

# Profiting from China's Social Reform – Thematic Approach to Investing in China

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# Agenda

## 1) **Social Issues**

- A need for a greener environment
- Declining birthrate and ageing population
- Emergence of the middle class
- Rising labour cost

## 2) **Future Trends**

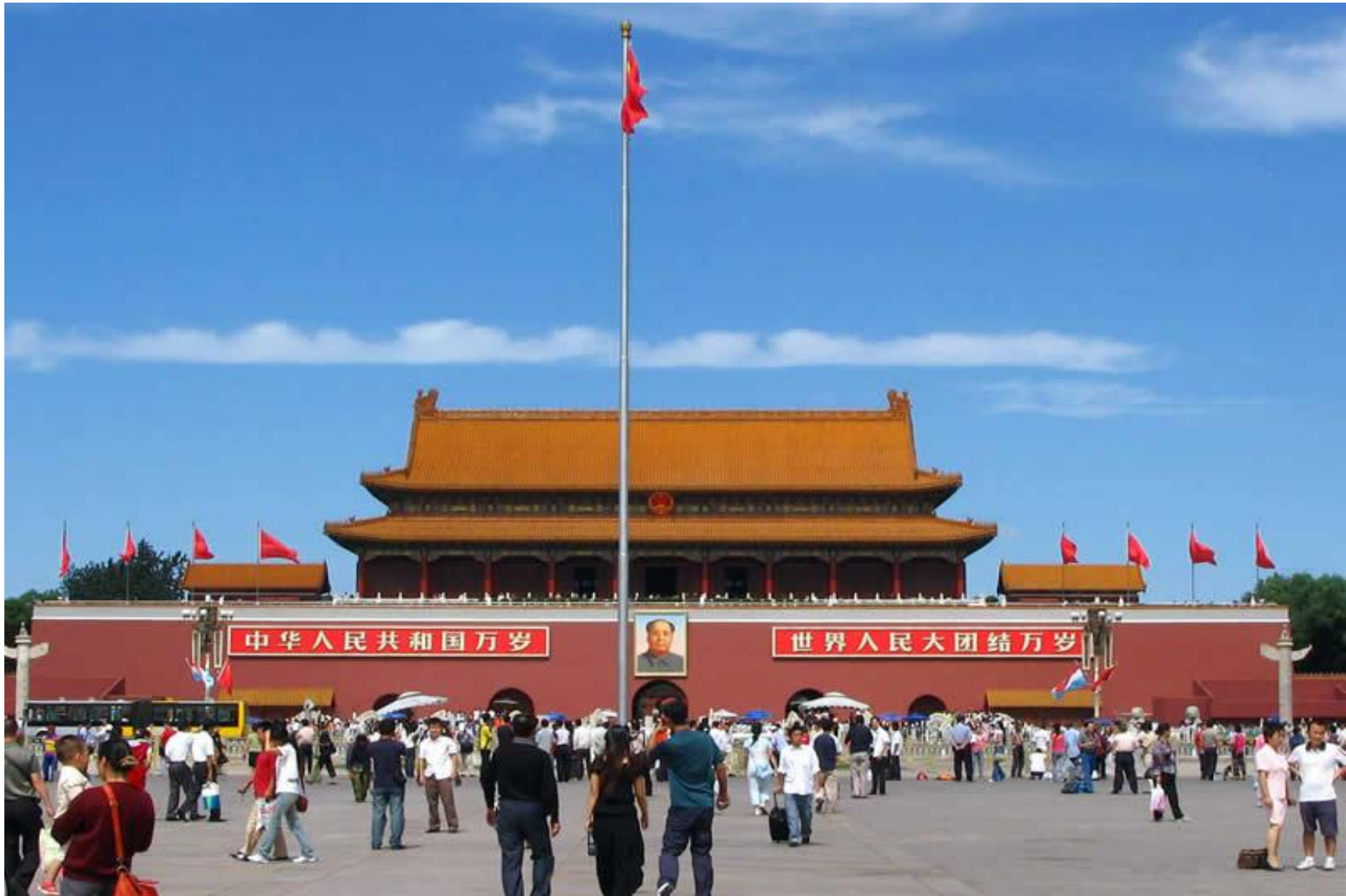
- Natural gas and other green energies
- Healthcare and babycare
- Consumption upgrade
- E-commerce and automation

## 3) Conclusion

Current issues:

Pollution

# Beijing Tiananmen Square: THEN



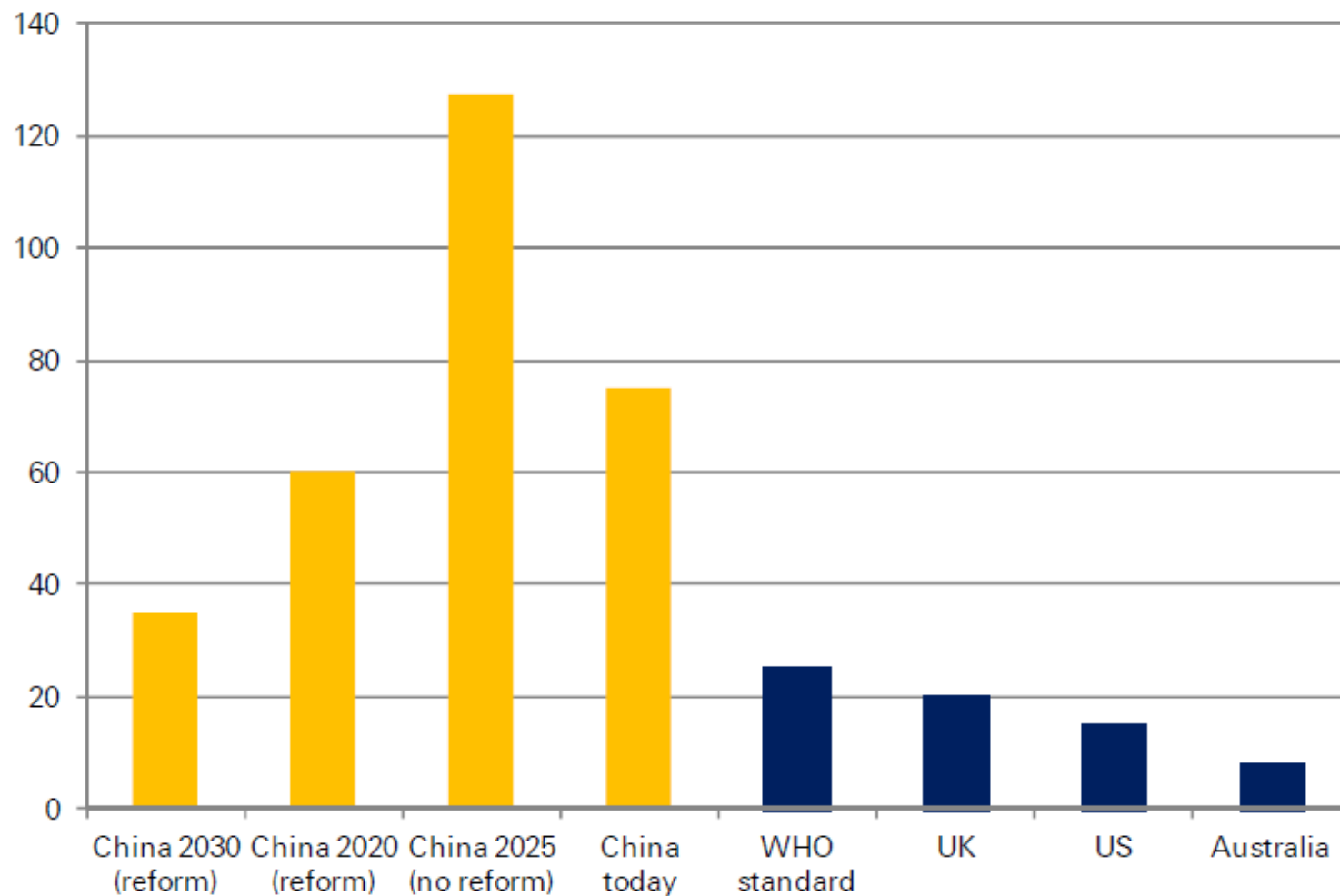
Source: BeijingHoliday

# Beijing Tiananmen Square: NOW



Source: Greenpeace

# PM2.5 levels could deteriorate further if we do nothing

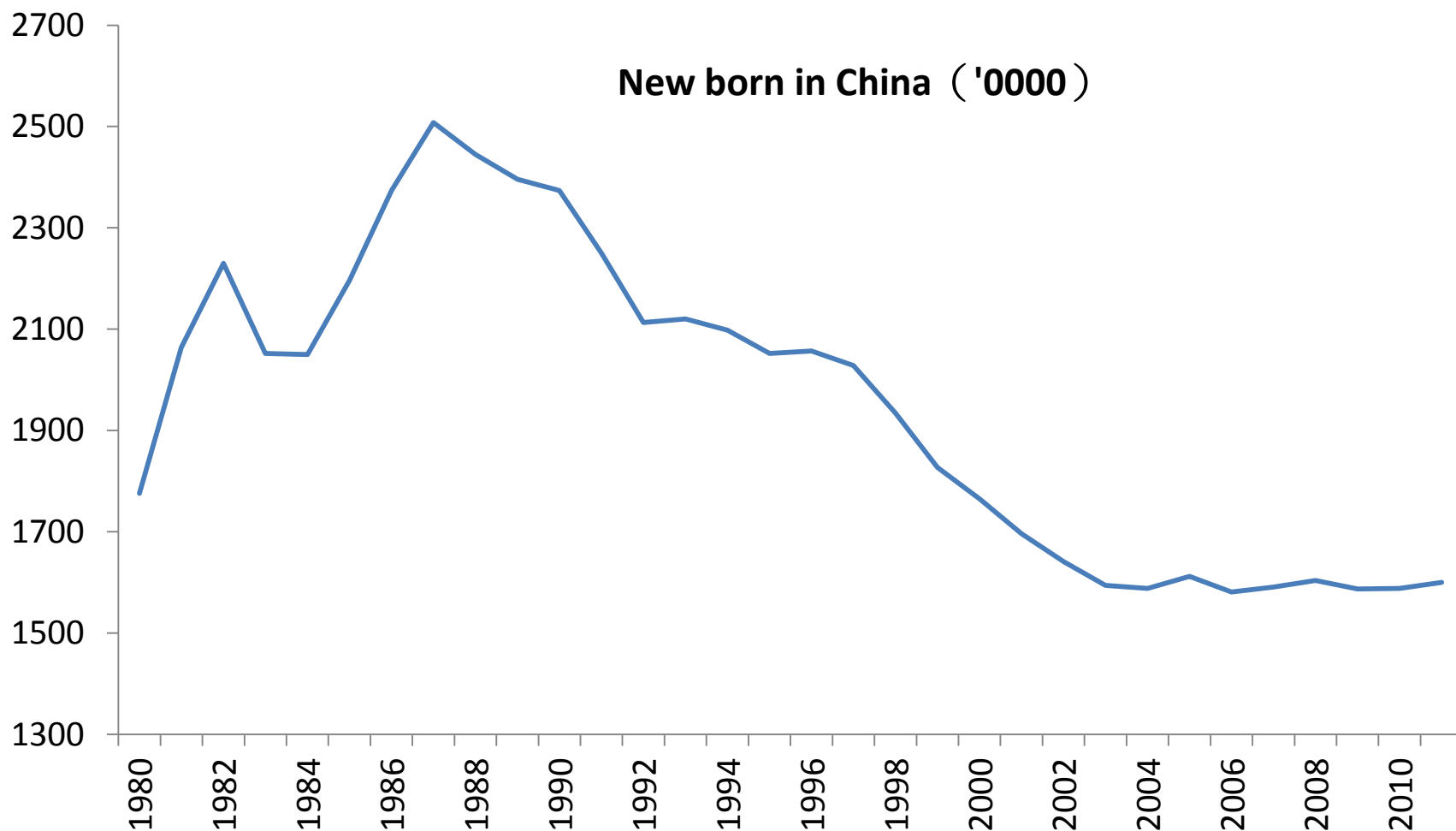


Source: DB, WHO, NASA

## Current issues:

- Declining birth rates
- rising labour cost

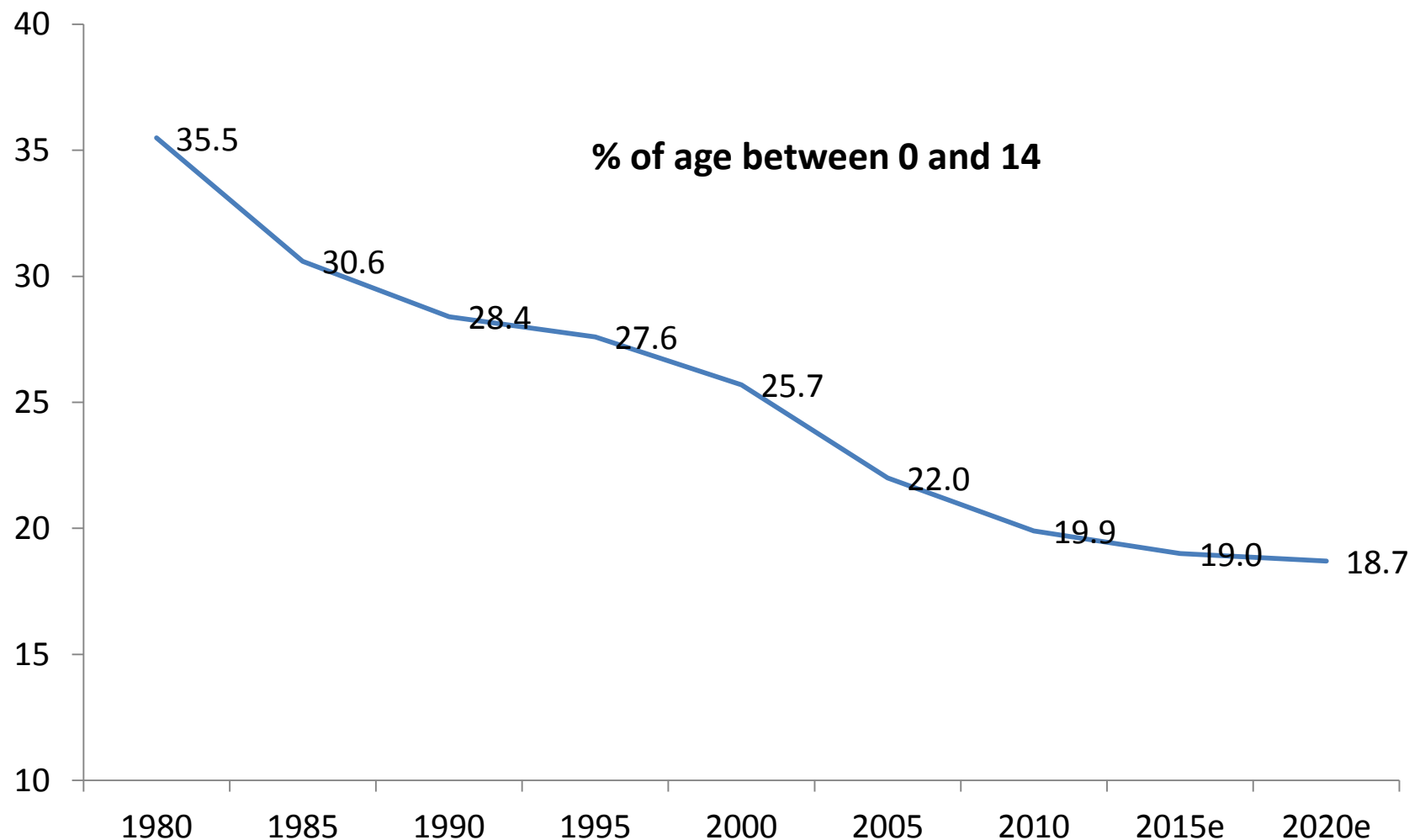
# New born in China has yet to rebound



Source: China National Bureau of Statistics

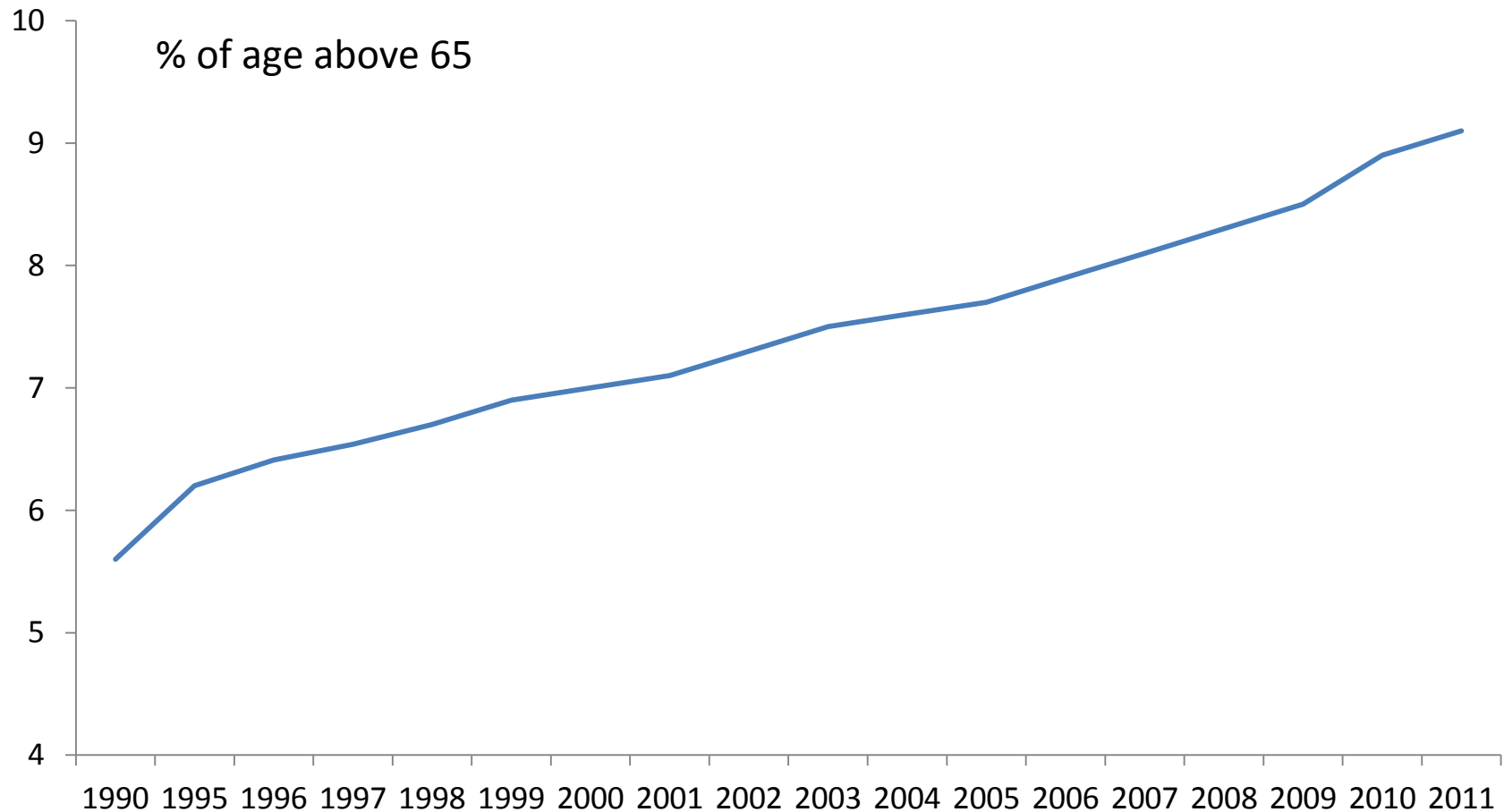


# While younger population is declining



Source: China National Bureau of Statistics

# Aging population is a concern in China



Source: National Bureau of Statistics of China

# Annual increase in new workers will turn to negative soon



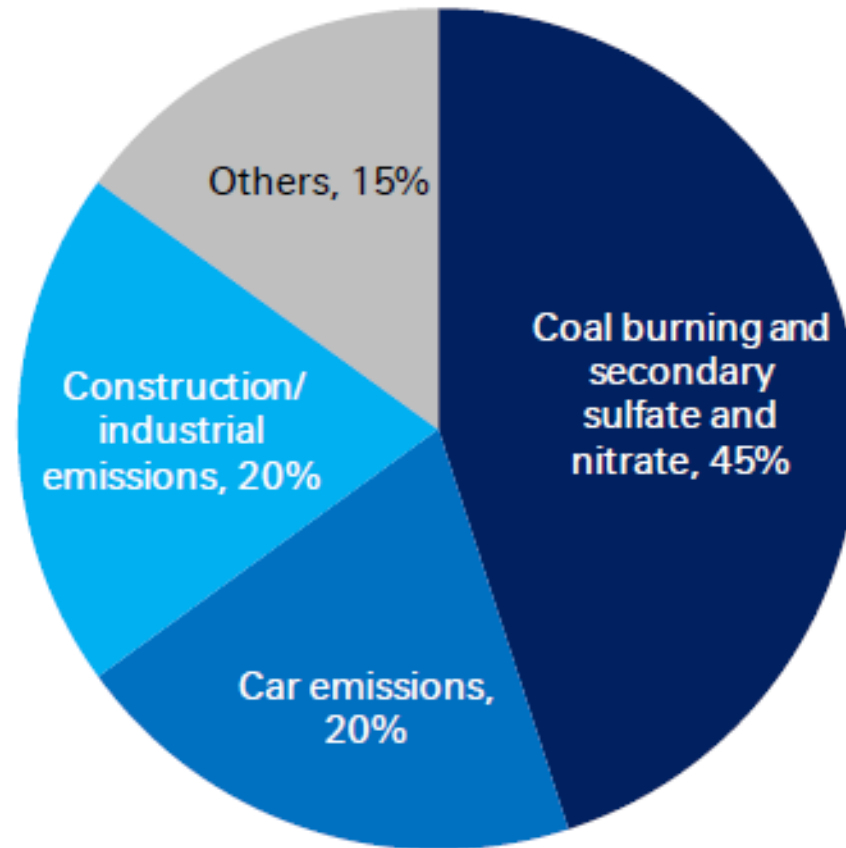
Source: Hu Ying (2010), "demographic changes in 12<sup>th</sup> five year plans," Social Science Literature Press

Future trends:

## **A Greener China**

Not just a Need, but a Necessity

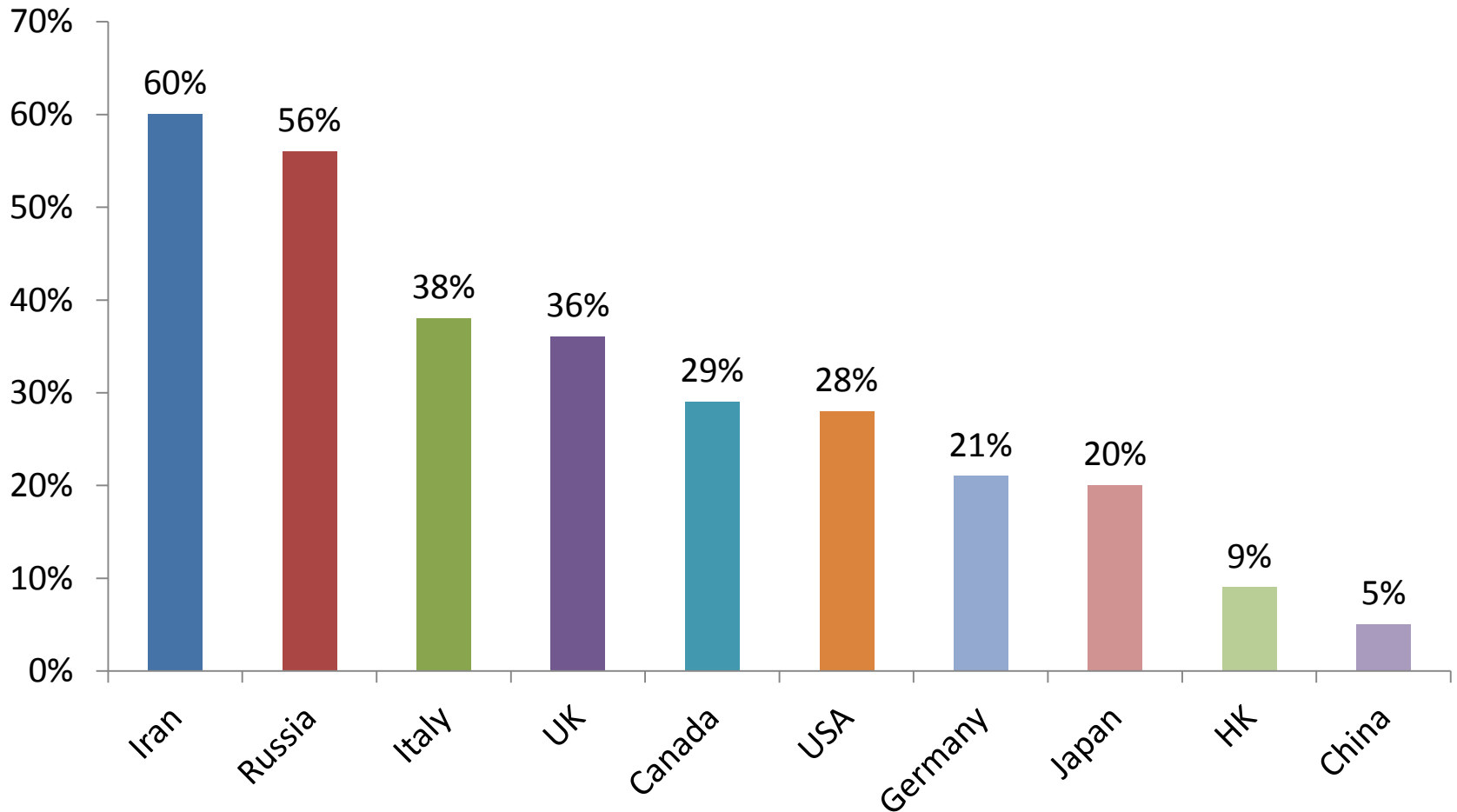
# Composition of PM2.5 in China



PM - particulate matter

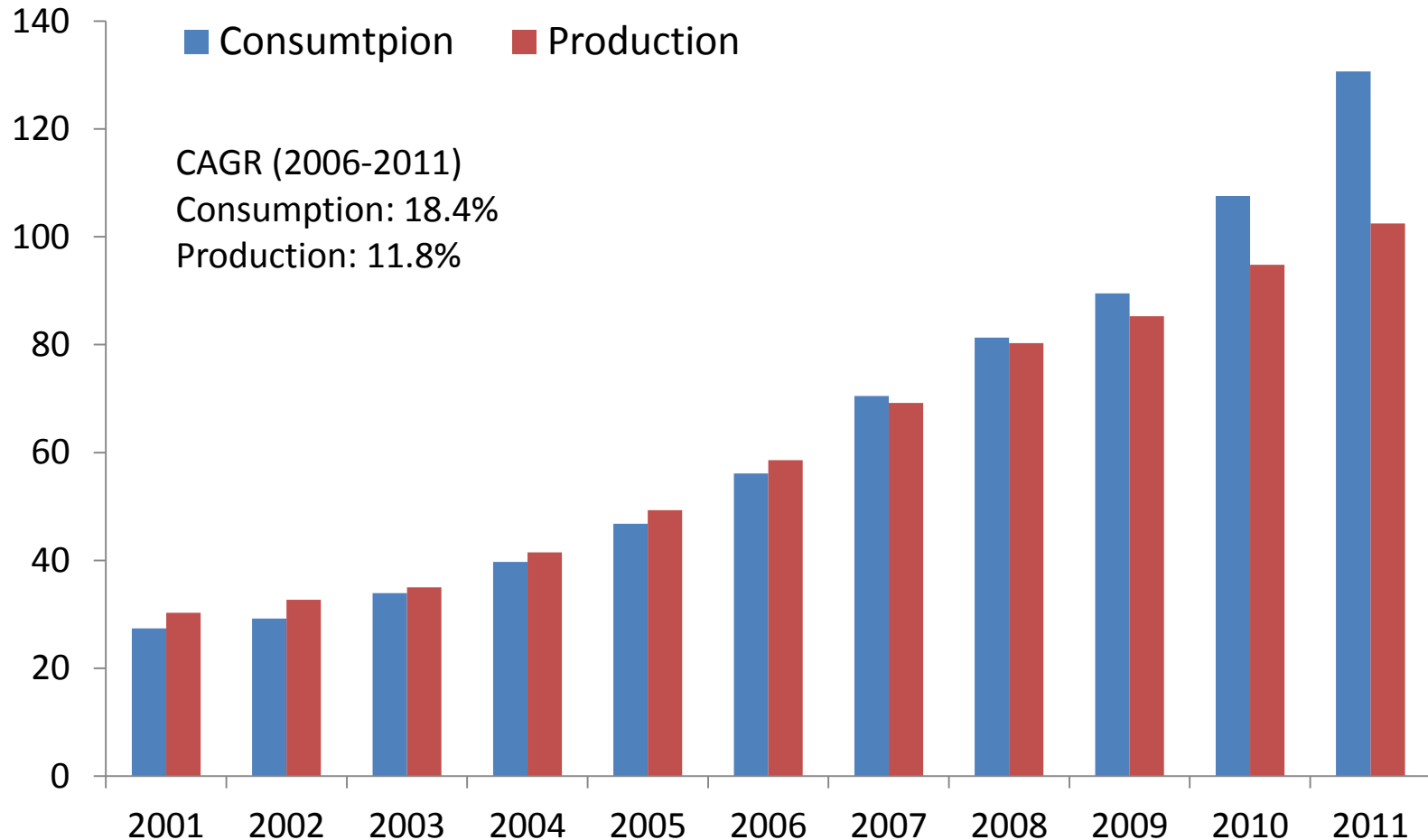
Source: DB

# Natural gas share of total primary energy consumption



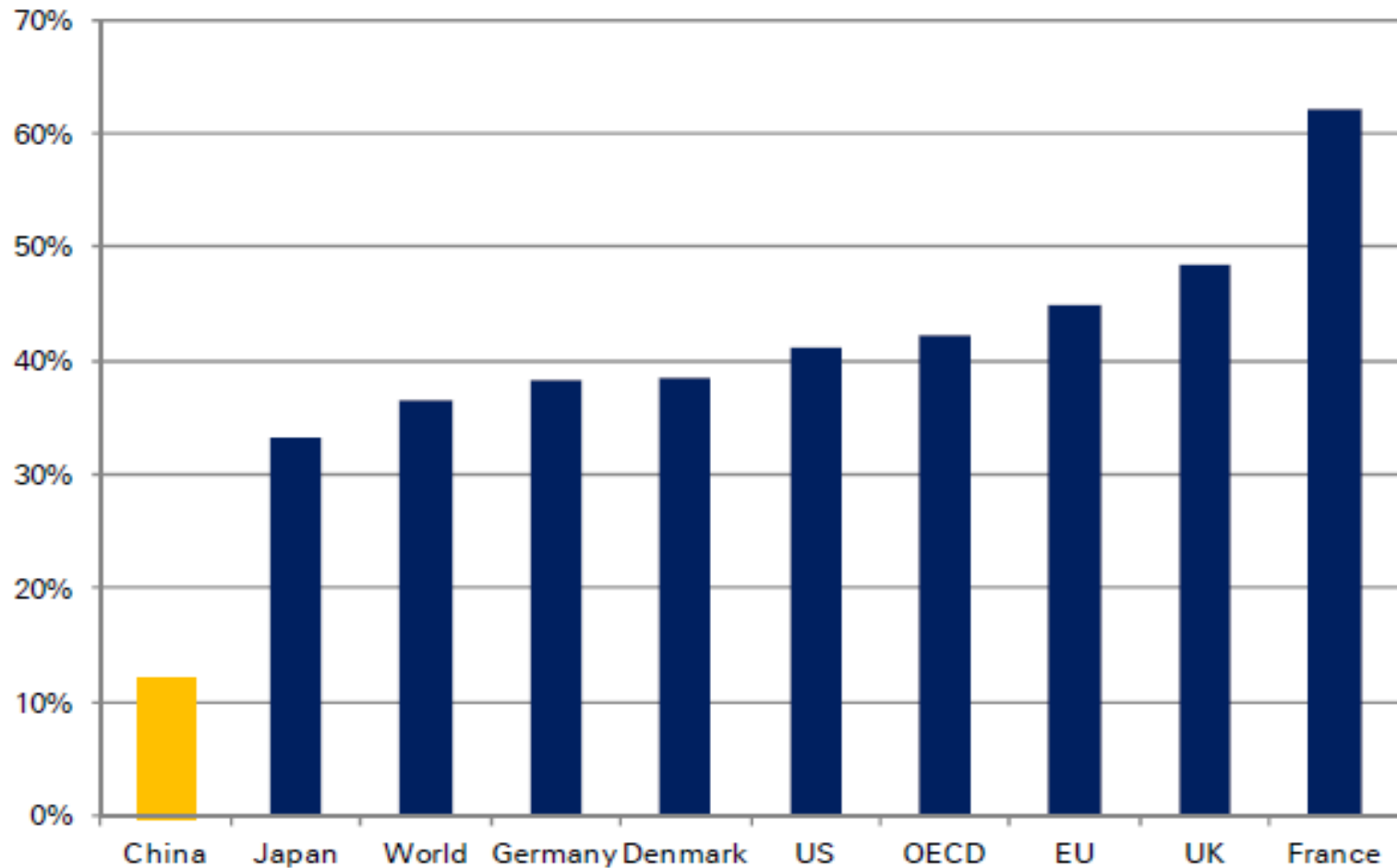
Source: BP Statistical Review

# China Natural Gas Demand has been outpacing supply since 2007



Source: BP Statistical Review of World Energy June 2012

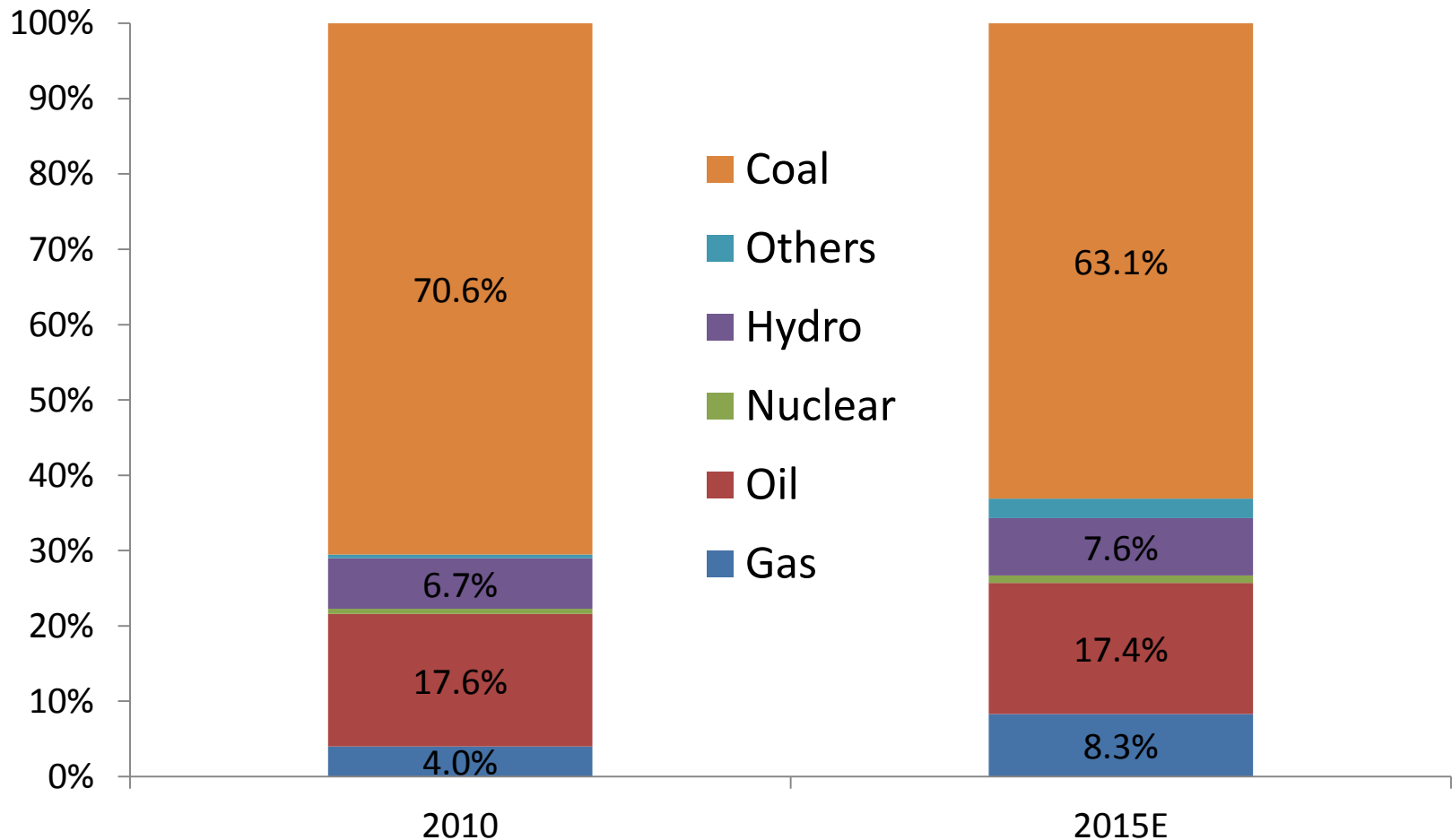
# Clean energies as % of total consumption



Source: DB, BP Statistical Review



# As % of total energy consumption: coal down, natural gas up

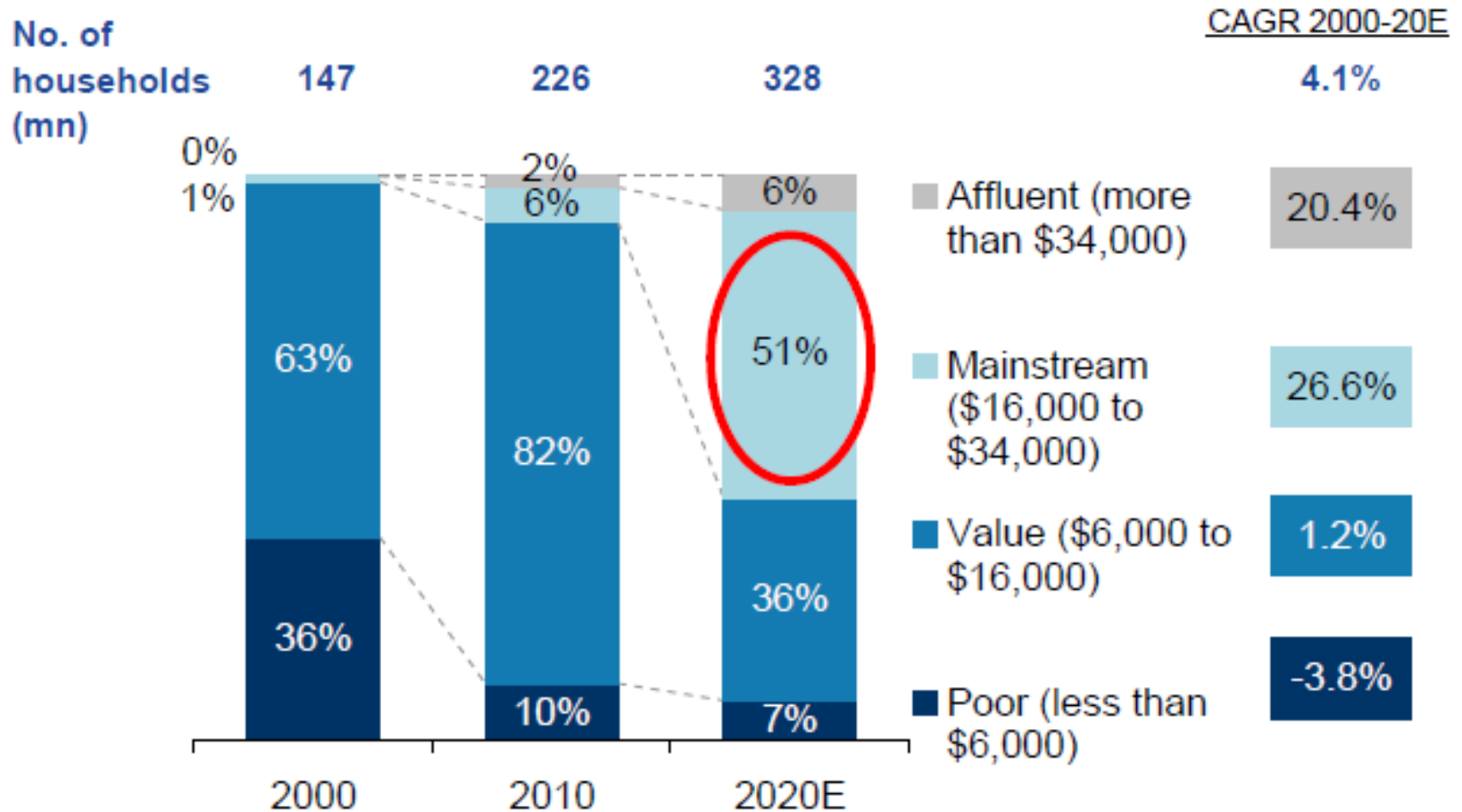


Source: NDRC, BP Statistical Review

Future trends:

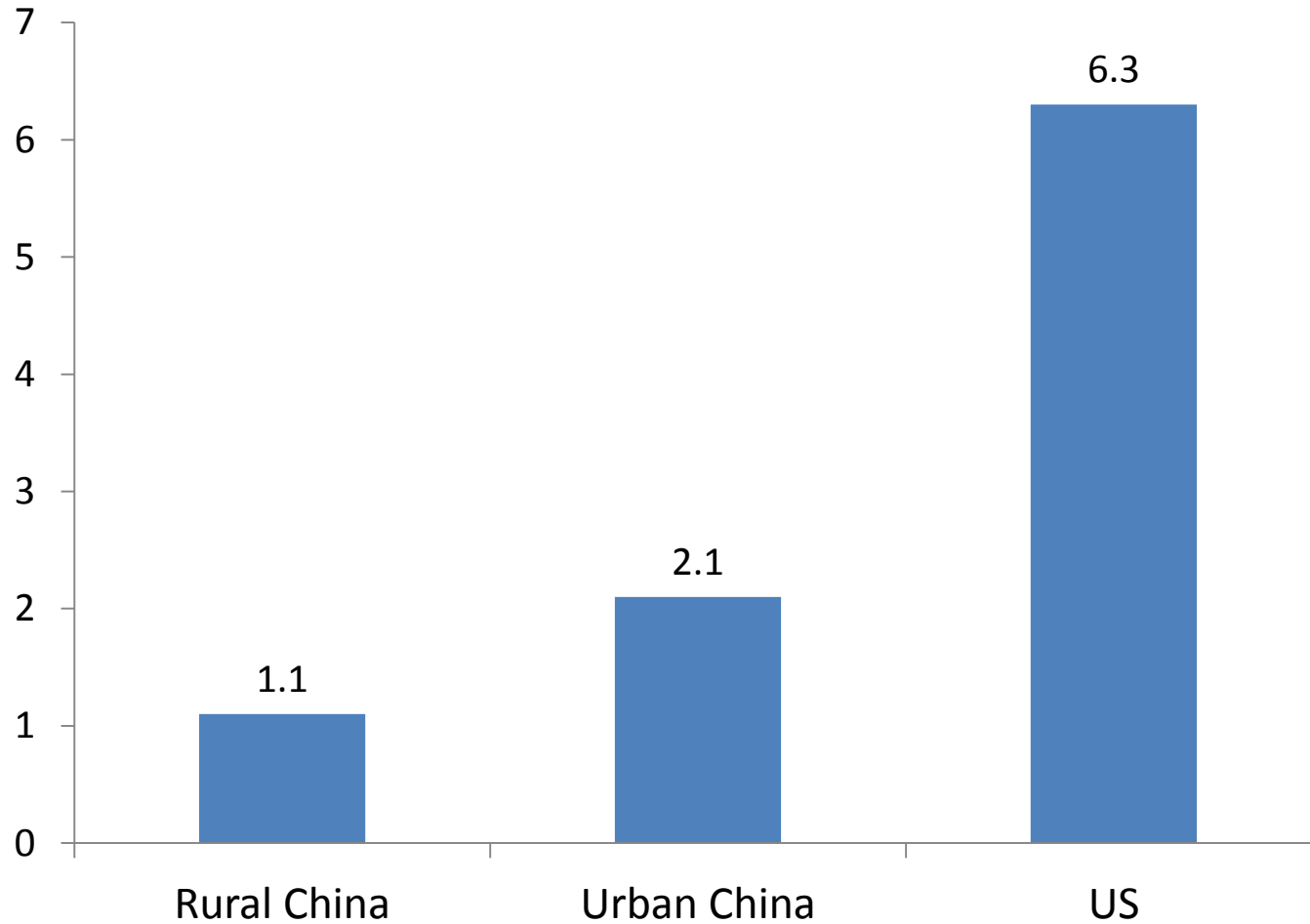
Consumption upgrade

# Middle income class will represent 51% of total urban households in 2020



Source: Mckinsey Insights China – Macroeconomic model update

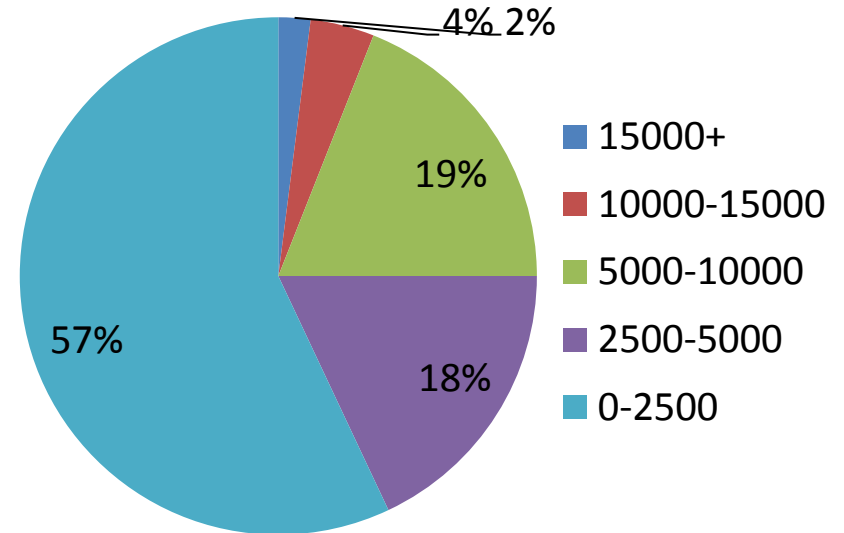
# Number of travels per annum



Source: The Yearbook of China Tourism Statistics, CICC

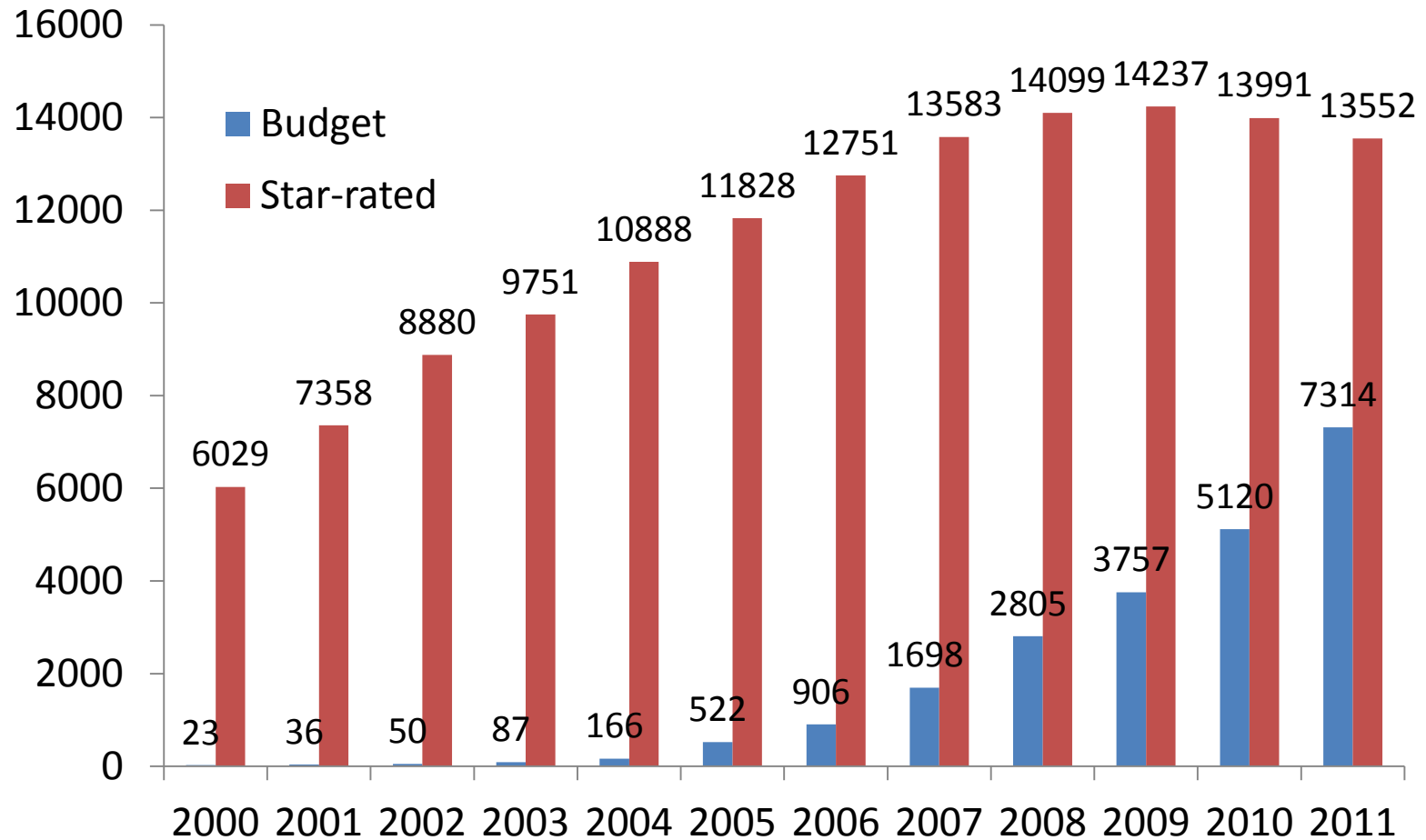
	Number	
Tourists visit per year	2776 billion	
Torusits per day	22.8 million	
Accomodation demand	12.9 million	
	Demand	
High end luxury	310304	2.40%
Mid-scale and economy	5339807	41.30%
Low-scale and guesthouse	7279204	56.30%

## Monthly income distribution for tourists (RMB)



Source: The Yearbook of China Tourism Statistics, CICC

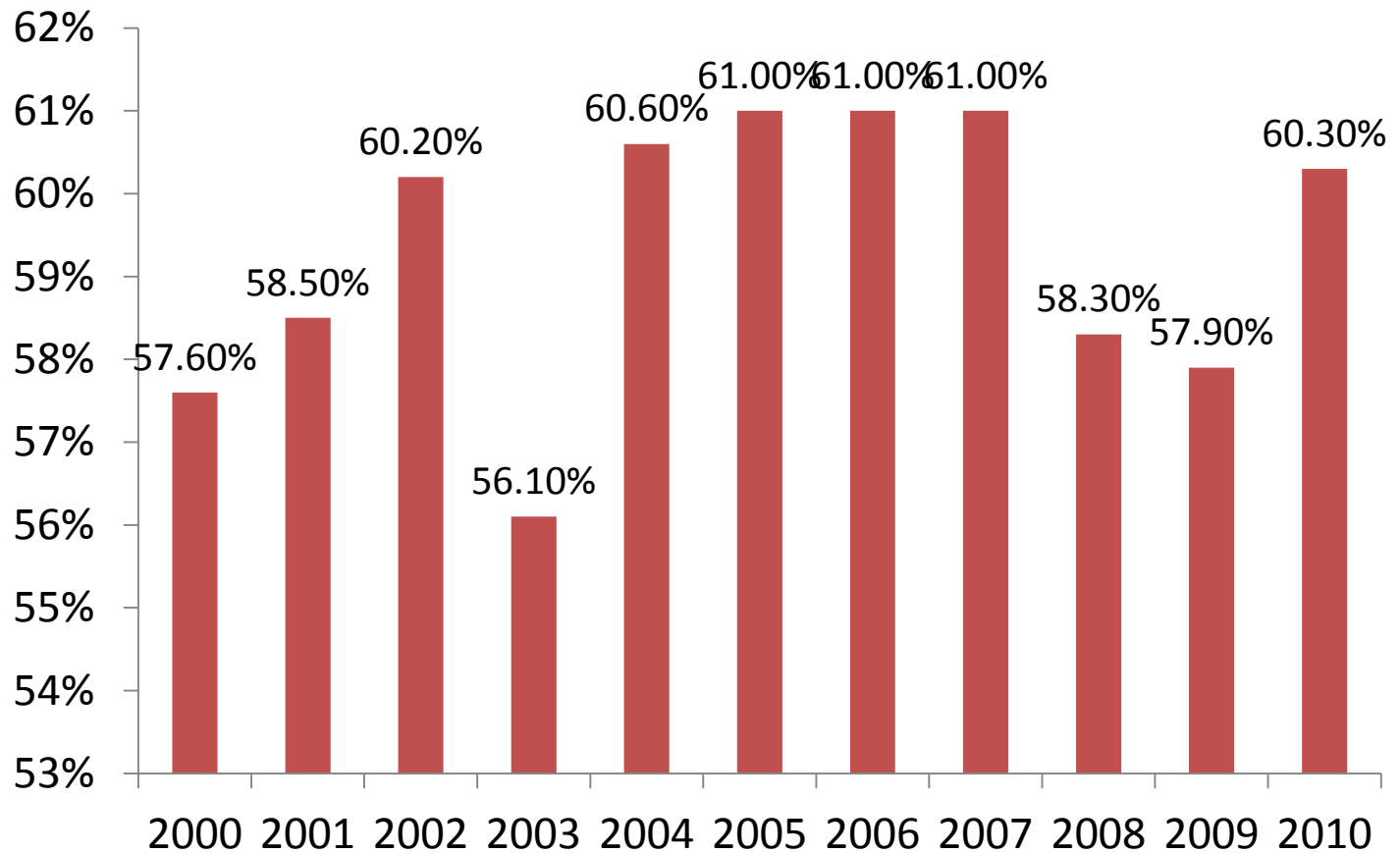
# Rising mass travel to benefit budget hotels



Source: Inntie, CEIC

# Occupancies

**star-rated : 60s%; budget: >80%**



Source: Inntie, CEIC

**The abolishment of 1-child policy?**

**To be, or not to be?**  
that is the question!



# China is the fastest growing babyfood market

US\$m	2005	2006	2007	2008	2009	2012E	CAGR (05-09)
<b>China</b>	<b>1751</b>	<b>2285</b>	<b>3055</b>	<b>4192</b>	<b>4986</b>	<b>8051</b>	<b>29.9%</b>
US	5573	5815	6212	6392	6504	6381	3.9%
France	1481	1554	1781	1980	1829	1968	5.4%
Japan	995	928	914	1065	1026	982	0.8%
Germany	879	902	1028	1117	1007	995	3.5%
UK	730	767	871	893	906	964	5.6%
South Korea	537	560	562	472	465	415	-3.5%
India	243	256	305	319	332	396	8.2%

Source: Euromonitor International

# The more expensive, the better

China Infant formula market		2005	2006	2007	2008	2009	2012E	CAGR (05-09)
	RMB m	12388	15845	20316	25497	30346	51783	25.1%
Price/900g								
> RMB300	Supreme	248	317	437	688	1214	2770	48.7%
201-300	High-tier	4509	5831	7527	9765	11501	20014	26.4%
101-200	Mid-tier	4769	6211	8086	10454	12624	21594	27.6%
<100	Low-tier	2862	3486	4266	4590	5007	7405	15.0%

Source: Euromonitor International

Future trends:

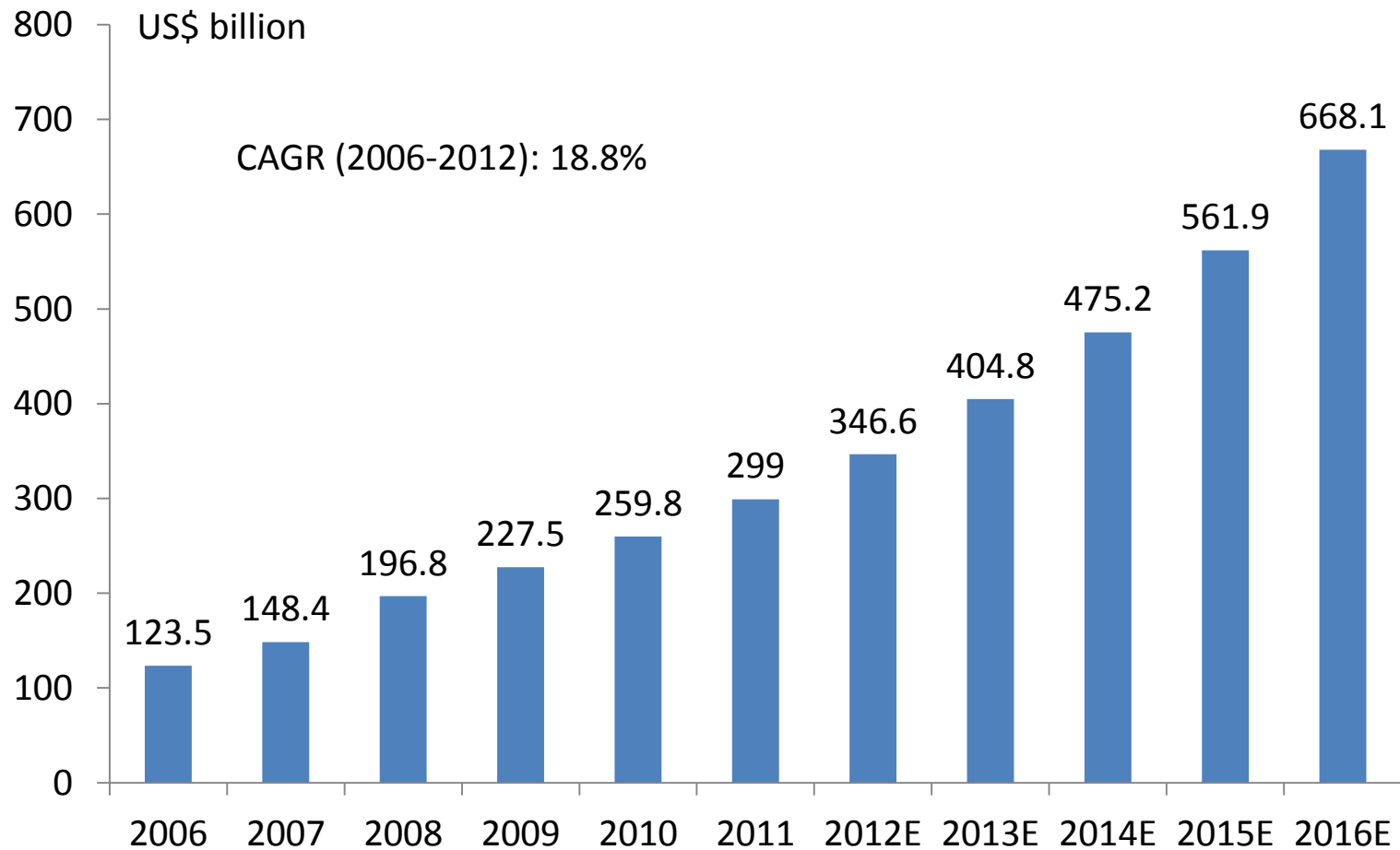
Rising healthcare expenditure

# A closer look at China 2013 work report: healthcare and environmental protection

	RMB billion	Growth
National security	720.2	10.7%
Social security and jobs	655.1	13.9%
Agriculture	619.6	12.8%
Education	413.2	9.3%
Healthcare	260.3	27.1%
Technology	253	10.4%
Environmental protection	210.1	18.8%

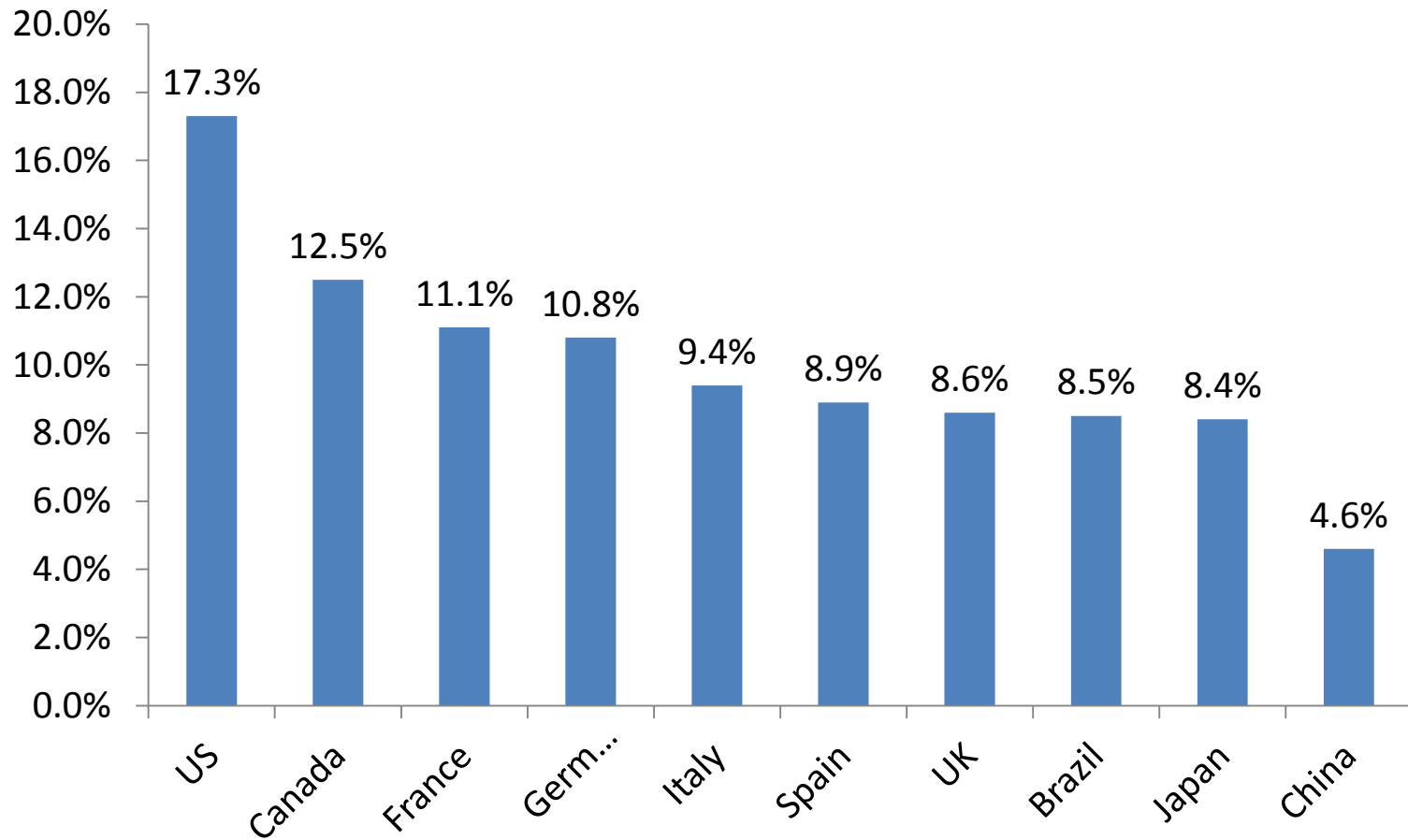
Source: 12<sup>th</sup> National People's Congress

# Total healthcare expenditure in China



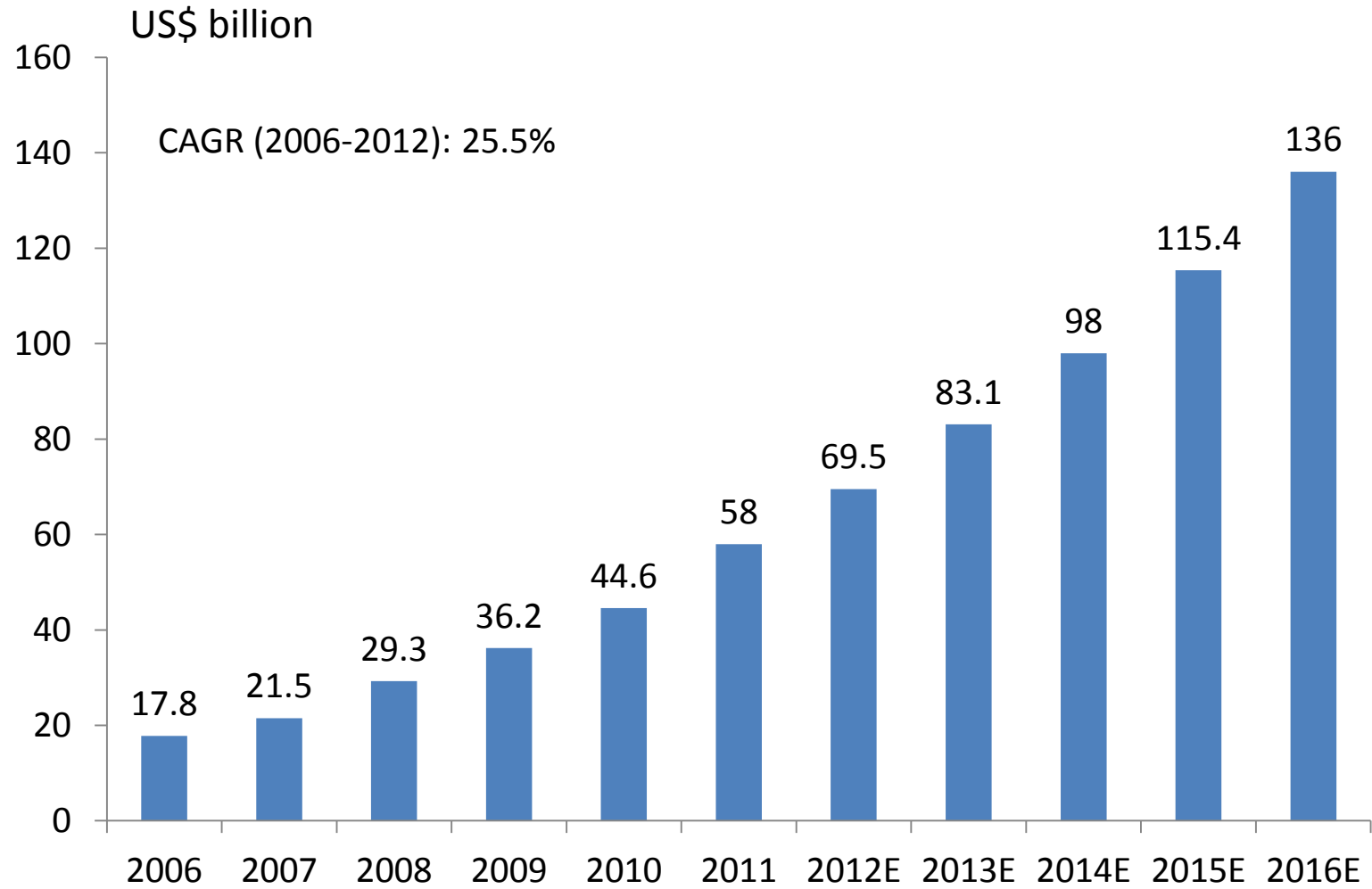
Source: Frost & Sullivan report

# Healthcare spending as a percentage of GDP in 2011: Still low in world standard



Source: Frost & Sullivan

# Pharmaceutical market in China



Source: The medical market: China, 2012; ISI Emerging Markets

Future trends:

Online shopping

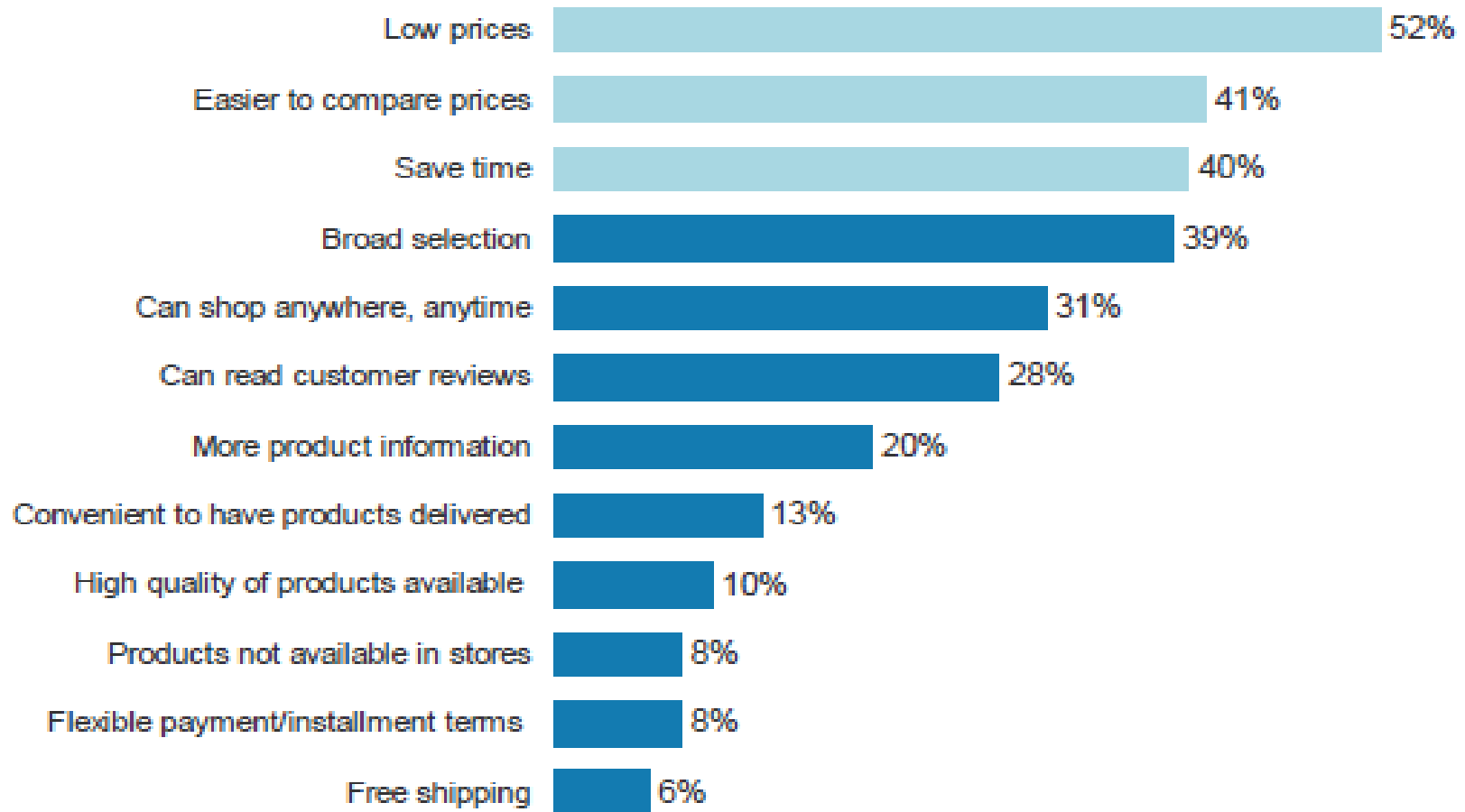


**“With just a mouse click, you can buy quality stuff online at much cheaper prices, so why bother to go shopping malls in the freezing weather and spend more?”**

a 31-year-old employee of an advertising company in Beijing

Source: Xinhua

# Low prices and easy price comparison are main reasons to buy online



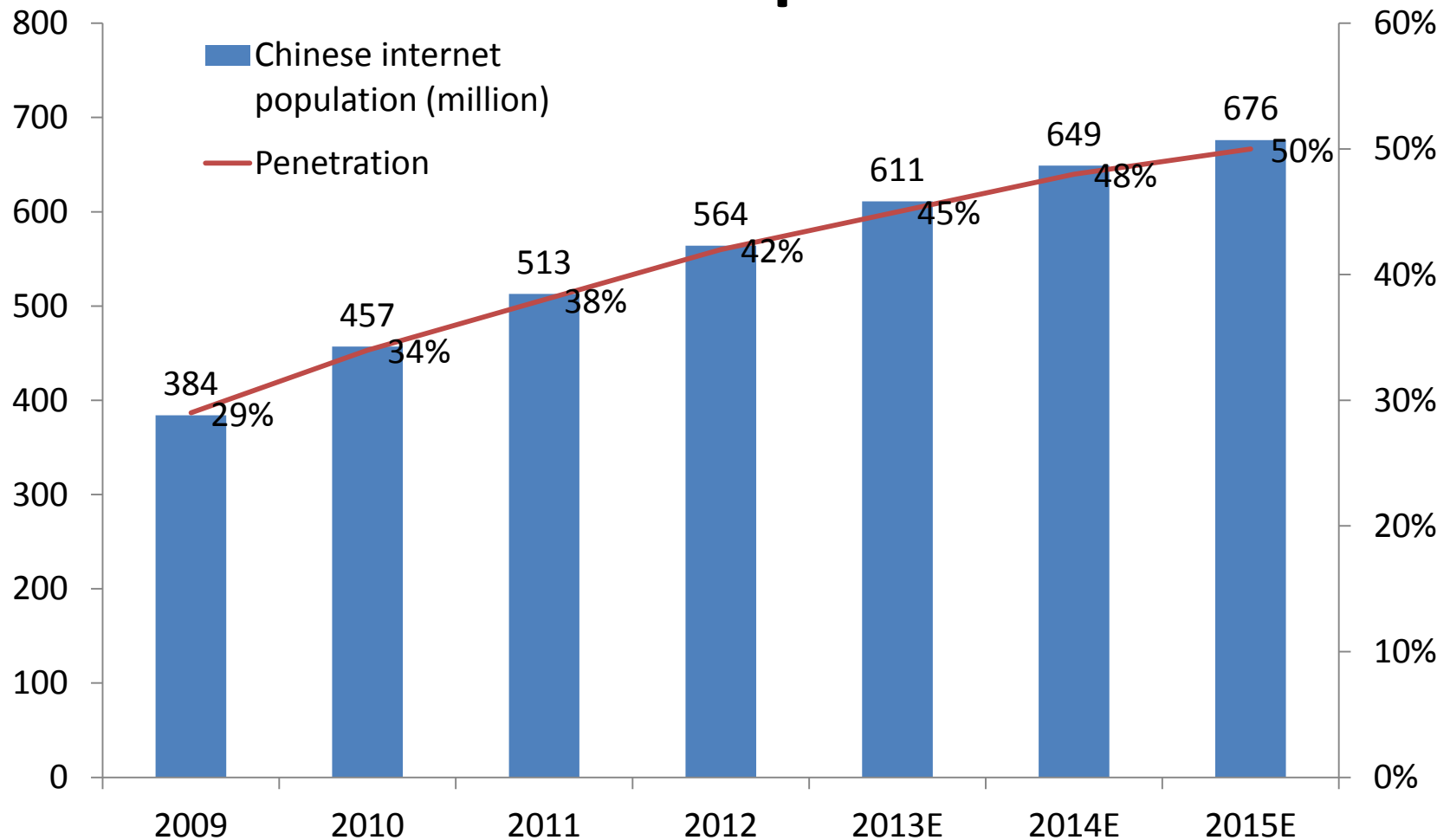
Source: Alphawise, Morgan Stanley Research

# Online shopping has become more important in China



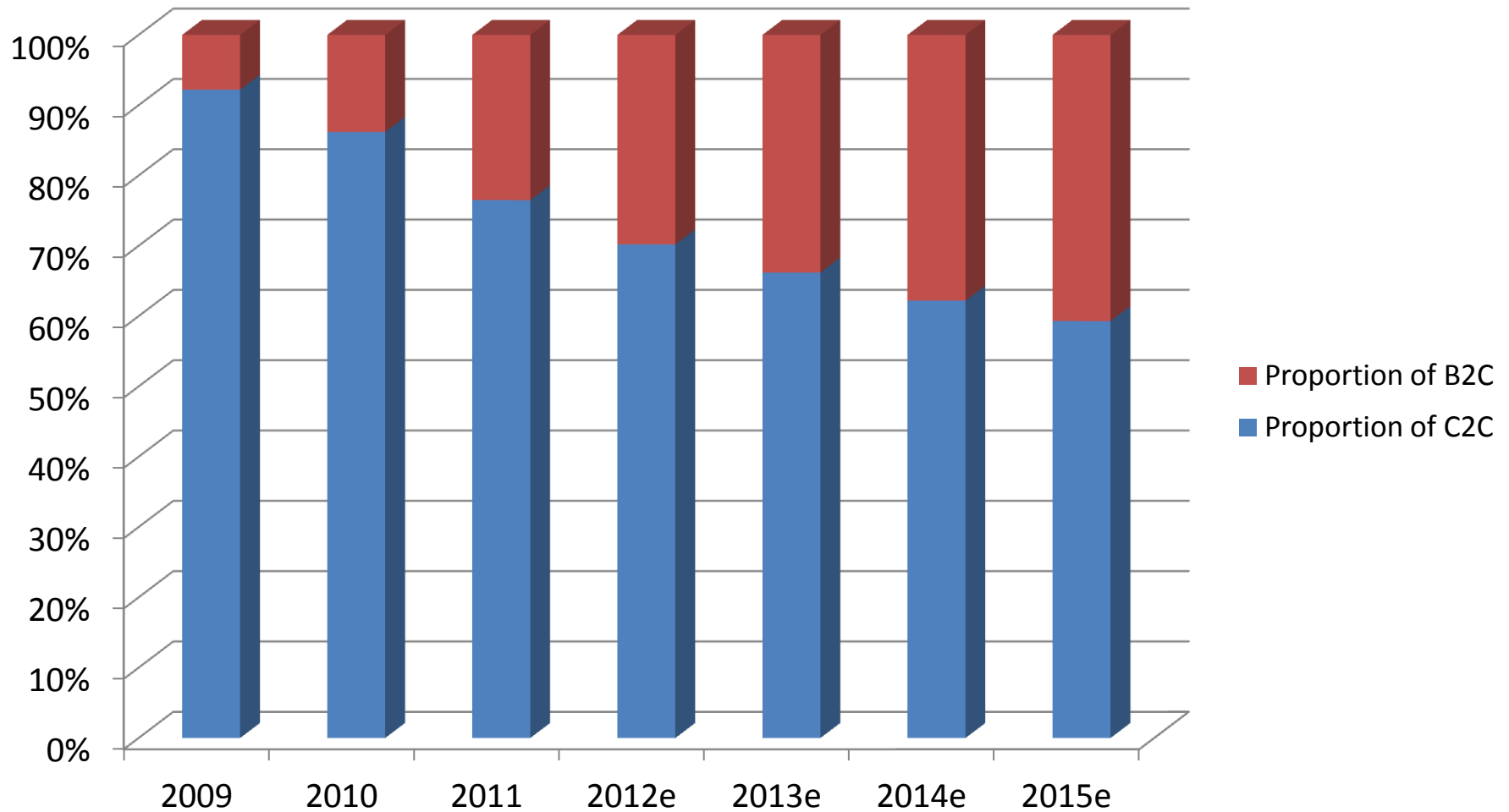
Source: AliResearch

# Internet penetration still low compared to 70-80% in the US and Japan



Source: CNNIC

# China's E-Shopping (B2C, C2C) Mix



Source: iResearch

## Taobao (C2C)



- Launched in 2003
- More than 800 million products
- More than 500 million users

## Tmall (B2C)



- Launched in 2008
- More than 70000 brands
- Brands like Uniqlo, Nike, P&G, Panasonic, Lego, Gap, L'Oreal

入驻商家

更多入驻商家



- If Alibaba is an economy, it would have ranked **48th** based on 2011 GDP

Ranking	Economy	USD million
40	Israel	242,929
41	Singapore	239,700
42	Portugal	237,374
43	Egypt, Arab Rep.	229,531
44	Philippines	224,754
45	Ireland	217,275
46	Czech Republic	217,027
47	Pakistan	210,216
<b>48</b>	<b>Alibaba Group</b>	<b>190,627</b>
48	Algeria	188,681

Source: World Bank, Alibaba, VL

Future trends:

The end of cheap labour



# What to do:

## Automation and move high-end



-Honhai has 1.2 million workers but they will add 1 million robots in three years, both for replacement and new functions.

# Conclusions

	<b>Winners</b>	<b>Losers</b>
1) A greener China	Natural gas	Coal
	Wind	Highly-polluted industries
	Nuclear	
2) Rising labour cost	Consumption upgrade, automation	Labour-intensive industries
Higher disposable income	Budget hotels, baby care	Department stores
	E-commerce	
3) Higher healthcare	Pharmaceuticals	
	Healthcare equipment	
	Pediatric products	
4) Corruption	Low-end consumption eg: affordable luxury < RMB3k	high-end consumption eg: luxury watches, Moutai

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