

SOHN Investment Conference: Cooper Investors' Qiao Ma backs China's biggest sportswear maker

By **DAVID ROGERS**, MARKETS EDITOR

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Cooper Investors Asian Equities portfolio manager Qiao Ma has backed the world's largest sportswear maker, China based Shenzhou International, for her Sohn Hearts & Minds stock pick.

Shenzhou has a market capitalisation of over \$US25bn (\$34.6bn), and generates revenue of more than \$US3.5bn per year, but it's a tough business considering the challenges from automation, globalization, the US-China trade war and pressure to improve worker's rights.

"No wonder even the great Warren Buffett couldn't make it work," Ms Ma says.

"Yet Shenzhou has been a thirty-year success."

Key to that is the focus of CEO, Jianrong Ma.

"Contrary to the popular belief that you need to have a very diverse set of customers, 85 per cent of Shenzhou's revenue comes from just four customers – Nike, Adidas, Uniqlo and Puma – and Shenzhou focuses on servicing these customers really well," Ms Ma says.

Shenzhou's commitment to excellence quality has long been part of its success story, but Ms Ma explains that her namesakes' understanding that automation is the future of manufacturing is key.

"I'm confident that if it's one company that's going to come up with that great machine, that great automated process, that company is going to be Shenzhou," she says.

"First Shenzhou invests way ahead of its competitors in research and development, second, Shenzhou's technology doesn't live in a lab – it's been battle tested alongside some of the world's most creative companies, who happen to be Shenzhou's core customers."

“When Nike came up with the highly innovative, breathable fabric called flyknit, for example ... Shenzhou was the only supplier that could make this fabric in scale.

“As a result, 70 per cent of all the world’s flyknit shirts were made by Shenzhou.”

Another example of Shenzhou’s foresight was the diversification of its production base from China five years before its competitors started talking about trade wars and geopolitical risks.

“So he quietly but quickly set up production bases in Vietnam and Cambodia and not only did he build up these factories, he had the foresight of making them fully-vertically integrated, independent factories that don’t depend on Chinese fabric to produce,” Ms Ma explains.

“When geopolitical risk started running high in the industry, Shenzhou was the only company in the envious position of having the flexibility of choosing which production base to send to which end market. So it doesn’t matter what happens between the US and China, or the EU and Cambodia, Shenzhou always has a way to ensure that its product gets to its market and customers.”

But another key to Shenzhou’s success is its culture of empathy.

“Compassion and empathy are some of the cultural characteristics that we love seeing with all our portfolio companies at Cooper Investors,” Ms Ma says.

“But Shenzhou really stands out because of the authenticity of this particular cultures, because it comes out of the founder himself. When you start working at a textile factory at the age of 13, alongside all the other workers, you really understand their lives and their pain points.”

For example, the company has, for 15 years provided free transport to its workers to return to often distant provinces and villages for Chinese New Year to see their ageing parents and young children.

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David Rogers began writing on financial markets in 1987, having worked for Standard & Poor's, Thomson Financial, BridgeNews, Dow Jones Newswires, Tolhurst Noall and The Wall Street Journal. David has extensive ... [Read more](#)

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