The impact on investors when Chinese internet companies venture abroad

By **Stirling Larkin**

The investment megatrend of Chinese internet and tech conglomerates venturing abroad is by no means new. Their global expeditions have already made their way into mainstream acronyms such as BATs (Baidu, Alibaba and Tencent), vying with FANGs (Facebook, Amazon, Netflix and Alphabet) in the US.

What is new is how clandestine, how effective and how cleverly these Chinese corporations are expanding globally and the alarming pace at which they are doing so. The implications for Australian ultra high net worth (UHNW) investors are immediate: their US-domiciled listed Nasdaq and unlisted venture capital exposures are being compromised in ways that will erode core listed market portfolios.

For other Australian investment communities, this sea change has largely been ignored as BATs don't seem to affect (at least not in the near term) the value of ASX and US-listed companies and ETFs. That's because the financial statements of China's three largest publicly traded internet firms – Baidu, Alibaba and Tencent – suggest that international expansion has had a marginal impact on their business.

The financial statements of firms like Alibaba suggest that international expansion has had a marginal impact on their business, but this is misleading.

But this assumption would be wrong and superficially misses what is happening on the ground.

According to research house Gavekal Dragonomics, Chinese firms are the only credible challengers to the global hegemony of US internet companies. Essentially only American and Chinese companies appear on lists of the worlds' most valuable publicly-traded internet companies and private startups.

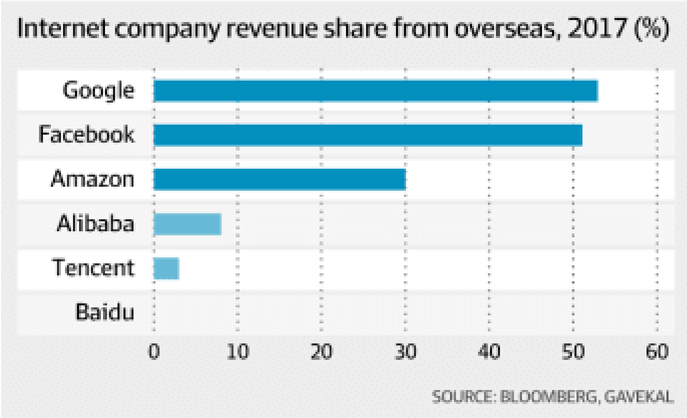
Yet the global expansion of Chinese internet firms is often less visible – in part because it is concentrated in poorer or non-English-speaking countries and also because they are unlikely to directly challenge Google or Facebook or gain much market share in the US and Europe.

With a per-capita gross domestic product of about $US9000, China's income level is closer to most countries in south-east Asia, south Asia, the Middle East, Africa and Latin America.

Developing trends

China and other developing countries also have many things in common.

Fewer people have credit cards or access to traditional financial institutions, making it easier for mobile payments to take off.



Retail networks tend to be less mature and labour cheaper, so online retail can take a higher share of overall retail.

These are conditions more familiar to entrepreneurs sitting in Beijing and Shenzhen than those in Palo Alto and Seattle and Chinese firms are also developing new types of products where there is no direct competition from US companies.

A great example is one of Australia's most downloaded apps in 2018 – Tik Tok, owned by China's ByteDance, and Kuaishou short-video application companies.

In the first quarter of 2018, Tik Tok was the most downloaded app on iPhones globally, and now has 10 million active users in Japan alone.

One staff member at Australian Standfirst believes Tik Tok is so popular that it will replace Instagram in the coming 12 months.

Chameleon appeal

Part of the success of Chinese companies can be attributed to their eagerness to present localised versions of their products. Whereas US firms like Amazon and Uber present basically the same branded experience in every market, Chinese firms more often create what look like homegrown products.

They localise their services so intensively that users aren't often aware that Chinese companies are behind these services.

Australian technology-minded investors face multiple issues. Where is accessible investment value? How does one access these megatrend upstarts if known investments such as BATs fail to publicly acknowledge their global successes? Even if such value is identified in US listed or quoted markets (or those found in Hong Kong, Tokyo or mainland Chinese sharemarkets), how are these companies acquired for an Australian-domiciled investor in Australian dollars?

On this, Chi-X Australia CEO Vic Jokovic adds: "Australian investors want access to household names like Apple and Facebook but investing directly in offshore companies has been complex and costly. In an effort to provide an efficient solution we've recently launched TraCRs, a new innovation providing Australian investors access to leading US companies including a number of the world's largest technology companies. TraCRs provide the protection of trading on a local market, during Australian market hours in the same way you trade Australian companies."

For Australian UHNW investors who have been accessing Chinese mainland names and BATs via Hong Kong's Stock Connect programme, the additional challenge is not access and redemption of capital back into Australian dollars. It's understanding what these Chinese internet conglomerates are really doing in the sphere of globalising their expansions and what is high growth as opposed to State Owned Enterprise-endorsed growth (where the BATs increasingly seem to fall into).

What is known by tenured Australian tech investors is that every new megatrend morphs into something uniquely different given the passages of time, and successful investing always involves more than simply following a few cute acronyms and monikers.

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