# A week on the ground in Hong Kong

**November 2019 | Curtis Cifuentes | Avenir Capital**

The investment opportunities and risks on people's minds tell us that there was some opportunistic buying of property going on in parts of HK

Through no prescience (rather a lack thereof) on our part, members of the Avenir team spent all last week in Hong Kong. While our primary purpose for being there was to meet both companies we own as well as potential new investments (and we met about thirty in total), it turned out to be a particularly eventful week for the protests, which have evolved from criticism of extradition laws back when they began into a broader protest police brutality and push for democracy while also bringing to the surface simmering disillusionment around a heavy-handed Chinese government and wealth inequality.

We met some promising companies from China, Hong Kong and Japan, some of which may find their way into the portfolio, however we thought it timely to share some on-the-ground observations of a week when the situation changed dramatically. As to the broader investment implications, markets seem to still be treating the earnings impact as transitory, even though the problem is becoming more intractable. For many of the companies we met there, however, such as those whose business is focused on mainland China, the issues in Hong Kong do not appear to be causing business concern.

Firstly, a brief timeline of recent events that have resulted in an escalation of tensions in Hong Kong:

- 8 November: Student Chow Tsz-lok dies in hospital after falling from a building during a protest earlier in the week. Large memorial gatherings were held on the following day.
- 11 November: Protests return to weekdays, after mostly being confined to weekends, and during an altercation with police, a protestor is shot by an officer at close range, with video quickly circulating online and further inflaming concerns of unnecessary force used by the police.
- 12-15 November: Weekday protests continue all week, disrupting commuters and businesses in central Hong Kong. On Tuesday, thousands of workers came out onto the streets in solidarity with the protesters. Classes at schools and universities get suspended.
- 16-17 November: Confrontations with police escalate on university campuses, especially around the Hong Kong Polytechnic University in Kowloon, leading to some of the most widespread violence seen in recent months. Tensions are inflamed by reports of Chinese soldiers in Hong Kong, even if just to help clean up road blocks set up by protestors.

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## The broader impact on Hong Kong

While anecdotal, the visible impact on the broader Hong Kong economy is tangible. On our first couple of days we noticed around 30-40% of stores on streets and in shopping centres temporarily closed; foot traffic in main shopping districts is down significantly and restaurants empty. Of the stores that were open, staff seemed to be struggling with the boredom of having no customers. MTR (the local subway system) stations and trains were very quiet by HK standards.

Below are some photos we took during the trip.



Normally packed rush-hour trains and stations were noticeably quiet

The data support these observations too. HK GDP fell 3.2% in Q3 2019, the worst quarterly result since the GFC in 2009. In one meeting we had with a global cosmetics company, management said that sales in HK were likely to be down 30% in Q4 and while roughly half of this was inbound tourism demand that has shifted back to mainland China, the disruptions to public transport etc. had impacted local demand. There were no plans to close stores, rather manage through staffing and reducing marketing budgets significantly. Conversely, a logistics business we met noted that some customers were shifting logistics operations from Hong Kong to China and Singapore, citing protest-related disruptions.

The situation is much worse for businesses that are either linked to, or perceived to be supporting the mainland government's cause, with the risk of vandalism very high.

And even though the city cleans up quickly, the scars of the months of protests are hard to miss. Station entrances are boarded up, graffiti is hurriedly erased, and parts of the city are covered in posters highlighting claims of police brutality.




Vandalism of mainland-linked businesses was common



Erased graffiti takes on an almost modern art-like quality




It was not uncommon for stores to be ‘temporarily closed’ during normal operating hours and for those still open to be extremely quiet An example of some of the posters of alleged police brutality found around subway stations



## Adaptation

While the protestor numbers are fewer than they were in the beginning (and the protests have arguably become more violent) they still appear to have tacit support of the broader population, some of which left their offices to protest in solidarity around Central on Tuesday.

People use the hkmap.live app (the app that was dubiously blocked by Apple) to see where protests are happening and to know where to avoid, and we noticed taxi drivers live streaming video of multiple locations on smartphones on their dashboards. We got the site from the driver and it can be quite addictive watching the brave/crazy reporters give live commentary in the thick of it all streamed from their smartphones. (and quite a William Gibson-ish[1] experience.)

## Last words

Potentially foolishly, we tried to visit the area around PolyU on Sunday afternoon. A heavy police presence had blocked off all the roads around the university, making it impossible to go any closer, but there was a surreal tension in the air. Crowds of people were gathering on corners or overpasses to try to get a view, while police helicopters buzzed overhead. Nearby streets were devoid of activity and most shops were closed. With hindsight, the only wise decision we possibly made that week was to leave that area quickly, given the significant escalation and widening of protests across Kowloon that evening.




[1] William Gibson is the author that introduced the world to the science fiction genre of Cyberpunk – the mishmash of advanced technology with gritty, urban dystopia. His 1984 novel Neuromancer is a good start to his work.

Tense mood near PolyU on Sunday afternoon



Riot police blocking all the roads around PolyU




Gucci and Gas Masks: Riot police on the streets of Kowloon

While our priority for being there was to meet existing and potential investments, the visit coincidentally proved an invaluable first-hand look into the ongoing struggle inside Hong Kong. As to investment

opportunities and risks on people's minds, we heard that there was some opportunistic buying of property going on in parts of HK. There is some hope/fear capital flight will boost Singapore and already frothy Australian capital city real estate markets too. The situation is too volatile and changing too quickly for us to make any strong recommendations today, but we remain on the search for quality businesses that may have been unduly punished for short-term noise.

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