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China in the News

Originally Published in the Global Contrarian Research Report Compendium, October 2010



*Exclusive Marketers of the
Global Contrarian Research Report*

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China in the News

The various news items that have come from China in the last week or ten days are the subject of this *Musings* section.¹ The following are all facts. The first item is that September 17, 2010, which was last Friday, was the first day that the iPhone was offered in China. They sold 50,000 iPhones on that first day, which is a lot. In China, the monthly service fee for the 16-gigabyte iPhone is \$36.64, and for the 32-gigabyte version, the fee is \$49.45 per month. The second item is that that Apple also released the iPad in China last week. I looked up the prices for every model, and the least expensive one that can be purchased in China is \$510.86.

The third item is that the new home sales statistics in certain cities of China are released weekly, if you can believe that. The fact that they have the ability to track that number weekly is newsworthy, apart from the number itself, which I'll tell you in a moment. In the U.S., that figure is tracked monthly by the U.S. Census Bureau and it is released about three and a half weeks after month-end. China's National Statistical Office is able to track that figure by city and announce it weekly.

In the United States, the housing market is depressed, while in China it is so active that the government is trying to put a damper on it. In the United States, based on the most recent figure, the rate of new home sales is 276,000 units per year for the nation. In the city of Beijing alone there were 4,605 new home sales the first two weeks of September. Working that out to an annual rate shows that the two week figure for Beijing alone is 40% of the U.S. annual rate.

A fourth statistic is that the 20 most profitable companies in China, not measured by return on equity or return on assets, but on the absolute amount of profit, are all government-controlled. These companies include PetroChina, Industrial Commercial Bank of China and others that should be fairly obvious. Imagine if the 20 most profitable companies in the S&P were under the control of the U.S. government. By the way, the Chinese government also controls other companies, apart from the 20 most profitable. Think of the influence a government would have on the economy under those conditions. It's worth remarking on the unique faculties that are available to the Chinese government that aren't available to Western governments.

The fifth statistic is that last week BMW and the Chinese auto company called Brilliance China created their own internal auto loan company. They can't make cars fast enough in China, and the government allowing them to start an auto lending company will only spur sales.

¹ This report was recorded on September 20, 2010.

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A sixth statistic is that twenty-nine percent of the Chinese population now has access to the internet, either at home or at an outside location.

The seventh statistic is that in 2011, the Japanese company called Lawson, which is the second-largest operator of convenience stores in Japan, is opening 130 new stores in China. This purely Japanese company is changing its orientation. That fact is important, because many companies are taking similar action. It explains, at least to some degree, the weakness of Western economies. Though the corporations are domiciled in those Western nations, they're investing their cash flow in China, rather than at home.

The eighth item is that according to the Chinese National Bureau of Statistics, the percent change in Chinese retail sales year-to-date over last year as of August 31, 2010 was 18.4%.

The ninth item is that Mitsui Fudosan, which is the largest Japanese real estate developer, is building a mall in Shanghai. Real estate is problematic in Japan for many reasons, not the least of which is that the population is declining. It's also overbuilt and lacks cheap land on which to build. This major Japanese real estate company is taking its cash flow and investing it in China.

Tenth is that Marriott just opened a 456-room hotel in Shanghai. One may say that the Chinese are influenced by a bubble-like mentality in real estate-associated matters, or that the Japanese have poor judgment in real estate matters, but Marriott doesn't seem under the sway of a bubble mentality.

The eleventh item of interest is that China is now a leader in alternative energy. It's absolutely astonishing. The percent change in solar cell output in China has doubled year to date versus last year. Electricity consumption in China, year-to-date, through August 31, 2010 rose 19.3%.

The twelfth and last statistic to accompany all of the above observations concerns the two indices by which one can reasonably measure Chinese equities: the HANG SENG Index and the FTSE Xinhua China 25. The HANG SENG Index measures Hong Kong-based companies that do a lot of business in China. On September 17, 2010, that index was 21,970. On December 31, 2009, it was 21,872, and on June 29, 2007, it was 21,772. It hasn't appreciated in well over three years.

The FTSE Xinhua China 25 is an ETF (ticker: FXI) comprised of the 25 largest Chinese companies. On September 17, 2010, it was selling for \$41.96. On December 31, 2009, it was at \$41.78, and on August 6, 2007, it was at \$41.08. Like the HANG SENG, this index has also done nothing in over three years. The indices do not reflect the unbelievable advances in China, so it seems that the market does not take them seriously. As a matter of fact, most of the aforementioned statistics cannot be found in American newspapers. The progress of the economy isn't even reported.