

China-related stocks

Atlantis Capital's Liu Yang bets on top growth sectors of health, media and environment

| BY GOOLA WARDEN |

Liu Yang, chairwoman and chief investment officer of Atlantis Capital Holdings, had an inkling that newly listed **Spackman Entertainment Group (SPEG)** was going to have a strong debut.

"Today is a good day according to the Chinese almanac," Liu tells *The Edge Singapore* on July 22, the day SPEG started trading on Catalist. "There were three auspicious days in July. But one was too early and the other on July 31 is too late," she adds. For the record, SPEG opened at 37.5 cents and is currently at 50 cents. Its IPO price was 26 cents. Atlantis Capital is also an anchor investor in the stock.

But there is more to Liu's stock-picking process than using Chinese astrology and horoscope. She researched all the components of SPEG and knows the individuals working in the business.

SPEG is also from one of three sectors that Liu believes will be the growth engines in China and Asia. "We identify the industry and then single out the company," Liu says. What attracted her to SPEG were two factors: The company's management and the entertainment sector. "I feel that Mr Spackman can really achieve something. That's where my confidence is coming from," she says of Charles Spackman, executive chairman of SPEG.

SPEG owns two production companies, Zip Cinema and Opus Pictures. Eugene Lee who started Zip Cinema sold it into SPEG. She continues to head up and produce movies under the Zip Cinema brand. Lee Tae Hon owns Opus Pictures, which is SPEG's second production company. Tae Hon is also CEO of SPEG. "The two producers Eugene Lee and Tae Hon are pioneers and very successful figures in the Korean movie industry," Liu points out.

SPEG is also the industry leader in South Korea. "Korean movies stand out as the most exciting market compared to other movie industries in the region. So, the potential is significant," Liu says. SPEG says it can produce on average four movies per year for the next four years. "That's a very good stable production pipeline between these two film-makers. The potential is there and the earnings will follow," she adds.

A third factor could be SPEG's big break into the Chinese market. Despite China setting quotas for all foreign movies including Hollywood blockbusters, that target isn't impossible to achieve, suggests Liu. "Korean movies are already very popular in China, speciality TV series are popular in China and Korean movie stars are very popular in China. So, it's just a matter of time," Liu says confidently. She is also thinking of getting SPEG to produce shows in China. "My style is not only investing dollars but investing in effort and value add."

With 20,000 screens, China is the second largest movie market in the world after the US. Liu has invested in Chinese TV and movie production companies such as Zhejiang Huace Film & TV, one of China's biggest production studios; Huayi Brothers, a Chinese TV and film studio backed by Jack Ma, founder of **Alibaba**; and Beijing Enlight, a TV production and distribution company. "I can put them in contact to explore whether there are co-producing opportunities, or whether Korean movies can be sold into the Chinese market," she suggests.



Liu: Every country has good banks and bad banks, good bankers and bad bankers

Three growth sectors

By Atlantis Capital's standards, SPEG is a relatively small company. At IPO, its market cap was only \$101 million, although it is currently valued at \$191 million. "It's very tiny, but I own almost 5% of the company. Once I have a strong conviction about a company, I take a big bet. That's my investment style," she says.

Atlantis Capital's funds are long only and generally have a buy and hold strategy for conviction buys. The funds invest predominantly in China-related companies in Taiwan, Macau, Hong Kong, Singapore and the Mainland itself.

Atlantis Capital has been in Singapore for seven years and manages the Asia ex-Japan Growth Fund. "If you look at **Biosensors International**, Atlantis is one of the significant shareholders. It's in the medical device-related business. We have been investing in that for four years," Liu says.

Biosensors is in one of the three sectors Liu is particularly positive about, and she has been overweighting these sectors over the past three years. They are healthcare; telecommunications, media technology (TMT)/Internet including culture and movies; and environment protection and clean energy, in that order. Environment protection is a big theme in China, especially for clean air, says Liu. "The central government is using this to boost growth."

Together, the three sectors account for 50%

of Atlantis Capital's portfolio, with healthcare making up 20% of its total portfolio. Biosensors fits the bill because it is in healthcare, and SPEG is an entertainment company. The latter is also what Liu describes as a "P-chip" — a privately-owned enterprise or POE.

Prior to her 20-year stint as chairwoman and chief investment officer of Atlantis, Liu spent five years at CITIC Group in Beijing following her graduation from the Central University of Finance and Economics. "My father was an economist, and I graduated from the top school in China that produces government officials in the banking industry. My school produced hundreds of commercial bankers all over China. I've also worked for China's largest financial conglomerate, which owned two banks," she says.

Liu however acknowledges that Atlantis Capital's investors are not keen on banks. "My investors don't have confidence in Chinese banks, so I thought I should find investments they can understand and appreciate — healthcare, TMT/internet, environmental protection and clean energy. I told them I can identify the future winners in these industries. They have government-policy support, they are domestic consumption driven, and the industry itself is organically more exciting."

Presently, banks and properties are undergoing a policy-induced slowdown. "The negative

sentiment surrounding the financials and the property crackdown is related to shadow banking and investors got nervous," Liu concedes.

Still, financials are extremely cheap and banks have a few factors going for them. For one, China's economy is not likely to experience a hard landing. Secondly, Chinese banks are the cheapest they have been in a decade. Liu ascribes an average price-to-book (PB) ratio of just 0.8 times for the banks, and single-digit earnings multiples of five to eight times. "The Chinese banks' PEs [price-earnings ratio] are equivalent to the Indian banks' PBs. How much cheaper can they get?"

Different strategy

Although non-performing loans are a concern, the current reforms put in place should provide China's banks with better earnings eventually. "The new leaders have a different strategy in implementing the financial reforms. This will be the trigger for the rating of Chinese banks," Liu figures. In her view, the reforms, coupled with the valuation and the view that Chinese banks are under-owned, should lead to a recovery.

As for detractors who are expecting a financial meltdown in China because of shadow banking and local government debt, Liu believes this is unlikely. "The 1.3 billion population keep their cash in Chinese banks. That is US\$3 trillion [\$3.74 trillion] of household deposits, the largest deposit base in the world. Chinese reserves are also the highest in the world. Household deposits plus Chinese reserves are huge," she points out.

Besides, Chinese banks do not need to be bailed out as US banks did during the Global Financial Crisis. "Our banks are owned by the government so they've no need to be rescued. They just need to have higher [net interest] margins, be more commercialised. Every country has good banks and bad banks, good bankers and bad bankers," Liu says.

Atlantis Capital has also steered clear of real estate investment trusts. "So far, my mandate wants me to invest in high risk, high returns; REITs are low risk, low returns," Liu says. But her funds do own value companies in Hong Kong such as utility companies, which are long-term investments. "I'm holding them for 10 years, they give very good dividends."

Liu, who has been based in Hong Kong since 2001 following a spell in Australia, will be celebrating Atlantis Capital's 20th anniversary in Beijing in August. "We will have a big celebration party in Beijing and 100 companies are coming to celebrate," she says.

Often dubbed as China's Warren Buffet, Liu has been chosen as one of the 25 most influential women in asset management by *AsianInvestor*. Last year, she was voted as one of the 50 most powerful women in business by *Fortune* magazine. *The Times* has also identified her as one of the 10 Chinese business people who could become household names within a decade.

"I don't know where I will be 20 years from now but Atlantis will be there for sure. Twenty years is not short but not long in the fund management industry. There are many great companies from the US with a 50-year or 100-year history like Fidelity, KKR, the Capital Group and Warren Buffett," says Liu, perhaps with some helpful divination from the Chinese almanac. ■