While the transition will see growth rates moderate, it is also expected to be more sustainable over the longer-term. Already, more than 70% of the economic growth is being derived from the consumption sector, providing support for the slowing growth within the manufacturing industry. Hence the term "New China Economy" where quality prevails over quantity.

Consumption contributed
76.2%
of 2018's total GDP

Leading the race as innovation leader

So where should one put their money for China exposure? The broader China market to cover all bases? Jump on the bandwagon while the "Old China Economy" train is still trudging ahead? Or take the opportunity to participate in the growing dominance of the "New China Economy"?

With focus pouring in to research and development, China is fast cementing its position as an innovation leader. Did you know China is already the world's largest robot maker? What about the world's largest electric vehicle market? Maybe you'll be more familiar with the retail sales that takes places on the internet, like the singles day sale where Alibaba Group recorded sales exceeding USD30 billion in that 24 hours. The number far exceeded US' Amazon's own Prime Day which recorded sales in the range of the USD 1 billion mark.

$30 billion
in 24 hours

180 million
trips in 2019

E-commerce is all the craze in China - from retail sales to electronic payment services. Evident in the increased acceptance of Alipay, and WeChat Pay at your neighbourhood malls. With China's outbound tourists recorded at 150 million trips in 2018, and 180 million expected for 2019, it is no doubt that retailers want a share of the pie and will work towards enabling these tourists to spend at ease – causing disruption concerns to the traditional banking system.

Comparing traditional indices against the New China Economy

Let's make a quick comparison, shall we? The fast-growing consumption companies look set to only grow further from here on. Having already built its name within China, these heavyweights seem on track to take on the global markets by storm. Table 1 below gives you a snapshot of the various indices available, and the sectors that they are concentrated on. While conventional indices have a heavy tilt into traditional banks within the financial sector, the New China Sectors Index hold, within the financial sector, insurance companies.

Table 1: Sector breakdown of China focused indices

	S&P New China Sectors Ex A Share Index	MSCI China Index	Hang Seng China Enterprise Index	FTSE China 50 Index
Year-to-date returns	23.9%	20.4%	13.9%	13.4%
Sector Breakdown				
Consumer Discretionary	31.2%	22.5%	6.3%	4.6%
Communication Services	23.1%	26.0%	0.4%	1.0%
Financials	17.0%	22.1%	50.1%	46.5%
Consumer Staples	13.2%	2.6%		
Health Care	7.5%	3.0%		
Industrials	3.3%	5.4%	0.6%	4.6%
Utilities	2.7%	2.7%	2.5%	
Information Technology	2.0%	3.0%	10.2%	13.6%
Real Estate		5.9%	5.4%	9.5%
Telecommunication Services			12.0%	8.3%
Energy		4.9%	11.2%	10.3%
Materials		2.0%		1.8%
Others			1.3%	

Source: S&P Global Indices, MSCI, Hang Seng Indexes, FTSE Russell, and Bloomberg as at 30 April 2019. All returns are quoted in MYR terms.

Looking within the Shanghai stock exchange, we can see that its performance contributors have largely been through the New China Economy. With the China market enjoying a strong run, the New China Economy had collectively gained 151.3% in local currency terms this year. The Old China Economy, whereas, rose by 93.7%. While the New China Economy is only starting to be more publicised of late, these sectors have been steadily gaining grounds against the traditional sectors. Over a 3-year period, the New China Economy outperformed the Old China Economy by 55.5% after recording a gain of 101.5% (See Chart 1, and Chart 2 on page 3).

Chat 1: YTD performance of the Shanghai Stock Exchange – New vs. Old China Economy

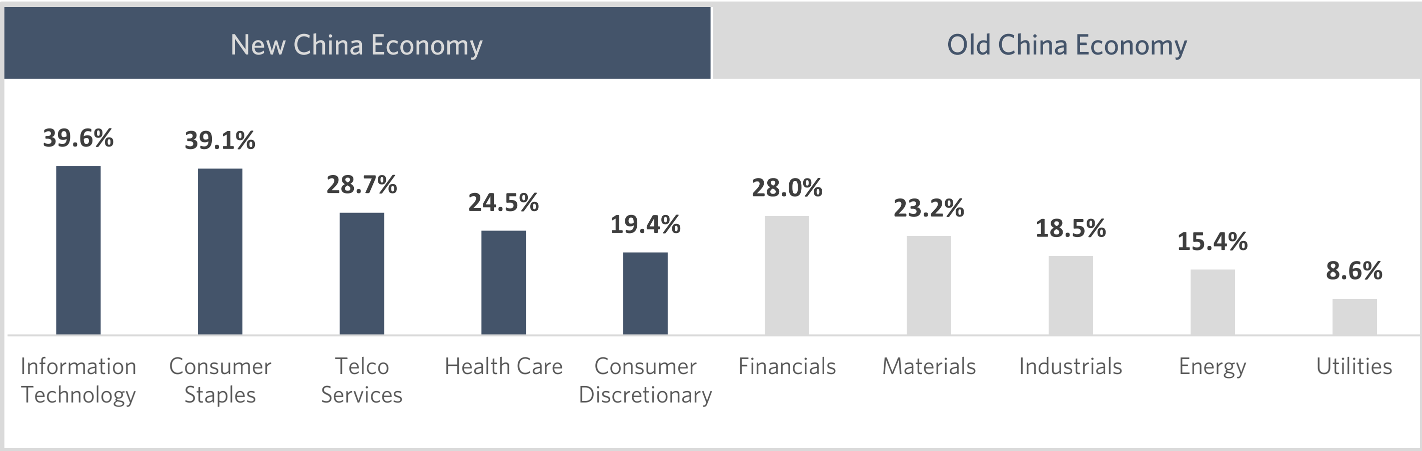
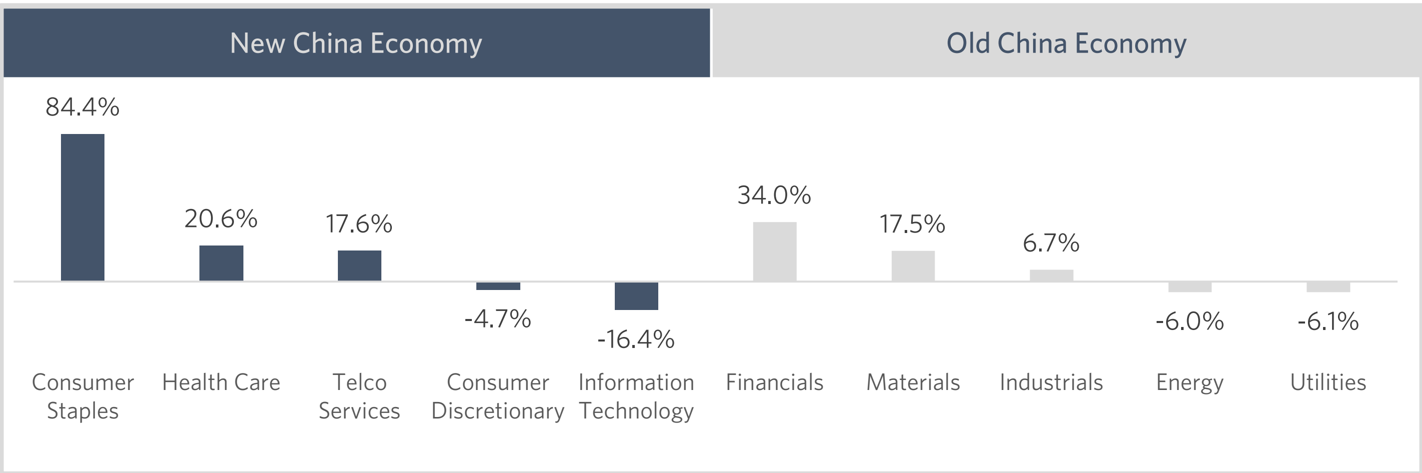


Chart 2: 3-Year performance of the Shanghai Stock Exchange – New vs. Old China Economy



Source: Bloomberg as at 30 April 2019. All returns are quoted in local currency terms.

By stripping out the conventional banking, and industrial sectors - the S&P New China Sector Ex A Share Index is constructed to capture longer-term growth trends such as e-commerce (through Tencent, and Alibaba), higher insurance penetration (through China Life and Ping An), tourism (Ctrip.com), and prioritisation on education needs (New Oriental Education).

To date, the Index has recorded a gain of 23.9% in MYR terms. The performance leap frogged ahead of indices such as the MSCI China Index (20.4%), Hang Seng China Enterprises Index (13.9%), and the FTSE China 50 Index (13.4%). Table 2 on page 4 provides a snapshot of the index heavyweights, and the disparity in year-to-date performance between companies within the New China Economy, and that of the Old China Economy.

Table 2: Year-to-date performance of index heavyweight – New vs. Old China Economy

Company Name	YTD Returns	Sector Focus
New Oriental Education & Technology	74.3%	Consumer Discretionary - Diversified Consumer Services
Ctrip.com International	62.9%	Consumer Discretionary - Internet & Direct Marketing Retail
JD.com Inc	44.7%	Consumer Discretionary - Internet & Direct Marketing Retail
Ping An Insurance Group	36.4%	Financials - Insurance
Alibaba Group Holdings Ltd	35.5%	Consumer Services - Interactive Media & Services
China Life Insurance	33.3%	Financials - Insurance
Tencent Holdings Ltd	23.4%	Consumer Discretionary - Internet & Direct Marketing Retail
Bank of China	10.5%	Financials - Banks
China Construction Bank	7.2%	Financials - Banks
Industrial & Commercial Bank of China	5.3%	Financials - Banks

Source: Bloomberg as at 30 April 2019. All returns are quoted in MYR terms.

Your easy access to gain exposure to the Index through **TradePlus S&P New China Tracker**

- Trade a portfolio of stocks through 1 single transaction.
- Able to access US and HK listed stocks through Bursa Malaysia listed ETF.
- Have a diversified portfolio with a smaller initial investment.

Exchange-Traded Fund	**TradePlus S&P New China Tracker**
Listed Market	Main Market – Bursa Exchange
Stock Code	0829EA
Minimum Trading Units	100 Units
Closing Price (30 April 2019)	MYR 6.00 per Unit
No. of Constituents	65 stocks
Management Fee	0.5% per annum
Sales Charge	Nil
12 months Price / Earnings *	22.84
12 months Price / Book Value *	2.8
12 months Dividend Yields *	1.36

** The 12 months' Price / Earnings, Price/Book Value, and Dividend Yields financial ratios have been sourced from Bloomberg for the S&P New China Sectors Ex A Share Index, which is the benchmark used by the TradePlus S&P New China Tracker. Data is for 12-months for the period ending 6 May 2019.*