

A BA money manager with a big ego and impressive track record plans to launch a mutual fund for U.S. investors. Why, she says, they'd be smart to jump in.

A Bull in the China Shop

by Leslie P. Norton



"This coming 10 years is the golden age. You must own China."

Yang Liu

Some Liu Favorites

Issues she views as inexpensive, given their prospects.:

Company/Ticker

China Rongsheng Heavy Industries / 1101.HongKong

Sany Heavy Industry / 600031.China

China National Building Materials / 3323.HongKong

Renhe Commercial Holdings / 1387.HongKong

Shandong Weigao / 1066.HongKong

IF YOU'RE A FAN OF ASIAN BUSINESS TV, YOU'RE SURELY FAMILIAR with a figure with memorably frizzy hair and an intense, voluble manner: Yang Liu, commenting on China's bull market, last year's decline, current market prospects or just about any favorite topic, including herself.

Liu achieved notoriety some 10 years ago when the South China Morning Post dubbed her "the Warren Buffett of China." In fact, over the past decade, Liu arguably has out-Buffered the Oracle of Omaha, although her stocks are much smaller than the blue chips he favors. Liu's take: "I'm 45 years old, he's 80. My compounded annual gross return is 30% a year. His isn't. My returns are seven times over the past 15 years. Is that a miracle? It is."

As one rival fund manager, perhaps admiringly, puts it: She's over the top.

Beijing-born Liu, daughter of a renowned economist, plies her trade in Hong Kong, overseeing Atlantis China. An over \$4 billion hedge fund, open to locals, it ranges over Greater China, including the Mainland, Hong Kong, Taiwan and Macau. "In 2001," she recalls, "I said China would become its own independent asset class. Everyone thought I was making jokes." Now, China funds are common.

She thinks that China's stock market, which has rebounded after slumping last year, and is now wobbling slightly, will pause for a few months and then surge anew, driven by growth and earnings. "This coming 10 years is the golden age," says Liu. "You must own China." If you believe her and you're a huge investor, you're in luck: Liu soon plans to register a mutual fund in the U.S.

Whether you accept her premise depends on two things: First, that you trust that Beijing has a handle on inflation. And second, that China's government, which has produced strong growth by fiat for two decades, can keep doing it without creating overcapacity. The country's next five-year plan stresses growth led by consumption.

Liu concedes that the war on inflation is continuing in China, which has hiked official interest rates four times and boosted reserve requirements for banks 10 times since January 2010. But she argues that the mandarins will succeed in winning the inflation war and producing growth. Her case for Chinese stocks is built on their current cheap valuations at a time investors are awash in cash, the inevitable appreciation of China's currency and the allure of companies she thinks will become China's blue chips.

Despite its recent rally, China trades at 16 times earnings—a discount to the S&P 500, to non-Japan Asia and to its own history. Chinese shares also are well below their 2007 high. At the same time, she says, China's currency "is rising very quietly and naturally, without outside pressure," in response to growth prospects and a tight credit regime. Liu predicts the renminbi will climb at least 20% against the greenback over the next five years. That puts

Hong Kong, the center of offshore renminbi trade, in a powerful position. It's become the world's biggest IPO market and is likely to remain so, as companies issue renminbi-denominated shares to tap Chinese capital. "Renminbi- and Hong Kong-dollar-denominated assets will fly," predicts Liu, who recommends buying **iShares MSCI Hong Kong Index Fund** (ticker: EWH).

Liu is focusing on stocks that can capitalize on the Chinese government's plan to encourage domestic demand. She trades heavily and takes big positions in small companies that she hopes will grow much bigger. One of her goals: to find "something extraordinary," that eventually will be included in a benchmark Chinese index. Some 60% of the Atlantis China portfolio is in 20 companies.

One of her favorites is **Sany Heavy Industry** (600031.China), which she calls "China's Caterpillar." China's largest listed machinery manufacturer for construction, excavation, mining, and cement manufacturing, it also makes wind turbines. Sany is expanding abroad, but Liu thinks much of its potential is in China. Traded on the Mainland, it plans to issue Hong Kong shares.

Liu also likes **China Rongsheng Heavy Industries Group** (1101.Hong Kong), China's No. 1 shipbuilder, which came public last year; Atlantis was one of its largest investors at the initial public offering, along with CNOOC (CEO) and **China Life Insurance** (LFC). Atlantis also will have a sizable stake in **Yuanda China Holdings**, when it comes public in Hong Kong; Yuanda makes non-structural outer walls, metal roofs, and skylights.

One company likely to benefit from Beijing's increased spending on health care is **Shandong Weigao** (1066.Hong-Kong), China's largest medical-device maker. It has a joint venture with **Medtronic** (MDT) and, Liu contends, will "deliver double the growth of Chinese GDP over the next two to three years."

One controversial choice is shopping-mall operator **Renhe Commercial Holdings** (1387.Hong Kong), a target of short sellers this year on expectations that it would take on lots of debt to expand. Liu thinks it's worth a flyer. During the financial crisis, she says, Renhe paid out 40% of earnings in dividends. Meanwhile, she exclaims, "It's trading at six times earnings!"

Another pick not for the faint of heart is **China National Building Materials** (3323.Hong Kong), a major exporter to the U.S. The stock rose nearly 50% in March, and earnings are growing at a 30% clip. "This is one you must own for at least two to three years," says Liu. Caveat: The company is a defendant in U.S. court cases involving the toxic China-produced drywall that has made thousands of homes uninhabitable. Its fans point out, however, that it's diversified into other materials and components, including solar glass and fiberglass. ■