



Capitalizing on Cambodia



Notes from Mark Mobius, February, 29 2012

My recent visit to the enchanting Cambodia can only be described as exciting.

This charming kingdom is home to the Angkor Wat, one of the most important archaeological sites in South-East Asia. The temple contains the magnificent remains of the different capitals of the Khmer Empire, from the 9th to the 15th centuries and is a UNESCO World Heritage Site.¹

The airport at Siem Reap is an international entry point because of the many tourists visiting. The terminal was very tastefully decorated with Khmer statues and decorations, but travelers may appreciate the quick customs and immigration formalities even more –something which is becoming rare around the world.

Cambodia has a land area of 181,040 square kilometers, about the size of the U.S. state of Missouri², and it sits in the southwestern part of the Indochina peninsula, consisting of Vietnam, Thailand and Laos. This location brings a lot of opportunity for cross-trade among those countries; the potential for investment opportunity certainly appears to be there.

One thing that is clear from my visit is that Cambodia has been making strides into the capital market arena. The government has been encouraging foreign and local investment.

Eventually, the local capital market should follow suit. The Cambodia Securities Exchange opened last year, making it one of the last Southeast Asian nations to open a stock exchange. Neighboring Laos opened its bourse in January 2011 and Vietnam's exchange has been operating since 2000.³ Though the Cambodian exchange has no stocks listed as I write this, the plan is to have state-owned companies— in utilities, telecoms and ports—to be listed.

There are a few sectors in Cambodia I'm watching with particular interest. There has been substantial investment in railroads— Cambodia is part of the southeast railroad project to link the south of China to Singapore— so transportation has been interesting.

Cambodia's tourism industry has benefited from, for instance, the magnetic lure of the Angkor Wat, which has been a boon for the airports and hotels. The hotels there are generally up to international standards and maintain the general milieu of the Angkor site. As Cambodia was part of the French Indochina, the French influence is evident in the hotels and restaurants providing many nice lodging choices.

While we can't get direct access to Cambodian companies just yet, Cambodian companies listed in overseas markets do present opportunities to get early exposure to its prospects.

The demand globally for emerging markets companies usually centers on those areas that are more liquid and larger because many of the larger institutional investors require larger companies and more liquidity. So if a country can list its state-owned enterprises and list enough stocks so that foreign investors can get involved, then we believe it can be good for all stakeholders.

For potential investors, it is important there be sufficient liquidity in the market so that investors can freely buy and sell shares on the market. Most important is the need for strong monitoring of corporate governance standards to ensure investors are treated fairly.

It's not just the launch of the stock exchange generating a buzz in the country; Cambodia is one of the fastest developing economies in Southeast Asia and the Asian Development Bank expects Cambodia to post GDP growth in 2011 which is likely to be the second highest in Southeast Asia.⁴ GDP growth in 2010 was also an encouraging measure at 6.3% versus 0.1% in 2009⁴. Cambodia's inflation has moderated to a single digit number indicating inflation is not a large concern to us.

I left Cambodia feeling that the country is moving towards a more dynamic and influential position in the Southeast Asia economy. It will be interesting to watch the situation there unfold as we continue to look for opportunities to invest in companies with exposure to Cambodia.