Tech Business as Stable Tenants

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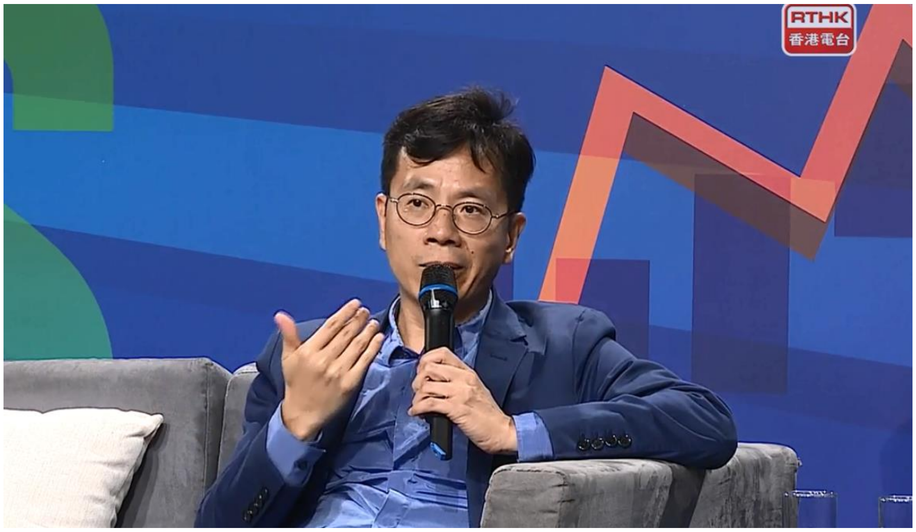
Data center services and cloud computing businesses in the Greater China region will continue to see robust business growth in the future despite the uncertainties over the lingering Sino-US trade disputes and any extended restrictions, whether on the fund raising or technology levels, by the US, said Vincent Lam, managing director and chief investment officer of VL Asset Management.

Lam, a portfolio manager who has been investing in Greater China equities since 2002 and serving largely Hong Kong and Swiss accredited investors, was speaking as one of the panelists at an investment forum organized by Radio & Television Hong Kong recently.

"The execution of trade war will not be merely in the hands of the leaders of these two giant countries," said Lam, "Trump has slapped an export ban on US companies from selling key components parts to China's Huawei. In response to the ban, China has lobbied a number of multi-national corporations to avoid making any damaging decisions. We imagine that China may fight back, for example, by imposing a sanction on iPhone sales to the mainland."

If the hawkish camp in the US pushes for more aggressive policies against China, for example, restricting mainland-based companies to raise fund in or borrow loans from the US, one of the biggest casualties will be American companies, said Lam. "If that occurs, the market will react sharply. PRC companies may delist their ADRs and apply for listing in Hong Kong instead. Also, Hong Kong may be able to attract more IPOs if fund-raising companies give up the US market. That way, there can be more investment opportunities in the Greater China region. Of course, we see that resistance from the US business sector is very huge."

Lam remarked that the greater impact of trade war would be on fund flow and liquidity rather than the overall economy. While export companies have felt the heat, the daily lives of most citizens are not much affected by trade war - hence stocks with domestic consumption-related theme remain resilient in general.



On the other hand, Lam is optimistic on the business outlook of data center operators and cloud computing service providers. "The growth of data centers and cloud computing will only go up," Lam added. "It won't go the opposite way as it is an irreversible trend. Take SUNeVision as an example, its stock price has surged 20 times since its IPO about 20 years ago. It has also outperformed many REITs listed in Hong Kong."

SUNeVision, a subsidiary of the city's real estate giant SHK Properties, is one of the major data center operators in Hong Kong.

Leveraging on SHKP's extensive network, SUNeVision's customers are essentially "stable tenants" who need data center services, Lam elaborated. He started followed the company as early as in 2000s.

Data center operators aside, Lam opined that cloud computing service providers also demonstrate a prosperous outlook. "Investors are impressed by Alibaba's e-commerce business potential. But don't underestimate its icloud segment - it represents slightly over 50% of China's icloud market. Currently, icloud revenue accounts for only about 8% of the company's total revenue. In the latest quarter, this segment had grown by 76% year-on-year, which is about a double of its traditional e-commerce business. If you look at Amazon, it was growing at only 40% while Microsoft 22%. Cloud computing is growing fast in China and it is one of the biggest markets in the world."

As of the end of June, PRC healthcare, US-centric technology and consumer staples were given the largest allocation in the portfolios managed by Lam.