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China's Blue Chips in 2021 and Beyond with actionable H50 strategies

by Tariq Dennison, +852 9476 2868

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Image credit: My own photo

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- Independent Adviser / Manager of accounts on Interactive Brokers Platform
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 - HK Type 9: GFM Group Limited
- 22 years global markets experience
 - Commerzbank (NY, London, Frankfurt)
 - Bear Stearns (NY)
 - J.P. Morgan (NY)
 - Canadian Imperial Bank of Commerce
 - Societe Generale (HK)
- Masters in Financial Engineering
 - University of California at Berkeley
- Visiting Prof at ESSEC Business School
 - Fixed Income
 - Alternative Investments
- Author of "Invest Outside the Box"



Outline of Fundamental Part

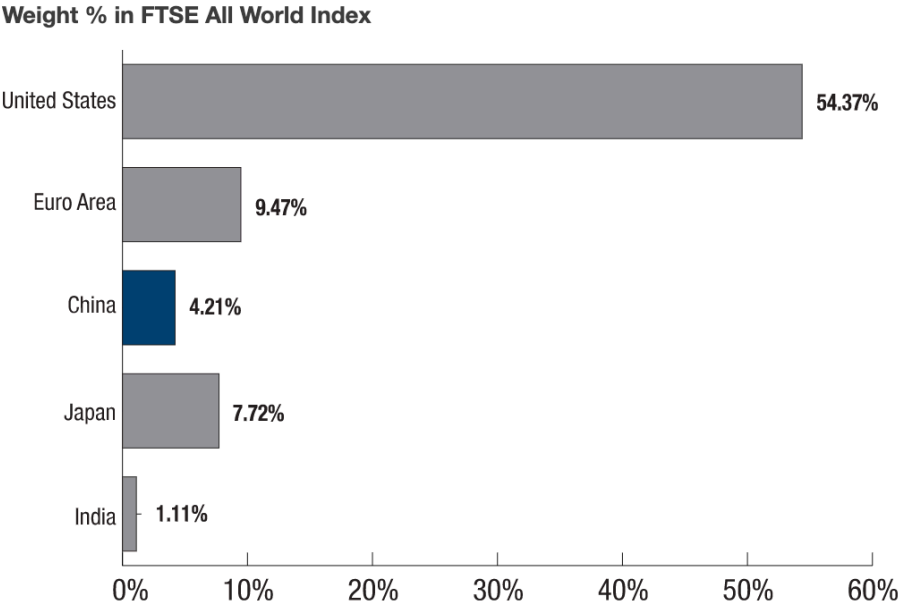
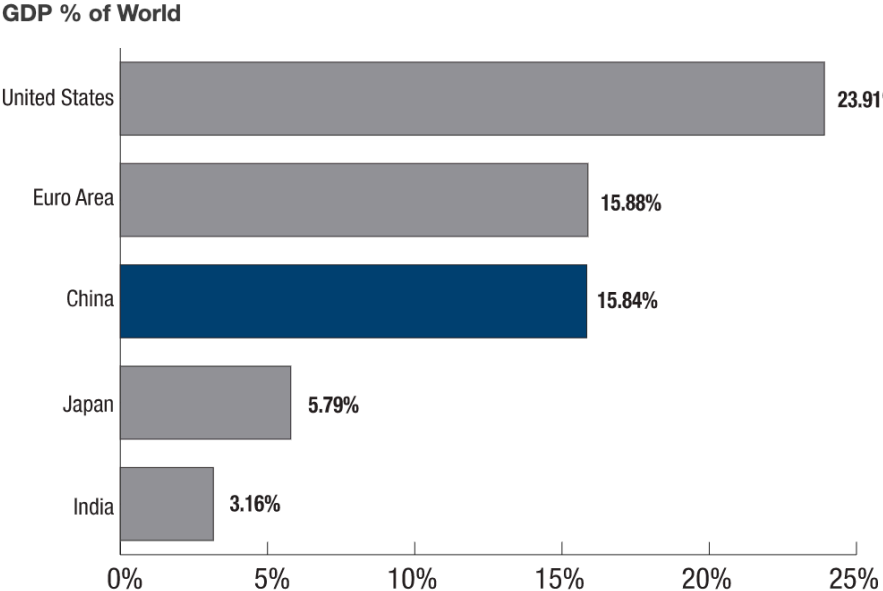
- China in Global and EM Index Benchmarks
- China Post-COVID-19
- China's "Alphabet soup": Review of A vs H shares
- Understanding the FTSE H50 Index vs alternatives

Outline of Action Part

- Understanding the futures
 - A50
 - MSCI China NTR
 - MSCI Taiwan
 - RMB Currency
- Sample long and short trading strategies

Big picture: China vs World and EM

Even non-PPP GDP out of proportion with indices

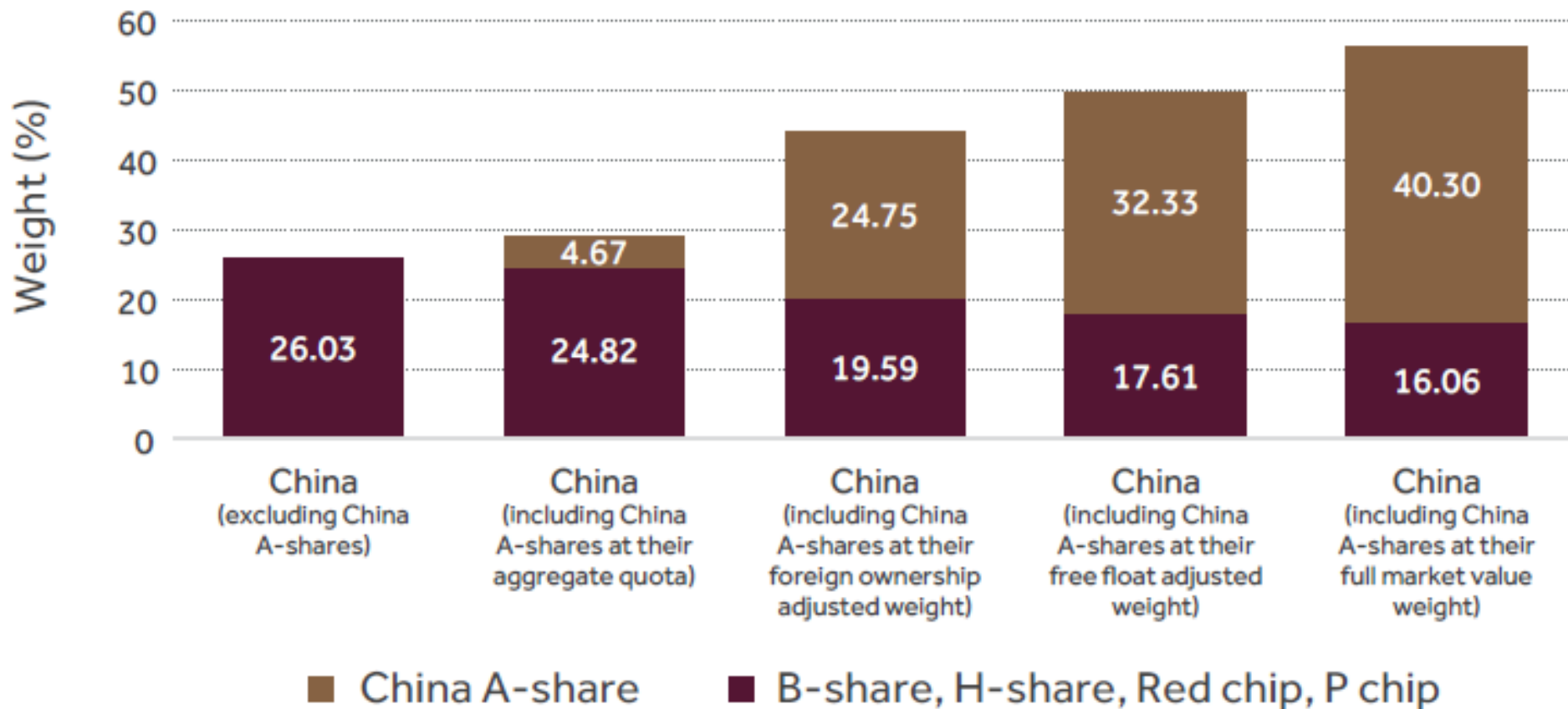


Source: World Bank

Source: <https://www.paceretfs.com/products/afty>

For your EM fund, China is way "Too Big to Ignore"

China's expansion in the FTSE Emerging Index

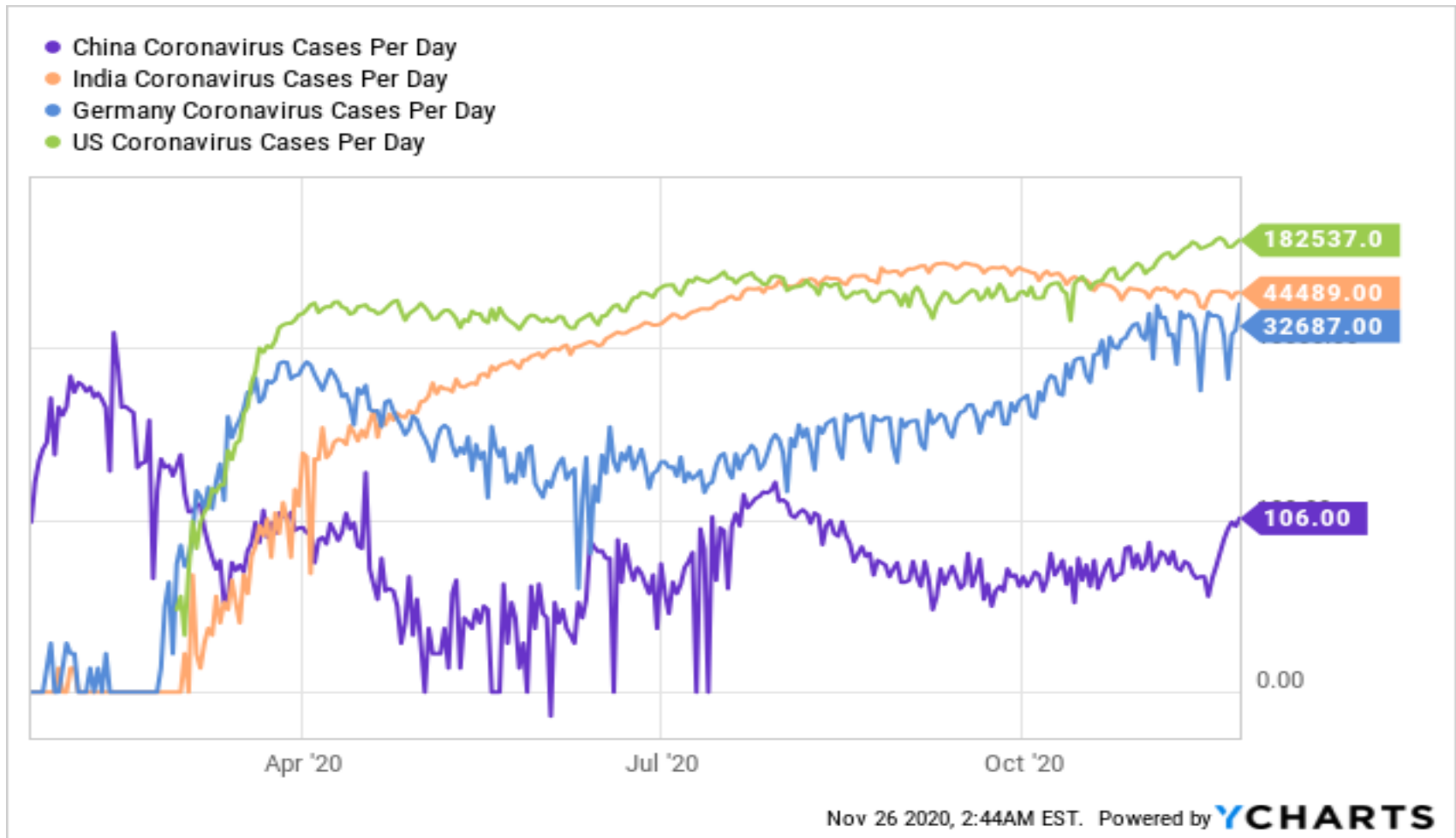


Source: FTSE Russell, data as at June 30, 2017.

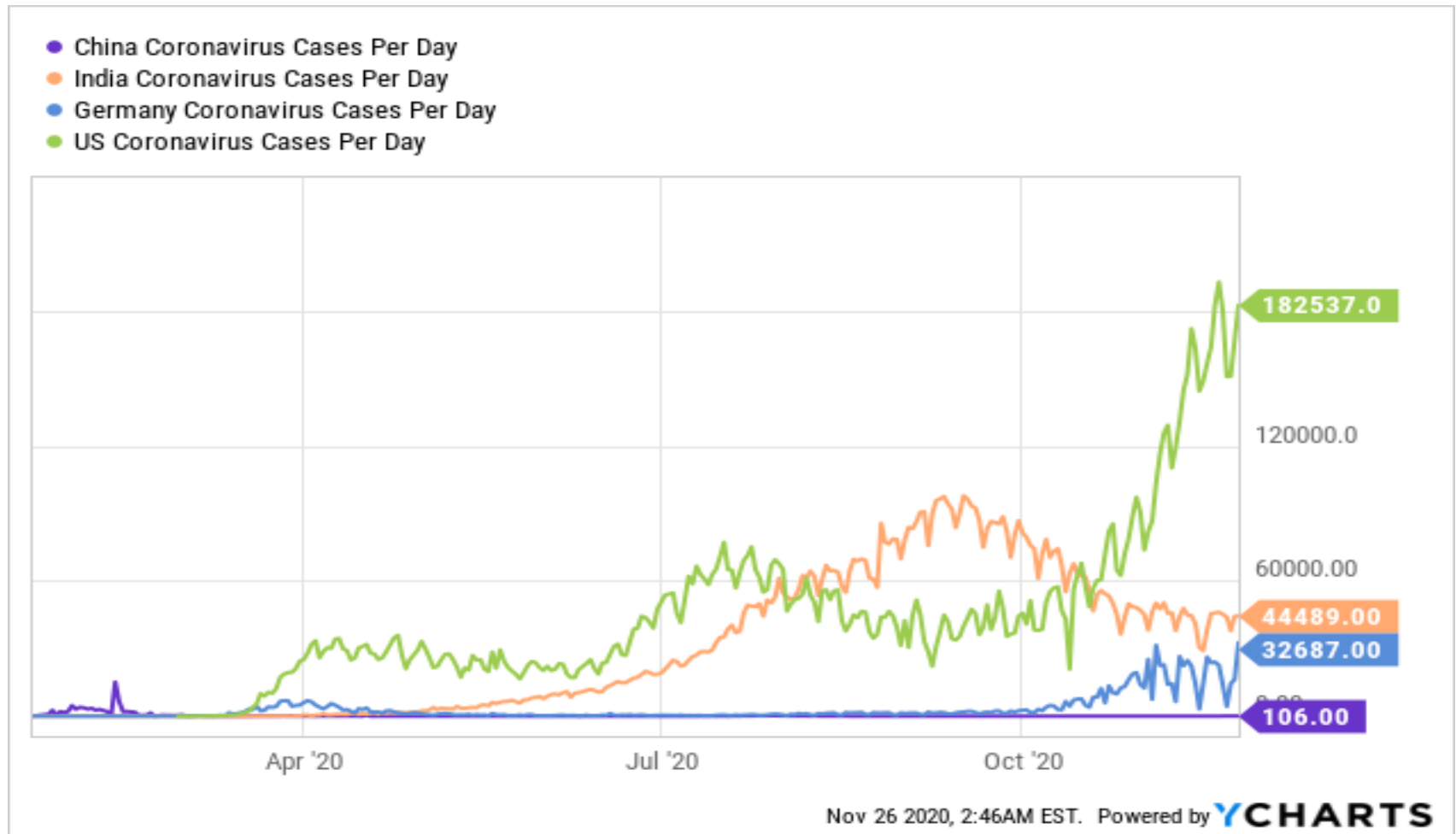
Source: <https://www.ftserussell.com/ja/research/preparing-chinas-inclusion-global-benchmarks-flexible-approach-managing-transition>

China's COVID-19 “Shock Test”

China's COVID-19 Case Waves in GUIC, Log Scale



... scale clearer in linear scale



China's Post-COVID confidence: Wuhan Pool Party

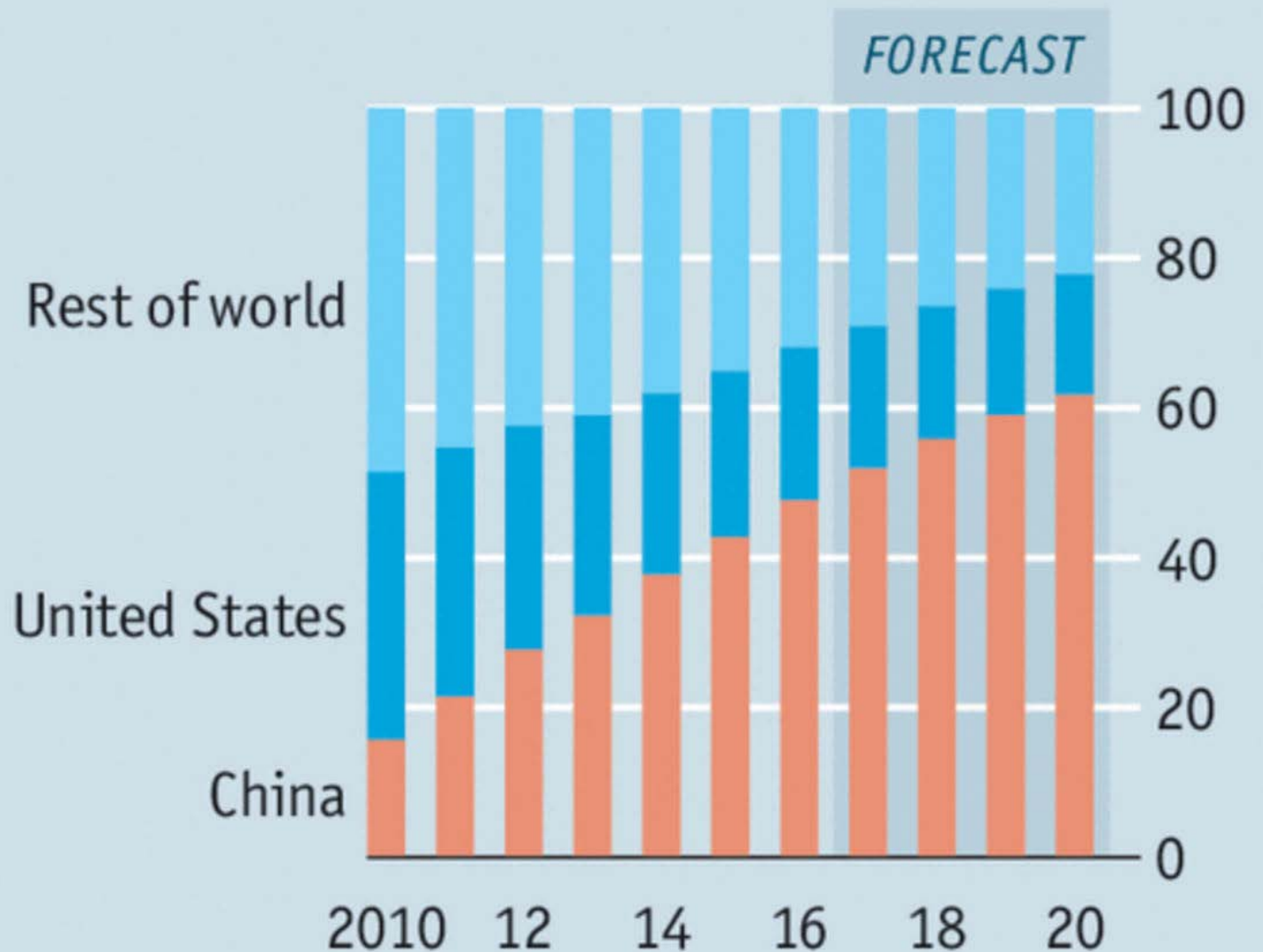


Source: BBC

China's E-commerce Boom Predicted Long Pre-COVID

Retail e-commerce sales, worldwide

Share of total, %



Source: FDI China

The longer-term numbers that matter...

Number of high-income consumers

(m)

12.0

10.0

8.0

6.0

4.0

2.0

0.0

2015

Additional in 2016-30

12.0

10.0

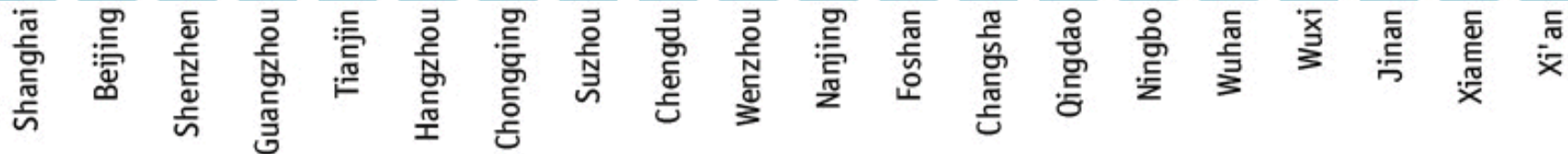
8.0

6.0

4.0

2.0

0.0



Note: high-income consumers refer to individuals with a grey income-adjusted disposable income of above Rmb200,000 per year at 2015 constant prices.

Source: The Economist Intelligence Unit.

Review of China's A vs B vs H etc. Shares

China's "Alphabet Soup" of Share Classes

Share Class	Country of Incorporation	Country of Listing	Trading Currency	Other Requirements	Available to mainland Chinese investors	Available to other investors
A Share	People's Republic of China (PRC)	China	CNY	None as they are specific share classes issued by the company	Yes	Yes under QFII/RQFII/ Stock Connect programs
B Share	People's Republic of China (PRC)	China	USD (Shanghai) HKD (Shenzhen)		Yes (if they have appropriate currency accounts)	Yes
H Share	People's Republic of China (PRC)	Hong Kong	HKD		Yes if QDII approved or under Stock Connect programs	Yes
Red Chip	Non-PRC	Hong Kong	HKD	See notes below	Yes if QDII approved or under Stock Connect programs	Yes
Min 25% ownership by Chinese State entity						
P Chip	Non-PRC	Hong Kong	HKD		Yes if QDII approved or under Stock Connect programs	Yes
Private ownership & leadership Min 45% PRC revenues & assets						
S Chip	Non-PRC	Singapore	SGD	Yes if QDII approved	Yes	
N Share	Non-PRC	United States	USD	Yes if QDII approved	Yes	

... very different performance over the past 5 years

5-Year Performance - Total Return



5-Year Performance - Total Return



Some Statistics ...

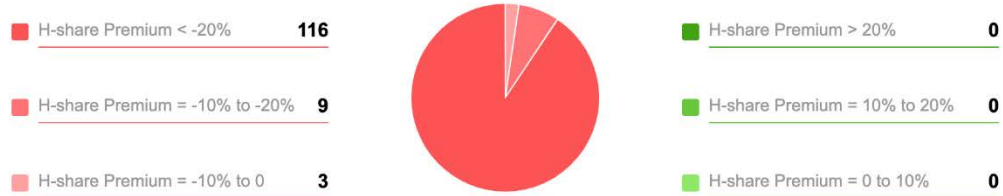
	Hong Kong Exchange (25/11/2020)		Shanghai Stock Exchange (25/11/2020)		Shenzhen Stock Exchange (25/11/2020)	
	Main Board	GEM	A Share	B Share	A Share	B Share
No. of listed companies	2,158	373	1,567	48	2,321	45
No. of listed H shares	270	20	n.a.	n.a.	n.a.	n.a.
No. of listed red-chips stocks	171	4	n.a.	n.a.	n.a.	n.a.
Total no. of listed securities	17,177	374	n.a.	n.a.	n.a.	n.a.
Total market capitalisation (Bil. dollars)	HKD 45,947	HKD 117	RMB 40,634	RMB 69	RMB 32,751	RMB 49
Total negotiable capitalisation (Bil. dollars)	n.a.	n.a.	RMB 35,377	RMB 69	RMB 25,377	RMB 49
Average P/E ratio (Times)	16.95	26.40	15.34	8.38	33.23	11.05
Total turnover (Mil. shares)	259,433	993	31,774	25	36,812	49
Total turnover (Mil. dollars)	HKD 178,061	HKD 702	RMB 357,614	RMB 142	RMB 482,309	RMB 213
Total market turnover (Mil. dollars)	HKD 178,763		RMB 384,742		RMB 482,521	

Source: <https://www.hkex.com.hk/eng/csm/highlight.htm>

For stocks with both A and H Shares...

All Listed AH Shares SZ Listed AH Shares SH Listed AH Shares

AH Premium distribution chart



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專為商業客戶而設的全新
創作方式。價格由每月
HK\$268.00 起。

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AH Shares	H Shares ¹			A Shares ²			H Shares VS. A Shares
Name	Symbol	Last (HKD)	Change (%) ³	Symbol	Last (RMB)	Change (%) ³	Premium (%) ⁴
ZHEJIANG SHIBAO	01057.HK	1.070	-0.926%	002703.SZ	5.55	-2.802%	-83.657%
FUDANZHANGJIANG	01349.HK	4.180	+1.211%	688505.SH	20.61	-2.691%	-82.807%
LA CHAPELLE	06116.HK	0.390	-9.302%	603157.SH	1.85	-4.145%	-82.130%
GUOLIAN SEC	01456.HK	3.890	-3.234%	601456.SH	18.25	-2.874%	-81.931%
CHINA SUNTIEN	00956.HK	2.070	+1.471%	600956.SH	9.42	+4.900%	-81.372%
SHANDONG MOLONG	00568.HK	0.810	+3.846%	002490.SZ	3.53	0.000%	-80.549%
CSC	06066.HK	10.180	+0.394%	601066.SH	42.58	+0.829%	-79.733%
FIRST TRACTOR	00038.HK	2.950	0.000%	601038.SH	10.90	-0.457%	-77.058%
CC SECURITIES	01375.HK	1.530	0.000%	601375.SH	5.39	+1.316%	-75.937%
CICC	03908.HK	17.680	+0.683%	601995.SH	62.20	+3.357%	-75.905%
SINOPEC SSC	01033.HK	0.590	-3.279%	600871.SH	2.00	-6.103%	-74.993%
COMEC	00317.HK	8.130	+1.625%	600685.SH	26.28	+3.465%	-73.775%
LUOYANG GLASS	01108.HK	4.890	+2.088%	600876.SH	15.27	-1.037%	-72.854%

<https://markets.ft.com/data/indices/tearsheet/summary?s=HSCAHPI:HKG>

HANG SENG CHINA AH PREMIUM INDEX

HSCAHPI:HKG

PRICE (USD)	TODAY'S CHANGE	SHARES TRADED	1 YEAR CHANGE	52 WEEK RANGE
127.58	↑ 2.02 / 1.61%	0.00	↑ 5.52%	112.75 - 128.48

Data delayed at least 15 minutes, as of Jun 20 2019 09:08 BST.

Summary

Charts

Historical prices

1D

3D

1W

1M

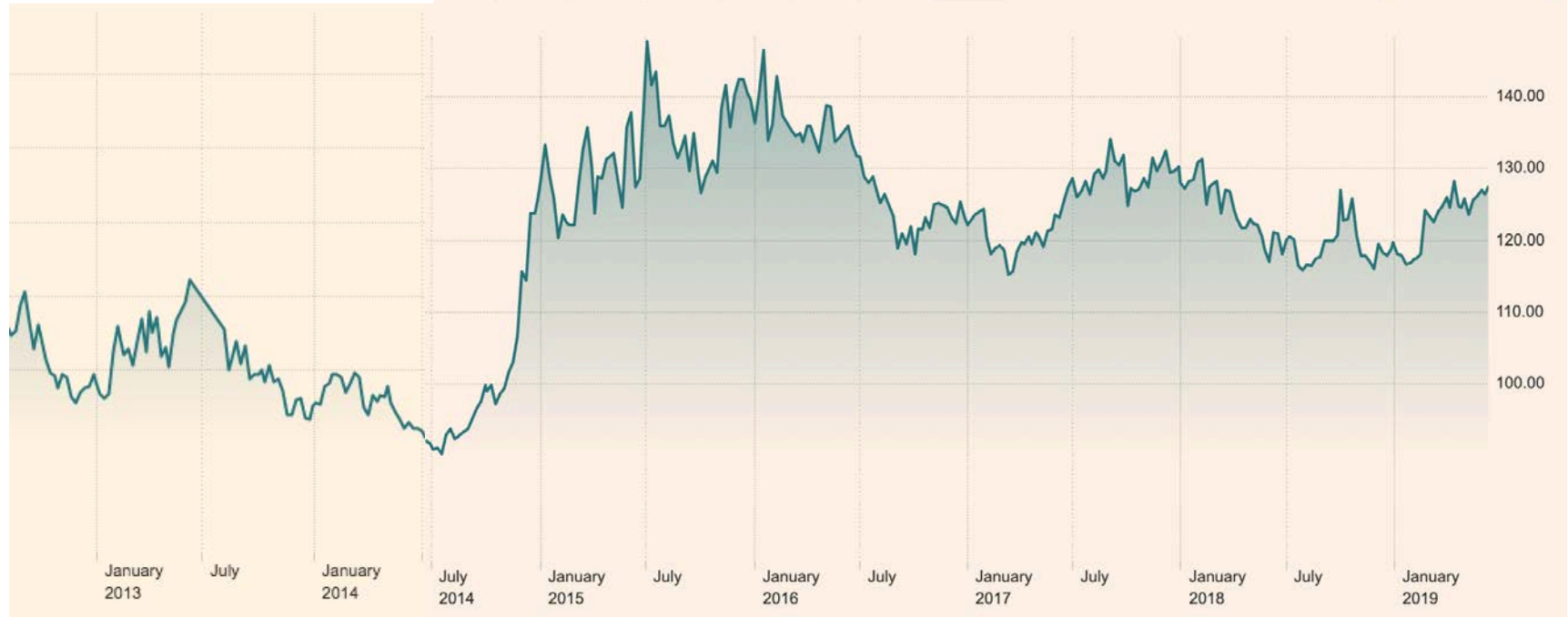
6M

1Y

3Y

5Y

Comparisons >



Source: <https://markets.ft.com/data/indices/tearsheet/summary?s=HSCAHPI:HKG>

Now onto the H50 Index

FTSE China (H50) vs A50 vs HSI

#	H-Ticker	Name	ISIN	Sector	Weighting	A-Ticker	H-Premium	A50 Weight	HSI Weight	P, H, Red
1	3690	MEITUAN DIANPING	KYG596	Consumer Discr	10.2%					
2	700	TENCENT HLDGS.	KYG875	Communication	9.2%				10.1%	P CHIP
3	939	CHINA CONSTR.BANK	CNE100	Financials	8.8%	601939	-25.4%	0.8%	6.4%	H SHARE
4	9988	ALIBABA GR. HLDG.	KYG017	Consumer Discr	5.1%				4.3%	P CHIP
5	2318	PING AN	CNE100	Financials	4.9%	601318	-13.2%	10.9%	5.3%	H SHARE
6	1398	IND. AND COM. BANK OF	CNE100	Financials	4.3%	601398	-23.5%	1.5%	3.4%	H SHARE
7	2963	WUXI BIO	KYG970	Health Care	4.3%				2.4%	P CHIP
8	1810	XIAOMI	KYG983	Information Tech	4.2%				4.4%	P CHIP
9	3968	CHINA MERCHANTS BAN	CNE100	Financials	3.5%	600036	-6.5%	7.4%		
10	3988	BANK OF CHINA H	CNE100	Financials	3.4%	601988	-30.2%	0.9%	2.2%	H SHARE
11	941	CHINA MOBILE	HK0941	Communication	3.3%				2.9%	RED CHIP
12	883	CNOOC	HK0883	Energy	2.6%				1.7%	RED CHIP
13	2020	ANTA SPORTS PRODUCT	KYG040	Consumer Discr	2.4%					
14	2628	CHINA LIFE INS. H	CNE100	Financials	2.4%	601628	-64.8%	0.9%	1.3%	H SHARE
15	1211	BYD COMPANY	CNE100	Consumer Discr	2.3%	002594	-10.9%			
16	1109	CHINA RESOURCES LAN	KYG210	Real Estate	1.8%				1.1%	RED CHIP
17	981	SEMICONDUCTOR MANU	KYG802	Information Tech	1.8%	688981	-68.5%			
18	386	CHINA PETROLEUM & CH	CNE100	Energy	1.6%	600028	-28.1%	0.6%	0.9%	H SHARE
19	241	ALIBABA HEALTH INF. TE	BMG017	Health Care	1.6%					
20	960	LONGFOR PROPERTIES	KYG563	Real Estate	1.6%					
21	1288	AGRICUL BK CHINA H	CNE100	Financials	1.6%	601288	-26.2%	1.7%		
22	2007	COUNTRY GARDEN	KYG245	Real Estate	1.4%				0.8%	P CHIP
23	2601	CHINA PACIFIC INS. H	CNE100	Financials	1.3%	601601	-32.0%	1.3%		
24	688	CHINA OVERSEAS LD & II	HK0688	Real Estate	1.3%				0.7%	RED CHIP
25	914	ANHUI CONCH H SHS.	CNE100	Materials	1.1%	600585	-23.0%	1.4%		
26	788	CHINA TOWER CORP	CNE100	Communication	1.0%					
27	2202	CHINA VANKE H	CNE100	Real Estate	1.0%	000002	-21.2%	2.8%		
28	857	PETROCHINA H	CNE100	Energy	1.0%	601857	-48.9%	0.4%	0.5%	H SHARE
29	1088	CHINA SHENHUA ENERG	CNE100	Energy	0.9%	601088	-30.1%	0.5%		
30	6862	HAIDILAO INTL. HLDG.	KYG429	Consumer Discr	0.9%					
31	3333	CHINA EVERGRANDE GR	KYG211	Real Estate	0.7%					
32	1658	POSTAL SAVINGS BANK	CNE100	Financials	0.7%	601658	-26.8%			
33	6030	CITIS SECURITIES	CNE100	Financials	0.7%	600030	-50.4%	3.5%		
34	728	CHINA TELECOM	CNE100	Communication	0.6%					
35	2359	WUXI APPTec	CNE100	Health Care	0.6%	603259	-3.2%			
36	3692	HANSOH PHARMA RG	KYG549	Health Care	0.6%					
37	998	CHINA CITIC BANK	CNE100	Financials	0.6%	601998	-46.6%	0.2%		
38	3328	BANK OF COMMUNICATI	CNE100	Financials	0.6%	601328	-23.6%	1.3%		
39	267	CITIC PACIFIC	HK0267	Industrials	0.6%				0.4%	H SHARE
40	762	CHINA UNICOM	HK0000	Communication	0.5%				0.4%	RED CHIP
41	1988	CHINA MINSHENG BANK	CNE100	Financials	0.5%	600016	-31.0%	2.0%		
42	1339	PEOPLES INS.CO	CNE100	Financials	0.4%	601319	-69.1%			
43	6886	HUATAI SECURITIES (H)	CNE100	Financials	0.4%	601688	-45.1%			
44	1816	CGN POWER	CNE100	Utilities	0.3%	003816	-48.6%			
45	763	ZTE H	CNE100	Information Tech	0.3%	000063	-50.0%			
46	390	CHINA RAILWAY GROUP	CNE100	Industrials	0.3%	601390	-40.7%			
47	1766	CSR CORP	CNE100	Industrials	0.2%	601766	-51.2%			
48	6818	CHINA EVERBRIGHT BAN	CNE100	Financials	0.2%	601818	-41.8%	0.9%		
49	6066	CSC FINANCIAL H	CNE100	Financials	0.2%					
50	2611	GUOTAI JUNAN SECURIT	CNE100	Financials	0.2%	601211	-49.7%			

Source: DWS, iShares, SPDR TraHK

Raw sector weight numbers

Sector Weights	A50	H50
Communication	0.5%	14.7%
Consumer Discretionary	9.3%	20.9%
Consumer Staples	23.0%	
Energy	1.4%	6.0%
Financials	42.8%	34.4%
Health Care	4.7%	7.1%
Industrials	2.9%	1.1%
Information Technology	5.7%	6.3%
Materials	3.1%	1.1%
Real Estate	4.4%	7.8%
Utilities	1.1%	0.3%

Source: DWS, iShares

Top 5 “Tech Giants” of the H50 (not in A50)



Tencent 腾讯



Alibaba Group

WuXi Biologics
Global Solution Provider

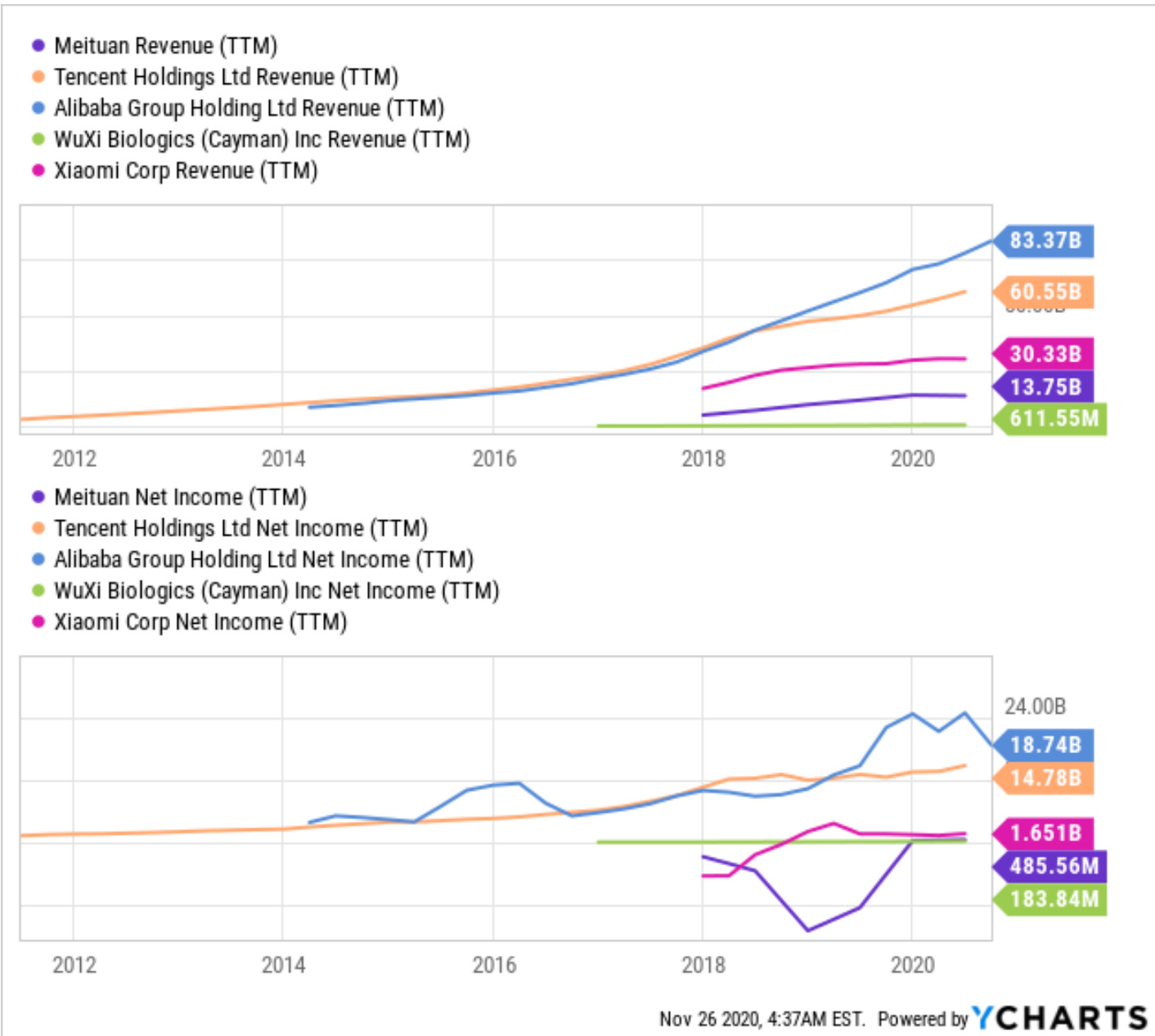


Source: Companies' Websites

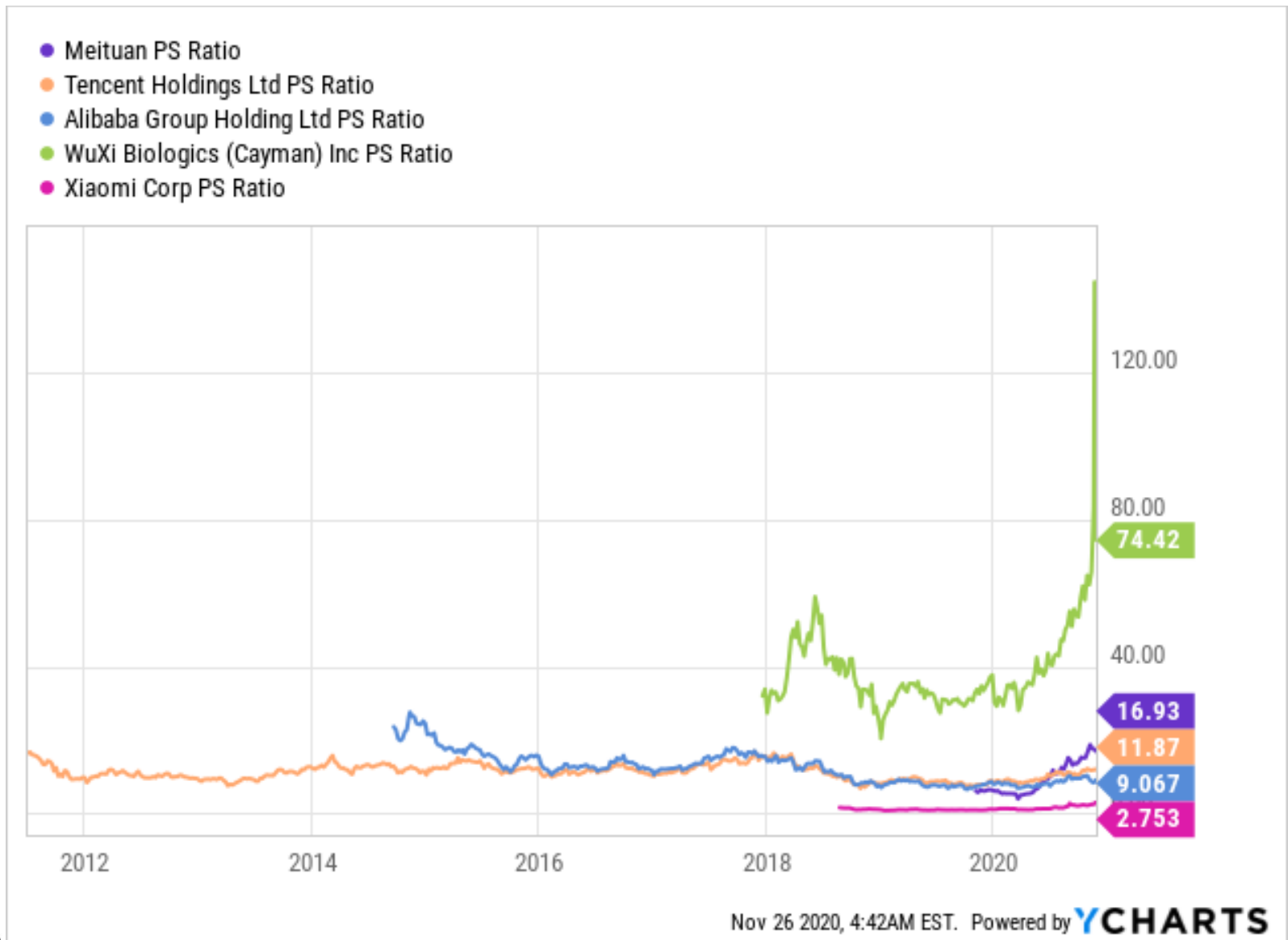
10% Meituan still smaller than 9% Tencent or 5% Ali



Revenue Growth vs Earnings (~ FCF, roughly)...



Valuation multiples...



What A50 has that H50 lacks...



Source: HKAirportShop.com, Gree Facebook Page, Websites of Jiangsu Hengrui and Yili Dairy

Summary of H50

- Tech giant P-Chips
- Red Chips like CNOOC and China Mobile
- Average 35% discount on H-Shares vs overlapping A-Shares
- 50% Overlap with the Hang Seng Index

Summary of A50

- Big liquor, and other domestic names
- More weight in financials and SOEs
- 38% overlap with the **names** in the H50 (another 7% of H50 names with A shares aren't in the A50)

Trading Mechanics & Strategies

FTSE China H50

Financial Instrument	Bid	Ask	Last
XIN0I ∞ Dec30'20 @SGX	♦ 20915.00	20930.00 ♦	♦ 20895.00

Order Description

SELL 1

Order Type LMT Routing SGX Time in Force DAY
 Limit Price 21000.00 Clearing IB

Messages

Amount	
Amount	42,000 USD
Commission (est.)	1.30 USD
Total	41,998.70 USD

Balances_in_currency			
	Current	Change	Post-trade*
Equity with Loan	146,583	-1	146,581
Initial Margin	48,035	2,661	50,695
Maintenance Margin	39,838	2,129	41,967
Position	0	-1	-1

*This is a current projection and is subject to change.

Don't display this message again.

Override and Transmit

Cancel

Order Confirmation

FTSE/Xinhua China A50

Financial Instrument	Bid	Ask	Last
XINA50 ∞ Dec30'20 @SGX	◆ 16568.00	16570.00 ◆	◆ 16569.00

Order Description

SELL 1

Order Type LMT Routing SGX Time in Force DAY
 Limit Price 16800.00 Clearing IB

Messages

Amount

Amount	16,800 USD
Commission (est.)	1.51 USD
Total	16,798.49 USD

Balances_in_currency

	Current	Change	Post-trade*
Equity with Loan	146,580	-2	146,578
Initial Margin	48,031	2,486	50,517
Maintenance Margin	39,836	1,989	41,824
Position	0	-1	-1

*This is a current projection and is subject to change.

Don't display this message again.

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Delayed Prices - Futures

Category: Equity Index ▼ Contract: FCH - SGX FTSE China H50 Index Futures × Trading Session: All ▼

Show TAIC trades

Session	Month	Last	Bid Size	Bid	Ask	Ask Size	Total V...	Open I...
T	Dec 2020	20,997.50	0	-	-	0	27	10
T+1	Dec 2020	-	0	-	-	0	0	-
T	Jan 2021	-	0	-	-	0	0	-
T+1	Jan 2021	-	0	-	-	0	0	-
T	Feb 2021	-	0	-	-	0	0	10


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Delayed Prices - Futures

Category	Contract	Trading Session
Equity Index ▾	CN - SGX FTSE China A50 Index Futures ×	All ▾

 Show TAIC trades

▲ Session	▲ Month	◆ Last	◆ Bid Size	◆ Bid	◆ Ask	◆ Ask Size	◆ Total V...	◆ Open I...	◆ DSP	◆ Prev. D...
T	Nov 2020	16,601.00	30	16,600.00	16,601.00	9	263,210	257,240	16,601.00	16,480.00
T+1	Nov 2020	–	1	16,593.00	16,626.00	1	0	–	–	–
T	Dec 2020	16,561.00	4	16,561.00	16,570.00	1	293,691	532,775	16,561.00	16,449.00
T+1	Dec 2020	–	1	16,566.00	16,570.00	1	0	–	–	–
T	Jan 2021	16,575.00	1	16,490.00	16,590.00	2	13	42	16,590.00	16,460.00
T+1	Jan 2021	–	5	16,019.00	17,049.00	5	0	–	–	–
T	Mar 2021	16,539.00	1	16,460.00	16,570.00	1	1	45	16,570.00	16,439.00
T+1	Mar 2021	–	3	16,151.00	17,339.00	15	0	–	–	–
T	Jun 2021	16,250.00	1	16,160.00	16,380.00	1	1	43	16,380.00	16,270.00

Cash-H vs H50 Futures

- Classic “Alpha-Beta” Cash vs Futures Strategy
- Efficient way to short hedge broader market exposure
- May be a more appropriate benchmark vs some H-share strategies

Risks

- Being wrong
- Pushing margin limits
- HKD vs USD basis
- H50 futures liquidity may take time to develop (which is why I’m not yet sampling a momentum strategy)

A50-H50 Pair Trade

- Roughly 3:1 Contract Ratio
- Both contracts in USD
- More of an “offshore tech vs onshore staples & SOEs” play than a pure A-H play

Risks

- Margin offsetting
- RMB vs HKD quanto
- Watch your thesis and limits!



GLOBAL FINANCIAL MARKETS
GROUP

Questions?



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Alternative “Official” Data

- Reports of listed Chinese companies
 - Usual red flag checks
- Reports of trading partners
- Reports of foreign companies doing business in China
 - Apple, Starbucks, etc.

Even More Alternative Data

- “On the ground” surveys
 - In person
 - Phone/WeChat network
- Overseas purchases by Chinese (e.g. Vancouver apartments)
- Satellite images

A-shares

Originally limited to
Mainland investors

Open to QFIIs in 2002

Open via Stock Connect
programs in 2014 (SH)
and 2016 (SZ)

Averaged 15-40%
premium over H since
2014

H-shares, Red Chips and P-Chips

25% of HK-listed
names, but 65% of
HK Market Cap

Open to Mainland via
QDII, then Stock
Connect

More ADR filings than A