



## FUNDAMENTAL FLASH

# Newsflash | China Releases Draft Antitrust Guidelines

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*Prepared by Affin Hwang Asset Management*

### Regulatory Concerns

On 10th November, China's State Administration for Market Regulation released a new set of draft guidelines aimed at curbing monopolistic behaviour amongst internet companies. Containing 22 listed items, the draft guideline seeks to gather public opinion and feedback on antitrust behaviour in the internet platform economy.

Shares of Chinese Internet giants were sold down heavily in the wake of the news. Alibaba, Tencent, Meituan, and JD.com lost over 10%-20% of their market cap within 2 trading days.

Key features that were included in the antitrust consultation paper include:

- a. unfair exclusion that undermines competition
- b. unfair pricing of products that deters competition
- c. use of big data / algorithm / technology that limits or deter competition

It is important to note that this is not law yet. Consultation papers are usually circulated to showcase and guide industry players on the regulatory direction intended by authorities.

### Flashpoints

- China's State Administration for Market Regulation has released a new set of draft guidelines aimed at curbing monopolistic behaviour amongst internet companies.
- This sparked a selloff amongst internet companies such as Alibaba and Tencent.
- Though, the sell-down could be due to multiple factors including the vaccine development and rotation from value into growth.
- The implementation of such law will not be easy and is still subjective.
- Regulatory pressure could persist. However, many internet companies have already developed a strong business moat that would make them resilient.

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This gives industry players time to adapt and make the necessary adjustments to their respective operations. The final version of the law could be different from what is stated in the papers now.

However, it is uncertain why Chinese regulators are releasing the draft guidelines now. That said, we have seen the government tightening their grip on different industries including Education, Healthcare, Internet (gaming, advertising, content) in recent years.

The government has taken the position to set proper boundaries and provide guidance to companies in fast-growing industries that will ensure healthy and sustainable growth.

There could be several potential impact to key Internet companies. These could cover the:-

- a. use of personal data to feed targeted advertising for all internet companies
- b. forced exclusivity of platforms on merchants (especially Meituan, Alibaba)

## Market Impact

It is worth noting that the heavy sell-down of Internet stocks could be due to multiple factors acting together, aside from the release of the draft antitrust guideline. These include latest news of a vaccine breakthrough by Pfizer that would reverse pandemic beneficiaries. This also sparked a rotation from value into growth.

Our view is that the items discussed in the consultation paper is heavily dependent on subjectivity. The implementation of such law will not be easy. Internet companies may need to make tweaks and adjustments to their business in order to comply with the new regulations.

Regulatory pressure could persist for the next 3 - 6 months as more information about the guideline is released. That said, we believe major internet companies in China have already developed a strong business moat that will not be easily compromised.

## Portfolio Positioning

We have lightened our exposure in the tech sector, as we were heavily overweight before and valuations have turned lofty. We remain comfortable with our positioning and will continue to monitor developments closely of any potential tightening of regulation in China.

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