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APS Hedge Fund Still Shorting JD.com After Bearish Bets Pay Off

- Chinese e-commerce industry will grow slower than economy
- Price war ferocious with low entry barriers, new entrants

By Bei Hu

(Bloomberg) -- APS Asset Management, which shorted JD.com Inc. as early as 2017, remains bearish on the Chinese company after the trade partly helped with a 7.6% gain for its hedge fund in the first 10 months.

The Singapore-based investment firm also bet against other e-commerce operators in China and Southeast Asia in the same period, said Chief Investment Officer Wong Kok Hoi.

"They were bought as growth stocks in the past," Wong said of Chinese e-commerce businesses during a telephone interview. "In the last year or two, there has been more evidence that the industry will grow below the country's gross domestic product."

China's economic slowdown and rising geopolitical tensions have compounded regulatory uncertainties, burning investors who once pushed the country's technology stocks to dizzying heights. The Nasdaq Golden Dragon China Index is trading at less than 12 times next year's estimated earnings, having tumbled from nearly 50 times in February 2021.



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Wong detailed his thesis against JD.com as early as May 2017, when the firm was being billed as the country's Amazon.com Inc. In a commentary to investors that month, Wong described China's third-largest company by market value as being "trapped in a profitless black hole" selling mobile phones, computers and other electronic devices online. The Beijing-based company lagged behind Amazon and domestic competitors Alibaba Group Holding Ltd. and Tencent Holdings Ltd. in technology investment, such as developing a cloud business, he wrote then.

By his admission, the bearish wager was a losing trade in its initial years, forcing the firm to adjust its position. Since 2021, it has contributed 17 percentage points toward the fund's return, once rising to the firm's largest bearish wager.

JD.com has slumped more than 70% off its February 2021 peak in the US. JD.com didn't respond to requests for comment.

Wong is not changing his mind. His reasoning is that competition is heating up, worsened by low entry barriers, poor customer loyalty and more participants including Douyin, Kuaishou Technology and PDD Holdings Inc.

With China's economic slowdown and weaker consumer confidence, spending is more resilient at the top- and bottom-end, he said. It is less so for middle-class big-ticket items, such as household appliances and mobile phone sales, he argued.

Chinese government policy support has shifted to "hard technology" companies, such as those in semi-conductors and artificial intelligence.

Wong also cited management instability as a negative sign. JD.com announced in May a new chief executive officer, the second top-level reshuffle since April 2022.

Meanwhile, analysts are still estimating double-digit earnings growth for JD.com this year and in 2025 and 2026, according to data compiled by Bloomberg. While reluctant to commit to a price target, Wong said it would take earnings and revenue growth resuming to at least 15% a year and management stability, or further share price declines for him to change his position.

Founded in 1995, APS oversees about \$2 billion in China-focused long-only and hedge funds. Its investors include Norway's \$1.4 trillion sovereign wealth fund, Norges Bank Investment Management. Its \$300 million hedge fund returned 7.6% in the first 10 months. Wong previously worked at Singapore's state fund GIC Pte.

APS holds a long position in a top Chinese mobile service provider trading at mid-single-digit valuation, he said, declining to identify the stock. It has completed capital expenditure for 5G build out and stands to see strong cash flows in the coming years and dividend payments, he said.

APS is also bullish on a factory-automation stock as China promotes digitalization of its economy; a provider of satellite topography services that have been used in disaster relief and early detection of forest fires; and a pair of Chinese financial leasing companies for equipment, which are trading at low single digit earnings multiples, with strong dividend yields in a bear market.

Cyber security company Venustech Group Inc., one of APS's long-term holdings, has more than quadrupled in price since October 2013, nine-fold the gain of an MSCI index tracking the net return of nearly 800 yuan-denominated stocks listed in mainland China.

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