

## Chinese ecommerce battle waged in ADRs

Ahead of possible incorporation into the MSCI's emerging market indices, mainland Chinese firms are being increasingly short sold through ETFs as well as through US listed ADRs.

- Over \$10bn worth of Chinese ADRs currently sold short
- Excluding Alibaba, value sold short of ADRs has increased over 100% since July 2015
- Short sellers seen congregating around Chinese e-commerce names

### Equities draw in MSCI, short sellers

The American Depository Receipt (ADR) of Alibaba backed social network, Momo, has more than half its shares sold short revealing the current ecommerce battle being waged in China. As China's markets stumbles, insatiable local demand for stocks looks set to be joined by global indexation.

A decision by MSCI is expected on **June 14** on whether or not to include mainland listed Chinese equities in their emerging market indices. If included, the move should add some support to Chinese equities with global funds tracking the indices, obliged to pick up exposure.

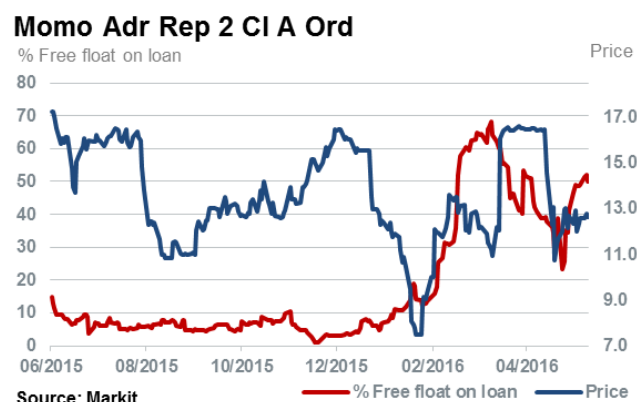


The additional buying demand would be welcomed as China's economy continues to stall and corporate profits **dwindle**, albeit at a slowing rate.

Steep job losses were reported in May with weaker export levels impacting the manufacturing sector which has recorded 15 months of continued decline. However, according to Markit PMI data there are signs that these trends may be bottoming out. The average **PMI** reading in the past three months has been the highest seen since April 2015.

Short sellers, who could be caught off guard by any rebound in markets, have continued to short available Chinese equities.

The most short sold Chinese ADR, with more than half of its free float out on loan currently is Momo. The **Alibaba** backed social network sees its cost to borrow remain high, near 3%. The stock has seen some violent swings in the past year and is down by over a quarter.



Ecommerce retailers like JD.com and 58.com feature among the most short sold ADRs by value on loan and it seems that there are

numerous online battles being waged in China.

In March, Alibaba's free float on loan reached new highs of above 11%. With just under 10% of free float on loan currently shares have moderated 15% lower in the past 12 months.

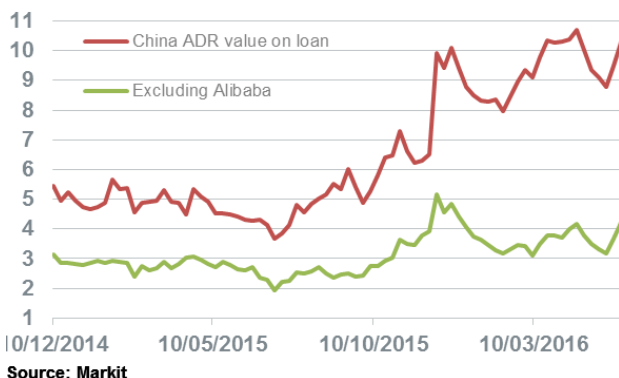
**Alibaba Group Holding Adr Rep 1 Ord**



**Shorts, Chinese make good use of ADRS**

Short sellers, limited with avenues to short Chinese mainland shares have increasingly used ETFs to gain exposure.

**Value on loan: China ADRs**



There has also been a marked increase in the use of US listed ADRs to short specific Chinese firms. Value on loan of Chinese ADRs has increased to over \$10bn, \$4.2bn excluding Alibaba, rising some 117% since July 2015.

Chinese ADRs have lost some of their shine as emerging markets sold off but this has seen Chinese firms take advantage of discounts to ADR prices in US markets.

Leveraging local demand for stocks (even with the recent pull back in prices) Chinese companies have been successfully buying out ADR listings, well below IPO pricing levels, with a reported 38 bought out in 2015.

The ability to exploit ADR listing rules at relative bargain prices enhance capital raising efforts by Chinese firms and this trend would probably be bolstered by the MSCI indices decision outcome.

**Ecommerce shorts in China**

Excluding the recently listed Alibaba ADR, the top ten largest Chinese ADR short positions by value on loan are dominated by smaller e-commerce businesses. While titans by virtue of market size (and market share) the likes of Alibaba and Tencent are not being targeted to the extent of their mostly smaller peers.

Largest short positions: China ADRs (01 June 16)\*excluding BABA

Name	Ticker	Sector	Value on loan	Prm security Value on loan (m)	Market cap (m)	ADR/Mcap
Ctrip Com Intrmtl 8 Adr Rep 1 Ord	CTRP	Retailing	870	4	20,483	4.2%
Jd Com Adr Rep 2 Cl A Ord	JD	Retailing	747	24	32,924	2.3%
Baidu Adr Rep 1/10 Cl A Ord	BIDU	Software & Services	459	45	61,124	0.8%
Netease Adr Rep 25 Ord	NTES	Software & Services	430	-	23,161	1.9%
58 Com Adr Rep 2 Cl A Ord	WUBA	Software & Services	207	-	7,376	2.8%
Tal Education Grp Adr Rep 2 Cl A Ord	XRS	Consumer Services	190	-	4,449	4.3%
Vipshop Holdgs Spon Ads Rep 0.20 Ord	VIPS	Retailing	160	-	6,661	2.4%
Qihoo 360 Techn 2 Adr Rep 3 Cl A Ord	QIHU	Software & Services	117	-	9,571	1.2%
New Orientl Eductn Grp Adr Rep 1 Ord	EDU	Consumer Services	110	-	6,587	1.7%
Qunar Caymn Islnd Adr Rep 3 Cl B Ord	QUNR	Retailing	103	-	4,587	2.2%

Source: Markit

The second highest ADR in terms of value on loan currently is Crtrip with \$870m on loan. Recently merged with competitor Qunar forming the biggest online travel group, Crtrip has seen short interest climb to 27% of freely available shares sold short.

### Ctrip.Com Intrntl 8 Adr Rep 1 Ord



Both firms stock **surged** post news of merger attracting higher levels of short interest. However, Qunar looks to have delivered the returns despite attracting less shorts with 8% of free float out on loan. Ctrip is up 23% over the past 6 months, while Qunar has fallen by a third.

### Qunar Caymn Islnd Adr Rep 3 Cl B Ord



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