



EVALUESERVE

Beyond COVID-19 China's Economic Recovery

April 1 2020

Summary: China is poised for recovery over the next three quarters

China Economic Recovery Road Map Beyond COVID-19 Outbreak

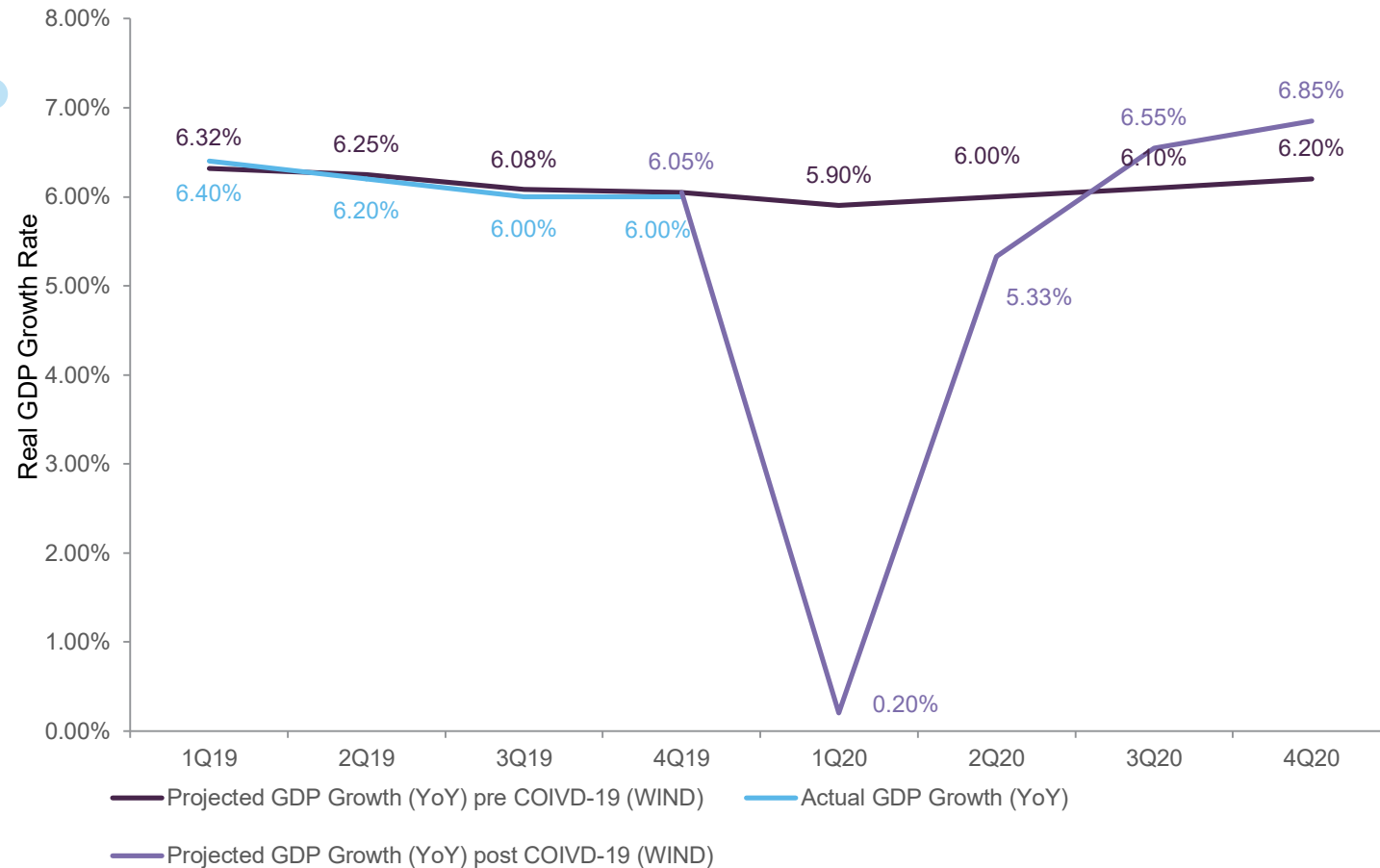
- China is almost 4-10 weeks ahead of rest of the world when it comes to Covid-19 outbreak and its implications for the country's economy.
- Not surprisingly, Covid-19 had a strong negative impact on China's GDP during Q1 2020 with projected Q1 Real GDP growth expected to decline from pre-Covid-19 projection of 5.9% YoY growth to post Covid-19 projection of 0.2% YoY growth for Q1 2020. Projections are as of Mar 31, 2020
- The impact was not evenly spread. Based on the stock market performance, we can surmise
 - Sectors such as Infotech, Healthcare and Consumer Staples have had a strong positive momentum due to global demand for healthcare supplies and equipment; advent of 5G technology and more technology driven access to work and entertainment; and demand for consumer goods driven by stockpiling of food and staples
 - Traditional sectors like Energy, Financials and Utility had a more negative impact as industrial and commercial activity slowed down and consumption of energy, oil and power declined; payout expense increased for the insurance sector and macro-economic factors were a drag on the overall financials sector
- We see the impact of Covid-19 in changed consumer behavior with increased demand for remote working applications, online content including education, gaming and streaming, fresh produce delivery staying well beyond the peak outbreak period
- We have evaluated different alternative indicators such as blast furnace operating rates, rental query volumes, coal consumption index, air freight and logistics, and air quality index and they all seem to be moving towards pre Covid-19 levels, pointing to a recovery over the rest of the year
 - Recovery is likely to be quicker for companies focused on domestic Chinese market
 - Global spread of Covid-19 will have a negative impact on export focused firms for a longer period of time – resulting in slower recovery

Deep impact of COVID-19 on China economy

China Economy – where we are as of March 31 2020

Actual and Projected Real GDP (YoY / QoQ) pre and post COVID-19 Outbreak

Data as of Mar 31 2020

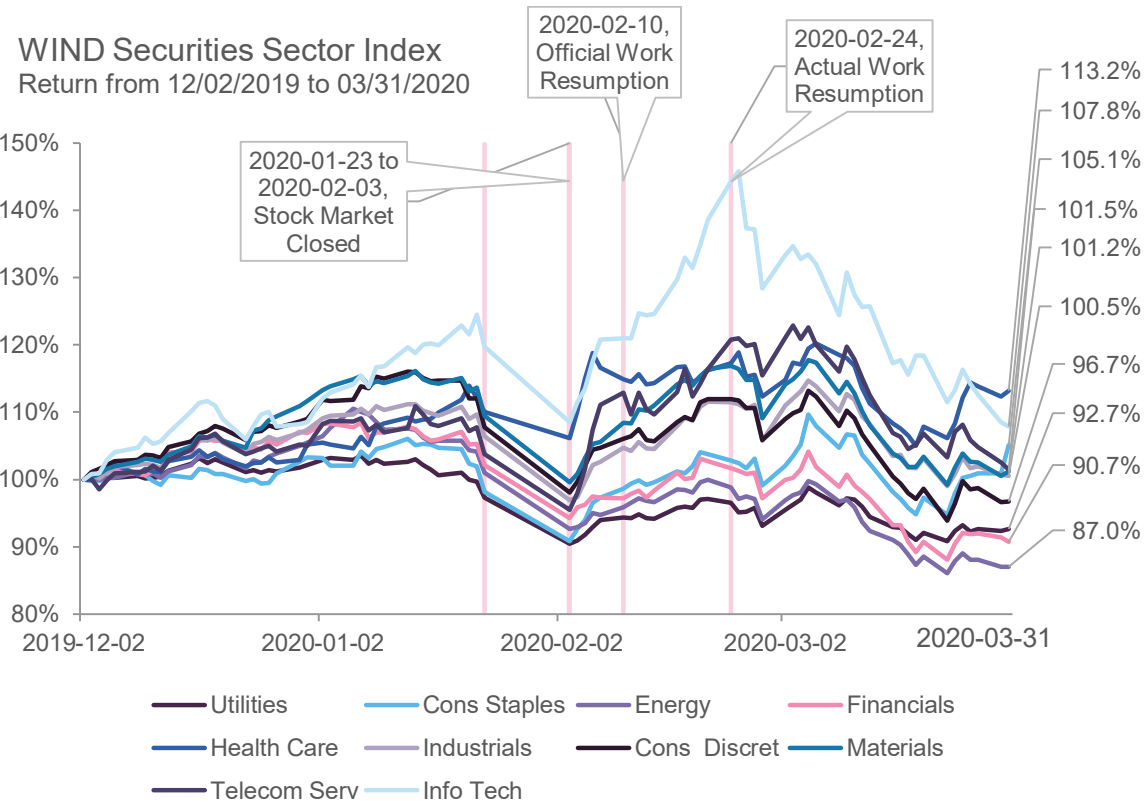


- China is expected to cut its GDP growth forecast to as low as 5%, on top of surging debt, mounting deficit and depleting foreign exchange reserves
- China's economic growth has been severely tested by COVID-19 with a 17% drop reported in exports in Jan and Feb 2020 - including a 28% drop in exports to the US; imports have dropped by 4% as well and China reported a trade deficit of \$7.1 billion
- Conditions are likely to further deteriorate for firms exposed to export markets as they contend with the fall-out from Covid-19 for a longer period. Firms with domestic exposure are already showing signs of recovery and are likely to make a strong comeback
- Some sectors have fared better as people were confined to homes and schools were closed such as infotech with online content including gaming, streaming as well as education seeing immense growth and consumer staples. Some sectors have lagged behind including financials, energy aviation, tourism, restaurants
- Normalization of operations is already taking place across China as on-site restrictions are eased and people start going back into the economy

Some sectors have done better than others

China Economy – sector stock performance from December 2 2019 until March 31 2020

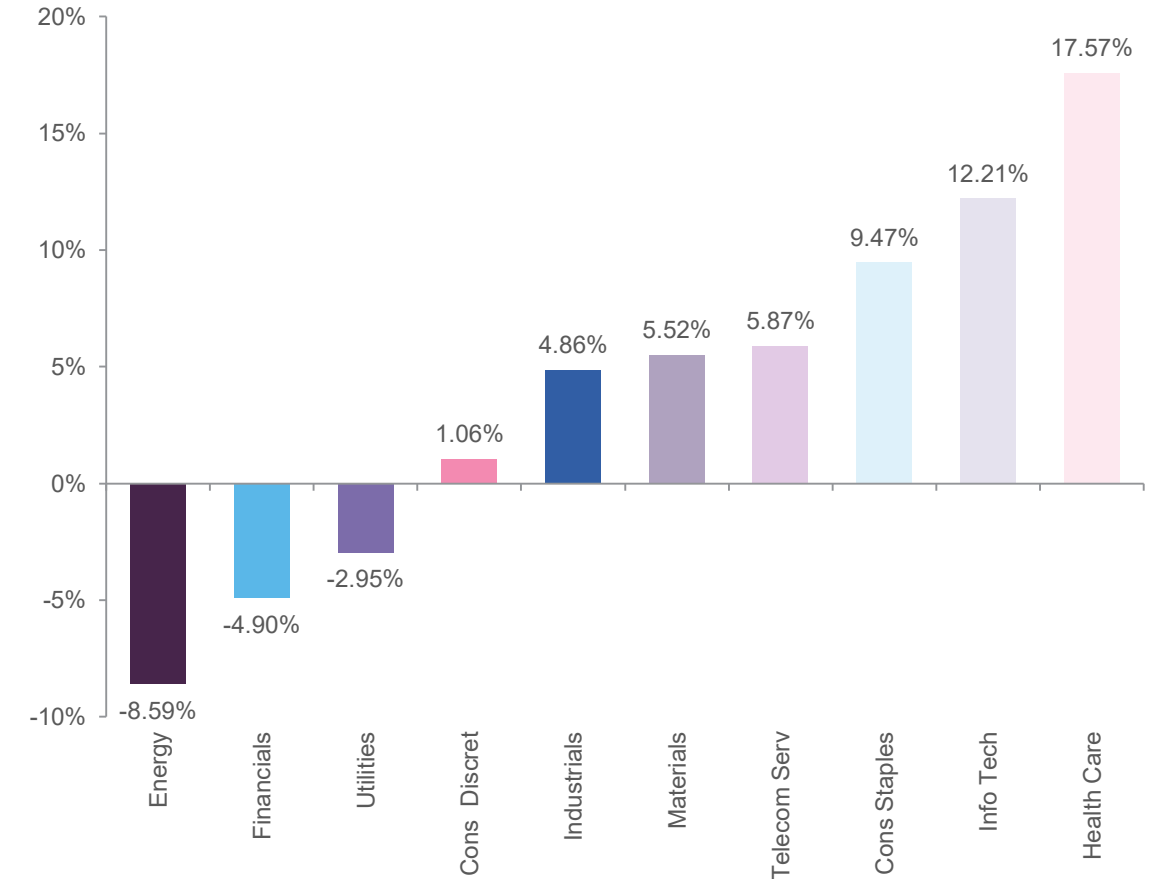
China A Share Sector performance



- Some sectors have done better due to increased demand from people working from home such as infotech and consumer staples, online entertainment (gaming and streaming), fresh produce delivery and healthcare
- Some have lagged behind include financials, energy, and utilities

Sector Winners and laggards

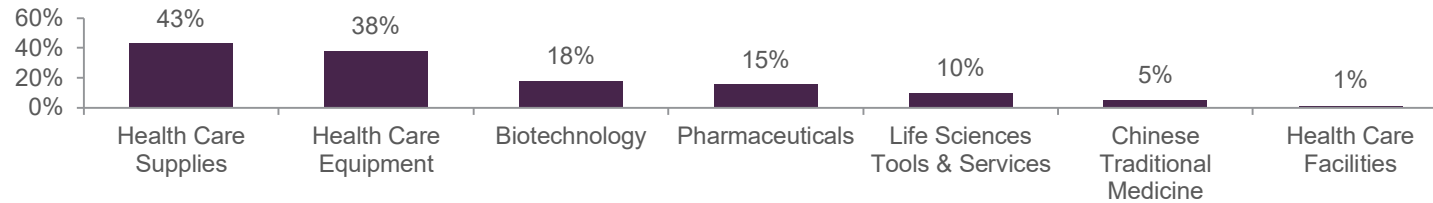
WIND Sector Index VS. SSEC
Returns from 12/02/2019 to 03/31/2020



Some sectors have done well by enabling or adapting to remote accessibility

Winners – sector stock performance from December 2 2019 until March 31 2020

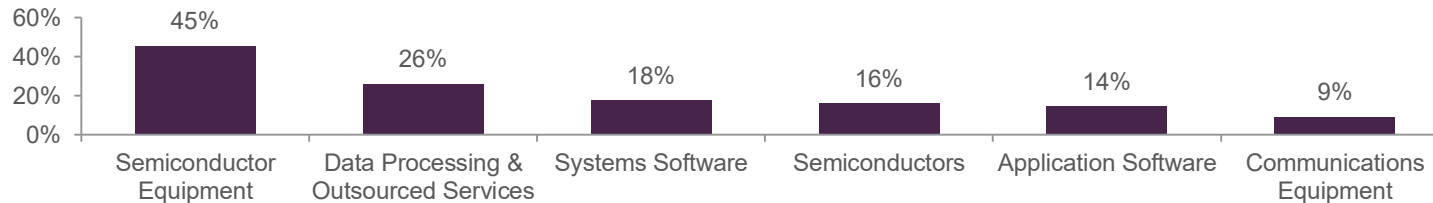
#1 Healthcare Sector Vs. SSEC (+17.57%)



Sector Key Insights

- Healthcare supplies and equipment outperformed due to increased demand from consumption globally in the near- and mid-term due to COVID-19 and policy support
- Biotech and pharma with exposure to vaccine and generic drugs will expand further in the long run underpinned by increasing policy support and aging population demographic in China

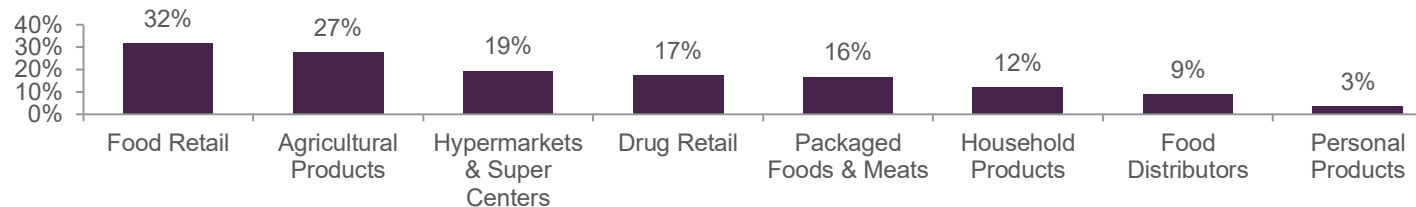
#2 Info Tech Sector Vs. SSEC (+12.21%)



Sector Key Insights

- Semiconductor sector was bullish with support from China's national industrial policy marking it for domestic substitution; a trillion-dollar market with the emergence of commercial 5G technology use
- Data Processing, Communication Equipment and Software benefited from short-term demand stimulus from remote work and online content

#3 Consumer Staples Vs. SSEC (+9.47%)



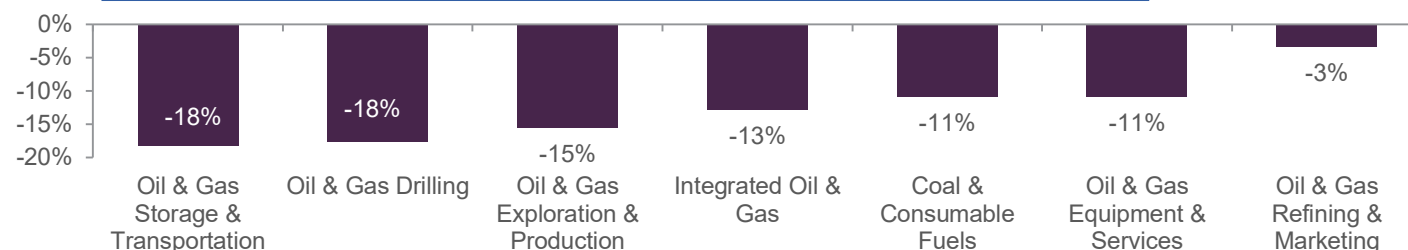
Sector Key Insights

- Consumer staples saw an uptick during the outbreak esp. for instant food categories with long shelf life and frozen foods due to tendency to stockpile food under strict quarantine controls
- Demand for products like liquid soap, disinfectants, hand sanitizers rose rapidly as self-protection awareness rose during and after the outbreak period

While some are dragged down by lower demand and higher fixed overheads

Laggards – sector stock performance since December 2 2019 until March 31 2020

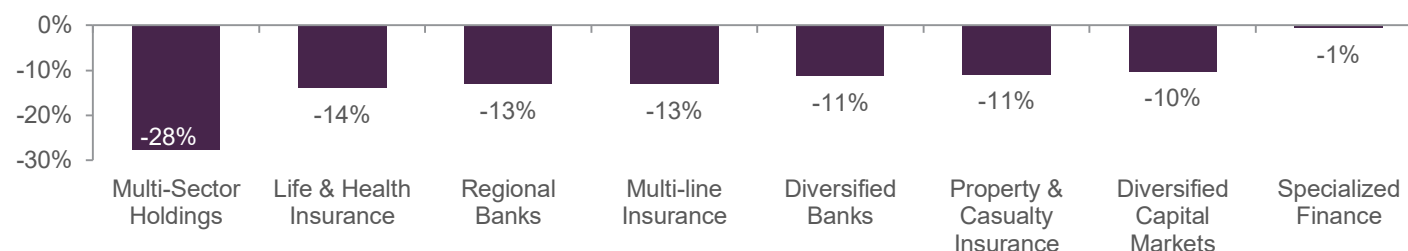
#1 Energy Sector Vs. SSEC (-8.59%)



Sector Key Insights

- Impacted by oversupply in both domestic and global markets with declining domestic consumption due to decreased industrial and commercial activity amid the COVID-19 outbreak
- Oil demand is expected to decline 10% YoY in 1Q20, and the refiners cut their utilization by 25% MoM in February
- Upstream companies most susceptible due to rigid operating costs

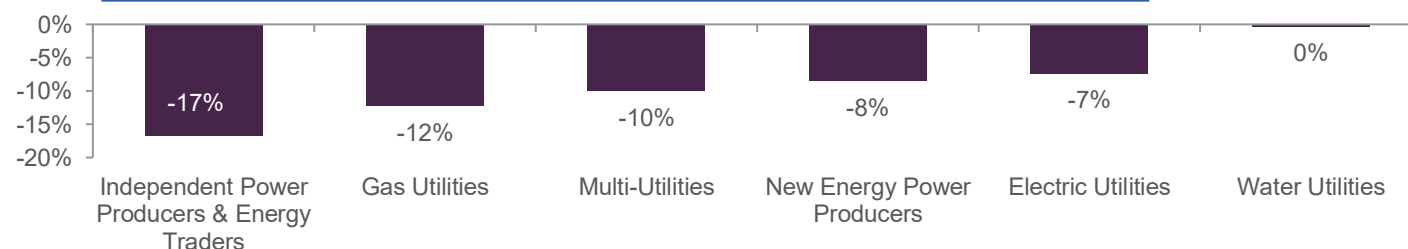
#2 Financials Sector VS. SSEC (-4.90%)



Sector Key Insights

- Insurance suffered as revenues from investments dried up with record low yields and declining equity markets and claim payout expenses increased for life and health insurance companies
- Macro-economic factors were a drag on banking as China's GDP stalled and non-performing loans are expected to rise esp. those extended to SMEs; this coupled with lower investment income

#3 Utility Sector VS. SSEC (-2.95%)



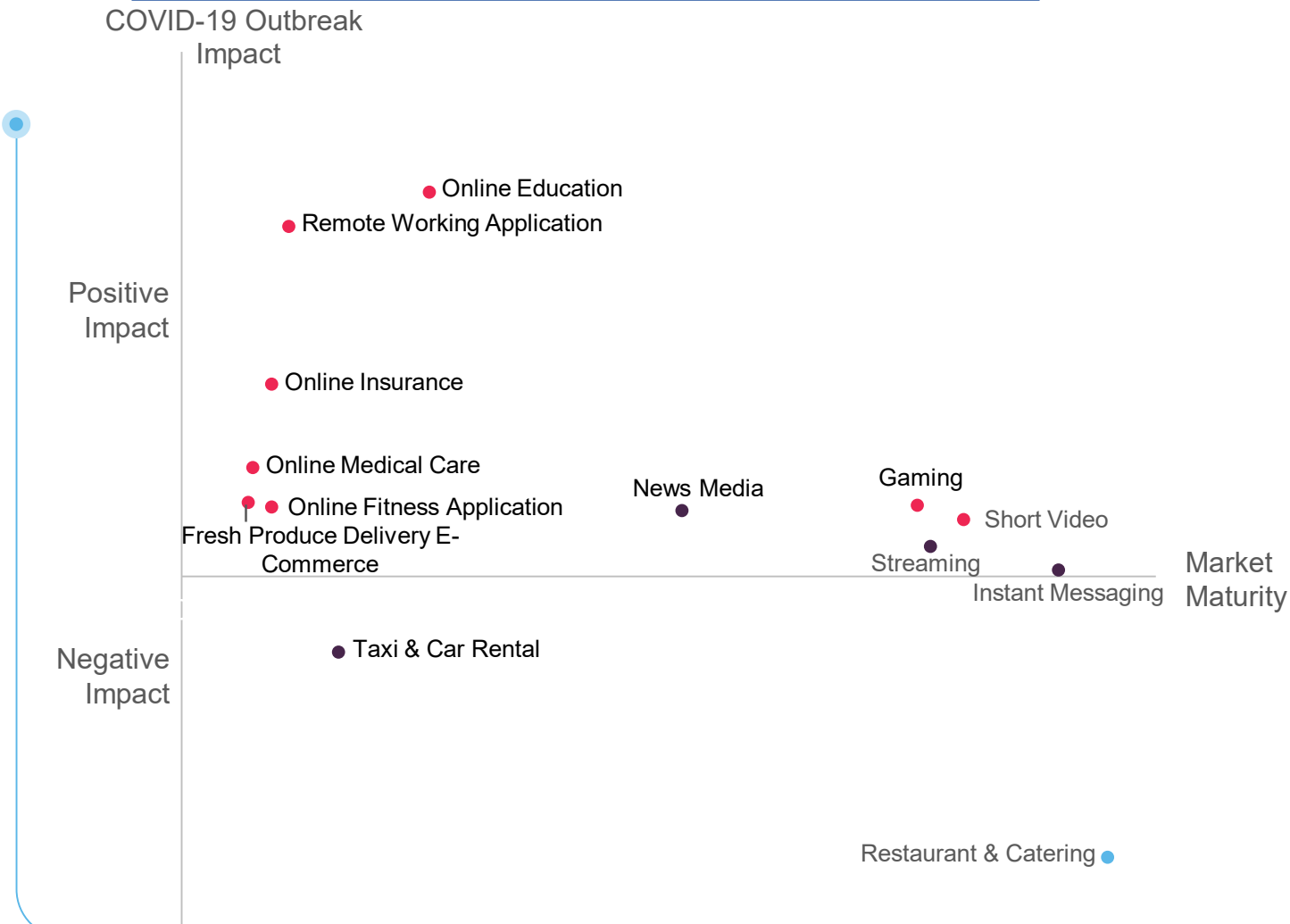
Sector Key Insights

- Independent Power Producers & Energy, Gas Utilities, and Multi-Utilities sub-segments suffered the most
- Utility sector bore the brunt of COVID-19 as suspension of economic activity since the Spring Festival caused a massive reduction in income while overheads remained rigid

Emergence of new economic activity during COVID-19

Adapting to new economic reality (with data available as of March 31 2020)

New Economic Activity Spurred on by COVID-19



Highly Positive Impact Sectors

- Remote working and online education applications saw a strong demand during office and school shutdown - related application service markets had the highest growth under the outbreak impact
- Fresh produce delivery e-commerce, restricted by the lockdown of communities, had limited growth during the outbreak
- Gaming and short videos, although relatively mature markets, became popular online entertainment choices as people stayed indoors
- With increasing health awareness, there was growing demand for new online form of insurance, medical care and fitness

Medium Impact Sectors

- The primary effect on news media industry was increasing daily average online time (DAOT) of people reading about pandemic information
- Taxi & car rental services were cut down during the outbreak but are expected to rebound as traffic controls are lifted

High Negative Impact Sectors

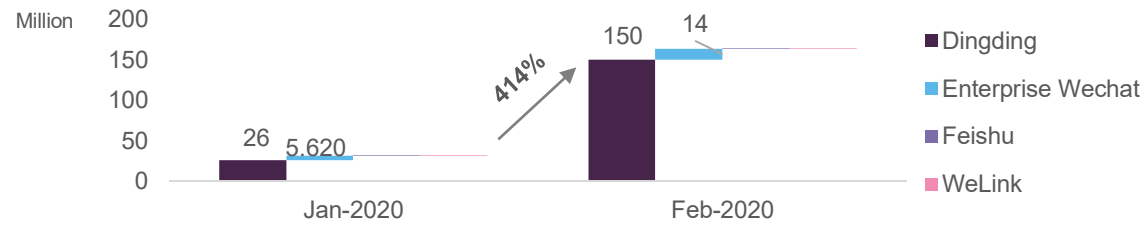
- Restaurant and catering business, hotel, and tourism all experienced deep losses during COVID-19 lockdown; activity levels have gone up in the last couple of weeks pointing towards recovery

Emergence of new economic activity during COVID-19

Some changes and evolutions to remain post COVID-19 (with data available as of March 31 2020)

Remote Working Applications

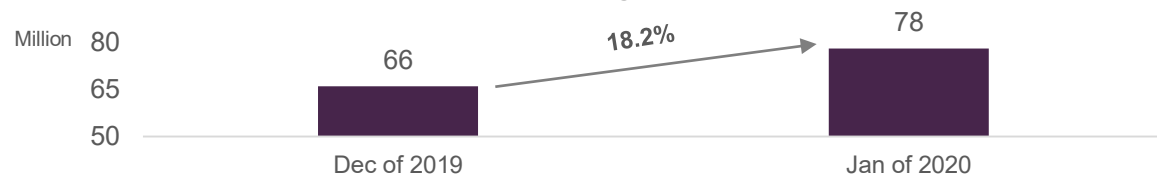
Average Daily Active Users (DAU) of Remote Working IM Applications



- Remote working applications - Zoom went from 180th to the 28th in total app installs in China in Feb 2020, new downloads of online meetings has not declined and might establish itself as a upcoming industry with high revenue potential
- Video conferencing and collaborative office software market also has a lot of room for growth, such as Tencent Meeting, Zoom and Teambition

Gaming

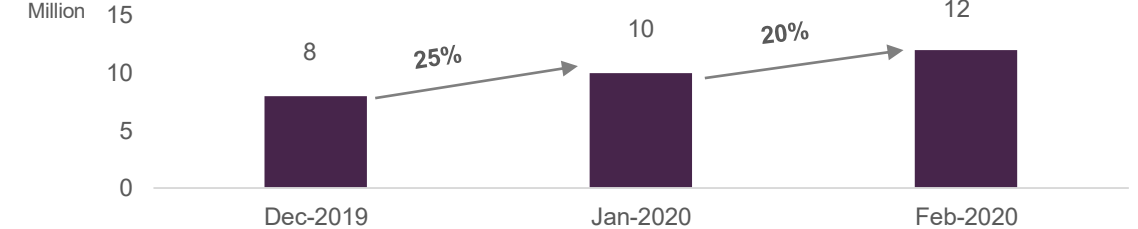
MAU of Gaming Platforms



- Penetration rate of the game industry showed a growth trend with the combination of Spring Festival holiday and the virus outbreak quarantine impact
- Online gaming grew by 18% in monthly active users, among which 12.7% were new users who started gaming – partly due to the outbreak. Leisure games in WeChat programs also showed significant increase

Fresh Produce Delivery E-Commerce

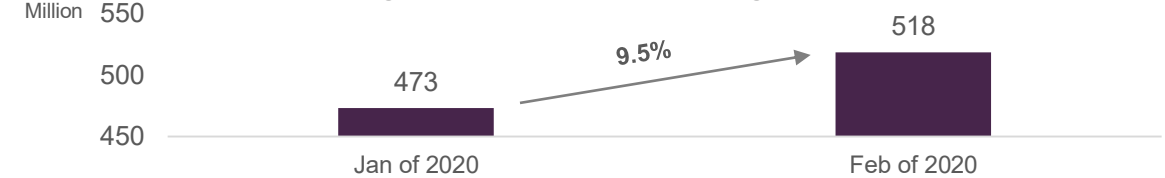
Average DAU of Fresh Produce Delivery E-Commerce Platforms



- For outbreak control, many cities were locked down, which made users turn to online grocery shopping and led to a surge of demand for fresh produce e-commerce.
- China's fresh e-commerce industry has a high concentration rate, with main brands Miss Fresh, Hema, JD and Dingdong, whose business volume all had an increase of over 200%

Short Video Streaming

Average DAU of Short Video Streaming Platforms

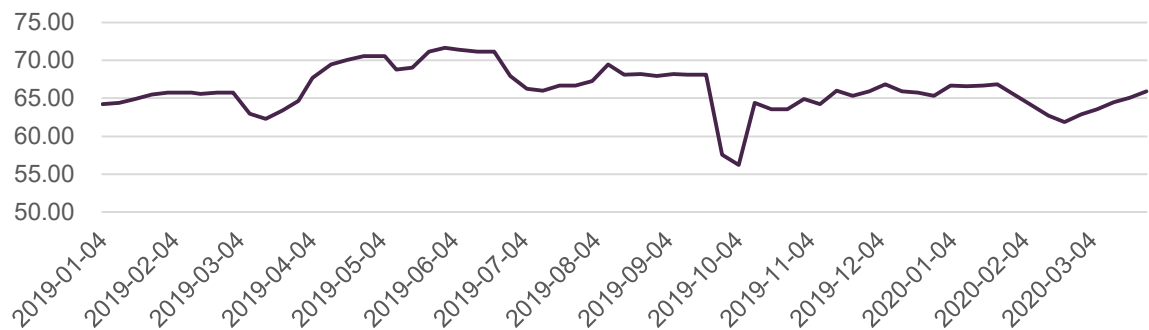


- Relatively mature market saw a 5% penetration rate growth during Spring Festival in 2020, higher than 2% in the Spring Festival in 2019, indicating a knock-on effect of the outbreak – esp. Douyin and Kuaishou with double digit growth
- Besides social media function, increasing demands for online fitness videos and online live broadcasting also contributed to the growth of short video platforms

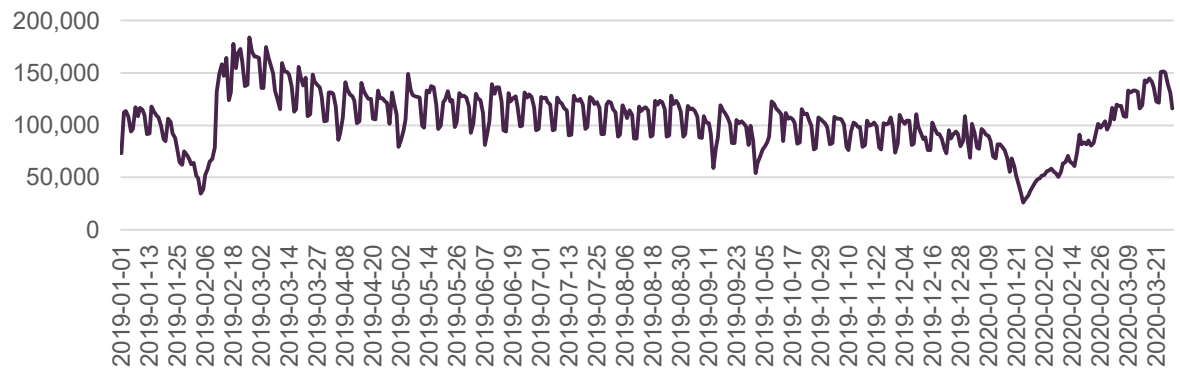
Alternative data points towards a recovery for Chinese Economy

China Economy from an alternative data perspective (with data available as of March 31 2020)

Blast Furnace Operating Rate % (Jan 4 2019 to Mar 27 2020)



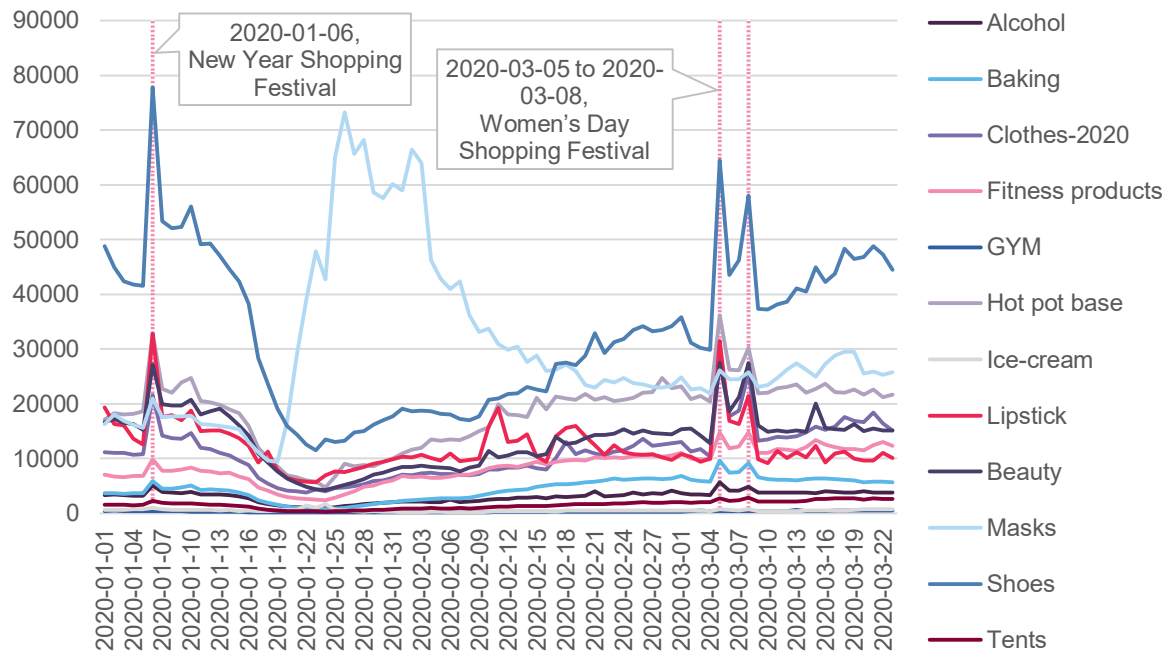
Rental Query Volume (Jan 1 2019 to Mar 28 2020)



Rental queries: Residential queries dropped more than 50% in February 2020; however, over the last several days daily search numbers have been similar to previous year – reflecting increased people movement and resumption of work

Manufacturing sector in China dropped about ~7% from CNY holidays until the last week of Feb and has regained at a rate of 2% in the weeks forward. Auto manufacturers are operating at less than 40% of production capacity, and auto sales were down by 79% in February. Auto sales in 1H 2020 will likely drop by 10%

Taobao Purchase Index (Jan 1 2020 to Mar 29 2020)

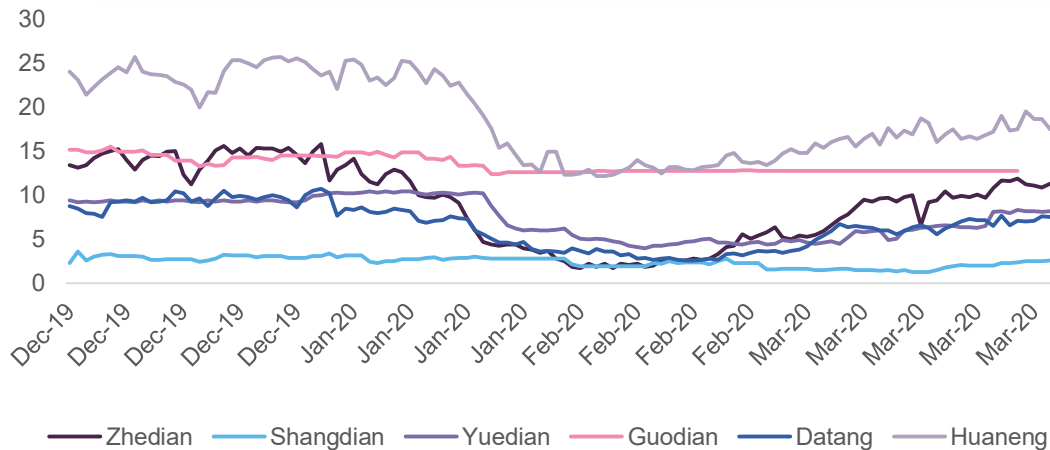


Consumer Goods consumption fell by 20.5% compared with 2019 impacted by supply chain disruptions due to COVID-19 outbreak. Sales of masks, disinfectants and protective glass increased disproportionately. The sector has recovered to <90% by the first week of March 2020 as sales grew by 10%-20% every week.

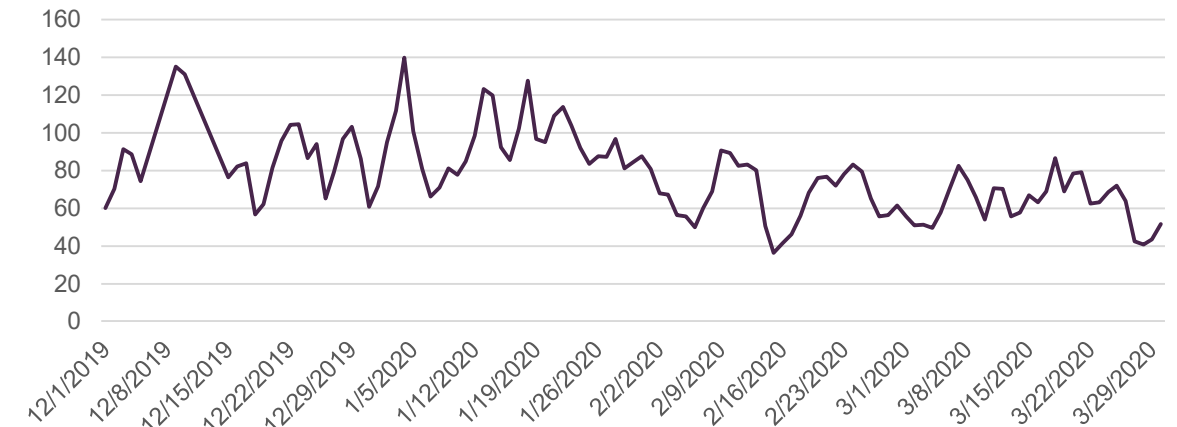
Indicators are reaching pre-COVID-19 levels and pointing towards recovery

China Economy from an alternative data perspective (with data available as of March 31 2020)

Coal Consumption Index (Dec 1 2019 to Mar 31 2020)



Air Quality Index (Dec 1 2019 to Mar 30 2020)



Air Freight and Logistics (Dec 2 2019 to Mar 31 2020)



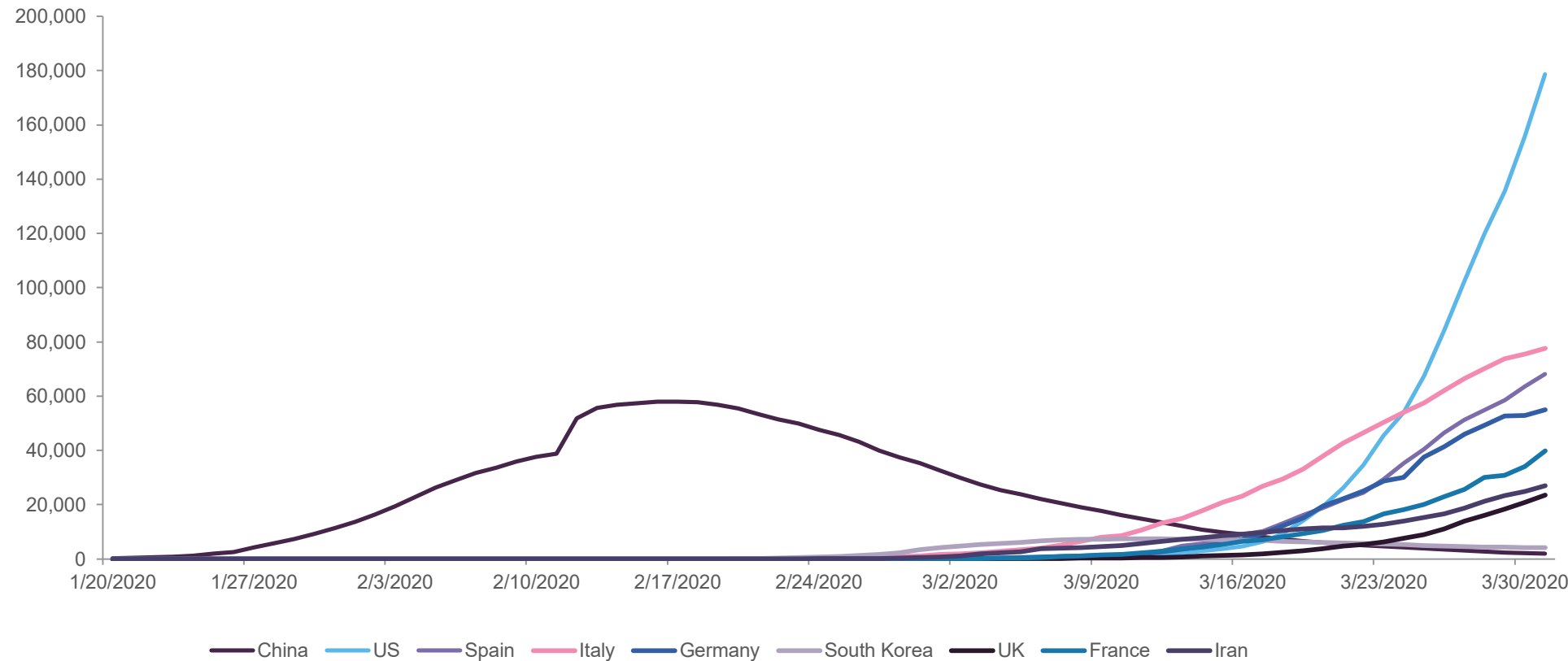
- **Coal consumption:** Power consumption is creeping back towards normal after seeing a dramatic drop during peak COVID-19 period. Power usage is steadily growing at a rate of 35%-40% in the one-month period post CNY holidays. This compared to ~90% in 2019 during the same period
- **Air Freight and Logistics:** Indicators are pointing towards full recovery indicating import and export volumes are getting back to pre-COVID-19 numbers.
- **Air Quality:** Restricted movement, shut down factories, closed off roads during COVID-19 revealed 20-30% reduction in fine particle matter and the AQIs dropped accordingly in the January & February 2020. March 2020 AQI numbers for major cities like Shanghai, Beijing, Shenzhen and other important economic centers are back to pre-COVID-19 levels

Global impact has just started

As China reverts back to normal other economies are likely to follow suit post their tryst with COVID-19

Global Active COVID-19 Infection Map

Active Cases - Data as of March 31 2020



- COVID-19 will leave its imprint on global economy, which seems to be headed towards a contraction in 2020 due to rattled markets and credit stress across the globe
- China COVID-19 outbreak curve is 4-10 weeks ahead of other economies dealing with the outbreak
- China's economic recovery is linked to the COVID-19 outbreak control. There will be some countries that will follow a similar trajectory of as China over the course of Q2, Q3 2020
- Global spread of Covid-19 will have a negative impact on Chinese export focused firms for a longer period of time – resulting in slower recovery

**COVID Out Break
as at Mar 31, 2020**

Confirmed Cases
797,490

Recovered Cases
161,542

Active Cases
597,408

Death Cases
38,540

Source : Wind as of March 31, 2020, OECD, S&P; Note: Active Cases: Calculated as Confirmed Cases – Recovered Cases – Deaths

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