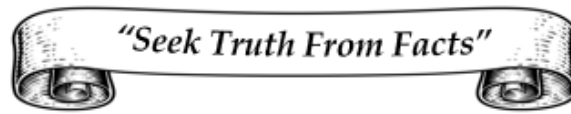


The China Rambler

An Occasional Letter On Topics Of Interest To China Investors

Issue #16



Feb. 2nd, 2026

In this edition: David Webb, in memoriam. Why Emerging Market stocks have been a hard slog, and how to invest in China notwithstanding. Why I just added Sun Art Retail (#06808) to my portfolio and why a stronger Rmb vs. the US\$ is a coupon-clipper's delight.

David M. Webb MBE

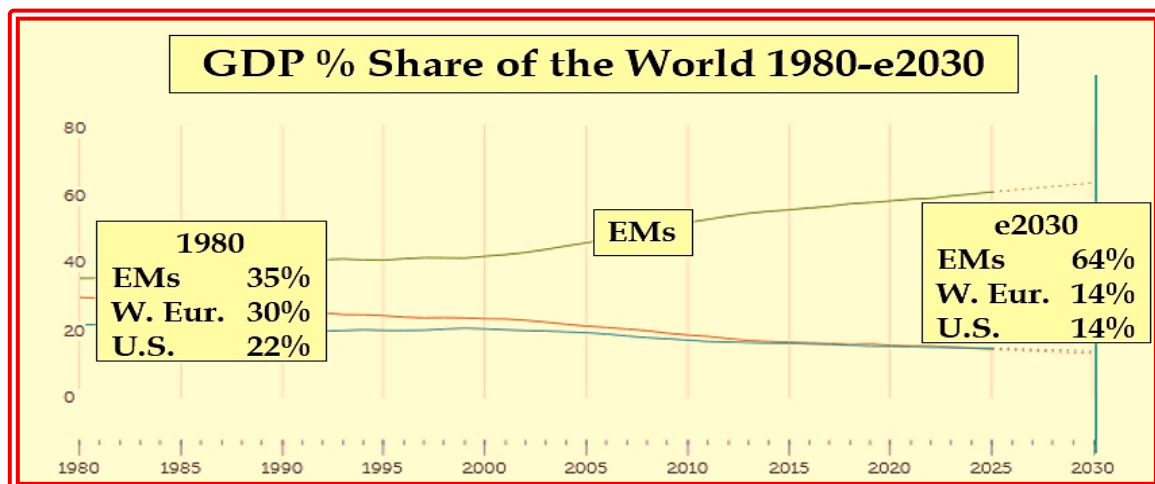


David passed away last month. A lot was written about him during his life and more has been written since. I can add little on his inestimable contribution to Hong Kong's market integrity or the value of his public service. He made a difference; and, due in no small part to his efforts, he left a better world than the one he came into. Of how many of us will the same be said in time?

Why Emerging Markets Haven't Worked Out (Well, For Investors)

Early in my career the idea that stocks in Emerging Markets (EMs) were going to be great investments established itself as a near-certainty. GDP growth for many EMs was forecast to be (and has been) superior to Developed Markets (DMs) and to not have been invested in such a dynamic would have been considered a dereliction of fiduciary duty.

The jury is now in and, sure, there've been bright spots. But, for the most part, DMs' stocks have been the better bets. The chart below shows how right the prediction EM economies would grow significantly was. Their progress has been, in fact, stunning.



Source: <https://www.imf.org/external/datamapper/PPPSH@WEO/CHN/USA/WEQ>

So Why Have EM Stocks Done So Badly?

A major reason for their poor performance has been their locales' need for capital, which has been vast. Governments have gobbled it up and a near bottomless pit of entrepreneurs have multi-decade splurged on all manner of projects, many of which have turned out to be unprofitable. Contrast this with what's gone on in the U.S. There, not only has the number of listed companies shrunk but many of the still listed hand over oodles of cash to investors via dividends and buy-backs, year in, year out. The bottom line: investing with the capital-needy has been a poor bet compared to investing with the capital-unconcerned.

Investing In EMs, For Fun And Profit

I've invested in China, the biggest EM of all, satisfactorily for years despite this capital-needy headwind. The 'trick' has been to avoid companies or sectors that are nascent, 'new' or in any sort of boost-phase development. Today that'd be autos, biotech, AI, robotics, alternative energy etcetera. In the past it might have been toll roads, consumer electronics, 'window'-companies, telephony or commodities. If the common cause of EM disappointment has been capital destruction look for companies with cash (or no necessity of it) and the ability to maintain or grow their pile. Two good examples (from my portfolio):

The first is **Bank of China** (#03988). This is a no-cash-necessity situation. The Chinese government solved the banking system's problem of an ongoing capital requirement some time ago by controlling pricing of both sides of the balance sheet thus injecting serial, stable and recurrent profits. A fact in plain sight missed by many. The chart is the last ten-year total, i.e. dividends reinvested, return.



Source: <https://www.marketscreener.com/quote/stock/BANK-OF-CHINA-LIMITED-1412661/graphics-total-return/>

The second is **Shenhua Energy** (#01088). This is a cash-pile-grower and sharer. What's better than a company that doesn't need cash? One that piles it up and pays it out to shareholders. Major capex was done a long time ago and, for as long as it continues to combust, coal will continue to have a value. N.B. Neither China nor the rest of the world will be able to curb their coal-habit in our lifetimes.



Source: <https://www.marketscreener.com/quote/stock/CHINA-SHENHUA-ENERGY-COMP-1412582/graphics-total-return/>

If you must tangle with 'emerging' anything, fine. But the odds of profitable outcome are stacked against you. Steady-Eddys, stocks or markets not ravenous for capital, will nearly always be the better bet. This isn't just my opinion; it's a non-contestable fact with a 40+-year observational track record. More Li Auto (#02015) anyone? I'll continue to pass.

Stockwatch: Sun Art Retail Group #06808

Summary of a recent closer look

Basically: Market cap.: c. U\$2.0bn, PE: 34x, Yield: 22%, (PE and yield distorted by one-offs) PB: 0.7x. Avg. daily TO (3m) U\$2.0m. Business: Top five, possibly top three supermarket chain in China. Legacy JV between France's Auchan and Taiwan's Ruentex Group, listed in 2011. Taken over by Alibaba in 2020 and sold to DCP Capital Partners in March 2025.

Has bricks and mortar (B+M) retailing found a floor in China, and will this company be spared the involution competition affecting other parts of the economy? Who knows?

But a look at Walmart (WMT, total return) ① in the U.S. shows how powerfully a stock can rerate when a legacy B+M operator becomes adept at managing today's retail environment.

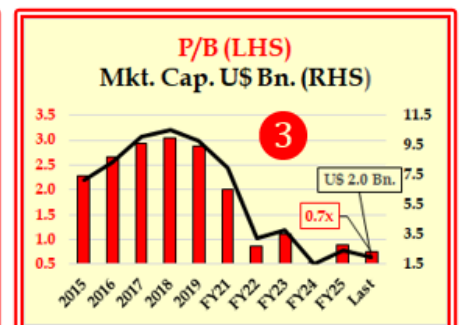
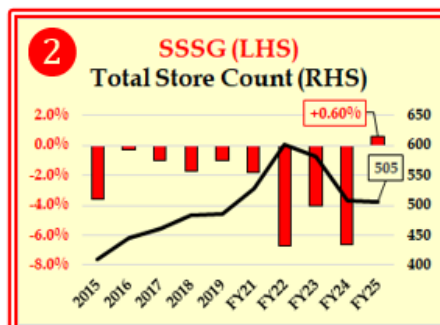
The company is far from troubled. It operates 500+-stores, has net cash and a significant property portfolio. It's also just begun ② to register same store sales growth.

The long track record of successful operation implies a deep bench of management talent and legacy competence. New skills will be required, but a firm base appears to be in place.

Not to like: It's small. Alibaba is making a splash in the space with their Fresh Hippo format. This is a cutthroat business with razor thin margins the world over. Downside is unquantifiable and new owners may in time just give up, fillet the business and move on.

To like: The stock is cheap ③. There's a highly credible Three-Year Plan which involves halving SKUs, refreshing store layouts, pushing private-label products to 7~9% of sales, introducing a new management incentive scheme and all with no plan to close stores.

Would I buy them? Yes, and I have. Usually, we'd look closely at a company's past when trying to form a view on future prospects; but this is a new-start-situation so that's not appropriate here. New owners are technocrats not bureaucrats or family scions. The 'Plan' also involves paying a steady dividend and monetizing the property assets. Minority shareholders' interests are 100% aligned with Management. There's net cash of H\$1.25/share and, very conservatively, property assets of H\$2.70/share, all for a stock price (last) of H\$1.54. I calculate a 'fair' value (using ePE and eYield targets) of H\$2.80 which, assuming things improve, could be just the starting point for a multi-year recovery.



How's My Investing?

Performance summary, review of recent trading etcetera

January Performance:	+10.2%
Performance Since Inception (Nov. '24):	+37.8%
Cash Percentage of Portfolio:	18%

RMB Vs. U\$ Strength - Things We Know We Don't Know

The Chinese Yuan (Rmb) has strengthened against the U.S. Dollar (U\$) by 4.3% in the last year*. It's worth remembering the Chinese currency doesn't go where it will. It's 'managed', (manipulated if you prefer) and it goes where China Inc. wants it to.

[*At the same time the Rmb has been moved steadily DOWN versus other currencies (since March 2022). See [here](#). Huh?]

Up, against the U\$, is good for investors in Hong Kong stocks. Many companies declare dividends in Rmb but pay in Hong Kong (de facto U\$) Dollars, so in the last year coupon-clippers have found themselves better off as a result; but *why* has this happened?

We can't know, but that's not an answer the paid-for-commentariat are allowed. From them there's been a backward-induced jumble of clever sounding wobble. It's the trade surplus, it's dollar weakness, it's promotion of the Rmb as a global settlement currency, it's stable domestic prices, it's to head off a new Plaza Accord, and so on.

Whatever factors are motivating authorities they're likely to be persistent. As for a discussion of them, how far the currency goes in response or what it'll take to arrest the process, good luck. We may as well worry about how many Angels can dance on a pinhead; this is something we have to accept we know we don't know. Thus, the Rmb will continue to strengthen against the U\$ until it stops; most likely.



For as long as the trend continues though it's another argument for U\$ based investors to re-engage with China. For the fortunate there-already there's nothing more to do than sit back, enjoy the ride and bank the cheques.

Off To A Good Start - Global Cheapies Forever?

My year has started well. Gainers of note (1m) were: Nine Dragons Paper (#02689) +39%, China Taiping (#00966) +37% and Qingling Motors (#01122) +19%. In the process these extremely-cheap stocks became just very-cheap.

Despite the powerful run by China stocks in the last 2-years valuations remain modest. This doesn't necessarily imply wider participation; but China stocks can't persist indefinitely as the grudgingly-invested global-cheapies most remained at the end of last month.

Datawatch

Key Releases In The Last Month

Three 😞 Three 😞 One 😊 One 😱

Trade 😊 : Dec. exports +6.6% (Nov. +5.9%), imports +5.7% (Nov. +1.9%). Way ahead of estimates and a nice finish to the year.

Prices 😞 : Dec. CPI +0.8% (Nov. +0.7%), PPI -1.9% (Nov. -2.2%). Third monthly CPI rise; but PPI the 39th consecutive month of contraction.

Credit 😞 : Dec. M2 +8.5% (Nov. +8.0%), Total Social Financing +8.3% (Nov. +8.5%). Outstanding loan growth +6.4% (Nov. +6.4%). OK-ish.

Consumption 😞 : Dec. Retail Sales +0.9% (Nov. +1.3%). Home price data (below) may have had something to do with this.

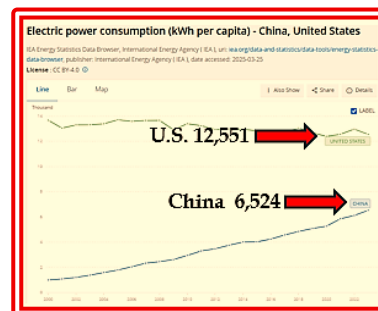
Industrial Activity 😞 : Dec. Industrial Output +5.2% (Nov. +4.8%). Green shoots? Let's not call it too early.

New Home Prices 😞 : Dec. -2.7% (Nov. -2.4%). This really isn't looking good <https://tradingeconomics.com/china/housing-index>.

Business Confidence 😞 : Jan. Manufacturing PMI fell to 49.3 (Dec. 50.1). Ditto the Non-Mfg. PMI, to 49.4 (Nov. 50.2). Not good, at all.

China '25 Electricity Consumption 😱 :

China consumed 10Trn kWh last year, a record. More than twice the U.S. and more than Europe, Russia, India and Japan combined. Per capita however they've still a long way to go to reach DM-market norms. More Shenhua Energy anyone?



That wraps it up for January. 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