

## Short seller accuses Seek's Zhaopin of fake job posts

Vesna Poljak and Jonathan Shapiro

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US activist short seller Blue Orca has taken on ASX-listed online jobs portal Seek, claiming Seek's business in China, Zhaopin, is full of junk employment listings to maintain the illusion of user growth, and its valuation is vastly inflated.

Shares in the business fell as much as 10.76 per cent on Thursday and were trading at \$21.51, down 5.9 per cent, before being halted pending a formal reply due no later than Monday morning. Blue Orca reckons Seek is worth only \$7.20 a share.

Seek responded: "Given that the strategies of short-seller opinion writers such as Blue Orca Capital are generally to generate publicity by drawing companies into a public debate, Seek's preferred response is simply to confirm that it continues to meet its continuous disclosure obligations and is confident of its long-term outlook.

"While we do not believe reports of this nature warrant a response, the ASX has asked for one."

[Blue Orca was founded by Soren Aandahl](#), who successfully executed activist shorts [against Quintis](#) and [Blue Sky Alternative Investments](#) as part of the disbanded activist house Glaucus Research. It has been more than two years since he has taken on a company in the Australian market.

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Seek is run and co-founded by [Andrew Bassat](#). It owns 61.1 per cent of Zhaopin,

which used to be listed on the NYSE.

Zhaopin has been a leading source of Seek's performance and underpins its ASX valuation, Blue Orca asserts, thanks to its tremendous growth. But it claims that Zhaopin is no longer the Chinese market leader, and pays users to flood the platform with "zombie" resumes.

"This is priced as a growth platform but there's no growth," Mr Aandahl said. "We'll give Seek the benefit of the doubt and give them a multiple of 20-X, but if they think that's the comparison, then on that basis alone it should trade far lower.

"Where it's all gone wrong with Seek is it's a really high levered roll-up."



Blue Orca Capital founder Soren Aandahl's newest target is Seek. **AFR**

A frequent comparison, the Nasdaq-listed Chinese jobs classifieds site 51job, is being privatised at 20.5 times enterprise value to EBITDA. Seek's equivalent would be 47 times if its earnings were reported at a level the short seller believes is a fairer comparison based on their respective accounting treatments.

Blue Orca also claims that Seek is reliant upon capital markets to fund acquisitions, and the true nature of its leverage is much higher than 3.2 times net debt to reported EBITDA.

"Rather than valuing Seek as a fast-growing online recruiting platform, we value Seek for what it is – a slow or no-growth platform whose core business is shrinking and which carries a dangerous amount of debt," the research concludes.

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Seek is among the top 30 most shorted stocks with 5.23 per cent of the register loaned out, according to Shortman data.

Seek's annual general meeting is scheduled for November 19, when it will deliver a trading update.

Rather than guidance, its annual results presented an illustrative scenario for 2020-21, based on several assumptions, to arrive at a conditional forecast for revenue of \$1.47 billion, EBITDA of \$330 million and reported net profit of \$20 million.

Seek last month acknowledged speculation related to corporate activity involving Zhaopin. Alibaba apparently planned to invest hundreds of millions of dollars in Zhaopin, according to a report by *The Information* on September 15.





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Zhaopin recorded revenue in 2019-20 of \$749.6 million, up 16 per cent, and EBITDA of \$123.7 million, up 25 per cent. Total Seek group revenue was \$1.577 billion and net debt was \$900.6 million at June 30, derived from borrowings of \$1.948 billion, cash of \$604.8 million and funds on deposit of \$442.8 million.

Blue Orca estimates net debt to EBITDA is more accurately 4.8 times. That's mainly a factor of it believing EBITDA should be adjusted to \$259 million, not \$415 million. Financial 2020 EBITDA was \$414.9 million in the company's accounts.

The difference between that and Blue Orca's assessment lies with the tendency to capitalise development costs (a \$107 million earnings swing) and deducting minority interests in Zhaopin (worth \$48 million).

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To get to the aforementioned 4.8 times net debt to EBITDA, a net debt figure of \$1.25 billion is used.

Capitalising software is a judgment within Seek's purview, but while it might be acceptable, it is different to the treatment applied 51job, which also competes in the Chinese employment market. And Blue Orca says that when Zhaopin was listed in its own right, it would expense software costs, not capitalise them.

In other words, rather than expense the costs in the year they were actually incurred, Seek amortises the costs over three to five years. Were the opposite true, Seek's 2020 EBITDA would be lower than what it earned in 2016. This is why Mr Aandahl argues the Australian market is wrong to ascribe it a growth premium.

Blue Orca refers to the Australian arm as "flat growth".

The Chinese business reported 818,000 unique hirers, down 13 per cent; 218 million registered candidate users, up 18 per cent; and 139 million completed resumes, up 13 per cent in 2019-20.

Blue Orca sampled Zhaopin advertisers as part of its research, and upon contacting them found the employer was wound up, uncontactable, refused to engage or disputed their active listing.

"Companies we called about their job postings on the website even stated directly that the posts were fraudulent. Our due diligence also uncovered a whistleblower claim by a Chinese college student alleging that Zhaopin pays people to submit fake resumes," the report said.

Seek was contacted for comment.

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