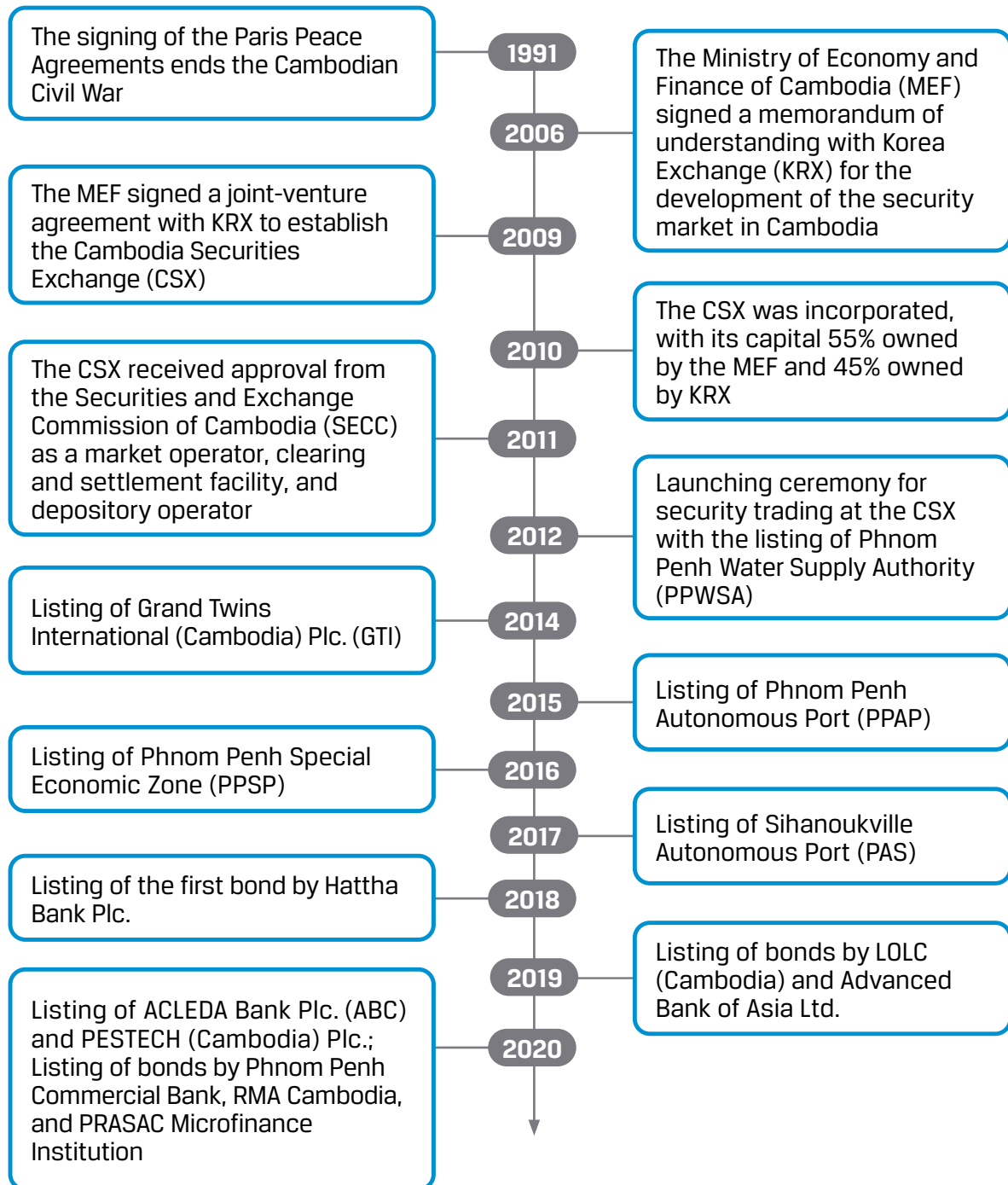


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Equity Market Capitalization (USD)	2.45 Bn*	Debt Market Capitalization (USD)	0.13 Bn*
Equity Market Cap/GDP	9%*	Domestic Debt Market Cap/GDP	0.5%
Equity Market Share Volume Traded	15 Mn**	Debt Market Instrument Volume Traded	—
Number of Listed Companies	7*	Number of Issuers (Bonds)	8*

* as of Dec 2020

** 2019

THE EQUITY MARKET

Securities operations in Cambodia are conducted at the Cambodia Securities Exchange (CSX). In 2006, talks conducted by the Ministry of Economy and Finance of Cambodia (MEF) and Korea Exchange (KRX) on assisting Cambodia in setting up a stock exchange led to the signing of a memorandum of understanding (MOU) titled “The Development of the Securities Market in Cambodia,” followed by another MOU in 2008, “The Establishment of a Cambodia Securities Exchange in the Kingdom of Cambodia.” The CSX was registered in 2010 as a joint venture between the MEF (55%) and KRX (45%). The CSX received approval from

the Securities and Exchange Commission of Cambodia (SECC) in 2011 as a market operator, clearing and settlement facility, and depository operator. Trading started on 18 April 2012. The regulatory authority of the CSX is the SECC, which was established in 2007. Derivatives (options or futures) do not trade on the CSX.

The CSX consists of the Main Board and the Growth Board. To date, six companies are listed on the Main Board and none on the Growth Board, which is designated for smaller companies with less demanding listing requirements.

The members of the CSX include six security underwriters, one security dealer, and three security brokers. Participants consist of three

cash settlement agents, three security registrar and transfer agents, two paying agents, and one bondholder representative. Some companies perform several of these roles concurrently.

Figure 1 shows the percentage of trading by value for each of the six CSX security underwriters. **Figure 2** shows the free float percentage of the companies listed on the CSX.

The market's average P/E is 16.3× (based on 2019 EPS). With a total market capitalization of USD2,486 million (USD582 million without ACLEDA Bank), the CSX is still small in terms of size and behind schedule in terms of development. The total market capitalization/GDP ratio in 2019 was 9.8%, up from 2% in 2018, but still behind the ratio in neighboring countries. This underlines the country's need to keep educating about its financial systems and continue modernizing them.

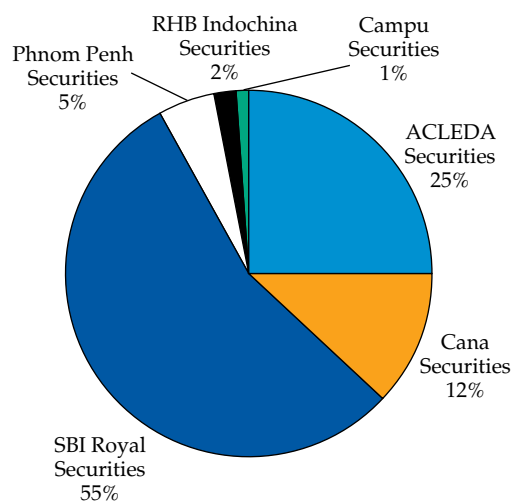
The CSX's performance is represented by the CSX Index, a composite market capitalization

weighted average of all the stocks listed on the Main Board.

The performance of the CSX since its inception on 18 April 2012 has been lackluster, with an average annual return of 1.9%. Note that most of this positive performance occurred in 2018 and 2019. From 2012 to 2017, the annual performance of the CSX Index was negative. In comparison, an investment in a Cambodian riel (KHR) time deposit would have yielded higher weighted-average returns (5.4% annually; see **Figure 3**).

Stock market returns have been disappointing for a country with an average GDP growth of 7% per annum. Among many possible causes, one is that the listed stocks do not represent the economy as a whole. Indeed, four of the six stocks are state-related quasi-utilities with safe but unexciting growth prospects. Another issue is the competition from other investment options. Risk-averse investors can receive

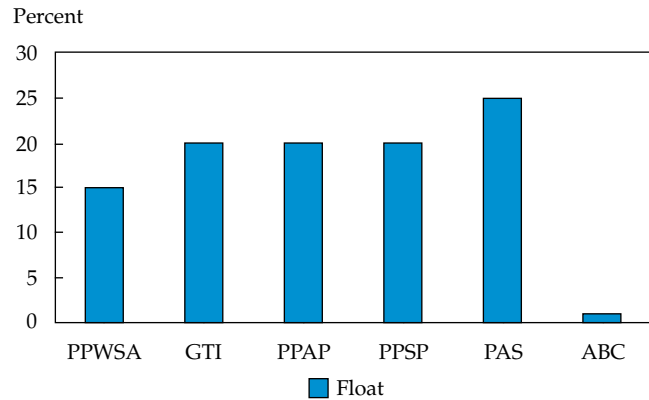
FIGURE 1. CSX TRADING BY VALUE,* 2019



*Estimated excluding a large trade in PAS in May 2019.

Sources: CSX; Phnom Penh Post.

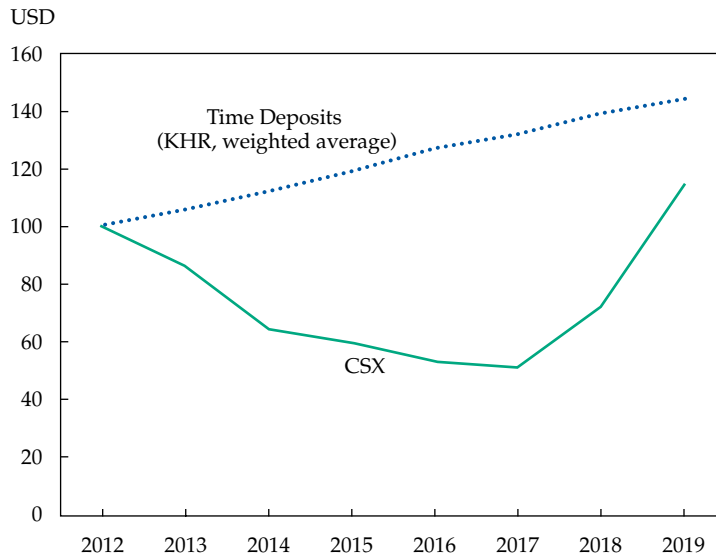
FIGURE 2. FREE FLOAT AS OF 15 JULY 2020



5%–6% returns from time deposits. At the other end of the spectrum, real estate offers attractive prospects to investors with a greater risk appetite. The stock market sits uneasily somewhere in between. The situation, however, may improve dramatically, and the past two years

have seen a strong rebound in the stock market. The listing of ACLEDA Bank brings more exposure to the Cambodian economy at large. More listings of interesting companies in the near future will draw yet more attention. Finally, a correction in property prices would remind

FIGURE 3. CSX INDEX VS. TIME DEPOSITS (WEIGHTED AVERAGE)



Sources: CSX; National Bank of Cambodia.

investors of the virtue of diversification into such asset classes as stocks and bonds.

THE BOND MARKET

Corporate bonds launched in Cambodia in 2018, when Hattha Bank Plc issued Cambodia's first-ever corporate bond. The historic transaction was supported by the International Finance Corporation and underwritten by SBI Royal Securities. Regulations allowing for corporate bond issuance, implemented in 2017 by the SECC, included the Prakas on Public Offering of Debt Securities,¹ Prakas on Corporate Governance Policy, and Prakas on Corporate Disclosure and Listing Rule on the CSX. The National Bank of Cambodia (NBC) issued its own prakas that allowed banks and financial institutions under its supervision to issue both equity and debt securities. The first bond built the issuance framework and roadmap for the future, and within one year, two more bonds were issued by financial institutions. Owing to the absence of government bonds, coupon rates were negotiated between issuers and investors. Bond issuances by banks and financial institutions were settled in Cambodian riel to be in line with the NBC policies of promoting the country's currency. To provide currency hedging for investors, the first long-term swap (a three-year swap) was introduced to the market during the bond issuance of PRASAC Microfinance Institution, which allowed offshore investors to hedge their currency risk.

Since the 2017 introduction of the regulations allowing for corporate bond issuance and with the first corporate bond transactions completed, bonds have become one of only a few financing options available for companies in Cambodia.

¹According to the Asian Development Bank, a "prakas" is a regulation issued by a minister or by the governor of the National Bank of Cambodia concerning banking or financial issues.

Previously, companies had to rely on bank loans, shareholder injections, and stock issuance. The Royal Government of Cambodia offers bond issuers a 50% reduction on profit tax for three years in order to encourage participation in the development of the capital market.

There are currently six corporate bonds listed on the CSX, five of which are from financial institutions. So far, three types of bonds have been issued: plain bonds, foreign exchange-linked bonds, and guaranteed bonds. All the bond issuances to date total the equivalent of roughly USD130 million. One of the most recent corporate bond issuances was that of RMA Cambodia, a private automotive retailer. It was the first nonfinancial institution to issue a corporate bond and the first bond to be guaranteed by Credit Guarantee and Investment Facility, a trust fund of the Asian Development Bank. The bond also contained an option feature, allowing the issuer and investors to transact in US dollars, but was still priced in Cambodian riel. This transaction offers a good roadmap for other private companies to follow.

OTHER MARKETS

Besides equity and fixed-income markets, the SECC supervises the activities of several central counterparties (CCPs) that clear trades for derivative brokers. The approved derivatives consist of foreign exchange (FX) crosses, a few overseas stock indexes, and commodities.

The prakas dated 2 July 2015 defined the scope, licensing requirements, and supervision of derivative trading for the main actors: CCPs, derivative brokers, and derivative representatives. A derivative instrument is a contract between two parties under which the value of the contract is determined by the price fluctuation of an underlying asset.

The CCP's task is to reduce counterparty operational, settlement, market, legal, and default risks for traders. Currently, there are five CCPs operating with 24 derivative brokers.

The aim of the SECC is to accelerate the modernization of Cambodian financial markets. Derivatives could be an important building block because they would allow hedging and increase trading activities in the underlying assets.

Presently, given that all the underlying assets are non-Cambodian assets, the derivative markets are mostly attracting individual investors who wish to actively trade in popular instruments listed overseas.

FUTURE DEVELOPMENTS

The Cambodian capital market is attracting attention from both domestic and offshore investors because of an expected improvement in return on investment and favorable tax conditions for investing in financial instruments. Offshore investors can invest directly in this capital market after obtaining an investor ID and a trading account at any securities firm, a process that takes less than two weeks and can be done mostly online.

Both the size and liquidity of Cambodia's equity market are still small compared with neighboring markets. Cambodia's strong banking industry has many companies that could benefit from listing stocks on the securities exchange. Almost all banks in Cambodia are 100% subsidiaries of foreign banks, however, so dilution of ownership could pose challenges. Recently, there is increasing interest from private companies, especially small and medium-size enterprises (SMEs), to participate in fundraising through the capital market. Much of the increased interest stems from the efforts of the SECC and CSX,

both of which have been promoting the capital market in the media and through regularly held educational seminars that target both issuers and investors.

Although the capital market has seen strong growth, many developments and evolutions are still needed. New financial products, such as private equity, REITs, mutual funds, and other types of fund management firms, have been licensed by the SECC. A prakas on depository receipt is under consideration and expected to be released soon, with input coming from a variety of relevant market participants. Tax incentives for issuers and investors have been in place for many years. Government bonds are expected to launch soon and will become a much-needed benchmark for pricing all financial instruments.

To promote IPOs, the SECC has initiated the Excellency Program for SMEs. This program aims to educate potential issuers on the possibilities for fundraising through the capital market along with the requirements for doing so, including accountability, corporate governance, and financial reporting. Following the success of the program's first session in 2018, in which more than 70 SMEs participated, the second session commenced in July 2020. Although the initial program attracted a large number of participants, only a handful have pursued IPOs. The main challenge for SMEs is the recent adoption of International Financial Reporting Standards (IFRS) in Cambodia and the requirement for IFRS-audited financial statements. In the medium to long term, these SMEs will be big contributors to the capital market and will potentially drive listings if matters related to accounting standards, corporate governance, internal control, and taxes are addressed.

The bond market holds great potential for further growth because it is able to match the needs

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of issuers with the demands of local institutional investors. The energy, infrastructure, and real estate sectors all have strong interest in bond issuance as they seek long-term funding. There is also high demand for investments with longer duration from domestic institutional investors, such as insurance companies, looking to diversify their holdings, which so far have been limited to deposit accounts at local banks. In the near term, greater flexibility of currency denominations and structures would be helpful, given that the US dollar is the main currency of both issuers and investors. Plain vanilla bonds in Cambodian riel may not be a very

attractive option for issuers because of the high costs of funds, brought on by high coupon rates demanded by the few investors that have sufficient Cambodian riel to invest. Restructuring the bond settlement scheme to be linked to the US dollar will unlock the market's potential and is key to its future. It will also support the government's objective of mobilizing more affordable funding for Cambodia. FX-linked bonds and bonds with US dollar derivatives have already been issued. The market will reap significant benefits if plain US dollar bonds become available, because commercial swap products are still very new in Cambodia.