Understanding China's dominant but under pressure internet stars

You may have heard of these big tech plays but what do they actually do?

After a strong start to 2021 Chinese internet businesses including Alibaba and Tencent saw their share prices come under mounting duress on a mix of heightened regulation and dampened sentiment towards the wider technology sector.

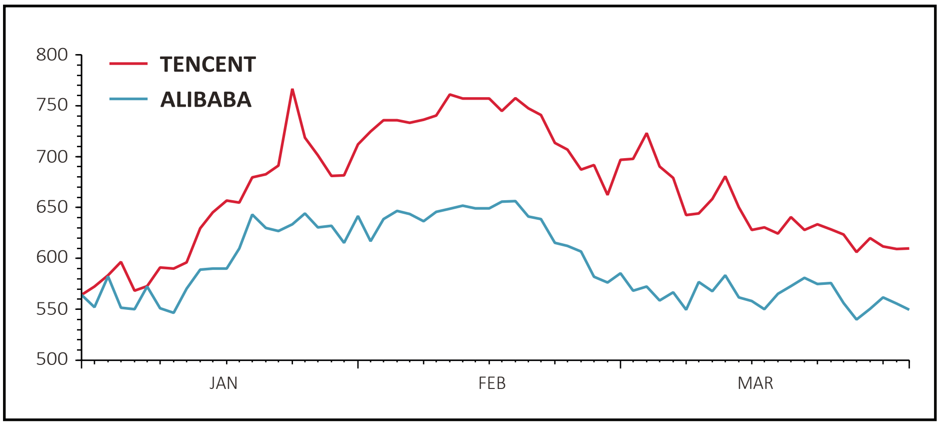
Alibaba has been hit by a $2.8 billion anti-trust fine amid increased regulatory pressure domestically, while in the US the Securities and Exchange Commission is requiring Chinese stocks with a US listing to meet stricter criteria.

Yet these companies still dominate the Chinese equity markets. The collective weighting of Tencent and Alibaba along

with their smaller counterparts Meituan, JD.com and Baidu in the MSCI China index was more than 35% as at the end of March 2021.

Given this dominance it is worth having some idea of what each of these businesses do in a little more detail.

Chinese internet stars endure volatile first quarter of 2021



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Alibaba – China's answer to Amazon – with a big footprint in online shopping and dominant position in cloud computing.

Tencent – owns hugely popular web portals, messaging and social media apps as well having a substantial presence in the video games market.

Meituan – online shopping platform which focuses on locally sourced consumer products and services as well as hosting customer reviews and offering Groupon-style discounts.

JD.com – China's second largest e-commerce business with a burgeoning logistics arm, which opened up its services to third parties in 2017 and is subject to a proposed spin-off.

Baidu essentially a Chinese Google – alongside search engine services it specialises in areas such as online advertising and artificial intelligence.

Emerging markets: Views from the experts

Three things the Franklin Templeton Emerging Markets Equity team are thinking about today

1. Chinese internet stocks have struggled in recent weeks amid tighter regulatory scrutiny, higher US Treasury yields and block trades linked to a troubled hedge fund. China's increased emphasis on fair competition, consumer protection and data security within the internet industry has been a chief concern. Though regulatory news could drive near-term share-price volatility, we remain largely confident in the longer-term fundamentals of several leading internet companies. These companies have grown rapidly by offering superior user experiences and efficiencies, and we expect these strengths to continue underpinning their structural earnings power. We also think that regulators are keen to ensure the sustainable development of the internet space for all stakeholders, rather than curb its growth.

2. Brazil's fiscal challenges have returned to the spotlight as an intensifying pandemic adds pressure on the government to ramp up already-massive spending. Concerns about the country's mounting debt burden have weighed on its stock market and currency. Complicating matters, rising domestic inflation has narrowed the scope for monetary policy support. The central bank raised its key interest rate from a record low in March, signaling the start of a rate-hike cycle. We believe that Brazil's economic recovery will rely heavily on the government's ability to implement long-awaited structural reforms. Meanwhile, as a major commodity exporter, Brazil is likely to benefit from rising prices for commodities, as well as their broad appeal as an inflation hedge. We expect higher interest rates in Brazil to bode well for banks, especially market leaders that have weathered the pandemic with the help of strong capital positions and large deposit franchises.

3. The **global competitiveness of emerging market (EM)** companies has been a standout feature amid market swings and pandemic worries. A widespread chip shortage has underscored the world's reliance on Taiwanese and South Korean semiconductor firms, which have dominated the global industry with their strong manufacturing capabilities. South Korean battery makers have become key suppliers of electric vehicle (EV) batteries, supporting EVs' growing penetration on the back of favourable policies and advancing technology. Chinese biotechnology companies working on innovative treatments for cancer and other major diseases have reaped growing success in licensing their new drugs to global pharmaceutical firms.

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