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THE STOCK MARKET IN HONG KONG

By S. Tsung, Sydney

The Hong Kong Stock Market has been in a boom phase since late July 1972. The market had been depressed since the riots of 1967 and the current boom is the first one since that time. One of the causes of this bull market has been the boom in the price of real estate. Some down-town or near down-town real estate has risen approximately 600% in the last thirtysix months.

Some Facts about Hong Kong.

Hong Kong, a British Crown Colony, covers almost 400 square miles of land. The Hong Kong island was ceded in 1842 under the Treaty of Nanking as a result of the Opium war. Hostilities began again in 1855 and the result was the signing of the Treaty of Peking in 1860 wherein Stonecutter's Island and the Kowloon Peninsula were ceded to England. In 1898 the English negotiated a 99 year lease over the New Territories which expires in 1997.

As it now stands the British Crown Colony of Hong Kong consists of:

(1) Hong Kong Island	30 sq. miles
(2) Kowloon Peninsula	3 sq. miles
(3) New Territories	365 sq. miles

The name Hong Kong is derived from the Cantonese words "Heung Kong" meaning "Fragrant Harbour."

The current estimated population of the colony is slightly over 4 million. The distribution of this population is one million on Hong Kong island, 750,000 in Kowloon and 2.25 million in the New Territories. Over 99% of the population is Chinese of which the Cantonese are the most numerous. There are 31,000 British permanently residing in Hong Kong. In addition, there are 5,700 Americans, 2,500 Portuguese, 1,200 Japanese and 1,200 Filipinos. The increase in population since the second world war can only be described as phenomenal. From a population of 600,000 in 1946 it has now risen to over 4 million, a rise of over 560%.

There are no statistics on national income and earnings. Reasons for not compiling these statistics are said to be political. It is only since December 1967 that a Census and Statistics Department has been set up to collect statistics on a regular basis. By far the largest industry in Hong Kong is the textile industry, consisting of weaving, spinning, knitting and the manufacture of garments and made-up textile goods. This industry employs over 40% of the workforce. Other large industries are plastic products, electrical appliance industries and metal products fabrication.

There are currently four stock exchanges in Hong Kong. In order of turnover they are:- The Far East Stock Exchange, the Hong Kong Stock Exchange, the Kam Ngan Stock Exchange and the Kowloon Stock Exchange. Turnover in October 1972 at the height of the boom consistently exceeded HK\$300 million per day or approximately A\$44 million. The Far East Exchange appears to account for 50% of this turnover. A very high proportion of this turnover consists of trading by the brokers themselves. There are around 700 firms of brokers on the four exchanges. Strictly members of one exchange cannot also be members of other exchanges but in practice nominees are used. Most brokers operate their broking business as a sideline when the market is not active. There are no rules prohibiting brokers from undertaking other businesses. As a result most of the brokers have other businesses, the most popular of which are accountancy practices, real estate agencies, custom agencies and real estate developers. Price of a seat varies from exchange to exchange. Roughly it costs HK\$250,000 (A\$37,000) for a seat on the Far East and HK\$100,000 (A\$15,000) for a seat on Hong Kong and Kam Ngan. Seats on Kowloon exchange are cheaper, insofar as it is the latest exchange to open.

The transfer system in Hong Kong is a very efficient one. In a society where nobody trusts anybody and where a few brokers have already failed, settlement is very speedy indeed. Delivery can be expected in one or two days after the transaction. The main reason why delivery can be effected promptly is that registration is in the care of the client and not the broker. Therefore delivery is in the form of scrip and transfer. In effect all clients are on a settlement basis. Since the public on the whole is lacking in trust, they tend to deliver scrip very quickly in exchange for a cheque. Shorting can be carried out provided the client can borrow scrip to deliver to the market. Scrip can be borrowed by lodging securities to the value of the

scrip with the lender. Interest is at 1% per month.

The current boom in the Hong Kong market can be described as a boom based on real estate and the blue chips. Blue chips performed strongly in October 1972 when the Hang Seng Index went up from 460 on 1st September 1972 to 580 in October 1972, a rise of 26%. The market is also going through a boom in new listing not unlike our mining boom of 1969-70 except that instead of mining leases it is real estate companies that are floating to the public at the rate of about three a week. Under the rules of the Hong Kong Companies Ordinance only a handful of companies are allowed to list every month. As a result there is a long waiting list for new listings, stretching through to September 1973. There are a few peculiar and interesting incidents associated with new listings in Hong Kong. When there is an over-subscription, companies use a ballot to determine allotments. Over-subscriptions of up to thirtyfive times the amounts offered are commonplace. Under the ballot system large applications are assured of getting some allocation, whereas small applications usually miss out altogether. As a result investors form syndicates and pool their resources, so making their applications as large as possible. There was one case when the number of shares applied for by one investor exceeded the issued capital of the floating company.

In Hong Kong the trading banks act as share registrars. The normal practice for lodging applications is to deliver them by hand and then receive a receipt for the application lodged. The demand for new shares is such that there were large numbers queueing in the bank making the transaction of normal banking business extremely difficult. As a result one bank hired a Cathedral just for the purpose of receiving application forms and issuing receipts. The queue extended for over a mile. The following day there was a photograph in the daily press showing the Cathedral with all the people queueing to lodge applications. The caption was "Come all ye faithful." That spelt the end of using churches as a receiving depot.

New listings often come on to the market at twice their issue price but most new listings have not risen any further after the initial period due to extremely heavy staggings because the colony has very few investors - private people are almost entirely speculators.

The blue chips are the star performers in the market making up the bulk of the money turnover and going to ludicrously high price to earnings multiples. Hong Kong Land is the largest listed company in Hong Kong in terms of market capitalisation. It is capitalised at A\$1,300 million at the height of the boom which gives the stock a price to earnings multiple of 140. Hong Kong & Shanghai Banking Corporation was capitalised at A\$1,000 million which meant a price/earnings of 40. Jardine Matheson, the third largest company, was capitalised at A\$528 million and was selling on a price/earnings of 52. There is a certain amount of inbreeding amongst the directors of these leading companies in Hong Kong, however this would be expected in a situation such as a colony.

