

Bourses cheer consumption rise

Investors chase shares in food, appliance, hospitality, and entertainment companies

By WUYIYAO in Shanghai
wuyiyao@chinadaily.com.cn

China's consumption upgrade is bringing glad tidings to the stock market as shares in related companies have been rising of late.

The uptrend is exemplified by Kweichow Moutai, a maker of *baijiu*, the iconic traditional Chinese liquor.

Its shares trade around 560 yuan (\$84) in Shanghai now, up nearly 84 percent from 305 yuan a year ago.

For 52-year-old Shanghai-based *baijiu*-lover Han Zhiguo, that is both good news and bad news.

Good because consumption-related shares offer good investment opportunities these days.

And bad because a bottle of Kweichow Moutai's premium liquor costs much more than 600 yuan, or almost as much as a share in the company.

"Liquor price has been rising steadily along with share prices. Investors often joke that buying liquor shares is a good hedge against the rising price of liquor itself," Han said.

Not just retail investors such as Han, even domestic and overseas institutional investors love shares in consumer product companies such as Moutai.

That's because Chinese consumers are spending more than before to upgrade to better or quality products that they want to experience and enjoy, analysts said.

Often, that upgrade takes the form of demand for China-made products as focus shifts from overseas brands to domestic suppliers — the latter's reputation is improving, thanks to their innovative products.

According to National



Workers inspect, label and box bottles of Moutai at Kweichow Moutai Company's distillery in Maotai township, Guizhou province.

STEPHEN SHAVER / UPI PHOTO VIA NEWSCOM

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Han Zhiguo, a *baijiu* lover

Bureau of Statistics data, consumption's share in China's economic growth grew from 47 percent in 2013 to 64.6 percent in 2016.

The consumption uptrend is expected to continue to expand its influence on social and economic development.

The week long break at the beginning of October is usually an indicator of consumer sentiment. This year's break showed that Chinese consumers are willing to spend more than in the past few years.

Overall revenue of retailers between Oct 1 and 8 was 1.5 trillion yuan, up 10.3 percent year-on-year, according to Ministry of Commerce data.

Shares of companies that produce quality food, beverages, health products or home appliances, such as Midea and Yunnan Baiyao, are among the most popular stocks, according to transaction data of the Shanghai-Hong Kong stock connect program and the Shenzhen-Hong Kong stock connect program.

Shares in both Midea and Yunnan Baiyao attracted more than 2 billion yuan each from overseas investors so far this year.

Since September, companies across the food and beverage sectors rose an average 10 percent, while home appliance makers rose more than 6 percent, outperforming other sectors in the A-share market.

The benchmark Shanghai Composite Index rose nearly 1 percent in the same period. Shares in *baijiu* makers Gujing Gongjiu and Shanxi Fenjiu, and retailer Yonghui Supermarkets, rose more than 20 percent during the period.

According to a research note from Hua Chuang Securities, consumption-related companies are more "defensive" because they are more able to withstand cyclical pressures than many other fragile sectors that are sensitive to external factors.

The Hua Chuang note said that demographic changes, like increasing number of resi-

dents holding more disposable income, would mean consumption is going to expand in terms of not only quantity but quality.

"Added value of these companies, net profit and returns on shares will grow for companies offering quality products," it said.

According to Shenwan Hongyuan Securities data, net profit and ROE (rate of return on equities) of food and beverage, home appliance and healthcare companies have been increasing steadily since the beginning of this year, rising by an average 16 percent.

Consumption upgrade in China is not limited to products but covers experiences and services as well.

A research note from Shenwan Hongyuan Securities said reputable companies "in the leisure, hospitality and entertainment sectors are also likely to grow fast" if they grasp the opportunities brought by quality-conscious consumers.

Chinese dairy labels evolve into big brands

By BLOOMBERG and CHINA DAILY

Shares in Inner Mongolia Yili Industrial Group Co and China Mengniu Dairy Co have soared to all-time highs as the companies hunt aggressively to build up their milk supply chains through foreign acquisitions.

With China's dairy demand forecast to grow 37 percent to \$76 billion in five years — overtaking the United States to become the world's biggest dairy market — the bull run may have further to go.

Mengniu's stock, traded in Hong Kong, was raised to a buy by Daiwa Capital Markets Securities analyst Anson Chan on Oct 16. It began this year at HK\$15 and ended at HK\$21.65 on Friday.

Similarly, Yili shares began the year at 16.5 yuan in Shanghai and ended at 29.17 yuan on Friday.

The two have a combined 44 percent of the dairy-products market in China, according to data from Euro-monitor International.

Shanghai-based Bright Food Group Co is a distant third with a 4.8 percent market share.

Mengniu has spent about \$2 billion on acquisitions at home since 2014, while Yili has concentrated on shifting its product mix into higher-margin segments and boosted its nationwide marketing.

Now the focus is moving overseas: both have made bids for Australia's biggest dairy producer, Murray Goulburn Co-operative Co, in a deal that may value it at more than A\$1 billion (\$784 million) including debt.

Yili and Mengniu are cash-rich — they posted 23.5 billion yuan (\$3.6 billion) in cash and equivalents combined at last year's end — and hungry, thanks to their success in pushing gross profit margins past the 30 percent threshold.

To Haitong International Securities analyst Nicolas Wang, this means they have gone from being the bedmates of agriculture companies and OEM manufacturers to becoming standalone brands chalking up margins nearer to that of household names Danone SA and Nestle SA.

Yili's been trying to build up an upstream supply on foreign grass: in 2013, it took over Oceania Dairy in New Zealand, after the previous owners ran out of funds to build a dairy factory.

Since then, it has invested \$600 million into facilities that include an infant-formula canning line and a whole milk dryer.

44 percent

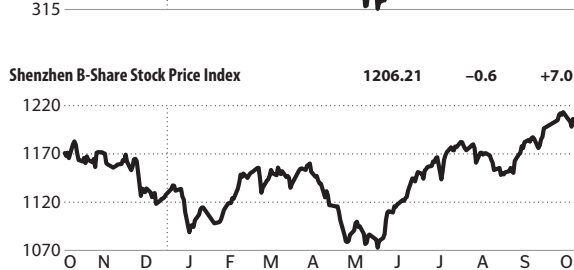
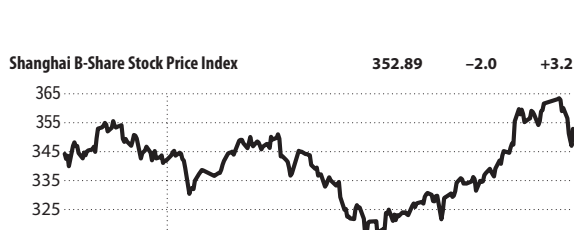
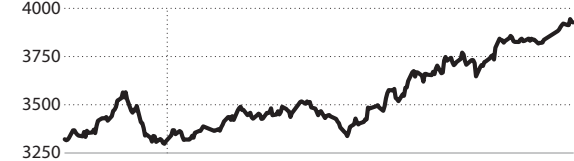
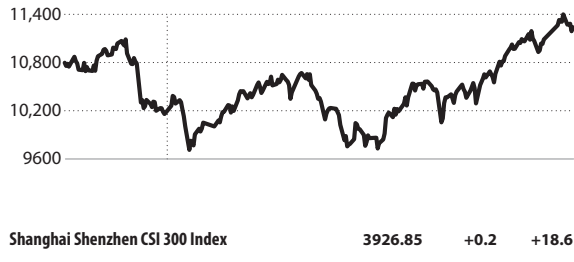
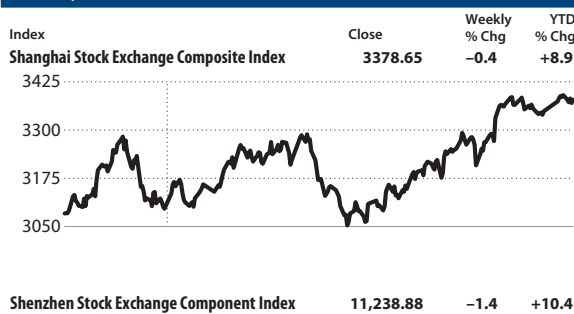
Dairy-product market share of Mengniu and Yili in China. Mengniu has spent about \$2 billion on acquisitions at home since 2014, while Yili has focused on higher-margin segments and marketing.

The Oceania plant is currently being supplied by 67 farmers. Murray Goulburn, the Australian cooperative that both Yili and Mengniu want, is supplied by 2,000 farmers. Acquiring such a large, stable milk source and dairy processing facility could catapult their products to the next level in the local consumer market.

Song Liang, a leading dairy analyst in China, said the acquisition of Murray Goulburn would give either Yili or Mengniu an edge to secure their dominant positions in domestic market while facilitating their plans to expand overseas with a strong established international brand.

"But both of them are not offering a price that is not worthy of the deal," said Song.

Weekly Stock Market Performance



Gainers and Losers

GAINERS			LOSERS		
Company	Close	Weekly % Chg	Company	Close	Weekly % Chg
Shanghai Stock Exchange			ZhejiangThreeStrsNwMtrl	41.70	-20.87
GansuGufngIndustry&Trde	11.83	61.17	NancalEnergySavingTech	26.63	-18.59
IReader Technology Co	26.79	61.00	ShanghaiTongjiSc&TchInd	11.70	-14.85
FujianAonongBiologdTch	22.62	52.84	Dali Pharmaceutical Co	40.16	-14.52
ShanghaiShine-Link Log	27.68	17.84	ZhejiangYunchngLndscope	24.01	-14.22
CTS Intl Logistics	10.86	17.79	Western Region Gold Co	17.96	-14.11
HunanBaillEngSci&Tech	33.61	16.70	ShanghaiLaChapelleFshn	24.74	-13.38
Shanghai Intl Port	7.88	14.53	JiangsuTianmLakeToism	48.10	-12.89
China United Travel Co	7.90	12.86	ChongqingDima Industry	4.99	-12.61
Zhejiang Tony Electr	75.74	12.84	ShanghKndlyEntprnsDvGr	16.76	-12.25
Guangzhou Jiacheng Log	36.52	12.30			
Shenzhen Stock Exchange			Shenzhen Tat Fook Tech	15.19	-17.09
BeijingNewBuildingMtrl	21.88	12.49	Shenzhen Coship Electr	6.14	-13.76
Betta Pharmaceuticals	66.20	10.70	Wangsu Science & Tech	10.88	-12.12
Yunnan Baiyao Group Co	99.20	8.83	ShenzhenYsstchInfotech	13.11	-11.54
TCL Corp	4.09	8.78	Thunder Software Tech	37.39	-11.50
SuzhoGldMntsCnstrDtrtn	12.30	8.37	Shenzhen Minkave Tech	25.37	-11.01
Walvax Biotechnology	17.68	7.80	Shenzhen Capchem Tech	23.33	-10.78
Jiangsu Yanghe Brewery	113.99	7.64	Feitian Technologies	17.40	-10.59
Beijing Kunlun Tech Co	29.32	7.60	Beijing Tongtech Co	15.79	-10.03
HangzhLnlntrectInfchn	9.92	7.59	KaidiEclogcl&EnvrTchCl	5.15	-9.97
Guizhou Bailong Grp Ph	19.51	7.55			
Hang Seng			China Shenhua Energy	18.88	-2.48
PingAnInsGrpCoof China	67.15	5.00	Geely Automobile	26.30	-2.41
Cathay Pacific Airways	13.34	4.55	China Resources Power	13.92	-1.97
Link REIT	66.40	4.32	AIA Group Ltd	60.20	-1.55
Want Want China	6.04	3.42	WH Group Ltd	7.81	-1.39
China Merchants Port	24.95	3.31			

Cross Currency Rates

	USD	EUR	CNY	HKD	GBP	KRW	BRL	RUB	JPY	INR	CAD
USD		1.178	0.151	0.128	1.319	0.001	0.313	0.017	0.009	0.015	0.792
EUR	0.849		0.128	0.109	1.120	0.001	0.266	0.015	0.007	0.013	0.673
CNY	6.621	7.802		0.848	8.734	0.006	2.072	0.115	0.058	0.102	5.252
HKD	7.802	9.188	1.179		10.290	0.007	2.443	0.136	0.069	0.120	6.181
GBP	0.758	0.893	0.115	0.097		0.001	0.237	0.013	0.007	0.012	0.601
KRW	1131.360	1337.600	170.850	145.007	1493.140		354.459	19.701	9.977	17.376	897.120
BRL	3.194	3.761	0.483	0.409	4.212	0.003		0.056	0.028	0.049	2.530
RUB	57.480	67.689	8.685	7.368	75.809	0.051	17.996		0.507	0.883	45.543
JPY	113.470	133.630	17.141	14.544	149.654	0.100	35.529	1.974		1.745	89.900
INR	65.039	76.407	9.814	8.336	85.735	0.058	20.387	1.133	0.574		52.084
CAD	1.262	1.486	0.190	0.162	1.665	0.001	0.395	0.022	0.011	0.019	

Data provided by Bloomberg

International Stock Markets

Index	Weekly Close	% Chg	YTD % Chg
Hang Seng Index	28,487.24	0.0	
Hang Seng China Ent Index	11,558.35	0.3	
TAIEX Taiwan Stock Index	10,728.88	0.0	
Nikkei 225	21,457.64	1.4	
Sensex	32,389.96	-0.1	
KOSPI	2,489.54	0.6	
S&P/ASX 200	5,906.99	1.6	
New Zealand 50 Gross Index	8,129.55	0.5	
Straits Times Index STI	3,340.73	0.7	
Bangkok SET Index	1,692.58	-1.2	
Bursa Malaysia KLCI Index	1,740.65	-0.8	
VN-Index	826.84	0.7	
Dow Jones	23,328.63	2.0	

Commodities

Commodity	Close	Weekly % Chg	YTD % Chg
Brent Crude Oil (USD/bbl)	57.85	1.2	
Gold (USD/t oz.)	1280.50	-1.8	
Silver (USD/t oz.)	17.08	-1.9	
Copper (USD/lb.)	3.17	1.0	
Aluminum (USD/MT)	2143.00	1.6	
Corn (USD/bu.)	3.45	-2.3	
Wheat (USD/bu.)	4.26	-3.1	
Soybeans (USD/bu.)	9.89	-1.1	
Coffee (USD/lb.)	1.25	-0.9	
Sugar #11 (USD/lb.)	0.14	-2.8	
Palm Oil (MYR/MT)	2741.00	-0.3	

ETFs

ETF	Ticker	Close	Weekly % Change
China 50	510050	2.79	0.69
China AMC CSI 300 Index	510330	4.26	-0.09
China CSI 500	510500	6.92	-2.11
China SME	159902	3.75	-0.37
China Universal CSI Consumer Staples Index	159928	2.14	-0.19
E Fund ChiNext Price Index	159915	1.79	-2.50
E Fund CSI 300	510310	1.67	0.12
E Fund CSI 300 Financials ex Banks Index	512070	2.02	-0.93
E Fund Hang Seng China Enterprises Index	510900	1.24	0.97
E FUND SZSE100 INDEX FUND	159901	4.90	-0.73
Fortune SGAM Xianjin Tianyi Money Market	511990	100.03	0.00
Guangfa CSI 500	510510	1.82	-1.83
Guotai Shanghai Stock Exchange 180 Financial Index	510230	6.26	0.55
Harvest CSI 300 Index	159919	4.28	-0.21
Huatai-Pinebridge CSI 300	510300	3.98	-0.13
Shanghai SSE180	510180	3.51	0.43
SSE Pledge Urban Investment Bond	511220	92.60	-0.05
Yinhua Traded Money Market Fund	511880	102.96	0.05