



Clean Energy in Asia

For students – an excellent piece from our globe-trotting friend. We agree with his “Additional Note”.

We are planning to have him join us at a Georgian Capital event, in person, soon.

Enjoy!

David Knight | Partner | Georgian Capital Partners
Scotia Plaza, 40 King Street West, Suite 3405 , Toronto, ON M5H 3Y2
Toronto: (416) 640-4100 | E-mail: dknight@georgiancapital.ca
www.georgiancapital.ca

February 2018



LLOYD GEORGE
MANAGEMENT

February 2018

Investment Outlook

Clean Energy in Asia

The future of the world's climate may depend largely on decisions currently being taken by Asian governments and consumers. The rise in world temperatures since 1980 correlates closely with the rapid industrialization of China (which, like India, depends for 70% of its electricity on coal-based power). In the past 3 years, Beijing has made a massive investment in solar and wind power, in natural gas, and more recently in Electric vehicles. Gasoline driven cars and trucks will be banned in China by 2030. All this is prompted by the serious health consequences of pollution in China's capital and its environs. Today 55% of world solar output and 30% of wind, is generated in China. The Chinese automobile industry will probably lead in electric vehicle production by 2020, Geely alone making 1.5 million electric cars and trucks: But VW, GM and Ford have also been stimulated by China's direction, to announce US\$5 to US\$10 billion capital investments each in EV production. Where China leads, it is probable that the rest of Asia will follow. India is 20 years behind in industrial development, infrastructure, and alternative energy, but will rapidly catch up. The Modi government has made the largest single solar energy investment in the world (58 gigawatts with a target of nearly 50% from renewables); like Africa, it has the benefit of near year-round sunny weather.

China has committed to spend US\$360 billion on clean energy projects, about 2.5% of GDP, and to create 13 million renewable jobs by 2020. This will include hydro, nuclear, wind and solar, as well as electric vehicles, and natural gas as an alternative to coal. China has a problem of heavy pollution as it emits twice as many greenhouse gases as



LLOYD GEORGE
MANAGEMENT

the United States. While the official standard for PM 2.5, or noxious particles in the air, is 10 micrograms (the World Health Organization), in China the average is 58; in the EU, it is 15; and in the United States, it is 8 micrograms.

Although China has improved from the very high levels of 2012, there are still only 25% of Chinese cities which have passed air quality standards; and it is estimated that 1.1 million Chinese citizens have died from heavy PM 2.5 exposure (or 40% of global pollution deaths in 2015). Nearly 40% of these noxious PM 2.5 are from coal, and the government is now trying to cap the coal-fired power plants, and increase natural gas from 6.2% to 10% of energy production by 2020 - converting residences in the northeast of China around Beijing from coal to gas.

Wind capacity will be increased to 210 gigawatts by 2020, and solar energy capacity to 250 gigawatts. China dominates the global solar industry, producing 50% of polysilicon, 87% of wafer, 70% solar cells, and 75% of solar modules. China's own domestic demand is about 50% of total global installations in 2017, followed by USA and India.

President Trump's recent decision to impose a 30% tariff on solar imports from China will have a big impact on the market. (India also has a 70% import duty on Chinese solar cells and modules.) Hydro capacity will grow to 380 gigawatts, but China is going to reach a limit to the number of dams it can create except in the southern provinces, for instance, on the Mekong River which has a big impact on Laos, Thailand, Cambodia, and Vietnam.

Finally, on electric vehicles, China has seen rapid growth already of 130% compound annual increase for the past 5 years, followed by Norway, Japan, and USA. China's demand accounts for about half of global demand and supplies more than 60% of the



LLOYD GEORGE
MANAGEMENT

world's EV battery capacity. In 2016, electric vehicles accounted for 2% of all automobiles in China, rising to 4% in 2020, and a possible 25% in 2025. The main manufacturers are BYD (30% market share), Geely (15%), BAIC and Zotye. We believe that the best investment prospects are for Geely, which has demonstrated their management capabilities in their successful absorption of Volvo and their ambitious plans to be 30% of the electric vehicle market in the next 5 years. China is also investing heavily into the key commodities for the new batteries, acquiring lithium mines in Chile and cobalt mines in the Congo.

India is the second fastest growing renewable energy market, globally, after China, already about 18% of total energy capacity. It has attracted \$6 Bn. of foreign investment in this sector. Prime Minister Modi has proposed building new model cities powered only by solar energy.

On my recent three-week trip around Asia, which comprised China, Hong Kong, Thailand, Cambodia, Australia, and India, I observed that the impact of China's investment and tourism continues to be a dominant factor in all the Southeast Asian countries, especially the smaller nations. India has tried to counterbalance China, inviting all the 8 (or 10) leaders of the ASEAN countries to their National Republic Day on January 26. India, under Mr. Modi, is a confident expanding economy which has made great strides to improve transparency and clean up the abuses of the past.

In Australia, I observed that the impact of Chinese overseas investment has now rapidly reduced since Xi Jinping's government tightened up controls on capital outflows. From 2016, when Chinese buyers accounted for 40% of new property sales, particularly in Sydney, this has now fallen to 1% by the end of 2017. Some major commercial developments have been cancelled, such as Wanda's Sydney office building. The Chinese government announced a year ago, that capital controls were to curb



LLOYD GEORGE
MANAGEMENT

“irrational” overseas investments in real estate, hotels, cinema, media, sports clubs, and other noncore businesses. They are, however, still intent on acquiring strategic industries in technology, finance, energy, and food. 43% of China’s overseas investment goes to the USA, followed by Hong Kong (18%) and Australia (15%).

Even London has felt the impact of Chinese investors, both mainland and Hong Kong, in city commercial property, as well as residential units. London presents a spectacle of multiple cranes and large building construction projects, which, however, have generally been decided on, and commenced, prior to the June 2016 Brexit vote. Now there is some sense that the British capital is running “on empty” as the decisions of major investment banks to relocate thousands of their key traders and executives to Frankfurt, Paris and Dublin are increasingly important in their impact on London property and retail activity. Kensington and Chelsea properties are already down 20%-30%.

We are in a new era approaching 2020 where liquid securities, such as Bitcoin and easily realizable equities and currencies (but not government bonds, now in a bear market as it passes 2.7% on the 10-year Treasury), are more desirable than real assets such as property. The key factor will be what happens in the currency markets. We continue to believe that the weakness in the US dollar may be a temporary phenomenon, but a generalized crisis of confidence in central banks and leading currencies by 2020, could result in a reversion to gold as a safe haven.

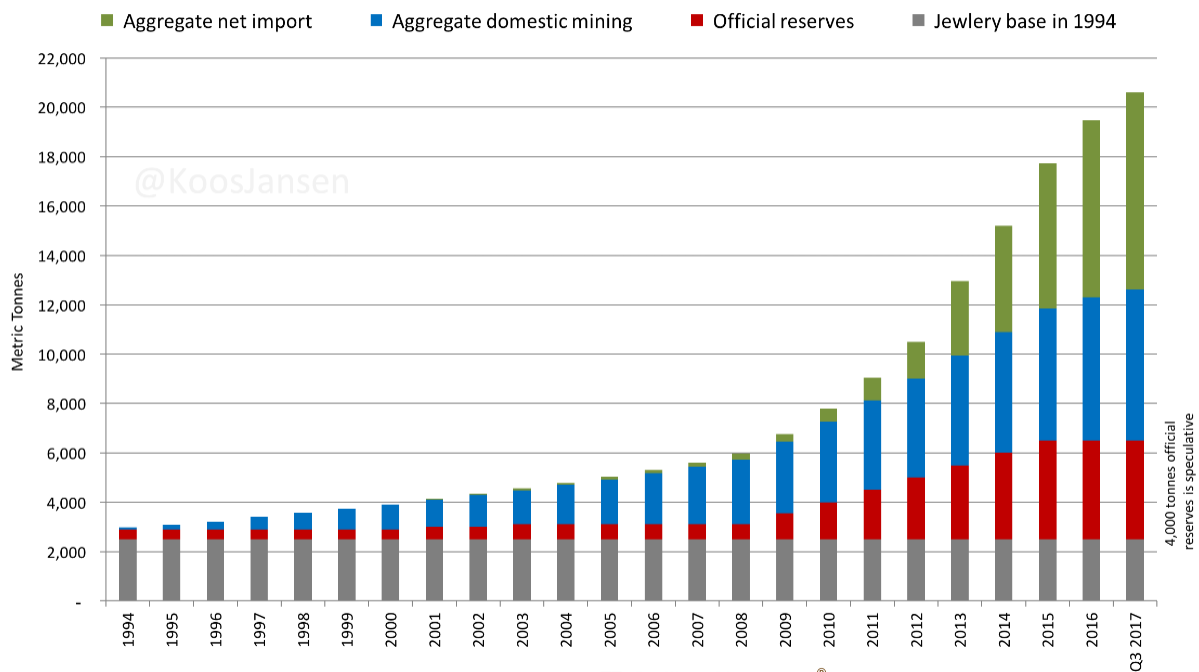
We have just done a study of the Chinese gold market. Although the USA continues to hold the largest official reserves of 8,000 tons (out of the total world holdings of 171,000 tons), it is also interesting to note that the largest private gold hoard in the world is in India, with over 20,000 metric tons, followed by China, now estimated at 19,500. The actual reported gold reserves are under 2,000 tons in the People’s Bank of China, but



LLOYD GEORGE MANAGEMENT

we estimate that the real gold reserves could exceed 4,000 tons as the Chinese are continuously buying all their domestic gold production, which is nearly 500 tons a year, the largest in the world, ahead of Australia, and also importing 1,300 tons through Hong Kong, in the last reported year of 2016.

Estimated Total Chinese Gold Reserves



Source: SGE, WGC, CGA, Eurostat, HK, Swiss & Australian customs, Goldchartsrus.com

BullionStar.com®

Since the Shanghai Gold Exchange began operating two years ago, this importation and dealing has rapidly expanded. In addition, as China's middle class expands and becomes more confident and wealthy and travels more widely, there is a growing demand for gold jewelry. The two listed gold mines, Zhaojin and Zijin, are, in our view, less interesting than the most competitive Australian gold mines, which we have invested in.



LLOYD GEORGE
MANAGEMENT

Finally, I would like to mention to our readers that the Chinese New Year falls on 16 February when the Year of the Earth Dog begins. In the past, this has been a good year for investors, most recently in 1970, with some increased volatility. We are launching our China New Era Fund by the end of March since we believe that the next five years will see a rapid expansion of the A Share market in Shanghai and Shenzhen as it becomes open to international investors and is included in the MSCI Emerging Market Index. We have seen our Indian Ocean Fund rise 30% since launch in December 2016, and Bamboo Asia also growing by 36% over the same period up to 31 January 2018.

Additional Note

This is a healthy correction. The markets are pointing to economic strength, rising wages, and (mild) inflation after a long period of slow growth and deflation since 2008. Corporate earnings will continue to be robust after the US corporate tax cut. Asia will be one of the principal beneficiaries, both in exports and domestic consumption (especially in China and India). Free trade has not, after all, been curtailed. The Trans-Pacific Partnership is still alive.

After a 40% rise in 15 months, we have a 10% decline; and, in the long run, we see this as a buying opportunity. We are reviewing all our core conviction positions to see if cash flow, earnings, debt ratios, PEs, and yields still justify repurchase today. In most instances, we still see strong profit growth and reasonable valuations on a “Price/Earnings to Growth” basis.

Robert Lloyd George
8 February 2018
Hong Kong



LLOYD GEORGE
MANAGEMENT

This Investment Outlook ("Document") is distributed by Lloyd George Management (HK) Limited ("LGM") in Hong Kong only to persons who are within of the definition of "professional investor" as set out in the Hong Kong Securities and Futures (Professional Investor) Rules. This Document may not be distributed to, or acted or relied upon by, anybody else. LGM is currently licensed under the Hong Kong Securities and Futures Ordinance (Cap. 571) ("SFO") to carry on Type 9 regulated activity (asset management). In particular and notwithstanding anything else in this document, this Document is not and should not be construed as LGM (or any affiliate or anyone else) offering or holding itself out as being willing or able to provide any service or to carry on any activity which it is not licensed to provide or carry on in Hong Kong.

This Document is issued by LGM for information purposes only. No reliance may be placed for any purposes whatsoever on the information contained in this Document, or on its completeness, accuracy or fairness. Although care has been taken to ensure that the facts stated in this document are accurate, and that the opinions expressed are fair and reasonable, the contents of this Document have not been verified by independent auditors, third parties and/or LGM.

Accordingly, no representation or warranty, express or implied, is made or given by or on behalf of LGM, or any of its members, directors, officers or employees or any other person. LGM and its subsidiaries, or any of their respective members, directors, officers or employees nor any other person acting on behalf of LGM accepts any liability whatsoever for any loss howsoever arising from any use of this Document or its contents or otherwise arising in connection with this Document.

The information contained in this Document may include forward-looking statements which are based on current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about LGM and its subsidiaries and investments, including, among other things, the development of its business, trends in its operating industry, and future capital expenditures and acquisitions. In light of these risks, uncertainties and assumptions, the events in the forward-looking statements may not occur. Any forward-looking information contained herein has been prepared on the basis of a number of assumptions which may prove to be incorrect and, accordingly, actual results may vary.

The information and opinions contained in this Document are provided as at the date of this Document and are subject to change without notice.

Central Entity No. BEL384

© Lloyd George Management (HK) Limited