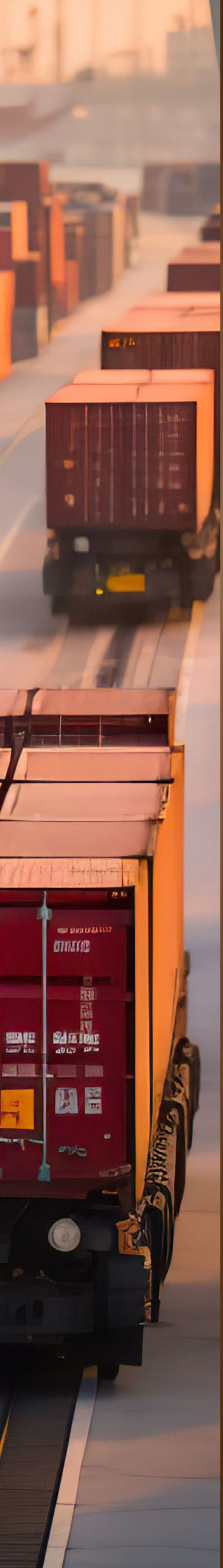
J.P.Morgan

Achieving sustainable capital efficiency: China Working Capital Index

November 2024



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Summary of findings

2023 saw the complete reopening of China's economy post-pandemic, although recovery was uneven with a challenging macro and domestic environment adding complexities for businesses.

Macro at a glance

Gradual consumption recovery

Post-reopening, the economic recovery path was bumpy and uneven, with supportive policies introduced to propel growth in targeted industries.

Weaker yuan and increased cash outflow

The U.S. dollar strengthened against the Chinese yuan, with the greater interest rate differential between the U.S. and China resulting in rising cash outflows to offshore investment and trading opportunities.

Globalization strategy challenges

Chinese companies pursuing international diversification have been hit by a tightening of trade barriers in certain sectors, as well as stricter regulations for foreign products combined with management challenges and higher capital and operating costs.

Growing lending gap

Financial institutions' appetite for risk decreased, widening the gap between large and small corporations' access to credit and financing.

Ongoing geopolitical uncertainties

Armed conflict, disrupted trade routes and instability from global elections added more complexity to supply chains and trade networks around the world.

Index overview

In 2023...

53% of Chinese companies saw an improvement in their cash conversion cycle (CCC), of which 77% registered an increase in days payable outstanding (DPO) and 64% witnessed lower days inventory outstanding (DIO)

61% of all companies noted a lengthening in **DPO**

63% of all companies saw **deterioration** in days sales outstanding (DSO)

2023 vs. 2022

CCC performance improved by **1.6** days; Cash levels dropped by **8.9%**

China vs. S&P

CCC is **1.2** days longer; Cash levels are **20%** higher

Industry landscape

$321 bn of operating liquidity could be unlocked with CCC improvements

Top industries with improvement in CCC by number of days[1]

20 days
Technology Hardware

18 days
Renewable Energy

11 days
Auto and Auto Parts

Top industries with deterioration in CCC by number of days[1]

21 days
Pharmaceuticals

16 days
Construction and Engineering

12 days
Industrials

Source: Working Capital Index constituent selection: China CSI300 + HSCEI 50 + S&P US China 50; 400 companies in total and 276 companies for the WCI, excl. sectors of Real Estate and Financial Services. All numbered data have been gathered from Capital IQ for the purpose of calculations.

[1] Ranking of industries is calculated only for industries with more than five constituents

Calculation methodology

There are three sets of data points analyzed in this report:

i The Working Capital Index tracks the average net working capital/sales values across the China Working Capital Index constituents and is calculated as follows:

$$\text{Average NWC} = \frac{\sum_{K=1}^{n} \text{Net Working Capital}_k / \text{Sales}_k}{n}$$

ii The Cash Index tracks the average cash/sales values across the China Working Capital Index constituents and is calculated as follows:

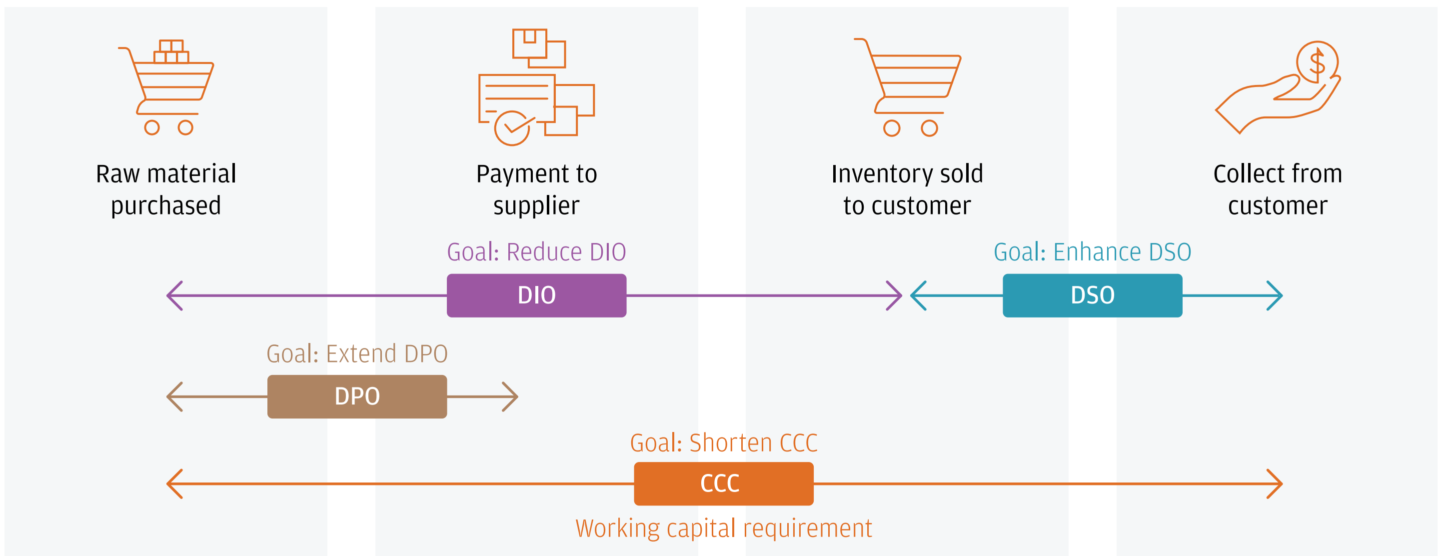
$$\text{Average Cash} = \frac{\sum_{K=1}^{n} \text{Cash}_k / \text{Sales}_k}{n}$$

where:

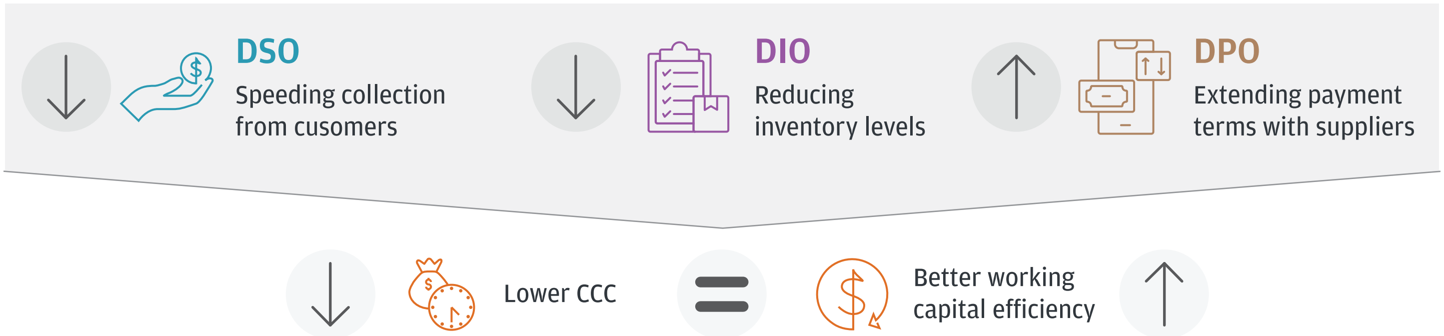
Net Working Capital = Trade Receivables + Inventory – Trade Payables; n = total number of companies

iii The cash conversion cycle (CCC) is the number of days it takes to convert inventory purchases into cash flows from sales. The CCC helps quantify the working capital efficiency of a company and is derived from three components:

- DSO, or the number of days taken to collect cash from customers
- DIO, or the number of days the company holds its inventory before selling it
- DPO, or the number of days from the time a company procures raw materials to payment of suppliers



Companies can improve their working capital by effectively managing the individual components of their CCC. They can do so by reducing inventory levels (decreasing DIO), extending payment terms with suppliers (increasing DPO) or speeding up collections from customers (shortening DSO). As a general rule, the lower the CCC, the better the working capital efficiency.



Note:

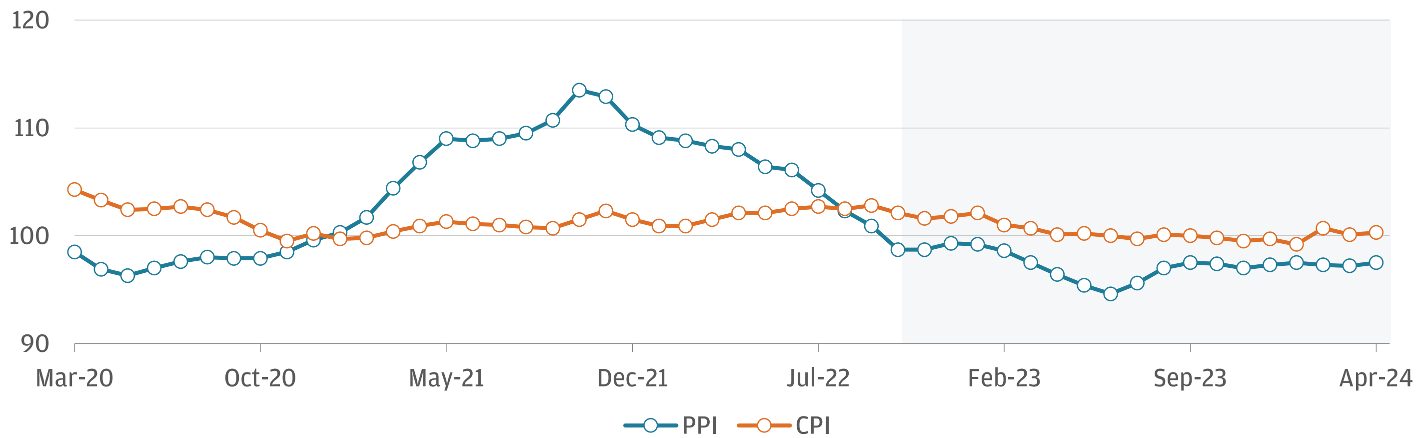
Working Capital Index constituent selection: China CSI300 + HSCEI 50 + S&P US China 50; 400 companies in total and 276 companies for the WCI, excl. sectors of Real Estate and Financial Services. All numbered data have been gathered from Capital IQ for the purpose of calculations.

The trends extracted from our analysis were validated against insights from the J.P. Morgan's research team. All the currency-based results are in USD.

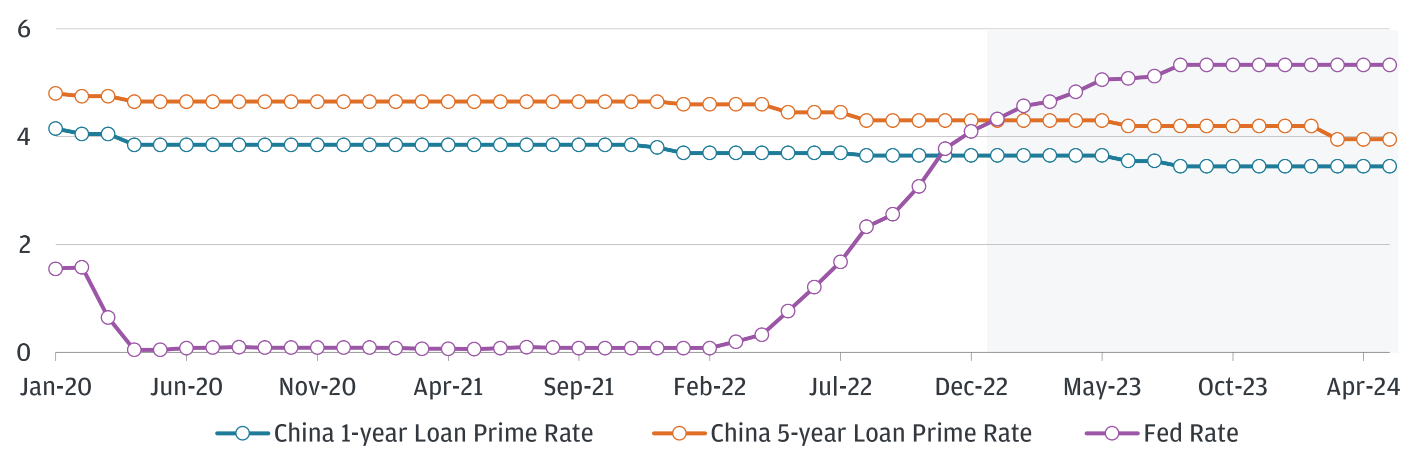
02
China macro trends

Gradual consumption recovery squeezes margins and cash flow

Consumer price index and producer price index indicating deflation[2]



China loan prime rates vs fed interest rates[3]



Gradual consumption recovery

China's post-pandemic reopening recovery path was bumpy and uneven, but the economy did expand 5.2% in 2023. The promising economic performance in the second half of 2023 prompted the Chinese government to set a target of "around 5%" for 2024 while "transforming the growth model."[4]

Chinese companies also started to adopt more efficient business models and target more profitable sectors. They also adjusted their capital structures to manage the gradual domestic consumption recovery process amid falling inflation levels, with the consumer price index and producer price index both decreasing in 2023.

Source: [2] National Bureau of Statistics of China; [3] Bloomberg; [4] Reuters

Yuan weakening: increasing cash outflow and capital deployment

The wider interest rate differential between USD and CNY means some Chinese businesses are choosing to maintain or transfer their liquidity offshore to seek higher returns from banking products until new investment opportunities arise, both at home and abroad. Some companies have taken advantage of lower CNY interest rates and stock prices to increase dividends, repay debt and repurchase shares to improve capital efficiency, resulting in decreased cash levels compared to 2022.

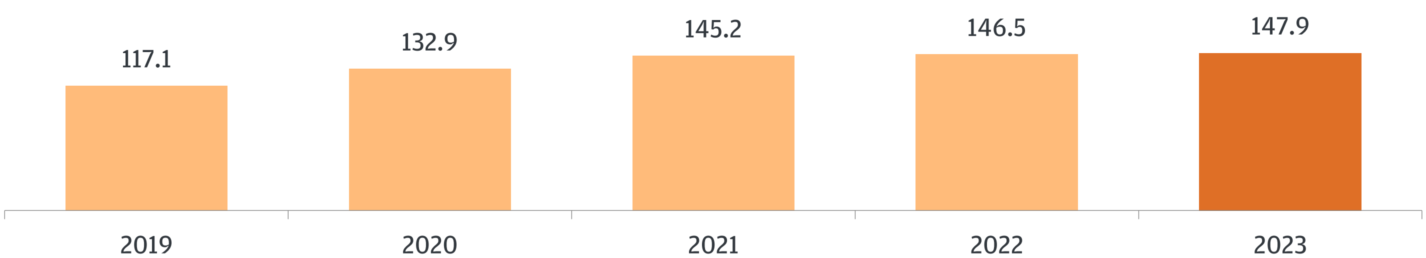
Outlook for 2024

Supportive policies in new technologies, advanced manufacturing and green sectors are expected to fuel demand and propel the recovery. Specific sectors that have benefited from re-opening, such as auto, catering and tourism, among others, will also continue to contribute to growth. This could encourage greater investment spending along with corporate efforts to reduce debt.

Chinese companies accelerate globalization strategies

China's globalization story: Investments and M&A[5]

China's overall outward direct investments (US$bn)



Top 5 Sectors for M&A

US$8.8bn	US$7.6bn	US$4.5bn	US$4.5bn	US$4.4bn
TMT	Advanced Manufacturing and Mobility	Healthcare and Life Sciences	Real Estate, Hospitality and Construction	Mining and Metals

Total overseas M&A value by Chinese enterprises **US$39.8bn** ▲ 20.3%

Key enablers for "Going Global"

Government support	Sales expansion	Emerging technologies	Product innovation	Growing e-Commerce

Source: [5] EY – Overview of China Outbound Investments, 2023

"Going Global" strategy

Given the continuing uncertainties and gradual recovery in the domestic market, Chinese companies are pursuing diversification strategies to reduce operating risks and increase revenue by identifying international opportunities for sustainable growth and returns.

Chinese brands are enjoying growing recognition among overseas consumers, as they target market expansion fueled by greater innovation and localization by tailoring products to consumers in those markets. With sustainability becoming the new normal and technological advancements taking center stage, Chinese companies are accelerating their globalization strategies and sales models by tailoring their products and services to the needs of global consumers.

Tailwinds to the globalization strategy

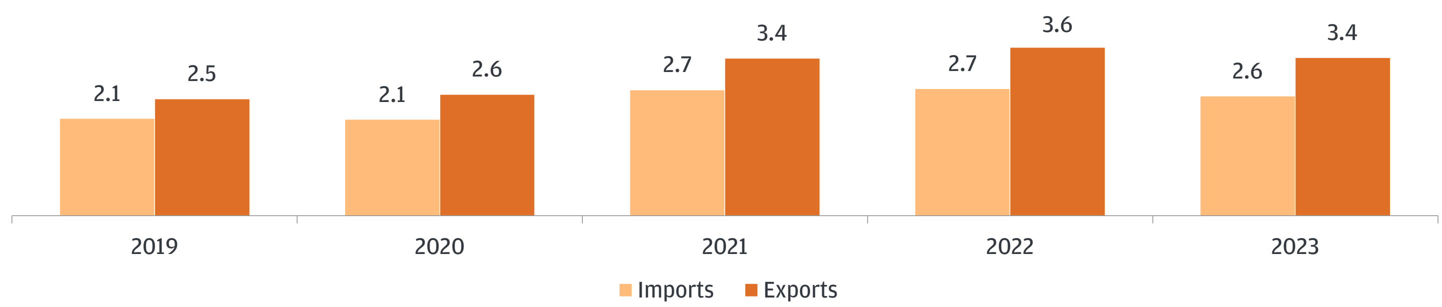
China's shift in focus from mass production to developing high-quality tailored products and services can help Chinese brands compete with global brands. Sectors such as Auto and Electrical Components and Equipment have already started to gain market traction in Western nations. Furthermore, the yuan weakening against the U.S. dollar could also be leveraged as a competitive advantage in global markets. Increased research and development costs (R&D) among global peers may potentially help Chinese companies win the innovation race and move ahead in their "Going Global" strategy.

Headwinds to the globalization strategy

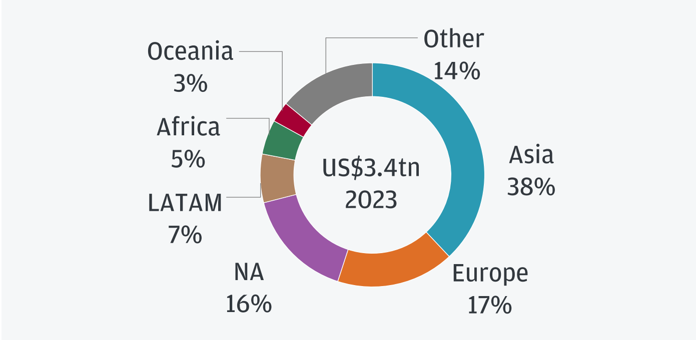
Higher U.S. interest rates and financing costs pose a greater challenge for Chinese companies looking to fund overseas investments and acquisitions. Regulatory restrictions on cash outflows from China and uncertainty in overseas markets further hinders the ability to fund expansion plans in their target markets. These headwinds are making Chinese companies rethink their cross-border or overseas operating models, including their treasury structures, to more efficiently capitalize their overseas setups.

Supply chain shifts generate new challenges and opportunities

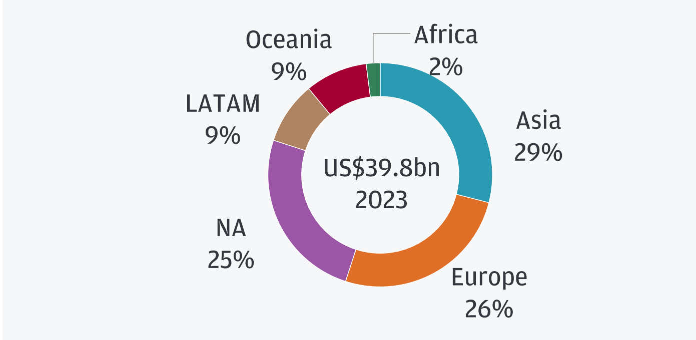
China's imports & exports[6] (US$tn)



China's exports by region[6] (US$BN)



China's exports by region[7] (US$BN)



Source: [6] General Administrations of Customs People's Republic of China; [7] EY report on China outbound investment for 2023

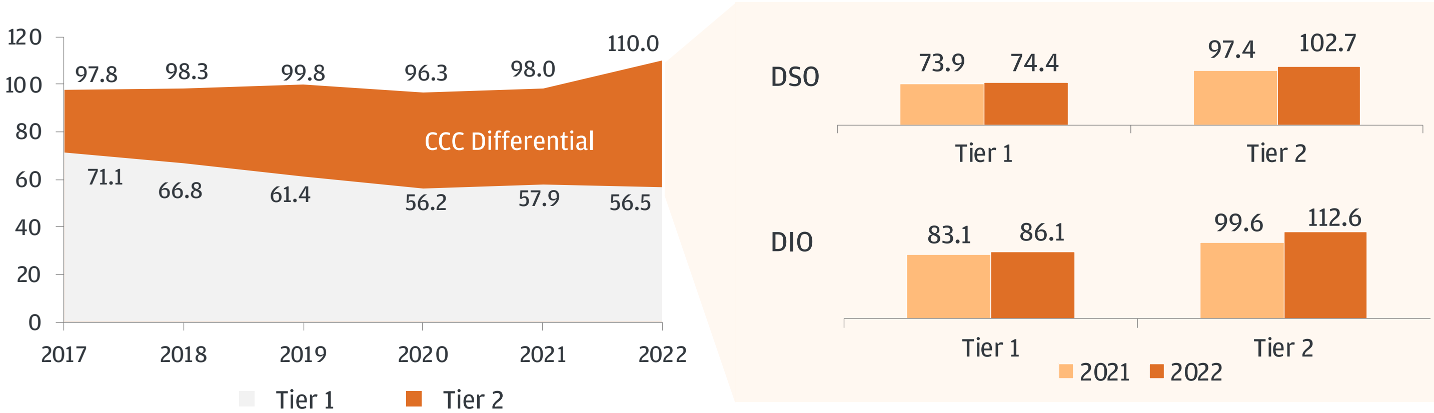
	Corridor ‘highlights’	Chinese companies’ invested sectors			
ASEAN	The Association of Southeast Asian Nations (ASEAN) depends on China for manufactured inputs across the Manufacturing, Construction and Technology sectors and benefits from China’s large markets and proximity	Information and communication technology equipment	Renewables	Internet	Auto
LATAM	Latin America (LATAM) is an important source of agricultural and mineral inputs for China, which in turn helps with value-added manufacturing and production outputs	Machinery, Electric Components	Consumer staples	Renewables	Auto
MIDDLE EAST	Apart from being a key trade partner, Middle East countries such as Saudi Arabia, UAE and Qatar are set to attract more greenfield investments given the encouraging commercial environment	Renewables	O&G	Internet	Auto
EUROPE	The EV expansion trend from Chinese companies has propelled more investments in EV production, battery manufacturing and the related ecosystems	Information and communication technology equipment	Electrical equipment	Renewables	Auto

Challenges and opportunities

- When Chinese companies enter global markets with a **localization strategy**, they need to re-evaluate their funding strategies, operational tactics and working capital efficiencies, and adapt as local or regional demands dictate.
- With a wider global landscape of operations, Chinese companies are competing with global multinationals from the perspective of market share, operational efficiency and management tactics. By benchmarking themselves against global peers, companies can identify opportunities to improve shareholder value by driving sales, generating more free cash flow and mitigating operational and financial risks by adopting strategic business models.

Working capital issues and increasing lending gap weigh on Chinese businesses

Scale of business: Significant difference in China working capital metrics[8]



Working capital differential

The working capital differential is most apparent once smaller companies from CSI 800 are included for tier 1 and tier 2 comparison.[8] CCC analysis from 2017 to 2021 highlights a consistent operational efficiency gap of around 30-40 days between tier 1 and tier 2. The gap widens further in challenging operating environments, i.e., to 54 days in 2022 when companies were hit by COVID lockdowns in China. With larger organizations demonstrating greater resiliency to the macroenvironment, smaller companies suffered more from extended CCC, with longer collection days and a heavier inventory burden trapping a higher ratio of operating cash in their businesses.

Increasing lending gap

A widening interest rate differential, deflationary risks, changes in monetary policies and geopolitical tensions have created a challenging environment for China's business ecosystem. Small and medium enterprises (SMEs) are struggling to access loans due to their limited credit history, compared to larger corporations with stronger credit ratings. Irregular sales cycles further disadvantage SMEs, overall posing a **higher level of risk and borrowing costs.** To mitigate operating risk and increase profit margins, lending institutions have become more selective in credit provision. However, when SMEs struggle to survive, it can impact their customers or vendors in the ecosystem, too. SMEs in China are experiencing similar adverse conditions to their global peers—the lending gap globally is estimated to be $2.6 trillion USD in 2023, up from $1.5 trillion in 2020, with more than 50% of SMEs lacking access to credit.[9]

Alternative approach

SMEs play a vital role in the business ecosystem; however, the increasing working capital differential and lending gap have made it even harder for smaller businesses to generate sufficient operating cash flow given that consumption has not fully recovered, threatening their viability. With the emergence of alternative financing and working capital solutions, operating pressures and the growing lending gap between large and small corporations can be eased, therefore **supporting both SMEs and larger companies to be more sustainable and resilient.**

Global credit landscape: Lending GAP

US$2.6tn

Total lending gap in 2023

50%+

Small and medium enterprises (SMEs) lack access to credit globally

~90%

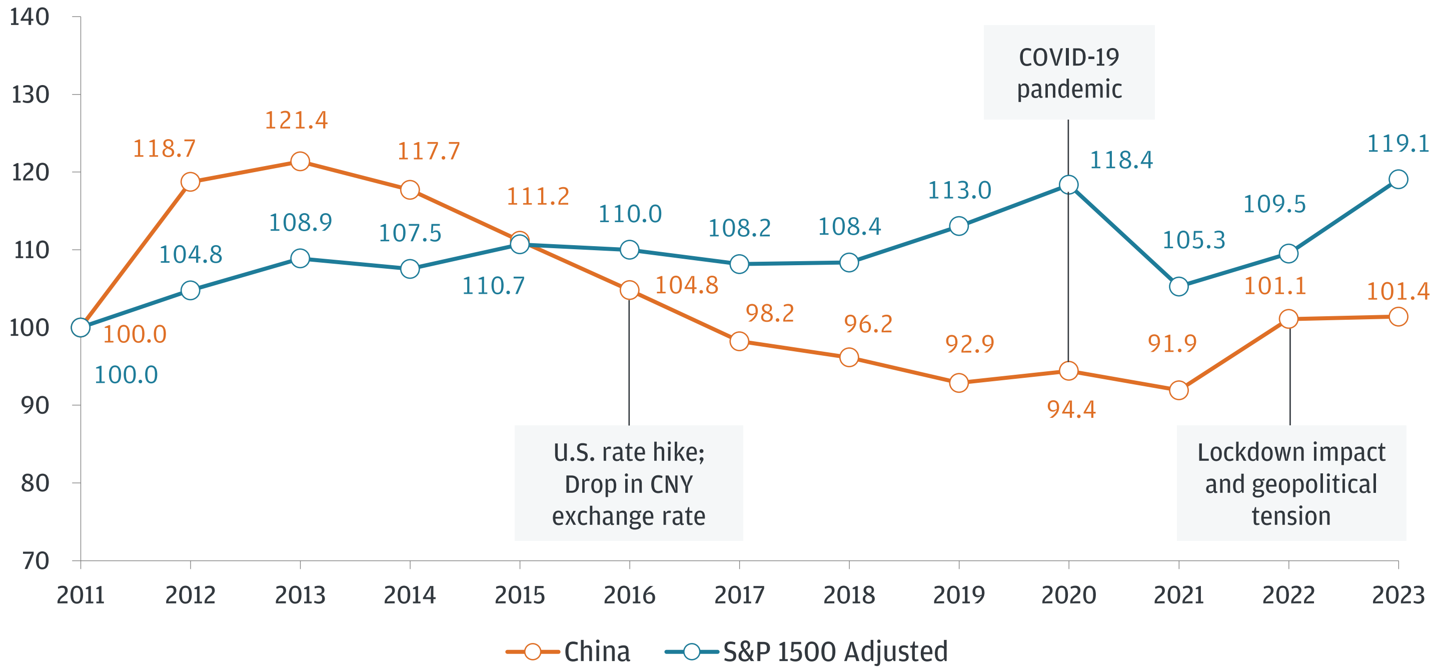
of all businesses globally are SMEs

Source: [8] The above charts have been created based on the following constituent selection: China CSI800 + HSI China Index + S&P China 50; 900 companies in total and 854 companies for the excl. sectors of Real Estate and Financial Services; Values for tier 1 companies are derived by calculating the averages across the top 50% of companies (by revenue) of every industry. For tier 2 companies, the value is calculated using the averages of the next 50% of companies (by revenue) across each industry; [9] J.P. Morgan – 2024 Trends in Trade;

03
Working capital and cash index

Working Capital Index remained flat in 2023

Working Capital Index of China benchmarked against the S&P 1500 index



The first year of reopening

Despite the complete reopening of Chinese markets by the end of 2022, 2023 saw the Working Capital Index remain flat. **Lower-than-expected domestic consumption resulted in narrowing profit margins and a lower inventory churn rate.** By contrast, the S&P index rose by 9.6 points in 2023, owing to geopolitical uncertainties and slower demand growth, resulting in longer inventory and receivables cycles across multiple industries.

Outlook

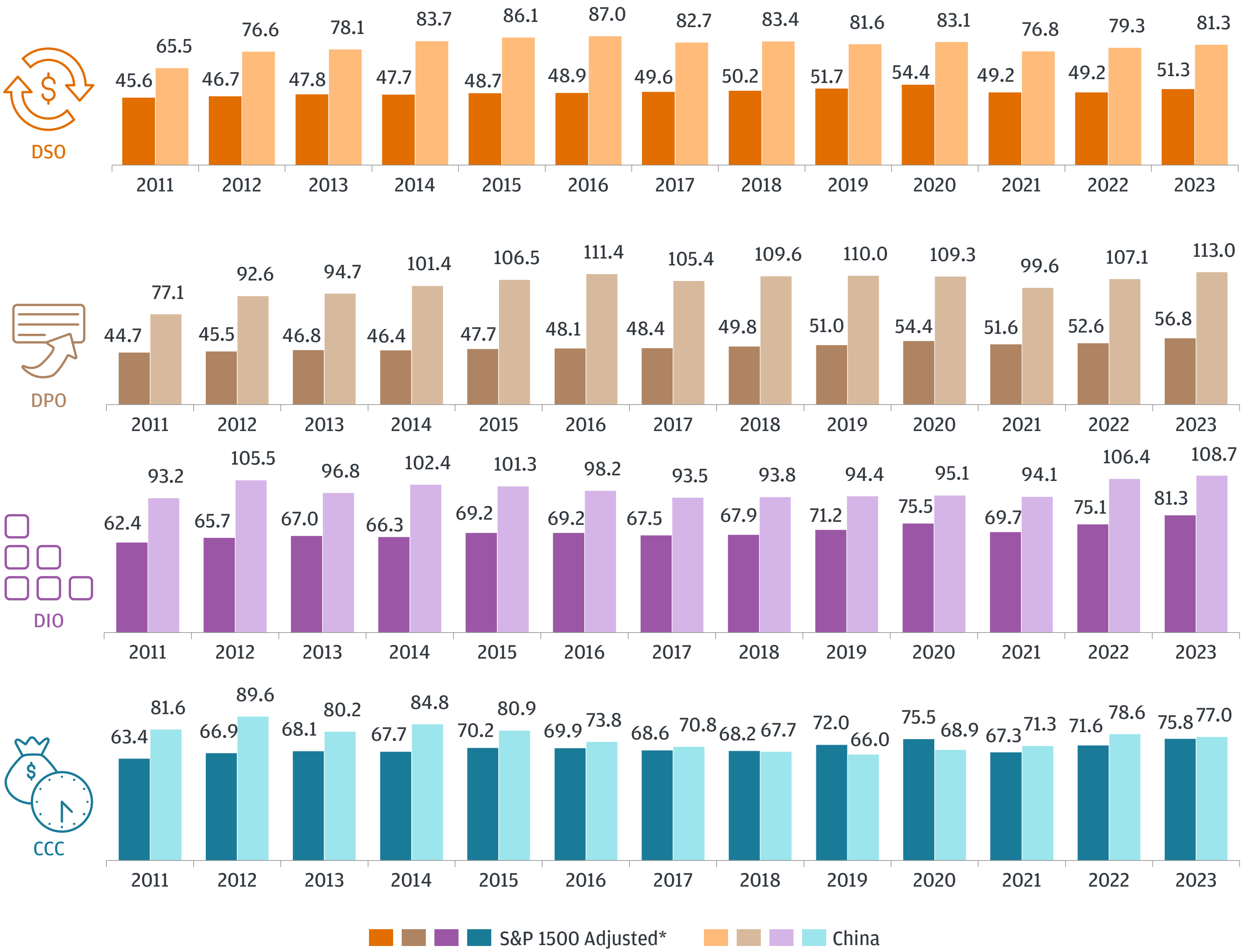
The deflationary pressure eased at the start of 2024, indicating an early rebound in demand, which is **expected to continue to grow gradually as more supportive policies from the government boost consumer confidence.** These measures could start to alleviate corporate pressures, improving profit margins and cash levels, which in turn should help the China Working Capital Index return to pre-COVID levels as economic recovery progresses.

Source: Working Capital Index constituent selection: China CSI300 + HSCEI 50 + S&P US China 50; 400 companies in total and 276 companies for the WCI, excl. sectors of Real Estate and Financial Services. All numbered data have been gathered from Capital IQ for the purpose of calculations.

Note: *S&P1500 numbers have been normalized by assigning same sector weight as Chinese company set for making comparison of components on the same basis

Benchmarking Chinese companies against multinational peers

Macro uncertainty and a slower-than-expected domestic recovery is impacting Chinese companies' revenue growth and working capital efficiency



S&P vs. Chinese companies for 2023

While there is little difference in overall CCC days between S&P and Chinese companies, significant gaps exist in DPO, DSO and DIO. China's CCC improved by 1.6 days in 2023 due to lengthening DPO, while inventory build-up saw the S&P deteriorate by 4.2 days.

Implication of DPO extension

Inventory levels didn't fall as anticipated post-reopening, with DIO extending by two days, indicating **slower-than-expected domestic consumption.** Companies tried to maintain working capital levels and CCC by **taking more time to pay their suppliers;** however, such a trend is not sustainable for the ecosystem.

Source: Working Capital Index constituent selection: China CSI300 + HSCEI 50 + S&P US China 50; 400 companies in total and 276 companies for the WCI, excl. sectors of Real Estate and Financial Services. All numbered data have been gathered from Capital IQ for the purpose of calculations.

Note: *S&P1500 numbers have been normalized by assigning same sector weight as Chinese company set for making comparison of components on the same basis

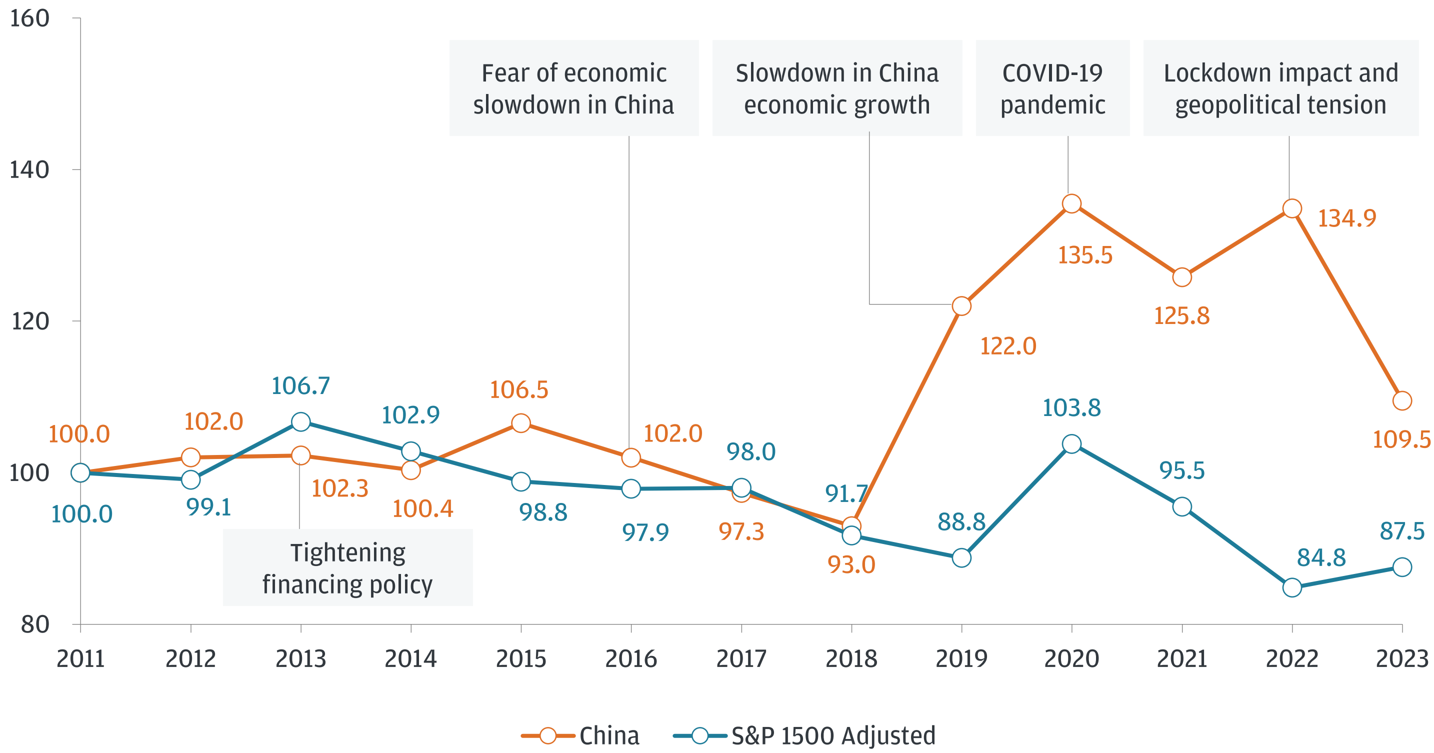
Sustainable improvement opportunities

Consumption is the primary driver for economic recovery, as well as for companies to accelerate CCC and unlock free cash flow. However, companies can take a proactive approach by:

- **Improving DIO:** This can be supported by upgrading inventory management through smart inventory solutions, sales forecast intelligence, AI-driven customer journeys and inventory and supply chain financing solutions.
- **Transition planning:** Business can accelerate their transition by optimizing investments in electrification, decarbonization and advanced manufacturing or technology. Also, they can optimize operating models to improve the customer experience and equip themselves with advanced treasury structures.

China cash index declined in 2023

China cash index benchmarked against S&P 1500 cash index



Free cash flow tumbles

Cash levels declined sharply in 2023, lowering the cash index level by 25.4 points. 2023 also witnessed a slower-than-expected post-COVID recovery, a series of rate cuts by the People's Bank of China in five-year and one-year loan prime rates, and stock price fluctuations in both Hong Kong and China markets. Reduced cash from operations combined with **increased dividends,**[10] **debt repayments and share buybacks**[11] **contributed to the decline in cash levels.**

Source: Working Capital Index constituent selection: China CSI300 + HSCEI 50 + S&P US China 50; 400 companies in total and 276 companies for the WCI, excl. sectors of Real Estate and Financial Services. All numbered data have been gathered from Capital IQ for the purpose of calculations.

Note: *S&P1500 numbers have been normalized by assigning same sector weight as Chinese company set for making comparison of components on the same basis.

[10] In 2023, 3361 (or 65.9% of total) listed companies in A-Share have reported record high cash dividend payments of 2.13 trillion CNY in amount according to CSRC (China Securities Regulatory Commission).

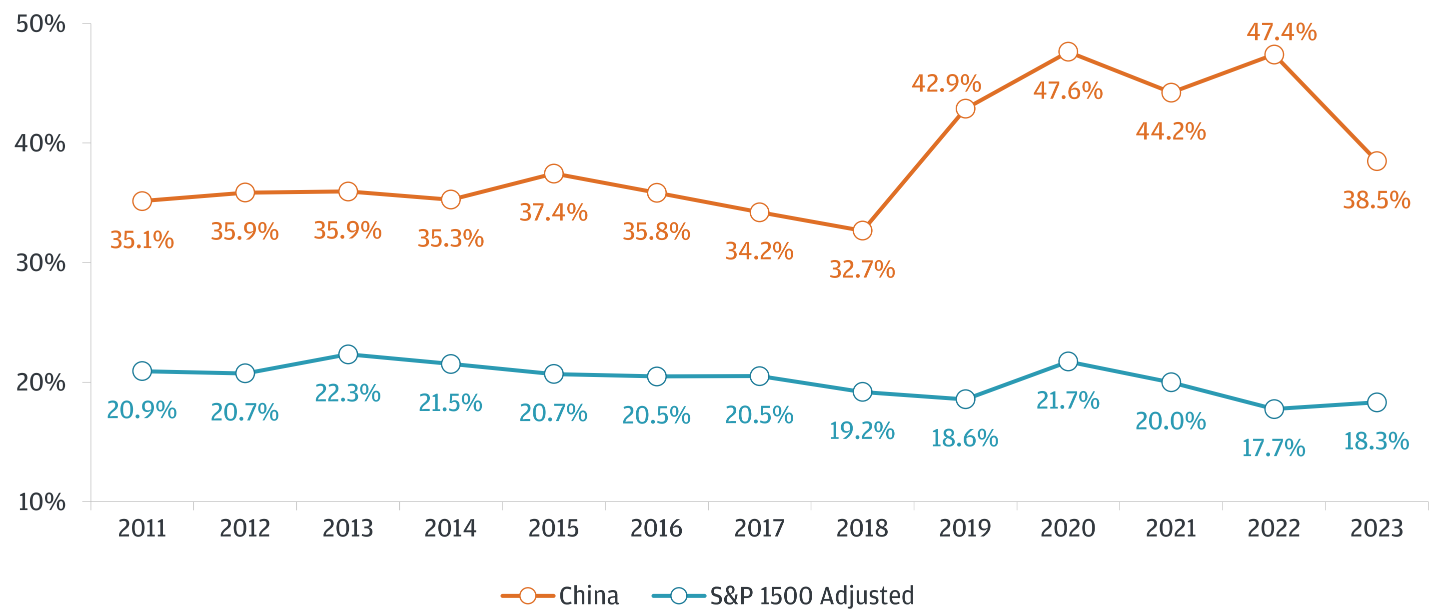
[11] Between 2022 and 2023, total 1836 listed companies in A-Share have reported share buybacks for over 182 billion CNY in amount. The buyback amount in 2023 is increased by 58.7 billion CNY or 108.82% YoY according to CAPCO (China Association for Public Companies).

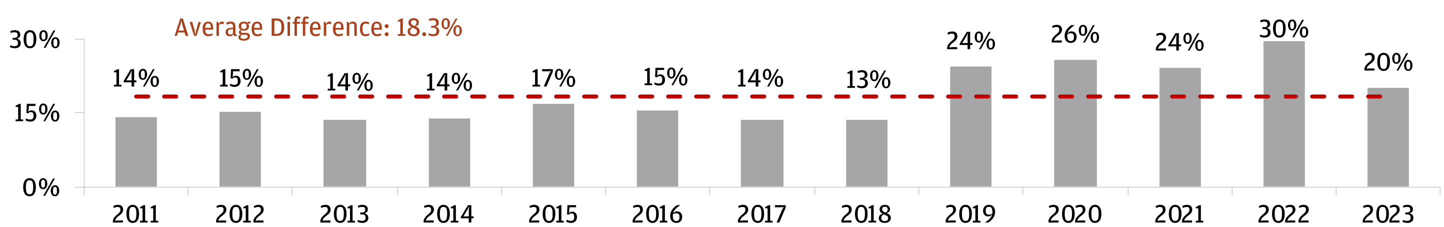
Outlook

With consumption the primary driver for recovery, a gradual increase in demand coupled with supportive policies in capital markets could spur growth in investment and trade activities and normalize cash levels in the long run.

China cash levels edge closer to S&P 1500 companies

Difference in cash levels between China and S&P 1500 cash levels





CapEx keeps S&P 1500 cash levels low

The Chinese corporate cash index moved closer to that of S&P multinationals in 2023, closing the gap to 20 percentage points, the lowest level in the past five years.

For S&P companies, cash levels remained low and in line with 2022 figures, as many companies continued to invest in capital expenditure. Those investments were directed towards building supply chain resiliency and government-incentivized domestic manufacturing.

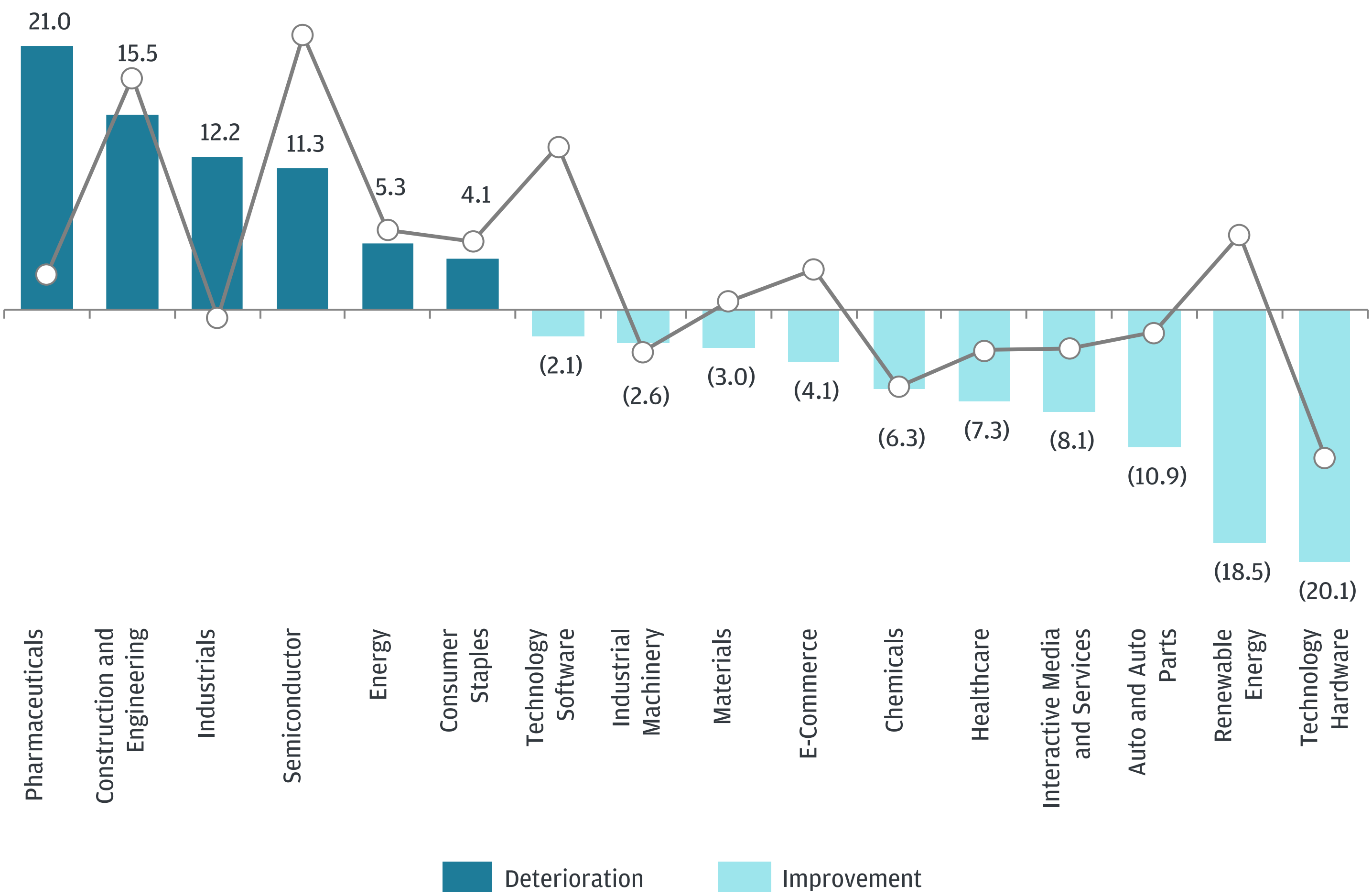
Geopolitical uncertainties, **trade shifts** and **supply chain complexities** continue **to heavily impact Chinese companies** and their future cash deployment strategies.

Source: Working Capital Index constituent selection: China CSI300 + HSCEI 50 + S&P US China 50; 400 companies in total and 276 companies for the WCI, excl. sectors of Real Estate and Financial Services. All numbered data have been gathered from Capital IQ for the purpose of calculations.

Note: *S&P1500 numbers have been normalized by assigning the same sector weight as Chinese companies for making comparison of components on the same basis.

More sectors experienced improved CCC performance in 2023

Change in cash conversion cycle (days) 2022-2023



- Compared to 2022 levels, 10 out of 16 industries showed improvement in CCC performance.
- Half of all companies and sectors have eased inventory levels over the past year thanks to the gradual economic recovery, but the other 50% are still trying to reduce excess inventory.
- Major sectors like technology hardware, renewable energy and auto & auto parts were able to achieve a double-digit improvement in CCC performance, indicating a revival in both domestic and cross-border trade activities in these sectors.
- Pharmaceuticals and industrials had the largest extension of CCC due to normalized payments to suppliers, resulting in a reduction in DPO. Meanwhile, construction and engineering companies have expanded inventory levels in anticipation of new projects post-reopening, though demand is still muted pending further stimulation measures.

Source: Working Capital Index constituent selection: China CSI300 + HSCEI 50 + S&P US China 50; 400 companies in total and 276 companies for the WCI, excl. sectors of Real Estate and Financial Services. All numbered data have been gathered from Capital IQ for the purpose of calculations.

*Only the industries with more than five constituents are shown above.

Chinese companies could unlock US$321 billion of working capital opportunities

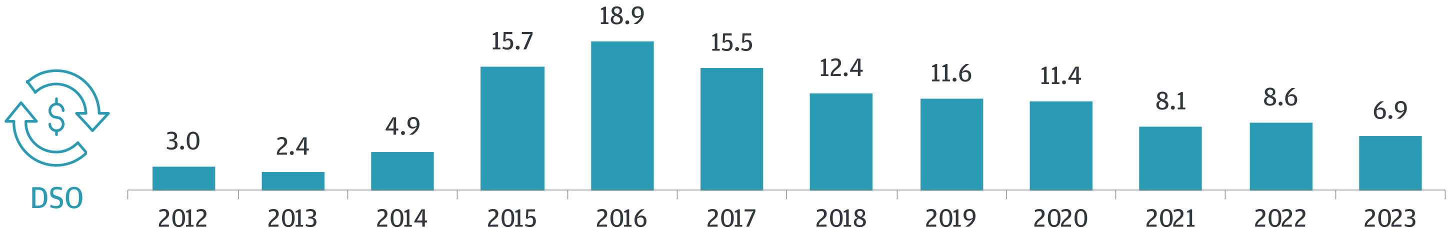
Source: Working Capital Index constituent selection: China CSI300 + HSCEI 50 + S&P US China 50; 400 companies in total and 276 companies for the WCI, excl. sectors of Real Estate and Financial Services. All numbered data have been gathered from Capital IQ for the purpose of calculations.

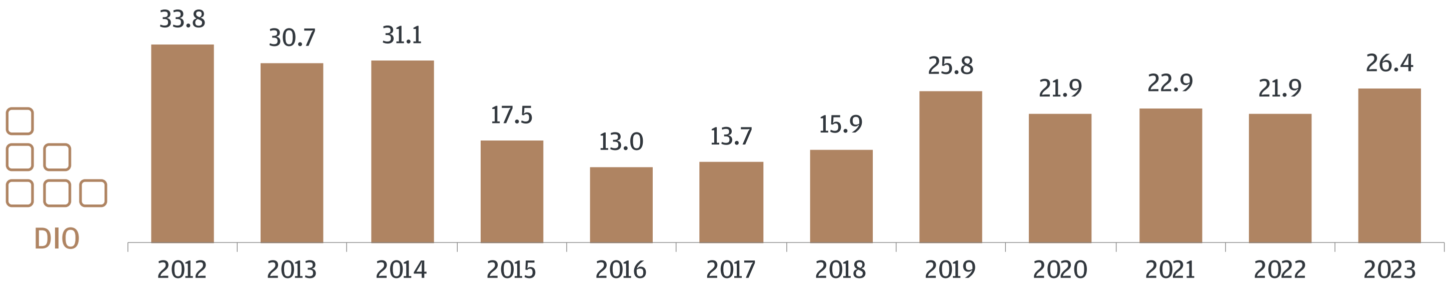
For every working capital parameter we have split the companies within each industry into four performance quartiles (with the first quartile representing the performance of the top 25% of companies within the industry and the fourth quartile corresponding to the bottom 25%). The free cash flow release calculation assumes that a company moves from its existing performance quartile to the next best performance quartile, with quartile one companies remaining at their current levels. Only industries with more than five constituents are shown above. * Savings shown above are for all companies in the index.

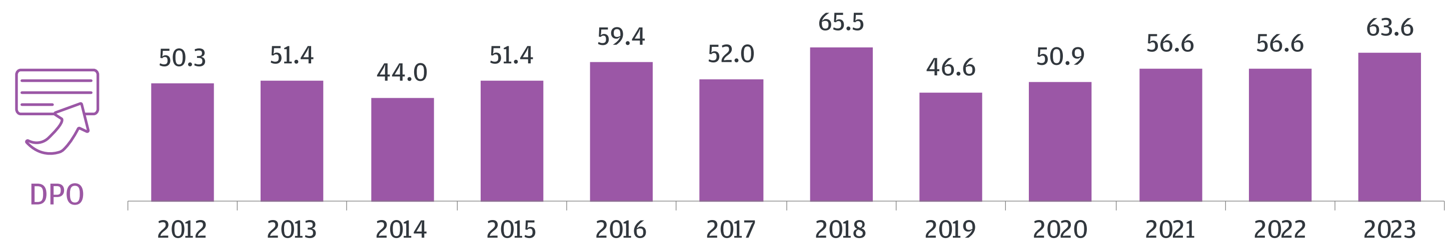
[12] Potential Working Capital Savings Opportunity in US$bn.

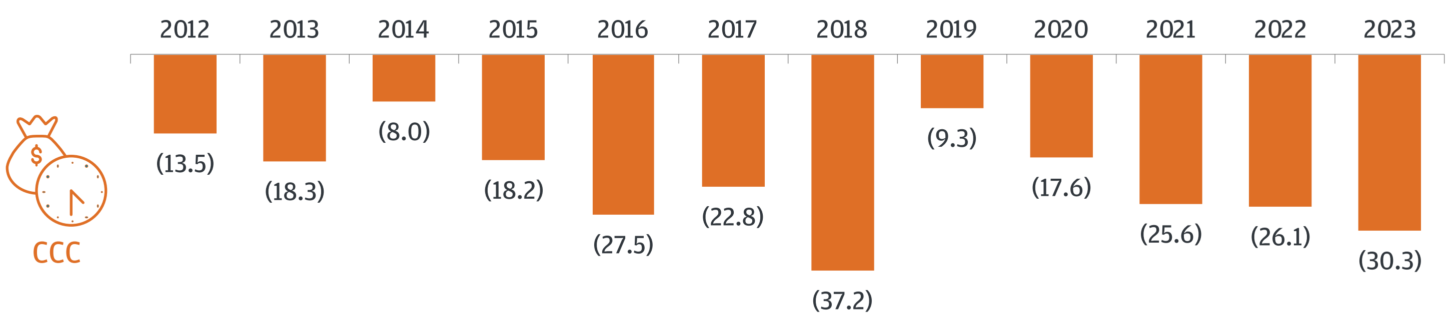
04
Industry deep dive

E-Commerce – Gaining traction for international expansion

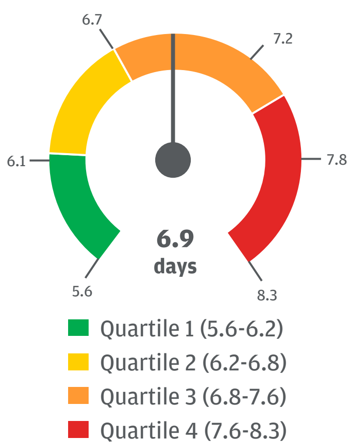




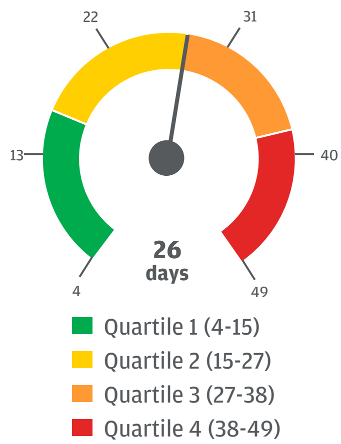




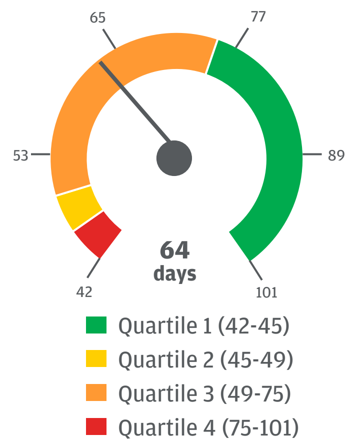
Days Sales Outstanding



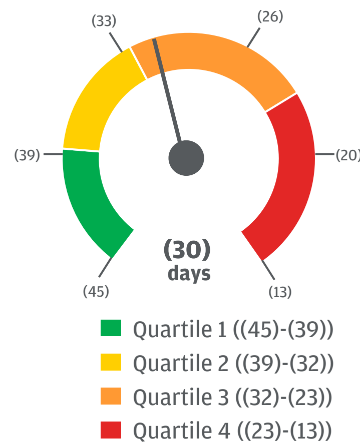
Days Inventory Outstanding



Days Payable Outstanding



Cash Conversion Cycle



Overseas growth trends

The **CCC** has continuously improved over the past five years, thanks to business model innovations and supply chain maturity. The sector witnessed a decrease of about four days in CCC in 2023, primarily driven by a 1.7 days decrease in DSO and a **seven-day increase in DPO.** Meanwhile, a four-day increase in DIO indicated potential domestic market saturation.

Chinese e-commerce businesses have been **venturing overseas** to achieve faster growth. This highlights an ongoing strategic trend, where these companies are actively shifting focus from their domestic market to target global customers. **Online sales in China account for 27.6%[13] of total retail sales**, compared to 15.4%[14] in the U.S. and 18%[15] in Europe.

Outlook

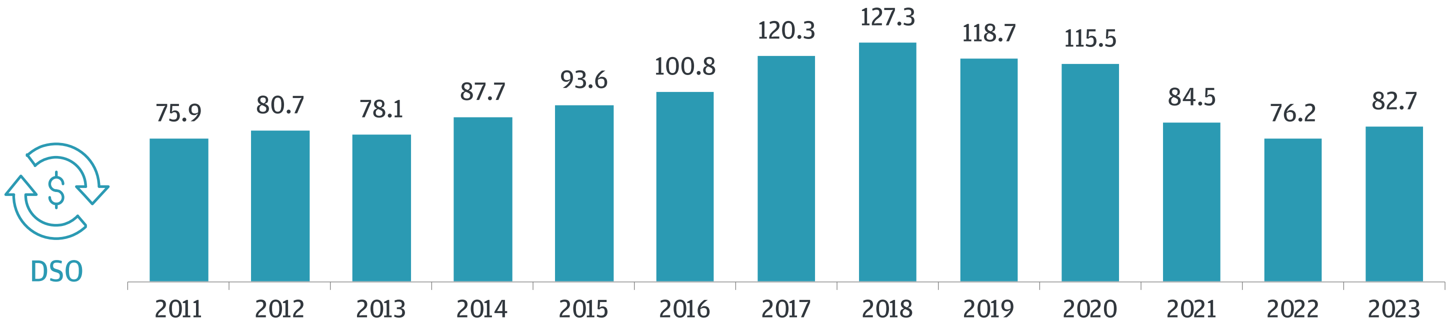
Key themes that will drive 2024 performance include **China's cross-border e-commerce companies gaining increased traction in international markets**, local supply chain and warehousing capability integration, consumer penetration via social media channels and a changing competitive landscape in their local service market. We also expect to see **generative AI monetization** and a greater focus on shareholder returns.

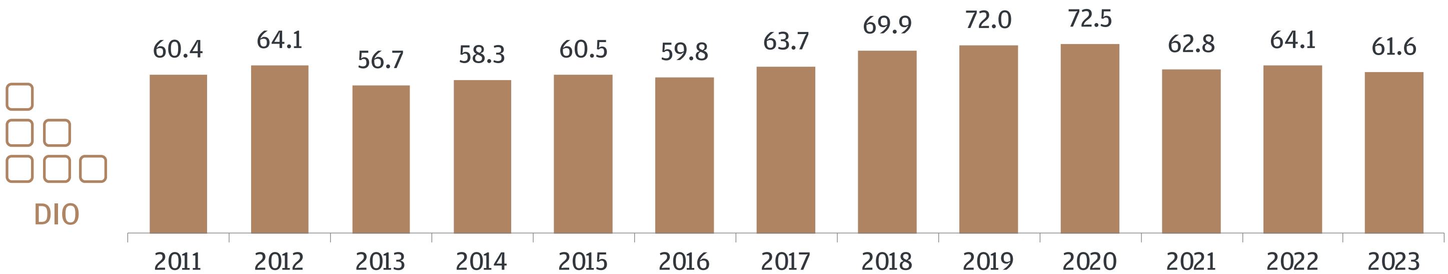
Investments across multiple consumer market subsectors and the enablement of fund flow options have helped raise awareness of treasury transformation in Chinese businesses' global expansion agenda.

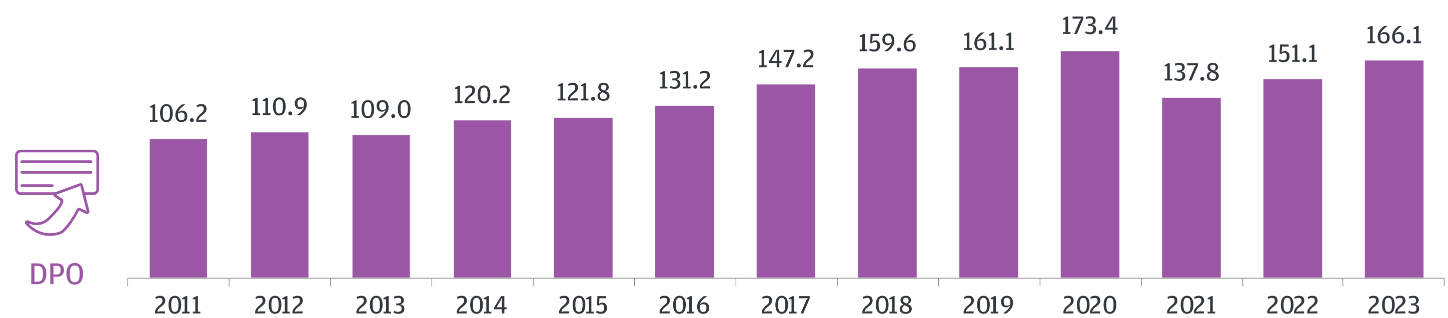
Source: Working Capital Index constituent selection: China CSI300 + HSCEI 50 + S&P US China 50; 400 companies in total and 276 companies for the WCI, excl. sectors of Real Estate and Financial Services. All numbered data have been gathered from Capital IQ for the purpose of calculations. E-Commerce companies in the index include JD.com, JD Health International, Alibaba Group and Meituan.

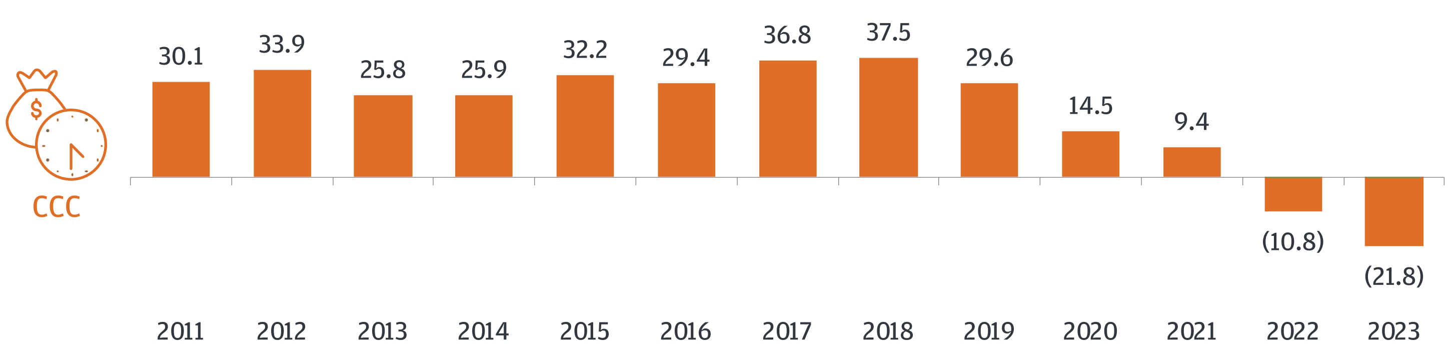
[13] According to the National Bureau of Statistics of China (NBS); [14] J.P.Morgan Markets Report, [15] European Commission

Auto and auto parts – EVs emerging as a game changer

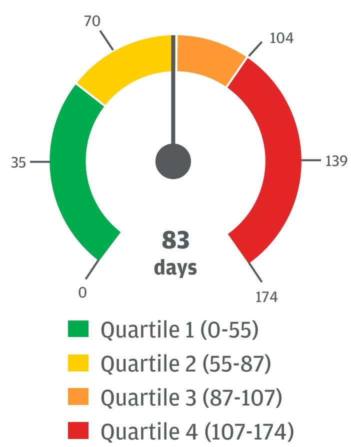




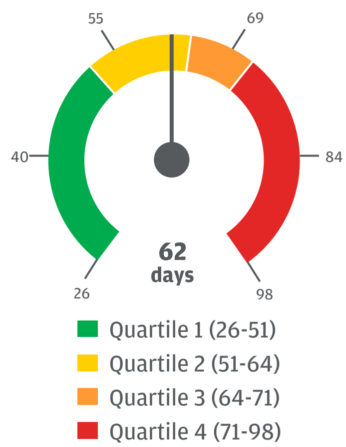




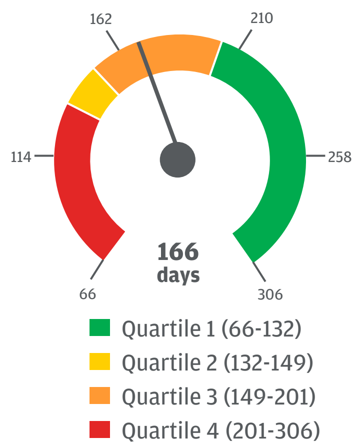
Days Sales Outstanding



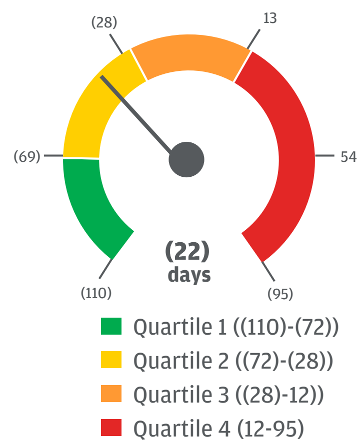
Days Inventory Outstanding



Days Payable Outstanding



Cash Conversion Cycle



Electric vehicle demand increases

Sales for traditional ICE (internal combustion engine)-related sectors have been squeezed by the trend towards new energy vehicles in recent years. However, this trend has also forced a transition to electrification and accelerated both innovation and R&D in the auto and auto parts sector.

The sector witnessed **an overall improvement in CCC by 11 days**, which was mainly driven by the extension in DPO and partially supported by diversified supply chain financing solutions and marginal fluctuations in DSO and DIO. The CCC has significantly improved during the past four to five years, owing to **high demand at home and abroad** in both fuel and electric vehicles. In addition, there have been new business models that enable faster collection solutions, such as **direct-to-consumer** and connected car solutions.

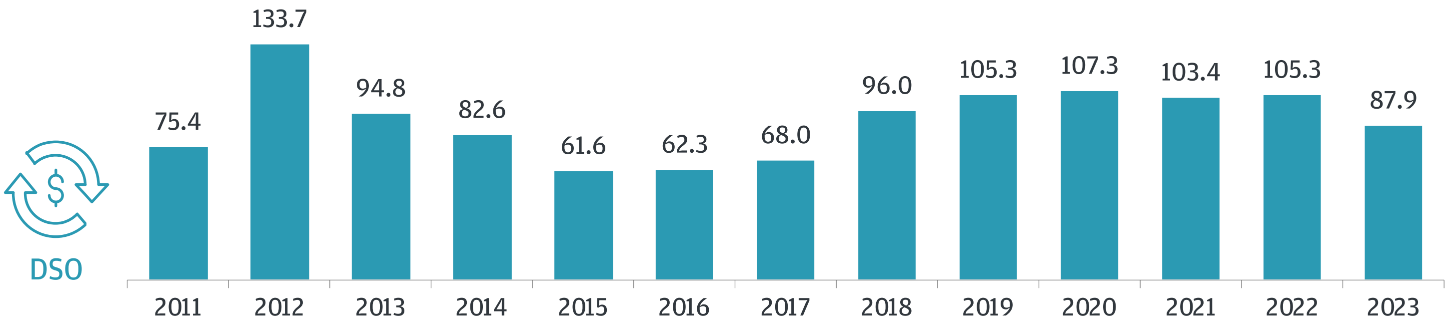
Outlook

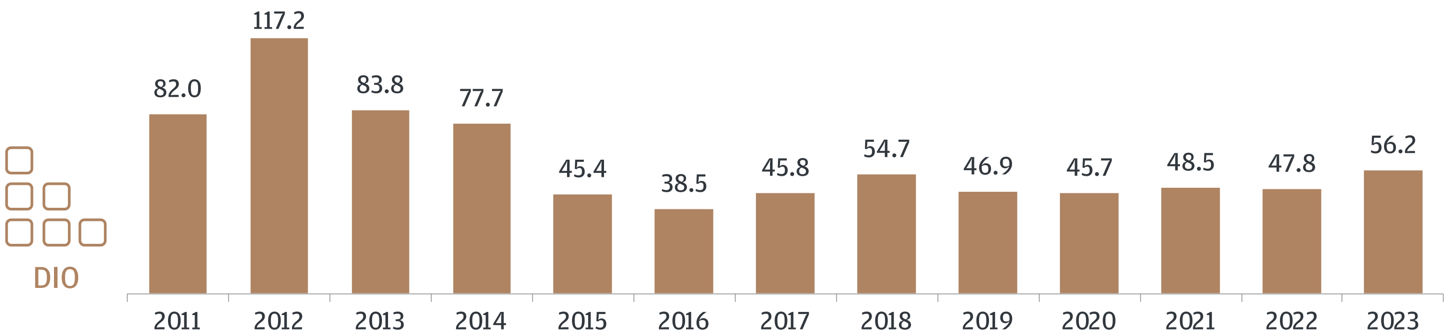
China's automotive industry achieved a **historical milestone in 2023 with record numbers of sales and production.** Driven by rising new energy vehicles (NEV) penetration, China is on track to overtake Japan as the No. 1 automobile exporter in the world. China exported over 4.9 million vehicles in 2023, of which 1.2 million were NEVs, a 78% increase YoY. The total export volume of lithium-ion batteries also reached over $65 billion USD, a 28% YoY increase.[16] **China's total export volume for automobiles is expected to hit a record high of 5.5 million units in 2024.**[17] The outlook for China's auto sector is more subdued, given rising trade barriers from Western regulators and increased tariffs on Chinese exports. Despite these dynamics, **electric vehicles could prove to be a game changer**, especially in Europe and APAC.

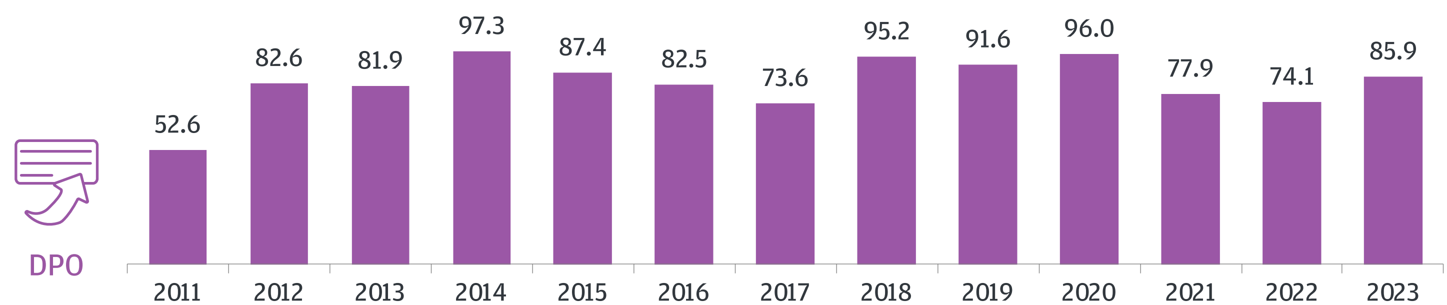
Source: Working Capital Index constituent selection: China CSI300 + HSCEI 50 + S&P US China 50; 400 companies in total and 276 companies for the WCI, excl. sectors of Real Estate and Financial Services. All numbered data have been gathered from Capital IQ for the purpose of calculations. Auto and Auto Part companies include Li Auto, Xpeng, BYD, Geely Automobile, SAIC Motor, Great Wall Motor, Gotion High-tech, EVE Energy and Contemporary Amperex Technology.

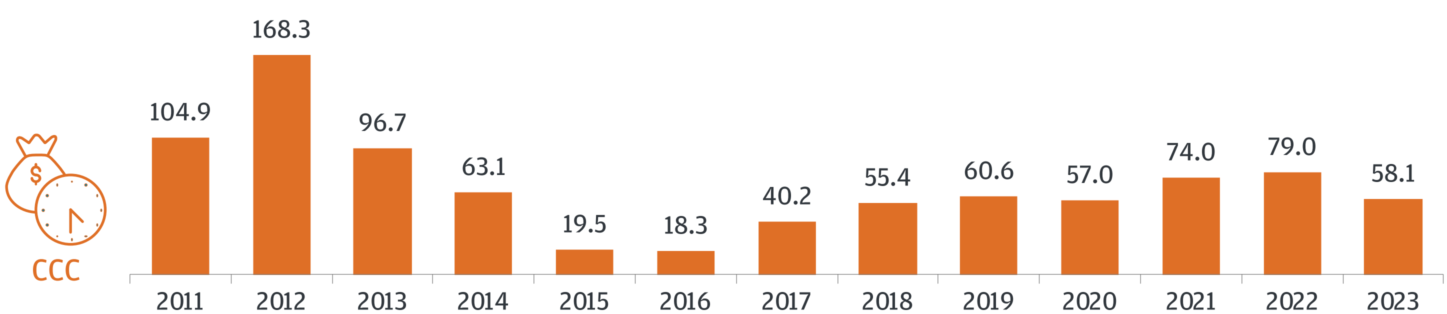
[16, 17] China Association of Automobile Manufacturers (CAAM)

Renewables – Staying conscious amid rapid growth

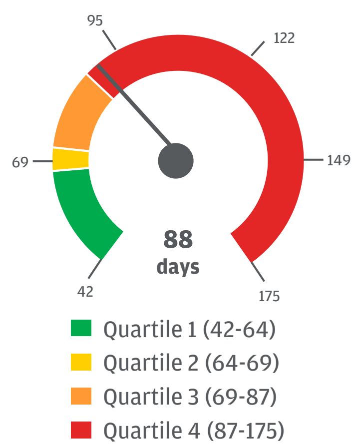




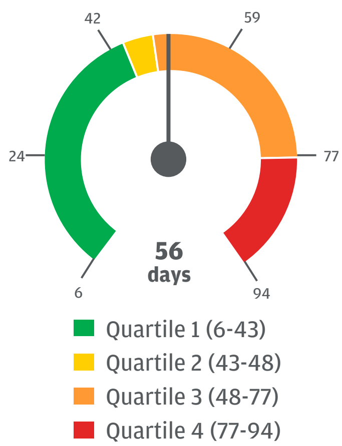




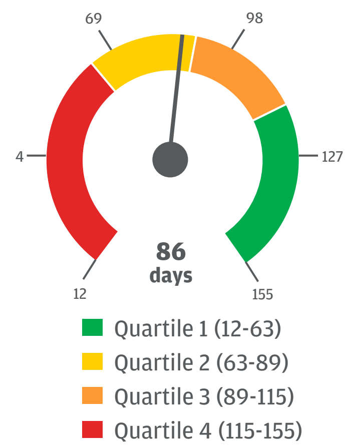
Days Sales Outstanding



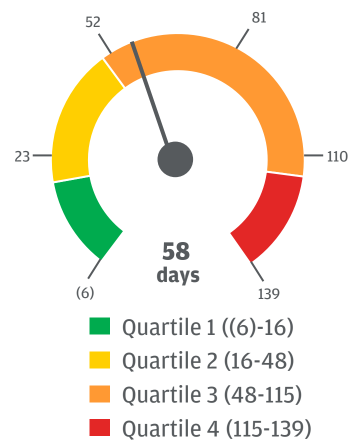
Days Inventory Outstanding



Days Payable Outstanding



Cash Conversion Cycle



Green agenda drives renewables growth

The sector witnessed an **improvement in its CCC from 79 days to 58 days.** The DIO level over the past 10 years has illustrated the booming demand helped by supportive industry incentives, such as the requirements to meet the 2060 carbon neutrality agenda and the targets for renewable alternative energy set in the 14th Five Year Plan (2021-2025). Last year, China commissioned as much solar PV as the entire world in 2022, while also increasing new wind capacity by 66% YOY.[18]

But an eight-day increase in DIO in 2023 resulted in the highest levels over the past five years, which might indicate changes and risks in consumption. Chinese companies have started to monitor costs more closely and manage capital expenditure and working capital more consciously. As a result, DSO decreased by 17 days through an effective application of factoring solutions. DPO improved by 12 days.

Outlook

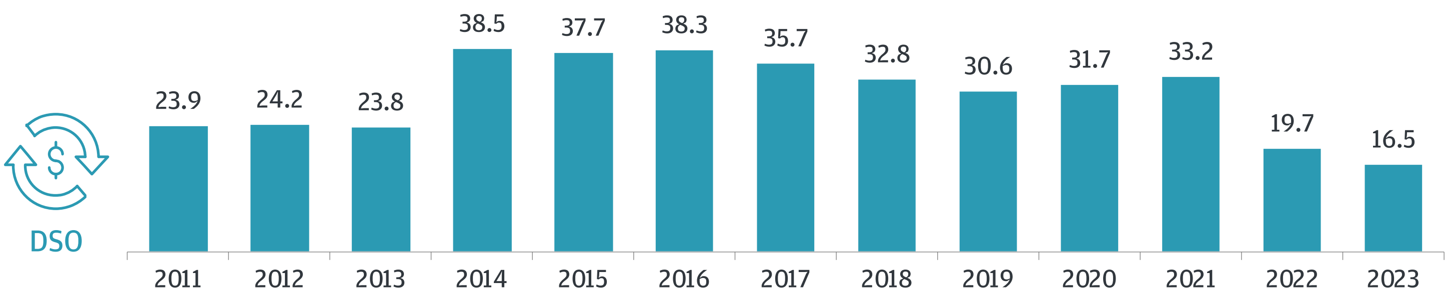
China's 2060 carbon neutrality agenda, combined with global carbon reduction targets, has provided a powerful signal in favor of renewable investments. A rising focus on corporate ESG targets has also triggered business transformation efforts in traditional fossil fuel companies and renewables companies alike.

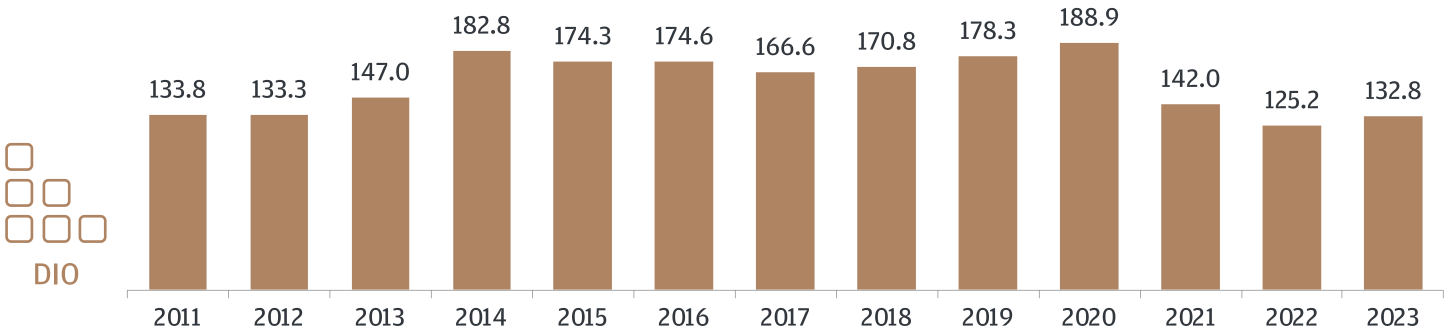
However, the rapid growth of the renewables sector has resulted in overcapacity, temporarily increasing working capital pressures for those companies. Regulatory concerns, including tariff hikes in overseas markets and cautiousness over capex spending amid a weaker profitability outlook, will continue to propel more conversations around working capital solutions.

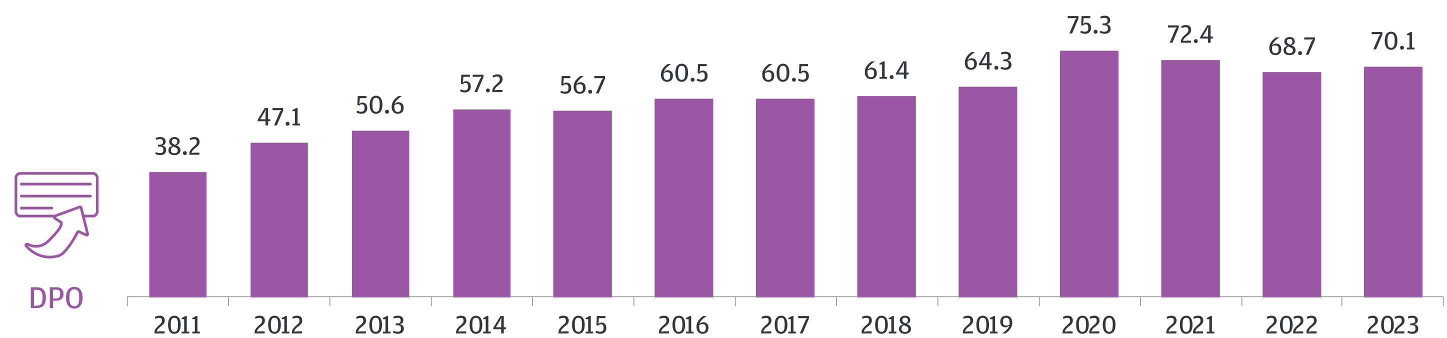
Source: Working Capital Index constituent selection: China CSI300 + HSCEI 50 + S&P US China 50; 400 companies in total and 276 companies for the WCI, excl. sectors of Real Estate and Financial Services. All numbered data have been gathered from Capital IQ for the purpose of calculations. Renewables companies in the index include Xinyi Solar, China Longyuan Power Group, JA Solar, Tongwei, Sichuan Chuantou Energy, China Yangtze Power, LONGi Green Energy, Xinjiang Daqo New Energy and Trina Solar.

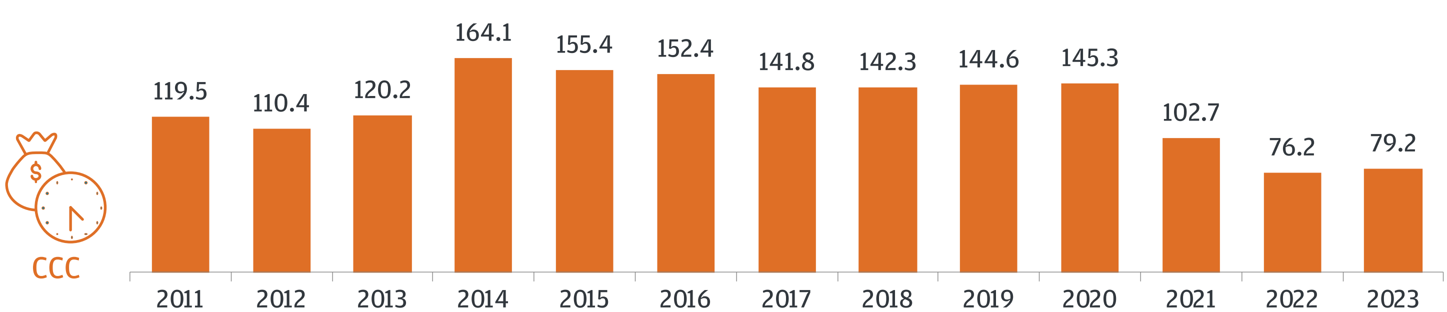
[18] International Energy Agency

Consumer Staples – On track towards full recovery

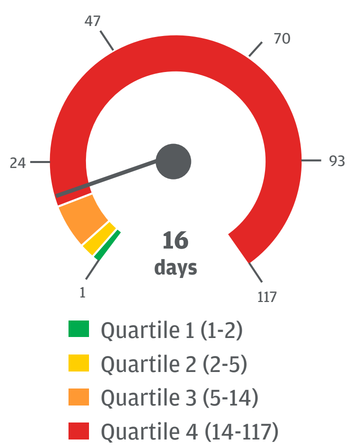




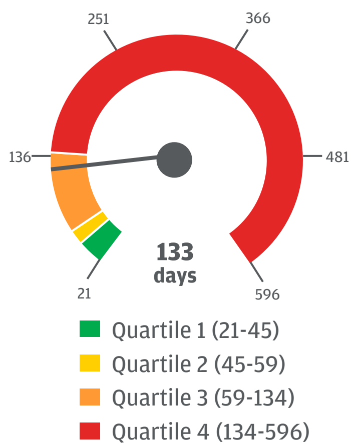




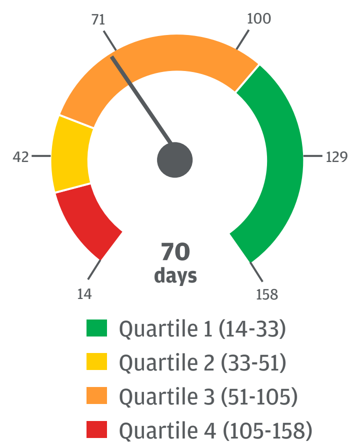
Days Sales Outstanding



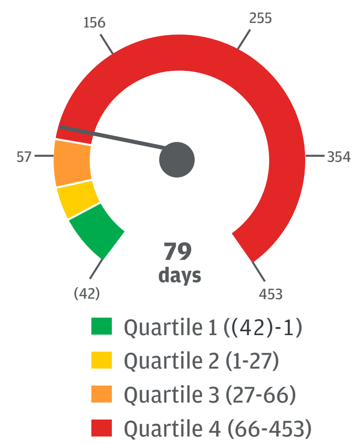
Days Inventory Outstanding



Days Payable Outstanding



Cash Conversion Cycle



Consumers start to normalize spending

In 2023, the consumer staples sector enjoyed positive performance, as total consumer goods retail sales reached about $6.63 trillion USD, up 7.2% YOY.[19] Compared with 2022, which saw the phenomenon of Chinese households hoarding consumer staples, 2023 witnessed a normalization process with DIO rebounding by eight days. DSO reduced by three days, signalling a more promising outlook for the sector's development.

Outlook

Although overall consumption is still to fully recover post-pandemic, some sectors such as consumer staples, home appliances and tourism are expected to fuel demand in the economy with support from government incentives and e-commerce transformation. There has also been a noticeable shift in consumer preferences towards products that are healthy and exclusive—showing that consumers are willing to pay premium for better quality.

Industry trends show that direct-to-customer (D2C) and online channel business models continue to overperform, especially via the emergence of social media platforms helping corporates capture larger market share. Convenience and speed are two crucial factors driving online retail growth. Adapting to newer models could help businesses emerge as winners in this fast-evolving market.

Source: Working Capital Index constituent selection: China CSI300 + HSCEI 50 + S&P US China 50; 400 companies in total and 276 companies for the WCI, excl. sectors of Real Estate and Financial Services. All numbered data have been gathered from Capital IQ for the purpose of calculations. Consumer Staples companies in the index include Nongfu Spring, Muyuan Foods, Wens Foodstuff Group, Chongqing Brewery Company, Kweichow Moutai Company, Luzhou Laojiao Company and others.

[19] National Bureau of Statistics of China.

05
Working capital optimization and free cash flow opportunities

Corporate growth strategies

Strengthening the core

Focus on optimizing working capital and gaining efficiency amid global challenges

Digital fortification

Modernize business operations with cutting edge technological tools

Globalization

Strategize for extreme supply and demand disruptions

Innovation

Focus on building consumer tailored products and services to compete in global markets

Sustainability

Embrace ESG commitments to promote sustainable growth

China trade trends

Gradual consumption recovery

Weaker yuan and increased cash outflow

Globalization strategy challenges

Growing lending gap

Ongoing geopolitical uncertainties

Where to start

Objectives

- Market analytics – Working Capital Index and Industry reviews
- Target analytics – Peer benchmarking
- Corporate strategy & Market practice

Strategy

- Shareholder value improvement areas
- Operating model optimization
- Free cash flow opportunities
- Working capital improvement

Tactics

- Supply chain management
- Sales model optimization
- Cash concentration solutions: Connectivity, visibility, deployment and intelligence
- Trade and working capital solutions

End notes

[1] Note only, N/A

[2] NBS data (https://data.stats.gov.cn/english/easyquery.htm?cn=A01)

[3] Bloomberg data

[4] https://www.reuters.com/world/china/china-targets-2024-gdp-growth-around-5-government-work-report-2024-03-05/

[5] https://assets.ey.com/content/dam/ey-sites/ey-com/en_cn/topics/coin/ey-overview-of-china-outbound-investment-of-2023-bilingual.pdf

[6] http://english.customs.gov.cn/Statics/e1351568-5e17-4534-affd-c369e3506613.html

[7] https://assets.ey.com/content/dam/ey-sites/ey-com/en_cn/topics/coin/ey-overview-of-china-outbound-investment-of-2023-bilingual.pdf

[8] Note only, N/A

[9] https://www.jpmorgan.com/insights/payments/trade-and-working-capital/trends-in-trade-2024

[10] https://www.gov.cn/lianbo/bumen/202401/content_6925805.htm <Chinese>

[11] https://news.cnstock.com/news,bwkx-202401-5183239.htm <Chinese>

[12] Note only, N/A

[13] https://english.www.gov.cn/archive/statistics/202401/17/content_WS65a73b30c6d0868f4e8e32d7.html

[14] J.P. Morgan Markets Report

[15] https://ec.europa.eu/eurostat/web/interactive-publications/digitalisation-2024

[16] https://english.news.cn/20240112/84ce0b93815b4b0db59e6e5f60519f84/c.html

[17] https://english.news.cn/20240112/84ce0b93815b4b0db59e6e5f60519f84/c.html

[18] https://www.iea.org/reports/renewables-2023/executive-summary

[19] https://english.www.gov.cn/archive/statistics/202401/17/content_WS65a73b30c6d0868f4e8e32d7.html

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