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MEGATRENDS

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

Nomura International HK
Global markets APAC
Equity research APAC

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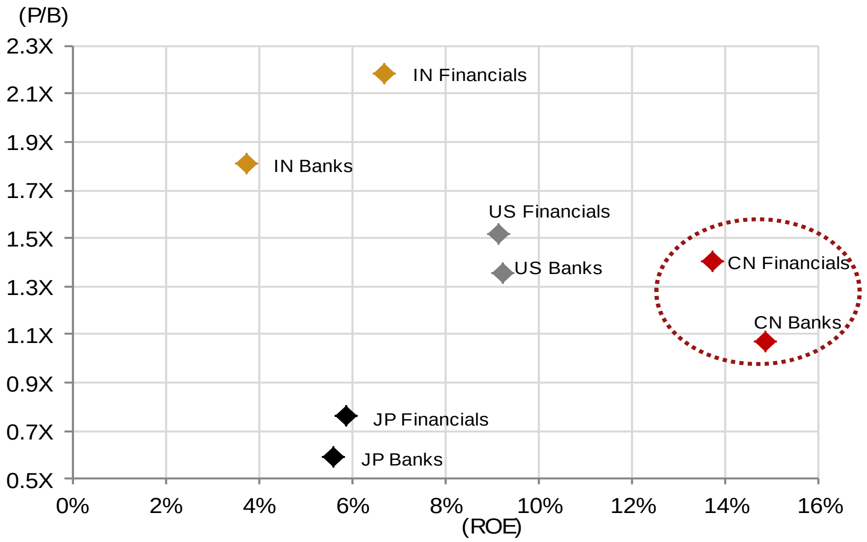
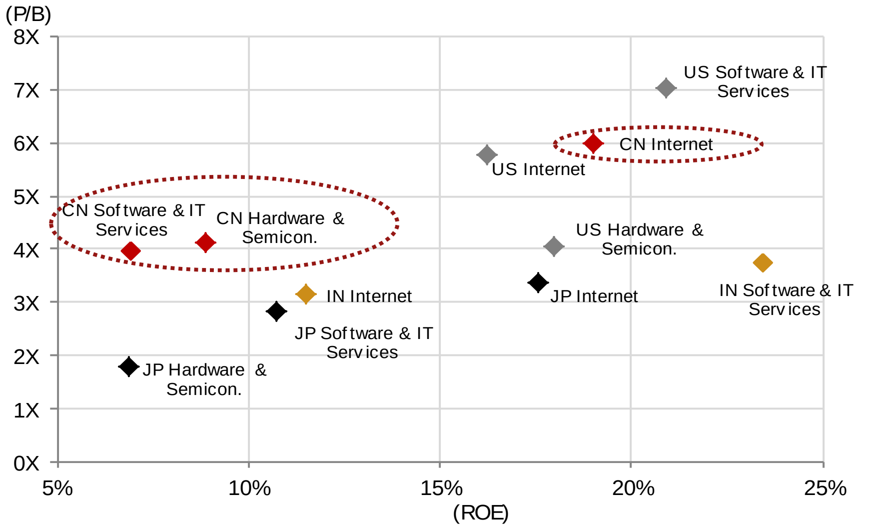
Investors concerned about China's financial imbalances

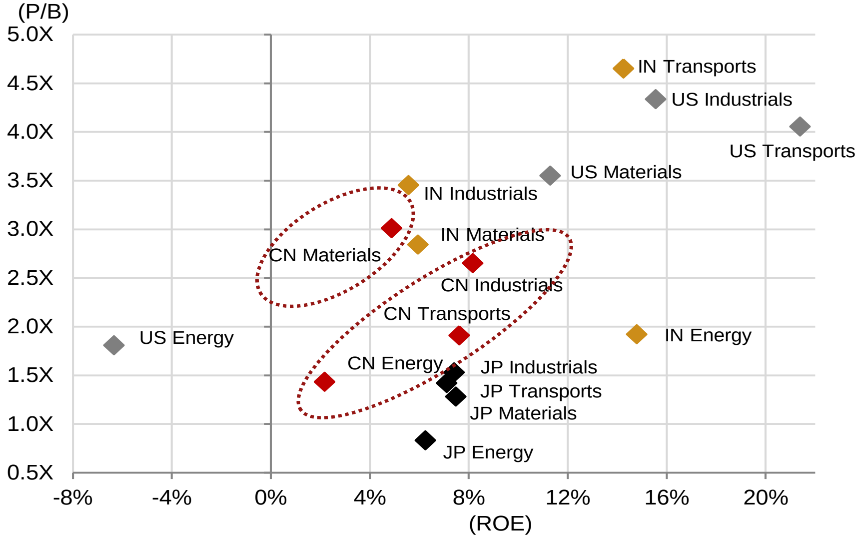
Banks and all financials: PB vs ROE



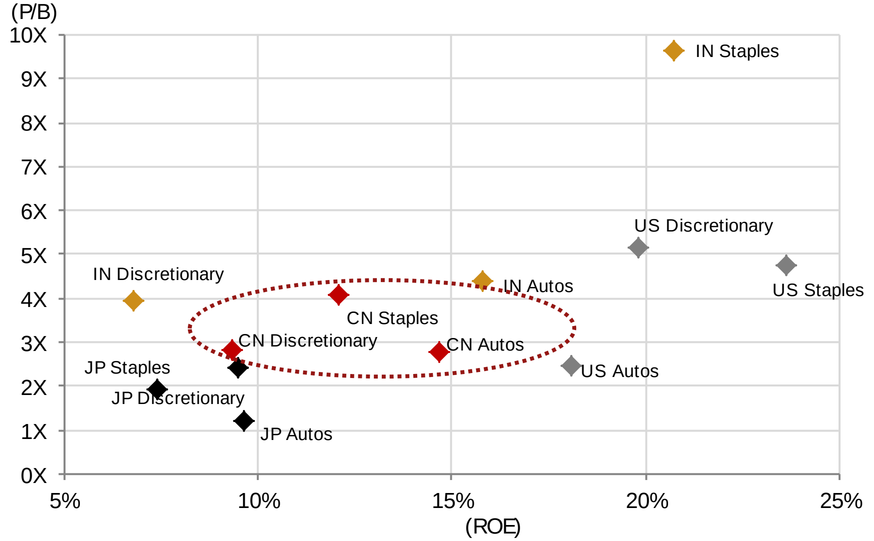
Tech sectors: PB vs ROE



Cyclical sectors: PB vs ROE



Consumer-related sectors: PB vs ROE

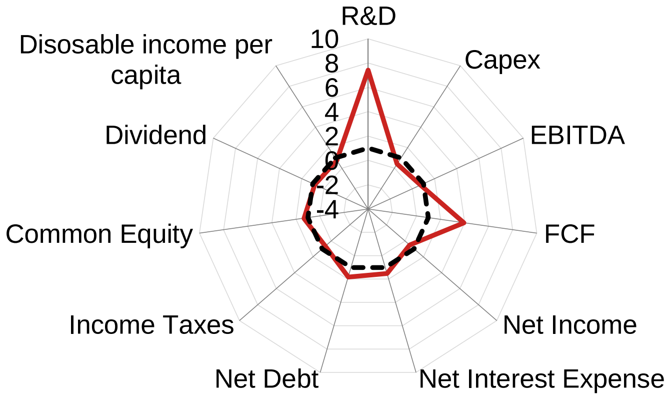


Note: we calculate P/B by dividing aggregate current market cap by FY16 common equity
Source: Bloomberg, Nomura research

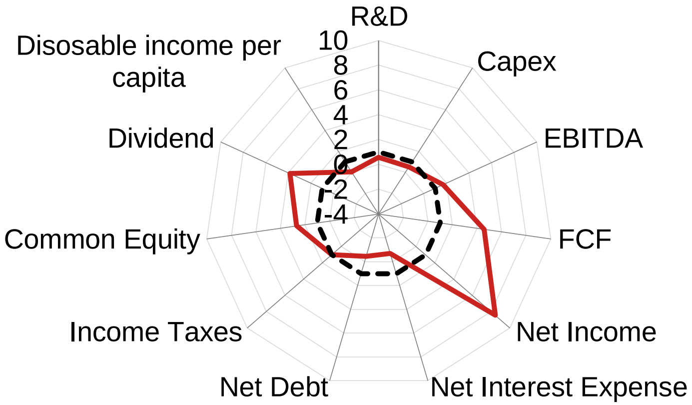
China's listed corporates: continuous learning

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

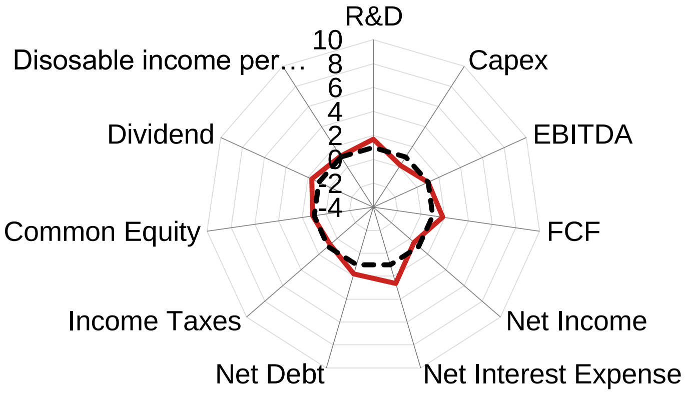
China – 3,400 non-financial listcos in A, HK and US



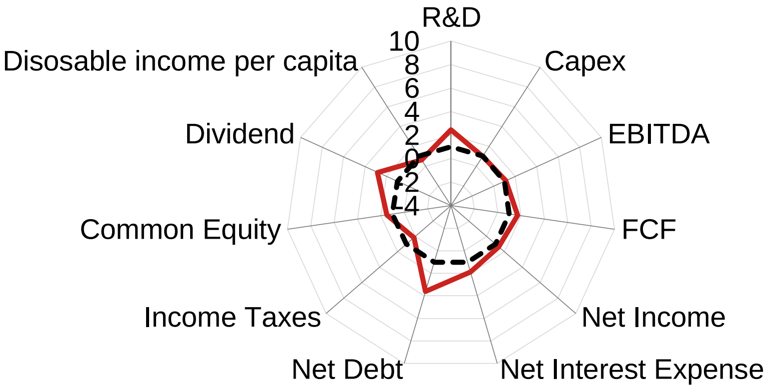
Japan – 3,500 non-financial listcos in Japan



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's government: continuous learning

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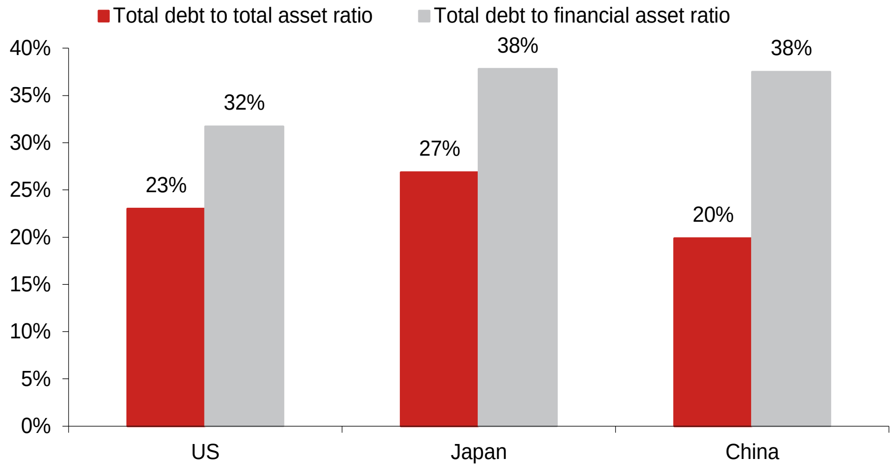
China learning from Japan's past

- **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.

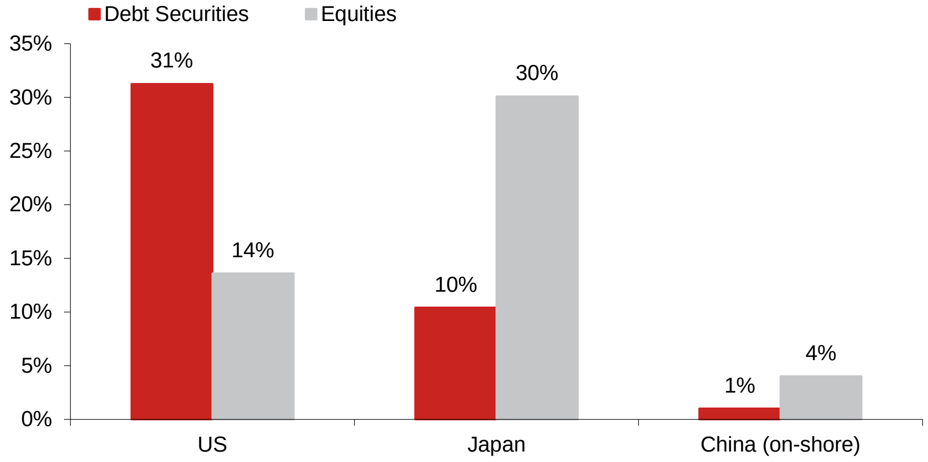
Wealth and credibility = debt capacity?

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



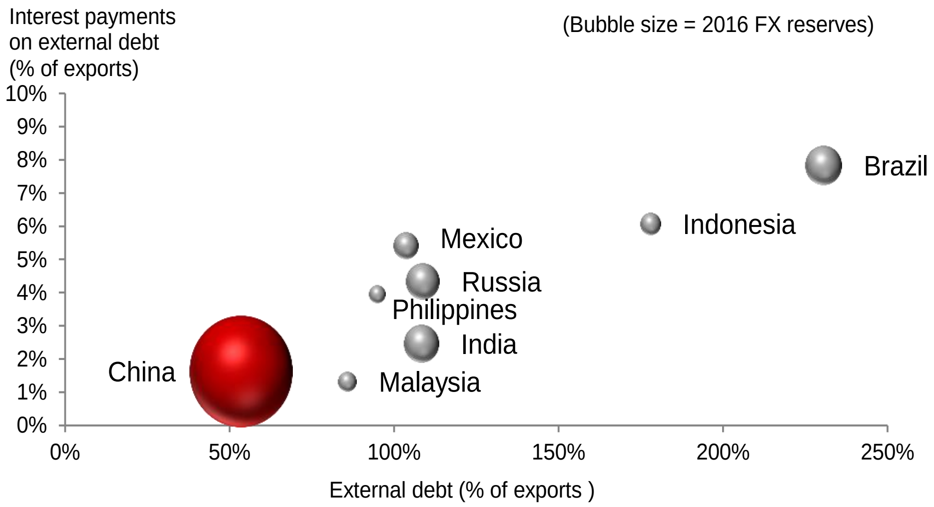
Note: Data on debt to asset are 2016 actuals for US, 2015 actuals for Japan and 2015 estimates for China.

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

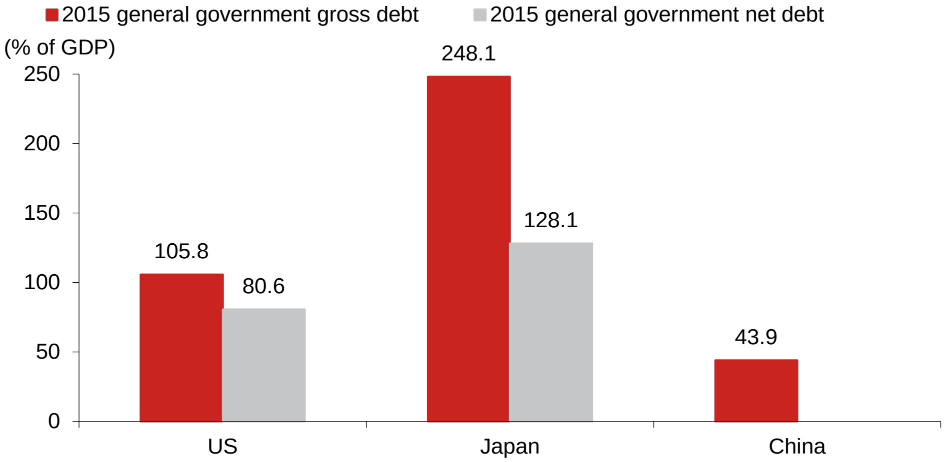


Note: US data as of Jun 2016, Japan data as of Mar 2017 and China data as of Jun 2017.

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



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



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.
Source: PBoC, Japan MoF, US Fed, US Treasury, World Bank, BIS, Nomura research

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

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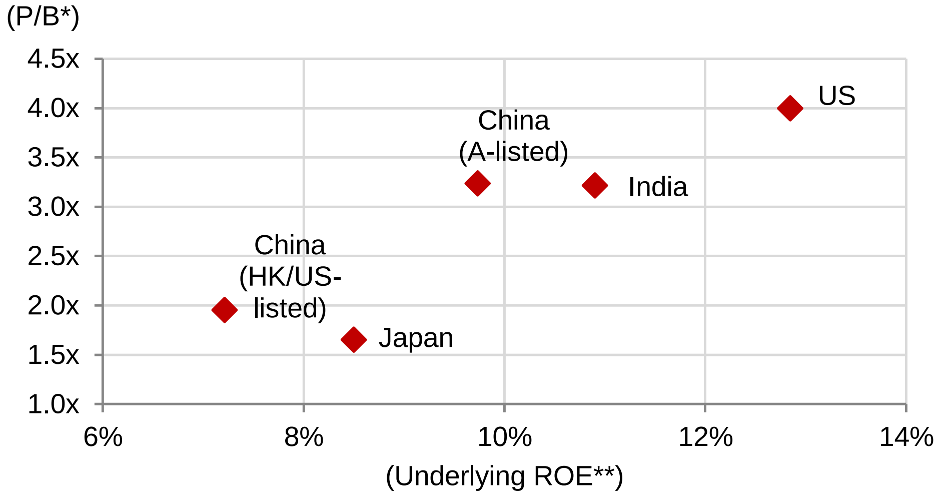
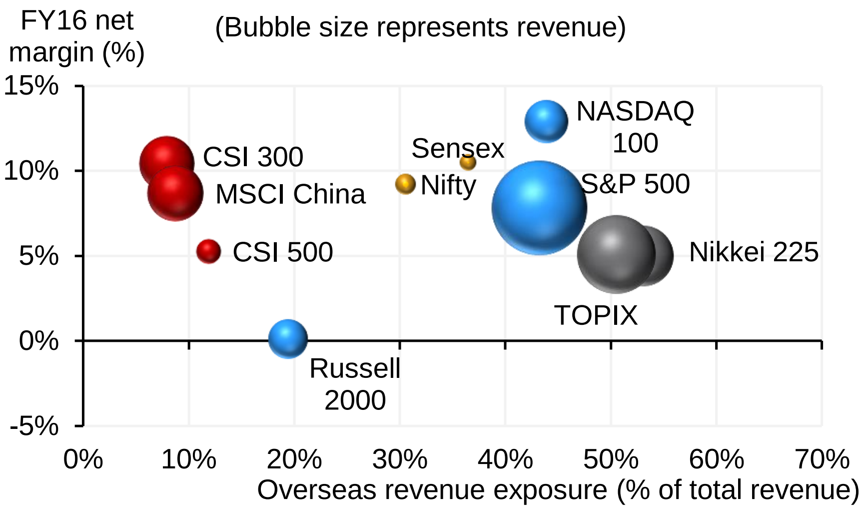
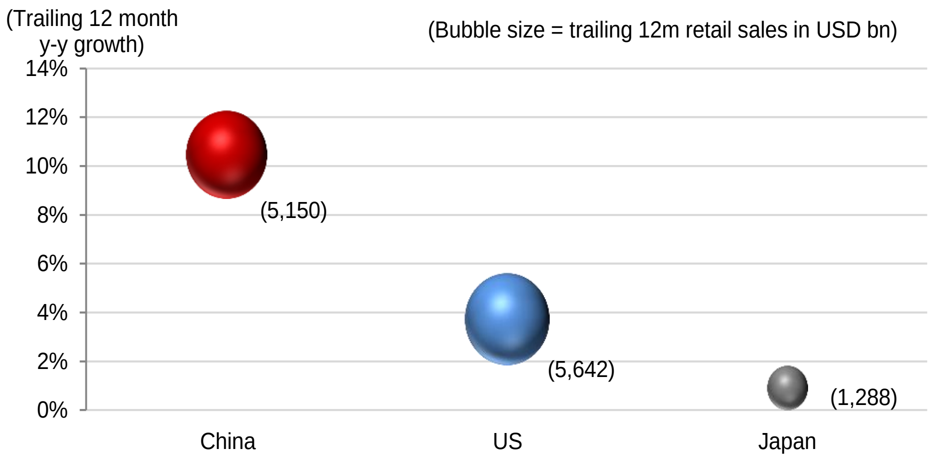
Non-financials PB vs ROE net of buybacks/issuances



China listcos' overseas revenue exposure is small



China: fastest growing domestic retail market (LTM)

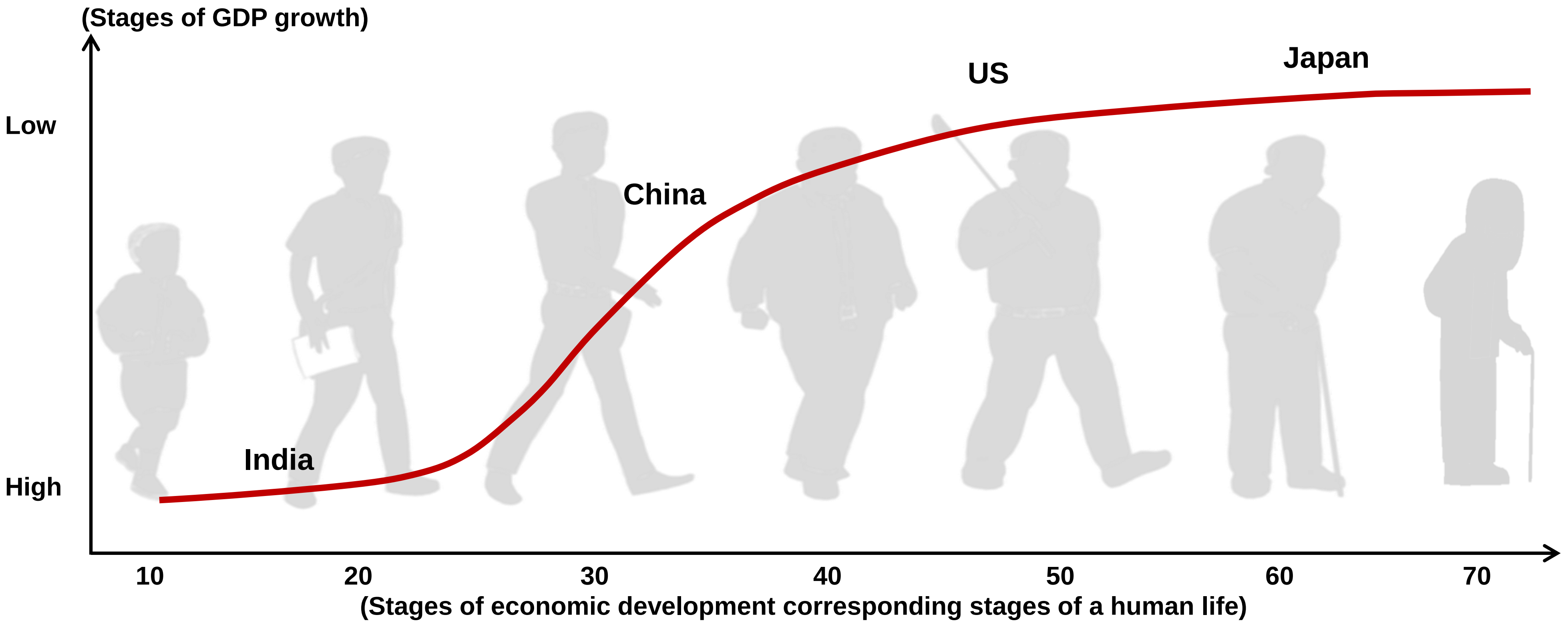


DuPont analysis on sector ROE

Sector	Asset turnover	Net margin	ROE	Weight by total assets
3,700 CN listcos	**60.9%**	**4.9%**	**7.9%**	
Internet	46.4%	19.2%	17.1%	3%
Autos & Auto parts	94.4%	6.4%	14.6%	5%
Consumer staples	84.8%	7.5%	12.1%	3%
Health Care	80.6%	7.0%	11.5%	3%
Utilities	24.0%	11.9%	10.1%	8%
Con. Disc.	84.2%	4.6%	9.3%	8%
Technology	72.2%	4.9%	8.3%	7%
Telecom	49.7%	7.7%	8.2%	6%
Industrials	58.4%	3.6%	8.1%	26%
Transports	40.5%	7.5%	7.6%	6%
Materials	61.2%	2.7%	4.7%	13%
Energy	64.4%	1.6%	2.2%	13%
Tech + telco + industrials + transports + materials + energy				**70%**

** 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?



十有五而志於學

At 15, set out to learn

三十而立

At 30, take responsibility for myself

四十而不惑

At 40, see truth behind complexity

五十而知天命

At 50, understand the destiny and limits of human efforts

六十而耳順

At 60, agree to disagree

七十而從心所欲，不踰矩

At 70, follow my own bent while respecting the rules

Source: Nomura estimates

Appendix A-1

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