

New China Perspectives



Welcome to the weekly issue of Morgan Creek's *New China Perspectives*. It is comprised of research from Morgan Creek's China-based investment team together with curated articles of interest. In addition to timely political and economic news covering greater China, Morgan Creek's China team seeks to provide in-depth perspectives on investing in the technology, consumer and healthcare sectors in the region. Our research leverages the "on the ground"

insights of our team together with Morgan Creek's decades-long experience in covering the region. Our team are focused, thematic investors primarily covering the technology, consumer, and healthcare sectors and investing in private companies and early-stage managers with deep local expertise. To learn more about our team and investment offerings, please email chinateam@morgancreekcip.com.

Best Regards,

Mark W. Yusko
CEO & CIO

NOTES FROM THE BUND^[1]

Ant Financial and Lufax, two Chinese fintech companies, were looking to going public in two countries at the same time. Ant Financial, an affiliate of Alibaba, was set to raise \$34.5 billion in both the Shanghai and Hong Kong stock exchanges on November 5, 2020, but suspended its listing plan two days prior. Lufax, backed by Ping An Insurance, successfully raised \$2.4 billion on the New York Stock Exchange on October 29, 2020^[2]. Ant Financial's IPO suspension also resulted in JD Digits' decision to postpone a domestic listing of their fintech business.

Initially introduced as a mobile payment platform, Ant Financial ("Ant") quickly evolved into a complete financial solution offering savings, funding, and loan services. The company's primary sources of revenue are derived from: 1) digital payments and merchant services of the e-commerce eco-system, and 2) wealth management business on Alipay's portal. Ant has successfully grown its business since its formation by expanding beyond traditional financial service offerings. This can be seen in the diversity of its revenue streams. It earns revenues from its credit loan businesses, for example, beyond traditional commissions for loan origination, earning service fees for risk control, post-loan management, and collection services.

	JD Digits	Ant Financial	Lufax
Customers	Government and Businesses	Consumers	Consumers
Business models	Digital solutions for financial institutions	Digital payment and merchant services + digital Fintech platform	Retail Credit Based Lending + Wealth Management
\$ raised in IPO round ³	\$2.9 billion	\$34.5 billion	\$2.4 billion
IPO Valuation ²	~\$28.5 billion	\$313.0 billion	\$30.0 billion
Stock Exchange ²	Shanghai Stock Exchange	Shanghai & Hong Kong Stock Exchange	New York Stock Exchange
Banks ²	Guotai Junan, Minmetals Securities	Citi, JPMorgan, Morgan Stanley, CICC	Goldman Sachs, Bank of America, UBS, HSBC, China PA Securities
IPO Status	Postponed	Suspended	Listed

Sources: Bloomberg and Business Insider.

Many Chinese tech giants fell victim to short-sellers after the suspension of Ant's listing, including

Lufax. From November 2 to November 3, 2020, Alibaba stock price fell 8.13% from \$310 per share to \$286 per share, and the total market value declined by nearly \$70 billion^[4]. The pressure of IPO suspension is not expected to result in a slowdown of Ant's business.

To date, there has been no discernable impact on Ant Financial's business from the suspension of Ant's listing, with their asset-backed securities (ABS) individually valued each at 10 billion RMB, routinely approved on November 23 and November 20^[5].

CHINA NEWS SPOTLIGHT

ECONOMY

Opening-up efforts set to bear new fruit: China's signaling of its interest in joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership indicates the strong resolve of its top leadership to deepen reform and pursue opening-up at a higher level, analysts said. They also said the completion in principle on Wednesday of negotiations on a comprehensive agreement on investment between China and the European Union could mark a step closer toward China joining the CPTPP. [Read more.](#)

China factories cooled in December, as other Asian manufacturing powerhouses surged: China's manufacturing engine cooled slightly in December, even as various survey data suggested industrial growth in other Asian powerhouse economies hit the highest levels for years. China's Caixin/Markit manufacturing purchasing managers' index (PMI) – a gauge of sentiment among smaller, private firms – fell to 53.0 in December from a decade-high 54.9 in November, with anything above 50.0 point suggesting the manufacturing sector expanded. [Read more.](#)

PRIVATE EQUITY & VENTURE CAPITAL

Chinese start-up builds trust in organic foods with blockchain: OrgHive, a Shanghai-based start-up, is aiming to tackle a lack of transparency in China's organic food market by allowing consumers to easily access and verify data behind certified goods and simultaneously help companies tap into growing demand for better quality consumer products. Backed by Hong Kong-based digital marketing solutions provider Integrated Management Systems (IMS), OrgHive, in April, launched a blockchain driven consumer community platform – portal.orghive.cn – to help companies market their lifestyle products to mainland's growing middle class. [Read more.](#)

Yuanfudao raises \$3.5b as e-learning sizzles among investors: Online tutoring firm Yuanfudao said it has raised funds worth \$3.5 billion so far this year, after completing a new funding round of \$300 million recently, as the online education sector continued to surpass other sectors in China in terms of financing deals. Investment firm YF Capital was the investor in the latest round of funding, according to tech media 36Kr. [Read more.](#)

TECHNOLOGY & CONSUMER

Chinese Fintech Giants Face Setback As Regulators Prevent “Too Big To Fail” Scenario: Chinese fintech giants are facing the strongest regulatory force they have ever seen in recent years as the government has been increasingly concerned about their sizes and the business scopes expanding to a point where they become too big to fail. Four top financial regulators, The People's Bank of China, the China Banking and Insurance Regulatory Commission, the Securities Regulatory Commission, and the State Administration of Foreign Exchange, summoned Ant Group for its business regulation on December 26th, the second time following the first one in November, which resulted in the suspension of the fintech giant's highly anticipated world's biggest ever IPO. [Read more.](#)

China Taxi Industry Alliance Calls for Antitrust Probe Into Didi-Uber Merger: Everyone is eyeing Beijing's antitrust probes against big-tech in China. Following Alibaba and its fintech affiliate, Ant, Didi Chuxing, the Chinese ride-hailing giant, is also drawn into the antitrust wave. [Read more.](#)

HEALTHCARE

Months after striking SHP2 deal with AbbVie, Jacobio pulls in \$174M+ from Hong Kong IPO: The seasoned crew at Jacobio has raised \$174.1 million on its HKEX debut, fueling a

pipeline anchored by two AbbVie-partnered allosteric SHP2 inhibitors. It's significantly less than what the biotech was rumored to be seeking back in August — Bloomberg's sources said it could be as much as \$400 million — but Qiming, which has backed the biotech since its Series A, was happy about how it went from founding to IPO in just five years. [Read more.](#)

Chinese cancer biotech Gracell Biotechnologies sets terms for \$150 million US IPO: Gracell Biotechnologies, a Phase 1 Chinese biotech developing CAR-T cell therapies for cancer, announced terms for its US IPO on Monday. The Suzhou, China-based company plans to raise \$150 million by offering 8.8 million ADSs at a price range of \$16 to \$18. [Read more.](#)

[1] The Bund is a historic waterfront area in central Shanghai, where Morgan Creek's office is located. From the 1860s to the 1930s, it was the rich and powerful center of the foreign establishment in Shanghai, operating as a legally protected treaty port. The picture above is part of the historical waterfront.

[2] Bloomberg.

[3] Business Insider.

[4] Yahoo Finance.

[5] LIU CAIPING and DENISE JIA, "Ant Group Cleared to Sell \$3 Billion of Asset-Backed Securities", *Caixin*, Web, 26 Nov 2020.

Important Disclosures

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