

Kingdom's bourse missing some magic



June 24, 2013

Reposted from [Phnom Penh Post](#)

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At the headquarters of the Cambodia Securities Exchange on the 25th floor of Canadia Tower, something seems to be missing.

Here, in Phnom Penh's business heart, the sights typically associated with trading shares – gesticulating, shouting traders, the confusing hand signals, the buzz in the air as thoughts of money blanket the room – are nonexistent.

At the end of a hallway, a small sign reads Trading Room. Inside, unmanned computers stand on desks in a neat row. The trading room is empty. Two big screens hanging on the wall are switched off.

It's a Thursday. The market has been open for about two hours.

Nearly two years after Cambodia's landmark bourse launched in July 2011, the heady enthusiasm of the early days is competing with disillusion. Only one company is listed: the state-owned Phnom Penh Water Supply Authority. And, after an initial spike, its shares have plummeted back to its listing level. Attempts by others to make the leap onto the exchange have fallen hard.

So what went wrong?

“At the beginning, many people were obviously excited with the creation, the establishment of the CSX,” says Soleil Lamun, deputy director of the market operations department at the CSX. “A lot of people participated in the market, in the buying and selling of stock. And then there were fewer: there was less interest in the market.

“But I also see that those people . . . who participated in the beginning, and also many new people, they are waiting to see more listed companies,” he says, adding the bold claim that 10 or more will make an initial public offering (IPO) within the next three years.

Experts are at odds over the problem. Many say it’s too early to pass judgment; the development rate is normal for a first-time bourse, and in line with other countries in the region.

The Lao Securities Exchange started trading in January 2011. Only two companies have listed so far.

“The progress of CSX has been slow, although that is expected when new stock exchanges launch in emerging markets,” says Gordon Peters, managing partner of Emerging Markets Consulting. “In Vietnam, it took about 10 years before the stock market took off. In Lao PDR, the progress has not been significantly faster than it is in Cambodia,” he says.

The Ho Chi Minh Stock Exchange had its first trading session in July 2000, with two stocks. Today, more than 300 companies are listed.

But experts also argue that a lack of awareness, administrative barriers and missing incentives to list are among the reasons for the sluggish growth.

Plans for a Cambodian bourse materialised in 2008 between the Cambodian Ministry of Economy and Finance and the Korea Exchange.

A year later, both parties signed a joint venture to create the CSX. Under the agreement, Cambodia owns 55 per cent, while the rest goes to the Korea Exchange. While the market had its inauguration in July 2011, trading started in April 2012, after the water supply authority went public.

The news was met with cheers.

“Cambodia Embracing Capitalism With First IPO Since Pol Pot,” beamed a headline in Bloomberg news, which went on to quote interest from global investors.

On the day of the first trading session, institutional and retail investors traded 879,426 shares worth about \$2 million. PPWSA closed at 9,300 riel (\$2.33), from an opening of 6,300 riel, a 48 per cent bump.

But after reaching a peak of 10,200 riel on April 23, 2012, the price started to fall. Today, there is almost no fluctuation in price and volumes are tiny. From a total of about 4,300 investors, on average, only about 100 domestic and foreign investors are participating

actively in trading water supply authority shares every trading day, according to the Securities and Exchange Commission of Cambodia (SECC).

As with many exchanges, trading on the CSX does not require brokers to come to the physical trading room. If investors want to buy or sell stocks, they can go to or call one of the securities firms and a broker places their order, which is then sent to the CSX.

The initial plan for the exchange was to begin with three state-owned companies, including Telecom Cambodia and Sihanoukville Autonomous Port.

Earlier this month, however, the director general of the Sihanoukville deep sea port, Lou Kim Chhun, said the company is still working with an underwriter, SBI Phnom Penh Securities, on its IPO. He didn't have a time frame.

In March, Telecom Cambodia's plan to join was derailed by poor finances and after an alleged embezzlement scandal at its top levels.

Chamroeun Sok, who works with a different underwriter, Phnom Penh Securities (PPS), says investors "don't just want to buy one stock".

"They want to diversify the risk, meaning that they divide 20 per cent to buy stock A, 30 per cent to buy stock B or 50 per cent to buy stock C. But just only one stock, there's no choice, so they just stay calm and wait and see whether the stock goes up or goes down."

Located in a modern building near ACLEDA Bank's head office, PPS is one of seven underwriters in the country – a comparatively high number given the current low trade volume. It's as if they are waiting for someone to step up to the plate.

As the market is new in Cambodia, many companies have to familiarise themselves with the IPO process and all its requirements, which can prove a difficulty for firms used to a more lax business environment. An IPO in Cambodia requires at least three years of audited financial reports, in line with international standards.

The necessary tax incentives aren't in place either.

"For the normal company, they pay 20 per cent, for the listed company, they pay 18 per cent, so only a two per cent discount. That is not so attractive," said PPS's Sok.

That's not to say there isn't a broad effort underway to lure businesses into the fold. To tackle the issue, underwriters, the SECC and the CSX, have been organising seminars to educate both traders and businesses. PPS says it has organised more than 300 of them.

The SECC has also created a technical working group, called the IPO development team, which meets with underwriters, accounting firms, lawyers and interested companies.

"And besides this, we may propose some additional policies, such as incentives," says Sok Dara, deputy director general of the SECC.

The SECC is also reaching out to other markets in the region, such as Malaysia, Thailand and Vietnam, bringing experienced managers to Cambodia to talk about prepping for an IPO and the long-term benefits of the public option.

While Dara knows that the stock market's status quo is untenable, he remains optimistic. Having looked around the region, he said it takes about three years after the inauguration to build a healthy market.

"We can say that we are very happy with the outcome," he said. "Some experts, local and foreign experts, said that Cambodia wasn't ready to launch the securities market. But finally, we have the operation in place."

Dara says company interest has come from the financial sector, micro finance, commercial banking, insurance companies, special economic zones, the hotel and restaurant industry, the mining and entertainment sectors and even major supermarkets.

In terms of listed companies, the CSX is expected to surpass Laos soon. Two Taiwanese-owned garment firms, Grand Twins International and TY Fashion, plan to list in the coming months, with the first one hoping for an IPO as early as late July.

The CSX plans to have a new headquarters in 2014. Construction has begun in January, a move that officials said will help boosting investor confidence.

Han Kyung Tae, the managing director of Tong Yang Securities (Cambodia), which helped launched the water supply authority's IPO as an underwriter, is not placing bets one way or the other.

"Since this is the youngest stock exchange in the world, I'd like to reserve my judgment on the overall performance of the Cambodia stock market until a few more years down the road," he said.