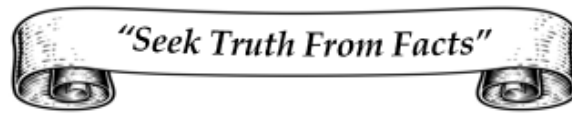


The China Rambler

An Occasional Letter On Topics Of Interest To China Investors

Issue #15



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In this edition: why I'm so proud of Hong Kong. Why Institutional Fund Managers may find themselves in a bind in 2026. Why Mengniu Dairy #02319 is a not-at-any-pricer for me and how I'm setting up for 2026. Spoiler alert, absent potentially-costly 'big' ideas.

Very Proud

At the end of November, a devastating fire engulfed seven residential towers in the Tai Po neighbourhood of Hong Kong and 161 people lost their lives. You've seen the pictures; I've no need to post any more. Emergency services were on the scene in minutes, President Xi urged 'all out efforts' and the local government immediately pledged cash handouts to residents affected and further announced compensation payments for families of the deceased. The next day a first batch of those presumed responsible were rounded up and charged with manslaughter. Responses could not have been swifter. An interdepartmental team was established to manage an initial inquiry and a week later the government announced the setting up of an investigative tribunal led by a judge. In addition, the government started a support fund for those affected seeding it with H\$300m (U\$38m) which has since grown due to subscription from the public to over H\$4.1bn (U\$500m). Supplies and donations were also received from hundreds of government-related, corporate and individual donors in mainland China. Thousands of volunteers went to the site to do whatever they could, flags were lowered to half-mast for three days and two days after the fire the government together with senior officials from the mainland stood for three minutes in silence in a gesture of sincere condolence. The stories of bravery, selflessness and courage from the emergency services and others are too many to list. The fire was a horrible tragedy, but the compassion, focus and humanity shown in the collective response made me very proud, of my city and my fellow citizens.

When Information Changes

Keynes may never have said "When information changes, I change my mind, what do you do Sir?" but I was reminded of the apocryphal quote by the headline that appeared in the December 10th edition of the South China Morning Post: "China, Hong Kong stocks set to gain nearly 20% in 2026, JPMorgan says". This is the same JP Morgan* that produced the now-infamous report in March 2022 (later described as a 'publishing error') deeming a large part of the China market 'uninvestible'. But what information has changed?

It's The Market Stupid!

[*I'm being unfair to JPM. Since 2022 they've from time to time been constructive on China. It's just that the 'uninvestible' slur went on to be applied to China by many whom I suspect still hold that view.]

To the end of December 2025, the 2-year total return, gross, of the Hang Seng Index (HSI) has been c. 68%. Over the same period the S+P-500 Index's (S+P) total gross return has been c. 50%. The HSI, and China stocks in general have therefore been something of a sneaky-hot market. Sneaky or not, this relative outperformance won't have gone unnoticed.

Participation Imperative

Institutional Fund Managers (IFMs) will never admit this, but they chase trends. A tick exacerbated in recent years by the rise of ETFs and other passive strategies. To have missed China would have been excusable if the big alternative, the S+P, had done much better, but it hasn't. Consequently, a) a hot market (a) has been missed and, b) a relative dullard (b) was backed. Cost, a-b, c.18%.



Only One Way Out

For those who've missed the trend the solve-for-y is to increase China exposure. Advisors like JP Morgan are counselling it, peers may be about to do the same and clients are about to twig a winning horse has been unbacked for a while. Best get busy before the difficult questions start and whilst valuations still offer a convenient justification for such a tilt.



Let The Fun Begin? Well, Maybe

There's a problem though many may be unaware of. The free float of China stocks is smaller than it appears as many holdings are founder, family or government related and not for sale at almost any price. In addition, state interests in the largest SOEs aren't for sale, period. The scene for a squeeze is set. Should a scramble begin it'll be characterized by higher and higher prices with IFMs less and less exposed needing more and more stock. This isn't a prediction, it's a possible (but I think likely) path ahead and one few are positioned in anticipation of. So, let the fun begin? Well, maybe.



Stockwatch: Mengniu Dairy #02319

Summary of a recent closer look

Basically: (P/E and yield are for 2023, 2024 was problematic) Market cap.: c. U\$7.4bn, P/E: 15.8x, Yield: 2.5%, P/B: 1.3x. Avg. daily T/O (3m) U\$36m. One of a duopoly at the top of China's milk market. Significant contributions also from milk powder, cheese and ice cream.

The company is a de facto SOE controlled by China's food processing and trading behemoth [China COFCO](#). This relationship dates from a [tainted product scandal](#) back in 2008.

The company in the past worked in close cooperation with [Arla Foods](#) and [Danone](#) although in recent years it's forged its own path. Annual capacity is today 14m tons (2015 8.7m tons).

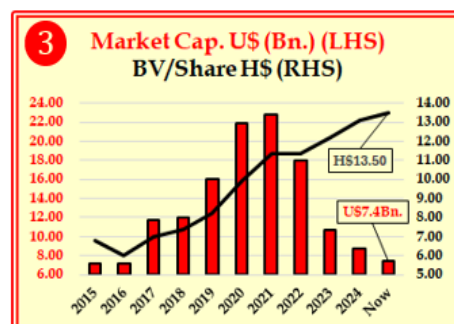
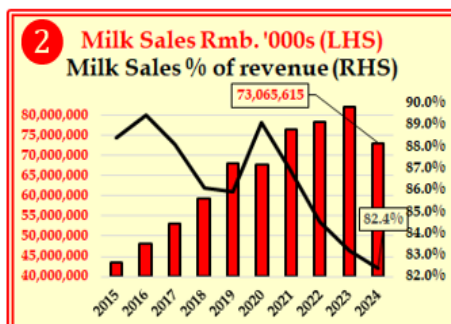
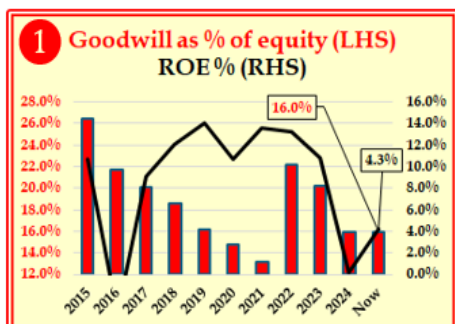
2024 numbers were distorted by non-cash write downs the company took on goodwill and to reflect the poor performance of an Australian brand acquired a while back.

Red flags: There were so many I needed to add this special section. In no particular order: emphasis on EBITDA or what Charlie Munger called '[bulls*it earnings](#)', Board composition (only two executives at any time), high goodwill component of book ❶, possible deposit round-tripping since 2019, possible up-loans to the parent, hard to read 'Other Financial Assets' in accounts, serial CB issuance, more financial shenanigans with recent issuance of 'sustainability bonds', rising gearing (from a cash surplus), Annual and other reporting that says a lot but, in reality, tells investors little (at least this simple one).

Not to like: Apart from the above? Their market is mature ❷ and now a price and over-supply slugfest. New management may struggle with past acquisitions, [Bellamy's](#) (bought in 2019) in particular may need to be restructured. A consumption slump may be structural.

To like: The stock is cheap ❸. It's big and a well-recognized national champion. They've expanded sensibly (until recently) and the move into cheese has been especially successful. There's legacy competence and the business will survive for years to come, no doubt.

Would I buy them? No. For such a simple business I was surprised how hard it was to understand. In working through a company there's normally an 'Ah-ha!' moment when key drivers of valuation reveal themselves; but I remained stumped here throughout. If, after a deep-dive I can't understand a stock or its attendant risk, it's not for me.



How's My Investing?

Performance summary, review of recent trading etcetera

December Performance:	-0.4%
Performance Since Inception (Nov. '24):	+25.0%
Cash Percentage of Portfolio:	24%

2026: On The One Hand..

Another apocryphal quote came to mind as I began to think about prospects for the year ahead. President Harry S. Truman was said to have once asked for “..a one-handed economist, one that can't say, on the one hand,..” But it's a feature of markets to continuously present uncertainty and we should worry when *anything* seems 'obvious'.

A good case in point, this time last year I was convinced at least some macro and market inconsistencies would resolve themselves with negative consequences for stocks; but, surprise, they didn't. As a result, I ended up not needing the cash-position-insurance I took out at the start of the year. However, the fact the house didn't burn down doesn't tell me the insurance was a bad idea, and I intend to renew the policy for 2026.



Speaking of 2026. It's possible the AI bubble doesn't pop. It's possible crypto currencies and stablecoins become more widely accepted as use-cases emerge and maybe Covid-bloated government deficits can be managed indefinitely. The U.S. consumer may continue to consume, inflation could remain a never-arriving bogeyman, corporate profits might continue their march higher and profit margins (especially in the U.S.) could stay fat. It's all very possible.

On the other hand. The growth of 'Continuation' funds in PE land may be a coal-mine-canary falling off its perch. Private credit may be a place where destabilizing systemic risk emerges. Prediction markets, same-day options, CFDs and the whole gamified-finance-circus could meet its well-overdue comeuppance. It's possible, in fact and at last, 2026 is where at least some of the inconsistencies that concerned me this time last year *finally* begin their resolution(s)?



Who knows? What doesn't concern me is prospects for China stocks. The scenario sketched earlier is a path I think likely; but on the other hand, 2026 could just be a snore. Valuations represent considerable margins of safety, institutions are more likely to become panicky buyers than sellers and the economy either chugs or motors along. The world may be awash with vexatious possibilities; but China, in my view, is not (obviously? 🤪!).

This year I'm leaving the big calls to others and will return to my default all-weather strategy. That of proceeding (mostly) invested, hoping for the best but prepared for the worst. Whatever *your* strategy for 2026, may you enjoy fair winds and smooth sailing.

Datawatch

Key Releases In The Last Month

Four 😞 Two 😞 Two 😊

Trade 😊 : Nov. exports +5.9% (Oct. -1.1%), imports +1.9% (Oct. +1.0%). A pleasant surprise, but the data has been erratic this year.

Prices 😞 : Nov. CPI +0.7% (Oct. +0.2%), PPI -2.2% (Sep. -2.1%). The CPI was sort-of good news. The PPI continues to reflect capacity issues.

Credit 😞 : Nov. M2 +8.0% (Oct. +8.2%), Total Social Financing +8.5% (Oct. +8.5%). Outstanding loan growth +6.4% (Sep. +6.5%). Depressing.

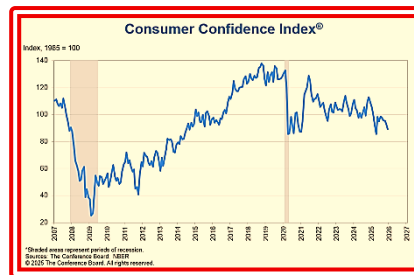
Consumption 😞 : Nov. Retail Sales +1.3% (Oct. +2.9%). Up is better than down, but this reading was a long way from 'robust'.

Industrial Activity 😞 : Nov. Industrial Output +4.8% (Oct. +4.9%). Suggests the economy is still stuck in a slow lane.

New Home Prices 😞 : Nov. -2.4% (Oct. -2.2%). Is the trend going into reverse? <https://tradingeconomics.com/china/housing-index>.

Business Confidence 😊 : Dec. Manufacturing PMI rose to 50.1 (Nov. 49.2). Ditto the Non-Mfg. PMI, to 50.2 (Nov. 49.5). Pleasant surprises.

U.S. Consumer Confidence 😞 : Data released on December 24th showed a sharp and unexpected dip; so? On the same day the S+P made another of its many 2025 all-time-highs. Fundamentals will matter at some point though. No?



That wraps it up for December. 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