

Bloomberg

Coming Soon: A Cambodian Stock Exchange

Despite corruption and poverty, the Southeast Asian nation is teaming with Korea Exchange to launch a bourse in 2009. Believers are lining up



by [Susan Postlewaite](#), October 25, 2007

As Asian markets surge ahead, tiny Cambodia—short on credit but big on ambition—is rushing to join the crowd. The country has been moving full speed ahead since Sept. 6, when it announced an agreement with the Korea Exchange to launch a Cambodian stock exchange by 2009—and a handful of the country's biggest corporate players are lining up to get in first.

Even as the stock exchange backers passed their first hurdle—a securities law slid through Parliament days after the kickoff—some people wonder how a stock market would operate in this corner of Southeast Asia where luxury villas and country plantations of corrupt government officials dot impoverished cities and former jungle landscapes.

Even the World Bank lost its temper with Cambodia last year, temporarily suspending several of its projects and demanding repayment of money wasted on bribes. It has since resumed work. Another reminder of the corruption problem arrived in late September, when Transparency International's yearly rankings of the most corrupt countries listed Cambodia No. 162 out of 180 countries. Of course, Laos ranked even lower, and Laos is planning a stock market, too. It also has a deal with the Korea Exchange—announced Sept. 19—to open a bourse in 2010. State-run companies will be listed.

Workshops and Training in Place

The believers are pushing ahead. In-Pyo Lee, the Korea Exchange project director who has been working since June in Cambodia's Economy & Finance Ministry, says that although almost everything relating to a stock exchange is yet to be done, the market will launch on time. Prime Minister Hun Sen is a big supporter, too. In announcing the securities market last month, he called it the "lifblood of a capitalist economy."

Plans are under way to set up an SEC-like commission to establish disclosure and capitalization guidelines; future staff have gone to Seoul for training; and workshops for private companies that might list are under way. "I am sure they will be ready," Lee says. There are even plans to offer investment seminars to Cambodians.

In the past few years, Cambodia—no longer war-racked, its temples and beaches the sites of mass tourism, and with a potential multibillion-dollar oil project under exploration off its south coast—has been revving up its economy. Standard & Poor's gave Cambodia its first-ever sovereign debt rating in May. And although the nation certainly has many problems—per capita income is no more than \$290, 40% of Cambodians live below the poverty line, and the country relies on international donors—economic growth hit 10.75% last year on top of 13.5% the year before, and is expected to be about 9.5% for 2007.

Limited Amounts for Lending

Growth has slowed as a result of heavy competition with Vietnam in the garment industry. And agriculture is still heavily dependent on the rains. But the boom is real enough in tourism, construction, and services, and there has been steady growth since 2000. In Phnom Penh, Cambodians are becoming successful entrepreneurs, and, like businesspeople everywhere, they are hungry for capital that the banks—small themselves—can't or won't provide. With commercial lending rates at 10% to 18% per year, access to capital is often an impossibility. Leading lender Aceda Bank, for example, cannot make a loan over \$9.6 million.

"The banks only allow us to borrow a limited amount of money at a high interest rate," says Sok Kong, chairman of the private Sokimex Group, which he started in 1991 as an oil and gas distributor and which now includes the growing luxury Sokha Hotels chain, with four hotels. Sok Kong hopes to list Sokimex on the new stock exchange. What would he do with the capital? Build more rooms for the tourists flocking to the Kingdom's beaches and temples.

Likewise, In Channy, the president and chief executive officer of Aceda Bank—Cambodia's leading microfinance lender, which started as an NGO making micro loans to little entrepreneurs such as fish peddlers—sees the stock market as a chance to raise money to expand his bank's activities to many more villages. "We want to list on the market so we can grow and grow. We need to raise capital. Investors need to be able to invest, and then to exit," he says.

It's not clear, though, that Cambodia is ready for a stock exchange. Even a booster like In Channey is skeptical about how many companies will open their books to investor scrutiny. "Disclosure in Cambodia is hard. How much tax did you pay, did you pay regularly, do you have that tax liability?" Those are questions some companies don't want to answer, he says.

Some Companies Will Wait and See

Sok Kong, at Sokimex, says a five-year audit requirement for listing is a real challenge for many. He is now hiring an international auditor to help Sokimex prepare. But other big-name companies aren't jumping in. "I have to wait and see other companies first," says KT Pacific Group's Kong Triv, adding, "It requires a clear audit." His company has holdings in food, construction, banking, and more. Royal Group Chairman Kith Meng, the chairman of the Cambodia Chamber of Commerce and head of a wealthy conglomerate with holdings

including the landmark riverfront Cambodiana Hotel and large stakes in TV, mobiles, banks, and more, also will wait.

It is easy to compare Cambodia's stage of development to Vietnam's a decade ago, when Vietnam launched a stock market. Lee, the project director working in Cambodia for the KRS, pictures 5 to 10 Cambodian companies listing shares initially. That is what happened in Vietnam, where the market did little for several years, then doubled in the past year, adding new listings. The KRX helped Vietnam launch. Now, "it's like a gambling market there," he says.

Some Controversial Requirements

What does the Korea Exchange get out of all this? Besides a stake in the Cambodian and Laos exchanges, the presence in Southeast Asia will help the KRX become a more global operator. So far, the KRX has only one international listing, a Chinese company, although its operating system is being used in Malaysia. In the future, the Koreans hope to add more companies from around the region, says Lee. Getting Southeast Asian countries to privatize and list their profitable utilities is of particular interest.

For Cambodia, "economic transparency is the most important thing," warns Lee. "If they don't want to disclose these things, they will not be listed." The capital requirements also may be controversial. If only big companies can list, the access-to-credit argument will be defeated; if they are set too low, the risk will be greater for investors because marginal companies may get in.

Nevertheless, citing the current flurry of activity in the "Camex," another banker—Union Commercial Bank Chief Executive Yum Sui Sang, who dreams of tapping the market to make his bank more aggressive in the competitive new world of Cambodia banking—insists that all will be fine. "The set date is sooner than I expected, but it shows how keen the government is," he says. He reasons that there is a shortage of cash-rich companies in Cambodia. "That is a driving factor. Those companies that list will have a better name socially. And sooner or later, Cambodia will be free of corruption." It may not be sooner, but if Vietnam is an example, many more people will be watching for it.