



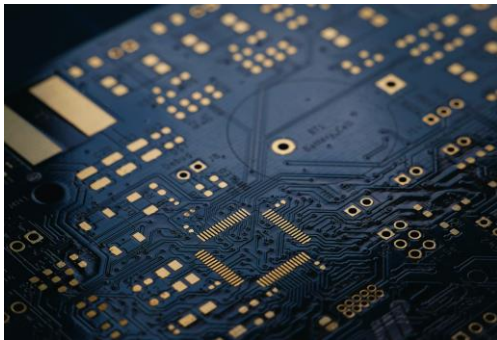
FOCUS on

April 2023



Yanxiu Gu
Product specialist, Chinese equities
ODDO BHF AM

Digital China!



“
China is mobilizing the whole country to roll out its digital strategy. The digital economy accounts for 40% of Chinese GDP. Numerous beneficiaries of the digitalisation trend in China are already appearing
”



With 1 billion smartphone users and over 1.15 million 5G base stations installed, China ranks as the world’s second-largest digital economy, amounting to a massive 4.6 trillion yuan in 2021, or 40% of Chinese GDP. It more than doubled from 2016 to 2021. China believes that building a digital economy, a digital society and a digital government could improve Chinese citizens’ lifestyles and, in turn, their confidence in Chinese government.

DIGITAL CHINA IS MUCH MORE THAN E-COMMERCE

Speaking of Digital China, many immediately think of Chinese e-commerce giants, like Alibaba. But it is more than that. It covers a wide range of industries, including data infrastructure, semi-conductors, telecom services, the industrial internet of things, smart manufacturing, e-commerce, and data management. In daily life, it

also means big-data-empowered innovation, smooth access to public services, safe and connected cities, and more digital-wise farmers and workers. Digital China has a wide scope encompassing citizens’ everyday work and lives.

EXAMPLE - SMART PARKING

Hangzhou is the capital city of Zhejiang Province, with more than 12 million residents. In Hangzhou, 75% of the parking lots are connected to the city parking system. Drivers can get the number of available parking lots in real time and are allowed to pay after leaving, which alleviates the parking jam problem in this heavily populated city. Assuming that it takes 30 seconds for drivers to pay, the “pay later” service have saved a total of 1.25 million hours since 2019. The CAGR of China’s smart parking sector is around 20% from 2016 to 2022.



EXAMPLE - INTELLIGENT POLICE SYSTEM

China's camera surveillance connected to its police systems has been a controversial topic because of human right claims. But it contributes considerably to China's low rate of severe violence (only 3.9% in 2022). According to local professionals, cameras installed at front gates of buildings can recognise wanted criminals within 5 meters and send alarms with locations to the local police immediately. The citizen sense-of-safe index rose from 87.5% in 2012 to 98.6% in 2021.

DIGITALISATION OF THE ECONOMY AND SOCIETY IS STRATEGIC FOR CHINA

Digitalisation is strategic for China for two reasons:

- 1. To drive "high-quality" growth.** Digitalisation is expected to become the engine of China's transition to a "high-quality" growth model by improving production efficiency, empowering innovation, and accelerating rural revitalisation.
- 2. To help China win the global competition.** its mainstream media have repeatedly highlighted that digitalisation is the high ground that China must take to "win the future"

"Whoever can better recognise and seize the general trend of digitalisation, and better adapt to and lead the developmental direction of new forces of production, will be able to win the new omnidirectional competition for comprehensive national power."

Governance Events Column, Outlook Weekly, Feb. 21, 2022

"DIGITAL CHINA" IS A TOP-LEVEL STRATEGY OF THE COUNTRY, GOING BACK TO PRESIDENT XI'S EARLY THINKING

"Digital China" is less familiar to Western media than other initiatives, like the Belt and Road Initiative and Made in China 2025. But since Xi Jinping's rise to power in 2012, the idea that "digitalisation makes China strong" has repeatedly been mentioned on local media, often by Mr. Xi himself. In fact, it can be traced back to Mr. Xi's early career, when he was Party Secretary in a county in Hebei Province in 1982 (see quotes). In 2000, Mr. Xi led China's first digital government campaign, when he was party leader in Fujian province, which was the best practice at that time.

"Technology is the key, and information is the soul. Ignoring informatisation is like a blind man riding a blind horse into a deep pool in the middle of the night."

Xi Jinping, General Secretary of Chinese Communist Party, President of China 1982, when he was Party Secretary in a county in Hebei Province.

Recently, Chinese government made three significant announcements on this topic, highlighting its importance to Chinese citizens.

- 1. "The plan".** In late February 2023, the CCP Central Committee and Chinese government announced a "plan" for China's digital development (Plan for the Overall Layout of Building a Digital China). "The Plan" sets the goal of "achieving major progress" by 2025, and "ranking among the world's leading nations" by 2035 (in digital). It calls for efficient digital infrastructure, high-quality data resources, and "breakthrough innovations". The plan serves as a central-level mandate to be followed by local governments.



2. **Organisational structuring:** After “The Plan”, comes the organisational preparation to make sure that the strategy is not propaganda. In March 2023, the new Chinese government leaders approved the establishment of the National Bureau of Data, which will serve as the governing body of numerous local stand-alone data bureaus, to coordinate and oversee the implementation of “Digital China” strategy nationwide.
3. **Link to local officials’ performance measurement.** The digitalisation progress is now incorporated into local officials’ performance evaluations, which will impact their careers. Provinces and agencies are budgeting, resourcing, and working in the name of Digital China. Beijing aims to become a global benchmark city of the digital economy, whereas Shanghai is more ambitious, targeting the title of “International Digital Capital”. Shanxi province, China’s coal capital, is turning to digital technologies to improve the efficiency of its core mining industry.

CHINA IS COUNTING ON “INFORMATION INFRASTRUCTURES” TO BUILD “DIGITAL CHINA”.

“Information infrastructures” refers to “digital, smart and innovative” infrastructures, such as 5G, IoT, industrial internet, AI, cloud computing, blockchain, data centres, and the internet communication network. According to China Academy of Information and Communications Technology, from 2021 to 2025, total investment in information infrastructures could reach 10.6 trillion yuan.

China has delivered remarkable results in the rollout of its Digital China Strategy, thanks to these information infrastructures. For example, by mid-2022, the penetration rate of 5G services had reached 33% among Chinese internet users (vs. 12.1% for global average). The number of digital hospitals in China increased by more than 4.5 times in three years (from ~300 in 2019 to 1650 in 2022). The penetration rate of digital R&D tools reached 75.1% among Chinese industrial companies.

AS A CONCLUSION, WHERE ARE THE OPPORTUNITIES TO TAKE PART OF THE “DIGITALISATION HEAT”?

Numerous beneficiaries of the digitalisation trend in China are already appearing.

- The communication device providers who can take advantage of explosive computing power needs, such as optical modules manufacturers (e.g., Zhongji Innolight*, YTD +135%**)
- Sectors that could improve profitability by applying AI technologies, such as entertainment (e.g., 37Games*, a game developer, YTD +47%**), and industrial software (e.g., Glodon Co*, a software provider for the construction industry, YTD +6%**)

In the first quarter of 2023, almost all companies that fit in the “digital economy” concept have seen their stock prices surge, even though some of them are on the US government’s “Entity List”, which prohibits US citizens from purchasing these stocks. For example, YTD stock prices of China Mobile* (telecommunications) and AMEC* (manufacturer of semiconductor equipment), which are both on the list, are up by 37%** and 90%**, respectively.

*YTD as of April 14th, 2023

**This does not constitute an investment recommendation



Disclaimer

ODDO BHF AM is the asset management division of the ODDO BHF Group. It is the common brand of four legally separate asset management companies: ODDO BHF AM SAS (France), ODDO BHF AM GmbH (Germany), ODDO BHF AM Lux (Luxembourg) and METROPOLE GESTION (France). This document, for market communication, has been drawn up by ODDO BHF ASSET MANAGEMENT SAS and is exclusively dedicated to clients categorized as professional (MIFID). It may not be circulated among the public. The investor is informed that the strategy presents a risk of capital loss, but also many risks linked to the financial instruments/strategies in the portfolio. The value of the investment through this strategy may vary both upwards and downwards and may not be returned in full. The investment must be made in accordance with investors' investment objectives, their investment horizon and their capacity to deal with the risk arising from the transaction. ODDO BHF ASSET MANAGEMENT SAS cannot be held responsible for any direct or indirect damages resulting from the use of this document or the information contained in it. This information is provided for indicative purposes and may be modified at any moment without prior notice. Any opinions presented in this document result from our market forecasts on the publication date. They are subject to change according to market conditions and ODDO BHF ASSET MANAGEMENT SAS shall not in any case be held contractually liable for them.

ODDO BHF ASSET MANAGEMENT SAS (FRANCE)

Portfolio management company approved by the Autorité des Marchés Financiers under GP 99011.
Société par actions simplifiée with capital of € 21,500,000. Trade Register (RCS) 340 902 857 Paris.
12 boulevard de la Madeleine – 75440 Paris Cedex 09 France – Phone : 33 (0)1 44 51 85 00
am.oddo-bhf.com