FROM MAO SUIT TO WHITE COLLAR

20/12/2015

Over the few decades since Deng Xiaping announced that “to be rich is glorious”, manufacturing has lifted hundreds of millions of Chinese out of poverty and reshaped the global economy.

We’ve watched China change from a poverty-stricken agricultural society to industrial powerhouse. No longer the Walled Kingdom, it now accounts for more than 14% of global exports.

Today, another Chinese revolution is underway. It’s taking people out of the factories and into service and retail industries and creating a set of investment opportunities that Perpetual has been watching carefully – and buying selectively.

The times they are a changing - again

China is slowly but surely turning from a capital-intensive engine of industrial production into a giant vortex of demand for services and consumer goods. This has big implication for Australian business and Australian investors.

- While resource giants like BHP, Rio Tinto and Fortescue have benefited from China’s industrial boom, the next generation of companies to make it big in China may be service oriented. Australia’s next China boom might see us exporting education, business and financial services to growing Chinese firms in these sectors.
- Today investors in Australian companies wanting to play the China story are limited to commodity stocks. However this gives you exposure to the very part of the Chinese economy where growth is declining.
- For many investors, the best way to play China’s growth is to buy the best Chinese companies in service industries. In the Perpetual Global Share fund we’re playing this macro, historic trend though a range of companies. One of the most interesting is Zhaopin – a NASDAQ listed jobs platform.

Zhaopin – a resume for success?

One of the great benefits of buying into service companies in China is their high growth potential over the long term. These businesses operate in industries where their products currently have very low penetration rates compared to the rest of the world.

Zhaopin is a classic example. Some of the numbers for this business are quite staggering:

- It has the biggest market share in China's job site sector - 30% of unique visitors – and over 100 million registered users.
- It has over $320 million in cash
- It's customers are companies – and Zhaopin has over 300,000 of them
- In the year ended June 30, 2015, over 25 million jobs were posted on the site.

Not just scale

As you can tell from a job listing number that's larger than our population, everything in China has a scale Australians find hard to comprehend. What's more important is Zhaopin's current growth – and the room for further growth. The number of companies using online job boards to find staff is growing at 15% per annum. And last financial year the company grew overall revenue by just under 20%.

From a quality point of view, we like the big cash holding and have met and been impressed by management. Australian online jobs specialist Seek has a significant shareholding and Zhaopin should benefits from Seek's experience in growing online employment classifieds businesses around the world. In yet another indicator of Zhaopin's potential, they only charge around $5 per job ad, which is less than 10% of what Seek charges in Australia.

From production line to personal lines

Zhaopin is just one of a number of service/consumption companies we have invested in. We've also taken positions in companies like insurer China Life and Qihoo 360, a Chinese internet portal best known for an internet security offering used by nearly **half a billion** people.

While we are always driven by the dynamics of individual stocks, we believe China's shift from being the world's workshop, to an economy serving the educational, financial and lifestyle needs of its own 1.4 billion people will doubtless generate more really interesting opportunities over the next few years.