AGCM Asia Growth Fund

December 1, 2023

Chinese companies set for best earnings growth in seven years

During the month of November, the NAV of AGCM Asia Growth Fund RC SEK decreased by -3.3% and the WP EUR share class was flat at 0.0%.

It has been a poor year for Chinese equities but we are hopeful for 2024. Valuations are near record lows while corporate earnings growth accelerates. On November 28, Reuters ran a story titled "Chinese firms are on track for their strongest earnings expansion in seven years" with China's 1,721 largest Chinese listed companies indicating profit growth of 16% in 2024, the highest since 2017. Another source, Bloomberg, have similar projections with 15% earnings growth for MSCI China in 2024 and 15% also in 2025, based on analyst consensus estimates.

China's largest online travel agency Trip.com reported another blow-out quarter, with revenues growing +99% year-on-year, and 31% higher than the 2019 level. Adjusted net profit grew more than three-fold with record high margins. Chinese domestic travelling has exceeded the 2019 level by over 40%, and outbound travel is now back up to 60% of the pre-Covid level. Trip.com's global platforms also gained traction, revenues expanding at triple digit growth rates for several quarters, gaining market share especially in the Asia Pacific region. The company also has a share buyback program in place, totaling USD 500 million, corresponding to 2% of its market cap. Travel remains one of the best long-term structural growth stories in China, where Trip.com has a dominant market position.

Tencent reported a net profit increase of +39% in 3Q 2023, driven by strong growth in advertising revenues, which was +20% higher than a year ago. The video gaming runner-up Netease also reported robust performance, as revenues grew +12% year-on-year and adjusted net profit up by +16%, with successful new game launches and narrowing losses in strategic businesses.

Alibaba reported solid result for the quarter ended in September 2023. Adjusted earnings per share grew +21% year-on-year. Management announced a historic first dividend payout, in addition to the existing share buyback program of which the balance totals USD 15 bn, equivalent to 8% of its market cap. The cancellation of a previously announced spin-off plan for its cloud computing business disappointed some investors, but looking closer, the decision makes good sense. AliCloud maintains its position as market leader with a 30% share of China's RMB 250 billion market. Alibaba also enjoys a technological lead in AI-cloud services. The company now has USD 70 billion in net cash and generates around USD 25 bn in free cash flow annually, and we see good upside from here.

The Western media reporting on China's economy is so far off the mark in so many regards it would require a book to properly address. Despite the government's ongoing program to downsize the residential real estate sector, which acts a drag on economic growth, the IMF expects China's GDP to grow by 5.4 percent in 2023. In its quarterly monetary policy report, the People's Bank of China (PBOC) said it "expected the annual growth target of around 5 percent can be successfully achieved" and its "prudent monetary policy in place to ensure stable growth".
In mid-November, two years ahead of industry predictions, China launched the World's fastest internet link with 1.2 terabit per second capacity. The network can send the equivalent of 150 films per second in the 3,000 km of optical fiber from Beijing to Guangzhou via Wuhan. Yet another example of infrastructure spending which lays the ground for future consumption and economic growth.

Singapore’s leading bank DBS reported 3Q earnings increasing by +18% to SGD 2.6 billion (2.0 bn USD) fueled by higher net interest margin and strong growth in commercial non-interest income. Asset quality remained stable and is backed by a conservative provisioning ratio of 125%. The integration of Citi Taiwan has contributed positively to building meaningful scale in Asian growth markets. DBS is now the largest foreign bank in the market by assets. Fee income growth of 14% was underpinned by a strong increase in wealth management fees and card transaction fees. The two business lines are expected to sustain growth in fee income during next year. According to management, higher-for-longer rates will support net interest income and is expected to remain at the same level for 2024 and net profit is projected to remain around the record 2023 level.

Indonesia’s GDP growth softened slightly in the third quarter to 4.9% year-on-year as private consumption growth slowed, and the full-year figure is generally expected to come in around 5%. GDP growth is underpinned by a sustained acceleration in investment growth which rose to 29% of GDP in the first three quarters. The revival of construction in the residential sector is expected to contribute to a further pick-up in the growth rate of the economy in 2024.

In India, stronger than expected tax revenues for the central government has provided resources to boost welfare spending. The government has stepped up its efforts to support the rural community as slightly below average rains resulted in weaker harvests. India has committed to provide 800 million people with 5 kg of free wheat or rice per month for the next five years.

India maintains its number one ranking as the world’s fastest growing major economy with GDP growth expected to gain more than 6% in the full year ending in March. Improved housing affordability and infrastructure spending by the government are driving the construction sector. Increased manufacturing, benefiting from policy support and supply-chain diversification by multi-nationals, contribute to the high economic growth trajectory.

Vietnam's exports grew by +6.2% year-on-year and imports by +5.5% year-on-year in November, marking the third consecutive month of positive growth. Vietnam remains competitive with a low manufacturing wage and increasing penetration of the electronics supply chain. Inflation continued to fall in November to 3.4%, notably down from the January peaks at 4.9%. The retail sales continued uptrend, rising +10.1% year-on-year, and tourism arrivals reached 69% of pre-Covid 2019 levels. Standard Chartered forecasts Vietnam’s 2024 GDP growth to reach +6.7% driven by a recovery in exports. Vietnam's policy interest rates will likely remain low and the real estate market will gradually recover with the low interest rates and improving homebuyer sentiment.

South Korea’s equity market’s earnings growth is by Goldman Sachs expected to increase +54% in 2024 and to grow +20% further in 2025, as its semiconductor sector recovers. South Korea's exports of memory chips finally turned around to positive year-on-year growth in October, after a hiatus of 16 months. Memory chip prices have recently been rebounding, as supply has decreased on production cuts. Samsung Electronics and SK Hynix continue to execute conservative investment plans, prioritizing inventory destocking along with the demand recovery. They also benefit from the surging AI-related memory chip orders from Nvidia. Samsung Electronics will continue to expand competitiveness in foundry and memory chip manufacturing. In early November, the financial authorities in South Korea banned short selling until June 2024, which could also be a potential catalyst for the Korean market in the coming year.

Gustav Rhenman, Chief Investment Officer

AGCM Asia Growth Fund

Monthly Report

November 2023

ASIA GROWTH CAPITAL MANAGEMENT

Performance

As of 30/11/2023	1 month	YTD	2 year	5 year	Since launch Oct 3, 2014
AGCM Asia Growth Fund RC SEK	-3.3%	-4.5%	-0.5%	+29.9%	+75.1%
AGCM Asia Growth Fund WP EUR	+0.0%	-6.0%	-8.6%	+23.3%	n.a.

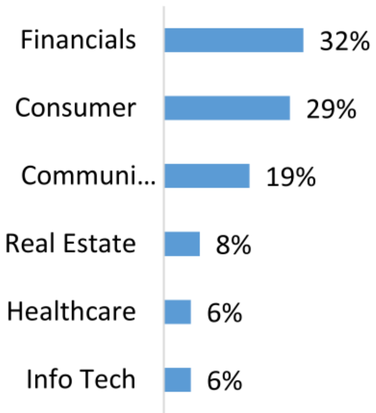
Top 5 holdings %

As of 30/11/2023

Company	Weight
Alibaba Group	8.3%
Tencent Holdings	8.0%
ICBC	4.6%
CCB	4.4%
Samsung Electronics	4.2%
Total	**29.5%**

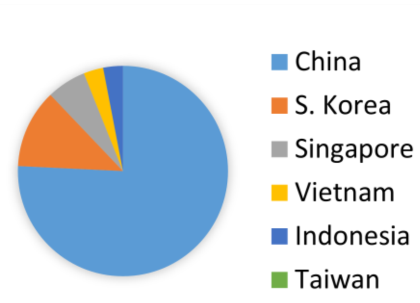
Industry breakdown

As of 30/11/2023



Geographic breakdown

As of 30/11/2023



About Asia Growth Capital Management

Asia Growth Capital Management AB (AGCM) is a specialized investment management company managing investment funds investing in listed equities in Asia. The company was founded in Sweden in 2013 by a group of investment professionals and executives with extensive experiences from a wide range of different industries. The Chief Investment Officer has twice before been awarded by Lipper (Thomson Reuters) for managing the best performing Asia Fund among all regulated Asia funds registered for marketing in any EU country.

Fund Facts

Portfolio manager:	Gustav Rhenman
Inception date:	03-Oct-2014
Fund size:	SEK 551 million
Number of holdings:	37
Management fee (RC):	1.85%
Fund management Company:	FundRock Management Company S.A.
NAV:	SEK 175.1 EUR 140.2
Minimum subscription:	n.a.
ISIN code:	SEK RC LU 1091660909 EUR WP LU 1163023143

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