

Laos Launches Stock Exchange

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European Pressphoto Agency

Laos's new securities exchange building in Vientiane, where stock trading was set to begin Tuesday.

Tired of fusty old outposts such as Bangladesh, Nigeria or Mongolia? Try the world's newest—and possibly smallest—stock market, the Laos Securities Exchange.

This landlocked, Communist-run nation of six million people is best known for being the most heavily bombed country per capita after the U.S. flew more than half a million bombing missions there during the Vietnam War. More recently, Laos has become an exotic destination for adventure-seeking tourists to take photographs of Buddhist monks.

But Tuesday, it is shaking off some of its socialist constraints and opening its first stock exchange—a move its leaders hope will eventually reel in foreign and local capital and help transform the fortunes of one of Asia's poorest and least industrialized nations.

Despite what locals say is an auspicious launch date—11/1/11—this isn't a "big bang" type of event, or at least not just yet. Just two stocks are listing: a bank, Banque Pour Le Commerce Exterieur Lao, or BCEL, and, significantly, power company EDL-Generation Co., which many investors see as a way of getting some exposure to Laos's burgeoning hydropower industry and its fast-growing electricity exports to other, larger Southeast Asian economies.

Even then, state-run parent company Électricité du Laos will retain 75% of the power company, and some investors still say they worry about speculation among local investors destabilizing the entire market.

The real benefit for Laos launching its equity market, analysts say, might be in highlighting the potential for the country's isolated economy and encouraging its Marxist rulers to spin off other state-controlled businesses and take them to the

securities exchange. The Laos bourse is 49%-owned by the South Korean stock exchange and is housed in a glass-fronted, \$10 million building.



Opening ceremony at the Laos Stock Exchange

"I think we need to be modest in our expectations, but this is the beginning of a process that could end up with 10 or 15 companies listed on the market in the next few years," says Douglas Clayton, chief executive of fund manager Leopard Capital LP, which invested 21.5 billion kip, or about \$2.6 million, to buy 2.32% of EDL-Generation's initial public offering.

Both IPOs were oversubscribed, and part of the enthusiasm for Laos's stock-market launch lies in the continuing appeal of up-and-coming emerging markets among global investors seeking higher returns than might be available in Europe or the U.S.

Laos is seeking to capitalize on the heightened interest in what are known as frontier markets, those markets too small to even fit into the emerging-market category. In fact, Laos, with just two listed companies, will probably be too small to even be considered frontier.

Some frontier markets soared to record highs last year, and Standard & Poor's Frontier Broad Market Index climbed 23% in U.S. dollar terms.

Ghana's market more than doubled, while Sri Lanka gained 88% and Namibia gained 32%, according to S&P Indices. Kenya and Nigeria are off to red-hot starts in 2011, adding 6.4% and 6.9% respectively.

To be sure, investing in frontier markets can be fraught with risk, a fact that was brought home on Monday, when a steep market drop triggered a riot involving thousands of investors outside the Dhaka Stock Exchange in Bangladesh, according to the Associated Press. The stock exchange was forced to suspend

trading as security officials hit protesters with batons, the agency said.

But Laos's power sector and its large export market are a potent lure for investors, and some analysts say this distinguishes the country from some of the world's other fledgling frontier markets in that there is something specific for investors to get their teeth into.

Robert Fernstrom, head of investment banking at Thailand's KT-Zmico Securities PCL, which underwrote the EDL-Generation IPO in conjunction with Laos's BCEL, says the potential for the industry stirred "a huge response" among international investors.

When Laos is mentioned in business circles, it is largely because of its potential as a major exporter of hydropower in an energy-hungry neighborhood. Thailand, Vietnam and China are ravenous for new sources of power to fuel their economies, and Laos, with its network of fast-flowing rivers, is viewed by some economists as having the capacity to become a "hydropower battery" for this chunk of Southeast Asia.

[Électricité de France](#) SA last year began operating a 1,070-megawatt hydropower plant in the country along with its joint-venture partners, including the state-run Laotian power company.

Thailand, in particular, is looking overseas for electricity supplies now that environmental activists have made it difficult to build new coal-fired plants. The biggest single investor in the EDL-Generation IPO is Bangkok-based Ratchaburi Electricity PCL, which bought 9.35% of the shares for about \$43 million.

Vietnam also is thirsty for power after years of underinvestment and is counting on Laos to help make up its own power-production shortfalls in the years to come.

As a result, EDL-Generation is predicting its net profit to nearly double to 550 billion kip, or \$68 million, this year from 293 billion kip in 2010.

Environmental activists worry about the social costs of this kind of development, arguing that hydropower projects disrupt local agricultural and displace thousands of people who might not be ready or willing to be thrust in to a modern, market-based economy.

The Laotian government and backers such as the World Bank and the Asian

Development Bank, however, say these projects would earn billions of dollars for the country that then would be invested in improving education and health-care standards. The average income in Laos is currently about \$880 a year.

The ADB estimates Laos's economy will expand 7.5% this year, up from its growth forecast of 7.4% for 2010, largely because of the stimulus provided by hydropower exports.

Rising demand for minerals as the global recovery picks up pace should also help, analysts say, and [Rio Tinto Group](#) and [Mitsui & Co.](#) last August said they were jointly exploring for bauxite, the ore used to produce aluminum.

First-move investors in Laos hope that all this foreign interest will bring additional gains in the form of a sharp currency appreciation for the kip, which currently trades at 8,034 per dollar, compared with 8,476 kip a year ago—a gain of 5.2%.

"In a tiny economy like Laos, it doesn't take much to move the currency—and turning on a big power plant is like creating a trade surplus," says Leopard Capital's Mr. Clayton. "There's much more likely to be a foreign-exchange gain than a loss."

