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Cambodia Embracing Capitalism With First IPO Since Khmer Rouge



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Min Sovannry wasn't born when the Communist Khmer Rouge took power in 1975 and abolished Cambodia's money, markets and financial system. Now the 21-year-old college student can't wait to embrace capitalism.

One of thousands of Cambodians who have attended more than 200 stock-trading seminars in Phnom Penh, Min said she plans to invest as much as one-third of the \$300 monthly salary she expects to earn next year in the country's stock exchange, which is scheduled to begin trading its first shares April 18.

"I'm very excited," Min said in an interview. "I'm happy to have this market because it's a chance for me to make money from buying stocks instead of putting it in the bank."

Enthusiasm about the start of trading at the exchange, which opened last July without a single listed company, extends beyond the borders of the Southeast Asian country. Investors including Templeton Emerging Markets Group Chairman Mark Mobius said they plan to participate in Cambodia's stock market after state-owned Phnom Penh Water Supply Authority has its initial public offering next month.

"The potential for investors in Cambodia is excellent," Mobius, who oversees about \$50 billion, wrote in an e-mail. "The listing of publicly traded stocks will drive up interest and demand. If a country can list its state-owned enterprises and list enough stocks so that foreign investors can get involved, then it can be very, very good."

Phnom Penh Roadshow

Demand for Phnom Penh Water's shares is more than 10 times the amount available, according to a person with knowledge of the matter who declined to be named because he wasn't authorized to speak about the IPO. The company, which plans to raise as much as 82.8 billion riel (\$20.7 million), held a two-week roadshow in the nation's capital starting Feb. 29

with about 400 potential investors crammed into a conference hall with seating capacity for half that number.

Two more state-owned companies are expected to list in the coming year: Telecom Cambodia and Sihanoukville Autonomous Port.

With two dozen computers in an air-conditioned room on the 25th floor of Phnom Penh's tallest office building, Cambodia Securities Exchange Co. is a joint venture with Korea Exchange Inc. (KOSPI), the operator of the Seoul bourse.

"I have met more than 100 foreign investors who came to Cambodia because of the stock exchange," said Han Kyung Tae, managing director of Tong Yang Securities (Cambodia) Plc, which is managing the Phnom Penh Water IPO. "They are very serious. They see the potential, and they're very, very positive about Cambodia's economy."

Spurring Development

Economic growth in Cambodia, sandwiched between Thailand, Vietnam and Laos with a population of 14.3 million, may reach 6.5 percent this year, according to the Asian Development Bank. That's less than the average of 8 percent it experienced from 2001 to 2010 and compares with the development bank's estimate of 8.8 percent expansion for China and 6.3 percent for Vietnam.

The Cambodian government has said it wants to spur economic development by privatizing its state-owned companies and encouraging private enterprises to expand with new funding. The three share offerings, with the possibility of two more after that, are expected to encourage private companies to list.

Within five years, the market value of traded shares could constitute a quarter of the country's gross domestic product, or more than \$3 billion, said Kao Thach, 39, deputy director general of the Securities and Exchange Commission of Cambodia. Banks, telecommunications companies, rice millers, garment firms and mining companies could seek public listings, he said in a February interview in Phnom Penh.

"If we have a complete financial system, the economy can grow very fast and be stable," he said. "Small or big, at least we have a complete financial system."

Abolishing Money

That system was fractured in 1975 when the Khmer Rouge captured Phnom Penh during the final stages of the Vietnam War. Its Communist guerrillas blew up the central bank, declared currency worthless and outlawed private property and trading.

During leader Pol Pot's reign, Cambodia's fertile countryside became the killing fields where 1.7 million people, or 20 percent of the population, perished. The currency, the riel, was reintroduced in 1980 following a Vietnamese invasion to rout the Khmer Rouge.

Almost four decades after Pol Pot exterminated the country's educated classes and emptied its cities, distrust of the currency and financial system has remained high among Cambodians, who have one of the lowest savings rates in Asia.

Savings Rate

As a percentage of economic output, Cambodia's savings rate was 14.4 percent in 2010 compared with 27 percent in neighboring Vietnam and 53 percent in China, according to the Asian Development Bank. The U.S. dollar is still widely used, though the government is trying to encourage acceptance of the riel. Shares of PPWSA and the other companies will trade in riel.

The bourse itself has been delayed several times since 2009, derailed by the global financial crisis, technical issues and lack of readiness among Cambodia's companies.

"I feel like I'm constructing a highway with a couple of shovels, with no experienced co-workers," said Han of Tong Yang Securities about the difficulties of managing the country's first IPO. "But we tell each other, we are a part of the history of capital markets. We encourage one another like that. Otherwise it will be very, very frustrating."

Administrative 'Hoops'

Tokyo-based Asset Design Co. and Frontaura Capital LLC of Chicago said that while they're interested in investing in Cambodia there are hurdles. A high valuation for the PPWSA offering and administrative hassles like having to turn up in person to transfer money are among the drawbacks, said Nick Padgett, managing director of Frontaura, which invests more than \$90 million in countries such as Tanzania, Serbia and Pakistan.

"Everyone is enthusiastic and eager, but this is a first-time experience for the country and its institutions, and they have a lot of learning to do," Padgett said. "There are a lot of hoops to jump through for foreign investors and at the end of the day, some investors will decide it is not worth it."

The SECC plans to hire 10 to 15 people a year to add to the more than 80 currently employed, Kao said. The regulator, established four years ago, has already approved seven securities underwriters.

"When it's crowded with companies queuing for IPOs, you will see that this number is not enough," said Kao. His goal is for the regulator to implement adequate enforcement and education. "Market confidence will be very crucial. If it fails one time, we'll need at least 20 years to restore the confidence. We cannot afford it."

Stock Seminars

More than 5,000 Cambodians attended 200 trading seminars organized by Phnom Penh Securities since June, said Chief Executive Officer Stephen Hsu, a Taiwanese who moved to Cambodia and has hired 45 brokers, underwriters, auditors, advisers and managers. He plans

to add 50 staff by the end of the year and set up brokerage branches in Phnom Penh and Siem Reap, close to the 12th century Angkor Wat temple complex.

“Almost all the clients do not know how to trade and what a stock is,” said Hsu, who moved to Phnom Penh two years ago. “The human character is to make money, and the stock market is one of the key methods.”

Ly Bora, 27, a broker for Phnom Penh Securities who has taught more than 30 of the seminars, including one at a local business college attended by Min Sovannry, said that government officials, foreign investors and local businessmen as well as students were among the attendees. His biggest presentation was to an audience of 300 in one of the capital’s hotels.

“This is the new era for Cambodia,” said Ly, whose parents kept their savings under the mattress and in cupboards. “Cambodians did not trust the financial system before. They put their money at home. Now they have options and can put it in the bank or invest.”

‘On the Move’

Ly said he has signed almost 300 customers since he started working at the company last April and wants to open 1,000 accounts in three years.

At Aceda Securities, a unit of the country’s biggest bank with more than \$1 billion in deposits, managing director Svay Hay said he expects 5 percent of its 700,000 depositors to be potential investors in the stock market. The company’s new six-story building in Phnom Penh will attract more clients and contribute to the nascent sector, Hay said.

“This is a country on the move,” said Bretton Sciaroni, chairman of the American Cambodian Business Council, whose Phnom Penh law firm, Sciaroni & Associates, advises on investments. “They come from a very tragic history, but what they’ve seen in the last 20 years is all kinds of progress going on.”

Booms, Busts, Boredom

Investor interest in Cambodia’s new capital market may cool after the initial euphoria, as evidenced by the experiences of exchanges in neighboring Vietnam and Laos.

“A new emerging-markets stock exchange takes a decade to mature at best, with booms, busts and boredom along the way,” said Douglas Clayton, founder and CEO of Phnom Penh-based Leopard Capital, whose \$34 million Leopard Cambodia Fund invests in closely held companies. “The Cambodia stock exchange will explore all of these phases at different times, but even so will help mobilize capital for private-sector development.”

Vietnam’s stock exchange, started in 2000, now lists more than 300 companies with a market value of about 500 trillion dong (\$24 billion). The Ho Chi Minh Index surged four-fold from 2006 to 2008 to touch a high of more than 1,100 before tumbling during the 2008 financial crisis. It now trades at about 430.

Laos, Southeast Asia's smallest economy, opened its stock exchange in January 2011. The two-stock Composite Index soared 86 percent in the first three weeks of operation. It has since fallen 50 percent.

Lack of Trust

At the Cambodian exchange, a glass pane looking into the empty room is printed with a graph of the stock-market index shooting to 15,000 over the next 10 years.

"My parents say they don't trust this market," said Min, who is studying business and finance. "Sometimes I try to explain, but they still don't understand. I trust this because our government is trying so hard to push this trend."

Investors in Cambodia's market face risks because of ineffective financial and legal systems, Sam Rainsy, 62, a former fund manager with Banque Paribas and onetime Cambodian finance minister, said in a February interview in Paris. Cambodia was ranked by Transparency International last year as 164th in the world by perception of corruption, ahead of only North Korea, Myanmar and Afghanistan in Asia.

Fleeing Cambodia

Hong Sok Hour, 37, head of the stock exchange, said his two biggest challenges are to build public confidence in the bourse and to ensure listed companies comply with all the requirements of transparency and corporate governance.

"If I speak purely as the CEO of a stock exchange, I will say I'll try to develop the market as fast as possible," he said. "But as a civil servant of the government, I need to take into account government priorities. I need to make sure that everything will operate smoothly."

At one of the stock-trading seminars in Phnom Penh, Paul Quach was taking notes and mulling whether to seek a public listing for his seven-year-old company, which operates seven school campuses in the capital. Quach, chief financial officer and vice chairman of the firm, Mengly J. Quach Group, majority-owned by his brother, ran through Cambodia's jungles to Thailand when he was 17 to flee the turmoil in his country. Now 48 and a U.S. citizen, he returned to Cambodia five months ago to help build the company.

"After I understand more, we can think about an IPO," said Quach, who added that he is amazed that the ravages of war have been replaced by progress and that the country is drawing people from all parts of the world.

"Cambodia is growing very rapidly, very fast," said Quach. "The same jungle where I escaped from has become a casino, a playground where tourists go."