

## July 1st Half Strategy Report (China Excerpt)

### Chinese Internet Equity Strategy:

The best time to accumulate was obviously back in March-April 2022 as we discussed. Chinese ADRs have quickly priced in the positive developments. Bloomberg media headlines are now positive on China. Institutional investors bought around the same time I guided back in Feb-April. Retail investors are chasing now.



**Before reading this update for Chinese Internet Equities, make sure to read my previous report. My macro opinions on China continue to be LT constructive since last update. View previous report to view.**

In hindsight, it now appears obvious that with China's lockdowns easing and the U.S. entering QT, that Chinese equities would outperform the U.S markets.

This opinion that I've shared with the public on Youtube has been met with extreme skepticism, but in the end, even the people who disagree with my views cannot disagree with the chart below where it displays that we as a Community have been correct relative to the skeptics.

Alibaba's recovery is a powerful reminder that it takes TIME for my ideas (like any other good idea) to work out. Most of my highest conviction views will take place at a time when there is extreme disorder in the market. If investors think in terms of days or weeks rather than months, they will unfortunately be unable to capitalize on the long-term benefits of my research.

Sometimes a good trade could take a long time to play out. As long as you size your position in a way that doesn't disturb your emotional well-being, you should always give your ideas lots of time to play out.



Chart of BABA vs. QQQ

Since my last report, China's macro picture continues to stabilize with the COVID lockdowns being scaled back as China achieves its zero covid policy. The latest development is that China is also easing travel restrictions by cutting the number of days of quarantine, which should facilitate consumption and the travel sector.

I continue to believe the Party is interested in shoring up economic growth to have political clout ahead of President Xi's coming re-election term this coming Fall.

But at the same time, I do not believe that regulations are going away, and the [latest guidance provided on China's livestreamers](#) is an example. This is why I am cautious on companies that rely heavily on live streaming for their future prospects, like Bilibili. The opportunity in live streaming driven sales is enormous in China, and I view New Oriental as soon to be an opportunity to add back onto my coverage universe if they can keep their live streaming momentum going. I've added a very light addition to EDU on top of my existing position in conjunction with the video that I recently published on Youtube.

This means that while economic growth is likely to resume in China, there are valuation ranges where investors should start paying attention to risk-reduction. As you can see in the chart below, Alibaba now has a forward P/E ratio of 16x at the time of this writing. When I advocated for \$BABA, it had a P/E ratio of 12X, which is a slam dunk valuation for investors who had the proper patience.

At 16X, Alibaba now has a similar forward multiple with the S&P 500. And while Alibaba continues to have growth prospects in front of it, we have to be cognizant of investors' capital allocation of resources. Because Alibaba's valuation is no longer at its nadir (low point), investors have other stocks to potentially choose from.

In order for investors to keep expanding the multiple for \$BABA, they need to surprise with a strong outlook in the next quarter. A rising share price must be accompanied by verified strong fundamentals. So long as \$BABA reports good numbers, the recovery is intact.

As of this Bi-Weekly report, I view that if \$BABA gets to 18X P/E or ~130/share, that is the beginning of an area for risk-reduction. Any overshoot that approaches \$BABA \$150 in a short period of time should be faded IMO if the macro environment is the same. If the macro environment greatly improves, I will let you know my opinion.

On the other hand, if \$BABA gets back to 14X forward P/E, which is around that ~95-100/shr region, that is once again an area of value for long-accumulation. If for some reason, we see 12X P/E again on BABA which is that 80-85 region, assuming China's policy is still pro-growth, this will be an excellent area of value for purchases.

I view the market as being hyper selective in what stocks they are selecting. Valuation now very much matters.

In an era of tighter money, investors are doing more due diligence to ensure every dollar allocated is being allocated in a proper way.

We paid 12-13X for the BABA P/E earlier this year. Now it's 16X.

Not expensive, but no longer dirt cheap. I'll continue providing guidance inside Discord when anything updates my opinion.

*See Chart below of Alibaba and its Forward Multiple*

● Alibaba Group Holding Ltd Price



● Alibaba Group Holding Ltd PE Ratio (Forward)

