Quarterly Strategy

HAMON INVESTMENT

2Q 2024

The momentum from the first quarter of 2024 continued into the second quarter of the year. The MSCI World index was up 2.15% over the quarter, while the MSCI Asia ex Japan index gained 6.41%. Investors aggressively dialed back expectations for central bank rate cuts, as the strong April data was viewed negatively by the markets and worries of US overheating had taken root towards the end of the first quarter. But going into the second quarter, these worries abated, and hopes for a soft-landing revived. Weakening personal consumption, slower Q1 GDP growth, and not as strong job numbers in the US should provide support for interest rate cuts in the second half of the year. We therefore expect the global market will continue to perform well in the third quarter.

The China market saw some recovery after falling four consecutive quarters, mainly due to the central government's policy support for the property sector. The PBOC announced an RMB 300bn relending program for local SOEs to purchase properties from developers in May to reduce the inventory, in addition to cutting mortgage rates and minimum down payment requirements. As banks will receive relending funds amounting to 60% of the principal of their loans to qualified projects, the PBOC expects the RMB300bn relending quota to support RMB500bn in bank lending for housing destocking. Tier 1 cities (eg. Shenzhen, Shanghai, Guangzhou) also cut down payment requirements to boost sales. We began to see falling YoY sales figures from the top 100 developers, from 32% in May to 14% in June after the announcement of the new policy. Nevertheless, it will take some time to see if the property market has really bottomed or if this is just a knee-jerk reaction due to the new policy. Interest in the Chinese equity market is still very limited and valuations in HK remains low.

Tech and AI-related companies continued performing very well across the developed markets. One such name we like is a non-AI tech company listed in Taiwan, E-ink, that is the global leader in e-ink and e-paper technology, used in e-book reading devices and for Electronic Shelf Labels (ESL). The company has a dominant market position of over 90% market share, with their ESL used in many supermarkets and its e-paper tech used by Amazon's Kindle.

E-ink's share price didn't perform in the past year and a half due to inventory digestion issues for its ESL-related product. However, we believe the upward trend will resume, as the company's two major product lines (ESL and e-readers) will start to see strong growth in the coming two years. ESL inventory destocking is finally over in Q2 2024, and the company should benefit from ESL deployment by Walmart in the second half of the year. Rakuten Kobo also recently launched its first color e-reader, and we believe there would be a strong demand for upgrades from a black and white screen to color screens. It is likely that Amazon will launch the color version of their Kindle e-reader by 2025, which should trigger another replacement cycle, benefitting this Taiwanese e-paper company. The stock is trading at 25x 2025 P/E with 30% EPS CAGR growth for the next two years, and we believe there will be room to re-rate further.

Looking ahead, we are still positive on the outlook for global markets, especially the US market, and continue to hold a more neutral view on the HK/China market at the moment, and remain selective in our stock picks. Our strategy remains the same, with focus on high dividend yield stocks in China, while looking for growth stocks outside the China market, especially in tech and AI-related names. Our strategy has been working quite well for the first half of the year, and we believe it should continue to perform well in Q3.

Hamon Investment
1001, 10th floor, Standard Chartered Bank Building
4-4A Des Voeux Road Central, Hong Kong
Tel: (852) 2526 4268 • Fax: (852) 2526 7277
Website: www.hamon.com.hk • Email: enquiry@hamon.com.hk