Weekly Report

Macroeconomic Analysis on China

Why is China's economic growth slowing down?

China, being described as the future global economic hegemony, is experiencing a worrying slowdown in their GDP growth rate, as it was recently announced that its first-quarter GDP growth was only 7.4 percent. The last time China had a lower GDP growth was in 2009 during the financial crisis.

Firstly, the decline in growth is because of contraction in exports. HSBC recently published a report with an index, called the PMI Index, which shows the prospects of the manufacturing sector of a particular country. As China reached below 50, which according to the measurement of the index is seen as a contraction in the manufacturing sector, this certainly explains the decline in exports.

Secondly, the slowdown in the Chinese economy is because of the decline in growth of fixed asset investment, such as property. The aggregate value of homes sold in China has dropped by 7.7 percent since the last quarter, reaching only 1.1 trillion Yuan. The drop is not only referring to individuals, but to corporations as well, as the sales of commercial buildings only reached 1.33 trillion Yuan, which is a drop of 5.2 percent. Furthermore, new property construction has dropped by 25.2 percent, building only 291 million square meters.

The data shows that the Chinese property market, which is a significant variable within the important infrastructure sector, is indeed suffering; which should give us reasons to be concerned about the future of the Chinese economy, especially since the property market investments accounts to as much as more than 10 percent of their economy.

China has previously been investing on their infrastructure too irresponsibly, by building massive amounts of bridges, highways and railways. This *per se* would not be a problem, but it is when it's financed through credit which makes it become problematic. Furthermore, the pace of development has been imbalanced with the demand of the population. There are significant amounts of properties in the country that are simply just existing there, simply for the sake of creating an artificial economic boom, so that the global community is witnessing, at least on paper, that the Chinese is growing faster than it actually is.

The decline in China's GDP growth rate should in the bigger picture be seen as a consequence of their previous short term focused investment on particularly infrastructure, combined with the decline in their manufacturing sector, which has historically, and still is to be fair, their competitive advantage. The true question is for how long will it last.

Equity Analysis

Coca-Cola Life: The New Coke?

With its green packaging, all natural sweeteners and feel-good commercials starring misbehaving toddlers, could Coca-Cola Life be the company's solution to slowing sales at its soft drinks business? Coca-Cola Life is a mid-calorie drink, naturally sweetened so it has half the sugar and calories of regular Coke but still more than Diet Coke or Coke Zero. After what the company describes as a successful debut in its test markets of Argentina and

Chile, CEO Muthar Kent is planning to introduce the drink to new markets, though it is not yet clear which markets they would be. It would not surprise me however, if you were to soon see Coca-Cola Life come to a vending machine near you.

The obstacles to Coca-Cola's soft drinks business is the belief that fizzy drinks lead to obesity or other health problems. Indeed the World Health Organisation recently halved its recommended daily sugar intake in new draft guidelines put out to consultation. Tellingly one of the company's biggest shareholders, (and not to mention biggest customer) Warren Buffett, chooses to diet by stopping any Coca-Cola consumption according to his excellent, official biography *The Snowball*. This apparently leads to Mr Buffett becoming terribly dehydrated as it is all he drinks. In Developed Markets these concerns have led to lower sales. At Coke's North America unit carbonated soft drinks fell 3% year on year in Q4 2013 and 1% in Q1 2014. Diet Soda sales have fallen even faster due to increasing concerns that artificial sweeteners can cause cancer. Overall US Diet Soda sales fell 7% in the first quarter.

In Emerging Markets on the other hand, the danger comes from governments tightening regulations on soft drinks. This year the Mexican government became one of the first governments to levy a tax on full-calorie soft drinks, charging an extra peso for each drink. Impressively 2012 saw the average Mexican drink an incredible 745 servings of Coca-Cola beverages compared to just 401 in the US and 94 worldwide. This regulatory trend is particularly worrying to Coca-Cola as emerging markets provide the company with most of its revenue growth. As of 2012, Coca-Cola has seen an 8% 5 year compound annual growth rate in sales volume in Eurasia and Africa, a 6% rate in Latin America and a 6% rate in Asia Pacific compared to a 1% rate in Europe and no growth in North America.

Coca Cola Life's potential lies in its ability to be a happy medium between two different health concerns. It is less likely to lead to obesity than regular Coke though more likely than zero calorie drinks such as Diet Coke; yet it doesn't contain cancerous artificial sweeteners like its zero calorie cousins. It is a compromise between the two existing products and it complements the Coca-Cola portfolio as, assuming there is some taste difference to regular Coke, purists wanting their favourite flavour can continue drinking regular Coke, whilst those obsessively concerned with their weight can choose zero calorie options. Coca-Cola Life can scoop up the rest. As Muthar Kent notes "it has shown great promise in recruiting new and lapsed consumers into the sparkling category, as well as generating incremental volume, profitable incremental volume for our system". For these reasons I am optimistic that Coca-Cola Life can be the answer to the company's slowing sales in soft drinks and optimistic that you'll get a chance to taste it soon.

Motive Television: Time to turn on the TV?

Motive Television (LON:MTV) is an AIM listed software developer that sets out to create software that takes TV mobile (through smart phones and notebooks).

As a starting point, it may be worth looking at the financials of the company before moving onto recent and upcoming events. Their 2013 annual report hasn't been released yet so the following figures are from their 2012 accounts. Revenue dropped 46.14% to £1.09m, Gross profit dropped 32.124% to £0.511m and total Net loss after tax lessened from £2.447m to £1.2m (51%). The Net loss decrease was due to a one off financial income of £1.7m before appropriate costs. Gearing stood at 59%, up from 44.17% due to an increase in liabilities. Cash increased from £55,173 to £148,554. These are some reasonably good figures for an AIM company but cash is a little concerning. However, increasing cash is a an improvement but not enough to cover the decline in Profit and Loss figures (Sales and Gross profit for this company).

Their operations are quite interesting to say the least. They deliver subscription on demand movie services to 360,000 houses in Italy - this service has been run since the last quarter of 2009 and so must be feeling the pitch with the downturn of the Italian economy. So much so that when the Italian economy recovers, Motive plans on working with Mediaset to update it's software and provide more features. Their second largest client, Digiturk, have a contract with Motive to develop new solutions to push Digiturks video on demand software, which has now been delivered and tested. They are now working on enhancing the features of this software. They continue to receive earnings form engineering development, support and maintenance. Motive have also signed a partnership with Central European Enterprises Ltd which has allowed Motive's TV Anytime Anywhere software to enter Czech Republic. Meanwhile Motive are hoping they can expand on this base into Central and Eastern Europe. Motive have a joint venture with Granite Broadcasting Corporation in North America to promote their Tablet TV software which involves the development, implementation, and use of existing broadcast spectrum to provide live television, Personal Video Recorder functionality and Video-on-Demand directly to portable devices such as iPads, Android tablets and smart phones. This software has been commercially available in Europe for a couple of years but this joint venture will allow for commercial access in North America. Motive also have an agreement to provide Media Networks clients in Latin America with Motive's direct-to-home software.

At the time of the 2012 annual report, Motive had made an agreement with Siyaya Free to Air (Pty) Ltd of Johannesburg, South Africa (Siyaya) for the use of Motive's Television Anytime Anywhere technology in a new pay television service for the South African market. Motive have since signed an agreement with Shenzhen Skyworth Digital Technology Co Ltd who produce set top boxes for TV's. Under this agreement, Motive will receive royalties for the software their providing on every set top box that is manufactured in South Africa. Skyworth Digital Technology is the largest manufacturer of set top boxes in China, with an annual sales volume over 10 million units and is ranked first in its domestic market in China and fifth in the global set-top box business. The joint venture with Granite Broadcasting Corporation in North America seems to be becoming fruitful as software that will allow consumers to watch TV on their tablets. This software is set to be released in the 'Fall' (Autumn) of this year. Motive are hoping that their Tablet TV software in the UK will start being tested on the 28th April 2014 and be commercially ready in time for the World Cup. If this occurs, it will present significant advantages to Motive. However, all this news combined is positive for the company in the long term.

With this all said and done, whilst this is positive news, negative news could arise in the future. And like all AIM listed stocks, this is still a risky stock. However, if positive news continues to flow out of this company like it has in recent months, it could boost the potential of this company.

Griff Investment Fund – The first student-run investment fund in the North of England, with £10,000 under management.

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Sources used:
Coca Cola Letter to shareholders, Bloomberg, Tradingeconomics, Federal Reserve Publications and Youtube - The Real News

Fund's Results

Holdings	P&L
Viscofan	-7.70%
Diageo	-3.92%
Morgan Stanley	3.49%
Honda	-11.90%
Rolls Royce	-13.86%
William Hill	5.29%
Premier Oil	10.45%
Elementis	-3.11%
Master Card	-9.08%
GRTB	14.44%
IBM	4.43%

Performance (%)	-1.58%
Performance (CASH)	-£157.87
Invested Amount	£5,828.32
Cash Amount	£4,171.68
NAV	£9,842.13

(Figures updated 30th April 2014)