eastspring investments

A Prudential plc company

Bridging Asia's giants

Yuan Yiu Tsai
Portfolio Manager, Equities
Eastspring Investments, Singapore

EXECUTIVE SUMMARY

My recent back-to-back trips to China and India reinforced several of our investment convictions and offered new insights into these markets' investment landscape. Here are my key takeaways:

- **A palpable sense of improvement in China's old economy sectors**
- **Chinese government directives are driving some changes**
- **Indian government has prioritised fiscal discipline for now**
- **India's structural growth story remains very much intact**

China

OLD ECONOMY SET TO REBOUND

In China, I visited machinery companies across eight cities in both Tier 1 and Tier 2 cities. Having taken the same trip last year, I noticed that fundamentals and sentiment have visibly improved. There was a sense of optimism amongst machinery dealers and almost all companies indicated similar positive momentum in project starts post Chinese New Year. This is in stark contrast to last year's sluggishness.

> **It feels like we are on the brink of a cyclical rebound in China's old economy sectors.**

Part of this optimism stems from local governments, energised by new funding from special local bond issuance, prioritising new starts over completion to boost local GDP growth. The first quarter guidance is looking strong for some sub sectors such as excavators and heavy-duty trucks (HDT). In particular, the penetration of electric HDT is rising rapidly given falling battery prices and improving economics.

There is upside risk to the conservative full-year guidance if the current momentum sustains. The street typically underestimates the extent of earnings recovery in a cyclical upturn; the key is to identify early datapoints such as the March sales data, the peak season, to assess the strength of the upturn.

DIRECTIVES STEERING CHANGES

Every company I met talked about reduced domestic pricing pressure this year likely due to a top-down directive to curb internal competition. In line with this, there seems to be limited discounting tactics from both domestic and multinational consumer brands.

Live-streaming of product promotions within a MNC sportswear store in Beijing; we also noticed limited discounting across domestic and MNC brands we visited – a good indicator of industry inventory level.

Similarly, there seems to be a top-down initiative by regulators on both sides encouraging companies to pursue dual A and H share listings, even if they do not need additional cash. One plausible reason could be to ensure companies have the support of their A-share stock performance ahead of H-share listing. Given this, and assuming that market sentiment stays buoyant, more dual A and H-share listings are expected in the second half of this year. China brokers will be the key beneficiaries, having had a low earnings base in the last two years.

India

GOVERNMENT HAS CLEAR PRIORITIES

From my meetings with the relevant ministries and the central bank, it is clear the Indian government is not losing sleep over the country's near-term growth slowdown, preferring to monitor the impact of the tax cuts on domestic consumption and US trade policies on growth.

Fiscal discipline remains a key priority while monetary policy will remain neutral. Contrary to market talk, capex has not been de-prioritised; it remains at 3% of GDP and focused on urban infrastructure and agriculture, and fostering state competition. That said, it is consumption that is taking the limelight as investors anticipate positive impact from the tax cuts that could be more evident in 2HFY26.

KEY SECTOR TAKEAWAYS

Property *(positive):* On-the-ground checks suggest property demand remains robust. A sales representative of an ultra-luxury project in Gurgoan confirms that they had to turn away demand ahead of their official launch. To be sure, property stocks are high beta and could underperform in the near term. Still there are stocks that are attractively valued and backed by cash flows and landbank.

Showflat at a new township project in Dharavi, Mumbai. This is the first-of-its-kind township development in the suburb of Dharavi – a good example of how some developers are able to create new demand amidst the property upcycle.

Hospitals *(positive):* I spent an afternoon visiting a 1000-bed private hospital in Gurgoan, one of India's finance and technology business hubs, and was very impressed by the space, ambience and facilities. Meetings with various companies also suggest that regulatory pricing caps are a non-issue, with rising private health insurance penetration addressing pricing inflation. The outlook for this segment remains positive despite the incoming competition.

A dedicated counter is set up for Ayushman Bharat (govt scheme) patients, who provide a base load to anchor occupancy. Longer term, rising insurance penetration continues to be the key driver for the industry.

Quick commerce ***(positive):*** All indications point towards a fast-growing sector despite heightened competition; the segment currently comprises 2% of overall retail sector with a potential to grow up to 10%. The companies I spoke to revealed that more premium products are being sold and that buyers are paying for convenience instead of shopping for discounts. This growing pie should be able to accommodate the three big competitors.

Microfinance ***(negative):*** The Karnataka ordinance to crack down on unregulated lending activities will likely delay the recovery of this sector by another quarter or two. Most importantly, there is a pending bill that essentially takes this regulation nationwide and could create a lot of near-term disruptions in the low-end unsecured space (similar to demonetization).

A final point to note is that the Indian equity market continues to be supported by domestic flows and investors are increasing their subscription ticket size in a down-market. There is still a lot of cash on the sidelines, waiting for the right time to buy. Valuations are getting attractive, while the structural growth story remains very much intact.

Disclaimer

This document is produced by Eastspring Investments (Singapore) Limited and issued in:

Singapore by Eastspring Investments (Singapore) Limited (UEN: 199407631H)

Australia (for wholesale clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore, is exempt from the requirement to hold an Australian financial services licence and is licensed and regulated by the Monetary Authority of Singapore under Singapore laws which differ from Australian laws.

Hong Kong by Eastspring Investments (Hong Kong) Limited and has not been reviewed by the Securities and Futures Commission of Hong Kong.

Indonesia by PT Eastspring Investments Indonesia, an investment manager that is licensed, registered and supervised by the Indonesia Financial Services Authority (OJK).

Malaysia by Eastspring Investments Berhad (200001028634/ 531241-U) and Eastspring Al-Wara' Investments Berhad (200901017585 / 860682-K).

Thailand by Eastspring Asset Management (Thailand) Co., Ltd.

United States of America (for institutional clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore and is registered with the U.S Securities and Exchange Commission as a registered investment adviser.

European Economic Area (for professional clients only) and Switzerland (for qualified investors only) by Eastspring Investments (Luxembourg) S.A., 26, Boulevard Royal, 2449 Luxembourg, Grand-Duchy of Luxembourg, registered with the Registre de Commerce et des Sociétés (Luxembourg), Register No B 173737.

Chile (for institutional clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore and is licensed and regulated by the Monetary Authority of Singapore under Singapore laws which differ from Chilean laws.

The afore-mentioned entities are hereinafter collectively referred to as Eastspring Investments.

The views and opinions contained herein are those of the author, and may not necessarily represent views expressed or reflected in other Eastspring Investments' communications. This document is solely for information purposes and does not have any regard to the specific investment objective, financial situation and/or particular needs of any specific persons who may receive this document. This document is not intended as an offer, a solicitation of offer or a recommendation, to deal in shares of securities or any financial instruments. It may not be published, circulated, reproduced or distributed without the prior written consent of Eastspring Investments. Reliance upon information in this document is at the sole discretion of the reader. Please carefully study the related information and/or consult your own professional adviser before investing.

Investment involves risks. Past performance of and the predictions, projections, or forecasts on the economy, securities markets or the economic trends of the markets are not necessarily indicative of the future or likely performance of Eastspring Investments or any of the funds managed by Eastspring Investments.

Information herein is believed to be reliable at time of publication. Data from third party sources may have been used in the preparation of this material and Eastspring Investments has not independently verified, validated or audited such data. Where lawfully permitted, Eastspring Investments does not warrant its completeness or accuracy and is not responsible for error of facts or opinion nor shall be liable for damages arising out of any person's reliance upon this information. Any opinion or estimate contained in this document may subject to change without notice.

Eastspring Investments companies (excluding joint venture companies) are ultimately wholly-owned/indirect subsidiaries of Prudential plc of the United Kingdom. Eastspring Investments companies (including joint venture companies) and Prudential plc are not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America or with the Prudential Assurance Company Limited, a subsidiary of M&G plc (a company incorporated in the United Kingdom).