Mackenzie Investments

Mackenzie Asia Team

Opportunity: Materials

Opportunities in Asia Pacific, Part 4

The Mackenzie Asia Team manages the Asian equity investment sleeve of the Mackenzie Global Small-Mid Cap Fund.

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Opportunities in Asia Pacific, Part 4 of 4

Summary

China has announced an ambitious energy policy to transform the country to net zero carbon emissions by 2060, a huge step forward in meeting global climate change goals.

China's initiative is critical for the world to achieve carbon emission reduction targets and to mitigate climate change. It also creates a number of unique investment opportunities in the Asia Pacific region.

Investment opportunities may include clean energy, electric vehicles (EVs), and certain key material sectors. Apart from solely investing in China, exciting prospects appear to exist across the Asia Pacific region and may provide better risk-adjusted investment returns.

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Across Asia Pacific, there are many sectors and companies which will benefit from this policy change. In some cases, companies outside of China have more competitive advantages than those within China and may act with greater financial discipline. There are leading Asian semiconductor, chemical and automotive companies which may operate with greater focus on financial returns, higher levels of corporate governance and with more shareholder-friendly management teams. In other cases, the winners may be Chinese companies which enjoy home advantage and an ability to achieve greater scale. Overall, we believe a pan-Asian investment approach should allow investors to enjoy higher risk-adjusted returns.

Among a wide range of investment opportunities, this part highlights the following key sector.

Opportunities: Materials

Over the last 200 years, the world has used coal and oil to generate power, facilitating urbanization and motorization. China's decision to reduce its reliance on fossil fuels has profound implications for raw materials.

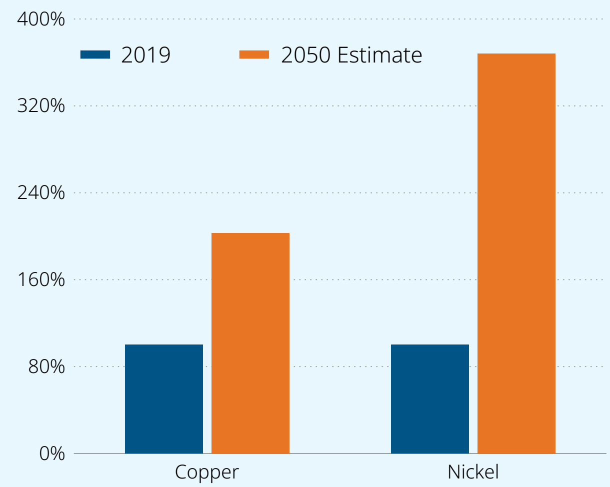
Within materials there will emerge winners and losers under the global energy mix transformation. Obviously, the world will have less demand for coal and oil. On the other hand, a number of materials will see an increase in demand. Renewable energy, such as solar, tends to be less stable than a traditional coal power plant, and hence requires energy storage to smooth demand and production imbalances. The world will need more lithium, a key ingredient for batteries.

Copper has high electricity conductivity. Due to this feature and its availability, copper is widely used in electric wires. China will need to consume more copper for cables and wires when its non-fossil fuel energy mix increases. For example, a typical EV uses 80kg of copper, mainly for wiring in the motor, compared to just 20kg in an ICE vehicle. New grid networks to offtake solar and wind plants' electricity production will also drive demand for copper cabling across China.

Nickel is another commodity which will experience increase in demand. Nickel is one of the key ingredients in high-quality batteries. The more nickel a battery contains, the longer driving range it can achieve. Batteries require high-grade nickel, and supply is limited. We believe there are attractive copper and nickel mining companies in Australia, while Japanese companies excel in technology to smelt battery-grade nickel.

Currently China accounts for approximately half of the global demand for both copper and nickel. If the world is to achieve net zero emissions by 2050, it will need to double copper supply and nearly quadruple nickel supply, according to some estimates (Figure 1). Australian and Japanese companies operating in these fields will likely enjoy increases in both volume and price.

Figure 1 | Potential demand growth for copper and nickel, if the world achieves net zero emission by 2050



Source: Glencore

Conclusion

China's highly ambitious environmental policies will transform the world's second largest economy from the largest detractor in reaching global emission targets to one of the leading contributors.

This transformation will disrupt many industries within China but create some large-scale, globally dominant companies. However, some of the best investment opportunities may well lie outside the country itself. Investing in some of the leading Korean, Japanese, Australian or Taiwanese companies, closely aligned to China's needs to complete this profound transformation, may reduce China's country risk and improve risk-adjusted investment returns.

To learn more about our Mackenzie Asia Team, please contact your financial advisor.

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