



Cambodia's rocky road to stock market launch

By Guy De Launey BBC News, Phnom Penh
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Share prices will be quoted in riels, trades may be settled in dollars

As anyone who has ever travelled by road in Cambodia will confirm, the way can be long, bumpy and punctuated by unexpected hazards.

It could be a collapsed bridge, wandering cattle or a bunch of disgruntled farmers causing the blockage.

So, perhaps it is only fitting that the road to the launch of the Cambodian Securities Exchange has been anything but smooth.

A succession of putative launch dates has whizzed by over the past few years.

Each time, the authorities conceded that their ambition to set up a stock market was not matched by the readiness of companies to list or the availability of essential personnel to make the trades.

Then in late 2010, just as momentum was building again, the exchange had its collapsed bridge moment.

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It is not just a bunch of Cambodians making it up as they go along”

Morten Kvammen Cambodia Capital

The South Korean developer of the site of the new stock market was dragged into the Busan Bank corruption scandal. That brought construction work to an abrupt halt - and the exchange suddenly found itself homeless.

This was a stroke of luck for the owners of Cambodia's tallest building, the Canadia Bank tower, who had been struggling to find tenants willing to make the move from their homely offices in low-rise villas.

The exchange secured space in the tower and the government declared it would launch "at all costs" in July.

As it turns out, this means opening a stock market without any companies actually being listed or having shares available to trade. A number have expressed their intention to float, but that will be, at the very least, several months away.

Dry run

In other ways, the exchange is ready to go. In a happier example of a South Korean connection, the government brought in the Korea Exchange as a joint-venture partner, providing the much-needed expertise and training.

And more than a dozen securities firms are licensed to make trades - including companies from Japan, Malaysia and Taiwan, as well as local concerns.

"In Laos, they did exactly the same thing," says Morten Kvammen, managing partner of one of the licensed securities firms, Cambodia Capital.

"They had an opening in November 2010 and started trading in early 2011. We expect trading here to take place towards the end of the year."



Cambodia's exchange rate barely alters

Mr Kvammen says the months before then will not be wasted. There will be an opportunity for the exchange, brokers and banks to make sure their IT systems are compatible. Any problems should become apparent with mock trades, rather than the real thing.

Companies will use the time to prepare marketing material for potential investors and make sure they meet the regulatory requirements of the exchange.

Mr Kvammen says that that while the process has taken longer than expected, the essential pieces are now in place.

"They are bringing in their experts from Korea, who have been running the same platform for years. We brokers are also bringing in experts and training people. It is not just a bunch of Cambodians making it up as they go along."

Several state-owned companies are planning to list, including the Phnom Penh Water Authority, which has won international awards for the cleanliness of its supply.

Priced right?

Among the privately held companies moving towards a listing are the Royal Group - which has interests in telecoms and banking - and the country's largest retail bank, Acleda. It began as a micro-finance operation, but now has branches in virtually every dusty, provincial town in Cambodia.

Morten Kvammen's enthusiasm for Acleda - "a half-billion-dollar capitalisation" - is shared by Scott Lewis, the managing partner of Leopard Capital, which has made a pre-IPO investment in the bank. But he warns that Cambodian companies of the same quality are thin on the ground.



Acleda has branches all over the country

"The potential risk is that it is too early," he says. "There are some good big companies here, but not more than you can count on two hands."

"It is like Eastern Europe - will all the stocks of any size migrate to bigger exchanges? You get one chance to get people's interest and if it doesn't go well, it is hard to recover."

Another question is whether the exchange's decision to price stocks in Cambodian riel, rather than US dollars, will backfire.

It is an attempt by the authorities to bolster the local currency. But it may make the exchange a less attractive proposition to international investors.

Allowing trades to be settled in dollars for the first three years of the exchange's operation may alleviate investor anxiety. And so may the widespread dollarisation of the Cambodian economy, with about four-fifths of transactions made in the US currency.

A street-side currency exchange worker at Phnom Penh's Old Market shrugged when told of the plans to list stocks in riel.

"Dollars, riel - it is all the same to me," she said, pointing to the exchange rate, which has barely shifted for more than a decade.

If the exchange is to be a success, international investors will have to be persuaded to feel the same way.