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Finding Value Amidst China's AI Boom

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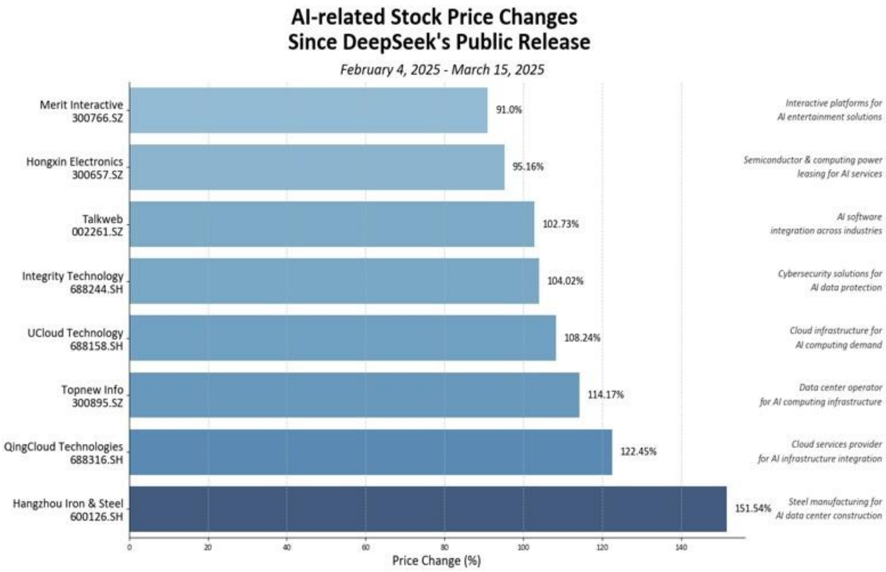
The recent DeepSeek launch has created significant waves across China's tech landscape. Media outlets have been buzzing with coverage, AI-related stocks have surged dramatically, and user traffic to DeepSeek's platform has exploded virtually overnight.

This enthusiasm has quickly translated into tangible business decisions. Industry giants like Alibaba have announced substantial increases in capital expenditure plans, preparing for what they anticipate will be exponential growth in AI capabilities and the infrastructure needed to support them.

For value investors, however, this environment presents a challenge. The widespread enthusiasm has driven up valuations across the AI sector, making it increasingly difficult to identify companies trading at reasonable multiples relative to their intrinsic value. The disconnect between current prices and fundamental business metrics has widened considerably.



AI-related stocks have skyrocketed since DeepSeek's launch, with increases as high as 151.54% in just six weeks. This rapid inflation of valuations underscores the challenge for value investors seeking reasonable entry points.

The question is: Amidst this frenzy, is it still possible to find value stocks in the Chinese AI sector?

There is one stock that seems to fit the bill: China Communication Services (552.HKG). This company stands as the largest provider of telecom infrastructure services, network maintenance services, and facility management services to China's three state-owned telecom giants—China Mobile, China Telecom, and China Unicom and numerous non-telecom customers including government agencies and industrial clients.

With the anticipated infrastructure buildouts such as data centers, CCS' services will be in hot demand. While Alibaba may be the largest player in the IaaS cloud in China, the state-owned carriers together commends a dominant market share over 50% for the entire IDC market. This creates a powerful customer concentration that CCS is uniquely positioned to serve, in addition to a large base of commercial client that all players compete with.

From a financial perspective, the company has maintained consistent margins and slow but steady growth. Perhaps most intriguing to value investors, it currently trades below its cash balance—a rare find in today's market environment.

Curiously, despite its direct exposure to what should be a significant tailwind from AI infrastructure expansion, CCS shares have not experienced the dramatic price appreciation seen across other AI-adjacent stocks.

Why has this potential beneficiary of China's AI boom remained under the radar? Is the market missing something, or is there a reason for this disconnect? As value investors, we find this divergence intriguing and worth continued observation.