ORLOG
CAPITAL

QUARTERLY COMMENTARY

31 March 2026

Manager Update: April 2026
John Qiu, Founder

At the start of this year, we expected volatility to rise, but we never imagined anything as reckless and senseless as the current war with Iran. The U.S. jumped into this conflict with little apparent preparation or strategic thinking, and it has become a macabre clown show with global consequences. However you look at it, the U.S. is not winning. Yet markets are at all time highs even with the Strait of Hormuz still closed. Like Pavlov's dogs conditioned by two years of TACOs, investors are front running a U.S. de-escalation (or government stimulus). Prediction market odds currently stand at roughly 70% for a permanent U.S.-Iran peace deal and an 80% chance that U.S. military operations end before June 30, 2026. But with Trump, anything is possible and the other 20-30% scenario is too grim to contemplate.

Regardless of how this war ends, striking this match in the Middle East is opening Pandora's box. The Iran war has also made it painfully clear to Western allies that U.S. crusades don't always align with their interests or values. In the long run, this will continue pushing international relations away from shared ideology or history and towards mutual self-interests. The BRICS countries stand to gain as U.S. influence wanes.

If there is a silver lining to this tragedy, it's that the Iran war is accelerating the end of the war in Ukraine. Reintegrating Russia is the only practical way to replace lost Middle Eastern petroleum and diversify Europe and Asia's future energy security. Joint international pressure and diplomacy will likely end the Ukraine war on terms favourable to Russia.

China is also emerging as a winner. The RMB stands as the biggest beneficiary of the erosion in the petrodollar system, which still prices roughly 80% of globally traded petroleum (worth about $1 trillion annually). Meanwhile, the burden on Chinese consumers and industry has remained relatively muted due to China's low inflation, self-sufficient low-cost power generation, vast electric public transportation networks, high EV adoption and regulated fuel caps. This gives China a significant relative advantage over other major economies, an edge that will become even more pronounced if the conflict drags on. It's no wonder Chinese bonds have become one of the few safe-haven assets during this war. The 10 year government bond yield has declined below 1.8%, and JD.com recently raised RMB 10 billion in the offshore bond market at just 2.05% for five year notes and 2.75% for ten year notes.

With two more years still left in Trump's presidential term, the roller-coaster ride is far from over. We remain comfortable being fully invested in structurally growing companies with strong competitive moats, acquired at cheap valuations. Even as market volatility spikes and investors run from one extreme to another, our companies will continue to grow their intrinsic value. Eventually, price follows fundamentals.

Fund Update

Our net return for Q1 2025 was -10.6% with weakness concentrated in our top five positions: Alibaba (-17%), Full Truck Alliance (-23%), JD.com (+1%), Sands China (-16%), Wynn Macau (-8%). In general, Chinese internet majors and Macau casinos stocks have struggled this year.

Top five stocks commentary:

- **Alibaba (BABA)**: Group operating profit over the last two quarters fell -70% yoy, largely due to heavy subsidies in food delivery/quick commerce. We view this situation as temporary and believe the peak in the subsidy war has passed with profitability set to mean-revert in coming quarters. Meanwhile, BABA's Cloud Intelligence business continues to grow strongly as China's market leader with over 35% share.

  The valuation remains undemanding at a consensus forward EV/EBITDA of 10x, where margins have yet to recover and the intrinsic value of the Cloud/AI business is hidden (currently contributing only ~10% of Group adj EBITA but potentially worth more than the e-commerce business in five years).

  BABA is a perennial cash cow and a low risk, high reward bet on the AI gold rush.

- **Full Truck Alliance (FTA)**: Despite achieving normalised operating profit growth of +68% in FY25, FTA's stock has fallen on concerns over the imminent wind down of its Freight Brokerage business - a VAT refund service that FTA has long warned could end with changes to provincial government policies.

  However, since 2022, FTA has been shifting its primary monetisation to its Transaction Services business (a commission model similar to ride-hailing) which now accounts for the majority of profitability and growth. Commissions should maintain strong growth driven by fulfilled orders growth and rising monetisation (take-rate still only low single digits).

  The impact of winding down the Freight Brokerage business will look worse than reality because Freight Brokerage uses gross accounting whereas Transaction Services uses net accounting. In FY25, Freight Brokerage contributed roughly one third of revenue but only mid-teens percent of operating profit.

With Freight Brokerage revenue potentially dropping 60% in FY26E, FTA guides for group revenue decline of mid to high single digits. Yet group operating profit is still expected to grow at a mid-teens rate, supported by strong Transaction Services growth. By FY27E, Freight Brokerage will be immaterial and group profit growth should re-accelerate back to the 20-30% range, reflecting underlying Transaction Services growth.

Currently, FTA trades on FY26E low-teens P/E and 6-7x EV/EBITDA, with strong free cashflows (it has virtually no capex) and net cash position equivalent to ~50% of the current market cap.

- **JD.com**: Despite strong operating performance and exceptional capital returns, JD remains deeply undervalued. The stock price has fallen 65% over the past five years even as revenues doubled and operating income quadrupled over the same period.

  JD's decades long investment into its extensive integrated logistics network provides a durable competitive advantage in cost savings, speed and customer satisfaction, while enabling plug & play integration of new retail SKUs and businesses. JD was the initiator of the current food delivery war and has emerged as the biggest relative winner, capturing 10-15% market share despite spending less than both Meituan and Alibaba.

  The stock trades at FY26E P/E of 10x and EV/EBITDA of 6x, even with the operating margin still at only one third of previous levels (FY24 margin, before food delivery subsidies began). We expect the operating margin to mean revert and exceed its FY24 level within the next two years. Net cash represents 50% of the market cap, and we expect JD to continue its strong capital returns.

  JD's valuation makes no sense and is not reflective of business fundamentals. One could make a similar case for other Chinese e-commerce majors, but JD is the only one aggressively returning capital to shareholders – having returned over 100% of earnings via dividends and buybacks over the past two years, an amount equivalent to 20% of its current market cap.

- **Sands China/Wynn Macau**: Macau performed strongly in FY25 with visitations up +15%, gross gaming revenue (GGR) up +9% and 4-5 star hotel occupancy in the high 80s. This momentum continued into Q1 2026, with GGR up +14% and visitations reaching new records.

  Despite this, casino stocks have underperformed due to operating cost pressures and stronger VIP segment growth (which is less profitable than mass market). We view elevated costs as a temporary reaction to the rapid premium mass customer growth and new live events. Margins should recover as the market reaches capacity limits in high-end hotel room availability, which will help ease competition and improve operational leverage.

  Valuations remain undemanding at FY26E EV/EBITDA multiples of 10x for Sands China and 8x for Wynn Macau, both on below normal profitability. Dividends, equivalent to 6-7% yield on current price, should grow quickly as the companies continue to ramp up capital returns.

Portfolio changes

The most significant change to our portfolio has been the accumulation of U.S. petrochemical and refinery stocks, which together now represent our third largest position.

We initially established a small position in several petrochemical companies before the Iran war, when they were still at cyclical lows due to weak U.S. housing and industrial demand, plus supply pressure from Chinese expansions.

The Iran war has disrupted supply more than demand, shifting the balance back in favour of U.S. operators. Their access to cheap, abundant U.S. shale and natural gas positions them ideally to replace lost Middle Eastern production, with a significant relative advantage over European and Asian competitors. Also, any escalation that causes further damage to petroleum processing facilities in the Middle East could take years to rebuild.

We believe refining crack margins and petrochemical product margins are likely to remain elevated for U.S. operators for an extended period - even if a U.S.-Iran deal is finalised soon. As part of this basket, we have repurchased CVR Energy (last discussed in our Q2 2022 report), which is benefiting as light, sweet crude refining margins hit new highs.

Portfolio Overview

ORLOG CAPITAL

Top Five Major Holdings (in alphabetical order)	
Alibaba	E-Commerce
Full Truck Alliance	Logistics
JD.com	E-Commerce
Sands China	Casino
Wynn Macau	Casino

Performance	
Annualised Net Returns in US$[1]	
Since Inception (Jan 3, 2022)	-1.3%
1 Year	-5.8%
Non Annualised Net Returns in US$[1]	
3 months	-10.6%
6 months	-22.6%
Net Returns By Year in US$[1]	
2025	26.2%
2024	-13.0%
2023	-27.8%
2022	33.4%

1. Net of 1.5% annual management fee and 20% performance fee (excess return above 5% hurdle rate and subject to HWM)

Legal Disclosure

There is no guarantee that any investment strategy will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market.

The views and opinions and/or analysis expressed are those of the author or the investment team as of the date of preparation of this material and are subject to change at any time without notice due to market or economic conditions and may not necessarily come to pass. Furthermore, the views will not be updated or otherwise revised to reflect information that subsequently becomes available or circumstances existing, or changes occurring, after the date of publication. The views expressed do not reflect the opinions of all investment personnel at Orlog Capital.

Forecasts and/or estimates provided herein are subject to change and may not actually come to pass. Information regarding expected market returns and market outlooks is based on the research, analysis and opinions of the authors or the investment team. These conclusions are speculative in nature, may not come to pass and are not intended to predict the future performance of any specific strategy or product Orlog Capital offers. Future results may differ significantly depending on factors such as changes in securities or financial markets or general economic conditions.

This material has been prepared on the basis of publicly available information, internally developed data and other third-party sources believed to be reliable. However, no assurances are provided regarding the reliability of such information and Orlog Capital has not sought to independently verify information taken from public and third-party sources.

This material is a general communication, which is not impartial and all information provided has been prepared solely for informational and educational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The information herein has not been based on a consideration of any individual investor circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

This material should not be regarded as a research material or a recommendation.

Orlog Capital has not authorised financial intermediaries to use and to distribute this material and shall not be liable for, and accepts no liability for, the use or misuse of this material by any such financial intermediary.

This material may be translated into other languages. Where such a translation is made this English version remains definitive. If there are any discrepancies between the English version and any version of this material in another language, the English version shall prevail.

This material is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations. This material has been issued by Orlog Capital for use in Hong Kong and shall only be made available to "professional investors" as defined under the Securities and Futures Ordinance of Hong Kong (Cap 571). The contents of this material have not been reviewed nor approved by any regulatory authority including the Securities and Futures Commission in Hong Kong. Accordingly, save where an exemption is available under the relevant law, this material shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong.

Please consider the investment objectives, risks, charges and expenses of the funds carefully before investing. The prospectuses contain this and other information about the funds.