Is China’s future written in Japan’s past?

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Investors concerned about China’s financial imbalances

Banks and all financials: PB vs ROE

Tech sectors: PB vs ROE

Cyclical sectors: PB vs ROE

Consumer-related sectors: PB vs ROE

Note: we calculate P/B by dividing aggregate current market cap by FY16 common equity

Source: Bloomberg, Nomura research
China’s listed corporates: continuous learning

Comparing non-financial equity pools: post-GFC growth in various metrics vs. underlying revenue growth

China – 3,400 non-financial listcos in A, HK and US

Japan – 3,500 non-financial listcos in Japan

India* – 2,600 non-financial listcos in India

US – 2,800 non-financial listcos in US

Note: for these radar charts, we use the ratio of post-GFC growth in various financial metrics to revenue growth, for the four countries’ listed non-financial equity pools. We use each country’s disposable income per capita as a proxy for income to employees, due to limited data on personnel expense at the listed companies.

* 2015 values are used for net interest expense for India, due to the lack of completeness for 2016 values. Source: Bloomberg, Nomura research
China learning from Japan’s past

- **How to avoid triggering a massive crisis:**
  - From the Heisei Boom: If all asset classes peak together, there is only one way to go: DOWN. Note China’s asset rotation amongst property, equities, bonds, commodities, etc., since GFC.
  - From the Plaza Accord: If a big exchange rate move occurs in one go, businesses cannot adjust. Note RMB’s gradual appreciation and depreciation vs USD.
  - From Basel I: Banking sector was Japan’s soft spot. Note China’s focus on capital adequacy since GFC and interbank financial deleveraging since late 2016.

- **How to improve social harmony:**
  - If the home is nice, people and their savings stay at home. Note improving quality of public infrastructure, a form of public goods, in China.
  - China aims to achieve “common prosperity” by 2020.

*Neither country is expert at talking: a handicap for capital market perception.*
Wealth and credibility = debt capacity?

National-level debt-to-asset ratios (US, JP, CN)

Foreign ownership of debt & equity (US, JP, CN)

FX reserves vs. external debt and debt service (select EMs)

Gross and net government debt to GDP (US, JP, CN)

Note: Data on debt to asset are 2016 actuals for US, 2015 actuals for Japan and 2015 estimates for China.


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Note: Data on external debt and interest payment on external debt (% of experts) as of 2015; data on gross and net government debt to GDP as of 2015, net government debt for China is not available.

Likely paths to higher ROA and ROE: rising domestic market share, sector consolidation, and SOE reforms

Non-financials PB vs ROE net of buybacks/issuances

China listcos’ overseas revenue exposure is small

China: fastest growing domestic retail market (LTM)

DuPont analysis on sector ROE

* We calculate P/B by dividing aggregate current market cap by FY16 common equity; ** assuming no stock issuance/buyback.

Note: Retail sales data as of July 2017; We use the broadest measures of retail sales for China and US, and total retail trade for Japan.

Source: Bloomberg, CEIC, Nomura research
At the different stages of the same continuum?

Source: Nomura estimates

(Stages of GDP growth)

Low

High

US

Japan

China

India

(Stages of economic development corresponding stages of a human life)

At 15, set out to learn

At 30, take responsibility for myself

At 40, see truth behind complexity

At 50, understand the destiny and limits of human efforts

At 60, agree to disagree

At 70, follow my own bent while respecting the rules

十有五而志於學

三十而立

四十而不惑

五十而知天命

六十而耳順

七十而從心所欲，不踰矩

India

China

US

Japan

(Stages of economic development corresponding stages of a human life)

High

Low

Source: Nomura estimates
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