

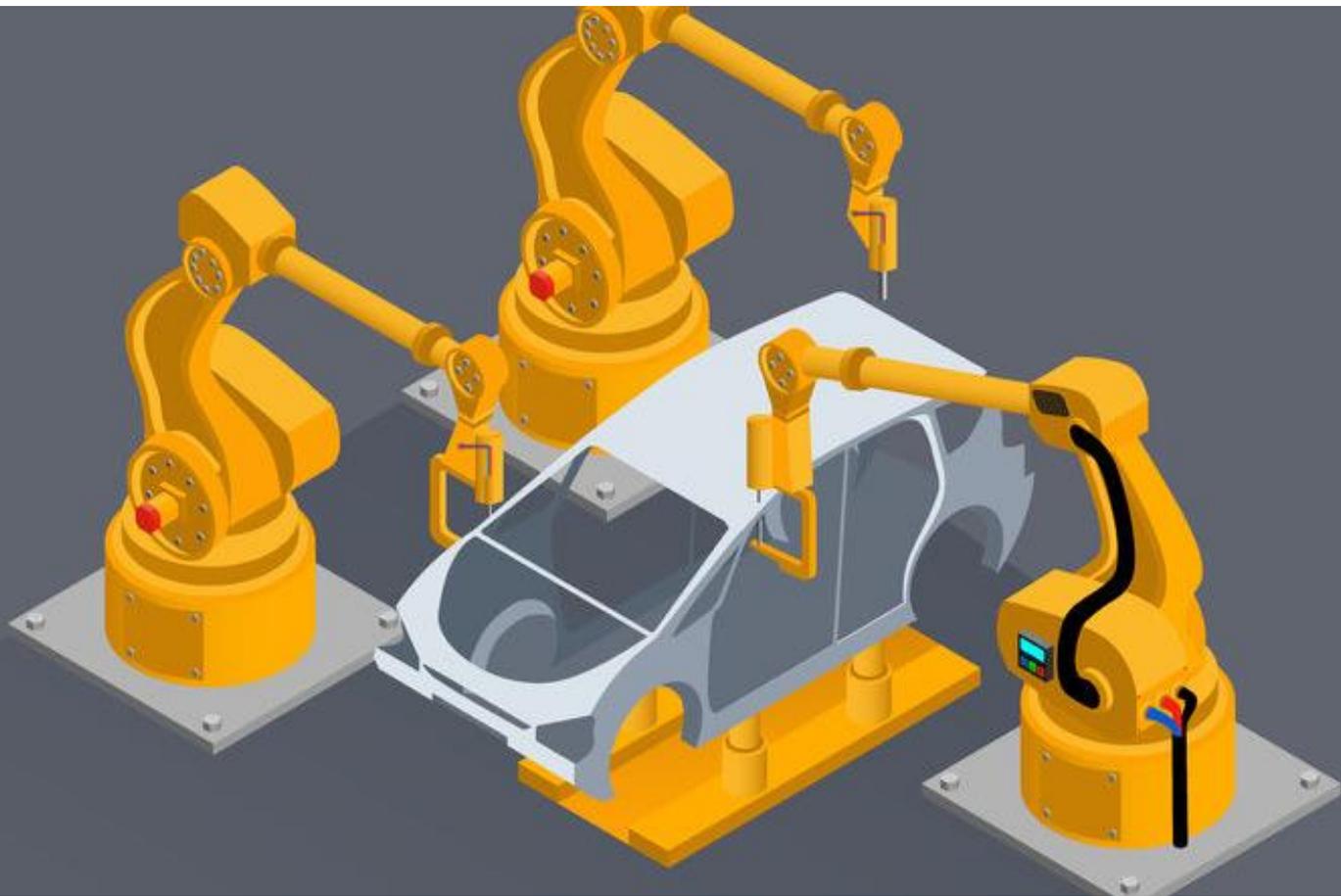
Lion Global Investors Limited



High-Tech Workhorses to Storm China's Factories

January 2017

High-Tech Workhorses to Storm China's Factories



High-Tech Workhorses to Storm China's Factories

If you were to visit Yue Yuen Industrial (Holdings) Limited's factory in Dongguan, China, 15 years ago, you would see the factory floors packed with young men and women who hail from rural China, cutting, pasting, sewing and gluing some 15 different parts to assemble a Reebok sport shoe. Today, with factory automation, it's a whole new game plan for the company.

For the uninitiated, Yue Yuen is the world's largest listed shoe manufacturer that produces footwear for renowned brands like Nike, Adidas and Reebok, among other brands. Squeezed by China's rising labour costs in the last 10 years and the nation's labour force that had stopped growing since 2010, "cheap labour" now is long gone notion. Yue Yuen, like many other factories, had moved out of China in search of locations offering cheaper labour, the likes of Vietnam, Indonesia, and Myanmar. Today, Vietnam accounts for about 43% of the giant shoemaker's production, while Indonesia accounts for 34% of total production; only 22% of its shipments were manufactured in China*.

* Source: "China Industrials: Automate or Bust" published by Nomura International (Hong Kong) Limited on 20 August 2015.

High-Tech Workhorses to Storm China's Factories

What's more interesting is that the demise of the "cheap labour" era has also coincided with the advent of an era where there is increasing deployment of robots, or industrial automation, to move manufacturing closer to the end-markets.

You might have heard of Adidas' "Speedfactory" due to open in Germany, which will use robots and single-piece heat technology to manufacture one batch of sport shoes in approximately 5 hours. This compares to the current production period of 18 months from idea to shelf. Likewise, industrial automation is progressively making inroads into China's factories like Yue Yuen. In time to come, with state-of-the-art technologies like 3D-printing, making shoes in other parts of Asia and taking 3 weeks to ship the products will never make sense anymore.

Despite the fact that industrial automation and smart factories are gaining traction in China, robot density in China is still at a very low level (30 units/10,000 workers) compared to Japan (323 units/10,000 workers) and Korea (437 units/10,000 workers)*. This means that there is still a lot of potential for factories in China to jump onto the industrial automation bandwagon, where robots will primarily be deployed for handling, dispensing, welding, assembling and cleanroom functions.

Meanwhile, China's homegrown robotics industry is also burgeoning. While the German robot manufacturer, Kuka, still dominates the welding robots market, Chinese players are fast catching up. At the same time, Automated Guided Vehicles (AGVs) have also started to take off in Chinese logistics centres and fulfilment warehouses, similar to those currently deployed in Amazon's fulfilment centres.

To be sure, industrial automation and robotics are clearly disruptive forces that have changed the way production lines operate and will improve manufacturing processes in a big way in the many years to follow.

* Source: "China Industrials: Automate or Bust" published by Nomura International (Hong Kong) Limited on 20 August 2015.

Disclaimer

Lion Global Investors Limited ("LGI") is a company incorporated in Singapore and a member of the OCBC group.

This publication is for information only. It is not an offer or solicitation for the purchase or sale of any securities/investments and does not have regard to your specific investment objectives, financial situation or particular needs. All applications for units in our funds must be made on application forms accompanying the prospectus. You should read the prospectus and Product Highlights Sheet for details, available and may be obtained from Lion Global Investors Limited ("LGI") or any of its approved distributors, before deciding whether to subscribe for or purchase units of the Fund. Investments in the Fund are not obligations of, deposits in, guaranteed or insured by LGI or any of its affiliates and are subject to investment risks including the possible loss of the principal amount invested. The performance of the funds is not guaranteed and the value of units in Fund and the income accruing to the units, if any, may rise or fall. Past performance, as well as any prediction, projection, or forecast on the economy, securities market, or the economic trends of the markets are not necessarily indicative of the future or likely performance of the funds. Any opinion or estimate provided in the publication is made on a general basis and is not to be relied on by investors as advice. Investors must make their own assessment of the relevance, accuracy, adequacy and reliability of the information provided and make such independent investigations as they may consider necessary or appropriate for the purpose of such assessment. LGI reserves the right to make changes and corrections to its opinions expressed here at any time, without notice. Accordingly, no warranty is given and no liability is accepted for any loss arising directly or indirectly as a result of you acting on any information, opinion, forecast, or estimate contained herein. You may wish to seek advice from a financial adviser before making a commitment to purchase the Fund. In the event that you choose not to seek advice from a financial adviser, you should consider carefully whether the Fund is suitable for you. The Fund may invest in financial derivative instruments such as futures, options, warrants, forwards and swaps for hedging purposes or for the purpose of efficient portfolio management.

LGI, its related companies, their directors and/or employees (collectively known as "Related Persons") may have positions in the products mentioned in this publication. LGI and its Related Persons may be engaged in purchasing or selling the products mentioned in this publication for themselves or their client. LGI does not take into consideration the tax implications of the income earned as the tax position of each person is different. Investors are advised to seek independent tax advice on their personal tax position arising from investing in the fund.

© Lion Global Investors Limited. All rights reserved. LGI is a Singapore incorporated company, and is not related to any corporation or trading entity that is domiciled in Europe or the United States (other than entities owned by its holdings companies).