

Market Commentary

Q2 2024 (the Quarter) saw China equities increase (3.7% in USD, +1.2% in AUD) on improving market sentiment, although volatility remains.

Chinese equities had a volatile Quarter, despite finishing higher with Chinese authorities providing further support to the property sector in addition to the broader stock market, however concerns around the degree of efficacy remained. As a result, defensive and high dividend yield companies and those exposed to structural growth outperformed leading the market over the Quarter.

Overall, economic data showed signs of improvement, and encouragingly interest is increasing amongst international investors.

Further views on the Chinese economy are outlined within the Antipodes Quarterly Outlook.

Portfolio Commentary

Over the Quarter, the Antipodes China strategy underperformed the benchmark, despite positive contributions from energy, information technology and real estate sectors. Communication services, materials and consumer discretionary sectors were the key drivers of underperformance over the Quarter.

Detailed commentary on key contributors and detractors is outlined below.

Quarterly performance drivers

Key stock contributors to performance over the Quarter included:


- **CNOOC Ltd** saw profits hit a record high over the in the first quarter of the year as China's biggest offshore driller continued to increase output despite lower global crude prices. Net income reported for the quarter increased 24% over the previous year, the company reported with revenue rising 14% over the same period.
- **Mediatek** surged higher over the quarter as the Taiwanese smartphone chip manufacturer stated that its flagship smartphone silicon revenue is up by 50% compared to 2023. The company's expects annual revenue to increase by 14-16%, with its gross margin for the first quarter of 2024 reported at 52.4%, marking an increase of 4.1% compared to the fourth quarter of 2023. Investors were also buoyed by the impending launch of the company's Dimensity 9400 chip.
- **Ping An Insurance** finished higher over the Quarter in-line with more defensive and higher yielding stocks. The group also recorded a solid 3% return on its investment portfolio over 2023, amid the weaker economic environment, falling interest rates and a weak domestic equity market.
- **Sunny Optical** moved higher over the Quarter, with the Chinese producer of lenses and lens modules benefitting from early signs of a volume recovery in handsets and margin recovery from handset premiumisation, resulting in solid earnings growth over the Quarter.

Key stock detractors to performance over the Quarter included:

- **Beijing Oriental Yuhong Waterproof Technology Co** was weaker over the Quarter in line with a slower than expected recovery in the Chinese property sector. There is no change to Antipodes' thesis, with the market underappreciating the channel shift away from property developers towards more resilient retail construction and infrastructure development
- **Li Ning** fell over the quarter in-line with weaker than expected 2Q24 macroeconomic data, highlighting poorer retail consumption recovery than expected, with investors also concerned the company's inventory situation is yet to improve.
- **Baidu** endured a challenging Quarter despite reporting positive quarterly results in May. The search platform continued to be hampered by a difficult macroeconomic environment, which is impacting the advertising sector and subsequently Baidu's online marketing division. Despite these challenges, management remains optimistic about the long-term potential of AI technology, with the company continuing to focus on strategic priorities, which include advancements in artificial intelligence and intelligent driving technologies. There remains no change in Antipodes' thesis.
- On a relative basis, holding an underweight position in Tencent detracted from with the Chinese gaming and social media giant pledging to "at least double" the size of its share repurchases in 2024, following a push from Chinese regulators for listed companies to repurchase shares to stabilise market confidence

Portfolio changes

	<p>Initiated in a position in premium Chinese domestic apparel company Li Ning, where we see an improvement in the company's inventory management and a renewed focus on more functional product lines. While investor expectations remain subdued, Li Ning is currently valued at 10x 2025 PE or 1x EV/Sales, providing an attractive entry point into the company, with earnings expected to recover over the next two years.</p>
	<p>Initiated a position in PDD Holdings, with the Chinese domestic ecommerce platform continuing to gain market share, with Temu losses narrowing better than expected. An entry point of 10x 2024 group P/E is attractive for the platform, where we see upwards of 50% earnings growth over the next three years.</p>
	<p>Initiated a position in Chinese electronic components manufacturer, Luxshare Precision Industry Company, one of Apple's key Chinese partners. The company's current valuation provides an attractive entry point, offering exposure to the refresh in handset cycle from the integration of AI within smartphones.</p>
	<p>Initiated a position in Beijing Oriental Yuhong Waterproof Technology Co, where we see the market is underappreciating the channel shift away from property developers towards more resilient retail construction and infrastructure development. Current valuations provide an attractive entry point to a company where sales growth can inflect sustainably as the channel shift occurs, with higher margin upside in areas outside of residential property.</p>
	<p>Initiated a position in MediaTek where we see favourable cyclical and structural tailwinds for the Taiwanese chip manufacturer. Mediatek stands to benefit as one of the largest merchant vendors of smartphone application processors, as the AI-based smartphone refresh cycle demands more silicon content. From a structural growth standpoint, MediaTek has incrementally gained share in the higher margin premium handset market as well as expanding into car infotainment, ARM PCs and datacentres, providing new growth drivers and diversity.</p>
 	<p>Initiated exposure to China's investment in renewables, which continues at a meaningful pace (and faster than market expectations) as the country progresses towards transition goals while maintaining low energy costs and increasing energy security. This will require continued investment in the grid, with long-distance transmission a key beneficiary. We are building out exposure to this structural investment opportunity via companies such as Nari Technology and China XD Electric.</p>
	<p>Exited MGM China as the casino operator reached our valuation target.</p>

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