

## **A Chinese growth opportunity on the ASX**



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On the eve of Australia's free trade agreement with China, a small but unique public issue has caught my attention because it signals a possible new dimension in the relationship between Australia and China.

Many highly profitable Chinese family enterprises have a problem. If their business has been based on property investment, or involves large property holdings, then there is usually bank loan money available to help develop the enterprise.

But if the business is not property based then it is hard to get loan capital, except at very high rates of interest. On too many occasions lenders have been burned by family income reshuffles that leave lenders out in the cold - the lenders want the security of property or sometimes copper.

However, the banks will lend to a listed enterprise because these enterprises are required to undergo governance tests and have an independent board.

So many non-property Chinese family businesses are looking seriously at listing, even though their affairs then come under public scrutiny. The most obvious stock exchanges for Chinese families to list on are Hong Kong and Singapore, but both exchanges require that at least 25 per cent of the capital be in public hands.

But in Australia the requirement is much less. And so the Zhan family of Guangdong Province, who built up a petroleum products wholesale business that in the year ended December 31, 2013, had revenue of \$849 million and profits of \$29.8m, has decided to list its Chinese business in Australia. At June 30, 2014, the family business had net cash of \$91m and operated an extensive network of storage and distribution facilities in Guangdong and Shandong provinces.

The Zhan family company, called Premiere Eastern Energy, will issue a minimum of 15 million shares in Australia at 20 cents a share, raising \$3m, which would give Australians a 6.3 per cent interest. But there is provision for over-subscriptions to take the issue up to 75 million shares, raising \$15m, which would give Australians a 12.1 per cent stake.

The shares are priced at 6.5 times Premiere's 2013 earnings based on the maximum subscription. Premiere Eastern Energy will use the equity raised in Australia, plus its cash and new ability to borrow, to set up a string of retail outlets in Guangdong and Shandong.

Most petroleum retailing is currently conducted by the giant state-owned enterprise Sinopec. The central government wants much greater private sector participation in the retail sector, which is chronically underserved given the large numbers of cars in China and the extensive road network.

The Zhan family believe this is a growth opportunity. The retail sites will include food outlets and they plan to become a Chinese version of Australia's Caltex.

If Premiere Eastern Energy succeeds there will be many more Chinese families looking to follow. The Australian on the board of the Zhan family public company is David Wheeler of Perth, where the company is to have its Australian base

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