Valuations in S’pore, HK can’t be compared

HK has much wider investor pool including mainland Chinese: ex-official

By LYNETTE KOHO

It is unfair to compare the valuations of Chinese companies listed in Hong Kong and Singapore, according to Anthony Neo, former chairman of the Hong Kong Securities and Futures Commission (SFC) and chief adviser to the China Securities Regulatory Commission (CSRC).

Once lagging behind Singapore’s trading multiples, Hong Kong has outpaced Singapore over the past two years, thanks to massive liquidity driven by mainland Chinese investors, he said.

Now, what Singapore can do to stoke trading volumes is to promote “investment tourism” by making it easier for regional investors to buy Singapore shares.

Mr Neo was speaking to BT in a recent interview when he visited Singapore for the official launch of The Center for Asset Management Research & Investments (CAMRI) at the National University of Singapore.

While he reckoned that Hong Kong has done well on the regulatory front, he is circumspect about comparing the valuations of H-shares – which refers to mainland companies listed in Hong Kong and S-shares, which are Singapore-listed Chinese firms.

The move by China in 2007 to allow Chinese citizens trade directly in Hong Kong stocks was instrumental in driving up the valuations of Hong Kong stocks. This also widened Hong Kong’s retail pool.

“But in this situation, we do not compare like-with-like,” he said. “It’s the same question if you ask me why there’s a valuation gap between Singapore and London,” Mr Neo said.

SGX may not have as much retail following as Hong Kong. Secondly, we have many mainland investors trading the Hong Kong market, which may think that they have some inside information.”

The smaller Chinese IPOs (initial public offerings) here also limit the IPO multiples that can be achieved during the book-building, Mr Neo added. “If you price a 1.5 billion dollar IPO, you have the European book, the US book and the Asian book and these books interact against each other.”

Guided by the stronger valuations in Hong Kong, a handful of Singapore-listed firms, especially S-chips, have announced plans to undertake dual listings there, citing a need to broaden investor pool and improve liquidity.

Given that most of them are opting for dual primary listing, there is the concern that in these companies may eventually decide to delist from Singapore if their Hong Kong endeavours turn out to be a success. There are also some which chose to privatise and re-list, or are in the process of re-listing, in Hong Kong.

Hong Kong furniture maker Man Wah is one such company. Delisted from Singapore’s mainboard in September 2009 after trading at four times historical PE with a market cap of less than $200 million, it was re-listed on April 9 in Hong Kong – fetching 12 times historical PE with a market cap of $1.2 billion.

probably, one could also see the glass as half-full, rather than half-empty. Mr Neo described the Singapore market as “rational and fundamentally driven. Hong Kong holds the wild card of mainland retail investors and “wild cards drive trading”, he said.

In any stock market, there is typically not more than 10 per cent of the population trading the shares. Hong Kong’s population of seven million would possibly translate to a maximum of 700,000 investors in the market.

“This is a drop in the ocean compared to over 100 million registered stock buyers in China,” Mr Neo said.

But he reckoned that Hong Kong is successful with Chinese listings because of proximity. Other foreign firms are not as lucky. Russian metals giant Rusal, for one, has since fallen below its IPO price in Hong Kong despite a spectacular debut.

Hence, recent deliberations in Hong Kong on diversifying the sources of IPOs is “more talk than reality” as there is “home market preference” among investors and fund managers, he said.

Asked if he thinks Hong Kong’s compelling valuations are a result of a tough or corporate governance regime, Mr Neo said he is unable to make a comparison with Singapore as he is not familiar with the Singapore regime.

“I have not studied the listing rules in Singapore but I would be surprised if the Singapore listing rules are less stringent than the listing rules of any exchanges in the region,” he said.

But it is not surprising that there would be increased regulatory tightening post-financial crisis, he added. The Basel Committee last month issued guidelines to enhance corporate governance in banks, prompting regulators to update their respective governance regimes.

The Monetary Authority of Singapore has proposed measures to tighten governance in banks and insurers, including a nine-year cap on the tenure of directors and raising the number of independent directors on the boards to a majority from one-third. Mr Neo felt that it is a “good step that companies reassess remuneration for directors.

“Of the issues of corporate governance is some Chinese companies pay their directors very little money and, therefore, they expect very little from directors,” he said.

But that will change, because the more they expect from directors, they will have to ask the directors to spend more time and pay the directors more.”

Mr Neo: Hong Kong is successful with Chinese listings because of proximity. Other foreign firms are not as lucky.

Russian metals giant Rusal, for one, has since fallen below its IPO price in Hong Kong despite a spectacular debut.